

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

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Form 20-F Cross Reference Index

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

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⁽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', 'Disclosures about Fair Value of 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, credit and economic conditions in Australia or New Zealand, 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 13.

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.

Financial Highlights

(Except where otherwise stated, all figures relate to the Financial Year ended 30 June 2002 and comparatives for the profit and loss are to the Financial Year ended 30 June 2001. '\$' 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 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 Financial Year 2001 result and only 17 days of net income to the Financial Year 2000 result.)

For the Financial Year ended 30 June 2002, the Commonwealth Bank Group recorded a net profit after income tax of \$2,655 million, up 11% on Financial Year 2001.

The net profit from ordinary activities ('cash basis') for the Financial Year ended 30 June 2002 after tax, and before goodwill amortisation and appraisal value uplift is \$2,501 million. This is an increase of \$239 million or 11% from \$2,262 million in Financial Year ended 30 June 2001.

A fully franked dividend of 82 cents per ordinary share was paid on 8 October 2002 to shareholders on the register at 5pm on 30 August 2002. The ex dividend date is 26 August 2002.

The Group's cash basis earnings result comprised:

	\$M
Segment profit after tax	
- Banking	2,067
- Funds Management	216
- Life Insurance	
Operating margins	185
Investment returns	33
Net profit after tax (cash basis)	2,501

Refer Note 33 for detailed segment information.

Banking

The Group's banking businesses achieved a strong result with net profit after tax increasing to \$2,067 million, from \$1,793 million for Financial Year 2001, reflecting:

- Net interest income of \$4,710 million for Financial Year 2002 compared with \$4,474 million for Financial Year 2001.
- Other banking operating income of \$2,552 million for Financial Year 2002 compared to \$2,381 million for Financial Year 2001.

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 2002 increased to \$216 million, from \$149 million in the prior Financial Year.

The after tax result was positively impacted by a 17% fall in the income tax expense to \$78 million due to the reduction in the Australian corporate tax rate and the non recognition of overseas (non-Australian) tax losses in Financial Year 2001.

The result was characterised by growth in income of 14% to \$842 million, partly offset by a 10% increase in expenses to \$548 million due to costs associated with increased volumes, development costs associated with funds launched during the year and costs associated with the continuing development of the UK funds management operation.

Funds under management increased by approximately 1 percent to \$103 billion over the Financial Year 2001. Funds under management were impacted by poor investment returns, the loss of a few large institutional mandates in Australia and the run off of a discontinued asset management contract in the UK.

Life Insurance

Operating margins from life insurance businesses decreased by 5% from \$194 million in Financial Year 2001 to \$185 million in Financial Year 2002.

Operating margins in Australia were \$20 million or 11% higher than Financial Year 2001 at \$210 million. This result was mainly due to improved experience on mortality and disability claims, an increase in inforce premiums of 14% together with the benefit of higher average Funds Under Management (FUM) balances within the unit linked investment business. These were partly offset by the decrease in traditional and investment account business.

New Zealand operating margins were slightly higher at \$25 million, however Asian operating margins were lower, falling by \$30 million to a loss of \$50 million for Financial Year 2002. The fall in operating margins within the Asian life businesses reflects the impact of global equity markets, start up expenses in relation to pension and retirement business within Hong Kong and other one off costs.

Investment returns for Financial Year 2002 were \$33 million after tax compared to \$126 million in Financial Year 2001.

Investment returns in Financial Year 2001 included a \$47 million gain on the transfer of certain strategic investments into the life insurance business. Investment returns in Financial Year 2002 included a \$15 million write down of Asian businesses. Excluding these items investment returns on shareholder funds were \$31 million lower than in Financial Year 2001 due to the poor performance of world equity markets.

Group Expenses

Operating expenses for the Group were less than 1% higher than in Financial Year 2001 increasing from \$5,170 million to \$5,201 million. Additional cost synergies estimated at \$205 million associated with the Colonial and Commonwealth Group integration were recognised in Financial Year 2002, offset by volume related increases in expenses and the effect of the 'Enterprise Bargaining Agreement' (EBA) related staff cost increases.

The Group's cost to income ratio declined from 58.6% to 57.4%. The Banking cost to income ratio declined from 57.7% to 54.1%.

Income Tax

Income tax expense includes amounts incurred on behalf of life insurance policy holders and corporate tax. During Financial Year 2002 total income tax expense decreased by \$77 million from \$993 million for Financial Year 2001 to \$916 million for Financial Year 2002, however policyholder tax contributed \$130 million to this reduction due to lower investment returns attributable to policyholders during the year.

The corporate income tax expense increased by \$53 million to \$952 million in Financial Year 2002. This resulted in an effective corporate tax rate of 27.6% in Financial Year 2002 which was slightly lower than Financial Year 2001 rate of 28.3%. The reduction reflects the drop in the corporate tax rate from 34% to 30% this year, partially offset by higher recognition of tax losses in Financial Year 2001.

Banking⁽²⁾

	\$M
Total operating income	7,262
Net interest income	4,710
Other operating income	2,552
Operating expenses	3,929
Bad debt charge	449
Income tax expense	816
Operating Profit after tax	2,067
Net interest margin	2.76%

Lending assets (net of securitisation) ⁽³⁾	\$B 161
Average interest earning assets	171

Funds Management

	\$M
Operating income ⁽⁴⁾	842
Operating expenses	548
Income tax expense	78
Operating Profit after tax	216

	\$B
Funds under management ⁽⁵⁾	103
- Retail	34
- Wholesale	44
- Life insurance	25

Life Insurance

	\$M
Operating margin	
- Australia	210
- Asia and New Zealand	(25)

Investment earnings on assets in excess of policyholder liabilities	33
Operating Profit after tax	218

	\$B
Life insurance assets	36

Appraisal Value Uplift⁽⁶⁾

For the Financial Year 2002, appraisal values of the life insurance and funds management businesses increased by \$577 million. The increase comprised:

- A \$57 million change to net tangible assets, being profits of \$434 million offset by other capital movements of \$377 million;
- Other valuation changes of \$43 million; and
- An appraisal value uplift of \$477 million being \$147 million relating to the transfer into a market value environment of CFS property and underlying uplift of \$330 million.

The underlying uplift of \$330 million is broadly in line with management's expectations and slightly in excess of goodwill amortisation.

(Refer Summary of Life Insurance and Funds Management Valuations, page 31)

Goodwill Amortisation

The goodwill amortisation charged in determining the result for Financial Year 2002 was \$323 million, slightly lower than \$338 million in Financial Year 2001 due to the write off of goodwill related to synergies realised during financial year 2001.

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

(2) Includes General Insurance.

(3) Net of loans securitised of \$7,047 million (\$6,773 million at 30 June 2001).

(4) Includes internal income.

(5) Includes internal and external FUM.

(6) 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'

Key Performance Measures

Return on average shareholder's equity (statutory)	14.67%
Return on average shareholder's equity (cash basis) ⁽¹⁾	13.93%
Earnings per share (cents) (statutory) - basic	209.6
Earnings per share (cents) (cash basis) ⁽¹⁾ - basic	197.3
Total assets held and funds under management	\$327 B

The purchase of Colonial late in Financial Year 2000 resulted in an initial dilution of EPS (cash basis). With the major integration milestones now achieved EPS has begun to increase as the impact of synergies are reflected in earnings.

Integration of Colonial

The Colonial integration work is substantially complete with the Group having achieved its forecast synergy benefits of an estimated \$380 million in cost savings and an estimated \$70 million in revenue synergies by 30 June 2002. This achievement was ahead of forecast with much of the designated year 3 work completed ahead of schedule. Included within the Financial Year 2002 result is an additional \$205 million in estimated cost synergies and an estimated \$30 million in revenue synergies compared to those achieved in Financial Year 2001.

The majority of cost synergies achieved this year were in the banking segment with future life and funds management synergies expected to be achieved through the implementation of the organisational restructure announced in December 2001. The future synergies are expected to arise from the merger of the Commonwealth life and funds management business with Colonial First State and the associated product/systems rationalisation in the life businesses. (Refer Funds Management - Business Analysis - Restructure, page 27).

Balance Sheet, Funding and Capital

The Group's balance sheet and capital position has strengthened further over the past year. Interest earning assets grew 8% and the overall credit quality improved, primarily due to the strong growth in home loans. This growth was largely funded by a strong increase in retail deposits of 10%, and as a result of this, wholesale funding was lower than expected.

The Group's capital position remains strong with Tier 1 capital at 6.78% and Tier 2 capital at 4.28%. Total capital ratios remain higher than June 2001 and December 2001 levels.

Recent Developments

For a description of certain events applicable to the Group occurring since 30 June 2002, refer 'Events Subsequent to 30 June 2002 on page 61.

Financial Highlights (continued)

The Group continues to focus on optimising the level and mix of capital supporting its operations while maintaining what management believes to be a prudent and high quality capital base. Consistent with this strategy, the Group intends to issue innovative capital securities (Hybrids) to use in undertaking a share buy-back of approximately \$500 million. Subject to the receipt of regulatory approvals, the Group intends to complete

these capital management initiatives by the end of this calendar year. These securities will not be registered under the US Securities Act of 1993 and may not be offered or sold in the United States absent registration or an applicable exemption.

Following the above initiatives the Group's strong capital position is expected to be maintained.

The Bank's credit ratings have been affirmed as set out on page 36.

Group Performance Summary

	Year Ended 30 June	
	2002 \$M	2001 \$M
Profit from ordinary activities after tax (statutory)	2,655	2,398
Profit from ordinary activities after tax ('cash basis' ⁽¹⁾)	2,501	2,262
Income		
Interest income	10,455	11,900
Interest expense	5,745	7,426
Net interest income	4,710	4,474
Other banking operating income	2,552	2,381
Total banking income	7,262	6,855
Life insurance income ⁽²⁾	997	1,268
Funds management income	809	701
Total Income	9,068	8,824
Expenses		
Operating expenses	5,201	5,170
Charge for bad and doubtful debts	449	385
Total Expenses	5,650	5,555
Profit from ordinary activities before goodwill amortisation, appraisal value uplift and income tax	3,418	3,269
Income tax expense ⁽²⁾	916	993
Profit from ordinary activities after income tax	2,502	2,276
Outside equity interests	(1)	(14)
Profit from ordinary activities after income tax and before goodwill amortisation and appraisal value uplift	2,501	2,262
Appraisal value uplift	477	474
Goodwill amortisation	(323)	(338)
Net profit after income tax attributable to shareholders of the Bank	2,655	2,398
Contributions to profit (after tax)		
Banking	2,067	1,793
Life insurance	218	320
Funds management	216	149
Profit after tax from ordinary activities ('cash basis' ⁽¹⁾)	2,501	2,262
Goodwill amortisation	(323)	(338)
Appraisal value uplift	477	474
Net profit after income tax attributable to shareholders of the Bank	2,655	2,398

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

⁽²⁾ Included within life insurance income and tax expense for Financial Year 2002 is a \$36 million tax credit relating to policyholder losses (Financial Year 2001: \$94 million expense). This item is also included in the income tax line in the above performance summary. The net impact on the net profit after tax is therefore nil (Refer page 29).

Group Performance Summary (continued)

	Year Ended 30 June	
	2002	2001
	\$M	\$M
Balance Sheet - Summary		
Total Assets	249,648	230,411
Total Liabilities	228,592	210,563
Shareholders' Equity	21,056	19,848
Assets held and Funds under management		
On Balance Sheet		
Banking assets	211,130	191,333
Life insurance funds under management	25,355	24,527
Other life insurance and funds management assets	13,163	14,551
	249,648	230,411
Off Balance Sheet		
Funds under management	77,483	76,954
	327,131	307,365
Banking Assets	211,130	191,333
Life insurance and internal funds management assets	38,518	39,078
External funds under management	77,483	76,954
	327,131	307,365
Shareholder Summary		
Dividends per share (cents) - fully franked	150	136
Dividends provided for, reserved or paid (\$million)	1,913	1,720
Dividend cover (times) - statutory	1.4	1.4
Dividend cover (times) – cash basis ⁽³⁾	1.3	1.3
Earnings per share		
Statutory – basic ⁽¹⁾	209.6c	189.6c
Statutory – fully diluted ⁽¹⁾	209.3c	189.3c
Cash basis - basic ⁽³⁾	197.3c	178.8c
Cash basis – fully diluted ⁽³⁾	197.0c	178.6c
Dividend payout ratio (%) ⁽²⁾		
statutory	71.7	71.2
cash basis ⁽³⁾	76.2	75.5
Net tangible assets per share (\$)	10.89	10.19
Weighted average number of shares (basic)	1,250m	1,260m
Weighted average number of shares (fully diluted)	1,252m	1,262m
Shares at end of period	1,253m	1,244m
Number of shareholders	722,612	709,647
Share prices for the period (\$)		
Trading high	34.94	34.15
Trading low	24.75	26.18
End (closing price)	32.93	34.15

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

(2) Dividends paid divided by earnings.

(3) 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and before goodwill amortisation, life insurance and funds management appraisal value uplift. Earnings are net of dividends on preference shares for Financial Year 2002 of \$34 million (Financial Year 2001:\$9 million).

	Year Ended 30 June	
	2002	2001
Performance Ratios (%)		
Return on average shareholders' equity ⁽¹⁾		
statutory	14.67	13.50
cash basis	13.93	12.83
Return on average total assets ⁽²⁾		
statutory	1.11	1.07
cash basis	1.04	1.01
Return on average total assets and FUM		
statutory	0.84	0.81
cash basis	0.79	0.74
Capital adequacy - Tier 1	6.78	6.51
Capital adequacy - Tier 2	4.28	4.18
Deductions	(1.26)	(1.53)
Capital adequacy - Total	9.80	9.16
Productivity		
Cost to total average assets ratio	2.17	2.30
Cost to assets held and funds under management	1.64	1.75
Staff expense/Total operating income	26.35	26.74
Total operating income per full time staff equivalent	\$262,856	\$252,400
Other Information (numbers)		
Full time staff	30,378	31,976
Part time staff	7,714	7,161
Full time staff equivalent	34,498	34,960

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

⁽²⁾ Based on profit from ordinary activities after tax and outside equity interest. Averages are based on beginning and end of period balances.

Financial Review

Selected Consolidated Financial and Operating Data

	Year ended 30 June					
	2002	2002	2001	2000	1999	1998
	(A\$ millions, except where indicated)					
Selected Consolidated Income Statement Data	US\$M					
Australian GAAP						
Interest income	5,884	10,455	11,900	8,842	7,745	7,605
Interest expense	(3,233)	(5,745)	(7,426)	(5,123)	(4,218)	(4,208)
Net Interest income	2,651	4,710	4,474	3,719	3,527	3,397
Charge for bad and doubtful debts	(253)	(449)	(385)	(196)	(247)	(233)
Non interest income ⁽¹⁾	2,721	4,835	4,824	2,512	1,997	1,833
Operating expenses (incl. Goodwill)	(3,109)	(5,524)	(5,508)	(3,464)	(3,117)	(3,085)
Operating profit before income tax and abnormal items	2,010	3,572	3,405	2,571	2,160	1,912
Income tax expense attributable to operating profit before abnormal items	(516)	(916)	(993)	(820)	(714)	(641)
Operating profit after income tax and before abnormal items	1,495	2,656	2,412	1,751	1,446	1,271
Abnormal (expense)/income before income tax	-	-	-	967	-	(570)
Abnormal income tax (expense)/credit	-	-	-	20	-	409
Operating profit after income tax	1,495	2,656	2,412	2,738	1,446	1,110
Outside equity interest	(1)	(1)	(14)	(38)	(24)	(20)
Net income	1,494	2,655	2,398	2,700	1,422	1,090
Dividends declared (\$)	1,077	1,913	1,720	1,431	1,063	955
Weighted average number of shares (basis)		1,250m	1,260m	927m	927m	930m
Earnings per share, basic before abnormal items (cents)	118.0	209.6	189.6	184.8	153.4	134.5
Earnings per share, basic after abnormal items (cents)	118.0	209.6	189.6	291.2	153.4	117.2
Earnings per share, fully diluted before abnormal items (cents)	117.8	209.3	189.3	184.4	153.1	134.3
Earnings per share, fully diluted after abnormal items (cents)	117.8	209.3	189.3	290.7	153.1	117.0
Dividends per share (cents)	84	150	136	130	115	104
Dividends payout ratio (%) ⁽²⁾		71.7	71.2	83.5	74.7	76.3
Adjusted for US GAAP						
Operating profit after income tax	947	1,682	1,586	1,502	1,494	796
Earnings per share after abnormal items (cents)	74.01	131.5	125.2	162.0	161.2	85.6

⁽¹⁾ Financial Year 2002 includes \$477 million in appraisal value uplift relating to life insurance business (2001: \$474 million)

⁽²⁾ Dividends per share divided by earnings per share (before abnormal items).

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.

	Year Ended 30 June				
	2002	2001	2000	1999	1998
	(expressed in US dollars per \$1.00)				
Period End	0.5628	0.5100	0.5971	0.6611	0.6208
Average Rate	0.5236	0.5372	0.6284	0.6273	0.6809

The Noon Buying Rate on 15 October 2002 was US\$0.5467 = \$1.00.

The Noon Buying Rate on 29 June 2001 was US\$0.5100 = \$1.00.

	September	August	July	June	May	April
	(expressed in US dollars per \$1.00)					
High	0.5518	0.5534	0.5688	0.5748	0.5660	0.5442
Low	0.5419	0.5280	0.5370	0.5583	0.5365	0.5270

	Year Ended 30 June					
	2002	2002	2001	2000	1999	1998
	(A\$ millions, except where indicated)					
Consolidated Balance Sheet Data						
(at year end)						
	US\$M					
Australian GAAP						
Assets						
Cash and liquid assets	3,402	6,044	3,709	2,575	1,814	1,526
Receivables due from other financial institutions	4,349	7,728	4,622	5,154	1,206	3,448
Trading securities	4,721	8,389	6,909	7,347	4,708	4,009
Investment securities	6,059	10,766	9,705	9,149	7,187	6,858
Loans, advances and other receivables	82,773	147,074	136,059	132,263	101,837	89,816
Bank acceptances of customers	7,045	12,517	12,075	11,107	9,672	9,727
Life insurance investment assets	16,945	30,109	31,213	27,036	-	-
Deposits with regulatory authorities	50	89	61	46	953	832
Shares in and loans to controlled entities	-	-	-	-	-	-
Property, plant and equipment	485	862	919	1,073	1,001	1,662
Investments in associates	176	313	400	403	281	276
Intangible Assets	3,034	5,391	5,716	5,935	491	531
Other assets	11,462	20,366	19,023	16,171	8,946	11,859
Total Assets	140,502	249,648	230,411	218,259	138,096	130,544
Liabilities						
Deposits and other public borrowings	74,740	132,800	117,355	112,594	93,428	83,886
Payable due to other financial institutions	4,426	7,864	6,903	4,633	3,249	3,397
Bank acceptances	7,045	12,517	12,075	11,107	9,672	9,727
Provision for dividend	585	1,040	779	708	472	321
Income tax liability	718	1,276	1,355	1,823	1,410	1,099
Other provisions	469	834	1,007	1,554	805	875
Life insurance policy liabilities	14,586	25,917	27,029	25,282	-	-
Debt issues	13,268	23,575	24,484	25,275	10,763	10,608
Bills payable and other liabilities	9,760	17,342	13,872	11,549	8,507	10,746
	125,597	223,165	204,859	194,525	128,306	120,659
Loan capital ⁽¹⁾	3,054	5,427	5,704	5,299	2,828	2,996
Total liabilities and loan capital	128,652	228,592	210,563	199,824	131,134	123,655
Total Shareholders' Equity ⁽²⁾	11,850	21,056	19,848	18,435	6,962	6,889
Adjusted for US GAAP						
Total Assets	137,494	244,304	235,807	221,220	149,054	139,460
Shareholders' equity ⁽³⁾	9,173	16,299	16,236	16,022	7,659	7,631
Consolidated Operating Data						
(number) (at year end)						
Full time staff		30,378	31,976	34,154	26,394	28,034
Part time staff		7,714	7,161	7,383	6,655	6,968
Full time staff equivalent		34,498	34,960	37,131	28,964	30,743
Branches/service centres (Australia)		1,020	1,161	1,387	1,162	1,218
Agencies (Australia)		3,936	3,927	4,081	3,934	4,015

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

(2) Including minority interests (see Note 30 for details).

(3) Exclusive of minority interests.

Financial Review (continued)

	2002	2002	2001	Year ended 30 June		
				2000	1999	1998
		(A\$ millions, except where indicated)				
Consolidated Ratios and Operating Data	US\$M					
Australian GAAP						
Profitability						
Net Interest Margin (%) ⁽¹⁾		2.76	2.78	2.88	3.09	3.33
Interest Spread (%) ⁽²⁾		2.47	2.32	2.47	2.69	2.85
Return on average shareholders' equity ⁽³⁾						
before abnormal items (%)		14.67	13.50	22.06	20.54	18.48
after abnormal items (%)		14.67	13.50	34.78	20.54	16.10
Return on average total assets ⁽³⁾						
before abnormal items (%)		1.11	1.07	1.08	1.06	1.01
after abnormal items (%)		1.11	1.07	1.70	1.06	0.87
Productivity						
Total operating income per full time (equivalent) employee (\$)	147,935	262,856	252,400	211,842	190,720	170,120
Staff expense/total operating income (%) ⁽⁴⁾		26.4	26.7	27.8	29.0	31.0
Total operating expenses excluding goodwill amortisation/total operating income (%) ⁽⁴⁾		57.4	58.6	55.5	55.6	58.1
Ratio of earnings to fixed charges		1.6	1.5	1.7	1.5	1.3
Capital Adequacy (at year end)						
Risk weighted assets	79,382	141,049	138,383	128,484	99,556	94,431
Tier 1 capital	5,381	9,561	9,015	9,618	7,021	7,617
Tier 2 capital	3,399	6,040	5,784	6,097	3,109	2,666
Total capital ⁽⁵⁾	7,778	13,820	12,680	12,518	9,342	9,902
Tier 1 capital/risk weighted assets (%)		6.78	6.51	7.49	7.05	8.07
Tier 2 capital/risk weighted assets (%)		4.28	4.18	4.75	3.12	2.82
Total capital/risk weighted assets (%)		9.80	9.16	9.75	9.38	10.49
Average shareholders' equity/average total assets (%)		8.51	8.06	4.81	5.14	5.70
Adjusted for US GAAP						
Net income as a percentage of year end:						
Total assets		0.67	0.67	0.68	1.00	0.57
Shareholders' equity		10.09	9.77	9.37	19.51	10.43
Dividends as a percentage of net income		116.36	92.21	95.27	71.15	119.97
Shareholders' equity as a percentage of total assets		6.67	6.89	7.24	5.14	5.47
Ratio of earnings to fixed charges		1.4	1.4	1.5	1.5	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. Refer note 31 of the financial statements for further details.

Consolidated Ratios And Operating Data	Year ended 30 June					
	2002 US\$M	2002 (A\$ millions, except where indicated)	2001	2000	1999	1998
Australian GAAP						
Asset Quality Data ⁽¹⁾						
Non accrual loans ⁽²⁾	532	943	647	1,001	574	742
Total impaired assets (net of interest reserved) ⁽³⁾	498	884	649	1,004	589	742
Specific provisions for impairment ⁽⁴⁾	152	270	234	432	275	279
General provisions for impairment	764	1,356	1,399	1,358	1,081	1,076
Net impaired assets (net of interest reserved)	346	614	415	572	314	466
Total provisions for impairment/average credit risk (%) ⁽⁵⁾		0.8	0.8	1.0	0.9	1.0
Charge for bad and doubtful debts/average credit risk (%) ⁽⁵⁾		0.2	0.2	0.1	0.2	0.2
Gross impaired assets/credit risk (%) ⁽⁶⁾		0.4	0.3	0.5	0.4	0.5
Net impaired assets/total shareholders' equity (%)		2.9	2.1	3.1	4.5	6.8
General provision for impairment/risk weighted assets (%)		1.0	1.0	1.1	1.1	1.1

⁽¹⁾ All impaired asset balances and ratios are net of interest reserved.

⁽²⁾ 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.

⁽³⁾ Total impaired assets comprise non accrual loans, restructured loans, Other Real Estate Owned (OREO) assets and Other Assets Acquired Through Security Enforcement (OAATSE).

⁽⁴⁾ Specific provisions for impairment include provisions raised against off balance sheet credit risk.

⁽⁵⁾ Average credit risk is based on gross credit risk less unearned income. Averages are based on current and previous year end balances.

⁽⁶⁾ Gross credit risk less unearned income.

⁽⁷⁾ 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 2000, 2001 and 2002 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 38 to 42. The Integrated Risk Management section provides details on how the Group manages its risks in respect of credit, market, operational, life insurance, and derivatives exposures.

The major areas of exposure below 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 Australian 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 material downturn in the Australian and New Zealand economies could adversely impact future results and could potentially result in 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 determines the level of lending activity, or, alternatively, requires the issue of additional equity capital or subordinated debt, which are additional sources of funds to the Group. Any change in regulation to increase the requirements for capital adequacy could have an impact on the Group's results of operations.

The Group continues to assess the impact on its business operations of the Basel Committee's proposed New Capital Accord. Further details on the proposed New Capital Accord are contained in Capital Adequacy – New Capital Accord on page 44 of this report.

Market Risks, Interest Rate and Currency Risk

The Group is subject to the risks typical of banking, insurance and funds management activities, such as interest rate fluctuations, exchange rate variations and capital and equity 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.

Liquidity and Funding Risks, Operational Risk and Life Insurance Risk

The Group is subject to liquidity and funding risks, operational risk and life insurance risks. These risks are described in detail on under 'Integrated Risk Management' commencing on page 38.

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 are detailed in 'Competition' on page 49 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 65 through 184 of this report for the Financial Year ended 30 June 2002.

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. A summary of certain significant US GAAP adjustments as they apply to the Group's Financial Statements is contained on page 46.

Overview of Group

Commonwealth Bank of Australia provides a wide range of banking, financial and related 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, significantly increasing its wealth management capabilities.

On 20 December 2001 the Group announced an organisation restructure, effective from end of February 2002. The new structure has created five customer-facing business divisions, designed to align product development and service delivery more fully with the Group's customer segments. The new businesses are:

- Retail Banking Services (RBS) - incorporating delivery of service to our mass-market personal customers plus manufacturing of banking products to meet their needs.
- Premium Financial Services (PFS) – incorporating delivery of service to personal customers with more complex financial needs.
- Institutional and Business Services (IBS) – incorporating delivery of services to all business and corporate clients, ranging from small businesses through to large corporations.
- Investment and Insurance Services (IIS) – incorporating management of the Group's managed funds, master funds, superannuation and insurance products, as well as liaising with and supporting third-party financial planners and in-house advisers.
- International Financial Services (IFS) – incorporating our existing operations in New Zealand, Fiji, the Philippines, Indonesia, Vietnam, Hong Kong and China.

The functions formerly within the Technology, Operations and Procurement Division (TOP) are being repositioned into other business units. Back-office operational areas will be relocated into RBS and IIS, providing management of those divisions with complete accountability for customer service outcomes. The technology function will report directly to the CEO, strengthening its role in the Group's long-term strategic positioning.

This structure complements the Group's greater strategic focus on wealth management and better positions the Group to meet the needs of all customer segments. The grouping together of manufacturing activities and services relevant to particular customer segments is designed to ensure greater clarity and focus, remove service and distribution resource overlaps and achieve improved efficiencies.

Strategic Initiatives

There are a number of trends underway which are changing our view of the future, and accordingly we are adapting our strategic response.

Demographic change and government retirement policies are continuing to place greater demands on consumers to ensure their own financial wellbeing. This

continues to increase the complexity of their financial needs, leading to greater demand for more sophisticated services and trustworthy advice.

At the same time, the Internet and other communications technologies provide consumers with access to a multitude of information on products, services and providers globally. Many consumers are using these resources to take a more active approach to having their complex and individual financial needs met, and are more willing to experiment with a wide range of providers.

In response to this demand, and as a result of ongoing technology change, new players continue to enter selective segments of the market. These new players typically operate with lower cost structures, placing continued pressure on the margins of traditional players.

The rising consumer demands are also prompting more active involvement from regulators, sometimes prompting changes that negatively impact on supplier costs without commensurate benefits to the consumer.

These trends are placing increased pressure on traditional broad-based players, at a time when capital markets are significantly more responsive with many investors focused on short-term performance.

The key implication from these trends is a movement towards an increasingly customer-driven market. This is happening at a time when there is greater scrutiny worldwide on corporate behaviour in general, and on the reputation of financial services institutions in particular.

In this environment, financial services companies that can help people navigate their way through the maze of offerings and instill confidence in their financial wellbeing will be chosen ahead of others. Companies that play a role in restoring and building faith in the systems and institutions that underpin our society will earn society's respect.

The Group is implementing a range of strategic responses to this environment, centred around providing our customers with quality service and helping them meet their lifetime financial needs. Initially we are focussing on the following key initiatives –

We are building a "premium" banking service to meet the unique needs of those customer segments seeking a personalised advice-based service. This service will differ from traditional financial advisers in that it will support all aspects of financial management, not just investments.

We are redesigning and rebuilding our support for the small to medium-sized business segments. This is expected to leverage the experience of our staff involved in servicing large corporates, bringing knowledge of sophisticated financing and risk products and relationship management processes into this segment. We aim to provide a significantly better service level to these segments, which is designed to result in increased market share.

We are leveraging the expertise in our Investment and Insurance Division, specifically the knowledge gained by Colonial First State in dealing with independent financial advisers, to build a stronger in-house advisory capability. This is expected to be supported by continued product innovations, such as our recently launched "First Choice" masterfund. These initiatives aim to improve our ability to meet the financial planning advice needs of our customers.

In our retail segments we are implementing changes designed to significantly improve our service levels, by empowering our front-line staff with better information, tools and decision-making capabilities so that

they can better meet customer needs and quickly resolve any problems.

In our international markets we continue to look for opportunities to expand, with a focus on leveraging our wealth management services and expertise.

All of these initiatives require the Group to enhance our systems and processes supporting our people, so that our people can make it happen for our customers.

In addition to these growth initiatives, we continue to look for ways of improving productivity by re-engineering processes and exploiting our scale advantage.

The Bank expects that total staff numbers will be reduced by around 1,000 by the end of Financial Year 2003 as a result of eliminating duplication, inefficiencies and some back office processing. In addition to the 500 positions announced earlier, a further 1,550 positions will no longer be required. At the same time, there is expected to be an increase of some 550 positions, principally providing customer service. While every attempt will be made to redeploy displaced staff, where this is not possible staff will receive a redundancy package.

With over 1,000 branches, the Commonwealth Bank's branch network remains Australia's largest, exceeding its nearest competitor by around 200 branches. The Bank has announced that it will keep branch numbers at the current level. As a consequence, a small number of branches that the Bank had previously announced as closing, will not close.

Outlook Statement

The statements below contain forward-looking information. Refer 'Special Note Regarding Forward-Looking Statements' on page 3.

Equity market volatility is leading to increasing concern about the global economic outlook, particularly in the US.

Australia recorded a relatively good economic performance over the past year, despite global uncertainty, based on strong growth in housing and consumer expenditure.

However, the global outlook is a significant risk to the Australian outlook.

Within the Australian domestic economy housing is expected to slow over Financial Year 2003 and business investment will need to record an upturn in order to sustain overall activity levels. Fluctuating equity prices could also undermine confidence.

Continuing firm credit growth in Financial Year 2003 depends upon business lending increasing as housing

lending declines. Competitive pressures will remain strong in this environment.

The high level of household indebtedness constitutes a medium term risk to the outlook. In particular, high household debt levels may constrain future credit growth, leading to slower credit growth over coming years than has been the case in the past.

Productivity growth will remain critical in the face of intensifying competition. The Bank's productivity initiatives are founded in flexible application of technology, scale advantages and staff skills designed to achieve continuous gains.

Customer service is a core strategic focus for the Bank's future direction. Our business goals are all centred on delivering superior customer outcomes. This focus becomes even more important in the uncertain economic environment.

The Directors expect satisfactory earnings growth over the coming year after the cost of implementing strategic initiatives (detailed previously) of an estimated \$120 million after tax.

These net initiatives are expected to produce ongoing annual benefits exceeding the cost of implementation.

The economic uncertainties outlined above are expected to put pressure on corporate and shareholder returns, within Australia and overseas. The Group continues to target top quartile Total Shareholder Return (TSR) in the long term, although market uncertainties may lower the quantum of TSR in comparison to recent historical trends.

The directors believe the Group is well positioned to capitalise on opportunities as they arise. Our initiatives focus on customer service and productivity which are critical in the uncertain economic environment. To deliver this we will continue to target 3 - 6% annual productivity improvement (excluding one off impact of strategic initiatives) together with maintenance of strong Balance Sheet and Capital positioning.

Future dividends will be based on Cash Earnings Per Share, having regard to the following:

- Rate of business growth;
- Capital adequacy;
- Investment requirements;
- The cyclical nature of life insurance investment returns and expectations of long term investment returns; and
- A range of other factors.

Subject to these factors, the Group intends to continue to maintain a high payout ratio relative to its peers. The dividend payout ratio for Financial Year 2002 was 76.2% on a cash basis.

Banking – Performance Summary

The contribution from the Group's Banking business increased 15% in Financial Year 2002 to \$2,067 million from \$1,793 million in Financial Year 2001, driven by strong cost control while maintaining income growth. Net interest earnings increased by 5% to \$4,710 million in Financial Year 2002 from \$4,474 in Financial Year 2001, and other banking income increased by 7% to \$2,552 million in Financial Year 2002 from \$2,381 million in Financial Year 2001. Average interest earning assets increased by 6% compared to Financial Year 2001 to \$171 billion in Financial Year 2002. Expenses were \$29 million below Financial Year 2001. As a result of the foregoing factors, the Group's Banking business experienced a 15% increase in underlying profit to \$3,333 million. This growth has been partly offset by a \$64 million increase in the provision for bad and doubtful debts.

Performance Summary	Year Ended 30 June	
	2002 \$M	2001 \$M
Underlying Profit (before bad debts and income tax expense)	3,333	2,897
Profit from ordinary activities after tax ⁽¹⁾	2,067	1,793
Lending Assets ⁽²⁾	161,216	149,776
Average interest earning assets	170,634	160,607
Average interest bearing liabilities	157,105	145,978
Risk weighted assets	141,049	138,383
Net impaired assets	614	415
Performance Ratios (%)		
Net interest margin	2.76	2.78
General provision/Risk weighted assets	0.96	1.01
Total provisions/Gross impaired assets (net of interest reserved)	183.9	251.6
Non-interest income/Total operating income	35.1	34.7
Cost to average assets ratio	1.96	2.10
Cost to income ratio ⁽³⁾	54.1	57.7
Other Information (numbers)		
Branches/service centres (Australia)	1,020	1,066
Agencies (Australia) ⁽⁴⁾	3,936	3,928
ATMs ⁽⁵⁾	3,950	3,910
EFTPOS terminals	126,613	122,074
EzyBanking sites	730	659

⁽¹⁾ Represents profit after tax and outside equity interest and before goodwill amortisation.

⁽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 \$7.0 billion as at 30 June 2002 compared to \$6.8 billion as at 30 June 2001.

⁽³⁾ The factors affecting the Group and banking cost to income ratio are discussed on page 34.

⁽⁴⁾ Includes Australia Post and private agencies.

⁽⁵⁾ Includes third party ATMs.

Major Balance Sheet Items

As at 30 June	2002 \$M	2001 \$M
Loans, advances and other receivables ⁽¹⁾		
Gross Housing	92,886	80,284
Securitisation	(7,047)	(6,773)
Housing (net of securitisation)	85,839	73,511
Personal	8,230	7,768
Business	30,988	32,224
Corporate	23,642	24,198
Bank acceptances	12,517	12,075
Total lending assets	161,216	149,776
Trading securities		
Corporate	8,389	6,909
Deposits and other public borrowings		
Personal	64,229	58,620
Business	19,486	16,351
Corporate	49,085	42,384
	132,800	117,355
Debt issues		
Corporate	23,575	24,484

Detailed analysis of the above is provided in Banking Business Analysis.

⁽¹⁾ Loan balances are before provisions for impairment.

Banking Operating Profit Summary	Year Ended 30 June		
	2002 \$M	2001 \$M	2000 \$M
Interest income	10,455	11,900	8,842
Interest expense	5,745	7,426	5,123
Net interest income	4,710	4,474	3,719
Other operating income	2,552	2,381	1,951
Total operating income	7,262	6,855	5,670
Operating expenses	3,929	3,958	3,164
Underlying profit	3,333	2,897	2,506
Charge for bad and doubtful debts	449	385	196
Operating profit from ordinary activities before income tax	2,884	2,512	2,310
Income tax expense	816	705	759
Outside equity interests	1	14	38
Operating profit from ordinary activities after income tax	2,067	1,793	1,513

Detailed analysis of the components of Banking Operating Profit is provided in Banking Analysis of Performance.

Banking – Business Analysis

(All figures relate to Financial Year 2002. All comparisons are to Financial Year 2001 unless otherwise stated. Market share statistics represent Australian operations.)

Total lending assets have grown by \$11.4 billion to \$161.2 billion during Financial Year 2002. As at 30 June 2002, securitised home loan balances amounted to \$7.0 billion, an increase of \$0.2 billion in the year. Including securitisation, lending assets have increased by \$11.7 billion since 30 June 2001. Lending balance growth was driven predominantly by Home Loans, which have grown by \$12.6 billion or 16%. Personal lending balances have increased by \$0.5 billion or 6% over the year while Corporate and Business lending balances have decreased \$1.8 billion since 30 June 2001.

An analysis of the key areas is detailed below.

Personal Products

Housing Loans

The Group's home loan outstandings, including securitisation, totalled \$92.9 billion at 30 June 2002, an increase of \$12.6 billion or 16%. Securitised balances were \$7.0 billion as at 30 June 2002 compared to \$6.8 billion as at 30 June 2001.

Growth in home loans has been strong, with record levels of new business written in the year as a result of specific campaigns undertaken, with a focus on growing share of the mortgage broker channel, and strong demand in the housing market generally. In particular this growth was driven by a low interest rate environment, the continuation of the Government's first home owner's grant and a relatively robust economy, although expected increases in interest rates may result in a slowing of credit growth in the future. The Group has also obtained a larger share of the third party broker market during the year with the CBA's share of approvals growing from 6.9% at 30 June 2001 to 11.9% at 31 March 2002. The Group's market share continued to stabilise, remaining constant at 20.1% in the second half of the year compared with 20.4% at 30 June 2001. *(Source: APRA Residentially Secured All Lenders).*

Personal Lending

Personal Lending balances at 30 June 2002 amounted to \$8.2 billion, a slight increase of \$0.5 billion compared with the balance at 30 June 2001. The principal balances included within Personal Lending are credit card outstandings and personal loans.

Credit Cards

Credit card outstandings for the Group totalled just over \$4.8 billion at 30 June 2002, an increase of \$0.6 billion on the balance at 30 June 2001. The number of merchants increased to over 151,000 with growth achieved through greater emphasis on developing new bill payment services, particularly via the telephone and emerging channels such as mobile EFTPOS and the Internet. The Group's market share of Credit Card outstandings has increased to 21.6% as at June 2002 from 21.4% at 30 June 2001 *(Source: RBA).*

Personal Loans

Personal loan outstandings for the Group totalled \$3.5 billion at 30 June 2002 compared with \$3.7 billion as at 30 June 2001. As a result of continued growth in the use of credit cards and home loan redraw facilities, the market for personal loans is in decline. The Group's focus during the year was on customer retention initiatives and it continues to hold the largest share of the personal loan market with 21.3% as at March 2002 compared to 21.9% as at June 2001 *(Source: APRA).*

Deposit Products

As at 30 June 2002, the Group's retail deposit base in Australia stood at approximately \$64.2 billion, a 10% increase from 30 June 2001. The flow of funds into retail deposits was initially associated with the events of September 11, 2001 and continued in the second half with customer uncertainty associated with volatile equity markets. A corresponding impact was seen in the managed funds business. The Group is the largest acceptor of retail deposits in Australia with a market share of 24.2% at March 2002 compared with 24.0% at June 2001 *(Source: APRA All banks).*

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 from 652,000 at 30 June 2001 to 742,000 at 30 June 2002. Over 85% of CommSec trades are now conducted online with the balance by telephone. Service and efficiency have been further improved in the year through additional features such as the addition of electronic contract notes and customer financial history, audio and audio-visual market commentary and enhanced charting and research facilities.

Business and Corporate Products

Business Lending

At 30 June 2002, total Business Lending (excluding bank acceptances) amounted to \$31.0 billion, representing a reduction of \$1.2 billion over the year and reflecting weak business confidence for much of the period. The Group's market share of business lending as at March 2002 was 14.7%, down slightly from 14.8% as at June 2001. *(Source: RBA).*

A number of successful campaigns were run during the year with some focusing on cross selling. This included 'Business Directions', a campaign, designed to promote interest rate risk management solutions, 'Business Select', an integrated financing and transaction offering and the Farm Management Deposit, a tax effective way for farmers to set aside income from more productive years to those affected by adverse factors when it is needed most.

Corporate Lending and Deposits

Corporate Lending balances amounted to \$23.6 billion at 30 June 2002, representing a decrease of 2% or \$0.6 billion in the 2002 Financial Year. Corporate Deposits have increased by \$6.7 billion to \$49.1 billion at 30 June 2002, an increase of 16% (including certificates of deposit).

The Group's Institutional and Business Services Division, established as part of the new organisational structure announced on 20 December 2001, services the Group's institutional and corporate clients, Government entities, other major financial institutions, and middle market and small business customers. The products offered include financial markets, corporate finance payments and transaction services, and custody. Highlights during the year included the following:

Financial Markets

Financial Markets performed well with trading income up 15% due to clients' increased focus on foreign exchange, derivatives and interest rate risk management, given the prevailing volatile market conditions, and successful positioning of the trading books ahead of global market movements.

New developments during the year included the successful establishment of oil and gas hedging products for clients, completion of a consumer oriented labelling programme with the Australian Greenhouse Office which saw the first Greenhouse Friendly Certification issued in November 2001, and the development of a leading market position in originations, structuring and distribution of corporate mortgage backed securities (CMBS). Currently this activity is not material to the Group.

The progress of eCommCorporate, the Group's online financial markets dealing platform, has been significant with a doubling of customer numbers to over 2,000 in the year. Transaction volumes and turnover have grown strongly with a corresponding expansion in the products offered during the year to include Investment Bank Bills and Fixed Term Deposits.

Corporate Finance

Corporate Finance continues to develop and implement innovative debt and equity structures to meet the capital needs of clients. Substantial transactions undertaken in Financial Year 2002 include:

- Sponsor, Senior Debt Joint Lead Arranger and Underwriter, Hedge Bank, Agent and Security Trustee for the Southern Cross Consortium, the successful bidder for the privatisation of Sydney Airport.
- Arranger, Debt and Equity Provider of Operating Lease over new and used trains for Melbourne Transport Enterprises.
- Lead Arranger of a limited recourse project finance facility for QCT Resources, one of the largest resource project finance deals undertaken in Australia.
- Joint Lead Arranger and Underwriter of a dual currency facility for BHP, relating to the de-merger of BHP Steel.
- Joint Lead Arranger of a finance package to fund the buyout of Just Jeans by Catalyst Investment Managers.
- Arranger of Commercial Mortgage Backed Securities transactions for Investa and MCS Capital.

\$15.3 billion of capital was raised for clients in Financial Year 2002. Of the total amount raised, 40% was by originations, 41% financing by direct lending and the balance by syndicated loans.

Working Capital Services

Working Capital Services provides a full suite of products to support the financial and operational working capital needs of the Bank's Institutional, Corporate and Business clients, including payable and receivable transactional products and accounts, credit cards, cash pooling, information services and tools to efficiently manage funds, and a complete range of business financing options.

Funds and transaction volumes have both increased as a result of growth in new business, which has been driven by the launch of a new client service model during the year, providing a differentiated client offering. During the period, a more sophisticated Cash Management Pooling Facility was made available to our institutional clients. Direct Entry processing for Government clients, replicating the service they previously received from the Reserve Bank was also introduced.

Commonwealth Custodial Services

Commonwealth Custodial Services continues to consolidate its position in the market with \$79 billion of assets under administration at 30 June 2002 (30 June 2001:\$74 billion).

Distribution and Customer Access

The Group operates the largest financial services distribution network in the country, servicing over 10 million personal and business customers through a wide range of direct customer contact, self-service and third party channels. Strategic emphasis is on better aligning sales and service to the needs of distinct customer segments by recognising that different types of service are required by different customer segments.

Direct contact service channels

Further reconfiguration of the branch and business banking centre networks was undertaken over the 12 months reflecting changing customer needs and banking behaviour.

The branch network was reduced by 46 over the Financial Year, from 1,066 at June 2001 to 1,020 at June 2002. This ongoing rationalisation of the branch network is being undertaken in line with customer demand and usage patterns. The Group is now well positioned in terms of overall points of representation and will further intensify its focus on service delivery processes.

In implementing the Group's customised approach to service, a number of initiatives were undertaken during the year including:

- To better meet the full financial services needs of all customers, the Group's key objective is to broaden and deepen relationships with existing customers through a focus on cross-selling of related products and services wherever appropriate.
- The introduction of a Premium Banking service for high value personal customers in December 2001, providing relationship management services through 18 Premium Banking Centres nationally.
- A new delivery model for home loan customers was introduced with greater specialisation and focus in the key areas of sales, after-sales maintenance and customer retention. This has involved redefining the role of some 500 personal lenders to focus solely on sales, thereby complementing the Group's 202 mobile bankers to create a more effective home loan sales force. Additionally, new positions have been created to focus on after-sales care, service and customer retention.
- To better meet the wealth management and wealth creation needs of customers, financial advisory staff have been grouped as either financial planners or investment consultants, with staff filling these roles required to satisfy well-defined accreditation/qualification levels.
- A team-based selling initiative has been implemented for Business Banking customers, which is based on restructuring products around six core areas of expertise, and utilising specialists in the areas of lending, transactional banking, personal financing, specialist finance, risk management and wealth management. This initiative aims to enhance the customer experience by providing all finance solutions to our customers' financial and business management needs, through increased responsiveness, service quality, and streamlining of processes.

The Group's direct customer contact network continues to be augmented by the alliance with Australia Post. Personal Banking services are available at 3,729 Australia Post agencies across the country, together with the expansion of transactional banking services for business clients to 207 Australia Post locations.

Banking – Business Analysis (continued)

Electronic and Direct Banking

Customer usage of direct and self-service banking continues to gain pace. The total number of transactions performed in direct/electronic channels increased over the year to June 2002, while branch teller transactions continued to decline. As a result, the proportion of total transactions carried out in-branch was further reduced, from 15.6% to 14.4% in Financial Year 2002. Over the year, NetBank was the fastest growing channel, processing more than 158 million transactions in the year.

Growth in the use of telephone banking has been strong, with in excess of 146 million calls received on the 132221 customer service line. Two new call centres were established during the year to ensure the Group is able to meet its expanding requirements going forward and to underpin its commitment to deliver quality customer service.

ATM and EFTPOS usage continue to grow, albeit at a lower rate, with total transactions up 12% and 22% respectively since June 2001. The Group retains the largest proprietary ATM and EFTPOS terminal networks in the country (3,049 and 126,613 terminals respectively).

Woolworths EzyBanking

Woolworths EzyBanking is available through 730 Woolworths, Safeway and Big W stores nationally. Sales of transaction accounts (Ezy Action) and credit cards (Ezy Mastercard) during the year have been above expectations with more than 600,000 account holders signed up as at 30 June 2002. Approximately 38% of these customers are new to the Commonwealth Bank Group.

Third Party

The Group manages a number of third-party distribution networks to sell a range of the Group's products, including managed funds, superannuation and life insurance risk products, and traditional banking products such as home loans and credit cards. Third-party networks include:

- Multi-agents and life brokers;
- Authorised financial planners through wholly owned businesses;
- Independent financial planners;
- Insurance franchisees; and
- Mortgage brokers.

The growth in the Group's new home loan originations through mortgage brokers was particularly strong in Financial Year 2002 increasing from 6.9% to a 11.9% share of the mortgage broker market at 31 March 2002.

United Kingdom

The Group reviewed its businesses in the UK market, and will focus on funds management and wholesale trading operations. As a consequence the Group has sold the Newworld mortgage book and withdrawn from the retail mortgage market.

New Zealand Banking Operations

Performance Overview

ASB Bank had a strong year, with earnings 23% higher than those reported at 30 June 2001. The primary profit drivers were growth in net interest income due to increased lending volumes, an improved cost structure resulting from both lower unit costs and better productivity, and other income growth particularly from financial services. Customer retention and acquisition were key drivers of volume growth and the customer base grew by 63,195 or 7% during the Financial Year. As

at 30 June 2002, ASB Bank had total assets of NZ\$24.2 billion (June 2001: NZ\$20.1 billion), including total advances of NZ \$24 billion (June 2001 NZ \$19.8 billion).

Lending

Personal and Rural lending volumes achieved record levels for the Financial Year. Personal lending growth was 16%, Rural lending growth was 28%, and total assets increased by 21%. This compared to the annual market growth rate of 8.1% for private sector credit (residents only) (Source: Reserve Bank of New Zealand). Record growth in home loans was due to ASB Bank's presence in the key Auckland market, effective marketing campaigns, together with positive market dynamics such as improved economic conditions, lower interest rates, and higher immigration.

ASB Bank's share of the home lending market was 14.3% for the year to March 2002, a 0.7% increase from 13.6% for the same period to March 2001.

Funding

ASB Bank's annual funding (total deposits) growth was 18% for the Financial Year compared with the annual market growth rate of 6.1%, (Source: Reserve Bank of New Zealand). The majority of ASB Bank's growth was from term investments as safety and security of capital became important drivers following the events of September 11, 2001 and with the general decline in world equity markets.

Growth in deposit substitute products was primarily attributable to the good performance of the new financial services operations as the customer penetration strategy gathers momentum. ASB Bank's share of retail managed fund inflows was consistently near the top of all fund managers.

Transactions

Customer transaction volumes for the year were 5% higher than in Financial Year 2001, as the migration of transaction activity to self-service and direct channels helped to reduce overall costs to serve. Customer uptake of ASB Bank's internet banking service, FASTNET, continued to grow strongly. By 30 June 2002, FASTNET customer numbers had reached 181,000 (114,000 at 30 June 2001). Each month, 2.1m transactions are initiated through the FASTNET Classic and FASTNET Office services.

The following table sets forth the Group's net interest income for Financial Years 2000, 2001 and 2002.

	Year Ended 30 June		
	2002 \$M	2001 \$M	2000 \$M
Net Interest Income			
Interest Income			
Loans	9,231	10,246	7,663
Other financial institutions	165	280	191
Liquid assets	142	110	78
Trading securities	359	548	295
Investment securities	517	655	586
Dividends on redeemable preference shares	41	54	24
Other	-	7	5
Total Interest Income	10,455	11,900	8,842
Interest Expense			
Deposits	4,241	5,042	3,773
Other financial institutions	193	328	297
Debt issues	1,064	1,661	842
Loan capital	232	374	210
Other	15	21	1
Total Interest Expense	5,745	7,426	5,123
Net Interest Income	4,710	4,474	3,719

Net Interest Income

Net interest income for Financial Year 2002 increased by \$236 million from \$4,474 million in Financial Year 2001 to \$4,710 million.

The increase in net interest income was due to a \$10 billion increase in average interest earning assets between 30 June 2001 and 30 June 2002. The increase was offset partially by a drop in the net interest margin from 2.78% for Financial Year 2001 to 2.76% for Financial Year 2002.

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%.

The following table sets forth the effect on the Group's net interest income for Financial Year 2001 and Financial Year 2002.

Increase/Decrease	Financial Year 2002 vs Financial Year 2001 \$M	Financial Year 2001 vs Financial Year 2000 \$M
	Due to changes in average volume of interest earning assets and interest bearing liabilities	278
Due to changes in interest margin	(42)	107
Due to days variance in periods	-	(10)
Change in net interest income	236	755

Average interest earning assets grew from \$160,607 million at 30 June 2001 to \$170,634 at 30 June 2002 (refer Note 4 to the Financial Statements). The growth in average interest earning assets of \$10 billion during the year was driven primarily by strong growth in home lending as discussed on page 18. While this growth was in line with Financial Year 2001, the lower average rates for the 2002 Financial Year resulted in a lower volume impact on net interest income of \$278 million compared to \$334 million last year.

The change in net interest income due to changes in the net interest margin was negative \$42 million this year reflecting the decrease in net interest margin of 2 basis points applied to the average balances for the period as discussed on page 23.

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 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.

Banking – Business Analysis (continued)

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 reflect the effect of the wholesale funding nature of that business.

	Year Ended 30 June		
	2002	2001	2000
	%	%	%
Australia			
Interest spread ⁽¹⁾	2.75	2.56	2.71
Benefit of interest free liabilities, provisions and equity ⁽²⁾	0.25	0.43	0.42
Net interest margin ⁽³⁾	3.00	2.99	3.13
Overseas			
Interest spread ⁽¹⁾	1.16	1.06	1.22
Benefit of interest free liabilities, provisions and equity ⁽²⁾	0.43	0.55	0.30
Net interest margin ⁽³⁾	1.59	1.61	1.52
Group			
Interest spread ⁽¹⁾	2.47	2.32	2.47
Benefit of interest free liabilities, provisions and equity ⁽²⁾	0.29	0.46	0.41
Net interest margin ⁽³⁾	2.76	2.78	2.88

⁽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 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.

⁽⁴⁾ The reduction of this free funding benefit reflects the lower interest rates.

Group Interest Margin

The Group average net interest margin for Financial Year 2002 decreased by 2 basis points from 2.78% in Financial Year 2001 to 2.76% in Financial Year 2002.

This was a positive outcome given that the cash rate was reduced three times during the first half of the year by a total of 75 basis points and then increased twice by a total of 50 basis points during the second half as a tightening of monetary policy was implemented. Combined with this, there was pressure on margins from increased competition, particularly through the third party broker market.

These reductions were almost entirely offset by the positive impact from the availability of higher levels of retail deposits which provide a relatively low cost source of funding. Retail deposits grew \$5.6 billion or 10% to \$64 billion over the 2002 Financial Year.

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.

Other Banking Operating Income

The following table sets forth the Group's other banking operating income for Financial Years 2002, 2001 and 2000.

	Year Ended 30 June		
	2002	2001	2000
	\$M	\$M	\$M
Lending fees	618	602	554
Commission and other fees	1,242	1,173	946
Trading income	489	426	311
Dividends	5	14	20
Net gain on investments and loans	78	56	12
Net profit on sale of property, plant and equipment	12	25	13
General insurance premium income	119	107	103
Less general insurance claims	(66)	(57)	(55)
Other	55	35	47
Total Other Banking Operating Income	2,552	2,381	1,951

Other Banking Operating Income

30 June 2002 – 30 June 2001 (up 7%)

30 June 2001 – 30 June 2000 (up 22%)

Other Banking Operating Income increased by 7% or \$171 million from \$2,381 million in Financial Year 2001 to \$2,552 million in Financial Year 2002. Included within other banking income is non interest income earned on transactions and accounts within the Groups' personal, business and corporate customers. The principal reasons for the overall increase are set out below.

In Financial Year 2001 other Banking Operating Income increased by 22% or \$430 million from \$1,951 million in Financial Year 2000 to \$2,381 million.

Lending Fees

30 June 2002 – 30 June 2001 (up 3%)

30 June 2001 – 30 June 2000 (up 9%)

Lending fees have increased by 3% or \$16 million to \$618 million, during Financial Year 2002 mainly due to increased activity in the home lending market offset by the continuation of a number of discount linked establishment fee offers during the year and the fees earned in relation to Corporate Finance activity.

The Group has also increased its use of third party mortgage brokers during the year with commissions paid being netted off lending fees. The entry fee discounts and use of brokers are part of the Group's strategy to build lending balances to improve future earnings potential.

During Financial Year 2001 lending fees increased by 9% or \$48 million to \$602 million 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.

Commission and Other Fees

30 June 2002 – 30 June 2001 (up 6%)

30 June 2001 – 30 June 2000 (up 24%)

Commissions and other fees increased by 6%, or \$69 million to \$1,242 million for Financial Year 2002.

Growth in commission and other fees has been driven by increased transaction activity, particularly within credit cards. In relation to the credit card business there has been a 28% increase in the value of merchants' sales and a 25% increase in the value of credit cardholder sales during the Financial Year.

Commission and fee revenue was also positively impacted by a number of changes which were made to the fee structure during the second half of the year.

Retail transaction fees for Financial Year 2002 represent 14% (30 June 2001:12%) of Other Banking income and 5% (Financial Year 2001 : 4%) of total Banking income.

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

Growth in commission and other fees was driven by the inclusion of Colonial for Financial Year 2001 and Credit Cards with increased sales activity from both merchants and cardholders.

Trading Income

30 June 2002 – 30 June 2001 (up 15%)

30 June 2001 – 30 June 2000 (up 37%)

The Group's Financial Markets operations contributed \$489 million of trading income, representing strong growth of 15% over Financial Year 2001. Financial Markets trading books benefited from the increased client activity generated by the volatility in global markets throughout the year.

In Financial Year 2001 the Group's Financial Markets operations contributed \$426 million of trading income, representing growth of 37% or \$115 million 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.

Dividends

30 June 2002 – 30 June 2001 (down 64%)

30 June 2001 – 30 June 2000 (down 30%)

Dividend income represents dividends earned on the Group's strategic investments. Some of these investments were sold during the current and previous year.

Net Gain on Investments and Loans

30 June 2002 – 30 June 2001 (up 39%)

30 June 2001 – 30 June 2000 (up 367%)

Gains during Financial Year 2002 included the profit on sale of certain strategic investments totalling \$53 million. In Financial Year 2001 the profit included the sale of the Group's interest in Brisbane Airports Corporation Ltd.

Gains on Investments and loans increased from \$12 million in Financial Year 2000 to \$56 million in Financial Year 2001.

Banking - Business Analysis (continued)

Net Profit on Sale of Property Plant and Equipment

30 June 2002 – 30 June 2001 (down 52%)

30 June 2001 – 30 June 2000 (up 92%)

The current Financial Year includes the gain on sale of properties in Melbourne and Brisbane central business districts during October 2001 as a continuation of the Group's sale and leaseback strategy.

In Financial Year 2001 net profit on sale of property, plant and equipment increased from \$13 million in Financial Year 2000 to \$25 million. 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.

General Insurance Income (net of claims)

30 June 2002 – 30 June 2001 (up 6%)

30 June 2001 – 30 June 2000 (up 4%)

General Insurance premium income less claims has increased slightly to \$53 million for the Financial Year 2002, following a 4% increase to \$50 million during the Financial Year 2001, following a 4% increase to \$50 million during the 2001 financial year.

Charge for Bad and Doubtful Debts

The following table sets out the charge for bad and doubtful debts for Financial Years, ending 30 June 2002, 2001 and 2000.

	Year Ended 30 June		
	2002	2001	2000
	\$M	\$M	\$M
Specific Provisioning			
New and increased provisioning	546	495	236
Less provisions no longer required	(51)	(84)	(96)
Net specific provisioning	495	411	140
Provided from general provision	(495)	(411)	(140)
Charge to profit and loss	-	-	-
General provisioning			
Direct write offs	51	35	34
Recoveries of amounts previously written off	(56)	(88)	(54)
Movement in general provision	(41)	27	76
Funding of specific provisions	495	411	140
Charge to profit and loss	449	385	196
Total Charge for Bad and Doubtful Debts	449	385	196

Total charge for bad and doubtful debts for Financial Year 2002 was \$449 million which was \$64 million (17%) higher than the charge in Financial Year 2001. This increase is primarily related to a small number of large corporate and commercial lending exposures that became impaired during the first half of the year and which have been provisioned for potential loss. As previously disclosed to the market, these included Pasmenco (net exposure \$347 million) and Enron (net exposure \$100 million) in the first half of Financial Year 2002. Bad debt expense in the second half was \$159 million, down from \$290 million in the first half with a reduction in corporate defaults in the second half and an improvement in credit quality.

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 was 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.

Provisions for Impairment

	Year Ended 30 June		
	2002	2001	2000
	\$M	\$M	\$M
General Provisions	1,356	1,399	1,358
Specific Provisions	270	234	432
Total Provisions	1,626	1,633	1,790
Specific Provisions for impairment as a % of gross impaired assets net of interest reserved	30.54	36.06	43.03
General provisions as a % of risk weighted assets	0.96	1.01	1.06

Total provisions for impairment for the Group at 30 June 2002 were \$1,626 million, down 0.4% from 30 June 2001. This level of provisioning is considered adequate to cover any bad debt write offs from the current lending portfolio having regard to the current macro economic outlook.

Specific provisions for impairment have increased 15.4% from \$234 million at 30 June 2001 to \$270 million at 30 June 2002, primarily as a result of increased provisioning to cover a small number of large corporate and commercial lending exposures that became impaired during the first half of the year, (most notably the two large corporate defaults mentioned previously).

The general provisions for impairment have reduced to \$1,356 million at 30 June 2002 from \$1,399 million at 30 June 2001, a decrease of 3.1%. The general provision as a percentage of Risk Weighted Assets reduced marginally to 0.96% from 1.01%. This level is consistent with that of other major Australian banks. The general provision as a percentage of risk weighted assets has declined slightly over the last 3 years reflecting the fact that the major growth in credit has been in home loans which have lower credit risk than the rest of our

lending portfolio. Gross impaired assets less interest reserved have increased 36% from \$649 million to \$884 million over the year. This has been primarily due to additions to gross impaired assets (including interest reserved) for the year of \$1,069 million (of which 42% relates to the two large corporate defaults mentioned previously).

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

Specific provisions for impairment 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 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.

Funds Management – Business Analysis

The funds management businesses have contributed \$216 million in net profit after tax to the Group's result for Financial Year 2002. This represents an increase of \$67 million or 45% over Financial Year 2001. The growth in net profit after tax reflects the higher average funds under management achieved during Financial Year 2002 despite the poor investment returns resulting from the fall in world equity markets, combined with a lower effective tax rate arising from the non recognition of overseas tax losses in Financial Year 2001.

The funds management businesses contributed \$149 million to the Group's result for Financial Year 2001. This represented an increase of \$113 million over Financial Year 2000. The growth in operating profit reflected the acquisition of Colonial First State Group in June 2000 and strong growth in external funds under management, which increased by \$12 billion to \$77 billion. Funds management operating income increased to \$739 million offset by an increase in variable sales and processing expenses.

	Year Ended 30 June		
	2002 \$M	2001 \$M	2000 \$M
Funds Management			
Operating income - external	809	701	143
Operating income - internal ⁽¹⁾	33	38	10
Total income from funds management business	842	739	153
Operating expenses	548	496	103
Profit before tax	294	243	50
Income tax expense	78	94	14
Net profit after tax	216	149	36

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.

	2002 \$M	2001 \$M
As at 30 June		
Assets held and funds under management (FUM) ⁽²⁾		
Funds management ^{(4) (5)}	77,483	76,954
Internal life insurance funds	25,355	24,527
Total FUM	102,838	101,481
Other life and funds management assets ⁽³⁾	13,163	14,551
Total	116,001	116,032
Australia	92,211	91,810
United Kingdom	12,966	14,953
New Zealand	6,518	4,650
Asia	4,306	4,619
Total	116,001	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⁾ Funds under management exclude funds under tactical overlay management, \$10 billion at 30 June 2002 (30 June 2001: \$10 billion).

⁽⁵⁾ Represents total external funds under management of the Group. ASSIRT reporting includes external funds under management, and funds managed on behalf of the life insurance companies in the Group which are included within life insurance assets. ASB Group funds under management and other international funds under management are not included in the ASSIRT reporting.

Despite market pressure on funds management products, the Group's funds management business performed well during Financial Year 2002. The business achieved a 45% growth in net profit after tax with the result increasing from \$149 million for Financial Year 2001 to \$216 million for Financial Year 2002. The profit before tax increased by \$51 million over Financial Year 2001 or 21% to \$294 million for Financial Year 2002 as a result of continued strong income growth. Set out below is detailed commentary on the performance and key activities during the year.

Performance Analysis

The funds management business increased net profit after tax by 45% during Financial Year 2002 from \$149 million in Financial Year 2001 to \$216 million in Financial Year 2002. This was driven by strong revenue growth and an improvement in the cost to income ratio of 2.0 percentage points. The effective tax rate reduced significantly compared to Financial Year 2001, due to the impact of a change in the tax rate in Australia from 34% to 30% and the non recognition of overseas tax losses in Financial Year 2001. Revenue growth was driven by a higher average funds under management balance throughout the Financial Year, due to solid sales performance driven by the introduction of Colonial First State products into the Group's proprietary distribution network, and two small acquisitions. Closing FUM was only slightly above opening FUM, increasing \$1.4 billion to \$103 billion, due to poor investment returns resulting from volatility in global equity markets and a general move by customers into deposit products as a safe haven from investment market volatility. Costs increased by 10% during the year, reflecting the costs to develop and launch

a number of new products, including the recently launched masterfund (FirstChoice), a range of nil entry fee products and a fund-of-fund hedge fund.

In Financial Year 2001 total external FUM have increased by \$11.7 billion or 18% to \$77 billion and internally managed life insurance FUM increased by 7% or \$1.6 billion to \$24.5 billion. The combined life insurance assets and funds under management totalled \$116 billion at 30 June 2001, an increase of 18% from 30 June 2000.

New Products

During Financial Year 2002, a number of new investment products were launched. These include a new masterfund (FirstChoice), a range of nil entry products, a global geared share fund and a multi-managed hedge fund. In the Property business, the Group has recently launched an Opportunistic Fund to complement its existing product set and meet the needs of its wholesale customer base. Internationally a number of new products have been launched including a UK equities mid-cap fund, a lifetime fund and an innovative Global Opportunities fund. The rollout of new products is a key part of the strategy to diversify the product offerings available to customers.

Restructure

In December 2001, it was announced that the Group's two funds management businesses, Colonial First State and Commonwealth Investment Management, would be combined. The integration of these businesses brought together two strong fund managers with funds under management in excess of \$100 billion. This integration has facilitated efficiency improvements through combining systems and back office processing.

The analysis of the movement of funds by product category is as follows:

Year to 30 June 2002

	Opening Balance 1 July 2001 \$M	Inflows \$M	Outflows \$M	Investment Income \$M	Other Movements and Transfers \$M	Closing Balance 30 June 2002 \$M
Funds Under Management (including Life Insurance)						
Retail	33,948	15,125	(13,421)	(941)	(686)	34,025
Wholesale	43,006	15,040	(12,014)	(1,552)	(1,022) ⁽¹⁾	43,458
Internal managed life	24,527	5,663	(5,617)	(495)	1,277 ⁽¹⁾	25,355
Total FUM	101,481	35,828	(31,052)	(2,988)	(431)	102,838

	Opening Balance 1 July 2000 \$M	Inflows \$M	Outflows \$M	Investment Income \$M	Other Movements and Transfers \$M	Closing Balance 30 June 2001 \$M
Funds Under Management (including Life Insurance)						
Retail	24,554	20,616	(12,337)	1,262	(147)	33,948
Wholesale	40,712	13,228	(12,436)	985	517	43,006
Internal managed life	22,916	4,964	(5,045)	1,573	119	24,527
Total FUM	88,182	38,808	(29,818)	3,820	489	101,481

⁽¹⁾ Includes \$1.5 billion reclassification between wholesale and internal funds under management. Other movements primarily relate to foreign exchange gains and losses.

Funds Management – Business Analysis (continued)

The tables on page 27 show that FUM growth over Financial Year 2002 was only \$1.4 billion or 1% compared to \$13.3 billion in Financial Year 2001. Much of this reduced growth resulted from investment returns which were negative \$3.0 billion this year, compared to a gain of \$3.8 billion in Financial Year 2001. In terms of net inflows on total FUM, the Group achieved \$4.8 billion in Financial Year 2002 compared to \$9.0 billion in Financial Year 2001. Financial Year 2002 was impacted by the following factors:

- The market has seen a drop off in retail inflows initially due to the events of September 11, 2001 and subsequently in response to the investment market volatility, particularly during the last quarter of the year. This also resulted in a greater preference for deposit style products where fixed returns were provided. The growth in retail deposits of the Group by 10% during the year was partially due to this change in customer behaviour.
- The Group lost wholesale mandates of approximately \$1 billion in Australia following the announcement of the departure of a high profile investment manager. In addition, the UK business saw the withdrawal of a further \$2 billion of wholesale FUM due to the run down of an asset management contract.
- The mix of net inflows between retail and wholesale business varied during Financial Year 2002 due to the impact of masterfund business on the wholesale inflows. A growing proportion of funds sourced through external channels are allocated to Masterfunds which are treated as wholesale business.
- The Group's market share of net retail inflows was down in the March 2002 quarter mainly due to the outflows of the cash management trust product. This was offset by the growth in retail deposits discussed previously. The Group continues to hold a strong position in the Australian market place with 16.3% market share of retail FUM at 31 March 2002 down slightly from 16.4% at 30 June 2001. (*Source: Plan for Life*). Across most product categories and asset classes, the Group has a strong market position. The recently announced property transaction with Gandel will strengthen the Group's market position in both the wholesale and retail property market.

Life Insurance – Business Analysis

The life insurance operations contributed \$218 million in net profit after tax to the Group's result for Financial Year 2002 compared to \$320 million for Financial Year 2001. Operating margins in Australia increased by \$20 million over the Financial Year 2001, however a poor performance in Asia resulted in a \$30 million reduction in the operating margin for the region with New Zealand's margin up slightly to \$25 million.

Investment earnings on shareholders' funds after tax reduced by \$93 million during Financial Year 2002.

As at 30 June 2002, life insurance assets totalled \$36 billion, which is a decrease of 4% over 30 June 2001. The results from the Group's life insurance operations are detailed on the following pages.

Operating profit after tax for Financial Year 2001 was \$320 million representing a \$191 million increase over Financial Year 2000.

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 reflected 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.

The following table sets forth the Group's Life Insurance Income result for Financial Years ending 30 June 2002, 2001 and 2000. The accounting methodology used for estimating policy holder liabilities, for deferring costs and for valuing controlled entities is markedly different under US GAAP compared to Australian GAAP. Refer note 49 to the Financial Statements for a description and reconciliation of these differences.

Summary Financial Performance (excluding appraisal value uplift)	Year Ended 30 June		
	2002 \$M	2001 \$M	2000 \$M
Life Insurance			
Margin on Services operating income - external	997	1,268	326
Operating expenses - external	(724)	(716)	(140)
Operating expenses - internal ⁽¹⁾	(33)	(38)	(10)
Total expenses	(757)	(754)	(150)
Profit from life insurance activities before tax	240	514	176
Income tax expense attributable to:			
Policy holder	(36)	94	
Corporate	58	100	47
Net profit after tax	218	320	129

⁽¹⁾ Management charge paid to Funds Management.

The table above details the operating income, operating expenses and tax expense from the Group's life insurance businesses, in accordance with Accounting Standard AASB 1038.

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

The most significant impact of this is the inclusion of policyholder tax within operating income and tax expense. For Financial Year 2002 the effect of this is a \$36 million credit compared with a \$94 million charge for Financial

Year 2001 year. The reduction is mainly attributable to reduced investment earnings on behalf of policyholders for the period which recorded a loss for the year. Inclusion of this item in accordance with Australian accounting standards causes fluctuations in the cost to income ratio and the effective tax rate between periods.

The net 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.

Sources of profit from life insurance activities	Year Ended 30 June		
	2002 \$M	2001 \$M	2000 \$M
Planned profit margins	234	257	121
Experience variations	(37)	(63)	(8)
New business losses / reversal of capitalised losses	(9)	(2)	1
Other	(3)	2	-
Operating margins	185	194	114
Investment earnings on assets in excess of policyholder liabilities ⁽¹⁾	33	126	13
Net profit after tax	218	320	127

⁽¹⁾ Includes a gain of \$47 million in Financial Year 2001 year resulting from the transfer of certain strategic investments to the life insurance business. Excluding this gain investment income decreased 58% or \$46 million over Financial Year 2001.

Life Insurance – Business Analysis (continued)

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 2002, as well as the totals for Financial Year 2001 and Financial Year 2000.

	Australia	New Zealand	Asia	Total	Year Ended 30 June	
	2002 \$M	2002 \$M	2002 \$M	2002 \$M	2001 \$M	2000 \$M
Operating Margins	210	25	(50)	185	192	114
Investment earnings on assets in excess of policyholder liabilities	26	3	4	33	126	13
Other					2	2
Operating Profit after tax	236	28	(46)	218	320	119

Life Insurance operating margins in Australia totalled \$210 million in Financial Year 2002. This represents growth of 11%, over Financial Year 2001 driven by improved mortality claims experience, the growth in inforce premium in the risk business of 14% together with the benefit of higher average FUM balances within the unit linked investment business. These were partly offset by the run off in traditional and investment account business. The Australian life insurance business consists of two segments; risk business that includes the mortality and morbidity products, annuities and traditional life products, and the investment business, which includes the investment linked products. As part of the reorganisation of the Group announced on 20 December 2001 the investment products of the life companies were brought under the same management structure as the funds management business. For the Financial Year 2002 reporting period results have been classified according to the company within which business is written. In future reporting periods the results for these investment products will be incorporated in the funds management segment.

The New Zealand operations maintained steady margins over the reporting period reflecting the benefits of the Colonial integration. The persistency and claims experience impacting the first half New Zealand results improved during the second half of Financial Year 2002.

The Asian life businesses were adversely affected by the downturn in global equity markets. Operating margins were down \$30 million from Financial Year 2001. In addition to the downturn in global equity markets there has been a number of start up costs associated with the pensions and retirement business within Hong Kong and other one off costs.

Investment returns on shareholder funds after tax in Financial Year 2001 included \$47 million for the transfer of certain strategic investments. Investment returns in Financial Year 2002 included a \$15 million write down in Asian businesses. Excluding these items, investment returns on shareholder funds have fallen by \$31 million in Financial Year 2002. The fall is due primarily to the global downturn in equity markets. Life insurance tangible assets in excess of liabilities amounted to approximately \$2.7 billion as at 30 June 2002 of which \$2.6 billion was supported by investment earning assets. The Group has maintained a balanced weight between growth and fixed interest investments during the period. Despite the short term volatility in world equity markets the Group considers a balanced weighting in investment assets appropriate due to the long term focus of the business. The asset allocation of shareholders funds at 30 June 2002 was:

- Growth assets 50%
- Income assets 50%

Life Insurance Funds Flow and New Business

Investment Business

	Opening Balance 1 July 2001 \$M	Inflows \$M	Outflows \$M	Investment Income \$M	Other Movements \$M	Closing Balance 30 June 2002 \$M
Superannuation	15,473	3,731	(3,591)	(337)	848	16,124
Retirement	4,888	1,157	(1,161)	(104)	357	5,137
Investment	1,669	232	(361)	(65)	52	1,527
Traditional	2,497	543	(504)	11	20	2,567
Total	24,527	5,663	(5,617)	(495)	1,277	25,355

The table above shows that net inflows for investment products offered by the life companies which were flat for the year due to the impact of offering Colonial First State products in preference to Commonwealth and Colonial life products and the introduction of Colonial First State products into the Group's proprietary distribution network.

Risk Business

Annual Premiums	Opening Balance 1 July 2001 \$M	Sales/New Business \$M	Lapses \$M	Closing Balance 30 June 2002 \$M
Personal	522	128	(68)	582
Group	190	63	(25)	228
Total	712	191	(93)	810

The level of inforce premium on the life insurance risk business increased by \$98 million or 14% to \$810 million in Financial Year 2002.

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 2002. These are Directors' valuations, based on appraisal values using a range of economic and business assumptions determined by management, which are reviewed by independent actuaries, Trowbridge Consulting. In determining the carrying value, Directors take account of a number of factors which result in a more conservative value being adopted than the appraisal values reviewed by Trowbridge. The Directors have considered potential impacts to the appraisal value from:

- A change to long term investment assumptions if short term volatility emerges as a long term structural change to equity market returns.
- The inherent risk in forecasting future business patterns over an extended horizon.
The key changes to actuarial assumptions that were made are also summarised.

As at 30 June 2002

	Life Insurance					Total
	Funds Management	Australia		New Zealand	Asia ⁽¹⁾	
		Investment	Risk ⁽⁵⁾			
	\$M	\$M	\$M	\$M	\$M	\$M
Shareholders net tangible assets	234	468	1,209	334	679	2,924
Value of inforce business	866	355	178	179	40	1,618
Embedded Value	1,100	823	1,387	513	719	4,542
Value of future new business	3,735	(75) ⁽⁶⁾	23	275	80	4,038
Carrying Value	4,835	748	1,410	788	799	8,580
Increase in carrying value since 30 June 2001	1,546	(1,125)	148	152	(144)	577

Analysis of Movement since 30 June 2001

	Life Insurance					Total
	Funds Management	Australia		New Zealand	Asia ⁽¹⁾	
		Investment	Risk			
	\$M	\$M	\$M	\$M	\$M	\$M
Profits	216	148	88	28	(46)	434
Capital movements ⁽²⁾	85	-	74	68	131	358
Dividends paid	(325)	(179)	(97)	(24)	-	(625)
Disposals of business ⁽³⁾	-	-	-	-	(61)	(61)
FX movements	(11)	-	-	26	(64)	(49)
Change in Shareholders NTA	(35)	(31)	65	98	(40)	57
Value transfer ⁽⁴⁾	1,142	(1,142)	-	-	-	-
Acquired excess	58	-	-	-	-	58
Disposals of business ⁽³⁾	-	-	-	-	(15)	(15)
Transfer of CFS Property	147	-	-	-	-	147
Underlying Appraisal Value Uplift	234	48	83	54	(89)	330
Increase to 30 June 2002	1,546	(1,125)	148	152	(144)	577

⁽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 which effectively represents goodwill is amortised on a straight line basis over 20 years.

⁽²⁾ Includes capital injections and payments for investments in controlled entities.

⁽³⁾ Represents the sale of the Thailand and Malaysian life insurance business.

⁽⁴⁾ Represents the transfer of value between the life insurance companies and the funds management businesses arising from decisions to replace some life products with Colonial First State products and the impact of introducing Colonial First State products to the Group's proprietary distribution network.

⁽⁵⁾ Includes risk traditional, investment account and annuity business.

⁽⁶⁾ Life insurance investment business comprises mainly corporate unit linked and superannuation business. The negative value of \$75m in the Australian Life Investment value of future new business represents products that are profitable but are not achieving returns greater than the discount rate. The lower return reflects a higher cost structure for these products that will be addressed as part of the Group's cost restructure.

Summary of Life Insurance and Funds Management Valuations (continued)

Change in Life Insurance and Funds Management Valuations

The valuations adopted have resulted in a total valuation increase of \$577 million since 30 June 2001. The main components of the increase comprise:

- A \$57 million change to net tangible assets comprising:
 - Profits of \$434 million.
 - Capital movements of \$358 million.
 - Dividend payments of \$625 million.
 - Disposals of businesses in Asia of \$61 million.
 - Foreign exchange translation losses of \$49 million.
- Acquired excess of \$58 million, predominantly management rights to Kiwi Income Properties Trust, and disposal of excess relating to Thailand of \$15 million.
- Appraisal Value uplift which is reported within the Group's profit for Financial Year 2002 of \$477 million being \$147 million relating to the transfer in of CFS property and an underlying uplift of \$330 million.

Capital movements in Financial Year 2002 of \$358 million comprised:

- Injection of equity into the Australian life, UK Funds Management and NZ life businesses to enable repayment of debt in individual companies.
- Injection of equity into the Asian life business to strengthen the capital position in response to the volatile investment markets and to fund business growth.

The \$330 million underlying uplift reflects the Directors' view that the fundamentals of the life insurance and funds management market remain sound and that the Group will continue its current positioning within those markets. Drivers of the appraisal value uplift for each business were:

- The managed funds and investment business recognised a total uplift of \$282 million reflecting the expected growth in value together with the positive impact of changes to persistency assumptions in Colonial First State, offset by the negative experience impact of poor investment returns during the Financial Year 2002. The uplift for the funds management business of \$234 million is lower than Financial Year 2001 uplift of \$596 million due to a lower growth in FUM during Financial Year 2002 and changes to the sales growth assumptions;
- The Australian life insurance risk business saw a net appraisal value uplift of \$83 million arising from improved claims experience on morbidity and mortality business offset by a lower persistency level;
- The Asian life insurance excess was written down by \$89 million reflecting the impact of a downturn in global equity markets, foreign exchange movements, and lower sales levels within the traditional Hong Kong life insurance market; and
- The net appraisal value uplift for New Zealand of \$54 million reflects the deterioration in morbidity and health care experience recognised in the first half of the year offset by new business growth, the

positive impact of valuing tax losses available following the restructure of the New Zealand life insurance operations and significant foreign exchange gains.

During Financial Year 2002, a number of significant changes have occurred in the Group's Australian funds management business that have impacted the appraisal value process and calculations. As a result it is considered appropriate to discuss the appraisal value at an aggregate level, combining the Colonial First State business and the Commonwealth business, some of which is within the life insurance segment labelled "investment" business above.

The transfer of value between the life investment business and the funds management business reflected management decisions made during the Financial Year 2002 to offer selected Colonial First State products ahead of Colonial and Commonwealth life investment products and the impact of introducing Colonial First State products to the Group's proprietary distribution network. The value transfer of \$1,142 million is the value of new business at the beginning of Financial Year 2002 associated with the products transferred.

In future reporting periods, the two businesses will be reported as one segment.

Valuation Assumptions

The key change in assumptions used in the life insurance and funds management valuation since 30 June 2001 are:

Australian Managed Funds

- Sales volumes and margins changes to reflect new product mix on transfer of business from Colonial and Commonwealth life and funds management business to Colonial First State.
- Improved persistency assumptions related to experience during the period.
- Change to tax assumptions for business previously written in the life insurance environment now written through the managed funds business.

Australian Risk

- Improved claims assumptions on the morbidity and mortality business.
- Reduced persistency assumptions for mortgage products.

New Zealand

- Deterioration in the claims assumption for the morbidity and health care business.
- Recognition of tax losses utilised in the Group.

Asian Life

- Change in the persistency assumption.
- Reduction in assumptions for new business sales.
- Slight reduction in experience assumptions.

Group Operating Expenses

The Following tables sets for the Group's operating expenses for Financial Years 2002, 2001 and 2000.

	Year Ended 30 June		
	2002 \$M	2001 \$M	2000 \$M
Staff Expenses			
Salaries and wages	2,079	2,046	1,498
Superannuation contributions	11	12	2
Provision for long service leave	36	47	38
Provisions for other employee entitlements	8	(8)	6
Payroll tax	92	99	75
Fringe benefits tax	32	48	33
Other staff expenses	132	116	53
Recurrent expenses	2,390	2,360	1,705
Restructuring	-	-	20
Total Staff Expenses	2,390	2,360	1,725
Occupancy and Equipment Expenses			
Operating lease rentals	324	329	208
Depreciation			
Buildings	26	29	31
Leasehold improvements	47	45	28
Equipment	55	76	58
Repairs and maintenance	56	60	46
Other	70	65	66
Recurrent expenses	578	604	437
Restructuring	-	-	3
Total Occupancy and Equipment Expenses	578	604	440
Information Technology Services			
Projects and development	233	216	186
Data processing	275	256	144
Desktop	155	145	103
Communications	175	171	138
Recurrent expenses	838	788	571
Restructuring	-	-	32
Total Information Technology Services	838	788	603
Other Expenses			
Postage	111	108	81
Stationery	104	104	75
Fees and commissions	609	524	176
Advertising and marketing	256	252	156
Other	315	430	206
Recurrent expenses	1,395	1,418	694
Restructuring	-	-	51
Total Other Expenses	1,395	1,418	745
Total Operating Expenses before goodwill amortisation	5,201	5,170	3,513
Appraisal value uplift	477	474	1,165
Goodwill amortisation	(323)	(338)	(57)
Profit from ordinary activities before income tax	3,572	3,405	3,538

Group Operating Expenses (continued)

The Group's operating expenses were \$5,201 million for Financial Year 2002 an increase of \$31 million on Financial Year 2001. The outcome was the result of a reduction in the banking expenses offset by volume related increases in funds management. Life insurance expenses were in line with Financial Year 2001.

The movement in expenses within these businesses, primarily relates to:

- In the current period additional synergies of \$205 million were achieved compared to Financial Year 2001.
- Costs increased by \$134 million due to increased volumes within the banking business, primarily within home lending where balance growth was double that of Financial Year 2001, together with transaction volumes relating to credit cards which increase processing and loyalty program costs.
- A 4% wage increase as the result of the finalisation of an enterprise bargaining agreement in the second half of Financial Year 2001 which, net of reduction in staff numbers, added \$30 million to the costs for Financial Year 2002.
- Life insurance expenses were flat reflecting reduced sales volumes and a continuation of expense synergies achieved during the second half of Financial Year 2001.
- Costs in the funds management business increased by \$52 million due to increased sales and processing volumes in Australia, together with marketing and infrastructure costs relating to the establishment of two new funds during Financial Year 2002.

The Group's operating expenses increased by 47% from \$3,513 million for the Financial Year 2000 to \$5,170 million for Financial Year 2001.

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

Other factors included:

- 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 were partly offset by \$120 million of Colonial integration savings made during Financial Year 2001.

During the 2000 Financial Year \$106 million of restructuring costs were negotiated in relation to the Colonial merger.

Other Group Items

Staff Numbers

The table below details the Group's staff numbers as at 30 June 2002, 2001 and 2000. Staff number reductions relate to the finalisation of the Colonial integration offset by a net increase in other staff movements reflecting business growth.

Staff Numbers as at 30 June	2002	2001	2000
Full time staff	30,378	31,976	34,154
Part time staff	7,714	7,161	7,383
Full time staff equivalent	34,498	34,960	37,131
Australia	28,742	28,837	31,056
New Zealand	3,932	3,872	3,731
Other Overseas	1,824	2,251	2,344
	34,498	34,960	37,131
Full time staff/Total Staff	88.1%	81.7%	82.2%
Part time staff/Total Staff	11.9%	18.3%	17.8%

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	Year Ended 30 June		
	2002	2001	2000
	\$M	\$M	\$M
Banking	816	705	739
Funds Management	78	94	14
Life Insurance - Corporate	58	100	3
Corporate tax	952	899	756
Policyholder	(36)	94	44
Total Income Tax Expense	916	993	800
Effective tax rate			
Banking	28%	28%	33%
Funds Management	27%	39%	28%
Life Insurance - Corporate	21%	24%	27%

The income tax expense for Financial Year 2002 decreased 8% from \$993 million for Financial Year 2001 to \$916 million.

The tax expense consists of corporate tax of \$952 million and policyholder tax of a \$36 million credit.

The banking effective tax rate is the same as in Financial Year 2001. This reflected the lower corporate tax rate of 30% for Financial Year 2002 against 34% last year, the utilisation of overseas tax losses during Financial Year 2001 which did not occur to the same extent in Financial Year 2002, lower dividend rebates and non allowable losses for offshore expenses.

The funds management effective tax rate was lower due to the lower corporate tax rate. Financial Year 2001 also included an overprovision and the non-recognition of overseas tax losses.

The income tax expense for Financial Year 2001 was \$993 million compared with \$800 million for Financial Year 2000. The tax expense for Financial Year 2001 consists of corporate tax of \$899 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. 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.

Other Group Items (continued)

Restructuring Provisions

Provisions for restructuring costs totalling \$545 million (\$417 million after tax) were booked as of 30 June 2001 to cover the costs of integrating the Colonial operations (acquired 13 June 2000) into the Group. At 30 June 2001 \$201 million (\$142 million after tax) remained unutilised. During the current period a further \$166 million was utilised leaving a balance of \$35 million (\$25 million after tax) in the provision at 30 June 2002.

Integration related synergies of an estimated \$450 million (annualised) were achieved by the end of June 2002. This comprises forecast cost synergies of an estimated \$380 million and revenue synergies of an estimated \$70 million.

ASIC Surveillance

The Group has reviewed the areas of focus in the Australian Securities and Investment Commission's recently announced accounting surveillance. The Group adopts a conservative approach to the capitalisation and deferral of expenses. Revenue is only recognised to the extent that it is probable that the future benefits will flow to the Group. Interest and fee income are brought to account on an accrual basis except for establishment fees, advisory fees and other fees for services. All entities in the Group are consolidated where it is determined that there is capacity to control as defined in AASB 1024: Consolidated Accounts.

Dividends

Future dividends will be based on Cash Earnings per Share, having regard to the following:

- Rate of business growth;
- Capital adequacy;
- Investment requirements;
- The cyclical nature of life insurance investment returns and expectations of long term investment returns, and
- A range of other factors.

Subject to these factors, the Group expects to continue to maintain a high payout ratio relative to its peers. The dividend payout ratio for the year was 76.2% on a cash basis.

Capital Management

The Bank maintains a strong capital position. This is recognised in its credit ratings. Moody's Investor Services and Standard & Poor's affirmed these during Financial Year 2002.

	Long-term	Short-term	Affirmed
Fitch Ratings	AA	F1+	Jan 02
Moody's Investor Services	Aa3	P-1	Oct 01
Standard and Poor's	AA-	A-1+	May 02

A security rating is not a recommendation to buy, sell or hold securities, it may be subject to withdrawal or revision at any time by the assigning rating organisation, and each rating should be evaluated independently of any other rating.

Risk Weighted Capital Ratios

	2002	2001
	%	%
Tier 1 Capital	6.78	6.51
Total Capital	9.80	9.16

The increase in the ratios from 30 June 2001 can be attributed to:

- An increase in tier 1 capital of \$546 million due principally to increased retained earnings and the issue of additional shares to satisfy the DRP in respect of the final dividend for Financial Year 2001.
- The capital base increased by \$1,140 million partly due to the increase in tier 1 capital noted above, a reduced deduction for the investment in life insurance and funds management businesses (mainly due to an increase in the non-recourse borrowings that fund this investment) and an increase in eligible dated subordinated debt issues.
- Risk weighted assets increased from \$138 billion to \$141 billion. Loans secured by residential mortgages increased by \$8.5 billion. However, the increase in risk weighted assets figure masks a reduction achieved by improved classification of assets by risk weight, principally through the identification of additional eligible security and by more accurate classification of counterparties.

As required by APRA, the investment in life insurance and funds management is deducted from regulatory capital to arrive at the ratios shown above. This treatment does not recognise the surplus capital held in the life insurance and funds management businesses, nor does it give credit for the risk diversification benefits provided by these businesses.

Over recent years, the Bank has made regular returns of capital in the form of share buy-backs. The Bank continues to examine ways in which it can manage its capital more efficiently. There is capacity within the Group to raise hybrid capital in a variety of forms and the market appetite for Commonwealth Bank instruments remains strong. Subject to market conditions, this provides the opportunity for the Bank to consider further capital management initiatives in 2002.

In September 2001, 5,954,040 new shares were issued at \$28.79 each to satisfy shareholder participation in the DRP in respect of the final dividend for Financial Year 2001. The Bank purchased on-market the shares needed to satisfy shareholder participation in the DRP in respect of the interim dividend for Financial Year 2002. It expects to do the same in respect of the final dividend for Financial Year 2002.

Abnormal Items (including Abnormal Income Tax Expense)

With the introduction of new accounting standard AASB 1018: Statement of Financial Performance, effective for Financial Year 2001, abnormal items are no longer included in this report. For comparative purposes the details of the Group's abnormal items disclosed at 30 June 2000 are set out below.

	2002 \$M	2001 \$M	Year Ended 30 June 2000 \$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 2002 was \$2,655 million. This represented an increase of 11% over Financial Year 2001. The principal contributing factors were a growth in net interest income reflecting continued lending growth together with growth in commissions, funds management income and trading income. Expenses have been held stable.

Net Income for Financial Year 2001 was \$2,398 million and represented a 40% increase on Financial Year 2000, excluding the impact of abnormal items (11% including impact of abnormal items).

Integrated Risk Management

Risk Management

The integrated risk management framework identifies, assesses, manages and reports 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 measured by the difference between capital available to absorb loss and risk as assessed by economic equity.

Economic equity 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 the Financial Year ended 30 June 2002 was 46% credit risk, 20% market risk, 33% 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: 64% credit risk, 9% market risk and 27% operational risk.
- Life insurance: 53% market risk, 42% operational risk, 3% credit risk and 2% insurance risk.
- Funds Management: 100% 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 transactions 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 does not generally involve credit risk from a shareholder perspective.

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

The Group uses a diversified portfolio approach for the management of credit risk (refer also Note 14) comprised of the following:

- a system of industry limits and targets for exposures by industry;
- a process for considering the risk associated with correlations between large exposures;
- 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 distinct segments:

- *Statistically Managed Segment*
Comprises exposures that are generally less than \$250,000 and is dominated by the housing loan portfolio. Other products in this segment are credit cards, personal loans and some leasing business. Credit facilities are approved using scoring and check sheet techniques.
- *Risk Rated 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 regularly monitored.

A centralised portfolio model is used to assess risk and return on an overall portfolio basis and for segments of the portfolio. The model also assists in determining economic equity and general provision requirements, and credit portfolio stress testing.

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.

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 to the financial statements for further details.

	Average VaR During June 2002 Half \$M	Average VaR During December 2001 Half \$M	Average VaR During June 2001 Half \$M	Average VaR During December 2000 Half \$M
Trading Book				
Group (excluding ASB Bank)				
Interest rate risk	3.23	2.60	2.21	2.30
Exchange rate risk	2.07	1.54	1.03	0.64
Implied volatility risk	0.59	0.48	0.39	0.32
Equities risk	0.42	0.47	0.42	0.42
Commodities risk	0.31	0.48	0.34	0.33
Prepayment risk	0.21	0.32	0.44	0.38
ASB Bank	0.17	0.14	0.17	0.21
Diversification benefit	(2.39)	(2.45)	(1.99)	(1.74)
Total	4.61	3.58	3.01	2.86

Trading income for Financial Year 2002 increased by 15% over Financial Year 2001

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.

Market risk in the life insurance business arises from mismatches between assets and liabilities. Guaranteed returns are offered on some classes of policy. These liabilities may not be capable of being easily hedged through matching assets. In addition, market risk may arise from 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. The ability to match asset characteristics with policy obligations may be constrained by a number of factors including regulatory constraints, the lack of suitable investments as well as by the nature of the policy liabilities themselves.

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 may 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 secondary risk that an adverse movement in market prices will lead to a reduction in the amount of funds under management and a consequent reduction in fee income.

Liquidity risk is not a significant issue in 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.

Integrated Risk Management (continued)

Liquidity and Funding

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.

Under current APRA Prudential Standards, 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 even under a liquidity crisis scenario.

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 APS 210 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 i.e., 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 64% in June 2001 to 66% in June 2002 due to strong growth in "at call" savings from a perceived "flight to quality" customer demand. 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 49%) 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.

The cost of funds for Financial Year 2002, calculated as the percentage of interest expense to average interest bearing liabilities, was 3.6% on a Group basis compared with 5.1% on a Group basis for Financial Year 2001.

The Group obtains a significant proportion of its funding for the domestic balance sheet from wholesale sources – approximately 22.7%, excluding Bank Acceptances. The cost of funds raised in the wholesale markets is affected by independently assessed credit ratings.

Contractual and Commercial Commitments

At the end of Financial Year 2002 the Group has commitments for capital expenditure (see Note 36), lease commitments (see Note 37) and commitments to provide credit (see Note 38). Of these, the only material commitment is the \$47,652 million commitment to provide credit, of which \$43,832 million is committed within the next year. The Group also has various monetary contractual liabilities, such as deposits and other public borrowings, payables to other financial institutions, bank acceptances, life liabilities, debt issues and loan-capital, and other monetary liabilities. Refer to note 32 to the Financial Statements for the maturity distribution of these monetary contractual liabilities.

Operational Risk

The objective of the Group's operational risk management framework is to support the achievement of the Group's financial and business goals. This is accomplished by enhancing the Group's strategies, policies, reporting, culture and competencies with respect to 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.

Explicitly excluded are those risks captured under credit, market and life insurance risk definitions.

Business owners throughout the Group are responsible for the identification, assessment and treatment of operational risks. These business owners are supported by the Group's risk architecture comprised of a governance structure, a suite of risk mitigating policies, a measurement methodology and skilled operational risk professionals embedded throughout the Group.

The Group's operational risk measurement methodology provides the basis for the expert assessment of individual risk exposures and the calculation of operational risk economic equity.

Economic equity for the banking business is derived and allocated based upon an aggregation of an expert assessment of individual risks through a monte-carlo simulation. For the life insurance and funds management businesses economic equity is based on worst case scenarios using volatility shocks for business risks and top down measures using external loss data.

The Group continues to benchmark and monitor its insurance risk transfer program for efficiency & effectiveness. This is primarily achieved through a methodology to optimise total shareholder returns in determining the most appropriate blend of insurance risk transfer and economic capital.

On renewal of the Group's insurance policies in the first half, insurers imposed terrorism exclusion clauses in various policies.

The Group, through the Australian Banker's Association, sought Federal Government participation in achieving a national solution. On 21 May 2002 the Treasurer announced that the Federal Government is prepared to provide remainder insurance for terrorist risk cover, possibly after private sector pooling. The Government is currently undertaking further consultation with key industry stakeholders, including the Group, on the shape of this government assistance.

The Group is also constantly reviewing the insurance market to access cover in the event that a variable market solution becomes available.

Insurance Risk

There are two risk types that are considered to be unique to life insurance businesses. These are the risks 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.

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. 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 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 Market Risk.

Off Balance Sheet Arrangements

The Group is involved with a number of special purpose entities in the ordinary course of business, primarily to provide funding and financial services to our customers. Under Australian GAAP these entities are consolidated in the financial statements if they meet the criteria of control. The definition of control depends upon substance rather than form and, accordingly, determination of the existence of control involves management judgment. The Group has no off balance sheet financing entities that it is considered to control.

As detailed in Note 1(kk), the Group conducts a Loan Securitisation program through which it packages and sells loans as securities to investors. Liquidity facilities are provided at arms length to the program by the Group in accordance with APRA Prudential Guidelines. These liquidity facilities are disclosed within Contingent Liabilities as commitments to provide credit.

Business Continuity Management

Business Continuity Management (BCM) within the Group involves the development, maintenance and testing of advance action plans to respond to risk event. This ensures that business processes continue with minimal adverse impact on staff, customers, products, services and brand.

BCM constitutes an essential component of the Group's risk management process by providing a controlled response to potential operational risks that 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.

Integrated Risk Management (continued)

Each division in the Group has developed, tested and maintained Business Continuity Plans. A comprehensive BCM education program has been implemented to embed BCM methodologies and capability throughout the Group.

The Group has robust disaster recovery plans for its mainframe systems. There are some non-mainframe supported systems without disaster recovery plans.

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 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 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 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 2000, 2001 and 2002 cross-border outstandings of the Group by industry category (where outstanding individual countries exceed 1% of the Group's total assets) was nil.

At 30 June 2002 cross border outstandings with the United Kingdom totalled \$2.3 billion (2001: \$1.8 billion). This was the only country which had outstandings greater than 0.75% of the Group's total assets at 30 June 2002 and 2001 (there were no countries in this category at 30 June 2000).

Credit Rating

The Bank's credit ratings have remained unchanged for the year and at 30 June 2002 are:

	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

A security rating is not a recommendation to buy, sell or hold securities, it may be subject to withdrawal or revision at any time by the assigning rating organisation, and each rating should be evaluated independently of any other rating.

Capital Adequacy

	2002 %	2001 %	2000 %
Risk Weighted Capital Ratios			
Tier one	6.78	6.51	7.49
Tier two	4.28	4.18	4.75
Less deductions	(1.26)	(1.53)	(2.49)
Total Capital	9.80	9.16	9.75
	2002 \$M	2001 \$M	2000 \$M
Tier One Capital			
Shareholders' Equity	21,056	19,848	18,435
Eligible Loan Capital	415	462	418
Total Shareholders' Equity and Loan Capital	21,471	20,310	18,853
Add back Foreign currency translation reserve related to non-consolidated subsidiaries	90	-	-
Less Preference Shares	-	-	(86)
Less Asset revaluation reserve	(4)	(5)	
Less Goodwill	(5,391)	(5,716)	(5,905)
Less Intangible component of investment in non-consolidated subsidiaries	(4,588)	(4,116)	(2,656)
Less Outside equity interest in entities controlled by non-consolidated subsidiaries	(2,017)	(1,458)	(588)
Total Tier One Capital	9,561	9,015	9,618
Tier Two Capital			
Asset revaluation reserve	4	5	-
General provision for bad and doubtful debts ⁽¹⁾	1,351	1,390	1,358
FITB related to general provision	(392)	(436)	(420)
Upper tier 2 note and bond issues	297	317	317
Lower tier 2 note and bond issues	4,934	5,348	4,898
Less Lower tier 2 adjustment to 50% of tier 1 capital	(154)	(840)	(95)
Preference Shares	-	-	39
Total Tier Two Capital	6,040	5,784	6,097
Tier One and Tier Two Capital			
	15,601	14,799	15,715
Less Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1)	(1,741)	(2,005)	(2,528)
Less Other deductions	(40)	(114)	(699)
Capital Base	13,820	12,680	12,518

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

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 increase in the ratios from 30 June 2001 can be attributed to:

- an increase in tier 1 capital of \$546 million due principally to increased retained earnings and the issue of additional shares to satisfy the DRP in respect of the final dividend for Financial Year 2001.
- the capital base increased by \$1,140 million partly due to the increase in the tier 1 capital noted above, a reduced deduction for the investment in life insurance and funds management businesses (mainly due to an increase in the non-recourse

borrowings that fund this investment) and an increase in eligible dated subordinated debt issues.

- risk weighted assets increased from \$138 billion to \$141 billion. Loans secured by residential mortgages increased by \$8.5 billion. However, the increase in risk weighted assets figure masks a reduction achieved by improved classification of assets by risk weight, principally through the identification of additional eligible security and by more accurate classification of counterparties.

As required by APRA, the investment in life insurance and funds management is deducted from regulatory capital to arrive at the ratios shown above. This treatment does not recognise the surplus capital held in the life insurance and funds management businesses, nor does it give credit for the risk diversification benefits provided by these businesses.

Over recent years, the Bank has made regular returns of capital in the form of share buy backs. The Bank continues to examine ways in which it can manage its capital more efficiently. There is capacity within the Group to raise hybrid capital in a variety of forms and the market appetite for Commonwealth Bank instruments

Capital Adequacy (continued)

remains strong. Subject to market conditions, this provides the opportunity for the Bank to consider further capital management initiatives in Financial Year 2003.

In September 2001, 5,954,040 new shares were issued at \$28.79 each to satisfy shareholder participation in the DRP in respect of the final dividend for Financial Year 2001. The Bank purchased on market the shares needed to satisfy shareholder participation in the DRP in respect of the interim dividend for Financial Year 2002. It expects to do the same in respect of the final dividend for Financial Year 2002.

New Capital Accord

In January 2001, the Basel Committee on Banking Supervision ("the Basel Committee") issued its latest proposals for changes to the calculation of capital adequacy for banks, ("the New Capital Accord"). These proposals have subsequently developed through consultation between regulators, banks and industry groups. Full implementation is now scheduled for 2007. There are a number of aspects of the New Capital Accord that are yet to be resolved.

The objective of the New Capital Accord is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks.

The New Capital Accord is based on three "pillars". Pillar 1 covers the capital requirements for banks, pillar 2 covers the supervisory review process and pillar 3 relates to market disclosure.

There are three approaches to credit risk under the New Capital Accord, being standardised and two internal risk-based (IRB) approaches. The standardised approach is a modified version of the current approach but with risk weights aligned with the credit ratings of borrowers and counterparties. Under the IRB approaches, banks such as Commonwealth Bank that use internal models to calculate and allocate the amount of capital required for credit risk, may be able to use components of their own calculations to determine the amount of regulatory capital required for credit risk. Under the foundation IRB approach, the regulator will provide the parameters. Under the advanced IRB approach, substantially all of the parameters will be those used by the Bank in its internal models. Commonwealth Bank expects (but cannot be certain at this stage) that it will be eligible for the advanced IRB approach.

The New Capital Accord will introduce a capital requirement for operational risk. As with credit risk, there will be three approaches. The basic indicator approach, the standardised approach and the advanced measurement approach. It is the objective of Commonwealth Bank to be eligible for the advanced measurement approach.

The current capital requirements for market risk are not expected to change under the New Capital Accord. However, there is scope for the regulator to require capital to be held for interest rate risk in the banking book. APRA have indicated they will be mandating a regulatory capital requirement for this risk.

The Basel Committee has initiated a number of quantitative impact studies (QIS) to gauge the effect of the proposed changes. These studies show that Australian banks adopting the Advanced IRB Approach will see an overall reduction in the amount of regulatory capital required, even allowing for the new capital requirement for operational risk. The next QIS is scheduled to be completed in December 2002.

The rules for deduction of the investment in life insurance and funds management companies from regulatory capital will change under the New Capital Accord. The portion of the investment represented by what APRA regards as intangible assets, such as self-generated value of business in force and value of future new business will continue to be deducted from tier 1 capital. The portion of the investment represented by net tangible assets will be deducted 50% from tier 1 and 50% from tier 2 capital (instead of 100% from total regulatory capital as at present).

Overall, there are still too many uncertainties regarding the New Capital Accord to provide reliable information on the regulatory position of the Group under the new rules.

Financial Conglomerates

APRA has been developing a framework for the supervision of conglomerates that include Authorised Deposit-Taking Institutions (ADIs). Commonwealth Bank is an ADI and the Commonwealth Bank Group falls into APRA's definition of a conglomerate. APRA first published a discussion paper on this subject in March 1999 and a number of updates have been issued since then, with the most recent one dated October 2001. A further update is expected imminently.

APRA proposals provide for supervisory assessment of an ADI at three levels:

- Level 1: The ADI as a stand-alone entity;
- Level 2: The consolidated banking group; and
- Level 3: The conglomerate group.

The Level 1 requirement will differ from the current requirement for Commonwealth Bank in that entities that for all practical purposes act as divisions of the Bank will be consolidated with the Bank for the purposes of calculating capital adequacy. APRA calls this consolidated entity an Extended Licensed Entity ("ELE"). The Level 2 requirement will align with the New Basel Accord, but is otherwise identical to the current group capital adequacy requirement. APRA has indicated that it would like to implement the Level 2 requirement before the scheduled introduction of the New Basel Accord.

Minimum capital requirements of 4% (tier 1) and 8% (total regulatory capital) will continue to apply for both Levels 1 and 2.

The Level 3 requirement provides for the adoption of an APRA approved, group-wide capital calculation. The proposals indicate that the use of internal capital estimation and allocation models may be permitted.

There will be no prescribed minimum regulatory capital requirement for Level 3.

The Bank comfortably meets the minimum capital requirements for Level 1 and Level 2 and its internal models show that it is well capitalised for Level 3.

See Note 31 for further detail.

Critical Accounting Policies and Estimates

The Notes to the Financial Statements contain a summary of the Group's significant accounting policies. Certain of these policies are considered to be more important in the determination of the Group's financial position, since they require management to make difficult, complex or subjective judgements, some of which may relate to matters that are inherently uncertain.

These policies include judgements as to levels of provisions for impairment for loan balances, actuarial assumptions in determining life insurance policy liabilities and market valuations of life insurance controlled entities. An explanation of these policies and the related judgements and estimates involved is set out below.

Provisions for Impairment

Provisions for impairment 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

Specific provisions are maintained 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. The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken.

Specific provisions (in bulk) are also made against each statistically managed segment to cover facilities which are not well secured and past due 180 days or more, against the credit risk rated segment for exposures aggregating to less than \$250,000 and 90 days or more past due, and against emerging credit risks identified in specific segments in the credit risk rated managed portfolio. These provisions are derived primarily by reference to historical ratios of write-offs to balances in default.

Specific provisions are provided for from the general provision, which is then refunded to the required level.

All facilities subject to a specific provision for impairment are classified as non accrual, as set out in Note 15.

General Provision

The general provision represents management's estimates of non-identifiable probable losses and latent risks inherent in the overall portfolio of loans and other credit transactions.

The evaluation process is subject to a series of estimates and judgements.

In the Credit Risk Rated Managed segment, the risk rating system, including the frequency of default and loss given default rates, loss history, and the size, structure and diversity of individual credits are considered. Current developments in portfolios (industry, geographic) and term are reviewed.

In the Statistically Managed segment the history of defaults and losses, and the size, structure and diversity of portfolios are considered.

In addition management considers overall indicators of portfolio performance and quality and economic conditions.

Changes in these estimates could have a direct impact on the level of provision determined.

The amount required to bring the general provision to the level assessed is taken to profit and loss as set out in Note 13.

Life Insurance Policyholder Liabilities

Life Insurance policy liabilities are accounted for under Australian Accounting Standard AASB1038: Life Insurance Business. A significant area of judgement is in the determination of policyholder liabilities, which involve actuarial assumptions.

All policyholder liabilities are recognised in the Statement of Financial Position and are measured at net present values or, if not materially different, on an accumulation basis after allowing for acquisition expenses. They are calculated in accordance with the principles of Margin on Services (MoS) profit reporting as set out in Australian Actuarial Standard AS 1.03: Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board.

The areas of judgement where key actuarial assumptions are made in the determination of policyholder liabilities are:

- Business assumptions including:
 - amount, timing and duration of claims/policy payments;
 - policy lapse rates;
 - acquisition and long term maintenance expense levels;
- Long term economic assumptions for discount and interest rates, inflation rates and market earnings rates; and
- Selection of methodology, either projection or accumulation method. The selection of the method is generally governed by the product type.

The determination of assumptions relies on making judgements on variances from long-term assumptions. Where experience differs from long term assumptions:

- Recent results may be a statistical aberration; or
- There may be a commencement of a new paradigm requiring a change in long term assumptions.

The Group's actuaries arrive at conclusions regarding the statistical analysis using their experience and judgement.

Additional information on the accounting policy is set out in Note 1 (jj) Life Insurance Business, and Note 34 Life Insurance Business details the key actuarial assumptions.

Market Valuation of Life Insurance 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 Other Assets (Note 21) 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.

Appraisal valuations are used to assist the directors in setting the market value. There are several key economic and business assumptions involved in the appraisal valuations, the selection of which involves actuarial judgement.

Economic assumptions are the long term view on key economic drivers and comprise investment earnings rates, risk discount rates and inflation. The economic

Critical Accounting Policies and Estimates (continued)

assumptions are reviewed as a suite to take account of the correlation between the movements in each factor.

Business assumptions relate to the performance of the Group's businesses, both stand alone and relative to the market. These assumptions are only altered when there is a long-term change in views, which is supported by clearly discernible trends. The assumption setting process is similar to that used for Margin on Services policyholder liabilities. The major business assumptions for life businesses are:

- Sales/new business
- Claims
- Persistency
- Expenses

The major business assumptions for funds management businesses are:

- Sales/new business
- Margins/business mix
- Redemptions
- Cost to income ratio

Details of the key assumptions used in the valuations are set out in Note 34, Life Insurance Business.

Significant US GAAP adjustments

For US GAAP reporting purposes a number of adjustments are required (see note 49) to reconcile Australian GAAP reported net profit, shareholders' equity and total assets to US GAAP reported information. The most significant of these are;

- Life insurance – the methodology used for estimating policy holder liabilities, for deferring costs and valuing controlled entities is markedly different under US GAAP compared to Australian GAAP (results in a \$618 million reduction in net income for Financial Year 2002, \$727 million for Financial Year 2001 and \$1,204 million for Financial Year 2000);
- Derivatives – Australian GAAP requires derivative hedges of non trading assets and liabilities to be brought to account on an accruals basis, whereas US GAAP requires the fair value of all derivatives to be on the balance sheet (results in a \$300 million reduction in net income for Financial Year 2002 and a \$149 million for Financial Year 2001);
- Pensions – Australian GAAP requires pension expenses for defined benefit pension plans to be accounted for on an incurred basis, whereas US GAAP requires an accrual basis (results in a \$21 million increase in net income for Financial Year 2002, \$142 million increase for Financial Year 2001 and a \$42 million increase for Financial Year 2000).

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 and risk business insurance and investment and funds management. The Bank is Australia's largest bank in terms of housing loans and retail deposits 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 2002, the Group had total consolidated assets of over \$249 billion and loans outstanding of \$147 billion. The Group's net profit after tax was \$2,655 million for Financial Year 2002.

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

Banking

The Group's banking operations contributed approximately 78% of its total net profit for Financial Year 2002 and represented approximately 85% of the Group's total assets at 30 June 2002. The Group's banking operations consist primarily of the operations of the Bank, and ASB 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 2002 the funds management operations contributed \$216 million (8% of the Group) in net profit after tax. As at 30 June 2002 the funds management operations held \$102 billion 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 8% (\$218 million) of the Group's net profit after tax for Financial Year 2002. As at 30 June 2002 the life insurance assets totalled \$36 billion and represented 15% 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 3.33% for Financial Year 1998 to 2.76% for Financial Year 2002. 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 55% between Financial Year 1998 and Financial Year 2002 and total operating expenses versus total operating income fell from 58.1% in Financial Year 1998 to 57.4% in Financial Year 2002.

The operations of the core business functions of the Group post restructure announced in December 2001 are carried out by Retail Banking Services, Premium Financial Services, Institutional and Business Services, Investment and Insurance Services and International Financial Services. Other functions of the Group that support these core business functions include; Finance and Risk Management, Group Strategic Development and Human Resources.

Retail Banking Services

Retail Banking Services is one of the Bank's four new business divisions and has a significant role in delivering on the Bank's key focus area of customised service specifically focusing on meeting the financial needs of personal and small business customers seeking accessible and affordable banking.

Retail Banking Services assumes the responsibility for most of 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 services 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 Retail Banking Services 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.

Premium Financial Services

Premium Financial Services provides customised products and services for clients with more complex financial needs. Premium Financial Services encompasses the following areas; Private Client Services, Premium Banking and Investment Services, Premium Direct Services and Product Management and Engineering.

Institutional and Business Services

Institutional & Business Services is a new Division of the Commonwealth Bank. The division was formed in December 2001 when the Bank's Institutional Banking and Business Banking areas merged. Using a relationship model, Institutional Banking manages the Bank's relationships and delivers financial solutions to business, corporate and institutional banking clients. It also designs and manufactures business products.

Description of Business (continued)

The products offered by Institutional Banking facilitate the linking of providers and users of capital and assist clients in achieving predictable business outcomes. Services 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 Premium Financial Services

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.

Investment and Insurance Services

Investment and Insurance Services is responsible for the manufacture and administration of all non-banking products in Australia, and the manufacture of all non-Australian investment products. The Group is also responsible for the strategic and operational support for all distribution of investment and insurance products, and for the management of all CBA property requirements.

Retail and wholesale investment products are offered through Colonial First State 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

Colonial First State Property Group incorporates the former Commonwealth Property and 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.

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 had a carrying value at 30 June 2002 of \$518 million (2001: \$580 million, 2000: \$730 million, as established by the Directors based on an annual revaluation of the portfolio). It is established at or below the independent market valuation amount.

Insurance products offered by Comminsure include traditional life insurance products, annuities, investment products and general insurance.

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 and Vietnam.

Within New Zealand, the ASB group 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.

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

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 - Australia

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

In all there were 45 banking groups operating in Australia at 30 June 2002. 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 13) the four largest (CBA, NAB, Westpac and 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 12 foreign owned banks operating in Australia through a locally incorporated subsidiary. An additional 24 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. Four 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 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.

Competition – New Zealand

Like Australia, the New Zealand banking system is characterised by strong competition. The Group's activities in New Zealand are conducted through ASB Group. 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 UK or

Description of Business (continued)

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 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 2002 employee numbers have decreased by approximately 10,000 measured on a full-time equivalent basis.

2002 New Enterprise Bargaining Agreements (EBAs).

The Bank's EBA's with the Financial Services Union (FSU) covering employees in Retail Banking Services (RBS), Technology, Operations and Property (TOP), Direct Bank and the Core business and service units (BSUs) expired on 2 April of this year. These Agreements were certified by the Australian Industrial Relations Commission (AIRC) in May of last year.

The Bank has certified five new EBAs with the FSU covering award staff in RBS, Direct Bank and with the existing BSUs which are currently part of the Core EBA. The 2001 Colonial Employees (TOP) EBA will be renewed for a further two-year term. All EBAs will expire on 2 April 2004.

Some of the key EBA items for 2002 include:

- 4%pa outcome with super choice. The 2002 EBAs provide for a 4% increase in salaries in 2002 and 2003. In each year staff will have the option of electing the 4% increase entirely as salary, or 3% as salary and an additional 1% as a credit to their superannuation account.
- First increase paid following certification. The 2002 increase was paid in the first pay period after the Agreement was certified by the AIRC. This increase also included a lump sum amount based on a 4% increase to salary as if the increase had been paid on 17 May 2002.
- 1 July 2003 for second increase. The increase in 2003 will be paid on or about 1 July. Staff will need to advise the Bank by 31 May 2003 whether they wish to take the increase all as salary, or as part salary and part superannuation. A lump sum based on either the 3% or 4% salary increase selected by staff will also be paid to cover the 6 week period between 1 July and 17 May 2003 – the date when the second increase was originally to be paid.
- Performance related pay (PRP) improvements. Award staff in employment at 30 June each year who had not worked for the full performance year will be entitled to pro-rata PRP where they received a

PFR rating of 'meets expectations' or higher. PRP payments made for 2001/2002 Financial Year will be based on the current salary adjusted by the 4% increase.

The new EBAs will continue to offer, where appropriate, an Australian Workplace Agreement (AWA), or other forms of individual contract as an alternative to the new EBA. Overall, the number of AWAs signed as of 30 June 2002 is in excess of 5,800.

In addition to the above, the Bank's 1,140 executive staff and over 1,400 specialists are on contract arrangements.

Leadership:

The Group is continuing with the rollout of the effective 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 2002 over 8,860 employees have attended the program.

To further gauge the effectiveness of the Group's efforts to enhance the quality of the managerial leadership experienced by staff, and to establish a benchmark for future improvement, the third Bank-wide workplace survey was conducted in May 2002. Since 1999 the result for the Bank have improved from the 21st percentile of Gallup's international database to the 69th. The survey is now a yearly event.

The Group continues to enhance 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.

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) - 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 Basle 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.

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.

Outsourcing

From 1 July 2002 APRA have issued a new prudential standard on outsourcing. This standard sets minimum requirements for material outsourcing arrangements by ADI’s

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 policy holders can be met.

As from 1 July 2002 general insurance companies are subject to new prudential standards covering capital adequacy, liability valuation, risk management and reinsurance arrangement.

The financial condition of life insurance companies is monitored through regular financial reporting, lodgement of audited accounts and supervisory inspections.

Compliance with APRA regulation for general insurance companies is monitored through regular returns and lodgement of an audited annual return.

Transaction Taxes

Financial Institutions Duty (‘FID’) was abolished on 1 July 2001, with an estimated saving of \$205 million per

Description of Business (continued)

year, passed on to customers as reduced fees. The Group saves 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 abolished debits tax from 1 January 2002. Debits taxes are 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.

Chairman's Statement

Set forth below is the Chairman's Statement on the Bank's Corporate Governance as taken from the Bank's Annual Report to shareholders.

The earnings for the year were a commendable \$2,655 million in a strongly competitive environment. This represented an increase of 11% compared with the result for the previous year. A final dividend of 82 cents per share fully franked will be paid on 8 October 2002 bringing the total dividends for the year to 150 cents per share. The Financial Highlights for the year describes the factors and the efforts that drove the achievement of this result.

Corporate governance of corporations is a subject that has come sharply into focus as the result of some spectacular collapses of corporations in the USA and in Australia, and as a result of concern being expressed in relation to the validity of reported results by some companies.

The Group has consistently placed great importance on the corporate governance of the Group.

The Group has for some years carried out an annual review of the Board's performance, and of its policies and practices. These reviews have sought to identify where improvements can be made, and have also assessed the quality and effectiveness of information made available to Directors.

During the last financial year, a more extensive external review was conducted. The consultant who conducted the review interviewed separately each Director and each member of the senior Executive team. Following the review, the Board confirmed a number of significant policies and has also implemented some changes.

Corporate Governance

Some of the principal features of the Group's corporate governance, including changes made as the result of the review, are:

- the Nominations, Remuneration and Audit Committees consist only of non-Executive Directors. This has been the established position in relation to the Audit Committee for some time and the CEO has not participated in deliberations of the Remuneration Committee when matters could affect his position.
- the Nominations Committee establishes the criteria for appointment of new Directors as described later in this report and will continue to engage external consultants in the search for new Directors. Before a Director is nominated for re-election at a shareholders' meeting, the Chairman consults with the rest of the Board and reviews the Director's performance before endorsing his or her re-nomination.
- the non-Executive Directors meet annually without any management present. This is in addition to the consideration of the Chief Executive Officer's performance and remuneration that is conducted in the absence of the CEO.
- the positions of Chairman and Chief Executive Officer are required to be held by separate persons, as has been the case since before the Bank was publicly listed.
- the Chairman meets annually with the senior executive team to discuss with them their views of the Board's performance and level of involvement.
- Directors participate in an induction programme upon appointment and in a refresher programme on a regular basis. Directors are also regularly updated in their knowledge of issues, trends and challenges relevant to the Bank, the financial services industry and the economy. This includes sessions with local

and overseas experts in the particular fields relevant to the Bank's operations.

- the Board has in place policies, which set out the windows in time when directors can purchase or sell shares in the Bank so long as they do not have price sensitive information. These policies also preclude any trading in Bank shares of a short term nature. In addition, directors are required, in any case, to inform a board committee of their intention to buy or sell Bank shares.
- Directors are required to take a minimum of 20% of their fees in shares in the Bank, acquired at market price, and are required to hold these shares for ten years or until they leave the Board. Non-Executive Directors do not participate in any of the Bank's incentive plans.
- the Board has decided to close the Directors' retirement scheme, which was approved by shareholders at the 1997 Annual General Meeting. The entitlement for current Directors will not be affected but no new members will be admitted to the scheme.

Audit Committee

The Board of the Group had an Audit Committee prior to the Group's listing as a public company and has had an Audit Committee at all times since.

The Charter of the Audit Committee incorporates a number of policies and practices to ensure that the Committee is independent and effective. Among these are:

- the Audit Committee consists entirely of non-Executive Directors, all of whom have familiarity with financial management and at least one has expertise in financial accounting and reporting. The Chairman of the Bank is not permitted to be the Chairman of the Audit Committee.
- at least twice a year the Audit Committee meets the external auditors and the Group Internal Auditor independently of management.
- the Audit Committee is responsible for nominating the external auditor to the Board for appointment by shareholders. The Audit Committee approves the terms of the contract with the external auditor, agrees the annual audit plan and approves payments to the auditor.
- the Audit Committee discusses and receives assurances from the external auditors on the quality of the Bank's systems, its accounting processes and its financial results. It also receives a report from the Auditors on any significant matters raised by the Auditors with management.
- all material accounting matters requiring exercise of judgement by management are specifically reviewed by the Audit Committee and reported on by the Committee to the Board.
- certified assurances are received by the Audit Committee and the Board that the Auditors meet the independence requirements as recommended by the Independent Standards Board of the USA.

Chairman's Statement (continued)

The Board has in place policies governing the nature of non-audit work which cannot be undertaken by the Group's auditors for the Group or its subsidiaries. There are also procedures in place governing approval of any other non-audit work before that work can be carried out. The objective of these approvals is to avoid prejudicing the independence of the Auditors. The policy ensures that the auditor does not:

- Assume the role of management,
- Become an advocate for their own client; or
- Audit their own professional expertise.

Under the policy, the auditor cannot provide the following services:

- Bookkeeping or services relating to accounting records
- Appraisal or valuation and fairness opinions
- Advice on deal structuring and related documentation
- Tax planning and strategic advice
- Actuarial advisory services
- Executive recruitment or extensive human resource functions
- Acting as broker-dealer, promoter or underwriter, or
- Provision of legal services.

The Bank currently requires that the partner managing the audit for the external auditor be changed within a period of five years.

Further details of the functions and relationships of the Audit Committee are set out in the section on Corporate Governance commencing on page 55 of this report. The Bank believes it is already materially in compliance with the framework of the legislation recently enacted as the Sarbanes-Oxley Act of 2002 in the USA.

Executive Remuneration

Executive remuneration is another aspect of corporate governance about which there is currently considerable debate. Remuneration for the Bank's Executives is determined, after taking advice, to ensure competitive remuneration packages are in place to attract and retain competent and high calibre staff.

Incentive payments for Executives are related to performance. Short term incentives actually paid depend on the extent to which operating targets set at the beginning of the financial year are achieved. Half of the short term incentive earned is paid in cash and the balance in two instalments at yearly intervals in shares. These instalments are only paid if the Executive is still in the employ of the Bank on the relevant dates.

Vesting of options and shares allocated under the long term incentive plan is directly related to shareholder value, measured by Total Shareholder Return over a minimum three year period, which requires the return to be equal to or higher than the average return of peer institutions for vesting to occur.

Like most Australian companies, vesting of options and restricted shares allocated to Executives is dependent on the Bank meeting the performance hurdles in the plan

as approved by the shareholders at the 2000 Annual General Meeting.

The Bank has restructured its long term Executive incentive plan, effective from the beginning of the 2003 financial year. Previously half the value of long term incentive benefits under the shareholder approved Bank's Equity Reward Plan were paid in Options, valued on the Black-Scholes method, and the other half in Performance shares valued at market price at the date of allocation. These options and shares only vest to the Executive provided the prescribed performance hurdles are met. From the beginning of the 2003 financial year options have been eliminated from the remuneration package of Executives and the total value of the long term incentives allocated under the Equity Reward Plan will be in the form of Reward shares.

A further change introduced is that whereas previously allocated options and shares vested upon the average Total Shareholder Return of peer institutions being exceeded, a sliding scale has been introduced so that 50% of allocated shares vest if the Bank's TSR is equal to the return, 75% vest at the 67th percentile in the index and 100% when the return exceeds the 75th percentile, ie. when the Bank's return is in the top quartile.

Options and shares previously allocated under the Equity Reward Plan will continue until they vest upon the prescribed performance hurdles being met or they lapse.

Currently restricted shares purchased on market to satisfy incentives earned by Executives are charged against profit and loss as are incentives paid in cash and deferred shares. As from the beginning of the 2003 financial year, total remuneration, which will include the full cost of the plan and also the distribution of shares to employees under the ESAP, will be expensed against profits. A basis of valuation, that takes account of the conditional nature of the potential incentive benefits in the Australian environment, will be developed to reflect appropriately the cost to the company.

It is worth noting that of the total distribution of equity to employees in each of the last two years less than 20% went to the senior executive team and the rest to other employees.

Conclusion

The Bank's corporate governance policies and practices have been highlighted in some detail to give shareholders some feel for how we approach this important aspect of the Bank's operations. Further detail is incorporated in the Corporate Governance section.

The philosophy underlying the approach to corporate governance is consistent with the ethical standards required of all employees of the Bank, as set out on page 57 of the report.

The Bank is in a sound position and the Directors express appreciation on behalf of shareholders to the management and staff for the improvements they continue to make in the operation of the Bank.

Corporate Governance

Board of Directors

The Board of Directors assumes responsibility for corporate governance of the Group. It oversees the business and the affairs of the Group, 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	Chief Executive Officer				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			Member
B K Ward	Non executive				Member	

All of the non-executive Directors of the Bank are independent from Management in that they have not been employed in an executive capacity by the Bank, do not have relationships as professional advisors or significant contracts with the Bank and have no interest or relationship which might materially interfere with their ability to act in the best interests of the Bank.

Details of the experience, qualifications, special responsibilities and attendance at meetings of the Directors are set out in the Directors' Report.

The Constitution of the Bank specifies that:

- the Chief Executive Officer 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. Directors do not stand for re-election after attaining the age of 70.

Each year the Board conducts an evaluation review. This year, the review was carried out by an external consultant. This form of review will be repeated at 2 yearly intervals to ensure that the Board and the governance systems operate in accordance with best practice, with an internal review conducted in the intervening years.

The Board has established a programme of education to ensure that it is kept up to date with developments in the industry both locally and globally. Directors participate in an induction programme upon appointment and in a refresher programme on a regular basis.

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 solely of non-executive directors and that the Chairman of the Bank shall be Chairman of the Committee. The Chief Executive Officer attends Committee meetings by invitation.

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.

Before a current director nominates for re-election, the Chairman consults with the rest of the Board to review the Director's performance before endorsing re-election.

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. Directors' fees do not incorporate any bonus or incentive element.

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 at

Corporate Governance (continued)

market price 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 (Chief Executive Officer) is fixed by the Board, pursuant to the Constitution, as part of the terms and conditions of his appointment. Those terms and conditions are established in a contract of employment with Mr Murray which was effective from 2 July 2001 and they are subject to review, from time to time, by the Board.

The Board has decided to discontinue the retirement scheme which provides for benefits to be paid to non executive directors. 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 entitlements of current, non-executive directors will not be affected but no new members will be admitted to the scheme.

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 entirely of non executive directors. The Chief Executive Officer attends Committee meetings by invitation but does not attend for discussion or decision in relation to matters that can affect him.

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

The Group'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 Chief Executive Officer and five highest paid other members of the senior executive team who were officers of the Bank at 30 June 2002 are set out in Note 46.

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 Group currently requires the partner managing the audit to be changed within a period of five years.

The Board has established a policy governing the carrying out of non-audit work by the external auditor to ensure that the independence of the external auditor is not affected by conflicts. The policy identifies the nature of non-audit work that cannot be undertaken, to ensure that the auditor does not:

- assume the role of management;
- become an advocate for their own client; or
- audit their own professional expertise.

Under the policy, staff of the auditor will not be seconded to resource management positions and the auditor will not normally provide the following services:

- bookkeeping or other services relating to accounting records or design and implementation of financial information systems;

- appraisal or valuation and fairness opinions;
- advice on deal structuring and assistance in related documentation;
- provision of tax planning and strategic advice;
- actuarial advisory services;
- executive recruitment services or extensive human resources functions;
- acting as broker-dealer, promoter or underwriter; or
- provision of legal services.

A process of approval established by the audit committee is in place to control the nature and quantum of permissible non-audit work undertaken by the auditor.

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 Chief Executive Officer 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;
- conducts any investigations relating to financial matters, records, accounts and reports which it considers appropriate; and
- reviews all material matters requiring exercise of judgement by management and reports those matters to the Board.

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 judgments made.

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

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 approved and 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 Group has in place a procedure whereby, after appropriate consultation, directors are entitled to seek independent professional advice, at the expense of the Group, to assist them to carry out their duties as directors. The policy of the Group 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 Group has adopted a Statement of Professional Practice which sets standards of behaviour required of all employees including:

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

These standards are regularly communicated to staff. In addition, the Group has established insider trading guidelines for staff to ensure that unpublished price sensitive information about the Group 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 Group 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 requirement that Directors not deal in the securities of the Group 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 Group.

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 will not be present when the matter is being considered and will 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 Group to ensure that all material matters which may potentially require disclosure are promptly reported to the Chief Executive Officer, through established reporting lines, or as a part of the deliberations of the Group'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.

The U.S Sarbanes-Oxley Act of 2002

On 30 July 2002, the U.S. President signed into law the Sarbanes-Oxley Act of 2002 (the "SOX Act"). The SOX Act is a broad accounting and corporate governance reform law. By its terms, the SOX Act applies to the Group, including its domestic (Australian) operations, because certain of the Group's securities are registered in the U.S. and it is required to file reports (including this report) with the U.S. Securities and Exchange Commission (the "SEC").

There are various other provisions of the SOX Act that will impact the Group. Some of the more important requirements as they apply to the Group are as follows:

- *The Loan Prohibition.* An "issuer" (which term, for the reasons described above, would include the Group) is prohibited from directly or indirectly extending, arranging, maintaining or renewing many forms of "personal loans" to or for the Group's directors and executive officers.
- *CEO & CFO Certifications.* The Group's CEO and CFO are required to file two separate certifications (one with civil consequences for breach and the other with criminal consequences for breach) in connection with the Group's Annual Report on Form 20-F.
- *Audit Committee Issues.* The SOX Act requires that each member of the audit committee be "independent", meaning that the member will not be able to accept any compensation from the company or be affiliated with the company or any subsidiary of the company, other than in his or her capacity as a director, member of the audit committee or other board committee. Under the SOX Act, the Group will also be required to disclose whether at least one member of its audit committee is a "financial expert" and, if not, the reasons why not.

Directors' Details

The names of the Directors holding office during the Financial Year 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 over fifty years' experience in the mining and finance industries.

Deputy Chairman: Telstra Corporation Limited.

Director: BHP Billiton Limited and BHP Billiton plc.

Other Interests: Melbourne Business School (Board of Management), Australian Foundation for Science (Chairman), Australian Institute of Company Directors (Fellow) and Australian Institute of Management (Fellow).

Mr Ralph is a resident of Victoria. Age 70.

John M Schubert, Deputy Chairman

Dr Schubert has been a member of the Board since 1991 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: Worley Limited Advisory Board and G2 Therapies Limited.

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

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

Dr Schubert is a resident of New South Wales. Age 59.

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 six years' experience in banking. Mr Murray is a member of the Risk Committee.

Director: Tara Anglican School for Girls Foundation Limited

Other Interests: International Monetary Conference (Member), Asian Bankers' Association (Member), Australian Bankers' Association (Member), 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 53.

N R (Ross) Adler, AO

Mr Adler has been a member of the Board since 1990 and is a member of the Audit Committee. He holds a Bachelor of Commerce and a Master of Business Administration. He has experience in various commercial enterprises, more recently in the oil and gas and chemical trading industries. He is the former Managing Director and Chief Executive Officer of Santos Limited.

Chairman: Austrade and Amtrade International Pty Ltd.

Director: Australian Institute of Commercialisation, Tereny Investments Pty Ltd, AWL Enterprises Pty Ltd and Shelrey Pty Ltd.

Member: Advisory Council of Equity and Advisory Limited.

Other Interests: Adelaide Festival (Chairman), Art Gallery of South Australia (Chairman until 20 July 2002), University of Adelaide (Council Member and Chairman of the Finance Committee) and Executive Member of the Australian Japan Business Co-operation Committee.

Mr Adler is a resident of South Australia. Age 57.

Reg J Clairs, AO

Mr Clairs has been a member of the Board since 1 March 1999 and is a member of the Remuneration 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.

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

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

Mr Clairs is a resident of Queensland. Age 64.

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.

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

Mr Daniels is a resident of New South Wales. Age 67.

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, appointed 1996. He is a partner of Allens Arthur Robinson, Solicitors.

Chairman: BHP Billiton Community Trust.

Director: GasNet Australia Limited, GasNet Australian (Operations) Pty Ltd and OneSteel Limited.

Other Interests: Secretary of Council of Legal Education in Victoria, Member of the Corporate Council of CARE Australia and a Trustee of the Royal Melbourne Hospital Neuroscience Foundation.

Mr Galbraith is a resident of Victoria. Age 54.

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, appointed 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.

Chairman: Coventry Group Limited and West Australian Newspapers Holdings Limited.

Director: Perpetual Trustees Australia Limited Group.

Other Interests: Trustee of the Walter and Eliza Hall Trust and Fellow of the Australian Institute of Company Directors, Australian Society of CPAs, Australian Institute of Bankers and the Chartered Institute of Company Secretaries.

Mr Kent is a resident of Western Australia. Age 66.

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. Until 31 July 2002, he was Strategic Investment Co-ordinator and Major Projects Facilitator for the Commonwealth Government.

Member: Prime Minister's Community Business Partnership.

Director: Australian Foundation Investment Company Limited

Other Interests: Counsellor, Committee for Melbourne and Patron of the Pacific Institute.

Mr Ryan is a resident of Victoria. Age 59.

Frank J Swan

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

Chairman: Foster's Group Limited and Centacare Catholic Family Services.

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 61.

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: Country Energy.

Director: Rail Infrastructure Corporation and Allens Arthur Robinson

Other Interests: Sydney Opera House Trust (Trustee), Australia Day Council of New South Wales (Member) and Australia Institute of Company Directors (Member).

Ms Ward is a resident of New South Wales. Age 48.

Director's Details (continued)

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 Financial Year were:

DIRECTOR	DIRECTORS' MEETINGS	
	No. of Meetings Held*	No. of Meetings Attended
J T Ralph	10	10
J M Schubert	10	9
D V Murray	10	10
N R Adler	10	9
R J Clairs	10	10
A B Daniels	10	10
C R Galbraith	10	10
W G Kent	10	9
F D Ryan	10	10
F J Swan	10	9
B K Ward	10	10

* The number of meetings held during the time the Director held office during the year.

COMMITTEE MEETINGS

	Risk Committee		Audit Committee		Remuneration Committee	
	No. of Meetings Held*	No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended
J T Ralph	11	11			7	7
J M Schubert			5	5		
D V Murray****	11	11			6	6
N R Adler***			2	1	5	4
R J Clairs**			3	3	2	2
A B Daniels					7	7
C R Galbraith	11	11				
W G Kent	11	11				
F D Ryan			5	5		
F J Swan	11	9				
B K Ward			5	5		

	Nominations Committee	
	No. of Meetings Held*	No. of Meetings Attended
J T Ralph	2	2
J M Schubert	2	2
D V Murray	2	2
F J Swan ^o	0	0

* The number of meetings held during the time the Director was a member of the relevant committee.

** Mr Clairs retired from the Audit Committee and was appointed to the Remuneration Committee on 31 March 2002.

*** Mr Adler retired from the Remuneration Committee and was appointed to the Audit Committee on 31 March 2002.

**** Mr Murray retired from the Remuneration and Nominations Committees on 8 May 2002.

^o Mr Swan was appointed to the Nominations Committee on 8 May 2002

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 the Financial Year 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's funds management businesses: Commonwealth Investment Management and Colonial First State Investments, are managed as part of Investment and Insurance Services operations. 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, UK 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.

There have been no significant changes in the nature of the principal activities of the Group during the Financial Year.

Consolidated Profit

Consolidated operating profit after tax and outside equity interests for the Financial Year ended 30 June 2002 was \$2,655 million (2001: \$2,398 million).

The net operating profit for the year ended 30 June 2002 after tax, and before goodwill amortisation and appraisal value uplift was \$2,501 million. This is an increase of \$239 million or 11% over the year ended 30 June 2001.

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, whilst expenses have been held stable.

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 82 cents per share amounting to \$1,027 million. The dividend will be payable on 8 October 2002 to shareholders on the register at 5pm on 30 August 2002. Dividends paid since the end of the previous Financial Year:

- as provided for in last year's report, a fully franked final dividend of 75 cents per share amounting to \$933 million was paid on 8 October 2001. The payment comprised cash disbursements of \$762 million with \$171 million being reinvested by participants through the Dividend Reinvestment Plan; and
- in respect of Financial Year 2001, a fully franked interim dividend of 68 cents per share amounting to \$852 million was paid on 28 March 2002. The payment comprised cash disbursements of \$693 million with \$159 million being reinvested by participants through the Dividend Reinvestment Plan.
- Additionally, quarterly dividends totalling \$34 million for the year were paid on the PERLS preference shares.

Review of Operations

An analysis of operations for the Financial Year is set out in the Financial Highlights on pages 4 to 6 and Business Analysis on pages 18 to 30.

Changes in State of Affairs

On 20 December 2001 the Group announced an organisational restructure which became effective at the end of February 2002. The new structure creates five new business divisions designed to align product development and service delivery more fully with the Bank's customer segments. The new businesses are:

- Retail Banking Services – incorporating delivery of service to our mass market personal segments plus manufacturing of banking products.
- Premium Financial Services – incorporating delivery of service to personal customers with more complex financial needs.
- Institutional and Business Services – incorporating delivery of services to all business and corporate clients, ranging from small businesses through to large corporations.
- Investment and Insurance Services – incorporating management of the Group's managed funds, master funds, superannuation and insurance products, as well as liaising with and supporting third party financial planners and in house advisers.
- International Financial Services – incorporating our existing operation in New Zealand, Fiji, Indonesia, Vietnam, Hong Kong and China.

Subsequently, the Group announced that Technology, Operations and Procurement will be progressively repositioned into other business units, principally Retail Banking Services and Investment and Insurance Services.

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

Events Subsequent to 30 June 2002

On 3 October 2002, the Group completed a transaction which involves the merger of the Colonial First State Property Trust Group with the Commonwealth Property Office Fund and the Gandel Retail Trust. This is expected to strengthen the Group's market position in

Directors' Details (continued)

both the wholesale and retail property funds management market.

On 21 August 2002, the Group announced that the implementation changes resulting from the organisation restructure announced in December 2001, as described above, will incur an incremental net cost of \$120 million after tax during Financial Year 2003. These costs relate to system changes, re-engineering of overall processes and staff redundancies.

On 21 August 2002, the Group also announced that before 31 December 2002, subject to the receipt of regulatory approvals, the Bank intends to issue complying capital securities to enable it to undertake a share buy-back of approximately \$500 million.

The Directors are not aware of any other matter or circumstance that has occurred since the end of Financial Year 2002 that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent Financial Years.

Future Developments and Results

Major developments which may affect the operations of the Group in subsequent Financial Years are referred to in the Strategy and Outlook section on page 15. 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' which is to be regarded as contained in this report.

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. At the 2000 Annual General Meeting, shareholders approved the establishment of the Equity Reward Plan and on 31 October 2001, 31 January 2002 and 15 April 2002 a total of 3,007,000 options were granted by the Bank to 81 executives under this Plan. During the Financial Year and for the period to the date of this report 2,052,500 shares were allotted by the Bank consequent to the exercise of options granted under the Executive Option Plan. Full details of the Plan are disclosed in Note 29 to the financial statements.

The names of persons who currently hold options in the Plan 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' which is to be regarded as contained in this report.

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 48 to 49 of this report, and the Secretaries of the Commonwealth Bank, being J D Hatton (Secretary) and H J Broekhuijsen (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 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 of the Financial Report. Details on emoluments paid to the executive director and the other five most highest paid executive officers of the Bank and the Group are disclosed in Note 46 of the Financial Report.

Five Year Financial Summary (Australian GAAP)

	2002	2001	2000	1999	1998
	\$M	\$M	\$M	\$M	\$M
Financial Performance					
Net interest income	4,710	4,474	3,719	3,527	3,397
Other operating income	4,358	4,350	2,420	1,997	1,833
Total operating income	9,068	8,824	6,139	5,524	5,230
Charge for bad and doubtful debts	449	385	196	247	233
Total operating expenses	5,201	5,170	3,407	3,070	3,039
Operating profit before goodwill amortisation, appraisal value uplift, abnormal items and income tax expense	3,418	3,269	2,536	2,207	1,958
Income tax expense	(916)	(993)	(820)	(714)	(641)
Outside equity interests	(1)	(14)	(38)	(24)	(20)
Abnormal items	-	-	967	-	(570)
Income tax credit on abnormal items	-	-	20	-	409
Appraisal value uplift	477	474	92	-	-
Goodwill amortisation	(323)	(338)	(57)	(47)	(46)
Operating profit after income tax attributable to members of the Bank	2,655	2,398	2,700	1,422	1,090
Contributions to profit (after tax)					
Banking	2,067	1,793	1,513	1,342	1,210
Life insurance	218	320	129	103	76
Funds management	216	149	36	24	11
Profit on operations (cash basis)	2,501	2,262	1,678	1,469	1,297
Goodwill amortisation	(323)	(338)	(57)	(47)	(46)
Appraisal value uplift	477	474	92	-	-
Abnormal income (expense) after tax	-	-	987	-	(161)
Operating profit after income tax	2,655	2,398	2,700	1,422	1,090
Financial Position					
Loans, advances and other receivables	147,074	136,059	132,263	101,837	89,816
Total assets	249,648	230,411	218,259	138,096	130,544
Deposits and other public borrowings	132,800	117,355	112,594	93,428	83,886
Total liabilities	228,592	210,563	199,824	131,134	123,655
Shareholders' equity	19,030	18,393	17,472	6,735	6,712
Net tangible assets	13,639	12,677	11,942	6,471	6,358
Risk weighted assets	141,049	138,383	128,484	99,556	94,431
Average interest earning assets	170,634	160,607	129,163	114,271	102,165
Average interest bearing liabilities	157,105	145,978	117,075	103,130	91,650
Assets (on balance sheet)					
Australia	208,673	196,918	187,452	115,510	110,120
New Zealand	24,579	20,208	16,661	13,046	10,846
Other	16,396	13,285	14,146	9,540	9,578
Total Assets	249,648	230,411	218,259	138,096	130,544

Five Year Financial Summary (Australian GAAP) (continued)

	2002	2001	2000	1999	1998
Shareholder Summary					
Dividends per share (cents) - fully franked	150	136	130	115	104
Dividends provided for, reserved or paid (\$million)	1,913	1,720	1,431	1,063	955
Dividend cover (times) - statutory	1.4	1.4	1.2	1.3	1.3
Dividend cover (times) – cash basis ⁽⁴⁾	1.3	1.3	1.6	1.3	1.1
Earnings per share (cents)					
Basic					
before abnormal items	209.6	189.6	184.8	153.4	134.5
after abnormal items	209.6	189.6	291.2	153.4	117.2
cash basis ⁽⁴⁾	197.3	178.8	181.0	158.5	139.4
Fully diluted					
before abnormal items	209.3	189.3	184.4	153.1	134.3
after abnormal items	209.3	189.3	290.7	153.1	117.0
cash basis ⁽⁴⁾	197.0	178.6	180.6	158.1	139.3
Dividend payout ratio (%) ⁽¹⁾					
before abnormal items	71.7	71.2	83.5	74.7	76.3
after abnormal items	71.7	71.2	53.0	74.7	87.6
cash basis ⁽⁴⁾	76.2	75.5	85.3	72.4	73.7
Net tangible assets per share (\$)	10.9	10.2	9.2	6.8	6.7
Weighted average number of shares (basic)	1,250m	1,260m	927m	927m	930m
Weighted average number of shares (fully diluted)	1,252m	1,262m	929m	929m	931m
Number of shareholders	722,612	709,647	788,791	404,728	419,926
Share prices for the year (\$)					
Trading high	34.94	34.15	27.95	28.76	19.66
Trading low	24.75	26.18	22.54	18.00	13.70
End (closing price)	32.93	34.15	27.69	24.05	18.84
Performance Ratios (%)					
Return on average shareholders' equity ⁽²⁾					
before abnormal items	14.7	13.5	22.1	20.5	18.5
after abnormal items	14.7	13.5	34.8	20.5	16.1
cash basis	13.9	12.8			
Return on average total assets ⁽²⁾					
before abnormal items	1.1	1.1	1.1	1.1	1.0
after abnormal items	1.1	1.1	1.7	1.1	0.9
cash basis	1.0	1.0			
Capital adequacy - Tier 1	6.78	6.51	7.49	7.05	8.07
Capital adequacy - Tier 2	4.28	4.18	4.75	3.12	2.82
Deductions	(1.26)	(1.53)	(2.49)	(0.79)	(0.40)
Capital adequacy - Total	9.80	9.16	9.75	9.38	10.49
Net interest margin	2.76	2.78	2.88	3.09	3.33
Other Information (numbers)					
Full time staff	30,378	31,976	34,154	26,394	28,034
Part time staff	7,714	7,161	7,383	6,655	6,968
Full time staff equivalent	34,498	34,960	37,131	28,964	30,743
Branches/service centres (Australia)	1,020	1,066	1,441	1,162	1,218
Agencies (Australia)	3,936	3,928	4,020	3,934	4,015
ATMs	3,950	3,910	4,141	2,602	2,501
EFTPOS terminals	126,613	122,074	116,064	90,152	83,038
EzyBanking	730	659	603	n/a	n/a
Productivity					
Total Operating Income per full-time (equivalent) employee (\$)	262,856	252,400	211,842	190,720	170,120
Staff Expense/Total Operating Income (%)	26.4	26.7	27.8	29.0	31.0
Total Operating Expenses ⁽³⁾ /Total Operating Income (%)	57.4	58.6	57.2	55.6	58.1

⁽¹⁾ Dividends paid divided by earnings. The comparative ratios 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.

⁽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 and charge for bad and doubtful debts. Note the different business mix following the Colonial acquisition impacts comparison with Financial Years 2000 and 2001.

⁽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.

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Statements of Financial Performance

For the Year ended 30 June 2002

	Note	GROUP			BANK	
		2002 \$M	2001 \$M	2000 \$M	2002 \$M	2001 \$M
Interest income	2	10,455	11,900	8,842	8,670	8,560
Interest expense	2	5,745	7,426	5,123	4,707	5,261
Net interest income		4,710	4,474	3,719	3,963	3,299
Other income:						
Revenue from sale of assets		718	185	61	914	149
Written down value of assets sold		(628)	(104)	(36)	(608)	(39)
Other		2,462	2,300	1,926	3,634	2,462
Net banking operating income		7,262	6,855	5,670	7,903	5,871
Premiums and related revenue	3	1,140	1,073	337	-	-
Investment revenue	3	(100)	1,698	1,066	-	-
Claims and policyholder liability expense		(43)	(1,503)	(1,077)	-	-
Life insurance margin on services operating income		997	1,268	326	-	-
Funds management fee income	3	809	701	143	-	-
Net life insurance and funds management operating income before appraisal value uplift		1,806	1,969	469	-	-
Total net operating income before appraisal value uplift		9,068	8,824	6,139	7,903	5,871
Charge for bad and doubtful debts	2,13	449	385	196	405	276
Operating expenses:						
Staff expenses	2	2,390	2,360	1,725	1,959	1,672
Occupancy and equipment expenses	2	578	604	440	458	392
Information technology services	2	838	788	603	763	563
Other expenses	2	1,395	1,418	745	802	671
		5,201	5,170	3,513	3,982	3,298
Appraisal value uplift	34	477	474	1,165	-	-
Goodwill amortisation		(323)	(338)	(57)	(186)	(49)
Profit from ordinary activities before income tax		3,572	3,405	3,538	3,330	2,248
Income tax expense	5	916	993	800	665	549
Profit from ordinary activities after income tax		2,656	2,412	2,738	2,665	1,699
Outside equity interests in net profit		(1)	(14)	(38)	-	-
Net profit attributable to members of the Bank		2,655	2,398	2,700	2,665	1,699
Foreign currency translation adjustment		(146)	98	(26)	(16)	6
Revaluation of properties		(1)	5	-	-	-
Total valuation adjustments		(147)	103	(26)	(16)	6
Total changes in equity other than those resulting from transactions with owners as owners		2,508	2,501	2,674	2,649	1,705
Cents per share						
Earnings per share based on net profit distributable to members of the Bank						
Basic	7	209.6	189.6	291.2		
Fully Diluted		209.3	189.3	290.7		
Dividends provided for, reserved or paid per share attributable to shareholders of the Bank:						
Ordinary shares	6	150	136	130		
Preference shares (issued 6 April 2001)		970	261	-		
		\$M	\$M	\$M		
Net Profit comprises						
Underlying profit (cash earnings)		2,501	2,262	1,678		
Less Restructuring charges (net of tax)		-	-	(86)		
Plus Appraisal value uplift		477	474	1,165		
Less Goodwill amortisation		(323)	(338)	(57)		
Net Profit		2,655	2,398	2,700		

Statements of Financial Position

As at 30 June 2002

	Note	GROUP		BANK	
		2002 \$M	2001 \$M	2002 \$M	2001 \$M
Assets					
Cash and liquid assets	8	6,044	3,709	5,673	3,286
Receivables due from other financial institutions	9	7,728	4,622	5,694	3,795
Trading securities	10	8,389	6,909	6,703	5,020
Investment securities	11	10,766	9,705	7,560	6,873
Loans, advances and other receivables	12	147,074	136,059	120,781	112,634
Bank acceptances of customers		12,517	12,075	13,162	12,158
Life insurance investment assets	16	30,109	31,213	-	-
Deposits with regulatory authorities	17	89	61	54	4
Shares in and loans to controlled entities	18	-	-	21,869	16,425
Property, plant and equipment	19	862	919	641	688
Investment in associates	42	313	400	252	258
Intangible assets	20	5,391	5,716	2,965	3,151
Other assets	21	20,366	19,023	13,408	11,876
Total Assets		249,648	230,411	198,762	176,168
Liabilities					
Deposits and other public borrowings	22	132,800	117,355	116,898	103,475
Payables due to other financial institutions	23	7,864	6,903	7,884	6,349
Bank acceptances		12,517	12,075	13,162	12,158
Due to controlled entities		-	-	8,591	8,225
Provision for dividend	6	1,040	779	1,040	779
Income tax liability	24	1,276	1,355	654	414
Other provisions	25	834	1,007	691	837
Life insurance policyholder liabilities	34	25,917	27,029	-	-
Debt issues	26	23,575	24,484	11,753	10,690
Bills payable and other liabilities	27	17,342	13,872	15,905	11,547
		223,165	204,859	176,578	154,474
Loan Capital	28	5,427	5,704	5,337	5,624
Total Liabilities		228,592	210,563	181,915	160,098
Net Assets		21,056	19,848	16,847	16,070
Shareholders' Equity					
Share Capital					
Ordinary Share Capital	29	12,665	12,455	12,665	12,455
Preference Share Capital	29	687	687	687	687
Reserves		4,226	4,091	2,093	2,278
Retained profits		1,452	1,160	1,402	650
Shareholders' equity attributable to members of the Bank		19,030	18,393	16,847	16,070
Outside equity interests					
Controlled entities	30	9	(3)	-	-
Life insurance statutory funds and other funds	30	2,017	1,458	-	-
Total outside equity interests		2,026	1,455	-	-
Total Shareholders' Equity		21,056	19,848	16,847	16,070

Statements of Changes in Shareholders' Equity

For the year ended 30 June 2002

	Note	2002 \$M	2001 \$M	GROUP 2000 \$M	2002 \$M	BANK 2001 \$M
Ordinary Share Capital	29					
Opening balance		12,455	12,521	3,526	12,455	12,521
Buy back		-	(275)	(553)	-	(275)
Buy back for dividend reinvestment plan		-	(140)	-	-	(140)
Dividend reinvestment plan		171	313	253	171	313
Employee share ownership schemes		39	40	23	39	40
Issue costs		-	(4)	(2)	-	(4)
Share issue to Colonial shareholders		-	-	9,274	-	-
Closing balance		12,665	12,455	12,521	12,665	12,455
Preference Share Capital	29					
Opening balance		687	-	-	687	-
Issue of shares		-	700	-	-	700
Issue costs		-	(13)	-	-	(13)
Closing balance		687	687	-	687	687
Retained profits						
Opening balance		1,160	1,686	1,698	650	980
Adjustment on adoption of new life insurance standard		-	-	432	-	-
Assumption of Colonial State Bank profits		-	-	-	-	140
Buy back		-	(449)	-	-	(449)
Transfers from reserves		250	125	-	-	-
Operating profit attributable to members of Bank		2,655	2,398	2,700	2,665	1,699
Total available for appropriation		4,065	3,760	4,830	3,315	2,370
Transfers to reserves ⁽¹⁾		(700)	(880)	(1,713)	-	-
Interim dividend - cash component		(852)	(642)	(405)	(852)	(642)
Interim dividend - appropriated to dividend reinvestment plan reserve		-	(131)	(118)	-	(131)
Provision for final dividend - cash component		(1,027)	(765)	(708)	(1,027)	(765)
Final dividend - appropriated to dividend reinvestment plan reserve		-	(168)	(200)	-	(168)
Other dividends		(34)	(14)	-	(34)	(14)
Closing balance		1,452	1,160	1,686	1,402	650
Reserves						
General Reserve						
Opening balance		3,548	2,793	1,080	570	570
Appropriation from profits		700	880	1,713	-	-
Transfer to retained profits		(250)	(125)	-	-	-
Closing balance		3,998	3,548	2,793	570	570
Capital Reserve						
Opening balance		289	289	289	1,531	1,531
Transfers from reserves		-	-	-	-	-
Closing balance		289	289	289	1,531	1,531
Asset Revaluation Reserve						
Opening balance		5	-	-	-	-
Revaluation of investments and properties		(1)	5	-	-	-
Transfers to capital reserve		-	-	-	-	-
Closing balance		4	5	-	-	-
Dividend Reinvestment Plan Reserve						
Opening balance		168	200	133	168	200
Conversion to ordinary share capital and cash dividend		(168)	(331)	(251)	(168)	(331)
Appropriation from profits		-	299	318	-	299
Closing balance		-	168	200	-	168
Foreign Currency Translation Reserve						
Opening balance		81	(17)	9	9	3
Currency translation adjustments		(146)	98	(26)	(17)	6
Transfer to retained profits		-	-	-	-	-
Closing balance		(65)	81	(17)	(8)	9
Total Reserves		4,226	4,091	3,265	2,093	2,278
Shareholders' equity attributable to members of the Bank		19,030	18,393	17,472	16,847	16,070

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

Statements of Cash Flows

For the year ended 30 June 2002

	GROUP			BANK	
	2002	2001	2000	2002	2001
	\$M	\$M	\$M	\$M	\$M
Cash Flows From Operating Activities					
Interest received	10,683	12,059	7,949	8,839	8,567
Dividends received	5	14	20	972	404
Interest paid	(5,805)	(7,704)	(4,538)	(4,812)	(5,299)
Other operating income received	3,706	2,800	2,210	3,087	1,558
Expenses paid	(5,366)	(5,583)	(3,215)	(4,113)	(3,296)
Income taxes paid	(926)	(1,252)	(976)	(376)	(947)
Net decrease (increase) in trading securities	(1,159)	(262)	(50)	(1,353)	171
Life insurance:					
Investment income	870	900	428	-	-
Premiums received	5,689	6,286	2,771	-	-
Policy payments	(5,704)	(5,423)	(2,112)	-	-
Net Cash provided by Operating Activities	1,993	1,835	2,487	2,244	1,158
Cash Flows from Investing Activities					
Payments for acquisition of entities	(57)	(414)	(46)	(50)	(378)
Proceeds from disposal of entities and businesses	314	-	-	242	-
Net movement in investment securities:					
Purchases	(23,488)	(19,676)	(16,852)	(20,593)	(17,937)
Proceeds from sale	295	28	17	594	84
Proceeds at or close to maturity	22,192	19,654	15,212	19,590	18,587
Withdrawal (lodgement) of deposits with regulatory authorities	(28)	15	950	(50)	1
Net increase in loans, advances and other receivables	(11,702)	(4,181)	(8,791)	(8,790)	(4,311)
Net amounts paid to controlled entities	-	-	-	(5,026)	1,809
Proceeds from sale of property, plant and equipment	109	157	44	78	65
Purchase of property, plant and equipment	(164)	(132)	(94)	(106)	(41)
Net decrease (increase) in receivables due from other financial institutions not at call	(855)	(184)	(3,697)	(691)	(190)
Net decrease (increase) in securities purchased under agreements to resell	(1,376)	(891)	(433)	(1,377)	(891)
Net decrease (increase) in other assets	(241)	1,504	(2,424)	(312)	909
Life insurance:					
Purchases of investment securities	(13,926)	(21,229)	(11,356)	-	-
Proceeds from sale/maturity of investment securities	14,618	20,556	10,863	-	-
Net Cash used in Investing Activities	(14,309)	(4,793)	(16,607)	(16,491)	(2,293)
Cash Flows from Financing Activities					
Buy back of shares	-	(724)	(553)	-	(724)
Proceeds from issue of shares (net of costs)	39	723	4	39	723
Net increase (decrease) in deposits and other borrowings	15,135	5,246	6,043	13,112	1,565
Net movement in debt issues	(967)	(2,099)	5,834	1,022	(1,137)
Dividends paid	(1,661)	(1,368)	(882)	(1,661)	(1,368)
Net movements in other liabilities	1,809	(1,010)	461	2,110	(378)
Net increase (decrease) in payables due to other financial institutions not at call	211	1,396	2,470	645	1,378
Net increase (decrease) in securities sold under agreements to repurchase	310	(485)	327	311	(485)
Issue of loan capital	-	-	2,053	-	-
Other	(100)	(69)	306	(3)	293
Net Cash provided by Financing Activities	14,776	1,610	16,063	15,575	(133)
Net Increase (Decrease) in Cash and Cash Equivalents	2,460	(1,348)	1,943	1,328	(1,268)
Cash and Cash Equivalents at beginning of period	38	1,386	(557)	(420)	848
Cash and Cash Equivalents at end of period	2,498	38	1,386	908	(420)

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 accounting policies applied are consistent with those of Financial Year 2001.

The Group adopted the revised accounting standard AASB 1027 : Earnings Per Share from 1 July 2001. There were no material changes to the calculations.

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 was 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 to the Financial Statements.

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 2002 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.

(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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(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 (OATSE). Such assets are classified in the appropriate asset classifications in the balance sheet.

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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(n) Leasing and leveraged leasing

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 this 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 Financial Year 2001 the revaluation had minimal effect on the level of the reserve. The potential effect of any capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount.

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 2.

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.

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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(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 20. 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 and Leaseway in April 1997 is being amortised over 10 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 \$209 million as at 30 June 2002. Such costs are amortised over the assessed useful life of the projects, up to a maximum of 10 years. The usual period of amortisation 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 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 were in the area of redundancy, property and systems. Refer Note 20 for further details on the Colonial acquisition.

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.

(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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(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 \$3,150 million, including the appraisal value uplift (2001: \$2,699 million and 2000: \$1,944 million).

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

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.

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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

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 1.03: 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.
- (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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

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, 21 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 Other Assets (Note 21) 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 1.03: 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.

(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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

- (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.

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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(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 goodwill amortisation, restructuring charge and life insurance and funds management appraisal value uplift.

(pp) Policy Changes (2001)

The Group adopted the requirements at AASB 1038: Life Insurance Business for the first time from 1 July 1999, refer note 1 (jj). 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 increased by \$1,458 million at 30 June 2001 (\$588 million at 30 June 2000). This change had no impact on operating profit after tax attributable to the Bank. Comparative figures were restated.

The Group elected to apply revised accounting standard AASB 1005: Segment Reporting from 1 July 2000, prior to its operative date in accordance with Section 334(5) of the Corporations Act 2001, refer Note 33.

The Group elected to apply revised accounting standard AASB 1041: Revaluation of Non-Current Assets from 1 July 2000, prior to its operative date in accordance with Section 334(5) of the Corporations Act 2001, refer Note 19.

(qq) 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>987</u>

Notes to the financial statements**NOTE 2 Operating Profit**

Profit from ordinary activities before income tax has been determined as follows:

	GROUP			BANK	
	2002	2001	2000	2002	2001
	\$M	\$M	\$M	\$M	\$M
Interest Income					
Loans	9,231	10,246	7,663	7,539	7,072
Other financial institutions	165	280	191	95	252
Cash and liquid assets	142	110	78	137	99
Trading securities	359	548	295	276	369
Investment securities	517	655	586	255	423
Dividends on redeemable preference shares	41	54	24	(6)	(44)
Controlled entities	-	-	-	380	386
Other	-	7	5	(6)	3
Total Interest Income	10,455	11,900	8,842	8,670	8,560
Interest Expense					
Deposits	4,241	5,042	3,773	3,398	3,547
Other financial institutions	193	328	297	205	323
Debt issues	1,064	1,661	842	601	603
Controlled entities	-	-	-	265	431
Loan capital	232	374	210	227	342
Other	15	21	1	11	15
Total Interest Expense	5,745	7,426	5,123	4,707	5,261
Net Interest Income	4,710	4,474	3,719	3,963	3,299
Other Operating Income					
Lending fees	618	602	554	580	525
Commission and other fees	1,242	1,173	946	1,309	888
Trading income					
Foreign exchange earnings	243	222	146	216	195
Trading securities	113	140	105	92	121
Other financial instruments (incl derivatives)	133	64	60	133	62
Dividends - controlled entities	-	-	-	969	385
- other	5	14	20	3	19
Net gain on sale of investments and loans	78	56	12	295	84
Net profit on sale of property, plant and equipment	12	25	13	11	26
Life insurance income (refer Note 34)	997	1,268	326	-	-
Funds management income	809	701	143	-	-
General insurance premium income	119	107	103	-	-
Less general insurance claims paid	(66)	(57)	(55)	-	-
Other	55	35	47	332	267
Total Other Operating Income	4,358	4,350	2,420	3,940	2,572
Total Net Operating Income before appraisal value uplift	9,068	8,824	6,139	7,903	5,871
Charge for Bad and Doubtful Debts (Note 13)					
General provisions	449	385	196	405	276
Total Charge for Bad and Doubtful Debts	449	385	196	405	276

Notes to the financial statements**NOTE 2 Operating Profit continued**

	2002	2001	GROUP 2000	2002	BANK 2001
	\$M	\$M	\$M	\$M	\$M
Staff Expenses					
Salaries and wages	2,079	2,046	1,498	1,759	1,498
Superannuation contributions	11	12	2	2	-
Provision for long service leave	36	47	38	35	50
Provisions for other employee entitlements	8	(8)	6	7	(16)
Payroll tax	92	99	75	83	79
Fringe benefits tax	32	48	33	30	38
Other staff expenses	132	116	53	43	23
Recurrent expenses	2,390	2,360	1,705	1,959	1,672
Restructuring	-	-	20	-	-
Total Staff Expenses	2,390	2,360	1,725	1,959	1,672
Occupancy and Equipment Expenses					
Operating lease rentals	324	329	208	295	211
Depreciation					
Buildings	26	29	31	23	26
Leasehold improvements	47	45	28	37	26
Equipment	55	76	58	26	26
Repairs and maintenance	56	60	46	51	52
Other	70	65	66	26	51
Recurrent expenses	578	604	437	458	392
Restructuring	-	-	3	-	-
Total Occupancy and Equipment Expenses	578	604	440	458	392
Information Technology Services					
Projects and development	233	216	186	205	129
Data processing	275	256	144	256	180
Desktop	155	145	103	154	131
Communications	175	171	138	148	123
Recurrent expenses	838	788	571	763	563
Restructuring	-	-	32	-	-
Total Information Technology Services	838	788	603	763	563
Other Expenses					
Postage	111	108	81	95	83
Stationery	104	104	75	86	67
Fees and commissions	609	524	176	279	186
Advertising and marketing	256	252	156	203	188
Other	315	430	206	139	147
Recurrent expenses	1,395	1,418	694	802	671
Restructuring	-	-	51	-	-
Total Other Expenses	1,395	1,418	745	802	671
Total Operating Expenses before goodwill amortisation	5,201	5,170	3,513	3,982	3,298
Appraisal value uplift	477	474	1,165	-	-
Goodwill amortisation	(323)	(338)	(57)	(186)	(49)
Profit from ordinary activities before income tax	3,572	3,405	3,538	3,330	2,248

Notes to the financial statements**NOTE 3 Revenue from Ordinary Activities**

	GROUP			BANK	
	2002	2001	2000	2002	2001
	\$M	\$M	\$M	\$M	\$M
Banking					
Interest income	10,455	11,900	8,842	8,670	8,560
Fee and commissions	1,860	1,775	1,500	1,889	1,413
Trading income	489	426	311	441	378
Dividends	5	14	20	972	404
Proceeds from sale of property, plant and equipment	109	157	44	78	65
Proceeds from sale of investments and loans	609	28	17	836	84
Other income	108	85	95	334	267
	13,635	14,385	10,829	13,220	11,171
Life Insurance and Funds Management					
Life insurance					
- premium and related income	1,140	1,073	337	-	-
- investment revenue	(100)	1,698	1,066	-	-
Funds management fee income	809	701	143	-	-
	1,849	3,472	1,546	-	-
Appraisal value uplift					
-recurrent basis	330	474	92	-	-
-change of valuation basis of Commonwealth Life Insurance businesses	-	-	536	-	-
-corporate restructure of funds management business	147	-	537	-	-
	477	474	1,165	-	-
Total revenue from ordinary activities	15,961	18,331	13,540	13,220	11,171

There were no sources of revenue from non-operating activities.

Notes to the financial statements

NOTE 4 Average Balances 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 2000, 2001 and 2002. 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.

Average Assets and Interest Income	2002			2001			2000		
	Average Balance \$M	Interest \$M	Average Rate %	Average Balance \$M	Interest \$M	Average Rate %	Average Balance \$M	Interest \$M	Average Rate %
Average Interest Earning Assets and Interest Income									
Cash and liquid assets									
Australia	4,290	138	3.2	2,428	107	4.4	1,860	78	4.2
Overseas	285	4	1.4	273	3	1.1	42	-	-
Receivables due from other financial institutions									
Australia	1,822	69	3.8	2,658	159	6.0	1,839	112	6.1
Overseas	2,663	96	3.6	1,595	121	7.6	1,307	79	6.0
Deposits with regulatory authorities									
Australia	-	-	n/a	-	-	n/a	-	-	n/a
Overseas	174	-	-	29	-	-	6	-	-
Trading securities									
Australia	5,138	248	4.8	5,616	387	6.9	3,754	196	5.2
Overseas	2,698	111	4.1	2,587	161	6.2	1,929	99	5.1
Investment securities									
Australia	3,774	211	5.6	3,244	242	7.5	4,082	260	6.4
Overseas	7,339	306	4.2	6,268	413	6.6	5,331	326	6.1
Loans, advances and other receivables									
Australia	123,006	7,984	6.5	118,917	8,983	7.6	94,913	6,701	7.1
Overseas	19,445	1,288	6.6	16,992	1,317	7.8	14,100	986	7.0
Other interest earning assets	-	-	n/a	-	7	n/a	-	5	n/a
Intragroup loans									
Australia	-	-	n/a	-	-	n/a	-	-	n/a
Overseas	3,232	65	2.0	3,198	191	6.0	2,825	168	5.9
Average interest earning assets and interest income including intragroup	173,866	10,520	6.1	163,805	12,091	7.4	131,988	9,010	6.8
Intragroup eliminations	(3,232)	(65)	2.0	(3,198)	(191)	6.0	(2,825)	(168)	5.9
Total average interest earning assets and interest income	170,634	10,455	6.1	160,607	11,900	7.4	129,163	8,842	6.8
Non-Interest Earning Assets									
Bank acceptances									
Australia	11,965			12,074			10,533		
Overseas	66			109			21		
Life insurance investment assets									
Australia	26,853			26,580			9,732		
Overseas	4,129			3,062			240		
Property, plant and equipment									
Australia	681			1,024			755		
Overseas	203			240			187		
Other assets									
Australia	23,617			21,676			9,309		
Overseas	3,411			1,835			1,158		
Provisions for impairment									
Australia	(1,546)			(1,493)			(1,213)		
Overseas	(143)			(84)			(174)		
Total average non-interest earning assets	69,236			65,023			30,548		
Total Average Assets	239,870			225,630			159,711		
Percentage of total average assets applicable to overseas operations	18.1%			16.0%			15.0%		

Notes to the financial statements**NOTE 4 Average Balances and Related Interest continued****Average Liabilities and Interest Expense**

	2002			2001			2000		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
Average Interest Bearing Liabilities and Loan Capital and Interest Expense									
Time Deposits									
Australia	41,283	1,901	4.6	42,226	2,519	6.0	38,176	2,022	5.3
Overseas	12,479	746	6.0	9,882	711	7.2	8,665	484	5.6
Savings Deposits									
Australia	32,078	412	1.3	27,835	603	2.2	25,248	460	1.8
Overseas	2,444	82	3.4	2,027	83	4.1	2,017	67	3.3
Other demand deposits									
Australia	29,517	1,037	3.5	23,813	1,064	4.5	17,662	696	3.9
Overseas	2,386	63	2.6	1,911	62	3.2	1,954	44	2.3
Payables due to other financial institutions									
Australia	2,043	65	3.2	1,271	65	5.1	961	56	5.8
Overseas	5,320	128	2.4	4,238	263	6.2	3,718	241	6.5
Debt issues									
Australia	14,578	800	5.5	17,130	1,099	6.4	7,615	413	5.4
Overseas	9,398	264	2.8	9,965	562	5.6	7,655	429	5.6
Loan capital									
Australia	5,491	227	4.1	5,564	367	6.6	3,336	204	6.1
Overseas	88	5	5.7	116	7	6.0	68	6	8.8
Other interest bearing liabilities	-	15	n/a	-	21	n/a	-	1	n/a
Intragroup borrowings									
Australia	3,232	65	2.0	3,198	191	6.0	2,825	168	5.9
Overseas	-	-	n/a	-	-	n/a	-	-	n/a
Average interest bearing liabilities and loan capital and interest expense including intragroup	160,337	5,810	3.6	149,176	7,617	5.1	119,900	5,291	4.4
Intragroup eliminations	(3,232)	(65)	2.0	(3,198)	(191)	6.0	(2,825)	(168)	5.9
Total average interest bearing liabilities and loan capital and interest expense	157,105	5,745	3.6	145,978	7,426	5.1	117,075	5,123	4.4
Non-Interest Bearing Liabilities									
Deposits not bearing interest									
Australia	5,424			6,034			4,698		
Overseas	705			608			72		
Liability on acceptances									
Australia	11,965			12,077			10,533		
Overseas	66			109			21		
Life insurance policy liabilities									
Australia	23,092			23,584			9,458		
Overseas	3,457			2,617			201		
Other liabilities									
Australia	14,628			13,536			5,964		
Overseas	3,026			2,890			4,005		
Total average non-interest bearing liabilities	62,363			61,455			34,952		
Total average liabilities and loan capital	219,468			207,433			152,027		
Shareholders' equity	20,402			18,197			7,684		
Total average liabilities, loan capital and shareholders' equity	239,870			225,630			159,711		
Percentage of total average liabilities applicable to overseas operations	17.9%			16.6%			18.7%		

Notes to the financial statements**NOTE 4 Average Balances and Related Interest continued**

Changes in Net Interest Income: Volume and Rate Analysis	30/06/02 vs 30/06/01 Changes due to			30/06/01 vs 30/06/00 Changes due to		
	Volume \$M	Rate \$M	Total \$M	Volume \$M	Rate \$M	Total \$M
Interest Earning Assets						
Cash and liquid assets						
Australia	71	(40)	31	24	5	29
Overseas	-	1	1	1	2	3
Receivables due from other financial institutions						
Australia	(41)	(49)	(90)	49	(2)	47
Overseas	60	(85)	(25)	20	22	42
Trading securities						
Australia	(28)	(111)	(139)	113	79	192
Overseas	6	(56)	(50)	37	25	62
Investment securities						
Australia	35	(66)	(31)	(58)	41	(17)
Overseas	58	(165)	(107)	59	29	88
Loans, advances and other receivables						
Australia	287	(1,286)	(999)	1,752	548	2,300
Overseas	176	(205)	(29)	213	121	334
Other interest earning assets	-	(7)	(7)	-	2	2
Intragroup loans						
Australia	-	-	-	-	-	-
Overseas	1	(127)	(126)	22	1	24
Change in interest income including intragroup	656	(2,227)	(1,571)	2,257	848	3,106
Intragroup eliminations	(1)	127	126	(22)	(1)	(24)
Change in interest income	679	(2,124)	(1,445)	2,238	844	3,082
Interest Bearing Liabilities and Loan Capital						
Time Deposits						
Australia	(50)	(568)	(618)	228	275	503
Overseas	171	(136)	35	78	150	228
Savings Deposits						
Australia	73	(264)	(191)	52	92	144
Overseas	16	(17)	(1)	-	16	16
Other demand deposits						
Australia	228	(255)	(27)	258	112	370
Overseas	14	(13)	1	(1)	19	18
Payables due to other financial institutions						
Australia	32	(32)	-	17	(8)	9
Overseas	47	(182)	(135)	33	(10)	23
Debt Issues						
Australia	(152)	(147)	(299)	563	125	687
Overseas	(24)	(274)	(298)	130	4	134
Loan Capital						
Australia	(4)	(136)	(140)	141	23	164
Overseas	(2)	-	(2)	4	(3)	1
Other interest bearing liabilities	-	(6)	(6)	-	20	20
Intragroup borrowings						
Australia	1	(127)	(126)	22	2	24
Overseas	-	-	-	-	-	-
Change in interest expense including intragroup	503	(2,310)	(1,807)	1,392	949	2,341
Intragroup eliminations	(1)	127	126	(22)	(1)	(24)
Change in interest expense	486	(2,167)	(1,681)	1,366	951	2,317
Change in net interest income	278	(42)	236	872	(107)	765
Change due to Variation in Time Periods			-			(10)

Notes to the financial statements

NOTE 4 Average Balances 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 Financial Year 2001 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).

	2002	2001	GROUP
	\$M	\$M	2000
			\$M
Net interest income	4,710	4,474	3,719
Average interest earning assets	170,634	160,607	129,163

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 ⁽¹⁾	2.75	2.56	2.71
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.25	0.43	0.42
Australia Interest Margin ⁽³⁾	3.00	2.99	3.13
Overseas			
Interest Spread ⁽¹⁾	1.16	1.06	1.22
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.43	0.55	0.30
Overseas Interest Margin ⁽³⁾	1.59	1.61	1.52
Group			
Interest Spread ⁽¹⁾	2.47	2.32	2.47
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.29 ⁽⁴⁾	0.46	0.41
Group Interest Margin ⁽³⁾	2.76	2.78	2.88

⁽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.

⁽⁴⁾ The reduction of this free funding benefit reflects the lower market interest rates.

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	
	2002 \$M	2001 \$M	2000 \$M	2002 \$M	2001 \$M
Operating profit from ordinary activities before income tax					
Banking	2,884	2,512	2,204	3,516	2,297
Life insurance	240	514	176	-	-
Funds management	294	243	50	-	-
Appraisal value uplift	477	474	1,165	-	-
Goodwill amortisation	(323)	(338)	(57)	(186)	(49)
	3,572	3,405	3,538	3,330	2,248
Prima facie income tax at 30% (30 June 2001: 34%; 30 June 2000: 36%)					
Banking	866	853	794	1,055	781
Life insurance	72	175	64	-	-
Funds management	88	83	18	-	-
Appraisal value uplift	143	161	419	-	-
Goodwill amortisation	(97)	(114)	(21)	(56)	(17)
	1,072	1,158	1,274	999	764
Add (or deduct) permanent differences expressed on a tax effect basis:					
Current Period					
Tax rate change	-	3	23	-	(11)
Specific provisions for offshore bad and doubtful debts not tax effected	(3)	8	(22)	(7)	7
Taxation rebates (net of accruals)	(24)	(35)	(38)	(308)	(138)
Tax adjustment referable to policy holder income ⁽¹⁾	(25)	62	28	-	-
Non assessable income - life insurance surplus ⁽¹⁾	(25)	(43)	(62)	-	-
Change in excess of net market value over net assets of life insurance controlled entities (appraisal value uplift)	(143)	(161)	(402)	-	-
Non deductible goodwill amortisation	97	115	21	56	17
Non assessable capital gains	-	(38)	-	(68)	(38)
Tax losses recognised	(35)	(65)	(11)	(35)	(64)
Employee share acquisition plan	(8)	(8)	(9)	(8)	(8)
Other	17	26	(3)	36	38
	(149)	(136)	(475)	(334)	(197)
Prior Periods					
Other	(7)	(29)	1	-	(18)
Total income tax expense	916	993	800	665	549
Income tax attributable to operating profit					
Banking	816	705	739	665	549
Life insurance	22	194	47	-	-
Funds management	78	94	14	-	-
	916	993	800	665	549
Income tax expense comprises:					
Current taxation provision	1,385	820	730	814	416
Deferred income (benefit)/tax provision	(408)	193	137	(129)	184
Future income tax benefit	(86)	(35)	(109)	(28)	(63)
Notional tax expense - leveraged leases	12	11	34	5	7
Other	13	4	8	3	5
Total Income Tax Expense	916	993	800	665	549
The components of income tax expense consist of the following:					
Current Australia	1,239	765	677	811	416
Overseas	146	55	52	3	-
	1,385	820	729	814	416
Deferred Australia	(403)	168	73	(149)	133
Overseas	(66)	5	(2)	-	-
	(469)	173	71	(149)	133

⁽¹⁾ The prima facie life insurance income tax of \$72 million less these permanent differences equals the life insurance tax expense of \$22 million for 30 June 2002.

Notes to the financial statements**NOTE 5 Income Tax Expense continued**

	GROUP			BANK	
	2002 \$M	2001 \$M	2000 \$M	2002 \$M	2001 \$M
The significant temporary differences are as follows:					
Deferred income tax assets arising from:					
Provisions not tax deductible until expense incurred	337	488	743	257	296
Other	288	206	156	52	62
Future income tax benefits (Note 21)	625	694	899	309	358
Deferred income tax liabilities arising from:					
Leveraged leasing	240	328	383	34	71
Lease financing	100	149	247	23	42
Other	240	625	569	95	264
Total deferred income tax liabilities (Note 24)	580	1,102	1,199	152	377
Future income tax benefits attributable to tax losses carried forward as an asset	124	-	181	-	-

Future income tax benefits not taken to account**Valuation allowance**

Opening balance	146	173	146	121	167
Financial Year 2001 adjustments	(8)	(2)	7	(10)	4
Benefits now taken to account	(27)	(65)	(11)	(27)	(64)
Benefits arising during the year not recognised	57	40	31	48	14
Closing balance (Note 21)	168	146	173	132	121

NOTE 6 Dividends Provided For, Reserved or Paid**Ordinary Shares**

Interim ordinary dividend (fully franked) of 68 cents per share (2001: 61 cents, 2000: 58 cents)

Provision for interim ordinary dividend - cash component only	852	642	405	852	642
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Declared final ordinary dividend (fully franked) of 82 cents per share (2001: 75 cents, 2000: 72 cents)

Provision for final ordinary dividend - cash component only	1,027	765	708	1,027	765
Other provision	-	5	-	-	5

Preference Shares

Preference dividends paid	26	-	-	26	-
Provision for preference dividend	8	9	-	8	9

Dividends provided for payments in cash or paid	1,913	1,421	1,113	1,913	1,421
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Appropriations to Dividend Reinvestment Plan Reserve

Interim ordinary dividend	-	131	118	-	131
Final ordinary dividend	-	168	200	-	168

Dividends appropriated to Dividend Reinvestment Plan Reserve	-	299	318	-	299
--	---	-----	-----	---	-----

Total Dividends Provided for, Reserved or Paid	1,913	1,720	1,431	1,913	1,720
--	-------	-------	-------	-------	-------

Other provision carried	5	-	-	5	-
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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 year ended 30 June 2002 the amount of franking credits available as at 30 June 2002 to frank dividends for subsequent Financial Years is \$400 million (30 June 2001: nil)

This figure is based on the combined franking accounts of the Group at 30 June 2002 and has been adjusted for franking credits that will arise from the payment of income tax payable on profits of the year

ended 30 June 2002, franking debits that will arise from the payment of dividends proposed as at 30 June 2002 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 2002 will be franked at the 30% tax rate. These calculations have been based on the taxation law as at 30 June 2002.

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 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%	28.79	18.4%
31 December 2001	68	71.8%	-	-	31.96	18.7%
30 June 2002	82	71.6%	71.7%	76.2%	-	-

⁽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.

NOTE 7 Earnings Per Share

	2002 c	2001 c	GROUP 2000 c
Earnings Per Ordinary Share			
- Basic	209.6	189.6	291.2
- Fully diluted	209.3	189.3	290.7
	\$M	\$M	\$M
Reconciliation of earnings used in the calculation of earnings per share			
Profit from ordinary activities after income tax	2,656	2,412	2,738
Less: Preference share dividend	(34)	(9)	-
Less: Outside equity interests	(1)	(14)	(38)
Earnings used in calculation of earnings per share	2,621	2,389	2,700
	Number of Shares		
	M	M	M
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,250	1,260	927
Effect of dilutive securities - share options	2	2	2
Weighted average number of ordinary shares used in the calculation of fully diluted earnings per share	1,252	1,262	929
Cash Basis Earnings Per Ordinary Share	c	c	c
- Basic ⁽¹⁾	197.3	178.8	181.0
- Fully diluted ⁽¹⁾	197.0	178.6	180.6

⁽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	
	2002 \$M	2001 \$M	2002 \$M	2001 \$M
Australia				
Notes, coins and cash at bankers	1,888	850	1,873	830
Money at short call	74	86	-	-
Securities purchased under agreements to resell	3,194	1,979	3,194	1,979
Bills receivable and remittances in transit	270	282	296	282
Total Australia	5,426	3,197	5,363	3,091
Overseas				
Notes, coins and cash at bankers	168	198	-	-
Money at short call	100	175	10	57
Bills receivable and remittances in transit	50	1	-	-
Agreements to resell	300	138	300	138
Total Overseas	618	512	310	195
Total Cash and Liquid Assets	6,044	3,709	5,673	3,286

Notes to the financial statements**NOTE 9 Receivables from Other Financial Institutions**

	GROUP		BANK	
	2002	2001	2002	2001
	\$M	\$M	\$M	\$M
Australia	4,333	2,858	4,504	2,724
Overseas	3,395	1,764	1,190	1,071
Total Receivables from Other Financial Institutions	7,728	4,622	5,694	3,795

NOTE 10 Trading Securities**Australia**

Listed:

Australian Public Securities

Commonwealth and States

Local and semi-government

Treasury Notes

Bills of exchange

Other securities

Unlisted:

Local and semi-government

Commercial paper

Certificates of deposit

Medium term notes

Other securities

Total Australia

	72	99	72	99
	182	340	182	340
	6	-	6	-
	1,535	1,588	1,595	1,588
	67	36	987	1,039
	10	-	10	-
	163	187	163	187
	1,883	745	1,883	736
	1,644	1,100	609	296
	2	-	2	-
	5,564	4,095	5,509	4,285

Overseas

Listed:

Government securities

Eurobonds

Bills of exchange

Other securities

Unlisted:

Government securities

Commercial paper

Certificates of deposit

Other securities

Total Overseas

Total Trading Securities

	150	356	20	5
	780	617	780	617
	1,122	950	-	-
	348	53	361	53
	18	-	10	-
	401	375	18	-
	5	-	5	-
	1	463	-	60
	2,825	2,814	1,194	735
	8,389	6,909	6,703	5,020

Notes to the financial statements**NOTE 11 Investment Securities**

	2002	2001	GROUP	2002	BANK
	\$M	\$M	2000	\$M	2001
			\$M		\$M
Australia					
Listed					
Australian Public Securities					
Commonwealth and States	1,969	1,919	2,670	1,969	1,913
Other securities and equity investments	456	354	285	448	349
Unlisted					
Australian Public Securities					
Local and semi-government	80	-	-	-	-
Bills of exchange	18	85	30	-	-
Medium term notes	968	976	1,050	115	90
Other securities and equity investments	578	2	111	57	-
Total Australia	4,069	3,336	4,146	2,589	2,352
Overseas					
Listed					
Government securities					
Eurobonds	804	252	287	804	252
Floating rate notes	1,045	1,118	951	1,045	1,118
Other securities	377	-	-	44	-
Other securities	787	666	767	191	215
Unlisted:					
Government securities					
Treasury notes	113	116	-	5	-
Certificates of deposit	-	6	5	-	6
Eurobonds	1,379	1,417	1,181	1,379	1,417
Medium term notes	212	212	141	212	212
Commercial paper	114	174	171	114	174
Floating rate notes	-	29	159	-	29
Other securities and equity investments	784	1,422	578	798	823
Other securities and equity investments	1,082	957	763	379	275
Total Overseas	6,697	6,369	5,003	4,971	4,521
Total Investment Securities	10,766	9,705	9,149	7,560	6,873

Notes to the financial statements**NOTE 11 Investment Securities continued**

	GROUP		
	2002	Market Value At 30 June	2000
	\$M	\$M	\$M
Market Value			
Australia			
Australian Public Securities			
Commonwealth and States	2,109	1,926	2,672
Bills of exchange	18	85	30
Medium term notes	973	982	1,057
Other securities and equity investment	1,042	463	407
Total Australia	4,142	3,456	4,166
Overseas			
Government securities	928	379	295
Treasury notes	-	6	5
Certificates of deposit	1,379	1,416	1,181
Eurobonds	1,263	1,343	1,094
Medium term notes	114	172	153
Floating rate notes	1,158	1,422	578
Other securities and equity investments	1,867	1,627	1,677
Total Overseas	6,709	6,365	4,983
Total Investment Securities	10,851	9,821	9,149
Net Unrealised Surplus/(Deficit)	85	116	-

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 2002				At 30 June 2001			
	Amortised Cost	Gross Gains	Unrealised Losses	Fair Value	Amortised Cost	Gross Gains	Unrealised Losses	Fair Value
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Australia								
Australian Public Securities								
Commonwealth and States	2,049	71	11	2,109	1,919	24	17	1,926
Bills of exchange	18	-	-	18	85	-	-	85
Medium term notes	968	5	-	973	976	6	-	982
Other securities and equity investments ⁽¹⁾	1,034	12	4	1,042	356	107	-	463
Total Australia	4,069	88	15	4,142	3,336	137	17	3,456
Overseas								
Government securities	917	13	2	928	368	11	-	379
Treasury notes	-	-	-	-	6	-	-	6
Certificates of deposit	1,379	-	-	1,379	1,417	-	1	1,416
Eurobonds	1,257	30	24	1,263	1,330	43	30	1,343
Medium term notes	114	-	-	114	174	1	3	172
Floating rate notes	1,161	-	3	1,158	1,422	5	5	1,422
Other securities and equity investments	1,869	9	11	1,867	1,652	8	33	1,627
Total Overseas	6,697	52	40	6,709	6,369	68	72	6,365
Total Investment Securities	10,766	140	55	10,851	9,705	205	89	9,821

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 \$12 million of net deferred losses on these contracts (2001: \$107 million net deferred losses) which offset the above unrealised gains and these are disclosed within Note 39. At the end of the Financial Year \$98 million of net deferred losses (2001: \$21 million of deferred gains) 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 2002									
	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	164	5.28	846	5.63	959	6.56	80	7.58	2,049	
Bank Bills	18	4.37	-	-	-	-	-	-	18	
Medium Term Notes	58	5.38	910	13.41	-	-	-	-	968	
Other securities, commercial paper and equity investments	378	4.43	656	6.60	-	-	-	-	1,034	
Total Australia	618		2,412		959		80		4,069	
Overseas										
Government securities	540	5.83	304	3.42	73	1.33	-	-	917	
Certificates of Deposit	1,379	2.63	-	-	-	-	-	-	1,379	
Eurobonds	96	6.72	948	5.43	134	5.38	79	2.65	1,257	
Medium Term Notes	9	4.40	-	-	105	2.78	-	-	114	
Floating rate notes	198	2.83	517	4.24	386	2.83	60	3.48	1,161	
Other securities, commercial paper and equity investments	148	7.23	1,243	7.24	407	5.54	71	6.22	1,869	
Total Overseas	2,370		3,012		1,105		210		6,697	
Total Investment Securities	2,988		5,424		2,064		290		10,766	
Maturities at Fair Value	2,972		5,458		2,132		289		10,851	

Additional Disclosure

Proceeds at or close to maturity of investment securities were \$22,192 million (2001: \$19,697 million, 2000: \$15,212 million).

Proceeds from sale of investment securities were \$295 million (2001: \$28 million, 2000: \$17 million).

Realised capital gains were \$86 million and realised capital losses were \$14 million (2001: realised capital gains \$3 million, and realised capital losses \$1 million 2000: realised capital gains \$12 million).

Notes to the financial statements**NOTE 12 Loans, Advances and Other Receivables**

	GROUP		BANK	
	2002	2001	2002	2001
	\$M	\$M	\$M	\$M
Australia				
Overdrafts	2,513	2,785	2,513	2,785
Housing loans	75,394	65,466	75,123	65,300
Credit card outstandings	4,552	3,962	4,552	3,962
Lease financing	4,094	4,497	2,044	2,421
Bills discounted	1,753	1,556	1,753	1,556
Term loans	38,544	40,650	32,556	34,604
Redeemable preference share financing	-	306	-	6
Equity participation in leveraged leases	1,331	1,536	409	543
Other lending	968	1,301	900	785
Total Australia	129,149	122,059	119,850	111,962
Overseas				
Overdrafts	1,691	1,304	-	-
Housing loans	10,444	8,045	49	55
Credit card outstandings	274	232	-	-
Lease financing	256	256	110	94
Term loans	7,494	6,790	2,525	2,390
Redeemable preference share financing	695	471	-	-
Other lending	43	38	-	-
Total Overseas	20,897	17,136	2,684	2,539
Gross Loans, Advances and Other Receivables	150,046	139,195	122,534	114,501
Less -				
Provisions for impairment (Note 13)				
General provision	(1,356)	(1,399)	(1,190)	(1,240)
Specific provision against loans and advances	(270)	(233)	(231)	(190)
Unearned income				
Term loans	(631)	(643)	(29)	(64)
Lease financing	(426)	(514)	(210)	(282)
Leveraged leases	(162)	(186)	(28)	(22)
Interest reserved	(59)	(68)	(55)	(60)
Unearned tax remissions on leveraged leases	(68)	(93)	(10)	(9)
	(2,972)	(3,136)	(1,753)	(1,867)
Net Loans, Advances and Other Receivables	147,074	136,059	120,781	112,634
Lease receivables, net of unearned income (included above)				
Current	1,408	1,419	711	727
Non current	2,516	2,820	1,233	1,505
	3,924	4,239	1,944	2,232

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.

Notes to the financial statements**NOTE 12 Loans, Advances and Other Receivables continued**

	GROUP		BANK	
	2002 \$M	2001 \$M	2002 \$M	2001 \$M
Finance Leases				
Minimum lease payments receivable:				
No later than one year	1,598	1,696	790	838
Later than one year but not later than five years	2,530	2,786	1,213	1,506
Later than five years	222	271	151	171
Lease financing	4,350	4,753	2,154	2,515
Leverage Leases				
Minimum lease payments receivable:				
No later than one year	225	246	87	221
Later than one year but not later than five years	483	640	169	279
Later than five years	623	650	153	43
Equity participation in leveraged lease	1,331	1,536	409	543

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 2002.

	GROUP Maturity Period at 30 June 2002			
	Maturing One Year or Less \$M	Maturing Between One & Five Years \$M	Maturing After Five Years \$M	Total \$M
Australia				
Government and Public Authorities	811	703	952	2,466
Agriculture, Forestry and Fishing	1,359	1,596	938	3,893
Financial, Investment and Insurance	699	543	193	1,435
Real Estate				
Mortgage ⁽¹⁾	2,177	14,364	58,853	75,394
Construction ⁽²⁾	1,155	766	261	2,182
Personal	4,762	6,522	204	11,488
Lease Financing	1,770	2,873	782	5,425
Other Commercial and Industrial	16,919	6,777	3,170	26,866
Total Australia	29,652	34,144	65,353	129,149
Overseas				
Government and Public Authorities	66	95	43	204
Agriculture, Forestry and Fishing	369	746	748	1,863
Financial, Investment and Insurance	835	1,495	705	3,035
Real Estate				
Mortgage ⁽¹⁾	2,782	2,455	5,207	10,444
Construction ⁽²⁾	38	75	72	185
Personal	289	17	31	337
Lease Financing	53	140	63	256
Other Commercial and Industrial	2,461	1,174	938	4,573
Total Overseas	6,893	6,197	7,807	20,897
Gross Loans, Advances and Other Receivables	36,545	40,341	73,160	150,046

Interest Rate Sensitivity of Lending

Australia	23,549	17,298	34,416	75,263
Overseas	5,575	1,951	2,299	9,825
Total Variable Interest Rates	29,124	19,249	36,715	85,088
Australia	6,103	16,846	30,937	53,886
Overseas	1,318	4,246	5,508	11,072
Total Fixed Interest Rates	7,421	21,092	36,445	64,958
Gross Loans, Advances and Other Receivables	36,545	40,341	73,160	150,046

⁽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	
	2002	2001	2000	1999	1998	2002	2001
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
General Provisions							
Opening balance	1,399	1,358	1,081	1,076	690	1,240	1,004
Abnormal charge	-	-	-	-	370	-	-
Charge against profit	449	385	196	247	165	405	276
Acquired provisions, including fair value adjustments	-	51	214	-	-	-	229
Transfer to specific provisions	(495)	(411)	(140)	(239)	(155)	(457)	(291)
Bad debts recovered	56	88	54	51	48	44	54
Adjustments for exchange rate fluctuations and other items	1	(29)	(3)	(7)	-	-	(6)
	1,410	1,442	1,402	1,128	1,118	1,232	1,266
Bad debts written off	(54)	(43)	(44)	(47)	(42)	(42)	(26)
Closing balance	1,356	1,399	1,358	1,081	1,076	1,190	1,240
Specific Provisions							
Opening balance	234	432	275	279	241	190	175
Charge against profit							
New and increased provisions	-	-	-	-	105	-	-
Write-back of provisions no longer required	-	-	-	-	(37)	-	-
Acquired provisions, including fair value adjustments	-	6	219	-	-	-	28
Transfer from general provision for							
New and increased provisioning	546	495	236	284	175	496	312
Less write-back of provisions no longer required	(51)	(84)	(96)	(45)	(20)	(39)	(21)
Net transfer	495	411	140	239	155	457	291
Adjustments for exchange rate fluctuations and other items	(11)	(17)	5	(8)	(6)	(12)	21
	718	832	639	510	458	635	515
Bad debts written off	(448)	(598)	(207)	(235)	(179)	(404)	(325)
Closing balance	270	234	432	275	279	231	190
Total Provisions for Impairment	1,626	1,633	1,790	1,356	1,355	1,421	1,430

Specific provisions for impairment comprise the following segments:

Provisions against loans and advances	270	233	431	275	279	231	190
Provisions for diminution	-	1	1	-	-	-	-
Total	270	234	432	275	279	231	190

%	%	%	%	%	%	%
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Provision Ratios ⁽¹⁾

Specific provisions for impairment as % of gross impaired assets net of interest reserved	30.54	36.06	43.03	46.69	37.60	30.72	36.19
Total provisions for impairment as % of gross impaired assets net of interest reserved	183.94	251.62	178.29	230.22	182.61	188.96	272.38
General provisions as % of risk weighted assets	0.96	1.01	1.06	1.09	1.14	0.91	0.94

Charge to profit and loss for bad and doubtful debts comprises:

	\$M	\$M	\$M	\$M	\$M	\$M	\$M
General provisions	449	385	196	247	165	405	276
Specific provisions	-	-	-	-	68	-	-
Total Charge for Bad and Doubtful Debts	449	385	196	247	233	405	276

Ratio of net charge-offs during the period to Average gross loans, advances and other receivables outstanding during the period	0.31%	0.28%	0.16%	0.25%	0.26%	0.34%	0.27%
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⁽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	
	2002	2001	2002	2001
	\$M	\$M	\$M	\$M
Total charge for bad and doubtful debts	449	385	405	276
The charge is required for				
Specific Provisioning				
New and increased provisioning	546	495	496	312
Less provisions no longer required	(51)	(84)	(39)	(21)
Net specific provisioning	495	411	457	291
Provided from general provision	(495)	(411)	(457)	(291)
Charge to profit and loss	-	-	-	-
General Provisioning				
Direct write-offs	51	35	42	26
Recoveries of amounts previously written off	(56)	(88)	(44)	(54)
Movement in general provision	(41)	27	(50)	13
Funding of specific provisions	495	411	457	291
Charge to profit and loss	449	385	405	276
Total Charge for Bad and Doubtful Debts	449	385	405	276

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 1998, 1999, 2000, 2001 and 2002.

	2002	2001	2000	Year Ended 30 June	
				1999	1998
	\$M	\$M	\$M	\$M	\$M
Australia					
Government and Public Authorities	-	-	-	-	-
Agriculture, Forestry and Fishing	10	8	35	15	20
Financial, Investment and Insurance	26	24	23	23	16
Real Estate					
Mortgage ⁽¹⁾	6	4	8	4	3
Construction ⁽²⁾	4	6	6	35	8
Personal	35	28	17	15	14
Lease Financing	6	7	6	4	-
Other Commercial and Industrial	134	77	110	82	113
Total Australia	221	154	205	178	174
Overseas					
Government and Public Authorities	11	15	13	-	-
Agriculture, Forestry and Fishing	-	-	-	-	1
Financial, Investment and Insurance	12	4	1	-	-
Real Estate					
Mortgage ⁽¹⁾	3	7	3	3	5
Construction ⁽²⁾	-	-	-	-	10
Personal	3	3	69	2	-
Lease Financing	-	-	-	-	-
Other Commercial and Industrial	20	51	141	92	89
Total Overseas	49	80	227	97	105
Total Specific Provisions	270	234	432	275	279

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Primarily 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 1998, 1999, 2000, 2001 and 2002.

	Year ended 30 June				
	2002 \$M	2001 \$M	2000 \$M	1999 \$M	1998 \$M
Australia					
Government and Public Authorities	-	-	-	-	-
Agriculture, Forestry and Fishing	6	10	6	7	9
Financial, Investment and Insurance	6	1	2	4	4
Real Estate					
Mortgage ⁽¹⁾	11	10	8	9	11
Construction ⁽²⁾	4	14	24	7	6
Personal	177	142	104	94	86
Lease Financing	18	16	11	11	6
Other Commercial and Industrial	178	301	90	71	79
Total Australia	400	494	245	203	201
Overseas					
Government and Public Authorities	1	-	-	-	-
Agriculture, Forestry and Fishing	-	-	-	-	-
Financial, Investment and Insurance	58	6	-	-	3
Real Estate					
Mortgage ⁽¹⁾	2	1	1	1	1
Construction ⁽²⁾	-	-	-	14	-
Personal	6	38	4	-	6
Lease Financing	-	-	-	3	-
Other Commercial and Industrial	35	102	1	61	10
Total Overseas	102	147	6	79	20
Gross Bad Debts Written Off	502	641	251	282	221
Bad Debts Recovered					
Australia	49	59	46	48	46
Overseas	7	29	8	3	2
Bad Debts Recovered	56	88	54	51	48
Net Bad Debts Written Off	446	553	197	231	173

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Primarily 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 1998, 1999, 2000, 2001 and 2002.

	Year ended 30 June				
	2002 \$M	2001 \$M	2000 \$M	1999 \$M	1998 \$M
Australia					
Government and Public Authorities	-	-	-	-	-
Agriculture, Forestry and Fishing	1	-	2	2	4
Financial, Investment and Insurance	-	9	1	2	6
Real Estate					
Mortgage ⁽¹⁾	1	1	1	-	-
Construction ⁽²⁾	-	1	2	1	1
Personal	30	30	28	27	21
Lease Financing	-	1	2	2	2
Other Commercial and Industrial	17	17	10	14	12
Total Australia	49	59	46	48	46
Overseas					
Government and Public Authorities	-	-	-	-	-
Agriculture, Forestry and Fishing	-	-	-	-	-
Financial, Investment and Insurance	1	-	2	-	-
Real Estate					
Mortgage ⁽¹⁾	-	-	-	-	-
Construction ⁽²⁾	3	1	1	-	-
Personal	-	3	3	3	2
Lease Financing	-	-	-	-	-
Other Commercial and Industrial	3	25	2	-	-
Total Overseas	7	29	8	3	2
Bad Debts Recovered	56	88	54	51	48

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Primarily financing real estate and land development projects.

Notes to the financial statements

NOTE 14 Credit Risk Management

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 major lending areas.

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. Master netting agreements are utilised to mitigate the credit risk associated with derivative instruments.

The credit risk portfolio is divided into two segments, statistically managed and credit risk rated.

Statistically managed exposures generally comprise facilities of less than \$250,000 for housing loan, credit card, personal loan and some leasing products. These exposures are generally not individually reviewed unless arrears occur. The portfolios are reviewed by business unit Credit Support and Monitoring 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 that 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 exposures generally comprise business and corporate exposures, including bank and government exposures. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default and the risk of loss in the event of default. Credit risk rated exposures are generally required to be reviewed at least annually, unless they are small transactions that are managed on a behavioural basis after their initial rating at origination. 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 where cases of non compliance are observed.

Facilities in the credit risk rated segment become classified for remedial management by centralised units based on assessment in the risk rating system. 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 facilities where 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, including a centralised portfolio model that assesses risk and return on an overall portfolio and segmented basis, 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 Management 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 1998, 1999, 2000, 2001 and 2002. The industry profile of the loans, advances and other receivables content for the five Financial Years to 30 June 2002 is shown on page 96.

Industry	Year Ended 30 June				
	2002 \$M	2001 \$M	2000 \$M	1999 \$M	1998 \$M
Australia					
Government and Public Authorities	5,955	6,012	6,195	6,162	5,200
Agriculture, Forestry and Fishing	5,480	6,308	6,141	5,303	4,791
Financial, Investment and Insurance	20,926	22,490	20,908	15,430	17,654
Real Estate					
Mortgage	85,032	73,800	63,696	49,150	41,231
Construction	3,837	4,547	4,205	3,830	2,790
Personal	11,718	10,979	12,911	10,688	8,659
Lease Financing	5,425	6,628	6,937	3,100	1,940
Other Commercial and Industrial	43,531	42,893	47,297	34,955	34,145
Total Australia	181,904	173,657	168,290	128,618	116,410
Overseas					
Government and Public Authorities	1,390	385	1,152	493	819
Agriculture, Forestry and Fishing	1,863	1,564	1,017	833	640
Financial, Investment and Insurance	14,192	11,897	8,008	5,631	7,012
Real Estate					
Mortgage ⁽²⁾	10,735	8,085	7,268	7,152	6,275
Construction ⁽³⁾	185	198	152	579	505
Personal	343	449	1,487	542	290
Lease Financing	256	146	217	191	173
Other Commercial and Industrial	10,173	10,359	10,300	7,945	8,091
Total Overseas	39,137	33,083	29,601	23,366	23,805
Total Gross Credit Risk	221,041	206,740	197,891	151,984	140,215
Less unearned income	(1,219)	(1,343)	(1,465)	(1,169)	(1,193)
Total Credit Risk	219,822	205,397	196,426	150,815	139,022
Charge for Bad and Doubtful Debts	449	385	196	247	233
Loss Rate ⁽¹⁾	0.20%	0.19%	0.11%	0.16%	0.17%

⁽¹⁾ The loss rate is the charge as a percentage of the credit risk.

⁽²⁾ Principally owner occupied housing.

⁽³⁾ Primarily financing real estate and land development projects.

The Group has a good quality and well diversified credit portfolio in Australia, with 47% of the exposure in mortgage loans and a further 12% in finance, investment and insurance (primarily banks). 18% of exposure is overseas, of which 27% 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 Management continued**

The following table sets out the Group's Credit Risk by Industry and Asset Class as at 30 June 2002.

Industry	Trading Securities \$M	Investment Securities \$M	Loans Advances and Other Receivables \$M	Bank Acceptances of Customers \$M	Contingent Liabilities \$M	Derivatives \$M	Total \$M
Australia							
Government and Public Authorities	270	2,049	2,466	359	353	458	5,955
Agriculture, Forestry and Fishing	-	-	3,893	1,346	76	165	5,480
Financial, Investment and Insurance	3,418	474	1,435	2,875	2,622	5,769	16,593
Real Estate							
Mortgage	-	-	75,394	131	9,507	-	85,032
Construction	-	-	2,182	1,203	193	259	3,837
Personal	-	-	11,488	162	41	27	11,718
Lease Financing	-	-	5,425	-	-	-	5,425
Other Commercial and Industrial	1,876	1,546	26,866	6,373	2,869	4,001	43,531
Total Australia	5,564	4,069	129,149	12,449	15,661	10,679	177,571
Overseas							
Government and Public Authorities	168	917	204	-	11	1	1,301
Agriculture, Forestry and Fishing	-	-	1,863	-	-	-	1,863
Financial, Investment and Insurance	1,127	2,540	3,035	68	1,364	2,663	10,797
Real Estate							-
Mortgage ⁽¹⁾	-	-	10,444	-	291	-	10,735
Construction ⁽²⁾	-	-	185	-	-	-	185
Personal	-	-	337	-	6	-	343
Lease Financing	-	-	256	-	-	-	256
Other Commercial and Industrial	1,530	3,240	4,573	-	655	175	10,173
Total Overseas	2,825	6,697	20,897	68	2,327	2,839	35,653
Gross Balances	8,389	10,766	150,046	12,517	17,988	13,518	213,224
Other Risk Concentrations							
Receivables due from other financial institutions							7,728
Deposits with regulatory authorities							89
Total Gross Credit Risk							221,041

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Primarily financing real estate and land development projects.

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 Management continued**

The following table sets out the Groups Credit Risk by Industry and Asset Class as at 30 June 2001.

Industry	Trading Securities \$M	Investment Securities \$M	Loans Advances and Other Receivables \$M	Bank Acceptances of Customers \$M	Contingent Liabilities \$M	Derivatives \$M	Total \$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 ⁽¹⁾	-	-	8,045	-	40	-	8,085
Construction ⁽²⁾	-	-	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

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Primarily financing real estate and land development projects.

Notes to the financial statements**NOTE 14 Credit Risk Management continued**
Impaired Assets by Industry and Status

The following table sets out the Group's Impaired Asset position by Industry and Status as at 30 June 2002.

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	5,955	-	-	-	-	-
Agriculture, Forestry and Fishing	5,480	40	10	6	(1)	5
Financial, Investment and Insurance	16,593	53	26	6	-	6
Real Estate						
Mortgage	85,032	-	6	11	(1)	10
Construction	3,837	16	4	4	-	4
Personal	11,718	21	35	177	(30)	147
Lease Financing	5,425	19	6	18	-	18
Other Commercial and Industrial	43,531	583	134	178	(17)	161
Total Australia	177,571	732	221	400	(49)	351
Overseas						
Government and Public Authorities	1,301	55	11	1	-	1
Agriculture, Forestry and Fishing	1,863	-	-	-	-	-
Financial, Investment and Insurance	10,797	43	12	58	(1)	57
Real Estate						
Mortgage ⁽¹⁾	10,735	-	3	2	-	2
Construction ⁽²⁾	185	-	-	-	(3)	(3)
Personal	343	1	3	6	-	6
Lease Financing	256	-	-	-	-	-
Other Commercial and Industrial	10,173	112	20	35	(3)	32
Total Overseas	35,653	211	49	102	(7)	95
Gross Balances	213,224	943	270	502	(56)	446
Receivables due from other financial institutions	7,728					
Deposits with regulatory authorities	89					
Total Gross Credit Risk	221,041					

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Primarily financing real estate and land development projects.

Notes to the financial statements**NOTE 14 Credit Risk Management continued**

The following table sets out the Group's Impaired Asset position by Industry and Status as at 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	170,799	519	154	494	(59)	435
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	31,258	198	80	147	(29)	118
Gross Balances	202,057	717	234	641	(88)	553
Receivables due from other financial institutions	4,622					
Deposits with regulatory authorities	61					
Total Gross Credit Risk	206,740					

Large Exposures

Concentration of exposure to any debtor or counterparty group is controlled by a 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 counterparty group exposures (including direct and contingent exposure) which individually were greater than 5% of the Group's capital resources (Tier 1 and Tier 2 capital):

	2002 Number	2001 Number	2000 Number	1999 Number	1998 Number
10% to less than 15% of Group's capital resources	-	-	-	1	1
5% to less than 10% of Group's capital resources	1	2	1	7	7

Notes to the financial statements**NOTE 14 Credit Risk Management continued****Credit Portfolio Receivables by Industry**

The following table sets out the distribution of the Group's loans, advances and other receivables (excluding bank acceptances) by industry at 30 June 1998, 1999, 2000, 2001 and 2002.

	2002	2001	2000	1999	1998
	\$M	\$M	\$M	\$M	\$M
Australia					
Government and Public Authorities	2,466	1,655	1,681	1,727	1,216
Agriculture, Forestry and Fishing	3,893	4,734	4,686	4,203	4,128
Financial, Investment and Insurance	1,435	4,670	5,167	4,048	2,490
Real Estate					
Mortgage ⁽¹⁾	75,394	65,466	63,471	45,495	41,137
Construction ⁽²⁾	2,182	2,548	2,627	2,105	1,197
Personal	11,488	10,576	11,759	10,144	8,360
Lease Financing	5,425	6,628	6,937	3,100	1,940
Other Commercial and Industrial	26,866	25,782	23,603	20,253	19,559
Total Australia	129,149	122,059	119,931	91,075	80,027
Overseas					
Government and Public Authorities	204	165	204	157	105
Agriculture, Forestry and Fishing	1,863	1,258	996	833	640
Financial, Investment and Insurance	3,035	2,824	2,278	1,507	1,449
Real Estate					
Mortgage ⁽¹⁾	10,444	8,045	7,266	7,151	6,273
Construction ⁽²⁾	185	177	152	427	318
Personal	337	440	1,470	539	248
Lease Financing	256	146	217	191	173
Other Commercial and Industrial	4,573	4,081	3,254	2,686	3,342
Total Overseas	20,897	17,136	15,837	13,491	12,548
Gross Loans, Advances and Other Receivables	150,046	139,195	135,768	104,566	92,575
Provisions for bad and doubtful debts, unearned income, interest reserved and unearned tax remissions on leverage leases	(2,972)	(3,136)	(3,504)	(2,729)	(2,759)
Net Loans, Advances and Other Receivables	147,074	136,059	132,264	101,837	89,816

⁽¹⁾ Principally owner occupied housing.

⁽²⁾ Primarily 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 (OATSE)*, comprising assets other than real estate where the Bank has assumed ownership or foreclosed in settlement of a debt.

	2002 %	2001 %	GROUP 2000 %
Impaired Asset Ratios			
Gross impaired assets net of interest reserved as % of credit risk net of unearned income	0.40	0.32	0.51
Net impaired assets as % of:			
Risk weighted assets	0.44	0.30	0.44
Total shareholders' equity	2.92	2.09	3.10

Accounting by Creditors for Impairment of Loans (US GAAP definitions)

	2002 \$M	Year ended 30 June	
		2001 \$M	2000 ⁽¹⁾ \$M
Impaired Loans (non accrual)	920	699	1,123
Impaired Loans with allowance for credit losses	673	514	760
- allowance for credit losses	225	203	411
Impaired Loans with no allowance for credit loss	247	185	363
Average investment in Impaired Loans	810	911	880
Income recognised on Impaired Loans	30	51	51 ⁽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 1998, 1999, 2000, 2001 and 2002.

	Year Ended 30 June				
	2002	2001	2000	1999	1998 ⁽¹⁾
	\$M	\$M	\$M	\$M	\$M
Australia					
Non-accrual loans:					
Gross balances	732	518	722	495	616
Less interest reserved	(54)	(63)	(128)	(66)	(85)
Gross balance (net of interest reserved)	678	455	594	429	531
Less provisions for impairment	(221)	(154)	(205)	(178)	(174)
Net non-accrual loans	457	301	389	251	357
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	457	302	391	252	357
Overseas					
Non-accrual loans:					
Gross balances	211	197	410	147	310
Less interest reserved	(5)	(5)	(3)	(2)	(17)
Gross balance (net of interest reserved)	206	192	407	145	293
Less provisions for impairment	(49)	(79)	(226)	(97)	(105)
Net non-accrual loans	157	113	181	48	188
Restructured loans:					
Gross balances	-	-	-	-	-
Less interest reserved	-	-	-	-	-
Gross balance (net of interest reserved)	-	-	-	-	-
Less specific provisions	-	-	-	-	-
Net restructured loans	-	-	-	-	-
Asset Acquired Through Security Enforcement					
Less provisions for impairment	-	1	1	14	-
Net AATSE	-	(1)	(1)	-	-
Net overseas impaired assets	157	113	181	62	188
Total net impaired assets	614	415	572	314	545

⁽¹⁾ Under revised definition of non accrual assets introduced 31 December 1998 net impaired assets at 30 June 1998 would have been \$466 million.

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 1998, 1999, 2000, 2001 and 2002.

	Year Ended 30 June				
	2002	2001	2000	1999	1998
	\$M	\$M	\$M	\$M	\$M
Gross impaired assets at period beginning	717	1,135	657	926	906
New and increased	1,069	707	414	415	689
Balances written off	(481)	(666)	(226)	(280)	(216)
Returned to performing or repaid	(362)	(459)	(194)	(404) ⁽¹⁾	(453)
	943	717	651	657	926
Colonial impaired assets	-	-	484	-	-
Gross impaired assets at period end	943	717	1,135	657	926

⁽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

	Year Ended 30 June				
	2002	2001	2000	1999	1998
	\$M	\$M	\$M	\$M	\$M
Accruing loans past due 90 days or more					
Housing loans	176	218	211	182	249
Other loans	73	90	64	23	41
Total	249	308	275	205	290

Interest Income Forgone on Impaired Assets

	Year Ended 30 June				
	2002	2001	2000 ⁽²⁾	1999	1998
	\$M	\$M	\$M	\$M	\$M
Interest income forgone					
Australia Non Accrual Facilities	21	8	4	17	34
Overseas Non Accrual Facilities	7	8	5	10	7
Total	28	16	9	27	41

Interest Taken to Profit on Impaired Assets

	Year Ended 30 June				
	2002	2001	2000 ⁽²⁾	1999	1998
	\$M	\$M	\$M	\$M	\$M
Australia					
Non Accrual Facilities	27	37	45	33	34
Restructured Facilities	-	-	-	-	-
Overseas					
Non Accrual Facilities	3	14	6	-	-
OREO	-	-	-	-	-
Total interest taken to Profit	30	51	51	33	34

⁽²⁾ Excluding Colonial

Notes to the financial statements**NOTE 15 Asset Quality continued****Impaired Assets**

	GROUP			GROUP		
	Australia 2002 \$M	Overseas 2002 \$M	Total 2002 \$M	Australia 2001 \$M	Overseas 2001 \$M	Total 2001 \$M
Non Accrual Loans						
With provisions	572	124	696	334	196	530
Without provisions	160	87	247	184	1	185
Gross Balances	732	211	943	518	197	715
Less interest reserved	(54)	(5)	(59)	(63)	(5)	(68)
Net Balances	678	206	884	455	192	647
Less provisions for impairment	(221)	(49)	(270)	(154)	(79)	(233)
Net Non Accrual Loans	457	157	614	301	113	414
Restructured Loans						
Gross Balances	-	-	-	1	-	1
Less interest reserved	-	-	-	-	-	-
Net Balances	-	-	-	1	-	1
Less provisions for impairment	-	-	-	-	-	-
Net Restructured Loans	-	-	-	1	-	1
Other Real Estate Owned (OREO)						
Gross Balances	-	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-	-
Net OREO	-	-	-	-	-	-
Other Assets Acquired Through Security Enforcement (OAATSE)						
Gross Balances	-	-	-	-	1	1
Less provisions for impairment	-	-	-	-	(1)	(1)
Net OAATSE	-	-	-	-	-	-
Total Impaired Assets						
Gross Balances	732	211	943	519	198	717
Less interest reserved	(54)	(5)	(59)	(63)	(5)	(68)
Net Balances	678	206	884	456	193	649
Less provisions for impairment	(221)	(49)	(270)	(154)	(80)	(234)
Net Impaired Assets	457	157	614	302	113	415
Non Accrual Loans by Size of Loan						
Less than \$1 million	170	2	172	146	3	149
\$1 million to \$10 million	193	16	209	196	37	233
Greater than \$10 million	369	193	562	176	157	333
Total	732	211	943	518	197	715
Accruing Loans 90 days past due or more ⁽¹⁾	235	14	249	292	16	308

⁽¹⁾ These are loans that 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 57% of total exposures relate to financial institutions. Exposures to Indonesia, Thailand and Korea represent approximately 21% of the Bank's Asian credit risk.

The Group's credit risk exposure to Asian countries as at 30 June 2002 is set out below. The exposures exclude Group equity investments.

Country	CUSTOMER TYPE					2002	2001
	Finance	Corporate/ Multinational	Government	Project Finance	APL/NZPL	Total Exposure	Total Exposure
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
China	42	119	-	-	1	162	237
Hong Kong	947	429	-	-	182	1,558	1,320
	989	548	-	-	183	1,720	1,557
Japan	469	206	104	-	6	785	1,661
Malaysia	2	39	107	-	2	150	165
Singapore	438	54	93	-	27	612	321
Taiwan	4	-	-	-	-	4	8
Other	1	3	-	-	-	4	7
	914	302	304	-	35	1,555	2,162
Indonesia	9	31	55	116	19	230	348
South Korea	466	68	-	-	-	534	402
Thailand	1	87	22	-	-	110	123
	476	186	77	116	19	874	873
Total	2,379	1,036	381	116	237	4,149	4,592

Other Regional Exposures

Region	CUSTOMER TYPE					2002	2001
	Finance	Corporate/ Multinational	Government	Project Finance	APL/NZPL	Total Exposure	Total Exposure
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Eastern Europe	-	1	-	-	-	1	63
Latin America	-	-	-	-	-	-	-
Middle East	112	4	-	-	-	116	108

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**

	2002	GROUP
	\$M	2001
		\$M
Equity Security Investments		
Direct	4,980	5,200
Indirect	7,475	9,173
	12,455	14,373
Debt Security Investments		
Direct	4,042	3,993
Indirect	10,204	10,046
	14,246	14,039
Property Investments		
Direct	283	71
Indirect	2,141	2,368
	2,424	2,439
Other Assets	984	362
Total Life Insurance Investment Assets	30,109	31,213

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. Financial Year 2001 classifications between Direct and Indirect have been restated to conform with basis of Financial Year 2002 disclosure.

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	
	2002	2001	2002	2001
	\$M	\$M	\$M	\$M
Central Banks Overseas	89	61	54	4
Total Deposits with Regulatory Authorities	89	61	54	4

NOTE 18 Shares in and Loans to Controlled Entities

Shares in controlled entities	-	-	10,545	9,847
Loans to controlled entities	-	-	11,324	6,578
Total Shares in and Loans to Controlled Entities	-	-	21,869	16,425

Notes to the financial statements**NOTE 19 Property, Plant and Equipment**

	GROUP		BANK	
	2002	2001	2002	2001
	\$M	\$M	\$M	\$M
(a) Land and Buildings				
Land				
At 30 June 2002 valuation	160	-	149	-
At 30 June 2001 valuation	-	191	-	179
Closing balance	160	191	149	179
Buildings				
At 30 June 2002 valuation	358	-	276	-
At 30 June 2001 valuation	-	389	-	312
Closing balance	358	389	276	312
Total Land and Buildings	518	580	425	491

These valuations were established by the Directors and are lower than valuations prepared by independent valuers.

(b) Leasehold Improvements

At cost	531	444	436	388
Provision for depreciation	(326)	(275)	(278)	(251)
Closing balance	205	169	158	137

(c) Equipment

At cost	580	574	318	329
Provision for depreciation	(441)	(404)	(260)	(269)
Closing balance	139	170	58	60
Total Property, Plant and Equipment	862	919	641	688

Reconciliation	GROUP		BANK	
	2002	2001	2002	2001
	\$M	\$M	\$M	\$M

Reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the 2002 and 2001 Financial Years.

Land

Opening balance	191	222	179	208
Disposals	(30)	(36)	(30)	(29)
Net revaluations	(1)	5	-	-
Closing balance	160	191	149	179

Buildings

Opening balance	389	508	312	334
Acquisitions	29	42	19	41
Disposals	(34)	(132)	(32)	(37)
Depreciation	(26)	(29)	(23)	(26)
Closing balance	358	389	276	312

Leasehold Improvements

Opening balance	169	196	137	126
Acquisitions	84	46	62	26
Disposals	(6)	(2)	(4)	(2)
Transfers	5	-	-	13
Asset writedown	-	(26)	-	-
Depreciation	(47)	(45)	(37)	(26)
Closing balance	205	169	158	137

Equipment

Opening balance	170	147	60	71
Acquisitions	51	99	25	15
Disposals	(27)	-	(1)	-
Depreciation	(55)	(76)	(26)	(26)
Closing balance	139	170	58	60

Notes to the financial statements**NOTE 20 Intangible Assets**

	GROUP		BANK	
	2002 \$M	2001 \$M	2002 \$M	2001 \$M
Purchased goodwill - Colonial	5,662	5,662	2,742	2,742 ⁽¹⁾
Purchased goodwill - Other	1,125	1,131	835	835
Realisation of life insurance synergy benefits	(332)	(332)	-	-
Accumulated amortisation	(1,064)	(745)	(612)	(426)
Total Intangibles	5,391	5,716	2,965	3,151

(1) 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).

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 related 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 was 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 related 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 related to asset write downs, additional general provisioning and tax adjustments.

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

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.

	2000 \$M		
Consideration			
351,409,450 new Commonwealth Bank shares @ \$26.39			9,274
Income securities payout			800
Transaction costs			46
Preacquisition dividend received			(1,000)
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			(238)
Revised as at 30 June 2001			<u>1,065</u>
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	(159)	(11)	(148)
	<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	(108)	(58)	(50)
	<u>331</u>	<u>87</u>	<u>244</u>
Fair value adjustments and restructuring costs after tax	809	238	571

Notes to the financial statements**NOTE 21 Other Assets**

	GROUP		BANK	
	2002	2001	2002	2001
	\$M	\$M	\$M	\$M
Accrued interest receivable	945	1,155	966	1,118
Shares in other companies	69	68	40	40
Accrued fees/reimbursements receivable	398	381	411	400
Securities sold not delivered	1,138	1,035	961	781
Future income tax benefits	625	694	309	358
Excess of net market value over net assets of life insurance controlled entities	5,656	5,136	-	-
Unrealised gains on trading derivatives (Note 39)	10,336	9,592	10,196	8,962
Other	1,199	962	525	217
Total Other Assets	20,366	19,023	13,408	11,876

Excess of net market value over net assets of controlled entities of the life insurance businesses:

	GROUP		
	At 30 June 2002		
	Market Value	Net Assets	Excess of Market Value Over Net Assets
	\$M	\$M	\$M
Commonwealth entities ⁽¹⁾	1,109	506	603
ASB entities	747	301	446
Colonial entities ⁽¹⁾	6,724	2,117	4,607
	8,580	2,924	5,656

	GROUP		
	At 30 June 2001		
	Market Value	Net Assets	Excess of Market Value Over Net Assets
	\$M	\$M	\$M
Commonwealth entities ⁽¹⁾	2,671	536	2,135
ASB entities	598	207	391
Colonial entities ⁽¹⁾	4,734	2,124	2,610
	8,003	2,867	5,136

⁽¹⁾ The significant shift in value between Commonwealth and Colonial entities between 30 June 2001 and 30 June 2002 relates primarily to the value transfer as discussed in Note 34.

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. The CFS Property funds management business was transferred under CMLA in June 2002.

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 \$168 million (2001: \$146 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.

Notes to the financial statements**NOTE 22 Deposits and Other Public Borrowings**

	GROUP		BANK	
	2002	2001	2002	2001
	\$M	\$M	\$M	\$M
Australia				
Certificates of deposit	15,832	12,927	15,832	12,927
Term deposits	28,991	28,102	26,708	25,529
On demand and short term deposits	63,844	54,601	64,038	54,854
Deposits not bearing interest	6,072	6,350	6,169	6,380
Securities sold under agreements to repurchase	753	435	753	434
Other	4	6	-	-
Total Australia	115,496	102,421	113,500	100,124
Overseas				
Certificates of deposit	2,258	2,294	904	1,108
Term deposits	9,035	7,849	2,455	2,171
On demand and short term deposits	5,185	4,130	16	39
Deposits not bearing interest	806	635	5	7
Securities sold under agreements to repurchase	20	26	18	26
Total Overseas	17,304	14,934	3,398	3,351
Total Deposits and Other Public Borrowings	132,800	117,355	116,898	103,475

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 2002.

	At 30 June 2002				
	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⁾	8,790	2,732	-	4,310	15,832
Time deposits	14,305	6,417	5,299	2,970	28,991
Total Australia	23,095	9,149	5,299	7,280	44,823
Overseas					
Certificates of deposit ⁽¹⁾	1,339	526	377	16	2,258
Time deposits	7,028	1,160	448	399	9,035
Total Overseas	8,367	1,686	825	415	11,293
Total Certificates of Deposit and Time Deposits	31,462	10,835	6,124	7,695	56,116

⁽¹⁾ All certificates of deposit issued by the Bank are for amounts greater than \$100,000.

Notes to the financial statements**NOTE 23 Payables to Other Financial Institutions**

	2002	GROUP	2002	BANK
	\$M	2001	\$M	2001
		\$M		\$M
Australia	3,153	2,816	3,255	2,675
Overseas	4,711	4,087	4,629	3,674
Total Payables to Other Financial Institutions	7,864	6,903	7,884	6,349

NOTE 24 Income Tax Liability

	2002	GROUP	2002	BANK
	\$M	2001	\$M	2001
		\$M		\$M
Australia				
Provision for income tax	695	163	490	26
Provision for deferred income tax	540	1,049	152	377
Total Australia	1,235	1,212	642	403
Overseas				
Provision for income tax	1	90	12	11
Provision for deferred income tax	40	53	-	-
Total Overseas	41	143	12	11
Total Income Tax Liability	1,276	1,355	654	414

The significant increase in the Australia provision for income tax is largely due to the impact of timing differences that have caused tax to be payable in the current period and lower tax instalments paid during Financial Year 2002. The decrease in the Australia provision for deferred income tax reflects the reduction in unrealised gains due to realisation of some gains and the weaker current investment markets.

NOTE 25 Other Provisions

	2002	GROUP	2002	BANK
	\$M	2001	\$M	2001
		\$M		\$M
Provision for:				
Long service leave	302	304	299	289
Annual leave	163	159	149	134
Other employee entitlements	139	158	139	150
Restructuring costs	35	204	21	174
General insurance claims	63	52	-	-
Self insurance/non lending losses	55	46	53	44
Other	77	84	30	46
Total Other Provisions	834	1,007	691	837

Notes to the financial statements**NOTE 26 Debt Issues**

	2002	GROUP	2002	BANK
	\$M	2001	\$M	2001
		\$M		\$M
Short term debt issues	14,718	16,620	4,127	4,318
Long term debt issues	8,857	7,864	7,626	6,372
Total Debt Issues	23,575	24,484	11,753	10,690
Short Term Debt Issues				
AUD Bill Reliquification	72	639	72	639
AUD Promissory Notes	1,533	3,150	-	-
AUD Bank Bills	1,217	679	-	-
US Commercial Paper	6,082	6,111	-	-
Euro Commercial Paper	2,651	4,200	1,041	1,838
Long Term Debt Issues with less than One Year to Maturity	3,163	1,841	3,014	1,841
Total Short Term Debt Issues	14,718	16,620	4,127	4,318
Long Term Debt Issues				
USD Medium Term Notes	3,659	2,937	3,426	2,346
AUD Medium Term Notes	1,601	2,312	1,168	1,748
JPY Medium Term Notes	900	255	529	255
Other Currencies Medium Term Notes	1,403	338	1,403	179
Offshore Loans (all JPY)	680	841	680	841
Eurobonds	614	1,181	420	1,003
Total Long Term Debt Issues	8,857	7,864	7,626	6,372
Maturity Distribution of Debt Issues				
Less than 3 months	10,340	11,349	1,453	2,404
3 months to 12 months	4,378	5,271	2,674	1,914
Between 1 and 5 years	8,149	7,208	7,112	5,848
Greater than 5 years	708	656	514	524
Total Debt Issues	23,575	24,484	11,753	10,690

The Bank has a Euro Medium Term Note programme under which it may issue notes (Euro MTN's) up to an aggregate amount of USD10 billion. Notes issued under the programme 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 2002, the Bank has issued:

- USD7.3 million Euro MTNs due July 2004 (AUD13 million);
- USD30 million Euro MTNs due July 2007 (AUD53 million);
- HKD120 million Euro MTNs due January 2004 (AUD27 million);
- AUD1.4 billion Euro MTNs due July 2005;
- HKD120 million Euro MTNs due July 2005 (AUD27 million);

- USD6.4 million Euro MTNs due January 2003 (AUD11.3 million);
- AUD 20 million Euro MTNs due August 2005;
- USD 10 million Euro MTNs due August 2005 (AUD 18 million);
- USD 30 million Euro MTNs due August 2007 (AUD 53 million); and
- HKD 200 million Euro MTNs due August 2005 (AUD 46 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.

Notes to the financial statements**NOTE 26 Debt Issues continued****Short Term Borrowings**

The following table analyses the Group's short term borrowings for the Financial Years ended 30 June 2000, 2001 and 2002.

	Year Ended 30 June		
	2002	2001	2000
(\$ millions, except where indicated)			
US Commercial Paper			
Outstanding at period end ⁽¹⁾	6,082	6,111	3,814
Maximum amount outstanding at any month end ⁽²⁾	7,158	7,850	7,890
Approximate average amount outstanding ⁽²⁾	6,173	6,571	6,130
Approximate weighted average rate on:			
Average amount outstanding	2.3%	5.6%	5.7%
Outstanding at period end	1.8%	4.0%	6.6%
Euro Commercial Paper			
Outstanding at period end ⁽¹⁾	2,651	4,200	3,150
Maximum amount outstanding at any month end ⁽²⁾	3,805	5,579	4,788
Approximate average amount outstanding ⁽²⁾	2,883	4,533	2,855
Approximate weighted average rate on:			
Average amount outstanding	1.2%	4.3%	4.8%
Outstanding at period end	0.9%	2.3%	3.7%
Bill Reliquification ⁽³⁾			
Outstanding at period end ⁽¹⁾	72	639	2,547
Maximum amount outstanding at any month end ⁽²⁾	564	2,180	2,599
Approximate average amount outstanding ⁽²⁾	268	1,097	1,972
Approximate weighted-average rate on:			
Average amount outstanding	4.8%	6.0%	5.8%
Outstanding at period end	5.0%	5.0%	6.2%
Other Commercial Paper			
Outstanding at period end ⁽¹⁾	2,750	3,829	3,215
Maximum amount outstanding at any month end ⁽²⁾	3,455	5,117	3,304
Approximate average amount outstanding ⁽²⁾	2,912	3,637	2,231
Approximate weighted average rate on:			
Average amount outstanding	4.5%	5.7%	5.5%
Outstanding at period end	5.3%	5.0%	5.1%

⁽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.

Exchange Rates Utilised

As at		30 June 2002	30 June 2001
AUD 1.00 =	USD	0.5639	0.5080
	GBP	0.3694	0.3612
	JPY	67.450	63.071
	NZD	1.155	1.256
	HKD	4.399	3.962
	DEM	1.116	1.175
	CHF	0.840	0.913
	IDR	4,919	5,796
	THB	23.437	23.002
	FJD	1.188	1.180
	PHP	28.456	26.622

Notes to and forming part of the financial statements**NOTE 26 Debt Issues continued****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	
	2002 \$M	2001 \$M	2002 \$M	2001 \$M
Bills payable	892	886	857	818
Accrued interest payable	944	1,062	754	900
Accrued fees and other items payable	734	896	640	712
Securities purchased not delivered	1,548	1,124	1,385	875
Unrealised losses on trading derivatives (Note 39)	10,226	8,759	10,062	8,105
Other liabilities	2,998	1,145	2,207	137
Total Bills Payable and Other Liabilities	17,342	13,872	15,905	11,547

Notes to the financial statements**NOTE 28 Loan Capital**

					GROUP			BANK		
					2002	2001	2000	2002	2001	2000
					\$M	\$M	\$M	\$M	\$M	\$M
Tier 1 Capital		Currency Amount (M)								
Exchangeable	FRNs	USD300	(1)	70	78	92	70	78	92	
Exchangeable	FRNs	USD400	(2)	168	187	159	168	187	159	
Undated	FRNs	USD100	(3)	177	197	167	177	197	167	
				415	462	418	415	462	418	
Tier 2 Capital										
Extendible	FRNs	AUD25	(4)	25	25	25	25	25	25	
Extendible	FRNs	AUD275	(4)	275	275	275	275	275	275	
Subordinated	MTNs	AUD185	(5)	186	185	185	186	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)	199	200	200	199	200	200	
Subordinated	FRNs	AUD50	(7)	50	50	50	50	50	50	
Subordinated	Notes	USD300	(8)	532	591	502	532	591	502	
Subordinated	FRNs	USD450	(8)	795	882	746	795	882	746	
Subordinated	EMTN's	JPY20,000	(9)	293	326	277	293	325	277	
Subordinated	EMTN's	USD200	(10)	313	314	314	313	314	314	
Subordinated	EMTN's	USD75	(11)	115	115	115	115	115	115	
Subordinated	EMTN's	USD100	(12)	152	152	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)	525	582	495	525	582	495	
Subordinated	Loan	NZD100	(16)	90	79	79	-	-	-	
Subordinated	FRNs	AUD210	(17)	210	210	210	210	210	-	
Subordinated	FRNs	AUD38	(18)	38	38	38	38	38	-	
Subordinated	Notes	AUD130	(19)	130	130	130	130	130	-	
Subordinated	Other	AUD35	(20)	35	39	39	35	39	-	
				5,012	5,242	4,881	4,922	5,162	4,385	
Total Loan Capital					5,427	5,704	5,299	5,337	5,624	4,803

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 2002 were:
 Due July 2003 : USD1.5 million
 Due July 2004 : USD0.5 million
 Due July 2006 : USD32.5 million
 undated : USD5 million

(2) USD 400 million Undated FRNs issued 22 February 1989 exchangeable into Dated FRNs.

Outstanding notes at 30 June 2002 were:
 Due February 2005 : USD64 million
 Due February 2006 : USD24 million
 undated : USD7 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 and forming part of 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 USD 300 million fixed rate notes and USD 450 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. With a coupon rate of 8.30% until 15 December 2004, after which the rate will be reset against the three month Bank Bill Benchmark rate. The subordinated debt is callable on 15 December 2004.
- ⁽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 12 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 2003 to October 2009.

Notes to the financial statements**NOTE 29 Share Capital**

	2002	BANK
	\$M	2001
		\$M
Issued and Paid Up Ordinary Capital		
Ordinary Share Capital		
Opening balance	12,455	12,521
Buy Back	-	(275)
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
Sell down of remaining shares from DRP: 2000/2001 Interim Dividend	-	4
Dividend Reinvestment Plan: 2000/2001 Final Dividend	171	-
Buy Back for DRP: 2001/2002 Interim Dividend	(158)	-
Dividend Reinvestment Plan: 2001/2002 Interim Dividend	158	-
Employee Share Subscription Plan	-	3
Exercise of Executive Options	39	37
Issue costs	-	(4)
Closing balance	<u>12,665</u>	<u>12,455</u>
Shares on Issue		
	Number	Number
Opening balance	1,244,015,455	1,260,201,978
Buy Back	-	(25,927,367)
Dividend reinvestment plan issues:		
2000 Final Dividend fully paid ordinary shares at \$27.31	-	6,324,869
2001 Interim Dividend fully paid ordinary shares at \$30.82	-	4,514,948
2001 Final Dividend fully paid ordinary shares at \$28.79	5,954,040	-
Buyback for 2001 Interim Dividend	-	(4,652,665)
Buyback for 2002 Interim Dividend	(4,951,275)	-
2002 Interim Dividend fully paid ordinary shares at \$31.96	4,951,275	-
Sell down of remaining shares not issued in DRP	-	137,717
Exercise under Executive Option Plan	2,052,500	2,435,000
Employee Share Subscription Plan issues	-	107,550
Employee Share Acquisition Plan issues	899,368	873,425
Closing balance	<u>1,252,921,363</u>	<u>1,244,015,455</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

	2002	BANK
	\$M	2001
		\$M
Issued and Paid Up PERLS Capital		
Opening balance	687	-
PERLS issued	-	700
Issue costs	-	(13)
Closing balance	<u>687</u>	<u>687</u>
PERLS in Issue		
	Number	Number
Opening balance	3,500,000	-
PERLS issued	-	3,500,000
Closing balance	<u>3,500,000</u>	<u>3,500,000</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 buyback 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. If a dividend is not paid the Bank will not be permitted to pay dividends on any of its ordinary shares until four consecutive dividends are paid on the PERLS. 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 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.

Employee Share Acquisition Plan (ESAP)

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.

Shares issued under ESAP are not currently recorded as an expense by the Group. Based on current deliberations of the International Accounting Standards Board on recognition of an expense for equity based compensation, the Group would be required to recognise an expense for the value of shares issued. During Financial Year 2001 899,368 shares were issued which would result in an expense of \$26.0 million being recorded by the Group.

Effective from 1 July 2002, shares granted under ESAP offers will be expensed against the Profit and Loss account.

Details of issues under this plan are:

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
2001	31 Oct 2001	-	893,554	26,281	34	\$28.95
	3 Dec 2001	-	3,876	114	34	\$28.95
	31 Jan 2002	-	1,938	57	34	\$28.95

(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 & 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 about \$1,000 of free shares.

Equity Participation Plan (EPP)

The EPP facilitates the voluntary sacrifice of both fixed salary and annual bonus to be applied in the acquisition of shares. The Plan also facilitates the mandatory sacrifice of annual performance bonuses. The costs associated with this plan are expensed.

All shares acquired by employees under this Plan are purchased on a quarterly basis, on-market at the then current market price. The first purchase of shares under this scheme was on 1 October 2001. Details of share purchases for the EPP so far are:

Purchase Date	No. of Participants	Number of Shares	Average Purchase Price	Value of Shares
1 Oct 2001	19	2,073	\$27.40	\$56,800
31 Oct 2001	5	187	\$29.35	\$5,488
31 Oct 2001	1,640	1,564,314	\$30.00	\$46,929,420
31 Oct 2001	47	31,752	\$30.13	\$956,688
2 Jan 2002	65	8,504	\$30.05	\$255,545
3 Apr 2002	67	7,963	\$31.43	\$250,277
28 Jun 2002	107	14,384	\$33.15	\$476,830

Notes to the financial statements**NOTE 29 Share Capital continued****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. The cost of the shares purchased is expensed. 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
30/09/2001	\$62,005	10	2,454	\$25.44
31/12/2001	\$62,005	10	2,091	\$29.65
31/03/2002	\$62,005	10	1,950	\$31.83
30/06/2002	\$61,332	10	1,848	\$33.15

No trading restrictions were lifted on shares during the year to 30 June 2002.

Equity Reward Plan (ERP)

For 2001/02 the ERP was in two parts, comprising grants of shares and grants of options. The option component of the ERP was similar to the previous Executive Option Plan (EOP) with the only difference being the maximum number of executives to whom the Plan will apply was increased from 50 to 100. The Board envisaged that up to 500 employees would 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 are conditional on the Bank achieving a prescribed performance hurdle. The ERP performance hurdle is based on relative Total Shareholder Return (TSR) with the Bank's TSR performance being measured against a comparator group of companies. The comparator group (previously companies represented in the ASX's 'Banks and Finance Accumulation Index' excluding the Bank) has been widened to better reflect the Bank's business since the acquisition of Colonial.

The Prescribed performance hurdle for Options and Reward Shares currently on issue is:

- the Bank's TSR (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of TSR achieved by the comparator group of companies.
- if the performance hurdle is not reached within that 3 years the options may nevertheless be exercisable or the shares vest, only where the hurdle is subsequently reached within 5 years from the Grant Date.

Shares acquired under the share component of the ERP are purchased on-market at the current market price. The cost of the shares acquired is expensed.

Executive options are not currently recorded as an expense by the Group. Based on the current deliberations of the International Accounting Standards Board on recognition of an expense for equity based compensation, the Group would be required to recognise an expense for the fair value of options issued. During Financial Year 2002 2,994,500 options were issued with a fair value of \$2.01, with 12,500 options issued with a fair value of \$1.53. This would result in an expense of \$6.0 million being recorded by the Group.

Details of options issued and shares acquired under the ERP are:

Options

Commencement Date	Issue Date	Options Issued	Options Outstanding ⁽¹⁾	Participants	Exercise Price	Exercise Period
13 Sep 2000	7 Feb 2001	577,500	560,000	23	\$26.97 ⁽²⁾	14 Sep 2003 to 13 Sep 2010 ⁽³⁾
13 Sep 2000	31 Oct 2001	12,500	12,500	1	\$26.97 ⁽²⁾	14 Sep 2003 to 13 Sep 2010 ⁽³⁾
3 Sep 2001	31 Oct 2001	2,882,000	2,750,600	79	\$30.12 ⁽²⁾	4 Sep 2004 to 3 Sep 2011 ⁽⁴⁾
3 Sep 2001	31 Jan 2002	12,500	12,500	1	\$30.12 ⁽²⁾	4 Sep 2004 to 3 Sep 2011 ⁽⁴⁾
3 Sep 2001	15 Apr 2002	100,000	100,000	1	\$30.12 ⁽²⁾	4 Sep 2004 to 3 Sep 2011 ⁽⁴⁾

⁽¹⁾ Options outstanding as at the date of the report.

⁽²⁾ Will be adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of the vesting).

⁽³⁾ Performance Hurdle must be satisfied between 14 September 2003 and 13 September 2005, otherwise options will lapse.

⁽⁴⁾ Performance Hurdle must be satisfied between 4 September 2004 and 3 September 2006, otherwise options will lapse.

Notes to the financial statements

Shares	Shares	Participants	Vesting Period	Average Purchase Price
Purchase Date	Allocated			
20 Feb 2001	361,100	61	14 Sep 2003 to 13 Sep 2005 ⁽¹⁾	\$29.72
31 Oct 2001	2,000	1	14 Sep 2003 to 13 Sep 2005 ⁽¹⁾	\$29.25
31 Oct 2001	661,500	241	4 Sep 2004 to 3 Sep 2006 ⁽¹⁾	\$29.25

⁽¹⁾ Performance Hurdle must be satisfied within the vesting period, otherwise shares will be forfeited.

57,600 shares granted under the ERP have lapsed as at 30 June 2002.

Effective from 1 July 2002, options will no longer be issued under the ERP. In future reward shares only will be issued under this plan.

A further change introduced is that whereas previously allocated options and shares vested upon the weighted average TSR of the comparator group being exceeded, a tiered vesting scale has been introduced so that 50% of the allocated shares vest if the Bank's TSR is equal to the median return, 75% vest at the 67th percentile and 100% when the Bank's return is in the top quartile.

Where the rating is at least at the 50th percentile on the third anniversary of the grant, the shares will vest at

a time nominated by the executive, within the trading windows, over the next two years. The vesting percentage will be at least that achieved on the third anniversary of the grant and the executive will be able to delay vesting until a subsequent half yearly window prior to the fifth anniversary of the grant.

Where the rating is below the 50th percentile on the third anniversary of grant, the shares can still vest if the rating reaches the 50th percentile prior to the fifth anniversary, but the maximum vesting will be 50%.

Options and Reward Shares previously allocated under the ERP will continue until they vest upon the prescribed performance hurdles being met or they lapse.

Notes to the financial statements**NOTE 29 Share Capital continued****Executive Option Plan (EOP)**

Shareholders were also informed at the AGM on 26 October 2000 that the EOP would be discontinued.

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.

The performance hurdle is based on relative Total Shareholder Return (TSR) with the Bank's TSR performance being measured against a comparator group of companies. The comparator group (previously companies represented in the ASX's 'Banks and Finance

Accumulation Index' excluding the Bank) has been widened to better reflect the Bank's business since the acquisition of Colonial.

To reach the performance hurdle, the Bank's TSR (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of TSR achieved by the comparator group of companies.

If the performance hurdle is not reached within that 3 years (4 years for the second tranche of options granted to the Chief Executive Officer on 24 August 1999), the options may nevertheless be exercisable only where the hurdle is subsequently reached within 5 years (6 years for the second tranche of options granted to the Chief Executive Officer on 24 August 1999) from the Grant Date.

The option plan did not grant rights to the option holders to participate in a share issue of any other body corporate.

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	0	25	\$11.85	13 Nov 1999 to 12 Nov 2001
3 Nov 1997	11 Dec 1997	2,875,000	50,000	27	\$15.53 ⁽²⁾	4 Nov 2000 to 3 Nov 2002
25 Aug 1998	30 Sep 1998	3,275,000	1,047,500	32	\$19.58 ⁽²⁾	26 Aug 2001 to 25 Aug 2003
24 Aug 1999	24 Sep 1999	3,855,000	3,450,000	38	\$23.84 ⁽³⁾	25 Aug 2002 to 24 Aug 2009
13 Sep 2000	13 Oct 2000	2,002,500	1,654,200	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) Will be adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of the vesting).

1,783,300 options, from all grants to date, have been forfeited as at 30 June 2002. 1,730,000 options from the 1996 grant, 2,465,000 options from the 1997 grant and 1,927,500 options from the 1998 grant have been exercised as at the date of this report.

Details of shares issued during the period 1 July 2001 to the date of this report as a result of options being exercised are:

Option Issue Date	Shares Issued	Price paid per Share	Total Consideration Paid
16 Dec 1996	50,000	\$11.85	\$592,500
11 Dec 1997	75,000	\$15.53	\$1,164,750
30 Sep 1998	1,927,500	\$19.58	\$37,740,450

No amount is unpaid in respect of the shares issued upon exercise of the options during the above period.

Under the Bank's EOP and ERP an option holder generally has no right to participate in any new issue of securities of the Bank or of a related body corporate as a result of holding the option except that if there is a pro rata issue of shares to the Bank's shareholders by way of bonus issue involving capitalisation (other than in place of dividends or by way of dividend reinvestment) an option holder is entitled to receive additional shares upon exercise of the options being the number of bonus shares that the option holder would have received if the options had been exercised and shares issued prior to the bonus issue.

Share Buyback

During the Financial Year ending 30 June 2001, the Bank's shareholders equity was reduced by \$723 million pursuant to the buyback of 25.9 million shares.

In March 2001 the Bank made an off market buyback of \$700 million of ordinary shares. The price per share paid by the Bank for the buyback shares was \$27.84 calculated in accordance with the buyback 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 buyback coincided with the new issue of preference shares as detailed previously. The balance of the equity reduction occurred by way of an on market buyback.

Notes to the financial statements

NOTE 30 Outside Equity Interests

	2002	GROUP 2001
	\$M	\$M
Controlled Entities:		
Share Capital	7	6
Reserves	-	-
Retained profits	2	(9)
Life Insurance Statutory funds and other funds	2,017	1,458
Total Outside Equity Interests	<u>2,026</u>	<u>1,455</u>

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. Part of the Group's investment in its life insurance and funds management businesses is also deducted to arrive at Tier 1 capital.

Tier 2 capital is divided into Upper Tier 2 capital (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 capital (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. 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 acquired value of in force business, 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 Financial Year 2002 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 2002, all statutory funds of the Group's life insurance companies in Australia met the capital adequacy test. In aggregate, at 30 June 2002, the excess over capital adequacy amounted to \$346 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.

Notes to the financial statements

NOTE 31 Capital Adequacy continued

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.

	2002 Actual %	GROUP 2001 Actual %
Risk Weighted Capital Ratios		
Tier one	6.78	6.51
Tier two	4.28	4.18
Less deductions	(1.26)	(1.53)
Total	9.80	9.16
	2002 \$M	GROUP 2001 \$M
Tier One Capital		
Shareholders' Equity	21,056	19,848
Eligible Loan Capital	415	462
Total Shareholders' Equity and Loan Capital	21,471	20,310
Add back foreign currency translation reserve related to non-consolidated subsidiaries	90	-
Less Asset revaluation reserve	(4)	(5)
Less Goodwill	(5,391)	(5,716)
Less Intangible component of investment in non-consolidated subsidiaries	(4,588)	(4,116)
Less Outside equity interest in entities controlled by non-consolidated subsidiaries	(2,017)	(1,458)
Total Tier One Capital	9,561	9,015
Tier Two Capital		
Asset revaluation reserve	4	5
General provision for bad and doubtful debts ⁽¹⁾	1,351	1,390
FITB related to general provision	(392)	(436)
Upper tier 2 note and bond issues	297	317
Lower tier 2 note and bond issues	4,934	5,348
Less Lower tier 2 adjustment to 50% of tier 1 capital	(154)	(840)
Total Tier Two Capital	6,040	5,784
Tier One and Tier Two Capital	15,601	14,799
Less Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1)	(1,741)	(2,005)
Less Other deductions	(40)	(114)
Capital Base	13,820	12,680

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

For an analysis of the movements in the capital ratios see page 43.

Notes to the financial statements**NOTE 31 Capital Adequacy continued**

	Face Value		Risk Weights	Risk Weighted Balance	
	2002 \$M	2001 \$M		2002 \$M	2001 \$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	22,315	16,604	0%	-	-
Claims on OECD banks and local governments	13,401	10,927	20%	2,680	2,185
Advances secured by residential property ⁽¹⁾	86,378	77,909	50%	43,189	38,954
All other assets	77,474	77,028	100%	77,474	77,028
Total on balance sheet assets - credit risk ^{(2) (3)}	199,568	182,468		123,343	118,167

	Face value			Credit Equivalent	Risk-weighted Balance	
	2002 \$M	2001 \$M	2002 \$M		2002 \$M	2001 \$M
Off-balance sheet exposures						
Direct credit substitutes	4,122	5,183	4,049	4,446	3,598	3,687
Trade and performance related items	1,157	1,496	538	670	507	660
Commitments ⁽⁴⁾	48,040	44,030	13,400	17,121	8,491	11,467
Foreign exchange, interest rate and other market related transactions	583,672	407,014	12,986	11,407	3,920	3,758
Total off balance sheet exposures - credit risk ⁽⁵⁾	636,991	457,723	30,973	33,644	16,516	19,572
Total risk weighted assets - credit risk					139,859	137,739
Risk weighted assets - market risk					1,190	644
Total risk weighted assets					141,049	138,383

- ⁽¹⁾ For loans secured by residential property 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.
- ⁽⁴⁾ The reduction in commitments was achieved by improved classification of assets by risk weight, principally through the identification of additional eligible security and by more accurate classification of counterparties.
- ⁽⁵⁾ Off balance sheet exposures secured by residential property account for \$13.0 billion of off balance sheet credit equivalent assets (\$6.5 billion of off balance sheet 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
	Maturity Period At 30 June 2002							
	At Call	Overdrafts	0 to 3	3 to 12	1 to 5	Over	Not	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Assets								
Cash and liquid assets	2,266	-	3,778	-	-	-	-	6,044
Receivables due from other financial institutions	2,182	-	5,216	319	11	-	-	7,728
Trading securities ⁽¹⁾	-	-	8,389	-	-	-	-	8,389
Investment securities	-	-	2,883	105	5,424	2,354	-	10,766
Loans, advances and other receivables ⁽²⁾	1,730	4,204	14,918	14,475	40,031	73,072	(1,356)	147,074
Bank acceptances of customers	-	-	11,201	1,316	-	-	-	12,517
Life Assets	4,490	-	1,601	772	4,332	3,413	15,501	30,109
Other Monetary assets	2	-	11,976	25	-	-	598	12,601
Total Monetary assets	10,670	4,204	59,962	17,012	49,798	78,839	14,743	235,228
Liabilities								
Deposits and other public borrowings ⁽³⁾	75,368	-	32,778	16,959	6,231	1,451	13	132,800
Payables due to other financial institutions	1,726	-	5,671	405	12	50	-	7,864
Bank acceptances	-	-	11,201	1,316	-	-	-	12,517
Life Liabilities	-	-	-	-	-	-	25,917	25,917
Debt issues and loan capital	-	-	10,340	4,378	9,768	4,020	496	29,002
Other monetary liabilities	4	-	16,594	-	-	-	256	16,854
Total monetary liabilities	77,098	-	76,584	23,058	16,011	5,521	26,682	224,954

⁽¹⁾ Trading securities are purchased without the intention to hold until maturity and are categorised as maturing within 3 months.

⁽²⁾ \$75 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 that 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**

	Maturity Period At 30 June 2001							GROUP
	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	Total \$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 three 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 that 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.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments

Primary Segment Business Segments Financial Performance	Year Ended 30 June 2002			
	Banking \$M	Life Insurance \$M	Funds Management \$M	GROUP Total \$M
Interest income	10,455	-	-	10,455
Premium and related revenue	-	1,140	-	1,140
Other income	3,180	(100)	809	3,889
Appraisal value uplift	-	-	-	477
Total Revenue	13,635	1,040	809	15,961
Interest Expense	5,745	-	-	5,745
Segment result after tax, goodwill amortisation and appraisal value uplift	2,884	240	294	3,418
Income tax expense	(816)	(22)	(78)	(916)
Segment result after tax and before goodwill amortisation and appraisal value uplift	2,068	218	216	2,502
Outside equity interest	(1)	-	-	(1)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	2,067	218	216	2,501
Goodwill amortisation ⁽¹⁾				(323)
Appraisal value uplift ⁽¹⁾				477
Net profit attributable to shareholders of the Bank	2,067	218	216	2,655
Non-Cash Expenses				
Goodwill amortisation				(323)
Charge for bad and doubtful debts	(449)	-	-	(449)
Depreciation	(109)	(12)	(7)	(128)
Other	(43)	(1)	(2)	(46)

Financial Position

Total Assets	211,130	35,637	2,881	249,648
Acquisition of Property, Plant & Equipment and Intangibles	147	4	13	164
Associate Investments	235	57	21	313
Total Liabilities	200,885	27,241	466	228,592

⁽¹⁾ These are Group items and accordingly are not allocated to the business segments, which is consistent with management reporting.

Notes to the financial statements**NOTE 33 Financial Reporting by Segments continued**

	Year Ended 30 June 2001			
	Banking	Life	Funds	GROUP
Financial Performance	\$M	Insurance	Management	Total
		\$M	\$M	\$M
Interest income	11,900	-	-	11,900
Premium and related revenue	-	1,073	-	1,073
Other income	2,485	1,698	701	4,884
Appraisal value uplift	-	-	-	474
Total Revenue	14,385	2,771	701	18,331
Interest Expense	7,426	-	-	7,426
Segment result before tax, and appraisal value uplift, goodwill amortisation	2,512	514	243	3,269
Income tax expense	(705)	(194)	(94)	(993)
Segment result after income tax and before goodwill amortisation and appraisal value uplift	1,807	320	149	2,276
Outside equity interest	(14)	-	-	(14)
Segment result 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
Net profit attributable to shareholders of the Bank	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)
Financial Position				
Total 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 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**

Financial Performance	Year Ended 30 June 2000			
	Banking \$M	Life Insurance \$M	Funds Management \$M	GROUP Total \$M
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	10,829	1,403	143	13,540
Interest Expense	5,123	-	-	5,123
Segment result before tax, appraisal value uplift, goodwill amortisation	2,310	176	50	2,536
Income tax expense	(739)	(47)	(14)	(800)
Segment result after income tax and before goodwill amortisation and appraisal value uplift	1,571	129	36	1,736
Outside equity interest	(38)	-	-	(38)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	1,533	129	36	1,698
Goodwill amortisation				(57)
Restructuring provision				(106)
Appraisal value uplift				1,165 ⁽¹⁾
	1,533	129	36	2,700
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)
Financial Position				
Total 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 Liabilities	171,489	28,140	195	199,824

⁽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**

Secondary Segment Geographical Segment	2002 \$M	%	2001 \$M	%	2000 \$M	%
GEOGRAPHICAL SEGMENTS						
Revenue						
Australia	12,651	79.3	15,265	83.3	11,614	85.8
New Zealand	1,591	10.0	1,499	8.2	1,171	8.6
Other Countries *	1,719	10.7	1,567	8.5	755	5.6
	15,961	100.0	18,331	100.0	13,540	100.0
Net profit attributable to shareholders of the Bank						
Australia	2,569	96.8	2,228	92.9	2,536	93.9
New Zealand	178	6.7	159	6.6	105	3.9
Other Countries *	(92)	(3.5)	11	0.5	59	2.2
	2,655	100.0	2,398	100.0	2,700	100.0
Assets						
Australia	208,673	83.6	196,918	85.5	187,452	85.9
New Zealand	24,579	9.8	20,208	8.8	16,661	7.6
Other Countries *	16,396	6.6	13,285	5.7	14,146	6.5
	249,648	100.0	230,411	100.0	218,259	100.0
Acquisition of Property, Plant & Equipment and Intangibles						
Australia	134	81.7	360	92.1	7,906 ⁽¹⁾	97.2
New Zealand	26	15.9	29	7.4	231 ⁽¹⁾	2.8
Other Countries *	4	2.4	2	0.5	-	-
	164	100.0	391	100.0	8,137	100.0

* Other Countries are:
United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, the Philippines, Fiji, Thailand, Indonesia, Malaysia, China and Vietnam. Thailand and Malaysia operations were sold during the year ended 30 June 2002.

The geographical segments represent the location in which the transaction was booked.

⁽¹⁾ Includes intangible assets of \$8,043 million on acquisition of Colonial Group.

Notes to the financial statements

NOTE 34 Life Insurance Business

Bonuses

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 21.

Summarised Statement of Financial Performance	GROUP	
	2002 \$M	2001 \$M
Premium and related revenue	1,332	1,237
Outward reinsurance premiums expense	(192)	(164)
Claims expense	(447)	(466)
Reinsurance recoveries	89	141
Investment revenue (excluding investments in subsidiaries)		
Equity securities	(1,057)	552
Debt securities	878	902
Property	184	277
Other	(105)	(33)
Life insurance policy liabilities expense	315	(1,178)
Margin on services operating income	997	1,268
Change in excess of net market values over net assets of life insurance controlled entities	477	474
Life Insurance operating income	1,474	1,742
Administration expense	(757)	(754)
Operating profit before income tax	717	988
Income tax attributable to operating profit	(22)	(194)
Operating profit after income tax	695	794
Sources of life insurance operating profit		
The Margin on Services operating profit after income tax is represented by:		
Emergence of planned profit margins	234	257
Difference between actual and planned experience	(37)	(63)
Movement in excess of net market value over net assets of controlled entities	477	474
Reversal of previously recognised losses or loss recognition on groups of related products	(9)	(2)
Investment earnings on assets in excess of policyholder liabilities	33	126
Other	(3)	2
Operating profit after income tax	695	794
Life insurance premiums received and receivable	5,734	6,510
Life insurance claims paid and payable	5,755	5,671

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 2001	Funds		Life Insurance			Total \$M
	Management \$M	Australia	Risk \$M	New Zealand \$M	Asia ⁽⁵⁾ \$M	
		Investment \$M				
Profits	216	148	88	28	(46)	434
Capital movements	85	-	74	68	131	358
Dividends paid	(325)	(179)	(97)	(24)	-	(625)
Disposals of business ⁽¹⁾	-	-	-	-	(61)	(61)
FX Movements	(11)	-	-	26	(64)	(49)
Change in Shareholders NTA	(35)	(31)	65	98	(40)	57
Value transfer ⁽³⁾	1,142	(1,142)	-	-	-	-
Acquired excess ⁽²⁾	58	-	-	-	-	58
Disposals of business	-	-	-	-	(15)	(15)
Transfer of CFS Property ⁽²⁾	147	-	-	-	-	147
Underlying Appraisal Value Uplift	234	48	83	54	(89)	330
Increase to 30 June 2002	1,546	(1,125)	148	152	(144)	577

Shareholders' Net Tangible Assets

30 June 2001 balance	269	499	1,144	236	719	2,867
Profits	216	148	88	28	(46)	434
Net capital movements	(240)	(179)	(23)	44	131	(267)
Disposals of business ⁽¹⁾	-	-	-	-	(61)	(61)
Foreign Exchange Movements	(11)	-	-	26	(64)	(49)
30 June 2002 balance	234	468	1,209	334	679	2,924

Value in Force Business

30 June 2001 balance	618	565	141	135	101	1,560
Disposals of business ⁽¹⁾	-	-	-	-	(10)	(10)
Value transfer/acquired excess ⁽²⁾	205	-	-	-	-	205
Uplift	43	(210)	37	44	(51)	(137)
30 June 2002 balance	866	355	178	179	40	1,618

Value Future New Business

30 June 2001 balance	2,402	809	(23)	265	123	3,576
Disposals of business ⁽¹⁾	-	-	-	-	(5)	(5)
Value transfer ⁽³⁾	1,142	(1,142)	-	-	-	-
Uplift	191	258	46	10	(38)	467
30 June 2002 balance	3,735	(75)	23	275	80	4,038

Carrying Value at 30 June 2002

Shareholders' net tangible assets	234	468	1,209	334	679	2,924
Value in force business	866	355	178	179	40	1,618
Embedded value	1,100	823	1,387	513	719	4,542
Value future new business	3,735	(75) ⁽⁴⁾	23	275	80	4,038
Carrying Value	4,835	748	1,410	788	799	8,580

⁽¹⁾ Represents the sale of the Thailand and Malaysian life insurance business.

⁽²⁾ Represents excess acquired on the purchase of management rights for Kiwi Income Properties Trust and the transfer into the market value environment of Colonial First State Properties.

⁽³⁾ Represents the value transfer between the life insurance companies and the funds management businesses arising from decisions to cease selling certain life products in preference for Colonial First State products and the impact of introducing Colonial First State products to the Group's proprietary distribution network.

⁽⁴⁾ Life insurance investment business comprises mainly corporate units linked and superannuation business. The negative value of \$75m in the Australian Life Investment future new business represents products that are profitable but are not achieving returns greater than the discount rate. The lower return reflects a higher cost structure for these products that will be addressed as part of the Group's cost restructure.

⁽⁵⁾ The Asian businesses are not in a market value environment.

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

	2002 \$M	2001 \$M
Intangible component of investment in non-consolidated subsidiaries deducted from Tier 1 capital comprises:		
Value future new business	4,038	3,576
Value of self-generated in force business	550	540
	4,588	4,116
<i>Investment in non-consolidated subsidiaries deducted from Total Capital comprises:</i>		
Shareholders' NTA in life and funds management businesses	2,924	2,867
Shareholders' NTA in other non-consolidated subsidiaries	149	41
Debt recognised as capital per APRA regulations	7	96
Value of acquired in force business ⁽¹⁾	1,068	1,020
Less non-recourse debt	(2,373)	(2,019)
Other	(34)	-
	1,741	2,005

⁽¹⁾ The increase in the value of acquired in force business principally relates to the acquisition of management rights for Kiwi Income Properties Trust.

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.

As at 30 June 2002	New Business Multiplier ⁽¹⁾	Risk Discount Rate %	Value of Franking Credits %
Life insurance entities			
Australia	9	11.5	70
New Zealand	8	12.0	-
Asia			
- Hong Kong	10	HKD13.0 ⁽²⁾ USD12.0	-
- Other	various	various	-
Funds management entities			
Australia	n.a.	13.0	70
As at 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

⁽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.

	2002 \$M	2001 \$M
Components of policy liabilities:		
Future policy benefits ⁽¹⁾	29,164	29,727
Future bonuses	1,493	1,583
Future expenses	2,259	2,209
Future profit margins	1,007	1,224
Future charges for acquisition expenses	(413)	(648)
Balance of future premiums	(7,666)	(7,112)
Provisions for bonuses not allocated to participating policyholders	73	46
Total policy liabilities	25,917	27,029

⁽¹⁾ Including bonuses credited to policyholders in Financial Year 2001.

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 1.03 – Valuation Standard ('AS1.03') 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, redemption 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 2002 Rate Range %	June 2001 Rate Range %
Traditional – ordinary business (after tax)	6.21-6.96	6.38-6.72
Traditional – superannuation business (after tax)	7.58-8.52	7.80-8.23
Annuity business (after tax)	6.49-7.86	6.51-7.97
Term life insurance – ordinary business (after tax)	3.89-4.55	4.20-4.55
Term life insurance – superannuation business (after tax)	3.89-4.55	4.20-4.55
Disability business (before tax)	6.50	4.20-4.55
Investment linked – ordinary business (after tax)	5.89-6.45	5.86-6.36
Investment linked – superannuation business (after tax)	7.51-7.96	7.34-7.92
Investment linked – exempt (after tax)	8.52-9.13	8.34-9.12
Investment account – ordinary business (after tax)	4.41	4.51
Investment account – superannuation business (after tax)	5.36	5.49

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.

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. Changes to assumptions have been made to individual products to reflect experience where appropriate.

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.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

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. Mortality assumptions have generally been improved to reflect ongoing positive experience. Minor changes were made to disability assumptions for the Australian business.

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 AS2.03 'Solvency Standard' ('AS2.03') 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 AS2.03. 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.

NOTE 35 Remuneration of Auditors

	GROUP		BANK	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Amounts paid or due and payable for audit and review of the financial report by:				
Ernst & Young	4,910	4,518	1,960	1,864
Other Auditors	100	89	-	-
	5,010	4,607	1,960	1,864
Amounts paid or due and payable for other services to				
Ernst & Young				
Corporate finance services	578	113	155	113
Credit related services	581	380	581	380
Regulatory, statutory and assurance services	953	1,496	609	802
Secondment services	1,551	1,729	1,551	1,716
Taxation services	435	909	103	909
Other services	340	486	104	169
	4,438	5,113	3,103	4,089
Total Remuneration of Auditors	9,448	9,720	5,063	5,953

The Audit Committee has considered the non-audit services provided by Ernst & Young and is satisfied that the services and level of fees are compatible with maintaining auditors' independence.

Effective 27 May 2002, the majority of partners of the former Australian accounting practice Andersen became partners of Ernst & Young. A small number of these partners had loans with the Group on normal commercial terms. By virtue of Australian Securities and Investments Commission (ASIC) Class Order 02/0606 dated 24 May 2002, Ernst & Young are relieved from compliance with sections 324(1) and 324(2) of the Corporations Act 2001 until 30 November 2002. During its currency this Class Order requires:

- The Bank to notify ASIC within 30 days of any event of default or enforcement action taken in respect of these loans;
- The Bank to notify ASIC within 7 days of the signing of the Auditors' Report whether, in the opinion of the Audit Committee, the Class Order has been complied with;
- Ernst & Young is not to assign any of these partners to the audit of the Bank or any controlled entity; and
- Ernst & Young to notify ASIC within 7 days of the signing of the Auditors' Report whether the audit has been influenced by these loans.

Notes to the financial statements

NOTE 36 Commitments for Capital Expenditure Not Provided for in the Accounts

	GROUP		BANK	
	2002 \$M	2001 \$M	2002 \$M	2001 \$M
Not later than one year	42	30	26	12
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	42	32	26	12

NOTE 37 Lease Commitments - Property, Plant and Equipment

	GROUP		BANK	
	2002 \$M	2001 \$M	2002 \$M	2001 \$M
Commitments in respect of non cancelable operating lease agreements due -				
Not later than one year	274	277	220	216
Later than one year but not later than five years	642	730	508	595
Later than five years	200	311	124	227
Total Lease Commitments - Property, Plant and Equipment	1,116	1,318	852	1,038
Group's share of lease commitments of associated entities -				
Not later than one year	11	7		
Later than one year but not later than five years	26	16		
Later than five years	2	7		
Total Lease Commitments - Property, Plant and Equipment	39	30		

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 that 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	
	2002 \$M	2001 \$M	2002 \$M	2001 \$M
Credit risk related instruments				
Guarantees	1,806	2,104	1,806	2,104
Standby letters of credit	464	673	464	673
Bill endorsements	1,073	1,096	1,073	1,096
Documentary letters of credit	134	238	27	48
Performance related contingents	1,023	1,236	511	618
Commitments to provide credit	47,652	42,874	13,012	15,970
Other commitments	1,168	2,488	1,095	1,728
Total credit risk related instruments	53,320	50,709	17,988	22,237

Guarantees represent unconditional undertakings by the Group to support the obligations of its customers to third parties.

Standby letters of credit are undertakings by the Group to pay against production of documents an obligation in the event of a default by a customer.

Bill endorsements relate to bills of exchange that have been endorsed 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 or accept drafts drawn by an overseas supplier of goods in the event of payment default by a customer.

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 credit 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 to 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:

	2002 \$M	2001 \$M
Funds under management		
Australia	60,234	58,018
United Kingdom	12,088	14,614
New Zealand	3,402	2,227
Asia	1,759	2,095
	77,483	76,954
Funds under trusteeship		
Australia	21,785	22,768
Funds under custody and investment administration		
Australia	79,162	78,466

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 2002. 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 Chief Executive Officer and other executives of the Company and its controlled entities at 30 June 2002 was \$11.4 million (2001: \$11.9 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 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 is greatest in the balance sheets of its banking and insurance businesses. Market risk also arises in the course of its intermediation activities in financial services and in financial markets trading.

Market risk in the balance sheets

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 Group Asset and Liability Committee, with operational management of the risk delegated to the Group General Manager, Financial & Risk Management.

For bank balance sheets, market risk includes liquidity risk, funding risk, interest rate risk and foreign exchange rate risk.

On life and general insurance balance sheets, market risk is often the principle means by which long term liabilities are managed. In this sense and in contrast to banking, market risk is structural for these businesses.

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.

Under current APRA Prudential Standards, 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 even under a liquidity crisis scenario.

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 APS 210 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 i.e., 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 64% in June 2001 to 66% in June 2002 due to strong growth in "at call" savings from a perceived "flight to quality" customer demand. 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 49%) 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.

The cost of funds for Financial Year 2002, calculated as the percentage of interest expense to average interest bearing liabilities, was 3.6% on a Group basis compared with 5.1% on a Group basis for Financial Year 2001.

The Group obtains a significant proportion of its funding for the domestic balance sheet from wholesale sources – approximately 22.7%, excluding Bank Acceptances. The cost of funds raised in the wholesale markets is affected by independently assessed credit ratings.

Notes to the financial statements**NOTE 39 Market Risk continued**

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.

	2002 \$M	GROUP 2001 \$M
Australia		
Cheque Accounts	22,921	19,644
Savings Accounts	32,935	30,248
Term Deposits	28,991	28,102
Cash Management Accounts	14,330	11,080
Debt Issues	14,880	14,719
Bank Acceptances	12,449	11,960
Certificates of Deposit	15,832	12,927
Life Insurance Policy Liabilities	22,662	23,477
Loan Capital	5,336	5,624
Securities Sold Under Agreements to Repurchase	753	435
Other	2,888	2,798
Total Australia	<u>173,977</u>	<u>161,014</u>
Overseas		
Deposits and Interbank	22,014	19,021
Commercial Paper	5,682	8,471
Life Insurance Policy Liabilities	3,255	3,552
Other Debt Issues	3,013	1,294
Loan Capital	91	80
Bank Acceptances and Other	68	118
Total Overseas	<u>34,123</u>	<u>32,536</u>
Total Funding Sources	<u>208,100</u>	<u>193,550</u>
Provisions and Other Liabilities	20,492	17,013
Total Liabilities	<u>228,592</u>	<u>210,563</u>

Notes to the financial statements

NOTE 39 Market Risk continued

Interest rate risk (Banking)

Interest rate risk in the Bank 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 that 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)	2002 %	2001 %
Average monthly exposure	1.3	1.8
High month exposure	1.8	2.4
Low month exposure	0.7	0.9

(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.

	2002 \$M	2001 \$M
Exposure as at 30 June	16	42
Average monthly exposure	29	23
High month exposure	59	42
Low month exposure	9	11

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 Group 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 2002 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 2002**

	Balance 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	Not Interest Bearing \$M	Weighted Average Rate %
Australia									
Assets									
Cash and liquid assets	5,426	4,105	-	-	-	-	-	1,321	2.61
Receivables due from other financial institutions	4,333	3,491	547	295	-	-	-	-	2.46
Trading securities	5,865	5,865	-	-	-	-	-	-	3.61
Investment securities	4,069	202	353	110	60	2,288	1,042	14	6.26
Loans, advances and other receivables	126,330	64,273	11,551	8,980	15,289	25,366	2,175	(1,304)	6.82
Bank acceptances of customers	12,449	-	-	-	-	-	-	12,449	-
Life insurance investment assets	26,102	5,174	539	407	218	3,390	2,790	13,584	5.82
Deposits with regulatory authorities	-	-	-	-	-	-	-	-	-
Property, plant and equipment	656	-	-	-	-	-	-	656	-
Intangible assets	4,866	-	-	-	-	-	-	4,866	-
Other assets	18,577	-	-	-	-	-	-	18,577	-
Total Assets	208,673	83,110	12,990	9,792	15,567	31,044	6,007	50,163	6.38
Liabilities									
Deposits and other public borrowings	115,497	77,414	10,110	9,114	3,880	7,458	1,495	6,026	2.61
Payables due to other financial institutions	3,153	1,965	1,105	20	1	12	50	-	2.40
Bank acceptances	12,449	-	-	-	-	-	-	12,449	-
Provision for dividend	1,040	-	-	-	-	-	-	1,040	-
Income tax liability	1,235	-	-	-	-	-	-	1,235	-
Other provisions	787	-	-	-	-	-	-	787	-
Life insurance policy liabilities	22,363	-	-	-	-	-	-	22,363 ⁽³⁾	-
Debt issues	14,820	2,134	2,920	545	2,404	6,469	348	-	4.67
Bills payable and other liabilities	14,508	-	-	-	-	-	-	14,508	-
Loan Capital	5,337	227	1,872	543	-	927	1,768	-	4.18
Total Liabilities	191,189	81,740	16,007	10,222	6,285	14,866	3,661	58,408	2.89
Shareholders Equity									
Share capital	12,659	-	-	-	-	-	-	12,659	-
Outside equity interests	2,009	-	-	-	-	-	-	2,009	-
Total Shareholders' Equity	14,668	-	-	-	-	-	-	14,668	-
Off Balance Sheet Items									
Swaps	(2)	(13,383)	(3,048)	3,877	2,420	8,246	1,888	-	(1)
FRAs	(2)	-	-	-	-	-	-	-	(1)
Futures	(2)	-	-	-	-	-	-	-	(1)
Net Mismatch	(2)	(12,013)	(6,065)	3,447	11,702	24,424	4,234	(22,913)	(1)
Cumulative Mismatch	(2)	(12,013)	(18,078)	(14,631)	(2,929)	21,495	25,729	2,816	(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 2002									
	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	618	506	-	-	-	-	-	112	2.38	
Receivables due from other financial institutions	3,395	2,033	107	310	58	520	303	64	5.97	
Trading securities	2,524	489	1,372	185	80	153	168	77	5.12	
Investment securities	6,697	851	1,562	1,057	142	2,370	715	-	4.36	
Loans, advances and other receivables	20,744	8,481	2,095	1,548	3,461	4,748	463	(52)	6.95	
Bank acceptances of customers	68	-	-	-	-	-	-	68	-	
Life insurance investment assets	4,007	778	-	31	128	457	451	2,162	2.76	
Deposits with regulatory authorities	89	-	-	-	-	-	-	89	-	
Property, plant and equipment	206	-	-	-	-	-	-	206	-	
Intangible assets	525	-	-	-	-	-	-	525	-	
Other assets	2,102	-	-	-	-	-	-	2,102	-	
Total Assets	40,975	13,138	5,136	3,131	3,869	8,248	2,100	5,353	5.95	
Liabilities										
Deposits and other public borrowings	17,303	10,034	3,536	1,688	827	413	-	805	4.24	
Payables due to other financial institutions	4,711	3,821	756	53	81	-	-	-	2.80	
Bank acceptances	68	-	-	-	-	-	-	68	-	
Provision for dividend	-	-	-	-	-	-	-	-	-	
Income tax liability	41	-	-	-	-	-	-	41	-	
Other provisions	47	-	-	-	-	-	-	47	-	
Life insurance policy liabilities	3,554	-	-	-	-	-	-	3,554	-	
Debt issues	8,755	284	6,583	913	371	221	344	39	3.70	
Bills payable and other liabilities	2,834	-	-	-	-	-	-	2,834	-	
Loan Capital	90	-	-	-	-	90	-	-	7.87	
Total Liabilities	37,403	14,139	10,875	2,654	1,279	724	344	7,388	3.87	
Shareholders Equity										
Share capital	6,371	-	-	-	-	-	-	6,371	-	
Outside equity interests	17	-	-	-	-	-	-	17	-	
Total Shareholders' Equity	6,388	-	-	-	-	-	-	6,388	-	
Off Balance Sheet Items										
Swaps	(2)	1,252	3,930	1,325	(1,590)	(4,390)	(527)	-	(1)	
Options	(2)	-	271	-	-	(271)	-	-	(1)	
FRAs	(2)	(437)	(653)	805	285	-	-	-	(1)	
Futures	(2)	-	300	(213)	90	(177)	-	-	(1)	
Net Mismatch	(2)	(186)	(1,891)	2,394	1,375	2,686	1,229	(8,423)	(1)	
Cumulative Mismatch	(2)	(186)	(2,077)	317	1,692	4,378	5,607	(2,816)	(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 2001**

	Balance 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	Not Interest Bearing \$M	Weighted 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	5,712	-	-	-	-	-	-	5,712	
Other assets	18,699	-	-	-	-	-	-	18,699	
Total Assets	196,918	76,544	10,536	5,572	14,621	30,986	5,149	53,510	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									
Share capital	18,362	700	-	-	-	-	-	17,662	
Outside equity interests	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	(23,029)	⁽¹⁾
Cumulative Mismatch	⁽²⁾	7,948	(7,927)	(13,273)	(2,196)	20,835	23,568	539	⁽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.

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	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	724	-	-	-	-	-	-	724	
Total Assets	33,493	9,874	4,006	3,709	3,128	8,001	1,343	3,432	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									
Share capital	31	-	-	-	-	-	-	31	
Outside equity interests	6	-	-	-	-	-	-	6	
Total Shareholders' Equity	37	-	-	-	-	-	-	37	
Off Balance Sheet Items									
Options									
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	(2,415)	(1)
Cumulative Mismatch	(2)	(1,297)	(3,852)	(2,900)	(2,701)	1,081	1,876	(539)	(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.

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			
	2002	2001	2002	2001	2002	2001
	\$M	\$M	\$M	\$M	\$M	\$M
Within 6 months	(258)	167	123	349	(135)	516
Within 6 months - 1 year	(25)	(5)	2	(184)	(23)	(189)
Within 1-2 years	(199)	(229)	(38)	(90)	(237)	(319)
Within 2-5 years	94	(69)	(47)	(38)	47	(107)
After 5 years	123	19	(157)	(26)	(34)	(7)
Net deferred gain (loss)	(265)	(117)	(117)	11	(382) ⁽¹⁾	(106)

(1) These losses are offset by unrecognised net gains in assets and liabilities in the balance sheet. The increase in deferred losses reflect the significant reductions over the year in global interest rates.

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 \$12 million of net deferred losses on derivatives (2001: \$107 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 2 of the financial statements details Financial Markets Trading Income contribution of \$489 million (2001: \$426 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).

	2002	Face Value 2001	GROUP Credit Equivalent	
	\$M	\$M	2002	2001
			\$M	\$M
Derivatives				
Exchange rate related contracts				
Forwards				
Trading	132,200	114,962	4,435	4,295
Other than trading	5,146	1,771	124	17
Total Forwards	137,346	116,733	4,559	4,312
Swaps				
Trading	44,084	23,196	3,061	1,946
Other than trading	14,612	8,661	953	1,588
Total Swaps	58,696	31,857	4,014	3,534
Futures				
Trading	293	417	-	-
Other than trading	-	-	-	-
Total Futures	293	417	-	-
Options purchased and sold				
Trading	77,641	34,261	1,334	704
Other than trading	277	-	5	-
Total Options purchased and sold	77,918	34,261	1,339	704
Total exchange rate related contracts	274,253	183,268	9,912	8,550
Interest rate related contracts				
Forwards				
Trading	31,055	23,477	6	2
Other than trading	8,983	7,074	2	1
Total Forwards	40,038	30,551	8	3
Swaps				
Trading	128,983	97,822	2,150	1,671
Other than trading	118,880	79,989	1,372	1,510
Total Swaps	247,863	177,811	3,522	3,181
Futures				
Trading	79,173	45,367	-	-
Other than trading	1,563	20	-	-
Total Futures	80,736	45,387	-	-
Options purchased and sold				
Trading	18,241	12,265	76	123
Other than trading	-	79	-	79
Total Options purchased and sold	18,241	12,344	76	202
Total interest rate related contracts	386,878	266,093	3,606	3,386
Equity risk related contracts				
Swaps				
Other than trading	278	278	-	-
Total equity risk related contracts	278	278	-	-
Total derivatives exposures	661,409	449,639	13,518	11,936

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 losses, 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 2). In aggregate, derivatives trading was profitable for the Group during the year.

	Fair Value		Average Fair Value	
	2002	2001	2002	2001
	\$M	\$M	\$M	\$M
Exchange rate related contracts				
Forward contracts				
Gross unrealised gains	3,590	3,125	2,996	4,066
Gross unrealised losses	(3,451)	(2,020)	(2,197)	(3,120)
	139	1,105	799	946
Swaps				
Gross unrealised gains	2,765	2,990	2,619	2,535
Gross unrealised losses	(2,288)	(3,025)	(2,408)	(2,663)
	477	(35)	211	(128)
Futures				
Gross unrealised gains	-	2	-	3
Gross unrealised losses	-	-	-	(2)
	-	2	-	1
Options purchased and sold				
Gross unrealised gains	826	504	564	579
Gross unrealised losses	(903)	(283)	(517)	(354)
	(77)	221	47	225
Net Unrealised Gains on exchange Rate Related Contracts	539	1,293	1,057	1,044
Interest rate related contracts				
Forward contracts				
Gross unrealised gains	9	7	14	5
Gross unrealised losses	(8)	(7)	(13)	(6)
	1	-	1	(1)
Swaps				
Gross unrealised gains	3,049	2,874	3,408	2,736
Gross unrealised losses	(3,468)	(3,324)	(3,891)	(3,082)
	(419)	(450)	(483)	(346)
Futures				
Gross unrealised gains	24	19	28	33
Gross unrealised losses	(35)	(27)	(35)	(24)
	(11)	(8)	(7)	9
Options purchased and sold				
Gross unrealised gains	73	71	92	67
Gross unrealised losses	(73)	(73)	(75)	(57)
	-	(2)	17	10
Net Unrealised Losses on Interest Rate Related Contracts	(429)	(460)	(472)	(328)
Net Unrealised Gains on Trading Derivative Contracts	110	833	585	716
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)	10,336	9,592		
Unrealised losses on trading derivatives (Note 27)	10,226	8,759		
Net unrealised gains on trading derivatives	110	833		

Notes to the financial statements

NOTE 40 Superannuation Commitments

The Group sponsors a range of superannuation plans for its employees world wide. 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 2001
Colonial UK Staff Pension Scheme (CUKSPS)	Defined Benefits	Indexed pensions and lump sums	5 April 2001
Stewart Ivory & Company Limited Retirement Benefits Scheme (SI&CRBS)	Defined Benefits	Indexed pensions and lump sums	1 September 1998 ⁽²⁾

Financial Details of Defined Benefits Plans

	OSF \$M	CBA (UK) SBS \$M	CGSSS \$M	CUK SPS ⁽¹⁾ \$M	SI& CRBS ⁽²⁾ \$M	Total \$M
Net Market Value of Assets	5,566	124	506	302	23	6,521
Present Value of Accrued Benefits	3,812	59	274	353	22	4,520
Difference between Net Market of Assets and Present Value of Accrued Benefits	1,754	65	232	(51)	1	2,001
Difference as a percentage of plan assets	32%	52%	46%	(17%)	4%	31%
Value of Vested Benefits	3,812	59	280	296	20	4,467

⁽¹⁾ 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.

⁽²⁾ An actuarial assessment of the SI&CRBS, as at 1 September 2001, is currently in progress. Initial indications are that there may be a small deficit in this scheme; however, this deficit would be immaterial in the 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 corresponding 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.

Notes to the financial statements**NOTE 41 Controlled Entities**

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
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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 Diversified Credit Fund ⁽¹⁾	83	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
Retail Investor 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
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 Group Limited		Australia
Colonial First State Property Limited		Australia
Colonial Statutory Funds Management Limited		Australia
CFS Managed Property Limited		Australia
Colonial Holding Company Pty Limited		Australia
Colonial Holding Company (No.2) Pty Limited		Australia
Colonial Financial Management 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 Services Pty Limited		Australia
Jacques Martin Pty Limited		Australia
NEW ZEALAND		
(a) Banking		
ASB Group Limited		New Zealand
ASB Holdings 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
ASB Group (Life) Limited		New Zealand
Kiwi Income Properties Limited **		New Zealand
Kiwi Property Management Limited **		New Zealand
Sovereign Life NZ Limited		New Zealand
Sovereign Services 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
CTB Australia Limited		Hong Kong
Senator House Investments (UK) Limited ⁽²⁾		United Kingdom
Commonwealth Securities (Japan) Pty Limited		Japan
SBV Asia Limited		Hong Kong
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

Non-operating and minor operating controlled entities and investment vehicles holding policyholder assets are excluded from the above list.

⁽¹⁾ Majority owned unit trust.

⁽²⁾ Wholly owned subsidiary of CBA International Finance Pty Limited.

* Small proprietary companies not requiring audit.

** Companies purchased during the year.

During the year the Group disposed of its subsidiary Micropay Pty Limited.

Notes to the financial statements**NOTE 42 Investments in Associated Entities and Joint Ventures**

	GROUP		Extent of Ownership Interest	Principal Activities	Balance Date
	2002 \$M	2001 \$M			
EDS (Australia) Pty Limited	238	238	35	Information Technology Services	31 December
Computer Fleet Management	1	3	50	Desktop IT Lease Management	30 June
Property Internet PLC	-	5	24	Online residential property information provider	31 March
Alliance Group Holdings	-	2	33	Receivables Management	30 June
Cyberlynx Procurement Services	-	1	30	Procurement Services	30 June
EON CMG Life Assurance Bhd	-	16	40	Life insurance - Malaysia	31 December
PT Astra CMG Life	10	9	50	Life insurance - Indonesia	31 December
Ayudhya CMG Life Assurance PLC	-	61	48	Life insurance - Thailand	31 December
China Life CMG Life Assurance Company Limited	36	36	49	Life insurance - China	31 December
Bao Minh CMG Life Insurance Company	7	6	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	1	-	50	Investment management	31 March
Avanteos Pty Ltd	20	22	50	Technology and Development	31 December
Colonial First State Private Ltd	-	-	50	Investment management	30 June
Jacques Martin Industry Funds Administration Pty Limited ("JMIFA")	-	1	50	Industry superannuation	30 June
TOTAL	313	400			

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.

	2002 \$M	GROUP 2001 \$M
Share of associates' profits (losses) after notional goodwill amortisation		
Operating profits (losses) before income tax	(2)	(4)
Income tax expense	1	-
Operating profits (losses) after income tax	(1)	(4)
Carrying amount of investments in associated entities		
Opening balance	400	403
New investments	8	39
Disposals / transfers	(85)	(16)
Writedown value of investments	(9)	(2)
Fair value adjustments	-	(20)
Share of associates' profits (losses)	(1)	(4)
Foreign exchange adjustment	-	-
Closing balance	313	400

Notes to the financial statements

NOTE 43 Standby Arrangements and Unused Credit Facilities

(of controlled entities that are borrowing corporations)

	2002		GROUP	
	Available	Unused	Available	Unused
Financing arrangements accessible		\$M		\$M
Bank overdraft	51	19	51	22
Revolving credit	-	-	100	-
Other	-	-	29	29
	51	19	180	51

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 that 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	

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 2002 was:
- \$105,146 to Directors of the Bank (2001: \$50,000); and
 - \$2,735,036 to Directors of related entities (2001: \$2,418,363).

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	
	2002	2001	2002	2001
	\$	\$	\$	\$
Directors of the CBA				
Normal terms and conditions ⁽¹⁾	55,146	-	-	318,000
Directors of related entities				
Normal terms and conditions ⁽²⁾	1,055,843	3,693,546	601,331	2,482,653

⁽¹⁾ Directors: K E Cowley, F D Ryan and N R Adler.

⁽²⁾ Directors: G J Judd, G H Burrett, R J Norris, P Polson, C Seddon, A Hanna, R G Wilkie, C B Millett, M D Widjaja, 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 30 June 2001 Ordinary	Shares Acquired Ordinary	Shares Disposed Of Ordinary	Held 30 June 2002 Ordinary
J T Ralph	12,258	2,531		14,789
J M Schubert	10,861	1,741		12,602
D V Murray	47,108	20,120	(590)	66,638
N R Adler	7,956	992	(1,123)	7,825
R J Clairs	10,334	819		11,153
A B Daniels	12,601	1,117		13,718
C R Galbraith	4,369	1,093		5,462
W G Kent	7,890	932		8,822
F D Ryan	4,334	826		5,160
F J Swan	2,070	981		3,051
B K Ward	2,257	918		3,175

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 Equity Reward Plan or the previous Executive Option Plan). Mr D V Murray took up 250,000 options during the year, leaving his total holdings of options at 1,750,000 under the Equity Reward Plan and the previous Executive Option Plan. (No further options will be granted under the Equity Reward Plan. The Executive Option Plan was discontinued in 2000.) Mr D V Murray was also awarded 42,000 shares under the Equity Reward Plan during the year. This is his total holding of shares under the Equity Reward Plan. Shares awarded under the Equity Reward Plan are registered in the name of the Trustee. The transfer of legal title to Mr D V Murray is subject to vesting conditions and is conditional on the Bank achieving a prescribed performance hurdle over a minimum three year period. For further details on the Non-Executive Directors' Share Plan, Equity Reward Plan and the previous Executive Option Plan refer Note 29.

In addition, Mr Ralph holds 100,000 units in Commonwealth Property Trust and 495,294.7 units in Colonial First State Diversified Hedge Fund. Both holdings are held beneficially.

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 that 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. Mr J T Ralph beneficially holds 495,294 units in the Colonial First State Hedge Fund. Additionally, Mr C R Galbraith is a partner in the law firm, Allens Arthur Robinson, which acted for the Bank in the provision of legal services during the Financial Year. The fees for these services were \$2,408,111.

All other 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, unit funds 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 2.

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 for the year ended 30 June 2002 was:

	Base Fee/Pay	Committee Fee	Salary Sacrifice ⁽²⁾	Superannuation ⁽¹⁾	Total Remuneration
	\$	\$	\$	\$	\$
Non-Executive Directors					
Mr J T Ralph, AC	192,000	32,000	56,000	17,920	297,920
Dr J M Schubert	96,000	20,000	29,000	9,280	154,280
Mr N R Adler, AO	64,000	12,997	19,249	6,160	102,406
Mr R J Clairs, AO	64,000	15,003	19,751	7,110	105,864
Mr A B Daniels, OAM	64,000	12,000	19,000	6,840	101,840
Mr W G Kent, AO	64,000	20,000	21,000	7,560	112,560
Mr C R Galbraith	64,000	20,000	21,000	7,560	112,560
Mr F D Ryan	64,000	16,000	20,000	7,200	107,200
Mr F J Swan	64,000	20,000	21,000	7,560	112,560
Ms B K Ward	64,000	16,000	20,000	6,200	106,200

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 Financial Year. Also refer Note 29 for further details.

Notes to the financial statements**NOTE 45 Remuneration of Directors continued**

	2002	BANK
	\$	2001
		\$
Total amount received or due and receivable by executive and non executive Directors (includes accumulated benefits due to Directors who retired during the year)	8,308,940	4,115,750

The number of executive and non-executive Directors whose remuneration fell within these bands was:

Remuneration (Dollars)	Number	Number
\$ 90,001 - \$ 100,000	-	2
\$ 100,001 - \$ 110,000	5	5
\$ 110,001 - \$ 120,000	3	1
\$ 140,001 - \$ 150,000	-	1
\$ 150,001 - \$ 160,000	1	-
\$ 160,001 - \$ 170,000	-	1 *
\$ 290,001 - \$ 300,000	1	1
\$ 350,001 - \$ 360,000	-	1 **
\$ 2,310,000 - \$ 2,319,999	-	1
\$ 6,990,000 - \$ 6,999,999	1	-
	<u>11</u>	<u>13</u>

* 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.

	2002	GROUP
	\$	2001
		\$
Total amount received or due and receivable by executive and non executive Directors of the Bank and controlled entities	15,804,263	11,194,438

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 Chief Executive Officer, who were officers of the Bank and the Group for the year ended 30 June 2002. The table does not include individuals, who are not direct reports to the Chief Executive Officer, whose incentive based remuneration, consistent with market practice in the industry, in any given year is in excess of that received by a member of the senior executive team.

Senior Executive Team

Name & Position	Base Pay ⁽¹⁾	Bonus ⁽²⁾		Super-annuation ⁽³⁾	Other Compensation ⁽⁴⁾	Total Remuneration	Option Grant ⁽⁶⁾	Share Grant ⁽⁶⁾
	\$	Paid This Year \$	Vested in CBA Shares \$					
D V Murray Chief Executive Officer	1,550,000	335,000	335,000	125,550	4,650,000 ⁽⁵⁾	6,995,550	250,000	42,000
P L Polson Group Executive, Investment & Insurance Services	679,589	500,000	-	196,585	584,368	1,960,542	100,000	14,000
M A Katz Group Executive, Premium Financial Services	850,000	230,000	230,000	67,500	12,000	1,389,500	125,000	18,000
M J Ullmer Group Executive, Institutional & Business Services	790,000	220,000	220,000	132,300	12,000	1,374,300	125,000	18,000
J F Mulcahy Group Executive, Retail Banking Services	760,000	185,000	185,000	63,000	12,000	1,205,000	125,000	18,000
S I Grimshaw Group Executive, Financial & Risk Management ⁽⁷⁾	287,671	200,000	-	20,712	605,000	1,113,383	100,000	14,000
Retired Executive								
R J Norris Head of International Financial Services & Managing Director & CEO of ASB Group ⁽⁸⁾	172,603	-	-	n/a	1,030,833 ⁽⁹⁾	1,203,436	-	-

(1) Base pay is calculated on a Total Cost basis. It reflects the total remuneration package and includes any FBT charges related to employee benefits including motor vehicles.

(2) The Group has a vesting (deferral) arrangement for most executives. 50% of the bonus payment is paid immediately and the remaining 50% is deferred and vested in the Bank's shares. Half of the shares will vest after one year (in 2003) and half will vest after two years (in 2004). Generally these instalments are only paid if the executive is still in the employ of the Bank on the relevant dates.

(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), accommodation (including FBT), commencement payments, retirement allowances, contractual and other payments.

(5) This payment was made in accordance with a contract entered into with the CEO on 21 June 1992 which provided for the lump sum to be paid upon satisfactory completion of ten years' service in that position (or pro rata for earlier termination of appointment after five years' service had been completed). A new contract of employment was entered into effective 2 July 2001. This contract does not have a similar provision in relation to service post 21 June 2002.

(6) Option Grants awarded under the Equity Reward Plan 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 purchased on market and charged against profit and loss. 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 a comparator group of companies, excluding the Bank.

Notes to the financial statements**NOTE 46 Remuneration of Executives continued**

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 lapse and the entitlement to shares will be forfeited.

The options and shares are subject to a performance hurdle, the achievement of which is uncertain.

Effective from 1 July 2002, options will no longer be issued under the Equity Reward Plan. In future Reward Shares only will be issued under this plan.

A further change introduced is that whereas previously allocated options and shares vested upon the weighted average Total Shareholder Return of peer institutions being exceeded, a tiered vesting scale has been introduced so that 50% of allocated shares vest if the Bank's Total Shareholder Return is equal to the median return, 75% vest at the 67th percentile and 100% when the Bank's return is in the top quartile.

Options and shares previously allocated under the Equity Reward Plan will continue until they vest upon the prescribed performance hurdles being met or they lapse.

For further details on the Equity Reward Plan, refer Note 29.

(7) Commenced 1 February 2002.

(8) Retired 28 September 2001.

(9) Converted from NZ dollars.

The following table shows the number of executives whose remuneration fell within the stated bands:

Remuneration (Dollars)	GROUP		BANK	
	2002 Number	2001 Number	2002 Number	2001 Number
\$ 100,000 - \$ 109,999	-	1	-	1
\$ 310,000 - \$ 319,999	1	1	1	1
\$ 320,000 - \$ 329,999	-	1	-	1
\$ 330,000 - \$ 339,999	1 *	-	1 *	-
\$ 390,000 - \$ 399,999	1	-	1	-
\$ 430,000 - \$ 439,999	1 *	-	1 *	-
\$ 450,000 - \$ 459,999	-	1	-	1
\$ 470,000 - \$ 479,999	1	-	1	-
\$ 490,000 - \$ 499,999	1	-	1	-
\$ 510,000 - \$ 519,999	-	1	-	1
\$ 520,000 - \$ 529,999	-	2	-	2
\$ 530,000 - \$ 539,999	1	1	1	1
\$ 560,000 - \$ 569,999	1	-	1	-
\$ 570,000 - \$ 579,999	-	1	-	1
\$ 600,000 - \$ 609,999	-	1	-	1
\$ 610,000 - \$ 619,999	1	-	1	-
\$ 650,000 - \$ 659,999	1 *	-	1 *	-
\$ 690,000 - \$ 699,999	-	1	-	1
\$ 710,000 - \$ 719,999	1	-	1	-
\$ 760,000 - \$ 769,999	1	-	1	-
\$ 770,000 - \$ 779,999	-	1	-	1
\$ 780,000 - \$ 789,999	1	-	1	-
\$ 790,000 - \$ 799,999	1	1	1	1
\$ 810,000 - \$ 819,999	1	-	1	-
\$ 850,000 - \$ 859,999	-	1	-	1
\$ 870,000 - \$ 879,999	1	-	1	-
\$ 880,000 - \$ 889,999	1	-	1	-
\$ 890,000 - \$ 899,999	-	1	-	1
\$ 970,000 - \$ 979,999	-	1	-	1
\$1,030,000 - \$1,039,999	-	1	-	1
\$1,110,000 - \$1,119,999	1	-	1	-
\$1,180,000 - \$1,189,999	-	1	-	1
\$1,200,000 - \$1,209,999	2 *	-	2 *	-
\$1,260,000 - \$1,269,999	1	-	1	-
\$1,330,000 - \$1,339,999	-	1	-	1
\$1,370,000 - \$1,379,999	1	-	1	-
\$1,380,000 - \$1,389,999	1	1	1	1
\$1,500,000 - \$1,509,999	-	1	-	1
\$1,650,000 - \$1,659,999	1	-	1	-
\$1,750,000 - \$1,759,999	-	1	-	1
\$1,760,000 - \$1,769,999	1	-	1	-
\$1,870,000 - \$1,879,999	-	1	-	1
\$1,960,000 - \$1,969,999	1	-	1	-
\$2,050,000 - \$2,059,999	-	1	-	1
\$2,310,000 - \$2,319,999	-	1	-	1
\$3,590,000 - \$3,599,999	1	-	1	-
\$6,990,000 - \$6,999,999	1	-	1	-
Total number of executives	28	25	28	25

* Includes termination payments to 4 retired, resigned, or retrenched executives during the Financial Year.

Notes to the financial statements**NOTE 46 Remuneration of Executives continued**

	2002	GROUP	2002	BANK
	\$	2001	\$	2001
	\$	\$	\$	\$
Total amount received or due and receivable by executives (includes accumulated benefits due to executives who retired, resigned or were retrenched during the year).	33,973,600	23,897,371	33,973,600	23,897,371

In addition to remuneration shown above, contractual payments have been made or accrued as a consequence of contracts acquired with the Colonial acquisition.

An executive is a person who is directly accountable and responsible to the Chief Executive Officer, 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 calibre 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/targets,

- 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	
	2002 \$M	2001 \$M	2000 \$M	2002 \$M	2001 \$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	2,056	1,048	980	1,873	830
Other short term liquid assets	495	544	370	306	339
Receivables due from other financial institutions - at call	2,709	458	1,174	1,470	262
Payables due to other financial institutions - at call	(2,762)	(2,012)	(1,138)	(2,741)	(1,851)
Cash and Cash Equivalents at end of year	2,498	38	1,386	908	(420)

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	
	2002 \$M	2001 \$M	2000 \$M	2002 \$M	2001 \$M
Net profit after income tax	2,656	2,412	2,738	2,665	1,699
Decrease (increase) in interest receivable	210	159	(948)	152	7
Increase in interest payable	(60)	(278)	558	(146)	(38)
Net (increase) decrease in trading securities	(1,159)	(262)	(50)	(1,353)	171
Net (gain)/loss on sale of investment securities	(78)	(56)	(12)	(295)	(84)
(Gain)/loss on sale of property plant and equipment	(12)	(25)	(13)	(11)	(26)
Charge for bad and doubtful debts	449	385	196	405	276
Depreciation and amortisation	451	488	175	272	127
Other provisions	(173)	(692)	528	(146)	(230)
Increase (decrease) in income taxes payable	443	(371)	248	465	(343)
(Decrease) increase in deferred income taxes payable	(522)	(97)	319	(225)	(9)
(Increase) decrease in future income tax benefits	69	209	(218)	49	(46)
(Increase) decrease in accrued fees/reimbursements receivable	(17)	(194)	46	(11)	(337)
(Decrease) increase in accrued fees and other items payable	(162)	136	145	(72)	154
Amortisation of premium on investment securities	18	24	47	17	24
Unrealised gain on revaluation of trading securities	723	(186)	(188)	723	(377)
Change in excess of net market value over net assets of life insurance controlled entities	(477)	(474)	(1,165)	-	-
Other assets	-	400	-	-	-
Other	(366)	257	81	(245)	190
Net Cash provided by Operating Activities	1,993	1,835	2,487	2,244	1,158

Note (d) Non cash Financing and Investing Activities

Shares issued under the Dividend Reinvestment Plan for 2001 were \$313 million (2000: \$253 million) and shares issued under the Employee Share Plans for 2002 were \$39 million (2001: \$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**

	2002 \$M	2001 \$M	2000 \$M
Consideration			
Cash paid on acquisitions	56	418	844
Transaction costs	1	-	46
Securities issued	-	-	9,274
Pre-acquisition dividend received	-	-	(1,000)
	57	418	9,164
Fair value of net tangible assets acquired			
Cash & liquid assets	-	4	373
Receivables from other financial institutions	-	26	538
Trading securities	-	501	2,154
Investment securities	-	-	99
Loans, advances and other receivables	-	2,812	21,635
Bank acceptances of customers	-	-	477
Life insurance investment assets	-	76	15,504
Deposits with regulatory authorities	-	-	43
Property, plant and equipment	-	42	382
Investment in associates	-	-	117
Other assets	-	109	2,228
Deposits and public borrowings	-	(2,108)	(13,123)
Payables due to other financial institutions	-	(601)	(267)
Bank acceptances	-	-	(477)
Income tax liability	-	-	(702)
Other provisions	-	(3)	(398)
Life insurance policy liabilities	-	(75)	(14,960)
Debt issues	-	(599)	(8,678)
Bills payable and other liabilities	-	(64)	(2,886)
Loan Capital	-	-	(418)
Restructuring provision	-	-	(294)
Outside equity interest	-	(12)	(155)
	-	108	1,192
Excess market value over net assets of life insurance subsidiary	57	51	2,548
Goodwill	-	259	5,424
	57	418	9,164
Outflow (inflows) of cash on acquisitions			
Cash payments	56	418	844
Transaction costs	1	-	46
Less cash and cash equivalents acquired	-	(4)	(373)
Pre-acquisition dividend received	-	-	(1,000)
	57	414	(483)

Note (f) Financing Facilities

Standby funding lines are immaterial.

Notes to the financial statement

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 c110customers (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 that 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 \$M	2002 Net Fair Value \$M	Carrying Value \$M	2001 Net Fair Value \$M
Assets				
Cash and liquid assets	6,044	6,044	3,709	3,709
Receivables due from other financial institutions	7,728	7,728	4,622	4,622
Trading securities	8,389	8,389	6,909	6,909
Investment securities	10,766	10,851	9,705	9,821
Loans, advances and other receivables	147,074	148,378	136,059	137,004
Bank acceptances of customers	12,517	12,517	12,075	12,075
Life insurance investment assets	30,109	30,109	31,213	31,213
Deposit accounts with regulatory authorities	89	89	61	61
Other assets	19,961	19,751	19,012	19,349
Liabilities				
Deposits and other public borrowings	132,800	132,879	117,355	117,862
Payables due to other financial institutions	7,864	7,864	6,903	6,903
Bank acceptances	12,517	12,517	12,075	12,075
Life insurance policy liabilities	25,917	25,917	27,029	27,029
Debt issues	23,575	24,462	24,484	25,308
Bills payable and other liabilities	17,184	17,203	13,806	13,940
Loan Capital	5,427	5,632	5,704	5,828
Asset and liability hedges - unrealised gains/(losses) (Refer Note 39)	-	(394)	-	(213)

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 that 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 \$313 million (2001: \$400 million), and excess of net market value over net assets of life insurance controlled entities of \$5,656 million (2001: \$5,136 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 that 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	2002 \$M	2001 \$M	2000 \$M
Consolidated Statements of Profit and Loss				
Net profit reported under Australian GAAP		2,655	2,398	2,700
Employee share compensation	(c)	(30)	(32)	(28)
Pension expense adjustment *	(i)	21	142	42
Life insurance market valuation of controlled entities	(k)	(477)	(474)	(1,165)
Goodwill amortisation	(l)	(33)	(33)	(8)
Amortisation of identifiable intangible assets	(t)	(13)	(13)	-
Movement in value of business acquired *	(m)	(98)	(172)	(11)
Movement in policyholder liabilities	(r)	59	95	-
Movement in deferred tax relating to policyholder liabilities	(a)	(8)	(20)	-
Reversal of unrealised gains on life insurance property investments *	(o)	(24)	(52)	-
Movement in deferred acquisition costs *	(s)	(70)	(104)	(28)
Transitional adjustments on adoption of SFAS 133 *	(v)	-	(171)	-
Marked to market of derivative instruments (under SFAS 133) *	(v)	(300)	22	-
Net income according to US GAAP		1,682	1,586	1,502
Other Comprehensive Income				
Foreign currency translation reserve *	(q)	(102)	68	(17)
Pension plan *	(q)	19	13	-
Unrealised holding gains on available for sale securities *	(f)	95	7	2
Reclassification adjustment for gains included in net income	(f)	(50)	(1)	(8)
	(q)	45	6	(6)
Total other comprehensive income (loss)		(38)	87	(23)
Total comprehensive income according to US GAAP		1,644	1,673	1,479
Basic earnings per share on net income according to US GAAP (cents)		131.5	125.2	162.0
Fully diluted earnings per share on net income according to US GAAP (cents)		131.3	125.0	161.7
Shareholders' Equity				
Shareholders' equity reported under Australian GAAP, excluding outside equity interests		19,030	18,393	17,472
Tax effect of foreign currency translation reserve	(a)	20	(24)	6
Provision for final cash dividend	(d)	1,027	765	708
Unrealised net gain on available for sale securities *	(f)	51	6	-
Prepaid pension cost	(i)	1,006	975	773
Tax effect of prepaid pension cost	(i)	(275)	(283)	(263)
Life insurance market valuation of controlled entities	(k)	(2,548)	(2,071)	(1,597)
Amortisation of identifiable intangible assets	(t)	(26)	(13)	-
Goodwill amortisation	(l)	(78)	(45)	(12)
Movement in value of business acquired *	(m)	(281)	(183)	(11)
Movement in deferred acquisition costs *	(s)	(202)	(132)	(28)
Equity issued for Colonial acquisition	(t)	(1,026)	(1,026)	(1,026)
Reversal of unrealised gain on life insurance property investments *	(o)	(76)	(52)	-
Movement in policyholder liabilities	(r)	154	95	-
Movement in deferred tax relating to policyholder liabilities	(r)	(28)	(20)	-
Transitional adjustments on adoption of SFAS 133 *	(v)	-	(171)	-
Marked to market of derivative instruments (under SFAS 133) *	(v)	(449)	22	-
Shareholders' equity according to US GAAP		16,299	16,236	16,022

* Reconciliation items which are net of tax. The effective tax rate for 2002 is 30%.

Notes to the financial statements**NOTE 49 Differences between Australian and United States Accounting Principles continued**

	Footnote	2002 \$M	2001 \$M	2000 \$M
Consolidated Balance Sheets				
Total assets reported under Australian GAAP		249,648	230,411	218,259
Deferred tax assets related to differences in life insurance policyholder liabilities	(a)	130	138	158
Unrealised net gain(loss) on available for sale securities	(f)	73	9	-
Prepaid pension cost	(i)	1,249	1,218	1,016
Excess of net market value over net assets of life insurance controlled entities	(k)	(5,656)	(5,136)	(4,352)
Goodwill, net of amortisation	(l)	571	605	278
Value of business acquired, net of amortisation	(m)	2,249	2,449	2,821
Life insurance policy deferred acquisition costs, net of amortisation	(s)	691	559	322
Other identifiable intangible assets recognised, net of amortisation	(t)	111	130	149
Unrealised gain on life insurance property investments	(o)	(27)	(53)	-
Securitised assets	(u)	-	6,378	2,536
Marked to market of derivative instruments (under SFAS 133)	(v)	(4,723)	(879)	-
Reclassification between reinsurance receivable and policyholder liabilities		(12)	(22)	33
Total assets according to US GAAP		244,304	235,807	221,220

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 2002 \$130 million (2001: \$138 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 2002, this represented a \$20 million increase to shareholders' equity (2001: \$24 million decrease; 2000: \$6 million increase).

Investment Securities

Income from tax exempt securities does not exceed \$500,000.

Tax related to gains/losses on investment securities sales is \$22 million (2001: \$1 million, 2000: \$4 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 prior years.

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 2002 a US GAAP adjustment of \$4 million (2001: \$4 million, 2000: \$3 million) has been included. Effective 1 July 2002, options will no longer be issued under the Equity Reward Plan.

Further, under US GAAP, in accordance with the Employee Share Acquisition Plan an accrual for the probable grant of shares is required. For 2002 a US GAAP adjustment of \$26 million (2001: \$28 million; 2000: \$25 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%
31 October 2001	\$2.01¢	20.8%	5.24%	4.61%	37 months	50%

The following table outlines movements in executive options in the year ending 30 June 2002 (with a comparison to movements in the years ending 30 June 2001 and 30 June 2000) and show the number of options outstanding at date of issue.

Movement in Executive Options during the year	2002	Weighted Average Exercise Price*	2001	Weighted Average Exercise Price*	2000	Weighted Average Exercise Price*
Options Outstanding at the start of the year	9,362,500	\$23.08	9,460,000	\$20.07	7,541,500	\$16.43
Options Granted during the year	3,007,000	\$30.11	2,580,000	\$26.97	3,855,000	\$23.84
Options Forfeited during the year	679,700	\$26.43	242,500	\$22.12	327,500	\$19.32
Options Exercised during the year	2,052,500	\$19.24	2,435,000	\$15.31	1,609,000	\$12.08
Options Outstanding at the end of the year	9,637,300	\$25.92	9,362,500	\$23.08	9,460,000	\$20.07

* 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 2002	Number	Exercise Price	Expiry Date
December 1997 Options	50,000	\$15.53	3 Nov 2002
December 1998 Options	1,047,500	\$19.58	25 Aug 2003
September 1999 Options	3,450,000	\$23.84	24 Aug 2009
September 2000 Options	2,226,700	\$26.97	13 Sept 2010
October 2001 Options	2,863,100	\$30.12	3 Sept 2011

The weighted average exercise price for options outstanding at 30 June 2002 was \$25.92.

The weighted average remaining contractual life of these options is 7 years and 4 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 \$1,027 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 2002 totals \$35 million (2001: \$204 million) (refer Notes 1 and 25). This wholly relates to the Colonial Limited acquisition in June 2000 (2001: \$201 million).

The Colonial restructuring costs covered 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 were 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. Refer Note 20 for further details on the revision to the costs in Financial Year 2001.

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 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 2002 the adjustment to other Comprehensive Income and shareholders' equity is \$51 million (net of taxation) (2001:\$6 million). This adjustment represents the unrealised gain on investment securities net of derivatives \$73 million less taxation of \$22 million.

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	2002 \$M	2001 \$M	2000 \$M
Assets				
Loans, advances and other receivables under Australian GAAP		147,074	136,059	132,263
Securitisation Assets	(u)	-	6,353	2,390
Marked to market revaluation of derivative instruments (under SFAS133)	(v)	(35)	29	-
According to US GAAP		147,039	142,441	134,653
Available for sale securities under Australian GAAP		-	-	-
Reclassification from investment securities	(f)	10,766	9,705	9,149
Restatement of available for sale securities to fair value	(f)	73	9	-
According to US GAAP		10,839	9,714	9,149
Investment securities under Australian GAAP		10,766	9,705	9,149
Reclassification to available for sale securities	(f)	(10,766)	(9,705)	(9,149)
According to US GAAP		-	-	-
Trading securities under Australian GAAP		8,389	6,909	7,347
Reclassification from life insurance investment assets		10,699	10,502	8,462
According to US GAAP		19,088	17,411	15,809
Life insurance investment assets under Australian GAAP		30,109	31,213	27,036
Reclassification to trading securities		(10,699)	(10,502)	(8,462)
Reclassification to real estate investment assets	(o)	(411)	(732)	(573)
Unrealised gains and depreciation adjustment	(o)	(27)	(53)	-
Reclassification of separate account business to other assets	(r)	(18,972)	(19,926)	(18,001)
According to US GAAP		-	-	-
Real estate investments under Australian GAAP		-	-	-
Reclassification from life insurance investment assets	(o)	483	732	573
According to US GAAP		483	732	573
Intangible Assets under Australia GAAP		5,391	5,716	5,935
Goodwill amortisation	(l)	(78)	(45)	(12)
Adjustment to equity issued on Colonial acquisition	(t)	(1,026)	(1,026)	(1,026)
Adjustment to policyholder liability differences	(t)	593	593	559
Reclassification to Value of Business Acquired	(m)	(2,786)	(2,786)	(2,832)
Deferred tax liability on value of business acquired	(m)	1,256	1,256	1,302
Pension fund surplus acquired	(i)	(243)	(243)	(243)
Deferred tax assets on differences in life insurance policyholder liabilities	(a)	(158)	(158)	(158)
Deferred tax liability on pension fund surplus acquired	(i)	82	82	82
According to US GAAP		3,031	3,389	3,607
Value of Business Acquired, under Australian GAAP		-	-	-
Reclassification from Goodwill	(l)	2,786	2,786	2,832
Value of Business Acquired amortisation (net of imputed interest)	(m)	(537)	(337)	(11)
According to US GAAP		2,249	2,449	2,821
Other assets under Australian GAAP		20,366	19,023	16,171
Deferred tax assets on differences in life insurance policyholder liabilities	(a)	130	138	158
Life insurance market valuation of controlled entities	(k)	(2,548)	(2,071)	(1,597)
Prepaid pension cost	(i)	1,249	1,218	1,016
Reclassification from life insurance investment assets to separate account business	(r)	18,972	19,926	18,001
Life insurance policy deferred acquisition costs, net of amortisation	(s)	691	559	322
Securitisation assets	(u)	-	25	146
Reclassification between reinsurance receivable and policyholder liabilities		(12)	(22)	33
Marked to market revaluation of derivative instruments (under SFAS 133)	(v)	(4,880)	(972)	-
Deferred tax asset on marked to market revaluation of derivative instruments (under SFAS 133)	(v)	128	64	-
According to US GAAP		34,096	37,888	34,250

Notes to the financial statements**NOTE 49 Differences between Australian and United States Accounting Principles continued**

	Footnote	2002 \$M	2001 \$M	2000 \$M
Liabilities				
Deposits and other public borrowings under Australian GAAP		132,800	117,355	112,594
Securitisation Liabilities	(u)	-	6,353	2,390
Marked to market revaluation of derivative instruments (SFAS 133)	(v)	2	27	-
According to US GAAP		132,802	123,735	114,984
Income tax liability under Australian GAAP		1,276	1,355	1,823
Tax effect of foreign currency translation reserve	(a)	(20)	24	(6)
Deferred tax liability on unrealised gain on available for sale securities	(f)	23	3	-
Reclassification from life insurance policyholder liabilities	(r)	157	160	116
Deferred tax liability on pension income	(i)	375	365	345
Deferred tax liability on value of business acquired	(m)	1,008	1,102	1,302
Tax effect of other amortisation		40	40	-
According to US GAAP		2,859	3,049	3,580
Provision for dividend under Australian GAAP		1,040	779	708
Reversal of provision for final cash dividend	(d)	(1,027)	(765)	(708)
According to US GAAP		13	14	-
Bills payable and other liabilities under Australian GAAP		17,342	13,872	11,549
Reclassification from life insurance policyholder liabilities to separate account business	(r)	18,396	19,445	17,451
Securitisation Liabilities	(u)	-	25	146
Marked to market revaluation of derivative instruments (under SFAS 133)	(v)	(4,418)	(933)	-
According to US GAAP		31,320	32,409	29,146
Life insurance policyholder liabilities under Australian GAAP		25,917	27,029	25,282
Adjustment to policyholder liability differences in acquisition	(r)	593	593	559
Reclassification to income tax liability	(r)	(157)	(160)	(116)
Reclassification to Other Assets of life insurance policy deferred acquisition costs	(s)	691	554	350
Reclassification of separate account business to other liabilities	(r)	(18,396)	(19,445)	(17,451)
Reclassification between reinsurance receivable and policyholder liabilities		(12)	(22)	33
Movement in policyholder liabilities		120	42	-
According to US GAAP		8,756	8,591	8,657
Debt issues under Australian GAAP		23,575	24,484	25,275
Marked to market revaluation of derivative instruments (SFAS 133)	(v)	49	61	-
According to US GAAP		23,624	24,545	25,275
Loan Capital under Australian GAAP		5,427	5,704	5,299
Marked to market revaluation of derivative instruments (SFAS 133)	(v)	93	115	-
According to US GAAP		5,520	5,819	5,299

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) of the financial statements. 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 Bank's major superannuation plans are set out in Note 40 of the financial statements.

For US GAAP purposes, the Bank 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 Bank 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 surpluses or deficits of the Colonial Group Staff Superannuation (CGSSS) and the Colonial UK Staff Pension Scheme (CUKSPS).

During the 2001 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 transfer offer represented both a curtailment and settlement of part of the Group's defined benefit obligations in the OSF. The Group recognised a gain of \$143 million on settlement.

The Colonial UK life insurance business was sold in June 2000 to Winterthur which resulted in a significant portion of the members of the CUKSPS being transferred out of this plan. A curtailment of liabilities occurred during the 2001 Financial Year which resulted in the Group recognising a gain of \$7 million on curtailment in that Financial Year. Furthermore, during the 2001 Financial Year, the Group paid special termination benefits of \$5 million arising from the termination of employment arising

from the sale of the Colonial UK life insurance business. A transfer of the membership, assets, liabilities and contributions of the employees of the Colonial UK life insurance business from the CUKSPS to the Winterthur fund took place on around 31 March 2002. As a result of this transfer, the Group recognised a gain of \$6 million on settlement during this current Financial Year.

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 2002 was \$110 million (2001: \$108 million, 2000: \$4 million). Amounts on deposit with the Bank at 30 June 2002 totalled \$23 million (2001: \$62 million, 2000: \$70 million). Other security holdings with the Group at 30 June 2002 were \$66 million (2001: \$77 million, 2000: \$74 million).

The value of the CGSSS's equity holding in the Group as at 30 June 2002 was \$14 million (2001: \$19 million, 2000: \$41 million). Amounts on deposit with the Group at 30 June 2002 totalled \$8 million (2001: \$2 million, 2000: \$8 million). There are no other securities holding with the Group as at 30 June 2002.

The Group provides insurance cover to CGSSS in respect of its death, total and permanent disablement and temporary disablement benefits. As at 30 June 2002, the amounts of cover were \$602 million of lump sum death and total and permanent disablement benefits (2001: \$570 million, 2000: \$732 million) and \$84 million per annum of temporary disablement benefits (2001: \$87 million, 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 2000, 31 March 2001 and 31 March 2002 for the Group's major superannuation (pension) plans. The assumptions used in the calculations were a discount rate of 7.00% (2001: 7.00%, 2000: 7.50% pa), compensation increase rate of 4.25% pa (2001: 4.25% pa, 2000: 4.25% pa) and return on assets of 6.75% pa (2001: 6.75%, 2000: 7.10% pa).

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

	2002 A\$M	2001 A\$M	2000 A\$M
Service cost	(57)	(75)	(84)
Interest cost	(230)	(299)	(268)
Expected return on assets	333	422	382
Amortisation of transitional obligation assets	52	63	69
Recognised net gain (loss)	-	12	-
Amortisation of prior service costs	-	-	-
Employer financed benefits within Accumulation Division	(79)	(66)	(34)
Settlements and Curtailment Effects	6	150	-
Cost of Special Termination Benefits	-	(5)	-
Net periodic pension (cost) income	25	202	65
Expensed employer contribution	(5)	(1)	-
	30	203	65
Less tax effect	(9)	(61)	(23)
Pension Expense Adjustment - see US GAAP Reconciliation	21	142	42
Change in benefit obligation:			
Benefit obligation at beginning of year	3,386	4,081	4,286
Service Cost	57	75	84
Member Contributions	20	29	30
Interest Cost	230	299	268
Acquisitions	-	-	483
Benefit Changes	-	-	-
Actuarial (Gains) Loss	16	228	(677)
Benefits Paid	(370)	(452)	(393)
Curtailment and Settlement Effects	(35)	(888)	-
Foreign Currency Exchange Rate Movements	(6)	14	-
Benefit obligation at end of year	3,298	3,386	4,081
Change in fair value of assets			
Fair value of assets at beginning of year	(5,074)	(6,053)	(5,203)
Actual return on assets	(111)	(448)	(518)
Acquisitions	-	-	(726)
Total contributions	(26)	(30)	(30)
Benefits and Expenses Paid	370	452	393
Employer financed benefits within Accumulation Division	80	57	31
Curtailment and Settlement Effects	25	962	-
Foreign Currency Exchange Rate Movements	6	(14)	-
Fair value of assets at end of year	(4,730)	(5,074)	(6,053)
Funded status at measurement date:	(1,432)	(1,688)	(1,972)
Assets not recognised:			
transitional obligation assets	104	156	276
unrecognised net gains (loss)	79	314	680
unrecognised prior service costs	-	-	-
Employer contribution from measurement date to balance date	-	-	-
Net Amount Recognised	(1,249)	(1,218)	(1,016)
Comprising of:			
Prepaid Pension Cost	(1,249) ⁽³⁾	(1,218) ⁽²⁾	(1,016) ⁽¹⁾
Accrued benefit liability	-	-	-
Additional minimum liability	27	19	-
Intangible Asset	-	-	-
Accumulated Other Comprehensive (Income) Loss	(27)	(19)	-
Net Amount Recognised	(1,249)	(1,218)	(1,016)

As at 31 March 2002, the Accumulated Benefits Obligation of CUKSPS exceeded the fair value of assets. The Group has recognised an additional minimum liability of \$27 million and accumulated other comprehensive income of \$27 million (refer to Note 49(q) for the reporting of Comprehensive Income). The accumulated benefit obligations of CUKSPS as at 31 March 2002 was \$236 million (2001: \$281 million, 2000: \$278 million), the projected benefit obligations of CUKSPS was \$237 million (2001: \$288 million, 2000: \$285 million) and the fair value of assets of CUKSPS was \$228 million (2001: \$270 million, 2000: \$287 million).

Additionally, a deferred tax liability has been taken up for US GAAP reconciliation purposes in respect of the above "Net Amount Recognised".

- (1) The prepaid pension costs of \$1,016 million include net assets acquired on the 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) The increase in Shareholders equity (pre tax basis), net of the Colonial acquisition is \$1,006 million

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

Australian GAAP Compliance

Effective 1 July 1994 the Bank adopted the Australian Accounting Standard AASB 1028: "Accounting for Employee Entitlements" with respect to the liabilities arising from its post retirement benefits other than pensions. 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 Bank accounted for its obligation for employee entitlements substantially in accordance with SFAS 43 "Accounting for Compensated Absences". There are no US GAAP adjustments or further disclosures under SFAS 106 "Employers' Accounting for Post Retirement Benefits 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 the requirements of AASB 1038: Life Insurance Business for 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 \$477 million (2001: \$474 million), shareholders equity by \$2,548 million (2001: \$2,071 million) and other assets by \$2,548 million (2000: \$2,071 million).

(l) Intangible Assets

Colonial Limited was acquired on 13 June 2000 (refer Note 20 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 (\$2,786 million) less associated deferred tax liability (\$1,256 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 2002 (2001: \$33 million; 2000: \$8 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.

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:

	2002 \$M	2001 \$M
Opening Balance, 1 July	1,347	1,519
Imputed interest	193	212
Amortisation	(384)	(533)
Movement in deferred tax liability on value of business acquired	93	149
Closing Net Balance, 30 June	<u>1,249</u>	<u>1,347</u>

The net movement in VOBA for Financial Year 2002 is \$98 million (2001: \$172 million). The imputed rate of interest ranges between 6% and 9% dependent upon the nature of business acquired.

The VOBA balance is estimated to be amortised over the next five years at a rate ranging from 7.5% to 15% per year.

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

(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. An asset writedown adjustment of \$1 million was necessary in 2002 with no adjustments in 2001 or 2000. At 30 June 2002, the asset revaluation reserve shows a balance of \$4 million (2001: \$5 million; 2000: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 2002, the restatement under US GAAP results in a \$24 million reduction in Net Income, and \$27 million reduction in assets.

(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 2002.

(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

	2002 \$M	2001 \$M	2000 \$M
Foreign currency translation reserve			
Balance at beginning of Financial Year	57	(11)	6
Foreign currency translation adjustment net of tax expense	(102)	68	(17)
Balance at end of Financial Year	(45)	57	(11)
Available for Sale securities			
Balance at beginning of Financial Year	6	-	6
Change in fair value of available for sale securities	45	6	(6)
Balance at end of Financial Year	51	6	-
Pension Plans			
Balance at beginning of Financial Year	13	-	-
Adjustment to net assets in UK Pension Plan - net of tax expense	19	13	-
Balance at end of Financial Year	32	13	-
Total Other Comprehensive Income	24	76	(11)

(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 account balance that accrues to the benefit of the policyholder at the date of the financial statements; and
 - (b) any unearned revenue liability;
- 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 2002 the US GAAP adjustment resulted in an increase (net of taxation) of \$51 million in Net Income. 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 is comprised of:

	2002	2001
	\$M	\$M
Difference in deferral of new business acquisition expenses	(105)	(125)
Difference in amortisation of acquisition expenses	10	4
Tax effect of differences in acquisition expense treatment	25	17
	<u>(70)</u>	<u>(104)</u>

Movement in DAC balance during Financial Years 2002 and 2001:

	2002	2001
	\$M	\$M
Opening Balance, 1 July	559	317
Acquisition costs for the year	162	281
Amortisation of DAC/Imputed interest	(30)	(39)
Net movement	<u>132</u>	<u>242</u>
Closing Balance, 30 June	<u>691</u>	<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 2002 is \$111 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 20 Acquisition of Colonial for further details.

(u) Securitisation of Assets

During the Financial Years 2000, 2001 and 2002, the Group securitised mortgage loans to a special purpose entity (SPE). Under Australian GAAP these loans are removed from the Statement of Financial Position. For US GAAP the conditions to allow securitised loans to be removed from the Statement of Financial Position include the provision that the transferor does not retain effective control over, or more than a trivial interest in, the transferred assets. For Financial Years 2000 and 2001 it was deemed that call options over the transferred loans constituted more than a trivial interest and accordingly, these loans (2001: \$6,378 million, 2000: \$2,536 million) were included in the Group's Statement of Financial Position and a corresponding liability raised. There was no material impact on the profit of the Group attributable to these loans.

For Financial Year 2002 it was determined that, based on experience, the call options do not convey a more than trivial benefit to the Group and accordingly these loans, and the corresponding liability, remain removed from the Statement of Financial Position for US GAAP reporting. There is no material impact on profit from this change in estimation. Note 1 (kk), Loan Securitisation, outlines the accounting treatment of the SPE, both for Australia and US GAAP reporting as required by SFAS 140. In Financial Year 2002 loans totalling \$2,512 million were securitised (2001: \$5,199 million, 2000: \$1,742 million). The outstanding loan balance on the securitisations from Financial Years 2002, 2001 and 2000 is \$6,416 million.

The outstanding balance of securitised loans at 30 June 2002 was \$7,047 million. No credit losses were incurred by the Group in relation to these securitised loans during the Financial Year 2002. The credit risk in respect of these loans is fully covered through mortgage insurance.

Cashflows paid to CBA from the SPE in Financial Year 2002 were:

	2002 \$M
Servicing fee	16
Management fee	2
Excess servicing fee	11
Proceeds from sale of mortgage loans	2,512
Interest rate swaps	57
Total cash receipts	2,598

Notes to the financial statements

NOTE 49 Differences between Australian and United States Accounting Principles continued

(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 were 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.

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 2002 and 2001. The financial impact of the statements decreased Net Income after tax by \$300 million (2001:\$149 million). Balance sheet derivatives and underlying assets and liabilities decreased by \$4,723 million (2001:\$879 million) and \$4,274 (2001:\$730 million) respectively.

For Australian GAAP reporting, the Group will continue to apply hedge accounting principles as adopted for the year ended 30 June 2002.

(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.

As at 30 June 2002 securities with a fair value of \$538 million were received as collateral (2001: \$74 million). Of this amount, \$180 million may be sold or repledged. From the \$180 million received, securities to the value of \$62 million were repledged as collateral.

In addition, securities to the value of \$154 million were provided as collateral as at 30 June 2002 (2001:\$nil). Assets required to be mortgaged to secure the Group's performance under these certain transaction provisions were nil as at 30 June 2002 (2001:\$300 million; 2000:\$590 million).

(x) Newly Issued Statements of the Financial Accounting Standards Board

In June 2001, the FASB issued Statements of Financial Accounting Standard '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 Group will apply the new accounting rules in the Financial Year beginning 1 July 2002.

If the above US statements had been applied for Financial Year 2002, it is estimated the impact would have increased profit after tax by approximately \$336 million (2001: \$350 million).

For Australian GAAP reporting goodwill will continue to be amortised on a straight line basis over a period not exceeding 20 years.

There were no SFASs issued in Financial Year 2002 which would have a material impact on the Bank.

(y) Newly Issued Australian Standards

The Australian Accounting Standards Board (AASB) has revised AASB 1020: Income Tax. This revised standard is not applicable to the Financial Year ending 30 June 2002. The Group does not believe this standard would materially impact the financial position and results of operation if it was applicable at 30 June 2002. This standard is applicable to Financial Years commencing on or after 1 January 2005.

Notes to the financial statements

(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 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 2002, as set out on pages 66 to 185. 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.

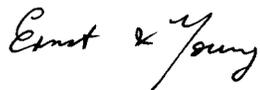
The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Commonwealth Bank of Australia is in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of the Bank's and the Group's financial position as at 30 June 2002 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

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 2002 and the determination of consolidated financial position as at 30 June 2002, 2001 and 2000 to the extent summarised in Note 49 to the financial report.



ERNST & YOUNG
Sydney

Date: 21 August 2002 except for Note 49 as to which the date is 18 October 2002



S C Van Gorp
Partner

Shareholding Information

Top 20 Holders of Fully Paid Ordinary Shares as at 19 August 2002

Rank	Name of Holder	Number of Shares	%
1	JP Morgan Nominees Australia Limited	139,212,991	11.11%
2	National Nominees Limited	80,211,010	6.40%
3	Westpac Custodian Nominees Limited	76,842,869	6.13%
4	Citicorp Nominees Pty Limited	61,012,231	4.87%
5	RBC Global Services Australia Nominees Pty Limited	29,358,631	2.34%
6	Commonwealth Custodial Services Limited	23,503,823	1.88%
7	AMP Life Limited	19,013,132	1.52%
8	ANZ Nominees Limited	14,988,579	1.20%
9	Queensland Investment Corporation	12,925,984	1.03%
10	Cogent Nominees Pty Limited	10,854,533	0.87%
11	HSBC Custody Noms (Aust) Ltd	8,651,384	0.69%
12	Colonial Foundation Limited	6,873,632	0.55%
13	NRMA Nominees Pty Limited	6,634,764	0.53%
14	The National Mutual Life Assoc of Australasia Ltd	5,270,297	0.42%
15	ING Life Limited	4,882,631	0.39%
16	CSS Board & PSS Board	4,619,712	0.37%
17	Invia Custodian Pty Limited	4,485,373	0.36%
18	Australian Foundation Investment Company Ltd	4,195,818	0.33%
19	Gladiator Custodian Pty Limited	4,007,598	0.32%
20	Belike Nominees Pty Limited	3,824,600	0.31%

The twenty largest shareholders hold 521,369,592 shares which is equal to 41.61% 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 buyback of its shares.

Directors Shareholdings as at 21 August 2002

	Shares	Options
J T Ralph, AC	14,789	-
J M Schubert	8,831	-
D V Murray	106,374	1,750,000
N R Adler, AO	7,825	-
R J Clairs, AO	11,153	-
A B Daniels OAM	1,102	-
C R Galbraith	5,462	-
W G Kent AO	7,416	-
F D Ryan	5,160	-
F J Swan	3,051	-
B K Ward	3,175	-

In addition, Mr Ralph holds 100,000 units in Commonwealth Property Trust and 495,294.7 units in Colonial First State Diversified Hedge Fund. Both holdings are held beneficially.

Shareholding Information (continued)

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 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. 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.

Range of Shares (Fully Paid Ordinary Shares and Employee Shares): 19 August 2002

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	572,260	78.64	188,943,469	15.08
1,001-5,000	138,004	18.96	277,502,645	22.15
5,001-10,000	12,094	1.66	83,633,151	6.67
10,001-100,000	5,093	0.70	100,861,185	8.05
100,001-Over	276	0.04	601,980,913	48.05
Total	727,727	100.00	1,252,921,363	100.00
Less than marketable parcel of \$500	13,163		80,820	

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 a member is present in person, any proxy or attorney of that member is not entitled to vote.

If more than one official representative or attorney is present for a member:

- none of them are entitled to vote on a show of hands; and
- on poll only one official representative may exercise the member's voting rights and the vote of each attorney shall be of no effect unless each is appointed to represent a specified proportion of the member's voting rights, not exceeding in aggregate 100%.

If a member appoints two proxies and both are present at the meeting and the appointment does not specify the proportion or number of the member's votes each proxy may exercise:

- neither proxy shall be entitled to vote on a show of hands; and
- on a poll each proxy may exercise one half of the member's votes.

Major Shareholder

The Bank is not directly or indirectly owned or controlled by another corporation or any foreign government. At 30 June 2002 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 at the date of this report result in a change in control of the Company.

Primarily, 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			
1998	23.16	18.50	1,715,511
1999	28.69	22.15	1,709,873
2000	32.08	22.54	2,519,720
2001			
First Quarter	32.07	27.60	3,238,825
Second Quarter	34.15	28.12	3,560,875
Third Quarter	32.07	27.60	3,243,654
Fourth Quarter	29.50	28.12	3,941,277
2002			
First Quarter	32.61	25.14	3,612,184
Second Quarter	31.15	26.944	3,014,238
Third Quarter	33.64	29.528	4,232,675
April	32.87	31.20	3,351,856
May	33.75	32.24	3,088,427
June	34.76	32.91	3,851,576
July	32.16	29.10	5,223,654
August	32.25	30.10	3,414,922
September	32.36	30.14	3,657,487

On 15 October 2002, the last sale price of the Ordinary Shares as reported on the ASX was \$29.65 per Share. The Bank's total market capitalisation was \$37,151 million as at that date.

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 2002, 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 148,751 ADRs representing 446,253 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 (continued)

Top 20 Holders of Preferred Exchangeable Resettable Listed Shares (PERLS) as at 19 August 2002

Rank	Name of Holder	Number of Shares	%
1	Commonwealth Custodial Services Limited	286,248	8.18%
2	The National Mutual Life Assoc of Australasia Ltd	131,650	3.76%
3	AMP Life Limited	80,000	2.29%
4	Invia Custodian Pty Limited	76,122	2.17%
5	ANZ Executors & Trustee Company Limited	56,342	1.61%
6	RBC Global Services Australia Nominees Pty Limited	47,895	1.37%
7	Tower Trust Limited	42,169	1.20%
8	UBS Warburg Private Clients Nominees Pty Limited	42,037	1.20%
9	Boxall Marine Pty Ltd	25,000	0.71%
10	Questor Financial Services Limited	24,695	0.71%
11	JB Were Capital Markets Limited	20,760	0.59%
12	Brencorp No 11 Pty Limited	17,256	0.49%
13	Ms Lesley Yvette Coney	16,190	0.46%
14	Livingstone Investments (NSW) Pty Limited	15,000	0.43%
15	Perpetual Trustee Co Ltd (Hunter)	12,776	0.37%
16	Ms Thelma Joan Martin-Weber	12,500	0.36%
17	Albert Investments Pty Limited	10,000	0.29%
18	Bigbal Pty Ltd	10,000	0.29%
19	Felden Pty Ltd	10,000	0.29%
20	Marbear Holdings Pty Limited	10,000	0.29%
21	Mrs Fay Cleo Martin-Weber	10,000	0.29%
22	Swinbourne University of Technology	10,000	0.29%

The twenty two largest PERLS holders hold 966,640 shares which is equal to 27.62% of the total shares on issue. Twenty two PERLS holders are disclosed in the above table due to a number of share holders having the same number of PERLS.

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): 19 August 2002

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	20,134	98.65	1,981,857	56.62
1,001-5,000	236	1.16	492,864	14.08
5,001-10,000	20	0.10	162,283	4.64
10,001-100,000	16	0.08	445,098	12.72
100,001-Over	2	0.01	417,898	11.94
Total	20,408	100.00	3,500,000	100.00
Less than marketable parcel of \$500	3		4	

Voting Rights

The holders 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 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 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 2002 are as follows:

Board of Directors			
Name	Age	Position	Director Since
J T Ralph, AC	69	Chairman	1985
J M Schubert	59	Deputy Chairman	1991
D V Murray	53	Managing Director and Chief Executive Officer	1992
N R Adler, AO	57	Director	1990
R J Clairs, AO	64	Director	1999
A B Daniels OAM	67	Director	2000
C R Galbraith	54	Director	2000
W G Kent, AO	66	Director	2000
F D Ryan	59	Director	2000
F J Swan	61	Director	1997
B K Ward	48	Director	1994

Senior Management

The Senior Management of the Bank detailed below are the Group Executives of each of the Bank's divisions.

Adrian Cosenza

Adrian Cosenza joined the Group in 1981 and was appointed as Group Executive, Office of the CEO and Group Strategic Development in December 2001. Mr Cosenza's 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 41.

Les Cupper

Les Cupper joined the Commonwealth Bank in 1996. He heads the Bank's Group Human Resources responsible for the Group's human resource policies and systems.

Prior to joining the Bank, Mr Cupper held a number of senior human resource and line management roles with CRA Ltd for 12 years.

Previous to these roles, Mr Cupper held academic appointments in universities in Australia, the UK and USA. He has an Honours degree in Economics and Politics and a Masters in Economics (Industrial Law) and Graduate Diploma in Education from Monash University. Age 53.

Michael Katz

Michael Katz assumed responsibility for the creation of a new Premium Financial Services' business within the Commonwealth Bank Group in early 2002. This business is focussed on delivering premium products with a premium service to premium clients. Prior to this role, Mr Katz was Head of Institutional Banking for eight years from 1993 to 2001. 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 50.

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 53.

John Mulcahy

Appointed Group Executive, Retail Banking Services in December 2001. Mr Mulcahy joined the Bank in 1995 as Head of Technology, Operations and Property (TOP). He then went on to Head Banking & Financial Services in December 1997. As a result of the Bank's merger with Colonial Limited, Mr Mulcahy was appointed Head of Australian Financial Services. On 15 October 2002 it was announced that Mr Mulcahy would be appointed Group Executive, Investment and Insurance Services.

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 Institute of Engineers. Age 52.

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.

Shareholding Information (continued)

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

Peter Polson is Group Executive, Investment and Insurance Services. He joined the Group in 2000, following the acquisition of Colonial. He is responsible for all investment and insurance services for the Group, including funds management, master funds, superannuation and insurance business (including Colonial First State), Commonwealth Investment Management and Colonial Insurance, Commonwealth Insurance and third party support services for brokers, agents and financial advisers under existing brands. Prior to joining Colonial, he was Managing Director, National Mutual Funds Management (International) Ltd, with responsibility for the international investment operations with subsidiaries in the United States, Europe, Hong Kong, Japan and New Zealand.

Peter has a Bachelor of Commerce from Witwatersrand University in South Africa, and a Master of Business Leadership degree from the University of South Africa. In 1994 he attended Harvard University to complete the program for Management Development. Age 56.

Mr Polson entered an employment agreement with the Bank as of 1 January 2002. Details of remuneration and options allocated are disclosed in Note 46.

Mr Polson announced his retirement from the Bank, effective October 2002.

Stuart Grimshaw

Group Executive, Financial and Risk Management. Joined the Group in February 2002.

Prior to joining the Group Mr Grimshaw was formally Chief Executive Officer, Great Britain for the National Australia Bank and responsible for National's Yorkshire and Clydesdale Banks. He joined National in 1991 where he held senior credit, relationship, commercial and corporate banking roles, including an 18 month secondment to Morgan Stanley International Inc, New York. He commenced his career in banking and finance as a graduate trainee with ANZ Banking Group in 1983.

He has a Bachelor of Commerce & Administration from Victoria University (N.Z.) and a Masters of Business Administration from Melbourne University. He also completed the PMD Course at Harvard University. Age 41.

Mr Grimshaw entered an employment agreement with the Bank as of 1 February 2002. Details of remuneration and options allocated are disclosed in Note 46.

Russell Scrimshaw

Russell Scrimshaw joined the Commonwealth Bank Group in January 1998 and as at 30 June was the Group Executive for Technology, Operations and procurement. Mr Scrimshaw left the Group on 28 July 2002.

Prior to joining the Bank Mr Scrimshaw was Director of Marketing and Director of Business for Optus Communications, Australia's second largest telecommunications carrier. Mr Scrimshaw joined Optus in 1993.

Prior to joining Optus, he held various senior management roles with Amdahl Corporations for 6 years including Vice president and General manager for the West Area of US Operations.

Prior to Amdahl he held several senior management roles for IBM (16 years) and Alcatel. He graduated in

Business from Swinburne University of Technology and is an associate member of the Australian Society of Accountants.

Michael Ullmer

Head of Institutional and Business Services. Mr Ullmer joined the Group in this position in 1997 and appointed to his current position in March 2002.

He has a significant 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 51.

Gail Kelly

Ms Kelly was head of the Customer Service Division, from 2000 until November 2001 when she left the Group.

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 46.

Hugh Harley

Appointed Group Executive, Retail Banking Services in October 2002. Mr Harley joined the Bank in 1987 as an economist following completion of university studies. Subsequently he worked in a wide range of senior roles in Business Banking, Group Human Resources and Australian Financial Services where he was General Manager, Personal & Business customers. In February 2002 he was appointed General Manager, Retail Sales and Service which involved leadership of the Bank's national branch network and direct service operations.

Mr Harley holds a Bachelor of Economics (honours) and a Bachelor of Laws (honours) from the University of Sydney and a Master of Philosophy in Economics from Cambridge University (UK). Age 40.

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 2002 to all directors and senior executive officers as a group (22 persons) was \$20.2 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 1993 and who are members of the OSF are provided with 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 2002 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 2002 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 for Financial Year 2002, the Group was required to provide minimum superannuation benefits for non-executive directors under age 70 equal to 8% of their cash remuneration. Benefits funded by the Group during Financial Year 2002 to meet this requirement amounted to \$83,590.

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. This retirement allowance has now been closed to new appointees.

The Bank's executive officers, (including the Chief Executive Officer), 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\$ 0.5628 = \$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 28 June 2002.

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 10.

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 2002 is referred to as Financial Year 2002, 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 2001 and 2002 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 2002, 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

Shareholding Information (continued)

non-resident holders of the Bank's securities in the United States are not restricted by exchange controls.

Australian foreign exchange control are implemented from time to time against prescribed countries entities and persons. Certain transactions relating to Iraq, Libya, the National Union for the Total Independence of Angola (UNITA) and certain persons associated with the former government of the Federal Republic of Yugoslavia are currently prohibited without the specific prior approval of the Reserve Bank of Australia under the Banking (Foreign Exchange) Regulations. Restrictions also apply to transactions, accounts and assets relating to the Taliban, Osama bin Laden, the Al-Qaida organisation and other persons and entities identified as terrorists or sponsors of terrorism.

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.

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. A Protocol amending the Treaty has been negotiated and, depending on if and when ratified by both countries, should take effect progressively from 1 July 2003. Among other things, the Protocol will reduce withholding taxes and will make some changes to the taxation of capital gains of US residents. For the purposes of the summary, references to the "Treaty" are references to the current Treaty, before the Protocol takes effect.

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.

Shareholding Information (continued)

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), which was last amended on 26 October 2000.

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) 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) Unless permitted by the Corporations Act, 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 material personal interest (article 11.9(e)). Subject to the ASX Listing Rules, this prohibition does not apply if the directors pass a resolution stating they are satisfied that the interest should not disqualify the director from considering or voting on the matter (article 11.9(f)). If a quorum of directors is not available to consider such a resolution then, subject to the Corporations Act, the prohibition can be relaxed or suspended by an ordinary resolution passed in a general meeting (section 195(4)).
- (b) Subject to the ASX Listing Rules, the directors remuneration is paid by way of fees in such proportion and manner as they determine, provided that the aggregate remuneration paid to directors must not exceed the amount approved from time to time in a general meeting. The directors may approve payment of special remuneration where a director, other than the managing director or an executive director, performs extra services or makes any special exertions for any business or purposes of the Company. In addition, the directors 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 the discharge of their duties or the business of the Company (article 11.7).
- (c) The 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)). Subject to the Corporations Act, this article could be changed by a special resolution in which the support of 75% of those shareholders entitled to vote is required (section 136).
- (d) The Constitution does not contain any age limit requirement for 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 with the support of 75% of those shareholders entitled to vote is required.
- (e) A director does not need to own shares in the Company as a qualification for office (article 11.3(b)).³

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. The directors may determine that a dividend is payable, and fix the amount and the time for payment (article 16.1(a)). All dividends declared but unclaimed may be invested by the directors as they think fit for the benefit of the Company until claimed or until required to be dealt with in accordance with any law relating to unclaimed moneys (article 16.4(e)).
- (ii) Subject to the Constitution, the 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 a 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 regulation 7.11.37 of the Australian Corporations Regulations 2001. One third of current directors (other than the managing director) must retire at each annual general meeting and may be re-elected by ordinary resolution and in accordance with the Constitution (articles 11.1(c) and 11.2(b)).
- (b) The rights attached to the Company's preference shares are referred to in a prospectus dated 26 February 2001 for the issue of 3.5 million preference shares at an issue price of AUD200 each, payable in full on application. 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 of the Company (article 16.2, Corporations Act section 254T).
- (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

Additional Information (continued)

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. Subject to the terms of issue, 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 as a result of such shareholder owning a substantial number of shares, except pursuant to Article 5.4.4(g) where a takeover is announced.

4 Alteration of rights of shareholders

The rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be varied with the consent in writing of the holders of three - quarters of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class (article 2.4(a)).

5 Meetings

The directors or any director to the extent permitted by the Corporations Act may whenever they think fit convene a general meeting (article 9.2(a)). The rights of members to requisition or to convene a general meeting of the Company are as set out in the Corporations Act (article 9.2(b)).

Subject to the Corporations Act and the ASX Listing Rules, notices of general meetings convened by the directors may be given 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).

Subject to the Constitution, 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 a general meeting is convened upon the requisition of members and a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be dissolved. If the meeting is convened in any other way 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). The Constitution also provides that the directors may decline to register any transfer of shares where this is permitted by the ASX Listing Rules (article 7.3(a)). Relevantly, the ASX Listing Rules allow the company to decline to register a transfer if the transfer may breach an Australian law and the ASX has agreed in writing to the non-registration. The directors might also exercise their discretion to refuse to allot shares to a person where the allotment may breach an Australian law. Relevant Australian legislation which impactson the right to own securities is described below.
- (b) Unmarketable Parcel Rationalisation Scheme
The Constitution contains a scheme whereby the Company can sell the shares of members who hold an unmarketable of parcel 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 (article 5.4).
- (c) Legislation

The Australian Financial Sector (Shareholdings) Act 1998 restricts ownership by people (together with their associates) of an Australian bank to 15% of the total voting shares outstanding. A shareholder may apply to the Australian Treasurer to extend its ownership beyond 15%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 15% is in the national 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.

The rights of non-resident or foreign shareholders to hold 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 an 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 (including associates) or 40% or more held by 2 or more foreign persons (including associates) is deemed to constitute a controlling interest.

7 Takeover Limitations

Not applicable.

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 (together with their associates) acquire or cease to hold a substantial holding (5% or more of the total number of votes attached to voting shares) or change their substantial holding in the Company. The disclosure must be given to the Company and the ASX within the prescribed time.

The Company may at any time direct a member within 2 business days of receiving the direction to provide the Company with the name and address of every person who has a relevant interest in any of the

shares held by the member, including full details of that interest and of the circumstances that gave rise to 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 direct that person to provide the Company with full details of that person's interest and of the circumstances that gave rise to that interest (Corporations Act Part 6C.2).

9 Changes in Share Capital

The Company may reduce its share capital (article 2.2) or buy back shares (article 2.3(a)) in accordance with the Australian Corporations Act.

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: Stuart Grimshaw

Title: Chief Financial Officer

Date: 18 October 2002

Exhibits

Item 19 Index to Exhibits

1. Constitution as amended as of 26 October 2000.*
- 4.1 Equity Reward Plan Rules, Exercise and Vesting Conditions, Taxation Information Sheet – Options and Taxation Information Sheet – Shares.
- 4.2 Employment Agreement between Commonwealth Bank of Australia and Stuart Ian Grimshaw, dated as of 1 February 2002.
- 4.3 Employment Agreement between Commonwealth Bank of Australia and Peter Leith Polson, dated as of 1 January 2002.
8. List of controlled entities.
10. Consent of Ernst & Young

* Incorporated by reference to the Annual Report of Form 20-F for the registrant's fiscal year ended 30 June 2001 (File No. 0-29152) filed on 15 November 2001.

CERTIFICATIONS

I, David V. Murray, certify that:

1. I have reviewed this annual report on Form 20-F of Commonwealth Bank of Australia;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: 18 October 2002

Name: David V Murray
Title: Managing Director and Chief Executive Officer

I, Stuart I. Grimshaw, certify that:

1. I have reviewed this annual report on Form 20-F of Commonwealth Bank of Australia;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: 18 October 2002

Name: Stuart I. Grimshaw
Title: Chief Financial Officer

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Managing Director
H Burrett

Sovereign Group Limited
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Telephone: (649) 377 8930
Facsimile: (649) 486 1913
Managing Director
S Swanson

Asia Pacific

Fiji Islands

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Colonial Life Limited
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Managing Director
M Walsh

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Y T Au

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L Chen

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Facsimile: (852) 2520 1119
Regional Managing Director
P Fanke

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Chief Executive Officer, Asia
T Waring

Indonesia

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President Director
L Morris

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K McIntosh

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L Xia

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Pasig City
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Facsimile: (63 2) 6362762
President
S McNally

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R Buchan

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L Mann

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SRJ Holden

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General Director
R Carkeet

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IM Phillips

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General Manager Europe
S Bigg

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Chief Executive Officer
R Adams