Financial Statements 1998

This Annual Report is made up of two sections:

1. The "Report to Shareholders" comprising the first 48 pages (ie all pages prior to this page).
2. The full and detailed financial statements and related notes for the financial year ended 30 June 1998 (i.e. all pages following this page).

The "Report to Shareholders" is a concise version of this full Annual Report document and is available as a separate booklet for those shareholders who do not want the detailed information contained on the following pages.

The Commonwealth Bank intends to send the concise version of the Annual Report (ie the Report to Shareholders) to all shareholders next year unless they request otherwise.

For those shareholders who have not specifically requested to receive the full Annual Report, we have included a reply form in this information pack for you to complete advising us of your preference for future Annual Reports.

Both versions of the Annual Report are available on the Shareholder Information page of the Bank's Internet site at www.commbank.com.au/today

Statements of Profit and Loss

for the year ended 30 June 1998

	Note	Economic Entity 1998 $M	Economic Entity 1997 $M	Economic Entity 1996 $M	Chief Entity 1998 $M	Chief Entity 1997 $M
Interest income	2	**7,605**	7,989	7,716	**6,012**	6,561
Interest expense	2	**4,208**	4,597	4,319	**3,227**	3,733
Net interest income	2	**3,397**	3,392	3,397	**2,785**	2,828
Other operating income	2	**1,885**	1,524	1,382	**1,691**	1,390
Total operating income	2	**5,282**	4,916	4,779	**4,476**	4,218
Charge for bad and doubtful debts	2,13	**233**	98	113	**224**	85
Total operating income after charge for bad and doubtful debts		**5,049**	4,818	4,666	**4,252**	4,133
Total operating expenses	2	**3,091**	2,959	2,849	**2,663**	2,546
Operating profit before goodwill amortisation, abnormal items and income tax		**1,958**	1,859	1,817	**1,589**	1,587
Goodwill amortisation	2	**46**	43	41	**39**	40
Operating profit before abnormal items and income tax	2	**1,912**	1,816	1,776	**1,550**	1,547
Abnormal expense	4	**570**	200	-	**570**	200
Operating profit before income tax		**1,342**	1,616	1,776	**980**	1,347
Income tax expense (credit)						
Operating profit	5	**641**	588	635	**506**	471
Abnormal items	4	**(409)**	(72)	-	**(409)**	(72)
Income tax expense	5	**232**	516	635	**97**	399
Operating profit after income tax		**1,110**	1,100	1,141	**883**	948
Outside equity interests in operating profit after income tax		**20**	22	22	**-**	-
Operating profit after income tax attributable to members of the chief entity	39	**1,090**	1,078	1,119	**883**	948
Retained profits at the beginning of the financial year		**908**	794	535	**472**	465
Adjustment on adoption of ISC Life Insurance Rules	1(oo)	**-**	(11)	-	**-**	-
Buy back		**(384)**	-	-	**(384)**	-
Transfers from reserves		**170**	74	27	**200**	-
Total available for appropriation		**1,784**	1,935	1,681	**1,171**	1,413
Transfers to reserves		**74**	86	55	**-**	-
Dividends (fully franked)						
Transfer to dividend reinvestment plan reserve		**403**	419	328	**403**	419
Provided for payment in cash or paid	6	**552**	522	504	**552**	522
Dividends provided for, reserved or paid		**955**	941	832	**955**	941
Retained profits at the end of the financial year		**755**	908	794	**216**	472

	Note	Cents per share 1998	1997	1996
Earnings per share based on operating profit after income tax attributable to members of the chief entity:	7	**117.2**	117.5	115.5
Dividends provided for, reserved or paid per share attributable to members of the chief entity:	6	**104**	102	90

The Notes to and forming part of the accounts are an integral part of these accounts.

Balance Sheets

as at 30 June 1998

	Note	ECONOMIC ENTITY 1998 $M	ECONOMIC ENTITY 1997 $M	CHIEF ENTITY 1998 $M	CHIEF ENTITY 1997 $M
Assets					
Cash and liquid assets	8	**1,526**	2,007	**1,393**	1,930
Receivables due from other financial institutions	9	**3,448**	4,839	**3,205**	4,627
Trading securities	10	**4,009**	2,635	**2,698**	2,673
Investment securities	11	**6,858**	9,233	**5,949**	7,406
Loans, advances and other receivables	12	**89,816**	81,632	**72,949**	65,731
Bank acceptances of customers		**9,727**	8,874	**9,737**	8,881
Deposits with regulatory authorities	16	**832**	797	**828**	786
Shares in and loans to controlled entities	17	**-**	-	**5,583**	5,140
Property, plant and equipment	18	**1,662**	2,010	**1,438**	1,750
Investment in associates	40	**276**	-	**278**	-
Goodwill	19	**531**	574	**490**	529
Other assets	20	**11,859**	7,502	**11,402**	7,141
Total Assets		**130,544**	120,103	**115,950**	106,594
Liabilities					
Deposits and other public borrowings	21	**83,886**	77,880	**72,944**	67,836
Payables due to other financial institutions	22	**3,397**	3,621	**3,008**	3,240
Bank acceptances		**9,727**	8,874	**9,737**	8,881
Due to controlled entities		**-**	-	**359**	152
Provision for dividend	6	**321**	291	**321**	291
Income tax liability	23	**1,099**	925	**642**	554
Other provisions	24	**875**	835	**830**	797
Debt issues	25	**10,608**	10,154	**9,239**	8,755
Bills payable and other liabilities	26	**10,746**	7,698	**10,234**	7,369
		120,659	110,278	**107,314**	97,875
Loan Capital	27	**2,996**	2,801	**2,996**	2,801
Total Liabilities		**123,655**	113,079	**110,310**	100,676
Net Assets		**6,889**	7,024	**5,640**	5,918
Shareholders' Equity					
Share Capital	28	**1,845**	1,860	**1,845**	1,860
Reserves		**4,112**	4,078	**3,579**	3,586
Retained profits		**755**	908	**216**	472
Shareholders' equity attributable to members of the chief entity		**6,712**	6,846	**5,640**	5,918
Outside equity interests in controlled entities	29	**177**	178	**-**	-
Total Shareholders' Equity		**6,889**	7,024	**5,640**	5,918

The liabilities of the Commonwealth Bank of Australia (the Chief Entity) and its controlled entity, Commonwealth Development Bank of Australia, as at 30 June 1996 were guaranteed by the Commonwealth of Australia under a statute of the Australian Parliament. This guarantee is being progressively phased out following the Government sell down of its shareholding on 19 July 1996. (Refer to Note 25.)

The Notes to and forming part of the accounts are an integral part of these accounts.

Consolidated Statements of Changes in Shareholders' Equity

as at 30 June 1998

	Note	ECONOMIC ENTITY 1998 $M	1997 $M	1996 $M	CHIEF ENTITY 1998 $M	1997 $M
Issued and paid up capital	28					
Opening balance (ordinary shares of A$2.00 each)		**1,860**	1,981	1,898	**1,860**	1,981
Buy back		**(76)**	(200)	-	**(76)**	(200)
Dividend reinvestment plan		**57**	74	83	**57**	74
Employee share ownership schemes		**4**	5	-	**4**	5
Closing balance		**1,845**	1,860	1,981	**1,845**	1,860
Retained profits						
Opening balance		**908**	794	535	**472**	465
Adjustments to opening balance	1(oo)	**-**	(11)	-	**-**	-
Buy back		**(384)**	-	-	**(384)**	-
Transfers from reserves		**170**	74	27	**200**	-
Operating profit attributable to members of chief entity		**1,090**	1,078	1,119	**883**	948
Total available for appropriation		**1,784**	1,935	1,681	**1,171**	1,413
Transfers to reserves		**74**	86	55	**-**	-
Interim dividend - cash component only		**231**	231	203	**231**	231
Interim dividend - appropriated to dividend reinvestment plan reserve		**189**	180	166	**189**	180
Provision for final dividend - cash component only		**321**	291	301	**321**	291
Final dividend - appropriated to dividend reinvestment plan reserve		**214**	239	162	**214**	239
Closing balance		**755**	908	794	**216**	472
Reserves						
General Reserve						
Opening balance		**2,195**	2,182	2,155	**1,772**	1,772
Discounts on acquisition and other adjustments		**-**	-	(1)	**-**	-
Appropriation from profits		**74**	86	55	**-**	-
Transfer to retained profits		**(200)**	(73)	(27)	**(200)**	-
Closing balance		**2,069**	2,195	2,182	**1,572**	1,772
Capital Reserve						
Opening balance		**288**	289	289	**277**	277
Transfers		**1**	(1)	-	**-**	-
Closing balance		**289**	288	289	**277**	277
Asset Revaluation Reserve		**-**	-	-	**-**	-
Share Premium Reserve						
Opening balance		**1,300**	1,754	1,432	**1,298**	1,752
Buy back		**(191)**	(801)	-	**(191)**	(801)
Premium from share issues		**396**	357	326	**396**	357
Employee share acquisition plan issue		**(3)**	(5)	-	**(3)**	(5)
Buy back costs and other adjustments		**(2)**	(5)	(4)	**-**	(5)
Transfer to capital reserve		**(1)**	-	-	**(1)**	-
Closing balance		**1,499**	1,300	1,754	**1,499**	1,298
Dividend Reinvestment Plan Reserve						
Opening balance		**239**	162	197	**239**	162
Conversion to share capital		**(428)**	(342)	(363)	**(428)**	(342)
Appropriation from profits		**403**	419	328	**403**	419
Closing balance		**214**	239	162	**214**	239
Foreign Currency Translation Reserve						
Opening balance		**56**	28	62	**-**	(4)
Currency translation adjustments		**(45)**	28	(34)	**17**	4
Transfer to retained profits		**30**	-	-	**-**	-
Closing balance		**41**	56	28	**17**	-
Total Reserves		**4,112**	4,078	4,415	**3,579**	3,586
Shareholders' equity attributable to members of the chief entity		**6,712**	6,846	**7,190**	**5,640**	5,918

The Notes to and forming part of the accounts are an integral part of these accounts.

Statements of Cash Flows

for the year ended 30 June 1998

	Economic Entity 1998 $M	1997 $M	1996 $M	Chief Entity 1998 $M	1997 $M
Cash Flows From Operating Activities					
Interest received	**7,557**	8,054	7,939	**6,084**	6,604
Dividends received	**18**	18	8	**106**	200
Interest paid	**(4,065)**	(4,342)	(4,323)	**(3,187)**	(3,482)
Other operating income received	**1,204**	1,308	1,426	**821**	1,019
Staff expenses paid	**(1,705)**	(1,614)	(1,544)	**(1,467)**	(1,396)
Occupancy and equipment expenses paid	**(289)**	(310)	(257)	**(246)**	(271)
Information technology services expenses paid	**(503)**	(251)	(251)	**(476)**	(224)
Other expenses paid	**(468)**	(399)	(312)	**(365)**	(320)
Income taxes paid	**(216)**	(629)	(449)	**(134)**	(507)
Tax losses purchased from controlled entities	**-**	-	-	**(28)**	(38)
Net decrease (increase) in trading securities	**(646)**	556	2,374	**(591)**	487
Net Cash provided by Operating Activities	**887**	2,391	4,611	**517**	2,072
Cash Flows from Investing Activities					
Payments for acquisition of entities	**-**	(66)	-	**-**	(66)
Net movement in investment securities:					
Purchases	**(8,505)**	(8,887)	(9,576)	**(7,981)**	(7,517)
Proceeds from sale	**1,787**	1,172	729	**1,666**	1,172
Proceeds at or close to maturity	**8,681**	7,013	7,956	**8,364**	6,291
Lodgement of deposits with regulatory authorities	**(35)**	(86)	(52)	**(42)**	(90)
Net increase in loans, advances and other receivables	**(9,882)**	(11,353)	(8,488)	**(8,190)**	(8,414)
Net amounts paid to controlled entities	**-**	-	-	**(184)**	(1,123)
Proceeds from sale of property, plant and equipment	**196**	307	194	**167**	281
Purchase of property, plant and equipment	**(78)**	(180)	(313)	**(51)**	(134)
Net decrease (increase) in receivables due from other financial institutions not at call	**809**	750	1,750	**809**	750
Net decrease (increase) in securities purchased under agreements to resell	**347**	641	(658)	**347**	641
Net decrease (increase) in other assets	**1,175**	(432)	(117)	**1,118**	(427)
Net Cash used in Investing Activities	**(5,505)**	(11,121)	(8,575)	**(3,977)**	(8,636)
Cash Flows from Financing Activities					
Buy back of shares	**(651)**	(1,001)	-	**(651)**	(1,001)
Proceeds from issue of shares	**5**	12	94	**3**	3
Net increase in deposits and other borrowings	**6,683**	6,892	6,070	**5,177**	5,793
Proceeds from long term debt issues	**1,355**	1,414	1,620	**1,290**	1,024
Repayment of long term debt issues	**(1,230)**	(299)	(143)	**(1,175)**	(299)
Net increase (decrease) in short term debt issues	**(970)**	1,905	370	**(1,005)**	1,351
Dividends paid	**(502)**	(452)	(451)	**(502)**	(448)
Payments from provisions	**(10)**	(59)	(79)	**(11)**	(54)
Net increase (decrease) in payables due to other financial institutions not at call	**(869)**	325	(559)	**(869)**	325
Net increase (decrease) in securities sold under agreements to repurchase	**(52)**	(783)	(1,994)	**(52)**	(783)
Proceeds from (repayment of) loan capital	**-**	-	1,290	**-**	-
Other	**(496)**	(207)	424	**(185)**	(208)
Net Cash provided by Financing Activities	**3,263**	7,747	6,642	**2,020**	5,703
Net Increase (Decrease) in Cash and Cash Equivalents	**(1,355)**	(983)	2,678	**(1,440)**	(861)
Cash and Cash Equivalents at beginning of year	**3,318**	4,301	1,623	**3,415**	4,276
Cash and Cash Equivalents at end of year	**1,963**	**3,318**	4,301	**1,975**	**3,415**

Details of Reconciliation of Cash and Reconciliation of Operating Profit After Income Tax to Net Cash Provided by Operating Activities are provided in Note 45.

The Notes to and forming part of the accounts are an integral part of these accounts.

Notes to and forming part of the accounts
continued

NOTE 1 Summary of Significant Accounting Policies

(a) Bases of accounting

In these financial statements Commonwealth Bank of Australia is referred to as the 'Chief Entity', or the 'Bank', and the 'Economic Entity' consists of the Chief Entity and those controlled entities listed in Note 39. The financial statements are a general purpose financial report which comply with the requirements of the Banking Act, Corporations Law, 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 the previous year except for the adoption of equity accounting, refer (d) Investments in associated companies below.

Further, in accordance with revised International Accounting Standard IAS1, Presentation of Financial Statements, certain income and expense items have been presented on a net basis. The principal items involved are the netting of rental income against operating lease rentals and general insurance claims paid shown as a deduction from general insurance premium income. Refer Note 2. There is no effect on profit and loss.

The financial statements also include disclosures required by the United States Securities and Exchange Commission (SEC) in respect of foreign registrants. The Statements of Cash Flows has been prepared in accordance with the International Accounting Standard IAS7, Cash Flow Statements.

The preparation of financial statements 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 Commonwealth Bank of Australia and the consolidated financial statements have been prepared in accordance with the historical cost convention and, except 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 Chief Entity 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 Chief Entity and all entities where there is a determined capacity to control as defined in AASB 1024: Consolidated Accounts. All balances and transactions between Group entities have been eliminated on consolidation.

(d) Investments in associated companies

Associated companies are defined as those entities over which the Economic Entity has significant influence but there is no capacity to control. Details of material associated companies are shown in Note 40.

The Economic Entity has elected to adopt equity accounting in terms of AASB 1016: Accounting for Investments in Associates for the year ended 30 June 1998. Investments in associates are carried at cost plus the Economic Entity's share of post-acquisition profit or loss. The Economic Entity's share of profit or loss of associates is included in the Profit and Loss Statement. ASC Class Order No. 97/798 dated 5 June 1997 permits the adoption of equity accounting.

As a result of the change in accounting policy, the effect on profit after tax for the year ended 30 June 1998 is $2 million net loss. The carrying value of investments in associates included in the balance sheet is $276 million. There was no transitional adjustment to retained profits as the amount was not material. As from 30 June 1998 PT Bank BII Commonwealth was determined to be no longer a self-sustaining foreign operation and the related Foreign Currency Translation Reserve balance was transferred to Retained Profits.

(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 profit and loss.

The foreign currency assets and liabilities of overseas branches and overseas controlled entities are converted to Australian currency at 30 June 1998 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.

NOTE 1 Summary of Significant Accounting Policies continued

(e) Foreign currency translations continued

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 Bank 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 Chief Entity is an entity of the kind referred to in Corporations Regulation 3.6.05(6) and, in accordance with Australian Securities Commission (ASC) Class Order No. 97/1005 dated 9 July 1997, amounts in these financial statements have been rounded to the nearest million dollars unless otherwise stated.

(g) Financial instruments

The Economic Entity 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 and loss when earned.

(i) Receivables due from other financial institutions

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

(j) Trading securities

Trading securities are short and long term public, bank, 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' within profit and loss. 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 and loss when earned. Dividends on equities are brought to account in profit and loss on declaration date. Any profits or losses arising from disposal prior to maturity are taken to profit and loss 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 loss 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.

In the average balance sheet and profit and loss, repurchase agreements and their related interest expense were previously netted against investment and trading securities. Repurchase agreements and related interest expense have been reclassified within other demand deposits. Comparative figures have been adjusted.

(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 leverage leases. Interest and yield related fees are reflected in profit and loss when earned. Yield related fees received in advance are deferred, included as part of the carrying value of the loan and amortised to profit and loss as 'Interest Income' over the term of the loan. Note 1(n) provides additional information with respect to leasing and leveraged leasing.

Notes to and forming part of the accounts
continued

NOTE 1 Summary of Significant Accounting Policies continued

(m) Loans, advances and other receivables continued

Non Accrual Facilities

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

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

Restructured Facilities

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

Assets Acquired through Securities Enforcement (AATSE)

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

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.

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 and loss 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 possible 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 and loss. The balance of provisions for impairment and movements therein are set out in Note 13.

NOTE 1 Summary of Significant Accounting Policies continued

(o) Provisions for impairment continued

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

Abnormal Item – General Provision Charge for Bad and Doubtful Debts

With effect from 1 January 1998 the Economic Entity has refined the methodology used to estimate the provisions for impairment by adopting a statistically based technique referred to as Dynamic Provisioning. This takes into account historical loss experience and current economic factors to assess the provisioning requirement over the term to maturity of the existing credit portfolios. Initial adoption of this technique resulted in an abnormal expense for bad and doubtful debts of $370 million in respect of the general provision which has been charged to profit and loss in the year ended 30 June 1998.

Subsequent requirements for specific provisions will be funded via the general provision. Accordingly, it is appropriate to tax effect the general provisioning refer Note 1(y). Refer also Notes 4 and 13.

(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 and loss when earned.

(q) Deposits with regulatory authorities

In several countries in which the Economic Entity operates, the law requires that the Economic Entity 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 and loss 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 have adopted a valuation at or below the independent valuation. Adjustments arising from revaluation are reflected in Asset Revaluation Reserve, except to the extent the adjustment reverses a revaluation previously recognised in profit and loss. For the current year the revaluation had no effect on the level of the reserve.

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

Equipment is shown at cost less depreciation calculated principally on a category basis at rates applicable to each category's useful life. Depreciation is calculated using the straight line method. It is treated as an operating expense and charged to profit and loss. 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 does not own any material amounts of computer or communications equipment.

Notes to and forming part of the accounts
continued

NOTE 1 Summary of Significant Accounting Policies continued

(s) Property, plant and equipment continued

Abnormal Item - Information Technology Equipment Values (1997)

In anticipation of a restructuring of the Bank's information technology processing, including investment in an information technology business, the carrying value of the Bank's computer and communications equipment as at 30 June 1997 was reduced. This reduction was undertaken having regard to the sale of equipment to a global technology company.

As a result, an abnormal expense of $200 million ($128 million after tax) was charged to profit and loss in the year ended 30 June 1997. Also refer Notes 4 and 18.

(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 arising from the merger with the State Bank of Victoria in 1991 is being amortised over 20 years, and goodwill on acquisition of Commonwealth Funds Management in December 1996, Micropay in 1995 and Leaseway in April 1997 is being amortised over 10, 7 and 5 years respectively. The periods of goodwill amortisation are subject to review annually by the Directors.

(u) Other assets

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

(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 and loss 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 and loss 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.

(y) Income taxes

The Economic Entity has adopted the liability method of tax effect accounting. The tax effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes is disclosed as a future income tax benefit or a provision for deferred income tax. Amounts are offset where the tax payable and realisable benefit are expected to occur in the same financial period. The future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised. (Note 20).

Abnormal Credit – Tax Effecting General Provision for Bad and Doubtful Debts

The general provision for bad and doubtful debts has been tax effected as at 1 January 1998. This reflects the adoption of a balance sheet risk based dynamic provisioning methodology which satisfies the recognition requirement that utilisation of the provision be assured beyond reasonable doubt.

An abnormal credit to tax expense of $337 million has been booked to profit and loss in the year ended 30 June 1998. Refer also Note 4.

(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.

NOTE 1 Summary of Significant Accounting Policies continued

(aa) Provision for restructuring

The provision for restructuring covers information technology transition costs to EDS (Australia) and other outsourcing arrangements, further rationalisation of processing and administration functions, implementation of the new organisational structure and reconfiguration of delivery systems. Each of these programmes has associated costs, principally in the areas of redundancy and property.

Abnormal Item – Restructuring Costs

An abnormal expense for restructuring costs of $200 million ($128 million after tax) has been charged to profit and loss in the year ended 30 June 1998. Refer also Notes 4 and 24.

(bb) Provision for self insurance

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

(cc) Debt issues

Debt issues are short and long term debt issues of the Economic Entity 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 and loss as incurred. Any profits or losses arising from redemption prior to maturity are taken to profit and loss in the period in which they are realised.

Further details of the Economic Entity's debt issues are shown in Note 25.

(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 Economic Entity with terms and conditions, such as being undated or subordinated, which qualify the debt issue for inclusion as capital under Reserve Bank of Australia (RBA) Capital Adequacy prudential requirements. Loan capital debt issues 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 and loss as incurred. Any profits or losses arising from redemption prior to maturity are taken to profit and loss in the period in which they are realised.

Further details of the Economic Entity's loan capital debt issues are shown in Note 27.

(ff) Shareholders' equity

Ordinary share capital is recognised at the par value of the amount paid up. Any excess between the par value and the issue price is recorded in the share premium reserve.

General reserve is derived from revenue profits and is available for dividend except for undistributable profits in respect of Commonwealth Life Limited of $219 million (1997: $168 million, 1996: $91 million).

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

Share premium reserve is derived from the premium over par value received from the issue of shares. It is not available for distribution to shareholders in the form of a cash dividend. The share premium reserve may be used to satisfy the payment of a dividend by an issue of shares to shareholders. The reserve may also be utilised to write off preliminary expenses, share or debenture issue costs, share buy back costs and discount allowed on any issue of shares or debentures.

Dividend reinvestment plan reserve is appropriated from revenue profits. 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. This internal accounting methodology for the dividend reinvestment plan was introduced with the appropriation of the 1995 profit for the final dividend.

Further details of share capital, outside equity interests and reserves are shown in Notes 28, 29 and Statements of Changes in Shareholders' Equity.

(gg) Derivative financial instruments

The Economic Entity 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 Economic Entity's trading activities and to hedge certain assets and liabilities.

Notes to and forming part of the accounts
continued

NOTE 1 Summary of Significant Accounting Policies continued

(gg) Derivative financial instruments continued

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 and loss 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 and loss 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 and loss 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 and loss against revaluation losses and gains of the underlying hedged item or class of items.

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

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

Forward rate agreements and futures

Realised gains and losses on forward rate agreements and futures contracts are deferred and included as part of the carrying value of the hedged item or class of items being hedged. The cash flow is amortised to profit 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.

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 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.

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 and loss 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 37.

(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 36.

(ii) Fee income

Lending fees

Material non refundable front end loan fees that are yield related and do not represent cost recovery, are taken to profit and loss over the period of the loan. Associated costs incurred in these lending transactions are deferred and

NOTE 1 Summary of Significant Accounting Policies continued

(ii) Fee income continued

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.

(jj) Life insurance business

The Economic Entity conducts life insurance business through Commonwealth Life Limited (CLL) which is subject to the provisions of the Life Insurance Act 1995. The shareholders' interest in CLL, consisting of the shareholders' fund and the shareholders' interest in the statutory funds, is included in the financial statements of the Economic Entity and has been subject to the stated principles of consolidation.

The shareholders' interest in the statutory funds is carried at cost. Policyholders' interest in the statutory funds is not included in the consolidated financial statements as the Economic Entity does not have control of such funds as defined by AASB 1024: Consolidated Accounts.

The profits from the statutory funds are brought to account in the profit and loss of the Economic Entity. The profits have been determined according to the 'Margin on Services' methodology for valuation of policy liabilities under Actuarial Standard AS 1.01 issued by the Life Insurance Actuarial Standards Board. These profits are then transferred to general reserves as they are not fully available for distribution until all requirements of the Life Insurance Act are met.

The value of the net worth and the business in force of CLL (known as the embedded value), to Commonwealth Bank of Australia has been actuarially assessed to be $480 million as at 30 June 1998 (1997: $400 million), $445 million in excess of book value (1997: $365 million) in the Chief Entity. This amount has not been included in the balance sheet.

(kk) 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 36.

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 and loss of the Economic Entity and the designated controlled entity.

(ll) Superannuation plans

The Economic Entity 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.

(mm) Comparative figures

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

(nn) Definitions

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

'Borrowing Corporation' as defined by Section 9 of the Corporations Law is CBFC Limited and controlled entities.

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

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

(oo) Adjustments to retained earnings

Commonwealth Life Limited adopted the new Insurance and Superannuation Commission Rules for financial reporting for the year ended 30 June 1997. This resulted in an $11 million debit adjustment to retained earnings in accordance with ASC Class Order No. 97/171 dated 17 February 1997.

(pp) Events Subsequent to Balance Date

In July 1998, the Bank entered into a strategic alliance with Woolworths which will provide customers with increased accessibility and flexibility for their financial services needs.

Notes to and forming part of the accounts
continued

	ECONOMIC ENTITY			CHIEF ENTITY	
	1998 $M	1997 $M	1996 $M	**1998 $M**	1997 $M
NOTE 2 Operating Profit					
Operating Revenue	**9,490**	9,513	9,098	**7,703**	7,951
Operating profit before income tax has been determined as follows:					
Interest Income					
Loans	**6,588**	6,794	6,485	**5,126**	5,403
Other financial institutions	**241**	286	277	**226**	285
Cash and liquid assets	**88**	141	160	**88**	141
Trading securities	**213**	108	202	**110**	118
Investment securities	**409**	591	535	**344**	455
Dividends on redeemable preference shares	**59**	47	26	**(34)**	4
Controlled entities	**-**	-	-	**150**	142
Statutory deposits	**-**	11	17	**-**	10
Other	**7**	11	14	**2**	3
Total Interest Income	**7,605**	7,989	7,716	**6,012**	6,561
Interest Expense					
Deposits	**3,126**	3,470	3,459	**2,464**	2,891
Public borrowings by borrowing corporations	**217**	190	177	**-**	-
Other financial institutions	**218**	226	188	**192**	191
Short term debt issues	**293**	291	196	**226**	243
Long term debt issues	**183**	234	174	**163**	229
Controlled entities	**-**	-	-	**11**	6
Loan capital	**166**	170	123	**167**	170
Other	**5**	16	2	**4**	3
Total Interest Expense	**4,208**	4,597	4,319	**3,227**	3,733
Net Interest Income	**3,397**	3,392	3,397	**2,785**	2,828
Other Operating Income					
Lending fees	**488**	447	464	**454**	408
Commission and other fees	**714**	568	506	**607**	498
Trading income					
Foreign exchange earnings	**161**	70	78	**147**	57
Trading securities	**35**	57	41	**35**	57
Other financial instruments (incl derivatives)	**47**	47	29	**47**	47
Dividends - controlled entities	**-**	-	-	**156**	188
- other	**18**	18	8	**18**	12
Net gain (loss) on investment securities	**101**	4	(10)	**119**	4
Net profit on sale of property, plant and equipment	**34**	44	21	**31**	36
Life insurance and funds management	**205**	197	142	**-**	-
General insurance premium income	**79**	64	48	**-**	-
Less general insurance claims paid	**(46)**	(44)	(40)	**-**	-
Other	**49**	52	95	**77**	83
Total Other Operating Income	**1,885**	1,524	1,382	**1,691**	1,390
Total Operating Income	**5,282**	4,916	4,779	**4,476**	4,218
Charge for Bad and Doubtful Debts (Note 13)					
General provisions	**165**	36	99	**164**	48
Specific provisions	**68**	62	14	**60**	37
Total Charge for Bad and Doubtful Debts	**233**	98	113	**224**	85

	ECONOMIC ENTITY			CHIEF ENTITY	
	1998 $M	1997 $M	1996 $M	**1998 $M**	1997 $M
NOTE 2 Operating Profit continued					
Staff Expenses					
Salaries and wages	**1,412**	1,386	1,298	**1,223**	1,217
Superannuation contributions	**1**	2	9	**(7)**	(5)
Provision for long service leave	**32**	46	39	**30**	44
Provision for annual leave	**(7)**	11	15	**(3)**	11
Provisions for other employee entitlements	**-**	(3)	(9)	**-**	(4)
Payroll tax	**83**	86	83	**76**	80
Fringe benefits tax	**42**	70	74	**39**	65
Other staff expenses	**59**	65	73	**34**	37
Total Staff Expenses	**1,622**	1,663	1,582	**1,392**	1,445
Occupancy and Equipment Expenses					
Operating lease rentals	**141**	133	103	**126**	111
Depreciation - buildings	**62**	61	86	**58**	57
- leasehold improvements	**22**	16	20	**20**	15
- equipment	**103**	160	146	**80**	137
Repairs and maintenance	**69**	104	97	**55**	98
Other	**76**	73	72	**61**	63
Total Occupancy and Equipment Expenses	**473**	547	524	**400**	481
Information Technology Services					
Projects and development	**199**	(152	(161	**180**	(133
Data processing	**69**	(	(	**69**	(
Desktop	**87**	(	(	**87**	(
Communications	**121**	103	89	**113**	96
Total Information Technology Services	**476**	255	250	**449**	229
Other Expenses					
Postage	**75**	72	63	**67**	65
Stationery	**53**	57	57	**43**	47
Fees and commissions	**168**	127	108	**146**	124
Non lending losses	**-**	4	24	**(2)**	4
Other	**224**	234	241	**168**	151
Total Other Expenses	**520**	494	493	**422**	391
Total Operating Expenses	**3,091**	2,959	2,849	**2,663**	2,546
Amortisation of Goodwill	**46**	43	41	**39**	40
Operating Profit before Abnormal Items	**1,912**	1,816	1,776	**1,550**	1,547

The Bank outsourced most of its information technology functions to EDS (Australia) in October 1997. This has changed the mix of operating expenses and has required a change in categorisation of expenses to more appropriately reflect expenditure into the future. Line by line comparison with prior periods is less meaningful in some instances.

Notes to and forming part of the accounts
continued

NOTE 3 Average Balance Sheet and Related Interest

The table lists the major categories of interest earning assets and interest bearing liabilities of the Economic Entity together with the respective interest earned or paid and the average interest rates for each of 1996, 1997 and 1998. 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 into 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.

	1998			1997			1996		
	Average Balance $M	**Interest $M**	**Average Rate %**	Average Balance $M	Interest $M	Average Rate %	Average Balance $M	Interest $M	Average Rate %
Average Assets and Interest Income									
Interest Earning Assets									
Receivables due from other financial institutions									
Australia	**1,882**	**106**	**5.6**	2,361	135	5.7	1,621	94	5.8
Overseas	**1,977**	**135**	**6.8**	2,747	151	5.5	3,354	183	5.5
Deposits with regulatory authorities									
Australia	**809**	**-**	**-**	756	11	1.5	690	17	2.5
Investment/trading and other securities									
Australia	**6,225**	**352**	**5.7**	8,782	537	6.1	9,044	641	7.1
Overseas	**5,528**	**358**	**6.5**	4,493	303	6.7	3,571	256	7.2
Loans, advances and other receivables									
Australia	**73,797**	**5,542**	**7.5**	67,292	5,959	8.9	58,304	5,741	9.8
Overseas	**11,947**	**1,105**	**9.2**	9,732	882	9.1	8,186	770	9.4
Other interest earning assets	**-**	**7**	**n/a**	-	11	n/a	-	14	n/a
Intragroup loans									
Australia	**713**	**43**	**6.0**	739	46	6.2	1,025	59	5.8
Average interest earning assets and interest income including intragroup	**102,878**	**7,648**	**7.4**	96,902	8,035	8.3	85,795	7,775	9.1
Intragroup eliminations	**(713)**	**(43)**	**n/a**	(739)	(46)	n/a	(1,025)	(59)	n/a
Total average interest earning assets and interest income	**102,165**	**7,605**	**7.4**	96,163	7,989	8.3	84,770	7,716	9.1
Non Interest Earning Assets									
Bank acceptances									
Australia	**9,660**			9,825			10,692		
Overseas	**34**			55			42		
Property, plant and equipment									
Australia	**1,625**			2,188			2,422		
Overseas	**209**			235			227		
Other assets									
Australia	**8,883**			5,646			4,730		
Overseas	**2,015**			1,267			1,278		
Provision for doubtful debts									
Australia	**(950)**			(938)			(994)		
Overseas	**(86)**			(83)			(62)		
Total average non interest earning assets	**21,390**			18,195			18,335		
Total average assets	**123,555**			114,358			103,105		
Percentage of total average assets applicable to overseas operations	**17.5%**			16.1%			16.1%		

NOTE 3 Average Balance Sheet and Related Interest continued

	1998 Average Balance $M	1998 Interest $M	1998 Average Rate %	1997 Average Balance $M	1997 Interest $M	1997 Average Rate %	1996 Average Balance $M	1996 Interest $M	1996 Average Rate %
Average Liabilities and Interest Expense									
Interest Bearing Liabilities and Loan Capital									
Time Deposits									
Australia	**23,336**	**1,263**	**5.4**	24,341	1,600	6.6	21,180	1,509	7.1
Overseas	**8,300**	**718**	**8.7**	6,487	529	8.2	5,939	477	8.0
Savings Deposits									
Australia	**22,970**	**403**	**1.8**	21,106	538	2.5	20,346	641	3.2
Overseas	**1,680**	**104**	**6.2**	1,696	103	6.1	1,483	95	6.4
Other demand deposits									
Australia	**15,522**	**614**	**4.0**	13,016	674	5.2	12,301	714	5.8
Overseas	**1,375**	**24**	**1.7**	1,321	26	2.0	752	23	3.1
Public borrowings by borrowing corporations									
Australia	**3,062**	**217**	**7.1**	2,587	190	7.3	2,291	177	7.7
Payables due to other financial institutions									
Australia	**481**	**17**	**3.5**	221	7	3.2	230	9	3.9
Overseas	**3,175**	**201**	**6.3**	3,463	219	6.3	2,904	179	6.2
Short term borrowings									
Australia	**3,640**	**220**	**6.0**	3,445	215	6.2	1,740	121	7.0
Overseas	**1,656**	**73**	**4.4**	1,354	76	5.6	1,447	75	5.2
Long term borrowings									
Australia	**2,631**	**133**	**5.1**	2,524	191	7.6	1,531	145	9.5
Overseas	**874**	**50**	**5.7**	968	43	4.4	795	29	3.6
Loan capital									
Australia	**2,891**	**166**	**5.7**	2,752	170	6.2	1,894	123	6.5
Other interest bearing liabilities	**57**	**5**	**8.8**	15	16	n/a	46	2	n/a
Intragroup borrowings									
Overseas	**713**	**43**	**6.0**	739	46	6.2	1,025	59	5.8
Average interest bearing liabilities and loan capital and interest expense including intragroup	**92,363**	**4,251**	**4.6**	86,035	4,643	5.4	75,904	4,378	5.8
Intragroup eliminations	**(713)**	**(43)**	**n/a**	(739)	(46)	n/a	(1,025)	(59)	n/a
Total average interest bearing liabilities and loan capital and interest expense	**91,650**	**4,208**	**4.6**	85,296	4,597	5.4	74,879	4,319	5.8
Non Interest Bearing Liabilities									
Deposits not bearing interest									
Australia	**3,738**			3,566			3,604		
Overseas	**58**			53			76		
Liability on acceptances									
Australia	**9,660**			9,825			10,692		
Overseas	**34**			55			42		
Other liabilities									
Australia	**9,377**			7,504			5,726		
Overseas	**1,990**			1,438			1,245		
Total average non interest bearing liabilities	**24,857**			22,441			21,385		
Total average liabilities and loan capital	**116,507**			107,737			96,264		
Shareholders' equity	**7,048**			6,621			6,841		
Total average liabilities, loan capital and shareholders' equity	**123,555**			114,358			103,105		
Percentage of total average liabilities applicable to overseas operations	**16.5%**			15.6%			15.3%		

Notes to and forming part of the accounts
continued

NOTE 3 Average Balance Sheet and Related Interest continued

Changes in Net Interest Income: Volume and Rate Analysis

The table allocates changes in net interest income between changes in volume and changes in rate over the previous year. Volume variances have been calculated by multiplying the average of both years' average interest rates, on average interest earning assets and average interest bearing liabilities, by the movement in average asset and liability balances. Rate variances have been calculated by multiplying the average of the average asset and liability balances by the change in average interest rates. Variances resulting from changes in volume/rate movements have been allocated to each category in the same proportion as the actual ratio of individual volume and rate variances.

	Year ended 30 June 1998 versus 1997			Year ended 30 June 1997 versus 1996		
	Volume $M	**Rate $M**	**Total $M**	Volume $M	Rate $M	Total $M
Interest Earning Assets						
Receivables due from other financial institutions						
Australia	**(27)**	**(2)**	**(29)**	42	(1)	41
Overseas	**(48)**	**32**	**(16)**	(33)	1	(32)
Deposits with regulatory authorities						
Australia	**1**	**(12)**	**(11)**	2	(8)	(6)
Investment/trading and other securities						
Australia	**(148)**	**(37)**	**(185)**	(18)	(86)	(104)
Overseas	**65**	**(10)**	**55**	63	(16)	47
Loans, advances and other receivables						
Australia	**544**	**(961)**	**(417)**	831	(613)	218
Overseas	**205**	**18**	**223**	141	(29)	112
Other interest earning assets	**n/a**	**(4)**	**(4)**	n/a	(3)	(3)
Intragroup loans						
Australia	**(2)**	**(1)**	**(3)**	(17)	4	(13)
Change in interest income including intragroup	**590**	**(977)**	**(387)**	1,011	(751)	260
Intragroup eliminations	**2**	**1**	**3**	17	(4)	13
Change in interest income	**592**	**(976)**	**(384)**	1,028	(755)	273
Interest Bearing Liabilities						
Time deposits						
Australia	**(64)**	**(273)**	**(337)**	214	(123)	91
Overseas	**155**	**34**	**189**	45	7	52
Savings deposits						
Australia	**43**	**(178)**	**(135)**	23	(126)	(103)
Overseas	**(1)**	**2**	**1**	13	(5)	8
Other demand deposits						
Australia	**116**	**(176)**	**(60)**	40	(80)	(40)
Overseas	**1**	**(3)**	**(2)**	13	(10)	3
Public borrowings by borrowing corporations						
Australia	**34**	**(7)**	**27**	22	(9)	13
Payables due to other financial institutions						
Australia	**9**	**1**	**10**	-	(2)	(2)
Overseas	**(19)**	**1**	**(18)**	35	5	40
Short term borrowings						
Australia	**12**	**(7)**	**5**	108	(14)	94
Overseas	**15**	**(18)**	**(3)**	(5)	6	1
Long term borrowings						
Australia	**8**	**(66)**	**(58)**	80	(34)	46
Overseas	**(4)**	**11**	**7**	7	7	14
Loan capital						
Australia	**8**	**(12)**	**(4)**	53	(6)	47
Other interest bearing liabilities	**n/a**	**(11)**	**(11)**	n/a	14	14
Intragroup borrowings						
Overseas	**(2)**	**(1)**	**(3)**	(17)	4	(13)
Change in interest expense including intragroup	**311**	**(703)**	**(392)**	631	(366)	265
Intragroup eliminations	**2**	**1**	**3**	17	(4)	13
Change in interest expense	**313**	**(702)**	**(389)**	648	(370)	278
Change in net interest income	**279**	**(274)**	**5**	380	(385)	(5)

	ECONOMIC ENTITY		
	1998 $M	1997 $M	1996 $M

NOTE 3 Average Balance Sheet and Related Interest continued

Net interest income	**3,397**	3,392	3,397
Average interest earnings assets	**102,165**	96,163	84,770

Interest Margins and Spreads

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

Interest margin represents net interest income as a percentage of average interest earning assets. The calculations for Australia and Overseas include intragroup cross border loans/borrowings and associated interest.

	%	%	%
Australia			
Interest spread adjusted for interest forgone on non accrual and restructured loans	**3.22**	3.30	3.78
Interest foregone on non accrual and restructured loans	**(0.04)**	(0.07)	(0.11)
Interest Spread	**3.18**	3.23	3.67
Benefit of net free liabilities, provisions and equity	**0.43**	0.64	0.73
Australia Interest Margin	**3.61**	3.87	4.40
Overseas			
Interest spread adjusted for interest foregone on non accrual and restructured loans	**1.44**	1.41	1.61
Interest foregone on non accrual and restructured loans	**(0.04)**	(0.02)	(0.03)
Interest spread	**1.40**	1.39	1.58
Benefit of net free liabilities, provisions and equity	**0.57**	0.36	0.32
Overseas Interest Margin	**1.97**	1.75	1.90
Group			
Interest spread adjusted for interest foregone on non accrual and restructured loans	**2.89**	2.98	3.43
Interest foregone on non accrual and restructured loans	**(0.04)**	(0.06)	(0.10)
Interest spread	**2.85**	2.92	3.33
Benefit of net free liabilities, provisions and equity	**0.48**	0.61	0.68
Group Interest Margin	**3.33**	3.53	4.01

Notes to and forming part of the accounts
continued

	ECONOMIC ENTITY			CHIEF ENTITY	
	1998 $M	1997 $M	1996 $M	**1998 $M**	1997 $M
NOTE 4 Abnormal Items					
Abnormal expense items:					
Restructuring costs (Note 1(aa))	**200**	-	-	**200**	-
General provision charge for bad and doubtful debts (Note 1(o))	**370**	-	-	**370**	-
Write down of computer equipment (Note 1(s))	**-**	200	-	**-**	200
Total Abnormal Items Before Tax	**570**	200	-	**570**	200
Abnormal tax expense (credit) items:					
Restructuring costs (Note 1(aa))	**(72)**	-	-	**(72)**	-
Tax effecting general provision (Note 1(y))	**(337)**	-	-	**(337)**	-
Write down of computer equipment (Note 1(s))	**-**	(72)	-	**-**	(72)
Total Abnormal Income Tax Expense (Credit)	**(409)**	(72)	-	**(409)**	(72)
Total Abnormal Items After Tax	**161**	128	-	**161**	128

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.

Operating profit before abnormal items and income tax	**1,912**	1,816	1,776	**1,550**	1,547
Prima facie income tax at 36%	**688**	654	639	**558**	557
Add (or deduct) permanent differences expressed on a tax effect basis:					
Current Period					
Increase in general provisions for bad and doubtful debts	**9**	28	50	**9**	29
Specific provisions for offshore bad and doubtful debts not tax effected	**35**	-	-	**28**	-
Non deductible depreciation on buildings	**9**	9	12	**8**	10
Taxation rebates (net of accruals)	**(33)**	(35)	(28)	**(44)**	(88)
Non assessable income - life insurance surplus	**(27)**	(27)	(20)	**-**	-
Non deductible goodwill amortisation	**16**	15	14	**14**	14
Employee share acquisition plan	**(10)**	(10)	-	**(10)**	(10)
Other	**(13)**	(23)	(18)	**(25)**	(18)
	(14)	(43)	10	**(20)**	(63)
Prior Periods					
Other	**(33)**	(23)	(14)	**(32)**	(23)
Income tax attributable to operating profit	**641**	588	635	**506**	471
Abnormal income tax expense (credit) (Note 4)	**(409)**	(72)	-	**(409)**	(72)
Income tax expense	**232**	516	635	**97**	399

	ECONOMIC ENTITY			CHIEF ENTITY	
	1998 $M	1997 $M	1996 $M	**1998 $M**	1997 $M

NOTE 5 Income Tax Expense continued

Income tax expense comprises:					
Current taxation provision	**245**	375	546	**189**	295
Deferred income tax provision	**128**	97	20	**43**	48
Future income tax benefit	**(158)**	22	51	**(146)**	45
Notional tax expense - leveraged leases	**16**	22	18	**9**	11
Other	**1**	-	-	**2**	-
Total Income Tax Expense	**232**	516	635	**97**	399
The components of income tax expense consist of the following:					
Current Australia	**194**	326	508	**189**	295
Overseas	**51**	49	38	**-**	-
	245	375	546	**189**	295
Deferred Australia	**(13)**	141	89	**(92)**	104
Overseas	**-**	-	-	**-**	-
	(13)	141	89	**(92)**	104
	232	516	635	**97**	399
The significant temporary differences are as follows:					
Deferred income tax assets arising from:					
Provisions not tax deductible until expense incurred	**272**	82	149	**261**	64
Other	**53**	85	40	**32**	83
Future income tax benefits (Note 20)	**325**	167	189	**293**	147
Deferred income tax liabilities arising from:					
Leveraged leasing	**437**	439	407	**191**	234
Lease financing	**185**	175	52	**36**	55
Accelerated tax depreciation	**47**	74	74	**47**	74
Other	**214**	67	125	**162**	30
Total deferred income tax liabilities (Note 23)	**883**	755	658	**436**	393
Future income tax benefits attributable to tax losses carried forward as an asset	**-**	-	-	**-**	-
Future income tax benefits not taken to account					
Valuation allowance					
Opening balance	**96**	83	102	**96**	83
Prior year adjustments	**6**	7	5	**6**	7
Benefits now taken to account	**(4)**	(2)	(24)	**(4)**	(2)
Benefits not recognised	**34**	8	-	**23**	8
Closing balance (Note 20)	**132**	96	83	**121**	96

Notes to and forming part of the accounts
continued

	ECONOMIC ENTITY			CHIEF ENTITY	
	1998 $M	1997 $M	1996 $M	**1998 $M**	1997 $M
NOTE 6 Dividends Provided For, Reserved or Paid					
Interim dividend (fully franked) of 46 cents per share (1997: 45 cents, 1996: 38 cents)					
Provision for interim dividend - cash component only	**231**	231	203	**231**	231
Declared final dividend (fully franked) of 58 cents per share (1997: 57 cents, 1996: 52 cents)					
Provision for final dividend - cash component only	**321**	291	301	**321**	291
Dividends provided for payments in cash or paid	**552**	522	504	**552**	522
Appropriations to Dividend Reinvestment Plan Reserve					
Interim dividend	**189**	180	166	**189**	180
Final dividend	**214**	239	162	**214**	239
Dividends appropriated to Dividend Reinvestment Plan Reserve	**403**	419	328	**403**	419
Total Dividends Provided For, Reserved or Paid	**955**	941	832	**955**	941

Dividend Franking Account

The amount of franking credits available for subsequent financial years stands at $474 million. This figure represents the extent to which future dividends could be fully franked at 36%, and is based on the Bank's franking account at 30 June 1998, which has been adjusted for franking credits that will arise from the payment of income tax payable on profits of the 1998 financial year, franking debits that will arise from the payment of dividends proposed as at the end of the financial year and franking credits that the Bank may be prevented from distributing in the subsequent financial year including $25 million as a result of a compromise with the Australian Taxation Office in respect of the buy back.

	ECONOMIC ENTITY		
	1998 c	1997 c	1996 c
NOTE 7 Earnings Per Share			
Earnings Per Ordinary Share (basic and fully diluted)	**117.2**	117.5	115.5
	$M	$M	$M
Reconciliation of earnings used in the calculation of earnings per share			
Operating profit after income tax	**1,110**	1,100	1,141
Less: Outside equity interests	**(20)**	(22)	(22)
Earnings used in calculation of earnings per share	**1,090**	1,078	1,119
	Number of Shares		
	M	M	M
Weighted average number of ordinary shares used in the calculation of earnings per share	**930**	917	969

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M
NOTE 8 Cash and Liquid Assets				
Australia				
Notes, coins and cash at bankers	**921**	1,060	**909**	1,060
Money at short call	**96**	37	**-**	-
Securities purchased under agreements to resell	**328**	675	**328**	675
Bills receivable and remittances in transit	**141**	84	**140**	84
Total Australia	**1,486**	1,856	**1,377**	1,819
Overseas				
Notes, coins and cash at bankers	**30**	31	**-**	-
Money at short call	**10**	-	**16**	-
Bills receivable and remittances in transit	**-**	120	**-**	111
Total Overseas	**40**	151	**16**	111
Total Cash and Liquid Assets	**1,526**	2,007	**1,393**	1,930

NOTE 9 Receivables from Other Financial Institutions

Australia	**2,382**	2,616	**2,371**	2,590
Overseas	**1,066**	2,223	**834**	2,037
Total Receivables from Other Financial Institutions	**3,448**	4,839	**3,205**	4,627

NOTE 10 Trading Securities

Australia				
Listed:				
Australian Public Securities				
Commonwealth and States	**237**	130	**237**	130
Local and semi-government	**282**	57	**281**	57
Other securities	**-**	185	**-**	185
Unlisted:				
Commercial paper	**336**	189	**336**	234
Certificates of deposit	**146**	312	**146**	312
Bills of exchange	**656**	996	**656**	996
Medium term notes	**263**	288	**263**	288
Other securities	**290**	21	**290**	21
Total Australia	**2,210**	2,178	**2,209**	2,223
Overseas				
Listed:				
Government securities	**413**	124	**59**	124
Eurobonds	**306**	275	**306**	275
Bills of exchange	**514**	-	**-**	-
Other securities	**73**	27	**73**	27
Unlisted:				
Government securities	**4**	-	**-**	-
Commercial paper	**402**	-	**1**	-
Other securities	**87**	31	**50**	24
Total Overseas	**1,799**	457	**489**	450
Total Trading Securities	**4,009**	2,635	**2,698**	2,673

Notes to and forming part of the accounts
continued

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M
NOTE 11 Investment Securities				
Australia				
Listed:				
Australian Public Securities				
Commonwealth and States	**1,960**	3,769	**1,914**	3,695
Treasury notes	**-**	20	**-**	-
Other securities and equity investments	**578**	564	**527**	524
Unlisted:				
Australian Public Securities				
Commonwealth and States	**-**	8	**-**	-
Treasury notes	**-**	17	**-**	17
Bills of exchange	**17**	34	**-**	-
Certificates of deposit	**-**	5	**-**	-
Medium term notes	**141**	115	**141**	115
Other securities and equity investments	**455**	301	**13**	22
Total Australia	**3,151**	4,833	**2,595**	4,373
Overseas				
Listed:				
Government securities	**179**	323	**179**	323
Treasury notes	**5**	5	**5**	5
Certificates of deposit	**547**	923	**547**	923
Eurobonds	**539**	367	**539**	367
Other securities	**447**	687	**447**	676
Unlisted:				
Government securities	**25**	38	**25**	16
Treasury notes	**-**	333	**-**	-
Bills of exchange	**-**	435	**-**	46
Certificates of deposit	**648**	64	**647**	64
Eurobonds	**227**	78	**227**	78
Medium term notes	**29**	-	**29**	-
Commercial paper	**182**	351	**182**	351
Other securities and equity investments	**879**	796	**527**	184
Total Overseas	**3,707**	4,400	**3,354**	3,033
Total Investment Securities	**6,858**	9,233	**5,949**	7,406

NOTE 11 Investment Securities continued

Gross Unrealised Gains and Losses of Economic Entity

	At 30 June 1998				At 30 June 1997			
	Amortised Cost $M	**Gross Unrealised Gains $M**	**Gross Unrealised Losses $M**	**Fair Value $M**	Amortised Cost $M	Gross Unrealised Gains $M	Gross Unrealised Losses $M	Fair Value $M
Australia								
Australian Public Securities								
Commonwealth and States	**1,960**	**34**	**-**	**1,994**	3,777	130	-	3,907
Treasury notes	**-**	**-**	**-**	**-**	37	-	-	37
Bills of exchange	**17**	**-**	**-**	**17**	34	-	-	34
Certificates of deposit	**-**	**-**	**-**	**-**	5	-	-	5
Medium term notes	**141**	**18**	**-**	**159**	115	13	-	128
Other securities and equity investments	**1,033**	**59**	**-**	**1,092**	865	88	9	944
Total Australia	**3,151**	**111**	**-**	**3,262**	4,833	231	9	5,055
Overseas								
Government securities	**204**	**30**	**3**	**231**	361	15	-	376
Treasury notes	**5**	**-**	**-**	**5**	338	1	-	339
Bills of exchange	**-**	**-**	**-**	**-**	435	2	1	436
Certificates of deposit	**1,195**	**7**	**1**	**1,201**	987	3	-	990
Eurobonds	**766**	**53**	**8**	**811**	445	22	3	464
Medium term notes	**29**	**-**	**4**	**25**	-	-	-	-
Other securities and equity investments	**1,508**	**83**	**47**	**1,544**	1,834	68	-	1,902
Total Overseas	**3,707**	**173**	**63**	**3,817**	4,400	111	4	4,507
Total Investment Securities	**6,858**	**284**	**63**	**7,079**	9,233	342	13	9,562

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.

Equity derivatives are in place to hedge equity market risk. There are $50 million of net deferred losses on these contracts (1997: $78 million net deferred losses) which offset the above gains and these are disclosed within Note 37. At the end of the financial year $80 million of net deferred losses (1997: nil) are included in the amortised cost value.

Notes to and forming part of the accounts

continued

NOTE 11 Investment Securities continued

Maturity Distribution and Average Yield

The table analyses the maturities and weighted average yields of the Economic Entity's holdings of investment securities.

	Maturity Period at 30 June 1998								
	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	126	6.76	1,512	5.89	322	6.64	-	-	1,960
Bills of exchange	17	5.32	-	-	-	-	-	-	17
Medium Term Notes	-	-	84	9.11	57	9.80	-	-	141
Other securities, commercial paper and equity investments	588	6.44	-	-	104 *	0.11	341 *		1,033
Total Australia	731		1,596		483		341		3,151
Overseas									
Government securities	64	6.75	67	9.25	73	5.93	-	-	204
Treasury Notes	5	2.24	-	-	-	-	-	-	5
Certificates of Deposit	1,114	6.22	48	7.86	33	5.51	-	-	1,195
Eurobonds	116	6.33	234	7.03	416	6.32	-	-	766
Medium Term Notes	-	-	29	-	-	-	-	-	29
Other securities, commercial paper and equity investments	248	4.09	652	9.12	261	6.58	347	6.29	1,508
Total Overseas	1,547		1,030		783		347		3,707
Total Investment Securities	2,278		2,626		1,266		688		6,858
Maturities at Fair Value	2,331		2,684		1,368		696		7,079

* includes Equity investments

Proceeds at or close to maturity of investment securities were $8,681 million (1997: $7,013 million, 1996: $7,956 million).
Proceeds from sale of investment securities were $1,787 million (1997: $1,172 million, 1996: $729 million).
Realised capital gains were $65 million (1997: realised capital gains $12 million and realised capital losses $8 million, 1996: realised capital losses $10 million).

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M
NOTE 12 Loans, Advances and Other Receivables				
Australia				
Overdrafts	**2,841**	2,707	**2,876**	2,719
Housing loans	**41,137**	37,400	**41,137**	37,400
Credit card outstandings	**2,218**	1,823	**2,217**	1,823
Lease financing	**3,594**	3,032	**1,123**	1,045
Bills discounted	**916**	1,025	**917**	1,025
Term loans	**25,676**	22,939	**22,173**	19,234
Redeemable preference share financing	**740**	775	**125**	159
Equity participation in leveraged leases	**1,615**	1,455	**769**	866
Other lending	**1,290**	1,565	**738**	718
Total Australia	**80,027**	72,721	**72,075**	64,989
Overseas				
Overdrafts	**519**	379	**-**	-
Housing loans	**6,273**	5,983	**125**	146
Credit card outstandings	**134**	123	**-**	-
Lease financing	**60**	28	**-**	-
Bills discounted	**4**	124	**4**	88
Term loans	**5,189**	3,977	**2,260**	1,585
Redeemable preference share financing	**369**	367	**-**	-
Other lending	**-**	88	**-**	73
Total Overseas	**12,548**	11,069	**2,389**	1,892
Gross Loans, Advances and Other Receivables	**92,575**	83,790	**74,464**	66,881
Less -				
Provisions for impairment (Note 13)				
General provision	**(1,076)**	(690)	**(995)**	(604)
Specific provision against loans and advances	**(279)**	(241)	**(232)**	(211)
Unearned income				
Term loans	**(425)**	(400)	**-**	-
Lease financing	**(473)**	(442)	**(130)**	(145)
Leveraged leases	**(295)**	(177)	**(42)**	(58)
Interest reserved	**(102)**	(109)	**(93)**	(101)
Unearned tax remissions on leveraged leases	**(109)**	(99)	**(23)**	(31)
	(2,759)	(2,158)	**(1,515)**	(1,150)
Net Loans, Advances and Other Receivables	**89,816**	81,632	**72,949**	65,731
Lease receivables, net of unearned income (included above)				
Current	**932**	816	**281**	295
Non current	**2,249**	1,802	**712**	605
	3,181	2,618	**993**	900

Notes to and forming part of the accounts

continued

NOTE 13 Provisions for Impairment

	ECONOMIC ENTITY 1998 $M	ECONOMIC ENTITY 1997 $M	CHIEF ENTITY 1998 $M	CHIEF ENTITY 1997 $M
General Provisions				
Opening balance	**690**	613	**604**	521
Abnormal charge	**370**	-	**370**	-
Charge against profit and loss	**165**	36	**164**	48
Transfer to specific provisions	**(155)**	-	**(152)**	-
Bad debts recovered	**48**	80	**38**	67
Adjustments for exchange rate fluctuations	**-**	2	**2**	-
	1,118	731	**1,026**	636
Bad debts written off	**(42)**	(41)	**(31)**	(32)
Closing balance	**1,076**	690	**995**	604
Specific Provisions				
Opening balance	**241**	318	**211**	289
Charge against profit and loss				
New and increased provisions	**105**	152	**94**	117
Write-back of provisions no longer required	**(37)**	(90)	**(34)**	(80)
Transfer from general provision for				
New and increased provisioning	**175**	-	**169**	-
Less write-back of provisions no longer required	**(20)**	-	**(17)**	-
Net transfer	**155**	-	**152**	-
Adjustments for exchange rate fluctuations and other items	**(6)**	6	**(7)**	6
	458	386	**416**	332
Bad debts written off	**(179)**	(145)	**(154)**	(121)
Closing balance	**279**	241	**262**	211
Total Provisions for Impairment	**1,355**	931	**1,257**	815
Specific provisions for impairment comprise the following segments:				
Provisions against loans and advances	**279**	241	**232**	211
Provisions for diminution	**-**	-	**30**	-
Total	**279**	241	**262**	211
	%	%	**%**	%
Provision Ratios				
Specific provisions for impairment as % of gross impaired assets net of interest reserved	**33.86**	30.24	**37.11**	29.39
Total provisions for impairment as % of gross impaired assets net of interest reserved	**164.44**	116.81	**178.19**	113.51
General provisions as % of risk weighted assets	**1.14**	0.79	**1.14**	0.78
	$M	$M	**$M**	$M
Charge to profit and loss for bad and doubtful debt comprises:				
General provisions	**165**	36	**164**	48
Specific provisions	**68**	62	**60**	37
Total Charge for Bad and Doubtful Debts	**233**	98	**224**	85

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M
NOTE 13 Provisions for Impairment continued				
Total charge for bad and doubtful debts	**233**	98	**224**	85
The charge is required for				
Specific Provisioning				
New and increased provisioning	**280**	152	**263**	117
Less provisions no longer required	**(57)**	(90)	**(51)**	(80)
Net specific provisioning	**223**	62	**212**	37
Provided from general provision	**(155)**	-	**(152)**	-
Charge to profit and loss	**68**	62	**60**	37
General Provisioning				
Direct write-offs	**42**	41	**31**	32
Recoveries of amounts previously written off	**(48)**	(80)	**(38)**	(67)
Movement in general provision	**16**	75	**19**	83
Funding of specific provisions	**155**	-	**152**	-
Charge to profit and loss	**165**	36	**164**	48
Total Charge for Bad and Doubtful Debts	**233**	98	**224**	85

	ECONOMIC ENTITY	
	1998 $M	1997 $M
Distribution of Bad Debt Expense		
Commonwealth Bank of Australia	**224**	85
CBFC Limited	**10**	5
Commonwealth Development Bank	**(5)**	-
ASB Bank Limited	**10**	9
Others	**(6)**	(1)
	233	98

	General Provision		Specific Provision	
	1998 $M	1997 $M	**1998 $M**	1997 $M
Distribution of Provisions for Impairment				
Commonwealth Bank of Australia	**995**	604	**262**	211
CBFC Limited	**29**	28	**6**	7
Commonwealth Development Bank	**16**	24	**10**	14
ASB Bank Limited	**31**	31	**7**	6
Others (including consolidation adjustments)	**5**	3	**(6)**	3
	1,076	690	**279**	241

Notes to and forming part of the accounts
continued

NOTE 14 Credit Risk Concentrations

Management of the Credit Business

Credit risk is the potential for loss arising from:

- failure of a debtor or counterparty to meet their contractual obligations; and
- failure to recover the recorded value of equity investments arising from individual transactions.

The Economic Entity has clearly defined credit policies for the approval and management of credit risk. Credit underwriting standards, which incorporate income/repayment capacity, acceptable terms and security and loan documentation tests exist for all products.

The Economic Entity relies, in the first instance, on the assessed integrity and ability of the debtor or counterparty to meet its contracted financial obligations for repayment. Collateral security, in the form of real property or a floating charge is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance is generally secured against real estate while short term revolving consumer credit is generally unsecured.

The credit risk portfolio is divided into two segments - statistically managed and credit risk rated managed. Statistically managed exposures are generally not reviewed unless arrears occur. Credit risk rated managed exposures are required to be reviewed at least annually. Both segments are subject to inspection by the Risk Asset Review function which reports quarterly on its findings to the Board Risk Committee.

Facilities in the statistically managed segment become classified for remedial management by centralised units based on arrears status. Impaired assets in this segment are those ‘classified’ facilities which are not well secured and past due 180 days or more.

Facilities in the credit risk rated managed segment become classified for remedial management by centralised units based on assessment in the risk rating system, which for each exposure makes an assessment of the risk of default, and then the risk of loss if default should occur. Impaired assets in this segment are those ‘classified’ facilities where either a specific provision for impairment has been raised, the facility is maintained on a cash basis, a loss of principal or interest is anticipated, facilities have been restructured or other assets have been accepted in satisfaction of an outstanding debt.

A centralised exposure management system records all significant credit risks borne by the Economic Entity. This system is used to monitor concentrations by client, industry, geography and any other concentrations where increased risk is apparent.

Maximum aggregated credit limits apply for debtors or counterparties (refer Large Exposures below).

Credit risk is actively monitored and reviewed on a portfolio basis with regular independent reviews undertaken to test the quality of the credit risk portfolio, compliance with policy and underwriting standards, and the effectiveness of management control. The results of the reviews are reported quarterly to the Board Risk Committee.

NOTE 14 Credit Risk Concentrations continued

The following tables set out the credit risk concentrations of the Economic Entity.

Risk Concentration By Asset Class 30 June 1998

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	544	1,698	1,216	365	1,034	343	5,200
Agriculture, Forestry and Fishing	-	-	4,128	523	82	58	4,791
Financial, Investment and Insurance	484	17	2,490	2,549	2,358	6,543	14,441
Real Estate - mortgage	-	-	34,505	94	-	-	34,599
Real Estate - construction	-	-	1,197	885	708	-	2,790
Personal	-	-	14,063	242	57	-	14,362
Lease Financing	-	-	1,940	-	-	-	1,940
Other Commercial and Industrial	1,182	1,436	20,488	5,042	5,623	1,303	35,074
Total Australia	2,210	3,151	80,027	9,700	9,862	8,247	113,197
Overseas							
Government and Public Authorities	74	208	105	-	312	120	819
Agriculture, Forestry and Fishing	-	-	640	-	-	-	640
Financial, Investment and Insurance	916	1,195	1,449	-	451	1,934	5,945
Real Estate - mortgage	-	-	6,304	-	2	-	6,306
Real Estate - construction	-	-	318	-	187	-	505
Personal	-	-	217	-	4	38	259
Lease Financing	-	-	173	-	-	-	173
Other Commercial and Industrial	809	2,304	3,342	27	1,580	29	8,091
Total Overseas	1,799	3,707	12,548	27	2,536	2,121	22,738
Gross Balances	4,009	6,858	92,575	9,727	12,398	10,368	135,935
Other Risk Concentrations							
Receivables due from other financial institutions							3,448
Deposits with regulatory authorities							832
Total Gross Credit Risk							140,215

Notes to and forming part of the accounts
continued

NOTE 14 Credit Risk Concentrations continued

Risk Concentration by Asset Class 30 June 1997

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	187	3,811	1,955	115	417	201	6,686
Agriculture, Forestry and Fishing	-	-	3,185	451	87	20	3,743
Financial, Investment and Insurance	1,263	100	1,859	2,431	2,958	2,858	11,469
Real Estate - mortgage	-	-	32,892	98	-	-	32,990
Real Estate - construction	-	-	1,138	943	599	25	2,705
Personal	-	-	10,740	264	56	-	11,060
Lease Financing	-	-	4,277	-	-	-	4,277
Other Commercial and Industrial	728	922	16,675	4,524	5,835	1,063	29,747
Total Australia	2,178	4,833	72,721	8,826	9,952	4,167	102,677
Overseas							
Government and Public Authorities	131	707	28	-	179	3	1,048
Agriculture, Forestry and Fishing	-	48	547	-	-	-	595
Financial, Investment and Insurance	-	1,539	1,494	-	275	1,612	4,920
Real Estate - mortgage	-	-	6,247	-	-	-	6,247
Real Estate - construction	-	-	151	-	15	-	166
Personal	-	6	133	-	9	-	148
Lease Financing	-	-	-	-	-	-	-
Other Commercial and Industrial	326	2,100	2,469	48	1,778	38	6,759
Total Overseas	457	4,400	11,069	48	2,256	1,653	19,883
Gross Balances	2,635	9,233	83,790	8,874	12,208	5,820	122,560
Other Risk Concentrations							
Receivables due from other financial institutions							4,839
Deposits with regulatory authorities							797
Total Gross Credit Risk							128,196

Risk concentrations for contingent liabilities and derivatives are based on the credit equivalent balance in Note 36, Contingent Liabilities and Note 37, Market Risk respectively.

NOTE 14 Credit Risk Concentrations continued

Industry	Total Risk $M	Impaired Assets $M	Provisions for Impairment $M	Write-offs $M	Recoveries $M	Net Write-offs $M
	Risk Concentration of Impaired Assets 30 June 1998					
Australia						
Government and Public Authorities	5,200	-	-	-	-	-
Agriculture, Forestry and Fishing	4,791	66	20	9	(4)	5
Financial, Investment and Insurance	14,441	65	16	4	(6)	(2)
Real Estate - mortgage	34,599	-	3	11	-	11
Real Estate - construction	2,790	102	8	6	(1)	5
Personal	14,362	9	14	86	(21)	65
Lease Financing	1,940	2	-	6	(2)	4
Other Commercial and Industrial	35,074	372	113	79	(12)	67
Total Australia	113,197	616	174	201	(46)	155
Overseas						
Government and Public Authorities	819	-	-	-	-	-
Agriculture, Forestry and Fishing	640	3	1	-	-	-
Financial, Investment and Insurance	5,945	2	-	3	-	3
Real Estate - mortgage	6,306	-	5	1	-	1
Real Estate - construction	505	3	10	-	-	-
Personal	259	2	-	6	(2)	4
Lease Financing	173	-	-	-	-	-
Other Commercial and Industrial	8,091	300	89	10	-	10
Total Overseas	22,738	310	105	20	(2)	18
Gross Balances	135,935	926	279	221	(48)	173
Receivables due from other financial institutions	3,448					
Deposits with regulatory authorities	832					
Total Gross Credit Risk	140,215					

Notes to and forming part of the accounts
continued

NOTE 14 Credit Risk Concentrations continued

Risk Concentration of Impaired Assets 30 June 1997

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	6,686	-	-	-	-	-
Agriculture, Forestry and Fishing	3,743	104	21	15	(5)	10
Financial, Investment and Insurance	11,469	58	22	4	(8)	(4)
Real Estate - mortgage	32,990	4	4	9	-	9
Real Estate - construction	2,705	45	11	14	(1)	13
Personal	11,060	44	12	58	(16)	42
Lease Financing	4,277	3	-	5	(2)	3
Other Commercial and Industrial	29,747	573	152	69	(31)	38
Total Australia	102,677	831	222	174	(63)	111
Overseas						
Government and Public Authorities	1,048	-	-	-	-	-
Agriculture, Forestry and Fishing	595	1	1	-	-	-
Financial, Investment and Insurance	4,920	2	2	-	(2)	(2)
Real Estate - mortgage	6,247	-	-	1	-	1
Real Estate - construction	166	-	-	2	(2)	-
Personal	148	1	-	3	(1)	2
Lease Financing	-	-	-	-	-	-
Other Commercial and Industrial	6,759	71	16	6	(12)	(6)
Total Overseas	19,883	75	19	12	(17)	(5)
Gross Balances	122,560	906	241	186	(80)	106
Receivables due from other financial institutions	4,839					
Deposits with regulatory authorities	797					
Total Gross Credit Risk	128,196					

Large Exposures

Concentration of exposure to any debtor or counterparty, other than to governments and banks, is controlled by the Large Credit Exposure Policy. All exposures outside the policy are approved by the Board Risk Committee. The following table shows the aggregate number of the Economic Entity's corporate exposures (including direct and contingent exposure) which individually were greater than 5% of the Economic Entity's capital resources (Tier 1 and Tier 2 capital):

	1998 Number	1997 Number
10% to less than 15% of Economic Entitys capital resources	**1**	1
5% to less than 10% of Economic Entity's capital resources	**7**	4

NOTE 15 Asset Quality

Credit Portfolio

The Economic Entity manages its credit portfolio in two segments:

Statistically Managed Segment

This segment comprises selected products where the exposures are generally less than $250,000. This segment is dominated by the housing portfolio. Credit facilities are approved using credit scoring and check sheet techniques.

Risk Rated Managed Segment

This segment comprises all credit exposures not statistically managed.

Management of this segment is based on the credit risk rating system, which for each exposure makes an assessment of the risk of default, and then the risk of loss if default should occur.

The Economic Entity's credit risk portfolio is as follows:

	1998 $M	1997 $M
Total gross credit risk (Note 14)	**140,215**	128,196
Less unearned income (Note 12)	**(1,193)**	(1,019)
Credit Risk	**139,022**	127,177
Credit Segments		
Statistically managed	**50,264**	46,795
Risk rated managed	**88,758**	80,382
Credit Risk	**139,022**	127,177

Charge for bad and doubtful debts for each segment was:

Credit Segments	**Charge 1998 $M**	**Loss Rate 1998 % pa**	**Charge** 1997 $M	**Loss Rate** 1997 % pa
Statistically managed	**80**	**0.16**	61	0.13
Risk rated managed	**137**	**0.15**	(38)	(0.05)
Sub-total	**217**	**0.16**	23	0.02
Funding to general provisions	**16**	**0.01**	75	0.06
Total charge for bad and doubtful debts	**233**	**0.17**	98	0.08

The loss rate is the charge as a percentage of the credit segments.

Notes to and forming part of the accounts
continued

NOTE 15 Asset Quality continued

Impaired Assets

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.

All interest charged in the current 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 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 accruals.

(c) Assets Acquired Through Security Enforcement (AATSE), includes:
- *Other Real Estate Owned (OREO)*, comprising real estate where the Bank has assumed ownership or foreclosed in settlement of a debt; and
- *Other Assets Acquired Through Security Enforcement (OAATSE)*, comprising assets other than real estate where the Bank has assumed ownership or foreclosed in settlement of a debt.

	ECONOMIC ENTITY	
	1998 %	1997 %
Impaired Asset Ratios		
Gross impaired assets net of interest reserved as % of		
credit risk net of interest reserved	**0.60**	0.63
Net impaired assets as % of:		
Risk weighted assets	**0.58**	0.64
Total shareholders' equity	**7.91**	7.92

US GAAP SFAS 114 and 118 - Accounting by Creditors for Impairment of Loans

At 30 June 1998, the recorded investment in loans that are considered to be impaired under SFAS 114 was $920 million (of which $920 million were on a non accrual basis). Included in this amount is $726 million of impaired assets for which the related allowance for credit losses is $259 million and $194 million of impaired loans that do not have an allowance for credit losses. The average recorded investment in impaired loans during the year ended 30 June 1998 was $908 million. For the year ended 30 June 1998, the Economic Entity recognised interest income on these loans of $34 million.

At 30 June 1997, the recorded investment in loans that are considered to be impaired under SFAS 114 was $896 million (of which $896 million were on a non accrual basis). Included in this amount is $670 million of impaired assets for which the related allowance for credit losses is $226 million and $226 million of impaired loans that do not have an allowance for credit losses. The average recorded investment in impaired loans during the year ended 30 June 1997 was $1,008 million. For the year ended 30 June 1997, the Economic Entity recognised interest income on these loans of $50 million.

At 30 June 1996, the recorded investment in loans that are considered to be impaired under SFAS 114 was $1,130 million (of which $1,102 million were on a non accrual basis). Included in this amount is $776 million of impaired assets for which the related allowance for credit losses is $303 million and $325 million of impaired loans that do not have an allowance for credit losses. The average recorded investment in impaired loans during the year ended 30 June 1996 was $1,417 million. For the year ended 30 June 1996, the Economic Entity recognised interest income on these loans of $75 million.

NOTE 15 Asset Quality continued

	ECONOMIC ENTITY			ECONOMIC ENTITY		
	Australia 1998 $M	**Overseas 1998 $M**	**Total 1998 $M**	Australia 1997 $M	Overseas 1997 $M	Total 1997 $M
Non Accrual Loans						
With provisions	**439**	**293**	**732**	606	74	680
Without provisions	**177**	**17**	**194**	225	1	226
Gross Balances	**616**	**310**	**926**	831	75	906
Less interest reserved	**(85)**	**(17)**	**(102)**	(100)	(9)	(109)
Net Balances	**531**	**293**	**824**	731	66	797
Less provisions for impairment	**(174)**	**(105)**	**(279)**	(222)	(19)	(241)
Net Non Accrual Loans	**357**	**188**	**545**	509	47	556
Restructured Loans						
Gross Balances	**-**	**-**	**-**	-	-	-
Less interest reserved	**-**	**-**	**-**	-	-	-
Net Balances	**-**	**-**	**-**	-	-	-
Less provisions for impairment	**-**	**-**	**-**	-	-	-
Net Restructured Loans	**-**	**-**	**-**	-	-	-
Other Real Estate Owned (OREO)						
Gross Balances	**-**	**-**	**-**	-	-	-
Less provisions for impairment	**-**	**-**	**-**	-	-	-
Net OREO	**-**	**-**	**-**	-	-	-
Other Assets Acquired Through Security Enforcement (OAATSE)						
Gross Balances	**-**	**-**	**-**	-	-	-
Less provisions for impairment	**-**	**-**	**-**	-	-	-
Net OAATSE	**-**	**-**	**-**	-	-	-
Total Impaired Assets						
Gross Balances	**616**	**310**	**926**	831	75	906
Less interest reserved	**(85)**	**(17)**	**(102)**	(100)	(9)	(109)
Net Balances	**531**	**293**	**824**	731	66	797
Less provisions for impairment	**(174)**	**(105)**	**(279)**	(222)	(19)	(241)
Net Impaired Assets	**357**	**188**	**545**	509	47	556
Non Accrual Loans by Size of Loan						
Less than $1 million	**274**	**5**	**279**	371	3	374
$1 million to $10 million	**183**	**43**	**226**	283	12	295
Greater than $10 million	**159**	**262**	**421**	177	60	237
	616	**310**	**926**	831	75	906
Accruing Loans 90 days past due or more	**265**	**25**	**290**	288	16	304

These are loans which are well secured and not classified as impaired assets but which are in arrears 90 days or more. Interest on these loans continues to be taken to profit.

Notes to and forming part of the accounts

continued

	Australia 1998 $M	Overseas 1998 $M	Total 1998 $M	Australia 1997 $M	Overseas 1997 $M	Total 1997 $M
		ECONOMIC ENTITY			ECONOMIC ENTITY	

NOTE 15 Asset Quality continued

Interest Income Foregone on Impaired Assets

Comprises net interest charged but not taken to profit during the year, and interest assessed for loans on which no interest has been charged.

	Australia 1998 $M	Overseas 1998 $M	Total 1998 $M	Australia 1997 $M	Overseas 1997 $M	Total 1997 $M
Non Accrual Loans	**34**	**7**	**41**	52	3	55
Restructured Loans	**-**	**-**	**-**	-	-	-
OREO	**-**	**-**	**-**	-	-	-
OAATSE	**-**	**-**	**-**	-	-	-
Total	**34**	**7**	**41**	52	3	55

Interest taken to Profit and Loss on Impaired Assets

	Australia 1998 $M	Overseas 1998 $M	Total 1998 $M	Australia 1997 $M	Overseas 1997 $M	Total 1997 $M
Non Accrual Loans	**34**	**-**	**34**	50	-	50
Restructured Loans	**-**	**-**	**-**	-	-	-
OREO	**-**	**-**	**-**	-	5	5
OAATSE	**-**	**-**	**-**	-	-	-
Total	**34**	**-**	**34**	50	5	55

Migration of Impaired Assets

The following table provides an analysis of the movement in the gross impaired asset balances.

	Total 1998 $M	Total 1997 $M
Opening balance	**906**	1,185
Plus - new and increased	**689**	487
Less - balances written off	**(216)**	(190)
- return to performing or repaid	**(453)**	(576)
Closing balance	**926**	906

Asian Exposures

The Economic Entity's credit risk exposure to Asian countries as at 30 June 1998 is set out below.

Country	Customer Type: Finance $M	Corporate/ Multinational $M	Government $M	Project Finance $M	APL/NZPL $M	30/06/98 Total Exposure $M	31/12/97 Total Exposure $M
China	115	110	-	-	-	**225**	n/a
Hong Kong	263	525	29	-	162	**979**	n/a
	378	635	29	-	162	**1,204**	1,298
Japan	2,065	509	-	-	-	**2,574**	2,839
Malaysia	8	69	-	-	1	**78**	163
Singapore	581	104	5	-	59	**749**	658
Taiwan	12	33	-	-	-	**45**	89
Other	7	6	-	-	-	**13**	-
	2,673	721	5	-	60	**3,459**	3,749
Indonesia	87	256	54	142	79	**618**	702
South Korea	272	98	-	-	-	**370**	740
Thailand	27	209	18	-	-	**254**	256
	386	563	72	142	79	**1,242**	1,698
Total	3,437	1,919	106	142	301	**5,905**	6,745

NOTE 15 Asset Quality continued

Country	Exposure Category On BS O'standing $M	Undrawn Commitments $M	Off BS O'standing $M	Pre Settle Risk $M	APL/ NZPL $M	30/06/98 Total Exposure $M	31/12/97 Total Exposure $M
China	152	38	6	29	-	**225**	n/a
Hong Kong	576	185	5	51	162	**979**	n/a
	728	223	11	80	162	**1,204**	1,298
Japan	1,727	264	206	377	-	**2,574**	2,839
Malaysia	69	-	7	1	1	**78**	163
Singapore	338	8	332	12	59	**749**	658
Taiwan	44	1	-	-	-	**45**	89
Other	10	3	-	-	-	**13**	-
	2,188	276	545	390	60	**3,459**	3,749
Indonesia	342	66	131	-	79	**618**	702
South Korea	283	-	48	39	-	**370**	740
Thailand	216	36	-	2	-	**254**	256
	841	102	179	41	79	**1,242**	1,698
Total	3,757	601	735	511	301	**5,905**	6,745

Country	Product Category Trade Finance $M	Lending Bkd outside Asia $M	Other Comm Lending $M	APL/NZPL $M	Treasury/ Securities $M	30/06/98 Total Exposure $M	31/12/97 Total Exposure $M
China	74	55	67	-	29	**225**	n/a
Hong Kong	4	280	300	162	233	**979**	n/a
	78	335	367	162	262	**1,204**	1,298
Japan	163	402	384	-	1,625	**2,574**	2,839
Malaysia	-	7	8	1	62	**78**	163
Singapore	-	36	391	59	263	**749**	658
Taiwan	12	-	33	-	-	**45**	89
Other	-	-	10	-	3	**13**	-
	175	445	826	60	1,953	**3,459**	3,749
Indonesia	-	-	539	79	-	**618**	702
South Korea	138	-	164	-	68	**370**	740
Thailand	2	4	221	-	27	**254**	256
	140	4	924	79	95	**1,242**	1,698
Total	393	784	2,117	301	2,310	**5,905**	6,745

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 based on the RBA 'original exposure' method.
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 for repayment.
On BS O'standing – On balance sheet outstandings are balances of facilities utilised as reported on the balance sheet.
Undrawn Commitments - The excess of limits over utilisations for committed facilities. Further drawdowns are subject to compliance by the borrower with facility conditions.
Off BS O'standing – Off balance sheet outstandings are balances of off balance sheet facilities utilised (excluding derivatives).
Pre Settle Risk – Pre settlement risk is the balance of derivative exposures (on RBA 'original exposure' basis).
Trade Finance – Trade related documentary letters of credit and other trade products.
APL / NZPL - These are facilities to persons supported primarily by residential property in Australia and New Zealand.
Lending Bkd outside Asia - Lending Booked outside Asia are indirect exposures booked outside Asia where there is a relationship with the parent entity (such as through a letter of awareness / letter of comfort).
Other – Countries with total exposure of less than $10 million.
n/a – not available.
Information on Asian Exposures has not been disclosed prior to 31 December 1997.

Notes to and forming part of the accounts
continued

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M
NOTE 16 Deposits with Regulatory Authorities				
Reserve Bank of Australia	**831**	793	**827**	782
Central Banks Overseas	**1**	4	**1**	4
Total Deposits with Regulatory Authorities	**832**	797	**828**	786

Deposits with the RBA are non callable deposits which are required to be maintained at a level equivalent to 1% of the liabilities of the Bank in Australia.

NOTE 17 Shares in and Loans to Controlled Entities				
Shares in controlled entities at cost or recoverable amount	**-**	-	**3,052**	2,832
Loans to controlled entities	**-**	-	**2,531**	2,308
Total Shares in and Loans to Controlled Entities	**-**	-	**5,583**	5,140
NOTE 18 Property, Plant and Equipment				
(a) Land and Buildings				
Land:				
At 30 June 1997 valuation	**-**	480	**-**	451
At 30 June 1998 valuation	**373**	-	**347**	-
Closing balance	**373**	480	**347**	451
Buildings:				
At 30 June 1997 valuation	**-**	1,039	**-**	914
At 30 June 1998 valuation	**964**	-	**856**	-
Closing balance	**964**	1,039	**856**	914
Total Land and Buildings	**1,337**	1,519	**1,203**	1,365

These valuations were established by the Directors and are lower than valuations prepared by independent valuers. No adjustments have been taken to asset revaluation reserve in 1998 or 1997.

(b) Leasehold Improvements				
At cost	**254**	223	**242**	208
Provision for depreciation	**(129)**	(104)	**(126)**	(98)
Closing balance	**125**	119	**116**	110
(c) Equipment				
At cost	**539**	1,406	**335**	1,179
Provision for depreciation	**(339)**	(834)	**(216)**	(704)
Abnormal write down of computer equipment (Notes 1(s) and 4)	**-**	(200)	**-**	(200)
Closing balance	**200**	372	**119**	275
Total Property, Plant and Equipment	**1,662**	2,010	**1,438**	1,750
NOTE 19 Goodwill				
Purchased goodwill	**835**	833	**784**	784
Accumulated amortisation	**(304)**	(259)	**(294)**	(255)
Total Goodwill	**531**	574	**490**	529

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M
NOTE 20 Other Assets				
Accrued interest receivable	**794**	781	**868**	835
Shares in other companies	**8**	109	**8**	109
Accrued fees/reimbursements receivable	**114**	73	**32**	35
Securities sold not delivered	**1,076**	489	**1,033**	473
Future income tax benefits	**325**	167	**293**	147
Unrealised gains on trading derivatives (Note 37)	**8,297**	4,742	**8,297**	4,742
Other	**1,245**	1,141	**871**	800
Total Other Assets	**11,859**	7,502	**11,402**	7,141

Potential future income tax benefits of the Chief Entity 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 $132 million (1997: $96 million) will only be obtained if:

- The Chief Entity 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 Chief Entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- No changes in tax legislation adversely affect the Chief Entity in realising the benefit from the deductions for the losses.

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M
NOTE 21 Deposits and Other Public Borrowings				
Australia				
Certificates of deposit	**2,156**	1,700	**2,156**	1,712
Term deposits	**21,679**	22,415	**21,679**	22,391
On demand and short term deposits	**39,997**	35,535	**40,229**	35,670
Deposits not bearing interest	**3,936**	3,929	**4,962**	4,932
By borrowing corporations	**3,183**	2,924	**-**	-
Securities sold under agreements to repurchase	**662**	714	**662**	714
Other	**7**	8	**-**	1
Total Australia	**71,620**	67,225	**69,688**	65,420
Overseas				
Certificates of deposit	**2,938**	2,076	**975**	551
Term deposits	**6,201**	5,255	**2,230**	1,820
On demand and short term deposits	**3,057**	3,219	**39**	14
Deposits not bearing interest	**70**	105	**12**	31
Total Overseas	**12,266**	10,655	**3,256**	2,416
Total Deposits and Other Public Borrowings	**83,886**	77,880	**72,944**	67,836
NOTE 22 Payables to Other Financial Institutions				
Australia	**1,281**	394	**1,252**	379
Overseas	**2,116**	3,227	**1,756**	2,861
Total Payables to Other Financial Institutions	**3,397**	3,621	**3,008**	3,240

Notes to and forming part of the accounts
continued

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M
NOTE 23 Income Tax Liability				
Australia				
Provision for income tax	**215**	166	**205**	160
Provision for deferred income tax	**883**	755	**436**	393
Total Australia	**1,098**	921	**641**	553
Overseas				
Provision for income tax	**1**	4	**1**	1
Provision for deferred income tax	**-**	-	**-**	-
Total Overseas	**1**	4	**1**	1
Total Income Tax Liability	**1,099**	925	**642**	554
NOTE 24 Other Provisions				
Provision for:				
Long service leave	**289**	316	**288**	314
Annual leave	**129**	137	**123**	134
Other employee entitlements	**218**	236	**218**	236
Restructuring costs	**122**	-	**122**	-
Homes insurance	**10**	15	**10**	15
General insurance claims	**35**	30	**-**	-
Self insurance/non lending losses	**30**	50	**30**	50
Other	**42**	51	**39**	48
Total Other Provisions	**875**	835	**830**	797
NOTE 25 Debt Issues				
Short term debt issues	**6,758**	6,411	**6,190**	5,403
Long term debt issues	**3,850**	3,743	**3,049**	3,352
Total Debt Issues	**10,608**	10,154	**9,239**	8,755
Short Term Debt Issues				
AUD Promissory Notes	**319**	827	**-**	-
US Commercial Paper	**4,219**	3,074	**4,219**	3,074
Euro Commercial Paper and Certificates of Deposit	**1,365**	1,922	**1,245**	1,773
Long Term Debt Issues With Less than one Year to Maturity	**855**	588	**726**	556
Total Short Term Debt Issues	**6,758**	6,411	**6,190**	5,403

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M

NOTE 25 Debt Issues continued

Long Term Debt Issues				
USD Medium Term Notes	**460**	605	**460**	476
AUD Medium Term Notes	**681**	853	**624**	798
JPY Medium Term Notes	**813**	732	**813**	732
Other Currencies Medium Term Notes	**509**	690	**293**	483
Offshore Loans (all JPY)	**558**	562	**558**	562
Eurobonds (all AUD)	**301**	301	**301**	301
Develop Australia Bonds (all AUD)	**528**	-	**-**	-
Total Long Term Debt Issues	**3,850**	3,743	**3,049**	3,352
Maturity Distribution of Debt Issues				
Less than 3 months	**4,653**	4,107	**4,085**	3,099
3 months to 12 months	**2,105**	2,304	**2,105**	2,304
Between 1 and 5 years	**2,376**	2,866	**2,160**	2,530
Greater than 5 years	**1,474**	877	**889**	822
Total Debt Issues	**10,608**	10,154	**9,239**	8,755

The Bank has a Euro Medium Term Note programme under which it may issue notes (EuroMTNs) up to an aggregate amount of USD5 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 1998, the Bank has issued USD200m EuroMTNs due 1999 (AUD323m).

Where any debt is booked in an offshore branch or subsidiary, the amounts have first been converted in to the base currency of the branch at a branch defined exchange rate, before being converted in to the AUD equivalent.

When proceeds have been employed in currencies other than that of the ultimate repayment liability, swap or other hedge arrangements have been entered into.

Exchange Rates Utilised

		30 June 1998	30 June 1997
AUD 1.00 =	USD	**.6128**	.7457
	GBP	**.3675**	.4482
	JPY	**86.3201**	85.2464
	NZD	**1.1930**	1.0992
	HKD	**4.7486**	5.7777
	DEM	**1.1091**	1.2954
	CHF	**.9337**	1.0846
	INR	**8000**	1890

Notes to and forming part of the accounts
continued

NOTE 25 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 is being progressively phased out following the reduction of the Commonwealth's shareholding in the Bank to below 50% on 19 July 1996.

The transitional arrangements for phasing out the Commonwealth's guarantee are contained in the Commonwealth Bank Sale Act 1995.

In relation to the Commonwealth's guarantee of the Bank's liabilities, transitional arrangements provide that:

- All demand deposits and term deposits will be guaranteed until the end of the day on 19 July 1999, with term deposits outstanding at the end of the day on 19 July 1999 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 before 19 July 1996 are guaranteed until their maturity.

Under the terms of an agreement reached between the Commonwealth and the Bank, the Bank will report to the Commonwealth annually on the level and maturity profile of outstanding liabilities which are subject to the Commonwealth's guarantee. 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 19 July 1996.

Commonwealth Development Bank

On 24 July 1996, the Commonwealth of Australia sold its 8.1% shareholding in the Commonwealth Development Bank (CDB) to the Bank for $12.5 million.

Under the arrangements relating to the purchase by the Bank of the Commonwealth's shareholding in the CDB:

- All lending assets as at 30 June 1996 have been quarantined in CDB, consistent with the Charter terms on which they were written;
- The CDB's liabilities continue to remain guaranteed by the Commonwealth; and
- CDB 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 CDB is being written by the rural arm of the Bank.

The due payment of all monies payable by CDB 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.

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $M	1997 $M	**1998 $M**	1997 $M
NOTE 26 Bills Payable and Other Liabilities				
Bills payable	**547**	312	**531**	298
Accrued interest payable	**817**	742	**592**	624
Accrued fees and other items payable	**500**	434	**458**	377
Securities purchased not delivered	**650**	904	**609**	888
Unrealised losses on trading derivatives (Note 37)	**7,790**	4,719	**7,790**	4,719
Other liabilities	**442**	587	**254**	463
Total Bills Payable and Other Liabilities	**10,746**	7,698	**10,234**	7,369

				ECONOMIC ENTITY		CHIEF ENTITY	
				1998 $M	1997 $M	**1998 $M**	1997 $M

NOTE 27 Loan Capital

Tier 1 Capital		Currency Amount (M)					
Exchangeable	FRNs	USD300	(1)	**422**	388	**422**	388
Exchangeable	FRNs	USD400	(2)	**563**	517	**563**	517
Undated	FRNs	USD100	(3)	**163**	134	**163**	134
				1,148	1,039	**1,148**	1,039
Tier 2 Capital							
Extendible	FRNs	USD125	(4)	**156**	156	**156**	156
Extendible	FRNs	AUD300	(5)	**300**	300	**300**	300
Subordinated	Euro MTNs	USD400	(6)	**501**	501	**501**	501
Subordinated	Euro MTNs	GBP200	(7)	**408**	408	**408**	408
Subordinated	Euro MTNs	JPY30,000	(8)	**483**	397	**483**	397
				1,848	1,762	**1,848**	1,762
Total Loan Capital				**2,996**	2,801	**2,996**	2,801

(1) USD 300 million Undated Floating Rate Notes (FRNs) issued 11 July 1988 exchangeable into Dated FRNs.
Outstanding notes at 30 June 1998 were:

Due July 1998	:	USD 225.75 million
Due July 1999	:	USD 19 million
Due July 2000	:	USD 48.25 million
Undated	:	USD 7 million

(2) USD 400 million Undated FRNs issued 22 February 1989 exchangeable into Dated FRNs.
Outstanding notes at 30 June 1998 were:

Due February 1999	:	USD 217 million
Due February 2000	:	USD 176 million
Undated	:	USD 7 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 or (with the consent of the Commonwealth) 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 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);
- The Bank does not declare a dividend in respect of its ordinary shares;
- The Bank, if required by the Commonwealth and subject to the agreement of the RBA, 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 pursuant to its guarantee in respect of the relevant notes will trigger the issue of shares to the Commonwealth 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 ceasing to guarantee the relevant notes. In relation to the USD 225.75 million of Dated FRNs which matured in July 1998, the Bank and the Commonwealth agreed to amend the relevant Agreement to reflect that the Commonwealth was not called upon to subscribe for fully paid ordinary shares up to an amount equal to the principal value of the maturing FRNs.

Notes to and forming part of the accounts
continued

NOTE 27 Loan Capital continued

(4) USD 125 million Extendible FRNs issued June 1989; due June 1999.
(5) AUD 300 million Extendible Floating Rate Stock issued December 1989; due December 2004.

The Bank has entered into separate agreements with the Commonwealth relating to each of the above issues (the 'Agreements') which qualify the issues 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 Agreements provide for the Bank to issue either fully paid ordinary shares to the Commonwealth or (with the consent of the Commonwealth) 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 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 or a rights issue:

- A relevant event of default occurs in respect of a note issue and, where applicable, the Trustee of the relevant notes gives notice of such to the Bank; or
- The Bank, if required by the Commonwealth and subject to the agreement of the RBA, exercises its option to redeem such issue.

Any payment made by the Commonwealth pursuant to its guarantee in respect of the relevant issue will trigger the issue of shares to the Commonwealth to the value of such payment.

(6) USD 400 million Subordinated Euro MTN issued June 1996; due July 2006.
(7) GBP 200 million Subordinated Euro MTN issued March 1996; due December 2006.
(8) JPY 30 billion Subordinated Euro MTN issued October 1995; due October 2015.

	CHIEF ENTITY	
	1998	1997
	$M	$M
NOTE 28 Share Capital		
Authorised Capital		
3,250,000,000 ordinary shares of $2 each	**6,500**	6,500
Issued and Paid Up Capital		
Opening balance (ordinary fully paid shares of $2 each)	**1,860**	1,981
Buy Back	**(76)**	(200)
Dividend reinvestment plan	**57**	74
Employee Share Acquisition Plan	**4**	5
Employee Share Subscription Plan	**-**	-
Closing balance	**1,845**	1,860

Shares on Issue	Number
As at 30 June 1997	930,177,235
Buy Back	(38,093,483)
Dividend reinvestment plan issues:	
1997 final dividend fully paid ordinary shares at $14.55	18,511,049
1998 interim dividend fully paid ordinary shares at $18.06	10,093,343
Employee Share Acquisition Plan issues	1,640,530
Employee Share Subscription Plan issues	329,600
Total shares on issue at 30 June 1998	922,658,274

Employee Share Acquisition Plan

An Employee Share Acquisition Plan was approved by shareholders for a 3 year period at the Annual General Meeting on 8 October 1996. On 2 January 1997 the Bank allotted 2,303,665 ordinary shares to 27,755 eligible employees for no consideration under the Employee Share Acquisition Plan. On 18 March 1997 the Bank allotted an additional 1,079 ordinary shares to 13 eligible employees. Each participating eligible employee has been granted one ordinary share and 82 bonus ordinary shares, which effectively represents $1,000 of free shares at $12.04 per share.

On 11 December 1997 the Bank allotted 1,640,298 ordinary shares to 28,281 eligible employees for no consideration under the Employee Share Acquisition Plan. On 3 February 1998 the Bank allotted an additional 232 ordinary shares to 4 eligible employees. The 3,025 new eligible employees have been granted one ordinary share and 57 bonus ordinary shares, which effectively represents $1,000 of free shares at $17.16 per share. The 25,260 previously eligible employees have been granted 58 bonus shares at $17.16 per share. The bonus shares have been fully paid up as issued shares utilising the Share Premium Reserve.

NOTE 28 Share Capital continued

Employee Share Subscription Plan

An Employee Share Subscription Plan was approved by shareholders for a 3 year period at the Annual General Meeting on 8 October 1996. On 27 March 1997 a total of 209,400 ordinary shares were issued to 1,149 eligible employees at a purchase price of $12.74 per share. The purchase price is 95% of the weighted average market price of the shares on the ASX during the five trading days immediately before the offer date of 25 February 1997. The market price at date of issue was $12.75 per share.

On 25 September 1997 a total of 171,000 ordinary shares were issued to 971 eligible employees at a purchase price of $14.84 per share. The purchase price is 95% of the weighted average market price of the shares on the ASX during the five trading days immediately before the offer date of 26 August 1997. The market value at the date of issue was $17.22 per share.

On 27 March 1998 a total of 158,600 ordinary shares were issued to 815 eligible employees at a purchase price of $16.80 per share. The purchase price is 95% of the weighted average market price of the shares on the ASX during the five trading days immediately before the offer date of 24 February 1998. The market value at the date of issue was $18.07 per share.

The Employee Share Subscription Plan provides employees of the Bank with the opportunity to purchase ordinary shares at a 5% discount to the market price of the shares at the time of purchase, subject to a one year restriction on the disposal of the shares. At the Board's discretion up to 300 shares per annum may be acquired by employees who have had at least one year's continuous service, excluding casual and overseas resident employees. The opportunity to acquire the shares is available twice a year within a period commencing two days and expiring thirty days after the Bank's half yearly and annual results are announced.

Executive Option Plan

An Executive Option Plan was approved by shareholders for a 3 year period at the Annual General Meeting on 8 October 1996. A total of 2,100,000 options were initially issued on 16 December 1996 to 25 participating eligible executives, with an exercise price of $11.85 per share and exercise period from 13 November 1999 to 12 November 2001. The exercise price of $11.85 per share was the Market Value (as defined in the Plan Rules) at the Grant Date being 12 November 1996. 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 Grant Date. The market price at date of issue of the options was $11.93 per share.

A total of 2,875,000 options were issued on 11 December 1997 to 27 participating eligible executives, with an exercise price of $15.53 per option and exercise period from 4 November 2000 to 3 November 2002. The exercise price of $15.53 per share is the Market Value (as defined in the Plan Rules) at the Grant Date being 3 November 1997 which will be adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of the vesting). 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 Grant Date. The market price at date of issue of the options was $16.85.

300,000 options, from all grants to date, have been forfeited as at 30 June 1998.

Eligible executives must hold a minimum number of shares as determined by the Board before they are permitted to take up any options. The minimum holding must be maintained during the five year life of the options. The options cannot be exercised before 13 November 1999 and the ability to exercise is conditional on the Bank achieving a prescribed performance hurdle. To reach the performance hurdle, the Bank's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of Total Shareholder Return achieved by the companies represented in the ASX 'Banks and Finance Accumulation Index', excluding the Bank. If the performance hurdle is not reached after three years, the options may nevertheless be exercisable only if the hurdle is subsequently reached within the remaining life of the options. The plan is limited to no more than 50 executives. The option plan does not grant rights to the option holders to participate in a share issue of any other body corporate.

Sale of Government Shareholding and Share Buy Back

The Commonwealth Government's sale of its remaining 50.39% shareholding in the Bank was completed on 22 July 1996. The Commonwealth's sale included a global offering of 399,103,979 of the Bank's shares in the form of 'Instalment Receipts' and a selective buy back of 100 million shares by the Bank. The final price for the global offering was set by the Government at $10.45 per share payable in two instalments of $6.00 and $4.45 on 22 July 1996 and 14 November 1997 respectively.

On 14 May 1996, the Bank's shareholders, other than the Commonwealth of Australia and its associates, voted to approve the terms of a Buy Back Agreement dated 9 April 1996 pursuant to which the Commonwealth had agreed to sell, and the Bank had agreed to acquire, 100 million of the Bank's shares pursuant to a selective buy back under the Corporations Law.

The price per share paid by the Bank for the buy back shares was $10.008 calculated in accordance with a formula provided in the Buy Back Agreement and based on the gross proceeds of the first instalment due to the Government pursuant to its global offering and the net present value of the final instalment due on 14 November 1997.

Payment of $1,001 million for the buy back shares was made to the Commonwealth on 22 July 1996. The buy back shares were cancelled on that date, as required by the Corporations Law.

Notes to and forming part of the accounts

continued

NOTE 28 Share Capital continued

The Bank's shareholders' equity was reduced by $651 million on 29 December 1997 pursuant to the buy back of 38.1 million shares. The price per share paid by the Bank for the buy back shares was $17.08 calculated in accordance with the buy back offer. In accordance with a compromise reached with the Australian Taxation Office $2 per share of the consideration for each share bought back has been charged to paid up capital ($76 million) and $5 per share against share premium reserve ($191 million). The balance of $10.08 per share is deemed to be a fully franked dividend and charged to retained profits ($384 million).

	ECONOMIC ENTITY	
	1998 $M	1997 $M
NOTE 29 Outside Equity Interests		
Share Capital	**118**	130
Reserves	**-**	-
Retained profits	**59**	48
Total Outside Equity Interests	**177**	178

ASB Bank Limited issued-

- NZD $50 million non cumulative preference shares on 22 December 1995. The preference shares are non voting, non cumulative, redeemable at the option of ASB Bank and bear a dividend based on a margin above the 5 year bond rate.
- 57,955,325 ordinary shares to minority shareholders for an issue price of NZD $1 (on a pro rata basis) on 28 June 1996.

NOTE 30 Capital Adequacy

In August 1988 the Reserve Bank of Australia (RBA) established guidelines for the capital adequacy of Australian banks, to strengthen their soundness and stability. These guidelines are generally consistent with those proposed by the Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements. They require Australian banks to have a ratio of capital (comprising 'Tier 1' and 'Tier 2' capital) to risk adjusted assets and off balance sheet exposures, determined on a risk weighted basis, of at least 8 per cent, of which at least half must be Tier 1 capital.

Tier 1, or core, capital includes paid up ordinary shares, retained earnings, reserves, other approved capital resources and minority interest in subsidiaries, less goodwill. Tier 2, or supplementary, capital includes general provisions for bad and doubtful debts and dated bond and note issues. For capital adequacy purposes Tier 2 debt based capital is reduced each year by 20% of the original amount during the last five years to maturity.

Risk weighted assets compiled for credit risk purposes are calculated by applying one of five approved categories of risk weight (0, 10, 20, 50 or 100 per cent) to the assets of the Economic Entity, based primarily on the calibre of the counterparty. Off balance sheet exposures are firstly 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. The only exception is for derivatives where a maximum weighting of 50% applies.

In addition to the capital requirements for credit risk purposes, effective from 1 January 1998, Australian banks are also required to hold sufficient levels of capital to cover market risk of their trading books. Market risk is defined as the risk of losses in on and off balance sheet positions arising from movements in market price.

RBA require the measure of market risk to be multiplied by 12.5 (ie the reciprocal of the minimum capital ratio of 8 per cent) to determine a notional Risk Weighted Asset figure. Comparatives for 1997 are not available.

The capital adequacy ratio is calculated by taking the total risk weighted assets (credit risk assets plus notional market risk assets) as the denominator and the Economic Entity's capital base as the numerator.

	1998 Actual %	1997 Actual **%**
Risk Weighted Capital Ratios		
Tier one	**8.07**	8.64
Tier two	**2.82**	2.82
Less RBA statutory deductions	**(0.40)**	(0.57)
Total	**10.49**	10.89

	ECONOMIC ENTITY 1998 $M	1997 $M
NOTE 30 Capital Adequacy continued		
Tier One Capital		
Total Shareholders' Equity	**6,889**	7,024
Eligible Loan Capital *	**1,306**	1,073
Total Shareholders' Equity and Loan Capital	**8,195**	8,097
Less Goodwill	**(531)**	(574)
Less Preference Shares	**(47)**	(55)
Total Tier One Capital	**7,617**	7,468
Tier Two Capital		
General provisions for bad and doubtful debts	**1,076**	690
FITB related to general provision	**(337)**	-
Dated note and bond issues	**1,885**	1,702
Preference shares	**42**	45
Total Tier Two Capital	**2,666**	2,437
Tier One and Tier Two Capital	**10,283**	9,905
Less RBA statutory deductions	**(381)**	(487)
Total Tier One and Tier Two Capital	**9,902**	9,418

* Included gross of any related swaps.

	Face value 1998 $M	1997 $M	Risk Weights %	Risk-weighted Balance 1998 $M	1997 $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 (1)	**10,732**	8,515	0%	**-**	-
Longer term claims on Australian Commonwealth, State and Territory Governments	**4,954**	7,392	10%	**495**	739
Claims on OECD banks and local governments	**7,566**	10,533	20%	**1,513**	2,107
Advances secured by residential property (2)	**46,158**	39,420	50%	**23,079**	19,710
All other assets (3) (4)	**57,004**	54,191	100%	**57,004**	54,191
Total on balance sheet assets - credit risk	**126,414**	120,051		**82,091**	76,747

(1) Other zero weighted assets include gross unrealised gains on trading derivative financial instruments of $8,297 million (1997: $4,742million).

(2) The RBA announced on 17 August 1994 that housing loans approved after 5 September 1994 having a loan to market valuation ratio in excess of 80 per cent must be risk weighted at 100 per cent. These loans are reported under 'All other assets'.

(3) The difference between total on balance sheet assets and the Economic Entity's balance sheet reflects the alternative treatment of some assets and provisions as prescribed in RBA's capital adequacy guidelines, principally goodwill and general provisions for bad and doubtful debts.

(4) Total on-balance sheet assets exclude debt and equity securities in the trading bank and all on-balance sheet positions in commodities as they are included in the calculation of notional market risk weighted assets.

Notes to and forming part of the accounts

continued

	Face value		Credit Equivalent		Risk-weighted Balance	
	1998 $M	1997 $M	**1998 $M**	1997 $M	**1998 $M**	1997 $M
NOTE 30 Capital Adequacy continued						
Off-balance sheet exposures						
Direct credit substitutes	**2,729**	2,855	**2,729**	2,855	**2,188**	1,930
Trade and performance related items	**1,593**	1,380	**655**	563	**608**	524
Commitments	**23,669**	21,339	**9,014**	8,790	**6,010**	5,483
Foreign exchange, interest rate and other market related transactions	**276,051**	258,990	**9,813**	5,766	**2,921**	1,784
Total off-balance sheet exposures - credit risk	**304,042**	284,564	**22,211**	17,974	**11,727**	9,721
Total risk-weighted assets - credit risk					**93,818**	86,468
Risk-weighted assets - market risk					**613**	N/A
Total risk-weighted assets					**94,431**	86,468

NOTE 31 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. Therefore this information is not relied on by the Bank in the management of its interest rate risk.

ECONOMIC ENTITY

Maturity Period At 30 June 1998

	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	**1,041**	**-**	**485**	**-**	**-**	**-**	**-**	**1,526**
Receivables due from other financial institutions	**115**	**-**	**3,280**	**51**	**-**	**-**	**2**	**3,448**
Trading securities (1)	**-**	**-**	**4,009**	**-**	**-**	**-**	**-**	**4,009**
Investment securities	**-**	**-**	**1,383**	**895**	**2,626**	**1,934**	**20**	**6,858**
Loans, advances and other receivables (2)	**485**	**2,841**	**5,070**	**11,940**	**33,052**	**37,266**	**(838)**	**89,816**
Bank acceptances of customers	**-**	**-**	**8,849**	**878**	**-**	**-**	**-**	**9,727**
Other monetary assets	**110**	**-**	**10,444**	**2**	**79**	**856**	**497**	**11,988**
Total monetary assets	**1,751**	**2,841**	**33,520**	**13,766**	**35,757**	**40,056**	**(319)**	**127,372**
Liabilities								
Deposits and other public borrowings (3)	**47,373**	**-**	**19,788**	**9,260**	**6,094**	**1,371**	**-**	**83,886**
Payables due to other financial institutions	**431**	**-**	**2,648**	**312**	**6**	**-**	**-**	**3,397**
Bank acceptances	**-**	**-**	**8,849**	**878**	**-**	**-**	**-**	**9,727**
Debt issues and loan capital	**-**	**-**	**1,783**	**5,891**	**2,544**	**3,203**	**183**	**13,604**
Other monetary liabilities	**174**	**-**	**10,837**	**34**	**130**	**-**	**139**	**11,314**
Total monetary liabilities	**47,978**	**-**	**43,905**	**16,375**	**8,774**	**4,574**	**322**	**121,928**

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

(2) $35 billion of this figure represents principally 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 is less than 5 years.

(3) Includes substantial 'core' deposits which are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to Interest Rate Risk Sensitivity table in Note 37.

NOTE 31 Maturity Analysis of Monetary Assets and Liabilities continued

ECONOMIC ENTITY

Maturity Period At 30 June 1997

	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	1,159	-	725	123	-	-	-	2,007
Receivables due from other financial institutions	348	4	4,144	343	-	-	-	4,839
Trading securities [1]	-	-	2,635	-	-	-	-	2,635
Investment securities	-	-	2,139	2,493	3,250	1,351	-	9,233
Loans, advances and other receivables [2]	225	2,992	4,782	11,504	30,776	31,759	(406)	81,632
Bank acceptances of customers	-	-	5,930	2,944	-	-	-	8,874
Other monetary assets	64	-	6,393	224	90	767	256	7,794
Total monetary assets	1,796	2,996	26,748	17,631	34,116	33,877	(150)	117,014
Liabilities								
Deposits and other public borrowings [3]	43,787	-	18,208	11,399	4,285	156	45	77,880
Payables due to other financial institutions	745	-	2,437	427	12	-	-	3,621
Bank acceptances	-	-	5,930	2,944	-	-	-	8,874
Debt issues and loan capital	-	-	3,601	2,810	3,918	2,476	150	12,955
Other monetary liabilities	134	4	7,255	754	386	-	186	8,719
Total monetary liabilities	44,666	4	37,431	18,334	8,601	2,632	381	112,049

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

(2) $30 billion of this figure represents principally 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 is less than 5 years.

(3) Includes substantial 'core' deposits which are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to Interest Rate Risk Sensitivity table in Note 37.

Notes to and forming part of the accounts

continued

	ECONOMIC ENTITY			
	1998		1997	
	$M	**%**	$M	%
NOTE 32 Financial Reporting by Segments				
(a) Geographical segments				
Revenue				
Australia	**7,718**	**81.4**	8,088	85.0
New Zealand	**1,115**	**11.7**	977	10.3
Other Countries	**657**	**6.9**	448	4.7
	9,490	**100.0**	9,513	100.0
Operating profit before tax				
Australia	**1,221**	**91.0**	1,454	90.0
New Zealand	**148**	**11.0**	128	7.9
Other Countries	**(27)**	**(2.0)**	34	2.1
	1,342	**100.0**	1,616	100.0
Operating profit after tax and outside equity interests				
Australia	**1,044**	**95.8**	990	91.9
New Zealand	**73**	**6.7**	63	5.8
Other Countries	**(27)**	**(2.5)**	25	2.3
	1,090	**100.0**	1,078	100.0
Assets				
Australia	**110,120**	**84.4**	101,202	84.3
New Zealand	**10,846**	**8.3**	9,994	8.3
Other Countries	**9,578**	**7.3**	8,907	7.4
	130,544	**100.0**	120,103	100.0
(b) Industry segments				
Revenue				
Banking	**8,767**	**92.4**	8,897	93.5
Life Insurance and Funds Management	**214**	**2.3**	202	2.1
Finance	**509**	**5.3**	414	4.4
	9,490	**100.0**	9,513	100.0
Operating profit before tax				
Banking	**1,158**	**86.3**	1,443	89.3
Life Insurance and Funds Management	**81**	**6.0**	74	4.6
Finance	**103**	**7.7**	99	6.1
	1,342	**100.0**	1,616	100.0
Operating profit after tax and outside equity interests				
Banking	**940**	**86.2**	941	87.2
Life Insurance and Funds Management	**84**	**7.7**	75	7.0
Finance	**66**	**6.1**	62	5.8
	1,090	**100.0**	1,078	100.0
Assets				
Banking	**124,765**	**95.6**	115,368	96.1
Life Insurance and Funds Management	**427**	**0.3**	359	0.3
Finance	**5,352**	**4.1**	4,376	3.6
	130,544	**100.0**	120,103	100.0

Other Countries are:
United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, Netherlands Antilles and Papua New Guinea.

These operations have a greater proportion of wholesale business with a funding base from predominantly wholesale markets where margins are very fine. The overseas balance sheet also supports trading activities.

The geographical segments represent the location in which the transaction was booked.

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $'000	1997 $'000	**1998 $'000**	1997 $'000
NOTE 33 Remuneration of Auditors				
Amounts paid or due and payable for audit services to:				
Auditors of the chief entity	**2,540**	2,432	**1,671**	1,544
Other auditors	**250**	200	**-**	-
	2,790	2,632	**1,671**	1,544
Amounts paid or due and payable for other services to:				
Auditors of the chief entity	**5,040**	3,873	**5,004**	3,448
Total Remuneration of Auditors	**7,830**	6,505	**6,675**	4,992

NOTE 34 Commitments for Capital Expenditure Not Provided for in the Accounts	**$M**	$M	**$M**	$M
Not later than one year	**25**	33	**25**	26
Later than one year but not later than two years	**-**	-	**-**	-
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	**25**	33	**25**	26

NOTE 35 Lease Commitments - Property, Plant and Equipment				
Commitments in respect of non cancellable operating lease agreements due -				
Not later than one year	**171**	172	**147**	138
Later than one year but not later than two years	**136**	143	**116**	117
Later than two years but not later than five years	**304**	280	**254**	227
Later than five years	**302**	306	**234**	223
Total Lease Commitments - Property, Plant and Equipment	**913**	901	**751**	705
Economic Entity's share of lease commitments of associated entities -				
Not later than one year	**9**			
Later than one year but not later than two years	**5**			
Later than two years but not later than five years	**9**			
Later than five years	**11**			
Total Lease Commitments - Property, Plant and Equipment	**34**			

Notes to and forming part of the accounts
continued

NOTE 36 Contingent Liabilities

The Commonwealth Bank and its controlled entities are involved in a range of transactions that give rise to contingent and/or future liabilities. These transactions meet the financing requirements of customers and include endorsed bills of exchange, letters of credit, guarantees and commitments to provide credit.

These transactions combine varying levels of credit, interest rate, foreign exchange and liquidity risk. In accordance with Bank policy, exposure to any of these transactions is not carried at a level which would have a material effect on the financial condition of the Bank and its controlled entities.

	ECONOMIC ENTITY			
	Face Value		Credit Equivalent	
	1998 $M	1997 $M	**1998 $M**	1997 $M
Details of contingent liabilities and off balance sheet business (excluding Derivatives – Note 37) are:				
Credit risk related instruments				
Guarantees	**1,878**	1,522	**1,878**	1,522
Standby letters of credit	**396**	808	**396**	808
Bill endorsements	**455**	525	**455**	525
Documentary letters of credit	**474**	423	**95**	85
Performance related contingents	**1,120**	957	**560**	478
Commitments to provide credit	**22,693**	19,346	**8,069**	6,851
Other commitments	**975**	1,993	**945**	1,939
Total credit risk related instruments	**27,991**	25,574	**12,398**	12,208

Guarantees represent conditional undertakings by the Economic Entity to support the financial obligations of its customers to third parties.

Standby letters of credit are undertakings by the Economic Entity to repay a loan obligation in the event of a default by a customer.

Bill endorsements relate to bills of exchange which have been confirmed by the Economic Entity and represent liabilities in the event of default by the acceptor and the drawer of the bill.

Documentary letters of credit represent an undertaking to pay an overseas supplier of goods in the event of payment default by a customer who is importing the goods.

Performance related contingents involve undertakings by the Economic Entity 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 Economic Entity to provide funding facilities.

Other commitments include the Economic Entity'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 Reserve Bank of Australia guidelines for the risk based measurement of capital adequacy. The credit equivalent amounts are a measure of the potential loss to the Economic Entity in the event of possible non performance by a counterparty.

The potential loss (exposure) from direct credit substitutes (guarantees, standby letters of credit and bill endorsements) is the face value of the transaction, where as the 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 Economic Entity 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 generated.

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.

NOTE 36 Contingent Liabilities continued

Fiduciary activities

The Economic Entity conducts investment management and other fiduciary activities as trustee, custodian or manager for numerous investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail unit trusts. The amounts of funds concerned, which are not included in the Economic Entity's balance sheet, are as follows:

	1998 $M	1997 $M
Funds under trusteeship	**10,385**	14,931
Funds under management	**21,983**	23,166
Funds under custody	**22,300**	20,724

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 either Commonwealth Investment Services Limited, Commonwealth Funds Management Limited or Commonwealth Custodial Services Limited acts in more than one capacity in relation to those funds, eg manager and trustee.

Commonwealth Custodial Services Limited, acts as trustee of the Commonwealth Bank Approved Deposit Fund and of State Bank Supersafe Approved Deposit Fund. In terms of the relevant Trust Deeds of those Funds, the trustee has an obligation to repay deposits in the Funds. It is not envisaged that any material irrecoverable liabilities will result from these obligations.

Commonwealth Custodial Services Limited also acts as Trustee for various controlled superannuation funds and wholesale unit trusts. The Commonwealth Bank of Australia does not guarantee the performance or obligations of its subsidiaries including the Trustee of these funds and unit trusts.

Commonwealth Investment Services Limited (CISL) and Commonwealth Funds Management Limited (CFM), as Managers of the various controlled investment funds and retail and wholesale unit trusts have an obligation under the Trust Deeds of those funds, upon request of a unitholder, to repurchase units of those funds or to arrange for the relevant Trustee to redeem units from the assets of the trusts. It is considered unlikely that CISL or CFM would need to repurchase units from their own funds.

Commonwealth Funds Management Limited (CFM) acts as trustee and manager of various controlled trusts. CFM has incurred liabilities in its capacity as Trustee, however it has a right of indemnity against the assets of the respective trusts and as at 30 June 1998 the assets of the trusts exceeds those liabilities incurred. As such CFM does not expect to have to meet any of those liabilities from its own funds.

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.

Year 2000 systems compliance

As reported to the Australian Stock Exchange in May 1998, the Bank expects to have all key applications fully Year 2000 compliant by the end of 1998, with the majority of in house applications having already achieved compliance by June 1998.

A three phase programme, comprising discovery, planning and remedy, has been underway since 1996. Phases one and two are complete, and the Bank is currently finalising the remedial phase. The Bank has also begun comprehensive testing, contingency planning and risk mitigation, which will continue throughout 1998 and 1999. This testing will include interorganisational testing of the financial payment systems with other financial institutions which is due to commence in October 1998 and conclude at the end of June 1999.

With regard to our property obligations, a special inventory of all building management systems by building engineers, dealing with business continuity and health and safety requirements, has established remediation will occur as follows:

- Critical buildings by end December 1998.
- Non-critical buildings by June 1999.

An inventory of all third party vendor software and hardware has been completed and all upgrades and replacements identified. The majority were implemented by 30 June 1998, with the remainder due for completion by 31 December 1998.

The Bank has estimated rectification costs of $115 million, to be expended over three years commencing July 1996. Expenditure to 30 June 1998 on the total programme is $47 million.

The Bank is confident it will be ready for the change of the century, and believes that depositors' funds will not be at risk as a result of the Year 2000 issue.

Notes to and forming part of the accounts
continued

NOTE 36 Contingent Liabilities continued

Service agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Executive Director and other executives of the Chief Entity and its controlled entities at 30 June 1998 was $10 million (1997: $9 million).

NOTE 37 Market Risk

The Bank in its daily operations is exposed to a number of market risks. A market risk is the risk of an adverse event in the financial markets that may result in a loss of earnings to the Bank, eg an adverse interest rate movement.

Within the Bank, market risk exists in its balance sheet structure and in financial markets trading.

Market risk in the balance sheet

Market risk in the balance sheet includes liquidity risk, funding risk, interest rate risk and foreign exchange rate risk.

Liquidity risk

Balance sheet liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Bank manages liquidity risk separately for its domestic AUD obligations and for its foreign currency obligations.

In its domestic operations, the Bank ensures that obligations are met day to day in normal market conditions at lowest cost. Protection against an unexpected outflow of funds is provided for within the liability management process and from a stock of high quality liquid assets held surplus to the Reserve Bank of Australia's Prime Assets Ratio requirements.

Foreign currency liquidity risk is managed by ensuring that a positive cumulative cash flow always exists for the next 7 days' operations. A stock of liquid assets is included in this protective measure.

Funding risk

Funding risk is the risk of overreliance on a funding source to the extent that change in that funding source would increase funding cost or cause difficulty in raising funds. The Bank has a policy of funding diversification to ensure that overreliance is not placed on any one market sector.

The following table outlines the range of financial instruments used by the Economic Entity 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.

	1998 $M	1997 $M
Australia		
Cheque Accounts	**11,824**	9,341
Savings Accounts	**23,471**	21,491
Term Deposits	**24,531**	24,842
Cash Management Accounts	**8,651**	8,389
Debt Issues	**8,078**	7,845
Bank Acceptances	**9,700**	8,826
Certificates of Deposit	**2,156**	1,700
Loan Capital	**2,996**	2,801
Securities Sold Under Agreements to Repurchase	**662**	714
Other	**1,606**	1,062
Total Australia	**93,675**	87,011
Overseas		
Deposits and Interbank	**14,382**	13,881
Commercial Paper	**1,270**	1,374
Other Debt Issues	**1,260**	1,014
Bank Acceptances and Other	**27**	50
Total Overseas	**16,939**	16,319
Total Funding Sources	**110,614**	103,330
Provisions and Other Liabilities	**13,041**	9,749
Total Liabilities	**123,655**	113,079

NOTE 37 Market Risk continued

Interest rate risk

Interest rate risk in the balance sheet arises from the potential for a change in interest rates to have an adverse effect on the net interest earnings of the Bank in the current reporting period, and in future years. Interest rate risk arises from the structure and characteristics of the Bank'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 secure stable and sustainable net interest earnings in the long term.

The Bank 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 at least a monthly basis. Risk is measured assuming an immediate 1% parallel movement in interest rates across the full yield curve as well as other interest rate scenarios with variations in the size and timing of interest rate movements. Potential variations to net interest earnings are measured using a simulation model which takes into account the projected change in balance sheet level 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 Bank) is measured by taking into account both the manner in which 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)	**1998 %**	1997 %
Average monthly exposure	**2.8**	1.5
High month exposure	**3.4**	3.0
Low month exposure	**2.3**	0.5

(b) Economic value

Some of the Bank's assets and liabilities have interest rate risk that is not captured within the measure of risk to next 12 month's earnings, as the risk is beyond the next 12 months. To measure this longer term sensitivity, the Bank utilises an economic value at risk analysis. This analysis measures the potential change in the net present value of cashflows of assets and liabilities where repricing dates do not match. Assets and liabilities priced at a variable rate and at the discretion of the Bank are not included in this measure.

The economic value at risk is determined by recalculating the net present value using a rate movement based on a 95% confidence level of monthly movements in interest rates. For example, an earnings at risk exposure of $1 million means that in 95 cases out of 100, the expected net present value will not increase or decrease by more than $1 million given historical behaviour 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 these existing assets and liabilities held for purposes other than trading.

	1998 $M	1997 $M
Exposures as at 30 June	**78**	18
Average monthly exposure	**25**	46
High month exposure	**78**	72
Low month exposure	**7**	8

In each case, all market sensitive transactions (including physical assets and liabilities and derivatives) are included in the risk measures. Prepayment assumptions for measurement of the risk are not a significant issue as the Bank includes mark to market prepayment clauses in most fixed rate lending contracts.

The table following represents the Economic Entity's contractual interest rate risk sensitivity from repricing mismatches as at 30 June 1998 and the corresponding weighted average effective interest rates. The net mismatch represents the net value of assets, liabilities and off balance sheet instruments which 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 gap using delta equivalents of the option face values.

Notes to and forming part of the accounts
continued

NOTE 37 Market Risk continued

Interest Rate Risk Sensitivity

	Repricing Period at 30 June 1998								
	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	1,486	642	-	-	-	-	-	844	1.28
Receivables due from other financial institutions	2,382	1,676	680	24	-	-	2	-	7.67
Trading securities	2,210	2,210	-	-	-	-	-	-	4.73
Investment securities	3,151	1,095	53	322	332	660	528	161	5.58
Loans, advances and other receivables	77,443	38,845	4,974	5,858	7,500	18,578	2,946	(1,258)	7.49
Bank acceptances of customers	9,700	-	-	-	-	-	-	9,700	-
Deposits with regulatory authorities	831	831	-	-	-	-	-	-	-
Property, plant and equipment	1,448	-	-	-	-	-	-	1,448	-
Goodwill	531	-	-	-	-	-	-	531	-
Other assets	10,938	87	-	-	-	-	6	10,845	-
Total Assets	110,120	45,386	5,707	6,204	7,832	19,238	3,482	22,271	5.71
Liabilities									
Deposits and other public borrowings	71,620	45,934	6,542	6,250	2,417	4,787	735	4,955	3.43
Payables due to other financial institutions	1,281	945	165	-	165	6	-	-	4.17
Bank acceptances	9,700	-	-	-	-	-	-	9,700	-
Provision for dividend	321	-	-	-	-	-	-	321	-
Income tax liability	1,098	-	-	4	-	-	-	1,094	-
Other provisions	869	-	-	-	-	-	-	869	-
Debt issues	8,078	1,777	1,594	1,474	486	2,152	595	-	5.22
Bills payable and other liabilities	10,120	90	-	-	-	-	23	10,007	-
	103,087	48,746	8,301	7,728	3,068	6,945	1,353	26,946	
Loan Capital	2,996	480	953	367	-	-	1,196	-	7.30
Total Liabilities	106,083	49,226	9,254	8,095	3,068	6,945	2,549	26,946	2.97
Shareholders' Equity	6,712							6,712	
Outside equity interests in controlled entities	5							5	
Total Shareholders' Equity	6,717							6,717	
Off Balance Sheet Items									
Swaps	*	441	(3,811)	598	(641)	2,042	1,371	.	#
FRAs	*	(1,330)	595	735	-	-	-	.	#
Futures	*	-	-	(650)	650	-	-	.	#
Net Mismatch	*	(4,729)	(6,763)	(1,208)	4,773	14,335	2,304	(11,392)	#
Cumulative Mismatch	*	(4,729)	(11,492)	(12,700)	(7,927)	6,408	8,712	(2,680)	#

no rate applicable
* no balance sheet amount applicable

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.

NOTE 37 Market Risk continued

	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 %
	Repricing Period at 30 June 1998								
Overseas									
Assets									
Cash and liquid assets	40	24	-	-	-	-	-	16	-
Receivables due from other financial institutions	1,066	496	471	51	-	-	-	48	5.92
Trading securities	1,799	367	680	397	41	302	12	-	7.23
Investment securities	3,707	1,200	653	272	132	700	750	-	8.62
Loans, advances and other receivables	12,373	3,136	2,853	1,292	1,132	3,997	56	(93)	8.37
Bank acceptances of customers	27	27	-	-	-	-	-	-	-
Deposits with regulatory authorities	1	-	-	-	-	-	-	1	-
Property, plant and equipment	214	197	-	-	-	-	-	17	-
Other assets	1,197	93	-	-	-	-	-	1,104	-
Total Assets	20,424	5,540	4,657	2,012	1,305	4,999	818	1,093	7.58
Liabilities									
Deposits and other public borrowings	12,266	6,067	3,735	1,501	609	265	26	63	6.22
Payables due to other financial institutions	2,116	1,657	310	105	43	-	-	1	6.28
Bank acceptances	27	27	-	-	-	-	-	-	-
Income tax liability	1	(1)	-	-	-	-	-	2	-
Other provisions	6	5	-	-	-	-	-	1	-
Debt issues	2,530	894	353	311	65	479	428	-	4.76
Bills payable and other liabilities	626	209	-	-	-	-	-	417	-
	17,572	8,858	4,398	1,917	717	744	454	484	
Loan Capital	-	-	-	-	-	-	-	-	-
Total Liabilities	17,572	8,858	4,398	1,917	717	744	454	484	5.78
Shareholders' Equity	-								
Outside equity interests in controlled entities	172							172	
Total Shareholders' Equity	172							172	
Off Balance Sheet Items									
Swaps	*	989	1,687	266	(299)	(2,285)	(358)	-	#
Options	*	-	-	270	(270)	-	-	-	#
FRAs	*	(507)	(78)	590	8	(13)	-	-	#
Futures	*	(2)	(695)	680	(1)	11	7	-	#
Net Mismatch	*	(2,838)	1,173	1,901	26	1,968	13	437	#
Cumulative Mismatch	*	(2,838)	(1,665)	236	262	2,230	2,243	2,680	#

no rate applicable

* no balance sheet amount applicable

Notes to and forming part of the accounts

continued

NOTE 37 Market Risk continued

	Repricing Period at 30 June 1997								
	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	1,856	1,269	-	-	-	-	-	587	3.87
Receivables due from other financial institutions	2,616	2,390	10	-	-	-	-	216	4.91
Trading securities	2,178	2,178	-	-	-	-	-	-	5.61
Investment securities	4,833	1,020	1,006	5	28	1,405	677	692	5.97
Loans, advances and other receivables	70,645	34,960	4,167	5,002	9,214	16,751	1,470	(919)	8.20
Bank acceptances of customers	8,826	-	-	-	-	-	-	8,826	-
Deposits with regulatory authorities	793	793	-	-	-	-	-	-	0.89
Property, plant and equipment	1,776	-	-	-	-	-	-	1,776	-
Goodwill	574	-	-	-	-	-	-	574	-
Other assets	7,105	2	5	8	11	5	-	7,074	2.42
Total Assets	101,202	42,612	5,188	5,015	9,253	18,161	2,147	18,826	6.42
Liabilities									
Deposits and other public borrowings	67,225	42,204	6,164	5,729	4,511	4,229	166	4,222	4.10
Payables due to other financial institutions	394	382	-	-	-	12	-	-	5.27
Bank acceptances	8,826	-	-	-	-	-	-	8,826	-
Provision for dividend	291	-	-	-	-	-	-	291	-
Income tax liability	921	1	-	-	-	-	-	920	-
Other provisions	830	-	-	-	-	-	-	830	-
Debt issues	7,766	1,192	1,187	1,949	680	2,254	504	-	5.78
Bills payable and other liabilities	7,091	16	1	7	-	25	-	7,042	0.05
	93,344	43,795	7,352	7,685	5,191	6,520	670	22,131	
Loan Capital	2,801	800	666	-	-	-	1,335	-	5.77
Total Liabilities	96,145	44,595	8,018	7,685	5,191	6,520	2,005	22,131	3.53
Shareholders' Equity	6,734							6,734	
Outside equity interests in controlled entities	10							10	
Total Shareholders' Equity	6,744							6,744	
Off Balance Sheet Items									
Swaps	*	3,113	140	448	(1,756)	(2,562)	993	(376)	#
FRAs	*	(712)	(782)	1,494	-	-	-	-	#
Net Mismatch	*	418	(3,472)	(728)	2,306	9,079	1,135	(10,425)	
Cumulative Mismatch	*	418	(3,054)	(3,782)	(1,476)	7,603	8,738	(1,687)	

\# no rate applicable

* no balance sheet amount applicable

NOTE 37 Market Risk continued

					Repricing Period at 30 June 1997				
	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 %
Overseas									
Assets									
Cash and liquid assets	151	27	71	13	-	-	-	40	2.43
Receivables due from other financial institutions	2,223	1,510	427	172	-	-	-	114	5.66
Trading securities	457	32	14	9	15	299	88	-	6.74
Investment securities	4,400	584	1,239	1,060	353	792	372	-	6.94
Loans, advances and other receivables	10,987	1,305	4,543	745	1,326	3,125	64	(121)	8.73
Bank acceptances of customers	48	3	-	-	-	-	-	45	0.42
Deposits with regulatory authorities	4	1	-	-	-	-	-	3	1.29
Property, plant and equipment	234	-	-	-	-	-	-	234	-
Other assets	397	13	-	1	2	1	-	380	1.11
Total Assets	18,901	3,475	6,294	2,000	1,696	4,217	524	695	7.78
Liabilities									
Deposits and other public borrowings	10,655	5,815	2,661	1,274	582	219	-	104	6.05
Payables due to other financial institutions	3,227	2,124	676	422	5	-	-	-	5.87
Bank acceptances	48	3	-	-	-	-	-	45	0.42
Income tax liability	4	-	-	-	-	-	-	4	-
Other provisions	5	-	-	-	-	-	-	5	-
Debt issues	2,388	769	665	199	3	420	332	-	3.63
Bills payable and other liabilities	607	-	-	-	-	-	-	607	-
	16,934	8,711	4,002	1,895	590	639	332	765	
Loan Capital	-	-	-	-	-	-	-	-	-
Total Liabilities	16,934	8,711	4,002	1,895	590	639	332	765	5.58
Shareholders' Equity	112							112	
Outside equity interests in controlled entities	168					45		123	6.16
Total Shareholders' Equity	280					45		235	
Off Balance Sheet Items									
Swaps	*	680	3,103	(97)	(2,002)	(1,656)	(28)	-	#
FRAs	*	478	(37)	(520)	75	4	-	-	#
Futures	*	-	419	(430)	11	-	-	-	#
Net Mismatch	*	(4,078)	5,777	(942)	(810)	1,881	164	(305)	
Cumulative Mismatch	*	(4,078)	1,699	757	(53)	1,828	1,992	1,687	

no rate applicable

* no balance sheet amount applicable

Notes to and forming part of the accounts

continued

NOTE 37 Market Risk continued

Foreign exchange risk

Foreign exchange risk is the risk to earnings caused by a change in foreign exchange rates.

The Bank hedges all balance sheet foreign exchange risk except for long term investments in offshore subsidiaries. An adverse movement of 10% in foreign exchange rates would cause the Bank's capital adequacy ratio to deteriorate by less than 0.3% (1997: less than 0.2%)

Net deferred gains and losses

Net deferred realised and 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.

As at 30 June	Exchange Rate Related Contracts		Interest Rate Related Contracts		Total	
	1998 $M	1997 $M	**1998 $M**	1997 $M	**1998 $M**	1997 $M
Within 6 months	**67**	1	**63**	(14)	**130**	(13)
Within 6 months - 1 year	**39**	4	**(6)**	(49)	**33**	(45)
Within 1 - 2 years	**181**	33	**12**	(58)	**193**	(25)
Within 2 - 5 years	**(20)**	(48)	**(63)**	(75)	**(83)**	(123)
After 5 years	**348**	97	**(14)**	(72)	**334**	25
Net deferred gain (loss)	**615**	87	**(8)**	(268)	**607**	(181)

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 $50 million of net deferred losses on derivatives (1997: $78 million net deferred losses) used to hedge equity risk on investments disclosed within Note 11.

Market risk in financial markets trading

Traded market risk is the risk of loss from adverse movements in the level or volatility of market prices in interest rate, foreign exchange, equity and commodity markets.

Nature of trading activities

The Bank's policy is that exposure to market risk from trading activities is managed in the Financial Markets area of Institutional Banking. The Bank trades and distributes financial markets products and risk management services to clients on a global basis.

The objectives of the Bank's financial markets activities are to:

- Provide risk management products and services to customers;
- Manage the Bank's own market risks;
- Conduct controlled trading in pursuit of profit, leveraging off the Bank's market presence and expertise.

The Bank 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. Positions are also taken in the interest rate, debt, equity and commodity markets based on views of future market movements. In foreign exchange, the Bank 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. Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments.

Trading securities are further detailed in Note 10.

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include 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 Bank's financial markets activities. Derivatives are also used to manage the Bank's own exposure to fluctuations in interest and exchange rates. The Bank participates in both exchange traded and OTC derivatives markets.

Exchange traded derivatives: The Bank buys and sells exchange traded financial instruments, primarily financial futures and options on financial futures. Exchange traded derivatives have standardised terms and require lodgment of initial and variation margins in cash or other collateral at the exchange, which guarantees ultimate settlement.

NOTE 37 Market Risk continued

OTC traded derivatives: The Bank 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 with individual transaction confirmations. Documentation protects the Bank's interests should the counterparty default, and provides the ability to net outstanding balances in jurisdictions where the relevant law allows.

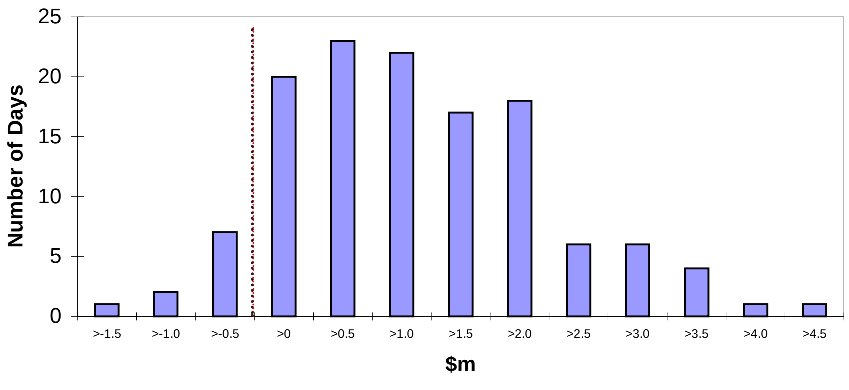
Profit contribution

Income is earned from spreads achieved through market-making and from changes in market value caused by movements in interest and exchange rates, equity prices and other market prices. 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.

Note 2 details Financial Markets contribution of $243 million to the profit of the Bank. The contribution is significant and provides important diversification benefits within the Bank's overall earnings. The risk/reward balance is highlighted by comparing the profit contribution of $243 million to the 'value at risk' (VaR) measure, explained in the section following, which has averaged approximately $3 million for the half year ended 30 June 1998. The VaR measure highlights that trading activity is undertaken within a tightly controlled environment where exposure to revenue loss from market price movements is restricted to tolerable levels based on statistical experience.

The distribution of daily earnings for the half year ended 30 June 1998 is set out in the following histogram:

Distribution of Daily Financial Markets Income



Risks and controls

The broad categories of risks associated with financial market products are credit risk, liquidity risk and market risk. These risks are independently monitored, controlled and mitigated by a system of limits, the use of various hedging strategies, credit control, daily revaluations of positions, liquidity management and a regime of accounting and systems controls.

Notes to and forming part of the accounts
continued

NOTE 37 Market Risk continued

Credit risk occurs if a counterparty defaults in performance of its obligations. Credit risk related to financial market products is assessed on a total basis for each client as part of the Bank's overall credit management process. The Bank may require lodgement of collateral for credit exposures arising from derivative products, although this is not a common practice.

Liquidity risk arises from the possibility that market changes could prevent the Bank readily obtaining prices to allow it to close out its positions. This risk is controlled by concentrating trading activity in highly liquid markets and limiting the Bank's volume of activity in less liquid markets.

Market risk is the risk of loss arising due to adverse price movements in financial markets. The Bank's major market risks are interest rate risk and exchange rate risk.

The market risk management policies of the Bank are approved by the Risk Committee of the Board, which also determines overall market risk appetite. The Risk Committee allocates a total VaR limit and delegates the day to day control and monitoring of market risk to management who set limits for each trading portfolio. The approval of trading limits and the monitoring of compliance are the responsibility of a separate Risk Management function within Institutional Banking. Institutional Banking reports regularly on its trading activity to the Risk Committee. An independent Market Risk Policy Unit monitors the Group market risk profile and integrates policy on market related exposures across the Group. The effectiveness of controls is reviewed regularly by internal audit.

Value at risk (VaR)

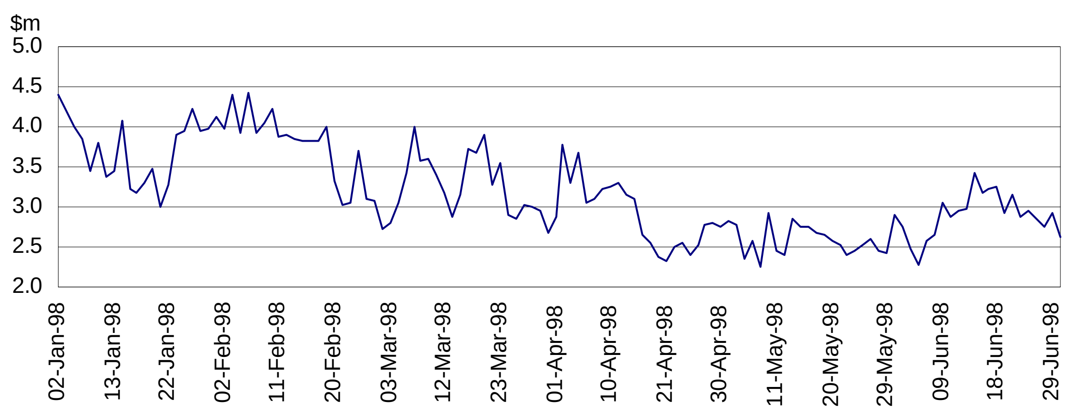
The Bank uses a VaR measure as the primary mechanism for controlling market risk. VaR is an estimate to a 97.5% confidence level of the potential loss that could occur if the Bank's positions were to be held unchanged for one business day. The VaR measure takes into account correlations between risks, ie where an exposure in one portfolio may be offset in whole or in part by an exposure in another portfolio. Actual outcomes are independently monitored and daily backtesting performed to confirm the validity of the assumptions made in the calculation of VaR.

In addition to the daily report of aggregate VaR, there are daily risk reports by:

- risk type, that is, interest rate, exchange rate, equity, volatility;
- product;
- business unit

During the year, the Bank introduced an improved VaR measure based on full Historical Simulation. The following table shows the VaR for each trading day since the improved VaR measure was introduced on 2 January 1998.

Daily Value-at-Risk



NOTE 37 Market Risk continued

The Bank trades in numerous products and markets. This provides significant diversification of risk. The following table provides a summary of VaR by product:

Risk Type	Half year to 30 June 1998 High* $M	Average $M	Low* $M
Interest rate risk	4.55	2.92	1.94
Foreign exchange risk	2.08	1.12	0.47
Implied volatility risk	0.89	0.30	0.16
Equities risk	0.37	0.13	0.00
Diversification benefit	-	(1.29)	-
Total	4.41	3.18	2.26

***** The high and low figures for each risk category may not occur on the same day. A diversification benefit therefore cannot be calculated.

In addition to monitoring VaR at a 97.5% confidence level, monitoring is also performed daily at a 99% confidence level, and for the worst case outcome over the historical period used for simulation. This additional monitoring provides a deeper understanding of the risk profile and provides a perspective on possible stress scenarios that may adversely impact the trading portfolio.

VaR provides a statistical estimate of the risk at the chosen confidence level, and not the size of losses that could potentially arise in extreme conditions. Recognising this limitation of VaR, monthly stress tests covering a variety of scenarios are also performed to simulate the impact of extreme market movements on the trading portfolios.

Comparative data on this new basis prior to 2 January 1998 is not available due to the material change in the basis of measurement, which now takes full account of diversification and correlation effects. The previous VaR risk measure ignored correlations between risks, ie where a risk in one portfolio may be offset in whole or in part by a risk in another portfolio.

For comparative purposes previously published VaR measures on an uncorrelated basis up to 31 December 1997 are included.

Correlated

	Average VaR During June 1998 Half $M	Actual VaR as at 30 June 1998 $M	Actual VaR as at 31 Dec 1997 $M	Actual VaR as at 30 June 1997 $M
Interest rate risk	N/A	N/A	N/A	N/A
Exchange rate risk	N/A	N/A	N/A	N/A
Total	3	3	4	3

Uncorrelated

	Maximum VaR During		Minimum VaR During		Average VaR During	
	Dec 1997 Half $M	June 1997 Year $M	Dec 1997 Half $M	June 1997 Year $M	Dec 1997 Half $M	June 1997 Year $M
Interest rate risk	12	15	4	7	9	10
Exchange rate risk	8	12	3	3	5	6
Total	N/A	N/A	N/A	N/A	14	16

Notes to and forming part of the accounts
continued

NOTE 37 Market Risk continued

Derivative contracts

The following table details the Bank's outstanding derivative contracts as at the end of the year.

Each derivative type is split between those held for 'Trading' purposes and 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 our 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 a number calculated using a standard Reserve Bank of Australia formula and is disclosed for each product class. This amount is a measure of the on balance sheet loan equivalent of the derivative contracts, which includes a specified percentage of the face value of each contract plus the market value of all contracts with an unrealised gain at balance date. The Credit Equivalent does not take into account any benefits of netting exposures to individual counterparties.

The accounting policy for derivative financial instruments is set out in Note 1(gg).

	Face Value 1998 $M	1997 $M	Credit Equivalent 1998 $M	1997 $M
	ECONOMIC ENTITY			

NOTE 37 **Market Risk continued**

	1998 $M	1997 $M	1998 $M	1997 $M
Derivatives:				
Exchange rate related contracts				
Forwards				
Trading	**119,979**	126,294	**5,880**	3,045
Other than trading	**-**	-	**-**	-
Total Forwards	**119,979**	126,294	**5,880**	3,045
Swaps				
Trading	**11,940**	8,040	**775**	720
Other than trading	**5,231**	4,533	**1,146**	554
Total Swaps	**17,171**	12,573	**1,921**	1,274
Futures				
Trading	**84**	98	**-**	-
Other than trading	**-**	-	**-**	-
Total Futures	**84**	98	**-**	-
Options purchased and sold				
Trading	**35,272**	16,058	**824**	242
Other than trading	**-**	-	**-**	-
Total options purchased and sold	**35,272**	16,058	**824**	242
Total exchange rate related contracts	**172,506**	155,023	**8,625**	4,561
Interest rate related contracts				
Forwards				
Trading	**11,739**	14,950	**4**	11
Other than trading	**2,586**	2,037	**-**	3
Total Forwards	**14,325**	16,987	**4**	14
Swaps				
Trading	**37,849**	24,961	**1,005**	701
Other than trading	**30,128**	25,799	**608**	483
Total Swaps	**67,977**	50,760	**1,613**	1,184
Futures				
Trading	**39,410**	53,001	**-**	-
Other than trading	**726**	134	**-**	-
Total Futures	**40,136**	53,135	**-**	-
Options purchased and sold				
Trading	**7,030**	5,675	**51**	52
Other than trading	**65**	313	**65**	-
Total options purchased and sold	**7,095**	5,988	**116**	52
Total interest rate related contracts	**129,533**	126,870	**1,733**	1,250
Equity risk related contracts				
Swaps				
Other than trading	**-**	376	**-**	9
Options purchased and sold				
Other than trading	**449**	182	**10**	-
Total equity risk related contracts	**449**	558	**10**	9
Total derivatives exposures	**302,488**	282,451	**10,368**	5,820

Notes to and forming part of the accounts

continued

NOTE 37 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 Bank's accounting policy, these unrealised gains and losses are recognised immediately in profit and loss, and together with net realised gains on trading derivatives and realised and unrealised gains and losses on trading securities, are reported within trading income under foreign exchange earnings or other financial instruments (refer Note 2). In aggregate, derivatives trading was profitable for the Bank during the year.

	ECONOMIC ENTITY			
	Fair Value		Average Fair Value	
	1998 $M	1997 $M	**1998 $M**	1997 $M
Exchange rate related contracts				
Forward contracts				
Gross unrealised gains	**4,332**	2,321	**3,988**	1,900
Gross unrealised losses	**(3,697)**	(2,377)	**(3,687)**	(1,984)
	635	(56)	**301**	(84)
Swaps				
Gross unrealised gains	**1,662**	670	**1,218**	1,066
Gross unrealised losses	**(1,925)**	(493)	**(1,326)**	(596)
	(263)	177	**(109)**	470
Futures				
Gross unrealised gains	**5**	-	**2**	-
Gross unrealised losses	**(4)**	-	**(2)**	-
	1	-	**-**	-
Options purchased and sold				
Gross unrealised gains	**602**	142	**401**	64
Gross unrealised losses	**(406)**	(124)	**(297)**	(71)
	196	18	**104**	(7)
Net Unrealised Gains on Exchange Rate Related Contracts	**569**	139	**297**	379
Interest rate related contracts				
Forward contracts				
Gross unrealised gains	**5**	8	**5**	7
Gross unrealised losses	**(7)**	(15)	**(9)**	(12)
	(2)	(7)	**(4)**	(5)
Swaps				
Gross unrealised gains	**1,648**	1,535	**1,596**	1,083
Gross unrealised losses	**(1,725)**	(1,675)	**(1,681)**	(1,524)
	(77)	(140)	**(85)**	(441)
Futures				
Gross unrealised gains	**7**	23	**13**	21
Gross unrealised losses	**(10)**	(28)	**(14)**	(23)
	(3)	(5)	**(1)**	(2)
Options purchased and sold				
Gross unrealised gains	**36**	43	**41**	33
Gross unrealised losses	**(16)**	(7)	**(12)**	(10)
	20	36	**30**	23
Net Unrealised Losses on Interest Rate Related Contracts	**(62)**	(116)	**(60)**	(425)
Net Unrealised Gains (Losses) on Trading Derivative Contracts	**507**	23	**237**	(46)

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 20)	**8,297**	4,742
Unrealised losses on trading derivatives (Note 26)	**(7,790)**	(4,719)
Net unrealised gains (losses) on trading derivatives	**507**	23

NOTE 38 Superannuation Commitments

The Economic Entity sponsors a range of superannuation plans for its employees worldwide. Details of major plans with assets in excess of $10 million are:

Name of Plan	Type	Form of Benefit
Officers' Superannuation Fund (OSF)	Defined Benefits and Accumulation	Indexed pensions and lump sums
Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA(UK)SBS)	Defined Benefits and Accumulation	Indexed pensions and lump sums

Financial Details of Defined Benefits Plans

	OSF 30/06/97 $M	CBA(UK)SBS 01/01/97 $M	Total $M
Net Market Value of Assets	5,302	85	**5,387**
Present Value of Accrued Benefits	4,022	54	**4,076**
Difference between Net Market Value of Assets and Present Value of Accrued Benefits	1,280	31	**1,311**
Difference as a percentage of plan assets	24%	36%	**24%**
Value of Vested Benefits	4,022	45	**4,067**

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 Economic Entity 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 Chief Entity ceased contributions to the OSF from 8 July 1994. Contributions to the OSF corresponding to salary sacrifice benefits ceased from 1 July 1997.

An actuarial assessment of the OSF, as at 30 June 1997, has been completed during the year ended 30 June 1998. In line with the actuarial advice contained in the assessment, the Chief Entity does not intend to make contributions to the OSF until after consideration of the next actuarial assessment of the OSF as at 30 June 2000.

Management of OSF

The Board of Directors of the Trustee of the OSF comprises an equal number of member and Chief Entity representatives.

Notes to and forming part of the accounts

continued

	Extent of Beneficial Interest if not 100%	Incorporated in	Contribution to Consolidated Profit **1998** **$M**	1997 $M
NOTE 39 Controlled Entities				
AUSTRALIA				
The Commonwealth Bank of Australia carries on business in various countries throughout the world. All other entities carry on business in their countries of incorporation.				
(a) Banking			**897**	857
Commonwealth Bank of Australia (Australia only)		Australia		
Controlled Entities:				
Commonwealth Development Bank of Australia Limited		Australia		
CBA Investments Limited		Australia		
Antarctic Shipping Pty Ltd		Australia		
Balga Pty Limited *		Australia		
Binya Pty Limited *		Australia		
Brookhollow Ave Pty Limited * (1)		Australia		
CBA Specialised Finance Limited		Australia		
Share Investments Pty Limited		Australia		
CBA Investments (No 2) Pty Ltd		Australia		
CBA Indemnity Co. Pty Limited		Australia		
CBA International Finance Pty Limited		Australia		
Collateral Leasing Pty Limited		Australia		
Chullora Equity Investments (No.2) Pty Limited *		Australia		
Chullora Equity Investments (No.3) Pty Limited *		Australia		
Commonwealth Connect Insurance Limited		Australia		
Commonwealth Investments Pty Limited		Australia		
Hazelwood Investment Company Pty Limited		Australia		
Darontin Pty Limited *		Australia		
Infravest (No. 1) Limited		Australia		
Infravest (No. 2) Limited		Australia		
Micropay Pty Limited		Australia		
Perpetual Stock Pty Limited *		Australia		
Retail Investor Pty Limited		Australia		
Sparad (No. 16) Pty Limited *		Australia		
Sparad (No. 20) Pty Limited *		Australia		
Sparad (No. 24) Pty Limited *		Australia		
Sparad (No. 29) Pty Limited *		Australia		
Sparad (No. 30) Pty Limited *		Australia		
Sparad (No. 31) Pty Limited *		Australia		
(b) Finance			**62**	58
CBFC Group				
CBFC Limited		Australia		
CBFC Leasing Pty Limited		Australia		
Commonwealth Securities Limited Group				
Commonwealth Securities Limited		Australia		
Share Direct Nominees Pty Limited *		Australia		
Comsec Nominees Pty Limited *		Australia		
Fleet Care Services Pty Limited *		Australia		
Leaseway Australia Pty Limited		Australia		

NOTE 39 **Controlled Entities continued**

	Extent of Beneficial Interest if not 100%	Incorporated in	Contribution to Consolidated Profit 1998 $M	1997 $M
(c) Life Insurance and Funds Management			**84**	75
Commonwealth Custodial Services Limited		Australia		
Commonwealth Life Limited Group				
Commonwealth Life Limited		Australia		
CLL Investments Limited		Australia		
CIF (Hazelwood) Pty Limited		Australia		
Commonwealth Investment Services Limited Group				
Commonwealth Investment Services 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		
NEW ZEALAND				
(a) Banking			**73**	63
CINZ Group [#]				
Commonwealth Investments New Zealand Limited		New Zealand		
ASB Bank Limited	75%	New Zealand		
ASB Finance Limited	75%	New Zealand		
ASB Management Services Limited	75%	New Zealand		
ASB Properties Limited	75%	New Zealand		
ASB Superannuation Nominees Limited	75%	New Zealand		
OTHER OVERSEAS				
(a) Banking			**(30)**	21
Commonwealth Bank of Australia (Offshore Branches)				
CBA Asia Limited		Singapore		
Commbank International NV [#]		Netherlands Antilles		
Resources and Investment Finance Limited	51%	Papua New Guinea		
CBA (Europe) Finance Limited		United Kingdom		
Brigidina Investments Limited [(2)]		Jersey		
Senator House Investments (UK) Limited [(3)]		United Kingdom		
(b) Finance			**4**	4
Central Real Estate Holdings Group				
Central Real Estate Holdings Corporation		USA		
Wilshire 10880 Corporation		USA		
Wilshire 10960 Corporation		USA		
CTB Australia Limited		Hong Kong		
SBV Asia Limited		Hong Kong		
Operating Profit After Tax and Outside Equity Interests			**1,090**	1,078

Non-operating controlled entities are excluded from the above list.

(1) Incorporated during the year
(2) Wholly owned subsidiary of Share Investments Pty Limited
(3) Wholly owned subsidiary of CBA International Finance Pty Limited
\# Controlled entities not audited by Ernst & Young
* Small proprietary companies not requiring audit

Notes to and forming part of the accounts

continued

NOTE 40 Investments in Associated Entities

	Book Value $M	Extent of Ownership Interest %	Principal Activities	Balance Date
EDS (Australia) Pty Limited [(1)]	239	35	Information Technology Services	31 December
IPAC Securities Limited	25	50	Funds Manager	30 June
PT Bank BII Commonwealth	12	50	Banking in Indonesia	31 December
Electronic Financial Technologies Pty Ltd	-	50	Financial Technology Development	30 June

(1) Interest acquired on 26 September 1997.

	ECONOMIC ENTITY 1998 $M
Share of associates' profits (losses) after notional goodwill amortisation	
Operating profits before income tax	**2**
Income tax expense	**(4)**
Operating profits (losses) after income tax	**(2)**
Carrying amount of investments in associated entities	
Opening balance	**60**
New investments	**248**
Share of associates' profits (losses)	**(2)**
Foreign exchange adjustment	**(30)**
Closing balance	**276**

The share of associates net profit for the year ended 30 June 1998 represents the share of associates retained profits at year-end. There were no other movements in reserves for the year. The Economic Entity's share of operating lease commitments is disclosed in Note 35.

NOTE 41 Standby Arrangements and Unused Credit Facilities

(of controlled entities that are borrowing corporations and entities subject to the Financial Corporations Act 1974)

	ECONOMIC ENTITY 1998 $M Available	1998 $M Unused	1997 $M Available	1997 $M Unused
(a) Financing arrangements accessible				
Bank overdraft	**17**	**1**	10	-
Bill facilities	**5**	**-**	-	-
	22	**1**	10	-
(b) Financing arrangements provided				
Wholesale finance	**-**	**-**	13	3
Other facilities	**1**	**-**	1	-
	1	**-**	14	3

NOTE 42 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 Australian Securities Commission Class Order No. 97/1016 dated 9 July 1997, 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 chief entity (if any). The exemption does not cover transactions which relate to the supply of goods and services to a bank, other than financial assets or services.

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

A condition of the Class Order is that the Bank must lodge a statutory declaration, signed by two directors, with the Australian Securities Commission accompanying the annual return. 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:

M A Besley AO	(Chairman)
J T Ralph AO	(Deputy Chairman)
D V Murray	(Managing Director)
I K Payne	(Executive Director - Retired 11 July 1997)
N R Adler	
A C Booth	
K E Cowley AO	
J M Schubert	
G H Slee AM	
F J Swan	
B K Ward	

Details of remuneration received or due and receivable by Directors are set out in Note 43.

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 Commission Class Order referred to above, disclosure is limited to the aggregate amount of loans made, guaranteed or secured by:

- the Chief Entity 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 1998 was:

- $468,000 to Directors of the Chief Entity (1997: $690,897); and
- $1,191,900 to Directors of related entities (1997: $1,159,760).

The aggregate amount of such loans received and repayments made was:

	LOANS RECEIVED		REPAYMENTS MADE	
	1998 $	1997 $	**1998 $**	1997 $
Directors of the Chief Entity				
Normal terms and conditions [(1)]	**-**	52,000	**111,000**	278,256
Directors of related entities				
Normal terms and conditions [(2)]	**186,663**	178,692	**154,522**	207,905

(1) Directors: I K Payne, A C Booth, B K Ward

(2) Directors: G J Judd, R J Norris, G A Thorby, W W Moyes, W G Ward-Holmes

Notes to and forming part of the accounts
continued

NOTE 42 Related Party Disclosures continued

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 1998, were:

Director	Held 30 June 1997 Ordinary	IR	Shares Acquired Ordinary	Shares Disposed Of Ordinary	IR	**Held 30 June 1998 Ordinary**
M A Besley	9,071	2,050	700	1,219	-	**10,602**
J T Ralph	9,659	2,150	633	-	1,500	**10,942**
D V Murray	17,191	33,750	1,689	5,100	-	**47,530**
I K Payne (retired 11/7/97)	2,537	650				
N R Adler	1,777	8,300	516	647	-	**9,946**
A C Booth	283	-	769	31	-	**1,021**
K E Cowley (appointed 30/9/97)			8,000	-	-	**8,000**
J M Schubert	2,517	3,000	349	605	-	**5,261**
G H Slee	2,660	-	170	292	-	**2,538**
F J Swan (appointed 11/7/97)			2,127	219	-	**1,908**
B K Ward	1,140	600	111	191	-	**1,660**

IR - Instalment Receipts evidence full beneficial ownership in an ordinary share. A second instalment of $4.45 was payable on the IRs by 14 November 1997 at which time they became fully paid ordinary shares.

All shares were acquired by Directors on normal terms and conditions or under the employee share scheme, as appropriate. Additionally D V Murray was granted 500,000 options during the year bringing his total holdings to 800,000 under the Executive Option Plan. Refer Note 28 for details.

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 Chief Entity and banks which are controlled entities occur in the ordinary course of business of the banks on an arm's length basis.

Under the Australian Securities Commission Class Order referred to above, disclosure of financial instrument transactions regularly made by a bank is limited to disclosure of such transactions with a Director of the entity concerned.

All such financial instrument transactions that have occurred between the banks and their Directors have been trivial or domestic and were in the nature of normal personal banking and deposit transactions.

Transactions other than Financial Instrument Transactions of Banks

All other transactions with Directors, director related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services by non bank controlled entities.

All such transactions that have occurred with Directors, director related entities and other related parties have been trivial or domestic and were in the nature of lodgement of deposit and debenture monies.

Controlled Entities

Transactions with related parties in the Economic Entity 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.

The Bank was negotiating to sell certain infrastructure assets to CISL Infrastructure Trust, a controlled entity, as at 30 June 1998 as a prelude to being on sold into the market. The sale is on an arms length basis, the sale price based on independent valuations and negotiations with third party underwriters. The Bank's results at 30 June 1998 include unrealised gains and losses on infrastructure assets.

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 39 for details of controlled entities.

The Bank's aggregate investment in and loans to controlled entities are disclosed in Note 17. 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 42 Related Party Disclosures continued

Commonwealth Development Bank of Australia ('CDB')

On 24 July 1996 the Commonwealth Government sold its 8.1% shareholding in the CDB to the Bank.

Commonwealth Guarantee of the Bank's Liabilities

The liabilities of the Bank and its controlled entity, Commonwealth Development Bank of Australia, as at 30 June 1996 were guaranteed by the Commonwealth under a statute of the Australian Parliament.

Such guarantee is being progressively phased out following the Government sell-down on 19 July 1996. Refer Note 25 for full details of transitional measures. The removal of the guarantee has not materially affected either the borrowing costs or the borrowing capabilities of the Bank.

NOTE 43 Remuneration of Directors

Total amount received or due and receivable by non-executive Directors of the Chief Entity for the year ended 30 June 1998 was:

	Fees [1] $
Non-Executive Directors	
Mr M A Besley, AO	165,720
Mr J T Ralph, AO	90,380
Mr N R Adler	61,430
Ms A C Booth	61,430
Mr K E Cowley AO [2]	40,843
Dr J M Schubert	64,413
Mr G H Slee, AM	74,413
Mr F J Swan [3]	72,660
Ms B K Ward	64,413

(1) Includes Directors' and Committees' fees.
(2) Mr Cowley was appointed a Director on 30 September 1997.
(3) Mr Swan was appointed a Director on 11 July 1997.

	CHIEF ENTITY	
	1998 $	1997 $
Total amount received or due and receivable by executive and non executive Directors (includes accumulated benefits due to Directors who retired during the year)	**3,608,073**	2,766,887

The number of executive and non-executive Directors whose remuneration fell within these bands was:

Remuneration (Dollars)	**Number**		Number	
\$ 0 - \$ 10,000	**-**		1	
\$ 40,001 - \$ 50,000	**1**		-	
\$ 50,001 - \$ 60,000	**-**		7	*
\$ 60,001 - \$ 70,000	**4**		1	
\$ 70,001 - \$ 80,000	**2**		1	
\$ 90,001 - \$ 100,000	**1**		-	
\$ 120,001 - \$ 130,000	**-**		1	
\$ 160,001 - \$ 170,000	**1**		-	
\$ 170,001 - \$ 180,000	**-**		1	**
\$ 650,001 - \$ 660,000	**-**		1	
\$1,060,001 - \$1,070,000	**1**	#	-	
\$1,320,001 - \$1,330,000	**-**		1	
\$1,840,001 - \$1,850,000	**1**		-	
	11		14	

Remuneration includes retirement payment to Mr I K Payne who retired on 11 July 1997.

* Remuneration includes retirement allowance scheme payments to Mr I Deveson and Mr G M Pemberton who were paid during the financial year, but actually retired during previous years.

** Remuneration includes retirement allowance scheme payment to Mr G Gleeson.

Notes to and forming part of the accounts
continued

NOTE 43 Remuneration of Directors continued

	ECONOMIC ENTITY 1998 $	1997 $
Total amount received or due and receivable by executive and non executive Directors of the Bank and controlled entities	**4,272,934**	3,331,388

Remuneration includes share options granted to executive directors under the Executive Option Plan in 1996 and 1997. The fair value of the options has been determined in accordance with the principles of US SFAS 123 'Accounting for Stock-Based Compensation'. Refer to Notes 28 and 47(c) for details of the Executive Option Plan.

NOTE 44 Remuneration of Executives

The following table shows remuneration for the five highest paid members of the senior executive team who were officers of the Bank at 30 June 1998.

Senior Executive Team

Name & Position	Year	Base Pay (1) $	Bonus $	Other Compensation (2) $	Total Compensation $	Option Grant (3) Number	Exercise Price (3) $	Date First Exercisable
D V Murray	1998	1,000,000	450,000	265,700	1,715,700	500,000	15.53	4 Nov 2000
Managing Director & CEO	1997	800,000	400,000	85,540	1,285,540	300,000	11.85	13 Nov 1999
A E Long	1998	500,000	175,000	223,573	898,573	150,000	15.53	4 Nov 2000
Head of Customer Service Division	1997	312,000	120,000	181,081	613,081	75,000	11.85	13 Nov 1999
M A Katz	1998	600,000	160,000	133,500	893,500	250,000	15.53	4 Nov 2000
Head of Institutional Banking	1997	470,000	125,000	58,790	653,790	150,000	11.85	13 Nov 1999
M J Ullmer	1998	496,712 (4)	150,000	245,440	892,152	200,000	15.53	4 Nov 2000
Group General Manager Financial & Risk Management	1997	n/a	n/a	n/a	n/a	n/a	n/a	n/a
J F Mulcahy	1998	500,000	200,000	126,000	826,000	250,000	15.53	4 Nov 2000
Head of Banking & Financial Services	1997	380,000	160,000	49,160	589,160	150,000	11.85	13 Nov 1999

(1) Base Pay is calculated on a Total Cost basis and includes any FBT charges related to employee benefits including motor vehicles.

(2) Other Compensation includes, where applicable, superannuation, housing (including FBT), car parking (including FBT), and other payments.

(3) Option Grants are a right to buy ordinary shares at an exercise price which is the Market Value (as defined in the Plan Rules) at the date of issue of the options, plus a premium representing the time value component of the value of options. The ability to exercise is conditional on the Bank achieving a prescribed performance hurdle. To reach the performance hurdle, the Bank's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of Total Shareholder Return achieved by companies represented in the ASX's 'Bank's and Finance Accumulation Index', excluding the Bank. If the performance hurdle is not met, the options will have nil value. The options have a maximum term of five years and are exercisable after three years. Refer Note 28.

(4) From commencement of employment in October 1997.

Two executives retired during the year. Their total emoluments, including retirement and resignation benefits put them into the group of the five highest paid executives in the year but they are not included in the table because they were not in the Bank's employ at 30 June 1998.

NOTE 44 Remuneration of Executives continued

The following table shows the number of executives whose remuneration fell within the stated bands:

	ECONOMIC ENTITY			CHIEF ENTITY		
	1998		1997	**1998**		1997
Remuneration (Dollars)	**Number**		Number	**Number**		Number
$ 120,000 - $ 129,999	**1**		-	**1**		-
$ 190,000 - $ 199,999	**-**		1	**-**		1
$ 200,000 - $ 209,999	**-**		1	**-**		1
$ 210,000 - $ 219,999	**1**		-	**1**		-
$ 230,000 - $ 239,999	**-**		1	**-**		1
$ 250,000 - $ 259,999	**2**		-	**2**		-
$ 260,000 - $ 269,999	**-**		1	**-**		1
$ 280,000 - $ 289,999	**-**		1	**-**		1
$ 290,000 - $ 299,999	**1**		-	**1**		-
$ 300,000 - $ 309,999	**2**		1	**2**		1
$ 310,000 - $ 319,999	**-**		1	**-**		1
$ 320,000 - $ 329,999	**1**	#	2	**1**	#	2
$ 330,000 - $ 339,999	**-**		2	**-**		2
$ 340,000 - $ 349,999	**-**		2	**-**		2
$ 350,000 - $ 359,999	**1**		-	**1**		-
$ 360,000 - $ 369,999	**2**	#	2	**2**	#	2
$ 370,000 - $ 379,999	**-**		2	**-**		2
$ 380,000 - $ 389,999	**4**		1	**4**		1
$ 390,000 - $ 399,999	**1**		3	**1**		3
$ 400,000 - $ 409,999	**1**		-	**1**		-
$ 420,000 - $ 429,999	**3**		-	**3**		-
$ 430,000 - $ 439,999	**2**		-	**2**		-
$ 440,000 - $ 449,999	**1**		-	**1**		-
$ 460,000 - $ 469,999	**2**		1	**2**		1
$ 470,000 - $ 479,999	**1**		-	**1**		-
$ 490,000 - $ 499,999	**-**		1	**-**		1
$ 500,000 - $ 509,999	**-**		1	**-**		1
$ 540,000 - $ 549,999	**1**		-	**1**		-
$ 560,000 - $ 569,999	**-**		1	**-**		1
$ 600,000 - $ 609,999	**1**		1	**1**		1
$ 610,000 - $ 619,999	**-**		1	**-**		1
$ 620,000 - $ 629,999	**1**		1	**1**		1
$ 650,000 - $ 659,999	**-**		1	**-**		1
$ 670,000 - $ 679,999	**-**		1	**-**		1
$ 780,000 - $ 789,999	**1**		-	**1**		-
$ 890,000 - $ 899,999	**1**		-	**1**		-
$ 920,000 - $ 929,999	**1**		-	**1**		-
$ 930,000 - $ 939,999	**1**		-	**1**		-
$ 950,000 - $ 959,999	**1**		-	**1**		-
$1,060,000 - $1,069,999	**1**	#	-	**1**	#	-
$1,070,000 - $1,079,999	**1**	#	-	**1**	#	-
$1,320,000 - $1,329,999	**-**		1	**-**		1
$1,840,000 - $1,849,999	**1**		-	**1**		-
Total number of executives	**37**		31	**37**		31

Notes to and forming part of the accounts

continued

NOTE 44 Remuneration of Executives continued

	ECONOMIC ENTITY		CHIEF ENTITY	
	1998 $	1997 $	**1998 $**	1997 $
Total amount received or due and receivable by executives (includes accumulated benefits due to executives who retired during the year).	**19,779,164**	13,384,814	**19,779,164**	13,384,814

\# Includes termination payments to 4 retired, resigned, or retrenched executives during the 1997/98 financial year.

An executive is a person who works in Australia and is either a participant in the Bank's Executive Option Plan or is otherwise directly accountable and responsible to the Managing Director for strategic direction or operational management functions. Participation in the Executive Option Plan is limited to executives who, in the opinion of the Managing Director and the Board are able by virtue of their responsibility, experience and skill to influence the generation of shareholder wealth.

Remuneration is based on amounts paid and accrued with respect to the financial year, and includes share options granted to executives under the Executive Option Plan in 1996 and 1997. The fair value of options has been determined in accordance with the principles of US SFAS 123 'Accounting for Stock-Based Compensation'. Refer to Notes 28 and 47(c) for details of the Executive Option Plan.

1997 comparatives have been restated where appropriate.

The Bank's Policy in respect of executives is that:

- Remuneration will be competitively set so that the Bank can seek to attract, motivate and retain high quality local and international executive staff;
- Remuneration will incorporate, to a significant degree, variable pay for performance elements, both short term and long term focussed as appropriate, which will:
  - reward executives for Group, business unit and individual performance against appropriate benchmarks/goals;
  - align the interests of executives with those of shareholders;
  - link executive reward with the strategic goals and performance of the Bank;
  - 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 Bank'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.

NOTE 45 Statements of Cash Flows

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.

	ECONOMIC ENTITY			CHIEF ENTITY	
	1998 $M	1997 $M	1996 $M	**1998 $M**	1997 $M
Notes, coins and cash at bankers	**951**	1,091	479	**909**	1,060
Other short term liquid assets	**247**	241	1,270	**157**	195
Receivables due from other financial institutions - at call	**2,925**	3,502	3,625	**2,681**	3,294
Payables due to other financial institutions - at call	**(2,160)**	(1,516)	(1,073)	**(1,772)**	(1,134)
Cash and Cash Equivalents at end of year	**1,963**	3,318	4,301	**1,975**	3,415

Note (b) Cash Flows presented on a Net Basis

Cash flows arising from the following activities are presented on a net basis in the Statements 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

	1998 $M	1997 $M	1996 $M	**1998 $M**	1997 $M
Operating profit after income tax	**1,110**	1,100	1,141	**883**	948
(Increase) decrease in interest receivable	**(13)**	80	171	**(33)**	78
Increase (decrease) in interest payable	**75**	5	(125)	**(32)**	-
Net (increase) decrease in trading securities	**(646)**	556	2,374	**(591)**	487
Net (gain) loss on sale of investment securities	**(101)**	(4)	10	**(119)**	(4)
Charge for bad and doubtful debts	**233**	98	113	**224**	85
Depreciation and amortisation	**233**	280	293	**197**	249
Other provisions	**(74)**	36	63	**(71)**	34
Increase (decrease) in income taxes payable	**46**	(222)	91	**45**	(240)
Increase (decrease) in deferred income taxes payable	**128**	97	61	**43**	48
(Increase) decrease in future income tax benefits	**(158)**	22	50	**(146)**	45
Amortisation of discount on debt issues	**261**	256	139	**260**	256
Amortisation of premium (discount) on investment securities	**26**	(13)	56	**29**	(31)
Unrealised (gain) loss on revaluation of trading securities	**(484)**	(147)	89	**(484)**	(147)
Abnormal item	**492**	200	-	**492**	200
Other	**(241)**	47	85	**(180)**	64
Net Cash provided by Operating Activities	**887**	2,391	4,611	**517**	2,072

Note (d) Non Cash Financing and Investing Activities

Shares issued under the Dividend Reinvestment Plan $452 million (1997: $426 million) and Employee Share Acquisition Plan $28 million (1997: $28 million).

Notes to and forming part of the accounts
continued

	ECONOMIC ENTITY		
	1998 $M	1997 $M	1996 $M
NOTE 45 Statements of Cash Flows continued			

Note (e) Acquisition of Controlled Entities

During 1997, the Bank acquired 100% of the share capital of Commonwealth Funds Management and Leaseway and the 8.1% minority interest in Commonwealth Development Bank.
Details of controlled entities acquired during the financial year are as follows:

	1998 $M	1997 $M	1996 $M
Consideration			
Cash paid on acquisition	-	88	-
Fair value of net tangible assets acquired			
Cash	-	22	-
Investment securities	-	2	-
Loans, advances and other receivables	-	15	-
Property, plant and equipment	-	4	-
Other assets	-	6	-
Outside equity interest	-	28	-
Income tax liability	-	(3)	-
Other provisions	-	(5)	-
Bills payable and other liabilities	-	(6)	-
	-	63	-
Discount on acquisition	-	(16)	-
Goodwill	-	41	-
	-	88	-
Outflow of cash on acquisition			
Cash payments	-	88	-
Less cash and cash equivalents acquired	-	(22)	-
	-	66	-

Note (f) Financing Facilities

Standby funding lines with overseas banks as at 30 June 1998 amounted to AUD equivalent $21 million (1997: $21 million).

NOTE 46 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 Economic Entity's financial instruments lack an available trading market as characterised by willing parties engaging in an exchange transaction. In addition, it is the Bank's intent to hold most of its financial instruments to maturity and therefore it is not probable that the net fair values shown will be realised in a current transaction.

The estimated net fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments. In addition, the value of long-term relationships with depositors (core deposit intangibles) and other customers (credit card intangibles) are not reflected. The value of these items is significant.

Because of the wide range of valuation techniques and the numerous estimates which must be made, it may be difficult to make reasonable comparisons of the Bank's net fair value information with that of other financial institutions. It is important that the many uncertainties discussed above be considered when using the estimated net fair value disclosures and to realise that because of these uncertainties, <u>the aggregate net fair value amount should in no way be construed as representative of the underlying value of the Commonwealth Bank of Australia.</u>

	ECONOMIC ENTITY			
	1998		1997	
	Carrying Value $M	**Net Fair Value $M**	Carrying Value $M	Net Fair Value $M
Assets				
Cash and liquid assets	**1,526**	**1,526**	2,007	2,007
Receivables due from other financial institutions	**3,448**	**3,448**	4,839	4,839
Trading securities	**4,009**	**4,009**	2,635	2,635
Investment securities	**6,858**	**7,079**	9,233	9,562
Loans, advances and other receivables	**89,816**	**92,646**	81,632	84,958
Bank acceptances of customers	**9,727**	**9,727**	8,874	8,874
Deposit accounts with regulatory authorities	**832**	**832**	797	797
Other assets	**12,054**	**12,518**	7,301	7,560
Liabilities				
Deposits and other public borrowings	**83,886**	**84,305**	77,880	78,439
Payables due to other financial institutions	**3,397**	**3,397**	3,621	3,621
Bank acceptances	**9,727**	**9,727**	8,874	8,874
Debt issues	**10,608**	**10,828**	10,154	10,276
Bills payable and other liabilities	**10,616**	**10,856**	7,590	7,574
Loan Capital	**2,996**	**3,170**	2,801	2,847
Asset and liability hedges - unrealised gains/(losses) (Refer Note 37)	**-**	**557**	-	(259)

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.

Notes to and forming part of the accounts
continued

NOTE 46 Disclosures about Fair Value of Financial Instruments continued

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 (ie 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.

The net fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

For shares in companies, the estimated net fair values are based on quoted market prices.

Statutory deposits with central banks

In Australia, and several other countries in which the Economic Entity operates, the law requires that the Economic Entity 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 Economic Entity is only able to continue as a going concern with the maintenance of these deposits.

All other financial assets

The net fair value includes the value of the net worth and the business in force of CLL (known as the embedded value), which has been actuarially assessed to be $480 million as at 30 June 1998 (1997: $400 million), $445 million (1997: $365 million) in excess of carrying value in the Chief Entity.

Also included in this category are fees receivable, unrealised income and investments in associates ($276 million) where the carrying amount is considered to be a reasonable estimate of net fair value.

Other financial assets are net of goodwill, future income tax benefits and prepayments/unamortised payments as these do not constitute a financial instrument.

Deposits and other public borrowings

The net fair value of non interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, is the carrying value as at 30 June. Discounted cash flow models based upon deposit type and its related maturity, were used to calculate the net fair value of other term deposits.

Short term liabilities

The carrying value of payables due to other financial institutions and bank acceptances approximate their net fair value as they are short term in nature and reprice frequently.

Debt issues and loan capital

The net fair values of debt issues and loan capital were calculated based on quoted market prices as at 30 June. For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument was used.

All other financial liabilities

This category includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value. For liabilities which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

Other provisions including provision for dividend, income tax liability and unamortised receipts are not considered financial instruments.

Asset and liability hedges

Net fair value of asset and liability hedges is based on quoted market prices, broker or dealer price quotations.

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

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risk and attract fees in line with market prices for similar arrangements. They are not presently sold or traded. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. The net fair value may be represented by the present value of fees expected to be received, less associated costs. The overall level of fees involved is not material.

NOTE 46 Disclosures about Fair Value of Financial Instruments continued

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 37.

NOTE 47 Differences between Australian and United States Accounting Principles

The consolidated financial statements of the Bank 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 accounts and which would be reported in accordance with US GAAP.

	Footnote	**1998 $M**	1997 $M	1996 $M
Consolidated Statements of Profit and Loss				
Net profit reported under Australian GAAP		**1,090**	1,078	1,119
Restatement of deferred tax balances resulting from change in tax rate	(a)	**-**	-	16
Tax effect of increase in general provision for bad and doubtful debts	(a)	**(248)**	28	50
Employee share compensation	(c)	**(1)**	(57)	-
Unrealised net gain on available for sale securities	(f)	**(65)**	-	-
Pension expense adjustment	(i)	**20**	44	45
Adjustment on adoption of new ISC Life Insurance Rules	(k)	**-**	(11)	-
Net income according to US GAAP		**796**	1,082	1,230
Earnings per share according to US GAAP (cents)		**85.6**	118.0	127.0
Shareholders' Equity				
Shareholders' equity reported under Australian GAAP, excluding outside equity interests		**6,712**	6,846	7,190
Tax effect of foreign currency translation reserve	(a)	**(15)**	(20)	(10)
Reinstatement of the deferred tax asset relating to general provision for bad and doubtful debts	(a)	**-**	248	221
Provision for final cash dividend	(d)	**321**	291	301
Unrealised net gain(loss) on available for sale securities	(f)	**198**	24	9
Prepaid pension cost	(i)	**648**	616	548
Tax effect of prepaid pension cost	(i)	**(233)**	(222)	(197)
Shareholders' equity according to US GAAP		**7,631**	7,783	8,062
Consolidated Balance Sheets				
Total assets reported under Australian GAAP		**130,544**	120,103	109,285
Reinstatement of the deferred tax asset relating to general provision for bad and doubtful debts at year end	(a)	**-**	248	221
Assets relating to life insurance statutory funds	(e)	**7,959**	7,249	6,307
Unrealised net gain(loss) on available for sale securities	(f)	**309**	37	14
Prepaid pension cost	(i)	**648**	616	548
Total assets according to US GAAP		**139,460**	128,253	116,375

Notes to and forming part of the accounts

continued

NOTE 47 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 Bank 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:

- 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. The restatement of the deferred tax balances resulting from the 1995 Australian tax rate change in respect of the 1996 financial year is included as a US GAAP adjustment; and
- 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.

The general provision for bad and doubtful debts has been tax effected as at 1 January 1998. This reflects the adoption of a balance sheet risk based dynamic provisioning methodology which satisfies the recognition requirement that utilisation of the provision be assured beyond reasonable doubt. Previously the related deferred tax asset associated with the Bank's general provision was not recognised. For US GAAP recognition purposes, the related deferred tax asset is recognised. The 1998 US GAAP net income adjustment of $248 million represents the cumulative deferred tax asset previously recognised as income for US GAAP. (Also refer Note 1(o)). Similarly for US GAAP purposes, the tax effect of the foreign currency translation reserve is booked as a deferred tax liability.

Investment Securities

Income from tax exempt securities does not exceed $500,000.

Tax related to gains/losses on investment securities sales is $37 million (1997: $1.4 million, 1996: $3.6 million benefit).

(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' have been included at footnote (j) within this note.

The Bank has 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 Bank. 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 share issue is shown as a reduction to shareholder reserves. 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 Bank's performance for the prior years.

NOTE 47 Differences between Australian and United States Accounting Principles continued

(c) Employee Share Compensation continued

Further, under US GAAP, in accordance with the Employee Share Acquisition Plan an accrual for the probable grant of shares is required.

Also under US GAAP, the fair value of the options issued under the Executive Option Plan is included as part of employee compensation and charged to profit and loss.

The fair value of the options (issued on 16 December 1996), being 45c per option, has been determined using Black-Scholes option pricing model with the following assumptions at the date of issue: expected volatility of 17.5%, risk free interest rate of 6.94%, dividend rate of 8.18%, expected life of 39 months and a 50% probability for the performance hurdle.

The fair value of options (issued on 11 December 1997), being 89c per option, has also been determined using Black-Scholes option pricing model with the following assumptions at the date of issue: expected volatility of 19.1%, risk free interest rate of 5.88%, dividend rate of 5.96% expected life of 39 months and a 50% probability for the performance hurdle.

Movement in Executive Options during the year	Number	Exercise Price
Options outstanding at 1 July 1997	2,100,000	11.85
Options granted during the year	2,875,000	15.53
Options forfeited during the year (December 1996 plan)	(225,000)	11.85
Options forfeited during the year (December 1997 plan)	(75,000)	15.53
Options outstanding at 30 June 1998	4,675,000	

Outstanding options at 30 June 1998	Number	Exercise Price	Expiry Date
December 1996 options	1,875,000	11.85	12 Nov 2001
December 1997 options	2,800,000	15.53	3 Nov 2002

The weighted average exercise price for options outstanding at 30 June 1998 is $14.05.

The weighted average remaining contractual life of these options is 4 years.

The other disclosure requirements of SFAS 123 'Accounting for Stock-Based Compensation' in respect of the employee share plans are included in Note 28.

(d) Provisions

The term 'provisions' is used in Australian GAAP to designate accrued expenses with no definitive payment date. Provisions, principally disclosed in Note 24 comply in all material respects with US GAAP with the exception of the provision for the final cash dividend (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 1998 of $122 million (refer Note 24) includes staff redundancy costs of $85 million. The abnormal restructuring charge also includes staff redundancy costs of $37 million which had been incurred at 30 June 1998. The restructuring charge allows for 3,000 redundancies. A total of 800 redundancies under the relevant restructuring programmes occurred by 30 June 1998 and approximately 2,200 further are planned. The redundancies principally involve rationalisation of processing and administration functions, implementation of the new organisational structure and reconfiguration of delivery systems.

(e) Life Insurance Controlled Entity

For Australian GAAP the assets of the statutory funds and the liabilities of the funds to its policyholders are excluded from the consolidated balance sheet (Note 1 (jj)). An adjustment has been made for this in relation to US GAAP. All related investments are brought to account at market values.

Notes to and forming part of the accounts
continued

NOTE 47 Differences between Australian and United States Accounting Principles continued

Life Insurance Statutory Fund Assets

The following fair value table of the investments of the life company shows the unrealised gains/losses by major category:

	At 30 June 1998				At 30 June 1997			
	Fair Value $M	**Gross Unrealised Gains $M**	**Gross Unrealised Losses $M**	**Amortised Cost $M**	Fair Value $M	Gross Unrealised Gains $M	Gross Unrealised Losses $M	Amortised Cost $M
Investments								
Government securities								
Australia	**791**	**28**	**-**	**763**	578	31	-	547
Overseas	**177**	**16**	**1**	**162**	17	1	-	16
Local and semi-government securities	**729**	**22**	**-**	**707**	973	34	-	939
Equity investments	**2,026**	**488**	**134**	**1,672**	1,611	343	30	1,298
Promissory notes	**-**	**-**	**-**	**-**	869	6	-	863
Certificates of deposit	**-**	**-**	**-**	**-**	1,034	12	-	1,022
Bank accepted bills	**22**	**-**	**-**	**22**	795	6	-	789
Other investments	**1,112**	**36**	**1**	**1,077**	1,024	28	1	997
Cash	**3,062**	**-**	**-**	**3,062**	290	-	-	290
Other assets	**40**	**-**	**-**	**40**	58	-	-	58
	7,959	**590**	**136**	**7,505**	7,249	461	31	6,819

Fair Value Maturity Distribution of Debt Securities

The tables analyse the maturities on a fair value basis:

	At 30 June 1998					At 30 June 1997				
	Maturing 1 year or less $M	**Maturing Between 1 and 5 years $M**	**Maturing Between 5 and 10 years $M**	**Maturing After 10 Years $M**	**Total $M**	Maturing 1 year or less $M	Maturing Between 1 and 5 years $M	Maturing Between 5 and 10 years $M	Maturing After 10 Years $M	Total $M
Investments										
Government securities										
Australia	**127**	**465**	**113**	**86**	**791**	1	370	165	42	578
Overseas	**18**	**82**	**46**	**31**	**177**	-	1	3	13	17
Local and semi-government	**247**	**358**	**106**	**18**	**729**	188	711	46	28	973
Promissory notes	**-**	**-**	**-**	**-**	**-**	869	-	-	-	869
Certificates of deposit	**-**	**-**	**-**	**-**	**-**	637	272	-	125	1,034
Bank accepted bills	**22**	**-**	**-**	**-**	**22**	795	-	-	-	795
Other investments	**251**	**559**	**-**	**302**	**1,112**	313	409	-	302	1,024
Cash	**3,062**	**-**	**-**	**-**	**3,062**	290	-	-	-	290
Other assets	**40**	**-**	**-**	**-**	**40**	58	-	-	-	58
	3,767	**1,464**	**265**	**437**	**5,933**	3,151	1,763	214	510	5,638

NOTE 47 Differences between Australian and United States Accounting Principles continued

(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 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 shareholders' equity.

Trading securities under Australian GAAP include infrastructure equity securities on hand at 30 June 1998. These securities are revalued to market with the unrealised gain or loss at balance sheet date taken to profit and loss. Under US GAAP these securities are classified as 'Available-for-Sale' and the unrealised gain taken to shareholders' equity rather than profit and loss. The disclosure requirements of SFAS 115 'Accounting for Certain Investments in Debt and Equity Securities' in respect of available-for-sale securities have been included at footnote (m) within this note.

(g) Net Profit

Under US GAAP the concept of 'operating profit' is not recognised. Net profit under Australian GAAP is operating profit after tax including 'abnormal items' 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 abnormal items.

Notes to and forming part of the accounts
continued

NOTE 47 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	1998 $M	1997 $M	1996 $M
Assets				
Available for sale securities under Australian GAAP		**-**	-	-
Reclassification to available for sale securities	(f)	**6,999**	2,129	2,838
Restatement of available for sale securities to fair value	(f)	**309**	37	14
According to US GAAP		**7,308**	2,166	2,852
Investment securities under Australian GAAP		**6,858**	9,233	8,394
Reclassification to available for sale securities	(f)	**(6,858)**	(2,129)	(2,838)
According to US GAAP		**-**	7,104	5,556
Trading securities under Australian GAAP		**4,009**	2,635	2,883
Reclassification to available for sale securities	(f)	**(141)**	-	-
According to US GAAP		**3,868**	2,635	2,883
Other assets under Australian GAAP		**11,859**	7,502	5,268
Deferred tax assets on general provision for bad and doubtful debts	(a)	**-**	248	221
Assets relating to life insurance statutory funds	(e)	**7,959**	7,249	6,307
Prepaid pension cost	(i)	**648**	616	548
According to US GAAP		**20,466**	15,615	12,344
Liabilities				
Income tax liability under Australian GAAP		**1,099**	925	1,050
Tax effect of foreign currency translation reserve	(a)	**15**	20	10
Deferred tax liability on unrealised gain on available for sale securities	(f)	**111**	13	5
Deferred tax liability on pension income	(i)	**233**	222	197
According to US GAAP		**1,458**	1,180	1,262
Provision for dividend under Australian GAAP		**321**	291	301
Reversal of provision for final cash dividend	(d)	**(321)**	(291)	(301)
According to US GAAP		**-**	-	-
Bills payable and other liabilities under Australian GAAP		**10,746**	7,698	5,992
Liabilities relating to life insurance statutory funds	(e)	**7,959**	7,249	6,307
According to US GAAP		**18,705**	14,947	12,299

NOTE 47 Differences between Australian and United States Accounting Principles continued

(i) Details of Pension Expense and Reconciliation of Funded Status of Pension Plans

The Bank and its controlled entities sponsor a range of superannuation (pension) plans for its employees worldwide.

The Bank's accounting policy for superannuation expense, under Australian GAAP reporting, is set out in Note 1(ll) 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 38 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. Other defined benefit funds are immaterial for US GAAP reconciliation purposes.

For the financial year ended 30 June 1996, the Bank adopted 30 June as the measurement date for plan assets and obligations. Effective from the financial year ended 30 June 1997, the Bank has adopted 31 March as the measurement date for plan assets and obligations.

The plan assets consist primarily of listed equities, debt securities and property.

The OSF does not hold any equity in the Bank's paid capital. Amounts on deposit with the Bank at 30 June 1998 totalled $73 million (1997: $145 million and 1996: $4 million). Other investments with the Bank and/or controlled entities at 30 June 1998 were $40 million (1997: $10 million and 1996: $92 million).

The table displays the elements of the net pension expense for each financial year and the funded status as at 30 June 1996, 31 March 1997 and 31 March 1998 for the OSF. The assumptions used in the calculations were a discount rate of 6.50% (1997: 8.00%, 1996: 9.00%), compensation increase rate of 4.25% (1997: 4.50%, 1996: 5.00%) and return on assets of 7.50% (1997: 8.25%, 1996: 9.00%).

Pension plan	**1998 $M**	1997 $M	1996 $M
Service cost	**(80)**	(62)	(68)
Interest cost	**(328)**	(344)	(342)
Actual return on assets	**911**	353	425
Net amortisation and deferral of costs	**(447)**	141	69
Employer financed benefits within Accumulation Division	**(24)**	(21)	(14)
Net periodic pension (cost) income	**32**	67	70
Expensed employer contribution	**-**	1	1
	32	68	71
Less tax effect	**(12)**	(24)	(26)
Pension expense adjustment - see US GAAP Reconciliation	**20**	44	45
Fund status at measurement date:			
Vested benefit obligation	**3,032**	2,924	2,563
Non vested benefit obligation	**328**	312	198
Accumulated benefit obligation	**3,360**	3,236	2,761
Effect of future salary projections	**1,004**	876	1,061
Projected benefit obligation	**4,364**	4,112	3,822
Fair value of assets	**(5,279)**	(4,896)	(4,815)
Funded status	**(915)**	(784)	(993)
Assets not recognised:			
Transitional obligation assets	**414**	483	552
Unrecognised net loss	**(147)**	(315)	(107)
Unrecognised prior service costs	**-**	-	-
Employer contribution from measurement date to balance date	**-**	-	-
Prepayment of pension costs	**(648)**	(616)	(548)

Additionally, a deferred tax liability has been taken up for US GAAP reconciliation purposes in respect of the above prepayment of pension costs.

Notes to and forming part of the accounts
continued

NOTE 47 Differences between Australian and United States Accounting Principles continued

(j) Employee Benefits - Post Retirement Benefits Other Than Pensions

Health Care Subsidies

The Bank provides a benefit to employees including retirees who were members of the 'Commonwealth Bank Health Society (Friendly Society)' (CBHS) as at 6 July 1995 and met certain criteria. The benefit provided by the Bank is in the form of financial assistance to eligible employees and retirees with their private health insurance premium. All staff who joined the CBHS on or after 7 July 1995 are not eligible for any benefits. The CBHS is a friendly society registered under the Friendly Societies Act 1989 (NSW) and a health benefit organisation under the National Health Act 1953.

As at 30 June 1996, the agreement between the Bank and the Finance Sector Union provided for those members of the CBHS who were retired as at 30 June 1995 an ongoing fixed subsidy indexed to a maximum of the movements in the Consumer Price Index whenever the members' health insurance premiums in CBHS increase. Eligible members who retired between 30 June 1995 and 31 July 1996 are provided with a fixed ongoing premium subsidy in accordance with their benefit category. Other than the subsidised health insurance premium, which is fully provided for, the Bank does not have a post retirement health care liability.

Concessional housing loans

The Bank provides housing loans at concessional interest rates to assist with private housing for staff who meet certain criteria. Except for certain executive and senior executive staff whose remuneration package excludes a post retirement concessional interest rate loan, the Bank provides post retirement interest concessions for all retirees on the following basis. Staff with housing loans prior to 1 April 1997 and taken into retirement may be repaid over the remainder of the specified term of the loan. Borrowings on or after 1 April 1997 but before 1 April 2002 may be retained in retirement until 1 April 2007 at which time the concession will cease. Borrowings after 1 April 2002 may be retained into retirement for a period of five years at which time the concession will cease. No new or additional loans are offered at concessional interest rates after retirement.

Australian GAAP Compliance

Effective 1 July 1994 the Bank adopted the Australian Accounting Standard AASB 1028: 'Accounting for Employee Entitlements' with respect to the liabilities arising from the post retirement benefits described above. AASB 1028: 'Accounting for Employee Entitlements' specifies that employee post retirement benefit liabilities are calculated as the present value of the estimated future cash flows due to the services of employees provided up to the reporting date.

The adequacy of the full provision for employee post retirement benefits liabilities in the financial statements is determined in accordance with the requirements of AASB 1028 after considering that employee post retirement benefits carry limited risks, and after obtaining actuarial advice.

US GAAP Compliance

Prior to the adoption of AASB 1028 the Bank accounted for its obligation for employee entitlements substantially in accordance with SFAS 43 'Accounting for Compensated Absences'. Other than the disclosures discussed above, there are no US GAAP adjustments or further disclosures under SFAS 106 'Employers' Accounting for Post Retirement Benefits Other than Pensions'.

(k) Life Insurance

Under Australian GAAP, transitional adjustments on adoption of the new Insurance and Superannuation Commission Rules for financial reporting were made directly to retained earnings at the beginning of the 1997 financial year. Under US GAAP such adjustments were included as part of 1997 financial year profits.

NOTE 47 Differences between Australian and United States Accounting Principles continued

(l) 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 Bank's property is carried. No asset writedowns were necessary in 1998, 1997 or 1996. At 30 June 1998, 1997 and 1996 the asset revaluation reserve shows a nil balance.

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.

(m) Available-For-Sale Securities

	At 30 June 1998				At 30 June 1997			
	Amortised Cost $M	Gross Unrealised Gains $M	Gross Unrealised Losses $M	Fair Value $M	Amortised Cost $M	Gross Unrealised Gains $M	Gross Unrealised Losses $M	Fair Value $M
Australia								
Australian Public Securities								
Commonwealth and States	**1,960**	**138**	**-**	**2,098**	427	36	-	463
Bills of exchange	**17**	**-**	**-**	**17**	34	-	-	34
Certificates of deposit	**-**	**-**	**-**	**-**	5	-	-	5
Medium Term Notes	**141**	**38**	**-**	**179**	-	-	-	-
Other securities and equity investments	**1,072**	**161**	**50**	**1,183**	278	-	-	278
Total Australia	**3,190**	**337**	**50**	**3,477**	744	36	-	780
Overseas								
Government securities	**204**	**31**	**3**	**232**	-	-	-	-
Treasury Notes	**5**	**-**	**-**	**5**	-	-	-	-
Bills of exchange	**-**	**-**	**-**	**-**	47	-	1	46
Certificates of deposit	**1,195**	**7**	**1**	**1,201**	987	-	1	986
Eurobonds	**766**	**66**	**21**	**811**	-	-	-	-
Medium Term Notes	**29**	**-**	**4**	**25**	-	-	-	-
Other securities and equity investments	**1,508**	**148**	**99**	**1,557**	351	3	-	354
Total Overseas	**3,707**	**252**	**128**	**3,831**	1,385	3	2	1,386
Total Available for Sale Securities	**6,897**	**589**	**178**	**7,308**	2,129	39	2	2,166

Proceeds at or close to maturity of available-for-sale securities during 1998 were $8,681 million (1997: $6,479 million, 1996: $6,170 million).

Proceeds from sale of available-for-sale securities during the year were $1,787 million (1997: $1,172 million, 1996: $729 million). Government securities, held in the investment securities portfolio, were sold during the 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.

The fair value of Available-for-Sale securities includes the fair value of derivative hedges.

Realised capital gains were $65 million and realised capital losses were $80 million, (1997: realised capital gains $12 million, realised capital losses $8 million, 1996: realised capital losses $10 million).

Notes to and forming part of the accounts
continued

NOTE 47 Differences between Australian and United States Accounting Principles continued

(m) Available-For-Sale Securities continued

Maturity Distribution and Average Yield

The table analyses the maturities and weighted average yields of the book value of the Economic Entity's holdings of available-for-sale securities:

At 30 June 1998	Maturing 1 year or less $M	%	Maturing between 1 and 5 years $M	%	Maturing between 5 and 10 years $M	%	Maturing after 10 years $M	%	Total $M
Australia									
Australian Public Securities									
Commonwealth and States	126	6.76	1,512	5.89	322	6.64	-	-	1,960
Bills of exchange	17	5.32	-	-	-	-	-	-	17
Medium Term Notes	-	-	84	9.11	57	9.80	-	-	141
Other securities, commercial paper and equity investments	627	6.44	-	-	104 *	0.11	341 *	-	1,072
Total Australia	770		1,596		483		341		3,190
Overseas									
Government securities	64	6.75	67	9.25	73	5.93	-	-	204
Treasury Notes	5	2.24	-	-	-	-	-	-	5
Certificates of Deposit	1,114	6.22	48	7.86	33	5.51	-	-	1,195
Eurobonds	116	6.33	234	7.03	416	6.32	-	-	766
Medium Term Notes	-	-	29	-	-	-	-	-	29
Other securities, commercial paper and equity investments	248	4.09	652	9.12	261	6.58	347	6.29	1,508
Total Overseas	1,547		1,030		783		347		3,707
Total Available for Sale Securities	2,317		2,626		1,266		688		6,897
Maturities at Fair Value	2,446		2,748		1,418		696		7,308

At 30 June 1997	Maturing 1 year or less $M	%	Maturing between 1 and 5 years $M	%	Maturing between 5 and 10 years $M	%	Maturing after 10 years $M	%	Total $M
Australia									
Australian Public Securities									
Commonwealth and States	-	-	421	7.96	6	5.40	-	-	427
Bills of exchange	34	5.69	-	-	-	-	-	-	34
Certificates of Deposit	5	5.44	-	-	-	-	-	-	5
Other securities and equity investments	102	2.20	-	-	-	-	176 *	-	278
Total Australia	141		421		6		176		744
Overseas									
Bills of exchange	47	9.14	-	-	-	-	-	-	47
Certificates of Deposit	931	5.91	56	6.69	-	-	-	-	987
Other securities and equity investments	351	6.13	-	-	-	-	-	-	351
Total Overseas	1,329		56		-		-		1,385
Total Available for Sale Securities	1,470		477		6		176		2,129
Maturities at Fair Value	1,521		463		6		176		2,166

* includes equity investments

NOTE 47 Differences between Australian and United States Accounting Principles continued

(n) 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 1998.

(o) Newly Issued Statements of the Financial Accounting Standards Board

The Financial Accounting Standards Board (FASB) of the United States of America has recently issued Statements of Financial Accounting Standards (SFAS) Nos. 130, 131, 132 and 133 which are not applicable to the financial year ending 30 June 1998. The Bank does not believe that, except for SFAS 133, these standards would materially impact the financial position and results of operations if they were applicable at 30 June 1998.

SFAS 133 'Accounting for Derivative Instruments and Hedging Activities' would be likely to have a material impact on the financial position and results of operations if it were applicable at 30 June 1998. As of the date of this report the Bank is yet to determine what this impact would be upon application of the standard.

Directors' Statement

In the opinion of the Directors of the Commonwealth Bank of Australia:

- the profit and loss statement and statement of cash flows are drawn up so as to give a true and fair view of the results and cash flows of the company for the financial year ended 30 June 1998;
- the balance sheet is drawn up so as to give a true and fair view of the state of affairs of the company as at 30 June 1998;
- at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due; and
- the consolidated financial statements of the economic entity have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law so as to give a true and fair view of:
  - the results and cash flows of the economic entity, constituted by the company and the entities it controlled from time to time during the financial year, for the financial year ended 30 June 1998; and
  - the state of affairs of the economic entity, constituted by the company and the entities it controlled at the year's end, as at 30 June 1998.

The financial statements of the Chief Entity and the Economic Entity have been made out in accordance with applicable Accounting Standards and other mandatory reporting requirements. The Directors have elected to adopt AASB 1016: Accounting for Investments in Associates, for the financial year ended 30 June 1998, in accordance with section 285(3) of the Corporations Law.

Signed in accordance with a resolution of the Directors.

M A Besley.

M A Besley AO
Chairman

D V Murray
Managing Director

12 August 1998

Independent Audit Report

To the members of the Commonwealth Bank of Australia.

Scope

We have audited the financial statements of the Commonwealth Bank of Australia for the financial year ended 30 June 1998, as set out on pages 50 to 142, including the Statement by Directors. The financial statements include the accounts of Commonwealth Bank of Australia, and the consolidated accounts of the economic entity comprising the Commonwealth Bank of Australia and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the company.

Our audit has been conducted in accordance with Australian and United States Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly by the Directors in accordance with applicable Accounting Standards, statutory requirements and other mandatory professional reporting requirements, so as to present a view which is consistent with our understanding of the company's and economic entity's financial position, the results of their operations and cash flows.

The names of the entities controlled during all or part of or at the end of the financial year, of which we have not acted as auditor, are disclosed in Note 39. We have, however, received sufficient information and explanations concerning these controlled entities to enable us to form an opinion on the consolidated accounts.

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

Audit Opinion

In our opinion, the financial statements of the Commonwealth Bank of Australia are properly drawn up:

(a) so as to give a true and fair view of:
   - (i) the state of affairs of the company and economic entity as at 30 June 1998 and 1997, and of the company's results of operations and cash flows for each of the two years ended 30 June 1998 and the economic entity's results of operations and cash flows for each of the three years ended 30 June 1998; and
   - (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Australian Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Corporations Law; and

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

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States. 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 1998 and the determination of consolidated financial position as at 30 June 1998, 1997 and 1996 to the extent summarised in Note 47 to the financial statements.

Ernst & Young

ERNST & YOUNG

S C Van Gorp
Partner

Sydney
Date: 12 August 1998

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