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Introduction

The Management Discussion and Analysis of the Group's results for the year ended 30 June 2001 that follows compares the current year income and expenses to proforma 30 June 2000 information. The proforma data combines Colonial normalised results with Commonwealth actual results. It is considered that analysis on this basis is more meaningful.

The statutory financial statements, that follow the Management Discussion and Analysis (on pages 4 to 30), are all actual results for the Commonwealth Bank Group for each of the years presented.

Results Overview

(Except where otherwise stated, all figures relate to the year ended 30 June 2001 and comparatives for the profit and loss are to the proforma combination of the Commonwealth Bank Group and Colonial Limited for the year ended 30 June 2000.)

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

The net operating profit ('cash basis') for the year ended 30 June 2001 after tax, and before goodwill amortisation and appraisal value uplift is $2,262 million. This is an increase of $194 million or 9% over the year ended 30 June 2000.

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

On a cash basis, the dividend payout ratio for the year is 75.5% down from 85.3% for the prior year. The prior year ratio was inflated by the dividend payment to Colonial shareholders with only 17 days of Colonial contribution included in the Group result.

The Group result comprised:

	$M	
Segment profit after tax		
- Banking	1,793	up 12%
- Funds Management	149	up 34%
- Life Insurance	320	down 12%
Net operating profit after tax and before goodwill amortisation and appraisal value uplift	2,262	up 9%

Banking

The contribution to profit after tax from the Group's banking businesses increased to $1,793 million, 12% over the prior year, reflecting:

- Net interest income growth of $318 million or 8%, which was achieved through an 8% growth in average interest earning assets compared with the prior year and a stable net interest margin of 2.78%.
- Other banking income growth of $203 million or 9%, notwithstanding a reduction in lending fees as a result of discounted and nil home loan establishment fee offers.
- Tax benefits totalling $84 million with $30 million relating to the effect of the reduction in the corporate tax rate on current year income tax and deferred tax balances, and the increased recoupment of prior year, unrecognised tax losses of $54 million.

Funds Management

The contribution to profit after tax from the Group's funds management businesses increased to $149 million, 34% over the prior year. Funds under management (FUM) (excluding life insurance FUM) have grown by 18% to $77 billion, contributing to a 29% increase in funds management income, partly offset by increased volume related expenses such as sales and processing costs. The funds management business also manages internal funds of $24 billion on behalf of the life insurance businesses of the Group.

Life Insurance

The contribution from life insurance to profit after tax was down $43 million to $320 million, 12% less than the prior year. This result reflects lower investment earnings on shareholders funds which have reduced the after tax profit from life insurance by $17 million, together with the effect of poor persistency and claims experience in Asia and New Zealand.

Group Expenses

Operating expenses across the Group increased 7% or $348 million to $5,170 million. The increase includes the effect of GST of $111 million and expenses from acquired and developing businesses of $90 million. The merger of the Colonial and Commonwealth Group businesses realised approximately $120 million of expense savings in the current year. Excluding these items, expenses increased by 5.5%, reflecting a 4% wage increase as a result of a domestic enterprise bargaining arrangement and increased sales volume related expenses in both the domestic and international business.

Bad debt expense increased by $75 million to $385 million due to the stage of the credit cycle. Provision coverage ratios have remained strong.

Income Tax

Income tax expense has reduced by $190 million to $993 million, 16% less than the prior year. Of this reduction, $93 million relates to tax on behalf of life insurance policyholders. The balance of $97 million primarily results from the 2 percentage points reduction in the corporate tax rate to 34% and utilisation of previously unrecognised tax losses.

The components of the segment results are detailed below:

Banking(1)	**$M**	
Total operating income	6,855	up 8%
Net interest income	4,474	up 8%
Other operating income	2,381	up 9%
Operating expenses	3,958	up 9%
Bad debt charge	385	up 24%
Income tax expense	705	down 6%
Operating profit after tax	1,793	up 12%
Net interest margin	2.78%	down 1 basis point
Lending assets	**$B**	
(net of securitisation) (2)	150	up 3%
Average interest earning assets	161	up 8%
Funds Management	**$M**	
Operating income (3)	739	up 29%
Operating expenses	496	up 21%
Income tax expense	94	up 81%
Operating profit after tax	149	up 34%
	$B	
Funds under management (4)	101	up 15%
- Retail	34	up 38%
- Wholesale	43	up 6%
- Life insurance	24	up 7%
Life Insurance	**$M**	
Operating margin		
- Australia and New Zealand	213	down 4%
- Asia	(21)	down $17m
Investment earnings on assets in excess of policyholder liabilities	126	down 12%
Operating profit after tax	320	down 12%
	$B	
Life insurance assets	39	up 18%

Results Overview

Appraisal Value Uplift[5]

For the year ended 30 June 2001, appraisal values of the life insurance and funds management businesses increased by $1,267 million. Of the increase, $423 million comprised net profit of the businesses, $806 million represented the appraisal value uplift and the balance of $38 million represented the net capital movements. The appraisal value uplift comprises two elements. Firstly, $332 million arising from realised Colonial integration synergy benefits relating to the life insurance and funds management businesses which have been offset directly against goodwill; and secondly, $474 million of operating appraisal value uplift reflected in profit.

Goodwill Amortisation

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

Key Performance Measures

Return on equity (before abnormals)	13.50%	Refer Note [7]
Return on equity (cash basis)	12.83%	up 0.37 percentage points
Earnings per share (cents) (before abnormals)[6]	190	up 5 cents
Earnings per share (cents) (cash basis)[6]	179	down 2 cents
Total assets held and funds under management[6]	$307bn	up 8.4%

As expected, the purchase of Colonial has resulted in a dilution of EPS (cash basis) during the first year. With the major integration milestones now achieved future results will benefit as the cost and revenue synergies are realised.

Integration of Colonial

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

Additional costs associated with the integration work were identified during the year resulting in a $145 million increase in the provision for integration costs (before tax), bringing total once off integration costs to $545 million (Refer page 29 for detail).

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

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

(1) Includes General Insurance.
(2) Net of loans securitised of $6,773 million ($3,006 million at 30 June 2000).
(3) Includes internal income.
(4) Includes internal and external FUM.
(5) AASB 1038 requires that all investments owned by a life company be recorded at market value. The ‘appraisal value uplift’ is the periodic movement in the Balance Sheet asset ‘excess of market value over net assets’.
(6) Comparison with actual 30 June 2000.
(7) Proforma results have only been prepared on a cash basis.

Group Performance Summary

	Full Year Ended			Comparison
	30/06/01 $M	Proforma Group 30/06/00[4] $M	Actual 30/06/00 $M	30/06/01 vs 30/06/00 Proforma %
Profit and Loss - Summary				
Operating profit after tax ('cash basis [1] ')	**2,262**	**2,068**	**1,678**	**9**
Operating profit after tax and abnormal items	**2,398**	Refer note [5]	**2,700**	
Income				
Interest income	11,900	10,402	8,842	14
Interest expense	7,426	6,246	5,123	19
Net interest income	**4,474**	**4,156**	**3,719**	**8**
Other banking operating income	2,381	2,178	1,951	9
Total banking income	**6,855**	**6,334**	**5,670**	**8**
Life insurance income [6]	**1,268**	1,557	326	(19)
Funds management income	**701**	541	143	30
Total Income	**8,824**	**8,432**	**6,139**	**5**
Expenses				
Operating expenses				
- existing operations	**5,089**	4,822	3,407	6
- business acquisitions and GST, net of synergies [2]	**81**	-	-	-
Total operating expenses	**5,170**	**4,822**	**3,407**	**7**
Charge for bad and doubtful debts	385	310	196	24
Total Expenses	**5,555**	**5,132**	**3,603**	**8**
Operating profit before goodwill amortisation, appraisal value uplift, abnormal items and income tax	**3,269**	**3,300**	**2,536**	**(1)**
Income tax expense [6]	993	1,183	820	(16)
Operating profit after income tax	**2,276**	**2,117**	**1,716**	**8**
Outside equity interests [3]	(14)	(49)	(38)	(71)
Operating profit after income tax and before goodwill amortisation, appraisal value uplift and abnormal items	**2,262**	**2,068**	**1,678**	**9**
Abnormal items	-	Refer note [5]	967	
Income tax credit on abnormal items	-	"	20	
Appraisal value uplift	474	"	92	
Goodwill amortisation	(338)	"	(57)	
Operating profit after income tax attributable to shareholders of the Bank	**2,398**	**"**	**2,700**	
Contributions to profit (after tax)				
Banking	1,793	1,594	1,513	12
Life insurance	320	363	129	(12)
Funds management	149	111	36	34
Profit after tax from operations ('cash basis [1] ')	**2,262**	**2,068**	**1,678**	**9**
Goodwill amortisation	(338)	Refer note [5]	(57)	
Appraisal value uplift	474	"	92	
Operating profit after income tax and before abnormal items	2,398	"	1,713	
Abnormal items after tax	-	"	987	
Operating profit after income tax	**2,398**	"	**2,700**	

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

(2) Business acquisitions include costs associated with acquisitions in the prior year including State Street Master custody operations, Trust Bank and the development of European Banking which increased expenses by $90 million, and net GST of $111 million. Offset against this figure are the Colonial integration expense synergies achieved to date of $120 million.

(3) Primarily includes 25% outside equity interest in the ASB Group. In August 2000 the Group purchased this 25% interest.

(4) Proforma Group represents the combined results of Commonwealth Bank and Colonial for the year ended 30 June 2000. The Colonial results have been adjusted for abnormal items and other items not considered part of the ongoing operations.

(5) Proforma results have only been prepared on a 'cash basis'.

(6) Included within life insurance income is $94 million of tax relating to policyholder income (30 June 2000: $187 million). This item is also included in the income tax line in the above profit and loss. The net impact on the net profit after tax is therefore nil.

Group Performance Summary

As at	30/06/01 $M	30/06/00 $M	Comparison 30/06/01 vs 30/06/00 %
Balance Sheet - Summary			
Total Assets	**230,411**	218,259	6
Total Liabilities	**210,563**	199,824	5
Shareholders' Equity	**19,848**	18,435	8
Assets held and Funds under management			
On Balance Sheet			
Banking assets	**191,333**	185,108	3
Life insurance funds under management	**24,527**	22,916	7
Other life insurance and funds management assets	**14,551**	10,235	42
	230,411	**218,259**	**6**
Off Balance Sheet			
Funds under management [1]	**76,954**	65,266	18
	307,365	**283,525**	**8**
Banking Assets	**191,333**	185,108	3
Life insurance and funds management assets	**39,078**	33,151	18
External funds under management	**76,954**	65,266	18
	307,365	**283,525**	**8**

	Full Year Ended		30/06/01
	30/06/01	30/06/00	vs 30/06/00 %
Shareholder Summary			
Dividends per share (cents) - fully franked	**136**	130	5
Dividends provided for, reserved or paid ($million)	**1,720**	1,431	20
Dividend cover (times - before abnormals)	**1.4**	1.2	17
Dividend cover (times - cash)	**1.3**	1.4	(7)
Earnings per share (cents) [2]			
(basic & fully diluted)			
before abnormal items	**190**	185	
after abnormal items	**190**	291	
cash basis [4]	**179**	181	
Dividend payout ratio (%) [3]			
before abnormal items	**71.2**	83.5	
after abnormal items	**71.2**	53.0	
cash basis [4]	**75.5**	85.3	
Net tangible assets per share ($)	**10.19**	9.18	
Weighted average number of shares (basic)	**1,260m**	927m	
Shares at end of period	**1,244m**	1,260m	
Number of shareholders	**709,647**	788,791	
Share prices for the period ($)			
Trading high	**34.15**	27.95	
Trading low	**26.18**	22.54	
End (closing price)	**34.15**	27.69	

(1) In accordance with ASSIRT reporting requirements the funds management balances exclude $9.5 billion (2000: $8 billion) in funds under overlay management by Tactical Global Management.

(2) Calculated in accordance with AASB 1027: Earnings per Share.

(3) Dividends paid divided by earnings. The comparative ratios have been amended to the same basis as the current year. Previously this ratio was calculated as Dividend per share divided by Earnings per share. Excludes dividends on preference shares of $9 million.

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

Group Performance Summary

	Full Year Ended		
	30/06/01 %	Proforma Group[6] 30/06/00 %	30/06/00 %
Performance Ratios (%)			
Return on average shareholders' equity [1]			
before abnormal items	13.50	Refer note [7]	22.06
after abnormal items	13.50	Refer note [7]	34.78
cash basis	12.83	12.46	21.61
Return on average total assets [2]			
before abnormal items	1.07	Refer note [7]	1.08
after abnormal items	1.07	Refer note [7]	1.70
cash basis	1.01	1.03	1.06
Capital adequacy - Tier 1	6.51	7.49	7.49
Capital adequacy - Tier 2	4.18	4.75	4.75
Deductions	(1.53)	(2.49)	(2.49)
Capital adequacy - Total	9.16	9.75	9.75
Productivity			
Cost to total average assets ratio [3]	2.30	2.40	2.15
Cost to assets held and funds under management [3]	1.75	1.83	1.85
Staff expense/Total operating income [4]	26.75	n/a	27.77
Total operating income per FTE [5]	$252,400	$227,088	$211,842
Cost to income ratios (%)			
Banking	57.70	57.40	55.80
Funds management	67.10	71.60	67.30
Life insurance	59.50	52.10	46.00
Other Information (numbers)			
Full time staff	31,976	34,154	34,154
Part time staff	7,161	7,383	7,383
Full time staff equivalent	34,960	37,131	37,131

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

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

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

(4) The effect of lower investment earnings and MOS profits in the current year increased this ratio over the prior year.

(5) 30 June 2000 includes Colonial FTE staff numbers weighted for the 17 days from 13 June 2000 to 30 June 2000.

(6) Proforma Group represents the combined results of Commonwealth Bank and Colonial for the year ended 30 June 2000.

(7) Proforma results have only been prepared on a cash basis.

Strategy and Outlook

Overview of Group

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

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

Strategic Initiatives

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

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

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

A more challenging, uncertain environment, continuing pressure on margins and a weaker domestic currency, each pose significant challenges.

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

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

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

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

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

Outlook Statement

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

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

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

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

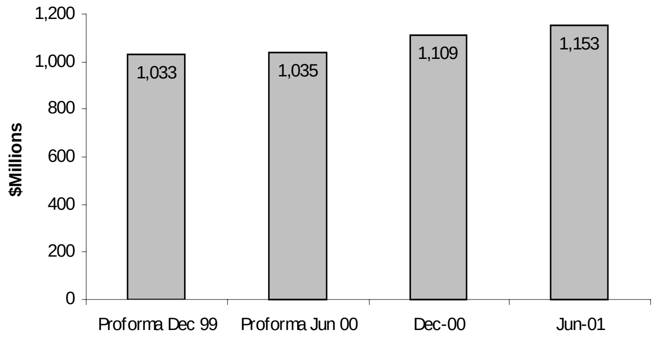
Directors expect that the Group will continue to maintain a high ratio of dividends to cash earnings relative to peer financial institutions.

Main Financial Indicators

Graphs presented in this section include half yearly comparisons with prior years on a proforma basis where this information displays a more relevant trend.

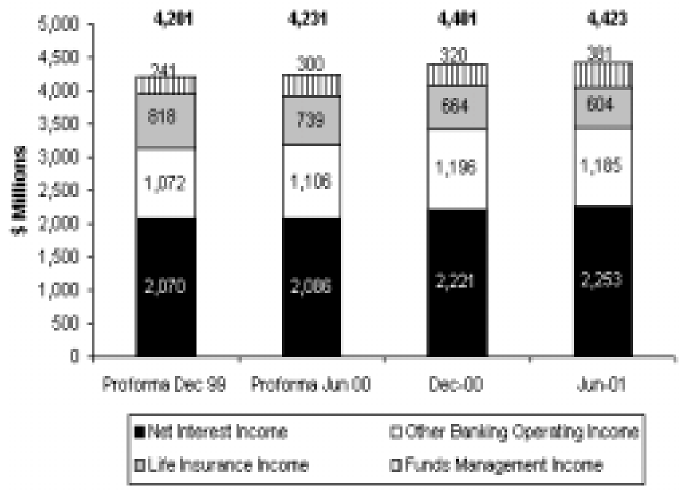
Net Operating Profit (Cash basis)

- The Group recorded a net operating profit before goodwill amortisation and appraisal value uplift for the year of $2,262 million. This result represents a 9% increase over last year.
- The result for the six months to 30 June 2001 of $1,153 million represents an increase of 11% over the prior comparative period.



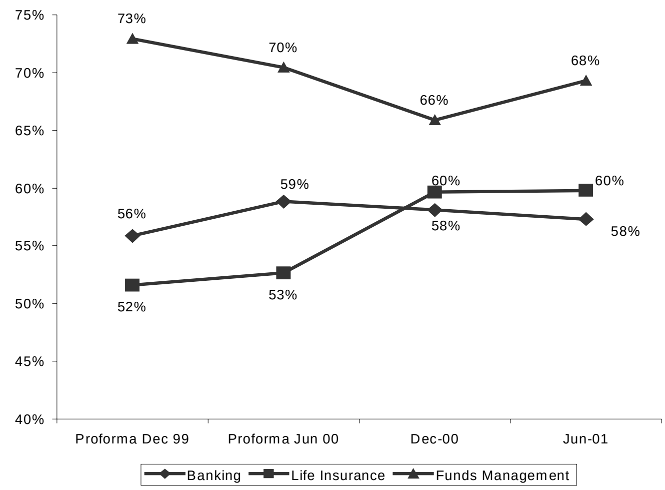
Operating Income

- Total operating income for the year was $8,824 million, an increase of 5% over last year.
- Net interest income of $4,474 represents an increase of 8% over last year.
- Other banking operating income of $2,381 million, represents an increase of 9% over last year.
- External funds management income of $701 million (before $38 million of internal income) represents an increase of 30% over last year.
- Life insurance income of $1,268 million represents a decline of 19% over last year.



Cost Ratios

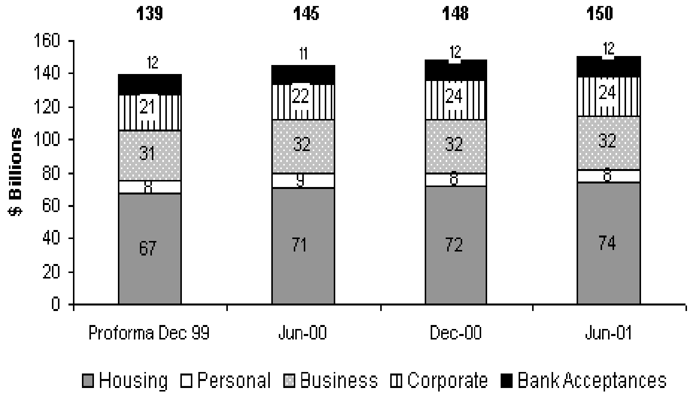
- The Banking cost income ratio has declined from 59% for the half year ended June 2000 to 58% for the current half year.
- The funds management cost income ratio has declined from 70% in the half year ended June 2000 to 68% for the current half year. The increase in the ratio over the past six months reflects one off costs incurred in aligning Stewart Ivory with the Colonial business in the United Kingdom.
- The life insurance cost income ratio has increased from 53% for the half year ended June 2000 to 60% for the current half year due to lower investment earnings and poor persistency and claims experience in Asia and New Zealand.



Main Financial Indicators

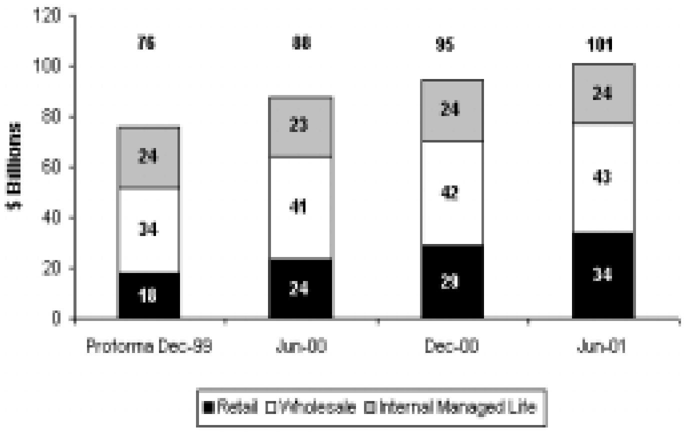
Lending Assets Growth

Lending assets spot balances (net of securitisation) have increased by $5 billion or 3% over the prior financial year. The majority of this growth has been achieved in housing during the six months ending June 2001, and reflects improved market conditions and the effect of Group strategic initiatives.



Funds Under Management

- Total funds under management (FUM) at 30 June 2001 were $101 billion, a 15% increase for the year. Total FUM consists of $77 billion in external FUM and $24 billion in FUM managed on behalf of the life insurance business (Refer table on page 23).
- Retail FUM (including international funds) have increased by $10 billion or 42% for the year.
- Wholesale FUM (including international funds) have increased by $2 billion or 6% over the year.
- The Group's custody business administers $74 billion of assets.



Note:

(1) Internal Managed Life FUM relates to the funds managed for the Life Insurance businesses of the Group.

(2) Total FUM as reported by ASSIRT is re``presented by Retail, Wholesale and Internal FUM, excluding $3 billion of international funds.

(3) The Wholesale balance of FUM has been adjusted due to the change in ASSIRT policy of reporting the Tactical Global Management fund under overlay management on a cash basis from March 2001, as opposed to reporting the total market exposure. As a result the wholesale balance has been reduced by $9.5 billion (2000: $8 billion).

Main Financial Indicators

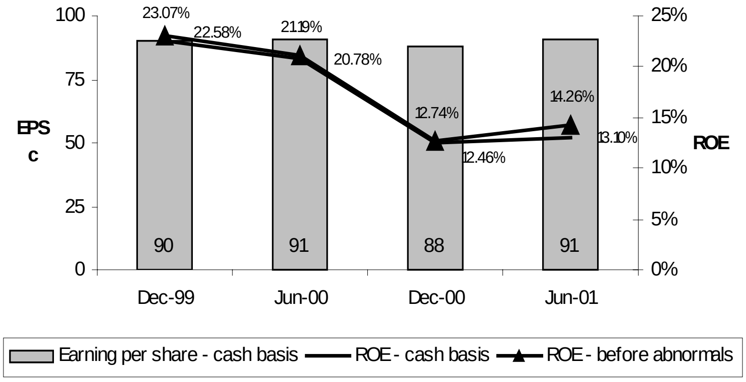
Shareholder Returns

Earnings Per Share

Earnings per share is up 3 cents in the half year ended June 2001 compared with the first half. This reflects the progressive realisation of synergies from the Colonial integration.

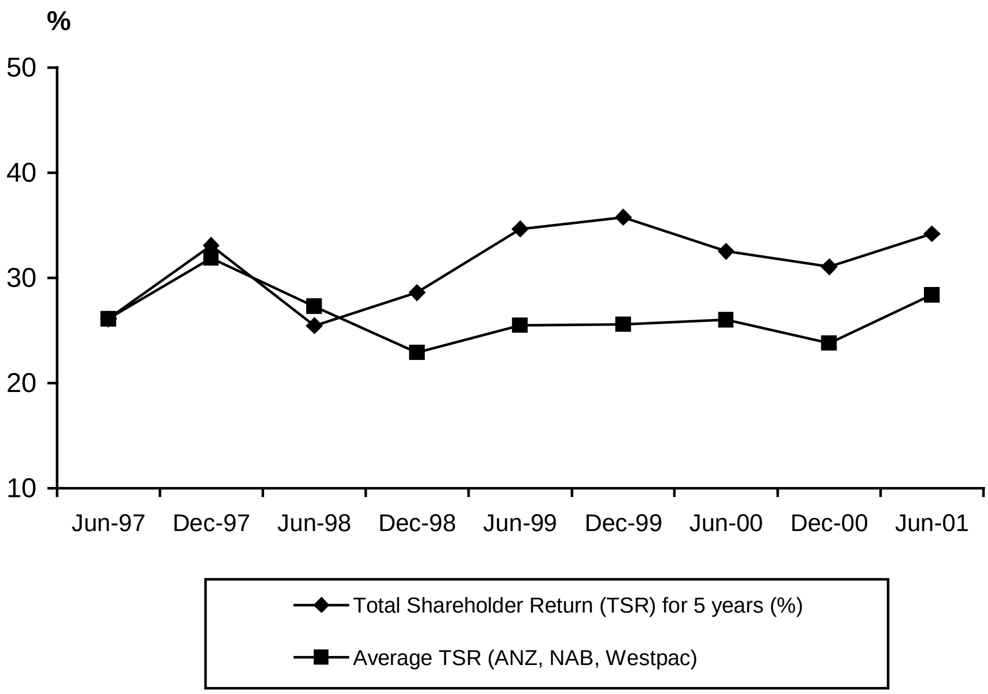
Return on Equity

- Return on Equity (before abnormals) for the half year ended June 2001 has increased by 1.52 percentage points over the half year ended December 2000 from 12.74% to 14.26%. The annual return on equity before abnormals was 13.50%.
- Return on Equity (cash basis) for the half year ended 30 June 2001 has increased by 0.64 percentage points over the half year ended 31 December 2000 from 12.46% to 13.10%. The annual return on equity (cash basis) was 12.83%.



Share Price Performance

Total Shareholder Return (TSR) is calculated using movements in the share price assuming all dividends are reinvested. The five year return to 30 June 2001 is 34.2%.



Banking Performance Summary

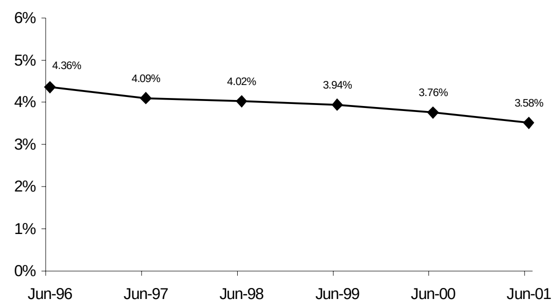
The contribution from the Group's banking business has increased 12% over the prior year to $1,793 million, with net interest earnings increasing by 8% to $4,474 million and other banking income increasing by 9% to $2,381 million. Average interest earning assets have increased by 8% over the prior year to $161 billion. Underlying profit, before tax and bad debts has increased by 7% over the prior year to $2,897 million.

	Full Year Ended			Comparison
	30/06/01 $M	Proforma Group[3] 30/06/00 $M	Actual 30/06/00 $M	30/06/01 vs 30/06/00 Proforma %
Operating Profit after Tax from operations [1]	**1,793**	**1,594**	**1,513**	**12**
Lending Assets [2]	**149,776**	145,159	145,159	3
Average interest earning assets [6]	**160,607**	149,106	129,163	8
Average interest bearing liabilities	**145,978**	135,801	117,075	7
Risk weighted assets	**138,383**	128,484	128,484	8
Net impaired assets	**415**	572	572	(27)
Performance Ratios (%)				
Net interest margin	**2.78**	2.79	2.88	
General provision/Risk weighted assets	**1.01**	1.06	1.06	(5)
Total provisions/Gross Impaired assets (net of interest reserved)	**251.6**	178.3	178.3	41
Non-interest income/Total operating income	**34.7**	34.4	34.2	1
Cost to average assets ratio	**2.1**	2.1	2.0	-
Cost to income ratio [4]	**57.7**	57.4	55.8	1
Other Information (numbers)				
Branches/service centres (Australia) [8]	**1,066**	1,441	1,441	
Agencies (Australia) [7]	**3,928**	4,020	4,020	
ATMs [9]	**3,910**	4,141	4,141	
EFTPOS terminals	**122,074**	116,064	116,064	
EzyBanking sites	**659**	603	603	

Banking Margin[5]

The ratio of total banking income to average total banking assets (including securitisation) has declined at an increasing rate from 4.36% at 30 June 1996 to 3.58% for the year ended 30 June 2001. This reflects how net interest margins have decreased over this period, but have only been partly offset by increases in other sources of banking income, leading to the lower net cost of banking to customers.

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



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

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

(3) Proforma Group represents the combined balances of the Commonwealth Bank and Colonial State Bank for the year ended 30 June 2000.

(4) The factors affecting the Group and banking cost to income ratio are discussed on page 28.

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

(6) Interest earning assets increased significantly in the latter half of the June 2000 year. This increase did not have a large impact on average assets for the prior year but resulted in a much higher average interest earning asset balance for the current year.

(7) Includes Australia Post and private agencies.

(8) Comparatives have been restated for a definitional change where Colonial single point operators have been reclassified to branches.

(9) Includes third party ATMs.

Banking Performance Summary

Major Balance Sheet Items

As at	30/06/01 $M	30/06/00[3] $M	Comparison 30/06/01 vs 30/06/00 %
Loans, advances and other receivables [1]			
Gross Housing	**80,284**	73,744	9
Securitisation	**(6,773)**	(3,006)	large
Housing (net of securitisation)	**73,511**	70,738	4
Personal	**7,768**	8,533	(9)
Business	**32,224**	32,437	(1)
Corporate	**24,198**	22,343	8
Bank acceptances	**12,075**	11,108	9
Total lending assets	**149,776**	145,159	3
Trading securities			
Corporate	**6,909**	7,347	(6)
Deposits and other public borrowings			
Personal	**58,620**	56,337	4
Business	**16,351**	14,056	16
Corporate	**42,384**	42,201	0
	117,355	112,594	4
Debt issues			
Corporate	**24,484**	25,275	(3)

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

(1) Loan balances are before provisions for impairment.

	Full Year Ended			Comparison
Operating Profit Summary	30/06/01 $M	Proforma Group[2] 30/06/00 $M	Actual 30/06/00 $M	30/06/01 vs 30/06/00 Proforma %
Interest income	11,900	10,402	8,842	14
Interest expense	7,426	6,246	5,123	19
Net interest income	**4,474**	**4,156**	**3,719**	**8**
Other operating income	2,381	2,178	1,951	9
Total operating income	**6,855**	**6,334**	**5,670**	**8**
Operating expenses	3,958	3,633	3,164	9
Underlying profit	**2,897**	**2,701**	**2,506**	**7**
Charge for bad and doubtful debts	385	310	196	24
Operating profit before abnormal items, goodwill amortisation and income tax	**2,512**	**2,391**	**2,310**	**5**
Income tax expense	705	748	759	(6)
Outside equity interests	14	49	38	(71)
Operating profit after income tax, before abnormal items and goodwill amortisation	**1,793**	**1,594**	**1,513**	**12**

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

(2) Proforma Group represents the combined balances of the banking operations of Commonwealth Bank and Colonial for the year ended 30 June 2000.

(3) Prior year figures have been adjusted to align with categories as at 30 June 2001 following the amalgamation of Colonial operations and product systems.

Banking - Business Analysis

(All figures relate to the year ended 30 June 2001. All comparisons are to 30 June 2000 unless otherwise stated. Market share statistics exclude ASB Bank.)

As shown in the Banking Performance Summary, total lending assets have grown by $4.6 billion to $149.8 billion during the year to 30 June 2001. As at 30 June 2001, securitised home loan balances amounted to $6.8 billion, an increase of $3.8 billion over the year. Allowing for this, gross lending assets have increased by $8.4 billion or 6% since 30 June 2000.

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

An analysis of the areas of growth is detailed below.

Personal Products

Housing Loans

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

Growth in home loans was affected in the first half by the impact of the GST, the Sydney Olympics and significant growth in non-traditional mortgage origination such as mortgage broker channels. However, campaigns undertaken to drive balance sheet growth resulted in stronger sales in the second half, limiting the decline in the Group's total market share of home loans, which was 20.3% at June 2001 *(source: APRA 06/01)*.

Personal Lending

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

Credit Cards

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

The Group has maintained strong new cardholder account growth for the year with the number of cardholder accounts increasing to 2.8 million. The number of merchants increased to over 146,000 from last year with growth encouraged through expanded Internet services to merchants. The Group's market share of Credit Cards has declined marginally to 26.3% as at May 2001 from 27.8% last year *(Source: ABA)*.

Personal Loans

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

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

Deposit Products

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

Share Trading

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

Business Products

Business Lending

At 30 June 2001, total Business Lending (excluding bank acceptances) amounted to $32.2 billion, representing a marginal decline during the year.

Corporate Products

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

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

Financial Markets

There was a strong growth in the contribution of Financial Markets with Trading income up 30% due to increased volume of client transactions and underlying market volatility.

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

Banking – Business Analysis

Corporate Finance

Corporate Finance undertook a number of substantial transactions in the twelve months to 30 June 2001 including:

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

Over $17 billion of capital was raised for clients in the year to 30 June 2001 which represents a 49% growth on that raised in the previous financial year. Of this amount 39% was by originations, 36% financing by direct lending and the balance by syndicated loans and equity.

Equity Capital Markets

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

Transaction Services

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

Commonwealth Custodial Services

Commonwealth Custodial Services has consolidated its position in the market with $74 billion of assets under administration at 30 June 2001.

Customer Service

The Group operates the largest financial services distribution network in the country, with sales and service provided through a wide range of direct customer contact, self-service and third party channels. The integration of the Colonial banking operations over 2000/01 has further expanded the range of delivery options available to our customers. Strategic emphasis is on generating customer service, value and efficiency across the distribution network, with a number of transformational changes to management structures and systems over 2000/01 providing a strong platform for future growth.

Direct contact service channels

The combined branch network of Commonwealth and Colonial was reduced by 375 over 2000/01, from 1,441 as at June 2000 (1,074 Commonwealth, 367 Colonial) to 1,066 as at June 2001. Included in this reduction were 290 integration-related amalgamations. In addition, 536 branches were refurbished during the year.

In integrating Colonial operations, a key priority was to ensure that the particular skills and competencies of both organisations were effectively leveraged going forward. A number of former Colonial franchisees have been retained in key network roles, including 15 in Regional and Rural locations.

Through integration, a wider range of branch types is now available to customers, with further reconfiguration of the network planned to better meet the needs of specific locations and customer segments. A new network structure introduced in October 2000 draws on the best elements of both organisations to improve alignment and customer focus in key markets. Together with the implementation of a new sales and service leadership system promoting greater ownership, accountability and reward for performance, these changes are translating into a more client focussed, efficient, effective and committed delivery network.

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

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

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

Electronic and Direct Banking

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

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

Banking - Business Analysis

ATM and EFTPOS usage continue to grow strongly, with total transactions up 6% and 40% respectively over 2000/01. The group retains the largest proprietary ATM and EFTPOS terminal networks in the country (2,910 and 122,074 terminals respectively) plus acquired the transactions of a further 1,000 third party ATMs.

Woolworths EzyBanking

Woolworths EzyBanking is available through 659 Woolworths stores nationally. Sales of transaction accounts (Ezy Action) and credit cards (Ezy Mastercard) during the year have been above expectations with more than 425,000 account holders signed up as at 30 June 2001. Approximately 35% of these customers are new to the Commonwealth Bank Group.

Third Party

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

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

Distributors in these new channels number over 5,000.

United Kingdom

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

New Zealand Banking Operations

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

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

Banking Analysis of Performance

Net Interest Income

	Full Year Ended			Comparison
	30/06/01 $M	Proforma Group[1] 30/06/00 $M	Actual 30/06/00 $M	30/06/01 vs 30/06/00 Proforma %
Interest Income				
Loans	**10,246**	9,031	7,663	13
Other financial institutions	**280**	198	191	41
Liquid assets	**110**	82	78	34
Trading securities	**548**	465	295	18
Investment securities	**655**	598	586	10
Dividends on redeemable preference shares	**54**	24	24	large
Other	**7**	4	5	75
Total Interest Income	**11,900**	**10,402**	**8,842**	**14**
Interest Expense				
Deposits	**5,042**	4,386	3,773	15
Other financial institutions	**328**	300	297	9
Short term debt issues	**902**	762	671	18
Long term debt issues	**759**	560	171	36
Loan capital	**374**	237	210	58
Other	**21**	1	1	large
Total Interest Expense	**7,426**	**6,246**	**5,123**	**19**
Net Interest Income	**4,474**	**4,156**	**3,719**	**8**

Net Interest Income

30/06/01 – Proforma 30/06/00 (up 8%)

Net interest income for the year increased by 8% or $318 million from $4,156 million to $4,474 million.

The increase in net interest income was the result of the growth in net interest earning assets. As shown on page 13, average interest earning assets grew by $12 billion or 8% from $149 billion at 30 June 2000 to $161 billion at 30 June 2001.

This generated additional net interest income of $334 million, offset by a small decline in the net interest margin from 2.79% to 2.78% resulting in a reduction in net interest income of $5 million, and a one day variance in the accounting periods reducing net interest income by $11 million.

The table below highlights the effect of movements in net interest earning assets and interest margin on net interest income.

Full Year INCREASE/DECREASE	Financial Year 2001 vs Proforma Financial Year 2000 $M	Financial Year 2000 vs Financial Year 1999 $M
Due to changes in average volume of interest earning assets and interest bearing liabilities	**334**	**424**
Due to changes in interest margin	**(5)**	**(232)**
Due to days variance in periods	**(11)**	**-**
Change in net interest income	**318**	**192**

The growth in average interest earning assets reflects:

A strong growth in home loans in the latter half of the year ended June 2000 as the market anticipated increased prices following the introduction of the GST. The current financial year had a slow first quarter in home lending, where the introduction of the GST and post Olympic factors contributed to softer market conditions. This was compounded by unexpected growth in the volume of originations through mortgage brokers. Home loan volumes picked up strongly over the rest of the year as a result of an extensive advertising campaign supported by nil establishment fee offers, and an improvement in market conditions.

While market share declined across a number of products, growth in balances over the final months reflected a strong level of home loan approvals.

Commercial lending had a slow first half, however during the second half volumes improved providing clear indications that the extensive rebuilding programme undertaken across the network during 2000/01 is driving improved results.

The acquisition of Trust Bank during the prior financial year contributed to the current year growth in average interest earning assets.

(1) Proforma Group represents the combined results of Commonwealth Bank and Colonial for the year ended 30 June 2000.

Banking Analysis of Performance

Group Interest Margins and Spreads

The following table shows both actual and proforma margins and spreads for the Group for the June 2000 and June 2001 financial years. Interest spread represents the difference between the average interest rate earned and the average interest rate paid on funds.

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

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

	Full Year Ended		
		Proforma Group	Actual
	30/06/01	30/06/00	30/06/00
	%	%	%
Australia			
Interest spread (1)	**2.56**	2.58	2.71
Benefit of interest free liabilities, provisions and equity (2)	**0.43**	0.40	0.42
Net interest margin (3)	**2.99**	2.98	3.13
Overseas			
Interest spread (1)	**1.06**	1.10	1.22
Benefit of interest free liabilities, provisions and equity (2)	**0.55**	0.42	0.30
Net interest margin (3)	**1.61**	1.52	1.52
Group			
Interest spread (1)	**2.32**	2.38	2.47
Benefit of interest free liabilities, provisions and equity (2)	**0.46**	0.41	0.41
Net interest margin (3)	**2.78**	2.79	2.88

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

(2) A portion of the Group's interest earning assets is funded by interest free liabilities and shareholders' equity. The benefit to the Group of these interest free funds is the amount it would cost to replace them at the average cost of funds.

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

Group Interest Margin

30/06/01 – Proforma 30/06/00 (down 1 basis point)
30/06/01 – Actual 30/06/00 (down 10 basis points)

The Group net interest margin for the year to 30 June 2001 decreased slightly by 1 basis point from the prior year to 2.78%.

There was a number of factors which impacted the average rate. In addition to three cash rate increases in the latter part of the June 2000 financial year there was also one cash rate increase and three reductions in the year to June 2001. The net effect of the product repricing following these changes was to put pressure on the net interest margin.

Partly offsetting this was the benefit to net interest margins from the difference of market driven short term wholesale rates being below official cash rates during the year due to an expectation by the market that official rates would fall. However, the market has started to anticipate the end of the easing cycle in official rates with the next move more likely to be an increase.

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

Banking Analysis of Performance

Other Banking Operating Income

The following table sets forth the Group's other banking operating income for the year ended 30 June 2001 together with comparatives.

	Full Year Ended 30/06/01 $M	Proforma Group 30/06/00 $M	Actual 30/06/00 $M	30/06/01 vs 30/06/00 Proforma %
Lending fees	**602**	623	554	(3)
Commission and other fees	**1,173**	1,066	946	10
Trading income	**426**	327	311	30
Dividends	**14**	20	20	(30)
Net gain on investment securities	**56**	12	12	large
Net profit on sale of property, plant and equipment	**25**	14	14	79
General insurance premium income	**107**	104	104	3
Less general insurance claims	**(57)**	(55)	(55)	4
Other	**35**	67	45	(48)
Total Other Banking Operating Income	**2,381**	**2,178**	**1,951**	**9**

Other Banking Operating Income

30/06/01 – Proforma 30/06/00 (up 9%)

Other Operating Income increased by 9% or $203 million from $2,178 million to $2,381 million during the current year. The principal reasons for the overall increase are set out below.

Lending Fees

30/06/01 – Proforma 30/06/00 (down 3%)

Lending fees have dropped by 3% or $21 million to $602 million over the prior year mainly due to a number of nil entry and discounted home loan establishment fee offers during the current year. This was part of the Group's strategy to build lending balances to improve future earnings potential.

The lower establishment fees were partly offset by increases in other lending fees based on higher volumes.

Commission and Other Fees

30/06/01 – Proforma 30/06/00 (up 10%)

Growth in commission and other fees has been driven by Credit Cards with increased sales activity from both merchants and cardholders, although growth has slowed since last year. There has been a 27% increase in the value of merchants sales and 20% increase in the value of credit cardholders sales.

Retail transaction fees for the year to 30 June 2001 represent 12% of Other Banking Operating income (4% of total Banking Operating income) which is consistent with last year.

Trading Income

30/06/01 – Proforma 30/06/00 (up 30%)

The Group's Financial Markets operations contributed $426 million of trading income, representing growth of 30% or $99 million on the previous year. Trading Income improved due to market volatility in the interest rate and foreign exchange markets. Volumes of client transactions grew significantly as a result of this higher level of underlying volatility. This growth in trading income did not result in significant additional risk exposure.

Dividends

30/06/01 – Proforma 30/06/00 (down 30%)

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

Net Gain on Investment Securities

30/06/01 – Proforma 30/06/00 (up $44 million)

Gains during the current year included the sale of the Brisbane Airport investment and the sale of the Group's interest in IPAC Securities.

Net Profit on Sale of Property Plant and Equipment

30/06/01 – Proforma 30/06/00 (up 79%)

The Group continued its sale and leaseback strategy during the current year, with the sale of several major properties within the Sydney CBD.

General Insurance Income (net of claims)

30/06/01 – Proforma 30/06/00 (up 3%)

General Insurance premium income less claims has remained stable at $50 million during the current financial year.

Banking Analysis of Performance

Charge for Bad and Doubtful Debts

The following table sets out the charge for bad and doubtful debts for the year ending 30 June 2001 together with comparatives.

	Full Year Ended		
	30/06/01 $M	**Proforma Group 30/06/00 $M**	**Actual 30/06/00 $M**
Specific Provisioning			
New and increased provisioning	**495**	n/a	236
Less provisions no longer required	**(84)**	n/a	(96)
Net specific provisioning	**411**	246	140
Provided from general provision	**(411)**	(246)	(140)
Charge to profit and loss	**-**	-	-
General provisioning			
Direct write offs	**35**	34	34
Recoveries of amounts previously written off	**(88)**	(54)	(54)
Movement in general provision	**27**	84	76
Funding of specific provisions	**411**	246	140
Charge to profit and loss	**385**	**310**	**196**
Total Charge for Bad and Doubtful Debts	**385**	**310**	**196**

Total charge for bad and doubtful debts increased by 24% to $385 million during the year to 30 June 2001, primarily relating to a small number of large corporate and commercial lending exposures that became impaired during the year and were provisioned for potential loss.

Provisions for Impairment

As at	**30/06/01 $M**	**30/06/00 $M**
General Provisions	1,399	1,358
Specific Provisions	234	432
Total Provisions	1,633	1,790
Total provisions for impairment as a % of gross impaired assets net of interest reserved	251.6	178.3
Specific Provisions for impairment as a % of gross impaired assets net of interest reserved	36.06	43.03
General provisions as a % of risk weighted assets	1.01	1.06

Total Provisions for Impairment for the Group at 30 June 2001 were $1,633 million, down 8.8% from 30 June 2000. This level of provisioning is considered adequate to cover any bad debt write offs from the current lending portfolio having regard to the current outlook.

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

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

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

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

Funds Management – Business Analysis

The funds management businesses have contributed $149 million to the Group's result for the year. This represents an increase of $38 million or 34% over the prior year. The growth in operating profit reflects strong growth in external funds under management which have increased by $11.7 billion to $77 billion. Funds management income has increased by 29% partly offset by an increase in variable sales and processing expenses.

The following tables set forth the Group's Funds Management result for the year ending 30 June 2001 together with comparatives.

	Full Year Ended			Comparison
	30/06/01 $M	Proforma Group 30/06/00 $M	Actual 30/06/00 $M	30/06/01 vs 30/06/00 Proforma %
Funds Management				
Operating income - external	701	541	143	30
Operating income - internal (1)	38	32	10	19
Total operating income	739	573	153	29
Operating expenses	496	410	103	21
Operating profit before tax	243	163	50	49
Income tax expense	94	52	14	81
Operating profit after tax	**149**	**111**	**36**	**34**

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

As at	30/06/01 $M	30/06/00 $M	30/06/01 vs 30/06/00 %
Assets held and funds under management (FUM) (2)			
Funds management (4) (5)	76,954	65,266	18
Internal life insurance funds	24,527	22,916	7
Total FUM	**101,481**	**88,182**	**15**
Other life and funds management assets (3)	14,551	10,235	42
Total	**116,032**	**98,417**	**18**
Australia	91,810	72,456	27
United Kingdom	14,953	19,202	(22)
New Zealand	4,650	3,270	42
Asia	4,619	3,489	32
Total	**116,032**	**98,417**	**18**
Total expenses to funds under management (6)	0.5%	0.5%	n/a
Total funds management expense to Income (7)	67.1%	71.6%	n/a

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

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

(3) Includes life investment assets managed by parties other than the Group funds management businesses, and other non-investment life assets (including excess of market value over net assets of life insurance subsidiaries).

(4) Funds under management exclude funds under tactical overlay management. In accordance with revised ASSIRT reporting requirements 30 June 2000 comparatives have been restated to exclude $8 billion in funds under tactical overlay management at 30 June 2000 and $9.5 billion from 30 June 2001.

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

(6) The 30 June 2000 ratio is calculated on a proforma basis.

(7) Total funds management expense to income ratio is calculated on a gross of commission basis due to the differing cost structures of the funds management businesses across the Group. The 30 June 2000 ratio is calculated on a proforma basis.

Funds Management – Business Analysis

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

Year to Date June 2001	Opening Balance	Inflows	Outflows [9]	Portfolio and Other Returns	Closing Balance
Funds Under Management $M (including Life Insurance)					
Retail	24,554	20,616	(12,337)	1,115	33,948
Wholesale [8]	40,712	13,228	(12,436)	1,502	43,006
Internal managed life	22,916	4,964	(5,045)	1,692	24,527
Total FUM	**88,182**	**38,808**	**(29,818)**	**4,309**	**101,481**
Other Life assets [3]	10,235	3,051	-	1,265	14,551
Total	**98,417**	**41,859**	**(29,818)**	**5,574**	**116,032**

(8) Wholesale opening balance has been reduced by $8 billion to exclude tactical overlay management (Refer Note 4).

(9) Internal managed life outflows include the transfer of $2.5 billion of funds during the current financial year relating to assets acquired by Winterthur as part of the sale of Colonial UK Life.

Funds Management – Business Analysis

Performance Analysis

The result has been driven by a strong growth in income, which has increased by $166 million from $573 million in the financial year ended 30 June 2000 to $739 million in the current financial year. This growth in income is due to an increase of $13 billion or 15% in funds under management (FUM).

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

Tax expense has increased due to the non-recognition of tax benefits in relation to certain offshore tax losses.

Funds Under Management Performance

The combined Commonwealth and Colonial First State funds management business rank first in terms of both retail and wholesale FUM *(Source: ASSIRT March 2001)*.

Total external FUM have increased by $11.7 billion or 18% to $77 billion over the year to 30 June 2001. Internally managed life FUM increased by 7% or $1.6 billion over the year to 30 June 2001. The combined life insurance assets and funds under management totalled $116 billion at 30 June 2001 (Refer page 22).

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

Colonial First State Investments

Colonial First State Investment's (CFSI) FUM grew 23 % with strong growth recorded in both wholesale and retail funds. New business inflows remained strong during the year, particularly in Australia.

The number of active accounts in Australia increased from 565,000 at 30 June 2000 to 793,000 at 30 June 2001, representing an increase of 40%. This enabled Colonial First State to improve its retail market share from 5.4% to 6.1% *(Source: ASSIRT March 2001)*. Colonial First State continues to have a five star rating.

During the year, the property asset management businesses of Commonwealth Property and Colonial First Sate were merged, giving the combined group approximately $12 billion in property assets under management.

Commonwealth Funds Management Businesses

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

New Products and Initiatives

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

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

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

Life Insurance – Business Analysis

The life insurance operations contributed $320 million to the Group's result for the year, which is a decrease of $43 million from $363 million for the year to 30 June 2000. The effect of the decline in world equity markets on investment earnings on life insurance funds, together with poor claims and persistency experience were the principal reasons for the reduction in the profit from life insurance operations.

As at 30 June 2001, life insurance assets totalled $39 billion, an increase of $6 billion or 18% over the year. The results from the Group's life insurance operations are detailed on the following pages. During the early part of the year while the Group focussed on the more complex planning stages of integration, some business momentum was lost. The Group is now starting to regain part of this.

The following table sets forth the Group's Life Insurance Income result for the year ending 30 June 2001 together with comparatives.

	Full Year Ended			Comparison
Summary Profit and Loss (excluding abnormal income and appraisal value uplift)	**30/06/01 $M**	**Proforma Group 30/06/00 $M**	**Actual 30/06/00 $M**	**30/06/01 vs 30/06/00 Proforma %**
Life Insurance				
Margin on Services operating income - external	1,268	1,557	326	(19)
Operating expenses - external	(716)	(779)	(140)	(8)
Operating expenses - internal [(1)]	(38)	(32)	(10)	19
Total expenses	(754)	(811)	(150)	(7)
Operating profit before tax	514	746	176	(31)
Income tax expense	194	383	47	(49)
Operating profit after tax	**320**	**363**	**129**	**(12)**

(1) Management charge paid to Funds Management.

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

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

Included within tax expense for the year is $94 million relating to policyholder earnings, compared with $187 million last year. The reduction is mainly attributable to reduced investment earnings on behalf of policyholders.

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

The table below details the sources of after tax profit from the Group's life insurance operations.

	Full Year Ended			Comparison
	30/06/01 $M	**Proforma Group 30/06/00 $M**	**Actual 30/06/00 $M**	**30/06/01 vs 30/06/00 Proforma %**
Sources of life insurance operating profit (excluding abnormal income)				
The Margin on Services operating profit after income tax is represented by:				
Planned profit margins	**257**	225	121	14
Experience variation	**(63)**	(20)	(8)	large
New business losses / reversal of capitalised losses	**(2)**	13	1	large
Operating margins	**192**	218	114	(12)
Investment earnings on assets in excess of policyholder liabilities [(2)]	**126**	143	13	(12)
Other	**2**	2	2	-
Operating profit after tax	**320**	**363**	**129**	**(12)**

(2) Includes a gain of $46 million in the current year resulting from the transfer of certain strategic investments to the life insurance business.

Life Insurance – Business Analysis

Underlying results of life insurance businesses by geographical region.

The table below details the underlying results of the Group's life insurance businesses by geographical region.

Full Year Ended	30/06/01 $M	Australia Proforma Group 30/06/00 $M	30/06/01 $M	New Zealand Proforma Group 30/06/00 $M	30/06/01 $M	Asia Proforma Group 30/06/00 $M
Operating Margins	190	201	23	21	(21)	(4)
Investment earnings on assets in excess of policyholder liabilities	129	112	(5)	15	2	16
Other	-	1	1	-	1	1
Operating profit after tax	**319**	**314**	**19**	**36**	**(18)**	**13**

Operating margins in Australia decreased to $190 million from $201 million in the prior year reflecting lower policyholder investment returns, and increased claims offset by growth in the investment-linked portfolio, particularly superannuation and allocated pension products. The disability trends experienced in the first half have been controlled through improvements in claims management and repricing which should protect margins on this line of business in the future.

In addition experience variations in the prior year in Australia reflected some positive one off items and loss reversals that have not been repeated in the current year, and hence operating margins are lower in the current reporting period.

Expense integration synergies achieved to date are reflected in the current year operating margins. The expense synergies reflect the benefits of the integration of the Colonial life companies which occurred in the first half of the June 2000 financial year and the benefits of the progressive integration of the Colonial and Commonwealth life companies in the current reporting period.

The Australian life business has experienced sales pressure on its master fund business, although across the Group this was largely compensated by strong sales growth of complementary products by the funds management businesses. While this did not materially impact the profit margin in the current year, it did impact the life business appraisal value (Refer Summary of Life Insurance and Funds Management Valuations – page 27).

Margins on the Asian life insurance business have fallen by $17 million in the current year. The primary driver of this is persistency rates in Hong Kong. Although persistency rates are improving, the residual effect from large acquisitions of agents in 1998/99 and continued poaching of staff continues to depress margins.

Investment returns on shareholders funds for the year ended 30 June 2001 (assets in excess of policyholder liabilities) were $126 million which was $17 million lower than in the prior year. Investment returns were lower in all regions due to the global downturn in equity markets and some investment write downs within the New Zealand portfolio. As part of a re-balancing of the Group's exposure to equities, during the year certain strategic investments previously held by the Bank, which were held at cost, were transferred to the life insurance operations where assets are reported at market value. This resulted in a gain of $46 million after tax being reported within investment earnings on assets held in excess of policyholder liabilities. Life insurance assets in excess of liabilities amounted to approximately $2.6 billion as at 30 June 2001. The Group has maintained a balanced weighting between growth and fixed interest investments during the period.

New Business – Life Insurance and Superannuation	Full Year Ended 30/06/01 $M	Proforma Group 30/06/00 $M	Actual 30/06/00 $M	Comparison 30/06/01 vs 30/06/00 Proforma %
Master Fund/Trusts	**4,727**	4,333	2,646	9
Risk	**295**	253	46	17
Annuities, bonds and other statutory fund products	**901**	1,153	348	(22)
Total	**5,923**	5,739	3,040	3

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

On a pro-forma basis, sales of new business grew by 3% over the year. This reflects growth across all regions.

The growth within Australia represents an increase in masterfund/trust products and risk business offset by a decline in Annuities and Bonds.

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

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

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

Asian new business sales are above the prior year. The largest areas of growth have been in Thailand following expansion of its agency force, and Hong Kong following the launch of the Mandatory Provident Fund (MPF).

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

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

Summary of Life Insurance and Funds Management Valuations

The following table sets out the components of the carrying values of the Group's life insurance and funds management businesses. These are Directors' valuations based on appraisal values determined by independent actuaries Trowbridge Consulting. The key actuarial assumptions that have been used by the independent actuaries are also summarised.

As at 30 June 2001	Life Insurance Australia $M	Life Insurance New Zealand $M	Asia[1] $M	Funds Management $M	Total $M
Shareholders net tangible assets	1,643	236	719	269	2,867
Value of inforce business	706	135	101	618	1,560
Embedded Value	2,349	371	820	887	4,427
Value of future new business	786	265	123	2,402	3,576
Carrying Value	**3,135**	**636**	**943**	**3,289**	**8,003**
30 June 2000 Carrying Value	3,015	604	875	2,242	6,736
Increase to 30 June 2000	120	32	68	1,047	1,267

Analysis of Movement since 30 June 2000	Life Insurance Australia $M	Life Insurance New Zealand $M	Asia $M	Funds Management $M	Total $M
Profits [2]	273	19	(18)	149	423
Opening Fair Value Adjustments	-	-	(30)	-	(30)
Net Capital Movements [3]	(269)	39	179	77	26
Transfers / Acquisitions of Business [4]	-	-	-	34	34
Change in Shareholders NTA	**4**	**58**	**131**	**260**	**453**
Synergies Credited to Goodwill [4]	332	-	-	-	332
Transfers / Acquisitions of Business [5]	(183)	-	-	191	8
Net Appraisal Value Uplift	(33)	(26)	(63)	596	474
Increase to 30 June 2001	**120**	**32**	**68**	**1,047**	**1,267**

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

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

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

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

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

Change in Life Insurance and Funds Management Valuations

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

The main components of the increase comprise:

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

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

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

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

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

Valuation Assumptions

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

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

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

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

Further details on actuarial assumptions can be found in Note 34.

Group Operating Expenses

The following table sets forth the Group's operating expenses for year ended 30 June 2001 together with comparatives.

	Full Year Ended			Comparison
	30/06/01 $M	Proforma Group 30/06/00 $M	Actual 30/06/00 $M	30/06/01 vs 30/06/00 Proforma %
Expenses from - Existing operations	**5,089**	4,822	3,407	6
Expenses from - Business acquisitions and GST (net of synergies)	**81**	-	-	n/a
Total Operating Expenses	**5,170**	**4,822**	**3,407**	**7**
Expenses by category as follows:				
Staff	**2,360**	Refer note (2)	1,705	
Occupancy and equipment	**604**	"	437	
Information technology services	**748**	"	571	
Other expenses	**1,458**	"	694	
Total Operating Expenses	**5,170**	"	3,407	
Banking	**3,958**	3,633	3,164	9
Life Insurance	**716**	779	140	(8)
Funds Management	**496**	410	103	21
Total Operating Expenses	**5,170**	4,822	3,407	7
Cost to average assets held and funds under management (1)	**1.75**	1.85	1.85	(5)

(1) The fall in cost to average assets held and funds under management reflects the strong growth in funds under management (up $13 billion or 15% on a proforma basis) and on balance sheet assets, including life insurance (up $4 billion or 42%) over the past 12 months. In contrast operating expenses have risen 7%.

(2) Proforma is not available as Colonial Group did not prepare expense breakdown on this basis.

The Group's operating expenses have increased $348 million or 7% from $4,822 million for the year ended 30 June 2000 to $5,170 million for the current year.

Expenses from existing operations have increased by $267 million or 5.5% from $4,822 million to $5,089 million in the current year. The increase in expenses primarily relates to:

- Volume related increases of $122 million, predominantly relating to the Funds Management businesses and increased loyalty costs in the Cards business.
- The finalisation of an enterprise bargaining agreement with staff resulted in a 4% increase in salaries effective from 1 July 2000. This added $97 million to costs.
- Asian expenses incurred in developing the life insurance business.

The introduction of the GST added $111 million to expenses while the costs of developing European banking, the full year effect of the acquisition in the first half of last year of Trust Bank of Tasmania and State Street Master Custody businesses has added a further $90 million. The above increases are partly offset by $120 million of Colonial integration savings made in the current year.

Cost to Income Ratios

	30/06/01 %	Proforma 30/06/00 %
Banking	57.7	57.4
Funds Management	67.1	71.6
Life Insurance	59.5	52.1
Group	58.6	57.2

The Group's cost to income ratio reflects the different business mix, including policyholder items and investment returns on life insurance shareholder funds.

Accordingly, it is more appropriate to look at the cost to income ratio by line of business. The increase in the Banking cost income ratio of 0.3% from 57.4% in the year ended 30 June 2000 to 57.7% in the current year is attributable to the following:

- The GST together with the impact of the 4% wage rise increased the cost income ratio by 1.8%.
- Expenditure in relation to the development of the European banking operations and the full year effect of new businesses has increased the cost to income ratio by 0.7%.
- Synergies achieved in relation to the Colonial integration have decreased the cost to income ratio by 1.6%.
- The cost to income benefit from improved volumes of 0.3%.

The improvement in the funds management ratio of 4.5% from 71.6% in the prior year to 67.1% in the current year is due to scale economies from the growth in funds under management, partly offset by some one off expenses within Stewart Ivory during the second half of the financial year.

The increase in the life insurance cost income ratio reflects the impact of lower investment earnings and policyholder tax (4.8% impact).

The achievement of the integration of the Colonial business ahead of schedule represented a significant milestone for the Group. The current forecast of the annualised cost synergies that will be realised when the integration is completed (by 30 June 2003) is $355 million (out of the total synergies forecast of $450 million).

Other Group Items

Staff Numbers

The table below details the Group's staff numbers as at 30 June 2001. Staff number reductions related to the Colonial integration were in excess of 2,700 with a net increase in other staff movements reflecting business growth.

Staff Numbers as at	30/06/01 Number	30/06/00 Number
Full time staff	31,976	34,154
Part time staff	7,161	7,383
Full time staff equivalent	**34,960**	**37,131**
Australia	28,837	31,056
New Zealand	3,872	3,731
Other Overseas	2,251	2,344
	34,960	**37,131**

Income Tax Expense

	Full Year Ended			Comparison
	30/06/01 $M	Proforma Group 30/06/00 $M	Actual 30/06/00 $M	30/06/01 vs 30/06/00 Proforma %
Banking	705	748	759	(6)
Funds Management	94	52	14	81
Life	194	383	47	(49)
Total Income Tax Expense	**993**	**1,183**	**820**	**(16)**
Effective tax rate				
Banking	28%	31%	33%	
Funds Management	39%	32%	28%	
Life Insurance (Policyholder and Corporate)	38%	51%	27%	

Income tax expense has decreased 16% from $1,183 million for 30 June 2000 to $993 million for 30 June 2001.

The tax expense consists of corporate tax of $899 million (year to 30 June 2000 $996 million) and policyholder tax of $94 million (year to 30 June 2000 $187 million).

Corporate taxation has declined by $97 million, primarily reflecting the benefit from the drop in the corporate tax rate from 36% to 34% which reduced the prima facie income tax expense by $65 million, the utilisation of previously unrecognised overseas tax losses of $54 million, offset by a $20 million adjustment for the effect of lower tax rates on deferred tax balances when compared to the prior year.

The reduction in policyholder tax expense of $93 million is as a result of lower tax paid due to weaker investment returns on behalf of policyholders.

The funds management effective tax rate increased due to the non-recognition of overseas tax losses partly offset by the benefits from the change in tax rate.

Restructuring Provisions and Fair Value Adjustments

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

	Actual Balance 30/06/01 $M	Expenditure Year Ended 30/06/01 $M	Revised 30/06/01 $M	Increase $M	Reported 30/06/00 $M
Restructuring Costs					
- Colonial	195	244	439	145	294
- Commonwealth Bank	6	100	106	-	106
Total restructuring costs (pre tax)	**201**	**344**	**545**	**145**	**400**
Net of Tax	**142**	**275**	**417**	**87**	**330**

	Actual Balance 30/6/01 $M	Revision $M	Reported 30/6/00 $M
Fair Value Adjustments	**637**	**162**	**475**
Net of Tax	478	151	327

Other Group Items

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

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

Integration related synergies of $450 million are expected to be achieved by 2003, an increase of $70 million on those previously forecast. This comprises forecast cost synergies of $355 million revenue synergies of $70 million and funding synergies of $25 million. The increase is the result of a more detailed understanding of the business together with the accelerated timeframes over which the integration will be completed.

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

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

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

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

Dividends

Dividends will continue to be based on Cash Earnings Per Share, having regard to the following:

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

Subject to these factors, the group will continue to maintain a high payout ratio relative to its peers. The dividend payout ratio for the year was 75.5% on a cash basis.

Integrated Risk Management

Risk Management

The integrated risk management framework identifies, assesses, manages and reports risks and risk adjusted returns on a consistent and reliable basis.

Independent review is carried out through the audit role.

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

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

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

The composition of economic equity of the Group during the financial year ended 30 June 2001 was 49% credit risk, 20% market risk, 30% operational risk and 1% insurance risk.

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

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

The following sections describe the integrated risk management framework components.

Credit Risk

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

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

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

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

These policies assist in the diversification of the credit portfolio.

The credit portfolio is managed in two segments:

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

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

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

Market Risk

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

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

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

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

Integrated Risk Management

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

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

Trading income for 30 June 2001 increased by 30% over 30 June 2000 without an increase in the VaR during the period.

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

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

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

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

A large proportion of the policyholder assets is held for investment linked policies where the policyholder takes the risk of falls in the market value of the assets. However, as the Group earns fees on investment linked policies that are based on the amount of assets invested, it will receive lower fees should markets fall. Asset allocation for investment linked policies is decided by the policyholder. A smaller proportion of policyholder assets is held to support policies where life companies have guaranteed either the principal invested or the investment return ('guaranteed policies'). Investment mandates for these classes of policies emphasise investment in lower volatility assets such as cash and fixed interest. The Group no longer sells guaranteed policies in Australia or New Zealand but they continue to be sold in Asia. The Australian and New Zealand books of in force business contain guaranteed policies sold in the past and on which it continues to collect premiums.

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

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

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

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

Operational Risk

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

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

Integrated Risk Management

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

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

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

Insurance Risk

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

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

Derivatives

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

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

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

The Group's exposure to derivatives is disclosed in Note 39 Market Risk.

Business Continuity Management

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

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

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

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

Government Guarantee

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

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

Accordingly, demand deposits are no longer guaranteed.

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

Credit Rating

The Bank's credit ratings have remained unchanged for the year and at 30 June 2001 are:

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

Capital Adequacy

	2001 $M	2000 $M	2001 vs 2000 %
Tier One Capital			
Shareholders' Equity (excluding asset revaluation reserve)	**19,843**	18,435	8
Eligible Loan Capital	**462**	418	11
Total Shareholders' Equity and Loan Capital	**20,305**	18,853	8
Less Goodwill	**(5,716)**	(5,905)	(3)
Less Preference shares	**-**	(86)	large
Less Intangible component of investment in non-consolidated subsidiaries	**(4,116)**	(2,656)	55
Less Outside equity interest in entities controlled by non-consolidated subsidiaries	**(1,458)**	(588)	large
Total Tier One Capital	**9,015**	9,618	(6)
Tier Two Capital			
Asset revaluation reserve	**5**	-	large
General provision for bad and doubtful debts (1)	**1,390**	1,358	2
FITB related to general provision	**(436)**	(420)	4
Note and bond issues (2)	**4,825**	5,120	(6)
Preference shares	**-**	39	large
Total Tier Two Capital	**5,784**	6,097	(5)
Tier One and Tier Two Capital	**14,799**	15,715	(6)
Less Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1)	**(2,005)**	(2,528)	(21)
Less Other deductions	**(114)**	(669)	(83)
Capital Base	**12,680**	12,518	1

(1) Excludes general provision for bad and doubtful debts relating to investments in non-consolidated subsidiaries.
(2) Includes both upper and lower Tier 2 capital.

	2001 %	2000 %
Risk Weighted Capital Ratios		
Tier one	**6.51**	7.49
Tier two	**4.18**	4.75
Less deductions	**(1.53)**	(2.49)
Total	**9.16**	9.75

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

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

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

The Group has continued its active capital management programme. During the year:

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

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

Description of Business Environment

Competition

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

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

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

Of the other Australian owned banks, there are 5 regional banks. Each of these had their origins as a building society and their operations were initially largely state based. While the smaller of the regional banks have typically limited their activities to servicing customers in a particular state or region, they are now targeting interstate customers and expanding their operations across state borders. The larger regional banks now operate in several states, if not nationally. Over recent years the regional banking sector has undergone substantial consolidation with several of these institutions amalgamating with other regional banks or being acquired by major banks.

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

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

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

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

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

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

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

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

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

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

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

Description of Business Environment

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

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

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

Financial System Regulation

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

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

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

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

Supervisory Arrangements

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

Capital Adequacy

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

Funding and Liquidity

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

Large Credit Exposures

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

Ownership and Control

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

Description of Business Environment

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

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

Banks' Association With Non-Banks

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

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

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

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

Supervision of non-bank group entities

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

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

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

Corporate Governance

Board of Directors

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

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

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

Details of the experience, qualifications, special responsibilities and attendance at meetings of the Directors are set out in the Directors' Report on pages 41 to 46.

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

The Constitution of the Bank specifies that:

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

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

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

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

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

Remuneration Arrangements

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

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

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

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

Corporate Governance

The Board has established a Remuneration Committee to:

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

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

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

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

Audit Arrangements

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

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

In carrying out these functions, the Committee:

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

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

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

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

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

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

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

Risk Management

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

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

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

Independent Professional Advice

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

Access to Information

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

Ethical Standards

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

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

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

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

Corporate Governance

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

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

Continuous Disclosure

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

Directors' Report

The Directors of the Commonwealth Bank of Australia submit their report, together with the financial report of the Commonwealth Bank of Australia (the 'Bank') and of the Group, being the Bank and its controlled entities, for the year ended 30 June 2001.

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

John T Ralph, AC, Chairman

Mr Ralph has been a member of the Board since 1985 and Chairman since 1999. He is also Chairman of the Risk, Remuneration and Nominations Committees. He is a Fellow of the Australian Society of Certified Practising Accountants and has had over forty-seven years' experience in the mining and finance industries.
Chairman: Pacific Dunlop Limited.
Deputy Chairman: Telstra Corporation Limited.
Director: BHP Billiton Limited and BHP Billiton Plc.
Other Interests: Melbourne Business School (Board of Management), Foundation for Young Australians (Deputy National Chairman), and Australian Foundation for Science (Chairman).
Mr Ralph is a resident of Victoria. Age 68.

John M Schubert, Deputy Chairman

Dr Schubert has been a member of the Board since 1991, he was appointed as Deputy Chairman on 31 December 2000 and is Chairman of the Audit Committee and a member of the Nominations Committee. He holds a Bachelor Degree and PhD in Chemical Engineering and has experience in the petroleum, mining and building materials industries. Dr Schubert is the former Managing Director and Chief Executive Officer of Pioneer International Limited.
Chairman: G2 Therapies Limited and Worley Limited.
Director: BHP Billiton Limited, BHP Billiton Plc, Hanson Plc, Australian Graduate School of Management Ltd and Qantas Limited.
President: Business Council of Australia.
Other Interests: Academy of Technological Science (Fellow), Salvation Army Territorial Headquarters and Sydney Advisory Board (Member). He is also a Director of the Great Barrier Reef Research Foundation and a Director and a Member of AGSM Consulting Ltd.
Dr Schubert is a resident of New South Wales. Age 58.

David V Murray, Managing Director and Chief Executive Officer

Mr Murray has been a member of the Board and Managing Director since June 1992. He holds a Bachelor of Business and Master of Business Administration and has thirty-five years' experience in banking. Mr Murray is a member of the Remuneration, Risk and Nominations Committees.
Director: Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No 2) Pty Ltd, Emerald Holding Company Ltd, Colonial Finance (Australia) Ltd, Colonial International Holdings Pty Ltd and Colonial First State Investments Group Limited.
Other Interests: International Monetary Conference (Member), Art Gallery of NSW (Member), Asian Bankers' Association (Member), Australian Bankers' Association (Chairman), Asian Pacific Bankers' Club (Member), Business Council of Australia (Member), World Economic Forum (Member), General Motors Australian Advisory Council (Member), APEC Business Advisory Council (Member), and the Financial Sector Advisory Council (Member).
Mr Murray is a resident of New South Wales. Age 52.

N R (Ross) Adler, AO

Mr Adler has been a member of the Board since 1990 and is a member of the Remuneration Committee. He holds a Bachelor of Commerce and a Master of Business Administration. Mr Adler was Managing Director of Santos Limited for 16 years and retired on 30 September 2000. He has experience in various commercial enterprises, more recently in the oil and gas industry.
Chairman: Austrade.
Director: Telstra Corporation Limited, QCT Resources Limited (until October 2000), Tereny Investments Pty Ltd and Shelrey Pty Ltd.
Other Interests: Art Gallery of South Australia (Chairman), University of Adelaide (Council Member and Chairman of the Finance Committee), Executive Member of the Australian Japan Business Co-operation Committee and Australian Institute of Company Directors (Member).
Mr Adler is a resident of South Australia. Age 56.

Reg J Clairs, AO

Mr Clairs has been a member of the Board since 1 March 1999 and is a member of the Audit Committee. As the former Chief Executive Officer of Woolworths Limited, he had thirty-three years' experience in retailing, branding and customer service.
Chairman: Agri Chain Solutions Ltd and The Prime Minister's Supermarket to Asia Board.
Deputy Chairman: Woolstock Australia Limited.
Director: David Jones Ltd, Howard Smith Ltd and National Australia Day Council.
Other Interests: Foundation Member of the Prime Minister's Supermarket to Asia Council.
Mr Clairs is a resident of Queensland. Age 63.

A B (Tony) Daniels, OAM

Mr Daniels has been a member of the Board since March 2000 and is a member of the Remuneration Committee. He has extensive experience in manufacturing and distribution, being Managing Director of Tubemakers of Australia for eight years to December 1995, during a long career with that company.
Director: Australian Gas Light Company, Orica, and O'Connell St Associates.
Managing Director: Pacific Dunlop Limited.
Mr Daniels is a resident of New South Wales. Age 66.

Directors' Report

Colin R Galbraith

Mr Galbraith has been a member of the Board since June 2000 and is a member of the Risk Committee. He was previously a Director of Colonial Limited, having been appointed in 1996. He is a partner of Allens Arthur Robinson, Lawyers.
Chairman: BHP Community Trust.
Director: OneSteel Limited.
Other Interests: Council of Legal Education in Victoria (Honorary Secretary), Corporate Council of CARE Australia (Member) and The Royal Melbourne Hospital Neuroscience Foundation (Trustee).
Mr Galbraith is a resident of Victoria. Age 53.

Warwick G Kent AO

Mr Kent has been a member of the Board since June 2000 and is a member of the Risk Committee. He was previously a Director of Colonial Limited, having been appointed in 1998. He was Managing Director and Chief Executive Officer of BankWest until his retirement in 1997. Prior to joining BankWest, Mr Kent had a long and distinguished career with Westpac Banking Corporation.
Director: Perpetual Trustees Australia Limited, West Australian Newspapers Holdings Limited and Coventry Group Limited.
Other Interests: Advisory Board of Blake Dawson Waldron (Member), Walter and Eliza Hall Trust (Trustee), Australian Institute of Company Directors (Fellow), Australian Society of CPAs (Fellow), Australian Institute of Bankers (Fellow) and Chartered Institute of Company Secretaries (Fellow).
Mr Kent is a resident of Western Australia. Age 65.

Fergus D Ryan

Mr Ryan has been a member of the Board since March 2000 and is a member of the Audit Committee. He has extensive experience in accounting, audit, finance and risk management. He was a senior partner of Arthur Andersen until his retirement in August 1999 after thirty-three years' with that firm including five years as Managing Partner Australasia.
Member: Prime Minister's Community Business Partnership.
Other Interests: Strategic Investment Co-ordinator and Major Projects Facilitator for the Federal Government, Committee for Melbourne (Counsellor) and Pacific Institute (Patron).
Mr Ryan is a resident of Victoria. Age 58.

Frank J Swan

Mr Swan has been a member of the Board since July 1997 and is a member of the Risk Committee. He holds a Bachelor of Science degree and has twenty-three years' senior management experience in the food and beverage industries.
Chairman: Fosters Group Limited.
Director: National Foods Limited and Catholic Ladies College Eltham.
Other Interests: Institute of Directors (Fellow), Australian Institute of Company Directors (Fellow), Australian Institute of Management (Fellow) and Institute of Management UK (Companion).
Mr Swan is a resident of Victoria. Age 60.

Barbara K Ward

Ms Ward has been a member of the Board since 1994 and is a member of the Audit Committee. She holds a Bachelor of Economics and Master of Political Economy and has six years' experience in policy development and public administration as a senior ministerial adviser and twelve years' experience in the transport and aviation industries, most recently as Chief Executive of Ansett Worldwide Aviation Services. Since 1998, she has pursued a career as a company director.
Chairperson: HWW Limited and Country Energy.
Director: Rail Infrastructure Corporation and Data Advantage Limited.
Other Interests: Sydney Opera House Trust (Trustee), Australia Day Council of New South Wales (Member) and Allens Arthur Robinson (Director).
Ms Ward is a resident of New South Wales. Age 47.

Anna C Booth – retired 31 December 2000

Ms Booth had been a member of the Board since 1990 and was a member of the Risk Committee. She holds a Bachelor of Economics (Hons) and has had seventeen years' experience in the trade union movement.
Director: Ausflag Limited and CoSolve Australasia Pty Ltd.
Other Interests: Shopping Centre Council of Australia (Special Advisor), Sydney Organising Committee for the Olympic Games (Member) and Labour Management Studies Foundation of Macquarie University (Fellow).
Ms Booth is a resident of New South Wales. Age 44.

Ken E Cowley, AO – retired 29 March 2001

Mr Cowley had been a member of the Board since September 1997 and was a member of the Remuneration Committee. He has thirty-three years' experience in the media industry, having been a Director of News Limited since 1976 and until July 1997, was Executive Chairman of that company.
Executive Chairman: Zazu Limited.
Chairman: PMP Communications Limited, R M Williams Holdings Limited, Tasman Pacific Airways Limited, Tower Lodge Pty Limited and Melbourne Storm Football Club Pty Ltd.
Director: The News Corporation Limited, Independent Newspapers Limited and The Foundation for Rural and Regional Renewal.
Other Interests: Australian Stockman's Hall of Fame and Outback Heritage Centre (Chairman) and Royal Agricultural Society (Director).
Mr Cowley is a resident of New South Wales. Age 65.

Directors' Report

Directors' Meetings

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

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

* The number of meetings held during the time the Director held office during the year.
** Ms Booth retired on 31 December 2000.
*** Mr Cowley retired on 29 March 2001.

COMMITTEE MEETINGS

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

	Nominations Committee No. of Meetings Held *	No. of Meetings Attended
J T Ralph	3	3
J M Schubert	3	3
D V Murray	3	3

* The number of meetings held during the time the Director was a member of the relevant committee.
** Ms Booth retired on 31 December 2000.
*** Mr Cowley retired on 29 March 2001.
**** Mr Kent and Mr Galbraith were appointed to the Risk Committee on 31 December 2000.
Ø Dr Schubert retired from the Risk Committee on 12 February 2001.

Directors' Report

Principal Activities

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

Banking

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

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

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

Funds Management

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

The Group also has funds management businesses in New Zealand, UK and Asia.

Life Insurance

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

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

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

Consolidated Profit

Consolidated operating profit after tax and outside equity interests for the financial year ended 30 June 2001 was $2,398 million (2000: $2,700 million, including a net abnormal gain of $987 million).

The net operating profit for the year ended 30 June 2001 after tax, and before goodwill amortisation and appraisal value uplift was $2,262 million. This is an increase of $670 million or 42% over the year ended 30 June 2000. Apart from a full year profit contribution from the Colonial acquired entities, the principal contributing factors to this increase were a growth in net interest income reflecting continued lending asset growth together with growth in commissions, funds management income and trading income, partly offset by increases in a range of expenses.

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 75 cents per share amounting to $933 million. The dividend will be payable on 8 October 2001. Dividends paid since the end of the previous financial year:

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

Review of Operations

An analysis of operations for the financial year is set out in the Results Overview on pages 4 and 5 and Business Analysis on page 15 to 30.

Changes in State of Affairs

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

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

There were no other significant changes in the state of affairs of the Group during the financial year.

Events Subsequent to Balance Date

The Directors are not aware of any matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Directors' Report

Future Developments and Results

Major developments which may affect the operations of the Group in subsequent financial years are referred to in the Strategy and Outlook on page 9. In the opinion of the Directors, disclosure of any further information on likely developments in operations would be unreasonably prejudicial to the interests of the Group.

Environmental Regulation

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

Directors' Shareholdings

Particulars of shares in the Commonwealth Bank or in a related body corporate are set out in a separate section at the end of the financial report titled 'Shareholding Information' which is to be regarded as contained in this report.

Options

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

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

For details of the options granted to a director, refer to the separate section at the end of the financial report titled 'Shareholding Information' which is to be regarded as contained in this report.

Directors' Interests in Contracts

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

Directors' and Officers' Indemnity

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

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

The Directors, as named on pages 41 to 42 of this report, and the Secretaries of the Commonwealth Bank, being J D Hatton (Secretary) and K G Bourke (Assistant Company Secretary) are indemnified under Article 19 as are all the executive officers and employees of the Commonwealth Bank.

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

Directors' and Officers' Insurance

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

Directors' and other Officers' Emoluments

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

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

Directors' Report

Incorporation of Additional Material

This report incorporates the Financial Highlights, Business Analysis, Corporate Governance and Shareholding Information sections of this Annual Report.

Roundings

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

Signed in accordance with a resolution of the Directors.

J T Ralph AC
Chairman

D V Murray
Managing Director

22 August 2001

Five Year Financial Summary

	2001 $M	2000 $M	1999 $M	1998 $M	1997 $M
Profit and Loss					
Net interest income	**4,474**	3,719	3,527	3,397	3,392
Other operating income	**4,350**	2,420	1,997	1,833	1,489
Total operating income	**8,824**	6,139	5,524	5,230	4,881
Charge for bad and doubtful debts	**385**	196	247	233	98
Total operating expenses	**5,170**	3,407	3,070	3,039	2,924
Operating profit before goodwill amortisation, appraisal value uplift, abnormal items and income tax expense	**3,269**	2,536	2,207	1,958	1,859
Income tax expense	**(993)**	(820)	(714)	(641)	(588)
Outside equity interests	**(14)**	(38)	(24)	(20)	(22)
Abnormal items	**-**	967	-	(570)	(200)
Income tax credit on abnormal items	**-**	20	-	409	72
Appraisal value uplift	**474**	92	-	-	-
Goodwill amortisation	**(338)**	(57)	(47)	(46)	(43)
Operating profit after income tax attributable to members of the Bank	**2,398**	2,700	1,422	1,090	1,078
Contributions to profit (after tax)					
Banking	**1,793**	1,513	1,342	1,210	1,174
Life insurance	**320**	129	103	76	} 75 (1)
Funds management	**149**	36	24	11	}
Profit on operations (cash basis)	**2,262**	1,678	1,469	1,297	1,249
Goodwill amortisation	**(338)**	(57)	(47)	(46)	(43)
Appraisal value uplift	**474**	92	-	-	-
Abnormal income (expense) after tax	**-**	987	-	(161)	(128)
Operating profit after income tax	**2,398**	2,700	1,422	1,090	1,078
Balance sheet					
Loans, advances and other receivables	**136,059**	132,263	101,837	89,816	81,632
Total assets	**230,411**	218,259	138,096	130,544	120,103
Deposits and other public borrowings	**117,355**	112,594	93,428	83,886	77,880
Total liabilities	**210,563**	199,824	131,134	123,655	113,079
Shareholders' equity	**18,393**	17,472	6,735	6,712	6,846
Net tangible assets	**12,677**	11,942	6,471	6,358	6,450
Risk weighted assets	**138,383**	128,484	99,556	94,431	86,468
Average interest earning assets	**160,607**	129,163	114,271	102,165	96,163
Average interest bearing liabilities	**145,978**	117,075	103,130	91,650	85,296
Assets (on balance sheet)					
Australia	**196,918**	187,452	115,510	110,120	101,202
New Zealand	**20,208**	16,661	13,046	10,846	9,994
Other	**13,285**	14,146	9,540	9,578	8,907
Total Assets	**230,411**	218,259	138,096	130,544	120,103

(1) Figure is combined for 1997.

Five Year Financial Summary

	2001	2000	1999	1998	1997
Shareholder Summary					
Dividends per share (cents) - fully franked	**136**	130	115	104	102
Dividends provided for, reserved or paid ($million)	**1,720**	1,431	1,063	955	941
Dividend cover (times - before abnormals)	**1.4**	1.2	1.3	1.3	1.3
Dividend cover (times - cash)	**1.3**	1.6	1.3	1.1	1.1
Earnings per share (cents)					
before abnormal items	**190.1**	184.8	153.4	134.5	131.2
after abnormal items	**190.1**	291.3	153.4	117.2	117.2
Cash basis [(4)]	**179.4**	181.0	158.5	139.4	136.2
Dividend payout ratio (%) [(1)]					
before abnormal items	**71.2**	83.5	74.7	76.3	78.0
after abnormal items	**71.2**	53.0	74.7	87.6	87.3
Cash basis [(4)]	**75.5**	85.3	72.4	73.7	75.3
Net tangible assets per share ($)	**10.2**	9.2	6.8	6.7	6.7
Weighted average number of shares (basic)	**1,260m**	927m	927m	930m	917m
Number of shareholders	**709,647**	788,791	404,728	419,926	426,229
Share prices for the year ($)					
Trading high	**34.15**	27.95	28.76	19.66	16.00
Trading low	**26.18**	22.54	18.00	13.70	9.93
End (closing price)	**34.15**	27.69	24.05	18.84	16.00
Performance Ratios (%)					
Return on average shareholders' equity [(2)]					
before abnormal items	**13.5**	22.1	20.5	18.5	18.2
after abnormal items	**13.5**	34.8	20.5	16.1	16.4
Return on average total assets [(2)]					
before abnormal items	**1.1**	1.1	1.1	1.0	1.1
after abnormal items	**1.1**	1.7	1.1	0.9	0.9
Capital adequacy - Tier 1	**6.51**	7.49	7.05	8.07	8.64
Capital adequacy - Tier 2	**4.18**	4.75	3.12	2.82	2.82
Deductions	**(1.53)**	(2.49)	(0.79)	(0.40)	(0.57)
Capital adequacy - Total	**9.16**	9.75	9.38	10.49	10.89
Net interest margin	**2.78**	2.88	3.09	3.33	3.53
Other Information (numbers)					
Full time staff	**31,976**	34,154	26,394	28,034	30,566
Part time staff	**7,161**	7,383	6,655	6,968	7,364
Full time staff equivalent	**34,960**	37,131	28,964	30,743	33,543
Branches/service centres (Australia)	**1,066**	1,441	1,162	1,218	1,334
Agencies (Australia)	**3,928**	4,020	3,934	4,015	4,205
ATMs	**3,910**	4,141	2,602	2,501	2,301
EFTPOS terminals	**122,074**	116,064	90,152	83,038	63,370
EzyBanking	**659**	603	n/a	n/a	n/a
Productivity					
Total Operating Income per full-time (equivalent) employee ($)	**252,400**	211,842	190,720	170,120	145,515
Staff Expense/Total Operating Income (%)	**26.7**	27.8	29.0	31.0	34.0
Total Operating Expenses [(3)] /Total Operating Income (%)	**58.6**	57.2	55.6	58.1	59.9

(1) Dividends paid divided by earnings. The comparative ratios have been amended to the same basis as the current year. Previously this ratio was calculated as Dividend per share divided by Earnings per share.

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

(3) Total Operating Expenses excluding goodwill amortisation and charge for bad and doubtful debts. Note the different business mix following the Colonial acquisition impacts comparison with prior years.

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

Financial Statements

Statements of Financial Performance

For the Year ended 30 June 2001

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

(1) For comparative purposes it should be noted that these amounts included $987 million reported as a net abnormal gain at 30 June 2000, which is no longer disclosed as such due to the introduction of new accounting standard AASB 1018: Statement of Financial Performance. Refer Note 1 (pp) for details.

Statements of Financial Position

As at 30 June 2001

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

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

Statements of Changes in Shareholders' Equity

For the year ended 30 June 2001

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

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

Statements of Cash Flows

For the Year ended 30 June 2001

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

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

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

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies

(a) Bases of accounting

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

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

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

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

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

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

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

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

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

(b) Historical cost

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

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

(c) Consolidation

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

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

(d) Investments in associated companies

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

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

(e) Foreign currency translations

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

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

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

NOTE 1 Summary of Significant Accounting Policies continued

(f) Roundings

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

(g) Financial instruments

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

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

(h) Cash and liquid assets

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

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

Interest is taken to profit when earned.

(i) Receivables due from other financial institutions

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

(j) Trading securities

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

(k) Investment securities

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

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

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

(l) Repurchase agreements

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

(m) Loans, advances and other receivables

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

Non Accrual Facilities

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

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

Restructured Facilities

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

Assets Acquired Through Securities Enforcement (AATSE)

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

Bad Debts

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

(n) Leasing and leveraged leasing

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

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

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

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

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

(o) Provisions for impairment

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

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

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

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

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

(p) Bank acceptances of customers

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

(q) Deposits with regulatory authorities

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

(r) Shares in and loans to controlled entities

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

(s) Property, plant and equipment

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

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

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

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(s) Property, plant and equipment

The useful lives of major depreciable assets are as follows:

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

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

(t) Goodwill

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

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

(u) Other assets

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

Capitalisation of Computer Software Costs

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

(v) Deposits and other public borrowings

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

(w) Payables due to other financial institutions

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

(x) Provision for dividend

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

(y) Income taxes

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

(z) Provisions for employee entitlements

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

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

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

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

(aa) Provision for restructuring

Provision for Restructuring (2000)

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

Restructuring Costs (2000)

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

(bb) Provision for self insurance

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

(cc) Debt issues

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

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

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

(dd) Bills payable and other liabilities

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

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

(ee) Loan capital

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

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

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

(ff) Shareholders' equity

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

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

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

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

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

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

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

(gg) Derivative financial instruments

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

Derivative financial instruments held or issued for trading purposes

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

Derivative financial instruments held or issued for purposes other than trading

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

Swaps

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

NOTE 1 Summary of Significant Accounting Policies continued

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

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

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

Forward rate agreements and futures

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

Options

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

Early termination

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

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

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

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

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

(ii) Revenue recognition

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

Interest income

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

Lending fees

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

Commission and other fees

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

Other income

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

(jj) Life Insurance Business

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

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(v) Premiums and claims are separated on a product basis into their revenue, expense and change in liability components unless the separation is not practicable or the components cannot be reliably measured.

(vi) Returns on all investments controlled by a life insurer entity in the Group are recognised as revenues.

(vii) Participating benefits vested in relation to the financial year, other than transfers from unvested policyholder benefits liabilities, are recognised as expenses.

(viii) Reinsurance contracts taken are recognised on a gross basis.

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

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

Premiums and Claims

(i) Investment linked business

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

(ii) Non-investment linked business

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

Market Value Accounting

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

Life insurance investment assets

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

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

Excess of Net Market Value over Net Assets of Controlled Entities

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

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

Life insurance policy liabilities and margin on services profit

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

Profit

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

(i) Emergence of planned profit margins:

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

NOTE 1 Summary of Significant Accounting Policies continued

(ii) Difference between actual and planned experience:

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

(iii) Loss recognition on groups of related products or reversals of previously recognised losses:

Where future expenses for a group of related products exceeds future revenues, the anticipated loss is recognised immediately. If unprofitable business becomes profitable, previously recognised losses are reversed immediately.

(iv) Investment earnings on assets in excess of policy liabilities:

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

Participating Policies

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

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

Policy Acquisition Costs

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

Changes in Accounting Policy (2000)

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

- The consolidated financial report includes the financial statements of controlled life insurance subsidiaries, comprising both shareholders and policyholders entitlements to assets, liabilities, revenues, and expenses. Adoption of AASB 1038 increased total assets and total liabilities by $26.5 billion and $25.3 billion respectively.
- Revenue and expense items of life insurance businesses are consolidated on a line by line basis in the consolidated profit and loss statement. Initial adoption of AASB 1038 had no effect on reported profits as shareholders entitlements to profits emerging from the Statutory Funds were recognised in the Group's consolidated financial report in previous periods.
- The retained earnings and other reserves attributable to policyholders have been disclosed as part of life insurance policy liabilities. Profit attributable to policyholders is included in 'increase in policy liabilities'. This approach recognises the separate entitlements of policyholders and shareholders in the Statutory Funds of life insurance entities as required by the Life Insurance Act 1995.
- Controlled entities of Life Insurance companies, under AASB 1038, are required to be valued at net market value. AASB 1038 requires the differences between the net market value of the controlled entities and the underlying net assets to be recognised as the 'excess' of net market value over net assets of life insurance controlled entities (the 'excess') in the consolidated financial report. Several internal Group restructurings have occurred placing certain life insurance and funds management controlled entities under insurance companies, namely Commonwealth Insurance Holdings Limited (CIHL) and The Colonial Mutual Life Assurance Society Limited (CMLA). The impact of the restructuring that occurred during the year to 30 June 2000 was:
  - Initial adoption of AASB 1038 required Commonwealth Life Limited (CLL) to be marked to market. The resultant excess of $432 million was taken directly to retained earnings as required under the standard.
  - Various Colonial Group companies were transferred into CMLA and this resulted in an increase in the excess by $551 million at 30 June 2000. This includes $212 million transferred from goodwill into excess.
  - Transfer of Commonwealth Funds Management businesses under CIHL resulting in an increase in the excess by $537 million at 30 June 2000.
  - Alignment of the valuation bases of CLL with those used for the Colonial Group resulted in an increase in the excess by $536 million at 30 June 2000.

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

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

(kk) Loan Securitisation

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

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

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

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

(ll) Fiduciary activities

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

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

(mm) Superannuation plans

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

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

(nn) Comparative figures

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

(oo) Definitions

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

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

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

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

(pp) Abnormal Items (2000)

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

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

NOTE 2 Acquisition of Colonial

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

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

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

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

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

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

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

Notes to the financial statements

NOTE 2 Acquisition of Colonial continued

Excess of net market value over net tangible assets of life insurance controlled entities.

An internal group restructuring of Colonial's life and funds management businesses was completed in June 2000, whereby all these businesses, except for some Asian businesses, were transferred to The Colonial Mutual Life Assurance Society Limited (CMLA), a life insurance controlled entity. These life and funds management businesses are valued at market value by CMLA. Consistent with the principles of market value accounting, as specified by AASB 1038: Life Insurance Business, the above resulting excess of net market value over net tangible assets of life insurance controlled entities is not amortised.

Goodwill

The goodwill emerging on the acquisition amounts to $5,662 million and is amortised over a period of 20 years, representing the assessed life of the ongoing business. Cost and revenue synergies, planned on acquisition of Colonial, are being achieved from the integration of the Commonwealth and Colonial life insurance businesses.

Changes in the excess of net market value over net assets of life insurance controlled entities that are directly attributable to progressive recognition of these cost and revenue synergies as they are implemented have been recorded as a realisation of goodwill. Refer Note 20.

NOTE 3 Operating Profit

Operating profit before income tax has been determined as follows:

		GROUP			BANK
	2001	2000	1999	**2001**	2000
	$M	$M	$M	**$M**	$M
Interest Income					
Loans	**10,246**	7,663	6,806	**7,072**	6,126
Other financial institutions	**280**	191	165	**252**	176
Cash and liquid assets	**110**	78	58	**99**	76
Trading securities	**548**	295	246	**369**	224
Investment securities	**655**	586	425	**423**	437
Dividends on redeemable preference shares	**54**	24	42	**(44)**	(39)
Controlled entities	**-**	-	-	**386**	238
Other	**7**	5	3	**3**	1
Total Interest Income	**11,900**	8,842	7,745	**8,560**	7,239
Interest Expense					
Deposits	**5,042**	3,773	3,353	**3,547**	3,136
Other financial institutions	**328**	297	207	**323**	235
Short term debt issues	**902**	671	393	**191**	188
Long term debt issues	**759**	171	106	**412**	151
Controlled entities	**-**	-	-	**431**	316
Loan capital	**374**	210	155	**342**	204
Other	**21**	1	4	**15**	-
Total Interest Expense	**7,426**	5,123	4,218	**5,261**	4,230
Net Interest Income	**4,474**	3,719	3,527	**3,299**	3,009
Other Operating Income					
Lending fees	**602**	554	474	**525**	517
Commission and other fees	**1,173**	946	807	**888**	768
Trading income					
Foreign exchange earnings	**222**	146	155	**195**	130
Trading securities	**140**	105	66	**121**	91
Other financial instruments (incl derivatives)	**64**	60	52	**62**	60
Dividends - controlled entities	**-**	-	-	**385**	182
- other	**14**	20	6	**19**	13
Net gain (loss) on investment securities	**56**	12	79	**84**	7
Net profit on sale of property, plant and equipment	**25**	13	24	**26**	14
Life insurance income (refer note 34)	**1,268**	326	157	**-**	-
Funds management income	**701**	143	97	**-**	-
General insurance premium income	**107**	103	94	**-**	-
Less general insurance claims paid	**(57)**	(55)	(63)	**-**	-
Other	**35**	47	49	**267**	223
Total Other Operating Income	**4,350**	2,420	1,997	**2,572**	2,005
Total Net Operating Income	**8,824**	6,139	5,524	**5,871**	5,014
Charge for Bad and Doubtful Debts (Note 13)					
General provisions	**385**	196	247	**276**	191
Total Charge for Bad and Doubtful Debts	**385**	196	247	**276**	191

NOTE 3 Operating Profit continued

	GROUP			BANK	
	2001 $M	2000 $M	1999 $M	**2001 $M**	2000 $M
Staff Expenses					
Salaries and wages	**2,061**	1,498	1,406	**1,498**	1,330
Superannuation contributions	**12**	2	1	**-**	-
Provision for long service leave	**47**	38	42	**50**	37
Provisions for other employee entitlements	**(10)**	6	-	**(16)**	4
Payroll tax	**99**	75	77	**79**	72
Fringe benefits tax	**48**	33	34	**38**	32
Other staff expenses	**103**	53	44	**23**	35
Total Staff Expenses	**2,360**	1,705	1,604	**1,672**	1,510
Occupancy and Equipment Expenses					
Operating lease rentals	**329**	208	158	**211**	191
Depreciation					
Buildings	**29**	31	51	**26**	28
Leasehold improvements	**45**	28	26	**26**	26
Equipment	**76**	58	68	**26**	34
Repairs and maintenance	**60**	46	64	**52**	42
Other	**65**	66	88	**51**	50
Total Occupancy and Equipment Expenses	**604**	437	455	**392**	371
Information Technology Services					
Projects and development	**205**	186	145	**129**	169
Data processing	**219**	144	141	**180**	133
Desktop	**152**	103	90	**131**	102
Communications	**172**	138	129	**123**	130
Total Information Technology Services	**748**	571	505	**563**	534
Other Expenses					
Postage	**108**	81	76	**83**	75
Stationery	**107**	75	69	**67**	63
Fees and commissions	**535**	176	112	**186**	136
Other	**708**	362	249	**335**	262
Total Other Expenses	**1,458**	694	506	**671**	536
Total Operating Expenses	**5,170**	3,407	3,070	**3,298**	2,951
Revenue from Operating Activities					
Banking					
Interest income	**11,900**	8,842	7,745	**8,560**	7,239
Fee and commissions	**1,775**	1,500	1,281	**1,413**	1,285
Trading income	**426**	311	273	**378**	281
Dividends	**14**	20	6	**404**	195
Proceeds from sale of property, plant and equipment	**157**	44	652	**65**	22
Proceeds from sale of investment securities	**28**	17	146	**84**	7
Other income	**85**	95	80	**267**	223
	14,385	10,829	10,183	**11,171**	9,252
Life Insurance and Funds Management					
Life insurance					
- premium and related income	**958**	337	236	**-**	-
- investment revenue	**1,698**	1,066	590	**-**	-
Funds management fee income	**701**	143	97	**-**	-
	3,357	**1,546**	**923**	**-**	**-**
Appraisal value uplift				**-**	
-recurrent basis	**474**	92	-	**-**	-
-change of valuation basis of Commonwealth Life Insurance businesses	**-**	536	-	**-**	-
-corporate restructure of funds management business	**-**	537	-	**-**	-
	474	**1,165**	**-**	**-**	**-**
Total revenue from ordinary activities	**18,216**	**13,540**	**11,106**	**11,171**	**9,252**

There were no sources of revenue from non operating activities.

Operating Expenses – Year Ended 30 June 2000	**Recurrent Basis**[(1)]	**Restructuring Charge**	**Total**
Staff	1,705	20	1,725
Occupancy and equipment	437	3	440
Information technology services	571	32	603
Other	694	51	745
	3,407	106	3,513

(1) Recurrent excludes exceptional items.

Notes to the financial statements

NOTE 4 Average Balance Sheet and Related Interest

The table lists the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rates for each of, 1999, 2000 and 2001. Averages used are predominantly daily averages. The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities. Overseas intergroup borrowings have been adjusted in the interest spread and margin calculations to more appropriately reflect the overseas cost of funds. Non-accrual loans are included in Interest Earning Assets under loans, advances and other receivables.

	2001			2000			1999		
	Average Balance $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									
Cash and liquid assets									
Australia	**2,428**	**107**	**4.4**	1,860	78	4.2	1,468	58	4.0
Overseas	**273**	**3**	**1.1**	42	-	-	119	-	-
Receivables due from other financial institutions									
Australia	**2,658**	**159**	**6.0**	1,839	112	6.1	1,481	79	5.3
Overseas	**1,595**	**121**	**7.6**	1,307	79	6.0	1,522	86	5.7
Deposits with regulatory authorities									
Australia	**-**	**-**	**n/a**	-	-	n/a	892	-	-
Overseas	**29**	**-**	**-**	6	-	-	2	-	-
Trading securities									
Australia	**5,616**	**387**	**6.9**	3,754	196	5.2	2,720	149	5.5
Overseas	**2,587**	**161**	**6.2**	1,929	99	5.1	1,700	97	5.7
Investment securities									
Australia	**3,244**	**242**	**7.5**	4,082	260	6.4	3,052	171	5.6
Overseas	**6,268**	**413**	**6.6**	5,331	326	6.1	4,659	254	5.5
Loans, advances and other receivables									
Australia	**118,917**	**8,983**	**7.6**	94,913	6,701	7.1	83,350	5,899	7.1
Overseas	**16,992**	**1,317**	**7.8**	14,100	986	7.0	13,306	949	7.1
Other interest earning assets	**-**	**7**	**n/a**	-	5	n/a	-	3	n/a
Intragroup loans									
Australia	**-**	**-**	**n/a**	-	-	n/a	414	23	5.6
Overseas	**3,198**	**191**	**6.0**	2,825	168	5.9	-	-	n/a
Average interest earning assets and interest income including intragroup	**163,805**	**12,091**	**7.4**	131,988	9,010	6.8	114,685	7,768	6.8
Intragroup eliminations	**(3,198)**	**(191)**	**6.0**	(2,825)	(168)	5.9	(414)	(23)	5.6
Total average interest earning assets and interest income	**160,607**	**11,900**	**7.4**	129,163	8,842	6.8	114,271	7,745	6.8
Non Interest Earning Assets									
Bank acceptances									
Australia	**12,074**			10,533			9,971		
Overseas	**109**			21			32		
Life insurance investment assets									
Australia	**26,580**			9,732			-		
Overseas	**3,062**			240			-		
Property, plant and equipment									
Australia	**1,024**			755			1,240		
Overseas	**240**			187			211		
Other assets									
Australia	**21,676**			9,309			9,739		
Overseas	**1,835**			1,158			2,085		
Provisions for impairment									
Australia	**(1,493)**			(1,213)			(1,210)		
Overseas	**(84)**			(174)			(158)		
Total average non interest earning assets	**65,023**			30,548			21,910		
Total Average Assets	**225,630**			159,711			136,181		
Percentage of total average assets applicable to overseas operations	**16.0%**			15.0%			17.2%		

NOTE 4 Average Balance Sheet and Related Interest continued

	2001			2000			1999		
	Average Balance $M	**Interest $M**	**Average Rate %**	Average Balance $M	Interest $M	Average Rate %	Average Balance $M	Interest $M	Average Rate %
Average Liabilities and Interest Expense									
Interest Bearing Liabilities and Loan Capital									
Time Deposits									
Australia	**42,226**	**2,519**	**6.0**	38,176	2,022	5.3	31,119	1,597	5.1
Overseas	**9,882**	**711**	**7.2**	8,665	484	5.6	9,201	591	6.4
Savings Deposits									
Australia	**27,835**	**603**	**2.2**	25,248	460	1.8	24,378	418	1.7
Overseas	**2,027**	**83**	**4.1**	2,017	67	3.3	2,120	81	3.8
Other demand deposits									
Australia	**23,813**	**1,064**	**4.5**	17,662	696	3.9	17,247	626	3.6
Overseas	**1,911**	**62**	**3.2**	1,954	44	2.3	1,682	40	2.4
Payables due to other financial institutions									
Australia	**1,271**	**65**	**5.1**	961	56	5.8	643	35	5.4
Overseas	**4,238**	**263**	**6.2**	3,718	241	6.5	3,367	172	5.1
Debt issues									
Australia	**17,130**	**1,099**	**6.4**	7,615	413	5.4	7,689	395	5.1
Overseas	**9,965**	**562**	**5.6**	7,655	429	5.6	2,938	104	3.5
Loan capital									
Australia	**5,564**	**367**	**6.6**	3,336	204	6.1	2,746	155	5.6
Overseas	**116**	**7**	**6.0**	68	6	8.8	-	-	n/a
Other interest bearing liabilities	**-**	**21**	**n/a**	-	1	n/a	-	4	n/a
Intragroup borrowings									
Australia	**3,198**	**191**	**6.0**	2,825	168	5.9	-	-	n/a
Overseas	**-**	**-**	**n/a**	-	-	n/a	414	23	5.6
Average interest bearing liabilities and loan capital and interest expense including intragroup	**149,176**	**7,617**	**5.1**	119,900	5,291	4.4	103,544	4,241	4.1
Intragroup eliminations	**(3,198)**	**(191)**	**6.0**	(2,825)	(168)	5.9	(414)	(23)	5.6
Total average interest bearing liabilities and loan capital and interest expense	**145,978**	**7,426**	**5.1**	117,075	5,123	4.4	103,130	4,218	4.1
Non Interest Bearing Liabilities									
Deposits not bearing interest									
Australia	**6,034**			4,698			3,952		
Overseas	**608**			72			76		
Liability on acceptances									
Australia	**12,077**			10,533			9,971		
Overseas	**109**			21			32		
Life insurance policy liabilities									
Australia	**23,584**			9,458			-		
Overseas	**2,617**			201			-		
Other liabilities									
Australia	**13,536**			5,964			9,632		
Overseas	**2,890**			4,005			2,383		
Total average non interest bearing liabilities	**61,455**			34,952			26,046		
Total average liabilities and loan capital	**207,433**			152,027			129,176		
Shareholders' equity	**18,197**			7,684			7,005		
Total average liabilities, loan capital and shareholders' equity	**225,630**			159,711			136,181		
Percentage of total average liabilities applicable to overseas operations	**16.6%**			18.7%			16.9%		

Notes to the financial statements

NOTE 4 Average Balance Sheet and Related Interest continued

Changes in Net Interest Income: Volume and Rate Analysis	**30/06/01 vs 30/06/00 Changes due to**			30/06/00 vs 30/06/99 Changes due to		
	Volume $M	**Rate $M**	**Total $M**	Volume $M	Rate $M	Total $M
Interest Earning Assets						
Cash and liquid assets						
Australia	**24**	**5**	**29**	16	4	20
Overseas	**1**	**2**	**3**	-	-	-
Receivables due from other financial institutions						
Australia	**49**	**(2)**	**47**	20	13	33
Overseas	**20**	**22**	**42**	(13)	6	(7)
Deposits with regulatory authorities						
Australia	**-**	**-**	**-**	-	-	-
Overseas	**-**	**-**	**-**	-	-	-
Trading securities						
Australia	**113**	**79**	**192**	55	(8)	47
Overseas	**37**	**25**	**62**	12	(10)	2
Investment securities						
Australia	**(58)**	**41**	**(17)**	62	27	89
Overseas	**59**	**29**	**88**	39	33	72
Loans, advances and other receivables						
Australia	**1,752**	**548**	**2,300**	817	(15)	802
Overseas	**213**	**121**	**334**	56	(19)	37
Other interest earning assets	**-**	**2**	**2**	-	2	2
Intragroup loans						
Australia	**-**	**-**	**-**	-	-	-
Overseas	**22**	**1**	**24**	139	6	145
Change in interest income including intragroup	**2,257**	**848**	**3,106**	1,177	65	1,242
Intragroup eliminations	**(22)**	**(1)**	**(24)**	(139)	(6)	(145)
Change in interest income	**2,238**	**844**	**3,082**	1,014	83	1,097
Interest Bearing Liabilities and Loan Capital						
Time Deposits						
Australia	**228**	**275**	**503**	368	57	425
Overseas	**78**	**150**	**228**	(32)	(75)	(107)
Savings Deposits						
Australia	**52**	**92**	**144**	15	27	42
Overseas	**-**	**16**	**16**	(4)	(10)	(14)
Other demand deposits						
Australia	**258**	**112**	**370**	16	54	70
Overseas	**(1)**	**19**	**18**	6	(2)	4
Payables due to other financial institutions						
Australia	**17**	**(8)**	**9**	18	3	21
Overseas	**33**	**(10)**	**23**	20	49	69
Debt issues						
Australia	**563**	**125**	**687**	**(4)**	**22**	**18**
Overseas	**130**	**4**	**134**	**216**	**109**	**325**
Loan capital						
Australia	**141**	**23**	**164**	35	14	49
Overseas	**4**	**(3)**	**1**	3	3	6
Other interest bearing liabilities	**-**	**20**	**20**	**-**	(3)	(3)
Intragroup borrowings						
Australia	**22**	**2**	**24**	139	6	145
Overseas	**-**	**-**	**-**	-	-	-
Change in interest expense including intragroup	**1,392**	**949**	**2,341**	696	354	1,050
Intragroup eliminations	**(22)**	**(1)**	**(24)**	(139)	(6)	(145)
Change in interest expense	**1,366**	**951**	**2,317**	590	315	905
Change in net interest income	**872**	**(107)**	**765**	424	(232)	192
Change due to variation in time periods			**(10)**			

NOTE 4 Average Balance Sheet and Related Interest continued

Changes in Net Interest Income: Volume and Rate Analysis

The preceding table shows the movement in interest income and expense due to changes in volume and changes in interest rates. Volume variances reflect the change in interest from the prior period due to movement in the average balance. Rate variance reflects the change in interest from the prior year due to changes in interest rates.

Volume and rate variance for total interest earning assets and liabilities have been calculated separately (rather than being the sum of the individual categories).

			GROUP
	2001	2000	1999
	$M	$M	$M
Net interest income	**4,474**	3,719	3,527
Average interest earning assets	**160,607**	129,163	114,271

Interest Margins and Spreads

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

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

	%	%	%
Australia			
Interest spread adjusted for interest forgone on non accrual and restructured loans (1)	**2.56**	2.71	3.00
Interest forgone on non accrual and restructured loans	**-**	-	(0.02)
Interest Spread (2)	**2.56**	2.71	2.98
Benefit of net free liabilities, provisions and equity (3)	**0.43**	0.42	0.39
Australia Interest Margin (4)	**2.99**	3.13	3.37
Overseas			
Interest spread adjusted for interest forgone on non accrual and restructured loans (1)	**1.06**	1.24	1.45
Interest forgone on non accrual and restructured loans	**-**	(0.02)	(0.06)
Interest Spread (2)	**1.06**	1.22	1.39
Benefit of net free liabilities, provisions and equity (3)	**0.55**	0.30	0.38
Overseas Interest Margin (4)	**1.61**	1.52	1.77
Group			
Interest spread adjusted for interest forgone on non accrual and restructured loans (1)	**2.32**	2.48	2.71
Interest forgone on non accrual and restructured loans	**-**	(0.01)	(0.02)
Interest Spread (2)	**2.32**	2.47	2.69
Benefit of net free liabilities, provisions and equity (3)	**0.46**	0.41	0.40
Group Interest Margin (4)	**2.78**	2.88	3.09

(1) Represents interest forgone on loans on which the Group earns no interest or interest at below market rates.

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

(3) A portion of the Group's interest earning assets is funded by net interest free liabilities and shareholders' equity. The benefit to the Group of these interest free funds is the amount it would cost to replace them at the average cost of funds.

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

Notes to the financial statements

NOTE 5 Income Tax Expense

Income tax expense shown in the financial statements differs from the prima facie tax charge calculated at current taxation rates on operating profit.

	GROUP			BANK	
	2001 $M	2000 $M	1999 $M	**2001 $M**	2000 $M
Operating profit from ordinary activities before income tax					
Banking	**2,174**	2,147	2,033	**2,248**	1,701
Life insurance	**988**	1,341	99	**-**	-
Funds Management	**243**	50	28		
	3,405	3,538	2,160	**2,248**	1,701
Prima facie income tax at 34% (30 June 2000 and prior 36%)					
Banking	**739**	773	732	**764**	612
Life insurance	**336**	483	36	**-**	-
Funds Management	**83**	18	9	**-**	-
	1,158	1,274	777	**764**	612
Add (or deduct) permanent differences expressed on a tax effect basis:					
Current Period					
Tax rate change	**3**	23	-	**(11)**	38
Specific provisions for offshore bad and doubtful debts not tax effected	**8**	(22)	1	**7**	(24)
Taxation rebates (net of accruals)	**(35)**	(38)	(27)	**(138)**	(75)
Tax adjustment referable to policy holder income [(1)]	**62**	28	-	**-**	-
Non assessable income - life insurance surplus [(1)]	**(43)**	(62)	(36)	**-**	-
Change in excess of net market value over net assets of life insurance controlled entities [(1)]	**(161)**	(402)	-	**-**	-
Non deductible goodwill amortisation	**115**	21	17	**17**	14
Non-assessable capital gains	**(38)**	-	-	**(38)**	-
Tax losses recognised	**(65)**	(11)	(10)	**(64)**	(11)
Employee share acquisition plan	**(8)**	(9)	-	**(8)**	(9)
Other	**26**	(3)	(2)	**38**	40
	(136)	(475)	(57)	**(197)**	(27)
Prior Periods					
Other	**(29)**	1	(6)	**(18)**	-
Total income tax expense	**993**	800	714	**549**	585
Income tax attributable to operating profit					
Banking	**705**	739	704	**549**	585
Life insurance	**194**	47	1	**-**	-
Funds management	**94**	14	9	**-**	-
	993	800	714	**549**	585
Income tax expense comprises:					
Current taxation provision	**820**	730	744	**416**	536
Deferred income (benefit)/tax provision	**193**	137	(24)	**184**	128
Future income tax benefit	**(35)**	(109)	(34)	**(63)**	(115)
Notional tax expense - leveraged leases	**11**	34	8	**7**	29
Other	**4**	8	20	**5**	7
Total Income Tax Expense	**993**	800	714	**549**	585
The components of income tax expense consist of the following:					
Current Australia	**765**	677	710	**416**	535
Overseas	**55**	52	34	**-**	-
	820	729	744	**416**	535
Deferred Australia	**168**	73	(46)	**133**	50
Overseas	**5**	(2)	16	**-**	-
	173	71	(30)	**133**	50

(1) The prima facie life insurance income tax of $336 million less these permanent differences equals the life insurance tax expense of $194 million for 30 June 2001.

NOTE 5 Income Tax Expense continued

	GROUP			BANK	
	2001 $M	2000 $M	1999 $M	**2001 $M**	2000 $M
The significant temporary differences are as follows:					
Deferred income tax assets arising from:					
Provisions not tax deductible until expense incurred	**488**	743	255	**296**	282
Other	**206**	156	78	**62**	(45)
Future income tax benefits (Note 21)	**694**	899	333	**358**	237
Deferred income tax liabilities arising from:					
Leveraged leasing	**108**	383	461	**71**	139
Lease financing	**369**	247	209	**42**	50
Accelerated tax depreciation	**12**	28	41	**8**	28
Other	**613**	541	222	**256**	147
Total deferred income tax liabilities (Note 24)	**1,102**	1,199	933	**377**	364
Future income tax benefits attributable to tax losses carried forward as an asset	**-**	181	-	**-**	-
Future income tax benefits not taken to account					
Valuation allowance					
Opening balance	**173**	146	132	**167**	140
Prior year adjustments	**(2)**	7	(12)	**4**	7
Benefits now taken to account	**(65)**	(11)	(10)	**(64)**	(11)
Benefits arising during the year not recognised	**40**	31	36	**14**	31
Closing balance (Note 21)	**146**	173	146	**121**	167

NOTE 6 Dividends Provided For, Reserved or Paid

	GROUP			BANK	
	2001 $M	2000 $M	1999 $M	**2001 $M**	2000 $M
Ordinary Shares					
Interim ordinary dividend (fully franked) of 61 cents per share (2000: 58 cents, 1999: 49 cents)					
Provision for interim ordinary dividend - cash component only	**642**	405	275	**642**	405
Declared final ordinary dividend (fully franked) of 75 cents per share (2000: 72 cents, 1999: 66 cents)					
Provision for final ordinary dividend - cash component only	**765**	708	472	**765**	708
Other provision	**5**	-	-	**5**	-
Preference Shares					
Provision for preference dividend	**9**	-	-	**9**	-
Dividends provided for payments in cash or paid	**1,421**	1,113	747	**1,421**	1,113
Appropriations to Dividend Reinvestment Plan Reserve					
Interim ordinary dividend	**131**	118	183	**131**	118
Final ordinary dividend	**168**	200	133	**168**	200
Dividends appropriated to Dividend Reinvestment Plan Reserve	**299**	318	316	**299**	318
Total Dividends Provided for, Reserved or Paid	**1,720**	1,431	1,063	**1,720**	1,431

The Bank changed its dividend policy for the year ended 30 June 2000. The amount of dividend to be paid is now based on profit after tax before goodwill amortisation and appraisal value uplift. Previously it was based on profit after tax.

Dividend Franking Account

After fully franking the final dividend to be paid for the year ended 30 June 2001 the amount of franking credits available as at 30 June 2001 to frank dividends for subsequent financial years is nil (30 June 2000: $450 million). The 30 June 2000 franking account balance was fully utilised by the March 2001 share buyback which was in part paid out of retained earnings.

This figure is based on the combined franking accounts of the Group at 30 June 2001 and has been adjusted for franking credits that will arise from the payment of income tax payable on profits of the year ended 30 June 2001, franking debits that will arise from the payment of dividends proposed as at 30 June 2001 and franking credits that the Group may be prevented from distributing. The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. Dividend payments on or after 1 July 2001 will be franked at the 30% tax rate.

Notes to the financial statements

NOTE 6 Dividends Provided For, Reserved or Paid continued

Dividend History

Half Year Ended	Cents Per Share	Half Year Payout Ratio(1)	Full Year Payout Ratio(1)	Full Year Payout Ratio Cash Basis(2)	DRP Price $	DRP Participation Rate(3)
31 December 1998	49	64.3%	-	-	24.50	43.6%
30 June 1999	66	85.3%	74.7%	72.4%	24.75	22.3% (4)
31 December 1999	58	62.3%	-	-	24.42	22.6%
30 June 2000	72	48.8%	53.0%	85.3%	27.31	18.6%
31 December 2000	61	68.2%	-	-	30.82	18.6%
30 June 2001	75	74.0%	71.2%	75.5%	-	-

(1) Dividend Payout Ratio: dividends provided for, reserved or paid divided by earnings after abnormals.
(2) Payout ratio based on net profit after tax before goodwill amortisation and appraisal value uplift.
(3) DRP Participation Rate: the percentage of total issued share capital participating in the Dividend Reinvestment Plan.
(4) The decline in the participation rate from 43.6% to 22.3% in 1999 was due to the introduction of the cap on the participation in the DRP.

NOTE 7 Earnings Per Share

			GROUP
	2001	2000	1999
	c	c	c
Earnings Per Ordinary Share			
- Basic and Fully Diluted	**190**	291	153
	$M	$M	$M
Reconciliation of earnings used in the calculation of earnings per share			
Operating profit after income tax	**2,412**	2,738	1,446
Less: Preference share dividend	**(9)**	-	-
Less: Outside equity interests	**(14)**	(38)	(24)
Earnings used in calculation of earnings per share	**2,389**	2,700	1,422
	Number of Shares		
	M	M	M
Weighted average number of ordinary shares used in the calculation of earnings per share	**1,260**	927	927
Cash Basis Earnings Per Ordinary Share (basic and fully diluted)	**c**	c	c
- Before abnormal items (1)	**179**	181	159

(1) Abnormal income of net $987 million after tax was recorded in the year ended 30 June 2000.

NOTE 8 Cash and Liquid Assets

		GROUP		BANK
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
Australia				
Notes, coins and cash at bankers	**850**	944	**830**	680
Money at short call	**86**	147	**-**	-
Securities purchased under agreements to resell	**1,979**	1,226	**1,979**	1,226
Bills receivable and remittances in transit	**282**	189	**282**	189
Total Australia	**3,197**	2,506	**3,091**	2,095
Overseas				
Notes, coins and cash at bankers	**198**	35	**-**	-
Money at short call	**175**	32	**57**	8
Bills receivable and remittances in transit	**1**	2	**-**	-
Agreements to resell	**138**	-	**138**	-
Total Overseas	**512**	69	**195**	8
Total Cash and Liquid Assets	**3,709**	2,575	**3,286**	2,103

NOTE 9 Receivables from Other Financial Institutions

	GROUP		BANK	
	2001 $M	2000 $M	**2001 $M**	2000 $M
Australia	**2,858**	4,159	**2,724**	3,697
Overseas	**1,764**	995	**1,071**	632
Total Receivables from Other Financial Institutions	**4,622**	5,154	**3,795**	4,329

NOTE 10 Trading Securities

	GROUP		BANK	
	2001 $M	2000 $M	**2001 $M**	2000 $M
Australia				
Listed:				
Australian Public Securities				
Commonwealth and States	**99**	168	**99**	90
Local and semi-government	**340**	590	**340**	309
Bills of exchange	**1,588**	2,771	**1,588**	1,444
Other Securities	**36**	340	**1,039**	204
Unlisted:				
Commercial paper	**187**	121	**187**	121
Certificates of deposit	**745**	885	**736**	1,599
Medium term notes	**1,100**	605	**296**	488
Total Australia	**4,095** (1)	5,480	**4,285**	4,255
Overseas				
Listed:				
Government securities	**356**	20	**5**	17
Eurobonds	**617**	322	**617**	322
Bills of exchange	**950**	763	**-**	-
Other securities	**53**	77	**53**	77
Unlisted:				
Commercial paper	**375**	349	**-**	-
Other securities	**463**	336	**60**	21
Total Overseas	**2,814**	1,867	**735**	437
Total Trading Securities	**6,909**	7,347	**5,020**	4,692

(1) This reduction reflects the run-off of the Colonial State Bank trading portfolio.

Notes to the financial statements

NOTE 11 Investment Securities

	GROUP			BANK	
	2001 $M	2000 $M	1999 $M	**2001 $M**	2000 $M
Australia					
Listed					
Australian Public Securities					
Commonwealth and States	**1,919**	2,670	2,635	**1,913**	2,665
Other securities and equity investments	**354**	285	282	**349**	278
Unlisted					
Bills of exchange	**85**	30	-	**-**	-
Medium term notes	**976**	1,050	160	**90**	163
Other securities and equity investments	**2**	111	70	**-**	25
Total Australia	**3,336**	4,146	3,147	**2,352**	3,131
Overseas					
Listed					
Government securities	**252**	287	234	**252**	287
Treasury notes	**-**	-	5	**-**	-
Eurobonds	**1,118**	951	583	**1,118**	951
Other securities	**666**	767	484	**215**	712
Unlisted:					
Government securities	**116**	-	1	**-**	-
Treasury notes	**6**	5	-	**6**	5
Certificates of deposit	**1,417**	1,181	1,228	**1,417**	1,181
Eurobonds	**212**	141	317	**212**	141
Medium term notes	**174**	171	27	**174**	171
Commercial paper	**29**	159	228	**29**	159
Floating rate notes	**1,422**	578	470	**823**	126
Other securities and equity investments	**957**	763	463	**275**	305
Total Overseas	**6,369**	5,003	4,040	**4,521**	4,038
Total Investment Securities	**9,705**	9,149	7,187	**6,873**	7,169

NOTE 11 Investment Securities continued

	GROUP Market Value At 30 June 2001 $M	2000 $M	1999 $M
Market Value			
Australia			
Australian Public Securities			
Commonwealth and States	**1,926**	2,672	2,637
Bills of exchange	**85**	30	-
Medium term notes	**982**	1,057	171
Other securities and equity investment	**463**	407	333
Total Australia	**3,456**	4,166	3,141
Overseas			
Government securities	**379**	295	243
Treasury notes	**6**	5	5
Certificates of deposit	**1,416**	1,181	1,236
Eurobonds	**1,343**	1,094	924
Medium Term Notes	**172**	153	20
Floating rate notes	**1,422**	578	470
Other securities and equity investments	**1,627**	1,677	1,157
Total Overseas	**6,365**	4,983	4,055
Total Investment Securities	**9,821**	9,149	7,196
Net Unrealised Surplus/(Deficit)	**116**	-	9

Gross Unrealised Gains and Losses of Group

The following table sets out the gross unrealised gains and losses of the Group's Investment Securities.

	At 30 June 2001				At 30 June 2000			
	Amortised Cost $M	**Gross Unrealised Gains $M**	**Losses $M**	**Fair Value $M**	Amortised Cost $M	Gross Unrealised Gains $M	Losses $M	Fair Value $M
Australia								
Australian Public Securities								
Commonwealth and States	**1,919**	**24**	**17**	**1,926**	2,670	13	11	2,672
Bills of exchange	**85**	**-**	**-**	**85**	30	-	-	30
Medium term notes	**976**	**6**	**-**	**982**	1,050	8	1	1,057
Other securities and equity investments [(1)]	**356**	**107**	**-**	**463**	396	11	-	407
Total Australia	**3,336**	**137**	**17**	**3,456**	4,146	32	12	4,166
Overseas								
Government securities	**368**	**11**	**-**	**379**	287	9	1	295
Treasury notes	**6**	**-**	**-**	**6**	5	-	-	5
Certificates of deposit	**1,417**	**-**	**1**	**1,416**	1,181	-	-	1,181
Eurobonds	**1,330**	**43**	**30**	**1,343**	1,092	40	38	1,094
Medium term notes	**174**	**1**	**3**	**172**	171	-	18	153
Floating rate notes	**1,422**	**5**	**5**	**1,422**	578	1	1	578
Other securities and equity investments	**1,652**	**8**	**33**	**1,627**	1,689	20	32	1,677
Total Overseas	**6,369**	**68**	**72**	**6,365**	5,003	70	90	4,983
Total Investment Securities	**9,705**	**205**	**89**	**9,821**	9,149	102	102	9,149

Investment securities are carried at cost or amortised cost and are purchased with the intent of being held to maturity. The investment portfolio is managed in the context of the full balance sheet of the Bank.

(1) Equity derivatives are in place to hedge equity market risk in respect of structured equity products for customers. There are $107 million of net deferred losses on these contracts (2000: $11 million net deferred losses) which offset the above unrealised gains and these are disclosed within Note 39. At the end of the financial year $21 million of net deferred gains (2000: $71 million of deferred losses) are included in the amortised cost value.

Notes to the financial statements

NOTE 11 Investment Securities continued

Maturity Distribution and Average Yield

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

									Maturity Period at 30 June 2001
	1 to 12 months		1 to 5 years		5 to 10 years		10 years or more		Total
	$M	%	$M	%	$M	%	$M	%	$M
Australia									
Australian Public Securities									
Commonwealth and States	**90**	**5.91**	**717**	**5.76**	**1,112**	**6.32**	**-**	**-**	**1,919**
Bank Bills	**85**	**5.25**	**-**	**-**	**-**	**-**	**-**	**-**	**85**
Medium Term Notes	**20**	**6.35**	**956**	**13.17**	**-**	**-**	**-**	**-**	**976**
Other securities, commercial paper and equity investments	**277**	**5.17**	**37**	**6.67**	**42**	**7.09**	**-**	**-**	**356**
Total Australia	**472**		**1,710**		**1,154**		**-**		**3,336**
Overseas									
Government securities	**116**	**17.81**	**174**	**3.86**	**78**	**1.15**	**-**	**-**	**368**
Treasury Notes	**6**	**1.99**	**-**	**-**	**-**	**-**	**-**	**-**	**6**
Certificates of Deposit	**1,417**	**4.21**	**-**	**-**	**-**	**-**	**-**	**-**	**1,417**
Eurobonds	**101**	**8.16**	**771**	**5.45**	**458**	**5.54**	**-**	**-**	**1,330**
Medium Term Notes	**35**	**6.52**	**139**	**5.75**	**-**	**-**	**-**	**-**	**174**
Floating rate notes	**59**	**5.36**	**598**	**5.27**	**607**	**5.07**	**158**	**5.19**	**1,422**
Other securities, commercial paper and equity investments	**717**	**5.30**	**625**	**5.32**	**241**	**5.41**	**69**	**5.77**	**1,652**
Total Overseas	**2,451**		**2,307**		**1,384**		**227**		**6,369**
Total Investment Securities	**2,923**		**4,017**		**2,538**		**227**		**9,705**
Maturities at Fair Value	**3,022**		**3,899**		**2,674**		**226**		**9,821**

Additional Disclosure

Proceeds at or close to maturity of investment securities were $19,697 million (2000: $15,212 million, 1999: $12,431 million).

Proceeds from sale of investment securities were $28 million (2000: $17 million, 1999: $146 million).

Realised capital gains were $3 million and realised capital losses were $1 million (2000: realised capital gains $12 million, 1999: realised capital gains $85 million and realised capital losses $6 million).

NOTE 12 Loans, Advances and Other Receivables

	GROUP 2001 $M	GROUP 2000 $M	BANK 2001 $M	BANK 2000 $M
Australia				
Overdrafts	**2,785**	2,816	**2,785**	2,435
Housing loans	**65,466**	63,471	**65,300**	51,761
Credit card outstandings	**3,962**	3,501	**3,962**	3,033
Lease financing	**4,497**	4,863 [(1)]	**2,421**	1,706
Bills discounted	**1,556**	991	**1,556**	991
Term loans	**40,650**	40,281 [(1)]	**34,604**	27,779
Redeemable preference share financing	**306**	641	**6**	50
Equity participation in leveraged leases	**1,536**	1,659	**543**	617
Other lending	**1,301**	1,708	**785**	942
Total Australia	**122,059**	119,931	**111,962**	89,314
Overseas				
Overdrafts	**1,304**	1,080	**-**	-
Housing loans	**8,045**	7,266	**55**	65
Credit card outstandings	**232**	208	**-**	-
Lease financing	**256**	228	**94**	73
Term loans	**6,790**	6,837	**2,390**	2,703
Other Lending	**509**	218	**-**	-
Total Overseas	**17,136**	15,837	**2,539**	2,841
Gross Loans, Advances and Other Receivables	**139,195**	135,768	**114,501**	92,155
Less -				
Provisions for impairment (Note 13)				
General provision	**(1,399)**	(1,358)	**(1,240)**	(1,004)
Specific provision against loans and advances	**(233)**	(431)	**(190)**	(175)
Unearned income				
Term loans	**(643)**	(558)	**(64)**	-
Lease financing	**(514)**	(691)	**(282)**	(226)
Leveraged leases	**(186)**	(216)	**(22)**	(37)
Interest reserved	**(68)**	(131)	**(60)**	(34)
Unearned tax remissions on leveraged leases	**(93)**	(120)	**(9)**	(18)
	(3,136)	(3,505)	**(1,867)**	(1,494)
Net Loans, Advances and Other Receivables	**136,059**	132,263	**112,634**	90,661
Lease receivables, net of unearned income				
(included above)				
Current	**1,419**	1,695	**727**	507
Non current	**2,820**	3,407	**1,505**	1,046
	4,239	5,102	**2,232**	1,553

(1) Prior year figures have been adjusted to align with categories as at 30 June 2001 following the amalgamation of Colonial operations and product systems.

Leasing arrangements

Retail Financial Services provides vehicle and equipment lease finance to a broad range of industries including transport, service, earthmoving, construction, manufacturing and mining. Most lease finance arrangements are for terms between 3 and 5 years and rentals are generally payable monthly in advance.

Institutional Banking provides leasing services and hire purchase to corporate clients for a range of equipment. They also arrange off balance sheet finance for large scale long life plant and equipment across different tax jurisdictions.

	GROUP 2001 $M	GROUP 2000 $M	BANK 2001 $M	BANK 2000 $M
Finance Leases				
Minimum lease payments receivable:				
No later than one year	**1,696**	1,704	**838**	562
Later than one year but not later than five years	**2,786**	3,276	**1,506**	1,179
Later than five years	**271**	111	**171**	38
Lease financing	**4,753**	5,091	**2,515**	1,779
Leverage Leases				
Minimum lease payments receivable:				
No later than one year	**246**	119	**221**	67
Later than one year but not later than five years	**640**	697	**279**	426
Later than five years	**650**	843	**43**	124
Equity participation in leveraged lease	**1,536**	1,659	**543**	617

Notes to the financial statements

NOTE 12 Loans, Advances and Other Receivables continued

Maturity Distribution of Loans

The following table sets forth the contractual maturity distribution of the Group's loans, advances and other receivables (excluding bank acceptances) at 30 June 2001.

	GROUP Maturity Period at 30 June 2001			
	Maturing One Year or Less $M	Maturing Between One & Five Years $M	Maturing After Five Years $M	Total $M
Australia				
Government and Public Authorities	385	757	513	1,655
Agriculture, Forestry and Fishing	1,618	2,036	1,080	4,734
Financial, Investment and Insurance	3,038	1,029	603	4,670
Real Estate				
Mortgage [(1)]	933	13,711	50,822	65,466
Construction [(2)]	1,432	872	244	2,548
Personal	4,076	6,317	183	10,576
Lease Financing	2,497	3,508	623	6,628
Other Commercial and Industrial	13,476	9,022	3,284	25,782
Total Australia	27,455	37,252	57,352	122,059
Overseas				
Government and Public Authorities	21	138	6	165
Agriculture, Forestry and Fishing	193	544	521	1,258
Financial, Investment and Insurance	703	1,797	324	2,824
Real Estate				
Mortgage [(1)]	1,277	2,795	3,973	8,045
Construction [(2)]	52	71	54	177
Personal	332	45	63	440
Lease Financing	146	-	-	146
Other Commercial and Industrial	1,944	972	1,165	4,081
Total Overseas	4,668	6,362	6,106	17,136
Gross Loans, Advances and Other Receivables	32,123	43,614	63,458	139,195
Interest Rate Sensitivity of Lending				
Australia	21,029	19,731	35,738	76,498
Overseas	3,784	3,278	2,451	9,513
Total Variable Interest Rates	24,813	23,009	38,189	86,011
Australia	6,426	17,521	21,614	45,561
Overseas	884	3,084	3,655	7,623
Total Fixed Interest Rates	7,310	20,605	25,269	53,184
Gross Loans, Advances and Other Receivables	32,123	43,614	63,458	139,195

(1) Principally owner occupied housing. While most of these loans would have a contractual term of 20 years or more, the actual average term of the portfolio is less than 5 years.
(2) Financing real estate and land development projects.

NOTE 13 Provisions For Impairment

	GROUP					BANK	
	2001 $M	2000 $M	1999 $M	1998 $M	1997 $M	**2001 $M**	2000 $M
Provisions for Impairment							
General Provisions							
Opening balance	**1,358**	1,081	1,076	690	613	**1,004**	932
Abnormal charge	**-**	-	-	370	-	**-**	-
Charge against profit	**385**	196	247	165	36	**276**	191
Acquired provisions, including fair value adjustments	**51**	214	-	-	-	**229**	-
Transfer to specific provisions	**(411)**	(140)	(239)	(155)	-	**(291)**	(137)
Bad debts recovered	**88**	54	51	48	80	**54**	45
Adjustments for exchange rate fluctuations and other items	**(29)**	(3)	(7)	-	2	**(6)**	1
	1,442	1,402	1,128	1,118	731	**1,266**	1,032
Bad debts written off	**(43)**	(44)	(47)	(42)	(41)	**(26)**	(28)
Closing balance	**1,399**	1,358	1,081	1,076	690	**1,240**	1,004
Specific Provisions							
Opening balance	**432**	275	279	241	318	**175**	209
Charge against profit							
New and increased provisions	**-**	-	-	105	152	**-**	-
Write-back of provisions no longer required	**-**	-	-	(37)	(90)	**-**	-
Acquired provisions, including fair value adjustments	**6**	219	-	-	-	**28**	-
Transfer from general provision for							
New and increased provisioning	**495**	236	284	175	-	**312**	208
Less write-back of provisions no longer required	**(84)**	(96)	(45)	(20)	-	**(21)**	(71)
Net transfer	**411**	140	239	155	-	**291**	137
Adjustments for exchange rate fluctuations and other items	**(17)**	5	(8)	(6)	6	**21**	(3)
	832	639	510	458	386	**515**	343
Bad debts written off	**(598)**	(207)	(235)	(179)	(145)	**(325)**	(168)
Closing balance	**234**	432	275	279	241	**190**	175
Total Provisions for Impairment	**1,633**	1,790	1,356	1,355	931	**1,430**	1,179
Specific provisions for impairment comprise the following segments:							
Provisions against loans and advances	**233**	431	275	279	241	**190**	175
Provisions for diminution	**1**	1	-	-	-	**-**	-
Total	**234**	432	275	279	241	**190**	175
	%	%	%	%	%	**%**	%
Provision Ratios [(1)]							
Specific provisions for impairment as % of gross impaired assets net of interest reserved	**36.06**	43.03	46.69	37.60	30.24	**36.19**	34.93
Total provisions for impairment as % of gross impaired assets net of interest reserved	**251.62**	178.29	230.22	182.61	116.81	**272.38**	235.14
General provisions as % of risk weighted assets	**1.01**	1.06	1.09	1.14	0.79	**0.94**	0.92
	$M	$M	$M	$M	$M	**$M**	$M
Charge to profit and loss for bad and doubtful debts comprises:							
General provisions	**385**	196	247	165	36	**276**	191
Specific provisions	**-**	-	-	68	62	**-**	-
Total Charge for Bad and Doubtful Debts	**385**	196	247	233	98	**276**	191
Ratio of net charge-offs during the period to Average gross loans, advances and other receivables outstanding during the period	**0.28%**	0.16%	0.25%	0.26%	0.11%	**0.27%**	0.22%

[(1)] Ratios have been restated for 1998 based on the amended definition of non accruals introduced with effect from 31 December 1998.

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

	GROUP		BANK	
	2001 $M	2000 $M	**2001 $M**	2000 $M
Total charge for bad and doubtful debts	**385**	196	**276**	191
The charge is required for				
Specific Provisioning				
New and increased provisioning	**495**	236	**312**	208
Less provisions no longer required	**(84)**	(96)	**(21)**	(71)
Net specific provisioning	**411**	140	**291**	137
Provided from general provision	**(411)**	(140)	**(291)**	(137)
Charge to profit and loss	**-**	-	**-**	-
General Provisioning				
Direct write offs	**35**	34	**26**	28
Recoveries of amounts previously written off	**(88)**	(54)	**(54)**	(45)
Movement in general provision	**27**	76	**13**	71
Funding of specific provisions	**411**	140	**291**	137
Charge to profit and loss	**385**	196	**276**	191
Total Charge for Bad and Doubtful Debts	**385**	196	**276**	191

Specific Provisions for Impairment by Industry Category

The following table sets forth the Group's specific provisions for impairment by industry category as at 30 June 1997, 1998, 1999, 2000 and 2001.

					At 30 June
	2001 $M	2000 $M	1999 $M	1998 $M	1997 $M
Australia					
Government and Public Authorities	**-**	-	-	-	-
Agriculture, Forestry and Fishing	**8**	35	15	20	21
Financial, Investment and Insurance	**24**	23	23	16	22
Real Estate					
Mortgage [1]	**4**	8	4	3	4
Construction [2]	**6**	6	35	8	11
Personal	**28**	17	15	14	12
Lease Financing	**7**	6	4	-	-
Other Commercial and Industrial	**77**	110	82	113	152
Total Australia	**154**	205	178	174	222
Overseas					
Government and Public Authorities	**15**	13	-	-	-
Agriculture, Forestry and Fishing	**-**	-	-	1	1
Financial, Investment and Insurance	**4**	1	-	-	2
Real Estate					
Mortgage [1]	**7**	3	3	5	-
Construction [2]	**-**	-	-	10	-
Personal	**3**	69	2	-	-
Lease Financing	**-**	-	-	-	-
Other Commercial and Industrial	**51**	141	92	89	16
Total Overseas	**80**	227	97	105	19
Total Specific Provisions	**234**	432	275	279	241

(1) Principally owner occupied housing.
(2) Financing real estate and land development projects.

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

Bad Debts Written Off by Industry Category

The following table sets forth the Group's bad debts written-off and bad debts recovered for Financial Years 1997, 1998, 1999, 2000 and 2001.

				Year ended 30 June	
	2001	2000	1999	1998	1997
	$M	$M	$M	$M	$M
Australia					
Government and Public Authorities	**-**	-	-	-	-
Agriculture, Forestry and Fishing	**10**	6	7	9	15
Financial, Investment and Insurance	**1**	2	4	4	4
Real Estate					
Mortgage (1)	**10**	8	9	11	9
Construction (2)	**14**	24	7	6	14
Personal	**142**	104	94	86	58
Lease Financing	**16**	11	11	6	5
Other Commercial and Industrial	**301**	90	71	79	69
Total Australia	**494**	245	203	201	174
Overseas					
Government and Public Authorities	**-**	-	-	-	-
Agriculture, Forestry and Fishing	**-**	-	-	-	-
Financial, Investment and Insurance	**6**	-	-	3	-
Real Estate					
Mortgage (1)	**1**	1	1	1	1
Construction (2)	**-**	-	14	-	2
Personal	**38**	4	-	6	3
Lease Financing	**-**	-	3	-	-
Other Commercial and Industrial	**102**	1	61	10	6
Total Overseas	**147**	6	79	20	12
Gross Bad Debts Written Off	**641**	251	282	221	186
Bad Debts Recovered					
Australia	**59**	46	48	46	63
Overseas	**29**	8	3	2	17
Bad Debts Recovered	**88**	54	51	48	80
Net Bad Debts Written Off	**553**	197	231	173	106

(1) Principally owner occupied housing.
(2) Financing real estate and land development projects.

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

Bad Debts Recovered by Industry Category

The following table sets forth the Group's bad debts recovered by industry category for Financial Years 1997, 1998, 1999, 2000 and 2001.

					Year ended 30 June
	2001	2000	1999	1998	1997
	$M	$M	$M	$M	$M
Australia					
Government and Public Authorities	**-**	-	-	-	-
Agriculture, Forestry and Fishing	**-**	2	2	4	5
Financial, Investment and Insurance	**9**	1	2	6	8
Real Estate					
Mortgage [1]	**1**	1	-	-	-
Construction [2]	**1**	2	1	1	1
Personal	**30**	28	27	21	16
Lease Financing	**1**	2	2	2	2
Other Commercial and Industrial	**17**	10	14	12	31
Total Australia	**59**	46	48	46	63
Overseas					
Government and Public Authorities	**-**	-	-	-	-
Agriculture, Forestry and Fishing	**-**	-	-	-	-
Financial, Investment and Insurance	**-**	2	-	-	2
Real Estate					
Mortgage [1]	**-**	-	-	-	-
Construction [2]	**1**	1	-	-	2
Personal	**3**	3	3	2	1
Lease Financing	**-**	-	-	-	-
Other Commercial and Industrial	**25**	2	-	-	12
Total Overseas	**29**	8	3	2	17
Bad Debts Recovered	**88**	54	51	48	80

[1] Principally owner occupied housing.
[2] Financing real estate and land development projects.

NOTE 14 Credit Risk Concentrations

Management of the Credit Business

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

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

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

Statistically managed exposures generally comprise consumer facilities of less than $250,000. Statistically managed exposures are generally not individually reviewed unless arrears occur. Statistically managed portfolios are reviewed by business unit Credit Support and Monitoring Units with an overview by the Risk Asset Review unit.

Facilities in the statistically managed segment become classified for remedial management by centralised units based on arrears status. Impaired assets in this segment are those 'classified' facilities which are not well secured and past due 180 days or more. Most of these facilities are written off immediately on becoming past due 180 days or more.

Credit risk rated managed exposures generally comprise business and corporate exposures, including bank and government exposures. Credit risk rated managed exposures are required to be reviewed at least annually. The risk rated segment is subject to inspection by the Risk Asset Review unit, which is independent of the business units and which reports quarterly on its findings to the Board Risk Committee.

Most risk rated portfolios are reviewed on a random basis, usually within a period of twenty four months, by the Risk Asset Review unit. High risk portfolios are reviewed more frequently. Credit processes, including compliance with policy and underwriting standards, and application of risk ratings, are examined and reported on where cases of non compliance are observed.

Facilities in the credit risk rated managed segment become classified for remedial management by centralised units based on assessment in the risk rating system, which for each exposure makes an assessment of the risk of default, and then the risk of loss if default should occur. These facilities are generally those classified as troublesome (which equate to the APRA classifications of special mention and substandard) and impaired assets. Impaired assets in this segment are those classified' facilities where either a specific provision for impairment has been raised, the facility is maintained on a cash basis, a loss of principal or interest is anticipated, facilities have been restructured or other assets have been accepted in satisfaction of an outstanding debt. Loans are generally classified as non-accrual when receivership, insolvency or bankruptcy occurs. Provisions for impairment are raised for an amount equal to the difference between the exposure and the estimated realisable market value of the security net of estimated realisation costs.

A centralised exposure management system records all significant credit risks borne by the Group.

The Risk Committee of the Board operates under a charter of the Board in terms of which the Committee oversees the Bank's credit management policies and practices. The Committee usually meets every two months, and more often if required.

The Group uses a portfolio approach to the management of its credit risk. A key element is a well diversified portfolio. The Group is using various portfolio management tools to assist in diversifying the credit portfolio. The Bank is involved in credit derivative transactions, has purchased various assets in the market and has carried out various asset securitisations and a Collateralised Loan Obligation issue.

Notes to the financial statements

NOTE 14 Credit Risk Concentrations continued

Total Gross Credit Risk by Industry

The following table sets out the Group's Total Gross Credit Risk by industry as at 30 June 1997, 1998, 1999, 2000 and 2001. The industry profile of the loans, advances and other receivables content for the five financial years to 30 June 2001 is shown on page 89.

					At 30 June
	2001	2000	1999	1998	1997
	$M	$M	$M	$M	$M
Industry					
Australia					
Government and Public Authorities	**6,012**	6,195	6,162	5,200	6,686
Agriculture, Forestry and Fishing	**6,308**	6,141	5,303	4,791	3,743
Financial, Investment and Insurance	**22,490**	20,908	15,430	17,654	14,878
Real Estate					
Mortgage	**73,800**	63,696	49,150	41,231	37,498
Construction	**4,547**	4,205	3,830	2,790	2,705
Personal	**10,979**	12,911	10,688	8,659	7,183
Lease Financing	**6,628**	6,937	3,100	1,940	4,277
Other Commercial and Industrial	**42,893**	47,297	34,955	34,145	29,116
Total Australia	**173,657**	168,290	128,618	116,410	106,086
Overseas					
Government and Public Authorities	**385**	1,152	493	819	1,048
Agriculture, Forestry and Fishing	**1,564**	1,017	833	640	595
Financial, Investment and Insurance	**11,897**	8,008	5,631	7,012	7,147
Real Estate					
Mortgage	**8,085**	7,268	7,152	6,275	5,983
Construction	**198**	152	579	505	166
Personal	**449**	1,487	542	290	412
Lease Financing	**146**	217	191	173	-
Other Commercial and Industrial	**10,359**	10,300	7,945	8,091	6,759
Total Overseas	**33,083**	29,601	23,366	23,805	22,110
Total Gross Credit Risk	**206,740**	197,891	151,984	140,215	128,196
Less unearned income	**(1,343)**	(1,465)	(1,169)	(1,193)	(1,019)
Total Credit Risk	**205,397**	196,426	150,815	139,022	127,177
Charge for Bad and Doubtful Debts	**385**	196	247	233	98
Loss Rate (1)	**0.19**	0.11	0.16	0.17	0.08

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

The Group has a well diversified credit portfolio in Australia of good quality, with 42% of the exposure in mortgage loans and a further 13% to finance, investment and insurance (primarily banks). 16% of exposure is overseas, of which 24% is in mortgage loans. Overall over 60% of individually rated exposures in the commercial portfolio (including government and finance) are of investment grade or equivalent quality.

NOTE 14 Credit Risk Concentrations continued

The following tables set out the credit risk concentrations of the Group.

	Risk Concentration of the Group By Asset Class 30 June 2001						
Industry	Trading Securities $M	Investment Securities $M	Loans Advances and Other Receivables $M	Bank Acceptances of Customers $M	Contingent Liabilities $M	Derivatives $M	Total $M
Australia							
Government and Public Authorities	**439**	**2,837**	**1,655**	**295**	**618**	**168**	**6,012**
Agriculture, Forestry and Fishing	**-**	**-**	**4,734**	**1,384**	**105**	**85**	**6,308**
Financial, Investment and Insurance	**2,397**	**86**	**4,670**	**2,929**	**3,512**	**6,038**	**19,632**
Real Estate							
Mortgage	**-**	**-**	**65,466**	**137**	**8,197**	**-**	**73,800**
Construction	**-**	**-**	**2,548**	**1,191**	**648**	**160**	**4,547**
Personal	**-**	**-**	**10,576**	**167**	**229**	**7**	**10,979**
Lease Financing			**6,628**				**6,628**
Other Commercial and Industrial	**1,259**	**413**	**25,782**	**5,858**	**6,306**	**3,275**	**42,893**
Total Australia	**4,095**	**3,336**	**122,059**	**11,961**	**19,615**	**9,733**	**170,799**
Overseas							
Government and Public Authorities	**45**	**142**	**165**	**-**	**32**	**1**	**385**
Agriculture, Forestry and Fishing	**-**	**-**	**1,258**	**-**	**306**	**-**	**1,564**
Financial, Investment and Insurance	**1,820**	**2,512**	**2,824**	**17**	**803**	**2,096**	**10,072**
Real Estate							
Mortgage	**-**	**-**	**8,045**	**-**	**40**	**-**	**8,085**
Construction	**-**	**-**	**177**	**-**	**21**	**-**	**198**
Personal	**-**	**-**	**440**	**-**	**9**	**-**	**449**
Lease Financing	**-**	**-**	**146**	**-**	**-**	**-**	**146**
Other Commercial and Industrial	**949**	**3,715**	**4,081**	**97**	**1,411**	**106**	**10,359**
Total Overseas	**2,814**	**6,369**	**17,136**	**114**	**2,622**	**2,203**	**31,258**
Gross Balances	**6,909**	**9,705**	**139,195**	**12,075**	**22,237**	**11,936**	**202,057**
Other Risk Concentrations							
Receivables due from other financial institutions							**4,622**
Deposits with regulatory authorities							**61**
Total Gross Credit Risk							**206,740**

Risk concentrations for contingent liabilities and derivatives are based on the credit equivalent balance in Note 38, Contingent Liabilities and Note 39, Market Risk respectively.

Notes to the financial statements

NOTE 14 Credit Risk Concentrations continued

Risk Concentration of the Group by Asset Class 30 June 2000

Industry	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	857	2,674	1,681	376	144	463	6,195
Agriculture, Forestry and Fishing	-	-	4,686	1,113	151	191	6,141
Financial, Investment and Insurance	2,380	125	5,167	2,633	1,868	4,576	16,749
Real Estate							
Mortgage	-	-	63,471	117	108	-	63,696
Construction	-	-	2,627	962	532	84	4,205
Personal	-	-	11,759	189	962	1	12,911
Lease Financing	-	-	6,937	-	-	-	6,937
Other Commercial and Industrial	2,243	1,347	23,603	5,717	11,197	3,190	47,297
Total Australia	5,480	4,146	119,931	11,107	14,962	8,505	164,131
Overseas							
Government and Public Authorities	351	290	204	-	304	3	1,152
Agriculture, Forestry and Fishing	21	-	996	-	-	-	1,017
Financial, Investment and Insurance	935	1,561	2,278	-	598	1,595	6,967
Real Estate							
Mortgage	-	-	7,266	-	2	-	7,268
Construction	-	-	152	-	-	-	152
Personal	16	-	1,470	-	1	-	1,487
Lease Financing	-	-	217	-	-	-	217
Other Commercial and Industrial	544	3,152	3,254	-	3,171	179	10,300
Total Overseas	1,867	5,003	15,837	-	4,076	1,777	28,560
Gross Balances	7,347	9,149	135,768	11,107	19,038	10,282	192,691
Other Risk Concentrations							
Receivables due from other financial institutions							5,154
Deposits with regulatory authorities							46
Total Gross Credit Risk							197,891

Notes to the financial statements

NOTE 14 Credit Risk Concentrations continued

Industry	Total Risk $M	Impaired Assets $M	Provisions for Impairment $M	Write offs $M	Recoveries $M	Net Write offs $M
	Risk Concentration of the Group's Impaired Assets 30 June 2001					
Australia						
Government and Public Authorities	**6,012**	**-**	**-**	**-**	**-**	**-**
Agriculture, Forestry and Fishing	**6,308**	**68**	**8**	**10**	**-**	**10**
Financial, Investment and Insurance	**19,632**	**69**	**24**	**1**	**(9)**	**(8)**
Real Estate						
Mortgage	**73,800**	**-**	**4**	**10**	**(1)**	**9**
Construction	**4,547**	**23**	**6**	**14**	**(1)**	**13**
Personal	**10,979**	**14**	**28**	**142**	**(30)**	**112**
Lease Financing	**6,628**	**13**	**7**	**16**	**(1)**	**15**
Other Commercial and Industrial	**42,893**	**332**	**77**	**301**	**(17)**	**284**
Total Australia	**170,799**	**519**	**154**	**494**	**(59)**	**435**
Overseas						
Government and Public Authorities	**385**	**62**	**15**	**-**	**-**	**-**
Agriculture, Forestry and Fishing	**1,564**	**-**	**-**	**-**	**-**	**-**
Financial, Investment and Insurance	**10,072**	**14**	**4**	**6**	**-**	**6**
Real Estate						
Mortgage	**8,085**	**-**	**7**	**1**	**-**	**1**
Construction	**198**	**-**	**-**	**-**	**(1)**	**(1)**
Personal	**449**	**1**	**3**	**38**	**(3)**	**35**
Lease Financing	**146**	**-**	**-**	**-**	**-**	**-**
Other Commercial and Industrial	**10,359**	**121**	**51**	**102**	**(25)**	**77**
Total Overseas	**31,258**	**198**	**80**	**147**	**(29)**	**118**
Gross Balances	**202,057**	**717**	**234**	**641**	**(88)**	**553**
Receivables due from other financial institutions	**4,622**					
Deposits with regulatory authorities	**61**					
Total Gross Credit Risk	**206,740**					

Notes to the financial statements

NOTE 14 Credit Risk Concentrations continued

	Risk Concentration of the Group's Impaired Assets 30 June 2000					
Industry	Total Risk $M	Impaired Assets $M	Provisions for Impairment $M	Write offs $M	Recoveries $M	Net Write offs $M
Australia						
Government and Public Authorities	6,195	-	-	-	-	-
Agriculture, Forestry and Fishing	6,141	101	35	6	(2)	4
Financial, Investment and Insurance	16,749	53	23	2	(1)	1
Real Estate						
Mortgage	63,696	37	8	8	(1)	7
Construction	4,205	60	6	24	(2)	22
Personal	12,911	10	17	104	(28)	76
Lease Financing	6,937	18	6	11	(2)	9
Other Commercial and Industrial	47,297	445	110	90	(10)	80
Total Australia	164,131	724	205	245	(46)	199
Overseas						
Government and Public Authorities	1,152	55	13	-	-	-
Agriculture, Forestry and Fishing	1,017	1	-	-	-	-
Financial, Investment and Insurance	6,967	85	1	-	(2)	(2)
Real Estate						
Mortgage	7,268	-	3	1	-	1
Construction	152	-	-	-	(1)	(1)
Personal	1,487	53	69	4	(3)	1
Lease Financing	217	-	-	-	-	-
Other Commercial and Industrial	10,300	217	141	1	(2)	(1)
Total Overseas	28,560	411	227	6	(8)	(2)
Gross Balances	192,691	1,135	432	251	(54)	197
Receivables due from other financial institutions	5,154					
Deposits with regulatory authorities	46					
Total Gross Credit Risk	197,891					

Large Exposures

Concentration of exposure to any debtor or counterparty is controlled by the Large Credit Exposure Policy. All exposures outside the policy are approved by the Board Risk Committee.

The following table shows the aggregate number of the Group's corporate exposures (including direct and contingent exposure) which individually were greater than 5% of the Group's capital resources (Tier 1 and Tier 2 capital):

	2001 Number	2000 Number	1999 Number	1998 Number	1997 Number
10% to less than 15% of Group's capital resources	**-**	-	1	1	1
5% to less than 10% of Group's capital resources	**2**	1	7	7	4

NOTE 14 Credit Risk Concentrations continued

Credit Portfolio

Industry Profile

The following table sets forth the distribution of the Group's loans, advances and other receivables (excluding bank acceptances) classified by industry category at 30 June 1997, 1998, 1999, 2000 and 2001.

					At 30 June
	2001	2000	1999	1998	1997
	$M	$M	$M	$M	$M
Australia					
Government and Public Authorities	**1,655**	1,681	1,727	1,216	1,955
Agriculture, Forestry and Fishing	**4,734**	4,686	4,203	4,128	3,185
Financial, Investment and Insurance	**4,670**	5,167	4,048	2,490	1,859
Real Estate					
Mortgage [(1)]	**65,466**	63,471	45,495	41,137	37,400
Construction [(2)]	**2,548**	2,627	2,105	1,197	1,138
Personal	**10,576**	11,759	10,144	8,360	6,863
Lease Financing	**6,628**	6,937	3,100	1,940	4,277
Other Commercial and Industrial	**25,782**	23,603	20,253	19,559	16,044
Total Australia	**122,059**	119,931	91,075	80,027	72,721
Overseas					
Government and Public Authorities	**165**	204	157	105	28
Agriculture, Forestry and Fishing	**1,258**	996	833	640	547
Financial, Investment and Insurance	**2,824**	2,278	1,507	1,449	1,494
Real Estate					
Mortgage [(1)]	**8,045**	7,266	7,151	6,273	5,983
Construction [(2)]	**177**	152	427	318	151
Personal	**440**	1,470	539	248	397
Lease Financing	**146**	217	191	173	-
Other Commercial and Industrial	**4,081**	3,254	2,686	3,342	2,469
Total Overseas	**17,136**	15,837	13,491	12,548	11,069
Gross Loans, Advances and Other Receivables	**139,195**	135,768	104,566	92,575	83,790
Provisions for bad and doubtful debts, unearned income, interest reserved and unearned tax remissions on leverage leases	**(3,136)**	(3,504)	(2,729)	(2,759)	(2,158)
Net Loans, Advances and Other Receivables	**136,059**	132,264	101,837	89,816	81,632

(1) Principally owner occupied housing.
(2) Financing real estate and land development projects.

Notes to the financial statements

NOTE 15 Asset Quality

Impaired Assets

The Group adopted the Australian disclosure requirements for Impaired Assets contained in AASB 1032: Specific Disclosures by Financial Institutions with effect from Financial Year 1997.

There are three classifications of Impaired Assets:

(a) Non accruals, comprising:
- any credit risk facility against which a specific provision for impairment has been raised;
- any credit risk facility maintained on a cash basis because of significant deterioration in the financial position of the borrower; and
- any credit risk facility where loss of principal or interest is anticipated.

At 31 December 1998 the definition of non accruals was amended to align more closely with APRA (formerly RBA) guidelines and industry practice. When a client is experiencing difficulties the account is classified as a non accrual only where a loss is expected, taking into account the level of security held. To provide comparable provisioning and asset quality ratios impaired assets at 30 June 1998 have been disclosed under the amended definition.

All interest charged in the relevant financial period that has not been received in cash is reversed from profit and loss when facilities become classified as non accrual. Interest on these facilities is then only taken to profit if received in cash.

(b) Restructured Facilities
Credit risk facilities on which the original contractual terms have been modified due to financial difficulties of the borrower. Interest on these facilities is taken to profit and loss. Failure to comply fully with the modified terms will result in immediate reclassification to non accrual.

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

			GROUP
	2001	2000	1999
	%	%	%
Impaired Asset Ratios			
Gross impaired assets net of interest reserved as % of credit risk net of unearned income	**0.32**	0.51	0.39
Net impaired assets as % of:			
Risk weighted assets	**0.30**	0.44	0.32
Total shareholders' equity	**2.09**	3.10	4.52

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

		Year ended 30 June	
	2001	2000	1999 (1)
	$M	$M	$M
Impaired Loans (non accrual)	**699**	1,123	636
Impaired Loans with allowance for credit losses	**514**	760	505
- allowance for credit losses	**203**	411	255
Impaired Loans with no allowance for credit loss	**185**	363	131
Average investment in Impaired Loans	**911**	880	778
Income recognised on Impaired Loans	**51**	51 (1)	33 (1)

(1) Excluding Colonial

NOTE 15 Asset Quality continued

Impaired Assets

The following table sets forth the Group's impaired assets as at 30 June 1997, 1998, 1999, 2000 and 2001.

					At 30 June
	2001	2000	1999	1998[1]	1997
	$M	$M	$M	$M	$M
Australia					
Non-accrual loans:					
Gross balances	**518**	722	495	616	831
Less interest reserved	**(63)**	(128)	(66)	(85)	(100)
Gross balance (net of interest reserved)	**455**	594	429	531	731
Less provisions for impairment	**(154)**	(205)	(178)	(174)	(222)
Net non-accrual loans	**301**	389	251	357	509
Restructured loans:					
Gross balances	**1**	1	1	-	-
Less interest reserved	**-**	-	-	-	-
Gross balance (net of interest reserved)	**1**	1	1	-	-
Less specific provisions	**-**	-	-	-	-
Net restructured loans	**1**	1	1	-	-
Assets Acquired Through Security Enforcement (AATSE):					
Gross balances	**-**	1	-	-	-
Less provisions for impairment	**-**	-	-	-	-
Net AATSE	**-**	1	-	-	-
Net Australian impaired assets	**302**	391	252	357	509
Overseas					
Non-accrual loans:					
Gross balances	**197**	410	147	310	75
Less interest reserved	**(5)**	(3)	(2)	(17)	(9)
Gross balance (net of interest reserved)	**192**	407	145	293	66
Less provisions for impairment	**(79)**	(226)	(97)	(105)	(19)
Net non-accrual loans	**113**	181	48	188	47
Restructured loans:					
Gross balances	**-**	-	-	-	-
Less interest reserved	**-**	-	-	-	-
Gross balance (net of interest reserved)	**-**	-	-	-	-
Less specific provisions	**-**	-	-	-	-
Net restructured loans	**-**	-	-	-	-
Asset Acquired Through Security Enforcement	**1**	1	14	-	-
Less provisions for impairment	**(1)**	(1)	-	-	-
Net AATSE	**-**	-	14	-	-
Net overseas impaired assets	**113**	181	62	188	47
Total net impaired assets	**415**	572	314	545	556

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

The Group has improved its asset quality position. Ongoing management of impaired assets has resulted in a significant reduction in impaired assets, both through write off and realisation or return to performing status.

Notes to the financial statements

NOTE 15 Asset Quality continued

Movement in Impaired Asset Balances

The following table provides an analysis of the movement in the gross impaired asset balances for Financial Years 1997, 1998, 1999, 2000 and 2001.

				Year Ended 30 June	
	2001 $M	2000 $M	1999 $M	1998 $M	1997 $M
Gross impaired assets at period beginning	**1,135**	657	926	906	1,185
New and increased	**707**	414	415	689	487
Balances written off	**(666)**	(226)	(280)	(216)	(190)
Returned to performing or repaid	**(459)**	(194)	(404) [1]	(453)	(576)
	717	651	657	926	906
Colonial impaired assets	**-**	484	-	-	-
Gross impaired assets at period end	**717**	1,135	657	926	906

(1) Includes $99 million reduction due to revised definition of non accruals introduced 31 December 1998.

Loans Accruing But Past Due 90 Days or More					**at 30 June**
	2001 $M	2000 $M	1999 $M	1998 $M	1997 $M
Accruing loans past due 90 days or more					
Housing loans	**218**	211	182	249	267
Other loans	**90**	64	23	41	37
Total	**308**	275	205	290	304

Interest Income Forgone on Impaired Assets				**Year Ended 30 June**	
	2001 $M	2000[2] $M	1999 $M	1998 $M	1997 $M
Interest income forgone					
Australia Non Accrual Facilities	**8**	4	17	34	52
Overseas Non Accrual Facilities	**8**	5	10	7	3
Total	**16**	9	27	41	55

Interest Taken to Profit on Impaired Assets				**Year Ended 30 June**	
	2001 $M	2000[2] $M	1999 $M	1998 $M	1997 $M
Australia					
Non Accrual Facilities	**37**	45	33	34	50
Restructured Facilities	**-**	-	-	-	-
Overseas					
Non Accrual Facilities	**14**	6	-	-	-
OREO	**-**	-	-	-	5
Total Interest taken to Profit	**51**	51	33	34	55

(2) Excluding Colonial

NOTE 15 Asset Quality continued

Impaired Assets

	Australia 2001 $M	**Overseas 2001 $M**	**GROUP Total 2001 $M**	Australia 2000 $M	Overseas 2000 $M	GROUP Total 2000 $M
Non Accrual Loans						
With provisions	**334**	**196**	**530**	378	391	769
Without provisions	**184**	**1**	**185**	344	19	363
Gross Balances	**518**	**197**	**715**	722	410	1,132
Less interest reserved	**(63)**	**(5)**	**(68)**	(128)	(3)	(131)
Net Balances	**455**	**192**	**647**	594	407	1,001
Less provisions for impairment	**(154)**	**(79)**	**(233)**	(205)	(226)	(431)
Net Non Accrual Loans	**301**	**113**	**414**	389	181	570
Restructured Loans						
Gross Balances	**1**	**-**	**1**	1	-	1
Less interest reserved	**-**	**-**	**-**	-	-	-
Net Balances	**1**	**-**	**1**	1	-	1
Less provisions for impairment	**-**	**-**	**-**	-	-	-
Net Restructured Loans	**1**	**-**	**1**	1	-	1
Other Real Estate Owned (OREO)						
Gross Balances	**-**	**-**	**-**	1	-	1
Less provisions for impairment	**-**	**-**	**-**	-	-	-
Net OREO	**-**	**-**	**-**	1	-	1
Other Assets Acquired Through Security Enforcement (OAATSE)						
Gross Balances	**-**	**1**	**1**	-	1	1
Less provisions for impairment	**-**	**(1)**	**(1)**	-	(1)	(1)
Net OAATSE	**-**	**-**	**-**	-	-	-
Total Impaired Assets						
Gross Balances	**519**	**198**	**717**	724	411	1,135
Less interest reserved	**(63)**	**(5)**	**(68)**	(128)	(3)	(131)
Net Balances	**456**	**193**	**649**	596	408	1,004
Less provisions for impairment	**(154)**	**(80)**	**(234)**	(205)	(227)	(432)
Net Impaired Assets	**302**	**113**	**415**	391	181	572
Non Accrual Loans by Size of Loan						
Less than $1 million	**146**	**3**	**149**	324	54	378
$1 million to $10 million	**196**	**37**	**233**	217	35	252
Greater than $10 million	**176**	**157**	**333**	181	321	502
Total	**518**	**197**	**715**	722	410	1,132
Accruing Loans 90 days past due or more	**292**	**16**	**308**	262	13	275

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

Notes to the financial statements

NOTE 15 Asset Quality continued

Colonial State Bank

Indemnified loan book

Pursuant to the Sale Agreement between Colonial and the New South Wales Government, Colonial State Bank's loan book as at 31 December 1994 and any further loan losses (including interest) arising are indemnified by the NSW Government. This indemnity is to the extent of 90% of the losses after an initial $60 million (which was provided for by Colonial State Bank as at 31 December 1994). All loans (other than impaired loans) are covered for a period of three years from 31 December 1994 and for the duration of the loan in the case of impaired loans so classified as at 31 December 1997. The Sale Agreement also allows for loans to be withdrawn from the indemnity provided the withdrawal is approved by Colonial State Bank and the NSW Government and the due processes are followed.

Pursuant to the Sale Agreement, the costs of funding and managing Non-Performing loans which are covered by the loan indemnities are reimbursed by the NSW Government on a quarterly basis.

Selected Regional Exposures

Asia

Over 48% of total exposures relate to financial institutions. Exposures to Indonesia, Thailand and Korea have reduced by 10% in the Financial Year 2001 and represent approximately 19% of the Bank's Asian credit risk.

The Group's credit risk exposure to Asian countries as at 30 June 2001 is set out below. The exposures exclude Group equity investments.

CUSTOMER TYPE

Country	Finance $M	Corporate/ Multinational $M	Government $M	Project Finance $M	APL/NZPL $M	2001 Total Exposure $M	2000 Total Exposure $M
China	**65**	**171**	**-**	**-**	**1**	**237**	75
Hong Kong	**472**	**662**	**-**	**-**	**186**	**1,320**	861
	537	**833**	**-**	**-**	**187**	**1,557**	936
Japan	**1,259**	**241**	**161**	**-**	**-**	**1,661**	1,309
Malaysia	**6**	**116**	**41**	**-**	**2**	**165**	74
Singapore	**123**	**152**	**19**	**-**	**27**	**321**	768
Taiwan	**8**	**-**	**-**	**-**	**-**	**8**	37
Other	**4**	**3**	**-**	**-**	**-**	**7**	7
	1,400	**512**	**221**	**-**	**29**	**2,162**	2,195
Indonesia	**8**	**107**	**62**	**139**	**32**	**348**	420
South Korea	**262**	**140**	**-**	**-**	**-**	**402**	402
Thailand	**3**	**95**	**25**	**-**	**-**	**123**	151
	273	**342**	**87**	**139**	**32**	**873**	973
Total	**2,210**	**1,687**	**308**	**139**	**248**	**4,592**	4,104

Other Regional Exposures

CUSTOMER TYPE

Region	Finance $M	Corporate/ Multinational $M	Government $M	Project Finance $M	APL/NZPL $M	2001 Total Exposure $M	2000 Total Exposure $M
Eastern Europe	**22**	**-**	**41**	**-**	**-**	**63**	50
Latin America	**-**	**-**	**-**	**-**	**-**	**-**	5
Middle East	**108**	**-**	**-**	**-**	**-**	**108**	100

Total Exposure - The maximum of the limit or balance utilised for committed facilities, whichever is highest, and the balance utilised for uncommitted facilities. For derivative facilities, balances are reported on a 'mark to market plus potential exposure' basis.

Project Finance - Long term lending for large scale projects (such as mining, infrastructure) where repayment is primarily reliant on the cash flow from the project.

NOTE 16 Life Insurance Investment Assets

		GROUP
	2001	2000
	$M	$M
Equity Security Investments		
Direct	**9,349**	7,754
Indirect	**5,024**	3,530
	14,373	11,284
Debt Security Investments		
Direct	**8,815**	8,525
Indirect	**5,224**	4,160
	14,039	12,685
Property Investments		
Direct	**1,085**	1,276
Indirect	**1,354**	1,048
	2,439	2,324
Cash on Deposit	**362**	743
Total Life Insurance Investment Assets	**31,213**	27,036

Direct investments refer to investments that are directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

Disclosure on Asset Restriction

Investments held in the Statutory Funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that assets in a Fund can only be used to meet the liabilities and expense of the Fund, to acquire investments to further the business of the Fund or as distributions when solvency and capital adequacy requirements are met. Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

These investment assets held in the Statutory Funds are not available for use by the Commonwealth Bank's operating businesses.

NOTE 17 Deposits With Regulatory Authorities

		GROUP		BANK
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
Central Banks Overseas	**61**	46	**4**	3
Total Deposits with Regulatory Authorities	**61**	46	**4**	3

NOTE 18 Shares in and Loans to Controlled Entities

Shares in controlled entities	**-**	-	**9,847**	12,198
Loans to controlled entities	**-**	-	**6,578**	5,151
Total Shares in and Loans to Controlled Entities	**-**	-	**16,425**	17,349

Notes to the financial statements

NOTE 19 Property, Plant and Equipment

	GROUP		BANK	
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
(a) Land and Buildings				
Land				
At 30 June 2001 valuation	**191**	-	**179**	-
At 30 June 2000 valuation	**-**	222	**-**	208
Closing balance	**191**	222	**179**	208
Buildings				
At 30 June 2001 valuation	**389**	-	**312**	-
At 30 June 2000 valuation	**-**	508	**-**	334
Closing balance	**389**	508	**312**	334
Total Land and Buildings	**580**	730	**491**	542

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

(b) Leasehold Improvements				
At cost	**444**	532	**388**	321
Provision for depreciation	**(275)**	(336)	**(251)**	(195)
Closing balance	**169**	196	**137**	126
(c) Equipment				
At cost	**574**	670	**329**	351
Provision for depreciation	**(404)**	(523)	**(269)**	(280)
Closing balance	**170**	147	**60**	71
Total Property, Plant and Equipment	**919**	1,073	**688**	739

	GROUP		BANK	
	2001	2000	**2001**	2000
Reconciliation	**$M**	$M	**$M**	$M

Reconciliation of the carrying amount of property plant and equipment at the beginning and end of the 2001 and 2000 financial years.

Land				
Opening balance	**222**	239	**208**	216
Disposals	**(36)**	(17)	**(29)**	(8)
Net revaluations	**5**	-	**-**	-
Closing balance	**191**	222	**179**	208
Buildings				
Opening balance	**508**	470	**334**	358
Acquisitions	**42**	112	**41**	13
Disposals	**(132)**	(43)	**(37)**	(9)
Depreciation	**(29)**	(31)	**(26)**	(28)
Closing balance	**389**	508	**312**	334
Leasehold Improvements				
Opening balance	**196**	153	**126**	135
Acquisitions	**46**	73	**26**	50
Disposals	**(2)**	(2)	**(2)**	(1)
Transfers	**-**	-	**13**	(32)
Asset writedown	**(26)**	-	**-**	-
Depreciation	**(45)**	(28)	**(26)**	(26)
Closing balance	**169**	196	**137**	126
Equipment				
Opening balance	**147**	139	**71**	87
Acquisitions	**99**	77	**15**	18
Disposals	**-**	(11)	**-**	-
Depreciation	**(76)**	(58)	**(26)**	(34)
Closing balance	**170**	147	**60**	71

NOTE 20 Intangible Assets

	GROUP		BANK	
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
Purchased goodwill - Colonial (refer note 2)	**5,662**	5,424	**2,742** [(2)]	-
Purchased goodwill - Other [(1)]	**1,132**	888	**835**	784
Realisation of life insurance synergy benefits (refer note 2)	**(332)**	-	**-**	-
Accumulated amortisation	**(746)**	(407)	**(426)**	(372)
Total Goodwill	**5,716**	5,905	**3,151**	412
Excess of net market value over net assets of life insurance controlled entities	**5,136**	4,322 [(3)]	**-**	-
Total Intangibles	**10,852**	10,227	**3,151**	412

(1) Increase in other goodwill principally relates to acquisition of remaining 25% interest in ASB Group in August 2000.

(2) Colonial State Bank goodwill arising on Commonwealth Bank of Australia becoming successor in law to all assets and liabilities of Colonial State Bank, refer Note 1(c).

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

			GROUP At 30 June 2001
	Market Value $M	**Net Assets $M**	**Excess of Market Value Over Net Assets $M**
Commonwealth entities	2,675	540	**2,135**
ASB entities	320	136	**184**
Colonial entities	5,008	2,191	**2,817**
	8,003	**2,867**	**5,136**

			GROUP At 30 June 2000[(3)]
	Market Value $M	**Net Assets $M**	**Excess of Market Value Over Net Assets $M**
Commonwealth entities	1,978	407	1,571
ASB entities	286	83	203
Colonial entities	4,472	1,924	2,548
	6,736	2,414	4,322

Further detail is provided in Note 34.

(3) Balances at 30 June 2000 include some minor adjustments. Excess disclosed at 30 June 2000 was $4,352 million, which has been restated to $4,322 million. Such adjustments have no effect on the appraisal value uplift for the year. These adjustments were reflected in the published results at 31 December 2000.

Notes to the financial statements

NOTE 21 Other Assets

	GROUP		BANK	
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
Accrued interest receivable	**1,155**	1,314	**1,118**	1,004
Shares in other companies	**68**	127	**40**	41
Accrued fees/reimbursements receivable	**381**	187	**400**	63
Securities sold not delivered	**1,035**	656	**781**	429
Future income tax benefits	**694**	899	**358**	237
Unrealised gains on trading derivatives (Note 39) [1]	**9,592**	6,252	**8,962**	5,764
Other	**962**	2,444	**217**	717
Total Other Assets	**13,887**	11,879	**11,876**	8,255

[1] The increases in unrealised gains on trading derivatives reflects increased volumes of derivative transactions and falls in interest rates in Australia and the United States and the AUD/USD exchange rate.

Potential future income tax benefits of the Company arising from tax losses in offshore centres and timing differences have not been recognised as assets because recovery is not virtually certain. These benefits, which could amount to $146 million (2000: $173 million) will only be obtained if:

- The Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- The Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- No changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

NOTE 22 Deposits and Other Public Borrowings

	GROUP		BANK	
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
Australia				
Certificates of deposit	**12,927**	14,136	**12,927**	12,686
Term deposits	**28,102**	29,677	**25,529**	22,788
On demand and short term deposits	**54,601**	48,975	**54,854**	43,223
Deposits not bearing interest	**6,350**	6,075	**6,380**	5,803
Securities sold under agreements to repurchase	**435**	946	**434**	946
Other	**6**	7	**-**	-
Total Australia	**102,421**	99,816	**100,124**	85,446
Overseas				
Certificates of deposit	**2,294**	2,686	**1,108**	1,269
Term deposits	**7,849**	6,144	**2,171**	1,423
On demand and short term deposits	**4,130**	3,419	**39**	98
Deposits not bearing interest	**635**	529	**7**	4
Agreements to repurchase	**26**	-	**26**	-
Total Overseas	**14,934**	12,778	**3,351**	2,794
Total Deposits and Other Public Borrowings	**117,355**	112,594	**103,475**	88,240

NOTE 22 Deposits and Other Public Borrowings continued

Maturity Distribution of Certificates of Deposit and Time Deposits

The following table sets forth the maturity distribution of the Group's certificates of deposits and time deposits as at 30 June 2001.

					At 30 June 2001
	Maturing Three Months or Less $M	Maturing Between Three & six Months $M	Maturing Between Six & Twelve Months $M	Maturing After Twelve Months $M	Total $M
Australia					
Certificates of deposit [1]	**5,720**	**1,742**	**-**	**5,465**	**12,927**
Time deposits	**12,411**	**8,704**	**3,953**	**3,034**	**28,102**
Total Australia	**18,131**	**10,446**	**3,953**	**8,499**	**41,029**
Overseas					
Certificates of deposit [1]	**1,403**	**310**	**530**	**51**	**2,294**
Time deposits	**6,287**	**726**	**574**	**262**	**7,849**
Total Overseas	**7,690**	**1,036**	**1,104**	**313**	**10,143**
Total Certificates of Deposit and Time Deposits	**25,821**	**11,482**	**5,057**	**8,812**	**51,172**

[1] All certificates of deposit issued by the Bank are for amounts greater than $100,000.

NOTE 23 Payables to Other Financial Institutions

		GROUP		BANK
	2001 $M	2000 $M	**2001 $M**	2000 $M
Australia	**2,816**	1,569	**2,675**	1,306
Overseas	**4,087**	3,064	**3,674**	2,830
Total Payables to Other Financial Institutions	**6,903**	4,633	**6,349**	4,136

NOTE 24 Income Tax Liability

		GROUP		BANK
	2001 $M	2000 $M	**2001 $M**	2000 $M
Australia				
Provision for income tax	**163**	585	**26**	180
Provision for deferred income tax	**1,049**	1,155	**377**	364
Total Australia	**1,212**	1,740	**403**	544
Overseas				
Provision for income tax	**90**	39	**11**	6
Provision for deferred income tax	**53**	44	**-**	-
Total Overseas	**143**	83	**11**	6
Total Income Tax Liability	**1,355**	1,823	**414**	550

The significant decrease in the provision for income tax is largely due to the impact of the new PAYG instalment system. The new system requires three instalments of tax to be paid prior to year end as opposed to two under the previous system and the change in methodology for calculating instalments has resulted in each instalment paid under the new system being higher than would have been payable under the previous system.

Notes to the financial statements

NOTE 25 Other Provisions

	GROUP		BANK	
	2001 $M	2000 $M	**2001 $M**	2000 $M
Provision for:				
Long service leave	**304**	312	**289**	287
Annual leave	**159**	163	**134**	124
Other employee entitlements	**158**	188	**150**	188
Restructuring costs	**204**	485	**174**	124
General insurance claims	**52**	45	**-**	-
Self insurance/non lending losses	**46**	33	**44**	33
Other	**84**	328	**46**	52
Total Other Provisions	**1,007**	1,554	**837**	808

NOTE 26 Debt Issues

	GROUP		BANK	
	2001 $M	2000 $M	**2001 $M**	2000 $M
Short term debt issues	**16,620**	16,249	**4,318**	5,406
Long term debt issues	**7,864**	9,026	**6,372**	2,799
Total Debt Issues	**24,484**	25,275	**10,690**	8,205
Short Term Debt Issues				
AUD Bill Reliquification	**639**	2,547	**639**	2,547
AUD Promissory Notes	**3,150**	2,418	**-**	-
AUD Bank Bills	**679**	546	**-**	-
NZD Promissory Notes	**-**	251	**-**	-
US Commercial Paper	**6,111**	3,814	**-**	-
Euro Commercial Paper	**4,200**	3,150	**1,838**	1,647
Long Term Debt Issues with less than One Year to Maturity	**1,841**	3,523	**1,841**	1,212
Total Short Term Debt Issues	**16,620**	16,249	**4,318**	5,406
Long Term Debt Issues				
USD Medium Term Notes	**2,937**	2,286	**2,346**	986
AUD Medium Term Notes	**2,312**	1,719	**1,748**	494
JPY Medium Term Notes	**255**	197	**255**	197
Other Currencies Medium Term Notes	**338**	981	**179**	482
Offshore Loans (all JPY)	**841**	540	**841**	540
Eurobonds	**1,181**	3,144	**1,003**	100
Develop Australia Bonds (all AUD)	**-**	159	**-**	-
Total Long Term Debt Issues	**7,864**	9,026	**6,372**	2,799
Maturity Distribution of Debt Issues				
Less than 3 months	**11,349**	11,618	**2,404**	4,615
3 months to 12 months	**5,271**	4,631	**1,914**	791
Between 1 and 5 years	**7,208**	7,839	**5,848**	2,109
Greater than 5 years	**656**	1,187	**524**	690
Total Debt Issues	**24,484**	25,275	**10,690**	8,205

NOTE 26 Debt Issues continued

The Bank has a Euro Medium Term Note programme under which it may issue notes (Euro MTN's) up to an aggregate amount of USD5 billion. Notes issued under the programmes are both fixed and variable rate.

Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework.

Subsequent to 30 June 2001, the Bank has issued HKD500 million Euro MTN's due July 2003 (AUD125 million):

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

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

Short Term Borrowings

The following table analyses the Group's short term borrowings for the Financial Years ended 30 June 1999, 2000 and 2001.

			Year Ended 30 June
	2001	2000	1999
	($ millions, except where indicated)		
US Commercial Paper			
Outstanding at period end [(1)]	**6,111**	3,814	4,491
Maximum amount outstanding at any month end [(2)]	**7,850**	7,890	5,408
Approximate average amount outstanding [(2)]	**6,571**	6,130	4,419
Approximate weighted average rate on:			
Average amount outstanding	**5.6%**	5.7%	5.2%
Outstanding at period end	**4.0%**	6.6%	5.0%
Euro Commercial Paper			
Outstanding at period end [(1)]	**4,200**	3,150	1,582
Maximum amount outstanding at any month end [(2)]	**5,579**	4,788	2,267
Approximate average amount outstanding [(2)]	**4,533**	2,855	1,714
Approximate weighted average rate on:			
Average amount outstanding	**4.3%**	4.8%	4.5%
Outstanding at period end	**2.3%**	3.7%	4.4%
Bill Reliquification [(3)]			
Outstanding at period end [(1)]	**639**	2,547	-
Maximum amount outstanding at any month end [(2)]	**2,180**	2,599	-
Approximate average amount outstanding [(2)]	**1,097**	1,972	-
Approximate weighted-average rate on:			
Average amount outstanding	**6.0%**	5.8%	-
Outstanding at period end	**5.0%**	6.2%	-
Other Commercial Paper			
Outstanding at period end [(1)]	**3,829**	3,215	695
Maximum amount outstanding at any month end [(2)]	**5,117**	3,304	781
Approximate average amount outstanding [(2)]	**3,637**	2,231	324
Approximate weighted average rate on:			
Average amount outstanding	**5.7%**	5.5%	4.6%
Outstanding at period end	**5.0%**	5.1%	4.9%

(1) The amount outstanding at period end is reported on a book value basis (amortised cost).

(2) The maximum and average amounts over the period are reported on a face value basis because the book values of these amounts are not available. Any difference between face value and book value would not be material given the short term nature of the borrowings.

(3) Commercial bills sold under non recourse arrangements.

Notes to the financial statements

NOTE 26 Debt Issues continued

Exchange Rates Utilised

		30 June 2001	30 June 2000
AUD 1.00 =	USD	**0.5080**	0.5982
	GBP	**0.3612**	0.3943
	JPY	**63.071**	63.155
	NZD	**1.256**	1.278
	HKD	**3.962**	4.664
	DEM	**1.175**	1.229
	CHF	**0.913**	0.979
	IDR	**5,796**	5,230

Guarantee Arrangements

Commonwealth Bank of Australia

The due payment of all monies payable by the Bank was guaranteed by the Commonwealth of Australia under section 117 of the Commonwealth Bank's Act 1959 (as amended) at 30 June 1996. This guarantee has been progressively phased out following the sale of the Commonwealth of Australia's shareholding in the Bank on 19 July 1996.

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

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

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

Accordingly, demand deposits are no longer guaranteed. Term deposits outstanding at 19 July 1999 remain guaranteed until maturity. The run off of the Government guarantee has no effect on the Bank's access to deposit markets.

Commonwealth Development Bank

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

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

- all lending assets as at 30 June 1996 have been quarantined in CDBL, consistent with the Charter terms on which they were written;
- the CDBL's liabilities continue to remain guaranteed by the Commonwealth; and
- CDBL ceased to write new business or incur additional liabilities from 1 July 1996. From that date, new business that would have previously been written by CDBL is being written by the rural arm of the Bank.

The due payment of all monies payable by CDBL is guaranteed by the Commonwealth of Australia under Section 117 of the Commonwealth Banks Act 1959 (as amended). This guarantee will continue to be provided by the Commonwealth whilst quarantined assets are held. The value of the liabilities under the guarantee will diminish as quarantined assets reach maturity and are repaid.

State Bank of NSW (known as Colonial State Bank)

The enabling legislation for the sale of the State Bank of New South Wales Limited (SBNSW), the State Bank (Privatisation) Act 1994 – Section 12 and the State Bank (Corporatisation) Act 1989 – Section 12 (as amended), provides in general terms for a guarantee by the NSW Government in respect of all funding liabilities and off balance sheet products (other than demand deposits) incurred or issued prior to 31 December 1997 by SBNSW until maturity and a guarantee for demand deposits accepted by SBNSW up to 31 December 1997. Other obligations incurred before 31 December 1994 are also guaranteed to their maturity. On 4 June 2001 Commonwealth Bank of Australia became the successor in law to SBNSW pursuant to the Financial Sector (Transfers of Business) Act 1999. The NSW Government guarantee of the liabilities and products as described above continues unchanged by the succession.

NOTE 27 Bills Payable and Other Liabilities

	GROUP		BANK	
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
Bills payable	**886**	825	**818**	754
Accrued interest payable	**1,062**	1,340	**900**	815
Accrued fees and other items payable	**896**	760	**712**	558
Securities purchased not delivered	**1,124**	803	**875**	693
Unrealised losses on trading derivatives (Note 39) (1)	**8,759**	5,605	**8,105**	5,284
Other liabilities	**1,145**	2,216	**137**	324
Total Bills Payable and Other Liabilities	**13,872**	11,549	**11,547**	8,428

(1) The increase in unrealised losses on trading derivatives reflects increased volumes of derivative transactions and falls in interest rates in Australia and the United States and the AUD/USD exchange rate.

NOTE 28 Loan Capital

				GROUP			BANK		
				2001	2000	1999	**2001**	2000	1999
				$M	$M	$M	**$M**	$M	$M
Tier 1 Capital		**Currency Amount (M)**							
Exchangeable	FRNs	USD300	(1)	**78**	92	113	**78**	92	113
Exchangeable	FRNs	USD400	(2)	**187**	159	330	**187**	159	330
Undated	FRNs	USD100	(3)	**197**	167	152	**197**	167	152
				462	418	595	**462**	418	595
Tier 2 Capital									
Extendible	FRNs	AUD300	(4)	**300**	300	300	**300**	300	300
Subordinated	MTNs	AUD185	(5)	**185**	185	185	**185**	185	185
Subordinated	FRNs	AUD115	(5)	**115**	115	115	**115**	115	115
Subordinated	FRNs	AUD25	(6)	**25**	25	25	**25**	25	25
Subordinated	MTNs	AUD200	(7)	**200**	200	-	**200**	200	-
Subordinated	FRNs	AUD50	(7)	**50**	50	-	**50**	50	-
Subordinated	Notes	USD300	(8)	**591**	502	-	**591**	502	-
Subordinated	FRNs	USD450	(8)	**882**	746	-	**882**	746	-
Subordinated	EMTN's	JPY20,000	(9)	**326**	277	251	**325**	277	251
Subordinated	EMTN's	USD200	(10)	**314**	314	-	**314**	314	-
Subordinated	EMTN's	USD75	(11)	**115**	115	-	**115**	115	-
Subordinated	EMTN's	USD100	(12)	**152**	152	-	**152**	152	-
Subordinated	EMTN's	USD400	(13)	**501**	501	501	**501**	501	501
Subordinated	EMTN's	GBP200	(14)	**408**	408	408	**408**	408	408
Subordinated	EMTN's	JPY30,000	(15)	**582**	495	448	**582**	495	448
Subordinated	Loan	NZD100	(16)	**79**	79	-	**-**	-	-
Subordinated	FRNs	AUD210	(17)	**210**	210	-	**210**	-	-
Subordinated	FRNs	AUD38	(18)	**38**	38	-	**38**	-	-
Subordinated	Notes	AUD130	(19)	**130**	130	-	**130**	-	-
Subordinated	Other	AUD39	(20)	**39**	39	-	**39**	-	-
				5,242	4,881	2,233	**5,162**	4,385	2,233
Total Loan Capital				**5,704**	5,299	2,828	**5,624**	4,803	2,828

Where a foreign currency hedge is in place to utilise a loan capital issue in a currency other than that of its original issue, the AUD equivalent value is shown net of the hedge.

(1) USD 300 million Undated Floating Rate Notes (FRNs) issued 11 July 1988 exchangeable into Dated FRNs.

Outstanding notes at 30 June 2001 were:

Due July 2003	:	USD1.5 million
Due July 2004	:	USD0.5 million
undated	:	USD37.5 million

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

Outstanding notes at 30 June 2001 were:

Due February 2005	:	USD64 million
undated	:	USD31 million

(3) USD 100 million Undated Capital Notes issued on 15 October 1986.

The Bank has entered into separate agreements with the Commonwealth of Australia relating to each of the above issues (the Agreements') which qualify the issues as Tier 1 capital.

The Agreements provide that, upon the occurrence of certain events listed below, the Bank may issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth of Australia) rights to all shareholders to subscribe for fully paid ordinary shares up to an amount equal to the outstanding principal value of the relevant note issue or issues plus any interest paid in respect of the notes for the most recent financial year and accrued interest. The issue price of such shares will be determined by reference to the prevailing market price for the Bank's shares.

Any one or more of the following events may trigger the issue of shares to the Commonwealth of Australia or a rights issue:

- a relevant event of default (discussed below) occurs in respect of a note issue and the Trustee of the relevant notes gives notice to the Bank that the notes are immediately due and payable;
- the most recent audited annual financial statements of the Group show a loss (as defined in the Agreements);

Notes to the financial statements

NOTE 28 Loan Capital continued

- the Bank does not declare a dividend in respect of its ordinary shares;
- the Bank, if required by the Commonwealth of Australia and subject to the agreement of the APRA, exercises its option to redeem a note issue; or
- in respect of Undated FRNs which have been exchanged to Dated FRNs, the Dated FRNs mature.

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

The relevant events of default differ depending on the relevant Agreement. In summary, they cover events such as failure of the Bank to meet its monetary obligation in respect of the relevant notes; the insolvency of the Bank; any law being passed to dissolve the Bank or the Bank ceasing to carry on general banking business in Australia; and the Commonwealth of Australia ceasing to guarantee the relevant notes. In relation to Dated FRN's which have matured to date, the Bank and the Commonwealth agreed to amend the relevant Agreement to reflect that the Commonwealth of Australia was not called upon to subscribe for fully paid ordinary shares up to an amount equal to the principal value of the maturing FRNs.

(4) AUD 300 million Extendible Floating Rate Stock issued December 1989:
due December 2004 : AUD25 million
due December 2009 : AUD275 million

The Bank has entered into a separate agreement with the Commonwealth of Australia relating to the above issue (the 'Agreement') which qualifies the issue as Tier 2 capital. For capital adequacy purposes Tier 2 debt based capital is reduced each year by 20% of the original amount during the last 5 years to maturity.

The Agreement provides for the Bank to issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth of Australia) rights to all shareholders to subscribe for fully paid ordinary shares up to an amount equal to the outstanding principal value of the note issue plus any interest paid in respect of the notes for the most recent financial year and accrued interest. The issue price will be determined by reference to the prevailing market price for the Bank's shares.

Any one or more of the following events will trigger the issue of shares to the Commonwealth of Australia or a rights issue:

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

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

(5) AUD300 million Subordinated Notes, issued February 1999; due February 2009, split into $185 million fixed rate notes and $115 million floating rate notes.

(6) AUD25 million Subordinated FRN, issued April 1999, due April 2029.

(7) AUD 250 million Subordinated FRN, issued November 1999, due November 2009; split into $200 million fixed rate notes and $50 million floating rate notes.

(8) USD 750 million Subordinated Notes, issued June 2000, due June 2010; split into USD 300 million fixed rate notes and USD 450 million floating rate notes.

(9) JPY20 billion Perpetual Subordinated Euro MTN, issued February 1999.

(10) USD 200 million Subordinated EMTN, issued November 1999, due November 2009.

(11) USD 75 million Subordinated EMTN, issued January 2000, due January 2010.

(12) USD 100 million Subordinated EMTN, issued January 2000, due January 2010.

(13) USD400 million Subordinated Euro MTN issued June 1996; due July 2006.

(14) GBP200 million Subordinated Euro MTN issued March 1996; due December 2006.

(15) JPY30 billion Subordinated Euro MTN issued October 1995; due October 2015.

(16) NZD100 million Subordinated matures 15 December 2009.

(17) AUD210 million Euro FRN issued 3 September 1996, maturing 10 September 2004.

(18) AUD38 million FRN issued 15 December 1997, maturing 15 December 2004.

(19) AUD130 million Subordinated Notes comprised as follows:
AUD10 million fixed rate notes issued 12 December 1995, maturing 12 December 2005.
AUD110 million floating rate notes issued 12 December 1995, maturing 12 December 2005.
AUD5 million fixed rate notes issued 17 December 1996, maturing 12 December 2005.
AUD5 million floating rate notes issued 17 December 1996, maturing 12 December 2005.

(20) Comprises 16 subordinated Notes and FRN issues. The face value amounts are less than $10 million each and are all in Australian Dollars. The maturity ranges from October 2001 to October 2009.

NOTE 29 Share Capital

	BANK 2001 $M	2000 $M
Ordinary Share Capital		
Opening balance	**12,521**	3,526
Buyback	**(275)**	(553)
Dividend reinvestment plan: 1999/2000 Final Dividend	**169**	-
Buyback for DRP: 2000/2001 Interim Dividend	**(144)**	-
Dividend Reinvestment Plan: 2000/2001 Interim Dividend	**144**	253
Sell down of remaining shares from DRP: 2000/2001 Interim Dividend	**4**	-
Employee Share Subscription Plan	**3**	4
Exercise of Executive Options	**37**	19
Issue costs	**(4)**	(2)
7 for 20 Issue to Colonial Shareholders	**-**	9,274
Closing balance	**12,455**	12,521

Shares on Issue	Number	Number
Opening balance	1,260,201,978	915,968,625
Buyback	(25,927,367)	(20,486,618)
Dividend reinvestment plan issues:		
1999 Final Dividend fully paid ordinary shares at $24.75	-	5,545,990
2000 Interim Dividend fully paid ordinary shares at $24.42	-	4,931,782
2000 Final Dividend fully paid ordinary shares at $27.31	6,324,869	-
Buyback for 2001 Interim Dividend	(4,652,665)	-
2001Interim Dividend fully paid ordinary shares at $30.82	4,514,948	-
Sell down of remaining shares not issued in DRP	137,717	-
Exercise under Executive Option Plan	2,435,000	1,609,000
Employee Share Subscription Plan issues	107,550	170,550
Employee Share Acquisition Plan issues	873,425	1,053,199
7 for 20 Issue to Colonial Shareholders	-	351,409,450
Closing balance	1,244,015,455	1,260,201,978

Terms and Conditions of Ordinary Share Capital

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from sale of surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Preference Share Capital	BANK 2001 $M	2000 $M
Issued and Paid Up PERLS Capital		
Opening balance	**-**	**-**
PERLS issued	**700**	**-**
Issue costs	**(13)**	**-**
Closing balance	**687**	**-**

PERLS in Issue	Number	Number
Opening balance	**-**	**-**
PERLS issued	**3,500,000**	**-**
Closing balance	**3,500,000**	**-**

Commonwealth Bank PERLS (‘PERLS’) are perpetual preference shares that offer a quarterly, floating rate dividend. The issue of PERLS formed part of the continuing capital management strategy of the Bank with proceeds from the issue being used to buyback ordinary share capital, resulting in a more efficient capital structure. PERLS represent a less expensive form of equity funding than ordinary shares and increase the diversity and flexibility of the Bank’s capital base. The issue has also attracted new investors to the Bank. PERLS are listed and traded on the Australian Stock Exchange.

Terms and Conditions of Preferred Exchangeable Resettable Listed Shares (Commonwealth Bank PERLS)

A holder of PERLS on the relevant record date is entitled to receive on each relevant Dividend Payment Date, if determined by the Directors to be payable, a Dividend. Holders of Commonwealth Bank PERLS will rank ahead of holders of ordinary shares in a winding up to the extent of the issue price of the Commonwealth Bank PERLS.

Holders of PERLS are entitled to vote at a general meeting of the issuer in limited circumstances.

Notes to the financial statements

NOTE 29 Share Capital continued

Employee Share Plans

The Bank has in place the following employee share plans:

- Commonwealth Bank Employee Share Acquisition Plan (ESAP);
- Commonwealth Bank Equity Participation Plan (EPP);
- Commonwealth Bank Equity Reward Plan (ERP); and
- Commonwealth Bank Non-Executive Directors Share Plan (NEDSP).

The ESAP provides employees of the Bank with up to $1,000 worth of free shares per annum subject to a performance target being met. The performance target is growth in annual profit of the greater of 5% or consumer price index plus 2%. Whenever annual profit growth exceeds CPI change, the Board may use its discretion in determining whether any grant of shares will be made. Details of issues under this plan are:

Employee Share Acquisition Plan (ESAP)

The ESAP and ERP were each approved by shareholders at the Annual General Meeting (AGM) on 26 October 2000. Shareholders consent was not required for either the EPP or NEDSP but details were included in the Explanatory Memorandum to the meeting to ensure shareholders were fully informed.

Offer	Issue Date	Ordinary Shares Issued(1)	Bonus Ordinary Shares Issued(2)	No. of Participants	Shares issued to each Participant	Issue Price(3)
1996	2 Jan 1997	27,755	2,275,910	27,755	83	$12.04
	18 Mar 1997	13	1,066	13	83	$12.04
1997	11 Dec 1997	3,025	1,637,273	28,281	58	$17.16
	3 Feb 1998	-	232	4	58	$17.16
1999	24 Sep 1999	-	1,053,199	24,493	43	$23.12
2000	13 Oct 2000	-	872,620	24,932	35	$27.78
	20 Dec 2000	-	805	23	35	$27.78

(1) For the 1996 and 1997 Offers, new employee shareholders were granted one ordinary share with the remainder of shares issued as Bonus Ordinary Shares. For subsequent Offers both new and existing shareholders were granted Bonus Ordinary Shares.

(2) For the 1996 and 1997 Offers the bonus shares were fully paid up as issued shares utilising the Share Premium Reserve. With the removal of the Share Premium Reserve the bonus shares are issued from the Share Capital Account.

(3) The Issue Price x Shares Issued to each Participant effectively represents $1,000 of free shares.

Equity Reward Plan (ERP)

The ERP is in two parts, comprising grants of shares and grants of options. The option component of the ERP is similar to the Executive Option Plan (EOP) which was previously approved by shareholders with the only difference being the maximum number of executives to whom the Board envisages the Plan will apply (up from 50 to 100). The Board also envisages that up to 500 employees will participate in the share component of the Plan (including the up to 100 executives receiving options).

The exercise of options and the vesting of the employees legal title to the shares is conditional on the Bank achieving a prescribed performance hurdle, which is:

- the Bank's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of Total Shareholder Return achieved by companies represented in the ASX's 'Banks and Finance Accumulation Index', excluding the Bank.
- If the performance hurdle is not reached within that three years the options may nevertheless be exercisable only where the hurdle is subsequently reached within 5 years from the Commencement Date.

Shares acquired under the share component of the ERP are purchased on-market at the current market price.

NOTE 29 Share Capital continued

Details of options issued and shares acquired under this plan are:

Options

Commencement Date	Issue Date	Options Issued	Options Outstanding	Participants	Exercise Price	Exercise Period[(2)]
13 Sep 2000	7 Feb 2001	577,500	560,000	23	$26.97[(1)]	14 Sep 2003 to 13 Sep 2010

(1) Exercise price will be adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of the vesting).

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

Shares

Purchase Date	Shares Purchased	Shares Outstanding	Participants	Vesting Period	Average Purchase Price
20 Feb 2001	361,100	358,100	61	14 Sep 2003 to 13 Sep 2005	$29.72

17,500 options and 3,000 shares granted under the ERP have lapsed as at 30 June 2001.

Equity Participation Plan (EPP)

The EPP will facilitate the voluntary sacrifice of both fixed salary and annual bonus to be applied in the acquisition of shares. The Plan will also facilitate the mandatory sacrifice of part of annual performance bonuses. All shares acquired by employees under this Plan will be purchased on-market at the current market price. The first purchase of shares for this scheme is scheduled for October 2001.

Non-Executive Directors Share Plan (NEDSP)

The NEDSP provides for the acquisition of shares by Non-Executive Directors through the mandatory sacrifice of 20% of their annual fees (paid on a quarterly basis). Shares purchased are restricted for sale for 10 years or when the Director leaves the Board, whichever is earlier. Shares are purchased on-market at the current market price and details of shares purchased under this Plan so far are:

Quarter Ending	Total Fees Sacrificed	Participants	Shares Purchased	Average Purchase Price
31/12/2000	**$63,517**	11	1,989	$31.93
31/03/2001	**$65,917**	11	2,359	$27.94
30/06/2001	**$61,331**	10	1,820	$33.45

Note - Trading restrictions on 317 shares acquired on behalf of Mr Ken Cowley were lifted subsequent to Mr Cowley's exit from the Board.

Shareholders were also informed at the AGM on 26 October 2000 that two plans were to be discontinued:

- Commonwealth Bank Employee Share Subscription Plan (ESSP); and
- Commonwealth Bank Executive Option Plan (EOP).

Employee Share Subscription Plan

The Employee Share Subscription Plan provided employees of the Bank with the opportunity to purchase ordinary shares at a 5% discount to the market price of the shares at the time of purchase, subject to a one year restriction on the disposal of the shares.

A total of 1,092,650 shares were issued under this scheme to 4,907 employees in offers during the period March 1997 to October 2000.

Executive Option Plan

Under the EOP, the Bank granted options to purchase ordinary shares to those key executives who, are able by virtue of their responsibility, experience and skill to influence the generation of shareholder wealth, were declared by the Board of Directors to be eligible to participate in the Plan. Non-Executive Directors were not eligible to participate in the Plan.

Options cannot be exercised before each respective exercise period and the ability to exercise is conditional on the Bank achieving a prescribed performance hurdle. To reach the performance hurdle, the Bank's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of Total Shareholder Return achieved by companies represented in the ASX's 'Banks and Finance Accumulation Index', excluding the Bank.

If the performance hurdle is not reached within that 3 years (4 years for the second tranche of options granted to the Managing Director on 24 August 1999), the options may nevertheless be exercisable only where the hurdle is subsequently reached within five years (six years for the second tranche of options granted to the Managing Director on 24 August 1999) from the Commencement Date.

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

Notes to the financial statements

NOTE 29 Share Capital continued

Details of issues made under this plan are:

Commencement Date	Issue Date	Options Issued	Options Outstanding	Participants	Exercise Price(1)	Exercise Period
12 Nov 1996	16 Dec 1996	2,100,000	50,000	25	$11.85	13 Nov 1999 to 12 Nov 2001
3 Nov 1997	11 Dec 1997	2,875,000	125,000	27	$15.53(2)	4 Nov 2000 to 3 Nov 2002
25 Aug 1998	30 Sep 1998	3,275,000	2,975,000	32	$19.58(3)	26 Aug 2001 to 25 Aug 2003
24 Aug 1999	24 Sep 1999	3,855,000	3,700,000	38	$23.84(3)	25 Aug 2002 to 24 Aug 2009
13 Sep 2000	13 Oct 2000	2,002,500	1,952,500	50	$26.97(3)	14 Sep 2003 to 13 Sep 2010

(1) Market Value at the Commencement Date. Market Value is defined as the weighted average of the prices at which shares were traded on the ASX during the one week period before the Commencement Date.

(2) Premium adjustment (based on the actual difference between the dividend and bond yields at the date of vesting) was nil.

(3) Exercise price will be adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of the vesting).

1,235,000 options, from all grants to date, have been forfeited as at 30 June 2001. 1,680,000 options from the 1996 grant, and 2,390,000 options from the 1997 grant, have been exercised as at 30 June 2001.

Details of shares issued during the period 1 July 2000 to 22 August 2001 as a result of options being exercised are:

Option Issue Date	Shares Issued	Price paid per Share	Total Consideration Paid
16 Dec 1996	145,000	$11.85	$1,718,250
11 Dec 1997	2,290,000	$15.53	$35,563,700

Share Buyback

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

In March 2001 the Bank made an off market buyback of $700 million of ordinary shares. The price per share paid by the Bank for the buyback shares was $27.84 calculated in accordance with the buyback offer. In accordance with an agreement reached with the Australian Taxation Office $10 per share of the consideration for each share bought back has been charged to paid up capital ($251 million). The balance of $17.84 per share is deemed to be a fully franked dividend and charged to retained profits ($449 million). This buyback coincided with the new issue of preference shares as detailed previously. The balance of the equity reduction occurred by way of an on market buyback.

The Bank's shareholders' equity was reduced by $553 million on 8 November 1999 pursuant to the buyback of 20.5 million shares. The price per share paid by the Bank for the buyback shares was $27.00 calculated in accordance with the buyback offer.

NOTE 30 Outside Equity Interests

	GROUP	
	2001	2000
	$M	$M
Controlled Entities:		
Share Capital	**6**	355
Reserves	**-**	11
Retained profits	**(9)**	9
Life Insurance Statutory funds	**1,458**	588
Total Outside Equity Interests	**1,455**	963

In August 2000 the Group purchased the remaining 25% of ASB Group.

NOTE 31 Capital Adequacy

Entities within the Group are subject to regulation by a variety of regulators.

The Bank is subject to regulation by the Australian Prudential Regulation Authority (APRA) and is required to maintain certain minimum ratios of capital to assets. These ratios are applied to the Bank as a stand-alone entity and on a consolidated basis to the Group. The minimum ratios are 4% for Tier 1 capital and 8% for the Capital Base.

Under APRA Prudential Standards, capital falls into two categories, known as Tier 1 and Tier 2. Tier 1 capital consists of shareholders funds and certain capital instruments that meet the standards set by APRA. The aggregate amount of capital instruments may not exceed 25% of shareholders funds. Intangible assets and future income tax benefits are deducted to arrive at Tier 1 capital. When calculated on a consolidated basis, goodwill and part of the Group's investment in its life insurance and funds management businesses are also deducted to arrive at Tier 1 capital.

Tier 2 capital is divided into Upper Tier 2 (consisting of revaluation reserves, general provisions for doubtful debts, cumulative irredeemable preference shares and other hybrid capital instruments approved by APRA), and Lower Tier 2 (consisting of mandatory convertible notes, term subordinated debt, limited life redeemable preference shares and other capital instruments approved by APRA). Tier 2 capital may not exceed Tier 1 capital and Lower Tier 2 capital may not exceed 50% of Tier 1 capital.

The sum of Tier 1 and Tier 2 capital forms Total Capital. Investments in other banks and similar institutions are deducted from Total Capital to arrive at the Capital Base. When calculated on a consolidated basis, part of the Group's investment in its life insurance and funds management businesses is deducted to arrive at the Capital Base.

The Group's investment in its life insurance and funds management businesses is carried at the values disclosed in Note 34. Part of the investment is funded by debt in intermediate holding companies on a non-recourse basis (i.e. obligations to pay interest or repay principal are not guaranteed by the Bank). The part of the investment represented by shareholders' net tangible assets and the value of in force business acquired on the merger with Colonial in 2000, net of the non-recourse debt, is deducted from Total Capital. The part of the investment represented by self-generated value of business in force and the value of future new business is deducted from Tier 1 capital.

For the purposes of calculating the ratios, risk weights are applied to balance sheet assets. These are intended to recognise the credit risk attached to categories of assets. There are four risk weights (0, 20, 50 or 100 per cent). Off balance sheet exposures are converted to on balance sheet credit equivalents using credit conversion factors relating to the nature of the exposure, then weighted in the same manner as balance sheet assets.

In addition to the capital requirements for credit risk, the Bank is also required to hold sufficient capital to cover market risk in its trading activities. Market risk is defined as the risk of losses in both on and off balance sheet positions arising from movements in market price. APRA require the measure of market risk to be multiplied by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8 per cent) to determine a notional risk weighted asset figure.

APRA applies similar regulatory capital requirements to Commonwealth Bank of Australia Limited and CBFC Limited.

ASB Bank Limited is subject to regulation by the Reserve Bank of New Zealand (RBNZ). RBNZ applies similar methodology in calculating the regulatory capital requirement. Although there are minor differences in the regulations applied by APRA and RBNZ, these are not material.

Banks may not pay dividends if immediately after payment, they are unable to meet the minimum capital requirements. APRA does not normally permit banks to pay dividends in excess of current year earnings.

The Group's life insurance businesses in Australia are also regulated by APRA. The Life Insurance Act has established a framework for the regulatory capital requirements for life insurance companies. These requirements are based on tests aimed at ensuring each statutory fund in each life insurance company has sufficient assets to meet policy and other liabilities under a range of adverse circumstances. There are two tiers to the regulatory capital requirements – 'solvency' and 'capital adequacy'. The solvency test is made assuming each fund is closed to new business. Failure to meet the solvency test may result in the appointment of a judicial manager by APRA. The capital adequacy test assumes each fund remains open to new business and the reasonable expectations of policyholders are met. Failure to meet the capital adequacy test means capital or retained profits may not be transferred from the statutory funds and may result in closer regulatory monitoring by APRA. The capital adequacy test is always equal to or greater than the solvency test. At 30 June 2001, all statutory funds of the Group's life insurance companies in Australia met the capital adequacy test. In aggregate, at 30 June 2001, the excess over capital adequacy amounted to $338 million.

There are no regulatory capital requirements for life insurance companies in New Zealand. However the Group determines capital requirements on a basis similar to the requirements in Australia.

The life insurance business in Hong Kong is regulated by the Insurance Authority of Hong Kong. The minimum regulatory requirement comprises a solvency test defined in local regulations and ordinances.

Funds managers in Australia are subject to regulation by The Australian Securities and Investment Commission (ASIC) through their role in supervising Responsible Entities. The minimum regulatory capital requirements vary for Responsible Entities depending on the type of dealer licence held but a minimum requirement of $5 million of net tangible assets usually applies.

Notes to the financial statements

NOTE 31 Capital Adequacy continued

Risk Weighted Capital Ratios	GROUP 2001 Actual %	2000 Actual %
Tier one	**6.51**	7.49
Tier two	**4.18**	4.75
Less deductions	**(1.53)**	(2.49)
Total	**9.16**	9.75

	GROUP 2001 $M	2000 $M
Tier One Capital		
Shareholders' Equity (excluding asset revaluation reserve)	**19,843**	18,435
Eligible Loan Capital	**462**	418
Total Shareholders' Equity and Loan Capital	**20,305**	18,853
Less Goodwill	**(5,716)**	(5,905)
Less Preference shares	**-**	(86)
Less Intangible component of investment in non-consolidated subsidiaries	**(4,116)**	(2,656)
Less Outside equity interest in entities controlled by non-consolidated subsidiaries	**(1,458)**	(588)
Total Tier One Capital	**9,015**	9,618
Tier Two Capital		
Asset revaluation reserve	**5**	-
General provision for bad and doubtful debts [1]	**1,390**	1,358
FITB related to general provision	**(436)**	(420)
Note and bond issues [2]	**4,825**	5,120
Preference shares	**-**	39
Total Tier Two Capital	**5,784**	6,097
Tier One and Tier Two Capital	**14,799**	15,715
Less Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1)	**(2,005)**	(2,528)
Less Other deductions	**(114)**	(669)
Capital Base	**12,680**	12,518

(1) Excludes general provision for bad and doubtful debts relating to investments in non-consolidated subsidiaries.
(2) Includes both upper and lower Tier 2 capital.

For an analysis of the movements in the capital ratios see page 34.

NOTE 31 Capital Adequacy continued

	Face Value		Risk Weights	Risk Weighted Balance	
	2001	2000		**2001**	2000
	$M	$M	%	**$M**	$M
Risk-weighted assets					
On balance sheet assets					
Cash, claims on Reserve Bank, short term claims on Australian Commonwealth and State Government and Territories, and other zero-weighted assets	**16,604**	16,157	0%	**-**	-
Claims on OECD banks and local governments	**10,927**	9,714	20%	**2,185**	1,943
Advances secured by residential property [1]	**77,909**	75,656	50%	**38,954**	37,828
All other assets [2] [3]	**77,028**	71,914	100%	**77,028**	71,914
Total on balance sheet assets - credit risk	**182,468**	173,441		**118,167**	111,685

	Face value		Credit Equivalent		Risk-weighted Balance	
	2001	2000	**2001**	2000	**2001**	2000
	$M	$M	**$M**	$M	**$M**	$M
Off-balance sheet exposures						
Direct credit substitutes	**5,183**	3,540	**4,446**	3,540	**3,687**	2,825
Trade and performance related items	**1,496**	1,795	**670**	828	**660**	819
Commitments	**44,030**	42,442	**17,121**	14,671	**11,467**	9,634
Foreign exchange, interest rate and other market related transactions	**407,014**	381,438	**11,407**	9,358	**3,758**	2,785
Total off balance sheet exposures - credit risk	**457,723**	429,215	**33,644**	28,397	**19,572**	16,063
Total risk weighted assets - credit risk					**137,739**	127,748
Risk weighted assets - market risk					**644**	736
Total risk weighted assets					**138,383**	128,484

(1) For loans secured by residential mortgages approved after 5 September 1994, a risk weight of 100 per cent applied where the loan to valuation ratio is in excess of 80 per cent. Effective from 28 August 1998, a risk weight of 50 per cent applies to these loans if they are totally insured by an acceptable lender's mortgage insurer. Loans that are risk weighted at 100 per cent are reported under 'All Other Assets'.

(2) The difference between total on balance sheet assets and the Group's balance sheet reflects the alternative treatment of some assets and provisions as prescribed in APRA's capital adequacy guidelines; principally goodwill, general provisions for bad and doubtful debts, and investments in life insurance and funds management businesses.

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

Notes to the financial statements

NOTE 32 Maturity Analysis of Monetary Assets and Liabilities

The maturity distribution of monetary assets and liabilities is based on contractual terms. The majority of the longer term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Therefore this information is not relied on by the Bank in the management of its interest rate risk.

							GROUP	
					Maturity Period At 30 June 2001			
	At Call $M	Overdrafts $M	0 to 3 months $M	3 to 12 months $M	1 to 5 years $M	Over 5 years $M	Not specified $M	Total $M
Assets								
Cash and liquid assets	1,193	-	2,516	-	-	-	-	3,709
Receivables due from other financial institutions	848	2	2,636	587	477	-	72	4,622
Trading securities [1]	-	-	6,909	-	-	-	-	6,909
Investment securities	-	-	1,062	1,861	4,017	2,764	1	9,705
Loans, advances and other receivables [2]	1,408	4,089	12,934	12,787	42,963	63,277	(1,399)	136,059
Bank acceptances of customers	-	-	10,868	1,207	-	-	-	12,075
Life Assets	4,694	-	582	1,832	3,327	2,767	18,011	31,213
Other Monetary assets	32	-	11,106	75	9	-	256	11,478
Total Monetary assets	8,175	4,091	48,613	18,349	50,793	68,808	16,941	215,770
Liabilities								
Deposits and other public borrowings [3]	62,416	-	29,588	16,539	7,114	1,693	5	117,355
Payables due to other financial institutions	358	215	4,095	2,235	-	-	-	6,903
Bank acceptances	-	-	10,868	1,207	-	-	-	12,075
Life Liabilities	-	-	-	-	-	-	27,029	27,029
Debt issues and loan capital	-	-	11,349	5,271	7,862	5,095	611	30,188
Other monetary liabilities	81	-	13,077	208	51	1	243	13,661
Total monetary liabilities	62,855	215	68,977	25,460	15,027	6,789	27,888	207,211

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

(2) $65 billion of this figure represents owner occupied housing loans. While most of these loans would have a contractual term of 20 years or more, and are analysed accordingly, the actual average term of the portfolio has historically been less than 5 years.

(3) Includes substantial 'core' deposits which are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to Interest Rate Risk Sensitivity table in Note 39.

During the financial year, significant growth in variable rate, long-term loans occurred. This has been funded principally by at call variable rate retail deposits.

NOTE 32 Maturity Analysis of Monetary Assets and Liabilities continued

								GROUP
								Maturity Period At 30 June 2000
	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	-	1,534	-	-	-	-	2,575
Receivables due from other financial institutions	2,200	16	2,699	204	-	-	35	5,154
Trading securities (1)	-	-	7,347	-	-	-	-	7,347
Investment securities	-	-	1,757	1,787	3,027	2,575	3	9,149
Loans, advances and other receivables (2)	510	4,719	8,351	18,315	49,826	51,853	(1,311)	132,263
Bank acceptances of customers	-	-	9,553	1,554	-	-	-	11,107
Life Assets (4)	2,037	-	25	4,924	2,996	3,048	14,006	27,036
Other Monetary assets	1,024	-	8,854	133	13	15	244	10,283
Total Monetary assets	6,812	4,735	40,120	26,917	55,862	57,491	12,977	204,914
Liabilities								
Deposits and other public borrowings (3)	55,494	-	27,577	19,744	7,408	2,371	-	112,594
Payables due to other financial institutions	864	126	3,050	592	-	-	1	4,633
Bank acceptances	-	-	10,030	1,077	-	-	-	11,107
Life Liabilities	-	-	-	-	-	314	24,968	25,282
Debt issues and loan capital	-	-	11,647	4,142	8,855	5,371	559	30,574
Other monetary liabilities	201	-	11,565	317	137	30	-	12,250
Total monetary liabilities	56,559	126	63,869	25,872	16,400	8,086	25,528	196,440

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

(2) $49 billion of this figure represents owner occupied housing loans. While most of these loans would have a contractual term of 20 years or more, and are analysed accordingly, the actual average term of the portfolio has historically been less than 5 years.

(3) Includes substantial 'core' deposits which are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to Interest Rate Risk Sensitivity table in Note 39.

(4) Prior year figures have been adjusted to align with categories as at 30 June 2001 following the amalgamation of Colonial operations and product systems.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments

	Year Ended 30 June 2001			
Primary Segment **Business Segments** **Profit and Loss**	**Banking** **$M**	**Life Insurance** **$M**	**Funds Management** **$M**	**GROUP Total** **$M**
Interest income	11,900	-	-	11,900
Premium and related revenue	-	958	-	958
Other income	2,485	1,698	701	4,884
Appraisal value uplift				474
Total Revenue	14,385	2,656	701	18,216
Interest Expense	7,426	-	-	7,426
Profit before tax, appraisal value uplift, goodwill amortisation	2,512	514	243	3,269
Income tax expense	(705)	(194)	(94)	(993)
Profit after tax and before goodwill amortisation and appraisal value uplift	1,807	320	149	2,276
Outside equity interest	(14)	-	-	(14)
Profit after tax and outside equity interest before goodwill amortisation and appraisal value uplift	1,793	320	149	2,262
Goodwill amortisation				(338)
Appraisal value uplift				474
Profit after tax	1,793	320	149	2,398
Non-Cash Expenses				
Goodwill amortisation				(338)
Charge for bad and doubtful debts	(385)	-	-	(385)
Depreciation	(108)	(37)	(5)	(150)
Other	(28)	(5)	(4)	(37)
Balance Sheet				
Total Balance Sheet Assets	191,333	37,278	1,800	230,411
Acquisition of Property, Plant & Equipment and Intangibles	129	-	3	391 [1]
Associate Investments	249	128	23	400
Total Balance Sheet Liabilities	179,733	30,329	501	210,563

[1] Includes intangible assets of $259 million on acquisition of 25% interest in ASB Group.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

	Year Ended 30 June 2000			
Profit and Loss	**Banking $M**	**Life Insurance $M**	**Funds Management $M**	**GROUP Total $M**
Interest income	8,842	-	-	8,842
Premium and related revenue	-	337	-	337
Other income	1,987	1,066	143	3,196
Appraisal value uplift				1,165
Total Revenue	10,829	1,403	143	13,540
Interest Expense	5,123	-	-	5,123
Profit before tax, appraisal value uplift, goodwill amortisation	2,310	176	50	2,536
Income tax expense	(739)	(47)	(14)	(800)
Profit after income tax and before goodwill amortisation and appraisal value uplift	1,571	129	36	1,736
Outside equity interest	(38)	-	-	(38)
Profit after tax and outside equity interest before goodwill amortisation and appraisal value uplift	1,533	129	36	1,698
Goodwill amortisation				(57)
Restructuring provision				(106)
Appraisal value uplift				1,165 (1)
Profit after tax	1,533	129	36	2,700
Non-Cash Expenses				
Goodwill amortisation				(57)
Charge for bad and doubtful debts	(196)	-	-	(196)
Restructuring provision				(106)
Depreciation	(115)	(2)	-	(117)
Other	(41)	(2)	(1)	(44)
Balance Sheet				
Total Balance Sheet Assets	185,108	32,642	509	218,259
Acquisition of Property, Plant & Equipment and Intangibles	94	-	-	8,137 (2)
Associate Investments	263	108	32	403
Total Balance Sheet Liabilities	171,489	28,140	195	199,824

(1) $1,073 million of this amount was reported as abnormal income in this year.
(2) Includes intangible assets of $8,043 million on acquisition of Colonial Group.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

Profit and Loss	Banking $M	Life Insurance $M	Funds Management $M	GROUP Total $M
	Year Ended 30 June 1999			
Interest income	7,745	-	-	7,745
Premium and related revenue	-	236	-	236
Other income	2,438	590	97	3,125
Total Revenue	10,183	826	97	11,106
Interest Expense	4,218	-	-	4,218
Profit before tax, appraisal value uplift, goodwill amortisation	2,075	99	33	2,207
Income tax expense	(709)	4	(9)	(714)
Profit after tax and before goodwill				
Profit after income tax and before goodwill	1,366	103	24	1,493
Outside equity interest	(24)	-	-	(24)
Profit after tax and outside equity interest before goodwill amortisation and appraisal value uplift	1,342	103	24	1,469
Goodwill amortisation				(47)
Profit after tax	1,342	103	24	1,422
Non Cash Expenses				
Goodwill amortisation				(47)
Charge for bad and doubtful debts	(247)	-	-	(247)
Depreciation	(145)	-	-	(145)
Other	(39)	(2)	(1)	(42)
Balance Sheet				
Total Balance Sheet Assets	136,787	1,157	152	138,096
Acquisition of Property, Plant & Equipment and Intangibles	81	-	-	81
Associate Investments	258	-	23	281
Total Balance Sheet Liabilities	130,195	841	97	131,134

Secondary Segment Geographical Segment	2001 $M	%	2000 $M	%	1999 $M	%
GEOGRAPHICAL SEGMENTS						
Revenue						
Australia	**15,150**	**83.2**	11,614	85.8	9,470	85.3
New Zealand	**1,499**	**8.2**	1,171	8.6	976	8.8
Other Countries *	**1,567**	**8.6**	755	5.6	660	5.9
	18,216	**100.0**	13,540	100.0	11,106	100.0
Operating profit after tax and outside equity interests						
Australia	**2,228**	**92.9**	2,536	93.9	1,270	89.3
New Zealand	**159**	**6.6**	105	3.9	80	5.6
Other Countries *	**11**	**0.5**	59	2.2	72	5.1
	2,398	**100.0**	2,700	100.0	1,422	100.0
Assets						
Australia	**196,918**	**85.5**	187,452	85.9	115,510	83.6
New Zealand	**20,208**	**8.8**	16,661	7.6	13,046	9.5
Other Countries *	**13,285**	**5.7**	14,146	6.5	9,540	6.9
	230,411	**100.0**	218,259	100.0	138,096	100.0
Acquisition of Property, Plant & Equipment and Intangibles						
Australia	**360**	**92.1**	7,906 (1)	97.2	81	100.0
New Zealand	**29**	**7.4**	231 (1)	2.8	-	-
Other Countries *	**2**	**0.5**	-	-	-	-
	391	**100.0**	8,137	100.0	81	100.0

* Other Countries are:
United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, the Philippines, Fiji, Thailand, Indonesia, Malaysia, China and Vietnam.

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

(1) Includes intangible assets of $8,043 million on acquisition of Colonial Group.

NOTE 34 Life Insurance Business

The following information, in accordance with AASB 1038, is provided to disclose life insurance business transactions contained in the Group financial statements and the underlying methods and assumptions used in their calculation. Also refer Notes 1 (jj) and 20.

		GROUP
Summarised Profit and Loss Statement	**2001**	2000
	$M	$M
Premium and related revenue	**1,122**	459
Outward reinsurance premiums expense	**(164)**	(122)
Claims expense	**(621)**	(310)
Reinsurance recoveries	**141**	89
Investment revenue (excluding investments in subsidiaries)		
Equity securities	**552**	592
Debt securities	**902**	442
Property	**277**	32
Other	**(33)**	-
Life insurance policy liabilities expense	**(908)**	(856)
Margin on services operating income	**1,268**	326
Change in excess of net market values over net assets of life insurance controlled entities	**474**	92
Life Insurance operating income	**1,742**	418
Administration expense	**(754)**	(150)
Operating profit before income tax	**988**	268
Income tax attributable to operating profit	**(194)**	(47)
Operating profit after income tax	**794**	221
Outside equity interest in operating profit after income tax	**-**	(2)
Operating profit after outside equity interest and income tax	**794**	219
Sources of life insurance operating profit		
The Margin on Services operating profit after income tax is represented by:		
Emergence of planned profit margins	**257**	121
Difference between actual and planned experience	**(63)**	(8)
Movement in excess of net market value over net assets of controlled entities	**474**	92
Reversal of previously recognised losses or loss recognition on groups of related products	**(2)**	1
Investment earnings on assets in excess of policyholder liabilities	**126**	13
Other	**2**	2
Operating profit after income tax	**794**	221
Life insurance premiums received and receivable	**6,510**	2,927
Life insurance claims paid and payable	**5,671**	2,279

An analysis of this financial result is contained in the Life Insurance – Business Analysis section of this report.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Carrying Values of Life Insurance and Funds Management Business

The following table sets out the components of the carrying values of the Group's life insurance and funds management businesses, together with the key actuarial assumptions that have been used by the independent actuaries. These are Directors' valuations based on appraisal values determined by independent actuaries Trowbridge Consulting.

Analysis of Movement since 30 June 2000	**Life Insurance Australia $M**	**Life Insurance New Zealand $M**	**Life Insurance Asia $M**	**Funds Management $M**	**Total $M**
Profits [1]	273	19	(18)	149	423
Opening Fair Value Adjustments [2]	-	-	(30)	-	(30)
Net Capital Movements	(269)	39	179	77	26
Transfers / Acquisitions of Business [3]	-	-	-	34	34
Change in Shareholders NTA	**4**	**58**	**131**	**260**	**453**
Synergies Credited to Goodwill [4]	332	-	-	-	332
Transfers / Acquisitions of Business	(183)	-	-	191	8
Net Appraisal Value Uplift	(33)	(26)	(63)	596	474
Increase to 30 June 2001	**120**	**32**	**68**	**1,047**	**1,267**

SHAREHOLDERS' NET TANGIBLE ASSETS

	Life Insurance			**Funds**	**Total**
	Australia	**New Zealand**	**Asia**		
30 June 2000 balance [5]	1,639	178	588	9	2,414
Opening fair value adjustment [2]	-	-	(30)	-	(30)
Profits	319	19	(18)	149	469
Less profit on strategic holding [4]	(46)	-	-	-	(46)
Net capital movements	(269)	39	179	77	26
Transfers/acquisitions of business [3]	-	-	-	34	34
30 June 2001 balance	1,643	236	719	269	2,867

VALUE IN FORCE BUSINESS

	Life Insurance			**Funds**	**Total**
	Australia	**New Zealand**	**Asia**		
30 June 2000 balance [5]	686	186	101	624	1,597
Synergies credited to goodwill [4]	-	-	-	-	-
Transfers/acquisitions of business [4]	-	-	-	2	2
Uplift	20	(51)	n/a	(8)	(39)
30 June 2001 balance	706	135	101	618	1,560

VALUE FUTURE NEW BUSINESS

	Life Insurance			**Funds**	**Total**
	Australia	**New Zealand**	**Asia**		
30 June 2000 balance [5]	690	240	186	1,609	2,725
Synergies credited to goodwill [4]	332	-	-	-	332
Transfers/acquisitions of business [4]	(183)	-	-	189	6
Uplift	(53)	25	(63)	604	513
30 June 2001 balance	786	265	123	2,402	3,576

CARRYING VALUE AT 30 JUNE 2001

	Life Insurance			**Funds**	**Total**
	Australia	**New Zealand**	**Asia**		
Shareholders' net tangible assets	1,643	236	719	269	2,867
Value in force business	706	135	101	618	1,560
Embedded value	**2,349**	**371**	**820**	**887**	**4,427**
Value future new business	786	265	123	2,402	3,576
Carrying Value	**3,135**	**636**	**943**	**3,289**	**8,003**

(1) Total Australian life insurance profit is $320 million, comprising $274 million in the life insurance corporate structure and $46 million relating to certain strategic investments transferred from the Bank to the life insurance operations.

(2) Fair value adjustments totalling $30 million have been made to the opening value of the Asian operations representing changed assumptions on tax and investment earnings in the opening valuation.

(3) Represents the net tangible assets of a number of funds management entities not held in a life insurance corporate structure ($34 million).

(4) This item includes a transfer of business from the Life insurance business to the Funds Management business ($183 million) and goodwill arising on acquisition of new businesses during the year ($8 million). Cost and revenue synergies arising from the Colonial Integration were achieved during the year with a value of $332 million. The value of these synergies is credited against goodwill.

(5) Balances at 30 June 2000 include some minor adjustments principally related to the re-allocation of value between in force business and future new business. Such adjustments have no effect on the Appraisal Value Uplift for the year.

NOTE 34 Life Insurance Business continued

The following table reconciles the carrying values of the life and funds management businesses to the value of investments in non-consolidated subsidiaries as shown in the capital adequacy calculation.

Reconciliation of the components of the carrying value to the value of investments in non-consolidated subsidiaries

	30 June 2001 $M	30 June 2000[1] $M
Intangible component of investment in non-consolidated subsidiaries deducted from Tier 1 capital comprises:		
Value future new business	**3,576**	2,725
Value of self-generated in force business [2]	**540**	-
Adjustments [1]	**-**	(69)
	4,116	2,656
Investment in non-consolidated subsidiaries deducted from Total Capital comprises:		
Shareholders' NTA in life and funds management businesses	**2,867**	2,414
Shareholders' NTA in other non-consolidated subsidiaries	**41**	78
Debt recognised as capital per APRA regulations	**96**	140
Value of in force business [2]	**-**	1,597
Value of acquired in force business [2]	**1,020**	-
Less non-recourse debt	**(2,019)**	(1,698)
Other [1]	**-**	(3)
	2,005	2,528

(1) Balances at 30 June 2000 include some minor adjustments principally related to the re-allocation of value between in force business and future new business.

(2) Refer Note 31 of the financial statements for an explanation of the change in treatment between 30 June 2000 and 30 June 2001 relating to the value of self-generated business in force.

Key Assumptions Used in Appraisal Values

The following Key Assumptions have been used by Trowbridge in determining the appraisal values. Other actuarial assumptions used in the valuation are described in the section Actuarial Methods and Assumptions.

30 June 2001	**New Business Multiplier[1]**	**Risk Discount Rate %**	**Value of Franking Credits %**
Life insurance entities			
Australia	9	11.5	70
New Zealand	9	12.0	-
Asia			
- Hong Kong	9	HKD13.5 [2] USD12.5	-
- Other	Various	Various	-
Funds management entities			
Australia	n.a.	12.5	70

As at 30 June 2000	**New Business Multiplier**	**Risk Discount Rate %**	**Value of Franking Credits %**
Life insurance entities			
Australia	10	12	70
New Zealand	8	13	-
Asia			
- Hong Kong	9	HKD15 [2] USD12.5	-
- Other	various	various	-
Funds management entities			
Australia	n.a.	13	70

(1) Changes in multipliers reflect changes in risk discount rates, changes to business mix and changes to views on future new business growth.

(2) These are the risk discount rates for Hong Kong dollar business and US dollar business.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Policy Liabilities

Appropriately qualified actuaries have been appointed in respect of each life insurance business and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this financial report, including compliance with the regulations of the Life Insurance Act 1995 where appropriate. Details are set out in the various statutory returns of these life insurance businesses.

	2001 $M	2000 $M
Components of policy liabilities:		
Future policy benefits [(1)]	**29,727**	28,983
Future bonuses	**1,583**	1,751
Future expenses	**2,209**	1,648
Future profit margins	**1,224**	1,170
Future charges for acquisition expenses	**(648)**	(616)
Balance of future premiums	**(7,112)**	(7,701)
Provisions for bonuses not allocated to participating policyholders	**46**	47
Total policy liabilities	**27,029**	25,282

(1) Including bonuses credited to policyholders in prior years.

Taxation

Taxation has been allowed for in the determination of policy liabilities in accordance with the relevant legislation applicable in each territory.

On 1 July 2000 a new tax regime for life insurance companies commenced in Australia. The primary effect of this regime is to tax profits that had previously not been subject to taxation. Allowance has been made in the appraisal values and policy liabilities of the life insurance businesses for the impact of the new tax requirements.

Actuarial Methods and Assumptions

Policy liabilities have been calculated in accordance with the Margin on Services (MoS) methodology as set out in Actuarial Standard 1.02 – Valuation Standard ('AS1.02') issued by the Life Insurance Actuarial Standards Board ('LIASB'). There has been no change in the principal methods and profit carriers used for particular product groups which are as follows:

Product Type	Method	Profit Carrier
Individual		
Conventional	Projection	Bonuses / dividends or expected claim payments
Investment account	Projection	Bonuses or asset charges
Investment linked	Projection	Asset charge
	Accumulation	Not applicable
Lump sum risk	Projection	Premiums/claims
Income stream risk	Projection	Expected claim payments
Immediate annuities	Projection	Bonuses or annuity payment
Group		
Investment account	Projection	Bonuses or asset charges
Investment linked	Projection	Asset charge
Lump sum risk	Projection	Claims
	Accumulation	Premiums (implied)
Income stream risk	Projection	Expected claim payments

NOTE 34 Life Insurance Business continued

The 'Projection Method' measures the present values of estimated future policy cash flows to calculate policy liabilities. The policy cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments.

The 'Accumulation Method' measures the accumulation of amounts invested by policyholders plus investment earnings less fees specified in the policy to calculate policy liabilities. Deferred acquisition costs are offset against this liability.

Bonuses are amounts added, at the discretion of the life insurer, to the benefits currently payable under Participating Business. Under the Life Act, bonuses are a distribution to policyholders of profits and may take a number of forms including reversionary bonuses, interest credits and capital growth bonuses (payable on the termination of the policy).

Actuarial Assumptions

Set out below is a summary of the material assumptions used in the calculation of policy liabilities. These assumptions are also used in the determination of appraisal values.

Discount Rates

These are the rates used to discount further cash flows to determine their net present value in the policy liabilities. The discount rates are determined with reference to the expected earnings rate of the assets that support the policy liabilities adjusted for taxation where relevant. The following table shows the applicable rates for the major classes of business in Australia and New Zealand. The changes relate to changes in long term earnings rates, asset mix and reflect the new tax regime for Australian business.

	Discount Rates	
Class of Business	**June 2001 Rate Range %**	**June 2000 Rate Range %**
Traditional – ordinary business (after tax)	6.38-6.72	6.11
Traditional – superannuation business (after tax)	7.80-8.23	7.88
Annuity business (after tax)	6.51-7.97	6.40-8.25
Term life insurance – ordinary business (after tax)	4.20-4.55	3.20-5.28
Term life insurance – superannuation business (after tax)	4.20-4.55	4.50-5.28
Disability business (before tax)	4.20-4.55	6.15
Investment linked – ordinary business (after tax)	5.86-6.36	5.70-5.82
Investment linked – superannuation business (after tax)	7.34-7.92	7.00-7.80
Investment linked – exempt (after tax)	8.34-9.12	8.35-8.63
Investment account – ordinary business (after tax)	4.51	4.44
Investment account – superannuation business (after tax)	5.49	5.72

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Bonuses

The valuation assumes that the long-term supportable bonuses will be paid, which is in line with company bonus philosophy. There have been no significant changes to these assumptions.

Maintenance expenses

For the Australian and New Zealand operations of the Colonial Group, maintenance expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in the service company agreements. These have increased in line with inflation.

For other operations maintenance expense assumptions are based on an analysis of experience over the past year taking into account future business plans. 'One-off' expenses are excluded.

Investment management expenses

Investment management expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in Fund Manager agreements. There have been no significant changes to these assumptions.

Inflation

The inflation assumption is consistent with the investment earning assumptions. There have been no significant changes to these assumptions.

Benefit indexation

The indexation rates are based on an analysis of past experience and estimated long term inflation and vary by business and product type. There have been no significant changes to these assumptions.

Taxation

The taxation basis and rates assumed vary by territory and product type. For the Australian business it reflects the new regime for life insurance companies effective 1 July 2000.

Voluntary discontinuance

Discontinuance rates are based on recent company and industry experience and vary by territory, product, age and duration inforce. The only significant change has been an increase in the assumption for New Zealand and Asia.

Surrender values

Current surrender value bases are assumed to apply in the future. There have been no significant changes to these assumptions.

Unit price growth

Unit prices are assumed to grow in line with assumed investment earnings assumptions, net of asset charges as per current company practice. There have been no significant changes to these assumptions.

Mortality and Morbidity

Rates vary by sex, age, product type and smoker status. Rates are based on standard mortality tables applicable to each territory e.g. IA90-92 in Australia for risk, IM/IF80 for annuities, adjusted for recent company and industry experience where appropriate. The only significant change has been an increase in the assumption for disability claims.

Solvency

Australian Life Insurers

Australian life insurers are required to hold prudential reserves in excess of the amount of policy liabilities. These reserves are required to support capital adequacy requirements and provide protection against the adverse experience. Actuarial Standard AS2.02 'Solvency Standard' ('AS2.02') prescribes a minimum capital requirement and the minimum level of assets required to be held in each life insurance fund. All controlled Australian life insurance entities complied with the solvency requirements of AS2.02. Further information is available from the individual statutory returns of subsidiary life insurers.

Overseas life insurers

Overseas life insurance subsidiaries are required to hold reserves in excess of policy liabilities in accordance with local Acts and prudential rules. Each of the overseas subsidiaries complied with local requirements. Further information is available from the individual statutory returns of subsidiary life insurers.

Managed assets & fiduciary activities

Arrangements are in place to ensure that asset management and other fiduciary activities of controlled entities are independent of the life insurance funds and other activities of the Group.

Disaggregated Information

Life insurance business is conducted through a number of life insurance entities in Australia and overseas. Under the Australian Life Insurance Act 1995, life insurance business is conducted within one or more separate statutory funds which are distinguished from each other and from the shareholders' fund. The financial statements of Australian life insurers prepared in accordance with AASB 1038, (and which are lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various life insurance statutory funds and their shareholder funds.

NOTE 35 Remuneration of Auditors

	GROUP 2001 $'000	GROUP 2000 $'000	BANK 2001 $'000	BANK 2000 $'000
Amounts paid or due and payable for audit and review of the financial report by:				
Ernst & Young	**4,518**	3,165	**1,864**	1,993
Other Auditors	**89**	1,878	**-**	-
	4,607	5,043	**1,864**	1,993
Amounts paid or due and payable for other services to Ernst & Young	**5,113**	17,953	**4,089**	17,779
Total Remuneration of Auditors	**9,720**	22,996	**5,953**	19,772

Other services provided by Ernst & Young during the year primarily related to regulatory and other statutory services, accounting related services and taxation advisory services.

Other services provided by Ernst & Young during the previous year substantially related to once-off initiatives including GST preparedness and the acquisition of Colonial Limited. A significant proportion of the other services was provided by Ernst & Young's management consulting division. Effective 23 May 2000 Ernst & Young sold its management consulting business. From that date Ernst & Young no longer provides those management consulting services to the Group.

NOTE 36 Commitments for Capital Expenditure Not Provided for in the Accounts

	GROUP 2001 $M	GROUP 2000 $M	BANK 2001 $M	BANK 2000 $M
Not later than one year	**30**	22	**12**	19
Later than one year but not later than two years	**2**	-	-	-
Later than two years but not later than five years	**-**	-	-	-
Later than five years	**-**	-	-	-
Total Commitments for Capital Expenditure Not Provided for in the Accounts	**32**	22	12	19

NOTE 37 Lease Commitments - Property, Plant and Equipment

	GROUP 2001 $M	GROUP 2000 $M	BANK 2001 $M	BANK 2000 $M
Commitments in respect of non cancellable operating lease agreements due -				
Not later than one year	**277**	309	**216**	168
Later than one year but not later than five years	**730**	784	**595**	469
Later than five years	**311**	341	**227**	215
Total Lease Commitments - Property, Plant and Equipment	**1,318**	1,434	**1,038**	852
Group's share of lease commitments of associated entities -				
Not later than one year	**7**	8		
Later than one year but not later than five years	**16**	22		
Later than five years	**7**	10		
Total Lease Commitments - Property, Plant and Equipment	**30**	40		

Lease Arrangements

Leases entered into by the Group are for the purpose of accommodating the business need. Leases may be over retail, commercial, industrial and residential premises and reflect the needs of the occupying business and market conditions. All leases are negotiated with external professional property resources acting for the Group.

Rental payments are determined in terms of relevant lease requirements – usually reflecting market rentals as described by standard valuation practice.

The Group as lessee has no purchase options over premises occupied. For properties sold and leased back by the Group, the Group does have the right of first refusal to purchase the property. There is no obligation on the Bank to do so, and there has never been an instance of purchase.

There are no restrictions imposed on the Group's lease of space other than those forming part of the negotiated lease arrangements for each specific premise.

Notes to the financial statements

NOTE 38 Contingent Liabilities

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

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

Details of contingent liabilities and off balance sheet business (excluding Derivatives – Note 39) are:

				GROUP
	Face Value		Credit Equivalent	
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
Credit risk related instruments				
Guarantees	**2,104**	2,554	**2,104**	2,554
Standby letters of credit	**673**	558	**673**	558
Bill endorsements	**1,096**	428	**1,096**	428
Documentary letters of credit	**238**	231	**48**	46
Performance related contingents	**1,236**	1,564	**618**	782
Commitments to provide credit	**42,874**	41,324	**15,970**	13,579
Other commitments	**2,488**	1,118	**1,728**	1,091
Total credit risk related instruments	**50,709**	47,777	**22,237**	19,038

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

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

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

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

Performance related contingents involve undertakings by the Group to pay third parties if a customer fails to fulfil a contractual non-monetary obligation.

Commitments to provide credit include all obligations on the part of the Group to provide funding facilities.

Other commitments include the Group's obligations under sale and repurchase agreements, outright forward purchases and forward deposits and underwriting facilities.

The transactions are categorised and credit equivalents calculated under APRA guidelines for the risk based measurement of capital adequacy. The credit equivalent amounts are a measure of the potential loss to the Group in the event of possible non performance by a counterparty.

The credit equivalent exposure from direct credit substitutes (guarantees, standby letters of credit and bill endorsements) is the face value of the transaction, whereas the credit equivalent exposure to documentary letters of credit and performance related contingents is 20% and 50% respectively of the face value. The exposure to commitments to provide credit is calculated by applying given credit conversion factors to the face value to reflect the duration, the nature and the certainty of the contractual undertaking to provide the facility.

Where the potential loss depends on the performance of a counterparty, the Group utilises the same credit policies and assessment criteria for off balance sheet business as it does for on balance sheet business and if it is deemed necessary, collateral is obtained based on management's credit evaluation of the counterparty. If a probable loss is identified, suitable provisions are raised.

Litigation

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

NOTE 38 Contingent Liabilities continued

Indemnities under UK Sale Agreement

The Group has contingent liabilities that relate to indemnities given under an agreement for the sale of Colonial Life (UK) Ltd and Colonial Pension Fund Ltd to the Winterthur Group.

These indemnities cover potential claims that could arise from mis-selling activities in the UK for pension products and mortgage endowment products. Under the sales agreement the liabilities are shared between Winterthur and the Group on a pre-determined basis.

Fiduciary Activities

The Group and its associated entities conduct investment management and other fiduciary activities as responsible entity, trustee, custodian or manager for numerous investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail trusts. The amounts of funds concerned which are not reported in the Group's balance sheet are as follows:

	2001 $M	2000 $M
Funds under management		
Australia	**58,018**	43,400
United Kingdom	**14,614**	19,202
New Zealand	**2,227**	947
Asia	**2,095**	1,717
	76,954	65,266
Funds under trusteeship		
Australia	**22,768**	21,150
Funds under custody and investment administration		
Australia	**73,513**	66,510

As an obligation arises under each type of duty the amount of funds has been included where that duty arises. This may lead to the same funds being shown more than once where Group companies are engaged to act in more than one capacity (e.g. as trustee and fund manager).

Certain entities within the Group act as responsible entity or trustee of various managed schemes ('schemes'), wholesale and retail trusts ('trusts'). Liabilities are incurred by these entities in their capacity as responsible entity or trustee. Rights of indemnity are held against the schemes and trusts whose assets exceeded their liabilities at 30 June 2001. Where entities within the Group act as manager of unit trusts, obligations exist under the relevant Trust Deeds, whereby upon request from a unit holder, the manager has an obligation to repurchase units from the trust or to arrange for the relevant trustee to redeem units from the assets of those trusts. It is considered unlikely that these entities will need to repurchase units from their own funds.

The Commonwealth Bank of Australia does not guarantee the performance or obligations of its subsidiaries.

Long Term Contracts

In 1997, the Bank entered into a ten year contract with an associated entity, EDS (Australia) Pty Ltd, relating to the provision of information technology services. In 2000, the Bank entered into a telecommunications services agreement with TCNZ Australia Pty Ltd for five years. The exact amounts of these contracts is unable to be reliably determined as they are dependent upon business volumes over the period of the contracts.

Liquidity support

In accordance with the regulations and procedures governing clearing arrangements contained within the Australian Paper Clearing Stream (Clearing Stream 1) and the Bulk Electronic Clearing Stream (Clearing Stream 2) of the Australian Payments Clearing Association Limited, the Bank is subject to a commitment to provide liquidity support to these clearing streams in the event of a failure to settle by a member institution.

Service agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Managing Director and other executives of the Company and its controlled entities at 30 June 2001 was $12 million (2000: $8 million).

Notes to the financial statements

NOTE 39 Market Risk

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

Under the authority of the Bank's Board, the Risk Committee of the Board ensures that all the Group's market risk is consistent with the Group business strategy and within Group risk tolerance. Regular market risk reports are tabled before Risk Committee. Within the Group, market risk exists in the balance sheet structure and arises in the course of its intermediation activities in financial services and in financial markets trading.

Market risk in the balance sheet

The Risk Committee of the Board recommends for Board approval all balance sheet market risk policies and limits. Implementation of the policy is through the Asset Liability Committee, with operational management of the risk delegated to the Group General Manager, Financial & Risk Management. Market risk in the balance sheet includes liquidity risk, funding risk, interest rate risk and foreign exchange rate risk.

Liquidity risk

Balance sheet liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Group manages liquidity risk separately for its domestic Australian Dollar (AUD) obligations and for its foreign currency obligations. In both domestic and foreign currency operations, liquidity policies are in place to manage liquidity both in a day to day sense, and also under crisis assumptions.

APRA has revised its Prudential Standard for the supervision of liquidity in banks. This standard has been expanded to cover all Approved Deposit-taking Institutions (ADIs). The previous policy has been superseded and the Prime Assets Requirements (PAR) has been abolished.

Each bank is required to develop a liquidity management strategy that is appropriate for itself, based on its size and the nature of its operations. The prime objective is to ensure that each bank has sufficient liquidity to meet its financial obligations as they fall due.

The Bank has developed a liquidity policy, relevant to its own circumstances and this has formally been approved by APRA. The objectives of the Bank's funding and liquidity policies are to:

- Ensure all financial obligations are met when due;
- Provide adequate protection at lowest cost; and
- Achieve sustainable, lowest-cost funding within the limitations of funding diversification requirements, without over-reliance on any particular market segment.

The Bank's policy framework differentiates normal operational liquidity management (corresponding to the 'going concern' scenario in APRA's Prudential Statement D1 on Liquidity) from a crisis event. Three types of crisis are dealt with ie, systemic, founded and unfounded. The policy sets out the controls and cash flow assumptions appropriate in all cases. The key elements of the liquidity policy cover:

- Detailed daily forecasts out to 3 months including mismatch limits;
- Development of reliable funding sources;
- The holding of a stock of high quality liquid assets ie, assets held that are available for repurchase by the RBA (over and above those required to meet Real Time Gross Settlement (RTGS) obligations), AUD CDs/Bills of other banks and AUD overnight interbank loans; and
- The use of standby lines of funding.

Subsidiaries are also included in the Group's liquidity policy framework.

Foreign currency liquidity risk is managed by ensuring that a positive cumulative cash flow exists for the next 7 days' operations. This means that should a crisis situation arise, the Bank would not need to access new funding from wholesale markets for at least one week. There is also a cap on the maximum level of cumulative negative cash flows at day 28. A stock of liquid assets is included in this protective measure.

Funding risk

Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. The Group has a policy of funding diversification. This Funding Policy augments the Group's Liquidity Policy. Its aim is to assure that the Group has a stable diversified funding base without over-reliance on any one market sector. Central to this is the determination of the most appropriate mix of deposits and other liabilities to fund the balance sheet. A target has been set for the preferred minimum level of retail deposits. A minimum level of long-term (greater than 12 months) funding has also been set.

Domestically, the Group continues to obtain the majority of its AUD funding from its stable retail deposit base, primarily demand and short term deposits, which have a lower interest cost than wholesale funds. The retail funding percentage has risen from 60% in June 2000 to 62% in June 2001. The relative size of the Group's retail base has enabled it to source funds at a lower average rate of interest than the other major Australian banks. However, some of this benefit is offset by the cost of the Group's retail network and the Group's large share (approximately 48%) of pensioner deeming accounts.

In recent years, the Group has experienced a movement of retail deposit balances into higher yielding facilities. This reflects increased customer awareness of investment opportunities in an environment where the level of interest rates has remained lower and relatively more stable when compared with the interest rate cycles of the 1980s and early 1990s.

NOTE 39 Market Risk continued

The cost of funds for Financial Year 2001, calculated as the percentage of interest expense to average interest bearing liabilities, was 5.1% on a Group basis compared with 4.4% on a Group basis for Financial Year 2000.

The Group obtains a significant proportion of its funding for the domestic balance sheet from wholesale sources – approximately 23%, excluding Bank Acceptances. The cost of funds raised in the wholesale markets is affected by independently assessed credit ratings.

A funding diversification policy is particularly important in offshore markets where the absence of any ‘natural’ offshore funding base means the Bank is principally reliant on money market and capital market sources for funding. The Bank has imposed internal prudential limits on the relative mix of offshore sources of funds.

The following table outlines the range of financial instruments used by the Group to raise deposits and borrowings, both within Australia and overseas. Funds are raised from well-diversified sources and there are no material concentrations in these categories.

		GROUP
	2001	2000
	$M	$M
Australia		
Cheque Accounts	**19,644**	15,289
Savings Accounts	**30,248**	29,543
Term Deposits	**28,102**	29,677
Cash Management Accounts	**11,080**	9,985
Debt Issues	**14,719**	17,520
Bank Acceptances	**11,960**	11,107
Certificates of Deposit	**12,927**	14,136
Life Insurance Policy Liabilities	**23,477**	21,975
Loan Capital	**5,704**	5,299
Securities Sold Under Agreements to Repurchase	**435**	946
Other	**2,798**	1,809
Total Australia	**161,094**	157,286
Overseas		
Deposits and Interbank	**19,021**	15,842
Commercial Paper	**8,471**	6,070
Life Insurance Policy Liabilities	**3,552**	3,307
Other Debt Issues	**1,294**	1,685
Bank Acceptances and Other	**118**	-
Total Overseas	**32,456**	26,904
Total Funding Sources	**193,550**	184,190
Provisions and Other Liabilities	**17,013**	15,634
Total Liabilities	**210,563**	199,824

Notes to the financial statements

NOTE 39 Market Risk 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 Group in the current reporting period, and in future years. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net interest earnings in the long term.

The Group measures and manages balance sheet interest rate risk from two perspectives:

(a) Next 12 Months' Earnings

The risk to the net interest earnings over the next 12 months from a change in interest rates is measured on a monthly basis. Risk is measured assuming an immediate 1% parallel movement in interest rates across the full yield curve as well as other interest rate scenarios with variations in the size and timing of interest rate movements. Potential variations to net interest earnings are measured using a simulation model which takes into account the projected change in balance sheet asset and liability levels and mix. Assets and liabilities with pricing directly based on market rates are repriced based on the full extent of the rate shock that is applied. Risk on other assets and liabilities (those priced at the discretion of the Group) is measured by taking into account both the manner the products have repriced in the past as well as the expected change in price based on the current competitive market environment.

The figures in the table represent the potential change to net interest earnings (expressed as a percentage of expected net interest earnings in the next 12 months) based on a 1% parallel rate shock and the expected change in price of assets and liabilities held for purposes other than trading.

(expressed as a % of expected next 12 months' earnings)	**2001 %**	2000 %
Average monthly exposure	**1.8**	1.8
High month exposure	**2.4**	2.3
Low month exposure	**0.9**	1.4

(b) Economic value

Some of the Group's assets and liabilities have interest rate risk that is not captured within the measure of risk to next 12 months earnings, as the risk is beyond the next 12 months. To measure this longer-term sensitivity, the Group utilises an economic value-at-risk analysis. This analysis measures the potential change in the net present value of cashflows of assets and liabilities. Cashflows for fixed rate products are included on a contractual basis, after adjustment for forecast prepayment activity. Cashflows for products repriced at the discretion of the Group are based on the expected repricing characteristics of those products.

The total cashflows are revalued under a range of possible interest rate scenarios using a Value at Risk (VaR) methodology. The interest rate scenarios are based on actual interest rate movements that have occurred over 1 year and 5 year historical observation periods. The measured VaR exposure is an estimate to a 97.5% confidence level (one-tail) of the potential loss that could occur if the balance sheet positions were to be held unchanged for a one month holding period. For example, VaR exposure of $1 million means that in 97.5 cases out of 100, the expected net present value will not decrease by more than $1 million given the historical movement in interest rates.

The figures in the following table represent the net present value of the expected change in future earnings in all future periods for the remaining term of all existing assets and liabilities held for purposes other than trading.

	2001 $M	2000 $M
Exposure as at 30 June	**42**	19
Average monthly exposure	**23**	27
High month exposure	**42**	45
Low month exposure	**11**	15

A stress-test framework for interest rate risk augments the two risk-management perspectives outlined above. The results of the stress tests are used to refine policy and limits where appropriate and are reported to Asset Liability Committee and Risk Committee.

The table following represents the Group's contractual interest rate risk sensitivity from repricing mismatches as at 30 June 2001 and the corresponding weighted average effective interest rates. The net mismatch represents the net value of assets, liabilities and off balance sheet instruments that may be repriced in the time periods shown.

<u>The Bank does not use this contractual repricing information to manage its interest rate risk.</u> The risk is managed using the 'Next 12 Months Earnings' and 'Economic Value' perspectives outlined above. All assets and liabilities are shown according to contractual repricing dates. Options are shown in the mismatch report using delta equivalents of the option face values.

NOTE 39 Market Risk continued

Interest Rate Risk Sensitivity

	Repricing Period at 30 June 2001								
	Balance Sheet Total $M	0 to 1 month $M	1 to 3 months $M	3 to 6 months $M	6 to 12 months $M	1 to 5 years $M	over 5 Years $M	Not Interest Bearing $M	Weighted Average Rate %
Australia									
Assets									
Cash and liquid assets	**3,197**	**1,979**	**-**	**-**	**10**	**-**	**-**	**1,208**	**2.60**
Receivables due from other financial institutions	**2,858**	**1,815**	**855**	**149**	**39**	**-**	**-**	**-**	**4.89**
Trading securities	**4,095**	**4,095**	**-**	**-**	**-**	**-**	**-**	**-**	**4.97**
Investment securities	**3,336**	**253**	**365**	**-**	**28**	**1,677**	**1,012**	**1**	**8.40**
Loans, advances and other receivables	**118,939**	**65,183**	**9,087**	**5,168**	**13,058**	**26,138**	**1,696**	**(1,391)**	**7.18**
Bank acceptances of customers	**11,960**	**-**	**-**	**-**	**-**	**-**	**-**	**11,960**	
Life insurance investment assets	**27,401**	**3,219**	**229**	**255**	**1,486**	**3,171**	**2,441**	**16,600**	**2.42**
Deposits with regulatory authorities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Property, plant and equipment	**721**	**-**	**-**	**-**	**-**	**-**	**-**	**721**	
Intangible assets	**10,848**	**-**	**-**	**-**	**-**	**-**	**-**	**10,848**	
Other assets	**13,548**	**-**	**-**	**-**	**-**	**-**	**-**	**13,548**	
Total Assets	**196,903**	**76,544**	**10,536**	**5,572**	**14,621**	**30,986**	**5,149**	**53,495**	**5.03**
Liabilities									
Deposits and other public borrowings	**102,421**	**65,923**	**7,941**	**9,373**	**4,881**	**6,143**	**1,720**	**6,440**	**3.47**
Payables due to other financial institutions	**2,816**	**1,500**	**269**	**456**	**591**	**-**	**-**	**-**	**4.98**
Bank acceptances	**11,960**	**-**	**-**	**-**	**-**	**-**	**-**	**11,960**	
Provision for dividend	**779**	**-**	**-**	**-**	**-**	**-**	**-**	**779**	
Income tax liability	**1,212**	**-**	**-**	**-**	**-**	**-**	**-**	**1,212**	
Other provisions	**881**	**-**	**-**	**-**	**-**	**-**	**-**	**881**	
Life insurance policy liabilities	**23,477**	**-**	**-**	**-**	**-**	**-**	**-**	**23,477** [3]	
Debt issues	**14,719**	**2,452**	**4,897**	**1,676**	**1,157**	**4,420**	**117**	**-**	**5.56**
Bills payable and other liabilities	**12,679**	**-**	**-**	**-**	**-**	**-**	**-**	**12,679**	
Loan Capital	**5,624**	**493**	**1,744**	**213**	**-**	**406**	**2,768**	**-**	**6.40**
Total Liabilities	**176,568**	**70,368**	**14,851**	**11,718**	**6,629**	**10,969**	**4,605**	**57,428**	**2.76**
Shareholders Equity									
Outside equity interests in	**18,362**	**700**	**-**	**-**	**-**	**-**	**-**	**17,662**	
controlled entities	**1,449**	**-**	**-**	**-**	**-**	**-**	**-**	**1,449**	
Total Shareholders' Equity	**19,811**	**700**	**-**	**-**	**-**	**-**	**-**	**19,111**	
Off Balance Sheet Items									
Swaps	[2]	**2,472**	**(11,560)**	**800**	**3,085**	**3,014**	**2,189**	**-**	[1]
FRAs	[2]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	[1]
Futures	[2]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	[1]
Net Mismatch	[2]	**7,948**	**(15,875)**	**(5,346)**	**11,077**	**23,031**	**2,733**	**(23,044)**	[1]
Cumulative Mismatch	[2]	**7,948**	**(7,927)**	**(13,273)**	**(2,196)**	**20,835**	**23,568**	**524**	[1]

(1) no rate applicable
(2) no balance sheet amount applicable
(3) Technically, the life insurance policy liabilities are not interest bearing, but the amount of the liability may change in line with changes in interest rates. This is particularly so with investment linked policies.

As noted above the cumulative mismatch reflects contractual repricing periods. The balance sheet is managed based on assessments of expected pricing behaviour having regard to historical trends and competitive positioning.

The Group has a significant portfolio of loans with fixed interest rates maturing in the one to five years repricing period. Funding is principally raised from retail deposits with at call variable interest rates. The interest rate risk exposure is managed in accordance with the principles outlined above in this note.

Notes to the financial statements

NOTE 39 Market Risk continued

Repricing Period at 30 June 2001

	Balance 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	**512**	**375**	**121**	**7**	**-**	**-**	**-**	**9**	**1.97**
Receivables due from other financial institutions	**1,764**	**626**	**188**	**177**	**237**	**478**	**-**	**58**	**5.62**
Trading securities	**2,814**	**789**	**823**	**314**	**367**	**439**	**57**	**25**	**5.70**
Investment securities	**6,369**	**573**	**1,281**	**1,884**	**83**	**1,744**	**803**	**1**	**5.19**
Loans, advances and other receivables	**17,120**	**6,845**	**1,535**	**1,232**	**2,264**	**4,822**	**430**	**(8)**	**7.50**
Bank acceptances of customers	**115**	**-**	**-**	**-**	**-**	**-**	**-**	**115**	
Life insurance investment assets	**3,812**	**666**	**58**	**95**	**177**	**518**	**53**	**2,245**	**2.85**
Deposits with regulatory authorities	**61**	**-**	**-**	**-**	**-**	**-**	**-**	**61**	
Property, plant and equipment	**198**	**-**	**-**	**-**	**-**	**-**	**-**	**198**	
Intangible assets	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	
Other assets	**739**	**-**	**-**	**-**	**-**	**-**	**-**	**739**	
Total Assets	**33,508**	**9,874**	**4,006**	**3,709**	**3,128**	**8,001**	**1,343**	**3,447**	**5.95**
Liabilities									
Deposits and other public borrowings	**14,934**	**8,516**	**3,440**	**995**	**1,154**	**193**	**-**	**636**	**4.94**
Payables due to other financial institutions	**4,087**	**2,906**	**756**	**286**	**88**	**51**	**-**	**-**	**4.87**
Bank acceptances	**115**	**-**	**-**	**-**	**-**	**-**	**-**	**115**	
Provision for dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Income tax liability	**143**	**-**	**-**	**-**	**-**	**-**	**-**	**143**	
Other provisions	**126**	**-**	**-**	**-**	**-**	**-**	**-**	**126**	
Life insurance policy liabilities	**3,552**	**-**	**-**	**-**	**-**	**-**	**-**	**3,552**	
Debt issues	**9,765**	**449**	**6,338**	**1,506**	**557**	**544**	**326**	**45**	**4.43**
Bills payable and other liabilities	**1,193**	**-**	**-**	**-**	**-**	**-**	**-**	**1,193**	
Loan Capital	**80**	**-**	**-**	**-**	**-**	**80**	**-**	**-**	**8.29**
Total Liabilities	**33,995**	**11,871**	**10,534**	**2,787**	**1,799**	**868**	**326**	**5,810**	**4.05**
Shareholders Equity									
Outside equity interests in	**31**	**-**	**-**	**-**	**-**	**-**	**-**	**31**	
controlled entities	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**6**	
Total Shareholders' Equity	**37**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	
Off Balance Sheet Items									
Swaps	(2)	**999**	**3,700**	**96**	**(1,222)**	**(3,351)**	**(222)**	**-**	(1)
FRAs	(2)	**(299)**	**199**	**100**	**-**	**-**	**-**	**-**	(1)
Futures	(2)	**-**	**74**	**(166)**	**92**	**-**	**-**	**-**	(1)
Net Mismatch	(2)	**(1,297)**	**(2,555)**	**952**	**199**	**3,782**	**795**	**(2,400)**	(1)
Cumulative Mismatch	(2)	**(1,297)**	**(3,852)**	**(2,900)**	**(2,701)**	**1,081**	**1,876**	**(524)**	(1)

(1) no rate applicable
(2) no balance sheet amount applicable

NOTE 39 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 2000								
Australia									
Assets									
Cash and liquid assets	2,506	1,548	-	7	-	-	-	951	3.59
Receivables due from other financial institutions	4,159	2,540	1,508	18	8	-	-	85	6.64
Trading securities	5,480	5,480	-	-	-	-	-	-	6.07
Investment securities	4,146	1,288	220	413	108	1,323	788	6	8.13
Loans, advances and other receivables	116,747	65,192	8,130	7,193	12,714	23,174	1,724	(1,380)	7.55
Bank acceptances of customers	11,107	-	-	-	-	-	-	11,107	-
Life insurance investment assets [3]	23,385	3,110	890	70	555	2,735	3,768	12,257	2.86
Deposits with regulatory authorities	-	-	-	-	-	-	-	-	-
Property, plant and equipment	861	-	-	-	-	-	-	861	-
Goodwill	5,899	-	-	-	-	-	-	5,899	-
Other assets	14,448	-	-	-	-	-	-	14,448	-
Total Assets	188,738	79,158	10,748	7,701	13,385	27,232	6,280	44,234	5.58
Liabilities									
Deposits and other public borrowings	99,816	57,491	9,448	10,607	7,394	6,654	2,244	5,978	4.27
Payables due to other financial institutions	1,569	1,145	424	-	-	-	-	-	6.05
Bank acceptances	11,107	-	-	-	-	-	-	11,107	-
Provision for dividend	708	-	-	-	-	-	-	708	-
Income tax liability	1,740	-	-	-	-	-	-	1,740	-
Other provisions	1,321	-	-	-	-	-	-	1,321	-
Life insurance policy liabilities	21,975	-	-	-	-	-	-	21,975	-
Debt issues	17,520	5,514	5,140	872	1,609	4,001	384	-	6.26
Bills payable and other liabilities	10,942	-	-	-	-	-	-	10,942	-
Loan Capital	5,220	795	1,845	182	-	394	2,004	-	7.31
Total Liabilities	171,918	64,945	16,857	11,661	9,003	11,049	4,632	53,771	3.39
Shareholders Equity	17,472	-	-	-	-	-	-	17,472	
Outside equity interests in controlled entities	744	-	-	-	-	-	-	744	
Total Shareholders' Equity	18,216	-	-	-	-	-	-	18,216	
Off Balance Sheet Items									
Swaps		(1,158)	(5,774)	1,282	719	2,199	2,732	-	
FRAs	[2]	-	-	-	-	-	-	-	[1]
Futures	[2]	181	-	(595)	446	(37)	5	-	[1]
Net Mismatch	[2]	13,236	(11,883)	(3,273)	5,547	18,345	4,385	(27,753)	[1]
Cumulative Mismatch	[2]	13,236	1,353	(1,920)	3,627	21,972	26,357	(1,396)	[1]

(1) no rate applicable

(2) no balance sheet amount applicable

(3) With the introduction of Australian Accounting Standard AASB 1038: Life Insurance Business, the contractual repricing of Life insurance investment assets has been included in the Interest Rate Risk Sensitivity table for the first time for the financial year ended 30 June 2000. The interest income on these assets supports the life insurance policies issued by the Group's life companies and does not contribute to market risk within the banking book.

Notes to the financial statements

NOTE 39 Market Risk continued

								Repricing Period at 30 June 2000	
	Balance 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	69	-	8	24	-	-	-	37	2.13
Receivables due from other financial institutions	995	479	240	216	23	-	-	37	5.85
Trading securities	1,867	483	790	254	137	144	59	-	6.62
Investment securities	5,003	201	1,710	171	164	1,281	1,476	-	7.91
Loans, advances and other receivables	15,516	6,338	1,453	1,470	1,962	4,076	391	(174)	7.86
Bank acceptances of customers	-	-	-	-	-	-	-	-	-
Life insurance investment assets	3,651	115	301	193	194	354	595	1,899	3.17
Deposits with regulatory authorities	46	10	-	-	-	33	-	3	1.59
Property, plant and equipment	212	-	-	-	-	-	-	212	-
Goodwill	6	-	-	-	-	-	-	6	-
Other assets	2,156	-	-	-	-	-	-	2,156	-
Total Assets	29,521	7,626	4,502	2,328	2,480	5,888	2,521	4,176	6.49
Liabilities									
Deposits and other public borrowings	12,778	6,626	3,581	1,221	972	315	1	62	5.50
Payables due to other financial institutions	3,064	1,652	816	370	226	-	-	-	6.12
Bank acceptances	-	-	-	-	-	-	-	-	-
Provision for dividend	-	-	-	-	-	-	-	-	-
Income tax liability	83	-	-	-	-	-	-	83	-
Other provisions	233	-	-	-	-	-	-	233	-
Life insurance policy liabilities	3,307	-	-	-	-	-	-	3,307	-
Debt issues	7,755	650	4,530	640	818	709	408	-	5.26
Bills payable and other liabilities	607	-	-	-	-	-	-	607	-
Loan Capital	79	-	-	-	-	79	-	-	7.46
Total Liabilities	27,906	8,928	8,927	2,231	2,016	1,103	409	4,292	4.67
Shareholders Equity	-	-	-	-	-	-	-	-	
Outside equity interests in controlled entities	219	-	-	-	-	-	-	219	
Total Shareholders' Equity	219	-	-	-	-	-	-	219	
Off Balance Sheet Items									
Swaps	(2)	(261)	2,032	463	(185)	(1,323)	(726)	-	(1)
Options	(2)	-	670	(670)	-	-	-	-	(1)
FRAs	(2)	94	1	(252)	157	-	-	-	(1)
Futures	(2)	-	-	-	-	-	-	-	(1)
Net Mismatch	(2)	(1,469)	(1,722)	(362)	436	3,462	1,386	(335)	(1)
Cumulative Mismatch	(2)	(1,469)	(3,191)	(3,553)	(3,117)	345	1,731	1,396	(1)

(1) no rate applicable
(2) no balance sheet amount applicable

Foreign exchange risk

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

The Group hedges all balance sheet foreign exchange risk except for long term investments in offshore subsidiaries. An adverse movement of 10% in foreign exchange rates would cause the Group's capital adequacy ratio to deteriorate by less than 0.3% (2000: less than 0.3%)

Net deferred gains and losses

Net deferred unrealised gains and losses arising from derivative hedging contracts entered into in order to manage the risk arising from assets, liabilities, commitments or anticipated future transactions, together with the expected term of deferral are shown below.

NOTE 39 Market Risk continued

As at 30 June	Exchange rate Related contracts		Interest rate Related contracts		Total	
	2001 $M	2000 $M	**2001 $M**	2000 $M	**2001 $M**	2000 $M
Within 6 months	**167**	341	**349**	(45)	**516**	296
Within 6 months - 1 year	**(5)**	31	**(184)**	(49)	**(189)**	(18)
Within 1-2 years	**(229)**	24	**(90)**	(28)	**(319)**	(4)
Within 2-5 years	**(69)**	(33)	**(38)**	(27)	**(107)**	(60)
After 5 years	**19**	(226)	**(26)**	(230)	**(7)**	(456)
Net deferred gain (loss)	**(117)** [1]	137	**11**	(379)	**(106)**	(242)

[1] The increase in net deferred losses in exchange rate derivative contracts predominantly reflects falls in the AUD/USD exchange rate over the year. These losses are offset by unrecognised net gains in assets and liabilities in the balance sheet.

Net deferred gains and losses are only in respect of derivatives and must be considered in the context of the total interest rate and foreign exchange risk of the balance sheet. The deferred gains and losses on both derivatives and on balance sheet assets and liabilities are included in the economic value at risk measure outlined above.

Additionally, there are $107 million of net deferred losses on derivatives (2000: $11 million net deferred losses) used to hedge equity risk on investments disclosed within Note 11.

Market risk in financial services

Market risk in the life insurance business arises from mismatches between assets and liabilities guaranteed returns offered on some classes of policy (which may not be capable of being hedged through matching assets), adverse movements in market prices affecting fee income on investment-linked policies and from the returns obtained from investing the shareholders capital held in each life company. Shareholders funds in the life insurance business are on average invested 50% in income assets (cash and fixed interest) and 50% in growth assets (shares and property), although the asset mix may vary from company to company. Policyholder funds are invested to meet policyholder reasonable expectations without putting the shareholder at undue risk.

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

Market Risk in Financial Markets Trading

The Group's policy is that exposure to market risk from trading activities is managed by Institutional Banking. The Group trades and distributes financial markets products and provides risk management services to clients on a global basis.

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

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

The Group maintains access to markets by quoting bid and offer prices with other market makers and carries an inventory of treasury and capital market instruments, including a broad range of securities and derivatives.

In foreign exchange, the Group is a participant in all major currencies and is a major participant in the Australian dollar market, providing services for central banks, institutional, corporate and retail customers. Positions are also taken in the interest rate, debt, equity and commodity markets based on views of future market movements. Trading securities are further detailed in Note 10 of the financial statements.

Income is earned from spreads achieved through market-making and from taking market risk. All trading positions are valued and taken to profit and loss on a mark to market basis. Trading profits also take account of interest, dividends and funding costs relating to trading activities. Market liquidity risk is controlled by concentrating trading activity in highly liquid markets.

Note 3 of the financial statements details Financial Markets Trading Income contribution of $426 million (2000: $311 million) to the income of the Group. The contribution is significant and provides important diversification benefits to the Group.

Residual Value Risk on Operating Leases

The Group provides operating leases to customers on equipment such as motor vehicles, computers and industrial equipment. A residual value risk arises when equipment is not fully depreciated at lease expiry. Residual value risk is the risk that the amount recouped by selling the equipment at lease expiry will be less than the residual value on the lease.

In managing the risk the Group utilises industry experts to ensure that the residual value of equipment is prudently estimated at the start of the lease and the Group realises the maximum value of the equipment at lease expiry.

Notes to the financial statements

NOTE 39 Market Risk continued

Derivative contracts

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

Each derivative type is split between those held for 'Trading' purposes and those for 'Other than Trading' purposes. Derivatives classified as 'Other than Trading' are transactions entered into in order to manage the risks arising from non-traded assets, liabilities and commitments in Australia and offshore centres.

The 'Face Value' is the notional or contractual amount of the derivatives. This amount is not necessarily exchanged and predominantly acts as reference value upon which interest payments and net settlements can be calculated and on which revaluation is based.

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

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

				GROUP
		Face Value		Credit Equivalent
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
Derivatives				
Exchange rate related contracts				
Forwards				
Trading	**114,962**	112,949	**4,295**	3,374
Other than trading	**1,771**	1,323	**17**	1
Total Forwards	**116,733**	114,272	**4,312**	3,375
Swaps				
Trading	**23,196**	14,151	**1,946**	1,235
Other than trading	**8,661**	12,010	**1,588**	1,726
Total Swaps	**31,857**	26,161	**3,534**	2,961
Futures				
Trading	**417**	324	**-**	-
Other than trading	**-**	-	**-**	-
Total Futures	**417**	324	**-**	-
Options purchased and sold				
Trading	**34,261**	39,375	**704**	626
Other than trading	**-**	-	**-**	-
Total Options purchased and sold	**34,261**	39,375	**704**	626
Total exchange rate related contracts	**183,268**	180,132	**8,550**	6,962
Interest rate related contracts				
Forwards				
Trading	**23,477**	18,002	**2**	4
Other than trading	**7,074**	6,192	**1**	2
Total Forwards	**30,551**	24,194	**3**	6
Swaps				
Trading	**97,822**	119,120	**1,671**	1,865
Other than trading	**79,989**	51,060	**1,510**	1,254
Total Swaps	**177,811**	170,180	**3,181**	3,119
Futures				
Trading	**45,367**	33,583	**-**	-
Other than trading	**20**	1,142	**-**	-
Total Futures	**45,387**	34,725	**-**	-
Options purchased and sold				
Trading	**12,265**	12,292	**123**	128
Other than trading	**79**	737	**79**	67
Total Options purchased and sold	**12,344**	13,029	**202**	195
Total interest rate related contracts	**266,093**	242,128	**3,386**	3,320
Equity risk related contracts				
Swaps				
Other than trading	**278**	278	**-**	-
Total equity risk related contracts	**278**	278	**-**	-
Total derivatives exposures	**449,639**	422,538	**11,936**	10,282

NOTE 39 Market Risk continued

The fair or market value of trading derivative contracts, disaggregated into gross unrealised gains and gross unrealised losses, are shown below. In line with the Group's accounting policy, these unrealised gains and losses are recognised immediately in profit and loss, and together with net realised gains on trading derivatives and realised and unrealised gains and losses on trading securities, are reported within trading income under foreign exchange earnings or other financial instruments (refer Note 3). In aggregate, derivatives trading was profitable for the Group during the year.

	Fair Value		Average Fair Value	
	2001	2000	**2001**	2000
	$M	$M	**$M**	$M
Exchange rate related contracts				
Forward contracts				
Gross unrealised gains	**3,125**	2,263	**4,066**	1,829
Gross unrealised losses	**(2,020)**	(1,828)	**(3,120)**	(1,446)
	1,105	435	**946**	383
Swaps				
Gross unrealised gains	**2,990**	1,509	**2,535**	1,364
Gross unrealised losses	**(3,025)**	(1,389)	**(2,663)**	(1,316)
	(35)	120	**(128)**	48
Futures				
Gross unrealised gains	**2**	3	**3**	5
Gross unrealised losses	**-**	(5)	**(2)**	(5)
	2	(2)	**1**	-
Options purchased and sold				
Gross unrealised gains	**504**	381	**579**	342
Gross unrealised losses	**(283)**	(255)	**(354)**	(252)
	221	126	**225**	90
Net Unrealised Gains on exchange Rate Related Contracts	**1,293**	679	**1,044**	521
Interest rate related contracts				
Forward contracts				
Gross unrealised gains	**7**	6	**5**	10
Gross unrealised losses	**(7)**	(5)	**(6)**	(10)
	-	1	**(1)**	-
Swaps				
Gross unrealised gains	**2,874**	2,029	**2,736**	1,759
Gross unrealised losses	**(3,324)**	(2,056)	**(3,082)**	(1,922)
	(450)	(27)	**(346)**	(163)
Futures				
Gross unrealised gains	**19**	14	**33**	14
Gross unrealised losses	**(27)**	(22)	**(24)**	(13)
	(8)	(8)	**9**	1
Options purchased and sold				
Gross unrealised gains	**71**	47	**67**	35
Gross unrealised losses	**(73)**	(45)	**(57)**	(46)
	(2)	2	**10**	(11)
Net Unrealised Losses on Interest Rate Related Contracts	**(460)**	(32)	**(328)**	(173)
Net Unrealised Gains on Trading Derivative Contracts	**833**	647	**716**	348

In accordance with the accounting policy set out in Note 1(gg) the above trading derivative contract revaluations have been presented on a gross basis on the balance sheet.

Unrealised gains on trading derivatives (Note 21)	9,592	6,252
Unrealised losses on trading derivatives (Note 27)	8,759	5,605
Net unrealised gains on trading derivatives	833	647

Notes to the financial statements

NOTE 40 Superannuation Commitments

The Group sponsors a range of superannuation plans for its employees world wide. Details of major defined benefit plans with assets in excess of $10 million are:

Name of Plan	Type	Form of Benefit	Date of Last Assessment
Officers' Superannuation Fund (OSF)	Defined Benefits and Accumulation	Indexed pensions and lump sums	30 June 2000
Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA(UK)SBS)	Defined Benefits and Accumulation	Indexed pensions and lump sums	1 May 1999
The Colonial Group Staff Superannuation Scheme (CGSSS)	Defined Benefits and Accumulation	Indexed pensions and lump sums	30 June 1998
Colonial UK Staff Pension Scheme (CUKSPS)	Defined Benefits	Indexed pensions and lump sums	5 April 2000
Stewart Ivory & Company Limited Retirement Benefits Scheme (SI&CRBS)	Defined Benefits	Indexed pensions and lump sums	1 September 1998

Financial Details of Defined Benefits Plans

	OSF $M	CBA (UK) SBS $M	CGSSS(1)(2) $M	CUK SPS(3) $M	SI& CRBS $M	Total $M
Net Market Value of Assets	5,566	126	610	341	24	**6,667**
Present Value of Accrued Benefits	3,812	60	310	312	22	**4,516**
Difference between Net Market of Assets and Present Value of Accrued Benefits	1,754	66	300	29	2	**2,151**
Difference as a percentage of plan assets	32%	52%	49%	9%	8%	**32%**
Value of Vested Benefits	3,812	61	337	292	20	**4,522**

(1) The Colonial Group Staff Superannuation Scheme values include the values, as at 30 June 1996, of the former Prudential Australia Superannuation Scheme, the Prudential Australia Superannuation Scheme No. 2 and the Prudential Australia Staff Pension Scheme. Members of these funds were transferred to the Colonial Scheme effective 1 April 1999.

(2) The Colonial Group Staff Superannuation Scheme values also include the values, as at 30 June 1999, of the former Trust Bank Staff Superannuation Scheme. Members of this fund were transferred to the Colonial Scheme effective 30 June 2000.

(3) The Colonial UK life insurance business was sold in June 2000, which will result in a significant portion of these vested benefits being transferred out of this plan. An actuarial assessment is currently in progress. Initial indications are that there may be a small deficit in the scheme; however, this deficit would be immaterial in a Group context.

The above values have been extracted from financial statements and actuarial assessments of each plan which have been prepared in accordance with relevant accounting and actuarial standards and practices.

Contributions

For the plans listed in the above table, entities of the Group contribute to the respective plans in accordance with the Trust Deeds following the receipt of actuarial advice.

With the exception of contributions relating to salary sacrifice benefits, the Bank ceased contributions to the OSF from 8 July 1994. Further, the Bank ceased contributions to the OSF relating to salary sacrifice benefits from 1 July 1997.

An actuarial assessment of the OSF, as at 30 June 2000 was completed during the year ended 30 June 2001. In line with the actuarial advice contained in the assessment, the Bank does not intend to make contributions to the OSF until after consideration of the next actuarial assessment of the OSF as at 30 June 2003.

No employer contributions were made to the CGSSS during the year and the Bank does not intend to make contributions to the CGSSS until after consideration of the next actuarial assessment of CGSSS. Further, contributions ceased to the CGSSS relating to salary sacrifice benefits from 1 July 1999.

Transfer Offer

During the year, the Group provided members of the defined benefit divisions of the OSF with an opportunity to voluntarily move their superannuation to the accumulation division. This resulted in $965 million (26%) of defined benefit liabilities being transferred to the accumulation division.

NOTE 41 Controlled Entities

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
AUSTRALIA		
(a) Banking		
Commonwealth Bank of Australia		Australia
Controlled Entities:		
Commonwealth Development Bank of Australia Limited		Australia
CBA Investments Limited		Australia
CBA Specialised Financing Limited		Australia
Share Investments Pty Limited		Australia
CBA Investments (No 2) Pty Limited		Australia
CBA International Finance Pty Limited		Australia
CBCL Australia Limited		Australia
CBFC Limited		Australia
Collateral Leasing Pty Limited		Australia
Commonwealth Securities Limited		Australia
Homepath Pty Limited		Australia
Chullora Equity Investments (No.2) Pty Limited *		Australia
Chullora Equity Investments (No.3) Pty Limited *		Australia
Commonwealth Insurance Limited		Australia
Commonwealth Investments Pty Limited *		Australia
Commonwealth Property Limited		Australia
Infravest (No. 2) Limited		Australia
Commonwealth Fleet Lease Pty Limited		Australia
Micropay Pty Limited		Australia
Retail Investor Pty Limited		Australia
Sparad (no. 20) Pty Limited		Australia
Sparad (no. 24) Pty Limited		Australia
Colonial Employee Share Plan Limited		Australia
Colonial Finance Limited		Australia
Colonial Financial Services Pty Limited		Australia
CST Securitisation Management Limited		Australia
Emerald Holding Company Limited		Australia
(b) Life Insurance and Funds Management		
Commonwealth Custodial Services Limited		Australia
Commonwealth Insurance Holdings Limited		Australia
Commonwealth Life Limited		Australia
CLL Investments Limited		Australia
CIF (Hazelwood) Pty Limited		Australia
Commonwealth Investment Services Limited Group		
Commonwealth Investment Services Limited		Australia
Commonwealth Managed Investments Limited		Australia
CISL (Hazelwood) Pty Limited		Australia
Commonwealth Funds Management Limited Group		
Commonwealth Funds Management Limited		Australia
CFM (ADF) Limited		Australia
CFML Nominees Pty Limited		Australia
Commonwealth Diversified Credit Fund [1]		
CMG Asia Pty Limited		Australia
CMG First State Investment Managers (Asia) Limited		Australia
Colonial AFS Services Pty Limited		Australia
Colonial Financial Corporation Limited		Australia
Colonial First State Investments Group Limited		Australia
Colonial First State Managed Services Limited		Australia
Colonial First State Property Limited		Australia
Colonial Holding Company Pty Limited		Australia
Colonial Holding Company (No.2) Pty Limited		Australia
Colonial Insurance Services Pty Limited		Australia
Colonial International Holdings Pty Limited		Australia
Colonial Investments Holding Pty Limited		Australia
Colonial Investment Services Limited		Australia
Colonial LGA Holdings Limited		Australia
Colonial Mutual Funds Limited		Australia
The Colonial Mutual Life Assurance Society Limited		Australia
Colonial Mutual Superannuation Pty Limited		Australia

Notes to the financial statements

NOTE 41 Controlled Entities continued

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
(b) Life Insurance and Funds Management continued		
Colonial PCA Holdings Pty Limited		Australia
Colonial PCA Services Limited		Australia
Colonial Portfolio Services Limited		Australia
Colonial Promotions Pty Limited		Australia
Colonial Services Pty Limited		Australia
Comsec Trading Limited		Australia
Jacques Martin Pty Limited		Australia
NEW ZEALAND		
(a) Banking		
ASB Group Limited		New Zealand
ASB Bank Limited		New Zealand
ASB Finance Limited		New Zealand
ASB Management Services Limited		New Zealand
ASB Properties Limited		New Zealand
ASB Superannuation Nominees Limited		New Zealand
CBA Funding (NZ) Limited		New Zealand
(b) Life Insurance and Funds Management		
ASB Group Limited		New Zealand
ASB Life Limited		New Zealand
Sovereign Limited		New Zealand
Colonial First State Investment Managers (NZ) Limited		New Zealand
Colonial First State Investments (NZ) Limited		New Zealand
Colonial Holding Company NZ Limited		New Zealand
Colonial Life (NZ) Limited		New Zealand
Colonial Service Corporation New Zealand Limited		New Zealand
OTHER OVERSEAS		
(a) Banking		
CBA Asia Limited		Singapore
CBA (Europe) Finance Limited		United Kingdom
CBA (Delaware) Finance Incorporated		USA
Central Real Estate Holdings Group		
Central Real Estate Holdings Corporation		USA
Wilshire 10880 Corporation		USA
Wilshire 10960 Corporation		USA
CTB Australia Limited		Hong Kong
Senator House Investments (UK) Limited (2)		United Kingdom
Commonwealth Securities (Japan) Pty Limited		Japan
SBV Asia Limited		Hong Kong
Colonial (UK) Trustees Limited		United Kingdom
Colonial Finance (UK) Limited		United Kingdom
National Bank of Fiji Limited	51	Fiji
PT Bank Commonwealth		Indonesia
(b) Life Insurance and Funds Management		
CMG Asia Life Holdings Limited		Bermuda
CMG Asia Limited		Bermuda
CMG Asia Pensions and Retirements Limited		Hong Kong
CMG First State Investments (Hong Kong) Limited		Hong Kong
CMG First State Singapore Limited		Singapore
CMG Life Insurance Co Inc		Philippines
Colonial Fiji Life Limited		Fiji
Colonial First State International Assets Limited		United Kingdom
Colonial First State Investments (Fiji) Limited		Fiji
Colonial First State Investment Managers (UK) Limited		United Kingdom
Colonial Healthcare (Fiji) Limited		Fiji
Colonial Services (Fiji) Limited		Fiji
Colonial First State UK Holdings Limited		United Kingdom
Stewart Ivory Holdings Limited		United Kingdom
CMG Holdings (Thailand) Co. Ltd	74	Thailand

Non-operating and minor operating controlled entities and investment vehicles holding policyholder assets are excluded from the above list.

(1) Wholly owned unit trust.
(2) Wholly owned subsidiary of CBA International Finance Pty Limited.
* Small proprietory companies not requiring audit.

NOTE 42 Investments in Associated Entities and Joint Ventures

	GROUP 2001 $M	GROUP 2000 $M	Extent of Ownership Interest %	Principal Activities	Balance Date
EDS (Australia) Pty Limited	**238**	238	35	Information Technology Services	31 December
IPAC Securities Limited [(1)]	**-**	23	50	Funds Manager	30 June
PT Bank BII Commonwealth [(2)]	**-**	10	50	Banking in Indonesia	31 December
Electronic Financial Technologies Pty Ltd [(1)]	**-**	-	50	Financial Technology Development	30 June
Computer Fleet Management	**3**	5	50	Desktop IT Lease Management	30 June
Property Internet PLC	**5**	8	24	Online residential property information provider	31 March
Alliance Group Holdings	**2**	2	33	Receivables Management	30 June
Cyberlynx Procurement Services	**1**	-	30	Procurement Services	30 June
EON CMG Life Assurance Bhd	**16**	13	40	Life insurance - Malaysia	31 December
PT Astra CMG Life	**9**	7	50	Life insurance - Indonesia	31 December
Ayudhya CMG Life Assurance PLC	**61**	48	48	Life insurance - Thailand	31 December
China Life CMG Life Assurance Company Limited	**36**	35	49	Life insurance - China	31 December
Bao Minh CMG Life Insurance Company	**6**	5	50	Life insurance - Vietnam	31 December
CMG Mahon (China) Investment Management Limited	**-**	-	50	Direct investment in China	30 June
Mahon and Associates Limited	**-**	-	50	Investment management	30 June
CMG CH China Funds Management Limited	**-**	-	50	Investment management	31 March
Avanteos Pty Ltd	**22**	-	50	Technology and Development	31 December
Colonial First State Private Ltd [(2)] [(3)]	**-**	4	50	Investment management	30 June
Jacques Martin Industry Funds Administration Pty Limited ('JMIFA')	**1**	5	50	Industry superannuation	30 June
TOTAL	**400**	403			

[(1)] Sold during financial year 2001.

[(2)] The Group acquired control during the financial year 2001. These investments are now consolidated in the Group accounts.

[(3)] Changed its name from Hambro Gratham Ltd following the Group's acquisition of the remaining 50%.

The Group also holds investments in the Colonial First State Property Trust Group and Colonial Mastertrust Wholesale equity funds (including the Fixed Interest, Australian Share, International Share, Property Securities, Capital Stable, Balanced and Diversified Growth funds) through controlled life insurance entities which are not accounted for under the equity accounting method.

Instead, the market values for these investments are calculated at balance date and are brought to account at this value in compliance with the requirements of AASB 1038: Life Insurance Business. These investments are classified as property or equity investments and are not material components of these asset categories.

	GROUP 2001 $M	GROUP 2000 $M
Share of associates' profits (losses) after notional goodwill amortisation		
Operating profits (losses) before income tax	**(4)**	(1)
Income tax expense	**-**	-
Operating profits (losses) after income tax	**(4)**	(1)
Carrying amount of investments in associated entities		
Opening balance	**403**	281
New investments	**39**	10
Disposals / transfers	**(16)**	-
Writedown value of investments	**(2)**	-
Fair value adjustments	**(20)**	-
Investments arising from Colonial Acquisition	**-**	117
Share of associates' profits (losses)	**(4)**	(1)
Foreign exchange adjustment	**-**	(4)
Closing Balance	**400**	403

Notes to the financial statements

NOTE 43 Standby Arrangements and Unused Credit Facilities
(of controlled entities that are borrowing corporations)

				GROUP
		2001		2000
		$M		$M
	Available	**Unused**	Available	Unused
Financing arrangements accessible				
Bank overdraft	**51**	**22**	964	553
Revolving credit	**100**	**-**	480	400
Other	**29**	**29**	560	1
	180	**51**	2,004	954

Bank overdraft facilities ($913 million), revolving credit facilities ($380 million) and other facilities of ($559 million) relating to Colonial were cancelled 29 June 2001.

NOTE 44 Related Party Disclosures

Australian banks, parent entities of Australian banks and controlled entities of Australian banks have been exempted, subject to certain conditions, under an ASIC Order No. 98/110 dated 10 July 1998, from making disclosures of any loan made, guaranteed or secured by a bank to related parties (other than directors) and financial instrument transactions (other than shares and share options) of a bank where a director of the relevant entity is not a party and where the loan or financial instrument transaction is lawfully made and occurs in the ordinary course of banking business and either on an arm's length basis or with the approval of a general meeting of the relevant entity and its ultimate parent entity (if any). The exemption does not cover transactions which relate to the supply of goods and services to a bank, other than financial assets or services.

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

A condition of the Class Order is that the Bank must lodge a statutory declaration, signed by two directors, with the Australian Securities and Investments Commission accompanying the annual report. The declaration provides confirmation that the bank has systems of internal control and procedures to provide assurance that any financial instrument transactions of a bank which are not entered into on an arm's length basis are drawn to the attention of the Directors so that they may be disclosed.

Directors

The name of each person holding the position of Director of the Commonwealth Bank during the financial year is:

J T Ralph, AC	(Chairman)
J M Schubert	(Deputy Chairman)
D V Murray	(Managing Director)
N R Adler, AO	
R J Clairs, AO	
A B Daniels, OAM	
C R Galbraith	
W G Kent, AO	
F D Ryan	
F J Swan	
B K Ward	
A C Booth	(retired 31 December 2000)
K E Cowley, AO	(retired 29 March 2001)

Details of remuneration received or due and receivable by Directors are set out in Note 45.

Loans to Directors

Loans are made to Directors in the ordinary course of business of the Bank and on an arm's length basis. Loans to Executive Directors have been made on normal commercial terms and conditions.

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

- the Bank to its Directors;
- banks which are controlled entities to their Directors; and
- non bank controlled entities to Directors (and their related parties) of those entities;

The aggregate amount of such loans outstanding at 30 June 2001 was:

- $50,000 to Directors of the Bank (2000: $1,850,527); and
- $2,418,363 to Directors of related entities (2000: $3,842,338).

NOTE 44 Related Party Disclosures continued

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

	Loans Received		Repayments Made	
	2001	2000	**2001**	2000
	$	$	**$**	$
Directors of the CBA				
Normal terms and conditions [1]	**-**	-	**318,000**	63,418
Directors of related entities				
Normal terms and conditions [2]	**3,693,546**	132,356	**2,482,653**	354,517

(1) Directors: K E Cowley, F D Ryan and B K Ward.

(2) Directors: G J Judd, R J Norris, R Boven, P Polson, A Hanna, R G Wilkie, C B Millett, S Vuetaki, C Kamea, J Wong and A V Villamor.

Shares of Directors

The aggregate number of shares acquired by, disposed of and held by Directors and their director related entities in the Commonwealth Bank during the financial year ended 30 June 2001, were:

Director	Held 30 June 2000 Ordinary	Shares Acquired Ordinary	Shares Disposed Of Ordinary	**Held 30 June 2001 Ordinary**
J T Ralph	11,192	1,066	-	**12,258**
J M Schubert	9,914	947		**10,861**
D V Murray	50,387	501,916	(505,195)	**47,108**
N R Adler	9,543	611	(2,198)	**7,956**
R J Clairs	10,000	334		**10,334**
A B Daniels	11,823	778		**12,601**
C R Galbraith	3,874	495		**4,369**
W G Kent	7,519	371		**7,890**
F D Ryan	4,000	334		**4,334**
F J Swan	1,922	441	(293)	**2,070**
B K Ward	1,837	420		**2,257**
A C Booth (retired 31 December 2000)	1,131		(1,000)	**n/a**
K E Cowley (retired 29 March 2001)	8,000	693		**n/a**

All shares were acquired by Directors on normal terms and conditions or through the Non-Executive Directors Share Plan (or in the case of Mr D V Murray the Executive Option Plan). Mr D V Murray exercised 500,000 options during the year, leaving his total holdings of options at 1,500,000 under the Executive Option Plan. For further details on the Non-Executive Directors Share Plan and the Executive Option Plan refer Note 29.

Additionally, Mr J T Ralph beneficially holds 100,000 units in the Commonwealth Property Trust, a related entity.

Other Transactions of Directors and Other Related Parties

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed above) of Directors of the Bank and other banks which are controlled entities occur in the ordinary course of business of the banks on an arm's length basis.

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

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

Transactions other than Financial Instrument Transactions of Banks

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

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

Controlled Entities

Transactions with related parties in the Group are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally arise out of the provision of banking services, the acceptance of funds on deposit, the granting of loans and other associated financial activities.

Notes to the financial statements

NOTE 44 Related Party Disclosures continued

Support services are provided by the Bank such as provision of premises and/or equipment, availability of transfer payment and accounting facilities through data processing etc, and are transfer charged to the respective user entity at commercial rates.

Refer to Note 41 for details of controlled entities.

The Bank's aggregate investment in and loans to controlled entities are disclosed in Note 18.

Amounts due to controlled entities are disclosed in the balance sheet of the Bank.

Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in Note 3.

All transactions between Group entities are eliminated on consolidation.

NOTE 45 Remuneration of Directors

Total amount received or due and receivable by non-executive Directors of the Company for the year ended 30 June 2001 was:

	Base Fee/Pay	Committee Fee	Salary Sacrifice[2]	Superannuation[1]	Total Remuneration
	$	$	$	$	$
Non-Executive Directors					
Mr J T Ralph, AC	204,099	34,016	41,885	19,049	299,049
Dr J M Schubert	83,901	34,904	21,510	9,504	149,819
Mr N R Adler, AO	68,033	12,756	14,211	6,463	101,463
Mr R J Clairs, AO	68,033	17,008	14,959	7,401	107,401
Mr A B Daniels, OAM	68,033	12,756	14,211	7,031	102,031
Mr F D Ryan	68,033	17,008	14,959	7,401	107,401
Mr F J Swan	68,033	21,260	15,707	7,771	112,771
Ms B K Ward	68,033	17,008	14,959	6,803	106,803
Mr W G Kent, AO	68,033	9,918	14,447	7,369	99,767
Mr C R Galbraith	68,033	9,918	14,447	7,128	99,526
Ms A C Booth [3]	39,671	12,603	-	4,234	56,508
Mr K E Cowley [4]	52,077	9,764	9,474	5,326	76,641

Executive Director
Mr D V Murray (refer Note 46)

(1) The Bank is currently not contributing to the Officers' Superannuation Fund. A notional cost of superannuation has been determined on an individual basis for certain of the Directors. Other Directors have superannuation contributions made to other funds.

(2) Under the Non-Executive Directors Share Plan detailed in the Explanatory Memorandum to the Notice of Meeting for the 2000 Annual General Meeting, Non-Executive Directors are required to receive 20% of their remuneration in shares. This was implemented from the second quarter of the year. Also refer Note 29 for further details.

(3) Ms Booth retired 31 December 2000.

(4) Mr Cowley retired 29 March 2001.

NOTE 45 Remuneration of Directors continued

Retirement Benefit

The aggregate amount of retirement benefits given by the Bank during the year ended 30 June 2001 was $386,397 (2000: $667,073) being: a payment of $296,065 made to Ms A C Booth and; a payment of $90,332 made to Mr K E Cowley in accordance with the Corporations Act 2001 and pursuant to the Directors' Retirement Allowance Scheme approved by shareholders at the 1997 Annual General Meeting.

		BANK
	2001	2000
	$	$
Total amount received or due and receivable by executive and non executive Directors (includes accumulated benefits due to Directors who retired during the year)	**4,115,750**	3,761,277

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

Remuneration (Dollars)	**Number**		Number	
$ 0 - $ 10,000	**-**		2	
$ 20,001 - $ 30,000	**-**		2	
$ 80,001 - $ 90,000	**-**		2	
$ 90,001 - $ 100,000	**2**		2	
$ 100,001 - $ 110,000	**5**		2	
$ 110,001 - $ 120,000	**1**		-	
$ 120,001 - $ 130,000	**-**		1	
$ 140,001 - $ 150,000	**1**		-	
$ 160,001 - $ 170,000	**1**	**	-	
$ 220,001 - $ 230,000	**-**		1	
$ 290,001 - $ 300,000	**1**		-	
$ 350,001 - $ 360,000	**1**	***	-	
$ 730,001 - $ 740,000	**-**		1	*
$2,040,000 - $2,049,999	**-**		1	
$2,310,000 - $2,319,999	**1**		-	
	13		14	

* Remuneration includes retirement payment to Mr M A Besley who retired on 28 October 1999.
** Remuneration includes retirement payment to Mr K E Cowley who retired on 29 March 2001.
*** Remuneration includes retirement payment to Ms A C Booth who retired on 31 December 2000.

		GROUP
	2001	2000
	$	$
Total amount received or due and receivable by executive and non executive Directors of the Bank and controlled entities	**11,194,438**	6,202,912

Notes to the financial statements

NOTE 46 Remuneration of Executives

The following table shows remuneration for the executive director and five highest paid other members of the senior executive team directly reporting to the Managing Director, who were officers of the Bank and the Group for the year ended 30 June 2001. The table does not include individuals, who are not direct reports to the Managing Director, whose incentive based remuneration in any given year may be in excess of that received by a member of the senior executive team.

Senior Executive Team

Name & Position	Base Pay(1)	Bonus(2)		Superannuation(3)	Other Compensation(4)	Total Remuneration	Option Grant(5)	Share Grant(5)
		Paid This Year	Vested in CBA Shares					
	$	$	$	$	$	$	Number	Number
D V Murray Managing Director & CEO	1,450,000	450,000	300,000	99,773	10,400	2,310,173	- (6)	- (6)
P L Polson Head of Colonial First State Investments Group	600,000	550,000	-	144,480	456,000	1,750,480	100,000	16,800
M A Katz Head of Institutional Banking	750,000	336,000	224,000	67,500	10,400	1,387,900	125,000	20,900
M J Ullmer Group General Manager Financial & Risk Management	735,000	276,000	184,000	132,300	10,400	1,337,700	125,000	20,900
J F Mulcahy Head of Australian Financial Services	700,000	246,000	164,000	63,000	10,400	1,183,400	125,000	20,900
R J Norris Head of International Financial Services & Managing Director & CEO of ASB Group	680,000	350,000	-	n/a	n/a	1,030,000	125,000	20,900

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

(2) For the 2000/2001 payment and future bonus payments, the Group has implemented a vesting (deferral) arrangement for most executives. A portion of the bonus payment is paid immediately and the remaining portion is deferred and vested in the Bank's shares. Half of the shares will vest after one year (in 2002) and half will vest after two years (in 2003). In the event of resignation from the Group before the vesting dates, unvested shares will lapse.

(3) The Bank is currently not contributing to the Officers' Superannuation Fund or to the Colonial Group Staff Superannuation Scheme – refer Note 40. Notional cost of superannuation has been determined on an individual basis for each executive.

(4) Other compensation includes, where applicable, car parking (including FBT) and other payments.

(5) Option Grants are a right to subscribe for ordinary shares at an exercise price which is the Market Value (defined as the weighted average of the prices at which the Bank's ordinary shares were traded on the ASX during the one week period before the Commencement Date) plus a premium representing the time value component of the value of options (based on the actual differences between the dividend and bond yields at the date of the vesting of the right to exercise the options). Share Grants are awarded under the Equity Reward Plan. Shares are registered in the name of the Trustee. No consideration is payable by the executive for the grant of shares. The transfer of legal title to the executive is subject to vesting conditions. The ability to exercise options and the vesting of the shares is conditional on the Bank achieving a prescribed performance hurdle. To reach the performance hurdle, the Bank's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of Total Shareholder Return achieved by companies represented in the ASX Banks and Finance Accumulation Index, excluding the Bank. If the performance hurdle is not reached within that three years, the options and shares may nevertheless be exercisable or vest as appropriate only where the hurdle is subsequently reached within five years from the Commencement Date. If the performance hurdle is not met, the options will have nil value and the shares will be forfeited. The options and shares are subject to a performance hurdle, the achievement of which is uncertain. The approximate value of options and shares at the time of grant was $4.50 and $27 respectively. For further details on the Executive Option Plan and the Equity Reward Plan refer Note 29.

(6) At the 2000 Annual General Meeting shareholders approved that, prior to the 2001 Annual General Meeting, the Managing Director be invited to take up no more than 250,000 options and be given the right to acquire up to 42,000 shares under the Equity Reward Plan.

Notes to the financial statements

NOTE 46 Remuneration of Executives continued

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

	GROUP		BANK	
	2001 Number	2000 Number	**2001 Number**	2000 Number
Remuneration (Dollars)				
$ 100,000 - $ 109,999	**1**	-	**1**	-
$ 290,000 - $ 299,999	**-**	1	**-**	1
$ 310,000 - $ 319,999	**1**	-	**1**	-
$ 320,000 - $ 329,999	**1**	-	**1**	-
$ 350,000 - $ 359,999	**-**	1	**-**	1
$ 370,000 - $ 379,999	**-**	1	**-**	1
$ 420,000 - $ 429,999	**-**	1	**-**	1
$ 450,000 - $ 459,999	**1**	-	**1**	-
$ 460,000 - $ 469,999	**-**	1	**-**	1
$ 510,000 - $ 519,999	**1**	1	**1**	1
$ 520,000 - $ 529,999	**2**	-	**2**	-
$ 530,000 - $ 539,999	**1**	-	**1**	-
$ 540,000 - $ 549,999	**-**	1	**-**	1
$ 550,000 - $ 559,999	**-**	1	**-**	1
$ 570,000 - $ 579,999	**1**	-	**1**	-
$ 600,000 - $ 609,999	**1**	-	**1**	-
$ 650,000 - $ 659,999	**-**	1	**-**	1
$ 690,000 - $ 699,999	**1**	-	**1**	-
$ 720,000 - $ 729,999	**-**	2	**-**	2
$ 770,000 - $ 779,999	**1**	-	**1**	-
$ 780,000 - $ 789,999	**-**	1	**-**	1
$ 790,000 - $ 799,999	**1**	1	**1**	1
$ 820,000 - $ 829,999	**-**	1	**-**	1
$ 850,000 - $ 859,999	**1**	-	**1**	-
$ 890,000 - $ 899,999	**1**	1	**1**	1
$ 970,000 - $ 979,999	**1**	-	**1**	-
$1,030,000 - $1,039,999	**1**	1	**1**	1
$1,150,000 - $1,159,999	**-**	1	**-**	1
$1,180,000 - $1,189,999	**1**	-	**1**	-
$1,240,000 - $1,249,999	**-**	1	**-**	1
$1,290,000 - $1,299,999	**-**	1	**-**	1
$1,330,000 - $1,339,999	**1**	-	**1**	-
$1,380,000 - $1,389,999	**1**	-	**1**	-
$1,500,000 - $1,509,999	**1**	-	**1**	-
$1,750,000 - $1,759,999	**1**	-	**1**	-
$1,870,000 - $1,879,999	**1**	-	**1**	-
$2,040,000 - $2,049,999	**-**	1	**-**	1
$2,050,000 - $2,059,999	**1**	-	**1**	-
$2,310,000 - $2,319,999	**1**	-	**1**	-
Total number of executives	**25**	20	**25**	20

Notes to the financial statements

NOTE 46 Remuneration of Executives continued	**GROUP** 2001 $	2000 $	**BANK** 2001 $	2000 $
Total amount received or due and receivable by executives (includes accumulated benefits due to executives who retired, resigned or were retrenched during the year).	**23,897,371** [(1)]	15,714,200	**23,897,371** [(1)]	15,714,200

[(1)] Includes relevant executives from the combined Group, including Colonial. The comparative figure relates to the Group before acquisition of Colonial.

An executive is a person who is directly accountable and responsible to the Managing Director, or is a Group employee responsible for the strategic direction and management of major businesses or risk portfolios.

Remuneration is based on amounts paid and accrued in respect of the financial year.

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

- Remuneration will be competitively set so that the Group can attract, motivate and retain high quality local and international executive staff;
- Remuneration will incorporate, to a significant degree, variable pay for performance elements, both short term and long term focused as appropriate, which will:
    - reward executives for Group, business unit and individual performance against appropriate benchmarks/goals,
    - align the interests of executives with those of shareholders,
    - link executive reward with the strategic goals and performance of the Group, and
    - ensure total remuneration is competitive by market standards;
- Remuneration will be reviewed annually by the Remuneration Committee through a process that considers Group, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices;
- Remuneration systems will complement and reinforce the Group's leadership and succession planning systems; and
- Remuneration and terms and conditions of employment will be specified in an individual contract of employment and signed by the executive and the Bank.

NOTE 47 Statements of Cash Flow

	GROUP 2001 $M	GROUP 2000 $M	GROUP 1999 $M	BANK 2001 $M	BANK 2000 $M
Note (a) Reconciliation of Cash					

For the purposes of the Statements of Cash Flows, cash includes cash at bankers, money at short call, at call deposits with other financial institutions and settlement account balances with other banks.

	GROUP 2001 $M	GROUP 2000 $M	GROUP 1999 $M	BANK 2001 $M	BANK 2000 $M
Notes, coins and cash at bankers	**1,048**	980	784	**830**	680
Other short term liquid assets	**544**	370	238	**339**	198
Receivables due from other financial institutions - at call	**458**	1,174	912	**262**	986
Payables due to other financial institutions - at call	**(2,012)**	(1,138)	(2,491)	**(1,851)**	(1,016)
Cash and Cash Equivalents at end of year	**38**	1,386	(557)	**(420)**	848

Note (b) Cash Flows presented on a Net Basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- customer deposits to and withdrawals from deposit accounts;
- borrowings and repayments on loans, advances and other receivables;
- sales and purchases of trading securities; and
- proceeds from and repayment of short term debt issues.

Note (c) Reconciliation of Operating Profit After Income Tax to Net Cash Provided by Operating Activities	GROUP 2001 $M	GROUP 2000 $M	GROUP 1999 $M	BANK 2001 $M	BANK 2000 $M
Operating profit after income tax	**2,412**	2,738	1,446	**1,699**	1,116
Decrease (increase) in interest receivable	**159**	(948)	(1)	**7**	(158)
Increase in interest payable	**(278)**	558	(35)	**(38)**	176
Net (increase) decrease in trading securities	**(262)**	(50)	(408)	**171**	(892)
Net (gain)/loss on sale of investment securities	**(56)**	(12)	(79)	**(84)**	(7)
Charge for bad and doubtful debts	**385**	196	247	**276**	191
Depreciation and amortisation	**488**	175	192	**127**	127
Other provisions	**(692)**	528	68	**(230)**	156
Increase (decrease) in income taxes payable	**(371)**	248	261	**(343)**	(185)
(Decrease) increase in deferred income taxes payable	**(97)**	319	50	**(9)**	364
(Increase) decrease in future income tax benefits	**209**	(218)	(8)	**(46)**	(238)
Amortisation of premium on investment securities	**24**	47	206	**24**	112
Unrealised gain on revaluation of trading securities	**(186)**	(188)	57	**(377)**	48
Change in excess of net market value over net assets of life			216	**-**	(188)
insurance controlled entities	**(474)**	(1,165)	-	**-**	-
Other assets	**400**	-	-	**-**	-
Other	**174**	259	(36)	**(19)**	(11)
Net Cash provided by Operating Activities	**1,835**	2,487	2,176	**1,158**	611

Note (d) Non cash Financing and Investing Activities

Shares issued under the Dividend Reinvestment Plan $313 million (2000: $253 million) and Employee Share Acquisition Plan - $40 million (2000: $24 million). Acquisition of entity by means of an equity issue nil (2000: $9,274 million).

Notes to the financial statements

NOTE 47 Statements of Cash Flow continued

Note (e) Acquisition of Controlled Entities

	2001 $M	2000 $M	1999 $M
Consideration			
Cash paid on acquisitions	**418**	844	205
Transaction costs	**-**	46	-
Securities issued	**-**	9,274	-
Pre-acquisition dividend received	**-**	(1,000)	-
	418	9,164	205
Fair value of net tangible assets acquired			
Cash & liquid assets	**4**	373	9
Receivables from other financial institutions	**26**	538	-
Trading securities	**501**	2,154	-
Investment securities	**-**	99	260
Loans, advances and other receivables	**2,812**	21,635	671
Bank acceptances of customers	**-**	477	-
Life insurance investment assets	**76**	15,504	-
Deposits with regulatory authorities	**-**	43	-
Property, plant and equipment	**42**	382	4
Investment in associates	**-**	117	-
Other assets	**109**	2,228	28
Deposits and public borrowings	**(2,108)**	(13,123)	(460)
Payables due to other financial institutions	**(601)**	(267)	-
Bank acceptances	**-**	(477)	-
Income tax liability	**-**	(702)	-
Other provisions	**(3)**	(398)	(4)
Life insurance policy liabilities	**(75)**	(14,960)	(358)
Debt issues	**(599)**	(8,678)	-
Bills payable and other liabilities	**(64)**	(2,886)	(72)
Loan Capital	**-**	(418)	-
Restructuring provision	**-**	(294)	-
Outside equity interest	**(12)**	(155)	(28)
	108	1,192	50
Excess market value over net assets of life insurance subsidiary	**51**	2,548	155
Goodwill	**259**	5,424	-
	418	9,164	205
Outflow (inflows) of cash on acquisitions			
Cash payments	**418**	844	205
Transaction costs	**-**	46	-
Less cash and cash equivalents acquired	**(4)**	(373)	(9)
Pre-acquisition dividend received	**-**	(1,000)	-
	414	(483)	196

Note (f) Financing Facilities

Standby funding lines with overseas banks as at 30 June 2001 amounted to AUD equivalent $29 million (2000: $29 million).

NOTE 48 Disclosures about Fair Value of Financial Instruments

These amounts represent estimates of net fair values at a point in time. Significant estimates regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments and other factors were used for the purposes of this disclosure. These estimates are subjective in nature and involve matters of judgment. Therefore, they cannot be determined with precision. Changes in the assumptions could have a material impact on the amounts estimated.

While the estimated net fair value amounts are designed to represent estimates at which these instruments could be exchanged in a current transaction between willing parties, many of the Group's financial instruments lack an available trading market as characterised by willing parties engaging in an exchange transaction. In addition, it is the Bank's intent to hold most of its financial instruments to maturity and therefore it is not probable that the net fair values shown will be realised in a current transaction.

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

Because of the wide range of valuation techniques and the numerous estimates which must be made, it may be difficult to make reasonable comparisons of the Bank's net fair value information with that of other financial institutions. It is important that the many uncertainties discussed above be considered when using the estimated net fair value disclosures and to realise that because of these uncertainties, <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>

	2001 Carrying Value $M	**2001 Net Fair Value $M**	2000 Carrying Value $M	2000 Net Fair Value $M
Assets				
Cash and liquid assets	**3,709**	**3,709**	2,575	2,575
Receivables due from other financial institutions	**4,622**	**4,622**	5,154	5,154
Trading securities	**6,909**	**6,909**	7,347	7,347
Investment securities	**9,705**	**9,821**	9,149	9,149
Loans, advances and other receivables	**136,059**	**137,004**	132,263	133,257
Bank acceptances of customers	**12,075**	**12,075**	11,107	11,107
Life insurance investment assets	**31,213**	**31,213**	27,036	27,036
Deposit accounts with regulatory authorities	**61**	**61**	46	46
Other assets	**13,876**	**14,213**	16,198	16,631
Liabilities				
Deposits and other public borrowings	**117,355**	**117,862**	112,594	112,993
Payables due to other financial institutions	**6,903**	**6,903**	4,633	4,633
Bank acceptances	**12,075**	**12,075**	11,107	11,107
Life insurance policy liabilities	**27,029**	**27,029**	25,282	25,282
Debt issues	**24,484**	**25,308**	25,275	25,321
Bills payable and other liabilities	**13,806**	**13,940**	11,490	11,646
Loan Capital	**5,704**	**5,828**	5,299	5,106
Asset and liability hedges - unrealised gains/(losses) (Refer Note 39)	**-**	**(213)**	-	(253)

The net fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and bank acceptances of customers

The carrying values of cash and liquid assets, receivables due from other financial institutions and bank acceptances of customers approximate their net fair value as they are short term in nature or are receivable on demand.

Securities

Trading securities are carried at net market/net fair value and investment securities have their net fair value determined based on quoted market prices, broker or dealer price quotations.

Loans, advances and other receivables

The carrying value of loans, advances and other receivables is net of general and specific provisions for doubtful debts and interest/fees reserved.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of net fair value. The net fair value for fixed rate loans was calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio plus an add-on of the average credit margin of the existing portfolio, where appropriate.

Notes to the financial statements

NOTE 48 Disclosures about Fair Value of Financial Instruments continued

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

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

Life Insurance Investment Assets & Policy Liabilities

Life insurance investment assets are carried at net fair value. Life insurance policy liabilities are measured on a net present value basis. This treatment is in accordance with accounting standard AASB 1038: Life Insurance Business.

Statutory deposits with central banks

In Australia, and several other countries in which the Group operates, the law requires that the Group lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. The net fair value is assumed to be equal to the carrying value as the Group is only able to continue as a going concern with the maintenance of these deposits.

All other financial assets

Included in this category are fees receivable, unrealised income, investments in associates of $400 million (2000: $403 million), and excess of net market value over net assets of life insurance controlled entities of $5,136 million (2000: $4,322 million), where the carrying amount is considered to be a reasonable estimate of net fair value.

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

Deposits and other public borrowings

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

Short term liabilities

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

Debt issues and loan capital

The net fair values of debt issues and loan capital were calculated based on quoted market prices as at 30 June.

For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument was used.

All other financial liabilities

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

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

Asset and liability hedges

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

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

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

Other off-balance sheet financial instruments

The net fair value of trading and investment derivative contracts (foreign exchange contracts, currency swaps, exchange rate futures, currency options, forward rate agreements, interest rate swaps, interest rate futures, interest rate options), were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

The fair value of these instruments are disclosed in Note 39.

Directors' Declaration

In accordance with a resolution of the directors of the Commonwealth Bank of Australia, we state that in the opinion of the Directors:

(a) the financial statements and notes of the Bank and of the Group are in accordance with the Corporations Act 2001, including:
  (i) giving a true and fair view of the Bank's and the Group's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
  (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

John Ralph

J T Ralph AC
Chairman

D V Murray
Managing Director

22 August 2001

Independent Audit Report

To the members of Commonwealth Bank of Australia

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the Financial Report of Commonwealth Bank of Australia for the year ended 30 June 2001 included on Bank's web site. The Bank's directors are responsible for the integrity of the Commonwealth Bank's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited Financial Report to confirm the information included in the audited Financial Report presented on this web site.

Scope

We have audited the Financial Report of Commonwealth Bank of Australia for the financial year ended 30 June 2001, as set out on pages 50 to 151, including the Directors' Declaration. The Financial Report includes the financial statements of Commonwealth Bank of Australia and the consolidated financial statements of the economic entity comprising the Bank and the entities it controlled at year's end or from time to time during the financial year. The Bank's directors are responsible for the Financial Report. We have conducted an independent audit of the Financial Report in order to express an opinion on it to the members of the Bank.

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

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

Audit Opinion

In our opinion, the financial report of Commonwealth Bank of Australia is in accordance with:

(a) the Corporations Act 2001 including:

- (i) giving a true and fair view of the Bank's and the Group's financial position as at 30 June 2001 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards and the Corporations Regulation 2001; and

(b) other mandatory professional reporting requirements.

ERNST & YOUNG
Sydney

S C Van Gorp
Partner

Date: 22 August 2001

Shareholding Information

Top 20 Holders of Fully Paid Ordinary Shares as at 13 August 2001

Rank	Name of Holder	Number of Shares	%
1	Chase Manhattan Nominees Ltd	129,777,812	10.45
2	National Nominees Limited	80,523,978	6.48
3	Westpac Custodian Nominees	73,994,459	5.96
4	Citicorp Nominees Pty Ltd	50,715,679	4.08
5	AMP Life Limited	20,369,781	1.64
6	Commonwealth Custodial Services Limited	19,138,005	1.54
7	Queensland Investment Corporation Limited	18,463,831	1.49
8	ANZ Nominees Limited	16,207,140	1.31
9	Perpetual Trustees Victoria Limited	14,756,414	1.19
10	Cogent Nominees Pty Limited	10,388,093	0.84
11	BT Custodial Services Pty Ltd	9,639,985	0.78
12	RBC Global Services Australia	9,597,704	0.77
13	Colonial Foundation Limited	8,598,418	0.69
14	HKBA Nominees Ltd	8,302,854	0.67
15	MLC Limited	4,930,606	0.40
16	The National Mutual Life Association of Australasia Limited	4,871,680	0.39
17	Perpetual Nominees Limited	4,832,725	0.39
18	NRMA Nominees Pty Limited	4,780,281	0.38
19	Perpetual Trustees Nominees Limited	4,616,911	0.37
20	CSS & PSS Board	4,485,838	0.36

The twenty largest shareholders hold 498,992,194 shares which is equal to 40.18% of the total shares on issue.

Stock Exchange Listing

The shares of the Commonwealth Bank of Australia are listed on the Australian Stock Exchange under the trade symbol CBA, with Sydney being the home exchange.

Details of trading activity are published in most daily newspapers, generally under the abbreviation of CBA or C'wealth Bank. The Bank does not have a current on-market buyback of its shares.

Directors Shareholdings as at 22 August 2001

	Shares	Options
J T Ralph, AC	12,674	
J M Schubert	7,478	
D V Murray	44,372	1,500,000
N R Adler, AO	6,973	
R J Clairs, AO	10,482	
A B Daniels OAM	12,741	
C R Galbraith	4,524	
W G Kent AO	6,703	
F D Ryan	4,482	
F J Swan	2,225	
B K Ward	2,405	

Guidelines for Dealings by Directors in Shares

The restrictions imposed by law on dealings by Directors in the securities of the Bank have been supplemented by the Board of Directors adopting guidelines which further limit any such dealings by Directors, their spouses, any dependent child, family company and family trust. The guidelines provide that, in addition to the requirement that Directors not deal in the securities of the Bank or any related company when they have or may be perceived as having relevant unpublished price sensitive information, Directors are only permitted to deal within certain periods. Further, the guidelines require that Directors not deal on the basis of considerations of a short term nature or to the extent of trading in those securities.

Range of Shares (Fully Paid Ordinary Shares and Employee Shares): 13 August 2001

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	566,229	78.84	186,516,233	15.00
1,001-5,000	134,969	18.79	269,094,091	21.63
5,001-10,000	11,668	1.62	80,473,001	6.47
10,001-100,000	4,997	0.70	100,473,763	8.07
100,001-Over	300	0.05	607,458,367	48.83
Total	718,163	100.00	1,244,015,455	100.00
Less than marketable parcel of $500	13,928		78,451	

Shareholding Information

Voting Rights

Under the Bank's Constitution, each member present at a general meeting of the Bank in person or by proxy, attorney or official representative is entitled:

- on a show of hands – to one vote; and
- on a poll – to one vote for each share held or represented.

If more than one proxy, attorney or official representative is present for a member:

- none of them is entitled to a vote on a show of hands; and
- the vote of each one on a poll is of no effect unless each is appointed to represent a specified proportion of the member's voting rights, not exceeding in aggregate 100%.

Top 20 Holders of Preferred Exchangeable Resettable Listed Shares (PERLS) as at 13 August 2001

Rank	Name of Holder	Number of Shares	%
1	Commonwealth Life Limited	200.000	5.71
2	The National Mutual Life Association of Australia	131,650	3.76
3	Commonwealth Custodial Services Limited	92,591	2.65
4	Dervat Nominees Pty Ltd	84,300	2.41
5	AMP Life Limited	80,000	2.29
6	INVIA Custodian Pty Limited	67,000	1.51
7	National Mutual Funds Management	60,000	1.71
8	UBS Warburg Private Clients Nominees Pty Ltd	52,749	1.51
9	Citicorp Nominees Pty Limited	42,000	1.20
10	National Nominees Limited	41,352	1.18
11	Perpetual Trustee Company Ltd	36,762	1.05
12	ANZ Executors and Trustee Company Limited	36,073	1.03
13	Austrust Limited	34,891	1.00
14	Perpetual Nominees Limited	31,440	0.90
15	Boxall Marine Pty Limited	25,000	0.71
16	Questor Financial Services Limited	19,238	0.55
17	Flight Centre Limited	15,000	0.43
18	Livingstone Investments (NSW) Pty Limited	15,000	0.43
19	Brencorp No. 2 Pty Limited	14,134	0.40
20	Ms. Thelma Joan Martin-Weber	12,500	0.36

The twenty largest shareholders hold 1,091,680 shares which is equal to 30.79% of the total shares on issue.

Stock Exchange Listing

Commonwealth Bank PERLS are listed on the Australian Stock Exchange under the trade symbol CBAPA, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers, generally under the abbreviation of CBA or C'wealth Bank (pref).

Range of Shares (PERLS): 13 August 2001

The twenty largest shareholders hold 1,019,071 shares which is equal to 29.11% of the total shares on issue.

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	19,440	98.73	1,764,548	50.41
1,001-5,000	199	1.01	432,255	12.35
5,001-10,000	26	0.13	207,062	5.92
10,001-100,000	24	0.12	764,485	21.84
100,001-Over	2	0.01	331,650	9.48
Total	19,691	100.00	3,500,000	100.00
Less than marketable parcel of $500	22		201	

Voting Rights

The holders will be entitled to receive notice of any general meeting of the Bank and a copy of every circular or other like document sent out by the Bank to ordinary shareholders and to attend any general meeting of the Bank.

The holders will not be entitled to vote at a general meeting of the Bank except in the following circumstances:

- if at the time of the meeting, a dividend has been declared but has not been paid in full by the relevant payment date;
- on a proposal to reduce the Bank's share capital;
- on a resolution to approve the terms of a buy-back agreement;
- on a proposal that affects rights attached to Commonwealth Bank PERLS;
- on a proposal to wind up the Bank;
- on a proposal for the disposal of the whole of the Bank's property, business and undertaking;
- during the winding up of the Bank; or
- as otherwise required under the Listing Rules from time to time,

in which case the holders will have the same rights as to manner of attendance and as to voting in respect of each Commonwealth Bank PERLS as those conferred on ordinary shareholders in respect of each ordinary share.

At a general meeting of the Bank, holders are entitled:

- on a show of hands, to exercise one vote when entitled to vote in respect of the matters listed above; and
- on a poll, to one vote for each Commonwealth Bank PERL.

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