

This report includes the disclosure requirements for both Australia and the United States Securities and Exchange Commission ('SEC').

Commonwealth Bank of Australia
ACN 123 123 124

Table of Contents

| | |
|---|-----|
| Form 20-F Cross Reference Index | 3 |
| Results Overview | 4 |
| Group Performance Summary | 6 |
| Financial Review | 9 |
| Selected Consolidated Income | 9 |
| Operating and Financial Review and Prospect | 13 |
| Banking - Performance Summary | 14 |
| Banking - Business Analysis | 16 |
| Net Interest Income | 19 |
| Group Interest Margins and Spreads | 21 |
| Other Banking Operating Income | 22 |
| Charge for Bad and Doubtful Debts | 23 |
| Funds Management - Business Analysis | 25 |
| Life Insurance - Business Analysis | 27 |
| Summary of Life Insurance and Funds Management Valuations | 29 |
| Group Operating Expenses | 31 |
| Other Group Items | 32 |
| Integrated Risk Management | 35 |
| Capital Adequacy | 39 |
| Description of Business | 40 |
| Corporate Governance | 46 |
| Directors' Details | 49 |
| Five Year Financial Summary | 54 |
| Financial Statements | 56 |
| Statements of Financial Performance | 57 |
| Statements of Financial Position | 58 |
| Statements of Changes in Shareholders' Equity | 59 |
| Statements of Cash Flows | 60 |
| Notes to the Financial Statements | 61 |
| Independent Audit Report | 172 |
| Shareholding Information | 173 |

Form 20-F Cross Reference Index (for purpose of filing with US Securities and Exchange Commission)

| | Page |
|--|---|
| Currency of Presentation Exchange Rates and Certain Definitions | 9, 179 |
| Part I | |
| Item 1 Identity of Directors, Senior Management and Advisers ⁽¹⁾ | |
| Item 2 Offer Statistics and Expected Timetable ⁽¹⁾ | |
| Item 3 Key Information | 9-12, 35-37, 54-55 |
| Item 4 Information on the Company | 16-18, 26-28, 40-45, 102, 120-122, 143-144 |
| Item 5 Operating and Financial Review and Prospects | 4, 13-39, 132 |
| Item 6 Directors, Senior Management and Employees | 32, 43, 46-53, 112-114, 146-152, 173, 177-178 |
| Item 7 Major Shareholders and Related Party Transactions | 146-148, 173, 174, 176, 178 |
| Item 8 Financial Information | 14-15, 56-172 |
| Item 9 The Offer And Listing | 175 |
| Item 10 Additional Information | 179-183 |
| Item 11 Quantitative and Qualitative Disclosures about Market Risk | 35-37, 132-141 |
| Item 12 Description of Securities Other Than Equity Securities ⁽¹⁾ | |
| Part II | |
| Item 13 Defaults, Dividends and Delinquencies ⁽²⁾ | |
| Item 14 Material Modification to the Rights of Security Holders and use of Proceeds ⁽³⁾ | |
| Item 15 {Reserved} | |
| Item 16 {Reserved} | |
| Part III | |
| Item 17 Financial Statements ⁽⁴⁾ | |
| Item 18 Financial Statements | 57-171 |
| Item 19 Exhibits | 184 |
| Signatures | 185 |
| Consolidated Statements of Income for years ended 30 June 2001, 2000 and 1999 | 57 |
| Consolidated Balance Sheets as at 30 June 2001 and 2000 | 58 |
| Consolidated Statements of Changes in Shareholders' Equity for years ended 30 June 2001, 2000 and 1999 | 59 |
| Consolidated Statements of Cash Flows for years ended 30 June 2001, 2000 and 1999 | 60 |
| Notes to the Accounts | 61-171 |
| Report of Independent Auditors | 172 |

⁽¹⁾ Not required in this annual report.

⁽²⁾ (A) (B) None.

⁽³⁾ (A) (B) none (C) not applicable (D) no changes.

⁽⁴⁾ Not applicable as Item 18 complied with.

Special Note Regarding Forward-Looking Statements

Certain statements under the captions 'Operating and Financial Review and Prospects', 'Disclosure of Quantitative and Qualitative Information about Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments' and elsewhere in this Report constitute 'forward-looking statements' within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements including economic forecasts and assumptions and business and financial projections involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include demographic changes, changes in competitive conditions

in Australia, New Zealand, Asia, the United States or United Kingdom, changes in the regulatory structure of the banking and life insurance industries in Australia, New Zealand or Asia, changes in political, social and economic conditions in Australia, legislative proposals for reform of the banking and life insurance industries in Australia, and various other factors beyond the Group's control. Given these risks, uncertainties and other factors, potential investors are cautioned not to place undue reliance on such forward-looking statements.

Details on significant risk factors applicable to the Group are detailed on page 12.

Documents on Display

Documents referred to in this report are available for inspection. Please contact the Company Secretary, Level 2, 48 Martin Place, Sydney NSW Australia 1155 for further information.

Results Overview

(Except where otherwise stated, all figures relate to the Financial Year ended 30 June 2001 and comparatives for the profit and loss are to the Financial Year ended 30 June 2000. '\$' and 'A\$' refer to Australian dollars, while 'US\$' refers to US dollars. Reference to 'Group' means all banking, life insurance and funds management operations of the Commonwealth Bank Group. Reference to 'Bank' means the banking operations only of the Group.

Comparisons between the Financial Year 2001 and Financial Year 2000 do not provide a meaningful analysis on the performance of the Group due to the acquisition of the Colonial Group in June 2000. The Colonial operations contributed a full year of net income to the Financial Year 2001 result and only 17 days of net income to the Financial Year 2000 result.

For the Financial Year ended 30 June 2001, the Commonwealth Bank Group recorded a net operating profit after income tax of \$2,398 million.

The net operating profit ('cash basis') after tax and before abnormal items, goodwill amortisation and life insurance and funds management appraisal value uplift for the Financial Year ended 30 June 2001 was \$2,262 million. This is an increase of \$584 million or 35% from \$1,678 million in the Financial Year ended 30 June 2000.

A fully franked dividend of 75 cents per ordinary share was paid on 8 October 2001 to owners of ordinary shares at the close of business on 27 August 2001.

The Group result for Financial Year 2001 comprised:

| | \$M |
|--|------------|
| Segment profit after tax | |
| - Banking | 1,793 |
| - Funds Management | 149 |
| - Life Insurance | 320 |
| Net operating profit after tax and before goodwill amortisation and appraisal value uplift | 2,262 |

Banking

The contribution to profit after tax from the Group's banking businesses for Financial Year 2001 was \$1,793 million compared with \$1,513 million for Financial Year 2000. The increase over the prior Financial Year reflects:

- Net interest income of \$4,474 million for Financial Year 2001 compared with \$3,719 million for Financial Year 2000.
- Other banking income for the current year of \$2,381 million compared with \$1,951 million for Financial Year 2000.

Full details on the performance of the banking sector is provided in the Banking Business Analysis section of this report.

Funds Management

The contribution to profit after tax from the Group's funds management businesses for Financial Year 2001 was \$149 million compared with \$36 million for Financial Year 2000. The improved performance reflects the acquisition of Colonial First State as part of the Colonial Group in June 2000 and the increase in funds under management (FUM). Since 30 June 2000, FUM (excluding life insurance FUM) have grown by 18% to \$77 billion at 30 June 2001. The funds management business also manages internal funds of \$24 billion on behalf of the life insurance businesses of the Group.

Life Insurance

The contribution from life insurance to profit after tax was \$320 million for Financial Year 2001. Excluding the

impact of the acquisition of the Colonial Group Life businesses on the result, the Financial Year 2001 result reflects lower investment earnings on shareholders funds together with the effect of poor persistency and claims experience in Asia and New Zealand.

Group Expenses

Operating expenses across the Group increased to \$5,170 million in Financial Year 2001 from \$3,407 million in Financial Year 2000. The increase reflects the impact of the Colonial acquisition on the cost basis of the Group and the effect of the introduction of the Goods and Services Tax (GST) and expenses from acquiring and developing other businesses. The merger of the Colonial and Commonwealth Group businesses realised approximately \$120 million of expense savings in Financial Year 2001. The expense increase also reflects a 4% wage increase as a result of an Australian domestic enterprise bargaining arrangement and increased sales volume related expenses in both the domestic and international business.

Bad debt expense increased to \$385 million in Financial Year 2001 from \$196 million in Financial Year 2000. This increase reflects the stage of the credit cycle together with the impact of the Colonial acquisition. Provision coverage ratios have remained strong.

Income Tax

Income tax expense for Financial Year 2001 was \$993 million compared to \$800 million (after abnormals) for Financial Year 2000. Excluding the impact of the acquisition of the Colonial Group, the current year tax expense declined by \$190 million. Of this reduction, \$93 million relates to tax on behalf of life insurance policyholders the balance of \$97 million primarily results from the 2 percentage points reduction in the corporate tax rate to 34% (from 1 July 2000) and utilisation of previously unrecognised tax losses.

The components of the segment results are detailed below:

| | |
|--|------------|
| Banking⁽¹⁾ | \$M |
| Total operating income | 6,855 |
| Net interest income | 4,474 |
| Other operating income | 2,381 |
| Operating expenses | 3,958 |
| Bad debt charge | 385 |
| Income tax expense | 705 |
| Operating profit after tax | 1,793 |
| Net interest margin | 2.78% |
| | \$M |
| Lending assets | |
| (net of securitisation) ⁽²⁾ | 150 |
| Average interest earning assets | 161 |
| Funds Management | \$M |
| Operating income ⁽³⁾ | 739 |
| Operating expenses | 496 |
| Income tax expense | 94 |
| Operating profit after tax | 149 |
| | \$B |
| Funds under management ⁽⁴⁾ | 101 |
| - Retail | 34 |
| - Wholesale | 43 |
| - Life insurance | 24 |

(1) Includes General Insurance.

(2) Net of loans securitised of \$6,773 million (\$3,006 million at 30 June 2000).

(3) Includes internal income.

(4) Includes internal and external FUM.

| | |
|---|------------|
| Life Insurance | \$M |
| Operating margin | |
| - Australia and New Zealand | 213 |
| - Asia | (21) |
| Investment earnings on assets in excess of policyholder liabilities | 126 |
| Operating profit after tax | 320 |
| | \$B |
| Life insurance assets | 39 |

Appraisal Value Uplift⁽¹⁾

For Financial Year 2001, appraisal values of the life insurance and funds management businesses increased by \$1,267 million. Of the increase, \$423 million comprised net profit of the businesses, \$806 million represented the appraisal value uplift and the balance of \$38 million represented the net capital movements. The appraisal value uplift comprises two elements. Firstly, \$332 million arising from realised Colonial integration synergy benefits relating to the life insurance and funds management businesses which have been offset directly against goodwill; and secondly, \$474 million of operating appraisal value uplift reflected in profit.

Goodwill Amortisation

The goodwill amortisation charged in determining the result for the year was \$338 million.

Key Performance Measures

| | |
|--|---------|
| Return on average shareholders' equity | 13.50% |
| cash basis | 12.83% |
| Earnings per share (cents) | 190 |
| cash basis | 179 |
| Total assets held and funds under management | \$307bn |

Integration of Colonial

Significant progress has been made on the integration of the Colonial businesses into the Group. Based on the work completed to date, cost and revenue synergies are expected to exceed the business case estimate of \$380 million. The current forecast of the annualised synergies that will be realised when the integration is completed (targeted for 30 June 2003) is of the order of \$450 million.

Additional costs associated with the integration work were identified during Financial Year 2001 resulting in a \$145 million increase in the provision for integration costs (before tax), bringing total once off integration costs to \$545 million.

The major milestone achieved during Financial Year 2001 was the integration of Colonial State Bank, which involved combining the distribution networks and the conversion of the Colonial product systems to equivalent Commonwealth Bank product systems.

A new network staffing structure was introduced in October 2000, integrating the most effective sales and service elements of Commonwealth Bank and Colonial into a single, streamlined and customer focussed delivery system. Along with this new structure, 367 Colonial branches were amalgamated or absorbed into the Commonwealth Bank branch network and two new call centres were established.

⁽¹⁾ Australian Accounting Standard AASB 1038: Life Insurance Business requires that all investments owned by a life company be recorded at market value. The 'appraisal value uplift' is the periodic movement in the Balance Sheet asset 'excess of market value over net assets'.

Group Performance Summary

| | Year Ended 30 June | |
|--|--------------------|--------------|
| | 2001 \$M | 2000 \$M |
| Profit and Loss - Summary | | |
| Operating profit after tax ('cash basis' ⁽¹⁾) | 2,262 | 1,678 |
| Operating profit after tax and abnormal items | 2,398 | 2,700 |
| Income | | |
| Interest income | 11,900 | 8,842 |
| Interest expense | 7,426 | 5,123 |
| Net interest income | 4,474 | 3,719 |
| Other banking operating income | 2,381 | 1,951 |
| Total banking income | 6,855 | 5,670 |
| Life insurance income ⁽²⁾ | 1,268 | 326 |
| Funds management income | 701 | 143 |
| Total Income | 8,824 | 6,139 |
| Expenses | | |
| Operating expenses – existing operations | 5,089 | 3,407 |
| – business acquisitions and GST, net of synergies ⁽³⁾ | 81 | - |
| Total operating expenses | 5,170 | 3,407 |
| Charge for bad and doubtful debts | 385 | 196 |
| Total Expenses | 5,555 | 3,603 |
| Operating profit before goodwill amortisation, appraisal value uplift, abnormal items and income tax | 3,269 | 2,536 |
| Income tax expense ⁽²⁾ | 993 | 820 |
| Operating profit after income tax | 2,276 | 1,716 |
| Outside equity interests ⁽⁴⁾ | (14) | (38) |
| Operating profit after income tax and before goodwill amortisation, appraisal value uplift and abnormal items | 2,262 | 1,678 |
| Abnormal items before tax ⁽⁵⁾ | - | 967 |
| Income tax credit on abnormal items | - | 20 |
| Appraisal value uplift | 474 | 92 |
| Goodwill amortisation | (338) | (57) |
| Operating profit after income tax attributable to shareholders of the Bank | 2,398 | 2,700 |
| Contributions to profit (after tax) | | |
| Banking | 1,793 | 1,513 |
| Life insurance | 320 | 129 |
| Funds management | 149 | 36 |
| Profit after tax from operations ('cash basis' ⁽¹⁾) | 2,262 | 1,678 |
| Goodwill amortisation | (338) | (57) |
| Appraisal value uplift | 474 | 92 |
| Operating profit after income tax and before abnormal items | 2,398 | 1,713 |
| Abnormal items after tax ⁽⁵⁾ | - | 987 |
| Operating profit after income tax | 2,398 | 2,700 |

⁽¹⁾ 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and before abnormal items, goodwill amortisation and life insurance and funds management appraisal value uplift.

⁽²⁾ Included within life insurance income for Financial Year 2001 is \$94 million of tax relating to policyholder income. This item is also included in the income tax line in the above profit and loss. The net impact on the net profit after tax is therefore nil.

⁽³⁾ Business acquisitions include costs associated with acquisitions in Financial Year 2000 including the Australian State Street Master custody operations, Trust Bank and the development of European Banking which increased expenses by \$90 million, and net GST of \$111 million. Offset against this figure are the Colonial integration expense synergies achieved to 30 June 2001 of \$120 million.

⁽⁴⁾ Primarily includes 25% outside equity interest in the ASB Group (a financial services group based in New Zealand). In August 2000 the Group purchased this 25% interest.

⁽⁵⁾ For a discussion of abnormal items, refer page 34 for further details.

Group Performance Summary

| | Year Ended 30 June | |
|--|--------------------|-------------|
| | 2001 \$M | 2000 \$M |
| Balance Sheet - Summary | | |
| Total Assets | 230,411 | 218,259 |
| Total Liabilities | 210,563 | 199,824 |
| Shareholders' Equity | 19,848 | 18,435 |
| Assets held and Funds under management | | |
| On Balance Sheet Assets | | |
| Banking assets | 191,333 | 185,108 |
| Life funds under management | 24,527 | 22,916 |
| Other life insurance and funds management assets | 14,551 | 10,235 |
| | 230,411 | 218,259 |
| Off Balance Sheet | | |
| Funds under management | 76,954 | 65,266 |
| | 307,365 | 283,525 |
| Banking Assets | | |
| Life insurance and funds management assets | 39,078 | 33,151 |
| External funds under management | 76,954 | 65,266 |
| | 307,365 | 283,525 |
| Shareholder Summary | | |
| Dividends per share (cents) - fully franked | 136 | 130 |
| Dividends provided for, reserved or paid (\$million) | 1,720 | 1,431 |
| Dividend cover (times – before abnormal items) | 1.4 | 1.2 |
| Dividend cover (times – cash) | 1.3 | 1.4 |
| Earnings per share (cents) ⁽¹⁾ (basic & fully diluted) | | |
| before abnormal items | 190 | 185 |
| after abnormal items | 190 | 291 |
| cash basis ⁽²⁾ | 179 | 181 |
| Dividend payout ratio (%) ⁽³⁾ | | |
| before abnormal items | 71.2 | 83.5 |
| after abnormal items | 71.2 | 53.0 |
| cash basis ⁽²⁾ | 75.5 | 85.3 |
| Net tangible assets per share (\$) | 10.19 | 9.18 |
| Weighted average number of shares (basic) | 1,260m | 927m |
| Shares at end of period | 1,244m | 1,260m |
| Number of shareholders | 709,647 | 788,791 |
| Share prices for the period (\$) | | |
| Trading high | 34.15 | 27.95 |
| Trading low | 26.18 | 22.54 |
| End (closing price) | 34.15 | 27.69 |

⁽¹⁾ Calculated in accordance with Australian Accounting Standard AASB 1027: Earnings per Share.

⁽²⁾ 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and before abnormal items, before goodwill amortisation and life insurance and funds management appraisal value uplift. The 30 June 2000 dividend payout ratio was inflated by the payment of the final dividend to Colonial shareholders, but the Colonial Group only contributed 17 days profit to the Financial Year 2000 result.

⁽³⁾ Dividends paid divided by earnings. The ratios for Financial Year 2000 have been amended to the same basis as Financial Year 2001. Previously this ratio was calculated as Dividend per share divided by Earnings per share. Financial Year 2001 excludes dividends on preference shares of \$9 million.

Group Performance Summary

| | Year Ended 30 June | |
|---|--------------------|-----------|
| | 2001 % | 2000 % |
| Performance Ratios (%) | | |
| Return on average shareholders' equity ⁽¹⁾ | | |
| before abnormal items | 13.50 | 22.06 |
| after abnormal items | 13.50 | 34.78 |
| cash basis | 12.83 | 21.61 |
| Return on average total assets ⁽²⁾ | | |
| before abnormal items | 1.07 | 1.08 |
| after abnormal items | 1.07 | 1.70 |
| cash basis | 1.01 | 1.06 |
| Capital adequacy - Tier 1 | 6.51 | 7.49 |
| Capital adequacy - Tier 2 | 4.18 | 4.75 |
| Deductions | (1.53) | (2.49) |
| Capital adequacy - Total | 9.16 | 9.75 |
| Productivity | | |
| Cost to total average assets ratio ⁽³⁾ | 2.30 | 2.15 |
| Cost to assets held and funds under management ⁽³⁾ | 1.75 | 1.85 |
| Staff expense/Total operating income ⁽⁴⁾ | 26.75 | 27.77 |
| Total operating income per FTE ⁽⁴⁾ | \$252,400 | \$211,842 |
| Cost to income ratios (%) | | |
| Banking | 57.70 | 55.80 |
| Funds management | 67.10 | 67.30 |
| Life insurance | 59.50 | 46.00 |
| Other Information (numbers) | | |
| Full time staff | 31,976 | 34,154 |
| Part time staff | 7,161 | 7,383 |
| Full time staff equivalent | 34,960 | 37,131 |

⁽¹⁾ Ratio based on operating profit after tax and outside equity interest applied to average shareholders equity, excluding outside equity interests.

⁽²⁾ Based on operating profit after tax and outside equity interest. Averages are based on beginning and end of year balances. 30 June 2000 includes Colonial assets weighted for the 17 days from 13 June 2000 to 30 June 2000.

⁽³⁾ 30 June 2000 includes Colonial assets weighted for the 17 days from 13 June 2000 to 30 June 2000.

⁽⁴⁾ 30 June 2000 includes Colonial full time equivalent ('FTE') staff numbers weighted for the 17 days from 13 June 2000 to 30 June 2000.

Financial Review

Selected Consolidated Financial and Operating Data

| | 2001 | 2001 | 2000 | Year ended 30 June | | |
|---|--|---------|---------|--------------------|---------|---------|
| | | | | 1999 | 1998 | 1997 |
| | (A\$ millions, except where indicated) | | | | | |
| Selected Consolidated Income Statement Data | US\$M | | | | | |
| Australian GAAP | | | | | | |
| Interest income | 6,069 | 11,900 | 8,842 | 7,745 | 7,605 | 7,989 |
| Interest expense | (3,787) | (7,426) | (5,123) | (4,218) | (4,208) | (4,597) |
| Net Interest income | 2,282 | 4,474 | 3,719 | 3,527 | 3,397 | 3,392 |
| Charge for bad and doubtful debts | (196) | (385) | (196) | (247) | (233) | (98) |
| Non interest income ⁽¹⁾ | 2,460 | 4,824 | 2,512 | 1,997 | 1,833 | 1,489 |
| Operating expenses (incl. Goodwill) | (2,809) | (5,508) | (3,464) | (3,117) | (3,085) | (2,967) |
| Operating profit before income tax and abnormal items | 1,737 | 3,405 | 2,571 | 2,160 | 1,912 | 1,816 |
| Income tax expense attributable to operating profit before abnormal items | (506) | (993) | (820) | (714) | (641) | (588) |
| Operating profit after income tax and before abnormal items | 1,231 | 2,412 | 1,751 | 1,446 | 1,271 | 1,228 |
| Abnormal (expense)/income before income tax | - | - | 967 | - | (570) | (200) |
| Abnormal income tax (expense)/credit | - | - | (20) | - | 409 | 72 |
| Operating profit after income tax and abnormal items | 1,231 | 2,412 | 2,738 | 1,446 | 1,110 | 1,100 |
| Outside equity interest | (7) | (14) | (38) | (24) | (20) | (22) |
| Net income | 1,224 | 2,398 | 2,700 | 1,422 | 1,090 | 1,078 |

| | | | | | |
|--|--------|-------|-------|-------|-------|
| Dividends declared (\$) | 1,720 | 1,431 | 1,063 | 955 | 941 |
| Weighted average number of shares (basis) | 1,260m | 927m | 927m | 930m | 917m |
| Earnings per share before abnormal items (cents) | 190.0 | 184.8 | 153.4 | 134.5 | 131.2 |
| Earnings per share after abnormal items (cents) | 190.0 | 291.3 | 153.4 | 117.2 | 117.2 |
| Dividends per share (cents) | 136 | 130 | 115 | 104 | 102 |
| Dividends payout ratio (%) ⁽²⁾ | 71.2 | 83.5 | 74.7 | 76.3 | 78.0 |

Adjusted for US GAAP

| | | | | | | |
|---|-------|-------|-------|-------|------|-------|
| Operating profit after income tax | 809 | 1,586 | 1,502 | 1,494 | 796 | 1,082 |
| Earnings per share after abnormal items (cents) | 63.85 | 125.2 | 162.0 | 161.2 | 85.6 | 118.0 |

⁽¹⁾ Financial Year 2001 includes \$474 million in appraisal value uplift relating to life insurance business.

⁽²⁾ Dividends per share divided by earnings per share (before abnormal items). Prior Financial Years have been restated to a comparable basis.

Exchange Rates

For each of the Bank's Financial Years indicated, the average noon buying rate in New York City for cable transfers in Australian Dollars as certified for customer purposes by the Federal Reserve Bank of New York (the 'Noon Buying Rate') are set out below, together with the high and low rates for the previous six months.

| | 2001 | 2000 | 1999 | Year Ended 30 June | |
|--------------|--------------------------------------|--------|--------|--------------------|--------|
| | | | | 1998 | 1997 |
| | (expressed in US dollars per \$1.00) | | | | |
| Period End | 0.5100 | 0.5971 | 0.6611 | 0.6208 | 0.7550 |
| Average Rate | 0.5372 | 0.6284 | 0.6273 | 0.6809 | 0.7814 |

On 13 November 2001, the Noon Buying Rate was US\$0.5199 = \$1.00.

The Noon Buying Rate on 29 June 2000 was US\$0.5100 = \$1.00.

| | October | September | August | July | June | May |
|------|--------------------------------------|-----------|--------|--------|--------|--------|
| | (expressed in US dollars per \$1.00) | | | | | |
| High | 0.5139 | 0.5230 | 0.5362 | 0.5162 | 0.5276 | 0.5290 |
| Low | 0.4923 | 0.4841 | 0.5130 | 0.5048 | 0.5062 | 0.5068 |

Financial Review

| | 2001 | 2001 | 2000 | 1999 | 1998 | At 30 June 1997 |
|--|--|----------------|----------------|----------------|----------------|--------------------|
| | (A\$ millions, except where indicated) | | | | | |
| Consolidated Balance Sheet Data | | | | | | |
| (at year end) | | | | | | |
| | US\$M | | | | | |
| Australian GAAP | | | | | | |
| Assets | | | | | | |
| Cash and short term liquid assets | 1,892 | 3,709 | 2,575 | 1,814 | 1,526 | 2,007 |
| Due from other banks | 2,357 | 4,622 | 5,154 | 1,206 | 3,448 | 4,839 |
| Trading securities | 3,524 | 6,909 | 7,347 | 4,708 | 4,009 | 2,635 |
| Investment securities | 4,950 | 9,705 | 9,149 | 7,187 | 6,858 | 9,233 |
| Loans, advances and other receivables | 69,390 | 136,059 | 132,263 | 101,837 | 89,816 | 81,632 |
| Bank acceptances of customers | 6,158 | 12,075 | 11,107 | 9,672 | 9,727 | 8,874 |
| Life insurance investment assets | 15,919 | 31,213 | 26,448 | - | - | - |
| Statutory deposits with Central Banks | 31 | 61 | 46 | 953 | 832 | 797 |
| Property, plant and equipment | 469 | 919 | 1,073 | 1,001 | 1,662 | 2,010 |
| Investments in associates | 204 | 400 | 403 | 281 | 276 | - |
| Intangible Assets | 5,535 | 10,852 | 10,257 | 491 | 531 | 574 |
| Other assets | 7,082 | 13,887 | 11,849 | 8,946 | 11,859 | 7,502 |
| Total Assets | 117,511 | 230,411 | 218,259 | 138,096 | 130,544 | 120,103 |
| Liabilities | | | | | | |
| Deposits and other public borrowings | 59,851 | 117,355 | 112,594 | 93,428 | 83,886 | 77,880 |
| Due to other banks | 3,521 | 6,903 | 4,633 | 3,249 | 3,397 | 3,621 |
| Bank acceptances | 6,158 | 12,075 | 11,107 | 9,672 | 9,727 | 8,874 |
| Provision for dividend | 397 | 779 | 708 | 472 | 321 | 291 |
| Income tax liability | 691 | 1,355 | 1,823 | 1,410 | 1,099 | 925 |
| Other provisions | 514 | 1,007 | 1,554 | 805 | 875 | 835 |
| Life insurance policy liabilities | 13,785 | 27,029 | 25,282 | - | - | - |
| Debt issues | 12,487 | 24,484 | 25,275 | 10,763 | 10,608 | 10,154 |
| Bills payable and other liabilities | 7,075 | 13,872 | 11,549 | 8,507 | 10,746 | 7,698 |
| | 104,479 | 204,859 | 194,525 | 128,306 | 120,659 | 110,278 |
| Loan capital ⁽¹⁾ | 2,909 | 5,704 | 5,299 | 2,828 | 2,996 | 2,801 |
| Total liabilities and loan capital | 107,388 | 210,563 | 199,824 | 131,134 | 123,655 | 113,079 |
| Total Shareholders' Equity ⁽²⁾ | 10,123 | 19,848 | 18,435 | 6,962 | 6,889 | 7,024 |
| Adjusted for US GAAP | | | | | | |
| Total Assets | 129,262 | 235,807 | 221,220 | 149,054 | 139,460 | 128,253 |
| Shareholders' equity ⁽³⁾ | 8,280 | 16,236 | 16,022 | 7,659 | 7,631 | 7,783 |
| Consolidated Operating Data | | | | | | |
| (number) (at year end) | | | | | | |
| Full time staff | | 31,976 | 34,154 | 26,394 | 28,034 | 30,566 |
| Part time staff | | 7,161 | 7,383 | 6,655 | 6,968 | 7,364 |
| Full time staff equivalent | | 34,960 | 37,131 | 28,964 | 30,743 | 33,543 |
| Branches/service centres (Australia) | | 1,161 | 1,387 | 1,162 | 1,218 | 1,334 |
| Agencies (Australia) | | 3,927 | 4,081 | 3,934 | 4,015 | 4,205 |

⁽¹⁾ Represents interest bearing liabilities qualifying as regulatory capital.

⁽²⁾ Including minority interests.

⁽³⁾ Exclusive of minority interests.

| | Year ended 30 June | | | | | |
|--|--|----------------|---------|---------|---------|---------|
| | 2001 | 2001 | 2000 | 1999 | 1998 | 1997 |
| | (A\$ millions, except where indicated) | | | | | |
| Consolidated Ratios and Operating Data | US\$M | | | | | |
| Australian GAAP | | | | | | |
| Profitability | | | | | | |
| Net Interest Margin (%) ⁽¹⁾ | 2.78 | 2.88 | 3.09 | 3.33 | 3.53 | |
| Interest Spread (%) ⁽²⁾ | 2.32 | 2.47 | 2.69 | 2.85 | 2.92 | |
| Return on average shareholders' equity ⁽³⁾ | | | | | | |
| before abnormal items (%) | 13.50 | 22.06 | 20.54 | 18.48 | 18.16 | |
| after abnormal items (%) | 13.50 | 34.78 | 20.54 | 16.10 | 16.39 | |
| Return on average total assets ⁽³⁾ | | | | | | |
| before abnormal items (%) | 1.07 | 1.08 | 1.06 | 1.01 | 1.05 | |
| after abnormal items (%) | 1.07 | 1.70 | 1.06 | 0.87 | 0.94 | |
| Productivity | | | | | | |
| Total operating income per full time (equivalent) employee (\$) | 128,724 | 252,400 | 211,842 | 190,720 | 170,120 | 145,515 |
| Staff expense/total operating income (%) ⁽⁴⁾ | 26.7 | 27.8 | 29.0 | 31.0 | 34.0 | |
| Total operating expenses excluding goodwill amortisation/total operating income (%) ⁽⁴⁾ | 58.6 | 55.5 | 55.6 | 58.1 | 59.9 | |
| Ratio of earnings to fixed charges | 1.5 | 1.7 | 1.5 | 1.3 | 1.3 | |
| Capital Adequacy (at year end) | | | | | | |
| Risk weighted assets | 70,575 | 138,383 | 128,484 | 99,556 | 94,431 | 86,468 |
| Tier 1 capital | 4,598 | 9,015 | 9,618 | 7,021 | 7,617 | 7,468 |
| Tier 2 capital | 2,950 | 5,784 | 6,097 | 3,109 | 2,666 | 2,437 |
| Total capital ⁽⁵⁾ | 6,467 | 12,680 | 12,518 | 9,342 | 9,902 | 9,418 |
| Tier 1 capital/risk weighted assets (%) | 6.51 | 7.49 | 7.05 | 8.07 | 8.64 | |
| Tier 2 capital/risk weighted assets (%) | 4.18 | 4.75 | 3.12 | 2.82 | 2.82 | |
| Total capital/risk weighted assets (%) | 9.16 | 9.75 | 9.38 | 10.49 | 10.89 | |
| Average shareholders' equity/average total assets (%) | 8.06 | 4.81 | 5.14 | 5.70 | 5.79 | |
| Adjusted for US GAAP | | | | | | |
| Net income as a percentage of year end: | | | | | | |
| Total assets | 0.67 | 0.68 | 1.00 | 0.57 | 0.84 | |
| Shareholders' equity | 9.77 | 9.37 | 19.51 | 10.43 | 13.90 | |
| Dividends as a percentage of net income | 92.21 | 95.27 | 71.15 | 119.97 | 86.97 | |
| Shareholders' equity as a percentage of total assets | 6.89 | 7.24 | 5.14 | 5.47 | 6.07 | |
| Ratio of earnings to fixed charges | 1.4 | 1.5 | 1.5 | 1.3 | 1.3 | |

⁽¹⁾ Net interest income divided by average interest earning assets for the year.

⁽²⁾ Difference between the average interest rate earned and the average interest rate paid on funds.

⁽³⁾ Calculations based on operating profit after tax and outside equity interests applied to average shareholders' equity.

⁽⁴⁾ Total operating income represents net interest income before deducting charges for bad and doubtful debts plus non interest income.

⁽⁵⁾ Represents Tier 1 capital and Tier 2 capital less deductions under statutory guidelines imposed by the Reserve Bank of Australia. Deductions include investment in Commonwealth Life Limited, Commonwealth Insurance Limited, Commonwealth Funds Management Limited and other banks' capital instruments.

Financial Review

| Consolidated Ratios And Operating Data | 2001 | 2001 | 2000 | Year ended 30 June | | |
|--|-------|--|-------|--------------------|-------|------|
| | US\$M | (A\$ millions, except where indicated) | | 1999 | 1998 | 1997 |
| Australian GAAP | | | | | | |
| Asset Quality Data ^{(1) (2)} | | | | | | |
| Non accrual loans ⁽³⁾ | 330 | 647 | 1,001 | 574 | 742 | 797 |
| Total impaired assets (net of interest reserved) ⁽⁴⁾ | 331 | 649 | 1,004 | 589 | 742 | 797 |
| Specific provisions for impairment ⁽⁵⁾ | 119 | 234 | 432 | 275 | 279 | 241 |
| General provisions for impairment | 713 | 1,399 | 1,358 | 1,081 | 1,076 | 690 |
| Net impaired assets (net of interest reserved) | 212 | 415 | 572 | 314 | 466 | 556 |
| Total provisions for impairment/average credit risk (%) ⁽⁶⁾ | | 0.8 | 1.0 | 0.9 | 1.0 | 0.8 |
| Charge for bad and doubtful debts/average credit risk (%) ⁽⁶⁾ | | 0.2 | 0.1 | 0.2 | 0.2 | 0.1 |
| Gross impaired assets/credit risk (%) ⁽⁷⁾ | | 0.3 | 0.5 | 0.4 | 0.5 | 0.6 |
| Net impaired assets/total shareholders' equity (%) | | 2.1 | 3.1 | 4.5 | 6.8 | 7.9 |
| General provision for impairment/risk weighted assets (%) | | 1.0 | 1.1 | 1.1 | 1.1 | 0.8 |

(1) The Bank adopted the disclosure requirements for impaired Assets contained in AASB 1032: Specific Disclosures by Financial Institutions with effect from the 1997 Financial Year. The policies introduced by the Bank with effect from 1 July 1994, incorporating the Reserve Bank guidelines issued in December 1993, meet the requirements of AASB 1032.

(2) All impaired asset balances and ratios are net of interest reserved.

(3) Non accrual facilities comprise any credit risk exposure where a specific provision for impairment has been raised, or is maintained on a cash basis because of significant deterioration in the financial position of the borrower, or where loss of principal or interest is anticipated.

(4) Total impaired assets comprise non accrual loans, restructured loans, Other Real Estate Owned

(OREO) assets and Other Assets Acquired Through Security Enforcement (OATSE).

(5) Specific provisions for impairment include provisions raised against off balance sheet credit risk.

(6) Average credit risk is based on gross credit risk less unearned income. Averages are based on current and previous year end balances.

(7) Gross credit risk less unearned income.

(8) Numbers and ratios for 30 June 1998 have been restated based on the amended definition of non accruals introduced with effect from 31 December 1998. When a client is experiencing difficulties the account is classified as a non accrual only where a loss is expected, taking into account the level of security held.

Segment Performance

Performance summaries for the major segments of the Group (Banking, Funds Management and Life Insurance) for Financial Years 1999, 2000 and 2001 are detailed in Note 33 to the Financial Statements.

Risk Factors

This section describes the principal risk factors that could affect the Group's businesses. The factors below should be considered in connection with any forward-looking statements in this Form 20-F and the Integrated Risk Management section of this report as detailed on pages 35 to 37. The Integrated Risk Management section provides details on how the Group manages risk in respect of credit, market, operational, life insurance, derivatives and business continuity.

The risks below are not the only ones that the Group faces – some risks that the Group does not currently believe to be material could turn out to be material at a later stage. All of these risks could materially affect the Group's business, its revenues, operating income, net income, net assets, liquidity and capital resources.

General Economy and Credit Risk

As a financial group whose core businesses are banking, life insurance and funds management, the performance of the Group is affected by the state of the economy. The results of the Group in recent years have benefited from historically high rates of growth of the Australian economy, low unemployment and historically low rates of inflation.

A downturn in the Australian and New Zealand economies could adversely impact future results and would likely contribute to an increase in the amount overdue on individual loans. Recessive economic cycles also have a negative influence on liquidity levels, credit defaults of corporations and other borrowers and return on assets.

Regulatory Environment

The Group's banking and insurance activities are subject to extensive regulation, mainly relating to liquidity levels, solvency, provisioning, and insurance policy terms and conditions.

The requirement to maintain certain levels of Tier 1 and Tier 2 eligible capital limits the development of lending activity, or, alternatively, requires the issue of additional equity capital or subordinated debt, which are expensive sources of funds to the Group. Any change in regulation to increase the requirements for capital adequacy could have an adverse impact on the Group's results of operations.

The Australian Labor Party, major opposition political party, has prior to the general election on 10 November 2001, released a Plan for Banking which proposes various measures which it sees as necessary to make Australian banking services more affordable and effective at the community level.

Market Risks, Interest Rate and Currency Risk

The Group is subject to the risks typical of banking and insurance activities, such as interest rates fluctuation, exchange rate variations and capital market volatility. Many of these risks are outside the control of the Group. For a description of these specific risks, see Note 39 to the Financial Statements.

Operational and Life Insurance Risk

The Group is subject to operational and life insurance risks. These risks are described in detail on pages 36 and 37.

Competition

The Group faces intense competition in all of its principal areas of operation and geographical markets. Competition in the banking and funds management markets has, however, had the most significant effect on the Group's results and operations. Further details on the competition faced by the Group is detailed in 'Competition' on page 42 of this report.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion is based on the Financial Statements as prepared under Australian GAAP and included on pages 57 through 171 of this report for the Financial Year ended 30 June 2001.

A discussion of the differences between Australian GAAP and US GAAP, and the impact of those differences on the Financial Statements, is set out in Note 49 to the Financial Statements.

OVERVIEW

Business Description

Commonwealth Bank of Australia provides a comprehensive range of banking, financial and insurance services primarily in Australia and New Zealand. These services include personal, business and corporate banking, life insurance and funds management. On 13 June 2000 the Group acquired 100% of Colonial Limited (Colonial) a life insurance, banking and funds management group. Colonial had operations in Australia, New Zealand, the United Kingdom and throughout Asia and the Pacific.

The Commonwealth Bank of Australia became the successor in law to the State Bank of New South Wales (known as Colonial State Bank) and to all the assets and liabilities of State Bank of New South Wales effective on 4 June 2001 pursuant to legislation.

As at 30 June 2001, the Commonwealth Bank of Australia Group had:

- total consolidated assets of over \$230 billion; and
- over \$307 billion of assets held and funds under management.

The Group's operations are conducted primarily in Australia. For Financial Year 2001, Australia contributed 83% of revenue, 93% of net profit and as at 30 June 2001 accounted for 86% of the Group's assets. The Group is represented internationally through branches in London, New York, Singapore, Tokyo, Hong Kong and Grand Cayman and operations in the Philippines, Fiji, Thailand, Indonesia, Malaysia, China and Vietnam.

The Group's revenue and net profit are principally derived from its banking operations, which comprised 79% of revenue and 75% of net profit on a Group basis for Financial Year 2001. With the acquisition of Colonial, fee based activities including life insurance, funds management and finance operations represent a growing proportion of the Group's revenue and net profit.

Strategic Initiatives

The demand for banking and financial services is being driven by three major forces:

- The convergence of technology and information, with the Internet a significant influence.
- The need to provide relevant long term savings and investment products for an ageing population.
- The need to satisfy the day to day individual requirements of personal and business customers.

Changing customer needs are heightening the demand for information and advice, but are also encouraging demands for more regulation.

A more challenging, uncertain environment, continuing pressure on margins and a weaker Australian currency each pose significant challenges to the Group.

Within this globalising yet more customer focused environment, the Group's major assets are its domestic scale and management capabilities in Australia, a pre-eminent brand and a strong, diversified business mix.

Consistent with this context, the Group's vision is to be recognised as having the best brands in helping customers manage and build wealth.

A set of business goals underpins the achievement of the Group's vision. Each operating division in turn has a series of strategies that are consistent with, and directed at the collective achievement of those business goals, which are to:

- Provide customised service to grow revenue per customer.
- Develop the best team.
- Develop offshore opportunities.
- Achieve global best-practice costs.

The strategic emphasis is on wealth management services that are aligned to customers' needs, and the use of technology to improve both service and productivity.

Outlook Statement

Recovery in the major global economies continues to be uncertain putting at risk the sustainability of current growth rates in Australia, even with a historically low exchange rate. Interest rates are expected to remain low, around the levels of the past six months. Equities markets are expected to continue to reflect uncertainty about the global economy and corporate earnings.

Credit quality in the business sector is expected to continue to weaken reflecting the normal lag from an economic slow-down. However, low interest rates should moderate the severity of the credit cycle.

Uncertainty in the equities markets may affect investment returns in the insurance businesses and dampen revenue on investment management activities; however, continued growth of retail funds should be achieved in the light of the current momentum in the business and Australian Government's policy on superannuation. Lending volumes are expected to continue at recently achieved growth rates, supported by low interest rates and reasonable demand for credit. However, bank margins are expected to continue to decline reflecting the competitive environment witnessed over recent years.

With the completion of the critical phases of the Colonial integration, the Bank believes that it is positioned to achieve the benefits of integration synergies. The Bank also expects that its strategic investments, including the Colonial merger, will improve its competitive position by enhancing customer service, revenue and efficiency.

Directors expect that the Group will continue to maintain a high ratio of dividends to cash earnings relative to peer financial institutions.

Banking – Performance Summary

The contribution to profit from the Group's banking business has increased 19% from \$1,513 million in Financial Year 2000 to \$1,793 million in Financial Year 2001. Net interest earnings increased by 20% to \$4,474 million in Financial Year 2001 and other banking income increased by 22% to \$2,381 million. Average interest earning assets increased by 24% to \$161 billion in Financial Year 2001.

| | Year Ended 30 June | |
|--|--------------------|--------------|
| | 2001 \$M | 2000 \$M |
| Operating Profit after Tax from operations ⁽¹⁾ | 1,793 | 1,513 |
| Lending Assets ⁽²⁾ | 149,776 | 145,159 |
| Average interest earning assets | 160,607 | 129,163 |
| Average interest bearing liabilities | 145,978 | 117,075 |
| Risk weighted assets | 138,383 | 128,484 |
| Net impaired assets | 415 | 572 |
| Performance Ratios (%) | | |
| Net interest margin | 2.78 | 2.88 |
| General provision/Risk weighted assets | 1.01 | 1.06 |
| Total provisions/Gross Impaired assets (net of interest reserved) | 251.6 | 178.3 |
| Non-interest income/Total operating income | 34.7 | 34.2 |
| Cost to average assets ratio | 2.1 | 2.0 |
| Cost to income ratio | 57.7 | 55.8 |
| Other Information (numbers) | | |
| Branches/service centres (Australia) ⁽³⁾ | 1,066 | 1,441 |
| Agencies (Australia) ⁽⁴⁾ | 3,928 | 4,020 |
| ATMs ⁽⁵⁾ | 3,910 | 4,141 |
| EFTPOS terminals | 122,074 | 116,064 |
| EzyBanking sites | 659 | 603 |

Banking Margin⁽⁶⁾

The ratio of total banking income to average total banking assets (including securitisation) has declined from 4.36% for Financial Year 1996 to 3.58% for Financial Year 2001. This reflects the decrease in net interest margins over this period, but have only been partly offset by increases in other sources of banking income, leading to the lower net cost of banking to customers.

Despite this, the Group's profit after tax from the Banking businesses has continued to grow over this period, reflecting strong asset growth, new service lines and cost efficiencies.

⁽¹⁾ Represents operating profit after tax and outside equity interest and before goodwill amortisation and abnormal items. The 30 June 2000 result includes \$6 million of Colonial profit for the period 13 June 2000 to 30 June 2000.

⁽²⁾ Lending Assets represents loans, advances and receivables and bank acceptances excluding provisions for bad and doubtful debts and securitised balances. Securitised balances are not included in lending assets and amounted to \$6.8 billion as at 30 June 2001 compared to \$3.0 billion as at 30 June 2000.

⁽³⁾ 30 June 2000 data has been restated for a definitional change where Colonial single point operators have been reclassified to branches.

⁽⁴⁾ Includes Australia Post and private agencies.

⁽⁵⁾ Includes third party ATMs.

⁽⁶⁾ Banking Margin represents total Banking income divided by total average Banking assets.

| Major Banking Balance Sheet Items As at 30 June | 2001 \$M | 2000 \$M |
|---|---------------------|---------------------|
| Loans, advances and other receivables ⁽¹⁾ | | |
| Gross Housing | 80,284 | 73,744 |
| Securitisation | (6,773) | (3,006) |
| Housing (net of securitisation) | <u>73,511</u> | <u>70,738</u> |
| Personal | 7,768 | 8,533 |
| Business | 32,224 | 32,437 |
| Corporate | 24,198 | 22,343 |
| Bank acceptances | 12,075 | 11,108 |
| Total lending assets | <u>149,776</u> | <u>145,159</u> |
| Trading securities | | |
| Corporate | <u>6,909</u> | <u>7,347</u> |
| Deposits and other public borrowings | | |
| Personal | 58,620 | 56,337 |
| Business | 16,351 | 14,056 |
| Corporate | 42,384 | 42,201 |
| | <u>117,355</u> | <u>112,594</u> |
| Debt issues | | |
| Corporate | <u>24,484</u> | <u>25,275</u> |

⁽¹⁾ Loan balances are before provisions for impairment.

The following table sets forth the Group's Banking results for the Financial Years 1999, 2000 and 2001.

| Banking Operating Profit Summary | Year Ended 30 June | | |
|---|---------------------------|---------------------|---------------------|
| | 2001 \$M | 2000 \$M | 1999 \$M |
| Interest income | 11,900 | 8,842 | 7,745 |
| Interest expense | 7,426 | 5,123 | 4,218 |
| Net interest income | <u>4,474</u> | <u>3,719</u> | <u>3,527</u> |
| Other operating income | 2,381 | 1,951 | 1,743 |
| Total operating income | <u>6,855</u> | <u>5,670</u> | <u>5,270</u> |
| Operating expenses | 3,958 | 3,164 | 2,948 |
| Underlying profit | <u>2,897</u> | <u>2,506</u> | <u>2,322</u> |
| Charge for bad and doubtful debts | 385 | 196 | 247 |
| Operating profit before abnormal items, goodwill amortisation and income tax | <u>2,512</u> | <u>2,310</u> | <u>2,075</u> |
| Income tax expense | 705 | 759 | 709 |
| Outside equity interests | 14 | 38 | 24 |
| Operating profit after income tax, before abnormal items and goodwill amortisation | <u>1,793</u> | <u>1,513</u> | <u>1,342</u> |

Banking – Business Analysis

(All figures relate to Financial Year 2001. All comparisons are to Financial Year 2000 unless otherwise stated. Market share statistics exclude ASB Bank.)

Total lending assets have grown by \$4.6 billion to \$149.8 billion during Financial Year 2001. As at 30 June 2001, securitised home loan balances amounted to \$6.8 billion, an increase of \$3.8 billion over the 2000 Financial Year. Allowing for this, gross lending assets (which represents total lending assets before deducting securitised assets and provision for impairment) have increased by \$8.4 billion or 6% to \$156.5 billion at 30 June 2001 from \$148.2 billion at 30 June 2000.

Despite this growth, the market has remained very competitive and the Group has experienced a small decline in market share in the major product groups over the year. During the early part of Financial Year 2001, while the Group focussed on the more complex planning stages of integration, some business momentum was lost. Over the second half of Financial Year 2001 the Group regained part of this.

An analysis of the areas of growth is detailed below.

PERSONAL PRODUCTS

Housing Loans

The Group's home loan outstandings, including securitisation, totalled \$80.3 billion at 30 June 2001, a 9% increase over the balance as at 30 June 2000. Securitised balances were \$6.8 billion as at 30 June 2001 compared to \$3.0 billion as at 30 June 2000.

Growth in home loans was affected in the first half of Financial Year 2001 by the impact of the Goods and Services Tax (GST), the Sydney Olympics and significant growth in non-traditional mortgage origination such as mortgage broker channels. The Sydney 2000 Olympics were held in September, which is the traditional peak period for purchase and sale of property. However, campaigns undertaken to drive balance sheet growth resulted in stronger sales in the second half of Financial Year 2001. The Group's total market share of home loans, was 20.3% at 30 June 2001 (source: APRA 06/01) compared to 18.7% at 30 June 2000.

Personal Lending

Personal Lending balances at 30 June 2001 amounted to \$7.8 billion, a reduction of \$0.8 billion compared with the balance at 30 June 2000. The principal balances included within Personal Lending are credit card outstandings and personal loans. These are discussed below.

Credit Cards

Credit card outstandings for the Group totalled just over \$3.8 billion at 30 June 2001, a 9% increase from the balance of \$3.5 billion at 30 June 2000.

The Group has maintained strong new cardholder account growth during the Financial Year with the number of cardholder accounts increasing to 2.8 million at 30 June 2001. The number of merchants increased to over 146,000 during Financial Year 2001 with growth encouraged through expanded Internet services to merchants. The Group's market share of credit cards has declined marginally to 26.3% as at 31 May 2001 from 27.8% at 30 June 2000 (Source: ABA).

Personal Loans

Personal loan outstandings for the Group totalled \$3.5 billion at 30 June 2001 compared with \$4.2 billion as at 30 June 2000. During the six months to 31 December 2000 the reduction was due partly to \$0.5 billion of loans to individuals for infrastructure borrowings which matured.

The Group continues to hold the largest share of the personal loan market with 21.9% at 30 June 2001 compared to 23.9% at 30 June 2000 (Source: APRA 06/01).

Deposit Products

As at 30 June 2001, the Group's retail deposit base in Australia stood at approximately \$58.6 billion, a 4% increase from 30 June 2000. The Group is the largest acceptor of retail deposits in Australia with a market share of 24.0% as at 30 June 2001 compared with 25.3% as at 30 June 2000 (Source: APRA All banks). However, there was a planned reduction due to the non-renewal of some high cost Colonial certificates of deposit with consequent benefits to interest margins.

Share Trading

Commonwealth Securities maintained its position as the leading broker in Australia in terms of the number of transactions. The total number of clients increased by 21% from 537,000 as at 30 June 2000 to 652,000 as at 30 June 2001. Over 80% of Commonwealth Securities trades are now conducted online with the balance by telephone. Service and efficiency has been improved through the launch of initiatives such as Voice Broker, a speech recognition system and enhanced Straight Through Processing across all channels.

BUSINESS PRODUCTS

Business Lending

At 30 June 2001, total Business Lending (excluding bank acceptances) amounted to \$32.2 billion, representing a marginal decline from \$32.4 billion at 30 June 2000.

Corporate Products

Corporate Lending balances amounted to \$24.2 billion at 30 June 2001, representing an increase of 8% or \$2 billion during the 2001 Financial Year. Corporate Deposits have risen slightly to \$42.4 billion (including certificates of deposit) at 30 June 2001.

The Group's Institutional Banking Division services the Group's corporate clients (with turnover of more than \$40 million per annum), Government entities and other major financial institutions. The products offered include financial markets, corporate finance, securities underwriting, trading and distribution, equities, payments and transaction services, investment management and custody. Many of these products are offered globally to match the international operations of the Group's clients. Highlights during the year included the following:

Financial Markets

There was a strong growth in the contribution of Financial Markets with an increase in Trading income due to increased volume of client transactions and underlying market volatility.

Financial Markets continues to offer a wide range of risk management solutions to clients. New developments this Financial Year included various energy risk management transactions for clients using swaps and options, the development of products related to the environment including the creation of a consumer oriented labelling programme with the Australian Greenhouse Office, and the continual development of financial risk management products including Best of Two Asset Options, Margin Locks, Floating Rate Par Forwards and Average Strike Options.

Corporate Finance

Corporate Finance undertook a number of substantial transactions during Financial Year 2001 including:

- A non-recourse project financing transaction in Victoria for Pulse Energy to fund the acquisition of retail gas and electricity customers in Victoria.
- Joint lead underwriter and arranger of financing for Billiton's acquisition of the Worsley Alumina Refinery.
- Joint lead arranger for a syndicated facility for an acquisition by CSL Limited.
- A cross border leasing transaction in the United Kingdom on behalf of the Royal Mail.
- Co-arranger of a debt package to support an acquisition by Amatek Holdings.

Over \$17 billion of capital was raised for clients in Financial Year 2001 which represents a 49% growth on that raised in Financial Year 2000. Of this amount 39% was by originations, 36% financing by direct lending and the balance by syndicated loans and equity.

Equity Capital Markets

The Group established a position in the equity capital markets during the Financial Year and participated in a number of raisings including managing the Initial Public Offering of shares by PanPharmaceuticals and underwriting and distributing the Resettable Preference Share Issue for Australand Holdings.

Transaction Services

Transaction Services, which provides cash management solutions for clients through corporate accounts, payments and information services, experienced strong growth over the 2001 Financial Year. The payments business is now positioned as a leader in high volume payment processing and the Group is the largest clearer in the domestic market.

Commonwealth Custodial Services

Commonwealth Custodial Services has consolidated its position in the market with \$74 billion of assets under administration at 30 June 2001 (30 June 2000: \$67 billion).

Customer Service

The Group operates the largest financial services distribution network in Australia, with sales and service provided through a wide range of direct customer contact, self-service and third party channels. The integration of the Colonial banking operations over Financial Year 2001 has further expanded the range of delivery options available to our customers. Strategic emphasis is on generating customer service, value and efficiency across the distribution network, with a number of transformational changes to management structures and systems over Financial Year 2001 providing a strong platform for future growth.

Direct contact service channels

The combined branch network of Commonwealth and Colonial was reduced by 375 during Financial Year 2001, from 1,441 as at 30 June 2000 (1,074 Commonwealth, 367 Colonial) to 1,066 as at 30 June 2001. Included in this reduction were 290 integration-related amalgamations. In addition, 536 branches were refurbished during the 2001 Financial Year.

In integrating Colonial operations, a key priority was to ensure that the particular skills and competencies of both organisations were effectively leveraged going forward. A number of former Colonial franchisees have been retained in key network roles, including 15 in regional and rural locations. Through integration, a wider range of branch types is now available to customers, with further reconfiguration of the network planned to better meet the needs of specific locations and customer segments. A new network structure introduced in October 2000 is intended to draw on the best elements of both organisations to improve alignment and customer focus in key markets. Together with the implementation of a new sales and service leadership system promoting greater ownership, accountability and reward for performance, these changes are expected to translate into a more client focussed, efficient, effective and committed delivery network.

In addition to branches, there were important developments in a number of other direct customer contact channels during the 2001 Financial Year. A comprehensive transformation was undertaken of management structures and systems across the Group's Business Banking arm thereby allowing the number of Business Banking Centres to be reduced from 97 to 83.

The Group's mobile banker sales force continues to play an important role in the home loan market, meeting customer demand for greater convenience and accessibility. In support of the Group's strategy to be positioned to meet the full financial needs of customers, insurance managers have been appointed, trained and accredited to meet the insurance risk needs of the Commercial Business, Middle Market and Personal Segments. As a result of the Colonial integration, the combined Financial Advisor network of Financial Planners and Investment Consultants has expanded to 670. This network is fully accredited to sell a suite of internal and external products.

The Group's direct customer contact network continues to be augmented by the alliance with Australia Post. Personal Banking services are available at 3,738 Australia Post agencies across the country, and following a successful trial, transactional banking services for business clients has expanded to 112 Australia Post locations.

Electronic and Direct Banking

Customer usage of direct and self-service banking continued to gain pace in Financial Year 2001. The total number of transactions performed in direct/electronic channels increased by 22% during Financial Year 2001 while teller transactions continued to decline. As a result, the proportion of total transactions carried out in-branch was further reduced, from 18.8% in Financial Year 2000 to 15.6% in Financial Year 2001. NetBank customer registrations surpassed 1.0 million, up from 320,000 as at 30 June 2000. Over the year, NetBank processed some 152 million transactions, an increase from 49 million in Financial Year 2000. The Group's total online customers numbered over 1.5 million (including Commonwealth Securities Ltd customers) at 30 June 2001 compared to 850,000 at 30 June 2000.

Telephone banking password customers now exceed 5 million (up 33%). During Financial Year 2001, in excess of 110 million calls were received on the 132221 customer service line (up 11%), peaking at 2.5 million calls per week. Two new call centres were established over the year, designed to both meet public assurance commitments arising from integration and to cater for our expanding requirements going forward.

Banking – Business Analysis

ATM and EFTPOS usage continued to grow strongly, with total transactions increasing 6% and 40% respectively in Financial Year 2001 from Financial Year 2000. At 30 June 2001 the Group retained the largest proprietary ATM and EFTPOS terminal networks in the country (2,910 and 122,074 terminals respectively) plus acquired the transactions of a further 1,000 third party ATMs. This reflects the Bank's strategy of moving customers' transactions from staffed branches to ATMs and other electronic media to yield cost savings on a per transaction basis.

Woolworths EzyBanking

Woolworths EzyBanking is available through 659 Woolworths stores throughout Australia. Sales of transaction accounts (Ezy Action) and credit cards (Ezy Mastercard) during Financial Year 2001 exceeded expectations with more than 425,000 account holders signed up as at 30 June 2001. This represented an increase of 200% from 125,000 at 30 June 2000. Approximately 35% of these customers are new to the Commonwealth Bank Group.

Third Party

Through the acquisition of Colonial Limited, the Group has increased the range of distribution networks previously used to include:

- Multi-agents (non-exclusive) and life brokers.
 - Authorised financial planners through wholly owned businesses.
 - Independent financial planners.
 - Insurance franchisers.
 - Mortgage brokers.
- Distributors in these new channels number over 5,000.

United Kingdom

Given the high level of competition, opportunities are being explored to leverage the Group's presence in the United Kingdom flowing from the Colonial acquisition. This will involve merging the Newworld UK business with the existing UK Wealth Management Business.

New Zealand Banking Operations

Growth in ASB's banking operations was particularly strong in relation to personal, business and rural lending. This contributed to a total annual lending growth for total loans of 10%, compared to the market annual growth rate of 3.7% (*Source: PSCR – Reserve Bank of New Zealand*). Customer retention and customer acquisition were important drivers of volume growth, with the customer base increasing by 2.3% in Financial Year 2001 to reach over 880,000 customers.

At 30 June 2001, ASB Bank had total assets of NZ\$20.1 billion (2000: \$17.3 billion), including total advances of NZ\$16.2 billion (2000 \$14.4 billion).

Results of Operations for the Financial Year 2001 versus Financial Year 2000 and Financial Year 2000 versus Financial Year 1999

Net Interest Income

The following table sets forth the Group's net interest income for Financial Years 1999, 2000 and 2001.

| | Year Ended 30 June | | |
|---|--------------------|--------------|--------------|
| | 2001 \$M | 2000 \$M | 1999 \$M |
| Interest Income | | | |
| Loans | 10,246 | 7,663 | 6,806 |
| Other financial institutions | 280 | 191 | 165 |
| Liquid assets | 110 | 78 | 58 |
| Trading securities | 548 | 295 | 246 |
| Investment securities | 655 | 586 | 425 |
| Dividends on redeemable preference shares | 54 | 24 | 42 |
| Other | 7 | 5 | 3 |
| Total Interest Income | 11,900 | 8,842 | 7,745 |
| Interest Expense | | | |
| Deposits | 5,042 | 3,773 | 3,353 |
| Other financial institutions | 328 | 297 | 207 |
| Short term debt issues | 902 | 671 | 393 |
| Long term debt issues | 759 | 171 | 106 |
| Loan capital | 374 | 210 | 155 |
| Other | 21 | 1 | 4 |
| Total Interest Expense | 7,426 | 5,123 | 4,218 |
| Net Interest Income | 4,474 | 3,719 | 3,527 |

Net Interest Income

30 June 2001 – 30 June 2000 (up 20%)

30 June 2000 – 30 June 1999 (up 5%)

Net interest income for Financial Year 2001 increased by \$755 million to \$4,474 million from \$3,719 million for Financial Year 2000.

The increase in net interest income was the result of the acquisition of Colonial in June 2000 and new business growth in net interest earning assets. Average interest earning assets grew by \$32 billion or 25% from \$129 billion at 30 June 2000 to \$161 billion at 30 June 2001. This generated additional net interest income, which was offset by a decline in the net interest margin from 2.88% to 2.78%.

Net Interest Income for Financial Year 2000 increased by \$192 million to \$3,719 million from \$3,527 million in Financial Year 1999. This increase includes \$22 million as a result of the inclusion of Colonial Limited from 13 June 2000. Excluding Colonial, the underlying growth for Financial Year 2000 was \$170 million or 4.8%.

The Net Interest Income movement for Financial Year 2000 was the result of the impact of growth in interest earning net assets, offset by a decline in interest margins.

Banking – Business Analysis

The following table sets forth the effect on the Group's net interest income for Financial Year 2000 and Financial Year 2001 of changes in:

- (i) average volume of interest earning assets and interest bearing liabilities; and
- (ii) their respective interest rates during the relevant period.

| | Financial Year 2001 vs. 2000 Increase/(Decrease) \$M | Financial Year 2000 vs. 1999 Increase/(Decrease) \$M |
|--|---|---|
| Due to changes in average volume of interest earning assets and interest bearing liabilities | 872 | 424 |
| Due to changes in average interest rates | 107 | (232) |
| Due to days variance in period ⁽¹⁾ | (10) | - |
| Change in net interest income | 755 | 192 |

Average interest earning assets grew from \$129,163 million at 30 June 2000 to \$160,607 million at 30 June 2001 (refer Note 4 to the Financial Statements). Apart from increases arising from the acquisition of Colonial, the growth in average interest earning assets reflects:

A strong growth in home loans in the second half of Financial Year 2000 as the market anticipated increased prices following the introduction of the GST. Financial Year 2001 had a slow first quarter in home lending, where the introduction of the GST and post Sydney Olympic factors contributed to softer market conditions. The Sydney 2000 Olympics were held in September 2000, traditionally the peak period for purchase and sale of property. The staging of the Olympics resulted in a significant decline in home sales volume, before, during and after the games. This was compounded by unexpected growth in the volume of originations through mortgage brokers at the expense of the commercial banks. Home loan volumes picked up strongly over the rest of the 2001 Financial Year as a result of an extensive advertising campaign supported by 'no establishment fee offers', and an improvement in market conditions. Growth in balances over the final months of the Financial Year reflected a strong level of home loan approvals.

Commercial lending in the six months to 31 December 2000 was slow, however during the second half of Financial Year 2001 volumes improved providing clear indications that the extensive rebuilding programme undertaken across the network is driving improved results.

Average interest earning assets grew by \$14,892 million or 13% from \$114,271 million at 30 June 1999 to \$129,163 million (refer Note 4 to the Financial Statements) at 30 June 2000. This growth added \$424 million to net interest income.

The main contributors to the growth in average interest earning assets in Financial Year 2000 were loans, advances and other receivables within Australia which increased by 13.9% or \$11,563 million from \$83,350 million to \$94,913 million (refer Note 4 to the Financial Statements). This growth was predominantly within housing loans, term loans and overdrafts, together with an increase resulting from the purchase of Credit Lyonnais in July 1999. Average interest bearing liabilities grew by 13.5% or \$13,945 million from \$103,130 million to \$117,075 million (refer Note 4 to the Financial Statements), including certificates of deposit (up \$6.5 billion) and Debt Issues (up \$4.7 billion).

However, as shown in the Group Interest Margins and Spreads table below, group net interest margin decreased by 0.21% from 3.09% in Financial Year 1999 to 2.88% in Financial Year 2000 principally as a result of:

- Intense competition resulting in reduced lending margins (particularly in home loan markets).
- Notwithstanding ongoing retail deposit growth and maintenance of market share, the Bank increased its reliance on higher cost wholesale funding in order to finance the strong growth in assets during Financial Year 2000.
- The market's anticipation of the RBA's action in increasing official cash rates led to a widening in the spread between cash and 90 day Bank Bill Rates, further adding to the cost of wholesale funding.

Group Interest Margins and Spreads

Interest spread represents the difference between the average interest rate earned and the average interest rate paid on funds.

Interest margin represents net interest income as a percentage of average interest earning assets.

The calculations of margins and spreads for Australia and Overseas include an allowance for transfer of offshore funding used to finance onshore lending. The lower overseas margins and spreads reflects the effect of the wholesale funding nature of that business.

The following table sets forth the Group's interest spread and net interest margin for Financial Years 1999, 2000 and 2001.

| | Year Ended 30 June | | |
|--|--------------------|-----------|-----------|
| | 2001 % | 2000 % | 1999 % |
| Australia | | | |
| Interest spread ⁽¹⁾ | 2.56 | 2.71 | 2.98 |
| Benefit of net interest free liabilities, provisions and equity ⁽²⁾ | 0.43 | 0.42 | 0.39 |
| Net interest margin ⁽³⁾ | 2.99 | 3.13 | 3.37 |
| Overseas | | | |
| Interest spread ⁽¹⁾ | 1.06 | 1.22 | 1.39 |
| Benefit of net interest free liabilities, provisions and equity ⁽²⁾ | 0.55 | 0.30 | 0.38 |
| Net interest margin ⁽³⁾ | 1.61 | 1.52 | 1.77 |
| Group | | | |
| Interest spread ⁽¹⁾ | 2.32 | 2.47 | 2.69 |
| Benefit of net interest free liabilities, provisions and equity ⁽²⁾ | 0.46 | 0.41 | 0.40 |
| Net interest margin ⁽³⁾ | 2.78 | 2.88 | 3.09 |

⁽¹⁾ Difference between the average interest rate earned and the average interest rate paid on funds.

⁽²⁾ A portion of the Group's interest earning assets is funded by net interest free liabilities and shareholders' equity. The benefit to the Group of

these interest free funds is the amount it would cost to replace them at the average cost of funds.

⁽³⁾ Net interest income divided by average interest earning assets for the period.

Group Interest Margin

30 June 2001 – 30 June 2000 (down 10 basis points)

30 June 2000 – 30 June 1999 (down 21 basis points)

The Group's net interest margin declined from 2.88% in Financial Year 2000 to 2.78% in Financial Year 2001.

The Financial Year ending 30 June 2001, was the first full financial year that included the banking business of Colonial. The Colonial acquisition resulted in a decline in interest margin for the Group. This was reflective of the lower margin environment under which Colonial operated. Apart from the Colonial acquisition there were a number of other factors which impacted the average rate. In addition to three cash rate increases in the latter part of Financial Year 2000 there was also one cash rate increase and three reductions in Financial Year 2001. The net effect of the product repricing following these changes was to put pressure on the net interest margin.

Partly offsetting this was the benefit to net interest margins from the difference of market driven short term wholesale rates being below official cash rates during the year due to an expectation by the market that official rates would fall.

Average deposit balances on low interest paying accounts were higher over the 2001 Financial Year than the prior year, mainly as a result of businesses accumulating their GST instalments. This benefited the net interest margin by increasing the amount of interest free liabilities.

The Group's net interest margin declined from 3.09% in Financial Year 1999 to 2.88% in Financial Year 2000. The decline in interest margins was reflective of intense competition (particularly in the home loan market) and the increased reliance of higher cost wholesale funding to finance the strong growth in the Group's assets.

Banking – Business Analysis

Other Banking Operating Income

The following table sets forth the Group's Other Banking Operating Income for Financial Years 1999, 2000 and 2001.

| | Year Ended 30 June | | |
|---|--------------------|--------------|--------------|
| | 2001 \$M | 2000 \$M | 1999 \$M |
| Lending fees | 602 | 554 | 474 |
| Commission and other fees | 1,173 | 946 | 807 |
| Trading income | 426 | 311 | 273 |
| Dividends | 14 | 20 | 6 |
| Net gain on investment securities | 56 | 12 | 79 |
| Net profit on sale of property, plant and equipment | 25 | 13 | 24 |
| General insurance premium income | 107 | 103 | 94 |
| Less general insurance claims | (57) | (55) | (63) |
| Other | 35 | 47 | 49 |
| Total Other Banking Operating Income | 2,381 | 1,951 | 1,743 |

Other Banking Operating Income

30 June 2001 – 30 June 2000 (up 22%)

30 June 2000 – 30 June 1999 (up 12%)

Other Banking Operating Income increased by 22% or \$430 million from \$1,951 million in Financial Year 2000 to \$2,381 million in Financial Year 2001. The principal reasons for the overall increase are set out in the individual categories below.

In Financial Year 2000 Other Banking Operating Income increased by 12% or \$208 million from \$1,743 million in Financial Year 1999 to \$1,951 million. This increase includes the initial impact of \$67 million as a result of the inclusion of Colonial Limited from 13 June 2000.

Lending Fees

30 June 2001 – 30 June 2000 (up 9%)

30 June 2000 – 30 June 1999 (up 17%)

Lending fees increased by 9% or \$48 million to \$602 million during Financial Year 2001 due to the inclusion of the Colonial for a full year, offset by a number of nil entry and discounted home loan establishment fee offers. These offers were part of the Group's strategy to build lending balances to improve future earnings potential. These lower establishment fees were partly offset by increases in other lending fees based on higher volumes.

During Financial Year 2000 lending fees grew by 17% or \$80 million to \$554 million due to improved business volumes on owner occupied and investment Home Loans and Corporate Lending.

Commission and Other Fees

30 June 2001 – 30 June 2000 (up 24%)

30 June 2000 – 30 June 1999 (up 17%)

Commissions and other fees increased by 24% or \$227 million to \$1,173 million for Financial Year 2001.

Growth in commission and other fees has been driven by the inclusion of Colonial for a full Financial Year and Credit Cards with increased sales activity from both merchants and cardholders.

Retail transaction fees for Financial Year 2001 represent 12% of Other Banking Operating income (4% of total Banking Operating income) which is consistent with Financial Year 2000.

Commissions and other fees increased by 17% or \$139 million to \$946 million in Financial Year 2000.

During Financial Year 2000 credit card activity was strong with a 13% increase in the number of merchants

and an 8% increase in the number of cardholders. The success of Commonwealth Securities also improved brokerage fee income, with a 130% increase in the number of transactions over the year to 30 June 2000.

Trading Income

30 June 2001 – 30 June 2000 (up 37%)

30 June 2000 – 30 June 1999 (up 14%)

The Group's Financial Markets operations contributed \$426 million of trading income, representing growth of 37% or \$115 million from Financial Year 2000. Trading income improved due to market volatility in the interest rate and foreign exchange markets. Volumes of client transactions grew significantly as a result of this higher level of underlying volatility. This growth in trading income did not result in significant additional risk exposure.

Trading income increased from \$273 million in Financial Year 1999 to \$311 million in Financial Year 2000, representing a 14% increase. A steepening in the yield curve, which resulted in increased margins and opportunities created by increased volatility in derivative products helped improve trading income in Financial Year 2000.

Dividends

30 June 2001 – 30 June 2000 (down \$6 million)

30 June 2000 – 30 June 1999 (up \$14 million)

Income from dividends declined from \$20 million in Financial Year 2000 to \$14 million in Financial Year 2001.

Dividend income represents dividends earned on the Group's strategic investments.

Net Gain on Investment Securities

30 June 2001 – 30 June 2000 (up \$44 million)

30 June 2000 – 30 June 1999 (down 85%)

Gains on Investment Securities increased from \$12 million in Financial Year 2000 to \$56 million in Financial Year 2001. Financial Year 2001 income included the sale of the Brisbane Airport investment and the sale of the Group's 50% interest in the financial planning and funds management business, IPAC Securities.

Net gain from investment securities declined from \$79 million in Financial Year 1999 to \$12 million in Financial Year 2000.

The gain in Financial Year 1999 primarily related to the profit earned on the finalisation of the sale of certain infrastructure assets.

Net Profit on Sale of Property Plant and Equipment

30 June 2001 – 30 June 2000 (up \$12 million)

30 June 2000 – 30 June 1999 (down 46%)

Net profit on select property, plant and equipment increased from \$13 million in Financial Year 2000 to \$25 million in Financial Year 2001. During Financial Year 2001 the Group continued its Sale and Leaseback strategy, with the sale of several major properties within the Sydney Central business district.

During Financial Year 2000, net profit on sale of property, plant and equipment was \$13 million, compared to \$24 million in Financial Year 1999. Financial Year 1999 included the listing of the Commonwealth Property Office fund as part of the Sale and Leaseback programme.

General Insurance Income (net of claims)

30 June 2001 – 30 June 2000 (up 4%)

30 June 2000 – 30 June 1999 (up 55%)

General Insurance premium income less claims rose 4% to \$50 million during the Financial Year 2001. In Financial Year 2000 income from General Insurance increased 10% or \$9 million as a result of increased business levels. Income net of claims increased further as a result of reduced claims experience. In the 1999 Financial Year general insurance claims totalled \$63 million. The high level of claims were associated with a major hailstorm in Sydney.

Charge for Bad and Doubtful Debts

The following table sets out the charge for bad and doubtful debts for Financial Years 1999, 2000 and 2001.

| | Year Ended 30 June | | |
|--|--------------------|------------|------------|
| | 2001 | 2000 | 1999 |
| | \$M | \$M | \$M |
| Specific Provisioning | | | |
| New and increased provisioning | 495 | 236 | 284 |
| Less provisions no longer required | (84) | (96) | (45) |
| Net specific provisioning | 411 | 140 | 239 |
| Provided from general provision | (411) | (140) | (239) |
| Charge to profit and loss | - | - | - |
| General provisioning | | | |
| Direct write-offs | 35 | 34 | 44 |
| Recoveries of amounts previously written off | (88) | (54) | (51) |
| Movement in general provision | 27 | 76 | 15 |
| Funding of specific provisions | 411 | 140 | 239 |
| Charge to profit and loss | 385 | 196 | 247 |
| Total Charge for Bad and Doubtful Debts | 385 | 196 | 247 |
| Provisions for Impairment | | | |
| General Provisions | 1,399 | 1,358 | 1,081 |
| Specific Provisions | 234 | 432 | 275 |
| Total Provisions | 1,633 | 1,790 | 1,356 |
| Specific Provisions for impairment as a % of gross impaired assets net of interest reserved (coverage ratio) | 36.06 | 43.03 | 46.69 |
| General provisions as a % of risk weighted assets | 1.01 | 1.06 | 1.09 |

Total charge for bad and doubtful debts increased by \$189 million or 96% from \$196 million in Financial Year 2000 to \$385 million during Financial Year 2001. \$62 million of the increase is due to the inclusion in Financial Year 2001 of a full year's charge for the first time from the Colonial merger. The remainder of the increase primarily related to a small number of large corporate exposures that became impaired and were provisioned for potential loss.

Total charge for bad and doubtful debts decreased from \$247 million or by 21% in Financial Year 1999 to \$196 million during Financial Year 2000 reflecting strong credit management and the stable Australian economic environment.

Total Provisions for Impairment for the Group as at 30 June 2001 was \$1,633 million, a decrease of \$157 million (8.8%) from \$1,790 million at 30 June 2000. This level of provisioning is considered adequate to cover any bad debt write offs from the current lending portfolio having regard to the current outlook.

Specific provisions for impairment have decreased 46% from \$432 million at 30 June 2000 to \$234 million at 30 June 2001, primarily as a result of increased write offs of the impaired asset portfolio including the effect of applying the Commonwealth policy to Colonial portfolios.

The general provisions for impairment have increased to \$1,399 million at 30 June 2001 from \$1,358 million at 30 June 2000, an increase of 3%. The general provision as a percentage of risk weighted assets is at 1.01%, down from 1.06% at 30 June 2000. This level is consistent with that of other major Australian banks.

Gross impaired assets less interest reserved have decreased 35% from \$1,004 million at 30 June 2000 to \$649 million at 30 June 2001. This has been primarily due to additions to gross impaired assets (including interest reserved) for the year of \$707 million which have been more than offset by write offs and realisations totalling \$1,125 million.

This has resulted in a decrease in the coverage ratio of specific provisions to 36.06% at 30 June 2001 from 43.03% at 30 June 2000, reflecting the positive management of impaired assets, which were generally well provisioned, and have now been written off.

Banking – Business Analysis

Total Provisions for Impairment for the Group at 30 June 2000 were \$1,790 million, an increase of 32% or \$434 million from 30 June 1999.

Specific provisions increased 57% during Financial Year 2000 from \$275 million at 30 June 1999 to \$432 million at 30 June 2000. With the acquisition of Colonial, gross impaired assets less interest reserved increased 82% during Financial Year 2000 from \$589 million to \$1,004 million.

This resulted in a decrease in the coverage ratio to 43.0% from 46.7%, reflecting improved recoverability of a number of impaired assets, particularly within Asia.

Including Colonial, the general provision increased to \$1,358 million at 30 June 2000 from \$1,081 million at 30 June 1999, an increase of 26%.

The general provision as a percentage of risk weighted assets declined from 1.09% as at 30 June 1999 (excluding Colonial) to 1.06% (including Colonial) as at 30 June 2000.

Events Subsequent to Balance Date

Following Pasmenco being placed in voluntary administration in September 2001, the Group advised that its direct credit exposure was approximately \$340 million.

The Group has recourse to major overseas banks in respect of further exposures of approximately \$70 million.

The amount of any specific provision for loss will be considered when information on the expected realisable value of Pasmenco's assets is provided by the voluntary administrator. This will be considered in the context of the Group's total provisions for loan impairment at 30 June 2001 of in excess of \$1.6 billion.

Funds Management – Business Analysis

The funds management businesses have contributed \$149 million to the Group's result for Financial Year 2001. This represents an increase of \$113 million over Financial Year 2000. The growth in operating profit reflects the acquisition of Colonial First State Group in June 2000 and strong growth in external funds under management which have increased by \$12 billion to

\$77 billion. Funds management income operating has increased to \$739 million offset by an increase in variable sales and processing expenses.

The following tables set forth the Group's Funds Management result for Financial Years 1999, 2000 and 2001.

| | Year Ended 30 June | | |
|--|--------------------|-------------|-------------|
| | 2001 \$M | 2000 \$M | 1999 \$M |
| Funds Management | | | |
| Operating income - external | 701 | 143 | 97 |
| Operating income - internal ⁽¹⁾ | 38 | 10 | - |
| Total operating income | 739 | 153 | 97 |
| Operating expenses | 496 | 103 | 64 |
| Operating profit before tax | 243 | 50 | 33 |
| Income tax expense | 94 | 14 | 9 |
| Operating profit after tax | 149 | 36 | 24 |

The Funds Management business manages both internal funds (Life Insurance statutory fund assets) and external funds (wholesale and retail). The tables below show the split of each type of funds managed.

| As at 30 June | 2001 \$M | 2000 \$M |
|---|-------------|-------------|
| Assets held and funds under management (FUM) ⁽²⁾ | | |
| Funds management | 76,954 | 65,266 |
| Internal life insurance funds | 24,527 | 22,916 |
| Total FUM | 101,481 | 88,182 |
| Other life and funds management assets ⁽³⁾ | 14,551 | 10,235 |
| Total | 116,032 | 98,417 |
| Australia | 91,810 | 72,456 |
| United Kingdom | 14,953 | 19,202 |
| New Zealand | 4,650 | 3,270 |
| Asia | 4,619 | 3,489 |
| Total | 116,032 | 98,417 |

The analysis of the movement of funds by product category for Financial Year 2001 is as follows:

| | Opening Balance 1 July 2000 \$M | Inflows \$M | Outflows ⁽⁴⁾ \$M | Portfolio and Other Returns \$M | Closing Balance 30 June 2001 \$M |
|--|--|----------------|--------------------------------|--|---|
| Funds Under Management (including Life Insurance) | | | | | |
| Retail | 24,554 | 20,616 | (12,337) | 1,115 | 33,948 |
| Wholesale | 40,712 | 13,228 | (12,436) | 1,502 | 43,006 |
| Internal managed life | 22,916 | 4,964 | (5,045) | 1,692 | 24,527 |
| Total FUM | 88,182 | 38,808 | (29,818) | 4,309 | 101,481 |
| Other Life assets ⁽³⁾ | 10,235 | 3,051 | - | 1,265 | 14,551 |
| Total | 98,417 | 41,859 | (29,818) | 5,574 | 116,032 |

⁽¹⁾ Income received from the life insurance business to manage statutory funds.

⁽²⁾ Excludes non-Group funds under trusteeship, custody and administration.

⁽³⁾ Includes life investment assets managed by parties other than the Group funds management businesses, and other non-investment life assets

(including excess of market value over net assets of life insurance subsidiaries).

⁽⁴⁾ Internal managed life outflows include the transfer of \$2.5 billion of funds during Financial Year 2001 relating to assets acquired by Winterthur as part of the sale of Colonial UK Life.

Funds Management – Business Analysis

Funds Management Performance Analysis

Operating profit after tax for Financial Year 2001 has been driven by a strong growth in operating income, which has increased to \$739 million from \$153 million in Financial Year 2000. This growth in income is due to the Colonial First State acquisition as part of the Colonial Group purchase in June 2000 as well as due to the increase of \$13 billion or 15% in total funds under management (FUM) from \$88 billion at 30 June 2000 to \$101 billion at 30 June 2001.

Expenses for the business reflect increased volumes; however, some one off expenses were incurred in integrating the acquisition of Stewart Ivory Holdings Limited into the First State business in the United Kingdom.

Operating profit after tax increased from \$24 million in Financial Year 1999 to \$36 million in Financial Year 2000. The increase in Financial Year 2000 reflects the growth in income associated with the increase in funds managed by Commonwealth Funds Management and the inclusion of Colonial First State during June 2000.

Funds Under Management Performance

Total external FUM have increased by \$11.7 billion or 18% to \$77 billion during the Financial Year 2001. Internally managed life insurance FUM increased by 7% or \$1.6 billion during the Financial Year 2001. The combined life insurance assets and funds under management totalled \$116 billion at 30 June 2001, an increase of 18% from 30 June 2000.

The growth in assets held and funds under management of nearly \$18 billion to \$116 billion was achieved across retail (\$9 billion), wholesale (\$3 billion) and life insurance assets (\$6 billion).

Assets held and funds under management increased from \$28.8 billion at 30 June 1999 to \$98.4 billion at 30 June 2000. The majority of this growth is related to the acquisition of Colonial First State in June 2000.

Colonial First State Investments

Colonial First State Investment's (CFSI) FUM grew 23% in Financial Year 2001. Strong growth was recorded in both wholesale and retail funds. New business inflows remained strong during Financial Year 2001.

The number of active accounts in Australia increased from 565,000 at 30 June 2000 to 793,000 at 30 June 2001, representing an increase of 40%. This enabled Colonial First State to improve its Australian retail market share from 5.4% to 6.1%.

During Financial Year 2001, the property asset management businesses of Commonwealth Property and Colonial First State were merged, giving the combined group approximately \$12 billion in property assets under management.

Commonwealth Funds Management Group

Commonwealth Funds Management Group total FUM grew by 6% during Financial Year 2001 due to strong retail funds growth which increased 78% over the year to \$12 billion at 30 June 2001. This included the transfer in of \$2.3 billion of funds from Colonial Life, which were previously managed by CFSI. Excluding this transfer the increase was 44% for Financial Year 2001. This growth reflected strong sales in retail unit trust (entry fee product) and retail cash management trusts. As at 30 June 2001 \$9 billion was managed on behalf of a diverse range of wholesale clients, including state, local and semi-government entities, corporations, investment funds and superannuation funds.

New Products and Initiatives

The CFSI group continued to develop its international business in the United Kingdom and Asia, which trade under the name of First State Investments. In the United Kingdom, the integration of the Stewart Ivory business (acquired in March 2000) was completed, giving the United Kingdom business a funds management and private client platform for growth. In Hong Kong, a number of new products were launched including the New China Fund, which invests in Chinese corporations through the Chinese and Hong Kong stock markets.

A number of enhancements to CFSI's online services were made during the year including extensions to FirstNet Adviser, an online service that allows advisors enquiry access to their clients' investment details. CFSI investors can transact online, with functionality allowing additional investments to existing accounts, withdrawals to a nominated bank account and switching of investment monies between a range of Managed Investment Funds.

In May 2001, CFSI launched the Diversified Private Equity Fund, a public offer fund that invests in a portfolio of quality unlisted companies.

Life Insurance – Business Analysis

The life insurance operations contributed \$320 million to the Group's operating profit after tax for Financial Year 2001, compared with \$129 million for the Financial Year 2000. This significant increase primarily reflects the acquisition of the Colonial life insurance business in June 2000. During Financial Year 2001 the life insurance result was contained by the effect of the decline in world equity markets on investment earnings on life insurance funds, together with poor claims and persistency experience which impacted upon the performance in the life insurance operations.

As at 30 June 2001, life insurance assets totalled \$39 billion, an increase of \$6 billion or 18% from \$33 billion at 30 June 2000.

Operating profit after tax for Financial Year 2000 was \$129 million representing an increase of 25% or \$26 million over Financial Year 1999. This increase reflects inclusion for a full year of Sovereign (acquired in December 1998) and improved investment returns.

The following table sets forth the Group's Life Insurance Income result for Financial Years 1999, 2000 and 2001.

| Summary Profit and Loss (excluding abnormal income and appraisal value uplift) ⁽¹⁾ | Year Ended 30 June | | |
|--|--------------------|------------|------------|
| | 2001 | 2000 | 1999 |
| | \$M | \$M | \$M |
| Life Insurance | | | |
| Margin on Services operating income – external | 1,268 | 326 | 157 |
| Operating expenses – external | (716) | (140) | (58) |
| Operating expenses - internal ⁽²⁾ | (38) | (10) | - |
| Total expenses | (754) | (150) | (58) |
| Operating profit before tax | 514 | 176 | 99 |
| Income tax expense/(benefit) | 194 | 47 | (4) |
| Operating profit after tax | 320 | 129 | 103 |

⁽¹⁾ For a discussion of abnormal income refer page 34. For a discussion of appraisal value uplift refer page 29.

⁽²⁾ Management charge paid to Funds Management business of the Group to manage statutory funds.

The table above details the operating income, operating expenses and tax expense from the Group's life insurance businesses, based on the disclosure required by Australian Accounting Standard AASB 1038: Life Insurance Business.

It should be noted that income, operating expenses and tax expense included in the table above include both policyholders' and shareholders' components.

The operating profit after tax relates to shareholders. In order to gain a more informative understanding of the shareholder profit after tax, the sources of profit are analysed in the table below.

The table below details the sources of after tax profit from the Group's life insurance operations for Financial Years 1999, 2000 and 2001.

| Sources of life insurance operating profit (excluding abnormal income) ⁽³⁾ | Year Ended 30 June | | |
|---|--------------------|------------|------------|
| | 2001 | 2000 | 1999 |
| | \$M | \$M | \$M |
| Planned profit margins | 257 | 121 | 83 |
| Experience variation | (63) | (8) | 10 |
| New business losses / reversal of capitalised losses | (2) | 1 | - |
| Operating margins | 192 | 114 | 93 |
| Investment earnings on assets in excess of policyholder liabilities ⁽⁴⁾ | 126 | 13 | 10 |
| Other | 2 | 2 | - |
| Operating profit after tax | 320 | 129 | 103 |

⁽³⁾ For a discussion of abnormal income refer page 34.

⁽⁴⁾ Includes a gain of \$46 million in the Financial Year 2001 resulting from the transfer of certain strategic investments to the life insurance business.

Life Insurance – Business Analysis

Underlying results of life insurance businesses by geographical region

The table below details the underlying results of the Group's life insurance businesses by geographical region for Financial Year 2001⁽⁵⁾.

| Year Ended 30 June | Australia | New Zealand | Asia | Total | Total |
|---|------------|-------------|-------------|------------|------------|
| | 2001 | 2001 | 2001 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M | \$M |
| Operating Margins | 190 | 23 | (21) | 192 | 114 |
| Investment earnings on assets in excess of policyholder liabilities | 129 | (5) | 2 | 126 | 13 |
| Other | - | 1 | 1 | 2 | 2 |
| Operating profit after tax | 319 | 19 | (18) | 320 | 129 |

⁽⁵⁾ For Financial Years 2000 and 1999, life insurance business was predominantly Australian.

Life Insurance operating margins in Australia for Financial Year 2001 totalled \$190 million. This result reflects moderate policyholder investment returns, and increased disability claims offset by growth in the investment-linked portfolio, particularly superannuation and allocated pension products. The adverse disability trends experienced in the first six months of Financial Year 2001 have been controlled through improvements in claims management and repricing which are expected to protect margins on this line of business in the future.

Expense synergies resulting from the integration achieved to 30 June 2001 are reflected in the 2001 Financial Year operating margins. The expense synergies reflect the benefits of the integration of the Colonial life companies which occurred in the first six months of the Financial Year 2000 and the benefits of the progressive integration of the Colonial and Commonwealth life companies in Financial Year 2001.

The Australian life business has experienced sales pressure on its master fund business, although across the Group this was largely compensated by strong sales growth of complementary products by the funds management businesses. While this did not materially impact the profit margin in Financial Year 2001, it did impact the life business appraisal value (refer Summary of Life Insurance and Funds Management Valuations).

The Asian life insurance business reported a loss of \$21 million for Financial Year 2001. The primary driver of this is persistency rates in Hong Kong. Although persistency rates are improving, the residual effect from large acquisitions of agents in 1998/99 (prior to the Colonial acquisition by the Group) and continued higher than optimal staff turnover continues to depress margins.

Investment returns on shareholders funds for Financial Year 2001 (assets in excess of policyholder liabilities) were \$126 million. Investment returns were effected in all regions by the global downturn in equity markets and some investment write-downs within the New Zealand portfolio. As part of a re-balancing of the Group's exposure to equities, during the Financial Year 2001 certain strategic investments previously held by the Bank, which were held at cost, were transferred to the life insurance operations where assets are reported at market value. This resulted in a gain of \$46 million after tax being reported within investment earnings on assets held in excess of policyholder liabilities. Life insurance assets in excess of liabilities amounted to approximately \$2.6 billion as at 30 June 2001. The Group has maintained a balanced weighting between growth and fixed interest investments during the period.

| New Business – Life Insurance and Superannuation | Year Ended 30 June | |
|--|--------------------|--------------|
| | 2001 | 2000 |
| | \$M | \$M |
| Master Fund/Trusts | 4,727 | 2,646 |
| Risk | 295 | 46 |
| Annuities, bonds and other statutory fund products | 901 | 348 |
| Total | 5,923 | 3,040 |

Details of the Group's new business mix for life insurance products is set out in the above table.

The growth in New Business reflects the impact of the Colonial acquisition of the life operations of the Group together with details referred to below.

Growth in masterfund/trust products has been in personal and corporate superannuation. Margins on these products remain strong, and while there is some pressure on third party originated business overall there has been no margin compression.

Sales of life insurance bonds and traditional forms of life insurance investment business within Australia have fallen over the year. This is in line with expectations, as investors switch to masterfund/trust products.

Further growth in Australia is expected following the introduction of a more comprehensive life insurance risk product range to the branch network and the introduction of specialist risk writers for both personal and business lines. New member services are being developed to strengthen the Group's offerings to this market.

With respect to the Asian operations the largest areas of growth have been in Thailand following expansion of its agency force, and Hong Kong following the launch of the Mandatory Provident Fund (MPF).

The launch of the MPF funds is a one off event and the impact that it had on the current year's new business is not expected to be repeated in future years.

New Zealand growth has primarily been within the risk products and the masterfund/trust product offerings.

Summary of Life Insurance and Funds Management Valuations

The following table sets out the components of the carrying values of the Group's life insurance and funds management businesses as at 30 June 2001. These are Directors' valuations based on appraisal values

determined by independent actuaries Trowbridge Consulting. The key actuarial assumptions that have been used by the independent actuaries are also summarised.

| As at 30 June 2001 | Australia \$M | Life Insurance New Zealand \$M | Asia ⁽¹⁾ \$M | Funds Management \$M | Total \$M |
|--|--------------------------|---|------------------------------------|-------------------------------------|----------------------|
| Shareholders net tangible assets | 1,643 | 236 | 719 | 269 | 2,867 |
| Value of in force business | 706 | 135 | 101 | 618 | 1,560 |
| Embedded Value | 2,349 | 371 | 820 | 887 | 4,427 |
| Value of future new business | 786 | 265 | 123 | 2,402 | 3,576 |
| Carrying Value | 3,135 | 636 | 943 | 3,289 | 8,003 |
| 30 June 2000 Carrying Value | 3,015 | 604 | 875 | 2,242 | 6,736 |
| Increase from 30 June 2000 | 120 | 32 | 68 | 1,047 | 1,267 |
| Analysis of Movement since 30 June 2000 | | | | | |
| | Australia \$M | Life Insurance New Zealand \$M | Asia \$M | Funds Management \$M | Total \$M |
| Profits | 273 ⁽²⁾ | 19 | (18) | 149 | 423 |
| Opening Fair Value Adjustments | - | - | (30) | - | (30) |
| Net Capital Movements ⁽³⁾ | (269) | 39 | 179 | 77 | 26 |
| Transfers / Acquisitions of Business ⁽⁴⁾ | - | - | - | 34 | 34 |
| Change in Shareholders NTA | 4 | 58 | 131 | 260 | 453 |
| Synergies Credited to Goodwill | 332 | - | - | - | 332 |
| Transfers / Acquisitions of Business ⁽⁵⁾ | (183) | - | - | 191 | 8 |
| Net Appraisal Value Uplift | (33) | (26) | (63) | 596 | 474 |
| Increase to 30 June 2001 | 120 | 32 | 68 | 1,047 | 1,267 |

⁽¹⁾ The Asian Life businesses are not held in the market value environment and are carried at net assets plus an excess representing the difference between appraisal value and net assets at the time of acquisition. This excess effectively represents goodwill is being amortised on a straight line basis over 20 years.

⁽²⁾ Excluding the gain of \$46 million resulting from the transfer of certain strategic investments to the life insurance business.

⁽³⁾ Includes dividends paid, capital injections and payments for investments in controlled entities.

⁽⁴⁾ Represents the inclusion of net assets for funds management businesses not held in a market value environment.

⁽⁵⁾ This item includes a transfer of business from the life insurance business to the funds management business (\$183 million). Balance of \$8 million represents goodwill on acquisition of the Australian operations of the State Street Master Custody operations.

Summary of Life Insurance and Funds Management Valuations

Change in Life Insurance and Funds Management Valuations

The valuations adopted above have resulted in a total valuation increase of \$1,267 million since 30 June 2000.

The main components of the increase comprise:

- Total profits earned for Financial Year 2001 of \$423 million.
- Opening fair value adjustments to the Asian life operations totalling \$30 million representing changed assumptions on tax and investment earnings in the opening valuation.
- Realisation of expense and revenue synergy benefits arising on the Colonial integration of \$332 million. These have been credited against goodwill.
- Net appraisal value uplift of \$474 million for Financial Year 2001.

The net appraisal value uplift of \$474 million includes \$596 million relating to the funds management businesses. This reflects strong growth in funds under management which have increased by 15% over the year to 30 June 2001 and lower expense levels arising from increased scale in the businesses.

Offsetting this, the life insurance businesses appraisal values reduced by \$122 million. This result reflects lower than expected growth in sales volumes in the Australian business and the impact of lower than expected investment returns during the Financial Year 2001.

A partial write off of the 'excess' in relation to the Asian life businesses and lower than expected business persistency experience in the New Zealand business also contributed to the reduced uplift.

Further details on the movement in carrying value for the year are included in Note 34 to the Financial Statements.

Valuation Assumptions

The key changes in assumptions used in the life insurance appraisal valuations since 30 June 2000 are:

- Investment earnings rates, discount rates and new business growth rates have been reduced by 0.5% to reflect changes in long term interest rates.
- New business volumes for life insurance business in Australia have been slightly reduced reflecting lower than expected growth in sales during the year (refer Life Insurance Business Analysis).
- A slight increase in disability claims in Australia and New Zealand.
- Business persistency in New Zealand has been reduced in light of recent poor persistency experience.

The key changes in assumptions used in the funds management appraisal valuations since 30 June 2000 are:

- Investment earnings rates, discount rates and new business growth rates have been reduced by 0.5% to reflect changes in long term interest rates.
- New business volumes for the funds management businesses have been increased based on improved experience during the year.
- Expense levels for the funds management businesses have decreased slightly reflecting increased scale in the businesses.

Further details on actuarial assumptions can be found in Note 34 to the Financial Statements.

Group Operating Expense

The following table sets forth the Group's operating expenses for Financial Years 1999, 2000 and 2001.

| | Year Ended 30 June | | |
|---|--------------------|--------------|--------------|
| | 2001 | 2000 | 1999 |
| | \$M | \$M | \$M |
| Staff Expenses | | | |
| Salaries and wages | 2,061 | 1,498 | 1,406 |
| Superannuation contributions | 12 | 2 | 1 |
| Provision for long service leave | 47 | 38 | 42 |
| Provisions for other employee entitlements | (10) | 6 | - |
| Payroll tax | 99 | 75 | 77 |
| Fringe benefits tax | 48 | 33 | 34 |
| Other staff expenses | 103 | 53 | 44 |
| Total Staff Expenses | 2,360 | 1,705 | 1,604 |
| Occupancy and Equipment Expenses | | | |
| Operating lease rentals | 329 | 208 | 158 |
| Depreciation | | | |
| Buildings | 29 | 31 | 51 |
| Leasehold improvements | 45 | 28 | 26 |
| Equipment | 76 | 58 | 68 |
| Repairs and maintenance | 60 | 46 | 64 |
| Other | 65 | 66 | 88 |
| Total Occupancy and Equipment Expenses | 604 | 437 | 455 |
| Information Technology Services | | | |
| Projects and development | 205 | 186 | 145 |
| Data processing | 219 | 144 | 141 |
| Desktop | 152 | 103 | 90 |
| Communications | 172 | 138 | 129 |
| Total Information Technology Services | 748 | 571 | 505 |
| Other Expenses | | | |
| Postage | 108 | 81 | 76 |
| Stationery | 107 | 75 | 69 |
| Fees and commissions | 535 | 176 | 112 |
| Other | 708 | 362 | 249 |
| Total Other Expenses | 1,458 | 694 | 506 |
| Total Operating Expenses | 5,170 | 3,407 | 3,070 |

Operating Expenses

The Group's operating expenses have increased by 52% from \$3,407 million for the Financial Year 2000 to \$5,170 million for Financial Year 2001.

The increase in expenses primarily relates to the acquisition of Colonial Group in June 2000. This acquisition accounted for approximately \$1.4 billion in additional operating expenses.

Other factors include:

- Volume related increases of \$122 million, predominantly relating to the Funds Management businesses and increased loyalty costs in the Cards business.
- The finalisation of an enterprise bargaining agreement with staff resulted in a 4% increase in salaries effective from 1 July 2000. This added \$97 million to annual costs.
- Asian expenses incurred in developing the life insurance business in this region.
- Introduction of the GST (\$111 million).
- The costs of developing European banking, and acquisition of State Street Master Custody businesses.

The above increases are partly offset by \$120 million of Colonial integration savings made during Financial Year 2001.

Operating Expenses increased by 11% or \$337 million from \$3,070 million in Financial Year 1999 to \$3,407 million during Financial Year 2000. This increase includes the following amounts, predominantly within the Information Technology Services and Other Expenses categories:

- \$58 million as a result of the inclusion of Colonial Limited from 13 June 2000.
- \$48 million gross expenses as a result of the adoption of the new life insurance accounting standard, offset within other operating income and tax expense, and the inclusion of Sovereign Ltd for a full year.
- \$52 million from increased investment in revenue generating projects including eCommerce, Woolworths Ezy Banking and European Banking, together with infrastructure projects and system changes in anticipation of the GST introduction.
- \$71 million increase in costs directly related to the success of certain revenue generating activities such as Commonwealth Securities and True Awards Loyalty program.

Other Group Items

The table below details the Group's staff numbers as at 30 June 2001, 30 June 2000 and 30 June 1999. During Financial Year 2001 staff reductions relating to the Colonial integration were in excess of 2,700 with a net increase in other staff movements reflecting business growth.

| Staff Numbers as at 30 June | 2001 | 2000 | 1999 |
|------------------------------------|---------------|---------------|---------------|
| Full time staff | 31,976 | 34,154 | 26,394 |
| Part time staff | 7,161 | 7,383 | 6,655 |
| Full time staff equivalent | 34,960 | 37,131 | 28,964 |
| Australia | 28,837 | 31,056 | 25,678 |
| New Zealand | 3,872 | 3,731 | 3,061 |
| Other Overseas | 2,251 | 2,344 | 225 |
| Full time staff/total staff | 81.7% | 82.2% | 79.9% |
| Part time staff/total staff | 18.3% | 17.8% | 20.1% |

Full time equivalent staff have been weighted for the lower costs per employee of staff on extended leave, for example, maternity leave, unpaid sick leave or career break. Comparatives have been similarly adjusted.

Income Tax Expense

| | 2001 | Year Ended 30 June | |
|------------------|-------------|---------------------------|-------------|
| | | 2000⁽¹⁾ | 1999 |
| | \$M | \$M | \$M |
| Banking | 705 | 759 | 709 |
| Funds Management | 94 | 14 | 9 |
| Life | 194 | 47 | (4) |
| | 993 | 820 | 714 |

Effective tax rate

| | | | |
|---|-----|-----|-----|
| Banking | 28% | 33% | 34% |
| Funds Management | 39% | 28% | 27% |
| Life Insurance (Policyholder and Corporate) | 38% | 27% | - |

⁽¹⁾ Income tax expense before abnormal items.

The income tax expense for Financial Year 2001 was \$993 million compared with \$820 million for Financial Year 2000. The tax expense for Financial Year 2001 consists of corporate tax of \$889 million and policyholder tax of \$94 million. Corporate taxation for Financial Year 2001 reflects the drop in the corporate tax rate in Australia from 36% to 34% and the recognition of previously unrecognised overseas tax losses. For Financial Year 2002 and beyond the corporate tax rate is scheduled to drop to 30% due to changes in the

Australian tax laws. The policy holder tax expense for Financial Year 2001 was impacted by the weaker investment returns on behalf of policyholders resulting in lower tax paid.

Income tax expense for Financial Year 2000 was \$820 million compared to \$714 million for Financial Year 1999. The effective tax rate for the Group declined from 33.1% in Financial Year 1999 to 31.9% in Financial Year 2000. This was predominantly due to an increase in non-assessable life insurance income.

Restructuring Provisions and Fair Value Adjustments

The following table highlights the restructuring provisions and fair value adjustments raised as part of the acquisition of Colonial Limited at 30 June 2000 and subsequent revisions at 30 June 2001.

| | Actual Balance 30 June 2001 \$M | Expenditure Financial Year Ended 30 June 2001 \$M | Revised 30 June 2001 \$M | Increase \$M | Reported 30 June 2000 \$M |
|--|--|---|--------------------------------|-----------------|---------------------------------|
| Restructuring Costs | | | | | |
| - Colonial | 195 | 244 | 439 | 145 | 294 |
| - Commonwealth Bank | 6 | 100 | 106 | - | 106 |
| Total restructuring costs (pre tax) | 201 | 344 | 545 | 145 | 400 |
| Net of Tax | 142 | 275 | 417 | 87 | 330 |

| | Actual Balance 30 June 2001 \$M | Revision Financial Year Ended 30 June 2001 \$M | Reported 30 June 2000 \$M |
|-------------------------------|--|---|---------------------------------|
| Fair Value Adjustments | 637 | 162 | 475 |
| Net of Tax | 478 | 151 | 327 |

Provisions for restructuring costs of \$400 million (\$330 million after tax) were raised at 30 June 2000. These provisions covered the estimated costs, based on information then available, of integrating the Colonial operations (acquired 13 June 2000) into the Group, including the rationalisation of processing and administrative functions. The principal costs associated with this programme are in the area of redundancy, property and systems.

An additional \$145 million (\$87 million after tax) was added to the provision during Financial Year 2001 to cover the forecast additional costs of integration. The additional costs are primarily in the area of staff redundancies and information technology contract termination costs.

During Financial Year 2001, restructuring costs of \$344 million were charged against the provision. These expenses included redundancy and other staff payments of \$100 million, occupancy costs of \$45 million, information technology costs of \$95 million and other staff costs of \$24 million.

Fair value adjustments of \$475 million (\$327 million net of tax) were raised at 30 June 2000. These fair value adjustments principally related to write offs of capitalised systems costs in accordance with Commonwealth Bank accounting policy and additional general provisioning for bad debts to bring Colonial onto a consistent provisioning methodology.

Additional fair value adjustments of \$151 million (net of tax) were made during Financial Year 2001. These principally relate to asset and investment write downs, additional general provisioning as a result of aligning Colonial credit policies with the Commonwealth Group and tax adjustments.

These revisions to the provision for restructuring and fair value adjustments result in an increase in goodwill on acquisition of \$238 million. Refer Note 2 to the Financial Statements for further details.

Other Group Items

Abnormal Items (including Abnormal Income Tax Expense)

Abnormal items of revenue or expense are included in operating profit after income tax and considered abnormal by reason of size and effect on operating profit after income tax for the Financial Year.

| | Year Ended 30 June | | |
|--|--------------------|-------------|-------------|
| | 2001 \$M | 2000 \$M | 1999 \$M |
| Abnormal items: | - | (106) | - |
| Restructuring costs ⁽¹⁾ | - | 537 | - |
| Net market valuation of funds management businesses ⁽²⁾ | - | - | - |
| Change of valuation bases of Commonwealth Life insurance business ⁽³⁾ | - | 536 | - |
| Total Abnormal Items Before Tax | - | 967 | - |
| Abnormal tax credit items: | | | |
| Restructuring costs ⁽⁴⁾ | - | 20 | - |
| Total abnormal income tax credit | - | 20 | - |
| Total Abnormal Items After Tax | - | 987 | - |

⁽¹⁾ *Restructuring costs (2000)*

The provision for restructuring covers the costs of integrating the Colonial operations (acquired 13 June 2000) into the existing Group, including the rationalisation of existing processing and administrative functions. The principal costs associated with this programme are in the area of redundancy, property and systems. Refer Note 1A for further details of the Colonial acquisition.

⁽²⁾ *Net market valuation of funds management businesses (2000)*

In June 2000, the Commonwealth's principal funds management businesses were transferred to Commonwealth Insurance Holdings Limited (CIHL), a wholly owned life insurance business, as part of an internal restructuring. In accordance with AASB1038: 'Life Insurance Business', these entities are required to be carried at their net market valuation. The difference between the previous carrying value and the net market value results in an abnormal gain.

⁽³⁾ *Change of valuation bases of Commonwealth Life insurance business (2000)*

This item arises from a change in the bases of valuation of the Commonwealth Life business. The change in bases arose due to the following items:

- first time inclusion of franking credits;
- lower than previously estimated impact of business tax reforms; and
- revised assumptions for the new business multiplier.

These factors increased the valuation of CLL by \$536 million.

⁽⁴⁾ *Tax credit – restructuring costs (2000)*

This represents the tax deductible portion of the restructuring costs. Certain of the costs are not tax deductible and represent a permanent difference.

Net Income

Net income for Financial Year 2001 was \$2,398 million. Excluding the impact of abnormal items in Financial Year 2000 this represented an increase of \$40% over the prior Financial Year. After taking into account abnormal items for Financial Year 2000, net income for Financial Year 2001 decreased by 11%.

Net income increased 90% in Financial Year 2000 to \$2,700 million from \$1,422 million in Financial Year 1999. This increase in net income was principally due to abnormal items of \$987 million.

Net Income for Financial Year 2000 was \$1,713 million (excluding abnormal items) and represented a 20% increase on Financial Year 1999. The contribution from Colonial Limited, which was acquired on

13 June 2000 was \$12 million (net of Goodwill Amortisation). Excluding the Colonial contribution, the net income for Financial Year 2000 was \$1,701 million, representing an increase of 19.6% from Financial Year 1999.

The Financial Year 2000 result reflected:

- Strong growth in lending assets.
- 26% growth in non-interest income.
- Interest margin declining from 3.09% in 1999 to 2.88% in 2000.
- A reduction in charge for bad and doubtful debts.
- Increased investment of \$52 million in key business initiatives including eCommerce, Woolworths Ezy Banking and European Banking.

Integrated Risk Management

The integrated risk management framework is designed to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis.

Independent review is carried out through the audit role.

The Group's risk profile is the difference between capital available to absorb loss and risk.

The measure of risk is economic equity, which is defined as the potential risk of loss of one year's earnings, measured at a standard consistent with an AA credit rating.

Economic equity is derived from underlying exposures to credit, market, operational and life insurance risks in the banking, life insurance and funds management businesses of the Group. In the banking business, economic equity is a measure of the potential risk of loss of cash earnings. In the life insurance and funds management businesses, economic equity is a measure of the potential risk of loss of the fair value of the business.

The composition of economic equity of the Group during Financial Year 2001 was 49% credit risk, 20% market risk, 30% operational risk and 1% insurance risk.

The component measures of economic equity for the banking, life insurance and funds management businesses were as follows:

- Banking; 68% credit risk, 7% market risk and 25% operational risk
- Life insurance; 54% market risk, 40% operational risk, 4% credit risk and 2% insurance risk.
- Funds Management; 51% market risk and 49% operational risk.

The following sections describe the integrated risk management framework components.

Credit Risk

Credit risk is the potential for loss arising from failure of a debtor or counterparty to meet their contractual obligations.

Credit risk arises in the banking business from lending activities, the provision of guarantees including letters of credit and commitments to lend, investment in bonds and notes and financial markets and other associated activities. In the life insurance business credit risk arises from investment in bonds and notes, loans and from reliance on reinsurance. The funds management business generally involves minimal credit risk from a shareholder perspective.

The measurement of credit risk is based on an internal credit risk rating system, and utilises analytic tools to calculate expected and unexpected loss for the credit portfolio.

- The Group uses a diversified portfolio approach for the management of credit risk comprised of the following:
 - a system of industry limits and targets for exposures by industry;
 - a large credit exposure policy for aggregate exposures to individual commercial and industrial client groups tiered by credit risk rating and loan duration; and
 - a system of country limits for geographic exposures.

These policies assist in the diversification of the credit portfolio.

The credit portfolio is managed in two segments:

- *Statistically Managed Segment*
Comprises exposures that are generally less than \$250,000 and is dominated by the housing loan portfolio. Credit facilities are approved using scoring and check sheet techniques.
- *Risk Rated Managed Segment*
Comprises all other credit exposures. Management is based on the internal credit risk rating system, which makes an assessment of the potential for default for each exposure and the amount of loss if default should occur.

Allowance for expected credit loss in the banking business commences when an exposure first arises. The expected loss is reassessed on a regular basis and provisioning adjusted accordingly.

A centralised exposure management system records all significant credit exposures of the Group. Customers, industry, geographic and other significant groupings of exposure are monitored.

Market Risk

Market risk is the potential for change in the value of on and off balance sheet positions caused by a change in the value, volatility or relationship between market rates and prices.

Market risk arises from the mismatch between assets and liabilities in both the banking and insurance businesses. The Group is exposed to diverse financial instruments including interest rates, foreign currencies, equities and commodities and transacts in both physical and derivative instruments.

A discussion and analysis of the Group's market risk is contained in Note 39 to the Financial Statements. Information on trading securities is further contained in Note 10 of the Financial Statements. Note 3 to the Financial Statements contains financial markets trading income contribution to the Group.

In the trading book of the banking business, market risk is measured by a Value at Risk (VaR) model. This model uses the distribution of historical changes in market prices to assess the potential for future losses. The VaR model takes into account correlations between risks and the potential for movements in one portfolio to offset movements in another. Actual results are backtested to check the veracity of the VaR model. In addition, because the VaR model cannot predict all possible outcomes, tests covering a variety of stress scenarios are regularly performed to simulate the effect of extreme market conditions.

Integrated Risk Management

The following table provides a summary of VaR by product. This is one element of the total integrated risk model used by the Group. Refer Note 39 of the Financial Statements for further details.

| | Average VaR During June 2001 Half \$M | Average VaR During December 2000 Half \$M | Average VaR During June 2000 Half \$M | Average VaR During December 1999 Half \$M |
|-----------------------------------|---|---|---|---|
| Group (excluding ASB Bank) | | | | |
| Interest rate risk | 2.21 | 2.30 | 2.52 | 2.35 |
| Exchange risk | 1.03 | 0.64 | 0.73 | 0.67 |
| Implied volatility risk | 0.39 | 0.32 | 0.25 | 0.32 |
| Equities risk | 0.42 | 0.42 | 0.32 | 0.13 |
| Commodities risk | 0.34 | 0.33 | 0.29 | 0.47 |
| Prepayment risk | 0.44 | 0.38 | 0.28 | 0.00 |
| ASB Bank | 0.17 | 0.21 | 0.26 | 0.00 |
| Diversification benefit | (1.99) | (1.74) | (1.59) | (1.49) |
| Total | 3.00 | 2.86 | 3.06 | 2.45 |

Trading income for Financial Year 2001 increased by 37% over Financial Year 2000 without an increase in the VaR during the same period.

In the non-traded book of the banking business, a range of techniques is adopted to measure market risk. These include simulation of the effects of market price changes on assets and liabilities for business activities where there are no direct measures of the effects of market prices on those activities.

Liquidity risk is the risk that assets cannot be liquidated in time to meet maturing obligations. Limits are set to ensure that holdings of liquid assets do not fall below prudent levels. The liquid assets held are assets that are available for repurchase by the Reserve Bank of Australia (over and above those required to meet the Real Time Gross Settlement obligations), certificates of deposits and bills of exchange accepted by other banks and overnight interbank loans. More detailed comments on the Group's liquidity and funding risks are provided in Note 39 to the Financial Statements.

Market risk in the life insurance business arises from mismatches between assets and liabilities, guaranteed returns offered on some classes of policy (which may not be capable of being hedged through matching assets), adverse movements in market prices affecting fee income on investment-linked policies and from the returns obtained from investing the shareholders' capital held in each life company.

Wherever possible, the Group segregates policyholder funds from shareholder funds and sets investment mandates that are appropriate for each. The investment mandates for assets in policyholder funds attempt to match asset characteristics with the nature of policy obligations but it is not always possible to obtain a perfect match between assets and liabilities. The ability to match asset characteristics with policy obligations may be constrained by promises made in policy and sales documents, by regulatory constraints and by the lack of suitable investments.

A large proportion of the policyholder assets is held for investment linked policies where the policyholder takes the risk of falls in the market value of the assets. However, as the Group earns fees on investment linked policies that are based on the amount of assets invested, it will receive lower fees should markets fall. Asset allocation for investment linked policies is decided by the policyholder. A smaller proportion of policyholder assets is held to support policies where life companies have guaranteed either the principal invested or the investment return ('guaranteed policies').

Investment mandates for these classes of policies emphasise investment in lower volatility assets such as cash and fixed interest. The Group no longer sells guaranteed policies in Australia or New Zealand but they continue to be sold in Asia. The Australian and New Zealand books of in force business contain guaranteed policies sold in the past and on which it continues to collect premiums.

Thus, it is likely to be several years before the Australian and New Zealand in force book of guaranteed policies will decline significantly as the policy payments on maturing policies continues to be offset by the premium income on the remaining policies. Some guaranteed policies were sold on the basis of profits being shared between policyholders and shareholders. Profits are allocated to policyholders by the declaration of 'bonuses'. Bonuses may be declared annually ('annual bonuses') or upon maturity of the policy ('terminal bonuses'). Once declared, annual bonuses form part of the guaranteed sum assured.

Shareholders' funds in the life insurance business are on average invested 50% in income assets (cash and fixed interest) and 50% in growth assets (shares and property), although the asset mix may vary from company to company. Policyholder funds are invested to meet policyholder reasonable expectations without putting the shareholder at undue risk.

Market risk in the funds management business is the risk of an adverse movement in market prices which leads to a reduction in the amount of funds under management and a consequent reduction in fee income.

Liquidity risk is not currently viewed as a significant issue for the life insurance companies. The life insurance companies in the Group hold substantial investments in highly liquid assets such as listed shares, government bonds and bank deposits and continue to receive substantial premium income. Furthermore, processing time for claims and redemptions enables each company to forecast and manage its liquidity needs with a high degree of accuracy.

Operational Risk

Operational Risk is defined broadly as risks, other than those captured in credit, market and life insurance risk definitions, due to:

- business and strategic decisions;
- processes, people or systems; and
- external events.

Risks are identified, quantified and managed under the Group's operational risk framework by business unit owners, with risk management being a key result area for Divisions. Each risk owner quantifies individual risks according to their probability of occurrence, and the economic loss given occurrence, including the impact on shareholder value. The mitigating effects of preventative controls, impact controls and insurance are also assessed and quantified based on expert opinion, external events, risk incidents and indicators. Individual risks are aggregated into one of eleven operational risk categories.

The quantification and allocation of operational risk economic equity for the banking business is primarily based on the aggregation of these individual risks, taking into account any correlation of risks, through a Monte Carlo simulation. The resulting economic equity amount is also validated using top down aggregate measures.

Operational risk economic equity for the life insurance and funds management businesses is based on worst case scenarios using volatility shocks for business risks and top down measures using internal and external loss data for event risks.

Life Insurance Risk

This is the risk that the incidence of mortality (death) and morbidity (illness and injury) claims is higher than assumed when pricing life insurance policies, or is greater than best estimate assumptions used to determine the fair value of the business.

Life insurance risk may arise through reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Life insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of the Group's life insurance business and those of the industry as a whole are reviewed annually.

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. The Group will enter into derivatives transactions including swaps, forward rate agreements, futures, options and combinations of these instruments. The sale of derivatives to customers as risk management products and their use for trading purposes is integral to the Group's financial markets activities. Derivatives are also used to manage the Group's own exposure to market risk. The Group participates in both exchange traded and OTC derivatives markets.

Exchange traded derivatives: Exchange traded derivatives are executed through a registered exchange, for example the Sydney Futures Exchange and the Australian Stock Exchange. The contracts have standardised terms and require lodgment of initial and variation margins in cash or other collateral at the Exchange, which guarantees ultimate settlement.

OTC traded derivatives: The Group also buys and sells financial instruments that are traded 'over-the-counter', rather than on recognised exchanges. The terms and conditions of these transactions are negotiated between the parties, although the majority conform to accepted market conventions. Industry standard documentation is used, most commonly in the form of a master agreement supported by individual transaction confirmations. The documentation protects the Group's interests should the counterparty default, and provides

the ability to net outstanding balances in jurisdictions where the relevant law allows.

The Group's exposure to derivatives is disclosed in Note 39 to the Financial Statements.

Business Continuity Management

Business Continuity Management (BCM) is defined within the Group as the discipline for developing and maintaining advance action plans to respond to a risk event or disaster so that critical business processes continue with minimal adverse impact on staff, customers, products, services and brand.

The Group's BCM policy requires that appropriate safeguards be established to minimise the impact of disruption to business processes and dependencies, services and products in the event of an impairment of the Group's business, information and infrastructure.

BCM constitutes an essential component of the Group's risk management process by providing a controlled response to potential operational risks that could have a significant impact on the Group's critical processes and revenue streams. It includes both cost-effective responses to mitigate the impact of risk events or disasters and crisis management plans to respond to crisis events.

Each Division in the Group has developed, tested and maintained Business Continuity Plans. A comprehensive BCM education program is being implemented to further drive the BCM methodologies throughout the Group.

Government Guarantee

In conjunction with the Government's sale of its remaining shareholding, transitional arrangements were implemented which provide that:

- all demand and term deposits will be guaranteed by the Commonwealth for a period of three years from 19 July 1996, with term deposits outstanding at the end of that three-year period being guaranteed until maturity; and
- all other amounts payable under a contract that was entered into before or under an instrument executed, issued, endorsed or accepted by the Bank and outstanding at 19 July 1996 will be guaranteed by the Commonwealth until their maturity.

Accordingly, demand deposits are no longer guaranteed by the Commonwealth.

Term deposits outstanding at 19 July 1999 remain guaranteed until maturity. The run off of the Government guarantee has had no effect on the Bank's access to deposit markets. The Bank's credit ratings were also maintained.

Cross-Border Outstandings by Industry Category

Cross-border outstandings are based on the country of domicile of the borrower or guarantor of the ultimate risk. Outstandings include loans, acceptances and other monetary assets denominated in other than the counterparties' local currency. Local currency activities with local residents by foreign branches and controlled entities of the Bank are excluded.

At 30 June 1999, 2000 and 2001 cross-border outstandings of the Group by industry category (where outstanding individuals exceed 1% of the Group's total assets) was nil.

Credit Rating

The Bank's credit ratings have remained unchanged in Financial Year 2001 and are currently:

| | Short Term | Long Term |
|---|-----------------------|----------------------|
| Standard & Poor's Corporation | A-1+ | AA- |
| Moody's Investors Service, Inc. | P-1 | Aa3 |
| Fitch | F1+ | AA |
| Moody's Bank Financial Strength Rating | | B |
| Fitch Individual Rating | | A/B |

Capital Adequacy

| As at 30 June | 2001 \$M | 2000 \$M | 1999 \$M |
|---|---------------|---------------|---------------|
| Tier One Capital | | | |
| Shareholders' Equity (excluding asset revaluation reserve) | 19,843 | 18,435 | 6,962 |
| Eligible Loan Capital | 462 | 418 | 638 |
| Total Shareholders' Equity and Loan Capital | 20,305 | 18,853 | 7,600 |
| Less Goodwill | (5,716) | (5,905) | (491) |
| Less Preference shares | - | (86) | (88) |
| Less Intangible component of investment in non-consolidated subsidiaries | (4,116) | (2,656) | - |
| Less Outside equity interest in entities controlled by non-consolidated subsidiaries | (1,458) | (588) | - |
| Total Tier One Capital | 9,015 | 9,618 | 7,021 |
| Tier Two Capital | | | |
| Asset revaluation reserve | 5 | - | - |
| General provision for bad and doubtful debts ⁽¹⁾ | 1,390 | 1,358 | 1,081 |
| FITB related to general provision | (436) | (420) | (347) |
| Note and bond issues ⁽²⁾ | 4,825 | 5,120 | 2,335 |
| Preference shares | - | 39 | 40 |
| Total Tier Two Capital | 5,784 | 6,097 | 3,109 |
| Tier One and Tier Two Capital | 14,799 | 15,715 | 10,130 |
| Less Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1) | (2,005) | (2,528) | (368) |
| Less Other deductions | (114) | (669) | (420) |
| Capital Base | 12,680 | 12,518 | 9,342 |

⁽¹⁾ Excludes general provision for bad and doubtful debts relating to investments in non-consolidated subsidiaries.

⁽²⁾ Includes both upper and lower tier 2 capital.

| As at 30 June | 2001 % | 2000 % | 1999 % |
|-------------------------------------|-------------|-------------|-------------|
| Risk Weighted Capital Ratios | | | |
| Tier one | 6.51 | 7.49 | 7.05 |
| Tier two | 4.18 | 4.75 | 3.12 |
| Less deductions | (1.53) | (2.49) | (0.79) |
| Total | 9.16 | 9.75 | 9.38 |

The Australian Prudential Regulation Authority (APRA) sets minimum capital adequacy ratios for the Group. These ratios compare the capital base of the Group with on and off balance sheet assets, weighted for risk. Capital base consists of shareholders equity plus other capital instruments acceptable to APRA (tier 1 capital) and general provision for credit losses and other hybrid and debt instruments acceptable to APRA (tier 2 capital). The life insurance and funds management businesses are not consolidated for capital adequacy purposes.

The decline from the capital ratios at 30 June 2000 can be attributed to:

- A change in the treatment of the investment in our life insurance and funds management businesses announced by APRA in February 2001. These new rules were applied to the 31 December 2000 capital adequacy calculations. If this change had not occurred the tier 1 ratio at 30 June 2001 would have been 0.39% higher and the total capital ratio would have been 0.20% higher;
- An increase in goodwill associated with the merger with Colonial amounting to \$238 million (refer to the discussion on Restructuring Provision and Fair Value Adjustment);
- A decrease in tier 1 capital of \$464 million relating to the acquisition of a 25% interest in ASB Group in August 2000;
- A decrease in the lower tier 2 dated notes and bond issues due to the regulatory limitation that this amount does not exceed 50% of tier 1 capital; and
- A \$9.9 billion (8%) increase in the amount of risk weighted assets.

The Group has continued its active capital management programme. During the Financial Year 2001:

- An on-market buy-back programme in November 2000 resulted in the purchase of 0.8 million ordinary shares for \$23.5 million;
- An off-market buy-back in March 2001 resulted in the purchase of 25.1 million ordinary shares for \$700 million;
- The issue of 3.5 million PERLS (Preferred Exchangeable Resettable Listed Shares) in March 2001 raised \$687 million net of issue costs; and
- The shares needed to satisfy the DRP in respect of the interim dividend paid in March 2001 were acquired on-market. This required the purchase of 4.5 million ordinary shares for \$143.6 million.

In January 2001 the Basel Committee on Banking Supervision issued proposals for changes to the calculation of capital adequacy for banks. These changes will not come into effect until 2005. The changes include a specific requirement for capital to cover operating risk and changes to the capital requirement for credit risk. Under the proposals, the deduction for investment in life insurance and funds management companies currently made from total capital will be split 50% from tier 1 and 50% from tier 2. There is insufficient information available to ascertain whether overall the proposals will result in an increased requirement for regulatory capital or not. The Bank continues to work closely with industry bodies and with APRA to ensure that the changes, when finalised, will require a realistic level of capital. For further detail on capital adequacy see Note 31 to the Financial Statements.

Description of Business

Overview

Commonwealth Bank of Australia provides a comprehensive range of banking, financial, insurance and funds management services in Australia, New Zealand, throughout Asia and in the United Kingdom. These services include general banking, finance company activities, life insurance and funds management. The Bank is Australia's largest bank in terms of housing loans (\$ amounts) and retail deposits (\$ amounts) and is Australia's second largest bank in terms of Australian assets. The Group is one of the four major banking groups that collectively control approximately two-thirds of total assets within the Australian banking industry. At 30 June 2001, the Group had total consolidated assets of over \$230 billion and loans outstanding of \$136 billion. The Group's net profit after tax was \$2,398 million for Financial Year 2001.

On 13 June 2000 the Group acquired 100% of Colonial Limited (Colonial) a life insurance, banking and funds management group. Colonial had operations in Australia, New Zealand, the United Kingdom and throughout Asia and the Pacific.

The Commonwealth Bank of Australia became the successor in law to the State Bank of New South Wales (known as Colonial State Bank) and to all the assets and liabilities of State Bank of New South Wales effective on 4 June 2001 pursuant to legislation.

The Group is managed within three primary business segments, being banking, funds management and life insurance.

Banking

The Group's banking operations contributed approximately 75% of its total net profit for Financial Year 2001 and represented approximately 83% of the Group's total assets at 30 June 2001. The Group's banking operations consist of the operations of the Bank, ASB Bank and Commonwealth Development Bank.

Funds Management

The Group's funds management operations consist primarily of the Colonial First State Group (acquired as part of the Colonial Limited acquisition in June 2000) and the Commonwealth Funds Management Group. For Financial Year 2001 the funds management operations contributed \$149 million (6% of the Group) in net profit after tax. As at 30 June 2001 the funds management operations held \$101 million in assets under management.

Life Insurance

The Group's life insurance operations consist of Commonwealth Life Limited, Colonial Mutual Life Assurance (CMLA), ASB Life Limited and operations in the Asian region. The Asian operations include both 100% owned subsidiaries and joint venture operations. The life insurance operations of the Group contributed 13% (\$320 million) of the Group's net profit after tax for Financial Year 2001. As at 30 June 2001 the life insurance assets totalled \$39 billion and represent 17% of total Group assets.

Each of these businesses is described more fully within the preceding Banking, Funds Management and Life Insurance Business Analysis Sections.

The Group's return on average assets has remained steady at 1.1% over the last five years. The Group has remained capitalised at over 9% of total risk weighted assets for the last five years, which is above the Australian Prudential Regulation Authority ('APRA') regulatory requirement of 8%.

The Group's net interest margin has contracted from 3.53% for Financial Year 1997 to 2.78% for Financial Year 2001. The outlook for the net interest margin remains subdued. Refer to 'Operating and Financial Review and Prospects'.

Staff productivity (total operating income per full time equivalent employee) has increased by 73% between Financial Year 1997 and Financial Year 2001 and total operating expenses versus total operating income fell from 59.9% in Financial Year 1997 to 58.6% in Financial Year 2001.

The address of the Bank's principal executive office is 48 Martin Place, Sydney, New South Wales, 1155, Australia and its telephone number is (612) 9378 2000.

The operations of the core business functions of the Group are carried out by Australian Financial Services, Customer Service Division, Institutional Banking, Colonial First State Investments Group and International Financial Services. Other functions of the Group that support these core business functions include; Group Technology, Operations and Procurement, Finance and Risk Management, Group Planning and Development and Human Resources.

Australian Financial Services

Australian Financial Services is responsible for understanding the needs of our personal and business customers and the marketing and development of products and services. Products and services include banking, insurance and financial services, and are distributed to our customers by the Customer Service Division. Australian Financial Services includes the life insurance operations of Colonial Mutual Life Assurance (CMLA) and Commonwealth Insurance Limited.

Customer Service Division

The Customer Service Division is responsible for providing sales and service to the Bank's customers and managing the Bank's extensive financial services distribution network in Australia.

The network includes the largest number of branches and agencies, proprietary ATMs and EFTPOS terminals as well as an expanding array of telephone and direct/online services. The distribution network provides sales and service related functions to customers embracing the full range of financial products and services such as savings and cheque accounts, demand and term deposits, credit card services, personal loans and housing loans as well as superannuation, investment and life insurance products.

The Customer Service Division operates through an Australia wide network of over 1,000 branches, over 3,900 ATMs and over 122,000 EFTPOS terminals. The Bank's branch and service centre network is complemented by over 3,900 agencies (primarily Australia Post offices) offering a more limited range of banking services.

Institutional Banking

The Institutional Banking division focuses on large corporations, government bodies and other major institutions operating in Australia. Operating through a network of international branches, it has banking relationships with over 1,000 of these entities. Using a relationship model, Institutional Banking delivers financial solutions to institutional clients and other retail clients of the Group.

The products offered by Institutional Banking facilitate the linking of providers and users of capital and assist our clients in achieving predictable business outcomes. Products include financial markets, securities underwriting, trading and distribution, corporate finance, equities, payments and transaction services, investment management and custody. Commonwealth Securities, known as ComSec, the Group's direct wealth management and stockbroking business is part of the Institutional Banking Division.

Using its international network, the Group provides financial markets products on a 24 hour basis to clients in major financial centres around the world. These include the structuring and delivery of foreign exchange, money market and short term securities trading, fixed interest trading, commodity hedging, futures and derivatives thereon.

Colonial First State Investments

Retail and wholesale investment products are offered through Colonial First State Investments operations in Australia, New Zealand, the UK and in Asia. The product offerings cover all major asset classes including international and Australian equities, fixed interest, cash, private equity and property.

During Financial Year 2001, the Group's wholesale property funds management business was amalgamated with the property funds management group within Colonial First State Investments to form Colonial First State Property Group.

International Financial Services

International Financial Services comprises ASB Group and Colonial's insurance, retirement savings and banking operations in New Zealand, the United Kingdom, Asia and the Fiji Islands. In Asia, the Group operates wholly owned subsidiaries in Hong Kong and the Philippines and joint ventures with major local partners in Indonesia, China, Malaysia, and Vietnam.

ASB Group

ASB Group is a wholly owned New Zealand subsidiary of the Commonwealth Bank, and incorporates ASB Bank and Sovereign Limited. Sovereign Limited, now incorporating the former Colonial Life business in New Zealand, distributes retail funds under management and life insurance products. ASB Securities, a subsidiary of ASB Group, provides online share trading, discount telephone broking, client advisory services and fixed interest investment.

Technology, Operations and Procurement

The Technology, Operations and Procurement division operates as a discrete business unit to help provide Bank staff dealing directly with customers with best in class technology, infrastructure and support services and the ability to focus on understanding and fulfilling customers' needs.

The Group Technology area facilitates the delivery of current and future information technology and telecommunications services for the Group. Its activities focus on the management of the Group's relationship with our technology partner EDS Australia (EDSA), with the objective of ensuring that its business units continue to be provided with the most responsive, flexible and cost efficient service.

Banking Operations' primary purpose is to provide a full service item processing and back office/operational support function. Specialist centres across Australia process cheques, vouchers, financial services transactions, home, personal and business loans, credit cards and international payment/trade transactions, and manage the prevention of fraud and arrears.

Commonwealth Property

Commonwealth Property is a highly skilled property investment and corporate real estate services group. Its focus is on improving returns to external investors and corporate owners of real estate by offering a range of wholesale/retail, listed/unlisted investment vehicles. Equal focus is applied on the needs of its primary customer, Commonwealth Bank of Australia with an emphasis on achieving reduced occupancy costs for the Bank.

The Bank operates a large retail based network extending throughout Australia and, as a result, it has a substantial holding of freehold land and buildings. These premises, which include major owned commercial properties, other properties, including branches and other administration centres and residences, had a carrying value at 30 June 2001 of \$580 million (2000: \$730 million; 1999: \$709 million). This carrying value is established by the Directors based on an annual revaluation of the portfolio to assessed values and taking into account prevailing economic conditions. It is established at or below the independent market valuation amount.

Financial and Risk Management

Financial and Risk Management provides professional services and support to other divisions in the Group as well as to external parties. Value is added through policy formulation, strategic support and specialist advice on financial, risk and capital management as well as managing investor relations.

History and Ownership

The origins of the Bank lie in the former Commonwealth Bank of Australia which was established in 1911 by Act of Parliament to conduct commercial and savings banking businesses. Its functions were later expanded to encompass those of a central bank. Subsequent legislative amendment in 1959 created a separate Reserve Bank of Australia to take over the central bank functions.

In December 1990, the Commonwealth Bank's Restructuring Act 1990 was passed, which provided for:

- the conversion of the Bank into a public company with a share capital, governed by its Memorandum and Articles of Association but subject to certain overriding provisions of the Banking Act – this conversion occurred on 17 April 1991;
- the Bank to become the successor in law of the State Bank of Victoria (SBV) – this occurred on 1 January 1991; and
- the issue of shares in the Bank to the public.

An offer of just under 30% of the issued voting shares in the Bank was made to members of the Australian public and staff of the Bank in July 1991. This was done to strengthen the Bank's capital base following its acquisition of SBV and to provide a sound foundation for further development of the Bank's business.

In October 1993, the Commonwealth sold a portion of its shareholding in the Bank, thereby reducing its shareholding to 50.4% of the total number of issued voting shares.

Description of Business

In June 1996, the Commonwealth Government made a public offer of its remaining 50.4% shareholding in the Bank. The offer was fully subscribed. In conjunction with this offer, the Bank, pursuant to a buy-back Agreement between the Bank and the Commonwealth of Australia, agreed to buy-back 100 million shares in the Bank from the Commonwealth. The public offer and buy-back were completed on 22 July 1996.

In connection with the public offer of the Commonwealth's shares in 1996, transitional arrangements were implemented which provided that:

- all demand and term deposits were to be guaranteed by the Commonwealth government for a period of three years from 19 July 1996, when the Commonwealth of Australia ceased to hold more than 50% of the total voting shares in the Bank, with term deposits outstanding at the end of that three year period being guaranteed until maturity; and
- all other amounts payable under a contract that was entered into before, and was outstanding at 19 July 1996, were to be guaranteed by the Commonwealth Government until their maturity.

Under the terms of an agreement reached between the Commonwealth and the Bank, the Bank reports to the Commonwealth annually on the level and maturity profile of outstanding liabilities which are subject to the Commonwealth's guarantees.

The agreement also includes an undertaking from the Bank that it will not seek to extend the maturity profile of its deposit liabilities beyond that required in the normal course of business during the three years following the effective time. The liabilities of the Bank's subsidiary Commonwealth Development Bank Limited will continue to remain guaranteed by the Commonwealth. For full details of all guarantee arrangements refer Note 26 to the Financial Statements.

In June 2000, the Group acquired 100% of the share capital of Colonial Limited, a life insurance, banking and funds management group. Colonial had operations in Australia, New Zealand, the United Kingdom and throughout Asia and the Pacific. The Group purchased ASB Bank Community Trust's remaining 25% interest in the ASB Group in New Zealand in August 2000.

Competition

The Australian financial services market is highly transparent and competitive. The banks, life insurance companies and non-bank financial institutions compete for customer deposits, the provision of lending, funds management, life insurance and other services.

As at 30 June 2001 there were 46 banking groups operating in Australia. Banks in Australia can be divided into the following categories: Australian owned banks, foreign bank subsidiaries and branches of foreign owned banks.

Among the Australian owned banks (of which there are 12) the four largest (Commonwealth Bank of Australia, National Australia Bank (NAB), Westpac and Australia and New Zealand Banking Corporation (ANZ)) are typically referred to as Australia's major banks. Each of the major banks offers a full range of financial products and services through branch networks across Australia.

Of the other Australian owned banks, there are 5 regional banks. Each of these had their origins as a building society and their operations were initially largely state based. While the smaller of the regional banks have typically limited their activities to servicing customers in a particular state or region, they are now targeting interstate customers and expanding their operations across state borders. The larger regional

banks now operate in several states, if not nationally. Over recent years the regional banking sector has undergone substantial consolidation with several of these institutions amalgamating with other regional banks or being acquired by major banks.

There are 13 foreign owned banks operating in Australia through a locally incorporated subsidiary. An additional 25 banks conduct operations through a foreign bank branch. While many foreign banks operating in Australia initially focussed their activities on the provision of banking services to the Australian clients of their overseas parent bank, most have now diversified their operations, offering local clients a broad range of financial products and services. Foreign bank branches in Australia are not able to offer retail deposit and transaction accounts to customers. Several foreign banks are represented in Australia by both a locally incorporated subsidiary and a branch.

The Bank also faces competition from non-bank financial institutions, which compete vigorously for customer investments, deposits and the provision of lending and other services. Non-bank financial intermediaries such as building societies and credit unions compete strongly in the areas of accepting deposits and residential mortgage lending, mainly for owner-occupied housing. These state-based institutions are making headway in achieving multi-state coverage, partly encouraged by a more conducive regulatory environment. Specialist non-bank mortgage originators and brokers have acquired some prominence in the residential lending market.

A development over recent years has been the establishment of local single branch banks collectively referred to as 'community banks'. Under this model, the local community effectively purchases from a regional bank the right to operate a franchise of the bank but within the auspices of the regional bank's banking authority. The presence of community banks has added another dimension to the competitive dynamics of the market.

The Bank operates in the life insurance and funds management markets in competition with a range of non-bank financial institutions. Similarly, non-bank financial institutions (including life insurance companies) have expanded their operations into banking, with a view to offering their customers a broad suite of financial services. International fund managers (and global investment banks) are also increasing their presence in Australia.

Changes in the financial needs of consumers, deregulation, and technology developments have also changed the mode of competition. In particular, the development of electronic delivery channels and the reduced reliance on a physical network facilitate the entry of new players from related industries, such as retailers, telecommunication companies and utilities. Technological change is encouraging new entrants with differing combinations of expertise and an unbundling of the value chain.

Deregulation has led to further disintermediation in the Australian finance industry. Traditionally, the banking industry has been the major intermediary between the providers of funds (depositors) and the users of funds (borrowers).

A significant factor in disintermediation in Australia has been the substantial growth in funds under management, especially within the superannuation (pension funds) industry.

The Australian Government's continued encouragement of long-term saving through superannuation, by means of taxation concessions and a mandatory superannuation guarantee levy on employers, is expected to underpin strong growth in funds under management. This growth potential continues to attract new entrants to this market.

Growth in the funds management industry has also contributed to disintermediation through the direct use of capital markets by borrowers as an alternative to bank finance. The corporate bond market in Australia has benefited from this growth with many of the major Australian corporates directly accessing capital markets in Australia and around the world. The Bank, in competition with numerous domestic and foreign banks, is actively involved as an originator of corporate debt in the capital markets, especially in the Euro-AUD and Euro-NZD sector, and in the creation of new financing structures including as arranger and underwriter in major infrastructure projects undertaken by the corporate sector.

Like Australia, the New Zealand banking system is characterised by strong competition. The Group's activities in New Zealand are conducted through ASB Group Limited. Banks in New Zealand are free to compete in almost any area of financial activity. As in Australia, there is strong competition with non-bank financial institutions in the areas of funds management and the provision of insurance.

New Zealand banking activities are led by five financial services groups, all owned by United Kingdom or Australian-based banks operating through nationwide branch networks.

The Group's major competitors in New Zealand are ANZ, Bank of New Zealand (a wholly-owned subsidiary of NAB), National Bank of New Zealand (a wholly-owned subsidiary of Lloyds Bank plc) and Westpac Trust (a wholly-owned subsidiary of Westpac). In addition, there are several financial institutions operating largely in the wholesale banking sector including Deutsche Bank and AMP (Australia's largest insurance group).

Through its wholly-owned subsidiary Sovereign Group, ASB Group also competes in the New Zealand insurance and investment market, where Royal Sun Alliance and Tower Corporation are major competitors.

Following the acquisition of Colonial Ltd in June 2000, the Group's retail operations were extended into the United Kingdom, numerous Asian markets and the Fiji Islands; in these markets, the Bank competes directly with established providers.

Employees

The Group currently employs approximately 35,000 employees on a full-time equivalent basis. June 2000 saw the addition of approximately 8,500 full-time equivalent staff as a result of the Colonial acquisition. Allowing for this, between 30 June 1997 and 30 June 2001 employee numbers have decreased by approximately 10,000 measured on a full-time equivalent basis.

As of the 16 May 2001 the Group entered into four new separate Enterprise Bargaining Agreements covering Technology Operations and Procurement (TOP), Direct Bank, Customer Service Division and the Core (covering Group Human Resources, Australian Financial Services, Financial and Risk Management and the Office of the Chief Executive Officer).

All four Agreements are generally similar to one another, with some changes reflecting the different needs of these parts of the business. They provide a salary increase, significantly enhanced performance pay and greater flexibility for the business to respond to changing circumstances. This includes:

- November 2000 increases to salaries by 3% (4.5% for general classification employees). The November increase was effectively backdated to include the lump sum payment for the period May to November 2000. On top of this the new Enterprise Bargaining Agreements provided a further 4% salary increase effective May 2001.
- The new Enterprise Bargaining Agreements deliver an enhanced lump sum performance related pay system on top of a payrise.
- The new Enterprise Bargaining Agreements introduce an expanded set of principles relating to staffing. These principles recognise the need for prompt filling of vacancies and the review of staffing levels consistent with business needs. The principles also recognise the importance of taking into account all relevant Business Service Units and local factors, such as staffing experience, demographics and business factors, when determining staffing levels. These include:
 - Provisions regarding part-time employees, casual or temporary employees scheduling and weekend work. These new provisions involve wider consultation with employees where there is a need to make changes to hours of work.
 - The new EBAs provide further potential to negotiate site agreements as required.

Individual Choice:

The new EBAs continue to offer where appropriate an Australian Workplace Agreement, or other forms of individual contract as an alternative to the new Enterprise Bargaining Agreement. Overall, the number of AWAs signed as of 30 June 2001 is in excess of 3,740.

In addition to the above, the Bank's 830 Senior Executive and Executive staff and over 1,000 specialists are on contract arrangements.

The Group is continuing with the rollout of a new leadership program to provide employees with a knowledge of the systems, behaviours and skills they are expected to apply as team leaders and team members across the organisation. At 30 June 2001 over 7,200 employees have attended the program.

To further gauge the effectiveness of the Group's efforts to enhance the quality of managerial leadership experienced by staff, and to establish a benchmark for future improvement, the second Bank-wide workplace survey was conducted in May 2001. The survey results showed a substantial improvement on the 1999 survey. A further survey, planned for 2002, will build on the knowledge gained from the two previous surveys.

The Group intends to continue to place a high priority on enhancing its leadership capability, redesigning its employment systems to better align them with its business needs and identifying, securing and developing its talent pool to meet current and future needs.

Description of Business

Financial System Regulation

Australia has a high quality system of financial regulation by international standards. Following a comprehensive inquiry into the Australian financial system (the 'Wallis Inquiry'), the Australian Government introduced a new framework for regulating the financial system. The previous framework, which applied regulations according to the type of institution being regulated, resulted in similar products being regulated differently. The new functional approach regulates products equally regardless of the particular type of institutions providing them.

Since July 1998, the new regulatory arrangements have comprised four separate agencies: The Reserve Bank of Australia, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission and the Australian Competition and Consumer Commission. Each of these agencies has system wide responsibilities for the different objectives of government oversight of the financial system. A description of these agencies and their general responsibilities and functions is set out below:

- Reserve Bank of Australia ('RBA') – the Australian central bank is responsible for monetary policy, financial system stability and regulation of the payments system;
- Australian Prudential Regulation Authority ('APRA') – has comprehensive powers to regulate prudentially banks and other deposit-taking institutions, insurance companies and superannuation (pension funds). Unless an institution is authorised under the Banking Act 1959 or exempted by APRA, it is prohibited from engaging in the general business of deposit-taking;
- Australian Securities and Investments Commission ('ASIC') – has responsibility for market conduct, consumer protection and corporate regulation functions across the financial system including for investment, insurance and superannuation products and the providers of these products.
- Australian Competition and Consumer Commission ('ACCC') – has responsibility for competition policy and consumer protection across all sectors of the economy.

Financial market instability, particularly in various emerging market economies, has led to intense scrutiny of global financial markets and highly leveraged institutions. There is some pressure for fundamental reform of international financial architecture to avert future crises. Government officials and industry practitioners in Australia are actively involved in international fora in furthering these reforms.

Supervisory Arrangements

The Bank is an authorised deposit-taking institution under the Banking Act and is subject to prudential regulation by APRA as a bank. The prudential framework applied by APRA is embodied in a series of prudential standards including:

Capital Adequacy

Under APRA capital adequacy guidelines, Australian banks are required to maintain a ratio of capital (comprising tier 1 and tier 2 capital components) to risk weighted assets of at least 8%, of which at least half must be tier 1 capital. These guidelines are generally consistent with those agreed upon by the Basel Committee on Banking Supervision. For information on the capital position of the Bank, see – 'Capital Adequacy'.

Funding and Liquidity

APRA exercises liquidity control by requiring each bank to develop a liquidity management strategy that is appropriate for itself. Each policy is formally approved by APRA. A key element of the Group's liquidity policy is the holding of a stock of high quality liquid assets to meet day to day fluctuations in liquidity. The liquid assets held are assets that are available for repurchase by the RBA (over and above those required to meet the Real Time Gross Settlement (RTGS) obligations, AUD CDs/Bills of other banks and AUD overnight interbank loans). More detailed comments on the Group's liquidity and funding risks are provided in Note 39 to the Financial Statements.

Large Credit Exposures

APRA requires banks to ensure that, other than in exceptional circumstances, individual credit exposures to non-bank, non-government clients do not exceed 30% of tier 1 and tier 2 capital. Prior notification must be given to APRA if a bank intends to exceed this limit. For information on the Bank's large exposures refer to Note 14 to the Financial Statements.

Ownership and Control

In pursuit of transparency and risk minimisation, the Financial Sector (Shareholding) Act 1998 embodies the principle that regulated financial institutions should maintain widespread ownership. The Act applies a common 15 per cent shareholding limit for authorised deposit-taking institutions, insurance companies and their holding companies. The Treasurer has the power to approve acquisitions exceeding 15 per cent where this is in the national interest, taking into account advice from the Australian Competition and Consumer Commission in relation to competition considerations and APRA on prudential matters. The Treasurer may also delegate approval powers to APRA where one financial institution seeks to acquire another.

The Government's present policy is that mergers among the four major banks will not be permitted until the Government is satisfied that competition from new and established participants in the financial industry, particularly in respect of small business lending, has increased sufficiently.

Proposals for foreign acquisition of Australian banks are subject to approval by the Treasurer under the Foreign Acquisitions and Takeovers Act 1975.

Banks' Association With Non-Banks

There are formal guidelines that control investments and dealings with subsidiaries and associates. A bank's equity associations with other institutions should normally be in the field of finance. APRA has expressed an unwillingness to allow subsidiaries of a bank to exceed a size which would endanger the stability of the parent. No bank can enter into any agreements or arrangements for the sale or disposal of its business, or effect a reconstruction or carry on business in partnership with another bank, without the consent of the Commonwealth Treasurer.

In carrying out its prudential responsibilities, APRA closely monitors the operations of banks to ensure that they operate within the prudential framework it has laid down and that they follow sound management practices.

APRA currently supervises banks by a system of off-site examination. It closely monitors the operations of banks through the collection of regular statistical returns and regular prudential consultations with each bank's management. APRA also conducts a program of specialised on-site visits to assess the adequacy of individual banks' systems for identifying, measuring and controlling risks associated with the conduct of these activities.

In addition, APRA has established arrangements under which each bank's external auditor reports to APRA regarding observance of prudential standards and other supervisory requirements.

Supervision of Non-Bank Group Entities

The life insurance company and general insurance company subsidiaries of the group also come within the supervisory purview of APRA.

APRA's prudential supervision of both life insurance and general insurance companies is exercised through the setting of minimum standards for solvency and financial strength to ensure obligations to policyholders can be met.

The financial condition of life insurance companies is monitored through regular financial reporting, lodgment of audited accounts and supervisory inspections. Compliance with APRA regulation for general insurance companies is monitored through regular returns and lodgment of an audited annual return.

Transaction Taxes

The net cost to the Group from the first year of operation of the Goods and Services Tax ('GST'), introduced from 1 July 2000, was \$111 million. This was after available input tax credit claims. Financial Institutions Duty ('FID') was abolished on 1 July 2001, with an estimated saving of \$205 million per year, passed on to customers as reduced fees. The Group will save approximately \$8 million per year on FID on its own income. State and Territory debits taxes are scheduled to be abolished from 1 July 2005. NSW has unilaterally announced that it will abolish its debits tax from 1 January 2002, conditional on certain actions by the Federal Government. The Group pays approximately \$190 million in debits taxes per year (most of which is passed on to customers as fees).

Legal Proceedings

Neither the Commonwealth Bank nor any of its controlled entities is engaged in any litigation or claim which is likely to have a materially adverse effect on the business, financial condition or operating results of the Group. Where a material loss is probable an appropriate provision has been made.

Corporate Governance

Board of Directors

The Board of Directors assumes responsibility for corporate governance of the Bank. It oversees the business and the affairs of the Bank, establishes, with management, the strategies and financial objectives to be implemented by management and monitors the

performance of management directly and through the Board committees.

The Board currently consists of eleven Directors. Membership of the Board and its Committees is set out below:

| DIRECTOR | BOARD MEMBERSHIP | | | COMMITTEE MEMBERSHIP | | | |
|------------------|------------------|-------------------|----------|----------------------|--------------|----------|----------|
| | | | | Nominations | Remuneration | Audit | Risk |
| J T Ralph, AC | Non executive | Chairman | Chairman | Chairman | | | Chairman |
| J M Schubert | Non executive | Deputy Chairman | Member | | | Chairman | |
| D V Murray | Executive | Managing Director | Member | Member | | | Member |
| N R Adler, AO | Non executive | | | Member | | | |
| R J Clairs, AO | Non executive | | | | | Member | |
| A B Daniels, OAM | Non executive | | | Member | | | |
| C R Galbraith | Non executive | | | | | | Member |
| W G Kent, AO | Non executive | | | | | | Member |
| F D Ryan | Non executive | | | | | Member | |
| F J Swan | Non executive | | | | | | Member |
| B K Ward | Non executive | | | | | Member | |

Details of the experience, qualifications, special responsibilities and attendance at meetings of the Directors are set out in the Directors' Details on pages 49 to 51.

Ms A C Booth retired from the Board on 31 December 2000 and Mr K E Cowley retired from the Board on 29 March 2001.

The Constitution of the Bank specifies that:

- the managing director and any other executive directors shall not be eligible to stand for election as Chairman of the Bank;
- the number of directors shall be not less than 9 nor more than 13 (or such lower number as the Board may from time to time determine). The Board has determined that for the time being the number of directors shall be 11; and
- at each Annual General Meeting, one-third of directors (other than the managing director) shall retire from office and may stand for re-election.

The Board has adopted a policy that, with a phasing in provision dealing with existing directors, the maximum term of appointment of directors to the Board would normally be limited to twelve years.

The Nominations Committee of the Board critically reviews, at least annually, the corporate governance procedures of the Bank and the composition and effectiveness of the Commonwealth Bank Board and the boards of the major wholly owned subsidiaries. The policy of the Board is that the Committee shall consist of a majority of non executive directors and that the Chairman of the Bank shall be chairman of the Committee.

The Nominations Committee has developed a set of criteria for director appointments which have been adopted by the Board. The criteria set the objective of the Board as being as effective, and preferably more effective than the best boards in the comparable peer group. These criteria, which are reviewed annually, ensure that any new appointee is able to contribute to the ongoing effectiveness of the Board, has the ability to exercise sound business judgment, to think strategically and has demonstrated leadership experience, high levels of professional skill and appropriate personal qualities.

Candidates for appointment as directors are considered by the Nominations Committee, recommended for decision by the Board and, if appointed, stand for election, in accordance with the Constitution, at the next general meeting of shareholders.

Once a Director reaches the age of 72, they are required to stand for re-election each year. For re-election, a special resolution in which the support of 75% of those shareholder voting is required.

Remuneration Arrangements

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined, is divided between the directors as they agree. The policy of the Board is that the aggregate amount should be set at a level which provides the Bank with the necessary degree of flexibility to enable it to attract and retain the services of directors of the highest calibre. The latest determination was at the Annual General Meeting held on 28 October 1999 when shareholders approved an aggregate remuneration of \$1,500,000 per year. The Nominations Committee reviews the fees payable to non executive directors. Details of individual directors' remuneration and the bands of remuneration are set out in Note 45 to the Financial Statements. Directors' fees do not incorporate a bonus element related to performance.

In August 2000, the Board approved the introduction of the Non-Executive Directors' Share Plan which requires the acquisition of shares by Non-Executive Directors through the mandatory sacrifice of 20% of their annual fees. Details of this Plan were set out in the Notice of Meeting to the 2000 Annual General Meeting.

The remuneration of Mr Murray (Managing Director) is fixed by the Board, pursuant to the Constitution, as part of the terms and conditions of his appointment. Those terms and conditions are subject to review, from time to time, by the Board.

There is in place a retirement scheme which provides for benefits to be paid to non executive directors after service of a qualifying period. The terms of this scheme, which were approved by shareholders at the 1997 Annual General Meeting, allow for a benefit on a pro rata basis to a maximum of four years' total emoluments after twelve years' service.

The Board has established a Remuneration Committee to:

- consider changes in remuneration policy likely to have a material impact on the Group;
- consider senior executive appointments; and
- be informed of leadership performance, legislative compliance in employment issues, industrial agreements and incentive plans operating across the Group.

The policy of the Board is that the Committee shall consist of a majority of non executive directors.

The Committee has an established work plan which allows it to review all major human resource policies, strategies and outcomes.

The Bank's remuneration policy in respect of executives includes provisions that remuneration will be competitively set so that the Bank can attract, motivate and retain high quality local and international executive staff and that remuneration will incorporate, to a significant degree, variable pay for performance elements. A full statement of the Bank's remuneration policy for executives and details of the remuneration paid to the Managing Director and five highest paid other members of the senior executive team who were officers of the Bank at 30 June 2001 are set out in Note 46 to the Financial Statements.

Audit Arrangements

Ernst & Young was appointed as the auditor of the Bank at the 1996 Annual General Meeting and continues to fulfil that office.

The Board's Audit Committee consists entirely of non executive Directors and the chairman of the Committee is not Chairman of the Bank. This structure reflects the Board's policy. The Managing Director attends Committee meetings by invitation. The Committee oversees the adequacy of the overall internal control functions and the internal audit functions within the Group and their relationship to external audit.

In carrying out these functions, the Committee:

- reviews the financial statements and reports of the Group;
- reviews accounting policies to ensure compliance with current laws, relevant regulations and accounting standards; and
- conducts any investigations relating to financial matters, records, accounts and reports which it considers appropriate.

In addition, the Committee ratifies the Group's operational risk policies for approval by the Board and reviews and informs the Board of the measurement and management of operational risk. Operational risk is a basic line management responsibility within the Group consistent with the policies established by the Committee. A range of insurance policies maintained by the Group mitigates some operational risks.

The Committee regularly considers, in the absence of management and the external auditor, the quality of the information received by the Committee and, in considering the financial statements, discusses with management and the external auditor:

- the financial statements and their conformity with accounting standards, other mandatory reporting requirements and statutory requirements; and
- the quality of the accounting policies applied and any other significant judgements made.

The Committee periodically meets separately with the Group Auditor and the external auditor in the absence of management.

The Committee reviews the processes governing advisory work undertaken by the external auditor to ensure that the independence of the external auditor is not affected by conflicts of interest.

The scope of the audit is agreed between the Committee and the auditor. The external audit partner attends meetings of the Audit Committee by invitation and attends the Board meetings when the annual and half yearly accounts are signed.

Risk Management

The Risk Committee oversees credit and market risks assumed by the Bank in the course of carrying on its business.

The Committee considers the Group's credit policies and ensures that management maintains a set of credit underwriting standards designed to achieve portfolio outcomes consistent with the Group's risk/return expectations. In addition, the Committee reviews the Group's credit portfolios and recommendations by management for provisioning for bad and doubtful debts.

The Committee approves risk management policies and procedures for market, funding and liquidity risks incurred or likely to be incurred in the Group's business. The Committee reviews progress in implementing management procedures and identifying new areas of exposure relating to market, funding and liquidity risk.

Independent Professional Advice

The Bank has in place a procedure whereby, after appropriate consultation, directors are entitled to seek independent professional advice, at the expense of the Bank, to assist them to carry out their duties as directors. The policy of the Bank provides that any such advice is made available to all directors.

Access to Information

The Board has an agreed policy on the circumstances in which directors are entitled to obtain access to company documents and information.

Ethical Standards

The Bank has adopted a Statement of Professional Practice which sets required standards of behaviour including:

- to act properly and efficiently in pursuing the objectives of the Bank;
- to avoid situations which may give rise to a conflict of interests;
- to know and adhere to the Bank's Equal Employment Opportunity policy and programs;
- to maintain confidentiality in the affairs of the Bank and its customers; and
- to be absolutely honest in all professional activities.

These standards are regularly communicated to staff. In addition, the Bank has established insider trading guidelines for staff to ensure that unpublished price sensitive information about the Bank or any other company is not used in an illegal manner.

The restrictions imposed by law on dealings by Directors in the securities of the Bank have been supplemented by the Board of Directors adopting guidelines which further limit any such dealings by Directors, their spouses, any dependent child, family company and family trust.

Corporate Governance

The guidelines provide, that in addition to the general requirement that Directors not deal in the securities of the Bank or any related company when they have or may be perceived as having relevant unpublished price sensitive information, Directors are only permitted to deal within certain periods. These periods include between three and 30 days after the announcement of half yearly and final results and from three days after release of the annual report until 30 days after the Annual General Meeting. Further, the guidelines require that Directors not deal on the basis of considerations of a short term nature or to the extent of trading in those securities. Similar restrictions apply to executives of the Bank.

In accordance with the Constitution and the Corporations Act 2001, Directors disclose to the Board any material contract in which they may have an interest. In compliance with section 195 of the Corporations Act 2001 any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered and must not vote on the matter.

Continuous Disclosure

The Corporations Act 2001 and the ASX Listing Rules require that a company disclose to the market matters which could be expected to have a material effect on the price or value of the company's securities. Management processes are in place throughout the Commonwealth Bank Group to ensure that all material matters which may potentially require disclosure are promptly reported to the Managing Director, through established reporting lines, or as a part of the deliberations of the Bank's Executive Committee. Matters reported are assessed and, where required by the Listing Rules, advised to the market. The Company Secretary is responsible for communications with the ASX and for ensuring that such information is not released to any person until the ASX has confirmed its release to the market.

Directors' Details

The names of the Directors holding office during the Financial Year 2001 and until the date of this report are set out below together with details of Directors' experience, qualifications, special responsibilities and organisations in which each of the Directors has declared an interest.

John T Ralph, AC, Chairman

Mr Ralph has been a member of the Board since 1985 and Chairman since 1999. He is also Chairman of the Risk, Remuneration and Nominations Committees. He is a Fellow of the Australian Society of Certified Practising Accountants and has had over forty-seven years' experience in the mining and finance industries.

Chairman: Pacific Dunlop Limited.

Deputy Chairman: Telstra Corporation Limited.

Director: BHP Billiton Limited and BHP Billiton Plc.

Other Interests: Melbourne Business School (Board of Management), Foundation for Young Australians (Deputy National Chairman), and Australian Foundation for Science (Chairman).

Mr Ralph is a resident of Victoria. Age 68.

John M Schubert, Deputy Chairman

Dr Schubert has been a member of the Board since 1991, he was appointed as Deputy Chairman on 31 December 2000 and is Chairman of the Audit Committee and a member of the Nominations Committee. He holds a Bachelor Degree and PhD in Chemical Engineering and has experience in the petroleum, mining and building materials industries. Dr Schubert is the former Managing Director and Chief Executive Officer of Pioneer International Limited.

Chairman: G2 Therapies Limited and Worley Limited.

Director: BHP Billiton Limited, BHP Billiton Plc, Hanson Plc, Australian Graduate School of Management Ltd and Qantas Limited.

President: Business Council of Australia.

Other Interests: Academy of Technological Science (Fellow), Salvation Army Territorial Headquarters and Sydney Advisory Board (Member). He is also a Director of the Great Barrier Reef Research Foundation and a Director and a Member of AGSM Consulting Ltd.

Dr Schubert is a resident of New South Wales. Age 58.

David V Murray, Managing Director and Chief Executive Officer

Mr Murray has been a member of the Board and Managing Director since June 1992. He holds a Bachelor of Business and Master of Business Administration and has thirty-five years' experience in banking. Mr Murray is a member of the Remuneration, Risk and Nominations Committees.

Director: Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No 2) Pty Ltd, Emerald Holding Company Ltd, Colonial Finance (Australia) Ltd, Colonial International Holdings Pty Ltd and Colonial First State Investments Group Limited.

Other Interests: International Monetary Conference (Member), Art Gallery of NSW (Member), Asian Bankers' Association (Member), Australian Bankers' Association (Chairman), Asian Pacific Bankers' Club (Member), Business Council of Australia (Member), World Economic Forum (Member), General Motors Australian Advisory Council (Member), APEC Business Advisory Council (Member), and the Financial Sector Advisory Council (Member).

Mr Murray is a resident of New South Wales. Age 52.

N R (Ross) Adler, AO

Mr Adler has been a member of the Board since 1990 and is a member of the Remuneration Committee. He holds a Bachelor of Commerce and a Master of Business Administration. Mr Adler was Managing Director of Santos Limited for 16 years and retired on 30 September 2000. He has experience in various commercial enterprises, more recently in the oil and gas industry.

Chairman: Austrade.

Director: Telstra Corporation Limited, QCT Resources Limited (until October 2000), Tereny Investments Pty Ltd and Shelrey Pty Ltd.

Other Interests: Art Gallery of South Australia (Chairman), University of Adelaide (Council Member and Chairman of the Finance Committee), Executive Member of the Australian Japan Business Co-operation Committee and Australian Institute of Company Directors (Member).

Mr Adler is a resident of South Australia. Age 56.

Reg J Clairs, AO

Mr Clairs has been a member of the Board since 1 March 1999 and is a member of the Audit Committee. As the former Chief Executive Officer of Woolworths Limited, he had thirty-three years' experience in retailing, branding and customer service.

Chairman: Agri Chain Solutions Ltd and The Prime Minister's Supermarket to Asia Board.

Deputy Chairman: Woolstock Australia Limited.

Director: David Jones Ltd, Howard Smith Ltd and National Australia Day Council.

Other Interests: Foundation Member of the Prime Minister's Supermarket to Asia Council.

Mr Clairs is a resident of Queensland. Age 63.

A B (Tony) Daniels, OAM

Mr Daniels has been a member of the Board since March 2000 and is a member of the Remuneration Committee. He has extensive experience in manufacturing and distribution, being Managing Director of Tubemakers of Australia for eight years to December 1995, during a long career with that company. Director: Australian Gas Light Company, Orica, and O'Connell St Associates.

Managing Director: Pacific Dunlop Limited.

Mr Daniels is a resident of New South Wales. Age 66.

Directors' Details

Colin R Galbraith

Mr Galbraith has been a member of the Board since June 2000 and is a member of the Risk Committee. He was previously a Director of Colonial Limited, having been appointed in 1996. He is a partner of Allens Arthur Robinson, Lawyers.

Chairman: BHP Community Trust.

Director: OneSteel Limited.

Other Interests: Council of Legal Education in Victoria (Honorary Secretary), Corporate Council of CARE Australia (Member) and The Royal Melbourne Hospital Neuroscience Foundation (Trustee).

Mr Galbraith is a resident of Victoria. Age 53.

Warwick G Kent AO

Mr Kent has been a member of the Board since June 2000 and is a member of the Risk Committee. He was previously a Director of Colonial Limited, having been appointed in 1998. He was Managing Director and Chief Executive Officer of BankWest until his retirement in 1997. Prior to joining BankWest, Mr Kent had a long and distinguished career with Westpac Banking Corporation.

Director: Perpetual Trustees Australia Limited, West Australian Newspapers Holdings Limited and Coventry Group Limited.

Other Interests: Advisory Board of Blake Dawson Waldron (Member), Walter and Eliza Hall Trust (Trustee), Australian Institute of Company Directors (Fellow), Australian Society of CPAs (Fellow), Australian Institute of Bankers (Fellow) and Chartered Institute of Company Secretaries (Fellow).

Mr Kent is a resident of Western Australia. Age 65.

Fergus D Ryan

Mr Ryan has been a member of the Board since March 2000 and is a member of the Audit Committee. He has extensive experience in accounting, audit, finance and risk management. He was a senior partner of Arthur Andersen until his retirement in August 1999 after thirty-three years' with that firm including five years as Managing Partner Australasia.

Member: Prime Minister's Community Business Partnership.

Other Interests: Strategic Investment Co-ordinator and Major Projects Facilitator for the Federal Government, Committee for Melbourne (Counsellor) and Pacific Institute (Patron).

Mr Ryan is a resident of Victoria. Age 58.

Frank J Swan

Mr Swan has been a member of the Board since July 1997 and is a member of the Risk Committee. He holds a Bachelor of Science degree and has twenty-three years' senior management experience in the food and beverage industries.

Chairman: Fosters Group Limited.

Director: National Foods Limited and Catholic Ladies College Eltham.

Other Interests: Institute of Directors (Fellow), Australian Institute of Company Directors (Fellow), Australian Institute of Management (Fellow) and Institute of Management UK (Companion).

Mr Swan is a resident of Victoria. Age 60.

Barbara K Ward

Ms Ward has been a member of the Board since 1994 and is a member of the Audit Committee. She holds a Bachelor of Economics and Master of Political Economy and has six years' experience in policy development and public administration as a senior ministerial adviser and twelve years' experience in the transport and aviation industries, most recently as Chief Executive of Ansett Worldwide Aviation Services. Since 1998, she has pursued a career as a company director.

Chairperson: HWW Limited and Country Energy.

Director: Rail Infrastructure Corporation and Data Advantage Limited.

Other Interests: Sydney Opera House Trust (Trustee), Australia Day Council of New South Wales (Member) and Allens Arthur Robinson (Director).

Ms Ward is a resident of New South Wales. Age 47.

Anna C Booth – retired 31 December 2000

Ms Booth had been a member of the Board since 1990 and was a member of the Risk Committee. She holds a Bachelor of Economics (Hons) and has had seventeen years' experience in the trade union movement.

Director: Ausflag Limited and CoSolve Australasia Pty Ltd.

Other Interests: Shopping Centre Council of Australia (Special Advisor), Sydney Organising Committee for the Olympic Games (Member) and Labour Management Studies Foundation of Macquarie University (Fellow).

Ms Booth is a resident of New South Wales. Age 44.

Ken E Cowley, AO – retired 29 March 2001

Mr Cowley had been a member of the Board since September 1997 and was a member of the Remuneration Committee. He has thirty-three years' experience in the media industry, having been a Director of News Limited since 1976 and until July 1997, was Executive Chairman of that company.

Executive Chairman: Zazu Limited.

Chairman: PMP Communications Limited, R M Williams Holdings Limited, Tasman Pacific Airways Limited, Tower Lodge Pty Limited and Melbourne Storm Football Club Pty Ltd.

Director: The News Corporation Limited, Independent Newspapers Limited and The Foundation for Rural and Regional Renewal.

Other Interests: Australian Stockman's Hall of Fame and Outback Heritage Centre (Chairman) and Royal Agricultural Society (Director).

Mr Cowley is a resident of New South Wales. Age 65.

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Commonwealth Bank during the 2001 Financial Year were:

| DIRECTOR | DIRECTORS' MEETINGS | |
|---------------------------|-------------------------------------|--------------------------|
| | No. of Meetings Held ⁽¹⁾ | No. of Meetings Attended |
| J T Ralph | 10 | 10 |
| J M Schubert | 10 | 10 |
| D V Murray | 10 | 10 |
| N R Adler | 10 | 10 |
| R J Clairs | 10 | 10 |
| A B Daniels | 10 | 10 |
| F D Ryan | 10 | 10 |
| F J Swan | 10 | 10 |
| B K Ward | 10 | 10 |
| W G Kent | 10 | 9 |
| C R Galbraith | 10 | 10 |
| A C Booth ⁽²⁾ | 6 | 6 |
| K E Cowley ⁽³⁾ | 7 | 6 |

⁽¹⁾ The number of meetings held during the time the Director held office during the Financial Year.

⁽²⁾ Ms Booth retired on 31 December 2000.

⁽³⁾ Mr Cowley retired on 29 March 2001.

COMMITTEE MEETINGS

| | Risk Committee | | Audit Committee | | Remuneration Committee | |
|------------------------------|-------------------------------------|--------------------------|-------------------------------------|--------------------------|-------------------------------------|--------------------------|
| | No. of Meetings Held ⁽¹⁾ | No. of Meetings Attended | No. of Meetings Held ⁽¹⁾ | No. of Meetings Attended | No. of Meetings Held ⁽¹⁾ | No. of Meetings Attended |
| J T Ralph | 10 | 10 | | | 6 | 6 |
| J M Schubert ⁽²⁾ | 4 | 3 | 5 | 5 | | |
| D V Murray | 10 | 10 | | | 6 | 6 |
| N R Adler | | | | | 6 | 6 |
| R J Clairs | | | 5 | 4 | | |
| F D Ryan | | | 5 | 5 | | |
| F J Swan | 10 | 8 | | | | |
| B K Ward | | | 5 | 5 | | |
| A B Daniels | | | | | 6 | 6 |
| W G Kent ⁽³⁾ | 7 | 7 | | | | |
| C R Galbraith ⁽³⁾ | 7 | 6 | | | | |
| A C Booth ⁽⁴⁾ | 3 | 2 | | | | |
| K E Cowley ⁽⁵⁾ | | | | | 4 | 3 |

Nominations Committee

| | No. of Meetings Held ⁽¹⁾ | No. of Meetings Attended |
|--------------|-------------------------------------|--------------------------|
| J T Ralph | 3 | 3 |
| J M Schubert | 3 | 3 |
| D V Murray | 3 | 3 |

⁽¹⁾ The number of meetings held during the time the Director was a member of the relevant committee.

⁽²⁾ Dr Schubert retired from the Risk Committee on 12 February 2001.

⁽³⁾ Mr Kent and Mr Galbraith were appointed to the Risk Committee on 31 December 2000.

⁽⁴⁾ Ms Booth retired on 31 December 2000.

⁽⁵⁾ Mr Cowley retired on 29 March 2001.

Directors' Details

Principal Activities

The Commonwealth Bank Group is one of Australia's leading providers of integrated financial services including retail, business and institutional banking, superannuation, life insurance, general insurance, funds management, broking services and finance company activities. The principal activities of the Commonwealth Bank Group during Financial Year 2001 were:

Banking

The Group provides a full range of retail banking services including housing loans, credit cards, personal loans, savings and cheque accounts and demand and term deposits. The Group has leading domestic market shares in home loans, personal loans, retail deposits and discount stockbroking and is one of Australia's largest issuers of credit cards. The Group also offers a full range of commercial products including business loans, equipment and trade finance, and rural and agribusiness products.

The Institutional Banking operations focus on the top 1,000 corporations, government entities and other major institutions operating in Australasia. Corporate customers have access to financial markets services, securities underwriting, trading and distribution, corporate finance, equities, payments and transaction services, investment management and custody.

The Group also has full service banking operations in New Zealand and Fiji

Funds Management

The Group is Australia's largest fund manager and largest retail funds manager in terms of its total value of funds under management. The Group has two main funds management businesses: Commonwealth Funds Management and Colonial First State Investments. These businesses manage a wide range of wholesale and retail investment, superannuation and retirement funds. Investments are across all major asset classes including Australian and international shares, property, fixed interest and cash.

The Group also has funds management businesses in New Zealand, the United Kingdom and Asia.

Life Insurance

The Group provides term insurance, disability insurance, annuities, master trusts and investment products.

The Group is Australia's third largest insurer based on life insurance assets held, and is Australia's largest manager in retail superannuation, allocated pensions and annuities by funds under management.

Life insurance operations are also conducted in New Zealand, where the Group has the leading market share, and throughout Asia and the Pacific.

Consolidated Profit

Consolidated operating profit after tax and outside equity interests for Financial Year 2001 was \$2,398 million (2000: \$2,700 million, including a net abnormal gain of \$987 million).

The net operating profit for Financial Year 2001 after tax, and before goodwill amortisation and appraisal value uplift was \$2,262 million. This is an increase of \$670 million or 42% over Financial Year 2000. Apart from a full year profit contribution from the Colonial acquired entities, the principal contributing factors to this increase were a growth in net interest income reflecting continued lending asset growth together with growth in commissions, funds management income and trading income, partly offset by increases in a range of expenses.

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 75 cents per share amounting to \$933 million. The dividend was paid on 8 October 2001. Dividends paid since the end of Financial Year 2000:

- a fully franked final dividend of 72 cents per share amounting to \$908 million was paid on 9 October 2000. The payment comprised cash disbursements of \$739 million with \$169 million being reinvested by participants through the Dividend Reinvestment Plan; and
- in respect of Financial Year 2001, a fully franked interim dividend of 61 cents per share amounting to \$773 million was paid on 30 March 2001. The payment comprised cash disbursements of \$629 million with \$144 million being reinvested by participants through the Dividend Reinvestment Plan.

Review of Operations

An analysis of operations for the Financial Year is set out in the Results Overview on page 4.

Changes in State of Affairs

The Commonwealth Bank of Australia has become the successor in law to State Bank of New South Wales (known as Colonial State Bank) effective on 4 June 2001 pursuant to legislation. On that date State Bank of New South Wales ceased to have a separate legal existence and all its assets and liabilities became assets and liabilities of Commonwealth Bank of Australia.

The Bank's shareholders' equity was reduced by \$700 million on 1 April 2001 pursuant to an off market buy back of 25.1 million shares.

There were no other significant changes in the state of affairs of the Group during the Financial Year.

Future Developments and Results

Major developments which may affect the operations of the Group in subsequent Financial Years are referred to in the Results Overview. In the opinion of the Directors, disclosure of any further information on likely developments in operations would be unreasonably prejudicial to the interests of the Group.

Environmental Regulation

The Bank and its controlled entities are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory, but can incur environmental liabilities as a lender. The Bank has developed credit policies to ensure this is managed appropriately.

Directors' Shareholdings

Particulars of shares in the Commonwealth Bank or in a related body corporate are set out in a separate section at the end of the Financial Report titled 'Shareholding Information' beginning on page 173.

Options

An Executive Option Plan was approved by shareholders at the Annual General Meeting on 8 October 1996 and its continuation was further approved by shareholders at the Annual General Meeting on 29 October 1998. On 13 October 2000, the Bank granted options over 2,002,500 unissued ordinary shares to 50 executives under the Executive Option Plan. At the 2000 Annual General Meeting, shareholders approved the establishment of the Equity Reward Plan ('ERP') and on 7 February 2001, 577,500 options were granted to 23 executives under the ERP. During the 2001 Financial Year 2,435,000 shares were allotted consequent to an exercise of options granted under the ERP. Full details of the ERP are disclosed in Note 29 to the Financial Statements.

The names of persons who currently hold options in the ERP are entered in the register of options kept by the Bank pursuant to Section 170 of the Corporations Act 2001. The register may be inspected free of charge.

For details of the options granted to a director, refer to the separate section at the end of the financial report titled 'Shareholding Information' beginning on page 173.

Directors' Interests in Contracts

A number of Directors have given written notices, stating that they hold office in specified companies and accordingly are to be regarded as having an interest in any contract or proposed contract that may be made between the Bank and any of those companies.

Directors' and Officers' Indemnity

Article 19 of the Commonwealth Bank's Constitution provides: 'To the extent permitted by law, the company indemnifies every director, officer and employee of the company against any liability incurred by that person (a) in his or her capacity as a director, officer or employee of the company and (b) to a person other than the company or a related body corporate of the company. The company indemnifies every director, officer and employee of the company against any liability for costs and expenses incurred by the person in his or her capacity as a director, officer or employee of the company (a) in defending any proceedings, whether civil or criminal, in which judgment is given in favour of the person or in which the person is acquitted or (b) in connection with an application, in relation to such proceedings, in which the Court grants relief to the person under the Corporations Act 2001, provided that the director, officer or employee has obtained the company's prior written approval (which shall not be unreasonably withheld) to incur the costs and expenses in relation to the proceedings'.

An indemnity for employees, who are not directors, secretaries or executive officers, is not expressly restricted in any way by the Corporations Act 2001.

The Directors, as named on pages 49 and 50, and the Secretaries of the Commonwealth Bank, being JD Hatton (Secretary) and KG Bourke (Assistant Company Secretary) are indemnified under Article 19 as are all the executive officers and employees of the Commonwealth Bank.

Deeds of Indemnity have been executed by Commonwealth Bank in terms of Article 19 above in favour of each director.

Directors' and Officers' Insurance

The Commonwealth Bank has, during the 2001 Financial Year, paid an insurance premium in respect of an insurance policy for the benefit of those named and referred to above and the directors, secretaries, executive officers and employees of any related bodies corporate as defined in the insurance policy. The insurance grants indemnity against liabilities permitted to be indemnified by the company under Section 199B of the Corporations Act 2001. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

Directors' and other Officers' Emoluments

Details of the Bank's remuneration policy in respect of the Directors and executives is set out under 'Remuneration Arrangements' within the 'Corporate Governance' section of this report.

Details on emoluments paid to each director are detailed in Note 45 to the Financial Statements. Details on emoluments paid to the executive director and the other five most highly paid executive officers of the Bank and the Group are disclosed in Note 46 to the Financial Statements.

Five Year Financial Summary

| | 2001 \$M | 2000 \$M | 1999 \$M | 1998 \$M | 1997 \$M |
|--|-------------|-------------|-------------|-------------|---------------------|
| Profit and Loss | | | | | |
| Net interest income | 4,474 | 3,719 | 3,527 | 3,397 | 3,392 |
| Other operating income | 4,350 | 2,420 | 1,997 | 1,833 | 1,489 |
| Total operating income | 8,824 | 6,139 | 5,524 | 5,230 | 4,881 |
| Charge for bad and doubtful debts | 385 | 196 | 247 | 233 | 98 |
| Total operating expenses | 5,170 | 3,407 | 3,070 | 3,039 | 2,924 |
| Operating profit before goodwill amortisation, appraisal value uplift, abnormal items and income tax expense | 3,269 | 2,536 | 2,207 | 1,958 | 1,859 |
| Income tax expense | (993) | (820) | (714) | (641) | (588) |
| Outside equity interests | (14) | (38) | (24) | (20) | (22) |
| Abnormal items | - | 967 | - | (570) | (200) |
| Income tax credit on abnormal items | - | 20 | - | 409 | 72 |
| Appraisal value uplift | 474 | 92 | - | - | - |
| Goodwill amortisation | (338) | (57) | (47) | (46) | (43) |
| Operating profit after income tax attributable to members of the Bank | 2,398 | 2,700 | 1,422 | 1,090 | 1,078 |
| Contributions to profit (after tax) | | | | | |
| Banking | 1,793 | 1,513 | 1,342 | 1,210 | 1,174 |
| Life insurance | 320 | 129 | 103 | 76 | } 75 ⁽¹⁾ |
| Funds management | 149 | 36 | 24 | 11 | |
| Profit on operations (cash basis) ⁽²⁾ | 2,262 | 1,678 | 1,469 | 1,297 | 1,249 |
| Goodwill amortisation | (338) | (57) | (47) | (46) | (43) |
| Appraisal value uplift | 474 | 92 | - | - | - |
| Abnormal income (expense) after tax | - | 987 | - | (161) | (128) |
| Operating profit after income tax | 2,398 | 2,700 | 1,422 | 1,090 | 1,078 |
| Balance sheet | | | | | |
| Loans, advances and other receivables | 136,059 | 132,263 | 101,837 | 89,816 | 81,632 |
| Total assets | 230,411 | 218,259 | 138,096 | 130,544 | 120,103 |
| Deposits and other public borrowings | 117,355 | 112,594 | 93,428 | 83,886 | 77,880 |
| Total liabilities | 210,563 | 199,824 | 131,134 | 123,655 | 113,079 |
| Shareholders' equity | 18,393 | 17,472 | 6,735 | 6,712 | 6,846 |
| Net tangible assets | 12,677 | 11,942 | 6,471 | 6,358 | 6,450 |
| Risk weighted assets | 138,383 | 128,484 | 99,556 | 94,431 | 86,468 |
| Average interest earning assets | 160,607 | 129,163 | 114,271 | 102,165 | 96,163 |
| Average interest bearing liabilities | 145,978 | 117,075 | 103,130 | 91,650 | 85,296 |
| Assets (on balance sheet) | | | | | |
| Australia | 196,918 | 187,452 | 115,510 | 110,120 | 101,202 |
| New Zealand | 20,208 | 16,661 | 13,046 | 10,846 | 9,994 |
| Other | 13,286 | 14,146 | 9,540 | 9,578 | 8,907 |
| Total Assets | 230,411 | 218,259 | 138,096 | 130,544 | 120,103 |

⁽¹⁾ Figure is combined for Financial Year 1997.

⁽²⁾ 'Cash earnings' for the purpose of these Financial Statements is defined as net profit after tax and before abnormal items, goodwill amortisation and life insurance and funds management appraisal value uplift.

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---------|---------|---------|---------|---------|
| Shareholder Summary | | | | | |
| Dividends per share (cents) - fully franked | 136 | 130 | 115 | 104 | 102 |
| Dividends provided for, reserved or paid (\$million) | 1,720 | 1,431 | 1,063 | 955 | 941 |
| Dividend cover (times - before abnormals) | 1.4 | 1.2 | 1.3 | 1.3 | 1.3 |
| Dividend cover (times - cash) | 1.3 | 1.6 | 1.3 | 1.1 | 1.1 |
| Earnings per share (cents) | | | | | |
| before abnormal items | 190.1 | 184.8 | 153.4 | 134.5 | 131.2 |
| after abnormal items | 190.1 | 291.3 | 153.4 | 117.2 | 117.2 |
| Cash basis ⁽⁴⁾ | 179.4 | 181.0 | 158.5 | 139.4 | 136.2 |
| Dividend payout ratio (%) ⁽¹⁾ | | | | | |
| before abnormal items | 71.2 | 83.5 | 74.7 | 76.3 | 78.0 |
| after abnormal items | 71.2 | 53.0 | 74.7 | 87.6 | 87.3 |
| Cash basis ⁽⁴⁾ | 75.5 | 85.3 | 72.4 | 73.7 | 75.3 |
| Net tangible assets per share (\$) | 10.2 | 9.2 | 6.8 | 6.7 | 6.7 |
| Weighted average number of shares (basic) | 1,260m | 927m | 927m | 930m | 917m |
| Number of shareholders | 709,647 | 788,791 | 404,728 | 419,926 | 426,229 |
| Share prices for the year (\$) | | | | | |
| Trading high | 34.15 | 27.95 | 28.76 | 19.66 | 16.00 |
| Trading low | 26.18 | 22.54 | 18.00 | 13.70 | 9.93 |
| End (closing price) | 34.15 | 27.69 | 24.05 | 18.84 | 16.00 |
| Performance Ratios (%) | | | | | |
| Return on average shareholders' equity ⁽²⁾ | | | | | |
| before abnormal items | 13.5 | 22.1 | 20.5 | 18.5 | 18.2 |
| after abnormal items | 13.5 | 34.8 | 20.5 | 16.1 | 16.4 |
| Return on average total assets ⁽²⁾ | | | | | |
| before abnormal items | 1.1 | 1.1 | 1.1 | 1.0 | 1.1 |
| after abnormal items | 1.1 | 1.7 | 1.1 | 0.9 | 0.9 |
| Capital adequacy - Tier 1 | 6.51 | 7.49 | 7.05 | 8.07 | 8.64 |
| Capital adequacy - Tier 2 | 4.18 | 4.75 | 3.12 | 2.82 | 2.82 |
| Deductions | 1.53 | (2.49) | (0.79) | (0.40) | (0.57) |
| Capital adequacy - Total | 9.16 | 9.75 | 9.38 | 10.49 | 10.89 |
| Net interest margin | 2.78 | 2.88 | 3.09 | 3.33 | 3.53 |
| Other Information (numbers) | | | | | |
| Full time staff | 31,976 | 34,154 | 26,394 | 28,034 | 30,566 |
| Part time staff | 7,161 | 7,383 | 6,655 | 6,968 | 7,364 |
| Full time staff equivalent | 34,960 | 37,131 | 28,964 | 30,743 | 33,543 |
| Branches/service centres (Australia) | 1,066 | 1,387 | 1,162 | 1,218 | 1,334 |
| Agencies (Australia) | 3,928 | 4,081 | 3,934 | 4,015 | 4,205 |
| ATMs | 3,910 | 4,141 | 2,602 | 2,501 | 2,301 |
| EFTPOS terminals | 122,074 | 116,064 | 90,152 | 83,038 | 63,370 |
| EzyBanking | 659 | 603 | n/a | n/a | n/a |
| Productivity | | | | | |
| Total Operating Income per full-time (equivalent) employee (\$) | 252,400 | 211,842 | 190,720 | 170,120 | 145,515 |
| Staff Expense/Total Operating Income (%) | 26.7 | 27.8 | 29.0 | 31.0 | 34.0 |
| Total Operating Expenses ⁽³⁾ /Total Operating Income (%) | 58.6 | 55.5 | 55.6 | 58.1 | 59.9 |

⁽¹⁾ Dividends per share divided by earnings per share.

⁽²⁾ Calculations based on operating profit after tax and outside equity interests applied to average shareholders' equity/average total assets.

⁽³⁾ Total Operating Expenses excluding goodwill amortisation.

⁽⁴⁾ 'Cash earnings' for the purpose of these Financial Statements is defined as net profit after tax and before abnormal items, goodwill amortisation and life insurance and funds management appraisal value uplift.

Financial Statements

| | |
|---|------------|
| Statements of Financial Performance | 57 |
| Statements of Financial Position | 58 |
| Statements of Changes in Shareholders' Equity | 59 |
| Statements of Cash Flows | 60 |
| Notes to the Financial Statements | 61 |
| 1 Summary of Significant Accounting Policies | 62 |
| 2 Acquisition of Colonial..... | 70 |
| 3 Operating Profit | 71 |
| 4 Average Balance Sheet and Related Interest..... | 73 |
| 5 Income Tax Expense..... | 77 |
| 6 Dividends, Provided For, Reserved or Paid | 78 |
| 7 Earnings Per Share..... | 79 |
| 8 Cash and Liquid Assets | 79 |
| 9 Receivables from Other Financial Institutions | 80 |
| 10 Trading Securities | 80 |
| 11 Investment Securities | 80 |
| 12 Loans, Advances and Other Receivables | 83 |
| 13 Provisions for Impairment..... | 85 |
| 14 Credit Risk Concentrations | 89 |
| 15 Asset Quality..... | 96 |
| 16 Life Insurance Investment Assets | 101 |
| 17 Deposits with Regulatory Authorities | 101 |
| 18 Shares in and Loans to Controlled Entities | 101 |
| 19 Property, Plant and Equipment..... | 102 |
| 20 Intangible Assets | 103 |
| 21 Other Assets | 104 |
| 22 Deposits and Other Public Borrowings..... | 104 |
| 23 Payables to Other Financial Institutions | 105 |
| 24 Income Tax Liability | 105 |
| 25 Other Provisions | 106 |
| 26 Debt Issues | 106 |
| 27 Bills Payable and Other Liabilities..... | 108 |
| 28 Loan Capital..... | 109 |
| 29 Share Capital..... | 111 |
| 30 Outside Equity Interests..... | 114 |
| 31 Capital Adequacy..... | 115 |
| 32 Maturity Analysis of Monetary Assets and Liabilities | 118 |
| 33 Financial Reporting by Segments | 120 |
| 34 Life Insurance Business..... | 123 |
| 35 Remuneration of Auditors..... | 129 |
| 36 Commitments for Capital Expenditure Not Provided for in the Accounts..... | 129 |
| 37 Lease Commitments - Property, Plant and Equipment..... | 129 |
| 38 Contingent Liabilities | 130 |
| 39 Market Risk..... | 132 |
| 40 Superannuation Commitments | 142 |
| 41 Controlled Entities | 143 |
| 42 Investments in Associated Entities and Joint Ventures | 145 |
| 43 Standby Arrangements and Unused Credit Facilities | 146 |
| 44 Related Party Disclosures | 146 |
| 45 Remuneration of Directors..... | 148 |
| 46 Remuneration of Executives..... | 150 |
| 47 Statements of Cash Flow | 153 |
| 48 Disclosures about Fair Value of Financial Instruments | 155 |
| 49 Differences between Australian and United States Accounting Principles | 157 |
| Independent Audit Report | 172 |
| Shareholding Information | 173 |

Statements of Financial Performance

For the year ended 30 June 2001

| | Note | GROUP | | | BANK | |
|--|-------|------------------------|----------------------|-------------|--------------|-------------|
| | | 2001 \$M | 2000 \$M | 1999 \$M | 2001 \$M | 2000 \$M |
| Interest income | 3 | 11,900 | 8,842 | 7,745 | 8,560 | 7,239 |
| Interest expense | 3 | 7,426 | 5,123 | 4,218 | 5,261 | 4,230 |
| Net interest income | | 4,474 | 3,719 | 3,527 | 3,299 | 3,009 |
| Other income: | | | | | | |
| Proceeds from sale of assets | | 185 | 61 | 798 | 149 | 29 |
| Written down value of assets sold | | (104) | (36) | (695) | (39) | (8) |
| Other | | 2,300 | 1,926 | 1,640 | 2,462 | 1,984 |
| Net banking operating income | | 6,855 | 5,670 | 5,270 | 5,871 | 5,014 |
| Premiums and related revenue | 3 | 958 | 337 | 236 | - | - |
| Investment revenue | 3 | 1,698 | 1,066 | 590 | - | - |
| Claims and policyholder liability expense | | (1,388) | (1,077) | (669) | - | - |
| Life insurance margin on services operating income | | 1,268 | 326 | 157 | - | - |
| Funds management fee income | 3 | 701 | 143 | 97 | - | - |
| Net life insurance and funds management operating income before appraisal value uplift | | 1,969 | 469 | 254 | - | - |
| Total net operating income before appraisal value uplift | | 8,824 | 6,139 | 5,524 | 5,871 | 5,014 |
| Charge for bad and doubtful debts | 3,13 | 385 | 196 | 247 | 276 | 191 |
| Operating expenses: | | | | | | |
| Staff expenses | 3 | 2,360 | 1,705 | 1,604 | 1,672 | 1,510 |
| Occupancy and equipment expenses | 3 | 604 | 437 | 455 | 392 | 371 |
| Information technology services | 3 | 748 | 571 | 505 | 563 | 534 |
| Other expenses | 3 | 1,458 | 694 | 506 | 671 | 536 |
| | | 5,170 | 3,407 | 3,070 | 3,298 | 2,951 |
| Profit from ordinary activities before appraisal value uplift, restructuring charge, goodwill amortisation and income tax | | 3,269 | 2,536 | 2,207 | 2,297 | 1,872 |
| Appraisal value uplift | 34 | 474 | 1,165 ⁽¹⁾ | - | - | (26) |
| Restructuring charge | 1(aa) | - | (106) ⁽¹⁾ | - | - | (106) |
| Goodwill amortisation | | (338) | (57) | (47) | (49) | (39) |
| Profit from ordinary activities before income tax | | 3,405 | 3,538 | 2,160 | 2,248 | 1,701 |
| Income tax expense | 5 | 993 | 800 ⁽¹⁾ | 714 | 549 | 585 |
| Net profit | | 2,412 | 2,738 | 1,446 | 1,699 | 1,116 |
| Outside equity interests in net profit | | (14) | (38) | (24) | - | - |
| Net profit attributable to members of the Bank | | 2,398 | 2,700 | 1,422 | 1,699 | 1,116 |
| Foreign currency translation adjustment | | 98 | (26) | (33) | 6 | (15) |
| Revaluation of investments and properties | | 5 | - | - | - | 589 |
| Total valuation adjustments | | 103 | (26) | (33) | 6 | 574 |
| Total changes in equity other than those resulting from transactions with owners as owners | | 2,501 | 2,674 | 1,389 | 1,705 | 1,690 |
| | | Cents per share | | | | |
| Earnings per share based on net profit distributable to members of the Bank | | | | | | |
| Basic and Fully Diluted | 7 | 190 | 291 | 153 | | |
| Dividends provided for, reserved or paid per share attributable to members of the Bank: | 6 | 136 | 130 | 115 | | |

⁽¹⁾ For comparative purposes it should be noted that these amounts included \$987 million reported as a net abnormal gain for Financial Year 2000, which is no longer disclosed as such due to the introduction of new Australian Accounting Standard AASB 1018: Statement of Financial Performance. Refer Note 1 (pp) for details.

Statements of Financial Position

As at 30 June 2001

| | | GROUP | | BANK | |
|---|------|----------------|----------------|----------------------------|----------------|
| | Note | 2001 \$M | 2000 \$M | 2001 ⁽¹⁾ \$M | 2000 \$M |
| Assets | | | | | |
| Cash and liquid assets | 8 | 3,709 | 2,575 | 3,286 | 2,103 |
| Receivables due from other financial institutions | 9 | 4,622 | 5,154 | 3,795 | 4,329 |
| Trading securities | 10 | 6,909 | 7,347 | 5,020 | 4,692 |
| Investment securities | 11 | 9,705 | 9,149 | 6,873 | 7,169 |
| Loans, advances and other receivables | 12 | 136,059 | 132,263 | 112,634 | 90,661 |
| Bank acceptances of customers | | 12,075 | 11,107 | 12,158 | 10,674 |
| Life insurance investment assets | 16 | 31,213 | 27,036 | - | - |
| Deposits with regulatory authorities | 17 | 61 | 46 | 4 | 3 |
| Shares in and loans to controlled entities | 18 | - | - | 16,425 | 17,349 |
| Property, plant and equipment | 19 | 919 | 1,073 | 688 | 739 |
| Investment in associates | 42 | 400 | 403 | 258 | 297 |
| Intangible assets | 20 | 10,852 | 10,227 | 3,151 | 412 |
| Other assets | 21 | 13,887 | 11,879 | 11,876 | 8,255 |
| Total Assets | | 230,411 | 218,259 | 176,168 | 146,683 |
| Liabilities | | | | | |
| Deposits and other public borrowings | 22 | 117,355 | 112,594 | 103,475 | 88,240 |
| Payables due to other financial institutions | 23 | 6,903 | 4,633 | 6,349 | 4,136 |
| Bank acceptances | | 12,075 | 11,107 | 12,158 | 10,674 |
| Due to controlled entities | | - | - | 8,225 | 4,326 |
| Provision for dividend | 6 | 779 | 708 | 779 | 708 |
| Income tax liability | 24 | 1,355 | 1,823 | 414 | 550 |
| Other provisions | 25 | 1,007 | 1,554 | 837 | 808 |
| Life insurance policyholder liabilities | 34 | 27,029 | 25,282 | - | - |
| Debt issues | 26 | 24,484 | 25,275 | 10,690 | 8,205 |
| Bills payable and other liabilities | 27 | 13,872 | 11,549 | 11,547 | 8,428 |
| | | 204,859 | 194,525 | 154,474 | 126,075 |
| Loan Capital | 28 | 5,704 | 5,299 | 5,624 | 4,803 |
| Total Liabilities | | 210,563 | 199,824 | 160,098 | 130,878 |
| Net Assets | | 19,848 | 18,435 | 16,070 | 15,805 |
| Shareholders' Equity | | | | | |
| Share Capital | | | | | |
| Ordinary Share Capital | 29 | 12,455 | 12,521 | 12,455 | 12,521 |
| Preference Share Capital | 29 | 687 | - | 687 | - |
| Reserves | | 4,091 | 3,265 | 2,278 | 2,304 |
| Retained profits | | 1,160 | 1,686 | 650 | 980 |
| Shareholders' equity attributable to members of the Bank | | 18,393 | 17,472 | 16,070 | 15,805 |
| Outside equity interests: | | | | | |
| Controlled entities | 30 | (3) | 375 | - | - |
| Life insurance statutory funds | 30 | 1,458 | 588 | - | - |
| Total outside equity interests | | 1,455 | 963 | - | - |
| Total Shareholders' Equity | | 19,848 | 18,435 | 16,070 | 15,805 |

⁽¹⁾ The Commonwealth Bank of Australia became the successor in law to all the assets and liabilities of State Bank of New South Wales (known as Colonial State Bank) effective on 4 June 2001 pursuant to legislation.

Statement of Change in Shareholder Equity

For the Year ended 30 June 2001

| | Note | 2001 \$M | 2000 \$M | GROUP 1999 \$M | 2001 \$M | BANK 2000 \$M |
|---|------|-------------|-------------|----------------------|-------------|---------------------|
| Ordinary Share Capital | 29 | | | | | |
| Opening balance | | 12,521 | 3,526 | 1,845 | 12,521 | 3,526 |
| Transfer from share premium reserve | | - | - | 1,499 | - | - |
| Buy-back | | (275) | (553) | (246) | (275) | (553) |
| Buy-back for dividend reinvestment plan | | (140) | - | - | (140) | - |
| Dividend reinvestment plan | | 313 | 253 | 426 | 313 | 253 |
| Employee share ownership schemes | | 40 | 23 | 5 | 40 | 23 |
| Issue costs | | (4) | (2) | (3) | (4) | (2) |
| Share issue to Colonial shareholders | | - | 9,274 | - | - | 9,274 |
| Closing balance | | 12,455 | 12,521 | 3,526 | 12,455 | 12,521 |
| Preference Share Capital | 29 | | | | | |
| Opening balance | | - | - | - | - | - |
| Issue of shares | | 700 | - | - | 700 | - |
| Issue costs | | (13) | - | - | (13) | - |
| Closing balance | | 687 | - | - | 687 | - |
| Retained profits | | | | | | |
| Opening balance | | 1,686 | 1,698 | 755 | 980 | 1,295 |
| Adjustment on adoption of new life insurance standard | | - | 432 | - | - | - |
| Assumption of Colonial State Bank profits | | - | - | - | 140 | - |
| Buy-back | | (449) | - | (404) | (449) | - |
| Transfers from reserves | | 125 | - | 1,087 | - | - |
| Operating profit attributable to members of Bank | | 2,398 | 2,700 | 1,422 | 1,699 | 1,116 |
| Total available for appropriation | | 3,760 | 4,830 | 2,860 | 2,370 | 2,411 |
| Transfers to reserves ⁽¹⁾ | | (880) | (1,713) | (99) | - | - |
| Interim dividend - cash component | | (642) | (405) | (275) | (642) | - |
| Interim dividend - appropriated to dividend reinvestment plan reserve | | (131) | (118) | (183) | (131) | (118) |
| Provision for final dividend - cash component | | (765) | (708) | (472) | (765) | (1,113) |
| Final dividend - appropriated to dividend reinvestment plan reserve | | (168) | (200) | (133) | (168) | (200) |
| Other dividends | | (14) | - | - | (14) | - |
| Closing balance | | 1,160 | 1,686 | 1,698 | 650 | 980 |
| Reserves | | | | | | |
| General Reserve | | | | | | |
| Opening balance | | 2,793 | 1,080 | 2,069 | 570 | 570 |
| Appropriation from profits | | 880 | 1,713 | 99 | - | - |
| Transfer to retained profits | | (125) | - | (1,088) | - | - |
| Closing balance | | 3,548 | 2,793 | 1,080 | 570 | 570 |
| Capital Reserve | | | | | | |
| Opening balance | | 289 | 289 | 289 | 1,531 | 942 |
| Transfers from reserves | | - | - | - | - | 589 |
| Closing balance | | 289 | 289 | 289 | 1,531 | 1,531 |
| Asset Revaluation Reserve | | | | | | |
| Opening balance | | - | - | - | - | - |
| Revaluation of investments and properties | | 5 | - | - | - | 589 |
| Transfers to capital reserve | | - | - | - | - | (589) |
| Closing balance | | 5 | - | - | - | - |
| Share Premium Reserve | | | | | | |
| Opening balance | | - | - | 1,499 | - | - |
| Transfer to Ordinary Share Capital | | - | - | (1,499) | - | - |
| Closing balance | | - | - | - | - | - |
| Dividend Reinvestment Plan Reserve | | | | | | |
| Opening balance | | 200 | 133 | 214 | 200 | 133 |
| Conversion to ordinary share capital and cash dividend | | (331) | (251) | (397) | (331) | (251) |
| Appropriation from profits | | 299 | 318 | 316 | 299 | 318 |
| Closing balance | | 168 | 200 | 133 | 168 | 200 |
| Foreign Currency Translation Reserve | | | | | | |
| Opening balance | | (17) | 9 | 41 | 3 | 18 |
| Currency translation adjustments | | 98 | (26) | (33) | 6 | (15) |
| Transfer to retained profits | | - | - | 1 | - | - |
| Closing balance | | 81 | (17) | 9 | 9 | 3 |
| Total Reserves | | 4,091 | 3,265 | 1,511 | 2,278 | 2,304 |
| Shareholders' equity attributable to members of the Bank | | 18,393 | 17,472 | 6,735 | 16,070 | 15,805 |

⁽¹⁾ Undistributable profits in respect of life insurance businesses.

Statements of Cash Flows

For the year ended 30 June 2001

| | GROUP | | | BANK | |
|--|-----------|--------------|--------------|---------------------|------------|
| | 2001 | 2000 | 1999 | 2001 ⁽¹⁾ | 2000 |
| | \$M | \$M | \$M | \$M | \$M |
| Cash Flows From Operating Activities | | | | | |
| Interest received | 12,059 | 7,949 | 7,796 | 8,567 | 7,314 |
| Dividends received | 14 | 20 | 6 | 404 | 83 |
| Interest paid | (7,704) | (4,538) | (4,071) | (5,299) | (4,027) |
| Other operating income received | 2,800 | 2,210 | 1,972 | 1,558 | 1,768 |
| Expenses paid | (5,583) | (3,215) | (2,756) | (3,296) | (2,785) |
| Income taxes paid | (1,252) | (976) | (363) | (947) | (850) |
| Net decrease (increase) in trading securities | (262) | (50) | (408) | 171 | (892) |
| Life insurance: | | | | | |
| Investment income | 900 | 428 | - | - | - |
| Premiums received | 6,286 | 2,771 | - | - | - |
| Policy payments | (5,423) | (2,112) | - | - | - |
| Net Cash provided by Operating Activities | 1,835 | 2,487 | 2,176 | 1,158 | 611 |
| Cash Flows from Investing Activities | | | | | |
| Payments for acquisition of entities | (414) | (46) | (196) | (378) | (46) |
| Net movement in investment securities: | | | | | |
| Purchases | (19,676) | (16,852) | (13,337) | (17,937) | (15,050) |
| Proceeds from sale | 28 | 17 | 146 | 84 | 7 |
| Proceeds at or close to maturity | 19,654 | 15,212 | 11,993 | 18,587 | 14,954 |
| Withdrawal (lodgement) of deposits with regulatory authorities | 15 | 950 | (121) | 1 | 949 |
| Net increase in loans, advances and other receivables | (4,181) | (8,791) | (11,819) | (4,311) | (7,789) |
| Net amounts paid to controlled entities | - | - | - | 1,809 | (1,011) |
| Proceeds from sale of property, plant and equipment | 157 | 44 | 652 | 65 | 22 |
| Purchase of property, plant and equipment | (132) | (94) | (81) | (41) | (81) |
| Net decrease (increase) in receivables due from other financial institutions not at call | (184) | (3,697) | 229 | (190) | (3,060) |
| Net decrease (increase) in securities purchased under agreements to resell | (891) | (433) | (465) | (891) | (433) |
| Net decrease (increase) in other assets | 1,504 | (2,424) | (423) | 909 | 879 |
| Life insurance: | | | | | |
| Purchases of investment securities | (21,229) | (11,356) | - | - | - |
| Proceeds from sale/maturity of investment securities | 20,556 | 10,863 | - | - | - |
| Net Cash used in Investing Activities | (4,793) | (16,607) | (13,422) | (2,293) | (10,659) |
| Cash Flows from Financing Activities | | | | | |
| Buy back of shares | (724) | (553) | (650) | (724) | (553) |
| Proceeds from issue of shares (net of costs) | 723 | 4 | 6 | 723 | 4 |
| Net increase (decrease) in deposits and other borrowings | 5,246 | 6,043 | 9,476 | 1,565 | 6,991 |
| Net movement in debt issues | (2,099) | 5,834 | 399 | (1,137) | 1,865 |
| Dividends paid | (1,368) | (882) | (571) | (1,368) | (875) |
| Net movements in other liabilities | (1,010) | 461 | (138) | (378) | 44 |
| Net increase (decrease) in payables due to other financial institutions not at call | 1,396 | 2,470 | (477) | 1,378 | 2,361 |
| Net increase (decrease) in securities sold under agreements to repurchase | (485) | 327 | (43) | (485) | 327 |
| Issue of loan capital | - | 2,053 | (317) | - | 1,975 |
| Other | (69) | 306 | 1,041 | 293 | (956) |
| Net Cash provided by Financing Activities | 1,610 | 16,063 | 8,726 | (133) | 11,183 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (1,348) | 1,943 | (2,520) | (1,268) | 1,135 |
| Cash and Cash Equivalents at beginning of period | 1,386 | (557) | 1,963 | 848 | (287) |
| Cash and Cash Equivalents at end of period | 38 | 1,386 | (557) | (420) | 848 |

⁽¹⁾ There were no cash flows associated with the Commonwealth Bank of Australia becoming the successor in law to all the assets and liabilities of State Bank of New South Wales (known as Colonial State Bank) effective on 4 June 2001 pursuant to legislation.

Details of Reconciliation of Cash and Reconciliation of Operating Profit After Income Tax to Net Cash Provided by Operating Activities are provided in Note 47 to the Financial Statements.

It should be noted that the Group does not use this accounting Statement of Cash Flows in the internal management of its liquidity positions.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies

(a) Bases of accounting

In this financial report Commonwealth Bank of Australia is referred to as the 'Bank' or 'Company', and the 'Group' or the 'Consolidated Entity' consists of the Bank and its controlled entities. The financial report is a general purpose financial report which complies with the requirements of the Banking Act, Corporations Act 2001, applicable Accounting Standards and other mandatory reporting requirements so far as the requirements are considered appropriate to a banking corporation.

The financial report also includes disclosures required by the United States Securities and Exchange Commission (SEC) in respect of foreign registrants.

The accounting policies applied are consistent with those of the previous year, except as noted below.

The Group adopted the requirements of AASB 1038: 'Life Insurance Business' for the first time from 1 July 1999, refer note 1 (j). From 1 July 2000 outside equity interests in managed investment funds controlled by the life insurance statutory funds have been brought to account. As a result life insurance investment assets and outside equity interests have increased by \$1,458 million at 30 June 2001 (\$588 million at 30 June 2000). This change has no impact on operating profit after tax attributable to the Bank. Comparative figures have been restated.

The Group has elected to apply revised accounting standard AASB 1005: 'Segment Reporting' prior to its operative date in accordance with Section 334(5) of the Corporations Act 2001, refer Note 33.

The Group has elected to apply revised accounting standard AASB 1041: 'Revaluation of Non-Current Assets' prior to its operative date in accordance with Section 334(5) of the Corporations Act 2001, refer Note 19.

Further, in accordance with revised International Accounting Standard IAS 1: 'Presentation of Financial Statements', certain income and expense items have been presented on a net basis. The principal items involved are the netting of card issuer reimbursement costs against merchant service fees. There is no effect on profit and loss.

The Statements of Cash Flows has been prepared in accordance with the International Accounting Standard IAS 7: 'Cash Flow Statements'.

The preparation of the financial report in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates although it is not anticipated that such differences would be material.

Unless otherwise indicated, all amounts are shown in \$ million and are expressed in Australian currency.

(b) Historical cost

The financial statements of the Bank and the consolidated financial statements have been prepared in accordance with the historical cost convention and, except for AASB 1038: 'Life Insurance Business' requirements and where indicated, do not reflect current valuations of non monetary assets. Domestic bills discounted which are included in loans, advances and other receivables and held by the Company and securities and derivatives held for trading purposes have been marked to market. The carrying amounts of all non current assets are reviewed to determine whether they

are in excess of their recoverable amount at balance date.

If the carrying amount of a non current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts for particular classes of assets the relevant cash flows have not been discounted to their present value unless otherwise stated.

(c) Consolidation

The consolidated financial statements include the financial statements of the Bank and all entities where it is determined that there is a capacity to control as defined in AASB 1024: 'Consolidated Accounts'. All balances and transactions between Group entities have been eliminated on consolidation.

The Commonwealth Bank of Australia became the successor in law to State Bank of New South Wales (known as Colonial State Bank) effective on 4 June 2001 pursuant to legislation. On that date State Bank of New South Wales ceased to have a separate legal existence and all its assets and liabilities became assets and liabilities of the parent entity Commonwealth Bank of Australia. This succession in law has no effect on the consolidated Group. One outcome of this process is that the carrying amount of the Bank's investment in Colonial Group has been reduced to reflect the net tangible assets and goodwill (\$2,742 million, refer Note 20) now within Commonwealth Bank of Australia. There is no effect on the amount of goodwill in the consolidated financial statements.

(d) Investments in associated companies

Associated companies are defined as those entities over which the Group has significant influence but there is no capacity to control. Details of material associated companies are shown in Note 42.

Investments in associates are carried at cost plus the Group's share of post-acquisition profit or loss. The Group's share of profit or loss of associates is included in the profit from ordinary activities.

(e) Foreign currency translations

All foreign currency monetary assets and liabilities are revalued at rates of exchange prevailing at balance date. Foreign currency forward, futures, swaps and option positions are valued at the appropriate market rates applying at balance date. Unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are included in results.

The foreign currency assets and liabilities of overseas branches and overseas controlled entities are converted to Australian currency at 30 June 2001 in accordance with the current rate method. Profit and loss items for overseas branches and overseas controlled entities are converted to Australian dollars progressively throughout the year at the exchange rate current at the last calendar day of each month.

Translation differences arising from conversion of opening balances of shareholders' funds of overseas controlled entities at year end exchange rates are excluded from profit and loss and reflected in a Foreign Currency Translation Reserve. The Group maintains a substantially matched position in assets and liabilities in foreign currencies and the level of net foreign currency exposure does not have a material effect on its financial condition.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(f) Roundings

The amounts contained in this report and the financial statements have been rounded to the nearest million dollars unless otherwise stated, under the option available to the Company under ASIC Class Order 98/100.

(g) Financial instruments

The Group is a full service financial institution which offers an extensive range of on balance sheet and off balance sheet financial instruments.

For each class of financial instrument listed below, except for restructured facilities referred to in Note 1 (m), financial instruments are transacted on a commercial basis to derive an interest yield/cost with terms and conditions having due regard to the nature of the transaction and the risks involved.

(h) Cash and liquid assets

Cash and liquid assets includes cash at branches, cash at bankers and money at short call.

They are brought to account at the face value or the gross value of the outstanding balance where appropriate.

Interest is taken to profit when earned.

(i) Receivables due from other financial institutions

Receivables from other financial institutions includes loans, nostro balances and settlement account balances due from other banks. They are brought to account at the gross value of the outstanding balance. Interest is taken to profit when earned.

(j) Trading securities

Trading securities are short and long term public, bank and other debt securities and equities which are acquired and held for trading purposes. They are brought to account at net fair value based on quoted market prices, broker or dealer price quotations. Realised gains and losses on disposal and unrealised fair value adjustments are reflected in 'Other Income'. Interest on trading securities is reported in net interest earnings. Trading securities are recorded on a trade date basis.

(k) Investment securities

Investment securities are securities purchased with the intent of being held to maturity.

Investment securities are short and long term public, bank and other securities and include bonds, bills of exchange, commercial paper, certificates of deposit and equities. These securities are recorded at cost or amortised cost. Premiums and discounts are amortised through profit and loss each year from the date of purchase so that securities attain their redemption values by maturity date. Interest is reflected in profit when earned. Dividends on equities are brought to account in profit on declaration date. Any profits or losses arising from disposal prior to maturity are taken to profit in the period in which they are realised. The cost of securities sold is calculated on a specific identification basis. Unrealised losses related to permanent diminution in the value of investment securities are recognised in profit and the recorded values of those securities adjusted accordingly.

Investment securities are recorded on a trade date basis. The relationship between book and net fair values of investment securities is shown in Note 11.

(l) Repurchase agreements

Securities sold under agreements to repurchase are retained within the investment or trading portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase and are disclosed as deposits and other public borrowings. Securities held under reverse repurchase agreements are recorded as liquid assets.

(m) Loans, advances and other receivables

Loans, advances and other receivables include overdrafts, home, credit card and other personal lending, term loans, leasing, bill financing, redeemable preference shares and leverage leases. They are carried at the recoverable amount represented by the gross value of the outstanding balance adjusted for provisions for bad and doubtful debts, interest reserved and unearned tax remissions on leveraged leases. Interest and yield related fees are reflected in profit when earned. Yield related fees received in advance are deferred, included as part of the carrying value of the loan and amortised to profit as 'Interest Income' over the term of the loan. Note 1 (n) provides additional information with respect to leasing and leveraged leasing.

Non Accrual Facilities

Non accrual facilities (primarily loans) are placed on a cash basis for recognition of income. Upon classification as non accrual, all interest charged in the current financial period is reversed from profit and reserved if it has not been received in cash.

If necessary, a specific provision for impairment is recognised so that the carrying amount of the facility does not exceed the expected future cash flows. In subsequent periods, interest in arrears/due on non accrual facilities is taken to profit and loss when a cash payment is received/realised and the amount is not designated as a principal payment. Non accrual facilities are restored to an accrual basis when all principal and interest payments are current and full collection is probable.

Restructured Facilities

When facilities (primarily loans) have the original contractual terms modified, the accounts become classified as restructured. Such accounts will have interest accrued to profit as long as the facility is performing on the modified basis in accordance with the restructured terms. If performance is not maintained, or collection of interest and/or principal is no longer probable, the account will be returned to the non accrual classification. Facilities are generally kept as non accrual until they are returned to performing basis.

Assets Acquired Through Securities Enforcement (AATSE)

Assets acquired in satisfaction of facilities in default (primarily loans) are recorded at net market value at the date of acquisition. Any difference between the carrying amount of the facility and the net market value of the assets acquired is represented as a specific provision for diminution of value or written off. AATSE are further classified as Other Real Estate Owned (OREO) or Other Assets Acquired Through Security Enforcement (OAATSE). Such assets are classified in the appropriate asset classifications in the balance sheet.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

Bad Debts

Bad debts are written off in the period in which they are recognised. Bad debts previously specifically provided for are written off against the related specific provisions, while bad debts not provided for are written off through the general provision. Any subsequent cash recovery is credited to the general provision.

(n) Leasing and leveraged leasing

Finance leases are accounted for using the finance method and are included in loans, advances and other receivables. Income, determined on an actuarial basis, is taken to account over the term of the lease in relation to the outstanding investment balance.

The finance method also applies to leveraged leases but with income being brought to account at the rate which yields a constant rate of return on the outstanding investment balance over the life of the transaction so as to reflect the underlying assets, liabilities, revenue and expenses that flow from the arrangements. Where a change occurs in the estimated lease cash flows or available tax benefits at any stage during the term of the lease, the total lease profit is recalculated for the entire lease term and apportioned over the remaining lease term.

In accordance with amendments to AASB 1008: Leases, all leveraged leases with a lease term beginning from 1 July 1999 are accounted for as finance leases with income brought to account progressively over the lease term.

Leveraged lease receivables are recorded under loans, advances and other receivables at amounts which reflect the equity participation in the lease. The debt provider in the transaction has no recourse other than to the unremitted lease rentals and the equipment under lease.

Operating lease rental revenue and expense is recognised in the profit in equal periodic amounts over the effective lease term.

(o) Provisions for impairment

Provisions for credit losses are maintained at an amount adequate to cover anticipated credit related losses. Credit losses arise primarily from loans but also from other credit instruments such as bank acceptances, contingent liabilities, financial instruments and investments and assets acquired through security enforcement.

Specific provisions are established where full recovery of principal is considered doubtful. Specific provisions are made against individual facilities in the credit risk rated managed segment where exposure aggregates to \$250,000 or more, and a loss of \$10,000 or more is expected. A specific provision is also established against each statistically managed portfolio in the statistically managed segment to cover facilities which are not well secured and past due 180 days or more, against the credit risk rated managed segment for exposures aggregating to less than \$250,000 and 90 days past due or more, and against emerging credit risks identified in specific segments in the credit risk rated managed portfolio. These provisions are funded primarily by reference to historical ratios of write offs to balances in default.

General provisions for bad and doubtful debts are maintained to cover non identified probable losses and latent risks inherent in the overall portfolio of advances and other credit transactions. The provisions are determined having regard to the general risk profile of the credit portfolio, historical loss experience, economic conditions and a range of other criteria.

The amounts required to bring the provisions for impairment to their assessed levels are taken to profit. The balance of provisions for impairment and movements therein are set out in Note 13.

All facilities subject to a specific provision are classified as non accrual and interest is only taken to profit when received in cash.

(p) Bank acceptances of customers

The exposure arising from the acceptance of bills of exchange that are sold into the market is brought to account as a liability. An asset of equal value is raised to reflect the offsetting claim against the drawer of the bill. Bank acceptances generate fee income which is taken to profit when earned.

(q) Deposits with regulatory authorities

In several countries in which the Group operates, the law requires that the Group lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. The amount of the deposit and the interest rate receivable are calculated in accordance with the requirements of the local central bank. Interest is taken to profit when earned.

(r) Shares in and loans to controlled entities

These investments are recorded at the lower of cost or recoverable amount.

(s) Property, plant and equipment

At year end, independent market valuations, reflecting current use, were obtained for all individual property holdings (other than leasehold improvements). Directors adopt a valuation based on independent advice. Adjustments arising from revaluation are reflected in Asset Revaluation Reserve, except to the extent the adjustment reverses a revaluation previously recognised in profit and loss. For the current year the revaluation had minimal effect on the level of the reserve.

Depreciation on owned buildings is based on the assessed useful life of each building. The book value of buildings demolished as part of the redevelopment of a site is written off in the financial year in which the buildings are demolished. Leasehold improvements are capitalised and depreciated over the unexpired term of the current lease.

Equipment is shown at cost less depreciation calculated principally on a category basis at rates applicable to each category's useful life. Depreciation is calculated using the straight line method. It is treated as an operating expense and charged to profit. The amounts charged for the year are shown in Note 3.

Profit or loss on sale of property is treated as operating income or expense. Realised amounts in Asset Revaluation Reserve are transferred to Capital Reserve.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

The useful lives of major depreciable assets are as follows:

| | |
|---------------------------------------|--|
| Buildings | |
| - Shell | Maximum 30 years |
| - Integral plant and equipment | |
| - carpets | 10 years |
| - all other (air-conditioning, lifts) | 20 years |
| - Non integral plant and equipment | |
| - fixtures and fittings | 10 years |
| Leasehold improvements | Lesser of unexpired lease term or lives as above |
| Equipment | |
| - Security surveillance systems | 10 years |
| - Furniture | 8 years |
| - Office machinery | 5 years |
| - EFTPOS machines | 3 years |

The Bank has outsourced the majority of its information processing and does not own any material amounts of computer or communications equipment.

(t) Goodwill

Goodwill, representing the excess of purchase consideration plus incidental expenses over the fair value of the identifiable net assets at the time of acquisition of an entity, is capitalised and brought to account in the balance sheet.

The goodwill so determined is amortised on a straight line basis over the period of expected benefit but not exceeding 20 years. Purchased goodwill resulting from the acquisition of the Colonial Group in June 2000 and the amortisation policy is set out in Note 2. Purchased goodwill arising from the merger with the State Bank of Victoria in 1991 is being amortised over 20 years. Purchased goodwill arising from the acquisition of the 25% minority interest in ASB Group in New Zealand in August 2000 is being amortised over 20 years. Goodwill on acquisition of Commonwealth Funds Management in December 1996, Micropay in 1995 and Leaseway in April 1997 is being amortised over 10, 7 and 5 years respectively. The periods of goodwill amortisation are subject to review annually by the Directors.

(u) Other assets

Other assets includes all other financial assets and includes interest, fees, market revaluation of trading derivatives and other unrealised income receivable and securities sold not delivered. These assets are recorded at the cash value to be realised when settled.

Capitalisation of Computer Software Costs

In accordance with the American Institute of Certified Public Accountants Statement of Position 98-1 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use', the Group carries net unamortised capitalised computer software costs of \$77 million as at 30 June 2001. The amortisation period for software is 2½ years except for certain longer term projects. Software maintenance costs continue to be expensed as incurred.

(v) Deposits and other public borrowings

Deposits and other public borrowings includes certificates of deposits, term deposits, savings deposits, cheque and other demand deposits, debentures and other funds raised publicly by borrowing corporations. They are brought to account at the gross value of the outstanding balance. Interest is taken to profit when incurred.

(w) Payables due to other financial institutions

Payables due to other financial institutions includes deposits, vostro balances and settlement account balances due to other banks. They are brought to account at the gross value of the outstanding balance. Interest is taken to profit when incurred.

(x) Provision for dividend

The provision for dividend represents the maximum expected cash component of the declared final dividend. The remaining portion of the dividend is appropriated to the Dividend Reinvestment Plan Reserve where new shares are to be issued under the plan.

(y) Income taxes

The Group has adopted the liability method of tax effect accounting. The tax effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes is disclosed as a future income tax benefit or a provision for deferred income tax. Amounts are offset where the tax payable and realisable benefit are expected to occur in the same financial period. The future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being utilised (Notes 5 and 21).

(z) Provisions for employee entitlements

The *provision for long service leave* is subject to actuarial review and is maintained at a level that accords with actuarial advice.

The *provision for annual leave* represents the outstanding liability as at balance date. Actual payments made during the year are included in Salaries and Wages.

The *provision for other employee entitlements* represents liabilities for staff housing loan benefits and a subsidy to a registered health fund with respect to retired employees and current employees.

The level of these provisions has been determined in accordance with the requirements of AASB 1028: Accounting for Employee Entitlements.

(aa) Provision for restructuring

Provision for Restructuring (2000)

In June 2000 the Group acquired a 100% interest in the Colonial Limited Group of companies. This resulted in consequent restructuring requirements within Commonwealth Bank's existing business. The provision for restructuring covers the integration of the Colonial operations into the existing Group and rationalisation of existing processing and administrative functions. The principal costs associated with this programme are in the area of redundancy, property and systems. Refer Note 2 for further details on the Colonial acquisition.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

Restructuring Costs (2000)

The integration of Colonial into the Group's structure resulted in an expense for restructuring of \$106 million (\$86 million after tax) being charged to the Bank's result in the year ending 30 June 2000 (refer Note 25).

(bb) Provision for self insurance

The provision for self insurance covers certain non lending losses and non transferred insurance risks. Actuarial reviews are carried out at regular intervals with provisioning effected in accordance with actuarial advice.

(cc) Debt issues

Debt issues are short and long term debt issues of the Group including commercial paper, notes, term loans and medium term notes which are recorded at cost or amortised cost. Premiums, discounts and associated issue expenses are amortised through profit and loss each year from the date of issue so that securities attain their redemption values by maturity date.

Interest is reflected in profit as incurred. Any profits or losses arising from redemption prior to maturity are taken to profit in the period in which they are realised.

Further details of the Group's debt issues are shown in Note 26.

(dd) Bills payable and other liabilities

Bills payable and other liabilities includes all other financial liabilities and includes interest, fees, market revaluation of trading derivatives and other unrealised expenses payable and securities purchased not delivered.

These liabilities are recorded at the cash value to be realised when settled.

(ee) Loan capital

Loan capital is debt issued by the Group with terms and conditions, such as being undated or subordinated, which qualify the debt issue for inclusion as capital under APRA. Loan capital debt issues are recorded at cost or amortised cost.

Premiums, discounts and associated issue expenses are amortised through profit each year from the date of issue so that securities attain their redemption values by maturity date. Interest is reflected in profit as incurred. Any profits or losses arising from redemption prior to maturity are taken to profit in the period in which they are realised.

Further details of the Group's loan capital debt issues are shown in Note 28.

(ff) Shareholders' equity

Ordinary share capital is the amount of paid up capital from the issue of ordinary shares.

Preference Share Capital is the amount of paid up capital from the issue of preference shares.

General reserve is derived from revenue profits and is available for dividend except for undistributable profits in respect of the Group's life insurance businesses of \$2,699 million, including the appraisal value uplift (2000: \$1,944 million, 1999: \$231 million).

Capital reserve is derived from capital profits and is available for dividend.

Share premium reserve was derived from the premium over par value received from the issue of shares. It was not available for distribution to shareholders in the form of a cash dividend. Following changes to the Corporation Law on 1 July 1998, shares have no par value and the related Share Premium Reserve became part of share capital.

Dividend reinvestment plan reserve is appropriated from revenue profits when the Bank is expecting to satisfy the dividend reinvestment by the issue of new shares. The amount of the reserve represents the estimate of the minimum expected amount that will be reinvested in the Bank's dividend reinvestment plan. The allotment of shares under the plan is subsequently applied against the reserve. This accounting treatment reflects the probability that a fairly stable proportion of the Bank's final dividend will be reinvested in equity via the dividend reinvestment plan. No entry is passed to this reserve when the Bank has determined to satisfy the dividend reinvestment by an on market purchase of existing shares.

Further details of share capital, outside equity interests and reserves are shown in Notes 29, 30 and Statements of Changes in Shareholders' Equity.

(gg) Derivative financial instruments

The Group enters into a significant volume of derivative financial instruments which include foreign exchange contracts, forward rate agreements, futures, options and interest rate, currency, equity and credit swaps. Derivative financial instruments are used as part of the Group's trading activities and to hedge certain assets and liabilities.

Derivative financial instruments held or issued for trading purposes

Traded derivative financial instruments are recorded at net fair value based on quoted market prices, broker or dealer price quotations. A positive revaluation amount of a contract is reported as an asset and a negative revaluation amount of a contract as a liability. Changes in net fair value are reflected in profit immediately they occur.

Derivative financial instruments held or issued for purposes other than trading

The principal objective in holding or issuing derivative financial instruments for purposes other than trading is to manage balance sheet interest rate, exchange rate and credit risk associated with certain assets and liabilities such as loans, investment securities, deposits and debt issues. To be effective as hedges, the derivatives are identified and allocated against the underlying hedged item or class of items and generally modify the interest rate, exchange rate or credit characteristics of the hedged asset or liability. Such derivative financial instruments are purchased with the intent of being held to maturity. Derivatives that are designated and effective as hedges are accounted for on the same basis as the instruments they are hedging.

Swaps

Interest rate swap receipts and payments are accrued to profit as interest of the hedged item or class of items being hedged over the term for which the swap is effective as a hedge of that designated item. Premiums or discounts to market interest rates which are received or made in advance are deferred and amortised to profit over the term for which the swap is effective as a hedge of the underlying hedged item or class of items.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

Similarly with cross currency swaps, interest rate receipts and payments are brought to account on the same basis outlined in the previous paragraph. In addition, the initial principal flows are reported net and revalued to market at the current market exchange rate. Revaluation gains and losses are taken to profit against revaluation losses and gains of the underlying hedged item or class of items.

Credit default swaps are utilised to manage credit risk in the asset portfolio. Premiums are accrued to profit and loss as interest of the hedged item or class of items being hedged over the term for which the instrument is effective as a hedge. Any principal cash flow on default is brought to account on the same basis as the designated item being hedged. Credit default swaps held at balance date are immaterial.

Equity swaps are utilised to manage the risk associated with both the capital investment in equities and the related yield. These swaps enable the income stream to be reflected in profit and loss when earned. Any capital gain or loss at maturity of the swap is brought to account on the same basis as the underlying equity being hedged.

Forward rate agreements and futures

Realised gains and losses on forward rate agreements and futures contracts are deferred and included as part of the carrying value of the hedged item or class of items being hedged. The cash flow is amortised to profit as interest of the hedged item or class of items being hedged over the term for which the instrument is effective as a hedge.

Options

Where options are utilised in the management of balance sheet risk, premiums on options and any realised gains and losses on exercise are deferred and included as part of the carrying value of the hedged item or class of items being hedged. The cash flows are amortised to profit as interest of the hedged item or class of items being hedged over the term for which the instrument is effective as a hedge.

Early termination

Where a derivative instrument hedge is terminated prior to its 'maturity date', realised gains and losses are deferred and included as part of the carrying value of the hedged item or class of items being hedged.

The cash flows are amortised to profit as interest of the hedged item or class of items being hedged over the period for which the hedge would have been effective. Where the underlying hedged item or class of items being hedged ceases to exist, the derivative instrument hedge is terminated and realised and unamortised gains or losses taken to profit and loss.

Further information on derivative financial instruments is shown in Note 39.

(hh) Commitments to extend credit, letters of credit, guarantees, warranties and indemnities issued

These financial instruments generally relate to credit risk and attract fees in line with market prices for similar arrangements. They are not sold or traded. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. They are recorded as contingent liabilities at their face value. Further information is shown in Note 38.

(ii) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The principal sources of revenue are interest income and fees and commissions.

Interest income

Interest income is reflected in profit when earned on an accrual basis. Further information is included in Notes 1(k) Investment securities, 1(m) Loans, advances and other receivables and 1(n) Leasing and leveraged leasing.

Lending fees

Material non refundable front end loan fees that are yield related and do not represent cost recovery, are taken to profit over the period of the loan. Associated costs incurred in these lending transactions are deferred and netted against yield related loan fees. Where non refundable front end loan fees are received that represent cost recovery or charges for services not directly related to the yield on a loan, they are taken to income in the period in which they are received. Where fees are received on an ongoing basis and represent the recoupment of the costs of maintaining and administering existing loans, these fees are taken to income on an accrual basis.

Commission and other fees

When commission charges and fees relate to specific transactions or events, they are recognised as income in the period in which they are received. However, when they are charged for services provided over a period, they are taken to income on an accrual basis.

Other income

Trading income is brought to account when earned based on changes in net fair value of financial instruments and recorded from trade date. Further information is included in Notes 1(e) Foreign currency transactions, 1(j) Trading securities and 1(gg) Derivative financial instruments. Life insurance business income recognition is explained in Note 1 (jj) below.

(jj) Life Insurance Business

The Group's life insurance business is accounted for in accordance with the requirements of Accounting Standard AASB 1038: 'Life Insurance Business' which is summarised below:

- (i) All assets, liabilities, revenues, expenses and equity are included in the financial report irrespective of whether they are designated as relating to policyholders or to shareholders.
- (ii) All assets are measured at net market values.
- (iii) All liabilities are measured at net present values. Policy liabilities are calculated in accordance with the principles of Margin on Services (MoS) profit reporting as set out in Actuarial Standard AS 1.02: Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board. Other Liabilities are measured at net present value at reporting date.
- (iv) Any life insurers within the Group that are parent entities recognise and disclose any excess or deficiency of the net market values of interests in subsidiaries over the net assets of those subsidiaries as an item in the financial report of the life insurer economic entity.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

- (v) Premiums and claims are separated on a product basis into their revenue, expense and change in liability components unless the separation is not practicable or the components cannot be reliably measured.
- (vi) Returns on all investments controlled by a life insurer entity in the Group are recognised as revenues.
- (vii) Participating benefits vested in relation to the financial year, other than transfers from unvested policyholder benefits liabilities, are recognised as expenses.
- (viii) Reinsurance contracts taken are recognised on a gross basis.

The Group conducts life insurance business through Commonwealth Insurance Holdings Limited (CIHL), Commonwealth Life Limited (CLL) and The Colonial Mutual Life Assurance Society Limited (CMLA) in Australia, ASB Life Assurance Limited (ASB Life), Sovereign Assurance Company, Metropolitan Life Assurance Company of NZ Limited and Colonial Holding Company No2 (NZ) Limited in New Zealand and several subsidiaries and joint ventures throughout Asia. CIHL, CMLA and ASB Life are the top tier life insurance companies within the life insurance corporate structure and they market value their interests in their controlled entities at each reporting date.

Accounting policies and disclosures specific to life insurance business are required under AASB 1038. These are provided in this note and Notes 16, 20 and 34.

Premiums and Claims

- (i) Investment linked business

Premiums received, which are in the nature of investment deposits, have the fee portion of the premium recognised as revenue and the deposit portion recognised as an increase in policy liabilities. Premiums with no due date are recognised on a cash received basis. Fees earned by the Shareholder for managing the funds invested are recognised as revenue. Claims under investment linked businesses represent withdrawals of investment deposits and are recognised as a reduction in policy liabilities.

- (ii) Non-investment linked business

Premiums received for providing services and bearing risks are recognised as revenue. Premiums with a regular due date are recognised as revenue on an accruals basis. Non-investment linked claims are recognised as an expense when a liability has been established.

Market Value Accounting

All assets are valued at net market value (NMV) and all liabilities at net present value at balance date. Consistent with the principles of market value accounting, movements in the net market value of assets and net present value of liabilities during the period are immediately recognised in profit.

Life insurance investment assets

Investments are measured at net market values at balance date. Listed securities are valued at the price ruling at balance date. Where no quoted market exists, the Directors adopt various methods determined by internal and external valuers. In these cases the values are deemed equivalent to net market value. Details of particular methods adopted are as follows:

- Valuation of the investment in the life insurance controlled entities is based on the appraisal value. The appraisal value comprises the present value of future profits from in force business, the estimated value of profits from future business and the shareholders interest in the net worth of the life insurance Statutory and Shareholder Funds.
- Non life insurance controlled entities are valued using a discounted cash flow method applied to anticipated future income streams, allowing for assumptions about future sales growth, redemptions, expenses, investment returns and fee margins. This method allows the values so calculated to be expressed in the form of appraisal values, consistent with those calculated for the life insurance controlled entities. Valuation of the investment in the non life insurance controlled entities is then based on these calculated appraisal values as at reporting date.
- Properties are valued annually by qualified independent valuers.

Excess of Net Market Value over Net Assets of Controlled Entities

Interests in controlled entities held by the life insurance companies are subject to revaluation each period, such that the investment in the controlled entity is recorded at market value.

On consolidation the investment in controlled entities is eliminated and the excess of market value of controlled entities over their underlying net assets is separately recognised in Intangible Assets (Note 20) on the balance sheet as 'Excess of Net Market Value over Net Tangible Assets of Life Insurance Controlled Entities'. This amount is assessed periodically as part of the valuation of investments with changes in value taken to profit. This excess does not require amortisation in the financial statements.

Life insurance policy liabilities and margin on services profit

Policy liabilities are calculated in accordance with the principles of Margin on Services (MoS) profit reporting as set out in Actuarial standard AS 1.02: Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board. Policy liabilities are calculated in a way which allows for the systematic release of planned profit margins as services are provided to policyowners and the revenues relating to those services are received. Selected profit carriers including premiums and anticipated annuity payments are used to determine profit recognition.

Profit

Life insurance business operating under this profit recognition methodology can be analysed as follows:

- (i) Emergence of planned profit margins:

In setting premium rates, life insurers will include planned margins of revenues over expenses. When the life insurer has performed the services necessary to establish a valid claim to those margins and has received the revenues relating to those services, the planned margins are recognised in profit. Where actual experience replicates planned margin assumptions, the planned profit margin will be released over the life of the policy.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(ii) Difference between actual and planned experience: Experience profits/(losses) are realised where actual experience differs from the expected performance used to determine planned margins. Circumstances giving rise to experience profits/(losses) include experience variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in force business in a year are lower than those allowed for in the planned margin.

(iii) Loss recognition on groups of related products or reversals of previously recognised losses: Where future expenses for a group of related products exceeds future revenues, the anticipated loss is recognised immediately. If unprofitable business becomes profitable, previously recognised losses are reversed immediately.

(iv) Investment earnings on assets in excess of policy liabilities: Investment assets are held in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of profit will vary from year to year.

Participating Policies

Policy liabilities attributable to participating policies include the value of future planned shareholder profit margins and an allowance for future supportable bonuses. The value of supportable bonuses and planned shareholder profit margins account for all profit on participating policies based on best estimate assumptions.

Under Margin on Services profit recognition methodology, the value of supportable bonuses and the shareholder profit margin relating to a reporting year will emerge as planned profits in that year.

Policy Acquisition Costs

Policy acquisition costs include the fixed and variable costs of acquiring new business. These costs are effectively deferred through the determination of policy liabilities at the balance date to the extent that they are deemed recoverable from premium or policy charges. Deferred acquisition costs are effectively amortised over the life of the policy.

Changes in Accounting Policy (2000)

The Group adopted the requirements of AASB 1038 for the first time from 1 July 1999. AASB 1038 prescribes the methods to be used in the reporting of life insurance business and establishes disclosure requirements with respect to that business in the financial report. The following accounting policy changes were implemented:

- The consolidated financial report includes the financial statements of controlled life insurance subsidiaries, comprising both shareholders and policyholders entitlements to assets, liabilities, revenues, and expenses. Adoption of AASB 1038 increased total assets and total liabilities by \$26.5 billion and \$25.3 billion respectively.
- Revenue and expense items of life insurance businesses are consolidated on a line by line basis in the consolidated profit and loss statement. Initial adoption of AASB 1038 had no effect on reported profits as shareholders entitlements to profits emerging from the Statutory Funds were recognised in the Group's consolidated financial report in previous periods.

- The retained earnings and other reserves attributable to policyholders have been disclosed as part of life insurance policy liabilities. Profit attributable to policyholders is included in 'increase in policy liabilities'. This approach recognises the separate entitlements of policyholders and shareholders in the Statutory Funds of life insurance entities as required by the Life Insurance Act 1995.

- Controlled entities of Life Insurance companies, under AASB 1038, are required to be valued at net market value. AASB 1038 requires the differences between the net market value of the controlled entities and the underlying net assets to be recognised as the 'excess' of net market value over net assets of life insurance controlled entities (the 'excess') in the consolidated financial report. Several internal Group restructurings have occurred placing certain life insurance and funds management controlled entities under insurance companies, namely Commonwealth Insurance Holdings Limited (CIHL) and The Colonial Mutual Life Assurance Society Limited (CMLA). The impact of the restructuring that occurred during the year to 30 June 2000 was:

- Initial adoption of AASB 1038 required Commonwealth Life Limited (CLL) to be marked to market. The resultant excess of \$432 million was taken directly to retained earnings as required under the standard.
- Various Colonial Group companies were transferred into CMLA and this resulted in an increase in the excess by \$551 million at 30 June 2000. This includes \$212 million transferred from goodwill into excess.
- Transfer of Commonwealth Funds Management businesses under CIHL resulting in an increase in the excess by \$537 million at 30 June 2000.
- Alignment of the valuation bases of CLL with those used for the Colonial Group resulted in an increase in the excess by \$536 million at 30 June 2000.

Consistent with the principles of market value accounting, the excess is not amortised. The movement in the excess is recognised in the consolidated statement of financial performance.

The financial effect increased earnings per share by 126 cents to 291 cents per share.

(kk) Loan Securitisation

The Group conducts a loan securitisation program through which it packages and sells loans as securities to investors. For its services to the program, the Group receives fees such as loan servicing, program management and trustee fees on an arms length basis. Fee income is recognised in income on an accruals basis in relation to the period in which the costs of providing these services are incurred.

Interest rate swaps and liquidity facilities are provided at arms length to the program by the Group in accordance with APRA Prudential Guidelines.

The Group is entitled to any residual income of the program after all payments due to investors and costs of the program have been met.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

Due to the significant uncertainties inherent in estimating the underlying loan repayment rates and interest margins, future cash flows cannot be reliably measured. Therefore, no asset/liability or gain/loss on sale of the loans has been recognised. The residual income is recognised in Other Income when receivable. Interest rates swaps are recognised in income on an accruals basis.

(II) Fiduciary activities

The Bank and designated controlled entities act as Trustee and/or Manager and/or Custodian for a number of Wholesale, Superannuation and Investment Funds, Trusts and Approved Deposit Funds. Further details are shown in Note 38.

The assets and liabilities of these Trusts and Funds are not included in the consolidated financial statements as the Bank does not have direct or indirect control of the Trusts and Funds as defined by AASB 1024. Commissions and fees earned in respect of the activities are included in the profit of the Group and the designated controlled entity.

(mm) Superannuation plans

The Group sponsors a range of superannuation plans for its employees. The assets and liabilities of these plans are not included in the consolidated financial statements.

The superannuation contributions expense principally represents the annual funding, determined after having regard to actuarial advice, to provide for future obligations of defined benefit plans. Contributions to all superannuation plans are made in accordance with the rules of the plans.

(nn) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in these financial statements.

(oo) Definitions

'Overseas' represents amounts booked in branches and controlled entities outside Australia.

'Borrowing Corporation' as defined by Section 9 of the Corporations Act 2001 is CBFC Limited, Colonial Finance Limited and their controlled entities.

'Net Fair Value' represents the fair or market value adjusted for transaction costs.

'Cash Basis' is defined as net profit after tax and before abnormal items adjusted for goodwill amortisation and life insurance and funds management appraisal value uplift.

(pp) Abnormal Items (2000)

With the introduction of new accounting standard AASB 1018: Statement of Financial Performance, abnormal items are no longer included in this statement. For comparative purposes the details of the Group's abnormal items disclosed at 30 June 2000 are set out below:

| | \$M |
|---|-------------------|
| Restructuring costs (Note 1 (aa)) | (106) |
| Net market valuation of funds management businesses (Note 1 (jj)) | 537 |
| Change of valuation bases of Commonwealth Life insurance businesses (Note 1 (jj)) | 536 |
| Total Abnormal Gains Before Tax | <u>967</u> |
| Abnormal tax credit items: | |
| Restructuring costs (Note 1 (aa)) | <u>20</u> |
| Total Abnormal Gains After Tax | <u><u>987</u></u> |

Notes to the financial statements

NOTE 2 Acquisition of Colonial

On 13 June 2000, pursuant to a Scheme of Arrangement, the Group acquired a 100% interest in Colonial Limited, a life insurance, funds management and banking group. Under the scheme, Colonial ordinary shareholders accepted 7 new Commonwealth Bank shares for every 20 Colonial ordinary shares held. As a result, 351,409,450 new Commonwealth Bank shares were issued and allotted to Colonial shareholders and option holders, and \$800 million paid to Colonial income security holders.

The assets acquired and the liabilities assumed were initially measured at their fair values at 13 June 2000, including adjustments to bring accounting policies onto a consistent basis. Provisions for restructuring covering the planned integration of the Colonial operations into the existing Group and rationalisation of existing processing and administrative functions were booked as a pre-acquisition cost in Colonial or as a charge in Commonwealth Bank, as applicable.

The principal costs associated with this restructuring are staff redundancy payments, property and rental break costs, systems costs and supply contract renegotiation costs. The fair value adjustments principally relate to write off of capitalised systems costs and additional general provisioning to bring Colonial onto a consistent provisioning methodology.

In the 12 months subsequent to acquisition further information has been obtained in respect of the initial estimated costs of restructuring and fair value adjustments which has resulted in the following revisions. The revisions to costs associated with the restructuring principally relate to additional staff redundancy payments and information technology contract termination and data centre relocation costs driven by more extensive consolidation of IT services to EDSA. The revisions to fair value adjustments principally relate to asset write downs, additional general provisioning and tax adjustments.

These revisions to the provision for restructuring and fair value adjustments result in an increase to goodwill on acquisition of \$238 million.

| | 2000 \$M |
|--|----------------|
| Consideration | |
| 351,409,450 new Commonwealth Bank shares @ \$26.39 | 9,274 |
| Income securities payout | 800 |
| Transaction costs | 46 |
| Preacquisition dividend received | <u>(1,000)</u> |
| Cost of Acquisition | <u>9,120</u> |
| Fair value of net tangible assets acquired | |
| As at 30 June 2000 | 1,303 |
| Revisions to fair value adjustments and restructuring costs provisioned | <u>(238)</u> |
| Revised as at 30 June 2001 | 1,065 |
| Outside equity interests in net assets acquired | (155) |
| Excess of net market value over net assets of life insurance controlled entities | 2,548 |
| Goodwill on acquisition | <u>5,662</u> |
| | <u>9,120</u> |

| | 2001 \$M | Revision \$M | 2000 \$M |
|--|--------------|-----------------|--------------|
| The fair value adjustments comprised: | | | |
| - Write off of capitalised costs | 299 | 24 | 275 |
| - Doubtful debt provisioning | | | |
| - general | 170 | 50 | 120 |
| - specific | 29 | - | 29 |
| - Investments write down | 43 | 43 | - |
| - Legal | 15 | 15 | - |
| - Asset write off | 26 | 26 | - |
| - Other | 55 | 4 | 51 |
| | <u>637</u> | <u>162</u> | <u>475</u> |
| Income tax benefit - fair value adjustments | <u>(159)</u> | <u>(11)</u> | <u>(148)</u> |
| | <u>478</u> | <u>151</u> | <u>327</u> |
| Restructuring costs provisioned comprised | | | |
| - Staff | 119 | 33 | 86 |
| - Occupancy and equipment | 93 | 3 | 90 |
| - Information technology services | 123 | 70 | 53 |
| - Other | 104 | 39 | 65 |
| | <u>439</u> | <u>145</u> | <u>294</u> |
| Income tax benefit - restructuring costs | <u>(108)</u> | <u>(58)</u> | <u>(50)</u> |
| | <u>331</u> | <u>87</u> | <u>244</u> |
| Fair value adjustments and restructuring costs after tax | <u>809</u> | <u>238</u> | <u>571</u> |

Notes to the financial statements

NOTE 2 Acquisition of Colonial continued

Excess of net market value over net tangible assets of life insurance controlled entities

An internal group restructuring of Colonial's life and funds management businesses was completed in June 2000, whereby all these businesses, except for some Asian businesses, were transferred to The Colonial Mutual Life Assurance Society Limited (CMLA), a life insurance controlled entity. These life and funds management businesses are valued at market value by CMLA. Consistent with the principles of market value accounting, as specified by AASB 1038: Life Insurance Business, the above resulting excess of net market value over net tangible assets of life insurance controlled entities is not amortised.

Goodwill

The goodwill emerging on the acquisition amounts to \$5,662 million and is amortised over a period of 20 years, representing the assessed life of the ongoing business. Cost and revenue synergies, planned on acquisition of Colonial, are being achieved from the integration of the Commonwealth and Colonial life insurance businesses.

Changes in the excess of net market value over net assets of life insurance controlled entities that are directly attributable to progressive recognition of these cost and revenue synergies as they are implemented have been recorded as a realisation of goodwill. Refer Note 20.

NOTE 3 Operating Profit

Operating profit before income tax has been determined as follows:

| | GROUP | | | BANK | |
|---|---------------|--------------|--------------|--------------|--------------|
| | 2001 | 2000 | 1999 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M | \$M |
| Interest Income | | | | | |
| Loans | 10,246 | 7,663 | 6,806 | 7,072 | 6,126 |
| Other financial institutions | 280 | 191 | 165 | 252 | 176 |
| Cash and liquid assets | 110 | 78 | 58 | 99 | 76 |
| Trading securities | 548 | 295 | 246 | 369 | 224 |
| Investment securities | 655 | 586 | 425 | 423 | 437 |
| Dividends on redeemable preference shares | 54 | 24 | 42 | (44) | (39) |
| Controlled entities | - | - | - | 386 | 238 |
| Other | 7 | 5 | 3 | 3 | 1 |
| Total Interest Income | 11,900 | 8,842 | 7,745 | 8,560 | 7,239 |
| Interest Expense | | | | | |
| Deposits | 5,042 | 3,773 | 3,353 | 3,547 | 3,136 |
| Other financial institutions | 328 | 297 | 207 | 323 | 235 |
| Short term debt issues | 902 | 671 | 393 | 191 | 188 |
| Long term debt issues | 759 | 171 | 106 | 412 | 151 |
| Controlled entities | - | - | - | 431 | 316 |
| Loan capital | 374 | 210 | 155 | 342 | 204 |
| Other | 21 | 1 | 4 | 15 | - |
| Total Interest Expense | 7,426 | 5,123 | 4,218 | 5,261 | 4,230 |
| Net Interest Income | 4,474 | 3,719 | 3,527 | 3,299 | 3,009 |
| Other Operating Income | | | | | |
| Lending fees | 602 | 554 | 474 | 525 | 517 |
| Commission and other fees | 1,173 | 946 | 807 | 888 | 768 |
| Trading income | | | | | |
| Foreign exchange earnings | 222 | 146 | 155 | 195 | 130 |
| Trading securities | 140 | 105 | 66 | 121 | 91 |
| Other financial instruments (incl. derivatives) | 64 | 60 | 52 | 62 | 60 |
| Dividends - controlled entities | - | - | - | 385 | 182 |
| - other | 14 | 20 | 6 | 19 | 13 |
| Net gain (loss) on investment securities | 56 | 12 | 79 | 84 | 7 |
| Net profit on sale of property, plant and equipment | 25 | 13 | 24 | 26 | 14 |
| Life insurance income (refer note 34) | 1,268 | 326 | 157 | - | - |
| Funds management income | 701 | 143 | 97 | - | - |
| General insurance premium income | 107 | 103 | 94 | - | - |
| Less general insurance claims paid | (57) | (55) | (63) | - | - |
| Other | 35 | 47 | 49 | 267 | 223 |
| Total Other Operating Income | 4,350 | 2,420 | 1,997 | 2,572 | 2,005 |
| Total Net Operating Income | 8,824 | 6,139 | 5,524 | 5,871 | 5,014 |
| Charge for Bad and Doubtful Debts (Note 13) | | | | | |
| General provisions | 385 | 196 | 247 | 276 | 191 |
| Total Charge for Bad and Doubtful Debts | 385 | 196 | 247 | 276 | 191 |

Notes to the financial statements**NOTE 3 Operating Profit continued**

| | GROUP | | | BANK | |
|--|---------------|---------------|---------------|---------------|--------------|
| | 2001 | 2000 | 1999 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M | \$M |
| Staff Expenses | | | | | |
| Salaries and wages | 2,061 | 1,498 | 1,406 | 1,498 | 1,330 |
| Superannuation contributions | 12 | 2 | 1 | - | - |
| Provision for long service leave | 47 | 38 | 42 | 50 | 37 |
| Provisions for other employee entitlements | (10) | 6 | - | (16) | 4 |
| Payroll tax | 99 | 75 | 77 | 79 | 72 |
| Fringe benefits tax | 48 | 33 | 34 | 38 | 32 |
| Other staff expenses | 103 | 53 | 44 | 23 | 35 |
| Total Staff Expenses | 2,360 | 1,705 | 1,604 | 1,672 | 1,510 |
| Occupancy and Equipment Expenses | | | | | |
| Operating lease rentals | 329 | 208 | 158 | 211 | 191 |
| Depreciation | | | | | |
| Buildings | 29 | 31 | 51 | 26 | 28 |
| Leasehold improvements | 45 | 28 | 26 | 26 | 26 |
| Equipment | 76 | 58 | 68 | 26 | 34 |
| Repairs and maintenance | 60 | 46 | 64 | 52 | 42 |
| Other | 65 | 66 | 88 | 51 | 50 |
| Total Occupancy and Equipment Expenses | 604 | 437 | 455 | 392 | 371 |
| Information Technology Services | | | | | |
| Projects and development | 205 | 186 | 145 | 129 | 169 |
| Data processing | 219 | 144 | 141 | 180 | 133 |
| Desktop | 152 | 103 | 90 | 131 | 102 |
| Communications | 172 | 138 | 129 | 123 | 130 |
| Total Information Technology Services | 748 | 571 | 505 | 563 | 534 |
| Other Expenses | | | | | |
| Postage | 108 | 81 | 76 | 83 | 75 |
| Stationery | 107 | 75 | 69 | 67 | 63 |
| Fees and commissions | 535 | 176 | 112 | 186 | 136 |
| Other | 708 | 362 | 249 | 335 | 262 |
| Total Other Expenses | 1,458 | 694 | 506 | 671 | 536 |
| Total Operating Expenses | 5,170 | 3,407 | 3,070 | 3,298 | 2,951 |
| Revenue from Operating Activities | | | | | |
| Banking | | | | | |
| Interest income | 11,900 | 8,842 | 7,745 | 8,560 | 7,239 |
| Fee and commissions | 1,775 | 1,500 | 1,281 | 1,413 | 1,285 |
| Trading income | 426 | 311 | 273 | 378 | 281 |
| Dividends | 14 | 20 | 6 | 404 | 195 |
| Proceeds from sale of property, plant and equipment | 157 | 44 | 652 | 65 | 22 |
| Proceeds from sale of investment securities | 28 | 17 | 146 | 84 | 7 |
| Other income | 85 | 95 | 80 | 267 | 223 |
| | 14,385 | 10,829 | 10,183 | 11,171 | 9,252 |
| Life Insurance and Funds Management | | | | | |
| Life insurance | | | | | |
| - premium and related income | 958 | 337 | 236 | - | - |
| - investment revenue | 1,698 | 1,066 | 590 | - | - |
| Funds management fee income | 701 | 143 | 97 | - | - |
| | 3,357 | 1,546 | 923 | - | - |
| Appraisal value uplift | | | | | |
| - recurrent basis | 474 | 92 | - | - | - |
| - change of valuation basis of Commonwealth | | | | | |
| Life Insurance businesses | - | 536 | - | - | - |
| - corporate restructure of funds management business | - | 537 | - | - | - |
| | 474 | 1,165 | - | - | - |
| Total revenue from ordinary activities | 18,216 | 13,540 | 11,106 | 11,171 | 9,252 |

There were no sources of revenue from non operating activities.

| Operating Expenses – Year Ended 30 June 2000 | Recurrent Basis⁽¹⁾ | Restructuring Charge | Total |
|---|--------------------------------------|-----------------------------|--------------|
| Staff | 1,705 | 20 | 1,725 |
| Occupancy and equipment | 437 | 3 | 440 |
| Information technology services | 571 | 32 | 603 |
| Other | 694 | 51 | 745 |
| | 3,407 | 106 | 3,513 |

⁽¹⁾ Recurrent excludes exceptional items.

Notes to the financial statements

NOTE 4 Average Balance Sheet and Related Interest

The table lists the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rates for each of, 1999, 2000 and 2001. Averages used are predominantly daily averages. The overseas component comprises overseas branches

of the Bank and overseas domiciled controlled entities. Overseas intergroup borrowings have been adjusted in the interest spread and margin calculations to more appropriately reflect the overseas cost of funds. Non-accrual loans are included in Interest Earning Assets under loans, advances and other receivables.

| | 2001 | | | 2000 | | | 1999 | | |
|---|-----------------|----------|--------------|-----------------|----------|--------------|-----------------|----------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| | \$M | \$M | % | \$M | \$M | % | \$M | \$M | % |
| Average Assets and Interest Income | | | | | | | | | |
| Interest Earning Assets | | | | | | | | | |
| Cash and liquid assets | | | | | | | | | |
| Australia | 2,428 | 107 | 4.4 | 1,860 | 78 | 4.2 | 1,468 | 58 | 4.0 |
| Overseas | 273 | 3 | 1.1 | 42 | - | - | 119 | - | - |
| Receivables due from other financial institutions | | | | | | | | | |
| Australia | 2,658 | 159 | 6.0 | 1,839 | 112 | 6.1 | 1,481 | 79 | 5.3 |
| Overseas | 1,595 | 121 | 7.6 | 1,307 | 79 | 6.0 | 1,522 | 86 | 5.7 |
| Deposits with regulatory authorities | | | | | | | | | |
| Australia | - | - | n/a | - | - | n/a | 892 | - | - |
| Overseas | 29 | - | - | 6 | - | - | 2 | - | - |
| Trading securities | | | | | | | | | |
| Australia | 5,616 | 387 | 6.9 | 3,754 | 196 | 5.2 | 2,720 | 149 | 5.5 |
| Overseas | 2,587 | 161 | 6.2 | 1,929 | 99 | 5.1 | 1,700 | 97 | 5.7 |
| Investment securities | | | | | | | | | |
| Australia | 3,244 | 242 | 7.5 | 4,082 | 260 | 6.4 | 3,052 | 171 | 5.6 |
| Overseas | 6,268 | 413 | 6.6 | 5,331 | 326 | 6.1 | 4,659 | 254 | 5.5 |
| Loans, advances and other receivables | | | | | | | | | |
| Australia | 118,917 | 8,983 | 7.6 | 94,913 | 6,701 | 7.1 | 83,350 | 5,899 | 7.1 |
| Overseas | 16,992 | 1,317 | 7.8 | 14,100 | 986 | 7.0 | 13,306 | 949 | 7.1 |
| Other interest earning assets | | | | | | | | | |
| Intragroup loans | - | 7 | n/a | - | 5 | n/a | - | 3 | n/a |
| Australia | - | - | n/a | - | - | n/a | 414 | 23 | 5.6 |
| Overseas | 3,198 | 191 | 6.0 | 2,825 | 168 | 5.9 | - | - | n/a |
| Average interest earning assets and interest income including intragroup | | | | | | | | | |
| Intragroup eliminations | 163,805 | 12,091 | 7.4 | 131,988 | 9,010 | 6.8 | 114,685 | 7,768 | 6.8 |
| | (3,198) | (191) | 6.0 | (2,825) | (168) | 5.9 | (414) | (23) | 5.6 |
| Total average interest earning assets and interest income | | | | | | | | | |
| | 160,607 | 11,900 | 7.4 | 129,163 | 8,842 | 6.8 | 114,271 | 7,745 | 6.8 |
| Non Interest Earning Assets | | | | | | | | | |
| Bank acceptances | | | | | | | | | |
| Australia | 12,074 | | | 10,533 | | | 9,971 | | |
| Overseas | 109 | | | 21 | | | 32 | | |
| Life insurance investment assets | | | | | | | | | |
| Australia | 26,580 | | | 9,732 | | | - | | |
| Overseas | 3,062 | | | 240 | | | - | | |
| Property, plant and equipment | | | | | | | | | |
| Australia | 1,024 | | | 755 | | | 1,240 | | |
| Overseas | 240 | | | 187 | | | 211 | | |
| Other assets | | | | | | | | | |
| Australia | 21,676 | | | 9,309 | | | 9,739 | | |
| Overseas | 1,835 | | | 1,158 | | | 2,085 | | |
| Provisions for impairment | | | | | | | | | |
| Australia | (1,493) | | | (1,213) | | | (1,210) | | |
| Overseas | (84) | | | (174) | | | (158) | | |
| Total average non interest earning assets | | | | | | | | | |
| | 65,023 | | | 30,548 | | | 21,910 | | |
| Total Average Assets | | | | | | | | | |
| | 225,630 | | | 159,711 | | | 136,181 | | |
| Percentage of total average assets applicable to overseas operations | | | | | | | | | |
| | 16.0% | | | 15.0% | | | 17.2% | | |

Notes to the financial statements**NOTE 4 Average Balance Sheet and Related Interest continued**

| | 2001 | | | 2000 | | | 1999 | | |
|---|------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|
| | Average Balance \$M | Interest \$M | Average Rate % | Average Balance \$M | Interest \$M | Average Rate % | Average Balance \$M | Interest \$M | Average Rate % |
| Average Liabilities and Interest Expense | | | | | | | | | |
| Interest Bearing Liabilities and Loan Capital | | | | | | | | | |
| Time Deposits | | | | | | | | | |
| Australia | 42,226 | 2,519 | 6.0 | 38,176 | 2,022 | 5.3 | 31,119 | 1,597 | 5.1 |
| Overseas | 9,882 | 711 | 7.2 | 8,665 | 484 | 5.6 | 9,201 | 591 | 6.4 |
| Savings Deposits | | | | | | | | | |
| Australia | 27,835 | 603 | 2.2 | 25,248 | 460 | 1.8 | 24,378 | 418 | 1.7 |
| Overseas | 2,027 | 83 | 4.1 | 2,017 | 67 | 3.3 | 2,120 | 81 | 3.8 |
| Other demand deposits | | | | | | | | | |
| Australia | 23,813 | 1,064 | 4.5 | 17,662 | 696 | 3.9 | 17,247 | 626 | 3.6 |
| Overseas | 1,911 | 62 | 3.2 | 1,954 | 44 | 2.3 | 1,682 | 40 | 2.4 |
| Payables due to other financial institutions | | | | | | | | | |
| Australia | 1,271 | 65 | 5.1 | 961 | 56 | 5.8 | 643 | 35 | 5.4 |
| Overseas | 4,238 | 263 | 6.2 | 3,718 | 241 | 6.5 | 3,367 | 172 | 5.1 |
| Debt issues | | | | | | | | | |
| Australia | 17,130 | 1,099 | 6.4 | 7,615 | 413 | 5.4 | 7,689 | 395 | 5.1 |
| Overseas | 9,965 | 562 | 5.6 | 7,655 | 429 | 5.6 | 2,938 | 104 | 3.5 |
| Loan capital | | | | | | | | | |
| Australia | 5,564 | 367 | 6.6 | 3,336 | 204 | 6.1 | 2,746 | 155 | 5.6 |
| Overseas | 116 | 7 | 6.0 | 68 | 6 | 8.8 | - | - | n/a |
| Other interest bearing liabilities | - | 21 | n/a | - | 1 | n/a | - | 4 | n/a |
| Intragroup borrowings | | | | | | | | | |
| Australia | 3,198 | 191 | 6.0 | 2,825 | 168 | 5.9 | - | - | n/a |
| Overseas | - | - | n/a | - | - | n/a | 414 | 23 | 5.6 |
| Average interest bearing liabilities and loan capital and interest expense including intragroup | 149,176 | 7,617 | 5.1 | 119,900 | 5,291 | 4.4 | 103,544 | 4,241 | 4.1 |
| Intragroup eliminations | (3,198) | (191) | 6.0 | (2,825) | (168) | 5.9 | (414) | (23) | 5.6 |
| Total average interest bearing liabilities and loan capital and interest expense | 145,978 | 7,426 | 5.1 | 117,075 | 5,123 | 4.4 | 103,130 | 4,218 | 4.1 |
| Non Interest Bearing Liabilities | | | | | | | | | |
| Deposits not bearing interest | | | | | | | | | |
| Australia | 6,034 | | | 4,698 | | | 3,952 | | |
| Overseas | 608 | | | 72 | | | 76 | | |
| Liability on acceptances | | | | | | | | | |
| Australia | 12,077 | | | 10,533 | | | 9,971 | | |
| Overseas | 109 | | | 21 | | | 32 | | |
| Life insurance policy liabilities | | | | | | | | | |
| Australia | 23,584 | | | 9,458 | | | - | | |
| Overseas | 2,617 | | | 201 | | | - | | |
| Other liabilities | | | | | | | | | |
| Australia | 13,536 | | | 5,964 | | | 9,632 | | |
| Overseas | 2,890 | | | 4,005 | | | 2,383 | | |
| Total average non interest bearing liabilities | 61,455 | | | 34,952 | | | 26,046 | | |
| Total average liabilities and loan capital | 207,433 | | | 152,027 | | | 129,176 | | |
| Shareholders' equity | 18,197 | | | 7,684 | | | 7,005 | | |
| Total average liabilities, loan capital and shareholders' equity | 225,630 | | | 159,711 | | | 136,181 | | |
| Percentage of total average liabilities applicable to overseas operations | 16.6% | | | 18.7% | | | 16.9% | | |

Notes to the financial statements**NOTE 4 Average Balance Sheet and Related Interest continued**

| Changes in Net Interest Income: Volume and Rate Analysis | 30/06/01 vs 30/06/00 Changes due to | | | 30/06/00 vs 30/06/99 Changes due to | | |
|---|--|--------------|--------------|--|--------------|--------------|
| | Volume \$M | Rate \$M | Total \$M | Volume \$M | Rate \$M | Total \$M |
| Interest Earning Assets | | | | | | |
| Cash and liquid assets | | | | | | |
| Australia | 24 | 5 | 29 | 16 | 4 | 20 |
| Overseas | 1 | 2 | 3 | - | - | - |
| Receivables due from other financial institutions | | | | | | |
| Australia | 49 | (2) | 47 | 20 | 13 | 33 |
| Overseas | 20 | 22 | 42 | (13) | 6 | (7) |
| Deposits with regulatory authorities | | | | | | |
| Australia | - | - | - | - | - | - |
| Overseas | - | - | - | - | - | - |
| Trading securities | | | | | | |
| Australia | 113 | 79 | 192 | 55 | (8) | 47 |
| Overseas | 37 | 25 | 62 | 12 | (10) | 2 |
| Investment securities | | | | | | |
| Australia | (58) | 41 | (17) | 62 | 27 | 89 |
| Overseas | 59 | 29 | 88 | 39 | 33 | 72 |
| Loans, advances and other receivables | | | | | | |
| Australia | 1,752 | 548 | 2,300 | 817 | (15) | 802 |
| Overseas | 213 | 121 | 334 | 56 | (19) | 37 |
| Other interest earning assets | - | 2 | 2 | - | 2 | 2 |
| Intragroup loans | | | | | | |
| Australia | - | - | - | - | - | - |
| Overseas | 22 | 1 | 24 | 139 | 6 | 145 |
| Change in interest income including intragroup | 2,257 | 848 | 3,106 | 1,177 | 65 | 1,242 |
| Intragroup eliminations | (22) | (1) | (24) | (139) | (6) | (145) |
| Change in interest income | 2,238 | 844 | 3,082 | 1,014 | 83 | 1,097 |
| Interest Bearing Liabilities and Loan Capital | | | | | | |
| Time Deposits | | | | | | |
| Australia | 228 | 275 | 503 | 368 | 57 | 425 |
| Overseas | 78 | 150 | 228 | (32) | (75) | (107) |
| Savings Deposits | | | | | | |
| Australia | 52 | 92 | 144 | 15 | 27 | 42 |
| Overseas | - | 16 | 16 | (4) | (10) | (14) |
| Other demand deposits | | | | | | |
| Australia | 258 | 112 | 370 | 16 | 54 | 70 |
| Overseas | (1) | 19 | 18 | 6 | (2) | 4 |
| Payables due to other financial institutions | | | | | | |
| Australia | 17 | (8) | 9 | 18 | 3 | 21 |
| Overseas | 33 | (10) | 23 | 20 | 49 | 69 |
| Debt issues | | | | | | |
| Australia | 563 | 125 | 687 | (4) | 22 | 18 |
| Overseas | 130 | 4 | 134 | 216 | 109 | 325 |
| Loan capital | | | | | | |
| Australia | 141 | 23 | 164 | 35 | 14 | 49 |
| Overseas | 4 | (3) | 1 | 3 | 3 | 6 |
| Other interest bearing liabilities | | | | | | |
| Intragroup borrowings | | | | | | |
| Australia | 22 | 2 | 24 | 139 | 6 | 145 |
| Overseas | - | - | - | - | - | - |
| Change in interest expense including intragroup | 1,392 | 949 | 2,341 | 696 | 354 | 1,050 |
| Intragroup eliminations | (22) | (1) | (24) | (139) | (6) | (145) |
| Change in interest expense | 1,366 | 951 | 2,317 | 590 | 315 | 905 |
| Change in net interest income | 872 | (107) | 765 | 424 | (232) | 192 |
| Change due to variation in time periods | | | (10) | | | |

Notes to the financial statements

NOTE 4 Average Balance Sheet and Related Interest continued

Changes in Net Interest Income: Volume and Rate Analysis

The preceding table shows the movement in interest income and expense due to changes in volume and changes in interest rates. Volume variances reflect the change in interest from the prior period due to movement in the average balance. Rate variance reflects

the change in interest from the prior year due to changes in interest rates.

Volume and rate variance for total interest earning assets and liabilities have been calculated separately (rather than being the sum of the individual categories).

| | 2001 \$M | 2000 \$M | GROUP 1999 \$M |
|---------------------------------|-------------|-------------|----------------------|
| Net interest income | 4,474 | 3,719 | 3,527 |
| Average interest earning assets | 160,607 | 129,163 | 114,271 |

Interest Margins and Spreads

Interest spread represents the difference between the average interest rate earned and the average interest rate paid on funds.

Interest margin represents net interest income as a percentage of average interest earning assets. The calculations for Australia and Overseas include intragroup cross border loans/borrowings and associated interest.

| | % | % | % |
|--|------|--------|--------|
| Australia | | | |
| Interest spread adjusted for interest forgone on non accrual and restructured loans ⁽¹⁾ | 2.56 | 2.71 | 3.00 |
| Interest forgone on non accrual and restructured loans | - | - | (0.02) |
| Interest Spread ⁽²⁾ | 2.56 | 2.71 | 2.98 |
| Benefit of net free liabilities, provisions and equity ⁽³⁾ | 0.43 | 0.42 | 0.39 |
| Australia Interest Margin ⁽⁴⁾ | 2.99 | 3.13 | 3.37 |
| Overseas | | | |
| Interest spread adjusted for interest forgone on non accrual and restructured loans ⁽¹⁾ | 1.06 | 1.24 | 1.45 |
| Interest forgone on non accrual and restructured loans | - | (0.02) | (0.06) |
| Interest Spread ⁽²⁾ | 1.06 | 1.22 | 1.39 |
| Benefit of net free liabilities, provisions and equity ⁽³⁾ | 0.55 | 0.30 | 0.38 |
| Overseas Interest Margin ⁽⁴⁾ | 1.61 | 1.52 | 1.77 |
| Group | | | |
| Interest spread adjusted for interest forgone on non accrual and restructured loans ⁽¹⁾ | 2.32 | 2.48 | 2.71 |
| Interest forgone on non accrual and restructured loans | - | (0.01) | (0.02) |
| Interest Spread ⁽²⁾ | 2.32 | 2.47 | 2.69 |
| Benefit of net free liabilities, provisions and equity ⁽³⁾ | 0.46 | 0.41 | 0.40 |
| Group Interest Margin ⁽⁴⁾ | 2.78 | 2.88 | 3.09 |

⁽¹⁾ Represents interest forgone on loans on which the Group earns no interest or interest at below market rates.

⁽²⁾ Difference between the average interest rate earned and the average interest rate paid on funds.

⁽³⁾ A portion of the Group's interest earning assets is funded by net interest free liabilities and shareholders' equity. The benefit to the Group of these interest free funds is the amount it would cost to replace them at the average cost of funds.

⁽⁴⁾ Net interest income divided by average interest earning assets for the period.

Notes to the financial statements

NOTE 5 Income Tax Expense

Income tax expense shown in the financial statements differs from the prima facie tax charge calculated at current taxation rates on operating profit.

| | GROUP | | | BANK | |
|---|--------------|--------------|--------------|--------------|--------------|
| | 2001 | 2000 | 1999 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M | \$M |
| Operating profit from ordinary activities before income tax | | | | | |
| Banking | 2,174 | 2,147 | 2,033 | 2,248 | 1,701 |
| Life insurance | 988 | 1,341 | 99 | - | - |
| Funds Management | 243 | 50 | 28 | - | - |
| | 3,405 | 3,538 | 2,160 | 2,248 | 1,701 |
| Prima facie income tax at 34% (30 June 2000 and prior 36%) | | | | | |
| Banking | 739 | 773 | 732 | 764 | 612 |
| Life insurance | 336 | 483 | 36 | - | - |
| Funds Management | 83 | 18 | 9 | - | - |
| | 1,158 | 1,274 | 777 | 764 | 612 |
| Add (or deduct) permanent differences expressed on a tax effect basis: | | | | | |
| Current Period | | | | | |
| Tax rate change | 3 | 23 | - | (11) | 38 |
| Specific provisions for offshore bad and doubtful debts not tax effected | 8 | (22) | 1 | 7 | (24) |
| Taxation rebates (net of accruals) | (35) | (38) | (27) | (138) | (75) |
| Tax adjustment referable to policy holder income ⁽¹⁾ | 62 | 28 | - | - | - |
| Non assessable income - life insurance surplus ⁽¹⁾ | (43) | (62) | (36) | - | - |
| Change in excess of net market value over net assets of life insurance controlled entities ⁽¹⁾ | (161) | (402) | - | - | - |
| Non deductible goodwill amortisation | 115 | 21 | 17 | 17 | 14 |
| Non-assessable capital gains | (38) | - | - | (38) | - |
| Tax losses recognised | (65) | (11) | (10) | (64) | (11) |
| Employee share acquisition plan | (8) | (9) | - | (8) | (9) |
| Other | 26 | (3) | (2) | 38 | 40 |
| | (136) | (475) | (57) | (197) | (27) |
| Prior Periods | | | | | |
| Other | (29) | 1 | (6) | (18) | - |
| Total income tax expense | 993 | 800 | 714 | 549 | 585 |
| Income tax attributable to operating profit | | | | | |
| Banking | 705 | 739 | 704 | 549 | 585 |
| Life insurance | 194 | 47 | 1 | - | - |
| Funds management | 94 | 14 | 9 | - | - |
| | 993 | 800 | 714 | 549 | 585 |
| Income tax expense comprises: | | | | | |
| Current taxation provision | 820 | 730 | 744 | 416 | 536 |
| Deferred income (benefit)/tax provision | 193 | 137 | (24) | 184 | 128 |
| Future income tax benefit | (35) | (109) | (34) | (63) | (115) |
| Notional tax expense - leveraged leases | 11 | 34 | 8 | 7 | 29 |
| Other | 4 | 8 | 20 | 5 | 7 |
| Total Income Tax Expense | 993 | 800 | 714 | 549 | 585 |
| The components of income tax expense consist of the following: | | | | | |
| Current | | | | | |
| Australia | 765 | 677 | 710 | 416 | 535 |
| Overseas | 55 | 52 | 34 | - | - |
| | 820 | 729 | 744 | 416 | 535 |
| Deferred | | | | | |
| Australia | 168 | 73 | (46) | 133 | 50 |
| Overseas | 5 | (2) | 16 | - | - |
| | 173 | 71 | (30) | 133 | 50 |

⁽¹⁾ The prima facie life insurance income tax of \$336 million less these permanent differences equals the life insurance tax expense of \$194 million for 30 June 2001.

Notes to the financial statements**NOTE 5 Income Tax Expense continued**

| | GROUP | | | BANK | |
|---|--------------|-------------|-------------|-------------|-------------|
| | 2001 \$M | 2000 \$M | 1999 \$M | 2001 \$M | 2000 \$M |
| The significant temporary differences are as follows: | | | | | |
| Deferred income tax assets arising from: | | | | | |
| Provisions not tax deductible until expense incurred | 488 | 743 | 255 | 296 | 282 |
| Other | 206 | 156 | 78 | 62 | (45) |
| Future income tax benefits (Note 21) | 694 | 899 | 333 | 358 | 237 |
| Deferred income tax liabilities arising from: | | | | | |
| Leveraged leasing | 108 | 383 | 461 | 71 | 139 |
| Lease financing | 369 | 247 | 209 | 42 | 50 |
| Accelerated tax depreciation | 12 | 28 | 41 | 8 | 28 |
| Other | 613 | 541 | 222 | 256 | 147 |
| Total deferred income tax liabilities (Note 24) | 1,102 | 1,199 | 933 | 377 | 364 |
| Future income tax benefits attributable to tax losses carried forward as an asset | - | 181 | - | - | - |

Future income tax benefits not taken to account**Valuation allowance**

| | | | | | |
|---|------------|------|------|------------|------|
| Opening balance | 173 | 146 | 132 | 167 | 140 |
| Prior year adjustments | (2) | 7 | (12) | 4 | 7 |
| Benefits now taken to account | (65) | (11) | (10) | (64) | (11) |
| Benefits arising during the year not recognised | 40 | 31 | 36 | 14 | 31 |
| Closing balance (Note 21) | 146 | 173 | 146 | 121 | 167 |

NOTE 6 Dividends Provided For, Reserved or Paid**Ordinary Shares**

Interim ordinary dividend (fully franked) of 61 cents per share (2000: 58 cents, 1999: 49 cents)

Provision for interim ordinary dividend - cash component only **642** 405 275 **642** 405

Declared final ordinary dividend (fully franked) of 75 cents per share (2000: 72 cents, 1999: 66 cents)

Provision for final ordinary dividend - cash component only **765** 708 472 **765** 708
Other provision **5** - - **5** -

Preference Shares

Provision for preference dividend **9** - - **9** -

Dividends provided for payments in cash or paid **1,421** 1,113 747 **1,421** 1,113

Appropriations to Dividend Reinvestment Plan Reserve

Interim ordinary dividend **131** 118 183 **131** 118

Final ordinary dividend **168** 200 133 **168** 200

Dividends appropriated to Dividend Reinvestment Plan Reserve **299** 318 316 **299** 318

Total Dividends Provided for, Reserved or Paid **1,720** 1,431 1,063 **1,720** 1,431

The Bank changed its dividend policy for the year ended 30 June 2000. The amount of dividend to be paid is now based on profit after tax before goodwill amortisation and appraisal value uplift. Previously it was based on profit after tax.

Dividend Franking Account

After fully franking the final dividend to be paid for the Financial Year ended 30 June 2001 the amount of franking credits available as at 30 June 2001 to frank dividends for subsequent Financial Years is nil (30 June 2000: \$450 million). The 30 June 2000 franking account balance was fully utilised by the March 2001 share buy-back which was in part paid out of retained earnings.

This figure is based on the combined franking accounts of the Group at 30 June 2001 and has been adjusted for franking credits that will arise from the

payment of income tax payable on profits of the Financial Year ended 30 June 2001, franking debits that will arise from the payment of dividends proposed as at 30 June 2001 and franking credits that the Group may be prevented from distributing. The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. Dividend payments on or after 1 July 2001 will be franked at the 30% tax rate.

Notes to the financial statements**NOTE 6 Dividends Provided For, Reserved or Paid continued****Dividend History**

| Half Year Ended | Cents Per Share | Half Year Payout Ratio ⁽¹⁾ | Full Year Payout Ratio ⁽¹⁾ | Full Year Payout Ratio Cash Basis ⁽²⁾ | DRP Price \$ | DRP Participation Rate ⁽³⁾ |
|------------------|-----------------|---------------------------------------|---------------------------------------|--|--------------|---------------------------------------|
| 31 December 1998 | 49 | 64.3% | - | - | 24.50 | 43.6% |
| 30 June 1999 | 66 | 85.3% | 74.7% | 72.4% | 24.75 | 22.3% ⁽⁴⁾ |
| 31 December 1999 | 58 | 62.3% | - | - | 24.42 | 22.6% |
| 30 June 2000 | 72 | 48.8% | 53.0% | 85.3% | 27.31 | 18.6% |
| 31 December 2000 | 61 | 68.2% | - | - | 30.82 | 18.6% |
| 30 June 2001 | 75 | 74.0% | 71.2% | 75.5% | - | - |

⁽¹⁾ Dividend Payout Ratio: dividends provided for, reserved or paid divided by earnings after abnormals.

⁽²⁾ Payout ratio based on net profit after tax before goodwill amortisation and appraisal value uplift.

⁽³⁾ DRP Participation Rate: the percentage of total issued share capital participating in the Dividend Reinvestment Plan.

⁽⁴⁾ The decline in the participation rate from 43.6% to 22.3% in 1999 was due to the introduction of the cap on the participation in the DRP.

NOTE 7 Earnings Per Share

| | 2001 c | 2000 c | GROUP 1999 c |
|--|------------------|-----------|--------------------|
| Earnings Per Ordinary Share - Basic and Fully Diluted | 190 | 291 | 153 |
| | \$M | \$M | \$M |
| Reconciliation of earnings used in the calculation of earnings per share | | | |
| Operating profit after income tax | 2,412 | 2,738 | 1,446 |
| Less: Preference share dividend | (9) | - | - |
| Less: Outside equity interests | (14) | (38) | (24) |
| Earnings used in calculation of earnings per share | 2,389 | 2,700 | 1,422 |
| | Number of Shares | | |
| | M | M | M |
| Weighted average number of ordinary shares used in the calculation of earnings per share | 1,260 | 927 | 927 |
| | c | | |
| Cash Basis Earnings Per Ordinary Share (basic and fully diluted) - Before abnormal items ⁽¹⁾ | 179 | 181 | 159 |

⁽¹⁾ Abnormal income of net \$987 million after tax was recorded in the year ended 30 June 2000.

NOTE 8 Cash and Liquid Assets

| | GROUP | | BANK | |
|---|-------------|-------------|-------------|-------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Australia | | | | |
| Notes, coins and cash at bankers | 850 | 944 | 830 | 680 |
| Money at short call | 86 | 147 | - | - |
| Securities purchased under agreements to resell | 1,979 | 1,226 | 1,979 | 1,226 |
| Bills receivable and remittances in transit | 282 | 189 | 282 | 189 |
| Total Australia | 3,197 | 2,506 | 3,091 | 2,095 |
| Overseas | | | | |
| Notes, coins and cash at bankers | 198 | 35 | - | - |
| Money at short call | 175 | 32 | 57 | 8 |
| Bills receivable and remittances in transit | 1 | 2 | - | - |
| Agreements to resell | 138 | - | 138 | - |
| Total Overseas | 512 | 69 | 195 | 8 |
| Total Cash and Liquid Assets | 3,709 | 2,575 | 3,286 | 2,103 |

Notes to the financial statements**NOTE 9 Receivables from Other Financial Institutions**

| | GROUP | | BANK | |
|---|--------------|--------------|--------------|--------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Australia | 2,858 | 4,159 | 2,724 | 3,697 |
| Overseas | 1,764 | 995 | 1,071 | 632 |
| Total Receivables from Other Financial Institutions | 4,622 | 5,154 | 3,795 | 4,329 |

NOTE 10 Trading Securities**Australia**

Listed:

Australian Public Securities

| | | | | |
|---------------------------|-----|-----|-----|-----|
| Commonwealth and States | 99 | 168 | 99 | 90 |
| Local and semi-government | 340 | 590 | 340 | 309 |

| | | | | |
|-------------------|-------|-------|-------|-------|
| Bills of exchange | 1,588 | 2,771 | 1,588 | 1,444 |
| Other Securities | 36 | 340 | 1,039 | 204 |

Unlisted:

| | | | | |
|------------------|-----|-----|-----|-----|
| Commercial paper | 187 | 121 | 187 | 121 |
|------------------|-----|-----|-----|-----|

| | | | | |
|-------------------------|-----|-----|-----|-------|
| Certificates of deposit | 745 | 885 | 736 | 1,599 |
|-------------------------|-----|-----|-----|-------|

| | | | | |
|-------------------|-------|-----|-----|-----|
| Medium term notes | 1,100 | 605 | 296 | 488 |
|-------------------|-------|-----|-----|-----|

| | | | | |
|-----------------|----------------------------|--------------|--------------|--------------|
| Total Australia | 4,095⁽¹⁾ | 5,480 | 4,285 | 4,255 |
|-----------------|----------------------------|--------------|--------------|--------------|

Overseas

Listed:

| | | | | |
|-----------------------|-----|----|---|----|
| Government securities | 356 | 20 | 5 | 17 |
|-----------------------|-----|----|---|----|

| | | | | |
|-----------|-----|-----|-----|-----|
| Eurobonds | 617 | 322 | 617 | 322 |
|-----------|-----|-----|-----|-----|

| | | | | |
|-------------------|-----|-----|---|---|
| Bills of exchange | 950 | 763 | - | - |
|-------------------|-----|-----|---|---|

| | | | | |
|------------------|----|----|----|----|
| Other securities | 53 | 77 | 53 | 77 |
|------------------|----|----|----|----|

Unlisted:

| | | | | |
|------------------|-----|-----|---|---|
| Commercial paper | 375 | 349 | - | - |
|------------------|-----|-----|---|---|

| | | | | |
|------------------|-----|-----|----|----|
| Other securities | 463 | 336 | 60 | 21 |
|------------------|-----|-----|----|----|

| | | | | |
|----------------|--------------|--------------|------------|------------|
| Total Overseas | 2,814 | 1,867 | 735 | 437 |
|----------------|--------------|--------------|------------|------------|

| | | | | |
|--------------------------|--------------|--------------|--------------|--------------|
| Total Trading Securities | 6,909 | 7,347 | 5,020 | 4,692 |
|--------------------------|--------------|--------------|--------------|--------------|

⁽¹⁾ This reduction reflects the run-off of the Colonial State Bank trading portfolio.

NOTE 11 Investment Securities

| | GROUP | | | BANK | |
|---|--------------|--------------|--------------|--------------|--------------|
| | 2001 \$M | 2000 \$M | 1999 \$M | 2001 \$M | 2000 \$M |
| Australia | | | | | |
| Listed | | | | | |
| Australian Public Securities | | | | | |
| Commonwealth and States | 1,919 | 2,670 | 2,635 | 1,913 | 2,665 |
| Other securities and equity investments | 354 | 285 | 282 | 349 | 278 |
| Unlisted | | | | | |
| Bills of exchange | 85 | 30 | - | - | - |
| Medium term notes | 976 | 1,050 | 160 | 90 | 163 |
| Other securities and equity investments | 2 | 111 | 70 | - | 25 |
| Total Australia | 3,336 | 4,146 | 3,147 | 2,352 | 3,131 |
| Overseas | | | | | |
| Listed | | | | | |
| Government securities | | | | | |
| Treasury notes | 252 | 287 | 234 | 252 | 287 |
| Eurobonds | - | - | 5 | - | - |
| Other securities | 1,118 | 951 | 583 | 1,118 | 951 |
| Unlisted: | | | | | |
| Government securities | 666 | 767 | 484 | 215 | 712 |
| Unlisted: | | | | | |
| Government securities | 116 | - | 1 | - | - |
| Treasury notes | 6 | 5 | - | 6 | 5 |
| Certificates of deposit | 1,417 | 1,181 | 1,228 | 1,417 | 1,181 |
| Eurobonds | 212 | 141 | 317 | 212 | 141 |
| Medium term notes | 174 | 171 | 27 | 174 | 171 |
| Commercial paper | 29 | 159 | 228 | 29 | 159 |
| Floating rate notes | 1,422 | 578 | 470 | 823 | 126 |
| Other securities and equity investments | 957 | 763 | 463 | 275 | 305 |
| Total Overseas | 6,369 | 5,003 | 4,040 | 4,521 | 4,038 |
| Total Investment Securities | 9,705 | 9,149 | 7,187 | 6,873 | 7,169 |

Notes to the financial statements**NOTE 11 Investment Securities continued**

| | GROUP | | |
|---|-------------------------|--------------|--------------|
| | Market Value At 30 June | | |
| | 2001 | 2000 | 1999 |
| | \$M | \$M | \$M |
| Market Value | | | |
| Australia | | | |
| Australian Public Securities | | | |
| Commonwealth and States | 1,926 | 2,672 | 2,637 |
| Bills of exchange | 85 | 30 | - |
| Medium term notes | 982 | 1,057 | 171 |
| Other securities and equity investment | 463 | 407 | 333 |
| Total Australia | <u>3,456</u> | <u>4,166</u> | <u>3,141</u> |
| Overseas | | | |
| Government securities | 379 | 295 | 243 |
| Treasury notes | 6 | 5 | 5 |
| Certificates of deposit | 1,416 | 1,181 | 1,236 |
| Eurobonds | 1,343 | 1,094 | 924 |
| Medium Term Notes | 172 | 153 | 20 |
| Floating rate notes | 1,422 | 578 | 470 |
| Other securities and equity investments | 1,627 | 1,677 | 1,157 |
| Total Overseas | <u>6,365</u> | <u>4,983</u> | <u>4,055</u> |
| Total Investment Securities | <u>9,821</u> | <u>9,149</u> | <u>7,196</u> |
| Net Unrealised Surplus/(Deficit) | <u>116</u> | <u>-</u> | <u>9</u> |

Gross Unrealised Gains and Losses of Group

The following table sets out the gross unrealised gains and losses of the Group's Investment Securities.

| | At 30 June 2001 | | | | At 30 June 2000 | | | |
|--|-----------------|------------------|-----------|--------------|-----------------|------------------|------------|--------------|
| | Amortised | Gross Unrealised | | Fair | Amortised | Gross Unrealised | | Fair |
| | Cost | Gains | Losses | Value | Cost | Gains | Losses | Value |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | | | | |
| Australian Public Securities | | | | | | | | |
| Commonwealth and States | 1,919 | 24 | 17 | 1,926 | 2,670 | 13 | 11 | 2,672 |
| Bills of exchange | 85 | - | - | 85 | 30 | - | - | 30 |
| Medium term notes | 976 | 6 | - | 982 | 1,050 | 8 | 1 | 1,057 |
| Other securities and equity investments ⁽¹⁾ | 356 | 107 | - | 463 | 396 | 11 | - | 407 |
| Total Australia | <u>3,336</u> | <u>137</u> | <u>17</u> | <u>3,456</u> | <u>4,146</u> | <u>32</u> | <u>12</u> | <u>4,166</u> |
| Overseas | | | | | | | | |
| Government securities | 368 | 11 | - | 379 | 287 | 9 | 1 | 295 |
| Treasury notes | 6 | - | - | 6 | 5 | - | - | 5 |
| Certificates of deposit | 1,417 | - | 1 | 1,416 | 1,181 | - | - | 1,181 |
| Eurobonds | 1,330 | 43 | 30 | 1,343 | 1,092 | 40 | 38 | 1,094 |
| Medium term notes | 174 | 1 | 3 | 172 | 171 | - | 18 | 153 |
| Floating rate notes | 1,422 | 5 | 5 | 1,422 | 578 | 1 | 1 | 578 |
| Other securities and equity investments | 1,652 | 8 | 33 | 1,627 | 1,689 | 20 | 32 | 1,677 |
| Total Overseas | <u>6,369</u> | <u>68</u> | <u>72</u> | <u>6,365</u> | <u>5,003</u> | <u>70</u> | <u>90</u> | <u>4,983</u> |
| Total Investment Securities | <u>9,705</u> | <u>205</u> | <u>89</u> | <u>9,821</u> | <u>9,149</u> | <u>102</u> | <u>102</u> | <u>9,149</u> |

Investment securities are carried at cost or amortised cost and are purchased with the intent of being held to maturity. The investment portfolio is managed in the context of the full balance sheet of the Bank.

⁽¹⁾ Equity derivatives are in place to hedge equity market risk in respect of structured equity products for customers. There are \$107 million of net

deferred losses on these contracts (2000: \$11 million net deferred losses) which offset the above unrealised gains and these are disclosed within Note 39. At the end of the financial year \$21 million of net deferred gains (2000: \$71 million of deferred losses) are included in the amortised cost value.

Notes to the financial statements

NOTE 11 Investment Securities continued

Maturity Distribution and Average Yield

The table analyses the maturities and weighted average yields of the Group's holdings of investment securities.

| | Maturity Period at 30 June 2001 | | | | | | | | | |
|---|---------------------------------|-------|--------------|-------|---------------|------|------------------|------|-------|--------------|
| | 1 to 12 months | | 1 to 5 years | | 5 to 10 years | | 10 years or more | | Total | |
| | \$M | % | \$M | % | \$M | % | \$M | % | \$M | |
| Australia | | | | | | | | | | |
| Australian Public Securities | | | | | | | | | | |
| Commonwealth and States | 90 | 5.91 | 717 | 5.76 | 1,112 | 6.32 | - | - | - | 1,919 |
| Bank Bills | 85 | 5.25 | - | - | - | - | - | - | - | 85 |
| Medium Term Notes | 20 | 6.35 | 956 | 13.17 | - | - | - | - | - | 976 |
| Other securities, commercial paper and equity investments | 277 | 5.17 | 37 | 6.67 | 42 | 7.09 | - | - | - | 356 |
| Total Australia | 472 | | 1,710 | | 1,154 | | - | | | 3,336 |
| Overseas | | | | | | | | | | |
| Government securities | 116 | 17.81 | 174 | 3.86 | 78 | 1.15 | - | - | - | 368 |
| Treasury Notes | 6 | 1.99 | - | - | - | - | - | - | - | 6 |
| Certificates of Deposit | 1,417 | 4.21 | - | - | - | - | - | - | - | 1,417 |
| Eurobonds | 101 | 8.16 | 771 | 5.45 | 458 | 5.54 | - | - | - | 1,330 |
| Medium Term Notes | 35 | 6.52 | 139 | 5.75 | - | - | - | - | - | 174 |
| Floating rate notes | 59 | 5.36 | 598 | 5.27 | 607 | 5.07 | 158 | 5.19 | - | 1,422 |
| Other securities, commercial paper and equity investments | 717 | 5.30 | 625 | 5.32 | 241 | 5.41 | 69 | 5.77 | - | 1,652 |
| Total Overseas | 2,451 | | 2,307 | | 1,384 | | 227 | | | 6,369 |
| Total Investment Securities | 2,923 | | 4,017 | | 2,538 | | 227 | | | 9,705 |
| Maturities at Fair Value | 3,022 | | 3,899 | | 2,674 | | 226 | | | 9,821 |

Additional Disclosure

Proceeds at or close to maturity of investment securities were \$19,697 million (2000: \$15,212 million, 1999: \$12,431 million).

Proceeds from sale of investment securities were \$28 million (2000: \$17 million, 1999: \$146 million).

Realised capital gains were \$3 million and realised capital losses were \$1 million (2000: realised capital gains \$12 million, 1999: realised capital gains \$85 million and realised capital losses \$6 million).

Notes to the financial statements**NOTE 12 Loans, Advances and Other Receivables**

| | GROUP | | BANK | |
|--|----------------|-----------------------|----------------|----------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Australia | | | | |
| Overdrafts | 2,785 | 2,816 | 2,785 | 2,435 |
| Housing loans | 65,466 | 63,471 | 65,300 | 51,761 |
| Credit card outstandings | 3,962 | 3,501 | 3,962 | 3,033 |
| Lease financing | 4,497 | 4,863 ⁽¹⁾ | 2,421 | 1,706 |
| Bills discounted | 1,556 | 991 | 1,556 | 991 |
| Term loans | 40,650 | 40,281 ⁽¹⁾ | 34,604 | 27,779 |
| Redeemable preference share financing | 306 | 641 | 6 | 50 |
| Equity participation in leveraged leases | 1,536 | 1,659 | 543 | 617 |
| Other lending | 1,301 | 1,708 | 785 | 942 |
| Total Australia | 122,059 | 119,931 | 111,962 | 89,314 |
| Overseas | | | | |
| Overdrafts | 1,304 | 1,080 | - | - |
| Housing loans | 8,045 | 7,266 | 55 | 65 |
| Credit card outstandings | 232 | 208 | - | - |
| Lease financing | 256 | 228 | 94 | 73 |
| Term loans | 6,790 | 6,837 | 2,390 | 2,703 |
| Other Lending | 509 | 218 | - | - |
| Total Overseas | 17,136 | 15,837 | 2,539 | 2,841 |
| Gross Loans, Advances and Other Receivables | 139,195 | 135,768 | 114,501 | 92,155 |
| Less - | | | | |
| Provisions for impairment (Note 13) | | | | |
| General provision | (1,399) | (1,358) | (1,240) | (1,004) |
| Specific provision against loans and advances | (233) | (431) | (190) | (175) |
| Unearned income | | | | |
| Term loans | (643) | (558) | (64) | - |
| Lease financing | (514) | (691) | (282) | (226) |
| Leveraged leases | (186) | (216) | (22) | (37) |
| Interest reserved | (68) | (131) | (60) | (34) |
| Unearned tax remissions on leveraged leases | (93) | (120) | (9) | (18) |
| | (3,136) | (3,505) | (1,867) | (1,494) |
| Net Loans, Advances and Other Receivables | 136,059 | 132,263 | 112,634 | 90,661 |
| Lease receivables, net of unearned income (included above) | | | | |
| Current | 1,419 | 1,695 | 727 | 507 |
| Non current | 2,820 | 3,407 | 1,505 | 1,046 |
| | 4,239 | 5,102 | 2,232 | 1,553 |

⁽¹⁾ Prior year figures have been adjusted to align with categories as at 30 June 2001 following the amalgamation of Colonial operations and product systems.

Leasing arrangements

Retail Financial Services provides vehicle and equipment lease finance to a broad range of industries including transport, service, earthmoving, construction, manufacturing and mining. Most lease finance arrangements are for terms between 3 and 5 years and rentals are generally payable monthly in advance.

Institutional Banking provides leasing services and hire purchase to corporate clients for a range of equipment. They also arrange off balance sheet finance for large scale long life plant and equipment across different tax jurisdictions.

| | GROUP | | BANK | |
|---|--------------|--------------|--------------|--------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Finance Leases | | | | |
| Minimum lease payments receivable: | | | | |
| No later than one year | 1,696 | 1,704 | 838 | 562 |
| Later than one year but not later than five years | 2,786 | 3,276 | 1,506 | 1,179 |
| Later than five years | 271 | 111 | 171 | 38 |
| Lease financing | 4,753 | 5,091 | 2,515 | 1,779 |
| Leverage Leases | | | | |
| Minimum lease payments receivable: | | | | |
| No later than one year | 246 | 119 | 221 | 67 |
| Later than one year but not later than five years | 640 | 697 | 279 | 426 |
| Later than five years | 650 | 843 | 43 | 124 |
| Equity participation in leveraged lease | 1,536 | 1,659 | 543 | 617 |

Notes to the financial statements**NOTE 12 Loans, Advances and Other Receivables continued****Maturity Distribution of Loans**

The following table sets forth the contractual maturity distribution of the Group's loans, advances and other receivables (excluding bank acceptances) at 30 June 2001.

| | GROUP | | | |
|--|--|--|--|----------------------|
| | Maturity Period at 30 June 2001 | | | |
| | Maturing One Year or Less \$M | Maturing Between One & Five Years \$M | Maturing After Five Years \$M | Total \$M |
| Australia | | | | |
| Government and Public Authorities | 385 | 757 | 513 | 1,655 |
| Agriculture, Forestry and Fishing | 1,618 | 2,036 | 1,080 | 4,734 |
| Financial, Investment and Insurance | 3,038 | 1,029 | 603 | 4,670 |
| Real Estate | | | | |
| Mortgage ⁽¹⁾ | 933 | 13,711 | 50,822 | 65,466 |
| Construction ⁽²⁾ | 1,432 | 872 | 244 | 2,548 |
| Personal | 4,076 | 6,317 | 183 | 10,576 |
| Lease Financing | 2,497 | 3,508 | 623 | 6,628 |
| Other Commercial and Industrial | 13,476 | 9,022 | 3,284 | 25,782 |
| Total Australia | 27,455 | 37,252 | 57,352 | 122,059 |
| Overseas | | | | |
| Government and Public Authorities | 21 | 138 | 6 | 165 |
| Agriculture, Forestry and Fishing | 193 | 544 | 521 | 1,258 |
| Financial, Investment and Insurance | 703 | 1,797 | 324 | 2,824 |
| Real Estate | | | | |
| Mortgage ⁽¹⁾ | 1,277 | 2,795 | 3,973 | 8,045 |
| Construction ⁽²⁾ | 52 | 71 | 54 | 177 |
| Personal | 332 | 45 | 63 | 440 |
| Lease Financing | 146 | - | - | 146 |
| Other Commercial and Industrial | 1,944 | 972 | 1,165 | 4,081 |
| Total Overseas | 4,668 | 6,362 | 6,106 | 17,136 |
| Gross Loans, Advances and Other Receivables | 32,123 | 43,614 | 63,458 | 139,195 |
| Interest Rate Sensitivity of Lending | | | | |
| Australia | 21,029 | 19,731 | 35,738 | 76,498 |
| Overseas | 3,784 | 3,278 | 2,451 | 9,513 |
| Total Variable Interest Rates | 24,813 | 23,009 | 38,189 | 86,011 |
| Australia | 6,426 | 17,521 | 21,614 | 45,561 |
| Overseas | 884 | 3,084 | 3,655 | 7,623 |
| Total Fixed Interest Rates | 7,310 | 20,605 | 25,269 | 53,184 |
| Gross Loans, Advances and Other Receivables | 32,123 | 43,614 | 63,458 | 139,195 |

⁽¹⁾ Principally owner occupied housing. While most of these loans would have a contractual term of 20 years or more, the actual average term of the portfolio is less than 5 years.

⁽²⁾ Financing real estate and land development projects.

Notes to the financial statements**NOTE 13 Provisions For Impairment**

| | GROUP | | | | | BANK | |
|---|--------------|--------------|--------------|--------------|-------------|--------------|--------------|
| | 2001 | 2000 | 1999 | 1998 | 1997 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Provisions for Impairment | | | | | | | |
| General Provisions | | | | | | | |
| Opening balance | 1,358 | 1,081 | 1,076 | 690 | 613 | 1,004 | 932 |
| Abnormal charge | - | - | - | 370 | - | - | - |
| Charge against profit | 385 | 196 | 247 | 165 | 36 | 276 | 191 |
| Acquired provisions, including fair value adjustments | 51 | 214 | - | - | - | 229 | - |
| Transfer to specific provisions | (411) | (140) | (239) | (155) | - | (291) | (137) |
| Bad debts recovered | 88 | 54 | 51 | 48 | 80 | 54 | 45 |
| Adjustments for exchange rate fluctuations and other items | (29) | (3) | (7) | - | 2 | (6) | 1 |
| | 1,442 | 1,402 | 1,128 | 1,118 | 731 | 1,266 | 1,032 |
| Bad debts written off | (43) | (44) | (47) | (42) | (41) | (26) | (28) |
| Closing balance | 1,399 | 1,358 | 1,081 | 1,076 | 690 | 1,240 | 1,004 |
| Specific Provisions | | | | | | | |
| Opening balance | 432 | 275 | 279 | 241 | 318 | 175 | 209 |
| Charge against profit | | | | | | | |
| New and increased provisions | - | - | - | 105 | 152 | - | - |
| Write-back of provisions no longer required | - | - | - | (37) | (90) | - | - |
| Acquired provisions, including fair value adjustments | 6 | 219 | - | - | - | 28 | - |
| Transfer from general provision for | | | | | | | |
| New and increased provisioning | 495 | 236 | 284 | 175 | - | 312 | 208 |
| Less write-back of provisions no longer required | (84) | (96) | (45) | (20) | - | (21) | (71) |
| Net transfer | 411 | 140 | 239 | 155 | - | 291 | 137 |
| Adjustments for exchange rate fluctuations and other items | (17) | 5 | (8) | (6) | 6 | 21 | (3) |
| | 832 | 639 | 510 | 458 | 386 | 515 | 343 |
| Bad debts written off | (598) | (207) | (235) | (179) | (145) | (325) | (168) |
| Closing balance | 234 | 432 | 275 | 279 | 241 | 190 | 175 |
| Total Provisions for Impairment | 1,633 | 1,790 | 1,356 | 1,355 | 931 | 1,430 | 1,179 |
| Specific provisions for impairment comprise the following segments: | | | | | | | |
| Provisions against loans and advances | 233 | 431 | 275 | 279 | 241 | 190 | 175 |
| Provisions for diminution | 1 | 1 | - | - | - | - | - |
| Total | 234 | 432 | 275 | 279 | 241 | 190 | 175 |
| | % | % | % | % | % | % | % |
| Provision Ratios ⁽¹⁾ | | | | | | | |
| Specific provisions for impairment as % of gross impaired assets net of interest reserved | 36.06 | 43.03 | 46.69 | 37.60 | 30.24 | 36.19 | 34.93 |
| General provisions as % of risk weighted assets | 1.01 | 1.06 | 1.09 | 1.14 | 0.79 | 0.94 | 0.92 |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Charge to profit and loss for bad and doubtful debts comprises: | | | | | | | |
| General provisions | 385 | 196 | 247 | 165 | 36 | 276 | 191 |
| Specific provisions | - | - | - | 68 | 62 | - | - |
| Total Charge for Bad and Doubtful Debts | 385 | 196 | 247 | 233 | 98 | 276 | 191 |
| Ratio of net charge-offs during the period to Average gross loans, advances and other receivables outstanding during the period | 0.28% | 0.16% | 0.25% | 0.26% | 0.11% | 0.27% | 0.22% |

⁽¹⁾ Ratios have been restated for 1998 based on the amended definition of non accruals introduced with effect from 31 December 1998.

Notes to the financial statements**NOTE 13 Provisions For Impairment continued**

| | GROUP | | BANK | |
|--|--------------|-------------|--------------|-------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Total charge for bad and doubtful debts | 385 | 196 | 276 | 191 |
| The charge is required for | | | | |
| Specific Provisioning | | | | |
| New and increased provisioning | 495 | 236 | 312 | 208 |
| Less provisions no longer required | (84) | (96) | (21) | (71) |
| Net specific provisioning | 411 | 140 | 291 | 137 |
| Provided from general provision | (411) | (140) | (291) | (137) |
| Charge to profit and loss | - | - | - | - |
| General Provisioning | | | | |
| Direct write offs | 35 | 34 | 26 | 28 |
| Recoveries of amounts previously written off | (88) | (54) | (54) | (45) |
| Movement in general provision | 27 | 76 | 13 | 71 |
| Funding of specific provisions | 411 | 140 | 291 | 137 |
| Charge to profit and loss | 385 | 196 | 276 | 191 |
| Total Charge for Bad and Doubtful Debts | 385 | 196 | 276 | 191 |

Specific Provisions for Impairment by Industry Category

The following table sets forth the Group's specific provisions for impairment by industry category as at 30 June 1997, 1998, 1999, 2000 and 2001.

| | 2001 | 2000 | 1999 | 1998 | At 30 June |
|-------------------------------------|------------|------|------|------|-------------|
| | \$M | \$M | \$M | \$M | 1997 \$M |
| Australia | | | | | |
| Government and Public Authorities | - | - | - | - | - |
| Agriculture, Forestry and Fishing | 8 | 35 | 15 | 20 | 21 |
| Financial, Investment and Insurance | 24 | 23 | 23 | 16 | 22 |
| Real Estate | | | | | |
| Mortgage ⁽¹⁾ | 4 | 8 | 4 | 3 | 4 |
| Construction ⁽²⁾ | 6 | 6 | 35 | 8 | 11 |
| Personal | 28 | 17 | 15 | 14 | 12 |
| Lease Financing | 7 | 6 | 4 | - | - |
| Other Commercial and Industrial | 77 | 110 | 82 | 113 | 152 |
| Total Australia | 154 | 205 | 178 | 174 | 222 |
| Overseas | | | | | |
| Government and Public Authorities | 15 | 13 | - | - | - |
| Agriculture, Forestry and Fishing | - | - | - | 1 | 1 |
| Financial, Investment and Insurance | 4 | 1 | - | - | 2 |
| Real Estate | | | | | |
| Mortgage ⁽¹⁾ | 7 | 3 | 3 | 5 | - |
| Construction ⁽²⁾ | - | - | - | 10 | - |
| Personal | 3 | 69 | 2 | - | - |
| Lease Financing | - | - | - | - | - |
| Other Commercial and Industrial | 51 | 141 | 92 | 89 | 16 |
| Total Overseas | 80 | 227 | 97 | 105 | 19 |
| Total Specific Provisions | 234 | 432 | 275 | 279 | 241 |

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Financing real estate and land development projects.

Notes to the financial statements**NOTE 13 Provisions For Impairment continued****Bad Debts Written Off by Industry Category**

The following table sets forth the Group's bad debts written-off and bad debts recovered for Financial Years 1997, 1998, 1999, 2000 and 2001.

| | 2001 | 2000 | 1999 | Year ended 30 June | |
|-------------------------------------|------|------|------|--------------------|------|
| | \$M | \$M | \$M | 1998 | 1997 |
| | | | | \$M | \$M |
| Australia | | | | | |
| Government and Public Authorities | - | - | - | - | - |
| Agriculture, Forestry and Fishing | 10 | 6 | 7 | 9 | 15 |
| Financial, Investment and Insurance | 1 | 2 | 4 | 4 | 4 |
| Real Estate | | | | | |
| Mortgage ⁽¹⁾ | 10 | 8 | 9 | 11 | 9 |
| Construction ⁽²⁾ | 14 | 24 | 7 | 6 | 14 |
| Personal | 142 | 104 | 94 | 86 | 58 |
| Lease Financing | 16 | 11 | 11 | 6 | 5 |
| Other Commercial and Industrial | 301 | 90 | 71 | 79 | 69 |
| Total Australia | 494 | 245 | 203 | 201 | 174 |
| Overseas | | | | | |
| Government and Public Authorities | - | - | - | - | - |
| Agriculture, Forestry and Fishing | - | - | - | - | - |
| Financial, Investment and Insurance | 6 | - | - | 3 | - |
| Real Estate | | | | | |
| Mortgage ⁽¹⁾ | 1 | 1 | 1 | 1 | 1 |
| Construction ⁽²⁾ | - | - | 14 | - | 2 |
| Personal | 38 | 4 | - | 6 | 3 |
| Lease Financing | - | - | 3 | - | - |
| Other Commercial and Industrial | 102 | 1 | 61 | 10 | 6 |
| Total Overseas | 147 | 6 | 79 | 20 | 12 |
| Gross Bad Debts Written Off | 641 | 251 | 282 | 221 | 186 |
| Bad Debts Recovered | | | | | |
| Australia | 59 | 46 | 48 | 46 | 63 |
| Overseas | 29 | 8 | 3 | 2 | 17 |
| Bad Debts Recovered | 88 | 54 | 51 | 48 | 80 |
| Net Bad Debts Written Off | 553 | 197 | 231 | 173 | 106 |

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Financing real estate and land development projects.

Notes to the financial statements**NOTE 13 Provisions For Impairment continued****Bad Debts Recovered by Industry Category**

The following table sets forth the Group's bad debts recovered by industry category for Financial Years 1997, 1998, 1999, 2000 and 2001.

| | 2001 | 2000 | 1999 | Year ended 30 June | |
|-------------------------------------|-----------|-----------|-----------|--------------------|-----------|
| | \$M | \$M | \$M | 1998 | 1997 |
| | | | | \$M | \$M |
| Australia | | | | | |
| Government and Public Authorities | - | - | - | - | - |
| Agriculture, Forestry and Fishing | - | 2 | 2 | 4 | 5 |
| Financial, Investment and Insurance | 9 | 1 | 2 | 6 | 8 |
| Real Estate | | | | | |
| Mortgage ⁽¹⁾ | 1 | 1 | - | - | - |
| Construction ⁽²⁾ | 1 | 2 | 1 | 1 | 1 |
| Personal | 30 | 28 | 27 | 21 | 16 |
| Lease Financing | 1 | 2 | 2 | 2 | 2 |
| Other Commercial and Industrial | 17 | 10 | 14 | 12 | 31 |
| Total Australia | 59 | 46 | 48 | 46 | 63 |
| Overseas | | | | | |
| Government and Public Authorities | - | - | - | - | - |
| Agriculture, Forestry and Fishing | - | - | - | - | - |
| Financial, Investment and Insurance | - | 2 | - | - | 2 |
| Real Estate | | | | | |
| Mortgage ⁽¹⁾ | - | - | - | - | - |
| Construction ⁽²⁾ | 1 | 1 | - | - | 2 |
| Personal | 3 | 3 | 3 | 2 | 1 |
| Lease Financing | - | - | - | - | - |
| Other Commercial and Industrial | 25 | 2 | - | - | 12 |
| Total Overseas | 29 | 8 | 3 | 2 | 17 |
| Bad Debts Recovered | 88 | 54 | 51 | 48 | 80 |

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Financing real estate and land development projects.

Notes to the financial statements

NOTE 14 Credit Risk Concentrations

Management of the Credit Business

The Group has clearly defined credit policies for the approval and management of credit risk. Credit underwriting standards, which incorporate income/repayment capacity, acceptable terms and security and loan documentation tests exist for all products.

The Group relies, in the first instance, on the assessed integrity and ability of the debtor or counterparty to meet its contracted financial obligations for repayment. Collateral security, in the form of real property or a floating charge is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance is generally secured against real estate while short term revolving consumer credit is generally unsecured.

The credit risk portfolio is divided into two segments, statistically managed and credit risk rated managed.

Statistically managed exposures generally comprise consumer facilities of less than \$250,000. Statistically managed exposures are generally not individually reviewed unless arrears occur. Statistically managed portfolios are reviewed by business unit Credit Support and Monitoring Units with an overview by the Risk Asset Review unit.

Facilities in the statistically managed segment become classified for remedial management by centralised units based on arrears status. Impaired assets in this segment are those 'classified' facilities which are not well secured and past due 180 days or more. Most of these facilities are written off immediately on becoming past due 180 days or more.

Credit risk rated managed exposures generally comprise business and corporate exposures, including bank and government exposures. Credit risk rated managed exposures are required to be reviewed at least annually. The risk rated segment is subject to inspection by the Risk Asset Review unit, which is independent of the business units and which reports quarterly on its findings to the Board Risk Committee.

Most risk rated portfolios are reviewed on a random basis, usually within a period of twenty four months, by the Risk Asset Review unit. High risk portfolios are reviewed more frequently. Credit processes, including compliance with policy and underwriting standards, and application of risk ratings, are examined and reported on where cases of non compliance are observed.

Facilities in the credit risk rated managed segment become classified for remedial management by centralised units based on assessment in the risk rating system, which for each exposure makes an assessment of the risk of default, and then the risk of loss if default should occur. These facilities are generally those classified as troublesome (which equate to the APRA classifications of special mention and substandard) and impaired assets. Impaired assets in this segment are those classified facilities where either a specific provision for impairment has been raised, the facility is maintained on a cash basis, a loss of principal or interest is anticipated, facilities have been restructured or other assets have been accepted in satisfaction of an outstanding debt. Loans are generally classified as non-accrual when receivership, insolvency or bankruptcy occurs. Provisions for impairment are raised for an amount equal to the difference between the exposure and the estimated realisable market value of the security net of estimated realisation costs.

A centralised exposure management system records all significant credit risks borne by the Group.

The Risk Committee of the Board operates under a charter of the Board in terms of which the Committee oversees the Bank's credit management policies and practices. The Committee usually meets every two months, and more often if required.

The Group uses a portfolio approach to the management of its credit risk. A key element is a well diversified portfolio. The Group is using various portfolio management tools to assist in diversifying the credit portfolio. The Bank is involved in credit derivative transactions, has purchased various assets in the market and has carried out various asset securitisations and a Collateralised Loan Obligation issue.

Notes to the financial statements

NOTE 14 Credit Risk Concentrations continued

Total Gross Credit Risk by Industry

The following table sets out the Group's Total Gross Credit Risk by industry as at 30 June 1997, 1998, 1999, 2000 and 2001. The industry profile of the loans, advances and other receivables content for the five financial years to 30 June 2001 is shown on page 95.

| | 2001 | 2000 | 1999 | 1998 | At 30 June 1997 |
|-------------------------------------|----------------|----------------|----------------|----------------|--------------------|
| | \$M | \$M | \$M | \$M | \$M |
| Industry | | | | | |
| Australia | | | | | |
| Government and Public Authorities | 6,012 | 6,195 | 6,162 | 5,200 | 6,686 |
| Agriculture, Forestry and Fishing | 6,308 | 6,141 | 5,303 | 4,791 | 3,743 |
| Financial, Investment and Insurance | 22,490 | 20,908 | 15,430 | 17,654 | 14,878 |
| Real Estate | | | | | |
| Mortgage | 73,800 | 63,696 | 49,150 | 41,231 | 37,498 |
| Construction | 4,547 | 4,205 | 3,830 | 2,790 | 2,705 |
| Personal | 10,979 | 12,911 | 10,688 | 8,659 | 7,183 |
| Lease Financing | 6,628 | 6,937 | 3,100 | 1,940 | 4,277 |
| Other Commercial and Industrial | 42,893 | 47,297 | 34,955 | 34,145 | 29,116 |
| Total Australia | 173,657 | 168,290 | 128,618 | 116,410 | 106,086 |
| Overseas | | | | | |
| Government and Public Authorities | 385 | 1,152 | 493 | 819 | 1,048 |
| Agriculture, Forestry and Fishing | 1,564 | 1,017 | 833 | 640 | 595 |
| Financial, Investment and Insurance | 11,897 | 8,008 | 5,631 | 7,012 | 7,147 |
| Real Estate | | | | | |
| Mortgage | 8,085 | 7,268 | 7,152 | 6,275 | 5,983 |
| Construction | 198 | 152 | 579 | 505 | 166 |
| Personal | 449 | 1,487 | 542 | 290 | 412 |
| Lease Financing | 146 | 217 | 191 | 173 | - |
| Other Commercial and Industrial | 10,359 | 10,300 | 7,945 | 8,091 | 6,759 |
| Total Overseas | 33,083 | 29,601 | 23,366 | 23,805 | 22,110 |
| Total Gross Credit Risk | 206,740 | 197,891 | 151,984 | 140,215 | 128,196 |
| Less unearned income | (1,343) | (1,465) | (1,169) | (1,193) | (1,019) |
| Total Credit Risk | 205,397 | 196,426 | 150,815 | 139,022 | 127,177 |
| Charge for Bad and Doubtful Debts | 385 | 196 | 247 | 233 | 98 |
| Loss Rate ⁽¹⁾ | 0.19 | 0.11 | 0.16 | 0.17 | 0.08 |

⁽¹⁾ The loss rate is the charge as a percentage of the credit risk.

The Group has a well diversified credit portfolio in Australia of good quality, with 42% of the exposure in mortgage loans and a further 13% to finance, investment and insurance (primarily banks). 16% of exposure is

overseas, of which 24% is in mortgage loans. Overall over 60% of individually rated exposures in the commercial portfolio (including government and finance) are of investment grade or equivalent quality.

Notes to the financial statements**NOTE 14 Credit Risk Concentrations continued**

The following tables set out the credit risk concentrations of the Group.

Risk Concentration of the Group By Asset Class 30 June 2001

| Industry | Loans | | Advances and Other Receivables | Bank Acceptances of Customers | Contingent Liabilities | Derivatives | Total |
|---|-----------------------|--------------------------|--------------------------------------|-------------------------------------|---------------------------|-------------|---------|
| | Trading Securities | Investment Securities | | | | | |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | | | |
| Government and Public Authorities | 439 | 2,837 | 1,655 | 295 | 618 | 168 | 6,012 |
| Agriculture, Forestry and Fishing | - | - | 4,734 | 1,384 | 105 | 85 | 6,308 |
| Financial, Investment and Insurance | 2,397 | 86 | 4,670 | 2,929 | 3,512 | 6,038 | 19,632 |
| Real Estate | | | | | | | |
| Mortgage | - | - | 65,466 | 137 | 8,197 | - | 73,800 |
| Construction | - | - | 2,548 | 1,191 | 648 | 160 | 4,547 |
| Personal | - | - | 10,576 | 167 | 229 | 7 | 10,979 |
| Lease Financing | - | - | 6,628 | - | - | - | 6,628 |
| Other Commercial and Industrial | 1,259 | 413 | 25,782 | 5,858 | 6,306 | 3,275 | 42,893 |
| Total Australia | 4,095 | 3,336 | 122,059 | 11,961 | 19,615 | 9,733 | 170,799 |
| Overseas | | | | | | | |
| Government and Public Authorities | 45 | 142 | 165 | - | 32 | 1 | 385 |
| Agriculture, Forestry and Fishing | - | - | 1,258 | - | 306 | - | 1,564 |
| Financial, Investment and Insurance | 1,820 | 2,512 | 2,824 | 17 | 803 | 2,096 | 10,072 |
| Real Estate | | | | | | | |
| Mortgage | - | - | 8,045 | - | 40 | - | 8,085 |
| Construction | - | - | 177 | - | 21 | - | 198 |
| Personal | - | - | 440 | - | 9 | - | 449 |
| Lease Financing | - | - | 146 | - | - | - | 146 |
| Other Commercial and Industrial | 949 | 3,715 | 4,081 | 97 | 1,411 | 106 | 10,359 |
| Total Overseas | 2,814 | 6,369 | 17,136 | 114 | 2,622 | 2,203 | 31,258 |
| Gross Balances | 6,909 | 9,705 | 139,195 | 12,075 | 22,237 | 11,936 | 202,057 |
| Other Risk Concentrations | | | | | | | |
| Receivables due from other financial institutions | | | | | | | 4,622 |
| Deposits with regulatory authorities | | | | | | | 61 |
| Total Gross Credit Risk | | | | | | | 206,740 |

Risk concentrations for contingent liabilities and derivatives are based on the credit equivalent balance in Note 38, Contingent Liabilities and Note 39, Market Risk respectively.

Notes to the financial statements**NOTE 14 Credit Risk Concentrations continued****Risk Concentration of the Group by Asset Class 30 June 2000**

| Industry | Loans | | Advances and Other Receivables | Bank | | Contingent Liabilities | Derivatives | Total |
|---|------------------------------|---------------------------------|--------------------------------------|------------------------------------|--------|---------------------------|-------------|-------|
| | Trading Securities \$M | Investment Securities \$M | | Acceptances of Customers \$M | | | | |
| Australia | | | | | | | | |
| Government and Public Authorities | 857 | 2,674 | 1,681 | 376 | 144 | 463 | 6,195 | |
| Agriculture, Forestry and Fishing | - | - | 4,686 | 1,113 | 151 | 191 | 6,141 | |
| Financial, Investment and Insurance | 2,380 | 125 | 5,167 | 2,633 | 1,868 | 4,576 | 16,749 | |
| Real Estate | | | | | | | | |
| Mortgage | - | - | 63,471 | 117 | 108 | - | 63,696 | |
| Construction | - | - | 2,627 | 962 | 532 | 84 | 4,205 | |
| Personal | - | - | 11,759 | 189 | 962 | 1 | 12,911 | |
| Lease Financing | - | - | 6,937 | - | - | - | 6,937 | |
| Other Commercial and Industrial | 2,243 | 1,347 | 23,603 | 5,717 | 11,197 | 3,190 | 47,297 | |
| Total Australia | 5,480 | 4,146 | 119,931 | 11,107 | 14,962 | 8,505 | 164,131 | |
| Overseas | | | | | | | | |
| Government and Public Authorities | 351 | 290 | 204 | - | 304 | 3 | 1,152 | |
| Agriculture, Forestry and Fishing | 21 | - | 996 | - | - | - | 1,017 | |
| Financial, Investment and Insurance | 935 | 1,561 | 2,278 | - | 598 | 1,595 | 6,967 | |
| Real Estate | | | | | | | | |
| Mortgage | - | - | 7,266 | - | 2 | - | 7,268 | |
| Construction | - | - | 152 | - | - | - | 152 | |
| Personal | 16 | - | 1,470 | - | 1 | - | 1,487 | |
| Lease Financing | - | - | 217 | - | - | - | 217 | |
| Other Commercial and Industrial | 544 | 3,152 | 3,254 | - | 3,171 | 179 | 10,300 | |
| Total Overseas | 1,867 | 5,003 | 15,837 | - | 4,076 | 1,777 | 28,560 | |
| Gross Balances | 7,347 | 9,149 | 135,768 | 11,107 | 19,038 | 10,282 | 192,691 | |
| Other Risk Concentrations | | | | | | | | |
| Receivables due from other financial institutions | | | | | | | 5,154 | |
| Deposits with regulatory authorities | | | | | | | 46 | |
| Total Gross Credit Risk | | | | | | | 197,891 | |

Notes to the financial statements**NOTE 14 Credit Risk Concentrations continued**

| Risk Concentration of the Group's Impaired Assets 30 June 2001 | | | | | | |
|---|----------------------|---------------------------|-------------------------------------|-------------------|-------------------|--------------------------|
| Industry | Total Risk \$M | Impaired Assets \$M | Provisions for Impairment \$M | Write offs \$M | Recoveries \$M | Net Write offs \$M |
| Australia | | | | | | |
| Government and Public Authorities | 6,012 | - | - | - | - | - |
| Agriculture, Forestry and Fishing | 6,308 | 68 | 8 | 10 | - | 10 |
| Financial, Investment and Insurance | 19,632 | 69 | 24 | 1 | (9) | (8) |
| Real Estate | | | | | | |
| Mortgage | 73,800 | - | 4 | 10 | (1) | 9 |
| Construction | 4,547 | 23 | 6 | 14 | (1) | 13 |
| Personal | 10,979 | 14 | 28 | 142 | (30) | 112 |
| Lease Financing | 6,628 | 13 | 7 | 16 | (1) | 15 |
| Other Commercial and Industrial | 42,893 | 332 | 77 | 301 | (17) | 284 |
| Total Australia | <u>170,799</u> | <u>519</u> | <u>154</u> | <u>494</u> | <u>(59)</u> | <u>435</u> |
| Overseas | | | | | | |
| Government and Public Authorities | 385 | 62 | 15 | - | - | - |
| Agriculture, Forestry and Fishing | 1,564 | - | - | - | - | - |
| Financial, Investment and Insurance | 10,072 | 14 | 4 | 6 | - | 6 |
| Real Estate | | | | | | |
| Mortgage | 8,085 | - | 7 | 1 | - | 1 |
| Construction | 198 | - | - | - | (1) | (1) |
| Personal | 449 | 1 | 3 | 38 | (3) | 35 |
| Lease Financing | 146 | - | - | - | - | - |
| Other Commercial and Industrial | 10,359 | 121 | 51 | 102 | (25) | 77 |
| Total Overseas | <u>31,258</u> | <u>198</u> | <u>80</u> | <u>147</u> | <u>(29)</u> | <u>118</u> |
| Gross Balances | <u>202,057</u> | <u>717</u> | <u>234</u> | <u>641</u> | <u>(88)</u> | <u>553</u> |
| Receivables due from other financial institutions | 4,622 | | | | | |
| Deposits with regulatory authorities | 61 | | | | | |
| Total Gross Credit Risk | <u>206,740</u> | | | | | |

Notes to the financial statements**NOTE 14 Credit Risk Concentrations continued****Risk Concentration of the Group's Impaired Assets 30 June 2000**

| Industry | Total Risk \$M | Impaired Assets \$M | Provisions for Impairment \$M | Write offs \$M | Recoveries \$M | Net Write offs \$M |
|---|-------------------|------------------------|----------------------------------|-------------------|-------------------|-----------------------|
| Australia | | | | | | |
| Government and Public Authorities | 6,195 | - | - | - | - | - |
| Agriculture, Forestry and Fishing | 6,141 | 101 | 35 | 6 | (2) | 4 |
| Financial, Investment and Insurance | 16,749 | 53 | 23 | 2 | (1) | 1 |
| Real Estate | | | | | | |
| Mortgage | 63,696 | 37 | 8 | 8 | (1) | 7 |
| Construction | 4,205 | 60 | 6 | 24 | (2) | 22 |
| Personal | 12,911 | 10 | 17 | 104 | (28) | 76 |
| Lease Financing | 6,937 | 18 | 6 | 11 | (2) | 9 |
| Other Commercial and Industrial | 47,297 | 445 | 110 | 90 | (10) | 80 |
| Total Australia | 164,131 | 724 | 205 | 245 | (46) | 199 |
| Overseas | | | | | | |
| Government and Public Authorities | 1,152 | 55 | 13 | - | - | - |
| Agriculture, Forestry and Fishing | 1,017 | 1 | - | - | - | - |
| Financial, Investment and Insurance | 6,967 | 85 | 1 | - | (2) | (2) |
| Real Estate | | | | | | |
| Mortgage | 7,268 | - | 3 | 1 | - | 1 |
| Construction | 152 | - | - | - | (1) | (1) |
| Personal | 1,487 | 53 | 69 | 4 | (3) | 1 |
| Lease Financing | 217 | - | - | - | - | - |
| Other Commercial and Industrial | 10,300 | 217 | 141 | 1 | (2) | (1) |
| Total Overseas | 28,560 | 411 | 227 | 6 | (8) | (2) |
| Gross Balances | 192,691 | 1,135 | 432 | 251 | (54) | 197 |
| Receivables due from other financial institutions | 5,154 | | | | | |
| Deposits with regulatory authorities | 46 | | | | | |
| Total Gross Credit Risk | 197,891 | | | | | |

Large Exposures

Concentration of exposure to any debtor or counterparty is controlled by the Large Credit Exposure Policy. All exposures outside the policy are approved by the Board Risk Committee.

The following table shows the aggregate number of the Group's corporate exposures (including direct and contingent exposure) which individually were greater than 5% of the Group's capital resources (tier 1 and tier 2 capital):

| | 2001 Number | 2000 Number | 1999 Number | 1998 Number | 1997 Number |
|---|----------------|----------------|----------------|----------------|----------------|
| 10% to less than 15% of Group's capital resources | - | - | 1 | 1 | 1 |
| 5% to less than 10% of Group's capital resources | 2 | 1 | 7 | 7 | 4 |

Notes to the financial statements**NOTE 14 Credit Risk Concentrations continued****Credit Portfolio****Industry Profile**

The following table sets forth the distribution of the Group's loans, advances and other receivables (excluding bank acceptances) classified by industry category at 30 June 1997, 1998, 1999, 2000 and 2001.

| | 2001 | 2000 | 1999 | 1998 | At 30 June 1997 |
|--|----------------|----------------|----------------|----------------|--------------------|
| | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Government and Public Authorities | 1,655 | 1,681 | 1,727 | 1,216 | 1,955 |
| Agriculture, Forestry and Fishing | 4,734 | 4,686 | 4,203 | 4,128 | 3,185 |
| Financial, Investment and Insurance | 4,670 | 5,167 | 4,048 | 2,490 | 1,859 |
| Real Estate | | | | | |
| Mortgage ⁽¹⁾ | 65,466 | 63,471 | 45,495 | 41,137 | 37,400 |
| Construction ⁽²⁾ | 2,548 | 2,627 | 2,105 | 1,197 | 1,138 |
| Personal | 10,576 | 11,759 | 10,144 | 8,360 | 6,863 |
| Lease Financing | 6,628 | 6,937 | 3,100 | 1,940 | 4,277 |
| Other Commercial and Industrial | 25,782 | 23,603 | 20,253 | 19,559 | 16,044 |
| Total Australia | <u>122,059</u> | <u>119,931</u> | <u>91,075</u> | <u>80,027</u> | <u>72,721</u> |
| Overseas | | | | | |
| Government and Public Authorities | 165 | 204 | 157 | 105 | 28 |
| Agriculture, Forestry and Fishing | 1,258 | 996 | 833 | 640 | 547 |
| Financial, Investment and Insurance | 2,824 | 2,278 | 1,507 | 1,449 | 1,494 |
| Real Estate | | | | | |
| Mortgage ⁽¹⁾ | 8,045 | 7,266 | 7,151 | 6,273 | 5,983 |
| Construction ⁽²⁾ | 177 | 152 | 427 | 318 | 151 |
| Personal | 440 | 1,470 | 539 | 248 | 397 |
| Lease Financing | 146 | 217 | 191 | 173 | - |
| Other Commercial and Industrial | 4,081 | 3,254 | 2,686 | 3,342 | 2,469 |
| Total Overseas | <u>17,136</u> | <u>15,837</u> | <u>13,491</u> | <u>12,548</u> | <u>11,069</u> |
| Gross Loans, Advances and Other Receivables | <u>139,195</u> | <u>135,768</u> | <u>104,566</u> | <u>92,575</u> | <u>83,790</u> |
| Provisions for bad and doubtful debts, unearned income, interest reserved and unearned tax remissions on leverage leases | <u>(3,136)</u> | <u>(3,504)</u> | <u>(2,729)</u> | <u>(2,759)</u> | <u>(2,158)</u> |
| Net Loans, Advances and Other Receivables | <u>136,059</u> | <u>132,264</u> | <u>101,837</u> | <u>89,816</u> | <u>81,632</u> |

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Financing real estate and land development projects.

Notes to the financial statements

NOTE 15 Asset Quality

Impaired Assets

The Group adopted the Australian disclosure requirements for Impaired Assets contained in AASB 1032: Specific Disclosures by Financial Institutions with effect from Financial Year 1997.

There are three classifications of Impaired Assets:

- (a) Non accruals, comprising:
- any credit risk facility against which a specific provision for impairment has been raised;
 - any credit risk facility maintained on a cash basis because of significant deterioration in the financial position of the borrower; and
 - any credit risk facility where loss of principal or interest is anticipated.

At 31 December 1998 the definition of non accruals was amended to align more closely with APRA (formerly RBA) guidelines and industry practice. When a client is experiencing difficulties the account is classified as a non accrual only where a loss is expected, taking into account the level of security held. To provide comparable provisioning and asset quality ratios impaired assets at 30 June 1998 have been disclosed under the amended definition.

All interest charged in the relevant financial period that has not been received in cash is reversed from profit and loss when facilities become classified as non accrual. Interest on these facilities is then only taken to profit if received in cash.

- (b) Restructured Facilities
Credit risk facilities on which the original contractual terms have been modified due to financial difficulties of the borrower. Interest on these facilities is taken to profit and loss. Failure to comply fully with the modified terms will result in immediate reclassification to non accrual.
- (c) Assets Acquired Through Security Enforcement (AATSE), comprising:
- *Other Real Estate Owned (OREO)*, comprising real estate where the Bank has assumed ownership or foreclosed in settlement of a debt; and
 - *Other Assets Acquired Through Security Enforcement (OAATSE)*, comprising assets other than real estate where the Bank has assumed ownership or foreclosed in settlement of a debt.

| | 2001 % | 2000 % | GROUP 1999 % |
|---|-------------|-----------|--------------------|
| Impaired Asset Ratios | | | |
| Gross impaired assets net of interest reserved as % of credit risk net of unearned income | 0.32 | 0.51 | 0.39 |
| Net impaired assets as % of: | | | |
| Risk weighted assets | 0.30 | 0.44 | 0.32 |
| Total shareholders' equity | 2.09 | 3.10 | 4.52 |

Accounting by Creditors for Impairment of Loans (US GAAP SFAS 114 and 118)

| | 2001 \$M | Year ended 30 June | |
|--|-------------|--------------------|-------------------|
| | | 2000 \$M | 1999 \$M |
| Impaired Loans (non accrual) | 699 | 1,123 | 636 |
| Impaired Loans with allowance for credit losses | 514 | 760 | 505 |
| - allowance for credit losses | 203 | 411 | 255 |
| Impaired Loans with no allowance for credit loss | 185 | 363 | 131 |
| Average investment in Impaired Loans | 911 | 880 | 778 |
| Income recognised on Impaired Loans | 51 | 51 ⁽¹⁾ | 33 ⁽¹⁾ |

⁽¹⁾ Excluding Colonial

Notes to the financial statements**NOTE 15 Asset Quality continued****Impaired Assets**

The following table sets forth the Group's impaired assets as at 30 June 1997, 1998, 1999, 2000 and 2001.

| | 2001 | 2000 | 1999 | 1998 ⁽¹⁾ | At 30 June 1997 |
|---|-------|-------|-------|---------------------|--------------------|
| | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Non-accrual loans: | | | | | |
| Gross balances | 518 | 722 | 495 | 616 | 831 |
| Less interest reserved | (63) | (128) | (66) | (85) | (100) |
| Gross balance (net of interest reserved) | 455 | 594 | 429 | 531 | 731 |
| Less provisions for impairment | (154) | (205) | (178) | (174) | (222) |
| Net non-accrual loans | 301 | 389 | 251 | 357 | 509 |
| Restructured loans: | | | | | |
| Gross balances | 1 | 1 | 1 | - | - |
| Less interest reserved | - | - | - | - | - |
| Gross balance (net of interest reserved) | 1 | 1 | 1 | - | - |
| Less specific provisions | - | - | - | - | - |
| Net restructured loans | 1 | 1 | 1 | - | - |
| Assets Acquired Through Security Enforcement (AATSE): | | | | | |
| Gross balances | - | 1 | - | - | - |
| Less provisions for impairment | - | - | - | - | - |
| Net AATSE | - | 1 | - | - | - |
| Net Australian impaired assets | 302 | 391 | 252 | 357 | 509 |
| Overseas | | | | | |
| Non-accrual loans: | | | | | |
| Gross balances | 197 | 410 | 147 | 310 | 75 |
| Less interest reserved | (5) | (3) | (2) | (17) | (9) |
| Gross balance (net of interest reserved) | 192 | 407 | 145 | 293 | 66 |
| Less provisions for impairment | (79) | (226) | (97) | (105) | (19) |
| Net non-accrual loans | 113 | 181 | 48 | 188 | 47 |
| Restructured loans: | | | | | |
| Gross balances | - | - | - | - | - |
| Less interest reserved | - | - | - | - | - |
| Gross balance (net of interest reserved) | - | - | - | - | - |
| Less specific provisions | - | - | - | - | - |
| Net restructured loans | - | - | - | - | - |
| Asset Acquired Through Security Enforcement | | | | | |
| | 1 | 1 | 14 | - | - |
| Less provisions for impairment | (1) | (1) | - | - | - |
| Net AATSE | - | - | 14 | - | - |
| Net overseas impaired assets | 113 | 181 | 62 | 188 | 47 |
| Total net impaired assets | 415 | 572 | 314 | 545 | 556 |

⁽¹⁾ Under revised definition of non accrual assets introduced 31 December 1998 net impaired assets at 30 June 1998 would have been \$466 million.

The Group has improved its asset quality position. Ongoing management of impaired assets has resulted in a significant reduction in impaired assets, both through write off and realisation or return to performing status.

Notes to the financial statements

NOTE 15 Asset Quality continued

Movement in Impaired Asset Balances

The following table provides an analysis of the movement in the gross impaired asset balances for Financial Years 1997, 1998, 1999, 2000 and 2001.

| | Year Ended 30 June | | | | |
|---|--------------------|--------------|----------------------|-------------|-------------|
| | 2001 \$M | 2000 \$M | 1999 \$M | 1998 \$M | 1997 \$M |
| Gross impaired assets at period beginning | 1,135 | 657 | 926 | 906 | 1,185 |
| New and increased | 707 | 414 | 415 | 689 | 487 |
| Balances written off | (666) | (226) | (280) | (216) | (190) |
| Returned to performing or repaid | (459) | (194) | (404) ⁽¹⁾ | (453) | (576) |
| | 717 | 651 | 657 | 926 | 906 |
| Colonial impaired assets | - | 484 | - | - | - |
| Gross impaired assets at period end | 717 | 1,135 | 657 | 926 | 906 |

⁽¹⁾ Includes \$99 million reduction due to revised definition of non accruals introduced 31 December 1998.

Loans Accruing But Past Due 90 Days or More

| | At 30 June | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | 2001 \$M | 2000 \$M | 1999 \$M | 1998 \$M | 1997 \$M |
| Accruing loans past due 90 days or more | | | | | |
| Housing loans | 218 | 211 | 182 | 249 | 267 |
| Other loans | 90 | 64 | 23 | 41 | 37 |
| Total | 308 | 275 | 205 | 290 | 304 |

Interest Income Forgone on Impaired Assets

| | Year Ended 30 June | | | | |
|----------------------------------|--------------------|----------------------------|-------------|-------------|-------------|
| | 2001 \$M | 2000 ⁽²⁾ \$M | 1999 \$M | 1998 \$M | 1997 \$M |
| Interest income forgone | | | | | |
| Australia Non Accrual Facilities | 8 | 4 | 17 | 34 | 52 |
| Overseas Non Accrual Facilities | 8 | 5 | 10 | 7 | 3 |
| Total | 16 | 9 | 27 | 41 | 55 |

Interest Taken to Profit on Impaired Assets

| | Year Ended 30 June | | | | |
|--------------------------------|--------------------|----------------------------|-------------|-------------|-------------|
| | 2001 \$M | 2000 ⁽²⁾ \$M | 1999 \$M | 1998 \$M | 1997 \$M |
| Australia | | | | | |
| Non Accrual Facilities | 37 | 45 | 33 | 34 | 50 |
| Restructured Facilities | - | - | - | - | - |
| Overseas | | | | | |
| Non Accrual Facilities | 14 | 6 | - | - | - |
| OREO | - | - | - | - | 5 |
| Total Interest taken to Profit | 51 | 51 | 33 | 34 | 55 |

⁽²⁾ Excluding Colonial

Notes to the financial statements**NOTE 15 Asset Quality continued****Impaired Assets**

| | Australia 2001 \$M | Overseas 2001 \$M | GROUP Total 2001 \$M | Australia 2000 \$M | Overseas 2000 \$M | GROUP Total 2000 \$M |
|---|--------------------------|-------------------------|-------------------------------|--------------------------|-------------------------|-------------------------------|
| Non Accrual Loans | | | | | | |
| With provisions | 334 | 196 | 530 | 378 | 391 | 769 |
| Without provisions | 184 | 1 | 185 | 344 | 19 | 363 |
| Gross Balances | 518 | 197 | 715 | 722 | 410 | 1,132 |
| Less interest reserved | (63) | (5) | (68) | (128) | (3) | (131) |
| Net Balances | 455 | 192 | 647 | 594 | 407 | 1,001 |
| Less provisions for impairment | (154) | (79) | (233) | (205) | (226) | (431) |
| Net Non Accrual Loans | 301 | 113 | 414 | 389 | 181 | 570 |
| Restructured Loans | | | | | | |
| Gross Balances | 1 | - | 1 | 1 | - | 1 |
| Less interest reserved | - | - | - | - | - | - |
| Net Balances | 1 | - | 1 | 1 | - | 1 |
| Less provisions for impairment | - | - | - | - | - | - |
| Net Restructured Loans | 1 | - | 1 | 1 | - | 1 |
| Other Real Estate Owned (OREO) | | | | | | |
| Gross Balances | - | - | - | 1 | - | 1 |
| Less provisions for impairment | - | - | - | - | - | - |
| Net OREO | - | - | - | 1 | - | 1 |
| Other Assets Acquired Through Security Enforcement (OATSE) | | | | | | |
| Gross Balances | - | 1 | 1 | - | 1 | 1 |
| Less provisions for impairment | - | (1) | (1) | - | (1) | (1) |
| Net OATSE | - | - | - | - | - | - |
| Total Impaired Assets | | | | | | |
| Gross Balances | 519 | 198 | 717 | 724 | 411 | 1,135 |
| Less interest reserved | (63) | (5) | (68) | (128) | (3) | (131) |
| Net Balances | 456 | 193 | 649 | 596 | 408 | 1,004 |
| Less provisions for impairment | (154) | (80) | (234) | (205) | (227) | (432) |
| Net Impaired Assets | 302 | 113 | 415 | 391 | 181 | 572 |
| Non Accrual Loans by Size of Loan | | | | | | |
| Less than \$1 million | 146 | 3 | 149 | 324 | 54 | 378 |
| \$1 million to \$10 million | 196 | 37 | 233 | 217 | 35 | 252 |
| Greater than \$10 million | 176 | 157 | 333 | 181 | 321 | 502 |
| Total | 518 | 197 | 715 | 722 | 410 | 1,132 |
| Accruing Loans 90 days past due or more | 292 | 16 | 308 | 262 | 13 | 275 |
| These are loans which are well secured and not classified as impaired assets but which are in arrears 90 days or more. Interest on these loans continues to be taken to profit. | | | | | | |

Notes to the financial statements

NOTE 15 Asset Quality continued

Colonial State Bank

Indemnified loan book

Pursuant to the Sale Agreement between Colonial and the New South Wales Government, Colonial State Bank's loan book as at 31 December 1994 and any further loan losses (including interest) arising are indemnified by the NSW Government. This indemnity is to the extent of 90% of the losses after an initial \$60 million (which was provided for by Colonial State Bank as at 31 December 1994). All loans (other than impaired loans) are covered for a period of three years from 31 December 1994 and for the duration of the loan in the case of impaired loans so classified as at 31 December 1997. The Sale Agreement also allows for loans to be withdrawn from the indemnity provided the

withdrawal is approved by Colonial State Bank and the NSW Government and the due processes are followed.

Pursuant to the Sale Agreement, the costs of funding and managing Non-Performing loans which are covered by the loan indemnities are reimbursed by the NSW Government on a quarterly basis.

Selected Regional Exposures

Asia

Over 48% of total exposures relate to financial institutions. Exposures to Indonesia, Thailand and Korea have reduced by 10% in the Financial Year 2001 and represent approximately 19% of the Bank's Asian credit risk.

The Group's credit risk exposure to Asian countries as at 30 June 2001 is set out below. The exposures exclude Group equity investments.

CUSTOMER TYPE

| Country | Finance | Corporate/ Multinational | Government | Project Finance | APL/NZPL | 2001 Total Exposure | 2000 Total Exposure |
|-------------|---------|-----------------------------|------------|--------------------|----------|---------------------------|---------------------------|
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| China | 65 | 171 | - | - | 1 | 237 | 75 |
| Hong Kong | 472 | 662 | - | - | 186 | 1,320 | 861 |
| | 537 | 833 | - | - | 187 | 1,557 | 936 |
| Japan | 1,259 | 241 | 161 | - | - | 1,661 | 1,309 |
| Malaysia | 6 | 116 | 41 | - | 2 | 165 | 74 |
| Singapore | 123 | 152 | 19 | - | 27 | 321 | 768 |
| Taiwan | 8 | - | - | - | - | 8 | 37 |
| Other | 4 | 3 | - | - | - | 7 | 7 |
| | 1,400 | 512 | 221 | - | 29 | 2,162 | 2,195 |
| Indonesia | 8 | 107 | 62 | 139 | 32 | 348 | 420 |
| South Korea | 262 | 140 | - | - | - | 402 | 402 |
| Thailand | 3 | 95 | 25 | - | - | 123 | 151 |
| | 273 | 342 | 87 | 139 | 32 | 873 | 973 |
| Total | 2,210 | 1,687 | 308 | 139 | 248 | 4,592 | 4,104 |

Other Regional Exposures

CUSTOMER TYPE

| Region | Finance | Corporate/ Multinational | Government | Project Finance | APL/NZPL | 2001 Total Exposure | 2000 Total Exposure |
|----------------|---------|-----------------------------|------------|--------------------|----------|---------------------------|---------------------------|
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Eastern Europe | 22 | - | 41 | - | - | 63 | 50 |
| Latin America | - | - | - | - | - | - | 5 |
| Middle East | 108 | - | - | - | - | 108 | 100 |

Total Exposure - The maximum of the limit or balance utilised for committed facilities, whichever is highest, and the balance utilised for uncommitted facilities. For derivative facilities, balances are reported on a 'mark to market plus potential exposure' basis.

Project Finance - Long term lending for large scale projects (such as mining, infrastructure) where repayment is primarily reliant on the cash flow from the project.

Notes to the financial statements**NOTE 16 Life Insurance Investment Assets**

| | 2001 \$M | GROUP 2000 \$M |
|---|---------------|----------------------|
| Equity Security Investments | | |
| Direct | 9,349 | 7,754 |
| Indirect | 5,024 | 3,530 |
| | 14,373 | 11,284 |
| Debt Security Investments | | |
| Direct | 8,815 | 8,525 |
| Indirect | 5,224 | 4,160 |
| | 14,039 | 12,685 |
| Property Investments | | |
| Direct | 1,085 | 1,276 |
| Indirect | 1,354 | 1,048 |
| | 2,439 | 2,324 |
| Cash on Deposit | 362 | 743 |
| Total Life Insurance Investment Assets | 31,213 | 27,036 |

Direct investments refer to investments that are directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

Disclosure on Asset Restriction

Investments held in the Statutory Funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that assets in a Fund can only be used to meet the liabilities and expense of the Fund, to acquire investments to further

the business of the Fund or as distributions when solvency and capital adequacy requirements are met. Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

These investment assets held in the Statutory Funds are not available for use by the Commonwealth Bank's operating businesses.

NOTE 17 Deposits With Regulatory Authorities

| | GROUP | | BANK | |
|--|-------------|-------------|-------------|-------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Central Banks Overseas | 61 | 46 | 4 | 3 |
| Total Deposits with Regulatory Authorities | 61 | 46 | 4 | 3 |

NOTE 18 Shares in and Loans to Controlled Entities

| | | | | |
|--|---|---|---------------|---------------|
| Shares in controlled entities | - | - | 9,847 | 12,198 |
| Loans to controlled entities | - | - | 6,578 | 5,151 |
| Total Shares in and Loans to Controlled Entities | - | - | 16,425 | 17,349 |

Notes to the financial statements**NOTE 19 Property, Plant and Equipment**

| | GROUP | | BANK | |
|-------------------------------|--------------|-------------|-------------|-------------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M |
| (a) Land and Buildings | | | | |
| Land | | | | |
| At 30 June 2001 valuation | 191 | - | 179 | - |
| At 30 June 2000 valuation | - | 222 | - | 208 |
| Closing balance | <u>191</u> | <u>222</u> | <u>179</u> | <u>208</u> |
| Buildings | | | | |
| At 30 June 2001 valuation | 389 | - | 312 | - |
| At 30 June 2000 valuation | - | 508 | - | 334 |
| Closing balance | <u>389</u> | <u>508</u> | <u>312</u> | <u>334</u> |
| Total Land and Buildings | <u>580</u> | <u>730</u> | <u>491</u> | <u>542</u> |

These valuations were established by the Directors and are lower than valuations prepared by independent valuers.

| | | | | |
|-------------------------------------|------------|--------------|------------|------------|
| (b) Leasehold Improvements | | | | |
| At cost | 444 | 532 | 388 | 321 |
| Provision for depreciation | (275) | (336) | (251) | (195) |
| Closing balance | <u>169</u> | <u>196</u> | <u>137</u> | <u>126</u> |
| (c) Equipment | | | | |
| At cost | 574 | 670 | 329 | 351 |
| Provision for depreciation | (404) | (523) | (269) | (280) |
| Closing balance | <u>170</u> | <u>147</u> | <u>60</u> | <u>71</u> |
| Total Property, Plant and Equipment | <u>919</u> | <u>1,073</u> | <u>688</u> | <u>739</u> |

| Reconciliation | GROUP | | BANK | |
|-----------------------|--------------|-------------|-------------|-------------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M |

Reconciliation of the carrying amount of property plant and equipment at the beginning and end of the 2001 and 2000 Financial Years.

| | | | | |
|------------------|------------|------------|------------|------------|
| Land | | | | |
| Opening balance | 222 | 239 | 208 | 216 |
| Disposals | (36) | (17) | (29) | (8) |
| Net revaluations | 5 | - | - | - |
| Closing balance | <u>191</u> | <u>222</u> | <u>179</u> | <u>208</u> |

| | | | | |
|------------------|------------|------------|------------|------------|
| Buildings | | | | |
| Opening balance | 508 | 470 | 334 | 358 |
| Acquisitions | 42 | 112 | 41 | 13 |
| Disposals | (132) | (43) | (37) | (9) |
| Depreciation | (29) | (31) | (26) | (28) |
| Closing balance | <u>389</u> | <u>508</u> | <u>312</u> | <u>334</u> |

| | | | | |
|-------------------------------|------------|------------|------------|------------|
| Leasehold Improvements | | | | |
| Opening balance | 196 | 153 | 126 | 135 |
| Acquisitions | 46 | 73 | 26 | 50 |
| Disposals | (2) | (2) | (2) | (1) |
| Transfers | - | - | 13 | (32) |
| Asset writedown | (26) | - | - | - |
| Depreciation | (45) | (28) | (26) | (26) |
| Closing balance | <u>169</u> | <u>196</u> | <u>137</u> | <u>126</u> |

| | | | | |
|------------------|------------|------------|-----------|-----------|
| Equipment | | | | |
| Opening balance | 147 | 139 | 71 | 87 |
| Acquisitions | 99 | 77 | 15 | 18 |
| Disposals | - | (11) | - | - |
| Depreciation | (76) | (58) | (26) | (34) |
| Closing balance | <u>170</u> | <u>147</u> | <u>60</u> | <u>71</u> |

Notes to the financial statements**NOTE 20 Intangible Assets**

| | GROUP | | BANK | |
|--|---------------|----------------------|----------------------|-------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Purchased goodwill - Colonial (refer note 2) | 5,662 | 5,424 | 2,742 ⁽²⁾ | - |
| Purchased goodwill - Other ⁽¹⁾ | 1,132 | 888 | 835 | 784 |
| Realisation of life insurance synergy benefits (refer note 2) | (332) | - | - | - |
| Accumulated amortisation | (746) | (407) | (426) | (372) |
| Total Goodwill | 5,716 | 5,905 | 3,151 | 412 |
| Excess of net market value over net assets of life insurance controlled entities | 5,136 | 4,322 ⁽³⁾ | - | - |
| Total Intangibles | 10,852 | 10,227 | 3,151 | 412 |

⁽¹⁾ Increase in other goodwill principally relates to acquisition of remaining 25% interest in ASB Group in August 2000.

⁽²⁾ Colonial State Bank goodwill arising on Commonwealth Bank of Australia becoming successor in law to all assets and liabilities of Colonial State Bank, refer Note 1 (c).

Excess of net market value over net assets of controlled entities of the life insurance businesses:

| | GROUP At 30 June 2001 | | |
|-----------------------|--------------------------|-------------------|---|
| | Market Value \$M | Net Assets \$M | Excess of Market Value Over Net Assets \$M |
| Commonwealth entities | 2,675 | 540 | 2,135 |
| ASB entities | 320 | 136 | 184 |
| Colonial entities | 5,008 | 2,191 | 2,817 |
| | 8,003 | 2,867 | 5,136 |

| | GROUP At 30 June 2000 ⁽³⁾ | | |
|-----------------------|---|-------------------|---|
| | Market Value \$M | Net Assets \$M | Excess of Market Value Over Net Assets \$M |
| Commonwealth entities | 1,978 | 407 | 1,571 |
| ASB entities | 286 | 83 | 203 |
| Colonial entities | 4,472 | 1,924 | 2,548 |
| | 6,736 | 2,414 | 4,322 |

Further detail is provided in Note 34.

⁽³⁾ Balances at 30 June 2000 include some minor adjustments. Excess disclosed at 30 June 2000 was \$4,352 million, which has been restated to \$4,322 million. Such adjustments have no effect on the appraisal value uplift for the Financial Year.

Notes to the financial statements

NOTE 21 Other Assets

| | GROUP | | BANK | |
|--|---------------|---------------|---------------|--------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Accrued interest receivable | 1,155 | 1,314 | 1,118 | 1,004 |
| Shares in other companies | 68 | 127 | 40 | 41 |
| Accrued fees/reimbursements receivable | 381 | 187 | 400 | 63 |
| Securities sold not delivered | 1,035 | 656 | 781 | 429 |
| Future income tax benefits | 694 | 899 | 358 | 237 |
| Unrealised gains on trading derivatives (Note 39) ⁽¹⁾ | 9,592 | 6,252 | 8,962 | 5,764 |
| Other | 962 | 2,444 | 217 | 717 |
| Total Other Assets | 13,887 | 11,879 | 11,876 | 8,255 |

⁽¹⁾ The increases in unrealised gains on trading derivatives reflects increased volumes of derivative transactions and falls in interest rates in Australia and the United States and the AUD/USD exchange rate.

Potential future income tax benefits of the Company arising from tax losses in offshore centres and timing differences have not been recognised as assets because recovery is not virtually certain. These benefits, which could amount to \$146 million (2000: \$173 million) will only be obtained if:

- The Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

- The Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- No changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

NOTE 22 Deposits and Other Public Borrowings

| | GROUP | | BANK | |
|---|----------------|----------------|----------------|---------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Australia | | | | |
| Certificates of deposit | 12,927 | 14,136 | 12,927 | 12,686 |
| Term deposits | 28,102 | 29,677 | 25,529 | 22,788 |
| On demand and short term deposits | 54,601 | 48,975 | 54,854 | 43,223 |
| Deposits not bearing interest | 6,350 | 6,075 | 6,380 | 5,803 |
| Securities sold under agreements to repurchase | 435 | 946 | 434 | 946 |
| Other | 6 | 7 | - | - |
| Total Australia | 102,421 | 99,816 | 100,124 | 85,446 |
| Overseas | | | | |
| Certificates of deposit | 2,294 | 2,686 | 1,108 | 1,269 |
| Term deposits | 7,849 | 6,144 | 2,171 | 1,423 |
| On demand and short term deposits | 4,130 | 3,419 | 39 | 98 |
| Deposits not bearing interest | 635 | 529 | 7 | 4 |
| Agreements to repurchase | 26 | - | 26 | - |
| Total Overseas | 14,934 | 12,778 | 3,351 | 2,794 |
| Total Deposits and Other Public Borrowings | 117,355 | 112,594 | 103,475 | 88,240 |

Notes to the financial statements**NOTE 22 Deposits and Other Public Borrowings continued****Maturity Distribution of Certificates of Deposit and Time Deposits**

The following table sets forth the maturity distribution of the Group's certificates of deposits and time deposits as at 30 June 2001.

| | At 30 June 2001 | | | | |
|---|---|---|---|--|---------------|
| | Maturing Three Months or Less \$M | Maturing Between Three & six Months \$M | Maturing Between Six & Twelve Months \$M | Maturing After Twelve Months \$M | Total \$M |
| Australia | | | | | |
| Certificates of deposit ⁽¹⁾ | 5,720 | 1,742 | - | 5,465 | 12,927 |
| Time deposits | 12,411 | 8,704 | 3,953 | 3,034 | 28,102 |
| Total Australia | <u>18,131</u> | <u>10,446</u> | <u>3,953</u> | <u>8,499</u> | <u>41,029</u> |
| Overseas | | | | | |
| Certificates of deposit ⁽¹⁾ | 1,403 | 310 | 530 | 51 | 2,294 |
| Time deposits | 6,287 | 726 | 574 | 262 | 7,849 |
| Total Overseas | <u>7,690</u> | <u>1,036</u> | <u>1,104</u> | <u>313</u> | <u>10,143</u> |
| Total Certificates of Deposit and Time Deposits | <u>25,821</u> | <u>11,482</u> | <u>5,057</u> | <u>8,812</u> | <u>51,172</u> |

⁽¹⁾ All certificates of deposit issued by the Bank are for amounts greater than \$100,000.

NOTE 23 Payables to Other Financial Institutions

| | GROUP | | BANK | |
|--|--------------|--------------|--------------|--------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Australia | 2,816 | 1,569 | 2,675 | 1,306 |
| Overseas | 4,087 | 3,064 | 3,674 | 2,830 |
| Total Payables to Other Financial Institutions | <u>6,903</u> | <u>4,633</u> | <u>6,349</u> | <u>4,136</u> |

NOTE 24 Income Tax Liability

| | GROUP | | BANK | |
|-----------------------------------|--------------|--------------|-------------|-------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Australia | | | | |
| Provision for income tax | 163 | 585 | 26 | 180 |
| Provision for deferred income tax | 1,049 | 1,155 | 377 | 364 |
| Total Australia | <u>1,212</u> | <u>1,740</u> | <u>403</u> | <u>544</u> |
| Overseas | | | | |
| Provision for income tax | 90 | 39 | 11 | 6 |
| Provision for deferred income tax | 53 | 44 | - | - |
| Total Overseas | <u>143</u> | <u>83</u> | <u>11</u> | <u>6</u> |
| Total Income Tax Liability | <u>1,355</u> | <u>1,823</u> | <u>414</u> | <u>550</u> |

The significant decrease in the provision for income tax is largely due to the impact of the new PAYG instalment system. The new system requires three instalments of tax to be paid prior to year end as opposed to two under the previous system and the change in

methodology for calculating instalments has resulted in each instalment paid under the new system being higher than would have been payable under the previous system.

Notes to the financial statements**NOTE 25 Other Provisions**

| | GROUP | | BANK | |
|-----------------------------------|--------------|-------------|-------------|-------------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M |
| Provision for: | | | | |
| Long service leave | 304 | 312 | 289 | 287 |
| Annual leave | 159 | 163 | 134 | 124 |
| Other employee entitlements | 158 | 188 | 150 | 188 |
| Restructuring costs | 204 | 485 | 174 | 124 |
| General insurance claims | 52 | 45 | - | - |
| Self insurance/non lending losses | 46 | 33 | 44 | 33 |
| Other | 84 | 328 | 46 | 52 |
| Total Other Provisions | 1,007 | 1,554 | 837 | 808 |

NOTE 26 Debt Issues

| | | | | |
|--------------------------|---------------|--------|---------------|-------|
| Short term debt issues | 16,620 | 16,249 | 4,318 | 5,406 |
| Long term debt issues | 7,864 | 9,026 | 6,372 | 2,799 |
| Total Debt Issues | 24,484 | 25,275 | 10,690 | 8,205 |

Short Term Debt Issues

| | | | | |
|---|---------------|--------|--------------|-------|
| AUD Bill Reliquification | 639 | 2,547 | 639 | 2,547 |
| AUD Promissory Notes | 3,150 | 2,418 | - | - |
| AUD Bank Bills | 679 | 546 | - | - |
| NZD Promissory Notes | - | 251 | - | - |
| US Commercial Paper | 6,111 | 3,814 | - | - |
| Euro Commercial Paper | 4,200 | 3,150 | 1,838 | 1,647 |
| Long Term Debt Issues with less than One Year to Maturity | 1,841 | 3,523 | 1,841 | 1,212 |
| Total Short Term Debt Issues | 16,620 | 16,249 | 4,318 | 5,406 |

Long Term Debt Issues

| | | | | |
|------------------------------------|--------------|-------|--------------|-------|
| USD Medium Term Notes | 2,937 | 2,286 | 2,346 | 986 |
| AUD Medium Term Notes | 2,312 | 1,719 | 1,748 | 494 |
| JPY Medium Term Notes | 255 | 197 | 255 | 197 |
| Other Currencies Medium Term Notes | 338 | 981 | 179 | 482 |
| Offshore Loans (all JPY) | 841 | 540 | 841 | 540 |
| Eurobonds | 1,181 | 3,144 | 1,003 | 100 |
| Develop Australia Bonds (all AUD) | - | 159 | - | - |
| Total Long Term Debt Issues | 7,864 | 9,026 | 6,372 | 2,799 |

Maturity Distribution of Debt Issues

| | | | | |
|--------------------------|---------------|--------|---------------|-------|
| Less than 3 months | 11,349 | 11,618 | 2,404 | 4,615 |
| 3 months to 12 months | 5,271 | 4,631 | 1,914 | 791 |
| Between 1 and 5 years | 7,208 | 7,839 | 5,848 | 2,109 |
| Greater than 5 years | 656 | 1,187 | 524 | 690 |
| Total Debt Issues | 24,484 | 25,275 | 10,690 | 8,205 |

Notes to the financial statements

NOTE 26 Debt Issues continued

The Bank has a Euro Medium Term Note programme under which it may issue notes (Euro MTN's) up to an aggregate amount of USD5 billion. Notes issued under the programmes are both fixed and variable rate.

Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework.

Subsequent to 30 June 2001, the Bank has issued HKD500 million Euro MTN's due July 2003 (AUD125 million):

Where any debt issue is booked in an offshore branch or subsidiary, the amounts have first been converted into the base currency of the branch at a branch defined exchange rate, before being converted into the AUD equivalent.

Where proceeds have been employed in currencies other than that of the ultimate repayment liability, swap or other hedge arrangements have been entered into.

Short Term Borrowings

The following table analyses the Group's short term borrowings for the Financial Years ended 30 June 1999, 2000 and 2001.

| | 2001 | Year Ended 30 June | |
|--|---------------------------------------|--------------------|-------|
| | | 2000 | 1999 |
| | (\$ millions, except where indicated) | | |
| US Commercial Paper | | | |
| Outstanding at period end ⁽¹⁾ | 6,111 | 3,814 | 4,491 |
| Maximum amount outstanding at any month end ⁽²⁾ | 7,850 | 7,890 | 5,408 |
| Approximate average amount outstanding ⁽²⁾ | 6,571 | 6,130 | 4,419 |
| Approximate weighted average rate on: | | | |
| Average amount outstanding | 5.6% | 5.7% | 5.2% |
| Outstanding at period end | 4.0% | 6.6% | 5.0% |
| Euro Commercial Paper | | | |
| Outstanding at period end ⁽¹⁾ | 4,200 | 3,150 | 1,582 |
| Maximum amount outstanding at any month end ⁽²⁾ | 5,579 | 4,788 | 2,267 |
| Approximate average amount outstanding ⁽²⁾ | 4,533 | 2,855 | 1,714 |
| Approximate weighted average rate on: | | | |
| Average amount outstanding | 4.3% | 4.8% | 4.5% |
| Outstanding at period end | 2.3% | 3.7% | 4.4% |
| Bill Reliquification ⁽³⁾ | | | |
| Outstanding at period end ⁽¹⁾ | 639 | 2,547 | - |
| Maximum amount outstanding at any month end ⁽²⁾ | 2,180 | 2,599 | - |
| Approximate average amount outstanding ⁽²⁾ | 1,097 | 1,972 | - |
| Approximate weighted-average rate on: | | | |
| Average amount outstanding | 6.0% | 5.8% | - |
| Outstanding at period end | 5.0% | 6.2% | - |
| Other Commercial Paper | | | |
| Outstanding at period end ⁽¹⁾ | 3,829 | 3,215 | 695 |
| Maximum amount outstanding at any month end ⁽²⁾ | 5,117 | 3,304 | 781 |
| Approximate average amount outstanding ⁽²⁾ | 3,637 | 2,231 | 324 |
| Approximate weighted average rate on: | | | |
| Average amount outstanding | 5.7% | 5.5% | 4.6% |
| Outstanding at period end | 5.0% | 5.1% | 4.9% |

⁽¹⁾ The amount outstanding at period end is reported on a book value basis (amortised cost).

⁽²⁾ The maximum and average amounts over the period are reported on a face value basis because the book values of these amounts are not available. Any difference between face value and book value would not be material given the short term nature of the borrowings.

⁽³⁾ Commercial bills sold under non recourse arrangements.

Notes to the financial statements**NOTE 26 Debt Issues continued****Exchange Rates Utilised**

| | | 30 June 2001 | 30 June 2000 |
|------------|-----|---------------|--------------|
| AUD 1.00 = | USD | 0.5080 | 0.5982 |
| | GBP | 0.3612 | 0.3943 |
| | JPY | 63.071 | 63.155 |
| | NZD | 1.256 | 1.278 |
| | HKD | 3.962 | 4.664 |
| | DEM | 1.175 | 1.229 |
| | CHF | 0.913 | 0.979 |
| | IDR | 5,796 | 5,230 |

Guarantee Arrangements*Commonwealth Bank of Australia*

The due payment of all monies payable by the Bank was guaranteed by the Commonwealth of Australia under section 117 of the Commonwealth Bank's Act 1959 (as amended) at 30 June 1996. This guarantee has been progressively phased out following the sale of the Commonwealth of Australia's shareholding in the Bank on 19 July 1996.

The transitional arrangements for phasing out the Commonwealth of Australia's guarantee are contained in the Commonwealth Bank Sale Act 1995.

In relation to the Commonwealth of Australia's guarantee of the Bank's liabilities, transitional arrangements provided that:

- all demand deposits and term deposits were guaranteed for a period of three years from 19 July 1996, with term deposits outstanding at the end of that three year period being guaranteed until maturity; and
- all other amounts payable under a contract that was entered into, or under an instrument executed, issued, endorsed or accepted by the Bank at 19 July 1996 will be guaranteed until their maturity.

Accordingly, demand deposits are no longer guaranteed. Term deposits outstanding at 19 July 1999 remain guaranteed until maturity. The run off of the Government guarantee has no effect on the Bank's access to deposit markets.

Commonwealth Development Bank

On 24 July 1996, the Commonwealth of Australia sold its 8.1% shareholding in the Commonwealth Development Bank Limited (CDBL) to the Bank for \$12.5 million.

Under the arrangements relating to the purchase by the Bank of the Commonwealth of Australia's shareholding in the CDBL:

- all lending assets as at 30 June 1996 have been quarantined in CDBL, consistent with the Charter terms on which they were written;
- the CDBL's liabilities continue to remain guaranteed by the Commonwealth; and
- CDBL ceased to write new business or incur additional liabilities from 1 July 1996. From that date, new business that would have previously been written by CDBL is being written by the rural arm of the Bank.

The due payment of all monies payable by CDBL is guaranteed by the Commonwealth of Australia under Section 117 of the Commonwealth Banks Act 1959 (as amended). This guarantee will continue to be provided by the Commonwealth whilst quarantined assets are held. The value of the liabilities under the guarantee will diminish as quarantined assets reach maturity and are repaid.

State Bank of NSW (known as Colonial State Bank)

The enabling legislation for the sale of the State Bank of New South Wales Limited (SBNSW), the State Bank (Privatisation) Act 1994 – Section 12 and the State Bank (Corporatisation) Act 1989 – Section 12 (as amended), provides in general terms for a guarantee by the NSW Government in respect of all funding liabilities and off balance sheet products (other than demand deposits) incurred or issued prior to 31 December 1997 by SBNSW until maturity and a guarantee for demand deposits accepted by SBNSW up to 31 December 1997. Other obligations incurred before 31 December 1994 are also guaranteed to their maturity. On 4 June 2001 Commonwealth Bank of Australia became the successor in law to SBNSW pursuant to the Financial Sector (Transfers of Business) Act 1999. The NSW Government guarantee of the liabilities and products as described above continues unchanged by the succession.

NOTE 27 Bills Payable and Other Liabilities

| | GROUP | | BANK | |
|---|---------------|--------|---------------|-------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M |
| Bills payable | 886 | 825 | 818 | 754 |
| Accrued interest payable | 1,062 | 1,340 | 900 | 815 |
| Accrued fees and other items payable | 896 | 760 | 712 | 558 |
| Securities purchased not delivered | 1,124 | 803 | 875 | 693 |
| Unrealised losses on trading derivatives (Note 39) ⁽¹⁾ | 8,759 | 5,605 | 8,105 | 5,284 |
| Other liabilities | 1,145 | 2,216 | 137 | 324 |
| Total Bills Payable and Other Liabilities | 13,872 | 11,549 | 11,547 | 8,428 |

⁽¹⁾ The increase in unrealised losses on trading derivatives reflects increased volumes of derivative transactions and falls in interest rates in Australia and the United States and the AUD/USD exchange rate.

Notes to the financial statements**NOTE 28 Loan Capital**

| | | | | | GROUP | | | BANK | | |
|---------------------------|--------|----------------------------|------|--------------|--------------|-------|--------------|--------------|-------|-------|
| | | | | | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| | | | | | \$M | \$M | \$M | \$M | \$M | \$M |
| Tier 1 Capital | | Currency Amount (M) | | | | | | | | |
| Exchangeable | FRNs | USD300 | (1) | 78 | 92 | 113 | 78 | 92 | 113 | |
| Exchangeable | FRNs | USD400 | (2) | 187 | 159 | 330 | 187 | 159 | 330 | |
| Undated | FRNs | USD100 | (3) | 197 | 167 | 152 | 197 | 167 | 152 | |
| | | | | 462 | 418 | 595 | 462 | 418 | 595 | |
| Tier 2 Capital | | | | | | | | | | |
| Extendible | FRNs | AUD300 | (4) | 300 | 300 | 300 | 300 | 300 | 300 | |
| Subordinated | MTNs | AUD185 | (5) | 185 | 185 | 185 | 185 | 185 | 185 | |
| Subordinated | FRNs | AUD115 | (5) | 115 | 115 | 115 | 115 | 115 | 115 | |
| Subordinated | FRNs | AUD25 | (6) | 25 | 25 | 25 | 25 | 25 | 25 | |
| Subordinated | MTNs | AUD200 | (7) | 200 | 200 | - | 200 | 200 | - | |
| Subordinated | FRNs | AUD50 | (7) | 50 | 50 | - | 50 | 50 | - | |
| Subordinated | Notes | USD300 | (8) | 591 | 502 | - | 591 | 502 | - | |
| Subordinated | FRNs | USD450 | (8) | 882 | 746 | - | 882 | 746 | - | |
| Subordinated | EMTN's | JPY20,000 | (9) | 326 | 277 | 251 | 325 | 277 | 251 | |
| Subordinated | EMTN's | USD200 | (10) | 314 | 314 | - | 314 | 314 | - | |
| Subordinated | EMTN's | USD75 | (11) | 115 | 115 | - | 115 | 115 | - | |
| Subordinated | EMTN's | USD100 | (12) | 152 | 152 | - | 152 | 152 | - | |
| Subordinated | EMTN's | USD400 | (13) | 501 | 501 | 501 | 501 | 501 | 501 | |
| Subordinated | EMTN's | GBP200 | (14) | 408 | 408 | 408 | 408 | 408 | 408 | |
| Subordinated | EMTN's | JPY30,000 | (15) | 582 | 495 | 448 | 582 | 495 | 448 | |
| Subordinated | Loan | NZD100 | (16) | 79 | 79 | - | - | - | - | |
| Subordinated | FRNs | AUD210 | (17) | 210 | 210 | - | 210 | - | - | |
| Subordinated | FRNs | AUD38 | (18) | 38 | 38 | - | 38 | - | - | |
| Subordinated | Notes | AUD130 | (19) | 130 | 130 | - | 130 | - | - | |
| Subordinated | Other | AUD39 | (20) | 39 | 39 | - | 39 | - | - | |
| | | | | 5,242 | 4,881 | 2,233 | 5,162 | 4,385 | 2,233 | |
| Total Loan Capital | | | | | 5,704 | 5,299 | 2,828 | 5,624 | 4,803 | 2,828 |

Where a foreign currency hedge is in place to utilise a loan capital issue in a currency other than that of its original issue, the AUD equivalent value is shown net of the hedge.

(1) USD 300 million Undated Floating Rate Notes (FRNs) issued 11 July 1988 exchangeable into Dated FRNs.

Outstanding notes at 30 June 2001 were:

Due July 2003 : USD1.5 million

Due July 2004 : USD0.5 million

undated : USD37.5 million

(2) USD 400 million Undated FRNs issued 22 February 1989 exchangeable into Dated FRNs.

Outstanding notes at 30 June 2001 were:

Due February 2005 : USD64 million

undated : USD31 million

(3) USD 100 million Undated Capital Notes issued on 15 October 1986.

The Bank has entered into separate agreements with the Commonwealth of Australia relating to each of the above issues (the Agreements') which qualify the issues as tier 1 capital.

The Agreements provide that, upon the occurrence of certain events listed below, the Bank may issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth of Australia) rights to all shareholders to subscribe for fully paid ordinary shares up to an amount equal to the outstanding principal value of the relevant note issue or issues plus any interest paid in respect of the notes for the most recent financial year and accrued interest. The issue price of such shares will be determined by reference to the prevailing market price for the Bank's shares.

Any one or more of the following events may trigger the issue of shares to the Commonwealth of Australia or a rights issue:

- a relevant event of default (discussed below) occurs in respect of a note issue and the Trustee of the relevant notes gives notice to the Bank that the notes are immediately due and payable;
- the most recent audited annual financial statements of the Group show a loss (as defined in the Agreements);

Notes to the financial statements

NOTE 28 Loan Capital continued

- the Bank does not declare a dividend in respect of its ordinary shares;
- the Bank, if required by the Commonwealth of Australia and subject to the agreement of the APRA, exercises its option to redeem a note issue; or
- in respect of Undated FRNs which have been exchanged to Dated FRNs, the Dated FRNs mature.

Any payment made by the Commonwealth of Australia pursuant to its guarantee in respect of the relevant notes will trigger the issue of shares to the Commonwealth of Australia to the value of such payment.

The relevant events of default differ depending on the relevant Agreement. In summary, they cover events such as failure of the Bank to meet its monetary obligation in respect of the relevant notes; the insolvency of the Bank; any law being passed to dissolve the Bank or the Bank ceasing to carry on general banking business in Australia; and the Commonwealth of Australia ceasing to guarantee the relevant notes. In relation to Dated FRN's which have matured to date, the Bank and the Commonwealth agreed to amend the relevant Agreement to reflect that the Commonwealth of Australia was not called upon to subscribe for fully paid ordinary shares up to an amount equal to the principal value of the maturing FRNs.

⁽⁴⁾ AUD 300 million Extendible Floating Rate Stock issued December 1989:

due December 2004 : AUD25 million
due December 2009 : AUD275 million

The Bank has entered into a separate agreement with the Commonwealth of Australia relating to the above issue (the 'Agreement') which qualifies the issue as tier 2 capital. For capital adequacy purposes tier 2 debt based capital is reduced each year by 20% of the original amount during the last 5 years to maturity.

The Agreement provides for the Bank to issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth of Australia) rights to all shareholders to subscribe for fully paid ordinary shares up to an amount equal to the outstanding principal value of the note issue plus any interest paid in respect of the notes for the most recent financial year and accrued interest. The issue price will be determined by reference to the prevailing market price for the Bank's shares.

Any one or more of the following events will trigger the issue of shares to the Commonwealth of Australia or a rights issue:

- a relevant event of default occurs in respect of the note issue and, where applicable, the Trustee of the notes gives notice of such to the Bank; or
- the Bank, if required by the Commonwealth of Australia and subject to the agreement of the APRA, exercises its option to redeem such issue.

Any payment made by the Commonwealth of Australia pursuant to its guarantee in respect of the issue will trigger the issue of shares to the Commonwealth of Australia to the value of such payment.

⁽⁵⁾ AUD300 million Subordinated Notes, issued February 1999; due February 2009, split into \$185 million fixed rate notes and \$115 million floating rate notes.

⁽⁶⁾ AUD25 million Subordinated FRN, issued April 1999, due April 2029.

⁽⁷⁾ AUD 250 million Subordinated FRN, issued November 1999, due November 2009; split into \$200 million fixed rate notes and \$50 million floating rate notes.

⁽⁸⁾ USD 750 million Subordinated Notes, issued June 2000, due June 2010; split into USD300 million fixed rate notes and USD450 million floating rate notes.

⁽⁹⁾ JPY20 billion Perpetual Subordinated Euro MTN, issued February 1999.

⁽¹⁰⁾ USD 200 million Subordinated EMTN, issued November 1999, due November 2009.

⁽¹¹⁾ USD 75 million Subordinated EMTN, issued January 2000, due January 2010.

⁽¹²⁾ USD 100 million Subordinated EMTN, issued January 2000, due January 2010.

⁽¹³⁾ USD400 million Subordinated Euro MTN issued June 1996; due July 2006.

⁽¹⁴⁾ GBP200 million Subordinated Euro MTN issued March 1996; due December 2006.

⁽¹⁵⁾ JPY30 billion Subordinated Euro MTN issued October 1995; due October 2015.

⁽¹⁶⁾ NZD100 million Subordinated matures 15 December 2009.

⁽¹⁷⁾ AUD210 million Euro FRN issued 3 September 1996, maturing 10 September 2004.

⁽¹⁸⁾ AUD38 million FRN issued 15 December 1997, maturing 15 December 2004.

⁽¹⁹⁾ AUD130 million Subordinated Notes comprised as follows:

AUD10 million fixed rate notes issued 12 December 1995, maturing 12 December 2005.

AUD110 million floating rate notes issued 12 December 1995, maturing 12 December 2005.

AUD5 million fixed rate notes issued 17 December 1996, maturing 12 December 2005.

AUD5 million floating rate notes issued 17 December 1996, maturing 12 December 2005.

⁽²⁰⁾ Comprises 16 subordinated Notes and FRN issues. The face value amounts are less than \$10 million each and are all in Australian Dollars. The maturity ranges from October 2001 to October 2009.

Notes to the financial statements**NOTE 29 Share Capital**

| | 2001 | BANK |
|--|----------------------|----------------------|
| | \$M | 2000 |
| | | \$M |
| Ordinary Share Capital | | |
| Opening balance | 12,521 | 3,526 |
| Buy-back | (275) | (553) |
| Dividend reinvestment plan: 1999/2000 Final Dividend | 169 | - |
| Buy-back for DRP: 2000/2001 Interim Dividend | (144) | - |
| Dividend Reinvestment Plan: 2000/2001 Interim Dividend | 144 | 253 |
| Sell down of remaining shares from DRP: 2000/2001 Interim Dividend | 4 | - |
| Employee Share Subscription Plan | 3 | 4 |
| Exercise of Executive Options | 37 | 19 |
| Issue costs | (4) | (2) |
| 7 for 20 Issue to Colonial Shareholders | - | 9,274 |
| Closing balance | <u>12,455</u> | <u>12,521</u> |
| Shares on Issue | | |
| | Number | Number |
| Opening balance | 1,260,201,978 | 915,968,625 |
| Buy-back | (25,927,367) | (20,486,618) |
| Dividend reinvestment plan issues: | | |
| 1999 Final Dividend fully paid ordinary shares at \$24.75 | - | 5,545,990 |
| 2000 Interim Dividend fully paid ordinary shares at \$24.42 | - | 4,931,782 |
| 2000 Final Dividend fully paid ordinary shares at \$27.31 | 6,324,869 | - |
| Buy-back for 2001 Interim Dividend | (4,652,665) | - |
| 2001 Interim Dividend fully paid ordinary shares at \$30.82 | 4,514,948 | - |
| Sell down of remaining shares not issued in DRP | 137,717 | - |
| Exercise under Executive Option Plan | 2,435,000 | 1,609,000 |
| Employee Share Subscription Plan issues | 107,550 | 170,550 |
| Employee Share Acquisition Plan issues | 873,425 | 1,053,199 |
| 7 for 20 Issue to Colonial Shareholders | - | 351,409,450 |
| Closing balance | <u>1,244,015,455</u> | <u>1,260,201,978</u> |

Terms and Conditions of Ordinary Share Capital

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from sale of surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Preference Share Capital

| | 2001 | BANK |
|---|------------------|-------------|
| | \$M | 2000 |
| | | \$M |
| Issued and Paid Up PERLS Capital | | |
| Opening balance | - | - |
| PERLS issued | 700 | - |
| Issue costs | (13) | - |
| Closing balance | <u>687</u> | <u>-</u> |
| PERLS in Issue | | |
| | Number | Number |
| Opening balance | - | - |
| PERLS issued | 3,500,000 | - |
| Closing balance | <u>3,500,000</u> | <u>-</u> |

Commonwealth Bank PERLS ('PERLS') are perpetual preference shares that offer a quarterly, floating rate dividend. The issue of PERLS formed part of the continuing capital management strategy of the Bank with proceeds from the issue being used to buy-back ordinary share capital, resulting in a more efficient capital structure. PERLS represent a less expensive form of equity funding than ordinary shares and increase the diversity and flexibility of the Bank's capital base. The issue has also attracted new investors to the Bank. PERLS are listed and traded on the Australian Stock Exchange.

Terms and Conditions of Preferred Exchangeable Resettable Listed Shares (Commonwealth Bank PERLS)

A holder of PERLS on the relevant record date is entitled to receive on each relevant Dividend Payment Date, if determined by the Directors to be payable, a Dividend. Holders of Commonwealth Bank PERLS will rank ahead of holders of ordinary shares in a winding up to the extent of the issue price of the Commonwealth Bank PERLS.

Holders of PERLS are entitled to vote at a general meeting of the issuer in limited circumstances.

Notes to the financial statements

NOTE 29 Share Capital continued

Employee Share Plans

The Bank has in place the following employee share plans:

- Commonwealth Bank Employee Share Acquisition Plan (ESAP);
- Commonwealth Bank Equity Participation Plan (EPP);
- Commonwealth Bank Equity Reward Plan (ERP); and
- Commonwealth Bank Non-Executive Directors Share Plan (NEDSP).

The ESAP provides employees of the Bank with up to \$1,000 worth of free shares per annum subject to

a performance target being met. The performance target is growth in annual profit of the greater of 5% or consumer price index plus 2%. Whenever annual profit growth exceeds CPI change, the Board may use its discretion in determining whether any grant of shares will be made. Details of issues under this plan are:

Employee Share Acquisition Plan (ESAP)

The ESAP and ERP were each approved by shareholders at the Annual General Meeting (AGM) on 26 October 2000. Shareholders consent was not required for either the EPP or NEDSP but details were included in the Explanatory Memorandum to the meeting to ensure shareholders were fully informed.

| Offer | Issue Date | Ordinary Shares Issued ⁽¹⁾ | Bonus Ordinary Shares Issued ⁽²⁾ | No. of Participants | Shares issued to each Participant | Issue Price ⁽³⁾ |
|-------|-------------|---------------------------------------|---|---------------------|-----------------------------------|----------------------------|
| 1996 | 2 Jan 1997 | 27,755 | 2,275,910 | 27,755 | 83 | \$12.04 |
| | 18 Mar 1997 | 13 | 1,066 | 13 | 83 | \$12.04 |
| 1997 | 11 Dec 1997 | 3,025 | 1,637,273 | 28,281 | 58 | \$17.16 |
| | 3 Feb 1998 | - | 232 | 4 | 58 | \$17.16 |
| 1999 | 24 Sep 1999 | - | 1,053,199 | 24,493 | 43 | \$23.12 |
| 2000 | 13 Oct 2000 | - | 872,620 | 24,932 | 35 | \$27.78 |
| | 20 Dec 2000 | - | 805 | 23 | 35 | \$27.78 |

⁽¹⁾ For the 1996 and 1997 Offers, new employee shareholders were granted one ordinary share with the remainder of shares issued as Bonus Ordinary Shares. For subsequent Offers both new and existing shareholders were granted Bonus Ordinary Shares.

⁽²⁾ For the 1996 and 1997 Offers the bonus shares were fully paid up as issued shares utilising the Share Premium Reserve. With the removal of the Share Premium Reserve the bonus shares are issued from the Share Capital Account.

⁽³⁾ The Issue Price x Shares Issued to each Participant effectively represents \$1,000 of free shares.

Equity Reward Plan (ERP)

The ERP is in two parts, comprising grants of shares and grants of options. The option component of the ERP is similar to the Executive Option Plan (EOP) which was previously approved by shareholders with the only difference being the maximum number of executives to whom the Board envisages the Plan will apply (up from 50 to 100). The Board also envisages that up to 500 employees will participate in the share component of the Plan (including the up to 100 executives receiving options).

The exercise of options and the vesting of the employees legal title to the shares is conditional on the Bank achieving a prescribed performance hurdle, which is:

- the Bank's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of Total Shareholder Return achieved by companies represented in the ASX's 'Banks and Finance Accumulation Index', excluding the Bank.
- If the performance hurdle is not reached within that three years the options may nevertheless be exercisable only where the hurdle is subsequently reached within 5 years from the Commencement Date.

Shares acquired under the share component of the ERP are purchased on-market at the current market price.

Notes to the financial statements

NOTE 29 Share Capital continued

Details of options issued and shares acquired under this plan are:

Options

| Commencement Date | Issue Date | Options Issued | Options Outstanding | Participants | Exercise Price | Exercise Period ⁽²⁾ |
|-------------------|------------|----------------|---------------------|--------------|------------------------|--------------------------------|
| 13 Sep 2000 | 7 Feb 2001 | 577,500 | 560,000 | 23 | \$26.97 ⁽¹⁾ | 14 Sep 2003 to 13 Sep 2010 |

⁽¹⁾ Exercise price will be adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of the vesting).

⁽²⁾ Performance hurdle must be satisfied between 14 September 2003 and 13 September 2005, otherwise options will lapse.

Shares

| Purchase Date | Shares Purchased | Shares Outstanding | Participants | Vesting Period | Average Purchase Price |
|---------------|------------------|--------------------|--------------|----------------------------|------------------------|
| 20 Feb 2001 | 361,100 | 358,100 | 61 | 14 Sep 2003 to 13 Sep 2005 | \$29.72 |

17,500 options and 3,000 shares granted under the ERP have lapsed as at 30 June 2001.

Equity Participation Plan (EPP)

The EPP will facilitate the voluntary sacrifice of both fixed salary and annual bonus to be applied in the acquisition of shares. The Plan will also facilitate the mandatory sacrifice of part of annual performance bonuses. All shares acquired by employees under this Plan will be purchased on-market at the current market price. The first purchase of shares for this scheme is scheduled for October 2001.

Non-Executive Directors Share Plan (NEDSP)

The NEDSP provides for the acquisition of shares by Non-Executive Directors through the mandatory sacrifice of 20% of their annual fees (paid on a quarterly basis). Shares purchased are restricted for sale for 10 years or when the Director leaves the Board, whichever is earlier. Shares are purchased on-market at the current market price and details of shares purchased under this Plan so far are:

| Quarter Ending | Total Fees Sacrificed | Participants | Shares Purchased | Average Purchase Price |
|----------------|-----------------------|--------------|------------------|------------------------|
| 31/12/2000 | \$63,517 | 11 | 1,989 | \$31.93 |
| 31/03/2001 | \$65,917 | 11 | 2,359 | \$27.94 |
| 30/06/2001 | \$61,331 | 10 | 1,820 | \$33.45 |

Note - Trading restrictions on 317 shares acquired on behalf of Mr Ken Cowley were lifted subsequent to Mr Cowley's exit from the Board.

Shareholders were also informed at the AGM on 26 October 2000 that two plans were to be discontinued:

- Commonwealth Bank Employee Share Subscription Plan (ESSP); and
- Commonwealth Bank Executive Option Plan (EOP).

Employee Share Subscription Plan

The Employee Share Subscription Plan provided employees of the Bank with the opportunity to purchase ordinary shares at a 5% discount to the market price of the shares at the time of purchase, subject to a one year restriction on the disposal of the shares.

A total of 1,092,650 shares were issued under this scheme to 4,907 employees in offers during the period March 1997 to October 2000.

Executive Option Plan

Under the EOP, the Bank granted options to purchase ordinary shares to those key executives who, are able by virtue of their responsibility, experience and skill to influence the generation of shareholder wealth, were declared by the Board of Directors to be eligible to participate in the Plan. Non-Executive Directors were not eligible to participate in the Plan.

Options cannot be exercised before each respective exercise period and the ability to exercise is conditional on the Bank achieving a prescribed performance hurdle. To reach the performance hurdle, the Bank's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of Total Shareholder Return achieved by companies represented in the ASX's 'Banks and Finance Accumulation Index', excluding the Bank.

If the performance hurdle is not reached within that 3 years (4 years for the second tranche of options granted to the Managing Director on 24 August 1999), the options may nevertheless be exercisable only where the hurdle is subsequently reached within five years (six years for the second tranche of options granted to the Managing Director on 24 August 1999) from the Commencement Date.

The option plan did not grant rights to the option holders to participate in a share issue of any other body corporate.

Notes to the financial statements

NOTE 29 Share Capital continued

Details of issues made under this plan are:

| Commencement Date | Issue Date | Options Issued | Options Outstanding | Participants | Exercise Price ⁽¹⁾ | Exercise Period |
|-------------------|-------------|----------------|---------------------|--------------|-------------------------------|----------------------------|
| 12 Nov 1996 | 16 Dec 1996 | 2,100,000 | 50,000 | 25 | \$11.85 | 13 Nov 1999 to 12 Nov 2001 |
| 3 Nov 1997 | 11 Dec 1997 | 2,875,000 | 125,000 | 27 | \$15.53 ⁽²⁾ | 4 Nov 2000 to 3 Nov 2002 |
| 25 Aug 1998 | 30 Sep 1998 | 3,275,000 | 2,975,000 | 32 | \$19.58 ⁽³⁾ | 26 Aug 2001 to 25 Aug 2003 |
| 24 Aug 1999 | 24 Sep 1999 | 3,855,000 | 3,700,000 | 38 | \$23.84 ⁽³⁾ | 25 Aug 2002 to 24 Aug 2009 |
| 13 Sep 2000 | 13 Oct 2000 | 2,002,500 | 1,952,500 | 50 | \$26.97 ⁽³⁾ | 14 Sep 2003 to 13 Sep 2010 |

⁽¹⁾ Market Value at the Commencement Date. Market Value is defined as the weighted average of the prices at which shares were traded on the ASX during the one week period before the Commencement Date.

⁽²⁾ Premium adjustment (based on the actual difference between the dividend and bond yields at the date of vesting) was nil.

⁽³⁾ Exercise price will be adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of the vesting).

1,235,000 options, from all grants to date, have been forfeited as at 30 June 2001. 1,680,000 options from the 1996 grant, and 2,390,000 options from the 1997 grant, have been exercised as at 30 June 2001.

Details of shares issued during the period 1 July 2000 to 22 August 2001 as a result of options being exercised are:

| Option Issue Date | Shares Issued | Price paid per Share | Total Consideration Paid |
|-------------------|---------------|----------------------|--------------------------|
| 16 Dec 1996 | 145,000 | \$11.85 | \$1,718,250 |
| 11 Dec 1997 | 2,290,000 | \$15.53 | \$35,563,700 |

Share Buy-back

During the financial year ending 30 June 2001, the Bank's shareholders equity was reduced by \$723 million pursuant to the buy-back of 25.9 million shares.

In March 2001 the Bank made an off market buy-back of \$700 million of ordinary shares. The price per share paid by the Bank for the buy-back shares was \$27.84 calculated in accordance with the buy-back offer. In accordance with an agreement reached with the Australian Taxation Office \$10 per share of the consideration for each share bought back has been charged to paid up capital (\$251 million). The balance of

\$17.84 per share is deemed to be a fully franked dividend and charged to retained profits (\$449 million). This buy-back coincided with the new issue of preference shares as detailed previously. The balance of the equity reduction occurred by way of an on market buy-back.

The Bank's shareholders' equity was reduced by \$553 million on 8 November 1999 pursuant to the buy-back of 20.5 million shares. The price per share paid by the Bank for the buy-back shares was \$27.00 calculated in accordance with the buy-back offer.

NOTE 30 Outside Equity Interests

| | 2001 \$M | GROUP 2000 \$M |
|--------------------------------|-------------|----------------------|
| Controlled Entities: | | |
| Share Capital | 6 | 355 |
| Reserves | - | 11 |
| Retained profits | (9) | 9 |
| Life Insurance Statutory funds | 1,458 | 588 |
| Total Outside Equity Interests | 1,455 | 963 |

In August 2000 the Group purchased the remaining 25% of ASB Group.

Notes to the financial statements

NOTE 31 Capital Adequacy

Entities within the Group are subject to regulation by a variety of regulators.

The Bank is subject to regulation by the Australian Prudential Regulation Authority (APRA) and is required to maintain certain minimum ratios of capital to assets. These ratios are applied to the Bank as a stand-alone entity and on a consolidated basis to the Group. The minimum ratios are 4% for tier 1 capital and 8% for the Capital Base.

Under APRA Prudential Standards, capital falls into two categories, known as tier 1 and tier 2. Tier 1 capital consists of shareholders funds and certain capital instruments that meet the standards set by APRA. The aggregate amount of capital instruments may not exceed 25% of shareholders funds. Intangible assets and future income tax benefits are deducted to arrive at tier 1 capital. When calculated on a consolidated basis, goodwill and part of the Group's investment in its life insurance and funds management businesses are also deducted to arrive at tier 1 capital.

Tier 2 capital is divided into Upper tier 2 (consisting of revaluation reserves, general provisions for doubtful debts, cumulative irredeemable preference shares and other hybrid capital instruments approved by APRA), and Lower tier 2 (consisting of mandatory convertible notes, term subordinated debt, limited life redeemable preference shares and other capital instruments approved by APRA). Tier 2 capital may not exceed tier 1 capital and Lower tier 2 capital may not exceed 50% of tier 1 capital.

The sum of tier 1 and tier 2 capital forms Total Capital. Investments in other banks and similar institutions are deducted from Total Capital to arrive at the Capital Base. When calculated on a consolidated basis, part of the Group's investment in its life insurance and funds management businesses is deducted to arrive at the Capital Base.

The Group's investment in its life insurance and funds management businesses is carried at the values disclosed in Note 34. Part of the investment is funded by debt in intermediate holding companies on a non-recourse basis (i.e. obligations to pay interest or repay principal are not guaranteed by the Bank). The part of the investment represented by shareholders' net tangible assets and the value of in force business acquired on the merger with Colonial in 2000, net of the non-recourse debt, is deducted from Total Capital. The part of the investment represented by self-generated value of business in force and the value of future new business is deducted from tier 1 capital.

For the purposes of calculating the ratios, risk weights are applied to balance sheet assets. These are intended to recognise the credit risk attached to categories of assets. There are four risk weights (0, 20, 50 or 100 per cent). Off balance sheet exposures are converted to on balance sheet credit equivalents using credit conversion factors relating to the nature of the exposure, then weighted in the same manner as balance sheet assets.

In addition to the capital requirements for credit risk, the Bank is also required to hold sufficient capital to cover market risk in its trading activities. Market risk is defined as the risk of losses in both on and off balance sheet positions arising from movements in market price. APRA require the measure of market risk to be multiplied by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8 per cent) to determine a notional risk weighted asset figure.

APRA applies similar regulatory capital requirements to Commonwealth Bank of Australia Limited and CBFC Limited.

ASB Bank Limited is subject to regulation by the Reserve Bank of New Zealand (RBNZ). RBNZ applies similar methodology in calculating the regulatory capital requirement. Although there are minor differences in the regulations applied by APRA and RBNZ, these are not material.

Banks may not pay dividends if immediately after payment, they are unable to meet the minimum capital requirements. APRA does not normally permit banks to pay dividends in excess of current year earnings.

The Group's life insurance businesses in Australia are also regulated by APRA. The Life Insurance Act has established a framework for the regulatory capital requirements for life insurance companies. These requirements are based on tests aimed at ensuring each statutory fund in each life insurance company has sufficient assets to meet policy and other liabilities under a range of adverse circumstances. There are two tiers to the regulatory capital requirements – 'solvency' and 'capital adequacy'. The solvency test is made assuming each fund is closed to new business. Failure to meet the solvency test may result in the appointment of a judicial manager by APRA. The capital adequacy test assumes each fund remains open to new business and the reasonable expectations of policyholders are met. Failure to meet the capital adequacy test means capital or retained profits may not be transferred from the statutory funds and may result in closer regulatory monitoring by APRA. The capital adequacy test is always equal to or greater than the solvency test. At 30 June 2001, all statutory funds of the Group's life insurance companies in Australia met the capital adequacy test. In aggregate, at 30 June 2001, the excess over capital adequacy amounted to \$338 million.

There are no regulatory capital requirements for life insurance companies in New Zealand. However the Group determines capital requirements on a basis similar to the requirements in Australia.

The life insurance business in Hong Kong is regulated by the Insurance Authority of Hong Kong. The minimum regulatory requirement comprises a solvency test defined in local regulations and ordinances.

Funds managers in Australia are subject to regulation by The Australian Securities and Investment Commission (ASIC) through their role in supervising Responsible Entities. The minimum regulatory capital requirements vary for Responsible Entities depending on the type of dealer licence held but a minimum requirement of \$5 million of net tangible assets usually applies.

Notes to the financial statements**NOTE 31 Capital Adequacy continued**

| | 2001 | GROUP |
|-------------------------------------|---------------|--------------|
| | Actual | 2000 |
| Risk Weighted Capital Ratios | % | Actual |
| | | % |
| Tier one | 6.51 | 7.49 |
| Tier two | 4.18 | 4.75 |
| Less deductions | (1.53) | (2.49) |
| Total | 9.16 | 9.75 |

| | 2001 | GROUP |
|---|----------------|---------------|
| | \$M | 2000 |
| | | \$M |
| Tier One Capital | | |
| Shareholders' Equity (excluding asset revaluation reserve) | 19,843 | 18,435 |
| Eligible Loan Capital | 462 | 418 |
| Total Shareholders' Equity and Loan Capital | 20,305 | 18,853 |
| Less Goodwill | (5,716) | (5,905) |
| Less Preference shares | - | (86) |
| Less Intangible component of investment in non-consolidated subsidiaries | (4,116) | (2,656) |
| Less Outside equity interest in entities controlled by non-consolidated subsidiaries | (1,458) | (588) |
| Total Tier One Capital | 9,015 | 9,618 |
| Tier Two Capital | | |
| Asset revaluation reserve | 5 | - |
| General provision for bad and doubtful debts ⁽¹⁾ | 1,390 | 1,358 |
| FITB related to general provision | (436) | (420) |
| Note and bond issues ⁽²⁾ | 4,825 | 5,120 |
| Preference shares | - | 39 |
| Total Tier Two Capital | 5,784 | 6,097 |
| Tier One and Tier Two Capital | 14,799 | 15,715 |
| Less Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1) | (2,005) | (2,528) |
| Less Other deductions | (114) | (669) |
| Capital Base | 12,680 | 12,518 |

⁽¹⁾ Excludes general provision for bad and doubtful debts relating to investments in non-consolidated subsidiaries.

⁽²⁾ Includes both upper and lower Tier 2 capital.

Notes to the financial statements**NOTE 31 Capital Adequacy continued**

| | Face Value | | Risk Weights | Risk Weighted Balance | |
|---|----------------|----------------|--------------|-----------------------|----------------|
| | 2001 | 2000 | | 2001 | 2000 |
| | \$M | \$M | % | \$M | \$M |
| Risk-weighted assets | | | | | |
| On balance sheet assets | | | | | |
| Cash, claims on Reserve Bank, short term claims on Australian Commonwealth and State Government and Territories, and other zero-weighted assets | 16,604 | 16,157 | 0% | - | - |
| Claims on OECD banks and local governments | 10,927 | 9,714 | 20% | 2,185 | 1,943 |
| Advances secured by residential property ⁽¹⁾ | 77,909 | 75,656 | 50% | 38,954 | 37,828 |
| All other assets ^{(2) (3)} | 77,028 | 71,914 | 100% | 77,028 | 71,914 |
| Total on balance sheet assets - credit risk | 182,468 | 173,441 | | 118,167 | 111,685 |

| | Face value | | Credit Equivalent | | Risk-weighted Balance | |
|---|----------------|----------------|-------------------|---------------|-----------------------|----------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Off-balance sheet exposures | | | | | | |
| Direct credit substitutes | 5,183 | 3,540 | 4,446 | 3,540 | 3,687 | 2,825 |
| Trade and performance related items | 1,496 | 1,795 | 670 | 828 | 660 | 819 |
| Commitments | 44,030 | 42,442 | 17,121 | 14,671 | 11,467 | 9,634 |
| Foreign exchange, interest rate and other market related transactions | 407,014 | 381,438 | 11,407 | 9,358 | 3,758 | 2,785 |
| Total off balance sheet exposures - credit risk | 457,723 | 429,215 | 33,644 | 28,397 | 19,572 | 16,063 |
| Total risk weighted assets - credit risk | | | | | 137,739 | 127,748 |
| Risk weighted assets - market risk | | | | | 644 | 736 |
| Total risk weighted assets | | | | | 138,383 | 128,484 |

⁽¹⁾ For loans secured by residential mortgages approved after 5 September 1994, a risk weight of 100 per cent applied where the loan to valuation ratio is in excess of 80 per cent. Effective from 28 August 1998, a risk weight of 50 per cent applies to these loans if they are totally insured by an acceptable lender's mortgage insurer. Loans that are risk weighted at 100 per cent are reported under 'All Other Assets'.

⁽²⁾ The difference between total on balance sheet assets and the Group's balance sheet reflects the alternative treatment of some assets and provisions as prescribed in APRA's capital adequacy guidelines; principally goodwill, general provisions for bad and doubtful debts, and investments in life insurance and funds management businesses.

⁽³⁾ Total on-balance sheet assets exclude debt and equity securities in the trading book and all on-balance sheet positions in commodities as they are included in the calculation of notional market risk weighted assets.

Notes to the financial statements

NOTE 32 Maturity Analysis of Monetary Assets and Liabilities

The maturity distribution of monetary assets and liabilities is based on contractual terms. The majority of the longer term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Therefore this information is not relied on by the Bank in the management of its interest rate risk.

| | GROUP | | | | | | | Total \$M |
|--|---------------------------------|-------------------|-------------------------|--------------------------|------------------------|------------------------|-------------------------|----------------|
| | Maturity Period At 30 June 2001 | | | | | | | |
| | At Call \$M | Overdrafts \$M | 0 to 3 months \$M | 3 to 12 months \$M | 1 to 5 years \$M | Over 5 years \$M | Not specified \$M | |
| Assets | | | | | | | | |
| Cash and liquid assets | 1,193 | - | 2,516 | - | - | - | - | 3,709 |
| Receivables due from other financial institutions | 848 | 2 | 2,636 | 587 | 477 | - | 72 | 4,622 |
| Trading securities ⁽¹⁾ | - | - | 6,909 | - | - | - | - | 6,909 |
| Investment securities | - | - | 1,062 | 1,861 | 4,017 | 2,764 | 1 | 9,705 |
| Loans, advances and other receivables ⁽²⁾ | 1,408 | 4,089 | 12,934 | 12,787 | 42,963 | 63,277 | (1,399) | 136,059 |
| Bank acceptances of customers | - | - | 10,868 | 1,207 | - | - | - | 12,075 |
| Life Assets | 4,694 | - | 582 | 1,832 | 3,327 | 2,767 | 18,011 | 31,213 |
| Other Monetary assets | 32 | - | 11,106 | 75 | 9 | - | 256 | 11,478 |
| Total Monetary assets | 8,175 | 4,091 | 48,613 | 18,349 | 50,793 | 68,808 | 16,941 | 215,770 |
| Liabilities | | | | | | | | |
| Deposits and other public borrowings ⁽³⁾ | 62,416 | - | 29,588 | 16,539 | 7,114 | 1,693 | 5 | 117,355 |
| Payables due to other financial institutions | 358 | 215 | 4,095 | 2,235 | - | - | - | 6,903 |
| Bank acceptances | - | - | 10,868 | 1,207 | - | - | - | 12,075 |
| Life Liabilities | - | - | - | - | - | - | 27,029 | 27,029 |
| Debt issues and loan capital | - | - | 11,349 | 5,271 | 7,862 | 5,095 | 611 | 30,188 |
| Other monetary liabilities | 81 | - | 13,077 | 208 | 51 | 1 | 243 | 13,661 |
| Total monetary liabilities | 62,855 | 215 | 68,977 | 25,460 | 15,027 | 6,789 | 27,888 | 207,211 |

⁽¹⁾ Trading securities are purchased without the intention to hold until maturity and are categorised as maturing within 3 months.

⁽²⁾ \$65 billion of this figure represents owner occupied housing loans. While most of these loans would have a contractual term of 20 years or more, and are analysed accordingly, the actual average term of the portfolio has historically been less than 5 years.

⁽³⁾ Includes substantial 'core' deposits which are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to Interest Rate Risk Sensitivity table in Note 39.

During the financial year, significant growth in variable rate, long-term loans occurred. This has been funded principally by at call variable rate retail deposits.

Notes to the financial statements**NOTE 32 Maturity Analysis of Monetary Assets and Liabilities continued**

| | GROUP Maturity Period At 30 June 2000 | | | | | | | Total \$M |
|--|--|-------------------|-------------------------|--------------------------|------------------------|------------------------|-------------------------|----------------|
| | At Call \$M | Overdrafts \$M | 0 to 3 months \$M | 3 to 12 Months \$M | 1 to 5 years \$M | Over 5 years \$M | Not specified \$M | |
| Assets | | | | | | | | |
| Cash and liquid assets | 1,041 | - | 1,534 | - | - | - | - | 2,575 |
| Receivables due from other financial institutions | 2,200 | 16 | 2,699 | 204 | - | - | 35 | 5,154 |
| Trading securities ⁽¹⁾ | - | - | 7,347 | - | - | - | - | 7,347 |
| Investment securities | - | - | 1,757 | 1,787 | 3,027 | 2,575 | 3 | 9,149 |
| Loans, advances and other receivables ⁽²⁾ | 510 | 4,719 | 8,351 | 18,315 | 49,826 | 51,853 | (1,311) | 132,263 |
| Bank acceptances of customers | - | - | 9,553 | 1,554 | - | - | - | 11,107 |
| Life Assets ⁽⁴⁾ | 2,037 | - | 25 | 4,924 | 2,996 | 3,048 | 14,006 | 27,036 |
| Other Monetary assets | 1,024 | - | 8,854 | 133 | 13 | 15 | 244 | 10,283 |
| Total Monetary assets | 6,812 | 4,735 | 40,120 | 26,917 | 55,862 | 57,491 | 12,977 | 204,914 |
| Liabilities | | | | | | | | |
| Deposits and other public borrowings ⁽³⁾ | 55,494 | - | 27,577 | 19,744 | 7,408 | 2,371 | - | 112,594 |
| Payables due to other financial institutions | 864 | 126 | 3,050 | 592 | - | - | 1 | 4,633 |
| Bank acceptances | - | - | 10,030 | 1,077 | - | - | - | 11,107 |
| Life Liabilities | - | - | - | - | - | 314 | 24,968 | 25,282 |
| Debt issues and loan capital | - | - | 11,647 | 4,142 | 8,855 | 5,371 | 559 | 30,574 |
| Other monetary liabilities | 201 | - | 11,565 | 317 | 137 | 30 | - | 12,250 |
| Total monetary liabilities | 56,559 | 126 | 63,869 | 25,872 | 16,400 | 8,086 | 25,528 | 196,440 |

⁽¹⁾ Trading securities are purchased without the intention to hold until maturity and are categorised as maturing within three months.

⁽²⁾ \$49 billion of this figure represents owner occupied housing loans. While most of these loans would have a contractual term of 20 years or more, and are analysed accordingly, the actual average term of the portfolio has historically been less than 5 years.

⁽³⁾ Includes substantial 'core' deposits which are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to Interest Rate Risk Sensitivity table in Note 39.

⁽⁴⁾ 30 June 2000 has been adjusted to align with categories as at 30 June 2001 following the amalgamation of Colonial operations and product systems.

Notes to the financial statements**NOTE 33 Financial Reporting by Segments**

| Primary Segment Business Segments Profit and Loss | Year Ended 30 June 2001 | | | GROUP Total \$M |
|---|-------------------------|--------------------------|----------------------------|-----------------------|
| | Banking \$M | Life Insurance \$M | Funds Management \$M | |
| Interest income | 11,900 | - | - | 11,900 |
| Premium and related revenue | - | 958 | - | 958 |
| Other income | 2,485 | 1,698 | 701 | 4,884 |
| Appraisal value uplift | | | | 474 |
| Total Revenue | 14,385 | 2,656 | 701 | 18,216 |
| Interest Expense | 7,426 | - | - | 7,426 |
| Profit before tax, appraisal value uplift, goodwill amortisation | 2,512 | 514 | 243 | 3,269 |
| Income tax expense | (705) | (194) | (94) | (993) |
| Profit after tax and before goodwill amortisation and appraisal value uplift | 1,807 | 320 | 149 | 2,276 |
| Outside equity interest | (14) | - | - | (14) |
| Profit after tax and outside equity interest before goodwill amortisation and appraisal value uplift | 1,793 | 320 | 149 | 2,262 |
| Goodwill amortisation | | | | (338) |
| Appraisal value uplift | | | | 474 |
| Profit after tax | 1,793 | 320 | 149 | 2,398 |
| Non-Cash Expenses | | | | |
| Goodwill amortisation | | | | (338) |
| Charge for bad and doubtful debts | (385) | - | - | (385) |
| Depreciation | (108) | (37) | (5) | (150) |
| Other | (28) | (5) | (4) | (37) |
| Balance Sheet | | | | |
| Total Balance Sheet Assets | 191,333 | 37,278 | 1,800 | 230,411 |
| Acquisition of Property, Plant & Equipment and Intangibles | 129 | - | 3 | 391 ⁽¹⁾ |
| Associate Investments | 249 | 128 | 23 | 400 |
| Total Balance Sheet Liabilities | 179,733 | 30,329 | 501 | 210,563 |

⁽¹⁾ Includes intangible assets of \$259 million on acquisition of 25% interest in ASB Group.

Notes to the financial statements**NOTE 33 Financial Reporting by Segments continued**

| | Year Ended 30 June 2000 | | | |
|--|-------------------------|--------------------------|----------------------------|-----------------------|
| | Banking \$M | Life Insurance \$M | Funds Management \$M | GROUP Total \$M |
| Profit and Loss | | | | |
| Interest income | 8,842 | - | - | 8,842 |
| Premium and related revenue | - | 337 | - | 337 |
| Other income | 1,987 | 1,066 | 143 | 3,196 |
| Appraisal value uplift | | | | 1,165 |
| Total Revenue | <u>10,829</u> | <u>1,403</u> | <u>143</u> | <u>13,540</u> |
| Interest Expense | 5,123 | - | - | 5,123 |
| Profit before tax, appraisal value uplift, goodwill amortisation | 2,310 | 176 | 50 | 2,536 |
| Income tax expense | (739) | (47) | (14) | (800) |
| Profit after income tax and before goodwill amortisation and appraisal value uplift | <u>1,571</u> | <u>129</u> | <u>36</u> | <u>1,736</u> |
| Outside equity interest | (38) | - | - | (38) |
| Profit after tax and outside equity interest before goodwill amortisation and appraisal value uplift | <u>1,533</u> | <u>129</u> | <u>36</u> | <u>1,698</u> |
| Goodwill amortisation | | | | (57) |
| Restructuring provision | | | | (106) |
| Appraisal value uplift | | | | 1,165 ⁽¹⁾ |
| Profit after tax | <u>1,533</u> | <u>129</u> | <u>36</u> | <u>2,700</u> |
| Non-Cash Expenses | | | | |
| Goodwill amortisation | | | | (57) |
| Charge for bad and doubtful debts | (196) | - | - | (196) |
| Restructuring provision | | | | (106) |
| Depreciation | (115) | (2) | - | (117) |
| Other | (41) | (2) | (1) | (44) |
| Balance Sheet | | | | |
| Total Balance Sheet Assets | 185,108 | 32,642 | 509 | 218,259 |
| Acquisition of Property, Plant & Equipment and Intangibles | 94 | - | - | 8,137 ⁽²⁾ |
| Associate Investments | 263 | 108 | 32 | 403 |
| Total Balance Sheet Liabilities | <u>171,489</u> | <u>28,140</u> | <u>195</u> | <u>199,824</u> |

⁽¹⁾ \$1,073 million of this amount was reported as abnormal income in this year.

⁽²⁾ Includes intangible assets of \$8,043 million on acquisition of Colonial Group.

Notes to the financial statements**NOTE 33 Financial Reporting by Segments continued**

| Profit and Loss | Year Ended 30 June 1999 | | | | | |
|--|-------------------------|--------------------------|----------------------------|-----------------------|----------|-------------|
| | Banking \$M | Life Insurance \$M | Funds Management \$M | GROUP Total \$M | | |
| Interest income | 7,745 | - | - | 7,745 | | |
| Premium and related revenue | - | 236 | - | 236 | | |
| Other income | 2,438 | 590 | 97 | 3,125 | | |
| Total Revenue | 10,183 | 826 | 97 | 11,106 | | |
| Interest Expense | 4,218 | - | - | 4,218 | | |
| Profit before tax, appraisal value uplift, goodwill amortisation | 2,075 | 99 | 33 | 2,207 | | |
| Income tax expense | (709) | 4 | (9) | (714) | | |
| Profit after tax and before goodwill | 1,366 | 103 | 24 | 1,493 | | |
| Outside equity interest | (24) | - | - | (24) | | |
| Profit after tax and outside equity interest before goodwill amortisation and appraisal value uplift | 1,342 | 103 | 24 | 1,469 | | |
| Goodwill amortisation | - | - | - | (47) | | |
| Profit after tax | 1,342 | 103 | 24 | 1,422 | | |
| Non Cash Expenses | | | | | | |
| Goodwill amortisation | - | - | - | (47) | | |
| Charge for bad and doubtful debts | (247) | - | - | (247) | | |
| Depreciation | (145) | - | - | (145) | | |
| Other | (39) | (2) | (1) | (42) | | |
| Balance Sheet | | | | | | |
| Total Balance Sheet Assets | 136,787 | 1,157 | 152 | 138,096 | | |
| Acquisition of Property, Plant & Equipment and Intangibles | 81 | - | - | 81 | | |
| Associate Investments | 258 | - | 23 | 281 | | |
| Total Balance Sheet Liabilities | 130,195 | 841 | 97 | 131,134 | | |
| Secondary Segment | | | | | | |
| Geographical Segment | | 2001 | | 2000 | | 1999 |
| | | \$M | % | \$M | % | \$M |
| GEOGRAPHICAL SEGMENTS | | | | | | |
| Revenue | | | | | | |
| Australia | 15,150 | 83.2 | 11,614 | 85.8 | 9,470 | 85.3 |
| New Zealand | 1,499 | 8.2 | 1,171 | 8.6 | 976 | 8.8 |
| Other Countries ⁽¹⁾ | 1,567 | 8.6 | 755 | 5.6 | 660 | 5.9 |
| | 18,216 | 100.0 | 13,540 | 100.0 | 11,106 | 100.0 |
| Operating profit after tax and outside equity interests | | | | | | |
| Australia | 2,228 | 92.9 | 2,536 | 93.9 | 1,270 | 89.3 |
| New Zealand | 159 | 6.6 | 105 | 3.9 | 80 | 5.6 |
| Other Countries ⁽¹⁾ | 11 | 0.5 | 59 | 2.2 | 72 | 5.1 |
| | 2,398 | 100.0 | 2,700 | 100.0 | 1,422 | 100.0 |
| Assets | | | | | | |
| Australia | 196,918 | 85.5 | 187,452 | 85.9 | 115,510 | 83.6 |
| New Zealand | 20,208 | 8.8 | 16,661 | 7.6 | 13,046 | 9.5 |
| Other Countries ⁽¹⁾ | 13,285 | 5.7 | 14,146 | 6.5 | 9,540 | 6.9 |
| | 230,411 | 100.0 | 218,259 | 100.0 | 138,096 | 100.0 |
| Acquisition of Property, Plant & Equipment and Intangibles | | | | | | |
| Australia | 360 | 92.1 | 7,906 ⁽²⁾ | 97.2 | 81 | 100.0 |
| New Zealand | 29 | 7.4 | 231 ⁽²⁾ | 2.8 | - | - |
| Other Countries ⁽¹⁾ | 2 | 0.5 | - | - | - | - |
| | 391 | 100.0 | 8,137 | 100.0 | 81 | 100.0 |

⁽¹⁾ Other Countries are: United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, the Philippines, Fiji, Thailand, Indonesia, Malaysia, China and Vietnam.

The geographical segments represent the location in which the transaction was booked.

⁽²⁾ Includes intangible assets of \$8,043 million on acquisition of Colonial Group.

Notes to the financial statements

NOTE 34 Life Insurance Business

The following information, in accordance with AASB 1038, is provided to disclose life insurance business transactions contained in the Group financial statements and the underlying methods and assumptions used in their calculation. Also refer Notes 1 (jj) and 20.

| Summarised Profit and Loss Statement | 2001 | GROUP |
|---|--------------|-------------|
| | \$M | 2000 \$M |
| Premium and related revenue | 1,122 | 459 |
| Outward reinsurance premiums expense | (164) | (122) |
| Claims expense | (621) | (310) |
| Reinsurance recoveries | 141 | 89 |
| Investment revenue (excluding investments in subsidiaries) | | |
| Equity securities | 552 | 592 |
| Debt securities | 902 | 442 |
| Property | 277 | 32 |
| Other | (33) | - |
| Life insurance policy liabilities expense | (908) | (856) |
| Margin on services operating income | 1,268 | 326 |
| Change in excess of net market values over net assets of life insurance controlled entities | 474 | 92 |
| Life Insurance operating income | 1,742 | 418 |
| Administration expense | (754) | (150) |
| Operating profit before income tax | 988 | 268 |
| Income tax attributable to operating profit | (194) | (47) |
| Operating profit after income tax | 794 | 221 |
| Outside equity interest in operating profit after income tax | - | (2) |
| Operating profit after outside equity interest and income tax | 794 | 219 |

Sources of life insurance operating profit

The Margin on Services operating profit after income tax is represented by:

| | | |
|--|------------|------------|
| Emergence of planned profit margins | 257 | 121 |
| Difference between actual and planned experience | (63) | (8) |
| Movement in excess of net market value over net assets of controlled entities | 474 | 92 |
| Reversal of previously recognised losses or loss recognition on groups of related products | (2) | 1 |
| Investment earnings on assets in excess of policyholder liabilities | 126 | 13 |
| Other | 2 | 2 |
| Operating profit after income tax | 794 | 221 |
| Life insurance premiums received and receivable | 6,510 | 2,927 |
| Life insurance claims paid and payable | 5,671 | 2,279 |

An analysis of this financial result is contained in the Life Insurance – Business Analysis section of this report.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Carrying Values of Life Insurance and Funds Management Business

The following table sets out the components of the carrying values of the Group's life insurance and funds management businesses, together with the key actuarial assumptions that have been used by the independent actuaries. These are Directors' valuations based on appraisal values determined by independent actuaries Trowbridge Consulting.

Analysis of Movement since 30 June 2000

| | Life Insurance | | | Funds | Total |
|--|----------------|-------------|-------------|--------------|--------------|
| | Australia | New Zealand | Asia | Management | |
| | \$M | \$M | \$M | \$M | \$M |
| Profits ⁽¹⁾ | 273 | 19 | (18) | 149 | 423 |
| Opening Fair Value Adjustments ⁽²⁾ | - | - | (30) | - | (30) |
| Net Capital Movements | (269) | 39 | 179 | 77 | 26 |
| Transfers / Acquisitions of Business ⁽³⁾ | - | - | - | 34 | 34 |
| Change in Shareholders NTA | 4 | 58 | 131 | 260 | 453 |
| Synergies Credited to Goodwill ⁽⁴⁾ | 332 | - | - | - | 332 |
| Transfers / Acquisitions of Business | (183) | - | - | 191 | 8 |
| Net Appraisal Value Uplift | (33) | (26) | (63) | 596 | 474 |
| Increase to 30 June 2001 | 120 | 32 | 68 | 1,047 | 1,267 |

SHAREHOLDERS' NET TANGIBLE ASSETS

| | Life Insurance | | | Funds | Total |
|---|----------------|-------------|------|------------|-------|
| | | | | Management | |
| | Australia | New Zealand | Asia | \$M | |
| | \$M | \$M | \$M | \$M | \$M |
| 30 June 2000 balance ⁽⁵⁾ | 1,639 | 178 | 588 | 9 | 2,414 |
| Opening fair value adjustment ⁽²⁾ | - | - | (30) | - | (30) |
| Profits | 319 | 19 | (18) | 149 | 469 |
| Less profit on strategic holding ⁽⁴⁾ | (46) | - | - | - | (46) |
| Net capital movements | (269) | 39 | 179 | 77 | 26 |
| Transfers/acquisitions of business ⁽³⁾ | - | - | - | 34 | 34 |
| 30 June 2001 balance | 1,643 | 236 | 719 | 269 | 2,867 |

VALUE IN FORCE BUSINESS

| | Life Insurance | | | Funds | Total |
|---|----------------|-------------|------|------------|-------|
| | | | | Management | |
| | Australia | New Zealand | Asia | \$M | |
| | \$M | \$M | \$M | \$M | \$M |
| 30 June 2000 balance ⁽⁵⁾ | 686 | 186 | 101 | 624 | 1,597 |
| Synergies credited to goodwill ⁽⁴⁾ | - | - | - | - | - |
| Transfers/acquisitions of business ⁽⁴⁾ | - | - | - | 2 | 2 |
| Uplift | 20 | (51) | n/a | (8) | (39) |
| 30 June 2001 balance | 706 | 135 | 101 | 618 | 1,560 |

VALUE FUTURE NEW BUSINESS

| | Life Insurance | | | Funds | Total |
|---|----------------|-------------|------|------------|-------|
| | | | | Management | |
| | Australia | New Zealand | Asia | \$M | |
| | \$M | \$M | \$M | \$M | \$M |
| 30 June 2000 balance ⁽⁵⁾ | 690 | 240 | 186 | 1,609 | 2,725 |
| Synergies credited to goodwill ⁽⁴⁾ | 332 | - | - | - | 332 |
| Transfers/acquisitions of business ⁽⁴⁾ | (183) | - | - | 189 | 6 |
| Uplift | (53) | 25 | (63) | 604 | 513 |
| 30 June 2001 balance | 786 | 265 | 123 | 2,402 | 3,576 |

CARRYING VALUE AT 30 JUNE 2001

| | Life Insurance | | | Funds | Total |
|-----------------------------------|----------------|-------------|------------|--------------|--------------|
| | | | | Management | |
| | Australia | New Zealand | Asia | \$M | |
| | \$M | \$M | \$M | \$M | \$M |
| Shareholders' net tangible assets | 1,643 | 236 | 719 | 269 | 2,867 |
| Value in force business | 706 | 135 | 101 | 618 | 1,560 |
| Embedded value | 2,349 | 371 | 820 | 887 | 4,427 |
| Value future new business | 786 | 265 | 123 | 2,402 | 3,576 |
| Carrying Value | 3,135 | 636 | 943 | 3,289 | 8,003 |

⁽¹⁾ Total Australian life insurance profit is \$320 million, comprising \$274 million in the life insurance corporate structure and \$46 million relating to certain strategic investments transferred from the Bank to the life insurance operations.

⁽²⁾ Fair value adjustments totalling \$30 million have been made to the opening value of the Asian operations representing changed assumptions on tax and investment earnings in the opening valuation.

⁽³⁾ Represents the net tangible assets of a number of funds management entities not held in a life insurance corporate structure (\$34 million).

⁽⁴⁾ This item includes a transfer of business from the Life insurance business to the Funds Management business (\$183 million) and goodwill arising on acquisition of new businesses during the year (\$8 million). Cost and revenue synergies arising from the Colonial Integration were achieved during the year with a value of \$332 million. The value of these synergies is credited against goodwill.

⁽⁵⁾ Balances at 30 June 2000 include some minor adjustments principally related to the re-allocation of value between in force business and future new business. Such adjustments have no effect on the Appraisal Value Uplift for the year.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

The following table reconciles the carrying values of the life and funds management businesses to the value of investments in non-consolidated subsidiaries as shown in the capital adequacy calculation.

Reconciliation of the components of the carrying value to the value of investments in non-consolidated subsidiaries

| | 30 June 2001 \$M | 30 June 2000 ⁽¹⁾ \$M |
|---|---------------------|------------------------------------|
| Intangible component of investment in non-consolidated subsidiaries deducted from Tier 1 capital comprises: | | |
| Value future new business | 3,576 | 2,725 |
| Value of self-generated in force business ⁽²⁾ | 540 | - |
| Adjustments ⁽¹⁾ | - | (69) |
| | <u>4,116</u> | <u>2,656</u> |
| <i>Investment in non-consolidated subsidiaries deducted from Total Capital comprises:</i> | | |
| Shareholders' NTA in life and funds management businesses | 2,867 | 2,414 |
| Shareholders' NTA in other non-consolidated subsidiaries | 41 | 78 |
| Debt recognised as capital per APRA regulations | 96 | 140 |
| Value of in force business ⁽²⁾ | - | 1,597 |
| Value of acquired in force business ⁽²⁾ | 1,020 | - |
| Less non-recourse debt | (2,019) | (1,698) |
| Other ⁽¹⁾ | - | (3) |
| | <u>2,005</u> | <u>2,528</u> |

⁽¹⁾ Balances at 30 June 2000 include some minor adjustments principally related to the re-allocation of value between in force business and future new business.

⁽²⁾ Refer Note 31 for an explanation of the change in treatment between 30 June 2000 and 30 June 2001 relating to the value of self-generated business in force.

Key Assumptions Used in Appraisal Values

The following Key Assumptions have been used by Trowbridge in determining the appraisal values. Other actuarial assumptions used in the valuation are described in the section Actuarial Methods and Assumptions.

| | New Business Multiplier ⁽¹⁾ | Risk Discount Rate % | Value of Franking Credits % |
|----------------------------------|--|-----------------------------------|--------------------------------------|
| 30 June 2001 | | | |
| Life insurance entities | | | |
| Australia | 9 | 11.5 | 70 |
| New Zealand | 9 | 12.0 | - |
| Asia | | | |
| - Hong Kong | 9 | HKD13.5 ⁽²⁾ USD12.5 | - |
| - Other | Various | Various | - |
| Funds management entities | | | |
| Australia | n/a | 12.5 | 70 |
| As at 30 June 2000 | | | |
| Life insurance entities | | | |
| Australia | 10 | 12 | 70 |
| New Zealand | 8 | 13 | - |
| Asia | | | |
| - Hong Kong | 9 | HKD15 ⁽²⁾ USD12.5 | - |
| - Other | various | various | - |
| Funds management entities | | | |
| Australia | n/a | 13 | 70 |

⁽¹⁾ Changes in multipliers reflect changes in risk discount rates, changes to business mix and changes to views on future new business growth.

⁽²⁾ These are the risk discount rates for Hong Kong dollar business and US dollar business.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Policy Liabilities

Appropriately qualified actuaries have been appointed in respect of each life insurance business and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this financial

report, including compliance with the regulations of the Life Insurance Act 1995 where appropriate. Details are set out in the various statutory returns of these life insurance businesses.

| | 2001 \$M | 2000 \$M |
|---|---------------|---------------|
| Components of policy liabilities: | | |
| Future policy benefits ⁽¹⁾ | 29,727 | 28,983 |
| Future bonuses | 1,583 | 1,751 |
| Future expenses | 2,209 | 1,648 |
| Future profit margins | 1,224 | 1,170 |
| Future charges for acquisition expenses | (648) | (616) |
| Balance of future premiums | (7,112) | (7,701) |
| Provisions for bonuses not allocated to participating policyholders | 46 | 47 |
| Total policy liabilities | 27,029 | 25,282 |

⁽¹⁾ Including bonuses credited to policyholders in prior years.

Taxation

Taxation has been allowed for in the determination of policy liabilities in accordance with the relevant legislation applicable in each territory.

On 1 July 2000 a new tax regime for life insurance companies commenced in Australia. The primary effect of this regime is to tax profits that had previously not been subject to taxation. Allowance has been made in the appraisal values and policy liabilities of the life insurance businesses for the impact of the new tax requirements.

Actuarial Methods and Assumptions

Policy liabilities have been calculated in accordance with the Margin on Services (MoS) methodology as set out in Actuarial Standard 1.02 – Valuation Standard ('AS1.02') issued by the Life Insurance Actuarial Standards Board ('LIASB'). There has been no change in the principal methods and profit carriers used for particular product groups which are as follows:

| Product Type | Method | Profit Carrier |
|---------------------|--------------|--|
| Individual | | |
| Conventional | Projection | Bonuses / dividends or expected claim payments |
| Investment account | Projection | Bonuses or asset charges |
| Investment linked | Projection | Asset charge |
| | Accumulation | Not applicable |
| Lump sum risk | Projection | Premiums/claims |
| Income stream risk | Projection | Expected claim payments |
| Immediate annuities | Projection | Bonuses or annuity payment |
| Group | | |
| Investment account | Projection | Bonuses or asset charges |
| Investment linked | Projection | Asset charge |
| Lump sum risk | Projection | Claims |
| | Accumulation | Premiums (implied) |
| Income stream risk | Projection | Expected claim payments |

Notes to the financial statements

NOTE 34 Life Insurance Business continued

The 'Projection Method' measures the present values of estimated future policy cash flows to calculate policy liabilities. The policy cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments.

The 'Accumulation Method' measures the accumulation of amounts invested by policyholders plus investment earnings less fees specified in the policy to calculate policy liabilities. Deferred acquisition costs are offset against this liability.

Bonuses are amounts added, at the discretion of the life insurer, to the benefits currently payable under Participating Business. Under the Life Act, bonuses are a distribution to policyholders of profits and may take a number of forms including reversionary bonuses, interest credits and capital growth bonuses (payable on the termination of the policy).

Actuarial Assumptions

Set out below is a summary of the material assumptions used in the calculation of policy liabilities. These assumptions are also used in the determination of appraisal values.

Discount Rates

These are the rates used to discount further cash flows to determine their net present value in the policy liabilities. The discount rates are determined with reference to the expected earnings rate of the assets that support the policy liabilities adjusted for taxation where relevant. The following table shows the applicable rates for the major classes of business in Australia and New Zealand. The changes relate to changes in long term earnings rates, asset mix and reflect the new tax regime for Australian business.

| Class of Business | Discount Rates | |
|---|---------------------------|---------------------------|
| | June 2001 Rate Range % | June 2000 Rate Range % |
| Traditional – ordinary business (after tax) | 6.38-6.72 | 6.11 |
| Traditional – superannuation business (after tax) | 7.80-8.23 | 7.88 |
| Annuity business (after tax) | 6.51-7.97 | 6.40-8.25 |
| Term life insurance – ordinary business (after tax) | 4.20-4.55 | 3.20-5.28 |
| Term life insurance – superannuation business (after tax) | 4.20-4.55 | 4.50-5.28 |
| Disability business (before tax) | 4.20-4.55 | 6.15 |
| Investment linked – ordinary business (after tax) | 5.86-6.36 | 5.70-5.82 |
| Investment linked – superannuation business (after tax) | 7.34-7.92 | 7.00-7.80 |
| Investment linked – exempt (after tax) | 8.34-9.12 | 8.35-8.63 |
| Investment account – ordinary business (after tax) | 4.51 | 4.44 |
| Investment account – superannuation business (after tax) | 5.49 | 5.72 |

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Bonuses

The valuation assumes that the long-term supportable bonuses will be paid, which is in line with company bonus philosophy. There have been no significant changes to these assumptions.

Maintenance expenses

For the Australian and New Zealand operations of the Colonial Group, maintenance expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in the service company agreements. These have increased in line with inflation.

For other operations maintenance expense assumptions are based on an analysis of experience over the past year taking into account future business plans. 'One-off' expenses are excluded.

Investment management expenses

Investment management expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in Fund Manager agreements. There have been no significant changes to these assumptions.

Inflation

The inflation assumption is consistent with the investment earning assumptions. There have been no significant changes to these assumptions.

Benefit indexation

The indexation rates are based on an analysis of past experience and estimated long term inflation and vary by business and product type. There have been no significant changes to these assumptions.

Taxation

The taxation basis and rates assumed vary by territory and product type. For the Australian business it reflects the new regime for life insurance companies effective 1 July 2000.

Voluntary discontinuance

Discontinuance rates are based on recent company and industry experience and vary by territory, product, age and duration inforce. The only significant change has been an increase in the assumption for New Zealand and Asia.

Surrender values

Current surrender value bases are assumed to apply in the future. There have been no significant changes to these assumptions.

Unit price growth

Unit prices are assumed to grow in line with assumed investment earnings assumptions, net of asset charges as per current company practice. There have been no significant changes to these assumptions.

Mortality and Morbidity

Rates vary by sex, age, product type and smoker status. Rates are based on standard mortality tables applicable to each territory e.g. IA90-92 in Australia for risk, IM/IF80 for annuities, adjusted for recent company and industry experience where appropriate. The only significant change has been an increase in the assumption for disability claims.

Solvency

Australian Life Insurers

Australian life insurers are required to hold prudential reserves in excess of the amount of policy liabilities. These reserves are required to support capital adequacy requirements and provide protection against the adverse experience. Actuarial Standard AS2.02: Solvency Standard ('AS2.02') prescribes a minimum capital requirement and the minimum level of assets required to be held in each life insurance fund. All controlled Australian life insurance entities complied with the solvency requirements of AS2.02. Further information is available from the individual statutory returns of subsidiary life insurers.

Overseas life insurers

Overseas life insurance subsidiaries are required to hold reserves in excess of policy liabilities in accordance with local Acts and prudential rules. Each of the overseas subsidiaries complied with local requirements. Further information is available from the individual statutory returns of subsidiary life insurers.

Managed assets & fiduciary activities

Arrangements are in place to ensure that asset management and other fiduciary activities of controlled entities are independent of the life insurance funds and other activities of the Group.

Disaggregated Information

Life insurance business is conducted through a number of life insurance entities in Australia and overseas. Under the Australian Life Insurance Act 1995, life insurance business is conducted within one or more separate statutory funds which are distinguished from each other and from the shareholders' fund. The financial statements of Australian life insurers prepared in accordance with AASB 1038, (and which are lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various life insurance statutory funds and their shareholder funds.

Notes to the financial statements

NOTE 35 Remuneration of Auditors

| | GROUP | | BANK | |
|--|----------------|----------------|----------------|----------------|
| | 2001 \$'000 | 2000 \$'000 | 2001 \$'000 | 2000 \$'000 |
| Amounts paid or due and payable for audit and review of the financial report by: | | | | |
| Ernst & Young | 4,518 | 3,165 | 1,864 | 1,993 |
| Other Auditors | 89 | 1,878 | - | - |
| | 4,607 | 5,043 | 1,864 | 1,993 |
| Amounts paid or due and payable for other services to Ernst & Young | 5,113 | 17,953 | 4,089 | 17,779 |
| Total Remuneration of Auditors | 9,720 | 22,996 | 5,953 | 19,772 |

Other services provided by Ernst & Young during the year primarily related to regulatory and other statutory services, accounting related services and taxation advisory services.

Other services provided by Ernst & Young during the previous year substantially related to once-off initiatives including GST preparedness and the

acquisition of Colonial Limited. A significant proportion of the other services was provided by Ernst & Young's management consulting division. Effective 23 May 2000 Ernst & Young sold its management consulting business. From that date Ernst & Young no longer provides those management consulting services to the Group.

NOTE 36 Commitments for Capital Expenditure Not Provided for in the Accounts

| | GROUP | | BANK | |
|--|-------------|-------------|-------------|-------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Not later than one year | 30 | 22 | 12 | 19 |
| Later than one year but not later than two years | 2 | - | - | - |
| Later than two years but not later than five years | - | - | - | - |
| Later than five years | - | - | - | - |
| Total Commitments for Capital Expenditure Not Provided for in the Accounts | 32 | 22 | 12 | 19 |

NOTE 37 Lease Commitments - Property, Plant and Equipment

| | GROUP | | BANK | |
|--|--------------|--------------|--------------|-------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Commitments in respect of non cancellable operating lease agreements due - | | | | |
| Not later than one year | 277 | 309 | 216 | 168 |
| Later than one year but not later than five years | 730 | 784 | 595 | 469 |
| Later than five years | 311 | 341 | 227 | 215 |
| Total Lease Commitments - Property, Plant and Equipment | 1,318 | 1,434 | 1,038 | 852 |
| Group's share of lease commitments of associated entities - | | | | |
| Not later than one year | 7 | 8 | | |
| Later than one year but not later than five years | 16 | 22 | | |
| Later than five years | 7 | 10 | | |
| Total Lease Commitments - Property, Plant and Equipment | 30 | 40 | | |

Lease Arrangements

Leases entered into by the Group are for the purpose of accommodating the business need. Leases may be over retail, commercial, industrial and residential premises and reflect the needs of the occupying business and market conditions. All leases are negotiated with external professional property resources acting for the Group.

Rental payments are determined in terms of relevant lease requirements – usually reflecting market rentals as described by standard valuation practice.

The Group as lessee has no purchase options over premises occupied. For properties sold and leased back by the Group, the Group does have the right of first refusal to purchase the property. There is no obligation on the Bank to do so, and there has never been an instance of purchase.

There are no restrictions imposed on the Group's lease of space other than those forming part of the negotiated lease arrangements for each specific premise.

Notes to the financial statements

NOTE 38 Contingent Liabilities

The Group is involved in a range of transactions that give rise to contingent and/or future liabilities. These transactions meet the financing requirements of customers and include endorsed bills of exchange, letters of credit, guarantees and commitments to provide credit.

These transactions combine varying levels of credit, interest rate, foreign exchange and liquidity risk. In accordance with Bank policy, exposure to any of these transactions is not carried at a level which would have a material effect on the financial condition of the Bank and its controlled entities.

Details of contingent liabilities and off balance sheet business (excluding Derivatives – Note 39) are:

| | Face Value | | GROUP Credit Equivalent | |
|--|---------------|---------------|----------------------------|---------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Credit risk related instruments | | | | |
| Guarantees | 2,104 | 2,554 | 2,104 | 2,554 |
| Standby letters of credit | 673 | 558 | 673 | 558 |
| Bill endorsements | 1,096 | 428 | 1,096 | 428 |
| Documentary letters of credit | 238 | 231 | 48 | 46 |
| Performance related contingents | 1,236 | 1,564 | 618 | 782 |
| Commitments to provide credit | 42,874 | 41,324 | 15,970 | 13,579 |
| Other commitments | 2,488 | 1,118 | 1,728 | 1,091 |
| Total credit risk related instruments | 50,709 | 47,777 | 22,237 | 19,038 |

Guarantees represent conditional undertakings by the Group to support the financial obligations of its customers to third parties.

Standby letters of credit are undertakings by the Group to repay a loan obligation in the event of a default by a customer.

Bill endorsements relate to bills of exchange which have been confirmed by the Group and represent liabilities in the event of default by the acceptor and the drawer of the bill.

Documentary letters of credit represent an undertaking to pay an overseas supplier of goods in the event of payment default by a customer who is importing the goods.

Performance related contingents involve undertakings by the Group to pay third parties if a customer fails to fulfil a contractual non-monetary obligation.

Commitments to provide credit include all obligations on the part of the Group to provide funding facilities.

Other commitments include the Group's obligations under sale and repurchase agreements, outright forward purchases and forward deposits and underwriting facilities.

The transactions are categorised and credit equivalents calculated under APRA guidelines for the risk based measurement of capital adequacy. The credit equivalent amounts are a measure of the potential loss to the Group in the event of possible non performance by a counterparty.

The credit equivalent exposure from direct credit substitutes (guarantees, standby letters of credit and bill endorsements) is the face value of the transaction, whereas the credit equivalent exposure to documentary letters of credit and performance related contingents is 20% and 50% respectively of the face value. The exposure to commitments to provide credit is calculated by applying given credit conversion factors to the face value to reflect the duration, the nature and the certainty of the contractual undertaking to provide the facility.

Where the potential loss depends on the performance of a counterparty, the Group utilises the same credit policies and assessment criteria for off balance sheet business as it does for on balance sheet business and if it is deemed necessary, collateral is obtained based on management's credit evaluation of the counterparty. If a probable loss is identified, suitable provisions are raised.

Litigation

Neither the Commonwealth Bank nor any of its controlled entities is engaged in any litigation or claim which is likely to have a materially adverse effect on the business, financial condition or operating results of the Commonwealth Bank or any of its controlled entities. Where some loss is probable an appropriate provision has been made.

Notes the financial statements

NOTE 38 Contingent Liabilities continued

Indemnities under UK Sale Agreement

The Group has contingent liabilities that relate to indemnities given under an agreement for the sale of Colonial Life (UK) Ltd and Colonial Pension Fund Ltd to the Winterthur Group.

These indemnities cover potential claims that could arise from mis-selling activities in the UK for pension products and mortgage endowment products. Under the sales agreement the liabilities are shared between Winterthur and the Group on a pre-determined basis.

Fiduciary Activities

The Group and its associated entities conduct investment management and other fiduciary activities as responsible entity, trustee, custodian or manager for numerous investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail trusts. The amounts of funds concerned which are not reported in the Group's balance sheet are as follows:

| | 2001 \$M | 2000 \$M |
|--|---------------|---------------|
| Funds under management | | |
| Australia | 58,018 | 43,400 |
| United Kingdom | 14,614 | 19,202 |
| New Zealand | 2,227 | 947 |
| Asia | 2,095 | 1,717 |
| | 76,954 | 65,266 |
| Funds under trusteeship | | |
| Australia | 22,768 | 21,150 |
| Funds under custody and investment administration | | |
| Australia | 73,513 | 66,510 |

As an obligation arises under each type of duty the amount of funds has been included where that duty arises. This may lead to the same funds being shown more than once where Group companies are engaged to act in more than one capacity (e.g. as trustee and fund manager).

Certain entities within the Group act as responsible entity or trustee of various managed schemes ('schemes'), wholesale and retail trusts ('trusts'). Liabilities are incurred by these entities in their capacity as responsible entity or trustee. Rights of indemnity are held against the schemes and trusts whose assets exceeded their liabilities at 30 June 2001. Where entities within the Group act as manager of unit trusts, obligations exist under the relevant Trust Deeds, whereby upon request from a unit holder, the manager has an obligation to repurchase units from the trust or to arrange for the relevant trustee to redeem units from the assets of those trusts. It is considered unlikely that these entities will need to repurchase units from their own funds.

The Commonwealth Bank of Australia does not guarantee the performance or obligations of its subsidiaries.

Long Term Contracts

In 1997, the Bank entered into a ten year contract with an associated entity, EDS (Australia) Pty Ltd, relating to the provision of information technology services. In 2000, the Bank entered into a telecommunications services agreement with TCNZ Australia Pty Ltd for five years. The exact amounts of these contracts is unable to be reliably determined as they are dependent upon business volumes over the period of the contracts.

Liquidity support

In accordance with the regulations and procedures governing clearing arrangements contained within the Australian Paper Clearing Stream (Clearing Stream 1) and the Bulk Electronic Clearing Stream (Clearing Stream 2) of the Australian Payments Clearing Association Limited, the Bank is subject to a commitment to provide liquidity support to these clearing streams in the event of a failure to settle by a member institution.

Service agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Managing Director and other executives of the Company and its controlled entities at 30 June 2001 was \$12 million (2000: \$8 million).

Notes to the financial statements

NOTE 39 Market Risk

The Group in its daily operations is exposed to a number of market risks. A market risk is the risk of an adverse event in the financial markets that may result in a loss of earnings to the Group, e.g. an adverse interest rate movement.

Under the authority of the Bank's Board, the Risk Committee of the Board ensures that all the Group's market risk is consistent with the Group business strategy and within Group risk tolerance. Regular market risk reports are tabled before Risk Committee. Within the Group, market risk exists in the balance sheet structure and arises in the course of its intermediation activities in financial services and in financial markets trading.

Market risk in the balance sheet

The Risk Committee of the Board recommends for Board approval all balance sheet market risk policies and limits. Implementation of the policy is through the Asset Liability Committee, with operational management of the risk delegated to the Group General Manager, Financial & Risk Management. Market risk in the balance sheet includes liquidity risk, funding risk, interest rate risk and foreign exchange rate risk.

Liquidity risk

Balance sheet liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Group manages liquidity risk separately for its domestic Australian Dollar (AUD) obligations and for its foreign currency obligations. In both domestic and foreign currency operations, liquidity policies are in place to manage liquidity both in a day to day sense, and also under crisis assumptions.

APRA has revised its Prudential Standard for the supervision of liquidity in banks. This standard has been expanded to cover all Approved Deposit-taking Institutions (ADIs). The previous policy has been superseded and the Prime Assets Requirements (PAR) has been abolished.

Each bank is required to develop a liquidity management strategy that is appropriate for itself, based on its size and the nature of its operations. The prime objective is to ensure that each bank has sufficient liquidity to meet its financial obligations as they fall due.

The Bank has developed a liquidity policy, relevant to its own circumstances and this has formally been approved by APRA. The objectives of the Bank's funding and liquidity policies are to:

- Ensure all financial obligations are met when due;
- Provide adequate protection at lowest cost; and
- Achieve sustainable, lowest-cost funding within the limitations of funding diversification requirements, without over-reliance on any particular market segment.

The Bank's policy framework differentiates normal operational liquidity management (corresponding to the 'going concern' scenario in APRA's Prudential Statement D1 on Liquidity) from a crisis event. Three types of crisis are dealt with i.e. systemic, founded and unfounded. The policy sets out the controls and cash flow assumptions appropriate in all cases. The key elements of the liquidity policy cover:

- Detailed daily forecasts out to 3 months including mismatch limits;
- Development of reliable funding sources;
- The holding of a stock of high quality liquid assets such as, assets held that are available for repurchase by the RBA (over and above those required to meet Real Time Gross Settlement (RTGS) obligations), AUD CDs/Bills of other banks and AUD overnight interbank loans; and
- The use of standby lines of funding.

Subsidiaries are also included in the Group's liquidity policy framework.

Foreign currency liquidity risk is managed by ensuring that a positive cumulative cash flow exists for the next 7 days' operations. This means that should a crisis situation arise, the Bank would not need to access new funding from wholesale markets for at least one week. There is also a cap on the maximum level of cumulative negative cash flows at day 28. A stock of liquid assets is included in this protective measure.

Funding risk

Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. The Group has a policy of funding diversification. This Funding Policy augments the Group's Liquidity Policy. Its aim is to assure that the Group has a stable diversified funding base without over-reliance on any one market sector. Central to this is the determination of the most appropriate mix of deposits and other liabilities to fund the balance sheet. A target has been set for the preferred minimum level of retail deposits. A minimum level of long-term (greater than 12 months) funding has also been set.

Domestically, the Group continues to obtain the majority of its AUD funding from its stable retail deposit base, primarily demand and short term deposits, which have a lower interest cost than wholesale funds. The retail funding percentage has risen from 60% in June 2000 to 62% in June 2001. The relative size of the Group's retail base has enabled it to source funds at a lower average rate of interest than the other major Australian banks. However, some of this benefit is offset by the cost of the Group's retail network and the Group's large share (approximately 48%) of pensioner deeming accounts.

In recent years, the Group has experienced a movement of retail deposit balances into higher yielding facilities. This reflects increased customer awareness of investment opportunities in an environment where the level of interest rates has remained lower and relatively more stable when compared with the interest rate cycles of the 1980s and early 1990s.

Notes to the financial statements

NOTE 39 Market Risk continued

The cost of funds for Financial Year 2001, calculated as the percentage of interest expense to average interest bearing liabilities, was 5.1% on a Group basis compared with 4.4% on a Group basis for Financial Year 2000.

The Group obtains a significant proportion of its funding for the domestic balance sheet from wholesale sources – approximately 23%, excluding Bank Acceptances. The cost of funds raised in the wholesale markets is affected by independently assessed credit ratings.

A funding diversification policy is particularly important in offshore markets where the absence of any 'natural' offshore funding base means the Bank is principally reliant on money market and capital market sources for funding. The Bank has imposed internal prudential limits on the relative mix of offshore sources of funds.

The following table outlines the range of financial instruments used by the Group to raise deposits and borrowings, both within Australia and overseas. Funds are raised from well-diversified sources and there are no material concentrations in these categories.

| | 2001 \$M | GROUP 2000 \$M |
|--|----------------|----------------------|
| Australia | | |
| Cheque Accounts | 19,644 | 15,289 |
| Savings Accounts | 30,248 | 29,543 |
| Term Deposits | 28,102 | 29,677 |
| Cash Management Accounts | 11,080 | 9,985 |
| Debt Issues | 14,719 | 17,520 |
| Bank Acceptances | 11,960 | 11,107 |
| Certificates of Deposit | 12,927 | 14,136 |
| Life Insurance Policy Liabilities | 23,477 | 21,975 |
| Loan Capital | 5,704 | 5,299 |
| Securities Sold Under Agreements to Repurchase | 435 | 946 |
| Other | 2,798 | 1,809 |
| Total Australia | 161,094 | 157,286 |
| Overseas | | |
| Deposits and Interbank | 19,021 | 15,842 |
| Commercial Paper | 8,471 | 6,070 |
| Life Insurance Policy Liabilities | 3,552 | 3,307 |
| Other Debt Issues | 1,294 | 1,685 |
| Bank Acceptances and Other | 118 | - |
| Total Overseas | 32,456 | 26,904 |
| Total Funding Sources | 193,550 | 184,190 |
| Provisions and Other Liabilities | 17,013 | 15,634 |
| Total Liabilities | 210,563 | 199,824 |

Notes to the financial statements

NOTE 39 Market Risk continue d

Interest rate risk

Interest rate risk in the balance sheet arises from the potential for a change in interest rates to have an adverse effect on the net interest earnings of the Group in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net interest earnings in the long term.

The Group measures and manages balance sheet interest rate risk from two perspectives:

(a) Next 12 Months' Earnings

The risk to the net interest earnings over the next 12 months from a change in interest rates is measured on a monthly basis. Risk is measured assuming an immediate 1% parallel movement in interest rates across the full yield curve as well as other interest rate scenarios with variations in the size and timing of interest rate movements. Potential variations to net interest earnings are measured using a simulation model which takes into account the projected change in balance sheet asset and liability levels and mix. Assets and liabilities with pricing directly based on market rates are repriced based on the full extent of the rate shock that is applied. Risk on other assets and liabilities (those priced at the discretion of the Group) is measured by taking into account both the manner the products have repriced in the past as well as the expected change in price based on the current competitive market environment.

The figures in the table represent the potential change to net interest earnings (expressed as a percentage of expected net interest earnings in the next 12 months) based on a 1% parallel rate shock and the expected change in price of assets and liabilities held for purposes other than trading.

| (expressed as a % of expected next 12 months' earnings) | 2001 % | 2000 % |
|--|-----------|-----------|
| Average monthly exposure | 1.8 | 1.8 |
| High month exposure | 2.4 | 2.3 |
| Low month exposure | 0.9 | 1.4 |

(b) Economic value

Some of the Group's assets and liabilities have interest rate risk that is not captured within the measure of risk to next 12 months earnings, as the risk is beyond the next 12 months. To measure this longer-term sensitivity, the Group utilises an economic value-at-risk analysis. This analysis measures the potential change in

the net present value of cashflows of assets and liabilities. Cashflows for fixed rate products are included on a contractual basis, after adjustment for forecast prepayment activity. Cashflows for products repriced at the discretion of the Group are based on the expected repricing characteristics of those products.

The total cashflows are revalued under a range of possible interest rate scenarios using a Value at Risk (VaR) methodology. The interest rate scenarios are based on actual interest rate movements that have occurred over 1 year and 5 year historical observation periods. The measured VaR exposure is an estimate to a 97.5% confidence level (one-tail) of the potential loss that could occur if the balance sheet positions were to be held unchanged for a one month holding period. For example, VaR exposure of \$1 million means that in 97.5 cases out of 100, the expected net present value will not decrease by more than \$1 million given the historical movement in interest rates.

The figures in the following table represent the net present value of the expected change in future earnings in all future periods for the remaining term of all existing assets and liabilities held for purposes other than trading.

| | 2001 \$M | 2000 \$M |
|--------------------------|-------------|-------------|
| Exposure as at 30 June | 42 | 19 |
| Average monthly exposure | 23 | 27 |
| High month exposure | 42 | 45 |
| Low month exposure | 11 | 15 |

A stress-test framework for interest rate risk augments the two risk-management perspectives outlined above. The results of the stress tests are used to refine policy and limits where appropriate and are reported to Asset Liability Committee and Risk Committee.

The table following represents the Group's contractual interest rate risk sensitivity from repricing mismatches as at 30 June 2001 and the corresponding weighted average effective interest rates. The net mismatch represents the net value of assets, liabilities and off balance sheet instruments that may be repriced in the time periods shown.

The Bank does not use this contractual repricing information to manage its interest rate risk. The risk is managed using the 'Next 12 Months Earnings' and 'Economic Value' perspectives outlined above. All assets and liabilities are shown according to contractual repricing dates. Options are shown in the mismatch report using delta equivalents of the option face values.

Notes to the financial statements**NOTE 39 Market Risk continued****Interest Rate Risk Sensitivity**

| | Repricing Period at 30 June 2001 | | | | | | | | |
|---|---|------------------------|-------------------------|-------------------------|--------------------------|------------------------|------------------------|----------------------------|----------------------|
| | Balance | | | | | | | Not | Weighted |
| | Sheet Total \$M | 0 to 1 month \$M | 1 to 3 months \$M | 3 to 6 months \$M | 6 to 12 months \$M | 1 to 5 years \$M | over 5 Years \$M | Interest Bearing \$M | Average Rate % |
| Australia | | | | | | | | | |
| Assets | | | | | | | | | |
| Cash and liquid assets | 3,197 | 1,979 | - | - | 10 | - | - | 1,208 | 2.60 |
| Receivables due from other financial institutions | 2,858 | 1,815 | 855 | 149 | 39 | - | - | - | 4.89 |
| Trading securities | 4,095 | 4,095 | - | - | - | - | - | - | 4.97 |
| Investment securities | 3,336 | 253 | 365 | - | 28 | 1,677 | 1,012 | 1 | 8.40 |
| Loans, advances and other receivables | 118,939 | 65,183 | 9,087 | 5,168 | 13,058 | 26,138 | 1,696 | (1,391) | 7.18 |
| Bank acceptances of customers | 11,960 | - | - | - | - | - | - | 11,960 | - |
| Life insurance investment assets | 27,401 | 3,219 | 229 | 255 | 1,486 | 3,171 | 2,441 | 16,600 | 2.42 |
| Deposits with regulatory authorities | - | - | - | - | - | - | - | - | - |
| Property, plant and equipment | 721 | - | - | - | - | - | - | 721 | - |
| Intangible assets | 10,848 | - | - | - | - | - | - | 10,848 | - |
| Other assets | 13,548 | - | - | - | - | - | - | 13,548 | - |
| Total Assets | 196,903 | 76,544 | 10,536 | 5,572 | 14,621 | 30,986 | 5,149 | 53,495 | 5.03 |
| Liabilities | | | | | | | | | |
| Deposits and other public borrowings | 102,421 | 65,923 | 7,941 | 9,373 | 4,881 | 6,143 | 1,720 | 6,440 | 3.47 |
| Payables due to other financial institutions | 2,816 | 1,500 | 269 | 456 | 591 | - | - | - | 4.98 |
| Bank acceptances | 11,960 | - | - | - | - | - | - | 11,960 | - |
| Provision for dividend | 779 | - | - | - | - | - | - | 779 | - |
| Income tax liability | 1,212 | - | - | - | - | - | - | 1,212 | - |
| Other provisions | 881 | - | - | - | - | - | - | 881 | - |
| Life insurance policy liabilities | 23,477 | - | - | - | - | - | - | 23,477 ⁽³⁾ | - |
| Debt issues | 14,719 | 2,452 | 4,897 | 1,676 | 1,157 | 4,420 | 117 | - | 5.56 |
| Bills payable and other liabilities | 12,679 | - | - | - | - | - | - | 12,679 | - |
| Loan Capital | 5,624 | 493 | 1,744 | 213 | - | 406 | 2,768 | - | 6.40 |
| Total Liabilities | 176,568 | 70,368 | 14,851 | 11,718 | 6,629 | 10,969 | 4,605 | 57,428 | 2.76 |
| Shareholders Equity | | | | | | | | | |
| Outside equity interests in controlled entities | 18,362 | 700 | - | - | - | - | - | 17,662 | - |
| Total Shareholders' Equity | 1,449 | - | - | - | - | - | - | 1,449 | - |
| Total Shareholders' Equity | 19,811 | 700 | - | - | - | - | - | 19,111 | - |
| Off Balance Sheet Items | | | | | | | | | |
| Swaps | (2) | 2,472 | (11,560) | 800 | 3,085 | 3,014 | 2,189 | - | (1) |
| FRAs | (2) | - | - | - | - | - | - | - | (1) |
| Futures | (2) | - | - | - | - | - | - | - | (1) |
| Net Mismatch | (2) | 7,948 | (15,875) | (5,346) | 11,077 | 23,031 | 2,733 | (23,044) | (1) |
| Cumulative Mismatch | (2) | 7,948 | (7,927) | (13,273) | (2,196) | 20,835 | 23,568 | 524 | (1) |

⁽¹⁾ no rate applicable⁽²⁾ no balance sheet amount applicable⁽³⁾ Technically, the life insurance policy liabilities are not interest bearing, but the amount of the liability may change in line with changes in interest rates. This is particularly so with investment linked policies.

As noted above the cumulative mismatch reflects contractual repricing periods. The balance sheet is managed based on assessments of expected pricing behaviour having regard to historical trends and competitive positioning.

The Group has a significant portfolio of loans with fixed interest rates maturing in the one to five years repricing period. Funding is principally raised from retail deposits with at call variable interest rates. The interest rate risk exposure is managed in accordance with the principles outlined above in this note.

Notes to the financial statements**NOTE 39 Market Risk continued**

| | Repricing Period at 30 June 2001 | | | | | | | | | |
|---|----------------------------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|-------------|----------|
| | Balance | | | | | | | | Not | Weighted |
| | Sheet | 0 to 1 | 1 to 3 | 3 to 6 | 6 to 12 | 1 to 5 | over 5 | Interest | Average | |
| | Total | month | months | months | months | years | years | Bearing | Rate | |
| \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | % | |
| Overseas | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and liquid assets | 512 | 375 | 121 | 7 | - | - | - | 9 | 1.97 | |
| Receivables due from other financial institutions | 1,764 | 626 | 188 | 177 | 237 | 478 | - | 58 | 5.62 | |
| Trading securities | 2,814 | 789 | 823 | 314 | 367 | 439 | 57 | 25 | 5.70 | |
| Investment securities | 6,369 | 573 | 1,281 | 1,884 | 83 | 1,744 | 803 | 1 | 5.19 | |
| Loans, advances and other receivables | 17,120 | 6,845 | 1,535 | 1,232 | 2,264 | 4,822 | 430 | (8) | 7.50 | |
| Bank acceptances of customers | 115 | - | - | - | - | - | - | 115 | | |
| Life insurance investment assets | 3,812 | 666 | 58 | 95 | 177 | 518 | 53 | 2,245 | 2.85 | |
| Deposits with regulatory authorities | 61 | - | - | - | - | - | - | 61 | | |
| Property, plant and equipment | 198 | - | - | - | - | - | - | 198 | | |
| Intangible assets | 4 | - | - | - | - | - | - | 4 | | |
| Other assets | 739 | - | - | - | - | - | - | 739 | | |
| Total Assets | 33,508 | 9,874 | 4,006 | 3,709 | 3,128 | 8,001 | 1,343 | 3,447 | 5.95 | |
| Liabilities | | | | | | | | | | |
| Deposits and other public borrowings | 14,934 | 8,516 | 3,440 | 995 | 1,154 | 193 | - | 636 | 4.94 | |
| Payables due to other financial institutions | 4,087 | 2,906 | 756 | 286 | 88 | 51 | - | - | 4.87 | |
| Bank acceptances | 115 | - | - | - | - | - | - | 115 | | |
| Provision for dividend | - | - | - | - | - | - | - | - | | |
| Income tax liability | 143 | - | - | - | - | - | - | 143 | | |
| Other provisions | 126 | - | - | - | - | - | - | 126 | | |
| Life insurance policy liabilities | 3,552 | - | - | - | - | - | - | 3,552 | | |
| Debt issues | 9,765 | 449 | 6,338 | 1,506 | 557 | 544 | 326 | 45 | 4.43 | |
| Bills payable and other liabilities | 1,193 | - | - | - | - | - | - | 1,193 | | |
| Loan Capital | 80 | - | - | - | - | 80 | - | - | 8.29 | |
| Total Liabilities | 33,995 | 11,871 | 10,534 | 2,787 | 1,799 | 868 | 326 | 5,810 | 4.05 | |
| Shareholders Equity | | | | | | | | | | |
| Outside equity interests in controlled entities | 31 | - | - | - | - | - | - | 31 | | |
| Total Shareholders' Equity | 6 | - | - | - | - | - | - | 6 | | |
| | 37 | - | - | - | - | - | - | 37 | | |
| Off Balance Sheet Items | | | | | | | | | | |
| Swaps | (2) | 999 | 3,700 | 96 | (1,222) | (3,351) | (222) | - | (1) | |
| FRAs | (2) | (299) | 199 | 100 | - | - | - | - | (1) | |
| Futures | (2) | - | 74 | (166) | 92 | - | - | - | (1) | |
| Net Mismatch | (2) | (1,297) | (2,555) | 952 | 199 | 3,782 | 795 | (2,400) | (1) | |
| Cumulative Mismatch | (2) | (1,297) | (3,852) | (2,900) | (2,701) | 1,081 | 1,876 | (524) | (1) | |

(1) no rate applicable

(2) no balance sheet amount applicable

Notes to the financial statements**NOTE 39 Market Risk continued**

| | Repricing Period at 30 June 2000 | | | | | | | | |
|---|---|---------------|---------------|---------------|---------------|---------------|--------------|---------------|----------------|
| | Balance | | | | | | | Not | Weighted |
| | Sheet | 0 to 1 | 1 to 3 | 3 to 6 | 6 to 12 | 1 to 5 | over 5 | Interest | Average |
| | Total | month | months | months | months | years | years | Bearing | Rate |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | % |
| Australia | | | | | | | | | |
| Assets | | | | | | | | | |
| Cash and liquid assets | 2,506 | 1,548 | - | 7 | - | - | - | 951 | 3.59 |
| Receivables due from other financial institutions | 4,159 | 2,540 | 1,508 | 18 | 8 | - | - | 85 | 6.64 |
| Trading securities | 5,480 | 5,480 | - | - | - | - | - | - | 6.07 |
| Investment securities | 4,146 | 1,288 | 220 | 413 | 108 | 1,323 | 788 | 6 | 8.13 |
| Loans, advances and other receivables | 116,747 | 65,192 | 8,130 | 7,193 | 12,714 | 23,174 | 1,724 | (1,380) | 7.55 |
| Bank acceptances of customers | 11,107 | - | - | - | - | - | - | 11,107 | - |
| Life insurance investment assets ⁽³⁾ | 23,385 | 3,110 | 890 | 70 | 555 | 2,735 | 3,768 | 12,257 | 2.86 |
| Deposits with regulatory authorities | - | - | - | - | - | - | - | - | - |
| Property, plant and equipment | 861 | - | - | - | - | - | - | 861 | - |
| Goodwill | 5,899 | - | - | - | - | - | - | 5,899 | - |
| Other assets | 14,448 | - | - | - | - | - | - | 14,448 | - |
| Total Assets | 188,738 | 79,158 | 10,748 | 7,701 | 13,385 | 27,232 | 6,280 | 44,234 | 5.58 |
| Liabilities | | | | | | | | | |
| Deposits and other public borrowings | 99,816 | 57,491 | 9,448 | 10,607 | 7,394 | 6,654 | 2,244 | 5,978 | 4.27 |
| Payables due to other financial institutions | 1,569 | 1,145 | 424 | - | - | - | - | - | 6.05 |
| Bank acceptances | 11,107 | - | - | - | - | - | - | 11,107 | - |
| Provision for dividend | 708 | - | - | - | - | - | - | 708 | - |
| Income tax liability | 1,740 | - | - | - | - | - | - | 1,740 | - |
| Other provisions | 1,321 | - | - | - | - | - | - | 1,321 | - |
| Life insurance policy liabilities | 21,975 | - | - | - | - | - | - | 21,975 | - |
| Debt issues | 17,520 | 5,514 | 5,140 | 872 | 1,609 | 4,001 | 384 | - | 6.26 |
| Bills payable and other liabilities | 10,942 | - | - | - | - | - | - | 10,942 | - |
| Loan Capital | 5,220 | 795 | 1,845 | 182 | - | 394 | 2,004 | - | 7.31 |
| Total Liabilities | 171,918 | 64,945 | 16,857 | 11,661 | 9,003 | 11,049 | 4,632 | 53,771 | 3.39 |
| Shareholders Equity | | | | | | | | | |
| Outside equity interests in controlled entities | 744 | - | - | - | - | - | - | 744 | - |
| Total Shareholders' Equity | 18,216 | - | - | - | - | - | - | 18,216 | - |
| Off Balance Sheet Items | | | | | | | | | |
| Swaps | ⁽²⁾ | (1,158) | (5,774) | 1,282 | 719 | 2,199 | 2,732 | - | ⁽¹⁾ |
| FRAs | ⁽²⁾ | - | - | - | - | - | - | - | ⁽¹⁾ |
| Futures | ⁽²⁾ | 181 | - | (595) | 446 | (37) | 5 | - | ⁽¹⁾ |
| Net Mismatch | ⁽²⁾ | 13,236 | (11,883) | (3,273) | 5,547 | 18,345 | 4,385 | (27,753) | ⁽¹⁾ |
| Cumulative Mismatch | ⁽²⁾ | 13,236 | 1,353 | (1,920) | 3,627 | 21,972 | 26,357 | (1,396) | ⁽¹⁾ |

⁽¹⁾ no rate applicable⁽²⁾ no balance sheet amount applicable⁽³⁾ With the introduction of Australian Accounting Standard AASB 1038: Life Insurance Business, the contractual repricing of Life insurance investment assets has been included in the Interest Rate Risk

Sensitivity table for the first time for the financial year ended 30 June 2000. The interest income on these assets supports the life insurance policies issued by the Group's life companies and does not contribute to market risk within the banking book.

Notes to the financial statements**NOTE 39 Market Risk continued**

| | Repricing Period at 30 June 2000 | | | | | | | | |
|---|---|------------------------|-------------------------|-------------------------|--------------------------|------------------------|------------------------|----------------------------|----------------------|
| | Balance | | | | | | | Not | Weighted |
| | Sheet Total \$M | 0 to 1 month \$M | 1 to 3 months \$M | 3 to 6 months \$M | 6 to 12 months \$M | 1 to 5 years \$M | over 5 years \$M | Interest Bearing \$M | Average Rate % |
| Overseas | | | | | | | | | |
| Assets | | | | | | | | | |
| Cash and liquid assets | 69 | - | 8 | 24 | - | - | - | 37 | 2.13 |
| Receivables due from other financial institutions | 995 | 479 | 240 | 216 | 23 | - | - | 37 | 5.85 |
| Trading securities | 1,867 | 483 | 790 | 254 | 137 | 144 | 59 | - | 6.62 |
| Investment securities | 5,003 | 201 | 1,710 | 171 | 164 | 1,281 | 1,476 | - | 7.91 |
| Loans, advances and other receivables | 15,516 | 6,338 | 1,453 | 1,470 | 1,962 | 4,076 | 391 | (174) | 7.86 |
| Bank acceptances of customers | - | - | - | - | - | - | - | - | - |
| Life insurance investment assets | 3,651 | 115 | 301 | 193 | 194 | 354 | 595 | 1,899 | 3.17 |
| Deposits with regulatory authorities | 46 | 10 | - | - | - | 33 | - | 3 | 1.59 |
| Property, plant and equipment | 212 | - | - | - | - | - | - | 212 | - |
| Goodwill | 6 | - | - | - | - | - | - | 6 | - |
| Other assets | 2,156 | - | - | - | - | - | - | 2,156 | - |
| Total Assets | 29,521 | 7,626 | 4,502 | 2,328 | 2,480 | 5,888 | 2,521 | 4,176 | 6.49 |
| Liabilities | | | | | | | | | |
| Deposits and other public borrowings | 12,778 | 6,626 | 3,581 | 1,221 | 972 | 315 | 1 | 62 | 5.50 |
| Payables due to other financial institutions | 3,064 | 1,652 | 816 | 370 | 226 | - | - | - | 6.12 |
| Bank acceptances | - | - | - | - | - | - | - | - | - |
| Provision for dividend | - | - | - | - | - | - | - | - | - |
| Income tax liability | 83 | - | - | - | - | - | - | 83 | - |
| Other provisions | 233 | - | - | - | - | - | - | 233 | - |
| Life insurance policy liabilities | 3,307 | - | - | - | - | - | - | 3,307 | - |
| Debt issues | 7,755 | 650 | 4,530 | 640 | 818 | 709 | 408 | - | 5.26 |
| Bills payable and other liabilities | 607 | - | - | - | - | - | - | 607 | - |
| Loan Capital | 79 | - | - | - | - | 79 | - | - | 7.46 |
| Total Liabilities | 27,906 | 8,928 | 8,927 | 2,231 | 2,016 | 1,103 | 409 | 4,292 | 4.67 |
| Shareholders Equity | | | | | | | | | |
| Outside equity interests in controlled entities | 219 | - | - | - | - | - | - | 219 | - |
| Total Shareholders' Equity | 219 | - | - | - | - | - | - | 219 | - |
| Off Balance Sheet Items | | | | | | | | | |
| Swaps | (2) | (261) | 2,032 | 463 | (185) | (1,323) | (726) | - | (1) |
| Options | (2) | - | 670 | (670) | - | - | - | - | (1) |
| FRAs | (2) | 94 | 1 | (252) | 157 | - | - | - | (1) |
| Futures | (2) | - | - | - | - | - | - | - | (1) |
| Net Mismatch | (2) | (1,469) | (1,722) | (362) | 436 | 3,462 | 1,386 | (335) | (1) |
| Cumulative Mismatch | (2) | (1,469) | (3,191) | (3,553) | (3,117) | 345 | 1,731 | 1,396 | (1) |

(1) no rate applicable

(2) no balance sheet amount applicable

Foreign exchange risk

Foreign exchange risk is the risk to earnings caused by a change in foreign exchange rates.

The Group hedges all balance sheet foreign exchange risk except for long term investments in offshore subsidiaries. An adverse movement of 10% in foreign exchange rates would cause the Group's capital adequacy ratio to deteriorate by less than 0.3% (2000: less than 0.3%).

Net deferred gains and losses

Net deferred unrealised gains and losses arising from derivative hedging contracts entered into in order to manage the risk arising from assets, liabilities, commitments or anticipated future transactions, together with the expected term of deferral are shown below.

Notes to the financial statements

NOTE 39 Market Risk continued

As at 30 June

| | Exchange rate | | Interest rate | | Total | |
|--------------------------|----------------------|-------|-------------------|-------|-------|-------|
| | Related contracts | | Related contracts | | | |
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Within 6 months | 167 | 341 | 349 | (45) | 516 | 296 |
| Within 6 months - 1 year | (5) | 31 | (184) | (49) | (189) | (18) |
| Within 1-2 years | (229) | 24 | (90) | (28) | (319) | (4) |
| Within 2-5 years | (69) | (33) | (38) | (27) | (107) | (60) |
| After 5 years | 19 | (226) | (26) | (230) | (7) | (456) |
| Net deferred gain (loss) | (117) ⁽¹⁾ | 137 | 11 | (379) | (106) | (242) |

⁽¹⁾ The increase in net deferred losses in exchange rate derivative contracts predominantly reflects falls in the AUD/USD exchange rate over the year. These losses are offset by unrecognised net gains in assets and liabilities in the balance sheet.

Net deferred gains and losses are only in respect of derivatives and must be considered in the context of the total interest rate and foreign exchange risk of the balance sheet. The deferred gains and losses on both derivatives and on balance sheet assets and liabilities are included in the economic value at risk measure outlined above.

Additionally, there are \$107 million of net deferred losses on derivatives (2000: \$11 million net deferred losses) used to hedge equity risk on investments disclosed within Note 11.

Market risk in financial services

Market risk in the life insurance business arises from mismatches between assets and liabilities, guaranteed returns offered on some classes of policy (which may not be capable of being hedged through matching assets), adverse movements in market prices affecting fee income on investment-linked policies and from the returns obtained from investing the shareholders capital held in each life company. Shareholders funds in the life insurance business are on average invested 50% in income assets (cash and fixed interest) and 50% in growth assets (shares and property), although the asset mix may vary from company to company. Policyholder funds are invested to meet policyholder reasonable expectations without putting the shareholder at undue risk.

Market risk in the funds management business is the risk of an adverse movement in market prices which leads to a reduction in the amount of funds under management and a consequent reduction in fee income.

Market Risk in Financial Markets Trading

The Group's policy is that exposure to market risk from trading activities is managed by Institutional Banking. The Group trades and distributes financial markets products and provides risk management services to clients on a global basis.

The objectives of the Group's financial markets activities are to:

- Provide risk management products and services to customers;
- Manage the Group's own market risks; and
- Conduct controlled trading in pursuit of profit, leveraging off the Bank's market presence and expertise.

The Group maintains access to markets by quoting bid and offer prices with other market makers and carries an inventory of treasury and capital market instruments, including a broad range of securities and derivatives.

In foreign exchange, the Group is a participant in all major currencies and is a major participant in the Australian dollar market, providing services for central banks, institutional, corporate and retail customers. Positions are also taken in the interest rate, debt, equity and commodity markets based on views of future market movements. Trading securities are further detailed in Note 10 of the financial statements.

Income is earned from spreads achieved through market-making and from taking market risk. All trading positions are valued and taken to profit and loss on a mark to market basis. Trading profits also take account of interest, dividends and funding costs relating to trading activities. Market liquidity risk is controlled by concentrating trading activity in highly liquid markets.

Note 3 of the financial statements details Financial Markets Trading Income contribution of \$426 million (2000: \$311 million) to the income of the Group. The contribution is significant and provides important diversification benefits to the Group.

Residual Value Risk on Operating Leases

The Group provides operating leases to customers on equipment such as motor vehicles, computers and industrial equipment. A residual value risk arises when equipment is not fully depreciated at lease expiry. Residual value risk is the risk that the amount recouped by selling the equipment at lease expiry will be less than the residual value on the lease.

In managing the risk the Group utilises industry experts to ensure that the residual value of equipment is prudently estimated at the start of the lease and the Group realises the maximum value of the equipment at lease expiry.

Notes to the financial statements

NOTE 39 Market Risk continued

Derivative contracts

The following table details the Group's outstanding derivative contracts as at the end of the year.

Each derivative type is split between those held for 'Trading' purposes and those for 'Other than Trading' purposes. Derivatives classified as 'Other than Trading' are transactions entered into in order to manage the risks arising from non-traded assets, liabilities and commitments in Australia and offshore centres.

The 'Face Value' is the notional or contractual amount of the derivatives. This amount is not necessarily exchanged and predominantly acts as reference value upon which interest payments and net settlements can be calculated and on which revaluation is based.

The 'Credit Equivalent' is calculated using a standard APRA formula and is disclosed for each product class. This amount is a measure of the on balance sheet loan equivalent of the derivative contracts, which includes a specified percentage of the face value of each contract plus the market value of all contracts with an unrealised gain at balance date. The Credit Equivalent does not take into account any benefits of netting exposures to individual counterparties.

The accounting policy for derivative financial instruments is set out in Note 1 (gg).

| | Face Value | | GROUP Credit Equivalent | |
|--|----------------|----------------|----------------------------|---------------|
| | 2001 \$M | 2000 \$M | 2001 \$M | 2000 \$M |
| Derivatives | | | | |
| Exchange rate related contracts | | | | |
| Forwards | | | | |
| Trading | 114,962 | 112,949 | 4,295 | 3,374 |
| Other than trading | 1,771 | 1,323 | 17 | 1 |
| Total Forwards | 116,733 | 114,272 | 4,312 | 3,375 |
| Swaps | | | | |
| Trading | 23,196 | 14,151 | 1,946 | 1,235 |
| Other than trading | 8,661 | 12,010 | 1,588 | 1,726 |
| Total Swaps | 31,857 | 26,161 | 3,534 | 2,961 |
| Futures | | | | |
| Trading | 417 | 324 | - | - |
| Other than trading | - | - | - | - |
| Total Futures | 417 | 324 | - | - |
| Options purchased and sold | | | | |
| Trading | 34,261 | 39,375 | 704 | 626 |
| Other than trading | - | - | - | - |
| Total Options purchased and sold | 34,261 | 39,375 | 704 | 626 |
| Total exchange rate related contracts | 183,268 | 180,132 | 8,550 | 6,962 |
| Interest rate related contracts | | | | |
| Forwards | | | | |
| Trading | 23,477 | 18,002 | 2 | 4 |
| Other than trading | 7,074 | 6,192 | 1 | 2 |
| Total Forwards | 30,551 | 24,194 | 3 | 6 |
| Swaps | | | | |
| Trading | 97,822 | 119,120 | 1,671 | 1,865 |
| Other than trading | 79,989 | 51,060 | 1,510 | 1,254 |
| Total Swaps | 177,811 | 170,180 | 3,181 | 3,119 |
| Futures | | | | |
| Trading | 45,367 | 33,583 | - | - |
| Other than trading | 20 | 1,142 | - | - |
| Total Futures | 45,387 | 34,725 | - | - |
| Options purchased and sold | | | | |
| Trading | 12,265 | 12,292 | 123 | 128 |
| Other than trading | 79 | 737 | 79 | 67 |
| Total Options purchased and sold | 12,344 | 13,029 | 202 | 195 |
| Total interest rate related contracts | 266,093 | 242,128 | 3,386 | 3,320 |
| Equity risk related contracts | | | | |
| Swaps | | | | |
| Other than trading | 278 | 278 | - | - |
| Total equity risk related contracts | 278 | 278 | - | - |
| Total derivatives exposures | 449,639 | 422,538 | 11,936 | 10,282 |

Notes to the financial statements

NOTE 39 Market Risk continued

The fair or market value of trading derivative contracts, disaggregated into gross unrealised gains and gross unrealised losses, are shown below. In line with the Group's accounting policy, these unrealised gains and losses are recognised immediately in profit and loss, and together with net realised gains on trading derivatives and

realised and unrealised gains and losses on trading securities, are reported within trading income under foreign exchange earnings or other financial instruments (refer Note 3). In aggregate, derivatives trading was profitable for the Group during the Financial Year.

| | Fair Value | | Average Fair Value | |
|---|--------------|-------------|--------------------|--------------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M |
| Exchange rate related contracts | | | | |
| Forward contracts | | | | |
| Gross unrealised gains | 3,125 | 2,263 | 4,066 | 1,829 |
| Gross unrealised losses | (2,020) | (1,828) | (3,120) | (1,446) |
| | <u>1,105</u> | <u>435</u> | <u>946</u> | <u>383</u> |
| Swaps | | | | |
| Gross unrealised gains | 2,990 | 1,509 | 2,535 | 1,364 |
| Gross unrealised losses | (3,025) | (1,389) | (2,663) | (1,316) |
| | <u>(35)</u> | <u>120</u> | <u>(128)</u> | <u>48</u> |
| Futures | | | | |
| Gross unrealised gains | 2 | 3 | 3 | 5 |
| Gross unrealised losses | - | (5) | (2) | (5) |
| | <u>2</u> | <u>(2)</u> | <u>1</u> | <u>-</u> |
| Options purchased and sold | | | | |
| Gross unrealised gains | 504 | 381 | 579 | 342 |
| Gross unrealised losses | (283) | (255) | (354) | (252) |
| | <u>221</u> | <u>126</u> | <u>225</u> | <u>90</u> |
| Net Unrealised Gains on exchange Rate Related Contracts | <u>1,293</u> | <u>679</u> | <u>1,044</u> | <u>521</u> |
| Interest rate related contracts | | | | |
| Forward contracts | | | | |
| Gross unrealised gains | 7 | 6 | 5 | 10 |
| Gross unrealised losses | (7) | (5) | (6) | (10) |
| | <u>-</u> | <u>1</u> | <u>(1)</u> | <u>-</u> |
| Swaps | | | | |
| Gross unrealised gains | 2,874 | 2,029 | 2,736 | 1,759 |
| Gross unrealised losses | (3,324) | (2,056) | (3,082) | (1,922) |
| | <u>(450)</u> | <u>(27)</u> | <u>(346)</u> | <u>(163)</u> |
| Futures | | | | |
| Gross unrealised gains | 19 | 14 | 33 | 14 |
| Gross unrealised losses | (27) | (22) | (24) | (13) |
| | <u>(8)</u> | <u>(8)</u> | <u>9</u> | <u>1</u> |
| Options purchased and sold | | | | |
| Gross unrealised gains | 71 | 47 | 67 | 35 |
| Gross unrealised losses | (73) | (45) | (57) | (46) |
| | <u>(2)</u> | <u>2</u> | <u>10</u> | <u>(11)</u> |
| Net Unrealised Losses on Interest Rate Related Contracts | <u>(460)</u> | <u>(32)</u> | <u>(328)</u> | <u>(173)</u> |
| Net Unrealised Gains on Trading Derivative Contracts | <u>833</u> | <u>647</u> | <u>716</u> | <u>348</u> |
| In accordance with the accounting policy set out in Note 1 (gg) the above trading derivative contract revaluations have been presented on a gross basis on the balance sheet. | | | | |
| Unrealised gains on trading derivatives (Note 21) | 9,592 | 6,252 | | |
| Unrealised losses on trading derivatives (Note 27) | 8,759 | 5,605 | | |
| Net unrealised gains on trading derivatives | <u>833</u> | <u>647</u> | | |

Notes to the financial statements

NOTE 40 Superannuation Commitments

The Group sponsors a range of superannuation plans for its employees worldwide. Details of major defined benefit plans with assets in excess of \$10 million are:

| Name of Plan | Type | Form of Benefit | Date of Last Assessment |
|--|-----------------------------------|--------------------------------|-------------------------|
| Officers' Superannuation Fund (OSF) | Defined Benefits and Accumulation | Indexed pensions and lump sums | 30 June 2000 |
| Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA(UK)SBS) | Defined Benefits and Accumulation | Indexed pensions and lump sums | 1 May 1999 |
| The Colonial Group Staff Superannuation Scheme (CGSSS) | Defined Benefits and Accumulation | Indexed pensions and lump sums | 30 June 1998 |
| Colonial UK Staff Pension Scheme (CUKSPS) | Defined Benefits | Indexed pensions and lump sums | 5 April 2000 |
| Stewart Ivory & Company Limited Retirement Benefits Scheme (SI&CRBS) | Defined Benefits | Indexed pensions and lump sums | 1 September 1998 |

Financial Details of Defined Benefits Plans

| | OSF \$M | CBA (UK) SBS \$M | CGSSS ⁽¹⁾⁽²⁾ \$M | CUK SPS ⁽³⁾ \$M | SI& CRBS \$M | Total \$M |
|---|------------|------------------------|--------------------------------|-------------------------------|--------------------|--------------|
| Net Market Value of Assets | 5,566 | 126 | 610 | 341 | 24 | 6,667 |
| Present Value of Accrued Benefits | 3,812 | 60 | 310 | 312 | 22 | 4,516 |
| Difference between Net Market of Assets and Present Value of Accrued Benefits | 1,754 | 66 | 300 | 29 | 2 | 2,151 |
| Difference as a percentage of plan assets | 32% | 52% | 49% | 9% | 8% | 32% |
| Value of Vested Benefits | 3,812 | 61 | 337 | 292 | 20 | 4,522 |

⁽¹⁾ The Colonial Group Staff Superannuation Scheme values include the values, as at 30 June 1996, of the former Prudential Australia Superannuation Scheme, the Prudential Australia Superannuation Scheme No. 2 and the Prudential Australia Staff Pension Scheme. Members of these funds were transferred to the Colonial Scheme effective 1 April 1999.

⁽²⁾ The Colonial Group Staff Superannuation Scheme values also include the values, as at 30 June 1999,

of the former Trust Bank Staff Superannuation Scheme. Members of this fund were transferred to the Colonial Scheme effective 30 June 2000.

⁽³⁾ The Colonial UK life insurance business was sold in June 2000, which will result in a significant portion of these vested benefits being transferred out of this plan. An actuarial assessment is currently in progress. Initial indications are that there may be a small deficit in the scheme; however, this deficit would be immaterial in a Group context.

The above values have been extracted from financial statements and actuarial assessments of each plan which have been prepared in accordance with relevant accounting and actuarial standards and practices.

Contributions

For the plans listed in the above table, entities of the Group contribute to the respective plans in accordance with the Trust Deeds following the receipt of actuarial advice.

With the exception of contributions relating to salary sacrifice benefits, the Bank ceased contributions to the OSF from 8 July 1994. Further, the Bank ceased contributions to the OSF relating to salary sacrifice benefits from 1 July 1997.

An actuarial assessment of the OSF, as at 30 June 2000 was completed during the year ended 30 June 2001. In line with the actuarial advice contained in the assessment, the Bank does not intend to make contributions to the OSF until after consideration of the next actuarial assessment of the OSF as at 30 June 2003.

No employer contributions were made to the CGSSS during the year and the Bank does not intend to make contributions to the CGSSS until after consideration of the next actuarial assessment of CGSSS. Further, contributions ceased to the CGSSS relating to salary sacrifice benefits from 1 July 1999.

Transfer Offer

During the Financial Year, the Group provided members of the defined benefit divisions of the OSF with an opportunity to voluntarily move their superannuation to the accumulation division. This resulted in \$965 million (26%) of defined benefit liabilities being transferred to the accumulation division.

Notes to the financial statements**NOTE 41 Controlled Entities**

| Entity Name | Extent of Beneficial Interest if not 100% | Incorporated in |
|---|--|-----------------|
| AUSTRALIA | | |
| (a) Banking | | |
| Commonwealth Bank of Australia | | Australia |
| Controlled Entities: | | |
| Commonwealth Development Bank of Australia Limited | | Australia |
| CBA Investments Limited | | Australia |
| CBA Specialised Financing Limited | | Australia |
| Share Investments Pty Limited | | Australia |
| CBA Investments (No 2) Pty Limited | | Australia |
| CBA International Finance Pty Limited | | Australia |
| CBCL Australia Limited | | Australia |
| CBFC Limited | | Australia |
| Collateral Leasing Pty Limited | | Australia |
| Commonwealth Securities Limited | | Australia |
| Homepath Pty Limited | | Australia |
| Chullora Equity Investments (No. 2) Pty Limited * | | Australia |
| Chullora Equity Investments (No. 3) Pty Limited * | | Australia |
| Commonwealth Insurance Limited | | Australia |
| Commonwealth Investments Pty Limited * | | Australia |
| Commonwealth Property Limited | | Australia |
| Infravest (No. 2) Limited | | Australia |
| Commonwealth Fleet Lease Pty Limited | | Australia |
| Micropay Pty Limited | | Australia |
| Retail Investor Pty Limited | | Australia |
| Sparad (No. 20) Pty Limited | | Australia |
| Sparad (No. 24) Pty Limited | | Australia |
| Colonial Employee Share Plan Limited | | Australia |
| Colonial Finance Limited | | Australia |
| Colonial Financial Services Pty Limited | | Australia |
| CST Securitisation Management Limited | | Australia |
| Emerald Holding Company Limited | | Australia |
| (b) Life Insurance and Funds Management | | |
| Commonwealth Custodial Services Limited | | Australia |
| Commonwealth Insurance Holdings Limited | | Australia |
| Commonwealth Life Limited | | Australia |
| CLL Investments Limited | | Australia |
| CIF (Hazelwood) Pty Limited | | Australia |
| Commonwealth Investment Services Limited Group | | |
| Commonwealth Investment Services Limited | | Australia |
| Commonwealth Managed Investments Limited | | Australia |
| CISL (Hazelwood) Pty Limited | | Australia |
| Commonwealth Funds Management Limited Group | | |
| Commonwealth Funds Management Limited | | Australia |
| CFM (ADF) Limited | | Australia |
| CFML Nominees Pty Limited | | Australia |
| Commonwealth Diversified Credit Fund ⁽¹⁾ | | |
| CMG Asia Pty Limited | | Australia |
| CMG First State Investment Managers (Asia) Limited | | Australia |
| Colonial AFS Services Pty Limited | | Australia |
| Colonial Financial Corporation Limited | | Australia |
| Colonial First State Investments Group Limited | | Australia |
| Colonial First State Managed Services Limited | | Australia |
| Colonial First State Property Limited | | Australia |
| Colonial Holding Company Pty Limited | | Australia |
| Colonial Holding Company (No. 2) Pty Limited | | Australia |
| Colonial Insurance Services Pty Limited | | Australia |
| Colonial International Holdings Pty Limited | | Australia |
| Colonial Investments Holding Pty Limited | | Australia |
| Colonial Investment Services Limited | | Australia |
| Colonial LGA Holdings Limited | | Australia |
| Colonial Mutual Funds Limited | | Australia |
| The Colonial Mutual Life Assurance Society Limited | | Australia |
| Colonial Mutual Superannuation Pty Limited | | Australia |

Notes to the financial statements**NOTE 41 Controlled Entities continued**

| Entity Name | Extent of Beneficial Interest if not 100% | Incorporated in |
|--|--|-----------------|
| (b) Life Insurance and Funds Management continued | | |
| Colonial PCA Holdings Pty Limited | | Australia |
| Colonial PCA Services Limited | | Australia |
| Colonial Portfolio Services Limited | | Australia |
| Colonial Promotions Pty Limited | | Australia |
| Colonial Services Pty Limited | | Australia |
| Comsec Trading Limited | | Australia |
| Jacques Martin Pty Limited | | Australia |
| NEW ZEALAND | | |
| (a) Banking | | |
| ASB Group Limited | | New Zealand |
| ASB Bank Limited | | New Zealand |
| ASB Finance Limited | | New Zealand |
| ASB Management Services Limited | | New Zealand |
| ASB Properties Limited | | New Zealand |
| ASB Superannuation Nominees Limited | | New Zealand |
| CBA Funding (NZ) Limited | | New Zealand |
| (b) Life Insurance and Funds Management | | |
| ASB Group Limited | | New Zealand |
| ASB Life Limited | | New Zealand |
| Sovereign Limited | | New Zealand |
| Colonial First State Investment Managers (NZ) Limited | | New Zealand |
| Colonial First State Investments (NZ) Limited | | New Zealand |
| Colonial Holding Company NZ Limited | | New Zealand |
| Colonial Life (NZ) Limited | | New Zealand |
| Colonial Service Corporation New Zealand Limited | | New Zealand |
| OTHER OVERSEAS | | |
| (a) Banking | | |
| CBA Asia Limited | | Singapore |
| CBA (Europe) Finance Limited | | United Kingdom |
| CBA (Delaware) Finance Incorporated | | USA |
| Central Real Estate Holdings Group | | |
| Central Real Estate Holdings Corporation | | USA |
| Wilshire 10880 Corporation | | USA |
| Wilshire 10960 Corporation | | USA |
| CTB Australia Limited | | Hong Kong |
| Senator House Investments (UK) Limited ⁽²⁾ | | United Kingdom |
| Commonwealth Securities (Japan) Pty Limited | | Japan |
| SBV Asia Limited | | Hong Kong |
| Colonial (UK) Trustees Limited | | United Kingdom |
| Colonial Finance (UK) Limited | | United Kingdom |
| National Bank of Fiji Limited | 51 | Fiji |
| PT Bank Commonwealth | | Indonesia |
| (b) Life Insurance and Funds Management | | |
| CMG Asia Life Holdings Limited | | Bermuda |
| CMG Asia Limited | | Bermuda |
| CMG Asia Pensions and Retirements Limited | | Hong Kong |
| CMG First State Investments (Hong Kong) Limited | | Hong Kong |
| CMG First State Singapore Limited | | Singapore |
| CMG Life Insurance Co Inc | | Philippines |
| Colonial Fiji Life Limited | | Fiji |
| Colonial First State International Assets Limited | | United Kingdom |
| Colonial First State Investments (Fiji) Limited | | Fiji |
| Colonial First State Investment Managers (UK) Limited | | United Kingdom |
| Colonial Healthcare (Fiji) Limited | | Fiji |
| Colonial Services (Fiji) Limited | | Fiji |
| Colonial First State UK Holdings Limited | | United Kingdom |
| Stewart Ivory Holdings Limited | | United Kingdom |
| CMG Holdings (Thailand) Co. Ltd | 74 | Thailand |

Non-operating and minor operating controlled entities and investment vehicles holding policyholder assets are excluded from the above list.

⁽¹⁾ Wholly owned unit trust.

⁽²⁾ Wholly owned subsidiary of CBA International Finance Pty Limited.

* Small proprietary companies not requiring audit.

Notes to the financial statements**NOTE 42 Investments in Associated Entities and Joint Ventures**

| | GROUP | | Extent of Ownership Interest % | Principal Activities | Balance Date |
|---|-------------|-------------|---|---|-----------------|
| | 2001 \$M | 2000 \$M | | | |
| EDS (Australia) Pty Limited | 238 | 238 | 35 | Information Technology Services | 31 December |
| IPAC Securities Limited ⁽¹⁾ | - | 23 | 50 | Funds Manager | 30 June |
| PT Bank BII Commonwealth ⁽²⁾ | - | 10 | 50 | Banking in Indonesia | 31 December |
| Electronic Financial Technologies Pty Ltd ⁽¹⁾ | - | - | 50 | Financial Technology Development | 30 June |
| Computer Fleet Management | 3 | 5 | 50 | Desktop IT Lease Management | 30 June |
| Property Internet PLC | 5 | 8 | 24 | Online residential property information provider | 31 March |
| Alliance Group Holdings | 2 | 2 | 33 | Receivables Management | 30 June |
| Cyberlynx Procurement Services | 1 | - | 30 | Procurement Services | 30 June |
| EON CMG Life Assurance Bhd | 16 | 13 | 40 | Life insurance - Malaysia | 31 December |
| PT Astra CMG Life | 9 | 7 | 50 | Life insurance - Indonesia | 31 December |
| Ayudhya CMG Life Assurance PLC | 61 | 48 | 48 | Life insurance - Thailand | 31 December |
| China Life CMG Life Assurance Company Limited | 36 | 35 | 49 | Life insurance - China | 31 December |
| Bao Minh CMG Life Insurance Company | 6 | 5 | 50 | Life insurance - Vietnam | 31 December |
| CMG Mahon (China) Investment Management Limited | - | - | 50 | Direct investment in China | 30 June |
| Mahon and Associates Limited | - | - | 50 | Investment management | 30 June |
| CMG CH China Funds Management Limited | - | - | 50 | Investment management | 31 March |
| Avanteos Pty Ltd | 22 | - | 50 | Technology and Development | 31 December |
| Colonial First State Private Ltd ^{(2) (3)} | - | 4 | 50 | Investment management | 30 June |
| Jacques Martin Industry Funds Administration Pty Limited ('JMIFA') | 1 | 5 | 50 | Industry superannuation | 30 June |
| TOTAL | 400 | 403 | | | |

⁽¹⁾ Sold during Financial Year 2001.

⁽²⁾ The Group acquired control during the Financial Year 2001. These investments are now consolidated in the Group accounts.

⁽³⁾ Changed its name from Hambro Gratham Ltd following the Group's acquisition of the remaining 50%.

The Group also holds investments in the Colonial First State Property Trust Group and Colonial Mastertrust Wholesale equity funds (including the Fixed Interest, Australian Share, International Share, Property Securities, Capital Stable, Balanced and Diversified Growth funds) through controlled life insurance entities which are not accounted for under the equity accounting method.

Instead, the market values for these investments are calculated at balance date and are brought to account at this value in compliance with the requirements of AASB 1038: Life Insurance Business. These investments are classified as property or equity investments and are not material components of these asset categories.

| | GROUP | |
|--|-------------|-------------|
| | 2001 \$M | 2000 \$M |
| Share of associates' profits (losses) after notional goodwill amortisation | | |
| Operating profits (losses) before income tax | (4) | (1) |
| Income tax expense | - | - |
| Operating profits (losses) after income tax | <u>(4)</u> | <u>(1)</u> |
| Carrying amount of investments in associated entities | | |
| Opening balance | 403 | 281 |
| New investments | 39 | 10 |
| Disposals / transfers | (16) | - |
| Writedown value of investments | (2) | - |
| Fair value adjustments | (20) | - |
| Investments arising from Colonial Acquisition | - | 117 |
| Share of associates' profits (losses) | (4) | (1) |
| Foreign exchange adjustment | - | (4) |
| Closing Balance | <u>400</u> | <u>403</u> |

Notes to the financial statements

NOTE 43 Standby Arrangements and Unused Credit Facilities

(of controlled entities that are borrowing corporations)

| | 2001 | | GROUP | |
|-----------------------------------|------------|-----------|--------------|------------|
| | Available | Unused | Available | Unused |
| Financing arrangements accessible | | | | |
| Bank overdraft | 51 | 22 | 964 | 553 |
| Revolving credit | 100 | - | 480 | 400 |
| Other | 29 | 29 | 560 | 1 |
| | 180 | 51 | 2,004 | 954 |

Bank overdraft facilities (\$913 million), revolving credit facilities (\$380 million) and other facilities of (\$559 million) relating to Colonial in place at 30 June 2000 were cancelled 29 June 2001.

NOTE 44 Related Party Disclosures

Australian banks, parent entities of Australian banks and controlled entities of Australian banks have been exempted, subject to certain conditions, under an ASIC Order No. 98/110 dated 10 July 1998, from making disclosures of any loan made, guaranteed or secured by a bank to related parties (other than 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 and where the loan or financial instrument transaction is lawfully made and occurs in the ordinary course of banking business and either on an arm's length basis or with the approval of a general meeting of the relevant entity and its ultimate parent entity (if any). The exemption does not cover transactions which relate to the supply of goods and services to a bank, other than financial assets or services.

The Class Order does not apply to a loan or financial instrument transaction 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 the Bank must lodge a statutory declaration, signed by two directors, with the Australian Securities and Investments Commission accompanying the annual report. The declaration provides confirmation that the bank has systems of internal control and procedures to provide assurance that any financial instrument transactions of a bank which are not entered into on an arm's length basis are drawn to the attention of the Directors so that they may be disclosed.

Directors

The name of each person holding the position of Director of the Commonwealth Bank during the Financial Year is:

| | |
|------------------|----------------------------|
| J T Ralph, AC | (Chairman) |
| J M Schubert | (Deputy Chairman) |
| D V Murray | (Managing Director) |
| N R Adler, AO | |
| R J Clairs, AO | |
| A B Daniels, OAM | |
| C R Galbraith | |
| W G Kent, AO | |
| F D Ryan | |
| F J Swan | |
| B K Ward | |
| A C Booth | (retired 31 December 2000) |
| K E Cowley, AO | (retired 29 March 2001) |

Details of remuneration received or due and receivable by Directors are set out in Note 45.

Loans to Directors

Loans are made to Directors in the ordinary course of business of the Bank and on an arm's length basis. Loans to Executive Directors have been made on normal commercial terms and conditions.

Under the Australian Securities and Investments Commission Class Order referred to above, disclosure is limited to the aggregate amount of loans made, guaranteed or secured by:

- the Bank to its Directors;
- banks which are controlled entities to their Directors; and
- non bank controlled entities to Directors (and their related parties) of those entities;

The aggregate amount of such loans outstanding at 30 June 2001 was:

- \$50,000 to Directors of the Bank (2000: \$1,850,527); and
- \$2,418,363 to Directors of related entities (2000: \$3,842,338).

Notes to the financial statements

NOTE 44 Related Party Disclosures continued

The aggregate amount of such loans received and repayments made was:

| | Loans Received | | Repayments Made | |
|--|----------------|---------|-----------------|---------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$ | \$ | \$ | \$ |
| Directors of the CBA | | | | |
| Normal terms and conditions ⁽¹⁾ | - | - | 318,000 | 63,418 |
| Directors of related entities | | | | |
| Normal terms and conditions ⁽²⁾ | 3,693,546 | 132,356 | 2,482,653 | 354,517 |

⁽¹⁾ Directors: K E Cowley, F D Ryan and B K Ward.

⁽²⁾ Directors: G J Judd, R J Norris, R Boven, P Polson, A Hanna, R G Wilkie, C B Millett, S Vuetaki, C Kamea, J Wong and A V Villamor.

Shares of Directors

The aggregate number of shares acquired by, disposed of and held by Directors and their director related entities in the Commonwealth Bank during the Financial Year ended 30 June 2001, were:

| Director | Held | Shares Acquired | Shares Disposed Of | Held |
|--------------------------------------|--------------|-----------------|--------------------|--------------|
| | 30 June 2000 | | | 30 June 2001 |
| | Ordinary | Ordinary | Ordinary | Ordinary |
| J T Ralph | 11,192 | 1,066 | | 12,258 |
| J M Schubert | 9,914 | 947 | | 10,861 |
| D V Murray | 50,387 | 501,916 | (505,195) | 47,108 |
| N R Adler | 9,543 | 611 | (2,198) | 7,956 |
| R J Clairs | 10,000 | 334 | | 10,334 |
| A B Daniels | 11,823 | 778 | | 12,601 |
| C R Galbraith | 3,874 | 495 | | 4,369 |
| W G Kent | 7,519 | 371 | | 7,890 |
| FD Ryan | 4,000 | 334 | | 4,334 |
| F J Swan | 1,922 | 441 | (293) | 2,070 |
| B K Ward | 1,837 | 420 | | 2,257 |
| A C Booth (retired 31 December 2000) | 1,131 | | (1,000) | n/a |
| K E Cowley (retired 29 March 2001) | 8,000 | 693 | | n/a |

All shares were acquired by Directors on normal terms and conditions or through the Non-Executive Directors Share Plan (or in the case of Mr D V Murray the Executive Option Plan). Mr D V Murray exercised 500,000 options during the Financial Year 2001, leaving his total holdings of options at 1,500,000 under the Executive Option Plan. For further details on the Non-Executive Directors Share Plan and the Executive Option Plan refer Note 29.

Additionally, Mr J T Ralph beneficially holds 100,000 units in the Commonwealth Property Trust, a related entity.

Other Transactions of Directors and Other Related Parties

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed above) of Directors of the Bank and other banks which are controlled entities occur in the ordinary course of business of the banks on an arm's length basis.

Under the Australian Securities and Investments 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.

All such financial instrument transactions that have occurred between the banks and their Directors have been trivial or domestic and were in the nature of normal personal banking and deposit transactions.

Transactions other than Financial Instrument

Transactions of Banks

All other transactions with Directors, director related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services by non bank controlled entities.

All such transactions that have occurred with Directors, director related entities and other related parties have been trivial or domestic and were principally in the nature of lodgement or withdrawal of deposit and superannuation monies.

Controlled Entities

Transactions with related parties in the Group are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally arise out of the provision of banking services, the acceptance of funds on deposit, the granting of loans and other associated financial activities.

Notes to the financial statements

NOTE 44 Related Party Disclosures continued

Support services are provided by the Bank such as provision of premises and/or equipment, availability of transfer payment and accounting facilities through data processing etc, and are transfer charged to the respective user entity at commercial rates.

Refer to Note 41 for details of controlled entities.

The Bank's aggregate investment in and loans to controlled entities are disclosed in Note 18.

Amounts due to controlled entities are disclosed in the balance sheet of the Bank.

Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in Note 3.

All transactions between Group entities are eliminated on consolidation.

NOTE 45 Remuneration of Directors

Total amount received or due and receivable by non-executive Directors of the Company during Financial Year ended 30 June 2001 was:

| | Base Fee/Pay | Committee Fee | Salary Sacrifice ⁽²⁾ | Superannuation ⁽¹⁾ | Total Remuneration |
|--------------------------------|--------------|---------------|---------------------------------|-------------------------------|--------------------|
| | \$ | \$ \$ | | \$ | \$ |
| Non-Executive Directors | | | | | |
| Mr J T Ralph, AC | 204,099 | 34,016 | 41,885 | 19,049 | 299,049 |
| Dr J M Schubert | 83,901 | 34,904 | 21,510 | 9,504 | 149,819 |
| Mr N R Adler, AO | 68,033 | 12,756 | 14,211 | 6,463 | 101,463 |
| Mr R J Clairs, AO | 68,033 | 17,008 | 14,959 | 7,401 | 107,401 |
| Mr A B Daniels, OAM | 68,033 | 12,756 | 14,211 | 7,031 | 102,031 |
| Mr F D Ryan | 68,033 | 17,008 | 14,959 | 7,401 | 107,401 |
| Mr F J Swan | 68,033 | 21,260 | 15,707 | 7,771 | 112,771 |
| Ms B K Ward | 68,033 | 17,008 | 14,959 | 6,803 | 106,803 |
| Mr W G Kent, AO | 68,033 | 9,918 | 14,447 | 7,369 | 99,767 |
| Mr C R Galbraith | 68,033 | 9,918 | 14,447 | 7,128 | 99,526 |
| Ms A C Booth ⁽³⁾ | 39,671 | 12,603 | - | 4,234 | 56,508 |
| Mr K E Cowley ⁽⁴⁾ | 52,077 | 9,764 | 9,474 | 5,326 | 76,641 |

Executive Director

Mr D V Murray (refer Note 46)

⁽¹⁾ The Bank is currently not contributing to the Officers' Superannuation Fund. A notional cost of superannuation has been determined on an individual basis for certain of the Directors. Other Directors have superannuation contributions made to other funds.

⁽²⁾ Under the Non-Executive Directors Share Plan detailed in the Explanatory Memorandum to the Notice of Meeting for the 2000 Annual General Meeting, Non-Executive Directors are required to receive 20% of their remuneration in shares. This was implemented from the second quarter of the year. Also refer Note 29 for further details.

⁽³⁾ Ms Booth retired 31 December 2000.

⁽⁴⁾ Mr Cowley retired 29 March 2001.

Notes to the financial statements**NOTE 45 Remuneration of Directors continued****Retirement Benefit**

The aggregate amount of retirement benefits given by the Bank during the Financial Year ended 30 June 2001 was \$386,397 (2000: \$667,073) being: a payment of \$296,065 made to Ms A C Booth and; a payment of \$90,332 made to Mr K E Cowley in accordance with the Corporations Act 2001 and pursuant to the Directors' Retirement Allowance Scheme approved by shareholders at the 1997 Annual General Meeting.

| | 2001 | BANK |
|--|------------------|------------------|
| | \$ | 2000 |
| | | \$ |
| Total amount received or due and receivable by executive and non executive Directors (includes accumulated benefits due to Directors who retired during the year) | 4,115,750 | 3,761,277 |

The number of executive and non-executive Directors whose remuneration fell within these bands was:

| Remuneration (Dollars) | Number | Number |
|---------------------------|---------------|-----------|
| \$ 0 - \$ 10,000 | - | 2 |
| \$ 20,001 - \$ 30,000 | - | 2 |
| \$ 80,001 - \$ 90,000 | - | 2 |
| \$ 90,001 - \$ 100,000 | 2 | 2 |
| \$ 100,001 - \$ 110,000 | 5 | 2 |
| \$ 110,001 - \$ 120,000 | 1 | - |
| \$ 120,001 - \$ 130,000 | - | 1 |
| \$ 140,001 - \$ 150,000 | 1 | - |
| \$ 160,001 - \$ 170,000 | 1 ** | - |
| \$ 220,001 - \$ 230,000 | - | 1 |
| \$ 290,001 - \$ 300,000 | 1 | - |
| \$ 350,001 - \$ 360,000 | 1 *** | - |
| \$ 730,001 - \$ 740,000 | - | 1 * |
| \$2,040,000 - \$2,049,999 | - | 1 |
| \$2,310,000 - \$2,319,999 | 1 | - |
| | 13 | 14 |

* Remuneration includes retirement payment to Mr M A Besley who retired on 28 October 1999.

** Remuneration includes retirement payment to Mr K E Cowley who retired on 29 March 2001.

*** Remuneration includes retirement payment to Ms A C Booth who retired on 31 December 2000.

| | 2001 | GROUP |
|---|-------------------|------------------|
| | \$ | 2000 |
| | | \$ |
| Total amount received or due and receivable by executive and non executive Directors of the Bank and controlled entities | 11,194,438 | 6,202,912 |

Notes to the financial statements

NOTE 46 Remuneration of Executives

The following table shows remuneration for the executive director and five highest paid other members of the senior executive team directly reporting to the Managing Director, who were officers of the Bank and the Group for the Financial Year ended 30 June 2001.

The table does not include individuals, who are not direct reports to the Managing Director, whose incentive based remuneration in any given year may be in excess of that received by a member of the senior executive team.

Senior Executive Team

| Name & Position | Base Pay ⁽¹⁾ | Bonus ⁽²⁾ | | Superannuation ⁽³⁾ | Other Compensation ⁽⁴⁾ | Total Remuneration | Option Grant ⁽⁵⁾ | Share Grant ⁽⁵⁾ |
|--|-------------------------|----------------------|---------------|-------------------------------|-----------------------------------|--------------------|-----------------------------|----------------------------|
| | | Paid | Vested | | | | | |
| | \$ | \$ | in CBA Shares | \$ | \$ | \$ | Number | Number |
| D V Murray Managing Director & CEO | 1,450,000 | 450,000 | 300,000 | 99,773 | 10,400 | 2,310,173 | - ⁽⁶⁾ | - ⁽⁶⁾ |
| P L Polson Head of Colonial First State Investments Group | 600,000 | 550,000 | - | 144,480 | 456,000 | 1,750,480 | 100,000 | 16,800 |
| M A Katz Head of Institutional Banking | 750,000 | 336,000 | 224,000 | 67,500 | 10,400 | 1,387,900 | 125,000 | 20,900 |
| M J Ullmer Group General Manager Financial & Risk Management | 735,000 | 276,000 | 184,000 | 132,300 | 10,400 | 1,337,700 | 125,000 | 20,900 |
| J F Mulcahy Head of Australian Financial Services | 700,000 | 246,000 | 164,000 | 63,000 | 10,400 | 1,183,400 | 125,000 | 20,900 |
| R J Norris Head of International Financial Services & Managing Director & CEO of ASB Group | 680,000 | 350,000 | - | n/a | n/a | 1,030,000 | 125,000 | 20,900 |

(1) Base pay is calculated on a Total Cost basis and includes any FBT charges related to employee benefits including motor vehicles.

(2) For the 2000/2001 payment and future bonus payments, the Group has implemented a vesting (deferral) arrangement for most executives. A portion of the bonus payment is paid immediately and the remaining portion is deferred and vested in the Bank's shares. Half of the shares will vest after one year (in 2002) and half will vest after two years (in 2003). In the event of resignation from the Group before the vesting dates, unvested shares will lapse.

(3) The Bank is currently not contributing to the Officers' Superannuation Fund or to the Colonial Group Staff Superannuation Scheme – refer Note 40. Notional cost of superannuation has been determined on an individual basis for each executive.

(4) Other compensation includes, where applicable, car parking (including FBT) and other payments.

(5) Option Grants are a right to subscribe for ordinary shares at an exercise price which is the Market Value (defined as the weighted average of the prices at which the Bank's ordinary shares were traded on the ASX during the one week period before the Commencement Date) plus a premium representing the time value component of the value of options (based on the actual differences between the dividend and bond yields at the date of the vesting of the right to exercise the options). Share Grants are awarded under the Equity Reward Plan.

Shares are registered in the name of the Trustee. No consideration is payable by the executive for the grant of shares. The transfer of legal title to the executive is subject to vesting conditions. The ability to exercise options and the vesting of the shares is conditional on the Bank achieving a prescribed performance hurdle. To reach the performance hurdle, the Bank's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of Total Shareholder Return achieved by companies represented in the ASX Banks and Finance Accumulation Index, excluding the Bank. If the performance hurdle is not reached within that three years, the options and shares may nevertheless be exercisable or vest as appropriate only where the hurdle is subsequently reached within five years from the Commencement Date. If the performance hurdle is not met, the options will have nil value and the shares will be forfeited. The options and shares are subject to a performance hurdle, the achievement of which is uncertain. The approximate value of options and shares at the time of grant was \$4.50 and \$27 respectively. For further details on the Executive Option Plan and the Equity Reward Plan refer Note 29.

(6) At the 2000 Annual General Meeting shareholders approved that, prior to the 2001 Annual General Meeting, the Managing Director be invited to take up no more than 250,000 options and be given the right to acquire up to 42,000 shares under the Equity Reward Plan.

Notes to the financial statements**NOTE 46 Remuneration of Executives continued**

The following table shows the number of executives whose remuneration fell within the stated bands:

| Remuneration (Dollars) | 2001 Number | GROUP 2000 Number | 2001 Number | BANK 2000 Number |
|----------------------------|----------------|-------------------------|----------------|------------------------|
| \$ 100,000 - \$ 109,999 | 1 | - | 1 | - |
| \$ 290,000 - \$ 299,999 | - | 1 | - | 1 |
| \$ 310,000 - \$ 319,999 | 1 | - | 1 | - |
| \$ 320,000 - \$ 329,999 | 1 | - | 1 | - |
| \$ 350,000 - \$ 359,999 | - | 1 | - | 1 |
| \$ 370,000 - \$ 379,999 | - | 1 | - | 1 |
| \$ 420,000 - \$ 429,999 | - | 1 | - | 1 |
| \$ 450,000 - \$ 459,999 | 1 | - | 1 | - |
| \$ 460,000 - \$ 469,999 | - | 1 | - | 1 |
| \$ 510,000 - \$ 519,999 | 1 | 1 | 1 | 1 |
| \$ 520,000 - \$ 529,999 | 2 | - | 2 | - |
| \$ 530,000 - \$ 539,999 | 1 | - | 1 | - |
| \$ 540,000 - \$ 549,999 | - | 1 | - | 1 |
| \$ 550,000 - \$ 559,999 | - | 1 | - | 1 |
| \$ 570,000 - \$ 579,999 | 1 | - | 1 | - |
| \$ 600,000 - \$ 609,999 | 1 | - | 1 | - |
| \$ 650,000 - \$ 659,999 | - | 1 | - | 1 |
| \$ 690,000 - \$ 699,999 | 1 | - | 1 | - |
| \$ 720,000 - \$ 729,999 | - | 2 | - | 2 |
| \$ 770,000 - \$ 779,999 | 1 | - | 1 | - |
| \$ 780,000 - \$ 789,999 | - | 1 | - | 1 |
| \$ 790,000 - \$ 799,999 | 1 | 1 | 1 | 1 |
| \$ 820,000 - \$ 829,999 | - | 1 | - | 1 |
| \$ 850,000 - \$ 859,999 | 1 | - | 1 | - |
| \$ 890,000 - \$ 899,999 | 1 | 1 | 1 | 1 |
| \$ 970,000 - \$ 979,999 | 1 | - | 1 | - |
| \$1,030,000 - \$1,039,999 | 1 | 1 | 1 | 1 |
| \$1,150,000 - \$1,159,999 | - | 1 | - | 1 |
| \$1,180,000 - \$1,189,999 | 1 | - | 1 | - |
| \$1,240,000 - \$1,249,999 | - | 1 | - | 1 |
| \$1,290,000 - \$1,299,999 | - | 1 | - | 1 |
| \$1,330,000 - \$1,339,999 | 1 | - | 1 | - |
| \$1,380,000 - \$1,389,999 | 1 | - | 1 | - |
| \$1,500,000 - \$1,509,999 | 1 | - | 1 | - |
| \$1,750,000 - \$1,759,999 | 1 | - | 1 | - |
| \$1,870,000 - \$1,879,999 | 1 | - | 1 | - |
| \$2,040,000 - \$2,049,999 | - | 1 | - | 1 |
| \$2,050,000 - \$2,059,999 | 1 | - | 1 | - |
| \$2,310,000 - \$2,319,999 | 1 | - | 1 | - |
| Total number of executives | 25 | 20 | 25 | 20 |

Notes to the financial statements

NOTE 46 Remuneration of Executives continued

| | 2001 \$ | GROUP 2000 \$ | 2001 \$ | BANK 2000 \$ |
|---|----------------------------------|---------------------|----------------------------------|--------------------|
| Total amount received or due and receivable by executives (includes accumulated benefits due to executives who retired, resigned or were retrenched during the year). | 23,897,371 ⁽¹⁾ | 15,714,200 | 23,897,371 ⁽¹⁾ | 15,714,200 |

⁽¹⁾ Financial Year 2001 includes relevant executives from the combined Group, including Colonial. Financial Year 2000 figures relate to the Group before acquisition of Colonial.

An executive is a person who is directly accountable and responsible to the Managing Director, or is a Group employee responsible for the strategic direction and management of major businesses or risk portfolios.

Remuneration is based on amounts paid and accrued in respect of the financial year.

The Group's Policy in respect of executives is that:

- Remuneration will be competitively set so that the Group can attract, motivate and retain high quality local and international executive staff;
- Remuneration will incorporate, to a significant degree, variable pay for performance elements, both short term and long term focused as appropriate, which will:
 - reward executives for Group, business unit and individual performance against appropriate benchmarks/goals,
 - align the interests of executives with those of shareholders,
 - link executive reward with the strategic goals and performance of the Group, and
 - ensure total remuneration is competitive by market standards;
- Remuneration will be reviewed annually by the Remuneration Committee through a process that considers Group, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices;
- Remuneration systems will complement and reinforce the Group's leadership and succession planning systems; and
- Remuneration and terms and conditions of employment will be specified in an individual contract of employment and signed by the executive and the Bank.

Notes to the financial statements

NOTE 47 Statements of Cash Flow

| | GROUP | | | BANK | |
|--|---------|---------|---------|---------|---------|
| | 2001 | 2000 | 1999 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M | \$M |
| Note (a) Reconciliation of Cash | | | | | |
| For the purposes of the Statements of Cash Flows, cash includes cash at bankers, money at short call, at call deposits with other financial institutions and settlement account balances with other banks. | | | | | |
| Notes, coins and cash at bankers | 1,048 | 980 | 784 | 830 | 680 |
| Other short term liquid assets | 544 | 370 | 238 | 339 | 198 |
| Receivables due from other financial institutions - at call | 458 | 1,174 | 912 | 262 | 986 |
| Payables due to other financial institutions - at call | (2,012) | (1,138) | (2,491) | (1,851) | (1,016) |
| Cash and Cash Equivalents at end of year | 38 | 1,386 | (557) | (420) | 848 |

Note (b) Cash Flows presented on a Net Basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- customer deposits to and withdrawals from deposit accounts;
- borrowings and repayments on loans, advances and other receivables;
- sales and purchases of trading securities; and
- proceeds from and repayment of short term debt issues.

Note (c) Reconciliation of Operating Profit After Income Tax to Net Cash Provided by Operating Activities

| | GROUP | | | BANK | |
|--|--------------|--------------|--------------|--------------|------------|
| | 2001 | 2000 | 1999 | 2001 | 2000 |
| | \$M | \$M | \$M | \$M | \$M |
| Operating profit after income tax | 2,412 | 2,738 | 1,446 | 1,699 | 1,116 |
| Decrease (increase) in interest receivable | 159 | (948) | (1) | 7 | (158) |
| Increase in interest payable | (278) | 558 | (35) | (38) | 176 |
| Net (increase) decrease in trading securities | (262) | (50) | (408) | 171 | (892) |
| Net (gain)/loss on sale of investment securities | (56) | (12) | (79) | (84) | (7) |
| Charge for bad and doubtful debts | 385 | 196 | 247 | 276 | 191 |
| Depreciation and amortisation | 488 | 175 | 192 | 127 | 127 |
| Other provisions | (692) | 528 | 68 | (230) | 156 |
| Increase (decrease) in income taxes payable | (371) | 248 | 261 | (343) | (185) |
| (Decrease) increase in deferred income taxes payable | (97) | 319 | 50 | (9) | 364 |
| (Increase) decrease in future income tax benefits | 209 | (218) | (8) | (46) | (238) |
| Amortisation of premium on investment securities | 24 | 47 | 206 | 24 | 112 |
| Unrealised gain on revaluation of trading securities | (186) | (188) | 57 | (377) | 48 |
| Change in excess of net market value over net assets of life insurance controlled entities | (474) | (1,165) | 216 | - | (188) |
| Other assets | 400 | - | - | - | - |
| Other | 174 | 259 | (36) | (19) | (11) |
| Net Cash provided by Operating Activities | 1,835 | 2,487 | 2,176 | 1,158 | 611 |

Note (d) Non cash Financing and Investing Activities

Shares issued under the Dividend Reinvestment Plan \$313 million (2000: \$253 million) and Employee Share Acquisition Plan - \$40 million (2000: \$24 million). Acquisition of entity by means of an equity issue nil (2000: \$9,274 million).

Notes to the financial statements**NOTE 47 Statements of Cash Flow continued****Note (e) Acquisition of Controlled Entities**

| | 2001 \$M | 2000 \$M | 1999 \$M |
|--|-------------|--------------|-------------|
| Consideration | | | |
| Cash paid on acquisitions | 418 | 844 | 205 |
| Transaction costs | - | 46 | - |
| Securities issued | - | 9,274 | - |
| Pre-acquisition dividend received | - | (1,000) | - |
| | 418 | 9,164 | 205 |
| Fair value of net tangible assets acquired | | | |
| Cash & liquid assets | 4 | 373 | 9 |
| Receivables from other financial institutions | 26 | 538 | - |
| Trading securities | 501 | 2,154 | - |
| Investment securities | - | 99 | 260 |
| Loans, advances and other receivables | 2,812 | 21,635 | 671 |
| Bank acceptances of customers | - | 477 | - |
| Life insurance investment assets | 76 | 15,504 | - |
| Deposits with regulatory authorities | - | 43 | - |
| Property, plant and equipment | 42 | 382 | 4 |
| Investment in associates | - | 117 | - |
| Other assets | 109 | 2,228 | 28 |
| Deposits and public borrowings | (2,108) | (13,123) | (460) |
| Payables due to other financial institutions | (601) | (267) | - |
| Bank acceptances | - | (477) | - |
| Income tax liability | - | (702) | - |
| Other provisions | (3) | (398) | (4) |
| Life insurance policy liabilities | (75) | (14,960) | (358) |
| Debt issues | (599) | (8,678) | - |
| Bills payable and other liabilities | (64) | (2,886) | (72) |
| Loan Capital | - | (418) | - |
| Restructuring provision | - | (294) | - |
| Outside equity interest | (12) | (155) | (28) |
| | 108 | 1,192 | 50 |
| Excess market value over net assets of life insurance subsidiary | 51 | 2,548 | 155 |
| Goodwill | 259 | 5,424 | - |
| | 418 | 9,164 | 205 |
| Outflow (inflows) of cash on acquisitions | | | |
| Cash payments | 418 | 844 | 205 |
| Transaction costs | - | 46 | - |
| Less cash and cash equivalents acquired | (4) | (373) | (9) |
| Pre-acquisition dividend received | - | (1,000) | - |
| | 414 | (483) | 196 |

Note (f) Financing Facilities

Standby funding lines with overseas banks as at 30 June 2001 amounted to AUD equivalent \$29 million (2000: \$29 million).

Notes to the financial statements

NOTE 48 Disclosures about Fair Value of Financial Instruments

These amounts represent estimates of net fair values at a point in time. Significant estimates regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments and other factors were used for the purposes of this disclosure. These estimates are subjective in nature and involve matters of judgment. Therefore, they cannot be determined with precision. Changes in the assumptions could have a material impact on the amounts estimated.

While the estimated net fair value amounts are designed to represent estimates at which these instruments could be exchanged in a current transaction between willing parties, many of the Group's financial instruments lack an available trading market as characterised by willing parties engaging in an exchange transaction. In addition, it is the Bank's intent to hold most of its financial instruments to maturity and therefore it is not probable that the net fair values shown will be realised in a current transaction.

The estimated net fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments. In addition, the value of long-term relationships with depositors (core deposit intangibles) and other customers (credit card intangibles) are not reflected. The value of these items is significant.

Because of the wide range of valuation techniques and the numerous estimates which must be made, it may be difficult to make reasonable comparisons of the Bank's net fair value information with that of other financial institutions. It is important that the many uncertainties discussed above be considered when using the estimated net fair value disclosures and to realise that because of these uncertainties, the aggregate net fair value amount should in no way be construed as representative of the underlying value of the Commonwealth Bank of Australia.

| | Carrying Value Value \$M | 2001 Net Fair Value \$M | Carrying Value Value \$M | 2000 Net Fair Value \$M |
|---|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| Assets | | | | |
| Cash and liquid assets | 3,709 | 3,709 | 2,575 | 2,575 |
| Receivables due from other financial institutions | 4,622 | 4,622 | 5,154 | 5,154 |
| Trading securities | 6,909 | 6,909 | 7,347 | 7,347 |
| Investment securities | 9,705 | 9,821 | 9,149 | 9,149 |
| Loans, advances and other receivables | 136,059 | 137,004 | 132,263 | 133,257 |
| Bank acceptances of customers | 12,075 | 12,075 | 11,107 | 11,107 |
| Life insurance investment assets | 31,213 | 31,213 | 27,036 | 27,036 |
| Deposit accounts with regulatory authorities | 61 | 61 | 46 | 46 |
| Other assets | 13,876 | 14,213 | 16,198 | 16,631 |
| Liabilities | | | | |
| Deposits and other public borrowings | 117,355 | 117,862 | 112,594 | 112,993 |
| Payables due to other financial institutions | 6,903 | 6,903 | 4,633 | 4,633 |
| Bank acceptances | 12,075 | 12,075 | 11,107 | 11,107 |
| Life insurance policy liabilities | 27,029 | 27,029 | 25,282 | 25,282 |
| Debt issues | 24,484 | 25,308 | 25,275 | 25,321 |
| Bills payable and other liabilities | 13,806 | 13,940 | 11,490 | 11,646 |
| Loan Capital | 5,704 | 5,828 | 5,299 | 5,106 |
| Asset and liability hedges - unrealised gains/(losses) (Refer Note 39) | - | (213) | - | (253) |

The net fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and bank acceptances of customers

The carrying values of cash and liquid assets, receivables due from other financial institutions and bank acceptances of customers approximate their net fair value as they are short term in nature or are receivable on demand.

Securities

Trading securities are carried at net market/net fair value and investment securities have their net fair value determined based on quoted market prices, broker or dealer price quotations.

Loans, advances and other receivables

The carrying value of loans, advances and other receivables is net of general and specific provisions for doubtful debts and interest/fees reserved.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of net fair value. The net fair value for fixed rate loans was calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio plus an add-on of the average credit margin of the existing portfolio, where appropriate.

Notes to the financial statements

NOTE 48 Disclosures about Fair Value of Financial Instruments continued

The net fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

For shares in companies, the estimated net fair values are based on quoted market prices.

Life Insurance Investment Assets & Policy Liabilities

Life insurance investment assets are carried at net fair value. Life insurance policy liabilities are measured on a net present value basis. This treatment is in accordance with accounting standard AASB 1038: 'Life Insurance Business'.

Statutory deposits with central banks

In Australia, and several other countries in which the Group operates, the law requires that the Group lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. The net fair value is assumed to be equal to the carrying value as the Group is only able to continue as a going concern with the maintenance of these deposits.

All other financial assets

Included in this category are fees receivable, unrealised income, investments in associates of \$400 million (2000: \$403 million), and excess of net market value over net assets of life insurance controlled entities of \$5,136 million (2000: \$4,322 million), where the carrying amount is considered to be a reasonable estimate of net fair value.

Other financial assets are net of goodwill, future income tax benefits and prepayments/unamortised payments as these do not constitute a financial instrument.

Deposits and other public borrowings

The net fair value of non interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, is the carrying value as at 30 June. Discounted cash flow models based upon deposit type and its related maturity, were used to calculate the net fair value of other term deposits.

Short term liabilities

The carrying value of payables due to other financial institutions and bank acceptances approximate their net fair value as they are short term in nature and reprice frequently.

Debt issues and loan capital

The net fair values of debt issues and loan capital were calculated based on quoted market prices as at 30 June.

For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument was used.

All other financial liabilities

This category includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value. For liabilities which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

Other provisions including provision for dividend, income tax liability and unamortised receipts are not considered financial instruments.

Asset and liability hedges

Net fair value of asset and liability hedges is based on quoted market prices, broker or dealer price quotations.

Commitments to extend credit, letters of credit, guarantees, warranties and indemnities issued

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risk and attract fees in line with market prices for similar arrangements. They are not presently sold or traded. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. The net fair value may be represented by the present value of fees expected to be received, less associated costs. The overall level of fees involved is not material.

Other off-balance sheet financial instruments

The net fair value of trading and investment derivative contracts (foreign exchange contracts, currency swaps, exchange rate futures, currency options, forward rate agreements, interest rate swaps, interest rate futures, interest rate options), were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

The fair value of these instruments are disclosed in Note 39.

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles

The consolidated financial statements of the Group are prepared in accordance with Generally Accepted Accounting Principles in Australia ('Australian GAAP', refer Note 1) which differ in some respects from Generally Accepted Accounting Principles in the United States ('US GAAP').

The following are significant adjustments between net profit, shareholders' equity and consolidated balance sheets disclosed in these financial statements and which would be reported in accordance with US GAAP.

| | Footnote | 2001 \$M | 2000 \$M | 1999 \$M |
|---|----------|----------------|-------------|-------------|
| Consolidated Statements of Profit and Loss | | | | |
| Net profit reported under Australian GAAP | | 2,398 | 2,700 | 1,422 |
| Employee share compensation | (c) | (32) | (28) | (27) |
| Unrealised net gain on available for sale securities * | (f) | - | - | 65 |
| Pension expense adjustment * | (i) | 142 | 42 | 38 |
| Life insurance market valuation of controlled entities | (k) | (474) | (1,165) | - |
| Goodwill amortisation | (l) | (33) | (8) | (4) |
| Amortisation of identifiable intangible assets | (t) | (13) | - | - |
| Movement in value of business acquired * | (m) | (172) | (11) | - |
| Movement in policyholder liabilities * | (r) | 95 | - | - |
| Movement in deferred tax relating to policyholder liabilities * | (r) | (20) | - | - |
| Reversal of unrealised gains on life insurance property investments * | (o) | (52) | - | - |
| Movement in deferred acquisition costs * | (s) | (104) | (28) | - |
| Transitional adjustments on adoption of SFAS 133 * | (v) | (171) | - | - |
| Marked to market of derivative instruments (under SFAS 133) * | (v) | 22 | - | - |
| Net income according to US GAAP | | 1,586 | 1,502 | 1,494 |
| Other Comprehensive Income | | | | |
| Foreign currency translation reserve * | (q) | 68 | (17) | (20) |
| Pension plan * | (q) | 13 | - | - |
| Unrealised holding gains on available for sale securities * | (f) | 7 | 2 | (206) |
| Reclassification adjustment for gains/losses included in net income | (f) | (1) | (8) | (51) |
| | (q) | 6 | (6) | (257) |
| Total other comprehensive income (loss) | | 87 | (23) | (277) |
| Total comprehensive income according to US GAAP | | 1,673 | 1,479 | 1,217 |
| Basic and diluted earnings per share on net income according to US GAAP (cents) | | 125.2 | 162.0 | 161.2 |
| Shareholders' Equity | | | | |
| Shareholders' equity reported under Australian GAAP, excluding outside equity interests | | 18,393 | 17,472 | 6,735 |
| Tax effect of foreign currency translation reserve | (a) | (24) | 6 | (3) |
| Provision for final cash dividend | (d) | 765 | 708 | 472 |
| Unrealised net gain on available for sale securities * | (f) | 6 | - | 6 |
| Prepaid pension cost | (i) | 975 | 773 | 708 |
| Tax effect of prepaid pension cost | (i) | (283) | (263) | (255) |
| Life insurance market valuation of controlled entities | (k) | (2,071) | (1,597) | - |
| Amortisation of identifiable intangible assets | (t) | (13) | - | - |
| Goodwill amortisation | (l) | (45) | (12) | (4) |
| Movement in value of business acquired * | (m) | (183) | (11) | - |
| Movement in deferred acquisition costs * | (s) | (132) | (28) | - |
| Equity issued for Colonial acquisition | (t) | (1,026) | (1,026) | - |
| Reversal of unrealised gain on life insurance property investments * | (o) | (52) | - | - |
| Movement in policyholder liabilities * | (r) | 95 | - | - |
| Movement in deferred tax relating to policyholder liabilities | (r) | (20) | - | - |
| Transitional adjustments on adoption of SFAS 133 * | (v) | (171) | - | - |
| Marked to market of derivative instruments (under SFAS 133) * | (v) | 22 | - | - |
| Shareholders' equity according to US GAAP | | 16,236 | 16,022 | 7,659 |

* Reconciliation items which are net of tax. The effective tax rate for 2001 is 30%.

Notes to the financial statements**NOTE 49 Differences between Australian and United States Accounting Principles continued****Consolidated Balance Sheets**

| | | | | |
|---|-----|----------------|---------|---------|
| Total assets reported under Australian GAAP | | 230,411 | 218,259 | 138,096 |
| Deferred tax assets related to differences in life insurance policyholder liabilities | (a) | 138 | 158 | - |
| Assets relating to life insurance statutory funds | (e) | - | - | 10,241 |
| Unrealised net gain(loss) on available for sale securities | (f) | 9 | - | 9 |
| Prepaid pension cost | (i) | 1,218 | 1,016 | 708 |
| Excess of net market value over net assets of life insurance controlled entities | (k) | (5,136) | (4,352) | - |
| Goodwill, net of amortisation | (l) | 605 | 278 | - |
| Value of business acquired, net of amortisation | (m) | 2,449 | 2,821 | - |
| Life insurance policy deferred acquisition costs, net of amortisation | (s) | 559 | 322 | - |
| Other identifiable intangible assets recognised, net of amortisation | (t) | 130 | 149 | - |
| Unrealised gain on life insurance property investments | (o) | (53) | - | - |
| Securitised assets | (u) | 6,378 | 2,536 | - |
| Marked to market of derivative instruments (under SFAS 133) | (v) | (879) | - | - |
| Reclassification between reinsurance receivable and policyholder liabilities | | (22) | 33 | - |
| Total assets according to US GAAP | | 235,807 | 221,220 | 149,054 |

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

(a) Income Tax

Deferred Income Tax Assets and Liabilities

Australian GAAP follows the liability method of tax-effect accounting. The tax-effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes is disclosed as a future income tax benefit (FITB) or a provision for deferred income tax. Amounts are offset where the tax payable and the realisable benefit are expected to occur in the same period. Permanent differences are differences between taxable income and pre-tax accounting profit where the related income or expense items will never be included in either taxable income or pre-tax accounting profit.

The Group has applied SFAS 109: Accounting for Income Taxes in the preparation of its US GAAP information.

The differences between the effect of applying the provisions of SFAS 109 and the accounting policy adopted in the Australian Financial Statements are as follows:

- Under Australian GAAP the criterion for recognition of timing differences is assurance beyond any reasonable doubt and for tax losses 'virtual certainty'. The recognition criterion under US GAAP is that the tax benefit is probable.
- Australian GAAP requires that an announcement of the Government's intention to change the rate of company income tax in advance of periods in which the change will occur is adequate evidence for the deferred tax balances to be restated. This treatment is not permitted under SFAS 109: Accounting for Income Taxes which requires that the deferred tax liabilities and assets be adjusted in the Financial Year in which a change in the tax rate is enacted.

Policyholder Liabilities

From 1 July 2000, the basis for taxation of income on most life insurance products changes from 'Income minus Expenditure' to 'Profit' (which includes movements in policyholder liabilities). As tax deductible policyholder liabilities under Australian tax legislation are lower than US GAAP policyholder liabilities, a deferred tax asset to recognise this timing difference is created. Financial Year 2001: \$138 million (2000: \$158 million).

Foreign Currency Translation Reserve

For US GAAP purposes, the tax effect of the foreign currency translation reserve is booked as a deferred tax liability. For Financial Year 2001, this represented a \$24 million reduction to shareholders' equity (2000: \$6 million increase; 1999: \$3 million decrease).

Investment Securities

Income from tax exempt securities does not exceed \$500,000.

Tax related to gains/losses on investment securities sales is \$1 million (2000: \$4 million, 1999: \$28 million).

(b) Pension Plans

In accordance with Australian GAAP, contributions to company sponsored defined benefit pension plans are expensed as incurred. Other than by way of a note to the financial statements, any surplus or deficit is not reflected in the consolidated accounts.

US GAAP pension expense, for defined benefit pension plans, is determined using defined methodology that is based on concepts of accrual accounting. This methodology, which requires several types of actuarial measurements, results in net amounts of expense and the related plan surplus or deficiency being recorded in the financial statements of the sponsor systematically over the working lives of the employees covered by the plan. As a result US GAAP reconciliation adjustments are required. The disclosure requirements of SFAS 87: Employers Accounting for Pensions and SFAS 132: Employers Disclosures about Pensions and Other Postretirement Benefits have been included at footnote (i) within this note.

The Group adopted SFAS 87 later than the effective date specified in the accounting standard. To introduce the information required under SFAS 87 as from the effective date was not feasible. Accordingly an allocation of the pension obligation/asset has been taken directly to equity based on the number of years elapsed between the effective date and the date of adoption by the Group. The adoption date for the purposes of the US GAAP reconciliation information is 1 July 1994 and the remaining amortisation period at the adoption date was ten years.

(c) Employee Share Compensation

In the Consolidated Statements of Changes in Shareholders' Equity the Employee Share Acquisition Plan (ESAP) share issue is shown as a reduction to shareholder reserves under Australian GAAP. Under US GAAP, SFAS 123: Accounting for Stock Based Compensation, this employee share scheme would be considered as part of employee compensation and charged to profit and loss.

The grants of shares are in respect of the Group's performance for the prior years.

Further, under US GAAP, in accordance with the Employee Share Acquisition Plan an accrual for the probable grant of shares is required. For 2001 a US GAAP adjustment of \$28 million (2000: \$25 million; 1999: \$25 million) has been included.

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

Also under US GAAP, the fair value of the options issued under the Executive Option Plan and Equity Reward Plan is included as part of employee compensation and charged to profit and loss. For 2001 a

US GAAP adjustment of \$4 million (2000: \$3 million, 1999: \$2 million) has been included.

The fair value of the options issued to date have been determined using the Black Scholes option pricing model with the assumptions outlined in the table below.

Black-Scholes Option Pricing Model Assumptions

| Option Issue Date | Fair Value | Expected Volatility | Risk Free Interest Rate | Dividend Rate | Expected Life of Options | Probability for Performance Hurdle |
|-------------------|------------|---------------------|-------------------------|---------------|--------------------------|------------------------------------|
| 16 December 1996 | \$0.45¢ | 17.5% | 6.94% | 8.18% | 39 months | 50% |
| 11 December 1997 | \$0.89¢ | 19.1% | 5.88% | 5.96% | 39 months | 50% |
| 30 September 1998 | \$1.05¢ | 19.4% | 4.79% | 5.99% | 39 months | 50% |
| 24 September 1999 | \$1.53¢ | 20.0% | 5.82% | 4.82% | 37 months | 50% |
| 13 October 2000 | \$1.53¢ | 17.9% | 6.00% | 4.41% | 37 months | 50% |

The following table outlines movements in executive options in the year ending 30 June 2001 (with a comparison to movements in the years ending 30 June 2000 and 30 June 1999) and show the number of options outstanding at date of issue.

| Movement in Executive Options during the year | 2001 | Weighted Average Exercise Price* | 2000 | Weighted Average Exercise Price* | 1999 | Weighted Average Exercise Price* |
|---|-----------|----------------------------------|-----------|----------------------------------|-----------|----------------------------------|
| Options Outstanding at the start of the year | 9,460,000 | \$20.07 | 7,541,500 | \$16.43 | 4,675,000 | \$14.05 |
| Options Granted during the year | 2,580,000 | \$26.97 | 3,855,000 | \$23.84 | 3,275,000 | \$19.58 |
| Options Forfeited during the year | 242,500 | \$22.12 | 327,500 | \$19.32 | 382,500 | \$14.66 |
| Options Exercised during the year | 2,435,000 | \$15.31 | 1,609,000 | \$12.08 | 26,000 | \$11.85 |
| Options Outstanding at the end of the year | 9,362,500 | \$23.08 | 9,460,000 | \$20.07 | 7,541,500 | \$16.43 |

* The exercise price for options granted since 1997 will be/have been adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of vesting).

| Outstanding Options at 30 June 2001 | Number | Exercise Price | Expiry Date |
|-------------------------------------|-----------|----------------|--------------|
| December 1996 Options | 50,000 | \$11.85 | 12 Nov 2001 |
| December 1997 Options | 125,000 | \$15.53 | 3 Nov 2002 |
| September 1998 Options | 2,975,000 | \$19.58 | 25 Aug 2003 |
| September 1999 Options | 3,700,000 | \$23.84 | 24 Aug 2009 |
| October 2000 Options | 2,512,500 | \$26.97 | 13 Sept 2010 |

The weighted average exercise price for options outstanding at 30 June 2001 was \$23.08.

The weighted average remaining contractual life of these options is 6 years and 5 months.

The other disclosure requirements of SFAS 123: Accounting for Stock-Based Compensation in respect of the employee share plans are included in Note 29.

(d) Provisions

The term 'provisions' is used in Australian GAAP to designate accrued expenses with no definitive payment date. Provisions, principally disclosed in Note 25 comply in all material respects with US GAAP with the exception of the provision for the final cash dividend for ordinary shares of \$765 million (Note 6), which is not formally declared until the meeting of directors shortly after the balance date.

Under US GAAP, dividends are recorded as liabilities only if formally declared prior to balance date. This difference in treatment has been amended in the US GAAP reconciliation of shareholders' equity.

The provision for restructuring costs at 30 June 2001 totals \$204 million (2000: \$485 million) (refer Notes 1, 2 and 25). This includes \$201 million (2000: \$400 million) following the acquisition of Colonial Limited in June 2000 and \$3 million in other provisioning within Colonial and Commonwealth Bank.

The Colonial restructuring costs cover the integrating of the Colonial operations into the existing Group and the rationalisation of existing delivery channels, processing and administrative functions. The total costs of restructuring has been estimated at \$545 million. These costs were in the areas of staff redundancies \$158 million, occupancy \$96 million, information technology \$161 million and other costs \$130 million. This is a revision from the estimated costs expected to be incurred as at 30 June 2000 of \$400 million. Refer Note 2 for further details on the revision to the costs.

Restructuring and integration of Colonial into the Group commenced in Financial Year 2001. As at 30 June 2001 \$344 million in costs had been incurred. These costs included redundancy and other staff payments of \$100 million, occupancy costs of \$45 million, information technology costs of \$95 million and other staff costs of \$24 million.

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

Other provisions included the pre-existing Colonial provisions (\$68 million at 30 June 2000) related to acquisitions by Colonial Limited. These provisions included the rationalisation of processes and premises and systems migration involved with the acquisition of Trust Bank, Legal and General and Prudential.

A provision for restructuring of \$200 million was booked by the Commonwealth Bank Group in the financial year ending 30 June 1998. This provision was utilised as follows: 1998: \$78 million; 1999: \$65 million; 2000: \$40 million and 2001: \$17 million.

The accounting policy adopted by the Group for restructuring provisions is detailed in Note 1 (aa).

(e) Life Insurance Controlled Entities

For Australian GAAP the assets of the statutory funds and the liabilities of the funds to its policyholders were excluded from the consolidated balance sheet (Note 1 (jj)) in Financial Years ending on or prior to 30 June 1999. An adjustment was made for this in relation to US GAAP.

As from 1 July 1999 these life insurance assets and liabilities were included on the consolidated balance sheet in compliance with new Australian Accounting Standard AASB 1038: Life Insurance Business.

For US GAAP all debt and equity security assets have been categorised as Trading Securities. All related investments are brought to account at market values.

(f) Available For-Sale Securities under US GAAP

Under Australian GAAP, only two categories of securities prevail, namely Investment and Trading Securities. Investment securities are purchased by the Bank with the intent to 'hold to maturity'.

Trading securities are purchased and held for the short term, primarily with the intention of making profits from anticipated movements in market rates.

Government securities, held in the investment securities portfolio, were sold during the 1998 Financial Year following the change in the Reserve Bank of Australia maximum holding for regulatory requirements. As a result, all Investment Securities have been reclassified as Available-for-Sale securities for the purposes of US GAAP disclosure. Any capital gain or loss realised on sale is taken to profit and loss at that time. The cost of available-for-sale securities sold is calculated on a specific identification basis.

Under US GAAP, these securities are revalued to market and the difference between carrying value and market value is taken to comprehensive income and shareholders' equity.

For Financial Year 2001 the adjustment to other Comprehensive Income and shareholders' equity is \$6 million (net of taxation). This adjustment represents the unrealised gain on investment securities net of derivatives \$9 million less taxation of \$3 million.

Trading securities under Australian GAAP include infrastructure equity securities on hand at 30 June 1998. These securities are revalued to market with the unrealised gain or loss at balance sheet date taken to profit and loss. The unrealised gain at 30 June 1998 was \$65 million. Under US GAAP these securities are classified as 'Available-for-Sale' and the unrealised gain taken to shareholders' equity rather than profit and loss. The gain was realised for US GAAP in the Financial Year ended 30 June 1999. The disclosure requirements of SFAS 115: Accounting for Certain Investments in Debt and Equity Securities in respect of available-for-sale securities have been included within Note 11.

(g) Net Profit

Under US GAAP the concept of 'operating profit' is not recognised. Net profit under Australian GAAP is operating profit after tax and after deducting outside equity interests.

In performing the US GAAP profit reconciliation, the net profit reported using Australian GAAP is after deducting goodwill amortisation and including life insurance market valuation movement in controlled entities. Refer paragraph k) for further details.

Notes to the financial statements**NOTE 49 Differences between Australian and United States Accounting Principles continued****(h) Consolidated Balance Sheet**

The following reconciliations are of significant adjustments to Australian GAAP balance sheet categories disclosed in these accounts and which would be reported in accordance with US GAAP:

| | Footnote | 2001 \$M | 2000 \$M | 1999 \$M |
|---|----------|-----------------|-------------|-------------|
| Assets | | | | |
| Loans, advances and other receivables under Australian GAAP | | 136,059 | 132,263 | 101,837 |
| Securitisation Assets | (u) | 6,353 | 2,390 | - |
| Marked to market revaluation of derivative instruments (under SFAS133) | (v) | 29 | - | - |
| According to US GAAP | | 142,441 | 134,653 | 101,837 |
| Available for sale securities under Australian GAAP | | - | - | - |
| Reclassification from investment securities | (f) | 9,705 | 9,149 | 7,187 |
| Restatement of available for sale securities to fair value | (f) | 9 | - | 9 |
| According to US GAAP | | 9,714 | 9,149 | 7,196 |
| Investment securities under Australian GAAP | | 9,705 | 9,149 | 7,187 |
| Reclassification to available for sale securities | (f) | (9,705) | (9,149) | (7,187) |
| According to US GAAP | | - | - | - |
| Trading securities under Australian GAAP | | 6,909 | 7,347 | 4,708 |
| Reclassification from life insurance investment assets | | 10,502 | 8,462 | - |
| According to US GAAP | | 17,411 | 15,809 | 4,708 |
| Life insurance investment assets under Australian GAAP | | 31,213 | 27,036 | - |
| Reclassification to trading securities | | (10,502) | (8,462) | - |
| Reclassification to real estate investment assets | (o) | (732) | (573) | - |
| Unrealised gains and depreciation adjustment | (o) | (53) | - | - |
| Reclassification of separate account business to other assets | (r) | (19,926) | (18,001) | - |
| According to US GAAP | | - | - | - |
| Real estate investments under Australian GAAP | | - | - | - |
| Reclassification from life insurance investment assets | (o) | 732 | 573 | - |
| According to US GAAP | | 732 | 573 | - |
| Intangible Assets under Australia GAAP | | 10,852 | 10,257 | 646 |
| Goodwill amortisation | (l) | (45) | (12) | (4) |
| Adjustment to equity issued on Colonial acquisition | (t) | (1,026) | (1,026) | - |
| Adjustment to policyholder liability differences | (t) | 593 | 559 | - |
| Reclassification to Value of Business Acquired | (m) | (2,786) | (2,832) | - |
| Deferred tax liability on value of business acquired | (m) | 1,256 | 1,302 | - |
| Pension fund surplus acquired | (i) | (243) | (243) | - |
| Deferred tax assets on differences in life insurance policyholder liabilities | (a) | (158) | (158) | - |
| Deferred tax liability on pension fund surplus acquired | (i) | 82 | 82 | - |
| Life insurance market valuation of controlled entities | (k) | (2,071) | (1,597) | - |
| According to US GAAP | | 6,454 | 6,332 | 642 |
| Value of Business Acquired, under Australian GAAP | | - | - | - |
| Reclassification from Goodwill | (l) | 2,786 | 2,832 | - |
| Value of Business Acquired amortisation (net of imputed interest) | (m) | (337) | (11) | - |
| According to US GAAP | | 2,449 | 2,821 | - |
| Other assets under Australian GAAP | | 13,887 | 11,849 | 8,791 |
| Deferred tax assets on differences in life insurance policyholder liabilities | (a) | 138 | 158 | - |
| Assets relating to life insurance statutory funds | (e) | - | - | 10,241 |
| Prepaid pension cost | (i) | 1,218 | 1,016 | 708 |
| Reclassification from life insurance investment assets to separate account business | (r) | 19,926 | 18,001 | - |
| Life insurance policy deferred acquisition costs, net of amortisation | (s) | 559 | 322 | - |
| Securitisation assets | (u) | 25 | 146 | - |
| Reclassification between reinsurance receivable and policyholder liabilities | | (22) | 33 | - |
| Marked to market revaluation of derivative instruments (under SFAS 133) | (v) | (972) | - | - |
| Deferred tax asset on marked to market revaluation of derivative instruments (under SFAS 133) | (v) | 64 | - | - |
| According to US GAAP | | 34,823 | 31,525 | 19,740 |

Notes to the financial statements**NOTE 49 Differences between Australian and United States Accounting Principles continued**

| | Footnote | 2001 \$M | 2000 \$M | 1999 \$M |
|--|----------|-----------------|-------------|-------------|
| Liabilities | | | | |
| Deposits and other public borrowings under Australian GAAP | | 117,355 | 112,594 | 93,428 |
| Securitisation Liabilities | (u) | 6,353 | 2,390 | - |
| Marked to market revaluation of derivative instruments (SFAS 133) | (v) | 27 | - | - |
| According to US GAAP | | 123,735 | 114,984 | 93,428 |
| Income tax liability under Australian GAAP | | 1,355 | 1,823 | 1,410 |
| Tax effect of foreign currency translation reserve | (a) | 24 | (6) | 3 |
| Deferred tax liability on unrealised gain on available for sale securities | (f) | 3 | - | 3 |
| Reclassification from life insurance policyholder liabilities | (r) | 160 | 116 | - |
| Deferred tax liability on pension income | (j) | 365 | 345 | 255 |
| Deferred tax liability on value of business acquired | (m) | 1,102 | 1,302 | - |
| Tax effect of other amortisation | | 40 | - | - |
| According to US GAAP | | 3,049 | 3,580 | 1,671 |
| Provision for dividend under Australian GAAP | | 779 | 708 | 472 |
| Reversal of provision for final cash dividend | (d) | (765) | (708) | (472) |
| According to US GAAP | | 14 | - | - |
| Bills payable and other liabilities under Australian GAAP | | 13,872 | 11,549 | 8,507 |
| Liabilities relating to life insurance statutory funds | (e) | - | - | 10,241 |
| Reclassification from life insurance policyholder liabilities to separate account business | (r) | 19,445 | 17,451 | - |
| Securitisation Liabilities | (u) | 25 | 146 | - |
| Marked to market revaluation of derivative instruments (under SFAS 133) | (v) | (933) | - | - |
| According to US GAAP | | 32,409 | 29,146 | 18,748 |
| Life insurance policyholder liabilities under Australian GAAP | | 27,029 | 25,282 | - |
| Adjustment to policyholder liability differences in acquisition | (r) | 593 | 559 | - |
| Reclassification to income tax liability | (r) | (160) | (116) | - |
| Reclassification to Other Assets of life insurance policy deferred acquisition costs | (s) | 554 | 350 | - |
| Reclassification of separate account business to other liabilities | (r) | (19,445) | (17,451) | - |
| Reclassification between reinsurance receivable and policyholder liabilities | | (22) | 33 | - |
| Movement in policyholder liabilities | | 42 | - | - |
| According to US GAAP | | 8,591 | 8,657 | - |
| Debt issues under Australian GAAP | | 24,484 | 25,275 | 10,763 |
| Marked to market revaluation of derivative instruments (SFAS 133) | (v) | 61 | - | - |
| According to US GAAP | | 24,545 | 25,275 | 10,763 |
| Loan Capital under Australian GAAP | | 5,704 | 5,299 | 4,803 |
| Marked to market revaluation of derivative instruments (SFAS 133) | (v) | 115 | - | - |
| According to US GAAP | | 5,819 | 5,299 | 4,803 |

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

i) Details of Pension Expense and Reconciliation of Funded Status of Pension Plans

The Group sponsors a range of superannuation (pension) plans for its employees world-wide.

The Group's accounting policy for superannuation expense, under Australian GAAP reporting, is set out in Note 1 (mm). The superannuation expense principally represents the annual funding, determined after having regard to actuarial advice, to provide for future obligations of defined benefit plans. Other details of the Group's major superannuation plans are set out in Note 40.

For US GAAP purposes, the Group adopted the disclosure requirement of SFAS 87: Employers' Accounting for Pensions for the major defined benefit fund, the Officers' Superannuation Fund (OSF), commencing 1 July 1994. For the Financial Year ending 30 June 1999, the Group revised its disclosures in accordance with SFAS 132: Employers' Disclosures about Pensions and Other Postretirement Benefits.

Following the acquisition of Colonial on 13 June 2000, the Group is required under SFAS 87: Employers' Accounting for Pensions to include in the Prepayment of pension costs the deficits or surpluses of the Colonial Group Staff Superannuation Scheme (CGSSS) and the Colonial UK Staff Pension Scheme (CUKSPS).

During the year, the Group provided members of the defined benefit divisions of the OSF with an opportunity to voluntarily move their superannuation to the accumulation division. This transfer offer represents both a curtailment and settlement of part of the Group's defined benefit obligations in the OSF. The Group has recognised a gain of \$143 million on settlement.

The Colonial UK life insurance business was sold in June 2000, which will result in a significant portion of the members of the CUKSPS being transferred out of this plan. So far, a curtailment of the liabilities has occurred. The Group has recognised a gain of \$7 million on curtailment. It is expected that a settlement of the liabilities will occur during the 2001/02 Financial Year. The Group has also recognised special termination benefits of \$5 million arising from the termination of employment arising from the sale of the Colonial UK life insurance business.

Other defined benefit funds are immaterial for US GAAP reconciliation purposes.

The value of the OSF's equity holding in the Group as at 30 June 2001 was \$108 million (2000: \$4 million), reflecting a change in investment policy by the OSF during Financial Year 2001, which follows a change in Australian legislation in 1999 relating to investments by related entities in shares in their parent entities. Amounts on deposit with the Bank at 30 June 2001 totalled \$62 million (2000: \$70 million; 1999: \$46 million). Other security holdings with the Group at 30 June 2001 were \$77 million (2000: \$74 million; 1999: \$40 million).

As at 30 June 2001, the value of CGSSS's equity holdings in the Bank was \$19 million (2000: \$41 million). Amounts on deposit with the Group at 30 June 2001 totalled \$2 million (2000: \$8 million). There are no other security holdings with the Group as at 30 June 2001.

The Group provides insurance cover to CGSSS with respect of its death, total and permanent disablement and temporary disablement benefits. As at 30 June 2001, the amounts of cover were \$570 million of lump sum death and total and permanent disablement benefits (2000: \$732 million) and \$87 million per annum of temporary disablement benefits (2000: \$118 million per annum).

The following table displays the elements of the net pension expense and the change in benefit obligations and fair value of assets for each Financial Year as well as the funded status as at 31 March 1999, 31 March 2000 and 31 March 2001 for the Group's major superannuation (pension) plans. The assumptions used in the calculations were a discount rate of 7% (2000: 7.50%pa, 1999: 6.25% pa), compensation increase rate of 4.25% (2000: 4.25% pa; 1999: 4.25% pa) and return on assets of 6.75% (2000: 7.10%pa; 1999: 7.50% pa).

Notes to the financial statements**NOTE 49 Differences between Australian and United States Accounting Principles continued**

| Pension plan | 2001 | 2000 | 1999 |
|---|------------------------|------------------------|--------------|
| | \$M | \$M | \$M |
| Service cost | (75) | (84) | (86) |
| Interest cost | (299) | (268) | (284) |
| Expected return on assets | 422 | 382 | 388 |
| Amortisation of transitional obligation assets | 63 | 69 | 69 |
| Recognised net gain | 12 | - | - |
| Amortisation of prior service costs | - | - | - |
| Employer financed benefits within Accumulation Division | (66) | (34) | (27) |
| Settlements and curtailment effect | 150 | - | - |
| Cost of special termination benefits | (5) | - | - |
| Net periodic pension (cost) income | 202 | 65 | 60 |
| Expensed employer contribution | (1) | - | - |
| | 203 | 65 | 60 |
| Less tax effect | (61) | (23) | (22) |
| Pension Expense Adjustment – see US GAAP reconciliation | 142 | 42 | 38 |
| Reconciliation | | | |
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | 4,081 | 4,286 | 4,364 |
| Service cost | 75 | 84 | 86 |
| Member contributions | 29 | 30 | 31 |
| Interest cost | 299 | 268 | 284 |
| Acquisitions ⁽¹⁾ | - | 483 | - |
| Benefit changes | - | - | - |
| Actuarial (gains)/losses ⁽³⁾ | 228 | (677) | 78 |
| Benefits and expenses paid | (452) | (393) | (557) |
| Curtailment and settlement effect | (888) | - | - |
| Foreign currency exchange rate movement | 14 | - | - |
| Benefit obligation at end of year | 3,386 | 4,081 | 4,286 |
| Change in fair value of assets | | | |
| Fair value of assets at beginning of year | (6,053) | (5,203) | (5,279) |
| Actual return on assets | (448) | (518) | (476) |
| Acquisition ⁽¹⁾ | - | (726) | - |
| Total contributions | (30) | (30) | (31) |
| Benefits and expenses paid | 452 | 393 | 557 |
| Employer financed benefits within Accumulation Division | 57 | 31 | 26 |
| Curtailment and settlement effect | 962 | - | - |
| Foreign currency exchange rate movement | (14) | - | - |
| Fair value of assets at end of year | (5,074) | (6,053) | (5,203) |
| Funded status at measurement date: | (1,688) | (1,972) | (917) |
| Assets not recognised: | | | |
| Transitional obligation assets | 156 | 276 | 345 |
| Unrecognised net gains/(losses) | 314 | 680 | (136) |
| Unrecognised prior service costs | - | - | - |
| Employer contribution from measurement date to balance date | - | - | - |
| Prepayment of pension costs | (1,218) ⁽²⁾ | (1,016) ⁽¹⁾ | (708) |
| Accrued benefit liability | - | - | - |
| Additional minimum liability | 19 | - | - |
| Intangible asset | - | - | - |
| Accumulated other comprehensive loss | (19) | - | - |
| Net amount recognised | (1,218) | (1,016) | (708) |

As at 31 March 2001, the Accumulated Benefits Obligation of CUKSPS exceeded the fair value of assets. The Group has recognised an additional minimum liability of \$19 million and accumulated other comprehensive income of \$19 million (net of tax \$13 million) (refer to Note 49(q) for the reporting of Comprehensive Income). The accumulated benefit obligations of CUKSPS as at 31 March 2001 was \$281 million (2000: \$278 million), the projected benefit obligations of CUKSPS was \$288 million (2000: \$285 million) and the fair value of assets of CUKSPS was \$270 million (2000: \$287 million).

Additionally, a deferred tax liability has been taken up for US GAAP reconciliation purposes in respect of the above prepayment of pension costs.

⁽¹⁾ Total pre-paid pension costs of \$1,016 million include net assets acquired on Colonial acquisition of \$243 million. As the \$243 million is adjusted in goodwill (refer Note t), the net increase in shareholders' equity (pre-tax basis) for US GAAP is \$773 million.

⁽²⁾ The increase in shareholders' equity (pre tax basis), net of the Colonial acquisition is \$975 million.

⁽³⁾ Actuarial gains/losses result from changes in discount rates.

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

(j) Employee Benefits – Post Retirement Benefits Other Than Pensions

Health Care Subsidies

The Group provides a benefit to employees including retirees who were members of the CBHS Friendly Society Limited (CBHS) as at 6 July 1995 and who met certain criteria. The benefit provided by the Group is in the form of financial assistance in respect of eligible employees and retirees with their private health insurance premium. All staff who joined the CBHS on or after 7 July 1995 are not eligible for the financial assistance benefits.

An agreement between the Group and the Finance Sector Union provides that those members of the CBHS who were retired as at 30 June 1995 receive an ongoing fixed subsidy indexed to a maximum of the movements in the Consumer Price Index whenever the members' health insurance premiums in CBHS increase. Eligible members who retired on or between 1 July 1995 and 31 July 1996 are provided with a fixed ongoing premium subsidy in accordance with their benefit category. Other than the subsidised health insurance premium, which is fully provided for, the Group does not have a post retirement health care liability.

Concessional housing loans

The Group provides housing loans at concessional interest rates to assist with private housing for staff who meet certain criteria. All staff who joined the Bank on or after 1 May 1997 are not eligible to a post retirement concessional interest rate housing loan. Except for certain staff (including executives and senior executives) whose remuneration package excludes a post retirement concessional interest rate loan, the Group provides post retirement interest concessions for retirees who joined the Bank prior to 1 May 1997 on the following basis. Staff with housing loans prior to 1 April 1997 and taken into retirement may be repaid over the remainder of the specified term of the loan. Borrowings on or after 1 April 1997 but before 1 April 2002 may be retained into retirement until 1 April 2007 at which time the concession will cease. Borrowings after 1 April 2002 may be retained into retirement for a period of five years at which time the concession will cease.

No new or additional loans are offered at concessional interest rates after retirement.

Australian GAAP Compliance

Effective 1 July 1994 the Group adopted the Australian Accounting Standard AASB 1028: Accounting for Employee Entitlements with respect to the liabilities arising from the post retirement benefits described above. AASB 1028: Accounting for Employee Entitlements specifies that employee post retirement benefit liabilities are calculated as the present value of the estimated future cash flows due to the services of employees provided up to the reporting date.

The adequacy of the full provision for employee post retirement benefits liabilities in the financial statements is determined in accordance with the requirements of AASB 1028 after considering that employee post retirement benefits carry limited risks and after obtaining actuarial advice.

US GAAP Compliance

Prior to the adoption of AASB 1028 the Group accounted for its obligation for employee entitlements substantially in accordance with SFAS 43: Accounting for Compensated Absences. Other than the disclosures discussed above, there are no US GAAP adjustments or further disclosures under SFAS 106: Employers'

Accounting for Post Retirements Other than Pensions and SFAS 132: Employers' Disclosures about Pensions and Other Postretirement Benefits.

(k) Life Insurance Market Valuation of Controlled Entities

As set out in Note 1 (jj) under Life Insurance Business, the Group adopted the requirements of AASB 1038: Life Insurance Business (AASB 1038) for the first time as from 1 July 1999. Under this Australian accounting standard controlled entities of life insurance companies are required to be valued at net market value. AASB 1038 requires the differences between the net market value of the controlled entities and the underlying net assets to be recognised as the 'excess of net market value over net assets of life insurance controlled entities ('the excess') in the consolidated financial report.

This method of accounting is not permitted under US GAAP, resulting in a reduction of net income by \$474 million (2000: \$1,165 million), shareholders equity by \$2,071 million (2000: \$1,597 million) and intangible assets by \$2,071 million (2000: \$1,597 million).

(l) Intangible Assets

Colonial Limited was acquired on 13 June 2000 (refer Note 2 and 49(t) for further details). Differences exist between the method of calculation of the cost of acquisition under Australian and US GAAP. Refer Note 49(t) for further details. Under Australian GAAP goodwill on acquisition was determined by the difference between the cost of acquisition and the fair value of net assets acquired, including the excess of net market value over net assets of life insurance controlled entities.

Under US GAAP goodwill on acquisition is determined as the difference between the cost of acquisition and the fair value of net tangible and intangible assets acquired. Also the excess of net market value over net assets of life insurance controlled entities is accounted for as goodwill. Goodwill is amortised over a 20 year period on a straight line basis.

Identifiable intangible assets acquired include Value of Business Acquired (\$2,832 million) less associated deferred tax liability (\$1,302 million) (refer Note 49 (m)) and the Colonial State Bank Core Deposits (\$149 million). The Core Deposits are being amortised on a straight line basis over 8 years.

Upon acquisition of Sovereign Limited in December 1998 (refer Note 47(e) for full details), an asset was brought to account being 'excess' market value over net assets of life insurance subsidiary of \$155 million which under US GAAP would be accounted for as goodwill.

For US GAAP this goodwill is amortised over a 20 year period on a straight line basis.

The net increase in goodwill amortisation under US GAAP is \$33 million for Financial Year 2001 (2000: \$8 million; 1999: \$4 million).

(m) Value of Business Acquired ('VOBA')

Under Australian GAAP for non-life insurance holding companies, the difference between the purchase price on acquisition and the net assets acquired represents goodwill. No separately identified intangible asset is recognised for the Value of Business Acquired ('VOBA').

However, for life insurance companies, investments in subsidiaries are valued at net market value as described in Note 1 (jj). No amortisation is required on the excess of this net market value over the net assets of the underlying controlled entities.

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

For US GAAP, prior to the assignment of the excess of purchase price over net assets acquired to goodwill, the identifiable intangible asset VOBA is recognised in the acquired entity. VOBA represents the estimated fair value of the acquired life insurance business in force and represents the portion of acquisition cost that was allocated to the value of future cash flows from insurance contracts existing at the date of acquisition. Such value is the present value of the actuarially determined projected net cash flows from the acquired insurance contracts.

VOBA is amortised over the lives of the acquired business in force in a manner consistent with amortisation of deferred policy costs for life insurance contracts and in a manner expected for funds management contracts (see Note 49 (s)). An analysis of the Colonial VOBA asset is presented below:

| | 2001 \$M | 2000 \$M |
|---|--------------|--------------|
| Opening Balance, 1 July | 1,519 | - |
| Acquisition | - | 2,832 |
| Imputed interest | 212 | - |
| Amortisation | (533) | (11) |
| Movement in deferred tax liability on value of business acquired | 149 | (1,302) |
| Closing Net Balance, 30 June | <u>1,347</u> | <u>1,519</u> |

The net movement in VOBA for Financial Year 2001 is \$172 million (2000: \$11 million). The imputed rate of interest ranges between 6% and 9% dependent upon the nature of business acquired.

The balance is estimated to be amortised over the next five years at a rate ranging from 7.5% to 15% per year.

(n) Property and Other Non-Current Asset Revaluations

Each year a review of non-current assets is performed to assess the recoverable amount of non-current assets. The 'recoverable amount test' is in accordance with the Australian accounting standard which requires future cash flows associated with non-current assets to be discounted at a rate which reflects the risk involved. With respect to the determination of the fair value of non-current assets and the recognition of losses from impairments, the requirements under Australian accounting standards and the requirements of SFAS 121: Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of are essentially the same.

Australian GAAP allows non-current assets including property, plant and equipment to be revalued upwards direct to an asset revaluation reserve. Assets with a carrying amount greater than their recoverable amount may be revalued to their recoverable amount. Impairments to asset values, where there is an amount in the revaluation reserve relating to the relevant asset class, are taken to reduce the revaluation reserve. Impairments to asset values otherwise must be recorded in the profit and loss. Any subsequent upward reversing revaluations to the same asset class are recorded as revenue in the profit and loss. With the exception of land, all revalued assets are depreciated over their assessed useful lives.

Upward revaluations of property, plant and equipment are not allowed under US GAAP, except as part of accounting for business combinations under the Purchase Method. US GAAP requires impairments of non-current assets to be recorded in the profit and loss account. Once such impairments have been recorded, subsequent recoveries to the income statement are not allowed.

A discounted cash flow methodology was used in arriving at the valuation at which the Group's property is carried. No asset writedowns were necessary in 2001, 2000 and 1999. At 30 June 2001, the asset revaluation reserve shows a balance of \$5 million (2000: nil; 1999: nil).

Any US GAAP adjustment of revalued assets to an historical cost basis would not be material in the income statement, shareholders' equity or carrying value of the property assets.

(o) Properties Held by Insurance Companies

Under Australian GAAP, properties held by insurance companies are held in the statement of financial position at net market value, that is market value less expected cost of disposal. Investment properties are valued annually by an independent valuer with changes in the value taken directly to investment income in the profit and loss statement. No depreciation is charged on investment properties. The insurance companies do not hold property other than as an investment.

Under US GAAP, such property is recorded at historical cost in the balance sheet and depreciated over its useful life – except for land which is not depreciated. Properties backing separate account business are recorded at market value.

For Financial Year 2001, the restatement under US GAAP results in a \$52 million reduction in Net Income, \$53 million reduction in assets and \$1 million reduction in liabilities.

(p) Impairment of Assets

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. No adjustment is required in the US GAAP reconciliation as the estimated fair value of the impaired loans is not materially different from the carrying value as at 30 June 2001.

(q) Comprehensive Income

SFAS 130: Reporting Comprehensive Income is applicable to the Financial Year ending 30 June 1999. The Statement requires the classification of items of other comprehensive income by their nature and the display of other comprehensive income separately from retained earnings and shareholders equity.

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

Accumulated Other Comprehensive Income Balances

| | 2001 \$M | 2000 \$M | 1999 \$M |
|--|-------------|-------------|-------------|
| Foreign currency translation reserve | | | |
| Balance at beginning of Financial Year | (11) | 6 | 26 |
| Foreign currency translation adjustment net of tax expense | 68 | (17) | (20) |
| Balance at end of Financial Year | 57 | (11) | 6 |
| Available for Sale securities | | | |
| Balance at beginning of Financial Year | - | 6 | 263 |
| Change in fair value of available for sale securities | 6 | (6) | (257) |
| Balance at end of Financial Year | 6 | - | 6 |
| Pension Plans | | | |
| Balance at beginning of Financial Year | - | - | - |
| Adjustment to net assets in UK Pension Plan - net of tax expense | 13 | - | - |
| Balance at end of Financial Year | 13 | - | - |
| Total Other Comprehensive Income | 76 | (11) | 12 |

(r) Life Insurance

Australian GAAP establishes standards and principles applicable to Australian life insurance companies, including a methodology for calculating policy liabilities known as Margin On Services ('MoS').

Under MoS, Policy Liabilities are based on best estimate assumptions which are reviewed at each valuation date. Policy Liabilities are made up of two components, the Best Estimate Liabilities and Future Profit Margins.

Best Estimate Liabilities represent the present value of future payments to policyholders and related expenses less the present value of future gross premiums.

Future Profit Margins represent the present value of estimated future profits. These are determined by dividing the estimated present value of profits expected to be earned at the inception of the contract by the present value of 'profit carriers' that are indicative of the underlying nature of the services provided to policyholders. The resulting margins are recognised in earnings based on the amount of the specific profit carrier (e.g. claims paid, investment income, policy charges, etc).

If during the process of valuing the policy liabilities, it is found that future profits are negative (i.e. the policy is in a loss position), then:

- (i) the profit margin is set to zero; and
- (ii) all future losses are recognised immediately.

If expectations change in the future, it is possible to reverse capitalised losses and re-establish profit margins. This is explained in more detail in Note 1 (jj).

US GAAP applies two standards (a third, SFAS 120, is not relevant) to policies written by the Group's life insurance companies:

- (i) SFAS 60: Accounting and Reporting by Insurance Enterprises applies to products such as traditional whole of life, certain endowment contracts, life contingent annuity contracts, term insurance, disability income protection and group life.

Under SFAS 60, policy liabilities, which represent the present value of future benefits to be paid to or on behalf of policy owners and related expenses less the present value of future net premiums, shall be estimated using methods that include assumptions, such as estimates of expected investment yields, mortality, morbidity, terminations and expenses, applicable at the time the insurance contracts are made.

These assumptions are 'locked-in' at inception for all future valuations – except in specific circumstances such as loss recognition.

The assumptions used for SFAS 60 are based on a best estimate of expected long-term experience together with provisions for adverse deviation ('PADs').

The policyholder liability and the amount of deferred acquisition costs are regularly tested using best estimate assumptions to assess recoverability which could result in the writedown of deferred acquisition costs or an increase in the policyholder liabilities.

- (ii) SFAS 97: Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realised Gains and Losses from the Sale of Investments covers investment contracts and universal life policies, such as unit-linked and investment account policies.

Under SFAS 97, the liability is set equal to:

- (a) the balance that accrues to the benefit of the policyholder at the date of the financial statements;
 - (b) any amortised unearned revenue; and
 - (c) amounts refundable to policyholders on termination.
- Assumptions are generally updated at each valuation and do not include any PADs.

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

The company operates separate account business. Such accounts represent assets and liabilities that are maintained by the company for purposes of funding superannuation (pension) funds and other investment type activities. The accounts represent policyholder directed funds that are separately administered. The assets and the liabilities of each account are clearly identifiable and distinguishable from other assets and liabilities of the company. The policyholder generally assumes the investment risk and investment income accrue directly to the policyholders and, therefore, are not included in the company's statement of financial performance. The company receives a fee for investment management, certain administrative expenses, and mortality and expense risks assumed. Fee revenue from these products is recognised when due.

Investments in separate accounts supporting unit-linked contracts are reported at market value. Separate account liabilities represent the policyholders' claim to the related assets and are carried at the fair value of the investments. Separate account assets and liabilities are reported as summary totals in the statement of financial position. Such totals are disclosed in Notes 16 and 34.

For Financial Year 2001 the US GAAP adjustment resulted in an increase (net of taxation) of \$75 million in Net Income.

(s) Deferred Acquisition Costs ('DAC') – Expenses of Acquiring Life Insurance, Investment and Related Contracts

Under Australian GAAP, acquisition costs relate to the fixed and variable costs incurred in acquiring specific insurance policies, and include commissions and similar distribution costs and costs of accepting, issuing and initially recording policies.

Under Australian GAAP, acquisition costs are:

- (i) deferrable; and
- (ii) systematically amortised as part of the calculation of the policy liability

This is recognised as reductions in the Australian GAAP policyholder liabilities rather than as explicit assets. Movements in the DAC assets are not reported separately in the statement of financial performance; rather, they are reported as a component of the movement in policyholder liabilities under Australian GAAP.

The definition of acquisition costs is wider under Australian GAAP than under US GAAP. Under US GAAP only those costs that vary with, and are primarily related to, the production of new and renewal business (acquisition costs), are capitalised.

Under US GAAP, these DAC assets are amortised to expense in proportion to different measures, depending on the type of policy.

For policies accounted for under SFAS 60, these costs are amortised in proportion to premium revenue recognised. Amortisation assumptions relating to DAC assets for SFAS 60 policyholder liabilities, are 'locked-in' for all future valuations – except in specific circumstances such as loss recognition.

For policies accounted for under SFAS 97 these costs are amortised at a rate based on the present value of estimated gross profits expected to be realised over the life of the contracts. The DAC asset and related amortisation is updated at every reporting date, based upon the gross profits recognised and expectations of future gross profits. DAC assets are written off to the extent it is determined that future policy premiums and investment income are not adequate to cover related losses and expenses.

Under US GAAP, amortisation of the DAC assets are reported separately from changes in policyholder liabilities in the statement of financial performance.

DAC is reported as an asset in the statement of financial position rather than offset against policyholder liabilities under US GAAP. However, no DAC was recorded upon the initial purchase of Colonial Limited.

The net adjustment of DAC to Net Income of \$104 million in Financial Year 2001 is comprised of:

| | \$M |
|---|--------------|
| Difference in deferral of new business acquisition expenses | (125) |
| Difference in amortisation of acquisition expenses | 4 |
| Tax effect of differences in acquisition expense treatment | 17 |
| | <u>(104)</u> |

Movement in DAC balance during Financial Year 2001.

| | 2001 \$M |
|--------------------------------------|-------------|
| Opening Balance, 1 July | 317 |
| Acquisition costs for the year | 281 |
| Amortisation of DAC/Imputed interest | <u>(39)</u> |
| Net movement | 242 |
| Closing Balance, 30 June | <u>559</u> |

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

(t) Colonial Acquisition

Purchase GAAP accounting has been applied in the acquisition of Colonial

| | 2001 \$M | Revision ⁽⁵⁾ \$M | 2000 \$M |
|--|-------------|--------------------------------|-------------|
| Cost of acquisition under Australian GAAP (Note 1A) | 9,120 | - | 9,120 |
| Less 351,409,450 new Commonwealth Bank shares @ \$26.39 ⁽¹⁾ | (9,274) | - | (9,274) |
| Add 351,409,450 shares @ \$23.47 ⁽²⁾ | 8,248 | - | 8,248 |
| Revised cost of acquisition under US GAAP | 8,094 | - | 8,094 |
| Fair Value of net tangible assets acquired: | | | |
| Net tangible assets under Australian GAAP | 910 | (238) ⁽⁵⁾ | 1,148 |
| Pension fund surplus | 243 | - | 243 |
| Differences in life insurance policyholder liabilities | (559) | - | (559) |
| Differences in deferred taxes | 76 | - | 76 |
| Net tangible assets under US GAAP | 670 | (238) | 908 |
| Intangible Assets on acquisition under US GAAP | 7,424 | (238) | 7,186 |
| Intangible assets acquired on Colonial Acquisition: | | | |
| Identifiable intangible assets ⁽³⁾ | 1,917 | 238 | 1,917 |
| Goodwill (unidentifiable intangible assets) ⁽⁴⁾ | 5,507 | 238 | 5,269 |
| | 7,424 | 238 | 7,186 |

There is no material difference (between Australian and US GAAP) in the amortisation of intangibles for the Financial Year ending 30 June 2000 in respect of the Colonial acquisition.

⁽¹⁾ Price calculated under Australian GAAP based on the weighted average share price on the acquisition date, 13 June 2000.

⁽²⁾ Under US GAAP price calculated as weighted average closing price for the two days either side of the announcement date (10 March 2000). Non trading days were excluded from the calculation. Value of equity issued for Colonial acquisition under US GAAP accounting is reduced by \$1,026 million.

⁽³⁾ Includes Colonial State Bank Core Deposits (\$149 million) which is to be amortised on a straightline basis over 8 years and Value of Business Acquired (VOBA) net of associated deferred tax liability \$1,530 million (refer Note 49

(m) for amortisation details). The carrying value of the core deposits at 30 June 2001 is \$130 million, net of amortisation.

⁽⁴⁾ Goodwill on acquisition under US GAAP includes the excess of net market value over net assets of life insurance controlled entities. Goodwill is amortised on a straight line basis over 20 years.

⁽⁵⁾ Revisions in respect of fair value adjustments and restructuring costs associated with the Colonial acquisition. Fair value (\$151 million) and restructuring cost (\$87 million) adjustments were made during Financial Year 2001. Refer Note 2 Acquisition of Colonial for further details.

(u) Securitisation of Assets

During the Financial Years 2000 and 2001, the Group securitised mortgage loans to a special purpose entity (SPE). Under Australian GAAP these loans are removed from the balance sheet. For US GAAP a SPE must meet specific requirements to qualify as a qualifying SPE to allow securitised loans to be removed from the balance sheet. The securitisation vehicle did not satisfy the criteria for a qualifying SPE and accordingly, these loans amounting to \$6,378 million (2000:\$2,536 million) have been included in the Group's balance sheet at 30 June 2001 and a corresponding liability raised. There is no material impact on profit of the Group attributable to these loans.

(v) Derivative Instruments and Hedging Activities

SFAS 133: Accounting for Derivative Instruments and Hedging Activities was issued in June 1998 and subsequently, SFAS 138: Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133 was issued in June 2000. These statements are applicable to the Group from 1 July 2000. The statements require all derivatives to be recorded on the balance sheet at their fair value. The treatment of the change in the fair value of derivatives is recorded in Net Income or Other Comprehensive Income depending on the classification

of the derivative transaction. Note 39, Market Risk outlines the Group's market risk policy specifying the purpose of derivative activity and the risks being hedged. Note 1 (gg), Summary of Significant Accounting Policies, outlines the accounting recognition of derivatives under Australian GAAP.

Under US GAAP, derivative hedges of debt issues and available for sale securities of the Group, that are highly effective, qualify for hedge accounting and have been classified as fair value hedges. The change in the fair value of the derivative hedge offsets the change in the fair value of the debt issue or available for sale security being hedged. The gain or loss on the derivative and the offsetting loss or gain in the fair value of the debt issue or available for sale security being hedged, are recognised immediately in Net Income in the same accounting period for US GAAP purposes. The change in fair value of the derivative hedge is recognised as an asset or liability in Other Assets or Other Liabilities respectively. The change in the fair value of the debt issue or available for sale security being hedged is recognised as part of the carrying value of debt issues or available for sale securities. The risk characteristics of debt issues and available for sale securities are perfectly matched under the hedge, and effectiveness is evaluated on a retrospective and prospective basis. There is no ineffectiveness in these hedges.

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

(v) Derivative Instruments and Hedging Activities continued

Certain of the Group's derivative instruments that are classified as hedges under Australian GAAP do not meet the required specific hedge criteria set out in SFAS 133 and have been measured at their fair value for US GAAP purposes. Changes in fair value of these derivatives have been recognised in Net Income, and as assets or liabilities in Other Assets or Other Liabilities respectively. The Group does not have any cash flow hedges.

All other derivatives of the Group are held for trading purposes and are recorded at their fair value with changes in their fair value recognised immediately in Net Income.

SFAS 133 and 138 have been fully applied for the financial year ending 30 June 2001. The financial impact of the statements decreased Net Income after tax by \$149 million. Balance sheet derivatives and underlying assets and liabilities decreased by \$879 million and \$730 million respectively. The cumulative effect in Net Income of changes in accounting principle on application of these statements is a charge of \$171 million after tax.

For Australian GAAP reporting, the Group will continue to apply hedge accounting principles as adopted for the year ended 30 June 2001.

(w) Collateral on Transfer of Assets

The Group conducts collateral arrangements with counterparties covering a range of specified transactions. Collateral arrangements are activated upon predetermined thresholds being exceeded. A range of specified assets may be received or provided as collateral.

Securities to the value of \$300 million (2000:\$590 million; 1999:\$590 million) have been mortgaged to secure the Group's performance under certain transaction provisions.

(x) Newly Issued Statements of the Financial Accounting Standards Board

In June 2001, the FASB issued Statements of Financial Accounting Standards (SFAS) 141, 'Business Combinations' and 142, 'Goodwill and Other Intangible Assets'. Under the new rules, goodwill and indefinite lived intangible assets are no longer amortised but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortised over their useful lives. The amortisation provisions of SFAS 142 apply to goodwill and intangible assets acquired after 30 June 2001. With respect to goodwill and intangible assets acquired prior to 1 July 2001, the Group will apply the new accounting rules in the financial year beginning 1 July 2002.

If the above US statements had been applied for the Financial Year 2001, it is estimated the impact would have increased profit after tax by approximately \$350 million.

For Australian GAAP reporting goodwill will continue to be amortised on a straight line basis over a period not exceeding 20 years.

(y) Newly Issued Australian Standards

The Australian Accounting Standards Board (AASB) has issued AASB 1042: Discontinued Operations. This standard is not applicable to the Financial Year ending 30 June 2001. In addition the AASB has revised AASB 1020: Income Tax. This revised standard is not applicable to the Financial Year ending 30 June 2001. The Group does not believe these standards would materially impact the financial position and results of operation if they were applicable at 30 June 2001.

(z) Pro Forma Information Relating to the Acquisition of Colonial Limited

The following pro forma financial information presents the results of operations of the consolidated Group as if the acquisition had taken place on 1 July 1998. No adjustments have been made for inconsistencies in accounting policies between Colonial Limited and Commonwealth Bank of Australia.

| | 2000 \$M (except per share amount) | 1999 \$M (except per share amount) |
|--|--|--|
| Group total net operating income | 8,710 | 7,799 |
| Net Income | 1,420 | 1,359 |
| Earnings per share after abnormal items (cents) ⁽¹⁾ | 113 | 108 |

⁽¹⁾ 2000 and 1999 earnings per share have been calculated using the number of shares on hand at 30 June 2000.

The pro forma consolidated financial information is based upon certain assumptions and estimates, and does not reflect any benefit from economies which might be achieved from the combined operations.

Accordingly, the pro forma results do not necessarily represent results which would have occurred if the acquisition had taken place on the assumed date, nor are they indicative of the expected results of future combined operations.

Independent Audit Report

To the members of Commonwealth Bank of Australia

Scope

We have audited the financial report of Commonwealth Bank of Australia for the Financial Year ended 30 June 2001, as set out on pages 57 to 171. The financial report includes the financial statements of Commonwealth Bank of Australia and the consolidated financial statements of the Group comprising the Bank and the entities it controlled at year's end or from time to time during the Financial Year. The Bank's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Bank.

Our audit has been conducted in accordance with Australian and United States Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements as applicable in Australia, so as to present a view which is consistent with our understanding of the Bank's and the Group's financial position and performance as represented by the results of their operations and their cash flows.

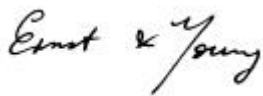
The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Commonwealth Bank of Australia is in accordance with:

- (a) the Corporations Law including:
 - (i) giving a true and fair view of the Bank's and the Group's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States. The application of the United States principles would have affected the determination of consolidated net income for each of the years in the three year period ended 30 June 2001 and the determination of consolidated financial position as at 30 June 2001 and 2000 to the extent summarised in Note 49 to the financial report.



ERNST & YOUNG
Sydney

S C Van Gorp
Partner

Date: 22 August 2001, except for Note 49 as to which the date is 15 November 2001

Shareholding Information

Top 20 Holders of Fully Paid Ordinary Shares as at 13 August 2001

| Rank | Name of Holder | Number of Shares | % |
|------|---|------------------|-------|
| 1 | Chase Manhattan Nominees Ltd | 129,777,812 | 10.45 |
| 2 | National Nominees Limited | 80,523,978 | 6.48 |
| 3 | Westpac Custodian Nominees | 73,994,459 | 5.96 |
| 4 | Citicorp Nominees Pty Ltd | 50,715,679 | 4.08 |
| 5 | AMP Life Limited | 20,369,781 | 1.64 |
| 6 | Commonwealth Custodial Services Limited | 19,138,005 | 1.54 |
| 7 | Queensland Investment Corporation Limited | 18,463,831 | 1.49 |
| 8 | ANZ Nominees Limited | 16,207,140 | 1.31 |
| 9 | Perpetual Trustees Victoria Limited | 14,756,414 | 1.19 |
| 10 | Cogent Nominees Pty Limited | 10,388,093 | 0.84 |
| 11 | BT Custodial Services Pty Ltd | 9,639,985 | 0.78 |
| 12 | RBC Global Services Australia | 9,597,704 | 0.77 |
| 13 | Colonial Foundation Limited | 8,598,418 | 0.69 |
| 14 | HKBA Nominees Ltd | 8,302,854 | 0.67 |
| 15 | MLC Limited | 4,930,606 | 0.40 |
| 16 | The National Mutual Life Association of Australasia Limited | 4,871,680 | 0.39 |
| 17 | Perpetual Nominees Limited | 4,832,725 | 0.39 |
| 18 | NRMA Nominees Pty Limited | 4,780,281 | 0.38 |
| 19 | Perpetual Trustees Nominees Limited | 4,616,911 | 0.37 |
| 20 | CSS & PSS Board | 4,485,838 | 0.36 |

The twenty largest shareholders hold 498,992,194 shares which is equal to 40.18% of the total shares on issue.

Stock Exchange Listing

The shares of the Commonwealth Bank of Australia are listed on the Australian Stock Exchange under the trade symbol CBA, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers, generally under the abbreviation of CBA or C'wealth Bank. The Bank does not have a current

on-market buy-back of its shares, although during the 2001 Financial Year, the Bank conducted an off-market buy-back of \$700 million of ordinary shares and an on-market buy-back of \$23 million for a total of 25.9 million shares.

Directors Shareholdings as at 22 August 2001

| | Shares | Options |
|-----------------|--------|-----------|
| J T Ralph, AC | 12,674 | |
| J M Schubert | 7,478 | |
| D V Murray | 44,372 | 1,500,000 |
| N R Adler, AO | 6,973 | |
| R J Clairs, AO | 10,482 | |
| A B Daniels OAM | 12,741 | |
| C R Galbraith | 4,524 | |
| W G Kent AO | 6,703 | |
| F D Ryan | 4,482 | |
| F J Swan | 2,225 | |
| B K Ward | 2,405 | |

Guidelines for Dealings by Directors in Shares

The restrictions imposed by law on dealings by Directors in the securities of the Bank have been supplemented by the Board of Directors adopting guidelines which further limit any such dealings by Directors, their spouses, any dependent child, family company and family trust. The guidelines provide that in addition to the general requirement that Directors not deal in the securities of the Bank or any related company when they have or may be perceived as having relevant unpublished price sensitive information, Directors are only permitted to deal in the securities of the Bank within certain periods. Further, the guidelines require that Directors not deal in the securities of the Bank on the basis of considerations of a short term nature or to the extent of trading in those securities.

Senior Management Shareholdings

No member of the senior management of the Group, as listed on pages 177 and 178 beneficially owns 1% or more of ordinary shares in the Bank.

Shareholding Information

Range of Shares (Fully Paid Ordinary Shares and Employee Shares): 13 August 2001

| Range | Number of Shareholders | Percentage Shareholders | Number of Shares | Percentage Issued Capital |
|--------------------------------------|------------------------|-------------------------|------------------|---------------------------|
| 1-1,000 | 566,229 | 78.84 | 186,516,233 | 15.00 |
| 1,001-5,000 | 134,969 | 18.79 | 269,094,091 | 21.63 |
| 5,001-10,000 | 11,668 | 1.62 | 80,473,001 | 6.47 |
| 10,001-100,000 | 4,997 | 0.70 | 100,473,763 | 8.07 |
| 100,001-Over | 300 | 0.05 | 607,458,367 | 48.83 |
| Total | 718,163 | 100.00 | 1,244,015,455 | 100.00 |
| Less than marketable parcel of \$500 | 13,928 | | 78,451 | |

Voting Rights

Under the Bank's Constitution, each member present at a general meeting of the Bank in person or by proxy, attorney or official representative is entitled:

- on a show of hands – to one vote; and
- on a poll – to one vote for each share held or represented.

If more than one proxy, attorney or official representative is present for a member:

- none of them is entitled to a vote on a show of hands; and
- the vote of each one on a poll is of no effect unless each is appointed to represent a specified proportion of the member's voting rights, not exceeding in aggregate 100%.

Major Shareholder

The Bank is not directly or indirectly owned or controlled by another corporation or any foreign government. At 30 June 2001 there is no person who is known to the Bank to be the beneficial owner of more than 5% of the Bank's Ordinary Shares. There has been no change in this position over the previous three Financial Years. There are no arrangements known to the Bank, the operation of which may offer the date of this report result in a change in control of the Company.

Until recently, under the Banking Act and the Bank's Constitution, the Commonwealth has had a special relationship with the Bank and was required to hold a minimum of 50.1% of the total voting rights of Ordinary

Shares in the Bank. In May 1995, the Commonwealth announced its intention to sell the Commonwealth's remaining 50.4% shareholding, and necessary amendments to the Banking Act were enacted in December 1995. As part of the sale process, which was completed in July 1996, the non-Government shareholders agreed on 14 May 1996 to permit the Bank to purchase from the Commonwealth approximately \$1 billion of its Ordinary Shares held by the Commonwealth.

The sale of the remainder of the Commonwealth's shareholding included the global offering of 399,103,979 of the Bank's shares in the form of 'Instalment Receipts'.

The Instalment Receipts evidenced full beneficial ownership in an ordinary share in the Bank. The final price for the global offering was set by the Commonwealth at \$10.45 per share which was payable in two instalments of \$6.00 and \$4.45 on 22 July 1996 and 14 November 1997, respectively.

The Bank's Ordinary Shares are listed on the Australian Stock Exchange. In addition, the Bank established in 1996 a Rule 144A American Depositary Receipt program ('Restricted ADR Program') in the United States in relation to Ordinary Shares purchased in the Rule 144A Offering in the United States conducted as part of the global offering of the Commonwealth's remaining shareholding in 1996. American Depositary Shares ('ADSs') issued pursuant to the Restricted ADR Program each represent the right to receive three Ordinary Shares.

The Offer and Listing

The Bank's Ordinary Shares are listed on the ASX. Trading of the Ordinary Shares on the ASX commenced on 9 September 1991.

The table below sets forth, for the calendar periods indicated, high and low closing prices and average daily trading volumes for the Ordinary Shares as reported by the ASX.

| Period | High Closing Price | Low Closing Price | Average Daily Trading Volume (Number of Shares) |
|------------------------|--------------------|-------------------|--|
| Ordinary Shares | | | |
| 1997 | 17.69 | 14.90 | 1,826,662 |
| 1998 | 23.16 | 18.50 | 1,715,511 |
| 1999 | 28.69 | 22.15 | 1,709,873 |
| 2000 | | | |
| First Quarter | 27.15 | 22.54 | 1,959,005 |
| Second Quarter | 27.95 | 23.00 | 3,229,607 |
| Third Quarter | 29.84 | 26.25 | 2,376,714 |
| Fourth Quarter | 32.08 | 27.44 | 2,513,554 |
| 2001 | | | |
| First Quarter | 32.07 | 27.60 | 3,238,825 |
| Second Quarter | 34.15 | 28.12 | 3,560,875 |
| Third Quarter | | | |
| May | 31.20 | 28.35 | 2,774,801 |
| June | 34.15 | 31.02 | 3,966,546 |
| July | 32.61 | 29.50 | 3,752,541 |
| August | 31.60 | 29.35 | 3,710,963 |
| September | 29.82 | 25.14 | 3,344,193 |
| October | 29.80 | 26.94 | 3,095,652 |

On 13 November 2001, the last sale price of the Ordinary Shares as reported on the ASX was \$30.62 per Share. The Bank's total market capitalisation was \$38,340 million.

Stamp duty will arise on the sale or transfer of Ordinary Shares in Australia. Where the transaction is processed through the ASX by a broker, the rate generally will be 0.15% for the seller and 0.15% for the buyer. The rate generally will be 0.3% payable by the buyer for off-market transfers. (Minimum amount payable is \$20 for companies incorporated in the ACT.)

The Bank maintains a restricted Rule 144A American Depositary Receipt ('ADR') program in the United States evidencing American Depositary Shares ('ADSs'), representing ordinary shares, for which The Bank of New York acts as depositary bank. The ratio of Ordinary Shares per 'ADS' is 3:1. Because the ADSs are not publicly listed or traded it is not possible to provide accurate market price information with respect to the ADSs.

On 30 June 2001, there were 583 shareholders with declared addresses in the United States holding 350,249 Ordinary Shares and 1 holder (a nominee company) of ADRs within the United States holding 53,571 ADRs representing ordinary shares. In addition, there are a number of United States shareholders who hold beneficial ownership in Ordinary Shares through nominee companies located outside the United States.

Shareholding Information

Top 20 Holders of Preferred Exchangeable Resettable Listed Shares (PERLS) as at 13 August 2001

| Rank | Name of Holder | Number of Shares | % |
|------|---|------------------|------|
| 1 | Commonwealth Life Limited | 200,000 | 5.71 |
| 2 | The National Mutual Life Association of Australia | 131,650 | 3.76 |
| 3 | Commonwealth Custodial Services Limited | 92,591 | 2.65 |
| 4 | Dervat Nominees Pty Ltd | 84,300 | 2.41 |
| 5 | AMP Life Limited | 80,000 | 2.29 |
| 6 | INVIA Custodian Pty Limited | 67,000 | 1.51 |
| 7 | National Mutual Funds Management | 60,000 | 1.71 |
| 8 | UBS Warburg Private Clients Nominees Pty Ltd | 52,749 | 1.51 |
| 9 | Citicorp Nominees Pty Limited | 42,000 | 1.20 |
| 10 | National Nominees Limited | 41,352 | 1.18 |
| 11 | Perpetual Trustee Company Ltd | 36,762 | 1.05 |
| 12 | ANZ Executors and Trustee Company Limited | 36,073 | 1.03 |
| 13 | Austrust Limited | 34,891 | 1.00 |
| 14 | Perpetual Nominees Limited | 31,440 | 0.90 |
| 15 | Boxall Marine Pty Limited | 25,000 | 0.71 |
| 16 | Questor Financial Services Limited | 19,238 | 0.55 |
| 17 | Flight Centre Limited | 15,000 | 0.43 |
| 18 | Livingstone Investments (NSW) Pty Limited | 15,000 | 0.43 |
| 19 | Brencorp No. 2 Pty Limited | 14,134 | 0.40 |
| 20 | Ms. Thelma Joan Martin-Weber | 12,500 | 0.36 |

The twenty largest shareholders hold 1,091,680 shares which is equal to 30.79% of the total shares on issue.

Stock Exchange Listing

Commonwealth Bank PERLS are listed on the Australian Stock Exchange under the trade symbol CBAPA, with Sydney being the home exchange. Details

of trading activity are published in most daily newspapers, generally under the abbreviation of CBA or C'wealth Bank (pref).

Range of Shares (PERLS): 13 August 2001

The twenty largest shareholders hold 1,019,071 shares which is equal to 29.11% of the total shares on issue.

| Range | Number of Shareholders | Percentage Shareholders | Number of Shares | Percentage Issued Capital |
|--------------------------------------|------------------------|-------------------------|------------------|---------------------------|
| 1-1,000 | 19,440 | 98.73 | 1,764,548 | 50.41 |
| 1,001-5,000 | 199 | 1.01 | 432,255 | 12.35 |
| 5,001-10,000 | 26 | 0.13 | 207,062 | 5.92 |
| 10,001-100,000 | 24 | 0.12 | 764,485 | 21.84 |
| 100,001-Over | 2 | 0.01 | 331,650 | 9.48 |
| Total | 19,691 | 100.00 | 3,500,000 | 100.00 |
| Less than marketable parcel of \$500 | 22 | | 201 | |

Voting Rights

The holders of PERLS will be entitled to receive notice of any general meeting of the Bank and a copy of every circular or other like document sent out by the Bank to ordinary shareholders and to attend any general meeting of the Bank.

The holders of PERLS will not be entitled to vote at a general meeting of the Bank except in the following circumstances:

- if at the time of the meeting, a dividend has been declared but has not been paid in full by the relevant payment date;
- on a proposal to reduce the Bank's share capital;
- on a resolution to approve the terms of a buy-back agreement;
- on a proposal that affects rights attached to Commonwealth Bank PERLS;
- on a proposal to wind up the Bank;
- on a proposal for the disposal of the whole of the Bank's property, business and undertaking;
- during the winding up of the Bank; or
- as otherwise required under the Listing Rules from time to time, in which case the holders will have the same rights as to manner of attendance and as to voting in respect of each Commonwealth Bank PERLS as those conferred on ordinary shareholders in respect of each ordinary share.

At a general meeting of the Bank, holders of PERLS are entitled:

- on a show of hands, to exercise one vote when entitled to vote in respect of the matters listed above; and
- on a poll, to one vote for each Commonwealth Bank PERLS.

Directors and Senior Management

The business of the Bank is managed by a Board of Directors presently consisting of 11 Directors who, except for the Managing Director, are elected on a rotating basis. At each annual general meeting of the Bank's shareholders, one-third of the Directors, excluding the Managing Director, retire and are eligible for re-election.

The Board of Directors oversees the Bank's operation both directly and through its committees.

The members of the Board of Directors and executives who are members of the Senior Executive Committee as at 30 June 2001 are as follows:

| Board of Directors | | | |
|--------------------|-----|-------------------|----------------|
| Name | Age | Position | Director Since |
| J T Ralph, AC | 68 | Chairman | 1985 |
| J M Schubert | 58 | Director | 1991 |
| D V Murray | 52 | Managing Director | 1992 |
| N R Adler, AO | 56 | Director | 1990 |
| R J Clairs, AO | 63 | Director | 1999 |
| A B Daniels OAM | 66 | Director | 2000 |
| C R Galbraith | 53 | Director | 2000 |
| W G Kent, AO | 65 | Director | 2000 |
| F D Ryan | 58 | Director | 2000 |
| F J Swan | 60 | Director | 1997 |
| B K Ward | 47 | Director | 1994 |

Senior Management

Adrian Cosenza

Head of European Banking, Mr Cosenza joined the Group in 1981 and was appointed to the Head of European Banking in 2000. Prior to this role his previous roles in the Group included General Manager, Personal Customers and General Manager Financing Products.

With 20 years experience in the Commonwealth Bank, Mr Cosenza has also been involved in capital markets, corporate finance, acquisitions, business systems, distribution, marketing, strategy, policy and retail service delivery.

He holds an MBA from the Institute of Management Development Lausanne, Switzerland, Master of Commerce (Finance and Treasury) and Bachelor of Commerce from the University of New South Wales. Age 40.

Les Cupper

Les Cupper joined the Commonwealth Bank in 1996. He heads the Bank's Group Human Resources unit responsible for the Group's human resource and corporate relations function.

Prior to joining the Bank, Mr Cupper held a number of roles with CRA Ltd for 12 years.

Previous to these roles, Mr Cupper held a number of academic appointments in lecturing and research with universities in Australia, the UK and USA in employee relations, management and union education. He has an Honours degree in Economics and Politics and a Masters in Education (Industrial Law). Age 52.

Michael Katz

Head of Institutional Banking – Joined the Group in 1993.

Prior to joining the Bank Mr Katz held positions with Morgan Stanley, Citicorp in Geneva, Switzerland and worked as a faculty associate at the International Management Institute in Geneva.

He holds a B.Com (Hons) from the University of New South Wales. Age 49.

Gail Kelly

Head of Customer Service Division, Ms Kelly joined the Group in 1997 and was appointed to her current position in 2000.

Prior to this appointment Ms Kelly was General Manager, Strategic Marketing. Before joining the Group Gail was employed by Nedcor Bank, one of the four major banks in South Africa. At Nedcor Bank Gail held a number of General Management positions including General Manager Cards, General Manager Products and Head of People Bank.

Ms Kelly holds a Higher Diploma of Education as well as a Bachelor of Arts and Master of Business Administration. Age 45.

Garry Mackrell

Appointed to the Head of International Financial Services in September 2001.

Mr Mackrell joined the Group in 1973. Prior to this appointment he has held senior positions within the Group including Head of the CEO Office and Group Planning and Development, Chief Manager Treasury Management, Deputy Regional Manager, Americas and Head of Financial Markets Distribution, Institutional Banking.

Mr Mackrell has a Bachelor of Science, a Bachelor of Economics (Hons) and a Master of Commerce degree. Age 52.

John Mulcahy

Head of Australian Financial Services Division. Appointed to his current position in 1997.

Mr Mulcahy joined the Bank in 1995 as Head of Technology, Operations and Property (TOP). Prior to joining the Bank, Mr Mulcahy was Chief Executive of both Civil & Civic and Lend Lease Property investment services.

He has a Bachelor of Engineering degree and a Doctorate of Philosophy in Engineering from the University of Sydney. He is a Fellow of the Institution of Engineers. Age 51.

Shareholding Information

Ralph Norris

Mr Norris was Head of International Financial Services and Managing Director and CEO of ASB Group Ltd until his retirement in September 2001.

Prior to these appointments he had held a number of positions in the Bank's Information Technology division.

Mr Norris is a Fellow of the New Zealand Institute of Management and a Fellow of the New Zealand Computer Society. Age 52.

Peter Polson

Head of Colonial First State Investment Group. Joined the Group in 2000, following the acquisition of Colonial.

He has been Managing Director of Colonial First State since 1994.

Prior to this role he was Managing Director of Meridon Global Funds Management Limited and has held other senior roles in the Finance Industry in Australia, New Zealand and South Africa.

He holds a Bachelor of Commerce degree and a Masters of Business Leadership. Age 55.

Russell Scrimshaw

Head of Technology, Operations and Procurement Group. Prior to joining the Group Mr Scrimshaw was Director of Marketing and Director of Business Optus Communications.

Mr Scrimshaw graduated in Business Studies from Swinburne College of Technology Melbourne.

Mr Scrimshaw is an Associate Member of the Australian Society of Accountants. Age 52.

Michael Ullmer

Head of Financial and Risk Management. Joined the Group in this position in 1997.

He has a number of years experience in banking and financial services. Prior to joining the Group he was with Coopers & Lybrand as Chairman of its Australasian Financial Services Group and its Asian Banking Group. Prior to that Mr Ullmer had similar roles with KPMG.

He has an honours degree in Pure Mathematics from the University of Sussex, UK. Age 50.

Loans to Senior Management

Loans are made to the Senior Management in the ordinary course of business of the Group and on normal commercial terms and conditions.

The Bank believes that its loans to Senior Management do not involve more than normal risk of collectibility or present other unfavourable features.

Compensation

The aggregate compensation paid by the Bank during Financial Year 2001 to all directors and executive officers as a group (21 persons) was \$14.8 million.

Australian executive officers are members of the Officers' Superannuation Fund (OSF) or the Colonial Group Staff Superannuation Scheme (CGSSS). The OSF and CGSSS provide both defined benefit and accumulation style superannuation benefits. Executive officers who joined the Group on or after 1 July 1997 and who are members of the CGSSS are provided with accumulation style superannuation benefits.

The Group provides salary sacrifice superannuation benefits for selected employees, including executive officers. Salary sacrifice superannuation benefits accrued during Financial Year 2001 in respect of executive officers have been included in the above aggregate compensation.

With the exception of contributions relating to salary sacrifice benefits, the Group ceased contributions to the OSF from 8 July 1994. Further, the Group ceased contributions to the OSF relating to salary sacrifice benefits from 1 July 1997.

No employer contributions were made to the CGSSS during Financial Year 2001 and the Group does not intend to make contributions to the CGSSS until after consideration of the next actuarial assessment of CGSSS. Further, contributions ceased to CGSSS relating to salary sacrifice benefits from 1 July 1999.

Under Australian legislation, the Group is required to provide minimum superannuation benefits for non-executive officers under age 70 equal to 8% of their cash remuneration. Benefits funded by the Group during Financial Year 2001 to meet this requirement amounted to \$95,480.

The Group also provides defined benefits to non-executive directors in connection with their departure from office after three years of service in accordance with an arrangement approved by shareholders.

The Bank's executive officers, (including the Managing Director) may be eligible to participate in the Equity Reward Plan (ERP) and the Equity Participation Plan (EPP). Executives who participate in the ERP or EPP are excluded from participating in the Employee Share Acquisition Plan (ESAP). Refer Employee Share Plans – Note 29 to the Financial Statements.

The Bank's Constitution provides that the directors who are not also executive officers shall be paid an ordinary remuneration which may not in aggregate exceed the maximum aggregate amount fixed by the Bank in general meeting from time to time. At the annual general meeting of the Bank held in October 1999 the shareholders set a maximum amount of \$1,500,000 per year, to be divisible among the non-executive directors as the directors may determine.

Currency of Presentation and Certain Definitions

The Bank publishes its consolidated financial statements in Australian dollars. In this Annual Report, unless otherwise stated or the context otherwise requires, references to 'US\$' or 'US dollars' are to United States dollars and references to '\$' or 'A\$' are to Australian dollars. Merely for the convenience of the reader, this Annual Report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of US\$0.5100 = \$1.00, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York on 30 June 2001.

Exchange Rates

For each of the Commonwealth Bank's Financial Years, the high, low, average and year end Noon Buying Rates, see 'Selected Financial and Operating Data' on page 9.

Fluctuations in the exchange rate between the Australian dollar and the US dollar may affect the Bank's earnings, the book value of its assets and its shareholders' equity as expressed in US dollars, and consequently may affect the market price for the Shares. In addition, fluctuations in the exchange rate between the Australian dollar and the US dollar will affect the US dollar equivalent of the Australian dollar price of the Bank's Ordinary Shares on the ASX and, as a result, are likely to affect the market price of the Shares. Such fluctuations will also affect the conversion into US dollars of cash dividends, if any, paid in Australian dollars.

Certain Definitions

The Bank's Financial Year ends on 30 June. As used throughout this Annual Report, the Financial Year ended 30 June 2001 is referred to as Financial Year 2001, and other Financial Years are referred to in a corresponding manner.

'Financial Statements' means the Group's audited consolidated Statement of Financial Position as of 30 June 2000 and 2001 and consolidated statements of financial performance, cash flows and changes in shareholders' equity for each of the three years in the period ended 30 June 2001, together with accompanying notes, which are included elsewhere in this Annual Report.

'ACCC' means Australian Competition and Consumer Commission.

'APRA' means the Australian Prudential Regulation Authority.

'ASB Bank' means the ASB Bank Limited, incorporated in New Zealand.

'ASX' means the Australian Stock Exchange Limited.

'Australian GAAP' means Australian generally accepted accounting principles.

'Bank', 'CBA' or 'Company' means the Commonwealth Bank of Australia (A.C.N. 123 123 124), a banking corporation incorporated in Australia.

'Banking Act' means the Australian Banking Act 1959, as amended.

'CDBL' means the Commonwealth Development Bank of Australia Limited.

'Commonwealth' means the Commonwealth of Australia and its Territories.

'EFTPOS' means Electronic Funds Transfer at Point of Sale.

'Group' or 'Consolidated Entity' means the Commonwealth Bank of Australia and its controlled entities.

'Ordinary Shares' or 'Shares' means the ordinary shares of the Bank.

'Reserve Bank' or 'RBA' means the Reserve Bank of Australia.

'US GAAP' means United States generally accepted accounting principles.

Certain discrepancies between totals and sums of components in tables contained herein exist due to rounding.

Exchange Controls Affecting Security Holders

The Australian dollar is convertible into US dollars at freely floating rates and there are no restrictions on the flow of Australian currency between Australia and the United States. Under existing Australian legislation, the Reserve Bank does not inhibit the import and export of funds, and generally no governmental permission is required for the Bank to move funds in and out of Australia. The United States is not a declared tax haven. Accordingly, at the present time, remittances of any dividends, interest or other payment by the Bank to non-resident holders of the Bank's securities in the United States are not restricted by exchange controls.

Apart from withholding tax on dividends and interest paid to non residents, there are currently no Australian exchange controls which restrict the payment of dividends, interest or other remittances to holders of securities issued by the Bank provided that such holders who are not residents of Australia are not connected with Iraq, Libya, the Taliban (which also calls itself the Islamic Emirate of Afghanistan), Osama bin Laden, Al Qa'ida and associated persons and entities and certain other persons suspected of involvement in the 11 September 2001 attacks on the United States, and the National Union for the Total Independence of Angola (UNITA).

The approval of the Reserve Bank is required for any payments to the Government of Iraq, its agencies or its nationals or to the Government or public authority of Libya; any commercial, industrial or public undertaking owned or controlled (whether directly or indirectly) by the Government or public authority of Libya or by an entity that is owned or controlled by the Government or public authority of Libya; or to any person acting for or on behalf of the Government and public authority of Libya or an entity as described previously.

Shareholding Information

Any transaction made involving the Taliban or undertakings owned or controlled by it and Osama bin Laden, Al Qa'ida and associated persons and entities and certain other persons suspected of involvement in the 11 September 2001 attacks on the United States may not be made without approval of the Reserve Bank of Australia and, only in accordance with an authorisation of the United Nations Committee established under paragraph 6 of the United Nations Security Council Resolution No. 1267.

Payments in or from Australia to, by the order of, on behalf of, for credit of, or relating to the property, security or funds belonging to or controlled by or payments to Osama bin Laden, Al Qa'ida and associated persons and entities may not be made under Australian law.

Central banks and other foreign monetary institutions are permitted to invest the official reserve assets of their country in Australian domestic securities and are immune from Australian Tax Liability, provided they agree to be stable holders of Australian dollar assets and to keep the Reserve Bank informed of their Australian dollar portfolios.

Section 16 of the Banking Act provides that in the event of the Bank becoming unable to meet its obligations or suspending payment thereof, the Bank's assets in Australia shall be available to meet its deposit liabilities in Australia in priority to all of its other liabilities. Section 86 of the Australian Reserve Bank Act provides that in a winding up of the Bank, all debts due to the Reserve Bank shall, subject to Section 13A(3) of the Banking Act, have priority over all other debts of the Bank other than debts due to the Commonwealth.

Taxation

The following discussion is a summary of certain Australian and United States tax consequences of the ownership of Ordinary Shares. It applies to you only if you hold your Ordinary Shares as capital assets for tax purposes. For purposes of this discussion, a 'US Holder' is any beneficial owner who or that owns the Ordinary Shares as a capital asset and is (i) a citizen or resident of the United States, (ii) a corporation created or organised in the United States or under the law of the United States or any State, or (iii) an estate whose income is subject to United States federal income tax regardless of its source or (iv) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorised to control all substantial decisions of the trust.

The taxation discussion set forth below is intended only as a descriptive summary and does not purport to be a complete technical analysis or listing of all potential Australian or United States tax effects to US Holders.

This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a tax-exempt organisation,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of the voting stock of the Commonwealth Bank of Australia,
- a person that holds Ordinary Shares as part of a straddle or a hedging or conversion transaction, or
- a person whose functional currency is not the U.S. dollar.

Prospective investors are urged to consult their own tax advisors regarding the United States and Australian tax consequences of owning and disposing of Ordinary Shares.

Australian Taxation

Except as otherwise noted, the statements of Australian tax laws set out below are based on the laws in force as at the date of this Annual Report, and are subject to any changes in Australian law, and in any double taxation convention between the United States and Australia occurring after that date.

Under Australian law non-residents may be subject to withholding tax in respect of dividends received from shares in Australian companies depending upon the extent to which dividends are 'franked'. Also, in limited circumstances (as discussed below) such non-resident shareholders may be subject to Australian income tax in respect of gains made on disposal of shares in Australian companies.

The Australia/United States double tax agreement (the 'Treaty') was entered into on 6 August 1982 and represents a convention between the Government of Australia and the Government of the United States of America for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. The agreement applies to residents of one or both of Australia and the United States of America.

Under Australia's dividend imputation system dividends are 'franked' dividends to the extent that they are paid out of income on which Australian income tax has been paid. Where an Australian resident individual shareholder receives a franked dividend, the shareholder receives a tax credit which can be offset against the Australian income tax payable by the shareholder. Any excess credit is refundable. The amount of the credit is dependent upon the extent to which the dividend is franked. The extent to which a dividend is franked typically depends upon a company's available franking credits at the time of payment of the dividend. Accordingly, a dividend paid to a shareholder may be wholly or partly franked or wholly unfranked. Dividends paid to non-resident shareholders are exempt from dividend withholding tax to the extent the dividend is franked. The unfranked portion of the dividend is subject to 15% dividend withholding tax.

Subject to two exceptions, a non-resident disposing of shares in Australian public companies will be free from tax in Australia. The exceptions are as follows:

- Shares held as part of a trade or business conducted through a permanent establishment in Australia. In such a case any profit on disposal would be assessable to ordinary income tax. Losses would constitute allowable deductions.
- Shares held in public companies where such shares represent (or in the past five years have represented) a holding of 10% or more in the issued share capital of the company. In such a case capital gains tax would apply, but not otherwise.

Capital gains tax in Australia is payable on gains over the period in which the shares have been held, i.e. the difference between the disposal price and the original cost. For individual shareholders, in respect of assets acquired before 11:45am AEST 21 September 1999 and held for at least 12 months prior to sale, there is an election to pay tax at normal rates on the net capital gain with indexation frozen at 30 September 1999 or pay tax at normal rates on 50 per cent of the actual net capital gain without indexation (the 'CGT discount'). If an individual makes a net capital gain on an asset which was acquired after 11:45am AEST 21 September 1999 and held for 12 months, then only the CGT discount method applies.

A corporation will pay tax on the total gain without indexation or discount. Normal rates of income tax apply to gains so calculated. Capital losses are available as deductions, but only as an offset against other capital gains.

United States Taxation

This section is based on the Internal Revenue Code of 1986, as amended (the 'Code'), its legislative history, existing and proposed regulations and published rulings and court decisions, all as currently in effect, as well as the Treaty. These laws are subject to change, possibly on a retroactive basis.

Taxation of Dividends

Under the United States federal income tax laws, if you are a US holder, you must include in your gross income the gross amount of any dividend paid by the Commonwealth Bank of Australia out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes). You must include any Australian tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is ordinary income that you must include in income when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a US Holder will be the U.S. dollar value of the Australian dollar payments made, determined at the spot Australian dollar/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss.

The gain or loss generally will be income from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in your Ordinary Shares and thereafter as capital gain.

Subject to certain limitations, the Australian tax withheld in accordance with the Treaty and paid over to Australia will be creditable against your United States federal income tax liability.

Dividends will be income from sources outside the United States, but generally will be 'passive income' or 'financial services income' which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

If you are a US Holder and you sell or otherwise dispose of your Ordinary Shares, you will recognise capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realise and your tax basis, determined in U.S. dollars, in your Ordinary Shares. Capital gain of a non-corporate U.S. Holder is generally taxed at a maximum rate of 20% where the property is held more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC Considerations

Commonwealth Bank of Australia does not believe that it will be treated as a passive foreign investment company (a 'PFIC') for United States federal income tax purposes, and this discussion so assumes, but that is a factual determination made annually and therefore may be subject to change. If the Commonwealth Bank of Australia were to be treated as a PFIC, a US Holder of Ordinary Shares would be subject to certain adverse tax consequences.

Additional Information

Item 10 – Additional Information

Share Capital

Constitution

The Company's corporate organisation and conduct is governed by its Constitution (the Constitution) as amended and restated as of 26 October 2000. Set out below is a summary of the provisions of the principal terms of the Constitution.

1 Company Objects and Purposes

The Company is registered as a public company limited by shares under the Australian Corporations Act 2001 (the Corporations Act) and is registered with Australian Company Number 123 123 124.

The current Constitution was last amended by shareholders at the annual general meeting held on 26 October 2000. The Constitution does not specify the objects and purposes of the Company. Pursuant to section 124 of the Corporations Act, the Company has the legal capacity and powers of an individual person.

2 Directors Powers and Qualifications

- (a) No director is permitted to vote or be counted in the quorum as a director in respect of any contract or arrangement in which the director has a personal material interest. Subject to the Corporations Act, this prohibition can be relaxed or suspended by an ordinary resolution passed in a general meeting (article 11.9(f)).
- (b) Directors remuneration is to be determined by them from time to time and in such proportions and manner as they determine, provided that the aggregate remuneration paid to directors in any year must not exceed the amount approved in a general meeting (article 11.7). In addition, every director may also be paid an allowance for travelling and other expenses properly incurred by them in attending and returning from meetings or otherwise in connection with the exercise of their powers and discharge of their duties or the business of the Company (article 11.7(d)).
- (c) Directors may, from time to time, at their discretion, exercise all the powers of the Company to borrow or raise money or charge any property or business of the Company and to issue debentures or give any other security for a debt, liability or obligation of the Company or of any other person (article 12.1(b)).
- (d) The Constitution does not contain any age limit requirement on the retirement of directors. The Corporations Act requires Directors of public companies to stand for re-election every year once they reach the age of 72. For re-election, a special resolution in which the support of 75% of those shareholders voting is required.
- (e) A director does not need to own shares in the Company as a qualification for office (article 11.3(b)).

3 Rights, Preferences and Restrictions Attaching to Each Class of Shares

The Company has two classes of shares – ordinary shares and preference shares.

- (a) (i) The rights attached to ordinary shares include the right to dividends in the event that the directors declare them. Directors may determine that a dividend is payable, fix the amount, the date at which the entitlement accrues, date for payment and method of payment (article 16.2).

- (ii) Ordinary shareholders have the right to vote in person, by representative, attorney or proxy in a general meeting. On a show of hands each shareholder (regardless of the number of shares held) has one vote. On a poll, each shareholder has one vote for each fully paid ordinary share held. In respect of partly paid shares, the shareholder has one vote equivalent to the proportion which the amount paid up on the shares has to the total issue price of the shares at the date the poll is taken. For the purpose of determining voting entitlements at a general meeting, shares will be taken to be held by those persons recorded in the register of members at the time and the date determined by the directors under section 1109N of the Corporations Act.

- (b) Preference shareholders are entitled to a dividend to be paid in priority to dividends on ordinary shares. In certain limited circumstances, dividends may not be payable. The preference shares are perpetual and exchangeable into ordinary shares in certain circumstances. They are resettable on certain dates. The Company may not issue shares ranking in priority to these shares without prior approval of the holders of preference shares. There is no right to vote at general meetings except in limited circumstances specified in the terms and conditions as set out in the prospectus.
- (c) Dividends are only payable out of the profits (article 16.2).
- (d) In the event of a winding up, ordinary shares rank equally in the division of any surplus. The preference shares rank in priority to ordinary shares for payment of dividends and for a return of capital on a winding up of the Company. If the Company is wound up the liquidator may, with the sanction of a special resolution, divide among the members in kind the whole or any part of the property of the Company and may determine how the division is to be carried out between the members or different classes of members (article 20).
- (e) Shareholders cannot redeem ordinary shares. Preference shares may be redeemable by the Company in accordance with the terms of issue determined by the directors (article 3.2.6).
- (f) The directors may establish a sinking fund for the purpose of repurchasing, redeeming or beneficially acquiring preference shares having rights to non-cumulative dividends and, to the extent (if any) specified in the terms of issue, to additional dividends in connection with the conversion of a preference share into an ordinary share or to additional dividends in circumstances where a dividend contemplated by the terms of issue has not been paid in full on the preference shares (article 3.2.3 (d)).
- (g) The holders of fully paid ordinary shares have no further liability to the Company in respect of those shares. The holders of partly paid shares are liable to the Company once a call is made for the payment of the unpaid amount (article 4.1).
- (h) There is no provision in the Constitution which discriminates against an existing or prospective

shareholder unless a takeover is announced pursuant to article 5.4.4(g).

4 Alteration of rights of shareholders

To vary or cancel the rights attached to ordinary shares or preference shares, a special resolution approving the variation or cancellation must be passed at a special meeting of the holders of the relevant class of shares (article 2.4(a)).

5 Meetings

The directors or any director to the extent permitted by the Corporations Act may from time to time convene a general meeting (article 9.2(a)). No shareholder or director may convene a general meeting unless entitled to do so under the Corporations Act.

Subject to the Corporations Act and the listing rules of the Australian Stock Exchange Limited ('ASX'), notices of general meetings convened by the directors may be given in a form and in a manner determined by the directors (article 17).

At least 28 days' notice must be given of a general meeting (section 249HA of the Corporations Act).

All shareholders may attend general meetings in person, or be represented by the attendance of a representative, attorney or proxy (who need not be a shareholder of the Company in their own right).

A quorum for a general meeting is 5 voting members personally present (article 10.2).

If within half an hour of the time appointed for holding the meeting a quorum is not present, the meeting shall be dissolved. If the meeting is convened by requisition and a quorum is not present within half an hour, the meeting shall stand adjourned to such day as the directors determine and if no determination is made, to the same day in the next week at the same time and place and if at the adjourned meeting a quorum is not present, within half an hour from the time appointed, the voting members present shall constitute a quorum (article 10.3).

6 Limitations on the Right to Own Securities

(a) The Constitution does not impose limitations on the right to own securities except those provisions relating to minimum holdings (known as unmarketable parcels) and foreign persons who seek to acquire a substantial interest in the Company.

(b) Unmarketable Parcel Rationalisation Scheme
The Constitution contains a scheme whereby the Company can sell the shares of members who hold an unmarketable parcel of shares in the Company as determined by the ASX Listing Rules. The scheme sets out notice requirements that the Company must comply with prior to selling any shares and also includes the right of members (who hold less than an unmarketable parcel of shares) to exempt their holdings from the scheme. The scheme can only be invoked once in any 12 month period (article 5.4).

(c) Foreign Persons
Directors have the discretion to refuse to allot shares or to register any transfer or transmission of shares to any person, if the allotment, transfer or transmission results in a foreign person (as defined in the *Australian Foreign Acquisitions and Takeovers Act 1976*) acquiring a substantial interest (defined as 15% of the voting power), or two or more foreign persons, alone or together with any associate or associates, acquiring an aggregate substantial interest (defined as 40% of the voting power) in the Company (article 7.3).

7 Takeover Limitations

(a) The rights of non-resident or foreign shareholders to hold or exercise voting rights on the Company's securities are subject to the *Australian Foreign Acquisitions and Takeovers Act 1975*. The Treasurer of the Australian Federal Government has the power to prohibit the acquisition of a controlling interest in any Australian company by a foreign person or foreign persons, if the Treasurer is of the opinion that the acquisition would be contrary to the national interest. For this purpose, a shareholding of 15% or more held by a single foreign person or 40% or more held by two or more foreign persons is deemed to constitute a controlling interest.

Section 50 of the *Australian Trade Practices Act 1974* prohibits an acquisition of shares that would have the effect, or be likely to have the effect, of substantially lessening competition in a substantial market for goods or services, unless the acquisition is authorised by the Australian Competition and Consumer Commission.

(b) Partial Takeover Approval

In the event that there is an offer under a 'proportional takeover scheme' (within the meaning given to that expression by Chapter 6 of the Corporations Act) to acquire shares in the Company, the provisions in the Constitution authorised by Pt 6.5 of the Corporations Act prohibit the registration of share transfers giving effect to a contract resulting from the acceptance of a partial takeover bid unless and until a resolution to approve the takeover bid is passed in accordance with the provisions. The resolution to approve the takeover bid cannot require a majority of more than 50%.

8 Disclosure of Share Ownership

The Constitution does not prescribe an ownership threshold above which shareholders must disclose their holding to the Company. However, part 6C.1 of the Corporations Act imposes disclosure requirements on persons who acquire or cease to hold a substantial holding (5% or more of the total number of votes attached to voting shares) in the Company. The disclosure must be given to the Company and the ASX within the prescribed time.

The directors may at any time by written notice require a member within 14 days of receiving the notice to provide the Company with full particulars of the name and address of every person who has an interest in any of the shares held by the member, including full particulars of that interest and of the circumstances by reason of which the other person has that interest. On receiving particulars of a person holding an interest in any shares of the Company (other than as registered holder), the Company may give that person written notice requiring that person to provide the Company with a statement in writing setting out full particulars of that person's interest and of the circumstances by reason of which that interest is held.

9 Changes in Share Capital

The Company by resolution passed in general meeting may from time to time alter its share capital in one or more of the ways provided for, and in the manner prescribed, by the Corporations Act (article 2.2). Subject to the Constitution, the Company may reduce its share capital (article 2.2) or buy back shares (rule 2.3(a)) in accordance with the Corporations Act.

Exhibits

Item 19 Exhibits to Form 20-F

1. Constitution as amended as of 26 October 2000.
8. List of controlled entities.
10. Consent of Ernst & Young

Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorised, in the City of Sydney, Commonwealth of Australia.

COMMONWEALTH BANK OF AUSTRALIA (Registrant)

By _____

Name: Thomas W Pockett

Title: Deputy Chief Financial Officer

Date: 15 November 2001

Item 19 Index to Exhibits

1. Constitution as amended as of 26 October 2000.
8. List of controlled entities.
10. Consent of Ernst & Young

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