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Chairman's Statement

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

Corporate governance of corporations is a subject that has come sharply into focus as the result of some spectacular collapses of corporations in the USA and in Australia, and as a result of concern being expressed in relation to the validity of reported results by some companies. For this reason I intend to use this year's statement to report on corporate governance as it applies to your Bank.

The Board of the Commonwealth Bank has consistently placed great importance on the governance of the Bank, which it believes is vital to the wellbeing of the corporation. There are two elements to the governance of corporations: performance and conformance. Both are important but it is critical that focus on the latter does not crowd out attention to the principal function of an enterprise, which is to undertake prudent risk-taking activities to:

- generate rewards for shareholders who invest their capital;
- provide goods and services of value to customers, and;
- provide meaningful employment for employees;

and to do so in a way that contributes to the welfare of the community.

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

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

Corporate Governance

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

- the Nominations, Remuneration and Audit Committees consist only of non-Executive Directors. This has been the established position in relation to the Audit Committee for some time and the CEO has not participated in deliberations of the Remuneration Committee when matters could affect his position.
- the Nominations Committee establishes the criteria for appointment of new Directors as described later in this report and will continue to engage external consultants in the search for new Directors. Before a Director is nominated for re-election at a shareholders' meeting, the Chairman consults with the rest of the Board and reviews the Director's performance before endorsing his or her re-nomination.
- the non-Executive Directors meet annually without any management present. This is in addition to the consideration of the Chief Executive Officer's performance and remuneration that is conducted in the absence of the CEO.
- the positions of Chairman and Chief Executive Officer are required to be held by separate persons, as has been the case since before the Bank was publicly listed.
- the Chairman meets annually with the senior executive team to discuss with them their views of the Board's performance and level of involvement.
- Directors participate in an induction programme upon appointment and in a refresher programme on a regular basis. Directors are also regularly updated in their knowledge of issues, trends and challenges relevant to the Bank, the financial services industry and the economy. This includes sessions with local and overseas experts in the particular fields relevant to the Bank's operations.
- the Board has in place policies, which set out the windows in time when directors can purchase or sell shares in the Bank so long as they do not have price sensitive information. These policies also preclude any trading in Bank shares of a short term nature. In addition, directors are required, in any case, to inform a board committee of their intention to buy or sell Bank shares.
- Directors are required to take a minimum of 20% of their fees in shares in the Bank, acquired at market price, and are required to hold these shares for ten years or until they leave the Board. Non-Executive Directors do not participate in any of the Bank's incentive plans.
- the Board has decided to close the Directors' retirement scheme, which was approved by shareholders at the 1997 Annual General Meeting. The entitlement for current Directors will not be affected but no new members will be admitted to the scheme.

Audit Committee

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

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

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

Chairman's Statement (continued)

- all material accounting matters requiring exercise of judgement by management are specifically reviewed by the Audit Committee and reported on by the Committee to the Board.
- certified assurances are received by the Audit Committee and the Board that the Auditors meet the independence requirements as recommended by the Blue Ribbon Committee of the SEC of the USA.

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

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

Under the policy, the auditor will not provide the following services:

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

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

Further details of the functions and relationships of the Audit Committee are set out in the section on Corporate Governance commencing on page 45 of this report. The Bank is already materially in compliance with the framework of the legislation recently enacted as the Sarbanes-Oxley Act in the USA. This is largely reflective of the fact that corporate governance in Australia had generally moved ahead of that in many corporations in the USA.

Executive Remuneration

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

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

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

Like most Australian companies, vesting of options and restricted shares allocated to Executives is dependent on the Bank meeting the performance hurdles in the plan as approved by the shareholders at the 2000 Annual General Meeting. This differs from the US practice where vesting generally only depends on remaining in employment to the vesting date.

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

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

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

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

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

Conclusion

I have highlighted in some detail the Bank's corporate governance policies and practices to give shareholders some feel for how we approach this important aspect of the Bank's operations. Further detail is incorporated in the Directors' Report.

The philosophy underlying the approach to corporate governance is consistent with the ethical standards required of all employees of the Bank, as set out on page 47 of the report.

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

John Ralph

John Ralph AC
Chairman

Financial Highlights

(Except where otherwise stated, all figures relate to the year ended 30 June 2002 and comparatives are to the full year ended 30 June 2001.)

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

The net profit from ordinary activities ('cash basis')(1) for the year ended 30 June 2002 after tax, and before goodwill amortisation and appraisal value uplift is $2,501 million. This is an increase of $239 million or 11% over the year ended 30 June 2001.

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

On a cash basis, the dividend payout ratio for the year is 76.2% up from 75.5% for the prior year.

The Group cash earnings result comprised:

	$M	% on 30/06/01
Segment profit after tax		
- Banking	2,067	up 15%
- Funds Management	216	up 45%
- Life Insurance		
Operating margins	185	down 5%
Investment returns	33	down 74%
Net profit after tax (cash basis)	2,501	up 11%

Banking

The Group's banking businesses achieved a strong result with net profit after tax increasing to $2,067 million, 15% over the prior year, reflecting:

- Net interest income growth of $236 million or 5%, which was achieved through a 6% growth in average interest earning assets compared with the prior year, primarily due to housing loans growth, partly offset by a slight decline of 2 basis points in net interest margin to 2.76%.
- Other banking operating income growth of $171 million or 7% driven by growth in lending fees (despite the impact of discounting home loan establishment fee offers) and commission income together with, strong trading income, and gains on sale of investments.
- Expenses were lower than the prior year levels with the banking cost to income ratio reducing by 3.6 percentage points to 54.1%.
- Bad debt expense increased by $64 million to $449 million mainly due to specific provisions required against two large corporate exposures in the first half of the year. Total bad debt expense represented 0.32% of risk weighted assets compared to 0.28% for the prior year. Bad debt experience for the second half was 0.11% of risk weighted assets (0.23% annualised) reflecting the improved credit quality of the Group's lending portfolio.

Funds Management

The contribution to profit after tax from the Group's funds management businesses increased to $216 million, 45% over the prior year.

On a pre tax basis the growth in profit was a strong 21% from $243 million last year to $294 million this year. The after tax result was positively impacted by a 17% fall in the income tax expense to $78 million due to the reduction in the corporate tax rate and the non recognition of overseas tax losses last year.

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

Funds under management increased by 1 percent to $103 billion over the year to 30 June 2002. This reflected a 5% increase to 31 December 2001 and a 3% decline in the second half of the year. Average FUM for the year increased by 10% to $104 billion. Funds under management were impacted by poor investment returns, the loss of a few large institutional mandates in Australia and the run off of an asset management contract in the UK.

Life Insurance

Operating margins from life insurance businesses decreased by 5% from $194 million last year to $185 million at 30 June 2002.

Operating margins in Australia were $20 million or 11% higher than the prior year at $210 million. This result was mainly due to improved experience on mortality and disability claims, an increase in inforce premiums of 14% together with the benefit of higher average FUM balances within the unit linked investment business. These were partly offset by the run off in traditional and investment account business.

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

Investment returns for the year were $33 million after tax compared to $126 million in the prior year.

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

Group Expenses

Total operating expenses for the Group were less than 1% higher than in the prior year increasing by $31 million to $5,201 million. Additional cost synergies of $205 million associated with the Colonial and Commonwealth Group integration were recognised in the current year, offset by volume related increases in expenses and the effect of EBA related staff cost increases.

The Group cost to income ratio declined from 58.6% to 57.4%. The Banking cost to income ratio declined from 57.7% to 54.1% or 3.6 percentage points.

The normalised cost to income ratio (2) for the Group decreased from 59.2% last year to 56.1% for the current year, an improvement of 3.1 percentage points.

Income Tax

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

The corporate income tax expense increased by $53 million or 6% to $952 million this year. This resulted in an effective corporate tax rate of 27.6% in the current year which was slightly lower than the prior year rate of 28.3%. The reduction reflects the drop in the corporate tax rate from 34% to 30% this year, partially offset by higher recognition of tax losses last year.

Financial Highlights (continued)

Banking[3]	$M	% on 30/06/01
Total operating income	7,262	up 6%
Net interest income	4,710	up 5%
Other operating income	2,552	up 7%
Operating expenses	3,929	down 1%
Bad debt charge	449	up 17%
Income tax expense	816	up 16%
Profit after tax	2,067	up 15%
Net interest margin	2.76%	down 2 bps
Lending assets	**$B**	
(net of securitisation) [4]	161	up 8%
Average interest earning assets	171	up 6%
Funds Management	**$M**	
Operating income [5]	842	up 14%
Operating expenses	548	up 10%
Income tax expense	78	down 17%
Profit after tax	216	up 45%
	$B	
Funds under management [6]	103	up 1%
- Retail	34	unchanged
- Wholesale	44	up 1%
- Life insurance	25	up 3%
Life Insurance	**$M**	
Operating margin		
- Australia	210	up 11%
- Asia and New Zealand	(25)	down $29 million
Investment earnings on assets in excess of policyholder liabilities	33	down 74%
Profit after tax	218	down 32%
	$B	
Life insurance assets	36	down 4%

Appraisal Value Uplift [7]

For the year ended 30 June 2002, appraisal values of the life insurance and funds management businesses increased by $577 million. The increase comprised:

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

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

(Refer Summary of Life Insurance and Funds Management Valuations)

Goodwill Amortisation

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

Key Performance Measures

		On 30/06/01
Return on equity (statutory)	14.67%	Up 1.17 percentage points
Return on equity (cash basis)	13.93%	Up 1.10 percentage points
Earnings per share (cents) (statutory) - basic	209.6	Up 11%
Earnings per share (cents) (cash basis) - basic	197.3	Up 10%
Total assets held and funds under management	$327 B	Up 6%

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

Integration of Colonial

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

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

Balance Sheet, Funding and Capital

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

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

(1) 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and outside equity interest, before goodwill amortisation and life insurance and funds management appraisal value uplift.
(2) The normalised cost to income ratio is determined by substituting an assumed 8% pre tax investment return for actual investment returns and removes policy holder tax from the income line. This ratio removes the distortion caused by volatility in investment income and movements in policyholder tax.
(3) Includes General Insurance.
(4) Net of loans securitised of $7,047 million ($6,773 million at 30 June 2001).
(5) Includes internal income.
(6) Includes internal and external FUM.
(7) 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'

Financial Highlights (continued)

The Group continues to focus on optimising the level and mix of capital supporting its operations while maintaining a prudent and high quality capital base. Consistent with this strategy, the Group intends to issue innovative capital securities (Hybrids) to enable it to undertake a share buy-back of approximately $500 million. Subject to the receipt of regulatory approvals, the Group intends to complete these capital management initiatives by the end of this calendar year.

Following the above initiatives the Group's strong capital position will be maintained.

The Bank's credit ratings have been affirmed as set out on page 34.

Group Performance Summary

	Full Year Ended		
	30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Profit from ordinary activities after tax (statutory)	**2,655**	2,398	11
Profit from ordinary activities after tax ('cash basis [(1)]')	**2,501**	2,262	11
Income			
Interest income	**10,455**	11,900	(12)
Interest expense	**5,745**	7,426	(23)
Net interest income	**4,710**	4,474	5
Other banking operating income	**2,552**	2,381	7
Total banking income	**7,262**	6,855	6
Life insurance income [(2)]	**997**	1,268	(21)
Funds management income	**809**	701	15
Total Income	**9,068**	8,824	3
Expenses			
Operating expenses	**5,201**	5,170	1
Charge for bad and doubtful debts	**449**	385	17
Total Expenses	**5,650**	5,555	2
Profit from ordinary activities before goodwill amortisation, appraisal value uplift and income tax	**3,418**	3,269	5
Income tax expense [(2)]	**916**	993	(8)
Profit from ordinary activities after income tax	**2,502**	2,276	10
Outside equity interests	**(1)**	(14)	(93)
Profit from ordinary activities after income tax and before goodwill amortisation and appraisal value uplift	**2,501**	2,262	11
Appraisal value uplift	**477**	474	1
Goodwill amortisation	**(323)**	(338)	(4)
Net profit after income tax attributable to shareholders of the Bank	**2,655**	2,398	11
Contributions to profit (after tax)			
Banking	**2,067**	1,793	15
Life insurance	**218**	320	(32)
Funds management	**216**	149	45
Profit after tax from ordinary activities ('cash basis [(1)]')	**2,501**	2,262	11
Goodwill amortisation	**(323)**	(338)	(4)
Appraisal value uplift	**477**	474	1
Net profit after income tax attributable to shareholders of the Bank	**2,655**	2,398	11

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

(2) Included within life insurance income and tax expense is a $36 million tax credit relating to policyholder losses (30 June 2001: $94 million expense). This item is also included in the income tax line in the above performance summary. The net impact on the net profit after tax is therefore nil (Refer page 28).

Group Performance Summary (continued)

As at	30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Balance Sheet - Summary			
Total Assets	**249,648**	230,411	8
Total Liabilities	**228,592**	210,563	9
Shareholders' Equity	**21,056**	19,848	6
Assets held and Funds under management			
On Balance Sheet			
Banking assets	**211,130**	191,333	10
Life insurance funds under management	**25,355**	24,527	3
Other life insurance and funds management assets	**13,163**	14,551	(10)
	249,648	230,411	8
Off Balance Sheet			
Funds under management	**77,483**	76,954	1
	327,131	307,365	6
Banking Assets	**211,130**	191,333	10
Life insurance and internal funds management assets	**38,518**	39,078	(1)
External funds under management	**77,483**	76,954	1
	327,131	307,365	6

	Full Year Ended		
	30/06/02	30/06/01	30/06/02 vs 30/06/01 %
Shareholder Summary			
Dividends per share (cents) - fully franked	**150**	136	10
Dividends provided for, reserved or paid ($million)	**1,913**	1,720	11
Dividend cover (times) - statutory	**1.4**	1.4	-
Dividend cover (times) – cash basis (3)	**1.3**	1.3	-
Earnings per share			
Statutory – basic (1)	**209.6c**	189.6c	
Statutory – fully diluted (1)	**209.3c**	189.3c	
Cash basis - basic(3)	**197.3c**	178.8c	
Cash basis – fully diluted (3)	**197.0c**	178.6c	
Dividend payout ratio (%) (2)			
statutory	**71.7**	71.2	
cash basis (3)	**76.2**	75.5	
Net tangible assets per share ($)	**10.89**	10.19	
Weighted average number of shares (basic)	**1,250m**	1,260m	
Weighted average number of shares (fully diluted)	**1,252m**	1,262m	
Shares at end of period	**1,253m**	1,244m	
Number of shareholders	**722,612**	709,647	
Share prices for the period ($)			
Trading high	**34.94**	34.15	
Trading low	**24.75**	26.18	
End (closing price)	**32.93**	34.15	

(1) Calculated in accordance with AASB 1027: Earnings per Share.
(2) Dividends paid divided by earnings.
(3) 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and before goodwill amortisation, life insurance and funds management appraisal value uplift. Earnings are net of dividends on preference shares of $34 million (30 June 2001:$9 million).

Group Performance Summary (continued)

	Full Year Ended 30/06/02	30/06/01
Performance Ratios (%)		
Return on average shareholders' equity [(1)]		
statutory	**14.67**	13.50
cash basis	**13.93**	12.83
Return on average total assets [(2)]		
statutory	**1.11**	1.07
cash basis	**1.04**	1.01
Return on average total assets and FUM		
statutory	**0.84**	0.81
cash basis	**0.79**	0.74
Capital adequacy - Tier 1	**6.78**	6.51
Capital adequacy - Tier 2	**4.28**	4.18
Deductions	**(1.26)**	(1.53)
Capital adequacy - Total	**9.80**	9.16
Productivity		
Cost to total average assets ratio	**2.17**	2.30
Cost to assets held and funds under management	**1.64**	1.75
Staff expense/Total operating income	**26.35**	26.74
Total operating income per FTE	**$262,856**	$252,400
Other Information (numbers)		
Full time staff	**30,378**	31,976
Part time staff	**7,714**	7,161
Full time staff equivalent	**34,498**	34,960

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

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

Cost to Income Ratios

The life insurance and Group cost to income ratios can be distorted by movements in investment markets from period to period. Further, the life insurance result incurs added volatility from the grossing up of tax paid on behalf of policy holders within the life insurance income and income tax expense lines as explained in the Life Insurance – Business Analysis section.

To provide a more relevant presentation of the underlying cost performance of the life insurance business and remove volatility from the Group cost to income ratio, a “normalised” ratio has been determined. The normalised ratio excludes policy holder tax from the life insurance income line and substitutes an assumed long term 8% pre tax return on shareholders’ funds for actual investment returns on shareholders’ funds. Comparatives for the prior period have also been adjusted.

Cost to Income Ratios	30/06/02 %	30/06/01 %
Banking	**54.1**	57.7
Funds Management	**65.1**	67.1
Life Insurance	**75.9**	59.5
Life Insurance (normalised)	**63.5**	64.0
Group	**57.4**	58.6
Group (normalised)	**56.1**	59.2

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, significantly increasing it's wealth management capabilities.

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

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

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

This structure complements the Group's greater strategic focus on wealth management and provides a better position from which to meet the needs of all customer segments. The grouping together of manufacturing activities and services relevant to particular customer segments ensures greater clarity and focus, removes service and distribution resource overlaps and achieves improved efficiencies.

Strategic Vision and Business Goals

The Bank's vision is to be chosen and respected as an excellent provider of financial services.

The Future

The next decade will continue to bring significant change. Customers are taking on greater responsibility in the management of their financial affairs. Financial services companies are responding by offering an ever-widening range of services. While this may provide a greater sense of control for some, for others the additional complexity can be confusing. In this environment, financial services companies that can help people find the service that best suits them will be chosen ahead of others.

At the same time, there is greater scrutiny on the ways in which companies are managed. Companies that seek to maintain their customers' trust will earn respect and loyalty from both customers and the community. The Bank demands the highest standards of honesty and integrity from all its people and strong governance within the Bank. Our values statement provides guidance to our people in their daily work: "In everything we do we work to earn trust by an uncompromising commitment to honesty and integrity".

The Bank's Aspirations

- ***Customers:*** to achieve a service experience that our customers will value and recommend.
- ***People:*** to provide fair, safe, challenging and rewarding work for employees.
- ***Shareholder:*** to aim for top quartile returns amongst its peers, measured on a rolling five year basis.
- ***Community:*** to be an active participant and contribute to a stable financial system in which the community can have confidence.

Business Goals

- **To recognise the unique lifetime financial needs of customers.** We aim to be the financial provider of choice for our customers' financial needs, extending across their lifetime.
- **To provide services that are best for individual customers, with choice of access.** We aim to provide distinctive banking, insurance, superannuation and investment services to satisfy the needs of our customers. We aim to remain the most accessible financial services company in Australia.
- **To skill, authorise, equip and engage our people to differentiate our service.** We believe our people are our most valuable asset. Our people are our service, and the systems we put in place need to empower them to serve our customers.
- **To use flexible technology, scale and risk management to ensure our services are of superior value.** These are our traditional strengths. Technology allows us to provide new services to meet the needs of our customers. Our large scale provides opportunities to improve our productivity and cost position, and our strong risk management capabilities guide our decision-making.

The Bank's Business Model Ambition

- Our people apply the Bank's values in providing a financial services experience that our customers value.
- We provide high quality services with choice of access that recognise and meet the lifetime financial needs of our customers.
- Our people are skilled, equipped and engaged to differentiate our service. They are trusted to deal with customers' financial affairs with authority.
- Brand, know-how, flexible technology, automated processing, scale & risk management ensure our services are of superior value.
- This builds customer loyalty and retention, encouraging customers to share more of their business with us and new customers to join us.
- Our leaders live the organisation's values and create a vision for new and better services.
- This provides a fair, safe, challenging and rewarding work environment that attracts, motivates, retains and develops talented people.
- All of this enables capital to be generated for growth and superior reward to shareholders.
- The scope and importance of our activities maintain community respect and contribute to a stable financial system in which the community can have confidence.

Strategic Initiatives

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

Demographic change and government retirement policies are continuing to place greater demands on consumers to ensure their own financial wellbeing. This continues to increase the complexity of their financial needs, leading to greater demand for more sophisticated services and trustworthy advice.

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

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

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

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

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

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

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

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

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

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

In our retail segments we are significantly improving our service levels, by empowering our front-line staff with better information, tools and decision-making capabilities so that they can better meet customer needs and quickly resolve any problems.

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

All of these initiatives require us to enhance our systems and processes supporting our people, so that our people can make it happen for our customers. This is underway.

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

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

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

Outlook Statement

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

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

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

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

Continuing firm credit growth this year depends upon business lending increasing as housing lending declines. Competitive pressures will remain strong in this environment.

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

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

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

The directors expect satisfactory earnings growth over the coming year after the cost of implementing strategic initiatives (detailed previously) of $120 million after tax

These net initiatives will produce ongoing annual benefits exceeding the cost of implementation.

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

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

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

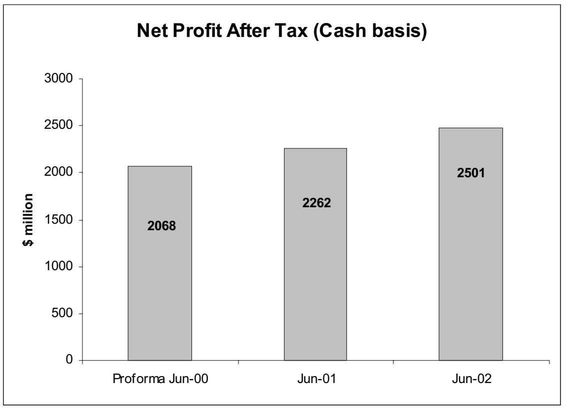
- Rate of business growth;
- Capital adequacy;
- Investment requirements;
- The cyclical nature of life insurance investment returns and expectations of long term investment returns; and
- A range of other factors.

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

Main Financial Indicators

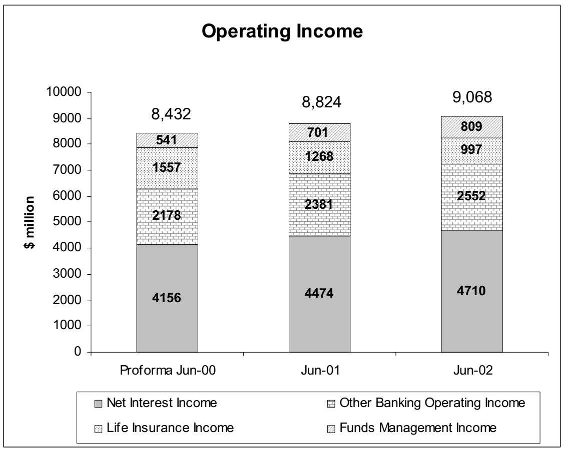
Net Profit After Tax (Cash basis)

- The Group recorded a net profit after tax before goodwill amortisation and appraisal value uplift for the year of $2,501 million. This result represents an 11% increase over last year.



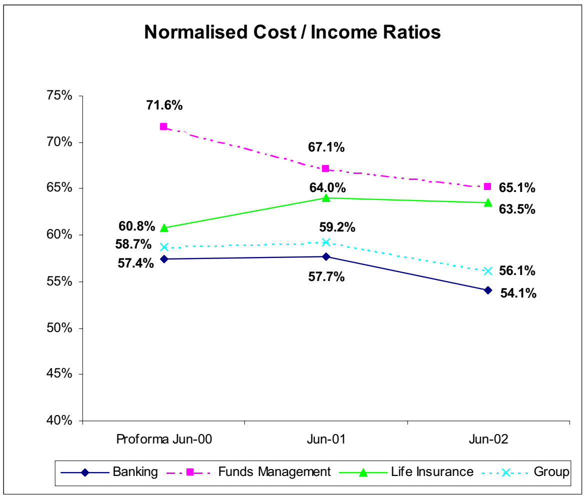
Operating Income

- Total operating income for the year was $9,068 million (30 June 2001: $8,824 million).
- Net interest income of $4,710 million represents an increase of 5% over the last year.
- Other banking operating income of $2,552 million, represents an increase of 7% over the last year.
- Life insurance income of $997 million represents a decline of 21% over the last year, primarily due to lower policy holder tax and lower investment returns.
- External funds management income of $809 million (excluding $33 million of internal income) represents an increase of 15% over the last year.



Cost Ratios

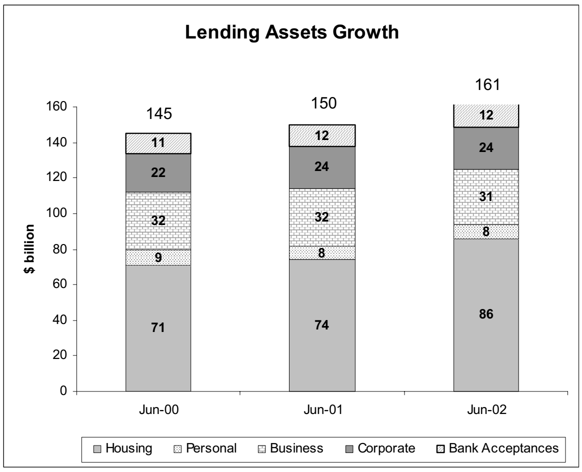
- The Banking cost to income ratio has declined from 57.7% for the year ended 30 June 2001 to 54.1% for the current year.
- The funds management cost to income ratio has decreased from 67.1% for the year ended 30 June 2001 to 65.1% for the current year.
- The life insurance cost to income ratio on a normalised basis has decreased from 64.0% for the year ended 30 June 2001 to 63.5% for the current year.
- The Group cost to income ratio on a normalised basis has decreased by 3.1 percentage points from 59.2% at 30 June 2001 to 56.1% at 30 June 2002.



Main Financial Indicators (continued)

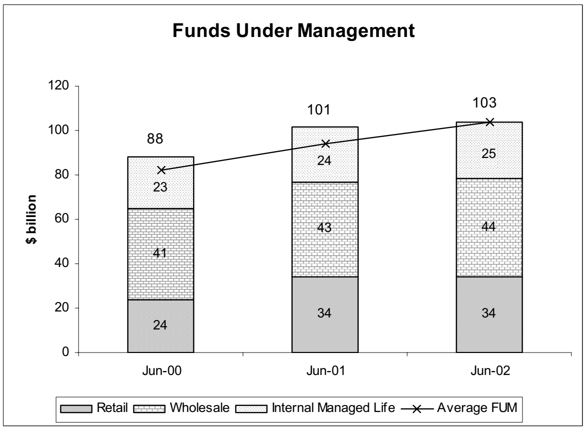
Lending Assets Growth

- Lending assets spot balances (net of securitisation) have increased by $11 billion or 8% over the prior year. The majority of this growth has been achieved in housing which increased $12 billion or 17% over the prior year. This reflects improved market conditions and the effect of Group strategic initiatives. Other lending categories fell with a slight increase in personal lending offset by falls in corporate and business lending.



Funds Under Management

- Total funds under management (FUM) at 30 June 2002 increased by $1.4 billion or 1% over 30 June 2001 to $103 billion. Total FUM consists of $78 billion in external FUM and $25 billion in FUM managed on behalf of the life insurance business (Refer table on page 25). The FUM balances were impacted by volatile market conditions and a general decline in world equity markets later in the year.
- Average FUM has increased by 10% to $104 billion for the current year.
- Retail FUM (including international funds) has remained flat at $34 billion.
- Wholesale FUM (including international funds), which includes assets managed within masterfund offerings was also flat at $44 billion.
- The Group's custody business administers $79 billion of assets.



Note:

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

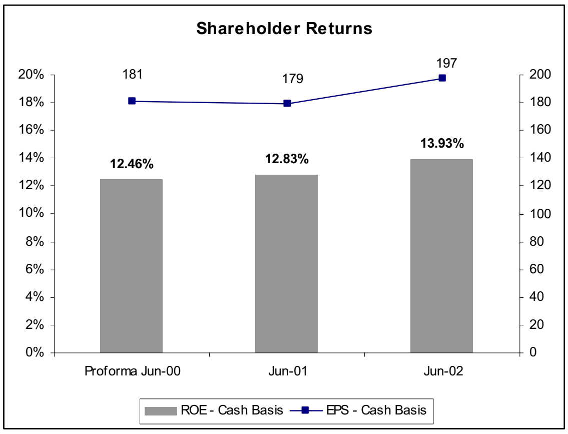
(2) Total FUM as reported by ASSIRT has changed to reflect only the Australian Sourced and managed funds. As such FUM per ASSIRT of $81 billion excludes approximately $22 billion in international funds.

Main Financial Indicators (continued)

Shareholder Returns

Earnings Per Share – Cash Basis

- Earnings per share is up 10.1% or 18 cents to 197 cents in the year ended 30 June 2002 compared with the prior year. The EPS was initially diluted as expected following the Colonial acquisition and is now increasing with earnings growth and the benefit of synergies from the Colonial acquisition are realised.

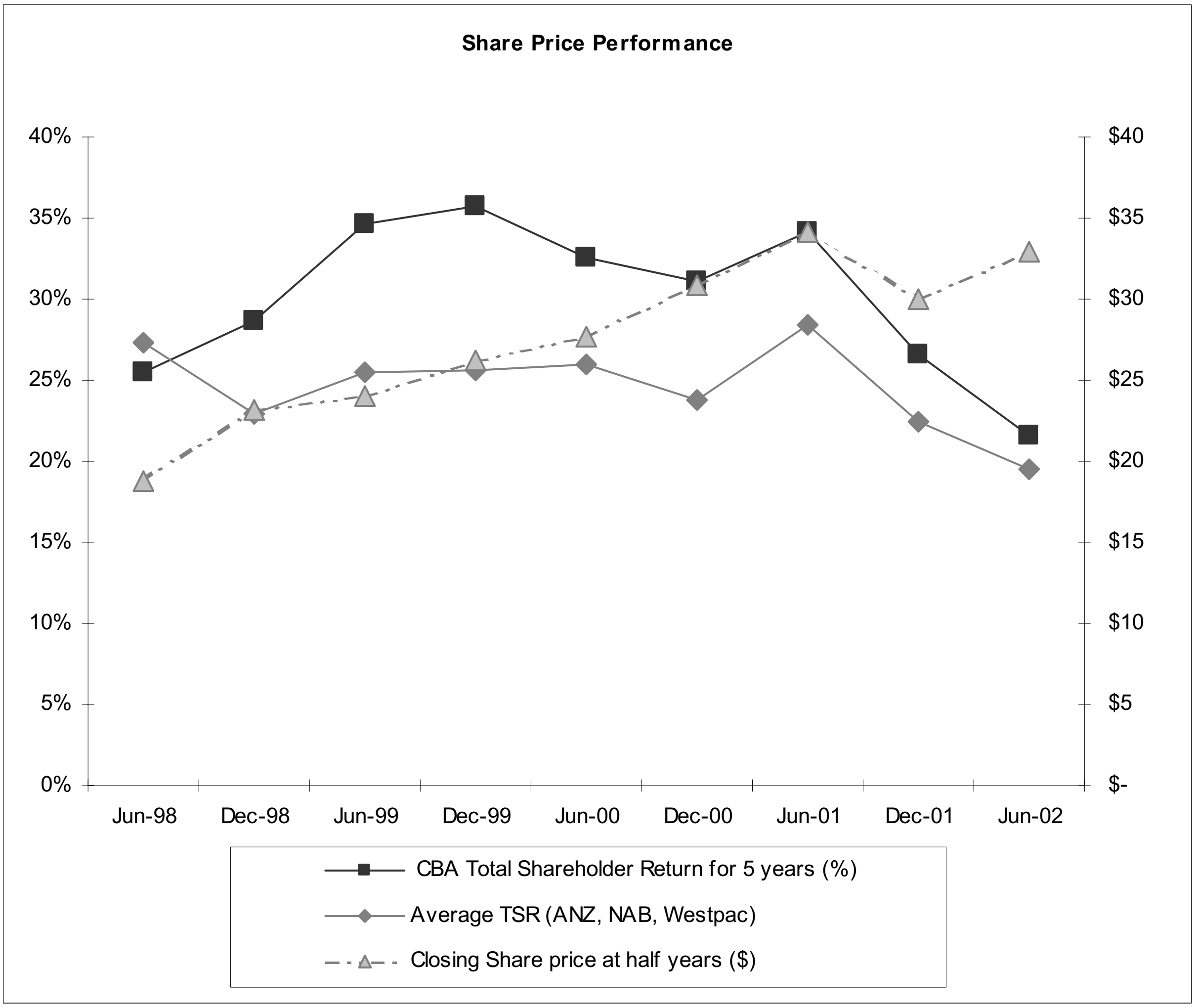


Return on Equity

- Return on equity (cash basis) for the year ended 30 June 2002 has increased by 1.10 percentage points over the year ended 30 June 2001 from 12.83% to 13.93%.
- Return on equity (statutory basis) for the year ended 30 June 2002 has increased by 1.17 percentage points over the prior year from 13.50% to 14.67%.

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 2002 is 21.6%.



Banking Performance Summary

The contribution from the Group's Banking business has increased 15% over the prior year to $2,067 million, driven by strong cost control while maintaining income growth. Net interest earnings increased by 5% to $4,710 million and other banking income increased by 7% to $2,552 million. Average interest earning assets have increased by 6% over the prior year to $171 billion. Expenses were $29 million below the prior year, resulting in a 15% increase in underlying profit to $3,333 million. This growth has been partly offset by a $64 million increase in the provision for bad and doubtful debts.

Performance Summary	Full Year Ended 30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Underlying Profit (before bad debts and income tax expense)	**3,333**	2,897	15
Profit from ordinary activities after tax [(1)]	**2,067**	1,793	15
Lending Assets [(2)]	**161,216**	149,776	8
Average interest earning assets	**170,634**	160,607	6
Average interest bearing liabilities	**157,105**	145,978	8
Risk weighted assets	**141,049**	138,383	2
Net impaired assets	**614**	415	48
Performance Ratios (%)			
Net interest margin	**2.76**	2.78	(1)
General provision/Risk weighted assets	**0.96**	1.01	(5)
Total provisions/Gross impaired assets (net of interest reserved)	**183.9**	251.6	(27)
Non-interest income/Total operating income	**35.1**	34.7	1
Cost to average assets ratio	**1.96**	2.10	(7)
Cost to income ratio [(3)]	**54.1**	57.7	(6)
Other Information (numbers)			
Branches/service centres (Australia)	**1,020**	1,066	(4)
Agencies (Australia) [(4)]	**3,936**	3,928	-
ATMs [(5)]	**3,950**	3,910	1
EFTPOS terminals	**126,613**	122,074	4
EzyBanking sites	**730**	659	11

(1) Represents profit after tax and outside equity interest and before goodwill amortisation.
(2) Lending Assets represents loans, advances and receivables and bank acceptances excluding provisions for bad and doubtful debts and securitised balances. Securitised balances are not included in lending assets and amounted to $7.0 billion as at 30 June 2002 compared to $6.8 billion as at 30 June 2001.
(3) The factors affecting the Group and banking cost to income ratio are discussed on page 32.
(4) Includes Australia Post and private agencies.
(5) Includes third party ATMs.

Banking Performance Summary (continued)

Major Balance Sheet Items

As at	30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Loans, advances and other receivables [1]			
Gross Housing	**92,886**	80,284	16
Securitisation	**(7,047)**	(6,773)	4
Housing (net of securitisation)	**85,839**	73,511	17
Personal	**8,230**	7,768	6
Business	**30,988**	32,224	(4)
Corporate	**23,642**	24,198	(2)
Bank acceptances	**12,517**	12,075	4
Total lending assets	**161,216**	149,776	8
Trading securities			
Corporate	**8,389**	6,909	21
Deposits and other public borrowings			
Personal	**64,229**	58,620	10
Business	**19,486**	16,351	19
Corporate	**49,085**	42,384	16
	132,800	117,355	13
Debt issues			
Corporate	**23,575**	24,484	(4)

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

(1) Loan balances are before provisions for impairment.

Profit Summary	Full Year Ended 30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Interest income	**10,455**	11,900	(12)
Interest expense	**5,745**	7,426	(23)
Net interest income	**4,710**	4,474	5
Other operating income	**2,552**	2,381	7
Total operating income	**7,262**	6,855	6
Operating expenses	**3,929**	3,958	(1)
Underlying profit	**3,333**	2,897	15
Charge for bad and doubtful debts	**449**	385	17
Profit from ordinary activities before income tax	**2,884**	2,512	15
Income tax expense	**816**	705	16
Outside equity interests	**1**	14	(93)
Profit from ordinary activities after income tax	**2,067**	1,793	15

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

Banking Business Analysis

(All figures relate to the year ended 30 June 2002. All comparisons are to 30 June 2001 unless otherwise stated. Market share statistics represent Australian operations.)

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

An analysis of the key areas is detailed below.

Personal Products

Housing Loans

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

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

Personal Lending

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

Credit Cards

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

Personal Loans

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

Deposit Products

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

Share Trading

Commonwealth Securities maintained its position as the leading broker in Australia in terms of the number of transactions. The total number of clients increased from 652,000 at 30 June 2001 to 742,000 at 30 June 2002. Over 85% of CommSec trades are now conducted online with the balance by telephone. Service and efficiency have been further improved in the year through additional features such as the addition of electronic contract notes and customer financial history, audio and audio-visual market commentary and enhanced charting and research facilities.

Business and Corporate Products

Business Lending

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

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

Corporate Lending and Deposits

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

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

Financial Markets

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

New developments during the year included the successful establishment of oil and gas hedging products for clients, completion of a consumer oriented labelling programme with the Australian Greenhouse Office which saw the first Greenhouse Friendly Certification issued in November 2001, and the development of a leading market position in originations, structuring and distribution of corporate mortgage backed securities (CMBS).

Banking Business Analysis (continued)

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

Corporate Finance

Corporate Finance continues to develop and implement innovative debt and equity structures to meet the capital needs of clients. Substantial transactions undertaken in the 12 months to 30 June 2002 include:

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

$15.3 billion of capital was raised for clients in the year to 30 June 2002. Of the total amount raised, 40% was by originations, 41% financing by direct lending and the balance by syndicated loans.

Working Capital Services

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

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

Commonwealth Custodial Services

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

Distribution and Customer Access

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

Direct contact service channels

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

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

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

To better meet the full financial services needs of all customers, the Group's key objective is to broaden and deepen relationships with existing customers through a focus on cross-selling of related products and services wherever appropriate.

The introduction of a Premium Banking service for high value personal customers in December 2001, providing relationship management services through 18 Premium Banking Centres nationally.

A new delivery model for home loan customers was introduced with greater specialisation and focus in the key areas of sales, after-sales maintenance and customer retention. This has involved redefining the role of some 500 personal lenders to focus solely on sales, thereby complementing the Group's 202 mobile bankers to create a more effective home loan sales force. Additionally, new positions have been created to focus on after-sales care, service and customer retention.

To better meet the wealth management and wealth creation needs of customers, financial advisory staff have been grouped as either financial planners or investment consultants, with staff filling these roles required to satisfy well-defined accreditation/qualification levels.

A team-based selling initiative has been implemented for Business Banking customers, which is based on restructuring products around six core areas of expertise, and utilising specialists in the areas of lending, transactional banking, personal financing, specialist finance, risk management and wealth management. This initiative aims to enhance the customer experience by providing all finance solutions to our customers' financial and business management needs, through increased responsiveness, service quality, and streamlining of processes.

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

Electronic and Direct Banking

Customer usage of direct and self-service banking continues to gain pace. The total number of transactions performed in direct/electronic channels increased over the year to June 2002, while branch teller transactions continued to decline. As a result, the proportion of total transactions carried out in-branch was further reduced, from 15.6% to 14.4% in the 12 months to 30 June 2002. Over the year, NetBank was the fastest growing channel, processing more than 158 million transactions in the year.

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

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

Banking Business Analysis (continued)

Woolworths EzyBanking

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

Third Party

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

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

The growth in the Group's new home loan originations through mortgage brokers was particularly strong in the year to 30 June 2002 increasing from 6.9% to a 11.9% share of the mortgage broker market at 31 March 2002.

United Kingdom

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

New Zealand Banking Operations

Performance Overview

ASB Bank had a strong year, with earnings 23% higher than those reported at 30 June 2001. The primary profit drivers were growth in net interest income due to increased lending volumes, an improved cost structure resulting from both lower unit costs and better productivity, and other income growth particularly from financial services. Customer retention and acquisition were key drivers of volume growth and the customer base grew by 63,195 or 7% during the year. As at 30 June 2002, ASB Bank had total assets of NZ$24.2 billion (June 2001:NZ$20.1 billion), including total advances of NZ $24 billion (June 2001 NZ $19.8 billion).

Lending

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

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

Funding

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

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

Transactions

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

Banking Analysis of Performance

Net Interest Income	Full Year Ended 30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Interest Income			
Loans	**9,231**	10,246	(10)
Other financial institutions	**165**	280	(41)
Liquid assets	**142**	110	29
Trading securities	**359**	548	(34)
Investment securities	**517**	655	(21)
Dividends on redeemable preference shares	**41**	54	(24)
Other	**-**	7	large
Total Interest Income	**10,455**	11,900	(12)
Interest Expense			
Deposits	**4,241**	5,042	(16)
Other financial institutions	**193**	328	(41)
Debt issues	**1,064**	1,661	(36)
Loan capital	**232**	374	(38)
Other	**15**	21	(29)
Total Interest Expense	**5,745**	7,426	(23)
Net Interest Income	**4,710**	4,474	5

Net Interest Income

Net interest income for the year increased by 5% or $236 million from $4,474 million in the prior year to $4,710 million.

The increase in the net interest income was due to a $10 billion or 6% increase in average interest earning assets between 30 June 2001 and 30 June 2002. The increase was offset partially by a drop in the net interest margin from 2.78% for the year ended 30 June 2001 to 2.76% for the year ended 30 June 2002.

The table below highlights the effect of movements in net interest earning assets and interest margin on net interest income. Further details can be found in Note 4 to the Financial Statements.

Increase/Decrease	Financial Year 2002 vs Financial Year 2001 $M	Financial Year 2001 vs Financial Year Proforma 2000 $M
Due to changes in average volume of interest earning assets and interest bearing liabilities	**278**	334
Due to changes in interest margin	**(42)**	(5)
Due to days variance in periods	**-**	(11)
Change in net interest income	**236**	318

The change in net interest income attributable to volumes is based on applying the change in interest earning balances to the average interest rates for the period. As shown Note 4 to the Financial Statements the growth in average interest earning assets of $10 billion during the year was driven primarily by strong growth in home lending as discussed on page 18. While this growth was in line with the prior year, the lower average rates for this year resulted in a lower volume impact on net interest income of $278 million compared to $334 million last year.

The change in net interest income due to changes in the net interest margin was negative $42 million this year reflecting the decrease in net interest margin of 2 basis points applied to the average balances for the period as discussed on page 22.

Banking Analysis of Performance (continued)

Group Interest Margins and Spreads

The following table shows margins and spreads for the Group. 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	
	30/06/02 %	**30/06/01 %**
Australia		
Interest spread [1]	**2.75**	2.56
Benefit of interest free liabilities, provisions and equity [2]	**0.25**	0.43
Net interest margin [3]	**3.00**	2.99
Overseas		
Interest spread [1]	**1.16**	1.06
Benefit of interest free liabilities, provisions and equity [2]	**0.43**	0.55
Net interest margin [3]	**1.59**	1.61
Group		
Interest spread [1]	**2.47**	2.32
Benefit of interest free liabilities, provisions and equity [2]	**0.29** [4]	0.46
Net interest margin [3]	**2.76**	2.78

(1) Difference between the average interest rate earned and the average interest rate paid on funds.
(2) A portion of the Group's interest earning assets is funded by interest free liabilities and shareholders' equity. The benefit to the Group of these interest free funds is the amount it would cost to replace them at the average cost of funds.
(3) Net interest income divided by average interest earning assets for the period.
(4) The reduction of this free funding benefit reflects the lower interest rates.

Group Interest Margin

The Group average net interest margin for the year to 30 June 2002 decreased by 2 basis points from the prior year to 2.76%.

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

These reductions were almost entirely offset by the positive impact from the availability of higher levels of retail deposits which provide a relatively low cost source of funding. Retail deposits grew $5.6 billion or 10% to $64 billion over the year to 30 June 2002.

Banking Analysis of Performance (continued)

Other Banking Operating Income

The following table sets forth the Group's other banking operating income for the year ended 30 June 2002 together with comparatives.

	Full Year Ended		
	30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Lending fees	**618**	602	3
Commission and other fees	**1,242**	1,173	6
Trading income	**489**	426	15
Dividends	**5**	14	(64)
Net gain on investments and loans	**78**	56	39
Net profit on sale of property, plant and equipment	**12**	25	(52)
General insurance premium income	**119**	107	11
Less general insurance claims	**(66)**	(57)	16
Other	**55**	35	57
Total Other Banking Operating Income	**2,552**	2,381	7

Other Banking Operating Income – Up 7% on 30/06/01

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

Lending Fees – Up 3% on 30/06/01

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

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

Commission and Other Fees – Up 6% on 30/06/01

Growth in commission and other fees has been driven by increased transaction activity, particularly within credit cards, with fees up 6% to $1,242 million at 30 June 2002. In relation to the credit card business there has been a 28% increase in the value of merchants' sales and a 25% increase in the value of credit cardholder sales during the year.

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

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

Trading Income – Up 15% on 30/06/01

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

Dividends – Down 64% on 30/06/01

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

Net Gain on Investments and Loans – Up 39% on 30/06/01

Gains during the current year included the profit on sale of certain strategic investments totalling $53 million. In the previous year the profit included the sale of the Group's interest in Brisbane Airports Corporation Ltd.

Net Profit on Sale of Property Plant and Equipment – Down 52% on 30/06/01

The current year includes the gain on sale of properties in Melbourne and Brisbane CBDs during October 2001 as a continuation of the Group's sale and leaseback strategy.

General Insurance Income (net of claims) – Up 6% on 30/06/01

General Insurance premium income less claims has increased slightly to $53 million for the current financial year.

Banking Analysis of Performance (continued)

Charge for Bad and Doubtful Debts

The following table sets out the charge for bad and doubtful debts for the year ending 30 June 2002 together with comparatives.

	Full Year Ended	
	30/06/02 $M	**30/06/01 $M**
Specific Provisioning		
New and increased provisioning	**546**	495
Less provisions no longer required	**(51)**	(84)
Net specific provisioning	**495**	411
Provided from general provision	**(495)**	(411)
Charge to profit and loss	**-**	-
General provisioning		
Direct write offs	**51**	35
Recoveries of amounts previously written off	**(56)**	(88)
Movement in general provision	**(41)**	27
Funding of specific provisions	**495**	411
Charge to profit and loss	**449**	385
Total Charge for Bad and Doubtful Debts	**449**	385
Bad debt expense / Risk weighted assets	**0.32%**	0.28%

Total charge for bad and doubtful debts for the year ended 30 June 2002 was $449 million which was $64 million (17%) higher than the charge in the previous year. This increase is primarily related to a small number of large corporate and commercial lending exposures that became impaired during the first half of the year and have been provisioned for potential loss. As previously disclosed to the market, these include Pasminco (net exposure $347 million) and Enron (net exposure $100 million) in the first half of the financial year. Bad debt expense in the second half was $159 million, down from $290 million in the first half with a reduction in corporate defaults in the second half and an improvement in credit quality.

Provisions for Impairment

	Full Year Ended	
	30/06/02 $M	**30/06/01 $M**
General Provisions	**1,356**	1,399
Specific Provisions	**270**	234
Total Provisions	**1,626**	1,633
Total provisions for impairment as a % of gross impaired assets net of interest reserved	**183.9**	251.6
Specific Provisions for impairment as a % of gross impaired assets net of interest reserved	**30.54**	36.06
General provisions as a % of risk weighted assets	**0.96**	1.01

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

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

The general provisions for impairment have reduced to $1,356 million at 30 June 2002 from $1,399 million at 30 June 2001, a decrease of 3.1%. The general provision as a percentage of Risk Weighted Assets reduced marginally to 0.96% from 1.01%. This level is consistent with that of other major Australian banks. The general provision as a percentage of risk weighted assets has declined slightly over the last 3 years reflecting the fact that the major growth in credit has been in home loans which have lower credit risk than the rest of our lending portfolio. Gross impaired assets less interest reserved have increased 36% from $649 million to $884 million over the year. This has been primarily due to additions to gross impaired assets (including interest reserved) for the year of $1,069 million (of which 42% relates to the two large corporate defaults mentioned previously).

Funds Management – Business Analysis

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

The following tables set forth the Group's funds management result for the year ending 30 June 2002 together with comparatives.

	Full Year Ended		
	30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Funds Management			
Operating income - external	**809**	701	15
Operating income - internal [1]	**33**	38	(13)
Total income from funds management business	**842**	739	14
Operating expenses	**548**	496	10
Profit before tax	**294**	243	21
Income tax expense	**78**	94	(17)
Net profit	**216**	149	45

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.

	30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Assets held and funds under management (FUM) [2]			
Funds management [4] [5]	**77,483**	76,954	1
Internal life insurance funds	**25,355**	24,527	3
Total FUM	**102,838**	101,481	1
Other life and funds management assets [3]	**13,163**	14,551	(10)
Total	**116,001**	116,032	-
Australia	**92,211**	91,810	-
United Kingdom	**12,966**	14,953	(13)
New Zealand	**6,518**	4,650	40
Asia	**4,306**	4,619	(7)
Total	**116,001**	116,032	-

(1) Income received from the life insurance business to manage statutory funds.
(2) Excludes non-Group funds under trusteeship, custody and administration.
(3) Includes life investment assets managed by parties other than the Group funds management businesses, and other non-investment life assets (including excess of market value over net assets of life insurance subsidiaries).
(4) Funds under management exclude funds under tactical overlay management, $10 billion at 30 June 2002 (30 June 2001: $10 billion).
(5) Represents total external funds under management of the Group. ASSIRT reporting includes external funds under management, and funds managed on behalf of the life insurance companies in the Group which are included within life insurance assets. ASB Group funds under management and other international funds under management are not included in the ASSIRT reporting.

Funds Management – Business Analysis (continued)

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

Performance Analysis

The funds management business increased net profit after tax by 45% during the year. As shown on page 25, an increase of 21% in pre tax profit was driven by strong revenue growth of 14% and an improvement in the cost to income ratio of 2.0 percentage points. The effective tax rate reduced significantly compared to last year, due to the impact of a change in the tax rate in Australia from 34% to 30% and the non recognition of overseas tax losses last year. Revenue growth of 14% was driven by a higher average funds under management balance throughout the year. The drivers of the higher average funds balance was a solid sales performance due partly to the introduction of Colonial First State products into the Group's proprietary distribution network, and two small acquisitions. Closing FUM was only slightly above opening FUM, increasing $1.4 billion to $103 billion. The closing balance was adversely affected by the poor investment returns resulting from volatility in global equity markets and a general move by customers into deposit products as a safe haven from investment market volatility. Costs increased by 10% during the year, reflecting the costs to develop and launch a number of new products, including the recently launched masterfund (FirstChoice), a range of nil entry fee products and a fund-of-fund hedge fund.

New Products

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

Restructure

In December 2001, it was announced that the two funds management businesses, Colonial First State and Commonwealth Investment Management, would be combined. The integration of these businesses will bring together two strong fund managers with funds under management in excess of $100 billion. This integration will facilitate efficiency improvements through combining systems and back office processing. In terms of investment management, the Group will have one domestic brand, being Colonial First State. The merger will provide diversity in terms of different investment styles in Australian equities and scale in other asset classes such as fixed income.

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

Year to Date June 2002	Opening Balance 30/06/01 $M	Inflows $M	Outflows $M	Investment Income $M	Other Movements and Transfers $M	Closing Balance3 0/06/02 $M
Funds Under Management (including Life Insurance)						
Retail	33,948	15,125	(13,421)	(941)	(686)	**34,025**
Wholesale	43,006	15,040	(12,014)	(1,552)	(1,022)[1]	**43,458**
Internal managed life	24,527	5,663	(5,617)	(495)	1,277[1]	**25,355**
Total FUM	**101,481**	**35,828**	**(31,052)**	**(2,988)**	**(431)**	**102,838**

Year to Date June 2001	Opening Balance 30/06/00 $M	Inflows $M	Outflows $M	Investment Income $M	Other Movements and Transfers $M	Closing Balance 30/06/01 $M
Funds Under Management (including Life Insurance)						
Retail	24,554	20,616	(12,337)	1,262	(147)	33,948
Wholesale	40,712	13,228	(12,436)	985	517	43,006
Internal managed life	22,916	4,964	(5,045)	1,573	119	24,527
Total FUM	**88,182**	**38,808**	**(29,818)**	**3,820**	**489**	**101,481**

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

Funds Management – Business Analysis (continued)

The tables on page 26 show that FUM growth over the year to 30 June 2002 was only $1.4 billion or 1% compared to $13.3 billion in the prior year. Much of this reduced growth resulted from investment returns which were negative $3.0 billion this year, compared to a gain of $3.8 billion in the prior year. In terms of net inflows on total FUM, the Group achieved $4.8 billion this year compared to $9.0 billion last year. The current year was impacted by the following factors:

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

Life Insurance – Business Analysis

The life insurance operations contributed $218 million to the Group's result for the financial year. Operating margins in Australia increased by $20 million over the last year, however a poor performance in Asia resulted in a $30 million reduction in the operating margin for the region with New Zealand's margin up slightly to $25 million. Investment earnings on shareholders' funds after tax reduced by $93 million over the last year.

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

The following table sets forth the Group's Life Insurance Income result for the year ending 30 June 2002 together with comparatives.

	Full Year Ended		
Summary Financial Performance (excluding appraisal value uplift)	**30/06/02 $M**	**30/06/01 $M**	**30/06/02 vs 30/06/01 %**
Life Insurance			
Margin on Services operating income - external	**997**	1,268	(21)
Operating expenses - external	**(724)**	(716)	1
Operating expenses - internal [(1)]	**(33)**	(38)	(13)
Total expenses	**(757)**	(754)	0
Profit from life insurance activities before tax	**240**	514	(53)
Income tax expense attributable to:			
Policy holder	**(36)**	94	large
Corporate	**58**	100	(42)
Net profit after tax	**218**	320	(32)

(1) Management charge paid to Funds Management.

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

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

The most significant impact of this is the inclusion of policyholder tax within operating income and tax expense. For the year the effect of this is a $36 million credit compared with a $94 million charge for the 30 June 2001 year. The reduction is mainly attributable to reduced investment earnings on behalf of policyholders for the period which recorded a loss for the year. Inclusion of this item in accordance with accounting standards causes fluctuations in the cost to income ratio and the effective tax rate between periods.

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

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

	Full Year Ended		
	30/06/02 $M	**30/06/01 $M**	**30/06/02 vs 30/06/01 %**
Sources of profit from life insurance activities			
The Margin on Services profit from ordinary activities after income tax is represented by:			
Planned profit margins	**234**	257	(9)
Experience variations	**(37)**	(63)	(41)
New business losses / reversal of capitalised losses	**(9)**	(2)	large
Other	**(3)**	2	large
Operating margins	**185**	194	(5)
Investment earnings on assets in excess of policyholder liabilities [(1)]	**33**	126	(74)
Net profit after tax	**218**	320	(32)

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

Life Insurance – Business Analysis (continued)

Underlying results of life insurance businesses by geographical region.

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

	Australia		New Zealand		Asia	
Full Year Ended	**30/06/02 $M**	**30/06/01 $M**	**30/06/02 $M**	**30/06/01 $M**	**30/06/02 $M**	**30/06/01 $M**
Operating Margins	**210**	190	**25**	24	**(50)**	(20)
Investment earnings on assets in excess of policyholder liabilities	**26**	129	**3**	(5)	**4**	2
Profit after tax	**236**	319	**28**	19	**(46)**	(18)

Operating margins in Australia increased by $20 million to $210 million from $190 million in the previous year. This represents growth of 11% driven by improved mortality claims experience, the growth in inforce premium in the risk business of 14% together with the benefit of higher average FUM balances within the unit linked investment business. These were partly offset by the run off in traditional and investment account business. The Australian life insurance business consists of two segments; risk business that includes the mortality and morbidity products, annuities and traditional life products, and the investment business, which includes the investment linked products. As part of the reorganisation of the Group announced on 20 December 2001 the investment products of the life companies were brought under the same management structure as the funds management business. For this reporting period results have been classified according to the company within which business is written. In future reporting periods the results for these investment products will be incorporated in the funds management segment.

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

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

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

- Growth assets 50%
- Income assets 50%

Life Insurance Funds Flow and New Business

Investment Business

	Opening Balance 01/07/01 $M	Inflows $M	Outflows $M	Investment Income $M	Other Movements $M	Closing Balance 30/06/02 $M
Superannuation	15,473	3,731	(3,591)	(337)	848	**16,124**
Retirement	4,888	1,157	(1,161)	(104)	357	**5,137**
Investment	1,669	232	(361)	(65)	52	**1,527**
Traditional	2,497	543	(504)	11	20	**2,567**
Total	**24,527**	**5,663**	**(5,617)**	**(495)**	**1,277**	**25,355**

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

Risk Business

Annual Premiums	**Opening Balance 01/07/01 $M**	**Sales/New Business $M**	**Lapses $M**	**Closing Balance 30/06/02 $M**
Personal	522	128	(68)	**582**
Group	190	63	(25)	**228**
Total	**712**	**191**	**(93)**	**810**

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

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

- A change to long term investment assumptions if short term volatility emerges as a long term structural change to equity market returns.
- The inherent risk in forecasting future business patterns over an extended horizon.

The key changes to actuarial assumptions that were made are also summarised.

As at 30 June 2002

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

Analysis of Movement since 30 June 2001

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

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

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

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

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

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

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

Change in Life Insurance and Funds Management Valuations

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

- A $57 million change to net tangible assets comprising:
  - Profits of $434 million.
  - Capital movements of $358 million.
  - Dividend payments of $625 million.
  - Disposals of businesses in Asia of $61 million.
  - Foreign exchange translation losses of $49 million.
- Acquired excess of $58 million, predominantly management rights to Kiwi Income Properties Trust, and disposal of excess relating to Thailand of $15 million.

Summary of Life Insurance and Funds Management Valuations (continued)

- Appraisal Value uplift which is reported within the Group's profit for the year of $477 million being $147 million relating to the transfer in of CFS property and an underlying uplift of $330 million.

Capital movements in the current year of $358 million comprised:

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

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

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

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

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

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

Valuation Assumptions

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

Australian Managed Funds

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

Australian Risk

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

New Zealand

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

Asian Life

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

Group Operating Expenses

Group Operating Expenses

The following table sets forth the Group's operating expenses for year ended 30 June 2002 together with comparatives.

	Full Year Ended		
	30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Banking	**3,929**	3,958	(1)
Funds Management	**548**	496	10
Life Insurance	**724**	716	1
Total Operating Expenses	**5,201**	5,170	1

Cost to Income Ratios	30/06/02 %	30/06/01 %
Banking	**54.1**	57.7
Funds Management	**65.1**	67.1
Life Insurance	**75.9**	59.5
Life Insurance (normalised)	**63.5**	64.0
Group	**57.4**	58.6
Group (normalised)	**56.1**	59.2

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

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

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

The Group's cost to income ratio reflects the different business mix. To remove the volatility of investment earnings from the life insurance cost to income ratio, a 'normalised' ratio has been calculated which removes the effect of policyholder tax and uses the long term assumption of an 8% pre-tax return on insurance shareholder funds.

On this basis there was a decrease in the Group cost to income ratio of 3.1 percentage points from 59.2% to 56.1%.

The Banking cost income ratio decreased by 3.6 percentage points from 57.7% in the year ended 30 June 2001 to 54.1% in the current year. This reflects additional synergies achieved in relation to the Colonial integration offset partly by volume-based increases and a general increase in average staff costs.

The Funds Management cost to income ratio has been reduced by 2.0 percentage points from 67.1% in the previous year to 65.1% in the current year. This change was driven by a solid sales performance, increasing revenues. The reduction in the cost to income ratio was achieved in a period where income was negatively impacted by investment markets and where the business incurred the costs associated with launching new funds during the period and development of product service offerings launched late in the year.

The Life Insurance cost to income ratio on a normalised basis has reduced by 0.5 percentage points from 64.0% in the previous year to 63.5% in the current year.

Other Group Items

Expenses by category	Full Year Ended 30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Staff	**2,390**	2,360	1
Occupancy and equipment	**578**	604	(4)
Information technology services	**838**	788	6
Other expenses	**1,395**	1,418	(2)
Total Operating Expenses	**5,201**	5,170	1

Staff Numbers

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

Staff Numbers as at	30/06/02	30/06/01
Full time staff	**30,378**	31,976
Part time staff	**7,714**	7,161
Full time staff equivalent	**34,498**	34,960
Australia	**28,742**	28,837
New Zealand	**3,932**	3,872
Other Overseas	**1,824**	2,251
	34,498	34,960

Income Tax Expense	Full Year Ended 30/06/02 $M	30/06/01 $M	30/06/02 vs 30/06/01 %
Banking	**816**	705	16
Funds Management	**78**	94	(17)
Life Insurance - Corporate	**58**	100	(42)
Corporate tax	**952**	899	6
Policyholder	**(36)**	94	large
Total Income Tax Expense	**916**	993	(8)
Effective tax rate			
Banking	**28%**	28%	
Funds Management	**27%**	39%	
Life Insurance - Corporate	**21%**	24%	

Income tax expense has decreased 8% from $993 million for 30 June 2001 to $916 million for 30 June 2002.

The tax expense consists of corporate tax of $952 million (30 June 2001 $899 million) and policyholder tax of a $36 million credit (30 June 2001 $94 million expense).

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

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

Other Group Items (continued)

Restructuring Provisions

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

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

ASIC Surveillance

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

Dividends

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

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

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

Capital Management

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

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

Risk Weighted Capital Ratios

	30/06/02 %	**31/12/01 %**	**30/06/01 %**
Tier 1 Capital	**6.78**	6.75	6.51
Total Capital	**9.80**	9.31	9.16

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

- An increase in tier 1 capital of $546 million due principally to increased retained earnings and the issue of additional shares to satisfy the DRP in respect of the final dividend for 2000/01.
- The capital base increased by $1,140 million partly due to the increase in tier 1 capital noted above, a reduced deduction for the investment in life insurance and funds management businesses (mainly due to an increase in the non-recourse borrowings that fund this investment) and an increase in eligible dated subordinated debt issues.
- Risk weighted assets increased from $138 billion to $141 billion. Loans secured by residential mortgages increased by $8.5 billion. However, the increase in risk weighted assets figure masks a reduction achieved by improved classification of assets by risk weight, principally through the identification of additional eligible security and by more accurate classification of counterparties.

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

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

In September 2001, 5,954,040 new shares were issued at $28.79 each to satisfy shareholder participation in the DRP in respect of the final dividend for 2000/01. The Bank purchased on-market the shares needed to satisfy shareholder participation in the DRP in respect of the interim dividend for 2001/02. It expects to do the same in respect of the final dividend for 2001/02.

Integrated Risk Management

Risk Management

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

Independent review is carried out through the audit role.

The Group's risk profile is measured by the difference between capital available to absorb loss and risk as assessed by economic equity.

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

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

The composition of economic equity of the Group during the financial year ended 30 June 2002 was 46% credit risk, 20% market risk, 33% operational risk and 1% insurance risk.

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

- Banking: 64% credit risk, 9% market risk and 27% operational risk.
- Life insurance: 53% market risk, 42% operational risk, 3% credit risk and 2% insurance risk.
- Funds Management: 100% operational risk.

The following sections describe the integrated risk management framework components.

Credit Risk

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

Credit risk arises in the banking business from lending activities, the provision of guarantees including letters of credit and commitments to lend, investment in bonds and notes and financial markets transactions and other associated activities. In the life insurance business credit risk arises from investment in bonds and notes, loans and from reliance on reinsurance. The funds management business does not generally involve credit risk from a shareholder perspective.

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

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

- a system of industry limits and targets for exposures by industry;
- a process for considering the risk associated with correlations between large exposures;
- a large credit exposure policy for aggregate exposures to individual commercial and industrial client groups tiered by credit risk rating and loan duration; and
- a system of country limits for geographic exposures.

These policies assist in the diversification of the credit portfolio.

The credit portfolio is managed in two distinct segments:

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

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

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

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

Market Risk

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

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

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

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

Integrated Risk Management (continued)

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

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

Trading income for 30 June 2002 increased by 15% over 30 June 2001

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

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

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

Wherever possible, the Group segregates policyholder funds from shareholder funds and sets investment mandates that are appropriate for each. The investment mandates for assets in policyholder funds attempt to match asset characteristics with the nature of policy obligations. The ability to match asset characteristics with policy obligations may be constrained by a number of factors including regulatory constraints, the lack of suitable investments as well as by the nature of the policy liabilities themselves.

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

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

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

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

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

Integrated Risk Management (continued)

Operational Risk

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

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

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

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

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

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

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

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

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

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

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

Insurance Risk

There are two risk types that are considered to be unique to life insurance businesses. These are the risks that the incidence of mortality (death) and morbidity (illness and injury) claims is higher than assumed when pricing life insurance policies, or is greater than best estimate assumptions used to determine the fair value of the business.

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

Derivatives

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

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

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

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

Business Continuity Management

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

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

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

Integrated Risk Management (continued)

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 2002 are:

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

Capital Adequacy

	2002 %	2001 %
Risk Weighted Capital Ratios		
Tier one	**6.78**	6.51
Tier two	**4.28**	4.18
Less deductions	**(1.26)**	(1.53)
Total Capital	**9.80**	9.16

	2002 $M	2001 $M	2002 vs 2001 %
Tier One Capital			
Shareholders' Equity	**21,056**	19,848	6
Eligible Loan Capital	**415**	462	(10)
Total Shareholders' Equity and Loan Capital	**21,471**	20,310	6
Add back Foreign currency translation reserve related to non-consolidated subsidiaries	**90**	-	-
Less Asset revaluation reserve	**(4)**	(5)	(20)
Less Goodwill	**(5,391)**	(5,716)	(6)
Less Intangible component of investment in non-consolidated subsidiaries	**(4,588)**	(4,116)	11
Less Outside equity interest in entities controlled by non-consolidated subsidiaries	**(2,017)**	(1,458)	38
Total Tier One Capital	**9,561**	9,015	6
Tier Two Capital			
Asset revaluation reserve	**4**	5	(20)
General provision for bad and doubtful debts (1)	**1,351**	1,390	(3)
FITB related to general provision	**(392)**	(436)	(10)
Upper tier 2 note and bond issues	**297**	317	(6)
Lower tier 2 note and bond issues	**4,934**	5,348	(8)
Less Lower tier 2 adjustment to 50% of tier 1 capital	**(154)**	(840)	(82)
Total Tier Two Capital	**6,040**	5,784	4
Tier One and Tier Two Capital	**15,601**	14,799	5
Less Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1)	**(1,741)**	(2,005)	(13)
Less Other deductions	**(40)**	(114)	(65)
Capital Base	**13,820**	12,680	9

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

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

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

- an increase in tier 1 capital of $546 million due principally to increased retained earnings and the issue of additional shares to satisfy the DRP in respect of the final dividend for 2000/1.
- the capital base increased by $1,140 million partly due to the increase in the tier 1 capital noted above, a reduced deduction for the investment in life insurance and funds management businesses (mainly due to an increase in the non-recourse borrowings that fund this investment) and an increase in eligible dated subordinated debt issues.
- risk weighted assets increased from $138 billion to $141 billion. Loans secured by residential mortgages increased by $8.5 billion. However, the increase in risk weighted assets figure masks a reduction achieved by improved classification of assets by risk weight, principally through the identification of additional eligible security and by more accurate classification of counterparties.

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

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

Capital Adequacy (continued)

In September 2001, 5,954,040 new shares were issued at $28.79 each to satisfy shareholder participation in the DRP in respect of the final dividend for 2000/1. The Bank purchased on market the shares needed to satisfy shareholder participation in the DRP in respect of the interim dividend for 2001/2. It expects to do the same in respect of the final dividend for 2001/2.

New Capital Accord

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

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

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

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

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

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

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

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

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

Financial Conglomerates

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

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

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

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

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

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

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

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

See Note 31 for further detail.

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 45 banking groups operating in Australia at 30 June 2002. Banks in Australia can be divided into the following categories: Australian owned banks, foreign bank subsidiaries and branches of foreign owned banks.

Among the Australian owned banks (of which there are 13) the four largest (CBA, NAB, Westpac and ANZ) are typically referred to as Australia's major banks. Each of the major banks offers a full range of financial products and services through branch networks across Australia.

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

There are 12 foreign owned banks operating in Australia through a locally incorporated subsidiary. An additional 24 banks conduct operations through a foreign bank branch. While many foreign banks operating in Australia initially focussed their activities on the provision of banking services to the Australian clients of their overseas parent bank, most have now diversified their operations, offering local clients a broad range of financial products and services. Foreign bank branches in Australia are not able to offer retail deposit and transaction accounts to customers. Four foreign banks are represented in Australia by both a locally incorporated subsidiary and a branch.

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

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

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

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

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

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

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

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

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

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

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Description of Business Environment (continued)

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.

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

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

Outsourcing

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

Description of Business Environment (continued)

Banks' Association With Non-Banks

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

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

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

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

Supervision of non-bank group entities

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

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

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

The financial condition of life insurance companies is monitored through regular financial reporting, 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.

Critical Accounting Policies and Estimates

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

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

Provisions for Impairment

Provisions for impairment are maintained at an amount adequate to cover anticipated credit related losses.

Credit losses arise primarily from loans but also from other credit instruments such as bank acceptances, contingent liabilities, financial instruments and investments and assets acquired through security enforcement.

Specific Provisions

Specific provisions are maintained where full recovery of principal is considered doubtful.

Specific provisions are made against individual facilities in the credit risk rated managed segment where exposure aggregates to $250,000 or more, and a loss of $10,000 or more is expected. The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken.

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

Specific provisions are provided for from the general provision.

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

General Provision

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

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

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

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

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

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

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

Life Insurance Policyholder Liabilities

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

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

Description of Business Environment (continued)

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

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

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

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

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

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

Market Valuation of Life Insurance Controlled Entities

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

On consolidation the investment in controlled entities is eliminated and the excess of market value of controlled entities over their underlying net assets is separately recognised in Other Assets (Note 21) on the balance sheet as 'Excess of Net Market Value over Net Tangible Assets of Life Insurance Controlled Entities'. This amount is assessed periodically as part of the valuation of investments with changes in value taken to profit. This excess does not require amortisation in the financial statements.

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

Economic assumptions are the long term view on key economic drivers and comprise investment earnings rates, risk discount rates and inflation. The economic assumptions are reviewed as a suite to take account of the correlation between the movements in each factor.

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

- Sales/new business
- Claims
- Persistency
- Expenses

The major business assumptions for funds management businesses are:

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

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

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	Chief Executive Officer				Member
N R Adler, AO	Non executive				Member	
R J Clairs, AO	Non executive			Member		
A B Daniels, OAM	Non executive			Member		
C R Galbraith	Non executive					Member
W G Kent, AO	Non executive					Member
F D Ryan	Non executive				Member	
F J Swan	Non executive		Member			Member
B K Ward	Non executive				Member	

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

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

The Constitution of the Bank specifies that:

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

The Board has adopted a policy that, with a phasing in provision dealing with existing directors, the maximum term of appointment of directors to the Board would normally be limited to twelve years. Directors do not stand for re-election after attaining the age of 70.

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

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

The Nominations Committee of the Board critically reviews, at least annually, the corporate governance procedures of the Bank and the composition and effectiveness of the Commonwealth Bank Board and the boards of the major wholly owned subsidiaries. The policy of the Board is that the Committee shall consist solely of non-executive directors and that the Chairman of the Bank shall be Chairman of the Committee. The Chief Executive Officer attends Committee meetings by invitation.

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

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

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

Remuneration Arrangements

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined, is divided between the directors as they agree. The policy of the Board is that the aggregate amount should be set at a level which provides the Bank with the necessary degree of flexibility to enable it to attract and retain the services of directors of the highest calibre. The latest determination was at the Annual General Meeting held on 28 October 1999 when shareholders approved an aggregate remuneration of

Corporate Governance (continued)

$1,500,000 per year. The Nominations Committee reviews the fees payable to non executive directors. Details of individual Directors' remuneration and the bands of remuneration are set out in Note 45. Directors' fees do not incorporate any bonus or incentive element.

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

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

The Board has decided to discontinue the retirement scheme which provides for benefits to be paid to non executive directors. The terms of this scheme, which were approved by shareholders at the 1997 Annual General Meeting, allow for a benefit on a pro rata basis to a maximum of four years' total emoluments after twelve years' service. The entitlements of current, non-executive directors will not be affected but no new members will be admitted to the scheme.

The Board has established a Remuneration Committee to:

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

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

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

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

Audit Arrangements

Ernst & Young was appointed as the auditor of the Bank at the 1996 Annual General Meeting and continues to fulfil that office. The Bank currently requires the partner managing the audit to be changed within a period of five years.

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

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

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

- bookkeeping or other services relating to accounting records or design and implementation of financial information systems;
- appraisal or valuation and fairness opinions;
- advice on deal structuring and assistance in related documentation;
- provision of tax planning and strategic advice;
- actuarial advisory services;
- executive recruitment services or extensive human resources functions;
- acting as broker-dealer, promoter or underwriter; or
- provision of legal services.

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

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

In carrying out these functions, the Committee:

- reviews the financial statements and reports of the Group;
- reviews accounting policies to ensure compliance with current laws, relevant regulations and accounting standards;
- conducts any investigations relating to financial matters, records, accounts and reports which it considers appropriate; and
- reviews all material matters requiring exercise of judgement by management and reports those matters to the Board.

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

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

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

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

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

Risk Management

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

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

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

Independent Professional Advice

The 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 of all employees 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.

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 Chief Executive Officer, 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 2002.

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

John T Ralph, AC, Chairman

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

Deputy Chairman: Telstra Corporation Limited.

Director: BHP Billiton Limited and BHP Billiton plc.

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

Mr Ralph is a resident of Victoria. Age 69.

John M Schubert, Deputy Chairman

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

Chairman: Worley Limited Advisory Board and G2 Therapies Limited.

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

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

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

David V Murray, Managing Director and Chief Executive Officer

Mr Murray has been a member of the Board and Managing Director since June 1992. He holds a Bachelor of Business and Master of Business Administration and has thirty six years' experience in banking. Mr Murray is a member of the Risk Committee.

Director: Tara Anglican School for Girls Foundation Limited

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

Mr Murray is a resident of New South Wales. Age 53.

N R (Ross) Adler, AO

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

Chairman: Austrade and Amtrade International Pty Ltd.

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

Member: Advisory Council of Equity and Advisory Limited.

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

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

Reg J Clairs, AO

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

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

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

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

Mr Clairs is a resident of Queensland. Age 64.

A B (Tony) Daniels, OAM

Mr Daniels has been a member of the Board since March 2000 and is a member of the Remuneration Committee. He has extensive experience in manufacturing and distribution, being Managing Director of Tubemakers of Australia for eight years to December 1995, during a long career with that company.

Director: Australian Gas Light Company, Orica, and O'Connell St Associates.

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

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

Colin R Galbraith

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

Chairman: BHP Billiton Community Trust.

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

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

Mr Galbraith is a resident of Victoria. Age 54.

Warwick G Kent AO

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

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

Director: Perpetual Trustees Australia Limited Group.

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

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

Fergus D Ryan

Mr Ryan has been a member of the Board since March 2000 and is a member of the Audit Committee. He has extensive experience in accounting, audit, finance and risk management. He was a senior partner of Arthur Andersen until his retirement in August 1999 after thirty three years with that firm including five years as Managing Partner Australasia. Until 31 July 2002, he was Strategic Investment Co-ordinator and Major Projects Facilator for the Commonwealth Government.

Member: Prime Minister's Community Business Partnership.

Director: Australian Foundation Investment Company Limited

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

Mr Ryan is a resident of Victoria. Age 59.

Frank J Swan

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

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

Director: National Foods Limited and Catholic Ladies College Eltham.

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

Mr Swan is a resident of Victoria. Age 61.

Barbara K Ward

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

Chairperson: Country Energy.

Director: Rail Infrastructure Corporation and Allens Arthur Robinson

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

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

Directors' Report (continued)

Directors' Meetings

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

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

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

COMMITTEE MEETINGS

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

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

* The number of meetings held during the time the Director was a member of the relevant committee.
** Mr Clairs retired from the Audit Committee and was appointed to the Remuneration Committee on 31 March 2002.
*** Mr Adler retired from the Remuneration Committee and was appointed to the Audit Committee on 31 March 2002.
**** Mr Murray retired from the Remuneration and Nominations Committees on 8 May 2002.
ø Mr Swan was appointed to the Nominations Committee on 8 May 2002

Directors' Report (continued)

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.

Institutional and Business Services offers a full range of commercial products including business loans, equipment and trade finance, and rural and agribusiness products.

Corporate and business customers have access to financial markets services, securities underwriting, trading and distribution, corporate finance, equities, payments and transaction services, investment management and custody.

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

Funds Management

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

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

Life Insurance

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

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

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

There have been no significant changes in the nature of the principal activities of the Group during the financial year.

Consolidated Profit

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

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

The principal contributing factors to this increase were a growth in net interest income reflecting continued lending asset growth together with growth in commissions, funds management income and trading income, whilst expenses have been held stable.

Dividends

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

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

Review of Operations

An analysis of operations for the financial year is set out in the Financial Highlights on pages 5 to 7 and Business Analysis on pages 18 to 34.

Changes in State of Affairs

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

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

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

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

Events Subsequent to Balance Date

On 30 July 2002, the Group announced a proposal to merge the Colonial First State Property Trust Group with the Commonwealth Property Office Fund and the

Gandel Retail Trust. This will strengthen the Group's market position in both the wholesale and retail property funds management market.

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

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

The Directors are not aware of any other matter or circumstance that has occurred since the end of 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.

Future Developments and Results

Major developments which may affect the operations of the Group in subsequent financial years are referred to in the Strategy and Outlook section on page 11. In the opinion of the Directors, disclosure of any further information on likely developments in operations would be unreasonably prejudicial to the interests of the Group.

Environmental Regulation

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

Directors' Shareholdings

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

Options

An Executive Option Plan was approved by shareholders at the Annual General Meeting on 8 October 1996 and its continuation was further approved by shareholders at the Annual General Meeting on 29 October 1998. At the 2000 Annual General Meeting, shareholders approved the establishment of the Equity Reward Plan and on 31 October 2001, 31 January 2002 and 15 April 2002 a total of 3,007,000 options were granted by the Bank to 81 executives under this Plan. During the financial year and for the period to the date of this report 2,052,500 shares were allotted by the Bank consequent to the exercise of options granted under the Executive Option Plan. Full details of the Plan are disclosed in Note 29 to the financial statements.

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

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

Directors' Interests in Contracts

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

Directors' and Officers' Indemnity

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

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

The Directors, as named on pages 48 to 49 of this report, and the Secretaries of the Commonwealth Bank, being J D Hatton (Secretary) and H J Broekhuiise (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 (continued)

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

21 August 2002

Five Year Financial Summary

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

Five Year Financial Summary

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

(1) Dividends paid divided by earnings. The comparative ratios have been amended to the same basis as 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 2002

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

		Cents per share		
Earnings per share based on net profit distributable to members of the Bank				
Basic	7	**209.6**	189.6	291.2
Fully Diluted		**209.3**	189.3	290.7
Dividends provided for, reserved or paid per share attributable to shareholders of the Bank:				
Ordinary shares	6	**150**	136	130
Preference shares (issued 6 April 2001)		**970**	261	-

	$M	$M	$M
Net Profit comprises			
Underlying profit (cash earnings)	**2,501**	2,262	1,678
Less Restructuring charges (net of tax)	**-**	-	(86)
Plus Appraisal value uplift	**477**	474	1,165
Less Goodwill amortisation	**(323)**	(338)	(57)
Net Profit	**2,655**	2,398	2,700

Statements of Financial Position

As at 30 June 2002

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

Statements of Changes in Shareholders' Equity

For the Year ended 30 June 2002

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

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

Statements of Cash Flows

For the Year ended 30 June 2002

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

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

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies

(a) Bases of accounting

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

The accounting policies applied are consistent with those of the previous year.

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

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

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

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

(b) Historical cost

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

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

(c) Consolidation

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

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

(d) Investments in associated companies

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

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

(e) Foreign currency translations

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

The foreign currency assets and liabilities of overseas branches and overseas controlled entities are converted to Australian currency at 30 June 2002 in accordance with the current rate method. Profit and loss items for overseas branches and overseas controlled entities are converted to Australian dollars progressively throughout the year at the exchange rate current at the last calendar day of each month.

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

(f) Roundings

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

(g) Financial instruments

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

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

(h) Cash and liquid assets

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

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

Interest is taken to profit when earned.

NOTE 1 Summary of Significant Accounting Policies continued

(i) Receivables due from other financial institutions

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

(j) Trading securities

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

(k) Investment securities

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

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

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

(l) Repurchase agreements

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

(m) Loans, advances and other receivables

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

Non Accrual Facilities

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

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

Restructured Facilities

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

Assets Acquired Through Securities Enforcement (AATSE)

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

Bad Debts

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

(n) Leasing and leveraged leasing

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

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

NOTE 1 Summary of Significant Accounting Policies continued

(n) Leasing and leveraged leasing

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

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

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

(o) Provisions for impairment

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

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

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

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

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

(p) Bank acceptances of customers

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

(q) Deposits with regulatory authorities

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

(r) Shares in and loans to controlled entities

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

(s) Property, plant and equipment

At year end, independent market valuations, reflecting current use, were obtained for all individual property holdings (other than leasehold improvements). Directors adopt a valuation based on this independent advice. Adjustments arising from revaluation are reflected in Asset Revaluation Reserve, except to the extent the adjustment reverses a revaluation previously recognised in profit and loss. For the current year the revaluation had minimal effect on the level of the reserve. The potential effect of any capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount.

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

Equipment is shown at cost less depreciation calculated principally on a category basis at rates applicable to each category’s useful life. Depreciation is calculated using the straight line method. It is treated as an operating expense and charged to profit. The amounts charged for the year are shown in Note 2.

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

The useful lives of major depreciable assets are as follows:

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

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(t) Goodwill

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

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

(u) Other assets

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

Capitalisation of Computer Software Costs

In accordance with the American Institute of Certified Public Accountants Statement of Position 98-1 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use', the Group carries net unamortised capitalised computer software costs of $209 million as at 30 June 2002. Such costs are amortised over the assessed useful life of the projects, up to a maximum of 10 years. The usual period of amortisation is 2½ years, except for certain longer term projects. Software maintenance costs continue to be expensed as incurred.

(v) Deposits and other public borrowings

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

(w) Payables due to other financial institutions

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

(x) Provision for dividend

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

(y) Income taxes

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

(z) Provisions for employee entitlements

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

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

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

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

(aa) Provision for restructuring

Provision for Restructuring (2000)

In June 2000 the Group acquired a 100% interest in the Colonial Limited Group of companies. This resulted in consequent restructuring requirements within Commonwealth Bank's existing business. The provision for restructuring covers the integration of the Colonial operations into the existing Group and rationalisation of existing processing and administrative functions. The principal costs associated with this programme were in the area of redundancy, property and systems. Refer Note 20 for further details on the Colonial acquisition.

Restructuring Costs (2000)

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

(bb) Provision for self insurance

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

(cc) Debt issues

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

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

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

NOTE 1 Summary of Significant Accounting Policies continued

(dd) Bills payable and other liabilities

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

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

(ee) Loan capital

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

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

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

(ff) Shareholders' equity

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

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

General reserve is derived from revenue profits and is available for dividend except for undistributable profits in respect of the Group's life insurance businesses of $3,150 million, including the appraisal value uplift (2001: $2,699 million and 2000: $1,944 million).

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

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

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

(gg) Derivative financial instruments

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

Derivative financial instruments held or issued for trading purposes

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

Derivative financial instruments held or issued for purposes other than trading

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

Swaps

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

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

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

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

NOTE 1 Summary of Significant Accounting Policies continued

Forward rate agreements and futures

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

Options

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

Early termination

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

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

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

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

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

(ii) Revenue recognition

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

Interest income

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

Lending fees

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

Commission and other fees

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

Other income

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

(jj) Life Insurance Business

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

(i) All assets, liabilities, revenues, expenses and equity are included in the financial report irrespective of whether they are designated as relating to policyholders or to shareholders.
(ii) All assets are measured at net market values.
(iii) All liabilities are measured at net present values. Policy liabilities are calculated in accordance with the principles of Margin on Services (MoS) profit reporting as set out in Actuarial Standard AS 1.03: Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board. Other Liabilities are measured at net present value at reporting date.
(iv) Any life insurers within the Group that are parent entities recognise and disclose any excess or deficiency of the net market values of interests in subsidiaries over the net assets of those subsidiaries as an item in the financial report of the life insurer economic entity.
(v) Premiums and claims are separated on a product basis into their revenue, expense and change in liability components unless the separation is not practicable or the components cannot be reliably measured.
(vi) Returns on all investments controlled by a life insurer entity in the Group are recognised as revenues.
(vii) Participating benefits vested in relation to the financial year, other than transfers from unvested policyholder benefits liabilities, are recognised as expenses.
(viii) Reinsurance contracts taken are recognised on a gross basis.

NOTE 1 Summary of Significant Accounting Policies continued

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

Accounting policies and disclosures specific to life insurance business are required under AASB 1038. These are provided in this note and Notes 16, 21 and 34.

Premiums and Claims

(i) Investment linked business

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

(ii) Non-investment linked business

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

Market Value Accounting

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

Life insurance investment assets

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

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

Excess of Net Market Value over Net Assets of Controlled Entities

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

On consolidation the investment in controlled entities is eliminated and the excess of market value of controlled entities over their underlying net assets is separately recognised in Other Assets (Note 21) on the balance sheet as ‘Excess of Net Market Value over Net Tangible Assets of Life Insurance Controlled Entities’. This amount is assessed periodically as part of the valuation of investments with changes in value taken to profit. This excess does not require amortisation in the financial statements.

Life insurance policy liabilities and margin on services profit

Policy liabilities are calculated in accordance with the principles of Margin on Services (MoS) profit reporting as set out in Actuarial standard AS 1.03: Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board. Policy liabilities are calculated in a way which allows for the systematic release of planned profit margins as services are provided to policyowners and the revenues relating to those services are received. Selected profit carriers including premiums and anticipated annuity payments are used to determine profit recognition.

Profit

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

(i) Emergence of planned profit margins:

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

(ii) Difference between actual and planned experience:

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

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

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

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

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

Participating Policies

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

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

Policy Acquisition Costs

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

Changes in Accounting Policy (2000)

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

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

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

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

(kk) Loan Securitisation

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

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

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

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

NOTE 1 Summary of Significant Accounting Policies continued

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

(pp) Policy Changes (2001)

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

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

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

(qq) Abnormal Items (2000)

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

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

Notes to the financial statements

NOTE 2 Operating Profit

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

Notes to the financial statements

NOTE 2 Operating Profit continued

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

Notes to the financial statements

NOTE 3 Revenue from Ordinary Activities

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

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

NOTE 4 Average Balances and Related Interest

The table lists the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rates for each of 2000, 2001 and 2002. Averages used are predominantly daily averages. The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities. Overseas intergroup borrowings have been adjusted in the interest spread and margin calculations to more appropriately reflect the overseas cost of funds. Non-accrual loans are included in Interest Earning Assets under loans, advances and other receivables.

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

Notes to the financial statements

NOTE 4 Average Balances and Related Interest continued

Average Liabilities and Interest Expense

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

Notes to the financial statements

NOTE 4 Average Balances and Related Interest continued

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

NOTE 4 Average Balances and Related Interest continued

Changes in Net Interest Income: Volume and Rate Analysis

The preceding table shows the movement in interest income and expense due to changes in volume and changes in interest rates. Volume variances reflect the change in interest from the prior period due to movement in the average balance. Rate variance reflects the change in interest from 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
	2002	2001	2000
	$M	$M	$M
Net interest income	**4,710**	4,474	3,719
Average interest earning assets	**170,634**	160,607	129,163

Interest Margins and Spreads

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

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

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

(1) Difference between the average interest rate earned and the average interest rate paid on funds.
(2) A portion of the Group's interest earning assets is funded by net interest free liabilities and shareholders' equity. The benefit to the Group of these interest free funds is the amount it would cost to replace them at the average cost of funds.
(3) Net interest income divided by average interest earning assets for the period.
(4) The reduction of this free funding benefit reflects the lower market interest rates.

Notes to the financial statements

NOTE 5 Income Tax Expense

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

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

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

Notes to the financial statements

NOTE 5 Income Tax Expense continued

			GROUP		BANK
	2002 $M	2001 $M	2000 $M	**2002 $M**	2001 $M
The significant temporary differences are as follows:					
Deferred income tax assets arising from:					
Provisions not tax deductible until expense incurred	**337**	488	743	**257**	296
Other	**288**	206	156	**52**	62
Future income tax benefits (Note 21)	**625**	694	899	**309**	358
Deferred income tax liabilities arising from:					
Leveraged leasing	**240**	328	383	**34**	71
Lease financing	**100**	149	247	**23**	42
Other	**240**	625	569	**95**	264
Total deferred income tax liabilities (Note 24)	**580**	1,102	1,199	**152**	377
Future income tax benefits attributable to tax losses carried forward as an asset	**124**	-	181	**-**	-
Future income tax benefits not taken to account					
Valuation allowance					
Opening balance	**146**	173	146	**121**	167
Prior year adjustments	**(8)**	(2)	7	**(10)**	4
Benefits now taken to account	**(27)**	(65)	(11)	**(27)**	(64)
Benefits arising during the year not recognised	**57**	40	31	**48**	14
Closing balance (Note 21)	**168**	146	173	**132**	121

NOTE 6 Dividends Provided For, Reserved or Paid

Ordinary Shares					
Interim ordinary dividend (fully franked) of 68 cents per share (2001: 61 cents, 2000: 58 cents)					
Provision for interim ordinary dividend - cash component only	**852**	642	405	**852**	642
Declared final ordinary dividend (fully franked) of 82 cents per share (2001: 75 cents, 2000: 72 cents)					
Provision for final ordinary dividend - cash component only	**1,027**	765	708	**1,027**	765
Other provision	**-**	5	-	**-**	5
Preference Shares					
Preference dividends paid (fully franked) of 970 cents per share (2001: 261 cents)	**26**	-	-	**26**	-
Provision for preference dividend	**8**	9	-	**8**	9
Dividends provided for payments in cash or paid	**1,913**	1,421	1,113	**1,913**	1,421
Appropriations to Dividend Reinvestment Plan Reserve					
Interim ordinary dividend	**-**	131	118	**-**	131
Final ordinary dividend	**-**	168	200	**-**	168
Dividends appropriated to Dividend Reinvestment Plan Reserve	**-**	299	318	**-**	299
Total Dividends Provided for, Reserved or Paid	**1,913**	1,720	1,431	**1,913**	1,720
Other provision carried	**5**	-	-	**5**	-

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

Dividend Franking Account

After fully franking the final dividend to be paid for the year ended 30 June 2002 the amount of franking credits available as at 30 June 2002 to frank dividends for subsequent financial years is $400 million (30 June 2001: nil).

This figure is based on the combined franking accounts of the Group at 30 June 2002 and has been adjusted for franking credits that will arise from the payment of income tax payable on profits of the year ended 30 June 2002, franking debits that will arise from the payment of dividends proposed as at 30 June 2002 and franking credits that the Group may be prevented from distributing. The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. Dividend payments on or after 1 July 2002 will be franked at the 30% tax rate. These calculations have been based on the taxation law as at 30 June 2002.

NOTE 6 Dividends Provided For, Reserved or Paid continued

Dividend History

Half Year Ended	Cents Per Share	Half Year Payout Ratio[1]	Full Year Payout Ratio[1]	Full Year Payout Ratio Cash Basis[2]	DRP Price $	DRP Participation Rate[3]
31 December 1999	58	62.3%	-	-	24.42	22.6%
30 June 2000	72	48.8%	53.0%	85.3%	27.31	18.6%
31 December 2000	61	68.2%	-	-	30.82	18.6%
30 June 2001	75	74.0%	71.2%	75.5%	28.79	18.4%
31 December 2001	68	71.8%	-	-	31.96	18.7%
30 June 2002	82	71.6%	71.7%	76.2%	-	-

(1) Dividend Payout Ratio: dividends provided for, reserved or paid divided by earnings after abnormals.
(2) Payout ratio based on net profit after tax before goodwill amortisation and appraisal value uplift.
(3) DRP Participation Rate: the percentage of total issued share capital participating in the Dividend Reinvestment Plan.

NOTE 7 Earnings Per Share

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

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

NOTE 8 Cash and Liquid Assets

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

Notes to the financial statements

NOTE 9 Receivables from Other Financial Institutions

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

NOTE 10 Trading Securities

Australia				
Listed:				
Australian Public Securities				
Commonwealth and States	**72**	99	**72**	99
Local and semi-government	**182**	340	**182**	340
Treasury Notes	**6**	-	**6**	-
Bills of exchange	**1,535**	1,588	**1,595**	1,588
Other securities	**67**	36	**987**	1,039
Unlisted:				
Local and semi-government	**10**	-	**10**	-
Commercial paper	**163**	187	**163**	187
Certificates of deposit	**1,883**	745	**1,883**	736
Medium term notes	**1,644**	1,100	**609**	296
Other securities	**2**	-	**2**	-
Total Australia	**5,564**	4,095	**5,509**	4,285
Overseas				
Listed:				
Government securities	**150**	356	**20**	5
Eurobonds	**780**	617	**780**	617
Bills of exchange	**1,122**	950	**-**	-
Other securities	**348**	53	**361**	53
Unlisted:				
Government securities	**18**	-	**10**	-
Commercial paper	**401**	375	**18**	-
Certificates of deposit	**5**	-	**5**	-
Other securities	**1**	463	**-**	60
Total Overseas	**2,825**	2,814	**1,194**	735
Total Trading Securities	**8,389**	6,909	**6,703**	5,020

Notes to the financial statements

NOTE 11 Investment Securities

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

NOTE 11 Investment Securities continued

	GROUP Market Value At 30 June 2002 $M	2001 $M	2000 $M
Market Value			
Australia			
Australian Public Securities			
Commonwealth and States	**2,109**	1,926	2,672
Bills of exchange	**18**	85	30
Medium term notes	**973**	982	1,057
Other securities and equity investment	**1,042**	463	407
Total Australia	**4,142**	3,456	4,166
Overseas			
Government securities	**928**	379	295
Treasury notes	**-**	6	5
Certificates of deposit	**1,379**	1,416	1,181
Eurobonds	**1,263**	1,343	1,094
Medium term notes	**114**	172	153
Floating rate notes	**1,158**	1,422	578
Other securities and equity investments	**1,867**	1,627	1,677
Total Overseas	**6,709**	6,365	4,983
Total Investment Securities	**10,851**	9,821	9,149
Net Unrealised Surplus/(Deficit)	**85**	116	-

Gross Unrealised Gains and Losses of Group

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

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

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

(1) Equity derivatives are in place to hedge equity market risk in respect of structured equity products for customers. There are $12 million of net deferred losses on these contracts (2001: $107 million net deferred losses) which offset the above unrealised gains and these are disclosed within Note 39. At the end of the financial year $98 million of net deferred losses (2001: $21 million of deferred gains) are included in the amortised cost value.

Notes to the financial statements

NOTE 11 Investment Securities continued

Maturity Distribution and Average Yield

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

	Maturity Period at 30 June 2002								
	1 to 12 months		1 to 5 years		5 to 10 years		10 years or more		Total
	$M	%	$M	%	$M	%	$M	%	$M
Australia									
Australian Public Securities									
Commonwealth and States	**164**	**5.28**	**846**	**5.63**	**959**	**6.56**	**80**	**7.58**	**2,049**
Bank Bills	**18**	**4.37**	**-**	**-**	**-**	**-**	**-**	**-**	**18**
Medium Term Notes	**58**	**5.38**	**910**	**13.41**	**-**	**-**	**-**	**-**	**968**
Other securities, commercial paper and equity investments	**378**	**4.43**	**656**	**6.60**	**-**	**-**	**-**	**-**	**1,034**
Total Australia	**618**		**2,412**		**959**		**80**		**4,069**
Overseas									
Government securities	**540**	**5.83**	**304**	**3.42**	**73**	**1.33**	**-**	**-**	**917**
Certificates of Deposit	**1,379**	**2.63**	**-**	**-**	**-**	**-**	**-**	**-**	**1,379**
Eurobonds	**96**	**6.72**	**948**	**5.43**	**134**	**5.38**	**79**	**2.65**	**1,257**
Medium Term Notes	**9**	**4.40**	**-**	**-**	**105**	**2.78**	**-**	**-**	**114**
Floating rate notes	**198**	**2.83**	**517**	**4.24**	**386**	**2.83**	**60**	**3.48**	**1,161**
Other securities, commercial paper and equity investments	**148**	**7.23**	**1,243**	**7.24**	**407**	**5.54**	**71**	**6.22**	**1,869**
Total Overseas	**2,370**		**3,012**		**1,105**		**210**		**6,697**
Total Investment Securities	**2,988**		**5,424**		**2,064**		**290**		**10,766**
Maturities at Fair Value	**2,972**		**5,458**		**2,132**		**289**		**10,851**

Additional Disclosure

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

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

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

Notes to the financial statements

NOTE 12 Loans, Advances and Other Receivables

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

Leasing arrangements

Retail Financial Services provides vehicle and equipment lease finance to a broad range of industries including transport, service, earthmoving, construction, manufacturing and mining. Most lease finance arrangements are for terms between 3 and 5 years and rentals are generally payable monthly in advance. Institutional Banking provides leasing services and hire purchase to corporate clients for a range of equipment. They also arrange off balance sheet finance for large scale long life plant and equipment across different tax jurisdictions.

NOTE 12 Loans, Advances and Other Receivables continued

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

Maturity Distribution of Loans

The following table sets forth the contractual maturity distribution of the Group's loans, advances and other receivables (excluding bank acceptances) at 30 June 2002.

	GROUP Maturity Period at 30 June 2002			
	Maturing One Year or Less $M	**Maturing Between One & Five Years $M**	**Maturing After Five Years $M**	**Total $M**
Australia				
Government and Public Authorities	**811**	**703**	**952**	**2,466**
Agriculture, Forestry and Fishing	**1,359**	**1,596**	**938**	**3,893**
Financial, Investment and Insurance	**699**	**543**	**193**	**1,435**
Real Estate				
Mortgage (1)	**2,177**	**14,364**	**58,853**	**75,394**
Construction (2)	**1,155**	**766**	**261**	**2,182**
Personal	**4,762**	**6,522**	**204**	**11,488**
Lease Financing	**1,770**	**2,873**	**782**	**5,425**
Other Commercial and Industrial	**16,919**	**6,777**	**3,170**	**26,866**
Total Australia	**29,652**	**34,144**	**65,353**	**129,149**
Overseas				
Government and Public Authorities	**66**	**95**	**43**	**204**
Agriculture, Forestry and Fishing	**369**	**746**	**748**	**1,863**
Financial, Investment and Insurance	**835**	**1,495**	**705**	**3,035**
Real Estate				
Mortgage (1)	**2,782**	**2,455**	**5,207**	**10,444**
Construction (2)	**38**	**75**	**72**	**185**
Personal	**289**	**17**	**31**	**337**
Lease Financing	**53**	**140**	**63**	**256**
Other Commercial and Industrial	**2,461**	**1,174**	**938**	**4,573**
Total Overseas	**6,893**	**6,197**	**7,807**	**20,897**
Gross Loans, Advances and Other Receivables	**36,545**	**40,341**	**73,160**	**150,046**
Interest Rate Sensitivity of Lending				
Australia	**23,549**	**17,298**	**34,416**	**75,263**
Overseas	**5,575**	**1,951**	**2,299**	**9,825**
Total Variable Interest Rates	**29,124**	**19,249**	**36,715**	**85,088**
Australia	**6,103**	**16,846**	**30,937**	**53,886**
Overseas	**1,318**	**4,246**	**5,508**	**11,072**
Total Fixed Interest Rates	**7,421**	**21,092**	**36,445**	**64,958**
Gross Loans, Advances and Other Receivables	**36,545**	**40,341**	**73,160**	**150,046**

(1) Principally owner occupied housing. While most of these loans would have a contractual term of 20 years or more, the actual average term of the portfolio is less than 5 years.

(2) Financing real estate and land development projects.

Notes to the financial statements

NOTE 13 Provisions For Impairment

	GROUP					BANK	
	2002 $M	2001 $M	2000 $M	1999 $M	1998 $M	**2002 $M**	2001 $M
General Provisions							
Opening balance	**1,399**	1,358	1,081	1,076	690	**1,240**	1,004
Abnormal charge	**-**	-	-	-	370	**-**	-
Charge against profit	**449**	385	196	247	165	**405**	276
Acquired provisions, including fair value adjustments	**-**	51	214	-	-	**-**	229
Transfer to specific provisions	**(495)**	(411)	(140)	(239)	(155)	**(457)**	(291)
Bad debts recovered	**56**	88	54	51	48	**44**	54
Adjustments for exchange rate fluctuations and other items	**1**	(29)	(3)	(7)	-	**-**	(6)
	1,410	1,442	1,402	1,128	1,118	**1,232**	1,266
Bad debts written off	**(54)**	(43)	(44)	(47)	(42)	**(42)**	(26)
Closing balance	**1,356**	1,399	1,358	1,081	1,076	**1,190**	1,240
Specific Provisions							
Opening balance	**234**	432	275	279	241	**190**	175
Charge against profit							
New and increased provisions	**-**	-	-	-	105	**-**	-
Write-back of provisions no longer required	**-**	-	-	-	(37)	**-**	-
Acquired provisions, including fair value adjustments	**-**	6	219	-	-	**-**	28
Transfer from general provision for							
New and increased provisioning	**546**	495	236	284	175	**496**	312
Less write-back of provisions no longer required	**(51)**	(84)	(96)	(45)	(20)	**(39)**	(21)
Net transfer	**495**	411	140	239	155	**457**	291
Adjustments for exchange rate fluctuations and other items	**(11)**	(17)	5	(8)	(6)	**(12)**	21
	718	832	639	510	458	**635**	515
Bad debts written off	**(448)**	(598)	(207)	(235)	(179)	**(404)**	(325)
Closing balance	**270**	234	432	275	279	**231**	190
Total Provisions for Impairment	**1,626**	1,633	1,790	1,356	1,355	**1,421**	1,430
Specific provisions for impairment comprise the following segments:							
Provisions against loans and advances	**270**	233	431	275	279	**231**	190
Provisions for diminution	**-**	1	1	-	-	**-**	-
Total	**270**	234	432	275	279	**231**	190
	%	%	%	%	%	**%**	%
Provision Ratios [(1)]							
Specific provisions for impairment as % of gross impaired assets net of interest reserved	**30.54**	36.06	43.03	46.69	37.60	**30.72**	36.19
Total provisions for impairment as % of gross impaired assets net of interest reserved	**183.94**	251.62	178.29	230.22	182.61	**188.96**	272.38
General provisions as % of risk weighted assets	**0.96**	1.01	1.06	1.09	1.14	**0.91**	0.94
	$M	$M	$M	$M	$M	**$M**	$M
Charge to profit and loss for bad and doubtful debts comprises:							
General provisions	**449**	385	196	247	165	**405**	276
Specific provisions	**-**	-	-	-	68	**-**	-
Total Charge for Bad and Doubtful Debts	**449**	385	196	247	233	**405**	276
Ratio of net charge-offs during the period to Average gross loans, advances and other receivables outstanding during the period	**0.31%**	0.28%	0.16%	0.25%	0.26%	**0.34%**	0.27%

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

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

	GROUP		BANK	
	2002	2001	**2002**	2001
	$M	$M	**$M**	$M
Total charge for bad and doubtful debts	**449**	385	**405**	276
The charge is required for				
Specific Provisioning				
New and increased provisioning	**546**	495	**496**	312
Less provisions no longer required	**(51)**	(84)	**(39)**	(21)
Net specific provisioning	**495**	411	**457**	291
Provided from general provision	**(495)**	(411)	**(457)**	(291)
Charge to profit and loss	**-**	-	**-**	-
General Provisioning				
Direct write-offs	**51**	35	**42**	26
Recoveries of amounts previously written off	**(56)**	(88)	**(44)**	(54)
Movement in general provision	**(41)**	27	**(50)**	13
Funding of specific provisions	**495**	411	**457**	291
Charge to profit and loss	**449**	385	**405**	276
Total Charge for Bad and Doubtful Debts	**449**	385	**405**	276

Specific Provisions for Impairment by Industry Category

The following table sets forth the Group's specific provisions for impairment by industry category as at 30 June 1998, 1999, 2000, 2001 and 2002.

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

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

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

Bad Debts Written Off by Industry Category

The following table sets forth the Group's bad debts written-off and bad debts recovered for Financial Years 1998, 1999, 2000, 2001 and 2002.

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

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

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

Bad Debts Recovered by Industry Category

The following table sets forth the Group's bad debts recovered by industry category for Financial Years 1998, 1999, 2000, 2001 and 2002.

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

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

NOTE 14 Credit Risk Management

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

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

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

Statistically managed exposures generally comprise facilities of less than $250,000 for housing loan, credit card, personal loan and some leasing products. These exposures are generally not individually reviewed unless arrears occur. The portfolios are reviewed by business unit Credit Support and Monitoring with an overview by the Risk Asset Review unit.

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

Credit risk rated exposures generally comprise business and corporate exposures, including bank and government exposures. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default and the risk of loss in the event of default. Credit risk rated exposures are generally required to be reviewed at least annually, unless they are small transactions that are managed on a behavioural basis after their initial rating at origination. The risk rated segment is subject to inspection by the Risk Asset Review unit, which is independent of the business units and which reports quarterly on its findings to the Board Risk Committee.

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

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

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

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

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

NOTE 14 Credit Risk Management continued

Total Gross Credit Risk by Industry

The following table sets out the Group's Total Gross Credit Risk by industry as at 30 June 1998, 1999, 2000, 2001 and 2002. The industry profile of the loans, advances and other receivables content for the five financial years to 30 June 2002 is shown on page 96.

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

(1) The loss rate is the charge as a percentage of the credit risk.
(2) Principally owner occupied housing.
(3) Primarily financing real estate and land development projects.

The Group has a good quality and well diversified credit portfolio in Australia, with 47% of the exposure in mortgage loans and a further 12% in finance, investment and insurance (primarily banks). 18% of exposure is overseas, of which 27% is in mortgage loans. Overall over 60% of individually rated exposures in the commercial portfolio (including government and finance) are of investment grade or equivalent quality.

NOTE 14 Credit Risk Management continued

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

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

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

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

Notes to the financial statements

NOTE 14 Credit Risk Management continued

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

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

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

Notes to the financial statements

NOTE 14 Credit Risk Management continued

Impaired Assets by Industry and Status

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

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

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

Notes to the financial statements

NOTE 14 Credit Risk Management continued

The following table sets out the Group's Impaired Asset position by Industry and Status as at 30 June 2001.

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

Large Exposures

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

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

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

Notes to the financial statements

NOTE 14 Credit Risk Management continued

Credit Portfolio Receivables by Industry

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

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

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

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

Accounting by Creditors for Impairment of Loans (US GAAP definitions)		Year ended 30 June	
	2002	2001	2000 [(1)]
	$M	$M	$M
Impaired Loans (non accrual)	**920**	699	1,123
Impaired Loans with allowance for credit losses	**673**	514	760
- allowance for credit losses	**225**	203	411
Impaired Loans with no allowance for credit loss	**247**	185	363
Average investment in Impaired Loans	**810**	911	880
Income recognised on Impaired Loans	**30**	51	51 [(1)]

[(1)] Excluding Colonial

Notes to the financial statements

NOTE 15 Asset Quality continued

Impaired Assets

The following table sets forth the Group's impaired assets as at 30 June 1998, 1999, 2000, 2001 and 2002.

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

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

Notes to the financial statements

NOTE 15 Asset Quality continued

Movement in Impaired Asset Balances

The following table provides an analysis of the movement in the gross impaired asset balances for Financial Years 1998, 1999, 2000, 2001 and 2002.

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

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

Loans Accruing But Past Due 90 Days or More					at 30 June
	2002	2001	2000	1999	1998
	$M	$M	$M	$M	$M
Accruing loans past due 90 days or more					
Housing loans	**176**	218	211	182	249
Other loans	**73**	90	64	23	41
Total	**249**	308	275	205	290

Interest Income Forgone on Impaired Assets					Year Ended 30 June
	2002	2001	2000[2]	1999	1998
	$M	$M	$M	$M	$M
Interest income forgone					
Australia Non Accrual Facilities	**21**	8	4	17	34
Overseas Non Accrual Facilities	**7**	8	5	10	7
Total	**28**	16	9	27	41

Interest Taken to Profit on Impaired Assets					Year Ended 30 June
	2002	2001	2000[2]	1999	1998
	$M	$M	$M	$M	$M
Australia					
Non Accrual Facilities	**27**	37	45	33	34
Restructured Facilities	**-**	-	-	-	-
Overseas					
Non Accrual Facilities	**3**	14	6	-	-
OREO	**-**	-	-	-	-
Total interest taken to Profit	**30**	51	51	33	34

(2) Excluding Colonial

Notes to the financial statements

NOTE 15 Asset Quality continued

Impaired Assets

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

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

NOTE 15 Asset Quality continued

Colonial State Bank

Indemnified loan book

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

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

Selected Regional Exposures

Asia

Over 57% of total exposures relate to financial institutions. Exposures to Indonesia, Thailand and Korea represent approximately 21% of the Bank's Asian credit risk.

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

CUSTOMER TYPE

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

Other Regional Exposures

CUSTOMER TYPE

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

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

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

Notes to the financial statements

NOTE 16 Life Insurance Investment Assets

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

Direct investments refer to investments that are directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles. Prior year classifications between Direct and Indirect have been restated to conform with basis of current year disclosure.

Disclosure on Asset Restriction

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

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

NOTE 17 Deposits With Regulatory Authorities

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

NOTE 18 Shares in and Loans to Controlled Entities

	GROUP 2002 $M	GROUP 2001 $M	BANK 2002 $M	BANK 2001 $M
Shares in controlled entities	**-**	-	**10,545**	9,847
Loans to controlled entities	**-**	-	**11,324**	6,578
Total Shares in and Loans to Controlled Entities	**-**	-	**21,869**	16,425

NOTE 19 Property, Plant and Equipment

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

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

(b) Leasehold Improvements				
At cost	**531**	444	**436**	388
Provision for depreciation	**(326)**	(275)	**(278)**	(251)
Closing balance	**205**	169	**158**	137
(c) Equipment				
At cost	**580**	574	**318**	329
Provision for depreciation	**(441)**	(404)	**(260)**	(269)
Closing balance	**139**	170	**58**	60
Total Property, Plant and Equipment	**862**	919	**641**	688

	GROUP		BANK	
	2002	2001	**2002**	2001
Reconciliation	**$M**	$M	**$M**	$M

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

Land				
Opening balance	**191**	222	**179**	208
Disposals	**(30)**	(36)	**(30)**	(29)
Net revaluations	**(1)**	5	**-**	-
Closing balance	**160**	191	**149**	179
Buildings				
Opening balance	**389**	508	**312**	334
Acquisitions	**29**	42	**19**	41
Disposals	**(34)**	(132)	**(32)**	(37)
Depreciation	**(26)**	(29)	**(23)**	(26)
Closing balance	**358**	389	**276**	312
Leasehold Improvements				
Opening balance	**169**	196	**137**	126
Acquisitions	**84**	46	**62**	26
Disposals	**(6)**	(2)	**(4)**	(2)
Transfers	**5**	-	**-**	13
Asset writedown	**-**	(26)	**-**	-
Depreciation	**(47)**	(45)	**(37)**	(26)
Closing balance	**205**	169	**158**	137
Equipment				
Opening balance	**170**	147	**60**	71
Acquisitions	**51**	99	**25**	15
Disposals	**(27)**	-	**(1)**	-
Depreciation	**(55)**	(76)	**(26)**	(26)
Closing balance	**139**	170	**58**	60

NOTE 20 Intangible Assets

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

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

Acquisition of Colonial

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

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

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

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

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

Goodwill

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

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

	2000
	$M
Consideration	
351,409,450 new Commonwealth Bank shares @ $26.39	9,274
Income securities payout	800
Transaction costs	46
Preacquisition dividend received	(1,000)
Cost of Acquisition	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

	2001	Revision	2000
	$M	$M	$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

NOTE 21 Other Assets

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

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

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

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

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

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

An internal group restructuring of Colonial's life and funds management businesses was completed in June 2000, whereby all these businesses, except for some Asian businesses, were transferred to The Colonial Mutual Life Assurance Society Limited (CMLA), a life insurance controlled entity. These life and funds management businesses are valued at market value by CMLA. Consistent with the principles of market value accounting, as specified by AASB 1038: Life Insurance Business, the above resulting excess of net market value over net tangible assets of life insurance controlled entities is not amortised. The CFS Property funds management business was transferred under CMLA in June 2002.

Potential future income tax benefits of the Company arising from tax losses in offshore centres and timing differences have not been recognised as assets because recovery is not virtually certain. These benefits, which could amount to $168 million (2001: $146 million) will only be obtained if:

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

NOTE 22 Deposits and Other Public Borrowings

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

Maturity Distribution of Certificates of Deposit and Time Deposits

The following table sets forth the maturity distribution of the Group's certificates of deposits and time deposits as at 30 June 2002.

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

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

Notes to the financial statements

NOTE 23 Payables to Other Financial Institutions

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

NOTE 24 Income Tax Liability

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

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

NOTE 25 Other Provisions

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

NOTE 26 Debt Issues

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

The Bank has a Euro Medium Term Note programme under which it may issue notes (Euro MTN's) up to an aggregate amount of USD10 billion. Notes issued under the programme are both fixed and variable rate.

Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework.

Subsequent to 30 June 2002, the Bank has issued:

- USD7.3 million Euro MTNs due July 2004 (AUD13 million);
- USD30 million Euro MTNs due July 2007 (AUD53 million);
- HKD120 million Euro MTNs due January 2004 (AUD27 million);
- AUD1.4 billion Euro MTNs due July 2005;
- HKD120 million Euro MTNs due July 2005 (AUD27 million);
- USD6.4 million Euro MTNs due January 2003 (AUD11.3 million);
- AUD 20 million Euro MTNs due August 2005;
- USD 10 million Euro MTNs due August 2005 (AUD 18 million);
- USD 30 million Euro MTNs due August 2007 (AUD 53 million); and
- HKD 200 million Euro MTNs due August 2005 (AUD 46 million).

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

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

NOTE 26 Debt Issues continued

Short Term Borrowings

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

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

(1) The amount outstanding at period end is reported on a book value basis (amortised cost).
(2) The maximum and average amounts over the period are reported on a face value basis because the book values of these amounts are not available. Any difference between face value and book value would not be material given the short term nature of the borrowings.
(3) Commercial bills sold under non recourse arrangements.

Exchange Rates Utilised

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

Notes to the financial statements

NOTE 26 Debt Issues continued

Guarantee Arrangements

Commonwealth Bank of Australia

The due payment of all monies payable by the Bank was guaranteed by the Commonwealth of Australia under section 117 of the Commonwealth Bank's Act 1959 (as amended) at 30 June 1996. This guarantee has been progressively phased out following the sale of the Commonwealth of Australia's shareholding in the Bank on 19 July 1996.

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

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

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

Accordingly, demand deposits are no longer guaranteed. Term deposits outstanding at 19 July 1999 remain guaranteed until maturity. The run off of the Government guarantee has no effect on the Bank's access to deposit markets.

Commonwealth Development Bank

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

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

- all lending assets as at 30 June 1996 have been quarantined in CDBL, consistent with the Charter terms on which they were written;
- the CDBL's liabilities continue to remain guaranteed by the Commonwealth; and
- CDBL ceased to write new business or incur additional liabilities from 1 July 1996. From that date, new business that would have previously been written by CDBL is being written by the rural arm of the Bank.

The due payment of all monies payable by CDBL is guaranteed by the Commonwealth of Australia under Section 117 of the Commonwealth Banks Act 1959 (as amended). This guarantee will continue to be provided by the Commonwealth whilst quarantined assets are held. The value of the liabilities under the guarantee will diminish as quarantined assets reach maturity and are repaid.

State Bank of NSW (known as Colonial State Bank)

The enabling legislation for the sale of the State Bank of New South Wales Limited (SBNSW), the State Bank (Privatisation) Act 1994 – Section 12 and the State Bank (Corporatisation) Act 1989 – Section 12 (as amended), provides in general terms for a guarantee by the NSW Government in respect of all funding liabilities and off balance sheet products (other than demand deposits) incurred or issued prior to 31 December 1997 by SBNSW until maturity and a guarantee for demand deposits accepted by SBNSW up to 31 December 1997. Other obligations incurred before 31 December 1994 are also guaranteed to their maturity. On 4 June 2001 Commonwealth Bank of Australia became the successor in law to SBNSW pursuant to the Financial Sector Transfers of Business) Act 1999. The NSW Government guarantee of the liabilities and products as described above continues unchanged by the succession.

NOTE 27 Bills Payable and Other Liabilities

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

Notes to the financial statements

NOTE 28 Loan Capital

				GROUP			BANK		
				2002 $M	2001 $M	2000 $M	**2002 $M**	2001 $M	2000 $M
Tier 1 Capital		**Currency Amount (M)**							
Exchangeable	FRNs	USD300	(1)	**70**	78	92	**70**	78	92
Exchangeable	FRNs	USD400	(2)	**168**	187	159	**168**	187	159
Undated	FRNs	USD100	(3)	**177**	197	167	**177**	197	167
				415	462	418	**415**	462	418
Tier 2 Capital									
Extendible	FRNs	AUD25	(4)	**25**	25	25	**25**	25	25
Extendible	FRNs	AUD275	(4)	**275**	275	275	**275**	275	275
Subordinated	MTNs	AUD185	(5)	**186**	185	185	**186**	185	185
Subordinated	FRNs	AUD115	(5)	**115**	115	115	**115**	115	115
Subordinated	FRNs	AUD25	(6)	**25**	25	25	**25**	25	25
Subordinated	MTNs	AUD200	(7)	**199**	200	200	**199**	200	200
Subordinated	FRNs	AUD50	(7)	**50**	50	50	**50**	50	50
Subordinated	Notes	USD300	(8)	**532**	591	502	**532**	591	502
Subordinated	FRNs	USD450	(8)	**795**	882	746	**795**	882	746
Subordinated	EMTN's	JPY20,000	(9)	**293**	326	277	**293**	325	277
Subordinated	EMTN's	USD200	(10)	**313**	314	314	**313**	314	314
Subordinated	EMTN's	USD75	(11)	**115**	115	115	**115**	115	115
Subordinated	EMTN's	USD100	(12)	**152**	152	152	**152**	152	152
Subordinated	EMTN's	USD400	(13)	**501**	501	501	**501**	501	501
Subordinated	EMTN's	GBP200	(14)	**408**	408	408	**408**	408	408
Subordinated	EMTN's	JPY30,000	(15)	**525**	582	495	**525**	582	495
Subordinated	Loan	NZD100	(16)	**90**	79	79	**-**	-	-
Subordinated	FRNs	AUD210	(17)	**210**	210	210	**210**	210	-
Subordinated	FRNs	AUD38	(18)	**38**	38	38	**38**	38	-
Subordinated	Notes	AUD130	(19)	**130**	130	130	**130**	130	-
Subordinated	Other	AUD35	(20)	**35**	39	39	**35**	39	-
				5,012	5,242	4,881	**4,922**	5,162	4,385
Total Loan Capital				**5,427**	5,704	5,299	**5,337**	5,624	4,803

Where a foreign currency hedge is in place to utilise a loan capital issue in a currency other than that of its original issue, the AUD equivalent value is shown net of the hedge.

(1) USD 300 million Undated Floating Rate Notes (FRNs) issued 11 July 1988 exchangeable into Dated FRNs.

Outstanding notes at 30 June 2002 were:

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

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

Outstanding notes at 30 June 2002 were:

Due February 2005	:	USD64 million
Due February 2006	:	USD24 million
undated	:	USD7 million

(3) USD 100 million Undated Capital Notes issued on 15 October 1986.

The Bank has entered into separate agreements with the Commonwealth of Australia relating to each of the above issues (the Agreements') which qualify the issues as Tier 1 capital.

The Agreements provide that, upon the occurrence of certain events listed below, the Bank may issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth of Australia) rights to all shareholders to subscribe for fully paid ordinary shares up to an amount equal to the outstanding principal value of the relevant note issue or issues plus any interest paid in respect of the notes for the most recent financial year and accrued interest. The issue price of such shares will be determined by reference to the prevailing market price for the Bank's shares.

Any one or more of the following events may trigger the issue of shares to the Commonwealth of Australia or a rights issue:

- a relevant event of default (discussed below) occurs in respect of a note issue and the Trustee of the relevant notes gives notice to the Bank that the notes are immediately due and payable;
- the most recent audited annual financial statements of the Group show a loss (as defined in the Agreements);

NOTE 28 Loan Capital continued

- the Bank does not declare a dividend in respect of its ordinary shares;
- the Bank, if required by the Commonwealth of Australia and subject to the agreement of the APRA, exercises its option to redeem a note issue; or
- in respect of Undated FRNs which have been exchanged to Dated FRNs, the Dated FRNs mature.

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

The relevant events of default differ depending on the relevant Agreement. In summary, they cover events such as failure of the Bank to meet its monetary obligation in respect of the relevant notes; the insolvency of the Bank; any law being passed to dissolve the Bank or the Bank ceasing to carry on general banking business in Australia; and the Commonwealth of Australia ceasing to guarantee the relevant notes. In relation to Dated FRN's which have matured to date, the Bank and the Commonwealth agreed to amend the relevant Agreement to reflect that the Commonwealth of Australia was not called upon to subscribe for fully paid ordinary shares up to an amount equal to the principal value of the maturing FRNs.

(4) AUD 300 million Extendible Floating Rate Stock issued December 1989:
due December 2004 : AUD25 million
due December 2009 : AUD275 million

The Bank has entered into a separate agreement with the Commonwealth of Australia relating to the above issue (the 'Agreement') which qualifies the issue as Tier 2 capital. For capital adequacy purposes Tier 2 debt based capital is reduced each year by 20% of the original amount during the last 5 years to maturity.

The Agreement provides for the Bank to issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth of Australia) rights to all shareholders to subscribe for fully paid ordinary shares up to an amount equal to the outstanding principal value of the note issue plus any interest paid in respect of the notes for the most recent financial year and accrued interest. The issue price will be determined by reference to the prevailing market price for the Bank's shares.

Any one or more of the following events will trigger the issue of shares to the Commonwealth of Australia or a rights issue:

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

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

(5) AUD300 million Subordinated Notes, issued February 1999; due February 2009, split into $185 million fixed rate notes and $115 million floating rate notes.

(6) AUD25 million Subordinated FRN, issued April 1999, due April 2029.

(7) AUD 250 million Subordinated FRN, issued November 1999, due November 2009; split into $200 million fixed rate notes and $50 million floating rate notes.

(8) USD 750 million Subordinated Notes, issued June 2000, due June 2010; split into USD 300 million fixed rate notes and USD 450 million floating rate notes.

(9) JPY20 billion Perpetual Subordinated Euro MTN, issued February 1999.

(10) USD 200 million Subordinated EMTN, issued November 1999, due November 2009.

(11) USD 75 million Subordinated EMTN, issued January 2000, due January 2010.

(12) USD 100 million Subordinated EMTN, issued January 2000, due January 2010.

(13) USD400 million Subordinated Euro MTN issued June 1996; due July 2006.

(14) GBP200 million Subordinated Euro MTN issued March 1996; due December 2006.

(15) JPY30 billion Subordinated Euro MTN issued October 1995; due October 2015.

(16) NZD100 million Subordinated matures 15 December 2009. With a coupon rate of 8.30% until 15 December 2004, after which the rate will be reset against the three month Bank Bill Benchmark rate. The subordinated debt is callable on 15 December 2004.

(17) AUD210 million Euro FRN issued 3 September 1996, maturing 10 September 2004.

(18) AUD38 million FRN issued 15 December 1997, maturing 15 December 2004.

(19) AUD130 million Subordinated Notes comprised as follows: AUD10 million fixed rate notes issued 12 December 1995, maturing 12 December 2005. AUD110 million floating rate notes issued 12 December 1995, maturing 12 December 2005. AUD5 million fixed rate notes issued 17 December 1996, maturing 12 December 2005. AUD5 million floating rate notes issued 17 December 1996, maturing 12 December 2005.

(20) Comprises 12 subordinated Notes and FRN issues. The face value amounts are less than $10 million each and are all in Australian Dollars. The maturity ranges from October 2003 to October 2009.

NOTE 29 Share Capital

Issued and Paid Up Ordinary Capital	2002 $M	BANK 2001 $M
Ordinary Share Capital		
Opening balance	**12,455**	12,521
Buy Back	**-**	(275)
Dividend reinvestment plan: 1999/2000 Final Dividend	**-**	169
Buy Back for DRP: 2000/2001 Interim Dividend	**-**	(144)
Dividend Reinvestment Plan: 2000/2001 Interim Dividend	**-**	144
Sell down of remaining shares from DRP: 2000/2001 Interim Dividend	**-**	4
Dividend Reinvestment Plan: 2000/2001 Final Dividend	**171**	-
Buy Back for DRP: 2001/2002 Interim Dividend	**(158)**	-
Dividend Reinvestment Plan: 2001/2002 Interim Dividend	**158**	-
Employee Share Subscription Plan	**-**	3
Exercise of Executive Options	**39**	37
Issue costs	**-**	(4)
Closing balance	**12,665**	12,455

Shares on Issue	Number	Number
Opening balance	**1,244,015,455**	1,260,201,978
Buy Back	**-**	(25,927,367)
Dividend reinvestment plan issues:		
2000 Final Dividend fully paid ordinary shares at $27.31	**-**	6,324,869
2001 Interim Dividend fully paid ordinary shares at $30.82	**-**	4,514,948
2001 Final Dividend fully paid ordinary shares at $28.79	**5,954,040**	-
Buyback for 2001 Interim Dividend	**-**	(4,652,665)
Buyback for 2002 Interim Dividend	**(4,951,275)**	-
2002 Interim Dividend fully paid ordinary shares at $31.96	**4,951,275**	-
Sell down of remaining shares not issued in DRP	**-**	137,717
Exercise under Executive Option Plan	**2,052,500**	2,435,000
Employee Share Subscription Plan issues	**-**	107,550
Employee Share Acquisition Plan issues	**899,368**	873,425
Closing balance	**1,252,921,363**	1,244,015,455

Terms and Conditions of Ordinary Share Capital

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from sale of surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Preference Share Capital	2002 $M	BANK 2001 $M
Issued and Paid Up PERLS Capital		
Opening balance	**687**	-
PERLS issued	**-**	700
Issue costs	**-**	(13)
Closing balance	**687**	687

PERLS in Issue	Number	Number
Opening balance	**3,500,000**	-
PERLS issued	**-**	3,500,000
Closing balance	**3,500,000**	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. If a dividend is not paid the Bank will not be permitted to pay dividends on any of its ordinary shares until four consecutive dividends are paid on the PERLS. Holders of Commonwealth Bank PERLS will rank ahead of holders of ordinary shares in a winding up to the extent of the issue price of the Commonwealth Bank PERLS.

Holders of PERLS are entitled to vote at a general meeting of the issuer in limited circumstances.

NOTE 29 Share Capital (continued)

Employee Share Plans

The Bank has in place the following employee share plans:

- Commonwealth Bank Employee Share Acquisition Plan (ESAP);
- Commonwealth Bank Equity Participation Plan (EPP);
- Commonwealth Bank Equity Reward Plan (ERP); and
- Commonwealth Bank Non-Executive Directors Share Plan (NEDSP).

The ESAP and ERP were each approved by shareholders at the Annual General Meeting (AGM) on 26 October 2000. Shareholders consent was not required for either the EPP or NEDSP but details were included in the Explanatory Memorandum to the meeting to ensure shareholders were fully informed.

Employee Share Acquisition Plan (ESAP)

The ESAP provides employees of the Bank with up to $1,000 worth of free shares per annum subject to a performance target being met. The performance target is growth in annual profit of the greater of 5% or consumer price index plus 2%. Whenever annual profit growth exceeds CPI change, the Board may use its discretion in determining whether any grant of shares will be made.

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

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

Details of issues under this plan are:

Offer	Issue Date	Ordinary Shares Issued(1)	Bonus Ordinary Shares Issued(2)	No. of Participants	Shares issued to each Participant	Issue Price(3)
1996	2 Jan 1997	27,755	2,275,910	27,755	83	$12.04
	18 Mar 1997	13	1,066	13	83	$12.04
1997	11 Dec 1997	3,025	1,637,273	28,281	58	$17.16
	3 Feb 1998	-	232	4	58	$17.16
1999	24 Sep 1999	-	1,053,199	24,493	43	$23.12
2000	13 Oct 2000	-	872,620	24,932	35	$27.78
	20 Dec 2000	-	805	23	35	$27.78
2001	31 Oct 2001	-	893,554	26,281	34	$28.95
	3 Dec 2001	-	3,876	114	34	$28.95
	31 Jan 2002	-	1,938	57	34	$28.95

(1) For the 1996 and 1997 Offers, new employee shareholders were granted one ordinary share with the remainder of shares issued as Bonus Ordinary Shares. For subsequent Offers both new and existing shareholders were granted Bonus Ordinary Shares.

(2) For the 1996 & 1997 Offers the bonus shares were fully paid up as issued shares utilising the Share Premium Reserve. With the removal of the Share Premium Reserve the bonus shares are issued from the Share Capital Account.

(3) The Issue Price x Shares issued to each Participant effectively represents about $1,000 of free shares.

Equity Participation Plan (EPP)

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

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

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

NOTE 29 Share Capital continued

Non-Executive Directors Share Plan (NEDSP)

The NEDSP provides for the acquisition of shares by Non-Executive Directors through the mandatory sacrifice of 20% of their annual fees (paid on a quarterly basis). Shares purchased are restricted for sale for 10 years or when the Director leaves the Board, whichever is earlier. Shares are purchased on-market at the current market price. The cost of the shares purchased is expensed. Details of shares purchased under this Plan so far are:

Quarter Ending	Total Fees Sacrificed	Participants	Shares Purchased	Average Purchase Price
31/12/2000	**$63,517**	11	1,989	$31.93
31/03/2001	**$65,917**	11	2,359	$27.94
30/06/2001	**$61,331**	10	1,820	$33.45
30/09/2001	**$62,005**	10	2,454	$25.44
31/12/2001	**$62,005**	10	2,091	$29.65
31/03/2002	**$62,005**	10	1,950	$31.83
30/06/2002	**$61,332**	10	1,848	$33.15

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

Equity Reward Plan (ERP)

For 2001/02 the ERP was in two parts, comprising grants of shares and grants of options. The option component of the ERP was similar to the previous Executive Option Plan (EOP) with the only difference being the maximum number of executives to whom the Plan will apply was increased from 50 to 100. The Board envisaged that up to 500 employees would participate in the share component of the Plan (including the up to 100 executives receiving options).

The exercise of options and the vesting of the employees' legal title to the shares are conditional on the Bank achieving a prescribed performance hurdle. The ERP performance hurdle is based on relative Total Shareholder Return (TSR) with the Bank's TSR performance being measured against a comparator group of companies. The comparator group (previously companies represented in the ASX's 'Banks and Finance Accumulation Index' excluding the Bank) has been widened to better reflect the Bank's business since the acquisition of Colonial.

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

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

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

Executive options are not currently recorded as an expense by the Group. Based on the current deliberations of the International Accounting Standards Board on recognition of an expense for equity based compensation, the Group would be required to recognise an expense for the fair value of options issued. During the current year 2,994,500 options were issued with a fair value of $2.01, with 12,500 options issued with a fair value of $1.53. This would result in an expense of $6.0 million being recorded by the Group. Fair value is determined using the Black-Scholes option pricing model and includes a 50% discount for probability of options not being exercised.

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

Options

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

(1) Options outstanding as at the date of the report.
(2) Will be adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of the vesting).
(3) Performance Hurdle must be satisfied between 14 September 2003 and 13 September 2005, otherwise options will lapse.
(4) Performance Hurdle must be satisfied between 4 September 2004 and 3 September 2006, otherwise options will lapse.

Notes to the financial statements

NOTE 29 Share Capital

Shares

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

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

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

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

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

Where the rating is at least at the 50th percentile on the third anniversary of the grant, the shares will vest at a time nominated by the executive, within the trading windows, over the next two years. The vesting percentage will be at least that achieved on the third anniversary of the grant and the executive will be able to delay vesting until a subsequent half yearly window prior to the fifth anniversary of the grant.

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

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

NOTE 29 Share Capital continued

Executive Option Plan (EOP)

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

Under the EOP, the Bank granted options to purchase ordinary shares to those key executives who, are able by virtue of their responsibility, experience and skill to influence the generation of shareholder wealth, were declared by the Board of Directors to be eligible to participate in the Plan. Non-Executive Directors were not eligible to participate in the Plan.

Options cannot be exercised before each respective exercise period and the ability to exercise is conditional on the Bank achieving a prescribed performance hurdle.

The performance hurdle is based on relative Total Shareholder Return (TSR) with the Bank's TSR performance being measured against a comparator group of companies. The comparator group (previously companies represented in the ASX's 'Banks and Finance Accumulation Index' excluding the Bank) has been widened to better reflect the Bank's business since the acquisition of Colonial.

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

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

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

Details of issues made under this plan are:

Commencement Date	Issue Date	Options Issued	Options Outstanding	Participants	Exercise Price(1)	Exercise Period
12 Nov 1996	16 Dec 1996	2,100,000	0	25	$11.85	13 Nov 1999 to 12 Nov 2001
3 Nov 1997	11 Dec 1997	2,875,000	50,000	27	$15.53(2)	4 Nov 2000 to 3 Nov 2002
25 Aug 1998	30 Sep 1998	3,275,000	1,047,500	32	$19.58(2)	26 Aug 2001 to 25 Aug 2003
24 Aug 1999	24 Sep 1999	3,855,000	3,450,000	38	$23.84(3)	25 Aug 2002 to 24 Aug 2009
13 Sep 2000	13 Oct 2000	2,002,500	1,654,200	50	$26.97(3)	14 Sep 2003 to 13 Sep 2010

(1) Market Value at the Commencement Date. Market Value is defined as the weighted average of the prices at which shares were traded on the ASX during the one week period before the Commencement Date.

(2) Premium adjustment (based on the actual difference between the dividend and bond yields at the date of vesting) was nil.

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

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

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

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

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

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

Share Buyback

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

In March 2001 the Bank made an off market buyback of $700 million of ordinary shares. The price per share paid by the Bank for the buyback shares was $27.84 calculated in accordance with the buyback offer. In accordance with an agreement reached with the Australian Taxation Office $10 per share of the consideration for each share bought back has been charged to paid up capital ($251 million).

The balance of $17.84 per share is deemed to be a fully franked dividend and charged to retained profits ($449 million). This buyback coincided with the new issue of preference shares as detailed previously. The balance of the equity reduction occurred by way of an on market buyback.

Notes to the financial statements

NOTE 30 Outside Equity Interests

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

NOTE 31 Capital Adequacy

Entities within the Group are subject to regulation by a variety of regulators.

The Bank is subject to regulation by the Australian Prudential Regulation Authority (APRA) and is required to maintain certain minimum ratios of capital to assets. These ratios are applied to the Bank as a stand-alone entity and on a consolidated basis to the Group. The minimum ratios are 4% for Tier 1 capital and 8% for the Capital Base.

Under APRA Prudential Standards, capital falls into two categories, known as Tier 1 and Tier 2. Tier 1 capital consists of shareholders funds and certain capital instruments that meet the standards set by APRA. The aggregate amount of capital instruments may not exceed 25% of shareholders funds. Intangible assets and future income tax benefits are deducted to arrive at Tier 1 capital. Part of the Group's investment in its life insurance and funds management businesses is also deducted to arrive at Tier 1 capital.

Tier 2 capital is divided into Upper Tier 2 capital (consisting of revaluation reserves, general provisions for doubtful debts, cumulative irredeemable preference shares and other hybrid capital instruments approved by APRA), and Lower Tier 2 capital (consisting of mandatory convertible notes, term subordinated debt, limited life redeemable preference shares and other capital instruments approved by APRA). Tier 2 capital may not exceed Tier 1 capital and Lower Tier 2 capital may not exceed 50% of Tier 1 capital.

The sum of Tier 1 and Tier 2 capital forms Total Capital. Investments in other banks and similar institutions are deducted from Total Capital to arrive at the Capital Base. Part of the Group's investment in its life insurance and funds management businesses is deducted to arrive at the Capital Base.

The Group's investment in its life insurance and funds management businesses is carried at the values disclosed in Note 34. Part of the investment is funded by debt in intermediate holding companies on a non-recourse basis (i.e. obligations to pay interest or repay principal are not guaranteed by the Bank). The part of the investment represented by shareholders' net tangible assets and the acquired value of in force business, net of the non-recourse debt, is deducted from Total Capital. The part of the investment represented by self-generated value of business in force and the value of future new business is deducted from Tier 1 capital.

For the purposes of calculating the ratios, risk weights are applied to balance sheet assets. These are intended to recognise the credit risk attached to categories of assets. There are four risk weights (0, 20, 50 or 100 per cent). Off balance sheet exposures are converted to on balance sheet credit equivalents using credit conversion factors relating to the nature of the exposure, then weighted in the same manner as balance sheet assets.

In addition to the capital requirements for credit risk, the Bank is also required to hold sufficient capital to cover market risk in its trading activities. Market risk is defined as the risk of losses in both on and off balance sheet positions arising from movements in market price. APRA require the measure of market risk to be multiplied by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8 per cent) to determine a notional risk weighted asset figure.

APRA applies similar regulatory capital requirements to Commonwealth Bank of Australia Limited and CBFC Limited.

ASB Bank Limited is subject to regulation by the Reserve Bank of New Zealand (RBNZ). RBNZ applies similar methodology in calculating the regulatory capital requirement. Although there are minor differences in the regulations applied by APRA and RBNZ, these are not material.

Banks may not pay dividends if immediately after payment, they are unable to meet the minimum capital requirements. APRA does not normally permit banks to pay dividends in excess of 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 2002, all statutory funds of the Group's life insurance companies in Australia met the capital adequacy test. In aggregate, at 30 June 2002, the excess over capital adequacy amounted to $346 million.

There are no regulatory capital requirements for life insurance companies in New Zealand. However the Group determines capital requirements on a basis similar to the requirements in Australia.

The life insurance business in Hong Kong is regulated by the Insurance Authority of Hong Kong. The minimum regulatory requirement comprises a solvency test defined in local regulations and ordinances.

NOTE 31 Capital Adequacy continued

Funds managers in Australia are subject to regulation by The Australian Securities and Investment Commission (ASIC) through their role in supervising Responsible Entities. The minimum regulatory capital requirements vary for Responsible Entities depending on the type of dealer licence held but a minimum requirement of $5 million of net tangible assets usually applies.

		GROUP
	2002	2001
	Actual	Actual
Risk Weighted Capital Ratios	**%**	%
Tier one	**6.78**	6.51
Tier two	**4.28**	4.18
Less deductions	**(1.26)**	(1.53)
Total	**9.80**	9.16

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

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

For an analysis of the movements in the capital ratios see page 39.

Notes to the financial statements

NOTE 31 Capital Adequacy continued

	Face Value 2002 $M	Face Value 2001 $M	Risk Weights %	Risk Weighted Balance 2002 $M	Risk Weighted Balance 2001 $M
Risk-weighted assets					
On balance sheet assets					
Cash, claims on Reserve Bank, short term claims on Australian Commonwealth and State Government and Territories, and other zero-weighted assets	**22,315**	16,604	0%	**-**	-
Claims on OECD banks and local governments	**13,401**	10,927	20%	**2,680**	2,185
Advances secured by residential property [1]	**86,378**	77,909	50%	**43,189**	38,954
All other assets	**77,474**	77,028	100%	**77,474**	77,028
Total on balance sheet assets - credit risk [2] [3]	**199,568**	182,468		**123,343**	118,167

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

(1) For loans secured by residential property approved after 5 September 1994, a risk weight of 100 per cent applied where the loan to valuation ratio is in excess of 80 per cent. Effective from 28 August 1998, a risk weight of 50 per cent applies to these loans if they are totally insured by an acceptable lender's mortgage insurer. Loans that are risk weighted at 100 per cent are reported under 'All other assets'.

(2) The difference between total on balance sheet assets and the Group's balance sheet reflects the alternative treatment of some assets and provisions as prescribed in APRA's capital adequacy guidelines; principally goodwill, general provisions for bad and doubtful debts, and investments in life insurance and funds management businesses.

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

(4) The reduction in commitments was achieved by improved classification of assets by risk weight, principally through the identification of additional eligible security and by more accurate classification of counterparties.

(5) Off balance sheet exposures secured by residential property account for $13.0 billion of off balance sheet credit equivalent assets ($6.5 billion of off balance sheet risk weighted assets).

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 2002			
	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	**2,266**	**-**	**3,778**	**-**	**-**	**-**	**-**	**6,044**
Receivables due from other financial institutions	**2,182**	**-**	**5,216**	**319**	**11**	**-**	**-**	**7,728**
Trading securities [1]	**-**	**-**	**8,389**	**-**	**-**	**-**	**-**	**8,389**
Investment securities	**-**	**-**	**2,883**	**105**	**5,424**	**2,354**	**-**	**10,766**
Loans, advances and other receivables [2]	**1,730**	**4,204**	**14,918**	**14,475**	**40,031**	**73,072**	**(1,356)**	**147,074**
Bank acceptances of customers	**-**	**-**	**11,201**	**1,316**	**-**	**-**	**-**	**12,517**
Life Assets	**4,490**	**-**	**1,601**	**772**	**4,332**	**3,413**	**15,501**	**30,109**
Other Monetary assets	**2**	**-**	**11,976**	**25**	**-**	**-**	**598**	**12,601**
Total Monetary assets	**10,670**	**4,204**	**59,962**	**17,012**	**49,798**	**78,839**	**14,743**	**235,228**
Liabilities								
Deposits and other public borrowings [3]	**75,368**	**-**	**32,778**	**16,959**	**6,231**	**1,451**	**13**	**132,800**
Payables due to other financial institutions	**1,726**	**-**	**5,671**	**405**	**12**	**50**	**-**	**7,864**
Bank acceptances	**-**	**-**	**11,201**	**1,316**	**-**	**-**	**-**	**12,517**
Life Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**25,917**	**25,917**
Debt issues and loan capital	**-**	**-**	**10,340**	**4,378**	**9,768**	**4,020**	**496**	**29,002**
Other monetary liabilities	**4**	**-**	**16,594**	**-**	**-**	**-**	**256**	**16,854**
Total monetary liabilities	**77,098**	**-**	**76,584**	**23,058**	**16,011**	**5,521**	**26,682**	**224,954**

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

(2) $75 billion of this figure represents owner occupied housing loans. While most of these loans would have a contractual term of 20 years or more, and are analysed accordingly, the actual average term of the portfolio has historically been less than 5 years.

(3) Includes substantial 'core' deposits that are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to Interest Rate Risk Sensitivity table in Note 39.

During the financial year, significant growth in variable rate, long-term loans occurred. This has been funded principally by at call variable rate retail deposits.

Notes to the financial statements

NOTE 32 Maturity Analysis of Monetary Assets and Liabilities continued

								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 three months.

(2) $65 billion of this figure represents owner occupied housing loans. While most of these loans would have a contractual term of 20 years or more, and are analysed accordingly, the actual average term of the portfolio has historically been less than 5 years.

(3) Includes substantial 'core' deposits that are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to Interest Rate Risk Sensitivity table in Note 39.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments

Primary Segment **Business Segments** **Financial Performance**	**Banking** **$M**	**Year Ended 30 June 2002** **Life** **Insurance** **$M**	**Funds** **Management** **$M**	**GROUP** **Total** **$M**
Interest income	**10,455**	**-**	**-**	**10,455**
Premium and related revenue	-	**1,140**	**-**	**1,140**
Other income	**3,180**	**(100)**	**809**	**3,889**
Appraisal value uplift	**-**	**-**	**-**	**477**
Total Revenue	**13,635**	**1,040**	**809**	**15,961**
Interest Expense	**5,745**	**-**	**-**	**5,745**
Segment result before tax, goodwill amortisation and appraisal value uplift	**2,884**	**240**	**294**	**3,418**
Income tax expense	**(816)**	**(22)**	**(78)**	**(916)**
Segment result after tax and before goodwill amortisation and appraisal value uplift	**2,068**	**218**	**216**	**2,502**
Outside equity interest	**(1)**	**-**	**-**	**(1)**
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	**2,067**	**218**	**216**	**2,501**
Goodwill amortisation [(1)]				**(323)**
Appraisal value uplift [(1)]				**477**
Net profit attributable to shareholders of the Bank	**2,067**	**218**	**216**	**2,655**
Non-Cash Expenses				
Goodwill amortisation				**(323)**
Charge for bad and doubtful debts	**(449)**	**-**	**-**	**(449)**
Depreciation	**(109)**	**(12)**	**(7)**	**(128)**
Other	**(43)**	**(1)**	**(2)**	**(46)**
Financial Position				
Total Assets	**211,130**	**35,637**	**2,881**	**249,648**
Acquisition of Property, Plant & Equipment and Intangibles	**147**	**4**	**13**	**164**
Associate Investments	**235**	**57**	**21**	**313**
Total Liabilities	**200,885**	**27,241**	**466**	**228,592**

(1) These are Group items and accordingly are not allocated to the business segments, which is consistent with management reporting.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

	Year Ended 30 June 2001			
Financial Performance	**Banking $M**	**Life Insurance $M**	**Funds Management $M**	**GROUP Total $M**
Interest income	11,900	-	-	11,900
Premium and related revenue	-	1,073	-	1,073
Other income	2,485	1,698	701	4,884
Appraisal value uplift	-	-	-	474
Total Revenue	14,385	2,771	701	18,331
Interest Expense	7,426	-	-	7,426
Segment result before tax, and appraisal value uplift, goodwill amortisation	2,512	514	243	3,269
Income tax expense	(705)	(194)	(94)	(993)
Segment result after income tax and before goodwill amortisation and appraisal value uplift	1,807	320	149	2,276
Outside equity interest	(14)	-	-	(14)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	1,793	320	149	2,262
Goodwill amortisation				(338)
Appraisal value uplift				474
Net profit attributable to shareholders of the Bank	1,793	320	149	2,398
Non-Cash Expenses				
Goodwill amortisation				(338)
Charge for bad and doubtful debts	(385)	-	-	(385)
Depreciation	(108)	(37)	(5)	(150)
Other	(28)	(5)	(4)	(37)
Financial Position				
Total Assets	191,333	37,278	1,800	230,411
Acquisition of Property, Plant & Equipment and Intangibles	129	-	3	391 [1]
Associate Investments	249	128	23	400
Total Liabilities	179,733	30,329	501	210,563

[1] Includes intangible assets of $259 million on acquisition of 25 % interest in ASB Group.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

	Year Ended 30 June 2000			
Financial Performance	**Banking $M**	**Life Insurance $M**	**Funds Management $M**	**GROUP Total $M**
Interest income	8,842	-	-	8,842
Premium and related revenue	-	337	-	337
Other income	1,987	1,066	143	3,196
Appraisal value uplift				1,165
Total Revenue	10,829	1,403	143	13,540
Interest Expense	5,123	-	-	5,123
Segment result before tax, appraisal value uplift, goodwill amortisation	2,310	176	50	2,536
Income tax expense	(739)	(47)	(14)	(800)
Segment result after income tax and before goodwill amortisation and appraisal value uplift	1,571	129	36	1,736
Outside equity interest	(38)	-	-	(38)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	1,533	129	36	1,698
Goodwill amortisation				(57)
Restructuring provision				(106)
Appraisal value uplift				1,165 (1)
	1,533	129	36	2,700
Non Cash Expenses				
Goodwill amortisation				(57)
Charge for bad and doubtful debts	(196)	-	-	(196)
Restructuring provision				(106)
Depreciation	(115)	(2)	-	(117)
Other	(41)	(2)	(1)	(44)
Financial Position				
Total Assets	185,108	32,642	509	218,259
Acquisition of Property, Plant & Equipment and Intangibles	94	-	-	8,137 (2)
Associate Investments	263	108	32	403
Total Liabilities	171,489	28,140	195	199,824

(1) $1,073 million of this amount was reported as abnormal income in this year.
(2) Includes intangible assets of $8,043 million on acquisition of Colonial Group.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

Secondary Segment **Geographical Segment**	**2002** **$M**	**%**	**2001** **$M**	**%**	**2000** **$M**	**%**
GEOGRAPHICAL SEGMENTS						
Revenue						
Australia	**12,651**	**79.3**	15,265	83.3	11,614	85.8
New Zealand	**1,591**	**10.0**	1,499	8.2	1,171	8.6
Other Countries *	**1,719**	**10.7**	1,567	8.5	755	5.6
	15,961	**100.0**	18,331	100.0	13,540	100.0
Net profit attributable to shareholders of the Bank						
Australia	**2,569**	**96.8**	2,228	92.9	2,536	93.9
New Zealand	**178**	**6.7**	159	6.6	105	3.9
Other Countries *	**(92)**	**(3.5)**	11	0.5	59	2.2
	2,655	**100.0**	2,398	100.0	2,700	100.0
Assets						
Australia	**208,673**	**83.6**	196,918	85.5	187,452	85.9
New Zealand	**24,579**	**9.8**	20,208	8.8	16,661	7.6
Other Countries *	**16,396**	**6.6**	13,285	5.7	14,146	6.5
	249,648	**100.0**	230,411	100.0	218,259	100.0
Acquisition of Property, Plant & Equipment and Intangibles						
Australia	**134**	**81.7**	360	92.1	7,906 (1)	97.2
New Zealand	**26**	**15.9**	29	7.4	231 (1)	2.8
Other Countries *	**4**	**2.4**	2	0.5	-	-
	164	**100.0**	391	100.0	8,137	100.0

* Other Countries are:
United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, the Philippines, Fiji, Thailand, Indonesia, Malaysia, China and Vietnam. Thailand and Malaysia operations were sold during the year ended 30 June 2002.

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

(1) Includes intangible assets of $8,043 million on acquisition of Colonial Group.

Notes to the financial statements

NOTE 34 Life Insurance Business

Bonuses

The following information, in accordance with AASB 1038, is provided to disclose life insurance business transactions contained in the Group financial statements and the underlying methods and assumptions used in their calculation. Also refer Notes 1 (jj) and 21.

Summarised Statement of Financial Performance	GROUP **2002** **$M**	 2001 $M
Premium and related revenue	**1,332**	1,237
Outward reinsurance premiums expense	**(192)**	(164)
Claims expense	**(447)**	(466)
Reinsurance recoveries	**89**	141
Investment revenue (excluding investments in subsidiaries)		
Equity securities	**(1,057)**	552
Debt securities	**878**	902
Property	**184**	277
Other	**(105)**	(33)
Life insurance policy liabilities expense	**315**	(1,178)
Margin on services operating income	**997**	1,268
Change in excess of net market values over net assets of life insurance controlled entities	**477**	474
Life Insurance operating income	**1,474**	1,742
Administration expense	**(757)**	(754)
Operating profit before income tax	**717**	988
Income tax attributable to operating profit	**(22)**	(194)
Operating profit after income tax	**695**	794

Sources of life insurance operating profit

The Margin on Services operating profit after income tax is represented by:

Emergence of planned profit margins	**234**	257
Difference between actual and planned experience	**(37)**	(63)
Movement in excess of net market value over net assets of controlled entities	**477**	474
Reversal of previously recognised losses or loss recognition on groups of related products	**(9)**	(2)
Investment earnings on assets in excess of policyholder liabilities	**33**	126
Other	**(3)**	2
Operating profit after income tax	**695**	794
Life insurance premiums received and receivable	**5,734**	6,510
Life insurance claims paid and payable	**5,755**	5,671

An analysis of this financial result is contained in the Life Insurance – Business Analysis section of this report.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Carrying Values of Life Insurance and Funds Management Business

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

Analysis of Movement since 30 June 2001	**Funds Management $M**	**Life Insurance Australia Investment $M**	**Life Insurance Australia Risk $M**	**Life Insurance New Zealand $M**	**Life Insurance Asia [5] $M**	**Total $M**
Profits	216	148	88	28	(46)	434
Capital movements	85	-	74	68	131	358
Dividends paid	(325)	(179)	(97)	(24)	-	(625)
Disposals of business [1]	-	-	-	-	(61)	(61)
FX Movements	(11)	-	-	26	(64)	(49)
Change in Shareholders NTA	**(35)**	**(31)**	**65**	**98**	**(40)**	**57**
Value transfer [3]	1,142	(1,142)	-	-	-	-
Acquired excess [2]	58	-	-	-	-	58
Disposals of business	-	-	-	-	(15)	(15)
Transfer of CFS Property [2]	147	-	-	-	-	147
Underlying Appraisal Value Uplift	234	48	83	54	(89)	330
Increase to 30 June 2002	**1,546**	**(1,125)**	**148**	**152**	**(144)**	**577**
Shareholders' Net Tangible Assets						
30 June 2001 balance	269	499	1,144	236	719	2,867
Profits	216	148	88	28	(46)	434
Net capital movements	(240)	(179)	(23)	44	131	(267)
Disposals of business [1]	-	-	-		(61)	(61)
Foreign Exchange Movements	(11)	-	-	26	(64)	(49)
30 June 2002 balance	**234**	**468**	**1,209**	**334**	**679**	**2,924**
Value in Force Business						
30 June 2001 balance	618	565	141	135	101	1,560
Disposals of business [1]	-	-	-	-	(10)	(10)
Value transfer/acquired excess [2]	205	-	-	-	-	205
Uplift	43	(210)	37	44	(51)	(137)
30 June 2002 balance	**866**	**355**	**178**	**179**	**40**	**1,618**
Value Future New Business						
30 June 2001 balance	2,402	809	(23)	265	123	3,576
Disposals of business [1]	-	-	-	-	(5)	(5)
Value transfer [3]	1,142	(1,142)	-	-	-	-
Uplift	191	258	46	10	(38)	467
30 June 2002 balance	**3,735**	**(75)**	**23**	**275**	**80**	**4,038**
Carrying Value at 30 June 2002						
Shareholders' net tangible assets	234	468	1,209	334	679	2,924
Value in force business	866	355	178	179	40	1,618
Embedded value	**1,100**	**823**	**1,387**	**513**	**719**	**4,542**
Value future new business	3,735	(75) [4]	23	275	80	4,038
Carrying Value	**4,835**	**748**	**1,410**	**788**	**799**	**8,580**

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

(2) Represents excess acquired on the purchase of management rights for Kiwi Income Properties Trust and the transfer into the market value environment of Colonial First State Properties.

(3) Represents the value transfer between the life insurance companies and the funds management businesses arising from decisions to cease selling certain life products in preference for Colonial First State products and the impact of introducing Colonial First State products to the Group's proprietary distribution network.

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

(5) The Asian businesses are not in a market value environment.

NOTE 34 Life Insurance Business continued

The following table reconciles the carrying values of the life and funds management businesses to the value of investments in non-consolidated subsidiaries as shown in the capital adequacy calculation.

Reconciliation of the components of the carrying value to the value of investments in non-consolidated subsidiaries

	2002 $M	2001 $M
Intangible component of investment in non-consolidated subsidiaries deducted from Tier 1 capital comprises:		
Value future new business	**4,038**	3,576
Value of self-generated in force business	**550**	540
	4,588	4,116
Investment in non-consolidated subsidiaries deducted from Total Capital comprises:		
Shareholders' NTA in life and funds management businesses	**2,924**	2,867
Shareholders' NTA in other non-consolidated subsidiaries	**149**	41
Debt recognised as capital per APRA regulations	**7**	96
Value of acquired in force business [1]	**1,068**	1,020
Less non-recourse debt	**(2,373)**	(2,019)
Other	**(34)**	-
	1,741	2,005

(1) The increase in the value of acquired in force business principally relates to the acquisition of management rights for Kiwi Income Properties Trust.

Key Assumptions Used in Appraisal Values

The following Key Assumptions have been used by Trowbridge in determining the appraisal values. Other actuarial assumptions used in the valuation are described in the section Actuarial Methods and Assumptions.

As at 30 June 2002	**New Business Multiplier [1]**	**Risk Discount Rate %**	**Value of Franking Credits %**
Life insurance entities			
Australia	9	11.5	70
New Zealand	8	12.0	-
Asia			
- Hong Kong	10	HKD13.0 [2] USD12.0	-
- Other	various	various	-
Funds management entities			
Australia	n.a	13.0	70

As at 30 June 2001	**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

(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.

NOTE 34 Life Insurance Business continued

Policy Liabilities

Appropriately qualified actuaries have been appointed in respect of each life insurance business and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this financial report, including compliance with the regulations of the Life Insurance Act 1995 where appropriate. Details are set out in the various statutory returns of these life insurance businesses.

	2002 $M	2001 $M
Components of policy liabilities:		
Future policy benefits [(1)]	**29,164**	29,727
Future bonuses	**1,493**	1,583
Future expenses	**2,259**	2,209
Future profit margins	**1,007**	1,224
Future charges for acquisition expenses	**(413)**	(648)
Balance of future premiums	**(7,666)**	(7,112)
Provisions for bonuses not allocated to participating policyholders	**73**	46
Total policy liabilities	**25,917**	27,029

(1) Including bonuses credited to policyholders in 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 1.03 – Valuation Standard ('AS1.03') issued by the Life Insurance Actuarial Standards Board ('LIASB'). There has been no change in the principal methods and profit carriers used for particular product groups, which are as follows:

Product Type	Method	Profit Carrier
Individual		
Conventional	Projection	Bonuses / dividends or expected claim payments
Investment account	Projection	Bonuses or asset charges
Investment linked	Projection	Asset charge
	Accumulation	Not applicable
Lump sum risk	Projection	Premiums/claims
Income stream risk	Projection	Expected claim payments
Immediate annuities	Projection	Bonuses or annuity payment
Group		
Investment account	Projection	Bonuses or asset charges
Investment linked	Projection	Asset charge
Lump sum risk	Projection	Claims
	Accumulation	Premiums (implied)
Income stream risk	Projection	Expected claim payments

NOTE 34 Life Insurance Business continued

The 'Projection Method' measures the present values of estimated future policy cash flows to calculate policy liabilities. The policy cash flows incorporate investment income, premiums, expenses, redemption and benefit payments.

The 'Accumulation Method' measures the accumulation of amounts invested by policyholders plus investment earnings less fees specified in the policy to calculate policy liabilities. Deferred acquisition costs are offset against this liability.

Bonuses are amounts added, at the discretion of the life insurer, to the benefits currently payable under Participating Business. Under the Life Act, bonuses are a distribution to policyholders of profits and may take a number of forms including reversionary bonuses, interest credits and capital growth bonuses (payable on the termination of the policy).

Actuarial Assumptions

Set out below is a summary of the material assumptions used in the calculation of policy liabilities. These assumptions are also used in the determination of appraisal values.

Discount Rates

These are the rates used to discount further cash flows to determine their net present value in the policy liabilities. The discount rates are determined with reference to the expected earnings rate of the assets that support the policy liabilities adjusted for taxation where relevant. The following table shows the applicable rates for the major classes of business in Australia and New Zealand. The changes relate to changes in long term earnings rates, asset mix and reflect the new tax regime for Australian business.

	Discount Rates	
Class of Business	June 2002 Rate Range %	June 2001 Rate Range %
Traditional – ordinary business (after tax)	6.21-6.96	6.38-6.72
Traditional – superannuation business (after tax)	7.58-8.52	7.80-8.23
Annuity business (after tax)	6.49-7.86	6.51-7.97
Term life insurance – ordinary business (after tax)	3.89-4.55	4.20-4.55
Term life insurance – superannuation business (after tax)	3.89-4.55	4.20-4.55
Disability business (before tax)	6.50	4.20-4.55
Investment linked – ordinary business (after tax)	5.89-6.45	5.86-6.36
Investment linked – superannuation business (after tax)	7.51-7.96	7.34-7.92
Investment linked – exempt (after tax)	8.52-9.13	8.34-9.12
Investment account – ordinary business (after tax)	4.41	4.51
Investment account – superannuation business (after tax)	5.36	5.49

Bonuses

The valuation assumes that the long-term supportable bonuses will be paid, which is in line with company bonus philosophy. There have been no significant changes to these assumptions.

Maintenance expenses

For the Australian and New Zealand operations of the Colonial Group, maintenance expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in the service company agreements. These have increased in line with inflation.

For other operations maintenance expense assumptions are based on an analysis of experience over the past year taking into account future business plans. 'One-off' expenses are excluded.

Investment management expenses

Investment management expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in Fund Manager agreements. There have been no significant changes to these assumptions.

Inflation

The inflation assumption is consistent with the investment earning assumptions. There have been no significant changes to these assumptions.

Benefit indexation

The indexation rates are based on an analysis of past experience and estimated long term inflation and vary by business and product type.

Taxation

The taxation basis and rates assumed vary by territory and product type. For the Australian business it reflects the new regime for life insurance companies effective 1 July 2000.

Voluntary discontinuance

Discontinuance rates are based on recent company and industry experience and vary by territory, product, age and duration inforce. Changes to assumptions have been made to individual products to reflect experience where appropriate.

Surrender values

Current surrender value bases are assumed to apply in the future. There have been no significant changes to these assumptions.

Unit price growth

Unit prices are assumed to grow in line with assumed investment earnings assumptions, net of asset charges as per current company practice. There have been no significant changes to these assumptions.

NOTE 34 Life Insurance Business continued

Mortality and Morbidity

Rates vary by sex, age, product type and smoker status. Rates are based on standard mortality tables applicable to each territory e.g. IA90-92 in Australia for risk, IM/IF80 for annuities, adjusted for recent company and industry experience where appropriate. Mortality assumptions have generally been improved to reflect ongoing positive experience. Minor changes were made to disability assumptions for the Australian business.

Solvency

Australian Life Insurers

Australian life insurers are required to hold prudential reserves in excess of the amount of policy liabilities. These reserves are required to support capital adequacy requirements and provide protection against the adverse experience. Actuarial Standard AS2.03 ‘Solvency Standard’ (‘AS2.03’) prescribes a minimum capital requirement and the minimum level of assets required to be held in each life insurance fund. All controlled Australian life insurance entities complied with the solvency requirements of AS2.03. Further information is available from the individual statutory returns of subsidiary life insurers.

Overseas life insurers

Overseas life insurance subsidiaries are required to hold reserves in excess of policy liabilities in accordance with local Acts and prudential rules. Each of the overseas subsidiaries complied with local requirements. Further information is available from the individual statutory returns of subsidiary life insurers.

Managed assets & fiduciary activities

Arrangements are in place to ensure that asset management and other fiduciary activities of controlled entities are independent of the life insurance funds and other activities of the Group.

Disaggregated Information

Life insurance business is conducted through a number of life insurance entities in Australia and overseas. Under the Australian Life Insurance Act 1995, life insurance business is conducted within one or more separate statutory funds, which are distinguished from each other and from the shareholders’ fund. The financial statements of Australian life insurers prepared in accordance with AASB 1038, (and which are lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various life insurance statutory funds and their shareholder funds.

NOTE 35 Remuneration of Auditors

	GROUP		BANK	
	2002	2001	**2002**	2001
	$’000	$’000	**$’000**	$’000
Amounts paid or due and payable for audit and review of the financial report by:				
Ernst & Young	**4,910**	4,518	**1,960**	1,864
Other Auditors	**100**	89	**-**	-
	5,010	4,607	**1,960**	1,864
Amounts paid or due and payable for other services to Ernst & Young				
Corporate finance services	**578**	113	**155**	113
Credit related services	**581**	380	**581**	380
Regulatory, statutory and assurance services	**953**	1,496	**609**	802
Secondment services	**1,551**	1,729	**1,551**	1,716
Taxation services	**435**	909	**103**	909
Other services	**340**	486	**104**	169
	4,438	5,113	**3,103**	4,089
Total Remuneration of Auditors	**9,448**	9,720	**5,063**	5,953

The Audit Committee has considered the non-audit services provided by Ernst & Young and is satisfied that the services and level of fees are compatible with maintaining auditors' independence.

Effective 27 May 2002, the majority of partners of the former Australian accounting practice Andersen became partners of Ernst & Young. A small number of these partners had loans with the Group on normal commercial terms. By virtue of Australian Securities and Investments Commission (ASIC) Class Order 02/0606 dated 24 May 2002, Ernst & Young are relieved from compliance with sections 324(1) and 324(2) of the Corporations Act 2001 until 30 November 2002. During its currency this Class Order requires:

- The Bank to notify ASIC within 30 days of any event of default or enforcement action taken in respect of these loans;
- The Bank to notify ASIC within 7 days of the signing of the Auditors’ Report whether, in the opinion of the Audit Committee, the Class Order has been complied with;
- Ernst & Young is not to assign any of these partners to the audit of the Bank or any controlled entity; and
- Ernst & Young to notify ASIC within 7 days of the signing of the Auditors’ Report whether the audit has been influenced by these loans.

NOTE 36 Commitments for Capital Expenditure Not Provided for in the Accounts

	GROUP		BANK	
	2002	2001	**2002**	2001
	$M	$M	**$M**	$M
Not later than one year	**42**	30	**26**	12
Later than one year but not later than two years	**-**	2	**-**	-
Later than two years but not later than five years	**-**	-	**-**	-
Later than five years	**-**	-	**-**	-
Total Commitments for Capital Expenditure Not Provided for in the Accounts	**42**	32	**26**	12

NOTE 37 Lease Commitments - Property, Plant and Equipment

	GROUP		BANK	
	2002	2001	**2002**	2001
	$M	$M	**$M**	$M
Commitments in respect of non cancelable operating lease agreements due -				
Not later than one year	**274**	277	**220**	216
Later than one year but not later than five years	**642**	730	**508**	595
Later than five years	**200**	311	**124**	227
Total Lease Commitments - Property, Plant and Equipment	**1,116**	1,318	**852**	1,038
Group's share of lease commitments of associated entities -				
Not later than one year	**11**	7		
Later than one year but not later than five years	**26**	16		
Later than five years	**2**	7		
Total Lease Commitments - Property, Plant and Equipment	**39**	30		

Lease Arrangements

Leases entered into by the Group are for the purpose of accommodating the business need. Leases may be over retail, commercial, industrial and residential premises and reflect the needs of the occupying business and market conditions. All leases are negotiated with external professional property resources acting for the Group.

Rental payments are determined in terms of relevant lease requirements – usually reflecting market rentals as described by standard valuation practice.

The Group as lessee has no purchase options over premises occupied. For properties sold and leased back by the Group, the Group does have the right of first refusal to purchase the property. There is no obligation on the Bank to do so, and there has never been an instance of purchase.

There are no restrictions imposed on the Group's lease of space other than those forming part of the negotiated lease arrangements for each specific premise.

NOTE 38 Contingent Liabilities

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

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

Details of contingent liabilities and off balance sheet business (excluding Derivatives – Note 39) are:

	GROUP			
	Face Value		Credit Equivalent	
	2002	2001	**2002**	2001
	$M	$M	**$M**	$M
Credit risk related instruments				
Guarantees	**1,806**	2,104	**1,806**	2,104
Standby letters of credit	**464**	673	**464**	673
Bill endorsements	**1,073**	1,096	**1,073**	1,096
Documentary letters of credit	**134**	238	**27**	48
Performance related contingents	**1,023**	1,236	**511**	618
Commitments to provide credit	**47,652**	42,874	**13,012**	15,970
Other commitments	**1,168**	2,488	**1,095**	1,728
Total credit risk related instruments	**53,320**	50,709	**17,988**	22,237

Guarantees represent unconditional undertakings by the Group to support the obligations of its customers to third parties.

Standby letters of credit are undertakings by the Group to pay against production of documents an obligation in the event of a default by a customer.

Bill endorsements relate to bills of exchange that have been endorsed by the Group and represent liabilities in the event of default by the acceptor and the drawer of the bill.

Documentary letters of credit represent an undertaking to pay or accept drafts drawn by an overseas supplier of goods in the event of payment default by a customer.

Performance related contingents involve undertakings by the Group to pay third parties if a customer fails to fulfil a contractual non-monetary obligation.

Commitments to provide credit include all obligations on the part of the Group to provide credit facilities.

Other commitments include the Group's obligations under sale and repurchase agreements, outright forward purchases and forward deposits and underwriting facilities.

The transactions are categorised and credit equivalents calculated under APRA guidelines for the risk based measurement of capital adequacy. The credit equivalent amounts are a measure of the potential loss to the Group in the event of possible non performance by a counterparty.

The credit equivalent exposure from direct credit substitutes (guarantees, standby letters of credit and bill endorsements) is the face value of the transaction, whereas the credit equivalent exposure to documentary letters of credit and performance related contingents is 20% and 50% respectively of the face value. The exposure to commitments to provide credit is calculated by applying given credit conversion factors to the face value to reflect the duration, the nature and the certainty of the contractual undertaking to provide the facility.

Where the potential loss depends on the performance of a counterparty, the Group utilises the same credit policies and assessment criteria for off balance sheet business as it does for on balance sheet business and if it is deemed necessary, collateral is obtained based on management's credit evaluation of the counterparty. If a probable loss is identified, suitable provisions are raised.

Litigation

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

NOTE 38 Contingent Liabilities continued

Indemnities under UK Sale Agreement

The Group has contingent liabilities that relate to indemnities given under an agreement for the sale of Colonial Life (UK) Ltd and Colonial Pension Fund Ltd to the Winterthur Group.

These indemnities cover potential claims that could arise from mis-selling activities in the UK for pension products and mortgage endowment products. Under the sales agreement the liabilities are shared between Winterthur and the Group on a pre-determined basis.

Fiduciary Activities

The Group and its associated entities conduct investment management and other fiduciary activities as responsible entity, trustee, custodian or manager for numerous investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail trusts. The amounts of funds concerned which are not reported in the Group's balance sheet are as follows:

	2002 $M	2001 $M
Funds under management		
Australia	**60,234**	58,018
United Kingdom	**12,088**	14,614
New Zealand	**3,402**	2,227
Asia	**1,759**	2,095
	77,483	76,954
Funds under trusteeship		
Australia	**21,785**	22,768
Funds under custody and investment administration		
Australia	**79,162**	78,466

As an obligation arises under each type of duty the amount of funds has been included where that duty arises. This may lead to the same funds being shown more than once where Group companies are engaged to act in more than one capacity (e.g. as trustee and fund manager).

Certain entities within the Group act as responsible entity or trustee of various managed schemes ('schemes'), wholesale and retail trusts ('trusts'). Liabilities are incurred by these entities in their capacity as responsible entity or trustee. Rights of indemnity are held against the schemes and trusts whose assets exceeded their liabilities at 30 June 2002. Where entities within the Group act as manager of unit trusts, obligations exist under the relevant Trust Deeds, whereby upon request from a unit holder, the manager has an obligation to repurchase units from the trust or to arrange for the relevant trustee to redeem units from the assets of those trusts. It is considered unlikely that these entities will need to repurchase units from their own funds.

The Commonwealth Bank of Australia does not guarantee the performance or obligations of its subsidiaries.

Long Term Contracts

In 1997, the Bank entered into a ten year contract with an associated entity, EDS (Australia) Pty Ltd, relating to the provision of information technology services. In 2000, the Bank entered into a telecommunications services agreement with TCNZ Australia Pty Ltd for five years. The exact amounts of these contracts is unable to be reliably determined as they are dependent upon business volumes over the period of the contracts.

Liquidity support

In accordance with the regulations and procedures governing clearing arrangements contained within the Australian Paper Clearing Stream (Clearing Stream 1) and the Bulk Electronic Clearing Stream (Clearing Stream 2) of the Australian Payments Clearing Association Limited, the Bank is subject to a commitment to provide liquidity support to these clearing streams in the event of a failure to settle by a member institution.

Service agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Chief Executive Officer and other executives of the Company and its controlled entities at 30 June 2002 was $11.4 million (2001: $11.9 million).

Notes to the financial statements

NOTE 39 Market Risk

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

Under the authority of the Bank's Board, the Risk Committee of the Board ensures that all the Group's market risk is consistent with the Group business strategy and within Group risk tolerance. Regular market risk reports are tabled before Risk Committee. Within the Group, market risk is greatest in the balance sheets of its banking and insurance businesses. Market risk also arises in the course of its intermediation activities in financial services and in financial markets trading.

Market risk in the balance sheets

The Risk Committee of the Board recommends for Board approval all balance sheet market risk policies and limits. Implementation of the policy is through the Group Asset and Liability Committee, with operational management of the risk delegated to the Group General Manager, Financial & Risk Management.

For bank balance sheets, market risk includes liquidity risk, funding risk, interest rate risk and foreign exchange rate risk.

On life and general insurance balance sheets, market risk is often the principle means by which long term liabilities are managed. In this sense and in contrast to banking, market risk is structural for these businesses.

Liquidity risk

Balance sheet liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Group manages liquidity risk separately for its domestic Australian Dollar (AUD) obligations and for its foreign currency obligations. In both domestic and foreign currency operations, liquidity policies are in place to manage liquidity both in a day to day sense, and also under crisis assumptions.

Under current APRA Prudential Standards, each bank is required to develop a liquidity management strategy that is appropriate for itself, based on its size and the nature of its operations. The prime objective is to ensure that each bank has sufficient liquidity to meet its financial obligations even under a liquidity crisis scenario.

The Bank has developed a liquidity policy, relevant to its own circumstances and this has formally been approved by APRA. The objectives of the Bank's funding and liquidity policies are to:

- Ensure all financial obligations are met when due;
- Provide adequate protection at lowest cost; and
- Achieve sustainable, lowest-cost funding within the limitations of funding diversification requirements, without over-reliance on any particular market segment.

The Bank's policy framework differentiates normal operational liquidity management (corresponding to the 'going concern' scenario in APRA's Prudential Statement APS 210 on Liquidity) from a crisis event. Three types of crisis are dealt with i.e., systemic, founded and unfounded. The policy sets out the controls and cash flow assumptions appropriate in all cases. The key elements of the liquidity policy cover:

- Detailed daily forecasts out to 3 months including mismatch limits;
- Development of reliable funding sources;
- The holding of a stock of high quality liquid assets i.e., assets held that are available for repurchase by the RBA (over and above those required to meet Real Time Gross Settlement (RTGS) obligations), AUD CDs/Bills of other banks and AUD overnight interbank loans; and
- The use of standby lines of funding.

Subsidiaries are also included in the Group's liquidity policy framework.

Foreign currency liquidity risk is managed by ensuring that a positive cumulative cash flow exists for the next 7 days' operations. This means that should a crisis situation arise, the Bank would not need to access new funding from wholesale markets for at least one week. There is also a cap on the maximum level of cumulative negative cash flows at day 28. A stock of liquid assets is included in this protective measure.

Funding risk

Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. The Group has a policy of funding diversification. This Funding Policy augments the Group's Liquidity Policy. Its aim is to assure that the Group has a stable diversified funding base without over-reliance on any one market sector. Central to this is the determination of the most appropriate mix of deposits and other liabilities to fund the balance sheet. A target has been set for the preferred minimum level of retail deposits. A minimum level of long-term (greater than 12 months) funding has also been set.

Domestically, the Group continues to obtain the majority of its AUD funding from its stable retail deposit base, primarily demand and short term deposits, which have a lower interest cost than wholesale funds. The retail funding percentage has risen from 64% in June 2001 to 66% in June 2002 due to strong growth in "at call" savings from a perceived "flight to quality" customer demand. The relative size of the Group's retail base has enabled it to source funds at a lower average rate of interest than the other major Australian banks. However, some of this benefit is offset by the cost of the Group's retail network and the Group's large share (approximately 49%) of pensioner deeming accounts.

In recent years, the Group has experienced a movement of retail deposit balances into higher yielding facilities. This reflects increased customer awareness of investment opportunities in an environment where the level of interest rates has remained lower and relatively more stable when compared with the interest rate cycles of the 1980s and early 1990s.

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

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

NOTE 39 Market Risk continued

A funding diversification policy is particularly important in offshore markets where the absence of any 'natural' offshore funding base means the Bank is principally reliant on money market and capital market sources for funding. The Bank has imposed internal prudential limits on the relative mix of offshore sources of funds.

The following table outlines the range of financial instruments used by the Group to raise deposits and borrowings, both within Australia and overseas. Funds are raised from well-diversified sources and there are no material concentrations in these categories.

		GROUP
	2002	2001
	$M	$M
Australia		
Cheque Accounts	**22,921**	19,644
Savings Accounts	**32,935**	30,248
Term Deposits	**28,991**	28,102
Cash Management Accounts	**14,330**	11,080
Debt Issues	**14,880**	14,719
Bank Acceptances	**12,449**	11,960
Certificates of Deposit	**15,832**	12,927
Life Insurance Policy Liabilities	**22,662**	23,477
Loan Capital	**5,336**	5,624
Securities Sold Under Agreements to Repurchase	**753**	435
Other	**2,888**	2,798
Total Australia	**173,977**	161,014
Overseas		
Deposits and Interbank	**22,014**	19,021
Commercial Paper	**5,682**	8,471
Life Insurance Policy Liabilities	**3,255**	3,552
Other Debt Issues	**3,013**	1,294
Loan Capital	**91**	80
Bank Acceptances and Other	**68**	118
Total Overseas	**34,123**	32,536
Total Funding Sources	**208,100**	193,550
Provisions and Other Liabilities	**20,492**	17,013
Total Liabilities	**228,592**	210,563

NOTE 39 Market Risk continued

Interest rate risk (Banking)

Interest rate risk in the Bank balance sheet arises from the potential for a change in interest rates to have an adverse effect on the net interest earnings of the Group in the current reporting period, and in future years. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net interest earnings in the long term.

The Group measures and manages balance sheet interest rate risk from two perspectives:

(a) Next 12 Months' Earnings

The risk to the net interest earnings over the next 12 months from a change in interest rates is measured on a monthly basis. Risk is measured assuming an immediate 1% parallel movement in interest rates across the full yield curve as well as other interest rate scenarios with variations in the size and timing of interest rate movements. Potential variations to net interest earnings are measured using a simulation model that takes into account the projected change in balance sheet asset and liability levels and mix. Assets and liabilities with pricing directly based on market rates are repriced based on the full extent of the rate shock that is applied. Risk on other assets and liabilities (those priced at the discretion of the Group) is measured by taking into account both the manner the products have repriced in the past as well as the expected change in price based on the current competitive market environment.

The figures in the table represent the potential change to net interest earnings (expressed as a percentage of expected net interest earnings in the next 12 months) based on a 1% parallel rate shock and the expected change in price of assets and liabilities held for purposes other than trading.

(expressed as a % of expected next 12 months' earnings)	**2002** %	2001 %
Average monthly exposure	**1.3**	1.8
High month exposure	**1.8**	2.4
Low month exposure	**0.7**	0.9

(b) Economic value

Some of the Group's assets and liabilities have interest rate risk that is not captured within the measure of risk to next 12 months earnings, as the risk is beyond the next 12 months. To measure this longer-term sensitivity, the Group utilises an economic value-at-risk analysis. This analysis measures the potential change in the net present value of cashflows of assets and liabilities. Cashflows for fixed rate products are included on a contractual basis, after adjustment for forecast prepayment activity. Cashflows for products repriced at the discretion of the Group are based on the expected repricing characteristics of those products.

The total cashflows are revalued under a range of possible interest rate scenarios using a Value at Risk (VaR) methodology. The interest rate scenarios are based on actual interest rate movements that have occurred over 1 year and 5 year historical observation periods. The measured VaR exposure is an estimate to a 97.5% confidence level (one-tail) of the potential loss that could occur if the balance sheet positions were to be held unchanged for a one month holding period. For example, VaR exposure of $1 million means that in 97.5 cases out of 100, the expected net present value will not decrease by more than $1 million given the historical movement in interest rates.

The figures in the following table represent the net present value of the expected change in future earnings in all future periods for the remaining term of all existing assets and liabilities held for purposes other than trading.

	2002 **$M**	2001 $M
Exposure as at 30 June	**16**	42
Average monthly exposure	**29**	23
High month exposure	**59**	42
Low month exposure	**9**	11

A stress-test framework for interest rate risk augments the two risk-management perspectives outlined above. The results of the stress tests are used to refine policy and limits where appropriate and are reported to Group Asset Liability Committee and Risk Committee.

The table following represents the Group's contractual interest rate risk sensitivity from repricing mismatches as at 30 June 2002 and the corresponding weighted average effective interest rates. The net mismatch represents the net value of assets, liabilities and off balance sheet instruments that may be repriced in the time periods shown.

The Bank does not use this contractual repricing information to manage its interest rate risk. The risk is managed using the 'Next 12 Months Earnings' and 'Economic Value' perspectives outlined above. All assets and liabilities are shown according to contractual repricing dates. Options are shown in the mismatch report using delta equivalents of the option face values.

Notes to the financial statements

NOTE 39 Market Risk continued

Interest Rate Risk Sensitivity

								Repricing Period at 30 June 2002	
	Balance Sheet Total $M	0 to 1 month $M	1 to 3 months $M	3 to 6 months $M	6 to 12 months $M	1 to 5 years $M	over 5 Years $M	Not Interest Bearing $M	Weighted Average Rate %
Australia									
Assets									
Cash and liquid assets	**5,426**	**4,105**	**-**	**-**	**-**	**-**	**-**	**1,321**	**2.61**
Receivables due from other financial institutions	**4,333**	**3,491**	**547**	**295**	**-**	**-**	**-**	**-**	**2.46**
Trading securities	**5,865**	**5,865**	**-**	**-**	**-**	**-**	**-**	**-**	**3.61**
Investment securities	**4,069**	**202**	**353**	**110**	**60**	**2,288**	**1,042**	**14**	**6.26**
Loans, advances and other receivables	**126,330**	**64,273**	**11,551**	**8,980**	**15,289**	**25,366**	**2,175**	**(1,304)**	**6.82**
Bank acceptances of customers	**12,449**	**-**	**-**	**-**	**-**	**-**	**-**	**12,449**	**-**
Life insurance investment assets	**26,102**	**5,174**	**539**	**407**	**218**	**3,390**	**2,790**	**13,584**	**5.82**
Deposits with regulatory authorities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Property, plant and equipment	**656**	**-**	**-**	**-**	**-**	**-**	**-**	**656**	**-**
Intangible assets	**4,866**	**-**	**-**	**-**	**-**	**-**	**-**	**4,866**	**-**
Other assets	**18,577**	**-**	**-**	**-**	**-**	**-**	**-**	**18,577**	**-**
Total Assets	**208,673**	**83,110**	**12,990**	**9,792**	**15,567**	**31,044**	**6,007**	**50,163**	**6.38**
Liabilities									
Deposits and other public borrowings	**115,497**	**77,414**	**10,110**	**9,114**	**3,880**	**7,458**	**1,495**	**6,026**	**2.61**
Payables due to other financial institutions	**3,153**	**1,965**	**1,105**	**20**	**1**	**12**	**50**	**-**	**2.40**
Bank acceptances	**12,449**	**-**	**-**	**-**	**-**	**-**	**-**	**12,449**	**-**
Provision for dividend	**1,040**	**-**	**-**	**-**	**-**	**-**	**-**	**1,040**	**-**
Income tax liability	**1,235**	**-**	**-**	**-**	**-**	**-**	**-**	**1,235**	**-**
Other provisions	**787**	**-**	**-**	**-**	**-**	**-**	**-**	**787**	**-**
Life insurance policy liabilities	**22,363**	**-**	**-**	**-**	**-**	**-**	**-**	**22,363**	(3)
Debt issues	**14,820**	**2,134**	**2,920**	**545**	**2,404**	**6,469**	**348**	**-**	**4.67**
Bills payable and other liabilities	**14,508**	**-**	**-**	**-**	**-**	**-**	**-**	**14,508**	**-**
Loan Capital	**5,337**	**227**	**1,872**	**543**	**-**	**927**	**1,768**	**-**	**4.18**
Total Liabilities	**191,189**	**81,740**	**16,007**	**10,222**	**6,285**	**14,866**	**3,661**	**58,408**	**2.89**
Shareholders Equity									
Share capital	**12,659**	**-**	**-**	**-**	**-**	**-**	**-**	**12,659**	**-**
Outside equity interests	**2,009**	**-**	**-**	**-**	**-**	**-**	**-**	**2,009**	**-**
Total Shareholders' Equity	**14,668**	**-**	**-**	**-**	**-**	**-**	**-**	**14,668**	**-**
Off Balance Sheet Items									
Swaps	(2)	**(13,383)**	**(3,048)**	**3,877**	**2,420**	**8,246**	**1,888**	**-**	(1)
FRAs	(2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(1)
Futures	(2)								(1)
Net Mismatch	(2)	**(12,013)**	**(6,065)**	**3,447**	**11,702**	**24,424**	**4,234**	**(22,913)**	(1)
Cumulative Mismatch	(2)	**(12,013)**	**(18,078)**	**(14,631)**	**(2,929)**	**21,495**	**25,729**	**2,816**	(1)

(1) No rate applicable.
(2) No balance sheet amount applicable.
(3) Technically, the life insurance policy liabilities are not interest bearing, but the amount of the liability may change in line with changes in interest rates. This is particularly so with investment linked policies.

As noted above the cumulative mismatch reflects contractual repricing periods. The balance sheet is managed based on assessments of expected pricing behaviour having regard to historical trends and competitive positioning.

The Group has a significant portfolio of loans with fixed interest rates maturing in the one to five years repricing period. Funding is principally raised from retail deposits with at call variable interest rates. The interest rate risk exposure is managed in accordance with the principles outlined above in this note.

Notes to the financial statements

NOTE 39 Market Risk continued

	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 2002								
Overseas									
Assets									
Cash and liquid assets	**618**	**506**	**-**	**-**	**-**	**-**	**-**	**112**	**2.38**
Receivables due from other financial institutions	**3,395**	**2,033**	**107**	**310**	**58**	**520**	**303**	**64**	**5.97**
Trading securities	**2,524**	**489**	**1,372**	**185**	**80**	**153**	**168**	**77**	**5.12**
Investment securities	**6,697**	**851**	**1,562**	**1,057**	**142**	**2,370**	**715**	**-**	**4.36**
Loans, advances and other receivables	**20,744**	**8,481**	**2,095**	**1,548**	**3,461**	**4,748**	**463**	**(52)**	**6.95**
Bank acceptances of customers	**68**	**-**	**-**	**-**	**-**	**-**	**-**	**68**	**-**
Life insurance investment assets	**4,007**	**778**	**-**	**31**	**128**	**457**	**451**	**2,162**	**2.76**
Deposits with regulatory authorities	**89**	**-**	**-**	**-**	**-**	**-**	**-**	**89**	**-**
Property, plant and equipment	**206**	**-**	**-**	**-**	**-**	**-**	**-**	**206**	**-**
Intangible assets	**525**	**-**	**-**	**-**	**-**	**-**	**-**	**525**	**-**
Other assets	**2,102**	**-**	**-**	**-**	**-**	**-**	**-**	**2,102**	**-**
Total Assets	**40,975**	**13,138**	**5,136**	**3,131**	**3,869**	**8,248**	**2,100**	**5,353**	**5.95**
Liabilities									
Deposits and other public borrowings	**17,303**	**10,034**	**3,536**	**1,688**	**827**	**413**	**-**	**805**	**4..24**
Payables due to other financial institutions	**4,711**	**3,821**	**756**	**53**	**81**	**-**	**-**	**-**	**2.80**
Bank acceptances	**68**	**-**	**-**	**-**	**-**	**-**	**-**	**68**	**-**
Provision for dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Income tax liability	**41**	**-**	**-**	**-**	**-**	**-**	**-**	**41**	**-**
Other provisions	**47**	**-**	**-**	**-**	**-**	**-**	**-**	**47**	**-**
Life insurance policy liabilities	**3,554**	**-**	**-**	**-**	**-**	**-**	**-**	**3,554**	**-**
Debt issues	**8,755**	**284**	**6,583**	**913**	**371**	**221**	**344**	**39**	**3.70**
Bills payable and other liabilities	**2,834**	**-**	**-**	**-**	**-**	**-**	**-**	**2,834**	**-**
Loan Capital	**90**	**-**	**-**	**-**	**-**	**90**	**-**	**-**	**7.87**
Total Liabilities	**37,403**	**14,139**	**10,875**	**2,654**	**1,279**	**724**	**344**	**7,388**	**3.87**
Shareholders Equity									
Share capital	**6,371**	**-**	**-**	**-**	**-**	**-**	**-**	**6,371**	**-**
Outside equity interests	**17**	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**-**
Total Shareholders' Equity	**6,388**	**-**	**-**	**-**	**-**	**-**	**-**	**6,388**	**-**
Off Balance Sheet Items									
Swaps	(2)	**1,252**	**3,930**	**1,325**	**(1,590)**	**(4,390)**	**(527)**	**-**	(1)
Options	(2)	**-**	**271**	**-**	**-**	**(271)**	**-**	**-**	(1)
FRAs	(2)	**(437)**	**(653)**	**805**	**285**	**-**	**-**	**-**	(1)
Futures	(2)	**-**	**300**	**(213)**	**90**	**(177)**	**-**	**-**	(1)
Net Mismatch	(2)	**(186)**	**(1,891)**	**2,394**	**1,375**	**2,686**	**1,229**	**(8,423)**	(1)
Cumulative Mismatch	(2)	**(186)**	**(2,077)**	**317**	**1,692**	**4,378**	**5,607**	**(2,816)**	(1)

(1) No rate applicable.
(2) No balance sheet amount applicable.

Notes to the financial statements

NOTE 39 Market Risk continued

								Repricing Period at 30 June 2001	
	Balance Sheet Total $M	0 to 1 month $M	1 to 3 months $M	3 to 6 months $M	6 to 12 months $M	1 to 5 years $M	over 5 years $M	Not Interest Bearing $M	Weighted Average Rate %
Australia									
Assets									
Cash and liquid assets	3,197	1,979	-	-	10	-	-	1,208	2.60
Receivables due from other financial institutions	2,858	1,815	855	149	39	-	-	-	4.89
Trading securities	4,095	4,095	-	-	-	-	-	-	4.97
Investment securities	3,336	253	365	-	28	1,677	1,012	1	8.40
Loans, advances and other receivables	118,939	65,183	9,087	5,168	13,058	26,138	1,696	(1,391)	7.18
Bank acceptances of customers	11,960	-	-	-	-	-	-	11,960	
Life insurance investment assets	27,401	3,219	229	255	1,486	3,171	2,441	16,600	2.42
Deposits with regulatory authorities	-	-	-	-	-	-	-	-	
Property, plant and equipment	721	-	-	-	-	-	-	721	
Intangible assets	5,712	-	-	-	-	-	-	5,712	
Other assets	18,699	-	-	-	-	-	-	18,699	
Total Assets	196,918	76,544	10,536	5,572	14,621	30,986	5,149	53,510	5.03
Liabilities									
Deposits and other public borrowings	102,421	65,923	7,941	9,373	4,881	6,143	1,720	6,440	3.47
Payables due to other financial institutions	2,816	1,500	269	456	591	-	-	-	4.98
Bank acceptances	11,960	-	-	-	-	-	-	11,960	
Provision for dividend	779	-	-	-	-	-	-	779	
Income tax liability	1,212	-	-	-	-	-	-	1,212	
Other provisions	881	-	-	-	-	-	-	881	
Life insurance policy liabilities	23,477	-	-	-	-	-	-	23,477 [3]	
Debt issues	14,719	2,452	4,897	1,676	1,157	4,420	117	-	5.56
Bills payable and other liabilities	12,679	-	-	-	-	-	-	12,679	
Loan Capital	5,624	493	1,744	213	-	406	2,768	-	6.40
Total Liabilities	176,568	70,368	14,851	11,718	6,629	10,969	4,605	57,428	2.76
Shareholders Equity									
Share capital	18,362	700	-	-	-	-	-	17,662	
Outside equity interests	1,449	-	-	-	-	-	-	1,449	
Total Shareholders' Equity	19,811	700	-	-	-	-	-	19,111	
Off Balance Sheet Items									
Swaps	[2]	2,472	(11,560)	800	3,085	3,014	2,189	-	[1]
FRAs	[2]	-	-	-	-	-	-	-	[1]
Futures	[2]	-	-	-	-	-	-	-	[1]
Net Mismatch	[2]	7,948	(15,875)	(5,346)	11,077	23,031	2,733	(23,029)	[1]
Cumulative Mismatch	[2]	7,948	(7,927)	(13,273)	(2,196)	20,835	23,568	539	[1]

[1] No rate applicable.
[2] No balance sheet amount applicable.
[3] Technically, the life insurance policy liabilities are not interest bearing, but the amount of the liability may change in line with changes in interest rates. This is particularly so with investment linked policies.

Notes to the financial statements

NOTE 39 Market Risk continued

	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 2001								
Overseas									
Assets									
Cash and liquid assets	512	375	121	7	-	-	-	9	1.97
Receivables due from other financial institutions	1,764	626	188	177	237	478	-	58	5.62
Trading securities	2,814	789	823	314	367	439	57	25	5.70
Investment securities	6,369	573	1,281	1,884	83	1,744	803	1	5.19
Loans, advances and other receivables	17,120	6,845	1,535	1,232	2,264	4,822	430	(8)	7.50
Bank acceptances of customers	115	-	-	-	-	-	-	115	
Life insurance investment assets	3,812	666	58	95	177	518	53	2,245	2.85
Deposits with regulatory authorities	61	-	-	-	-	-	-	61	
Property, plant and equipment	198	-	-	-	-	-	-	198	
Intangible assets	4	-	-	-	-	-	-	4	
Other assets	724	-	-	-	-	-	-	724	
Total Assets	33,493	9,874	4,006	3,709	3,128	8,001	1,343	3,432	5.95
Liabilities									
Deposits and other public borrowings	14,934	8,516	3,440	995	1,154	193	-	636	4.94
Payables due to other financial institutions	4,087	2,906	756	286	88	51	-	-	4.87
Bank acceptances	115	-	-	-	-	-	-	115	
Provision for dividend	-	-	-	-	-	-	-	-	
Income tax liability	143	-	-	-	-	-	-	143	
Other provisions	126	-	-	-	-	-	-	126	
Life insurance policy liabilities	3,552	-	-	-	-	-	-	3,552	
Debt issues	9,765	449	6,338	1,506	557	544	326	45	4.43
Bills payable and other liabilities	1,193	-	-	-	-	-	-	1,193	
Loan Capital	80	-	-	-	-	80	-	-	8.29
Total Liabilities	33,995	11,871	10,534	2,787	1,799	868	326	5,810	4.05
Shareholders Equity									
Share capital	31	-	-	-	-	-	-	31	
Outside equity interests	6	-	-	-	-	-	-	6	
Total Shareholders' Equity	37	-	-	-	-	-	-	37	
Off Balance Sheet Items									
Options									
Swaps	(2)	999	3,700	96	(1,222)	(3,351)	(222)	-	(1)
FRAs	(2)	(299)	199	100	-	-	-	-	(1)
Futures	(2)	-	74	(166)	92	-	-	-	(1)
Net Mismatch	(2)	(1,297)	(2,555)	952	199	3,782	795	(2,415)	(1)
Cumulative Mismatch	(2)	(1,297)	(3,852)	(2,900)	(2,701)	1,081	1,876	(539)	(1)

(1) No rate applicable.
(2) No balance sheet amount applicable.

Foreign exchange risk

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

The Group hedges all balance sheet foreign exchange risk except for long term investments in offshore subsidiaries.

Net deferred gains and losses

Net deferred unrealised gains and losses arising from derivative hedging contracts entered into in order to manage the risk arising from assets, liabilities, commitments or anticipated future transactions, together with the expected term of deferral are shown below.

NOTE 39 Market Risk continued

As at 30 June	**Exchange rate Related contracts**		**Interest rate Related contracts**		**Total**	
	2002 $M	2001 $M	**2002 $M**	2001 $M	**2002 $M**	2001 $M
Within 6 months	**(258)**	167	**123**	349	**(135)**	516
Within 6 months - 1 year	**(25)**	(5)	**2**	(184)	**(23)**	(189)
Within 1-2 years	**(199)**	(229)	**(38)**	(90)	**(237)**	(319)
Within 2-5 years	**94**	(69)	**(47)**	(38)	**47**	(107)
After 5 years	**123**	19	**(157)**	(26)	**(34)**	(7)
Net deferred gain (loss)	**(265)**	(117)	**(117)**	11	**(382)** [1]	(106)

(1) These losses are offset by unrecognised net gains in assets and liabilities in the balance sheet. The increase in deferred losses reflect the significant reductions over the year in global interest rates.

Net deferred gains and losses are only in respect of derivatives and must be considered in the context of the total interest rate and foreign exchange risk of the balance sheet. The deferred gains and losses on both derivatives and on balance sheet assets and liabilities are included in the economic value at risk measure outlined above.

Additionally, there are $12 million of net deferred losses on derivatives (2001: $107 million net deferred losses) used to hedge equity risk on investments disclosed within Note 11.

Market risk in financial services

Market risk in the life insurance business arises from mismatches between assets and liabilities guaranteed returns offered on some classes of policy (which may not be capable of being hedged through matching assets), adverse movements in market prices affecting fee income on investment-linked policies and from the returns obtained from investing the shareholders capital held in each life company. Shareholders funds in the life insurance business are on average invested 50% in income assets (cash and fixed interest) and 50% in growth assets (shares and property), although the asset mix may vary from company to company. Policyholder funds are invested to meet policyholder reasonable expectations without putting the shareholder at undue risk.

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

Market Risk in Financial Markets Trading

The Group's policy is that exposure to market risk from trading activities is managed by Institutional Banking. The Group trades and distributes financial markets products and provides risk management services to clients on a global basis.

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

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

The Group maintains access to markets by quoting bid and offer prices with other market makers and carries an inventory of treasury and capital market instruments, including a broad range of securities and derivatives.

In foreign exchange, the Group is a participant in all major currencies and is a major participant in the Australian dollar market, providing services for central banks, institutional, corporate and retail customers. Positions are also taken in the interest rate, debt, equity and commodity markets based on views of future market movements. Trading securities are further detailed in Note 10 of the financial statements.

Income is earned from spreads achieved through market making and from taking market risk. All trading positions are valued and taken to profit and loss on a mark to market basis. Trading profits also take account of interest, dividends and funding costs relating to trading activities. Market liquidity risk is controlled by concentrating trading activity in highly liquid markets.

Note 2 of the financial statements details Financial Markets Trading Income contribution of $489 million (2001: $426 million) to the income of the Group. The contribution is significant and provides important diversification benefits to the Group.

Residual Value Risk on Operating Leases

The Group provides operating leases to customers on equipment such as motor vehicles, computers and industrial equipment. A residual value risk arises when equipment is not fully depreciated at lease expiry. Residual value risk is the risk that the amount recouped by selling the equipment at lease expiry will be less than the residual value on the lease.

In managing the risk the Group utilises industry experts to ensure that the residual value of equipment is prudently estimated at the start of the lease and the Group realises the maximum value of the equipment at lease expiry.

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	
	2002	2001	**2002**	2001
	$M	$M	**$M**	$M
Derivatives				
Exchange rate related contracts				
Forwards				
Trading	**132,200**	114,962	**4,435**	4,295
Other than trading	**5,146**	1,771	**124**	17
Total Forwards	**137,346**	116,733	**4,559**	4,312
Swaps				
Trading	**44,084**	23,196	**3,061**	1,946
Other than trading	**14,612**	8,661	**953**	1,588
Total Swaps	**58,696**	31,857	**4,014**	3,534
Futures				
Trading	**293**	417	**-**	-
Other than trading	**-**	-	**-**	-
Total Futures	**293**	417	**-**	-
Options purchased and sold				
Trading	**77,641**	34,261	**1,334**	704
Other than trading	**277**	-	**5**	-
Total Options purchased and sold	**77,918**	34,261	**1,339**	704
Total exchange rate related contracts	**274,253**	183,268	**9,912**	8,550
Interest rate related contracts				
Forwards				
Trading	**31,055**	23,477	**6**	2
Other than trading	**8,983**	7,074	**2**	1
Total Forwards	**40,038**	30,551	**8**	3
Swaps				
Trading	**128,983**	97,822	**2,150**	1,671
Other than trading	**118,880**	79,989	**1,372**	1,510
Total Swaps	**247,863**	177,811	**3,522**	3,181
Futures				
Trading	**79,173**	45,367	**-**	-
Other than trading	**1,563**	20	**-**	-
Total Futures	**80,736**	45,387	**-**	-
Options purchased and sold				
Trading	**18,241**	12,265	**76**	123
Other than trading	**-**	79	**-**	79
Total Options purchased and sold	**18,241**	12,344	**76**	202
Total interest rate related contracts	**386,878**	266,093	**3,606**	3,386
Equity risk related contracts				
Swaps				
Other than trading	**278**	278	**-**	-
Total equity risk related contracts	**278**	278	**-**	-
Total derivatives exposures	**661,409**	449,639	**13,518**	11,936

Notes to the financial statements

NOTE 39 Market Risk continued

The fair or market value of trading derivative contracts, disaggregated into gross unrealised gains and gross unrealised losses, are shown below. In line with the Group's accounting policy, these unrealised gains and losses are recognised immediately in profit and losses, and together with net realised gains on trading derivatives and realised and unrealised gains and losses on trading securities are reported within trading income under foreign exchange earnings or other financial instruments (refer Note 2). In aggregate, derivatives trading was profitable for the Group during the year.

		Fair Value	Average Fair Value	
	2002	**2001**	**2002**	2001
	$M	**$M**	**$M**	$M
Exchange rate related contracts				
Forward contracts				
Gross unrealised gains	**3,590**	3,125	**2,996**	4,066
Gross unrealised losses	**(3,451)**	(2,020)	**(2,197)**	(3,120)
	139	1,105	**799**	946
Swaps				
Gross unrealised gains	**2,765**	2,990	**2,619**	2,535
Gross unrealised losses	**(2,288)**	(3,025)	**(2,408)**	(2,663)
	477	(35)	**211**	(128)
Futures				
Gross unrealised gains	**-**	2	**-**	3
Gross unrealised losses	**-**	-	**-**	(2)
	-	2	**-**	1
Options purchased and sold				
Gross unrealised gains	**826**	504	**564**	579
Gross unrealised losses	**(903)**	(283)	**(517)**	(354)
	(77)	221	**47**	225
Net Unrealised Gains on exchange Rate Related Contracts	**539**	1,293	**1,057**	1,044
Interest rate related contracts				
Forward contracts				
Gross unrealised gains	**9**	7	**14**	5
Gross unrealised losses	**(8)**	(7)	**(13)**	(6)
	1	-	**1**	(1)
Swaps				
Gross unrealised gains	**3,049**	2,874	**3,408**	2,736
Gross unrealised losses	**(3,468)**	(3,324)	**(3,891)**	(3,082)
	(419)	(450)	**(483)**	(346)
Futures				
Gross unrealised gains	**24**	19	**28**	33
Gross unrealised losses	**(35)**	(27)	**(35)**	(24)
	(11)	(8)	**(7)**	9
Options purchased and sold				
Gross unrealised gains	**73**	71	**92**	67
Gross unrealised losses	**(73)**	(73)	**(75)**	(57)
	-	(2)	**17**	10
Net Unrealised Losses on Interest Rate Related Contracts	**(429)**	(460)	**(472)**	(328)
Net Unrealised Gains on Trading Derivative Contracts	**110**	833	**585**	716

In accordance with the accounting policy set out in Note 1(gg) the above trading derivative contract revaluations have been presented on a gross basis on the balance sheet.

Unrealised gains on trading derivatives (Note 21)	**10,336**	9,592
Unrealised losses on trading derivatives (Note 27)	**10,226**	8,759
Net unrealised gains on trading derivatives	**110**	833

Notes to the financial statements

NOTE 40 Superannuation Commitments

The Group sponsors a range of superannuation plans for its employees world wide. Details of major defined benefit plans with assets in excess of $10 million are:

Name of Plan	Type	Form of Benefit	Date of Last Assessment
Officers' Superannuation Fund (OSF)	Defined Benefits and Accumulation	Indexed pensions and lump sums	30 June 2000
Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA (UK) SBS)	Defined Benefits and Accumulation	Indexed pensions and lump sums	1 May 1999
The Colonial Group Staff Superannuation Scheme (CGSSS)	Defined Benefits and Accumulation	Indexed pensions and lump sums	30 June 2001
Colonial UK Staff Pension Scheme (CUKSPS)	Defined Benefits	Indexed pensions and lump sums	5 April 2001
Stewart Ivory & Company Limited Retirement Benefits Scheme (SI&CRBS)	Defined Benefits	Indexed pensions and lump sums	1 September 1998 (2)

Financial Details of Defined Benefits Plans

	OSF $M	CBA (UK) SBS $M	CGSSS $M	CUK SPS(1) $M	SI& CRBS(2) $M	Total $M
Net Market Value of Assets	5,566	124	506	302	23	**6,521**
Present Value of Accrued Benefits	3,812	59	274	353	22	**4,520**
Difference between Net Market of Assets and Present Value of Accrued Benefits	1,754	65	232	(51)	1	**2,001**
Difference as a percentage of plan assets	32%	52%	46%	(17%)	4%	**31%**
Value of Vested Benefits	3,812	59	280	296	20	**4,467**

(1) The Colonial UK life insurance business was sold in June 2000, which will result in a significant portion of these vested benefits being transferred out of this plan.

(2) An actuarial assessment of the SI&CRBS, as at 1 September 2001, is currently in progress. Initial indications are that there may be a small deficit in this scheme; however, this deficit would be immaterial in the Group context.

The above values have been extracted from financial statements and actuarial assessments of each plan, which have been prepared in accordance with relevant accounting and actuarial standards and practices.

Contributions

For the plans listed in the above table, entities of the Group contribute to the respective plans in accordance with the Trust Deeds following the receipt of actuarial advice.

With the exception of contributions corresponding to salary sacrifice benefits, the Bank ceased contributions to the OSF from 8 July 1994. Further, the Bank ceased contributions to the OSF relating to salary sacrifice benefits from 1 July 1997.

An actuarial assessment of the OSF, as at 30 June 2000 was completed during the year ended 30 June 2001. In line with the actuarial advice contained in the assessment, the Bank does not intend to make contributions to the OSF until after consideration of the next actuarial assessment of the OSF as at 30 June 2003.

No employer contributions were made to the CGSSS during the year and the Bank does not intend to make contributions to the CGSSS until after consideration of the next actuarial assessment of CGSSS. Further, contributions ceased to the CGSSS relating to salary sacrifice benefits from 1 July 1999.

Notes to the financial statements

NOTE 41 Controlled Entities

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
AUSTRALIA		
(a) Banking		
Commonwealth Bank of Australia		Australia
Controlled Entities:		
Commonwealth Development Bank of Australia Limited		Australia
CBA Investments Limited		Australia
CBA Specialised Financing Limited		Australia
Share Investments Pty Limited		Australia
CBA Investments (No 2) Pty Limited		Australia
CBA International Finance Pty Limited		Australia
CBCL Australia Limited		Australia
CBFC Limited		Australia
Collateral Leasing Pty Limited		Australia
Commonwealth Diversified Credit Fund (1)	83	Australia
Commonwealth Securities Limited		Australia
Homepath Pty Limited		Australia
Chullora Equity Investments (No.2) Pty Limited *		Australia
Chullora Equity Investments (No.3) Pty Limited *		Australia
Commonwealth Insurance Limited		Australia
Commonwealth Investments Pty Limited *		Australia
Commonwealth Property Limited		Australia
Infravest (No. 2) Limited		Australia
Commonwealth Fleet Lease Pty Limited		Australia
Retail Investor Pty Limited		Australia
Sparad (no. 24) Pty Limited		Australia
Colonial Employee Share Plan Limited		Australia
Colonial Finance Limited		Australia
Colonial Financial Services Pty Limited		Australia
CST Securitisation Management Limited		Australia
Emerald Holding Company Limited		Australia
(b) Life Insurance and Funds Management		
Commonwealth Custodial Services Limited		Australia
Commonwealth Insurance Holdings Limited		Australia
Commonwealth Life Limited		Australia
CLL Investments Limited		Australia
CIF (Hazelwood) Pty Limited		Australia
Commonwealth Investment Services Limited Group		
Commonwealth Investment Services Limited		Australia
Commonwealth Managed Investments Limited		Australia
CISL (Hazelwood) Pty Limited		Australia
Commonwealth Funds Management Limited Group		
Commonwealth Funds Management Limited		Australia
CFM (ADF) Limited		Australia
CFML Nominees Pty Limited		Australia
CMG Asia Pty Limited		Australia
CMG First State Investment Managers (Asia) Limited		Australia
Colonial AFS Services Pty Limited		Australia
Colonial Financial Corporation Limited		Australia
Colonial First State Group Limited		Australia
Colonial First State Property Limited		Australia
Colonial Statutory Funds Management Limited		Australia
CFS Managed Property Limited		Australia
Colonial Holding Company Pty Limited		Australia
Colonial Holding Company (No.2) Pty Limited		Australia
Colonial Financial Management Limited		Australia
Colonial Insurance Services Pty Limited		Australia
Colonial International Holdings Pty Limited		Australia
Colonial Investments Holding Pty Limited		Australia
Colonial Investment Services Limited		Australia
Colonial LGA Holdings Limited		Australia
Colonial Mutual Funds Limited		Australia
The Colonial Mutual Life Assurance Society Limited		Australia
Colonial Mutual Superannuation Pty Limited		Australia

Notes to the financial statements

NOTE 41 Controlled Entities continued

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
(b) Life Insurance and Funds Management continued		
Colonial PCA Holdings Pty Limited		Australia
Colonial PCA Services Limited		Australia
Colonial Portfolio Services Limited		Australia
Colonial Services Pty Limited		Australia
Jacques Martin Pty Limited		Australia
NEW ZEALAND		
(a) Banking		
ASB Group Limited		New Zealand
ASB Holdings Limited		New Zealand
ASB Bank Limited		New Zealand
ASB Finance Limited		New Zealand
ASB Management Services Limited		New Zealand
ASB Properties Limited		New Zealand
ASB Superannuation Nominees Limited		New Zealand
CBA Funding (NZ) Limited		New Zealand
(b) Life Insurance and Funds Management		
ASB Group Limited		New Zealand
ASB Life Limited		New Zealand
Sovereign Limited		New Zealand
Colonial First State Investment Managers (NZ) Limited		New Zealand
Colonial First State Investments (NZ) Limited		New Zealand
ASB Group (Life) Limited		New Zealand
Kiwi Income Properties Limited **		New Zealand
Kiwi Property Management Limited **		New Zealand
Sovereign Life NZ Limited		New Zealand
Sovereign Services Corporation New Zealand Limited		New Zealand
OTHER OVERSEAS		
(a) Banking		
CBA Asia Limited		Singapore
CBA (Europe) Finance Limited		United Kingdom
CBA (Delaware) Finance Incorporated		USA
CTB Australia Limited		Hong Kong
Senator House Investments (UK) Limited (2)		United Kingdom
Commonwealth Securities (Japan) Pty Limited		Japan
SBV Asia Limited		Hong Kong
National Bank of Fiji Limited	51	Fiji
PT Bank Commonwealth		Indonesia
(b) Life Insurance and Funds Management		
CMG Asia Life Holdings Limited		Bermuda
CMG Asia Limited		Bermuda
CMG Asia Pensions and Retirements Limited		Hong Kong
CMG First State Investments (Hong Kong) Limited		Hong Kong
CMG First State Singapore Limited		Singapore
CMG Life Insurance Co Inc		Philippines
Colonial Fiji Life Limited		Fiji
Colonial First State International Assets Limited		United Kingdom
Colonial First State Investments (Fiji) Limited		Fiji
Colonial First State Investment Managers (UK) Limited		United Kingdom
Colonial Healthcare (Fiji) Limited		Fiji
Colonial Services (Fiji) Limited		Fiji
Colonial First State UK Holdings Limited		United Kingdom
Stewart Ivory Holdings Limited		United Kingdom

Non-operating and minor operating controlled entities and investment vehicles holding policyholder assets are excluded from the above list.

(1) Majority owned unit trust.

(2) Wholly owned subsidiary of CBA International Finance Pty Limited.

* Small proprietary companies not requiring audit.

** Companies purchased during the year.

During the year the Group disposed of its subsidiary Micropay Pty Limited.

Notes to the financial statements

NOTE 42 Investments in Associated Entities and Joint Ventures

	GROUP 2002 $M	2001 $M	Extent of Ownership Interest %	Principal Activities	Balance Date
EDS (Australia) Pty Limited	**238**	238	35	Information Technology Services	31 December
Computer Fleet Management	**1**	3	50	Desktop IT Lease Management	30 June
Property Internet PLC	**-**	5	24	Online residential property information provider	31 March
Alliance Group Holdings	**-**	2	33	Receivables Management	30 June
Cyberlynx Procurement Services	**-**	1	30	Procurement Services	30 June
EON CMG Life Assurance Bhd	**-**	16	40	Life insurance - Malaysia	31 December
PT Astra CMG Life	**10**	9	50	Life insurance - Indonesia	31 December
Ayudhya CMG Life Assurance PLC	**-**	61	48	Life insurance - Thailand	31 December
China Life CMG Life Assurance Company Limited	**36**	36	49	Life insurance - China	31 December
Bao Minh CMG Life Insurance Company	**7**	6	50	Life insurance - Vietnam	31 December
CMG Mahon (China) Investment Management Limited	**-**	-	50	Direct investment in China	30 June
Mahon and Associates Limited	**-**	-	50	Investment management	30 June
CMG CH China Funds Management Limited	**1**	-	50	Investment management	31 March
Avanteos Pty Ltd	**20**	22	50	Technology and Development	31 December
Colonial First State Private Ltd	**-**	-	50	Investment management	30 June
Jacques Martin Industry Funds Administration Pty Limited ("JMIFA")	-	1	50	Industry superannuation	30 June
TOTAL	**313**	400			

The Group also holds investments in the Colonial First State Property Trust Group and Colonial Mastertrust Wholesale equity funds (including the Fixed Interest, Australian Share, International Share, Property Securities, Capital Stable, Balanced and Diversified Growth funds) through controlled life insurance entities, which are not accounted for under the equity accounting method.

Instead, the market values for these investments are calculated at balance date and are brought to account at this value in compliance with the requirements of AASB 1038: Life Insurance Business. These investments are classified as property or equity investments and are not material components of these asset categories.

	GROUP 2002 $M	2001 $M
Share of associates' profits (losses) after notional goodwill amortisation		
Operating profits (losses) before income tax	**(2)**	(4)
Income tax expense	**1**	-
Operating profits (losses) after income tax	**(1)**	(4)
Carrying amount of investments in associated entities		
Opening balance	**400**	403
New investments	**8**	39
Disposals / transfers	**(85)**	(16)
Writedown value of investments	**(9)**	(2)
Fair value adjustments	**-**	(20)
Share of associates' profits (losses)	**(1)**	(4)
Foreign exchange adjustment	**-**	-
Closing balance	**313**	400

Notes to the financial statements

NOTE 43 Standby Arrangements and Unused Credit Facilities
(of controlled entities that are borrowing corporations)

				GROUP
		2002		2001
		$M		$M
	Available	**Unused**	Available	Unused
Financing arrangements accessible				
Bank overdraft	**51**	**19**	51	22
Revolving credit	**-**	**-**	100	-
Other	**-**	**-**	29	29
	51	**19**	180	51

NOTE 44 Related Party Disclosures

Australian banks, parent entities of Australian banks and controlled entities of Australian banks have been exempted, subject to certain conditions, under an ASIC Order No. 98/110 dated 10 July 1998, from making disclosures of any loan made, guaranteed or secured by a bank to related parties (other than directors) and financial instrument transactions (other than shares and share options) of a bank where a director of the relevant entity is not a party and where the loan or financial instrument transaction is lawfully made and occurs in the ordinary course of banking business and either on an arm's length basis or with the approval of a general meeting of the relevant entity and its ultimate parent entity (if any). The exemption does not cover transactions that relate to the supply of goods and services to a bank, other than financial assets or services.

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

A condition of the Class Order is that the Bank must lodge a statutory declaration, signed by two directors, with the Australian Securities and Investments Commission accompanying the annual report. The declaration provides confirmation that the bank has systems of internal control and procedures to provide assurance that any financial instrument transactions of a bank which are not entered into on an arm's length basis are drawn to the attention of the Directors so that they may be disclosed.

Directors

The name of each person holding the position of Director of the Commonwealth Bank during the financial year is:

J T Ralph, AC (Chairman)
J M Schubert (Deputy Chairman)
D V Murray (Managing Director)
N R Adler, AO
R J Clairs, AO
A B Daniels, OAM
C R Galbraith
W G Kent, AO
F D Ryan
F J Swan
B K Ward

Details of remuneration received or due and receivable by Directors are set out in Note 45.

Loans to Directors

Loans are made to Directors in the ordinary course of business of the Bank and on an arm's length basis. Loans to Executive Directors have been made on normal commercial terms and conditions.

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

- the Bank to its Directors;
- banks which are controlled entities to their Directors; and
- non bank controlled entities to Directors (and their related parties) of those entities.

The aggregate amount of such loans outstanding at 30 June 2002 was:

- $105,146 to Directors of the Bank (2001: $50,000); and
- $2,735,036 to Directors of related entities (2001: $2,418,363).

NOTE 44 Related Party Disclosures continued

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

	Loans Received		Repayments Made	
	2002	2001	**2002**	2001
	$	$	**$**	$
Directors of the CBA				
Normal terms and conditions [(1)]	**55,146**	-	**-**	318,000
Directors of related entities				
Normal terms and conditions [(2)]	**1,055,843**	3,693,546	**601,331**	2,482,653

[(1)] Directors: K E Cowley, F D Ryan and N R Adler.
[(2)] Directors: G J Judd, G H Burrett, R J Norris, P Polson, C Seddon, A Hanna, R G Wilkie, C B Millett, M D Widjaja, S Vuetaki, C Kamea, J Wong and A V Villamor.

Shares of Directors

The aggregate number of shares acquired by, disposed of and held by Directors and their director related entities in the Commonwealth Bank during the financial year ended 30 June 2002, were:

Director	Held 30 June 2001 Ordinary	Shares Acquired Ordinary	Shares Disposed Of Ordinary	**Held 30 June 2002 Ordinary**
J T Ralph	12,258	2,531		**14,789**
J M Schubert	10,861	1,741		**12,602**
D V Murray	47,108	20,120	(590)	**66,638**
N R Adler	7,956	992	(1,123)	**7,825**
R J Clairs	10,334	819		**11,153**
A B Daniels	12,601	1,117		**13,718**
C R Galbraith	4,369	1,093		**5,462**
W G Kent	7,890	932		**8,822**
F D Ryan	4,334	826		**5,160**
F J Swan	2,070	981		**3,051**
B K Ward	2,257	918		**3,175**

All shares were acquired by Directors on normal terms and conditions or through the Non-Executive Directors' Share Plan (or in the case of Mr D V Murray the Equity Reward Plan or the previous Executive Option Plan). Mr D V Murray took up 250,000 options during the year, leaving his total holdings of options at 1,750,000 under the Equity Reward Plan and the previous Executive Option Plan. (No further options will be granted under the Equity Reward Plan. The Executive Option Plan was discontinued in 2000.) Mr D V Murray was also awarded 42,000 shares under the Equity Reward Plan during the year. This is his total holding of shares under the Equity Reward Plan. Shares awarded under the Equity Reward Plan are registered in the name of the Trustee. The transfer of legal title to Mr D V Murray is subject to vesting conditions and is conditional on the Bank achieving a prescribed performance hurdle over a minimum three year period. For further details on the Non-Executive Directors' Share Plan, Equity Reward Plan and the previous Executive Option Plan refer Note 29.

In addition, Mr Ralph holds 100,000 units in Commonwealth Property Trust and 495,294.7 units in Colonial First State Diversified Hedge Fund. Both holdings are held beneficially.

Other Transactions of Directors and Other Related Parties

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed above) of Directors of the Bank and other banks that are controlled entities occur in the ordinary course of business of the banks on an arm's length basis.

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

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

Transactions other than Financial Instrument Transactions of Banks

All other transactions with Directors, director related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services by non bank controlled entities. Mr J T Ralph beneficially holds 495,294 units in the Colonial First State Hedge Fund. Additionally, Mr C R Galbraith is a partner in the law firm, Allens Arthur Robinson, which acted for the Bank in the provision of legal services during the financial year. The fees for these services were $2,408,111.

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

Controlled Entities

Transactions with related parties in the Group are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally arise out of the provision of banking services, the acceptance of funds on deposit, the granting of loans and other associated financial activities.

NOTE 44 Related Party Disclosures continued

Support services are provided by the Bank such as provision of premises and/or equipment, availability of transfer payment and accounting facilities through data processing etc, and are transfer charged to the respective user entity at commercial rates.

Refer to Note 41 for details of controlled entities.

The Bank's aggregate investment in and loans to controlled entities are disclosed in Note 18.

Amounts due to controlled entities are disclosed in the balance sheet of the Bank.

Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in Note 2.

All transactions between Group entities are eliminated on consolidation.

NOTE 45 Remuneration of Directors

Total amount received or due and receivable by non-executive Directors of the Company for the year ended 30 June 2002 was:

	Base Fee/Pay	Committee Fee	Salary Sacrifice[2]	Superannuation[1]	Total Remuneration
	$	$	$	$	$
Non-Executive Directors					
Mr J T Ralph, AC	192,000	32,000	56,000	17,920	297,920
Dr J M Schubert	96,000	20,000	29,000	9,280	154,280
Mr N R Adler, AO	64,000	12,997	19,249	6,160	102,406
Mr R J Clairs, AO	64,000	15,003	19,751	7,110	105,864
Mr A B Daniels, OAM	64,000	12,000	19,000	6,840	101,840
Mr W G Kent, AO	64,000	20,000	21,000	7,560	112,560
Mr C R Galbraith	64,000	20,000	21,000	7,560	112,560
Mr F D Ryan	64,000	16,000	20,000	7,200	107,200
Mr F J Swan	64,000	20,000	21,000	7,560	112,560
Ms B K Ward	64,000	16,000	20,000	6,200	106,200

Executive Director
Mr D V Murray (refer Note 46)

(1) The Bank is currently not contributing to the Officers' Superannuation Fund. A notional cost of superannuation has been determined on an individual basis for certain of the Directors. Other Directors have superannuation contributions made to other funds.

(2) Under the Non-Executive Directors Share Plan detailed in the Explanatory Memorandum to the Notice of Meeting for the 2000 Annual General Meeting, Non-Executive Directors are required to receive 20% of their remuneration in shares. Also refer Note 29 for further details.

Notes to the financial statements

NOTE 45 Remuneration of Directors continued

	BANK	
	2002	2001
	$	$
Total amount received or due and receivable by executive and non executive Directors (includes accumulated benefits due to Directors who retired during the year)	**8,308,940**	4,115,750

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

Remuneration (Dollars)	Number	Number	
$ 90,001 - $ 100,000	-	2	
$ 100,001 - $ 110,000	5	5	
$ 110,001 - $ 120,000	3	1	
$ 140,001 - $ 150,000	-	1	
$ 150,001 - $ 160,000	1	-	
$ 160,001 - $ 170,000	-	1	*
$ 290,001 - $ 300,000	1	1	
$ 350,001 - $ 360,000	-	1	**
$ 2,310,000 - $ 2,319,999	-	1	
$ 6,990,000 - $ 6,999,999	1	-	
	11	13	

* 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	
	2002	2001
	$	$
Total amount received or due and receivable by executive and non executive Directors of the Bank and controlled entities	**15,804,263**	**11,194,438**

Notes to the financial statements

NOTE 46 Remuneration of Executives

The following table shows remuneration for the executive director and five highest paid other members of the senior executive team directly reporting to the Chief Executive Officer, who were officers of the Bank and the Group for the year ended 30 June 2002. The table does not include individuals, who are not direct reports to the Chief Executive Officer, whose incentive based remuneration, consistent with market practice in the industry, in any given year is in excess of that received by a member of the senior executive team.

Senior Executive Team

Name & Position	Base Pay(1)	Bonus(2) Paid This Year	Bonus(2) Vested in CBA Shares	Super-annuation(3)	Other Compensation(4)	Total Remuneration	Option Grant(6)	Share Grant(6)
	$	$	$	$	$	$	Number	Number
D V Murray Chief Executive Officer	1,550,000	335,000	335,000	125,550	4,650,000 (5)	6,995,550	250,000	42,000
P L Polson Group Executive, Investment & Insurance Services	679,589	500,000	-	196,585	584,368	1,960,542	100,000	14,000
M A Katz Group Executive, Premium Financial Services	850,000	230,000	230,000	67,500	12,000	1,389,500	125,000	18,000
M J Ullmer Group Executive, Institutional & Business Services	790,000	220,000	220,000	132,300	12,000	1,374,300	125,000	18,000
J F Mulcahy Group Executive, Retail Banking Services	760,000	185,000	185,000	63,000	12,000	1,205,000	125,000	18,000
S I Grimshaw Group Executive, Financial & Risk Management (7)	287,671	200,000	-	20,712	605,000	1,113,383	100,000	14,000
Retired Executive								
R J Norris Head of International Financial Services & Managing Director & CEO of ASB Group (8)	172,603	-	-	n/a	1,030,833 (9)	1,203,436	-	-

(1) Base pay is calculated on a Total Cost basis. It reflects the total remuneration package and includes any FBT charges related to employee benefits including motor vehicles.

(2) The Group has a vesting (deferral) arrangement for most executives. 50% of the bonus payment is paid immediately and the remaining 50% is deferred and vested in the Bank's shares. Half of the shares will vest after one year (in 2003) and half will vest after two years (in 2004). Generally these instalments are only paid if the executive is still in the employ of the Bank on the relevant dates.

(3) The Bank is currently not contributing to the Officers' Superannuation Fund or to the Colonial Group Staff Superannuation Scheme – refer Note 40. Notional cost of superannuation has been determined on an individual basis for each executive.

(4) Other compensation includes, where applicable, car parking (including FBT), accommodation (including FBT), commencement payments, retirement allowances, contractual and other payments.

(5) This payment was made in accordance with a contract entered into with the CEO on 21 June 1992 which provided for the lump sum to be paid upon satisfactory completion of ten years' service in that position (or pro rata for earlier termination of appointment after five years' service had been completed). A new contract of employment was entered into effective 2 July 2001. This contract does not have a similar provision in relation to service post 21 June 2002.

(6) Option Grants awarded under the Equity Reward Plan are a right to subscribe for ordinary shares at an exercise price which is the Market Value (defined as the weighted average of the prices at which the Bank's ordinary shares were traded on the ASX during the one week period before the Commencement Date) plus a premium representing the time value component of the value of options (based on the actual differences between the dividend and bond yields at the date of the vesting of the right to exercise the options).

Share Grants are awarded under the Equity Reward Plan. Shares are purchased on market and charged against profit and loss. Shares are registered in the name of the Trustee. No consideration is payable by the executive for the grant of shares. The transfer of legal title to the executive is subject to vesting conditions.

The ability to exercise options and the vesting of the shares is conditional on the Bank achieving a prescribed performance hurdle. To reach the performance hurdle, the Bank's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of Total Shareholder Return achieved by a comparator group of companies, excluding the Bank.

Notes to the financial statements

NOTE 46 Remuneration of Executives continued

If the performance hurdle is not reached within that three years, the options and shares may nevertheless be exercisable or vest as appropriate only where the hurdle is subsequently reached within five years from the Commencement Date. If the performance hurdle is not met, the options will lapse and the entitlement to shares will be forfeited.

The options and shares are subject to a performance hurdle, the achievement of which is uncertain.

Effective from 1 July 2002, options will no longer be issued under the Equity Reward Plan. In future Reward Shares only will be issued under this plan.

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

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

For further details on the Equity Reward Plan, refer Note 29.

(7) Commenced 1 February 2002.

(8) Retired 28 September 2001.

(9) Converted from NZ dollars.

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

	GROUP		BANK	
	2002	2001	**2002**	2001
Remuneration (Dollars)	**Number**	Number	**Number**	Number
\$ 100,000 - \$ 109,999	**-**	1	**-**	1
\$ 310,000 - \$ 319,999	**1**	1	**1**	1
\$ 320,000 - \$ 329,999	**-**	1	**-**	1
\$ 330,000 - \$ 339,999	**1** *	-	**1** *	-
\$ 390,000 - \$ 399,999	**1**	-	**1**	-
\$ 430,000 - \$ 439,999	**1** *	-	**1** *	-
\$ 450,000 - \$ 459,999	**-**	1	**-**	1
\$ 470,000 - \$ 479,999	**1**	-	**1**	-
\$ 490,000 - \$ 499,999	**1**	-	**1**	-
\$ 510,000 - \$ 519,999	**-**	1	**-**	1
\$ 520,000 - \$ 529,999	**-**	2	**-**	2
\$ 530,000 - \$ 539,999	**1**	1	**1**	1
\$ 560,000 - \$ 569,999	**1**	-	**1**	-
\$ 570,000 - \$ 579,999	**-**	1	**-**	1
\$ 600,000 - \$ 609,999	**-**	1	**-**	1
\$ 610,000 - \$ 619,999	**1**	-	**1**	-
\$ 650,000 - \$ 659,999	**1** *	-	**1** *	-
\$ 690,000 - \$ 699,999	**-**	1	**-**	1
\$ 710,000 - \$ 719,999	**1**	-	**1**	-
\$ 760,000 - \$ 769,999	**1**	-	**1**	-
\$ 770,000 - \$ 779,999	**-**	1	**-**	1
\$ 780,000 - \$ 789,999	**1**	-	**1**	-
\$ 790,000 - \$ 799,999	**1**	1	**1**	1
\$ 810,000 - \$ 819,999	**1**	-	**1**	-
\$ 850,000 - \$ 859,999	**-**	1	**-**	1
\$ 870,000 - \$ 879,999	**1**	-	**1**	-
\$ 880,000 - \$ 889,999	**1**	-	**1**	-
\$ 890,000 - \$ 899,999	**-**	1	**-**	1
\$ 970,000 - \$ 979,999	**-**	1	**-**	1
\$1,030,000 - \$1,039,999	**-**	1	**-**	1
\$1,110,000 - \$1,119,999	**1**	-	**1**	-
\$1,180,000 - \$1,189,999	**-**	1	**-**	1
\$1,200,000 - \$1,209,999	**2** *	-	**2** *	-
\$1,260,000 - \$1,269,999	**1**	-	**1**	-
\$1,330,000 - \$1,339,999	**-**	1	**-**	1
\$1,370,000 - \$1,379,999	**1**	-	**1**	-
\$1,380,000 - \$1,389,999	**1**	1	**1**	1
\$1,500,000 - \$1,509,999	**-**	1	**-**	1
\$1,650,000 - \$1,659,999	**1**	-	**1**	-
\$1,750,000 - \$1,759,999	**-**	1	**-**	1
\$1,760,000 - \$1,769,999	**1**	-	**1**	-
\$1,870,000 - \$1,879,999	**-**	1	**-**	1
\$1,960,000 - \$1,969,999	**1**	-	**1**	-
\$2,050,000 - \$2,059,999	**-**	1	**-**	1
\$2,310,000 - \$2,319,999	**-**	1	**-**	1
\$3,590,000 - \$3,599,999	**1**	-	**1**	-
\$6,990,000 - \$6,999,999	**1**	-	**1**	-
Total number of executives	**28**	25	**28**	25

* Includes termination payments to 4 retired, resigned, or retrenched executives during the financial year.

NOTE 46 Remuneration of Executives continued	GROUP 2002 $	GROUP 2001 $	BANK 2002 $	BANK 2001 $
Total amount received or due and receivable by executives (includes accumulated benefits due to executives who retired, resigned or were retrenched during the year).	**33,973,600**	23,897,371	**33,973,600**	23,897,371

In addition to remuneration shown above, contractual payments have been made or accrued as a consequence of contracts acquired with the Colonial acquisition.

An executive is a person who is directly accountable and responsible to the Chief Executive Officer, or is a Group employee responsible for the strategic direction and management of major businesses or risk portfolios.

Remuneration is based on amounts paid and accrued in respect of the financial year.

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

- Remuneration will be competitively set so that the Group can attract, motivate and retain high calibre local and international executive staff;
- Remuneration will incorporate, to a significant degree, variable pay for performance elements, both short term and long term focused as appropriate, which will:
  - reward executives for Group, business unit and individual performance against appropriate benchmarks/targets,
  - align the interests of executives with those of shareholders,
  - link executive reward with the strategic goals and performance of the Group, and
  - ensure total remuneration is competitive by market standards.
- Remuneration will be reviewed annually by the Remuneration Committee through a process that considers Group, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices;
- Remuneration systems will complement and reinforce the Group's leadership and succession planning systems; and
- Remuneration and terms and conditions of employment will be specified in an individual contract of employment and signed by the executive and the Bank.

Notes to the financial statements

NOTE 47 Statements of Cash Flow

	GROUP			BANK	
	2002	2001	2000	**2002**	2001
	$M	$M	$M	**$M**	$M
Note (a) Reconciliation of Cash					

For the purposes of the Statements of Cash Flows, cash includes cash at bankers, money at short call, at call deposits with other financial institutions and settlement account balances with other banks.

Notes, coins and cash at bankers	**2,056**	1,048	980	**1,873**	830
Other short term liquid assets	**495**	544	370	**306**	339
Receivables due from other financial institutions - at call	**2,709**	458	1,174	**1,470**	262
Payables due to other financial institutions - at call	**(2,762)**	(2,012)	(1,138)	**(2,741)**	(1,851)
Cash and Cash Equivalents at end of year	**2,498**	38	1,386	**908**	(420)

Note (b) Cash Flows presented on a Net Basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- customer deposits to and withdrawals from deposit accounts;
- borrowings and repayments on loans, advances and other receivables;
- sales and purchases of trading securities; and
- proceeds from and repayment of short term debt issues.

	GROUP			BANK	
Note (c) Reconciliation of Operating Profit After Income Tax to Net Cash Provided by Operating Activities	**2002 $M**	2001 $M	2000 $M	**2002 $M**	2001 $M
Net profit after income tax	**2,656**	2,412	2,738	**2,665**	1,699
Decrease (increase) in interest receivable	**210**	159	(948)	**152**	7
Increase in interest payable	**(60)**	(278)	558	**(146)**	(38)
Net (increase) decrease in trading securities	**(1,159)**	(262)	(50)	**(1,353)**	171
Net (gain)/loss on sale of investment securities	**(78)**	(56)	(12)	**(295)**	(84)
(Gain)/loss on sale of property plant and equipment	**(12)**	(25)	(13)	**(11)**	(26)
Charge for bad and doubtful debts	**449**	385	196	**405**	276
Depreciation and amortisation	**451**	488	175	**272**	127
Other provisions	**(173)**	(692)	528	**(146)**	(230)
Increase (decrease) in income taxes payable	**443**	(371)	248	**465**	(343)
(Decrease) increase in deferred income taxes payable	**(522)**	(97)	319	**(225)**	(9)
(Increase) decrease in future income tax benefits	**69**	209	(218)	**49**	(46)
(Increase) decrease in accrued fees/reimbursements receivable	**(17)**	(194)	46	**(11)**	(337)
(Decrease) increase in accrued fees and other items payable	**(162)**	136	145	**(72)**	154
Amortisation of premium on investment securities	**18**	24	47	**17**	24
Unrealised gain on revaluation of trading securities	**723**	(186)	(188)	**723**	(377)
Change in excess of net market value over net assets of life insurance controlled entities	**(477)**	(474)	(1,165)	**-**	-
Other assets	**-**	400	-	**-**	-
Other	**(366)**	257	81	**(245)**	190
Net Cash provided by Operating Activities	**1,993**	1,835	2,487	**2,244**	1,158

Note (d) Non cash Financing and Investing Activities

Shares issued under the Dividend Reinvestment Plan for 2001 were $313 million (2000: $253 million) and shares issued under the Employee Share Plans for 2002 were $39 million (2001: $40 million; 2000: $24 million). Acquisition of entity by means of an equity issue nil (2000: $9,274 million).

Notes to the financial statements

NOTE 47 Statements of Cash Flow continued

Note (e) Acquisition of Controlled Entities

	2002 $M	2001 $M	2000 $M
Consideration			
Cash paid on acquisitions	**56**	418	844
Transaction costs	**1**	-	46
Securities issued	**-**	-	9,274
Pre-acquisition dividend received	**-**	-	(1,000)
	57	418	9,164
Fair value of net tangible assets acquired			
Cash & liquid assets	**-**	4	373
Receivables from other financial institutions	**-**	26	538
Trading securities	**-**	501	2,154
Investment securities	**-**	-	99
Loans, advances and other receivables	**-**	2,812	21,635
Bank acceptances of customers	**-**	-	477
Life insurance investment assets	**-**	76	15,504
Deposits with regulatory authorities	**-**	-	43
Property, plant and equipment	**-**	42	382
Investment in associates	**-**	-	117
Other assets	**-**	109	2,228
Deposits and public borrowings	**-**	(2,108)	(13,123)
Payables due to other financial institutions	**-**	(601)	(267)
Bank acceptances	**-**	-	(477)
Income tax liability	**-**	-	(702)
Other provisions	**-**	(3)	(398)
Life insurance policy liabilities	**-**	(75)	(14,960)
Debt issues	**-**	(599)	(8,678)
Bills payable and other liabilities	**-**	(64)	(2,886)
Loan Capital	**-**	-	(418)
Restructuring provision	**-**	-	(294)
Outside equity interest	**-**	(12)	(155)
	-	108	1,192
Excess market value over net assets of life insurance subsidiary	**57**	51	2,548
Goodwill	**-**	259	5,424
	57	418	9,164
Outflow (inflows) of cash on acquisitions			
Cash payments	**56**	418	844
Transaction costs	**1**	-	46
Less cash and cash equivalents acquired	**-**	(4)	(373)
Pre-acquisition dividend received	**-**	-	(1,000)
	57	414	(483)

Note (f) Financing Facilities

Standby funding lines are immaterial.

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

	Carrying Value $M	**2002 Net Fair Value $M**	Carrying Value $M	2001 Net Fair Value $M
Assets				
Cash and liquid assets	**6,044**	**6,044**	3,709	3,709
Receivables due from other financial institutions	**7,728**	**7,728**	4,622	4,622
Trading securities	**8,389**	**8,389**	6,909	6,909
Investment securities	**10,766**	**10,851**	9,705	9,821
Loans, advances and other receivables	**147,074**	**148,378**	136,059	137,004
Bank acceptances of customers	**12,517**	**12,517**	12,075	12,075
Life insurance investment assets	**30,109**	**30,109**	31,213	31,213
Deposit accounts with regulatory authorities	**89**	**89**	61	61
Other assets	**19,961**	**19,751**	19,012	19,349
Liabilities				
Deposits and other public borrowings	**132,800**	**132,879**	117,355	117,862
Payables due to other financial institutions	**7,864**	**7,864**	6,903	6,903
Bank acceptances	**12,517**	**12,517**	12,075	12,075
Life insurance policy liabilities	**25,917**	**25,917**	27,029	27,029
Debt issues	**23,575**	**24,462**	24,484	25,308
Bills payable and other liabilities	**17,184**	**17,203**	13,806	13,940
Loan Capital	**5,427**	**5,632**	5,704	5,828
Asset and liability hedges - unrealised gains/(losses) (Refer Note 39)	**-**	**(394)**	-	(213)

The net fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and bank acceptances of customers

The carrying values of cash and liquid assets, receivables due from other financial institutions and bank acceptances of customers approximate their net fair value as they are short term in nature or are receivable on demand.

Securities

Trading securities are carried at net market/net fair value and investment securities have their net fair value determined based on quoted market prices, broker or dealer price quotations.

Loans, advances and other receivables

The carrying value of loans, advances and other receivables is net of general and specific provisions for doubtful debts and interest/fees reserved.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of net fair value. The net fair value for fixed rate loans was calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio plus an add-on of the average credit margin of the existing portfolio, where appropriate.

NOTE 48 Disclosures about Fair Value of Financial Instruments continued

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

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

Life Insurance Investment Assets & Policy Liabilities

Life insurance investment assets are carried at net fair value. Life insurance policy liabilities are measured on a net present value basis. This treatment is in accordance with accounting standard AASB 1038: Life Insurance Business.

Statutory deposits with central banks

In Australia, and several other countries in which the Group operates, the law requires that the Group lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. The net fair value is assumed to be equal to the carrying value as the Group is only able to continue as a going concern with the maintenance of these deposits.

All other financial assets

Included in this category are fees receivable, unrealised income, investments in associates of $313 million (2001: $400 million), and excess of net market value over net assets of life insurance controlled entities of $5,656 million (2001: $5,136 million), where the carrying amount is considered to be a reasonable estimate of net fair value.

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

Deposits and other public borrowings

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

Short term liabilities

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

Debt issues and loan capital

The net fair values of debt issues and loan capital were calculated based on quoted market prices as at 30 June.

For those debt issues where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument was used.

All other financial liabilities

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

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

Asset and liability hedges

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

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

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

Other off-balance sheet financial instruments

The net fair value of trading and investment derivative contracts (foreign exchange contracts, currency swaps, exchange rate futures, currency options, forward rate agreements, interest rate swaps, interest rate futures, interest rate options), were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

The fair value of these instruments are disclosed in Note 39.

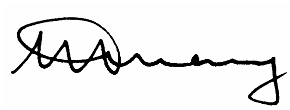
Directors' Declaration

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 2002 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.

J T Ralph AC
Chairman



D V Murray
Managing Director

21 August 2002

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 2002 included on Commonwealth Bank of Australia's web site. The consolidated entity's directors are responsible for the integrity of the Commonwealth Bank of Australia'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, comprising the Statement of Financial Performance, the Statement of Financial Position, the Statement of Cash Flows, Notes 1 to 48 and the Director's Declaration for the year ended 30 June 2002. The consolidated entity'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 consolidated entity.

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 whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its 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 consolidated entity's financial position as at 30 June 2002 and of its performance for the year ended on that date; and
  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Ernst & Young

ERNST & YOUNG
Sydney
21 August 2002

S C Van Gorp
Partner

Shareholding Information

Top 20 Holders of Fully Paid Ordinary Shares as at 19 August 2002

Rank	Name of Holder	Number of Shares	%
1	JP Morgan Nominees Australia Limited	139,212,991	11.11%
2	National Nominees Limited	80,211,010	6.40%
3	Westpac Custodian Nominees Limited	76,842,869	6.13%
4	Citicorp Nominees Pty Limited	61,012,231	4.87%
5	RBC Global Services Australia Nominees Pty Limited	29,358,631	2.34%
6	Commonwealth Custodial Services Limited	23,503,823	1.88%
7	AMP Life Limited	19,013,132	1.52%
8	ANZ Nominees Limited	14,988,579	1.20%
9	Queensland Investment Corporation	12,925,984	1.03%
10	Cogent Nominees Pty Limited	10,854,533	0.87%
11	HSBC Custody Noms (Aust) Ltd	8,651,384	0.69%
12	Colonial Foundation Limited	6,873,632	0.55%
13	NRMA Nominees Pty Limited	6,634,764	0.53%
14	The National Mutual Life Assoc of Australasia Ltd	5,270,297	0.42%
15	ING Life Limited	4,882,631	0.39%
16	CSS Board & PSS Board	4,619,712	0.37%
17	Invia Custodian Pty Limited	4,485,373	0.36%
18	Australian Foundation Investment Company Ltd	4,195,818	0.33%
19	Gladiator Custodian Pty Limited	4,007,598	0.32%
20	Belike Nominees Pty Limited	3,824,600	0.31%

The twenty largest shareholders hold 521,369,592 shares which is equal to 41.61% of the total shares on issue.

Stock Exchange Listing

The shares of the Commonwealth Bank of Australia are listed on the Australian Stock Exchange under the trade symbol CBA, with Sydney being the home exchange.

Directors Shareholdings as at 21 August 2002

	Shares	Options
J T Ralph, AC	14,789	-
J M Schubert	8,831	-
D V Murray	106,374	1,750,000
N R Adler, AO	7,825	-
R J Clairs, AO	11,153	-
A B Daniels OAM	1,102	-
C R Galbraith	5,462	-
W G Kent AO	7,416	-
F D Ryan	5,160	-
F J Swan	3,051	-
B K Ward	3,175	-

In addition, Mr Ralph holds 100,000 units in Commonwealth Property Trust and 495,294.7 units in Colonial First State Diversified Hedge Fund. Both holdings are held beneficially.

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.

Shareholding Information

Guidelines for Dealings by Directors in Shares

The restrictions imposed by law on dealings by Directors in the securities of the Bank have been supplemented by the Board of Directors adopting guidelines which further limit any such dealings by Directors, their spouses, any dependent child, family company and family trust. The guidelines provide that, in addition to the requirement that Directors not deal in the securities of the Bank or any related company when they have or may be perceived as having relevant unpublished price sensitive information, Directors are only permitted to deal within certain periods. Further, the guidelines require that Directors not deal on the basis of considerations of a short term nature or to the extent of trading in those securities.

Range of Shares (Fully Paid Ordinary Shares and Employee Shares): 19 August 2002

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	572,260	78.64	188,943,469	15.08
1,001-5,000	138,004	18.96	277,502,645	22.15
5,001-10,000	12,094	1.66	83,633,151	6.67
10,001-100,000	5,093	0.70	100,861,185	8.05
100,001-Over	276	0.04	601,980,913	48.05
Total	727,727	100.00	1,252,921,363	100.00
Less than marketable parcel of $500	13,163		80,820	

Voting Rights

Under the Bank's Constitution, each member present at a general meeting of the Bank in person or by proxy, attorney or official representative is entitled:

- on a show of hands – to one vote; and
- on a poll – to one vote for each share held or represented

If a member is present in person, any proxy or attorney of that member is not entitled to vote.

If more than one official representative or attorney is present for a member:

- none of them are entitled to vote on a show of hands; and
- on poll only one official representative may exercise the member's voting rights and the vote of each attorney shall be of no effect unless each is appointed to represent a specified proportion of the member's voting rights, not exceeding in aggregate 100%.

If a member appoints two proxies and both are present at the meeting and the appointment does not specify the proportion or number of the member's votes each proxy may exercise:

- neither proxy shall be entitled to vote on a show of hands; and
- on a poll each proxy may exercise one half of the member's votes.

Shareholding Information

Top 20 Holders of Preferred Exchangeable Resettable Listed Shares (PERLS) as at 19 August 2002

Rank	Name of Holder	Number of Shares	%
1	Commonwealth Custodial Services Limited	286,248	8.18%
2	The National Mutual Life Assoc of Australasia Ltd	131,650	3.76%
3	AMP Life Limited	80,000	2.29%
4	Invia Custodian Pty Limited	76,122	2.17%
5	ANZ Executors & Trustee Company Limited	56,342	1.61%
6	RBC Global Services Australia Nominees Pty Limited	47,895	1.37%
7	Tower Trust Limited	42,169	1.20%
8	UBS Warburg Private Clients Nominees Pty Limited	42,037	1.20%
9	Boxall Marine Pty Ltd	25,000	0.71%
10	Questor Financial Services Limited	24,695	0.71%
11	JB Were Capital Markets Limited	20,760	0.59%
12	Brencorp No 11 Pty Limited	17,256	0.49%
13	Ms Lesley Yvette Coney	16,190	0.46%
14	Livingstone Investments (NSW) Pty Limited	15,000	0.43%
15	Perpetual Trustee Co Ltd (Hunter)	12,776	0.37%
16	Ms Thelma Joan Martin-Weber	12,500	0.36%
17	Albert Investments Pty Limited	10,000	0.29%
18	Bigbal Pty Ltd	10,000	0.29%
19	Felden Pty Ltd	10,000	0.29%
20	Marbear Holdings Pty Limited	10,000	0.29%
21	Mrs Fay Cleo Martin-Weber	10,000	0.29%
22	Swinbourne University of Technology	10,000	0.29%

The twenty two largest PERLS holders hold 966,640 shares which is equal to 27.62% of the total shares on issue. Twenty two PERLS holders are disclosed in the above table due to a number of share holders having the same number of PERLS.

Stock Exchange Listing

Commonwealth Bank PERLS are listed on the Australian Stock Exchange under the trade symbol CBAPA, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers, generally under the abbreviation of CBA or C'wealth Bank (pref).

Range of Shares (PERLS): 19 August 2002

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	20,134	98.65	1,981,857	56.62
1,001-5,000	236	1.16	492,864	14.08
5,001-10,000	20	0.10	162,283	4.64
10,001-100,000	16	0.08	445,098	12.72
100,001-Over	2	0.01	417,898	11.94
Total	20,408	100.00	3,500,000	100.00
Less than marketable parcel of $500	3		4	

Voting Rights

The holders will be entitled to receive notice of any general meeting of the Bank and a copy of every circular or other like document sent out by the Bank to ordinary shareholders and to attend any general meeting of the Bank.

The holders will not be entitled to vote at a general meeting of the Bank except in the following circumstances:

- if at the time of the meeting, a dividend has been declared but has not been paid in full by the relevant payment date;
- on a proposal to reduce the Bank's share capital;
- on a resolution to approve the terms of a buy-back agreement;
- on a proposal that affects rights attached to Commonwealth Bank PERLS;
- on a proposal to wind up the Bank;
- on a proposal for the disposal of the whole of the Bank's property, business and undertaking;
- during the winding up of the Bank; or
- as otherwise required under the Listing Rules from time to time,

in which case the holders will have the same rights as to manner of attendance and as to voting in respect of each Commonwealth Bank PERLS as those conferred on ordinary shareholders in respect of each ordinary share.

At a general meeting of the Bank, holders are entitled:

- on a show of hands, to exercise one vote when entitled to vote in respect of the matters listed above; and
- on a poll, to one vote for each Commonwealth Bank PERLS.

International Representation

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