
Investor Half Day Risk Management

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Disclaimer

The material that follows is a presentation of general background information about the Bank's activities current at the date of the presentation, 19 October 2004. It is information given in summary form and does not purport to be complete. It is not financial product advice and is not intended to be relied upon as advice to investors or potential investors. It does not take into account the investment objectives, financial situation or needs of any particular investor.

Agenda

1. Overview

- Risk Structure
- Design Framework

2. Credit Risk

- Business Performance
- Housing Loan Portfolio
- Diversification
- Credit Losses

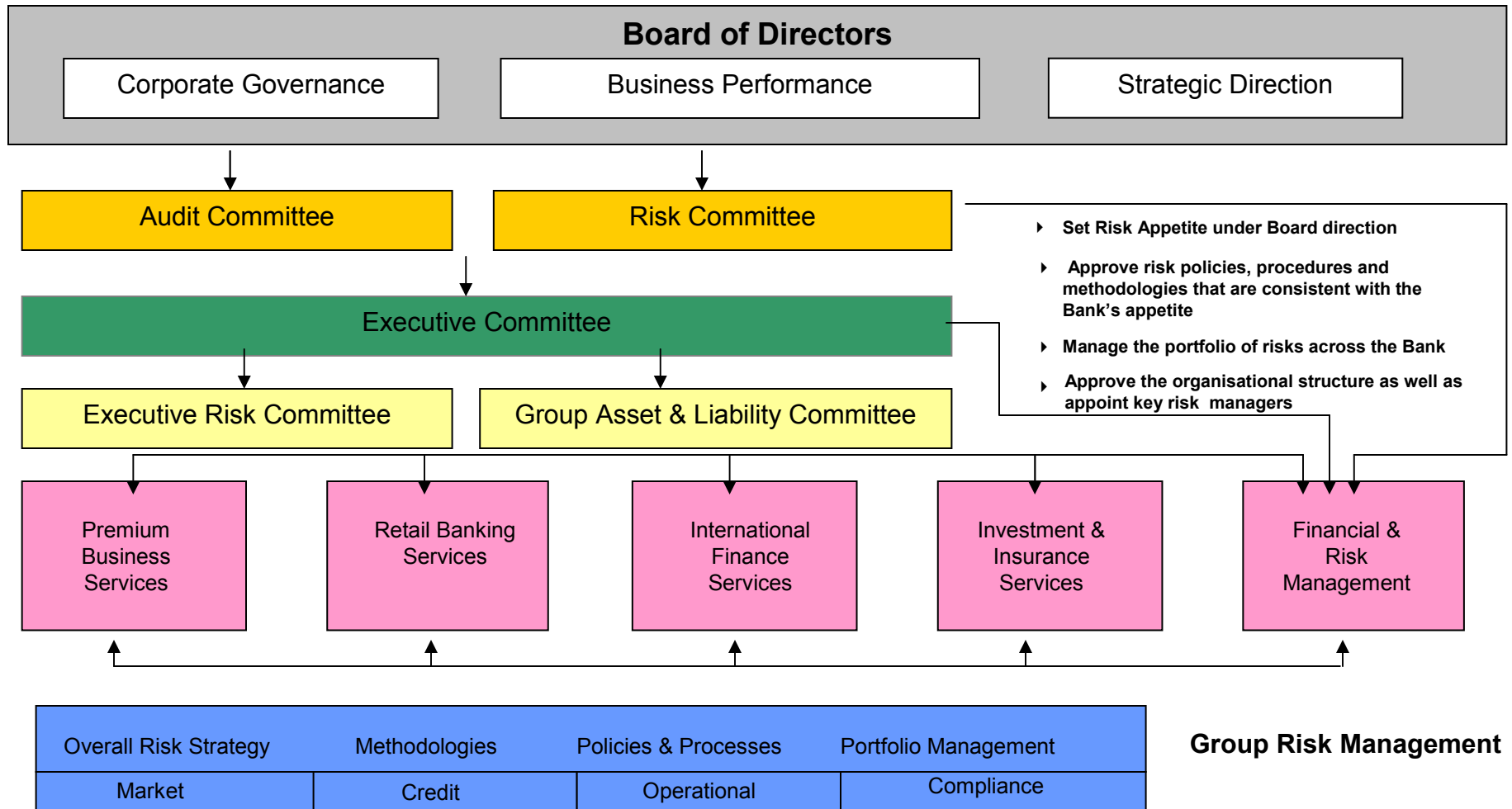
3. Market Risk

4. Operational Risk

5. Compliance and Prudential Regulation

- Basel II
- IFRS

1. Risk Structure

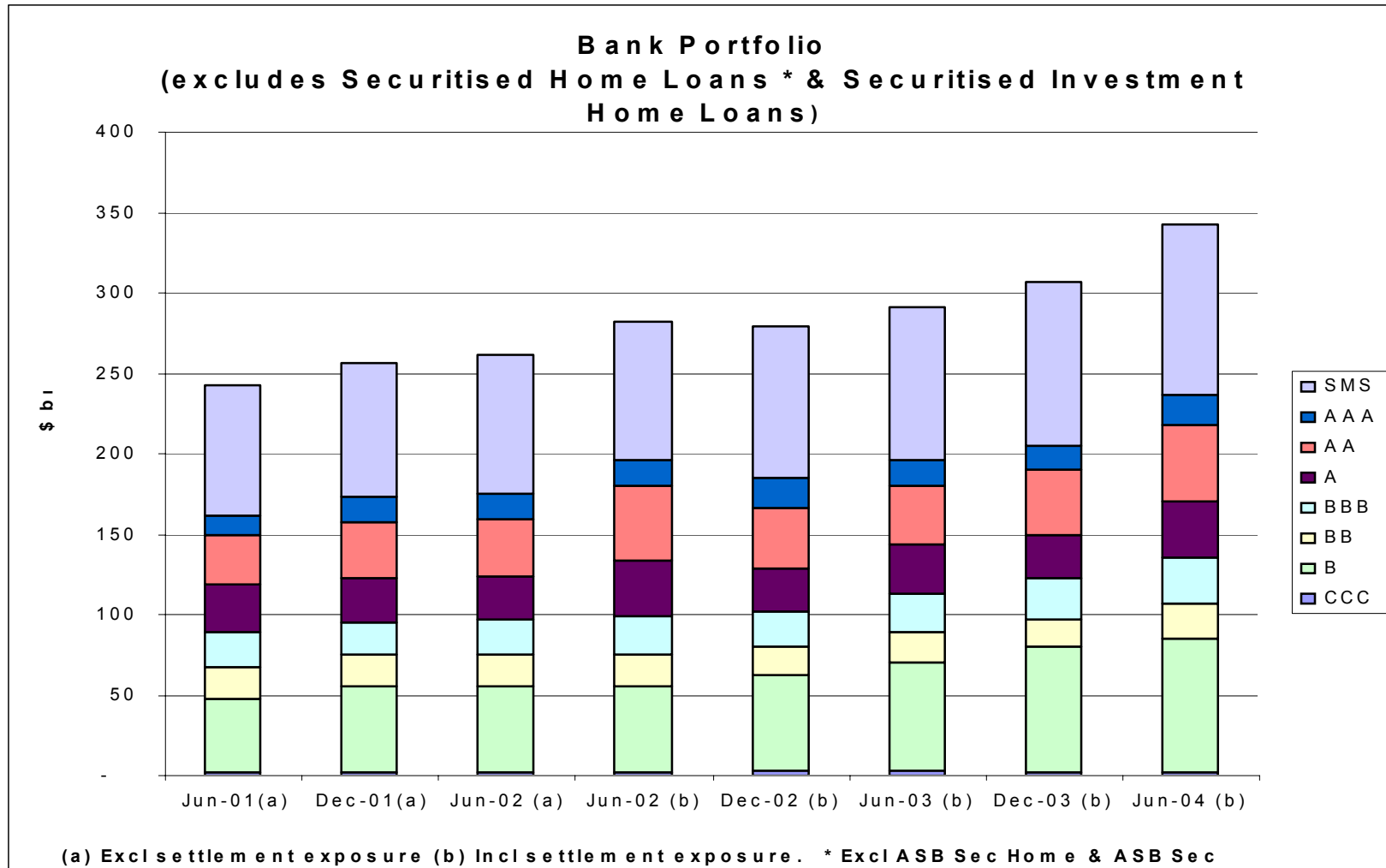


1. Risk : Design Principles

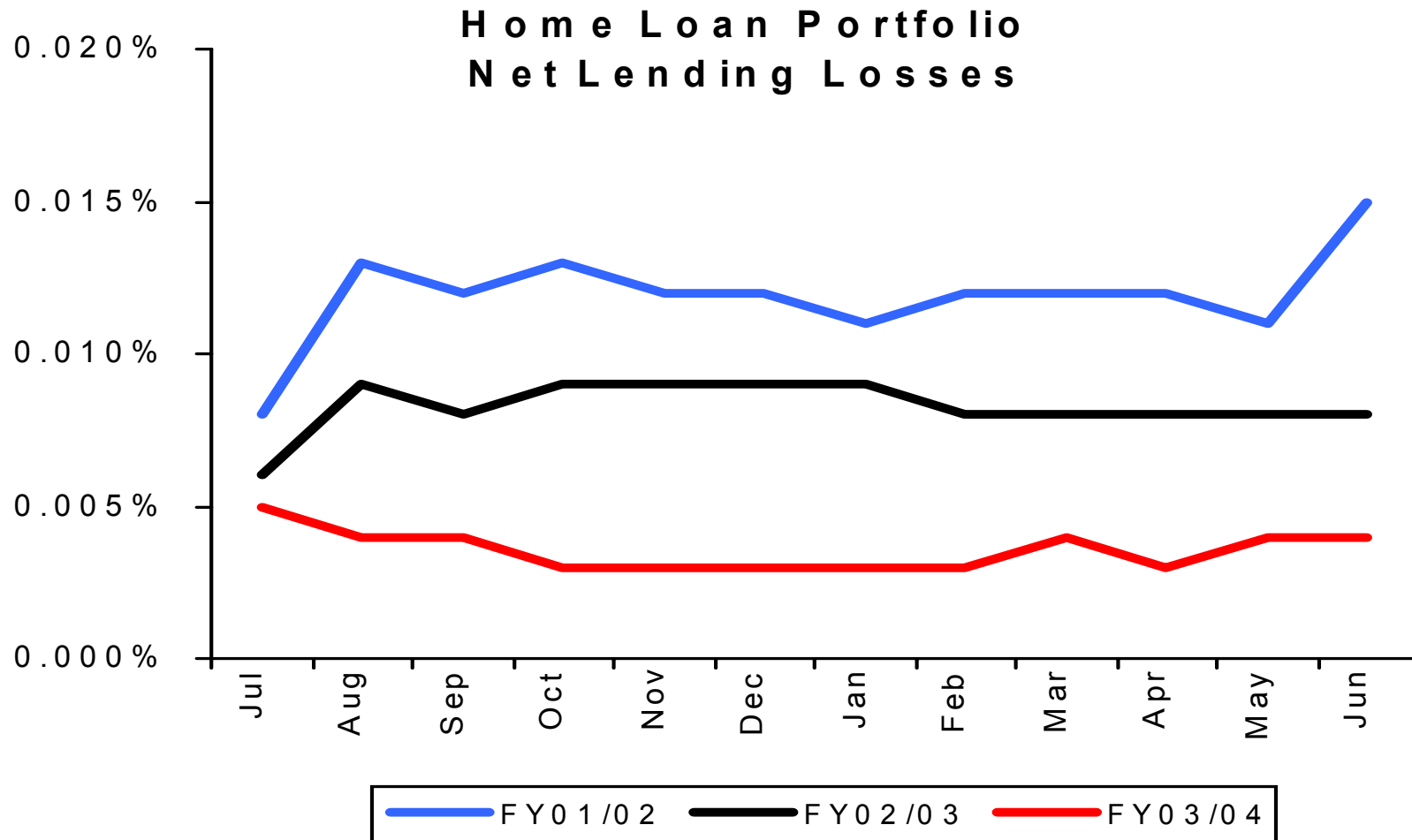
HIGH LEVEL PRINCIPLES

RISK FRAMEWORKS	BANK	COMMITTEE REPORTING
	<ul style="list-style-type: none"> • Recommend corporate risk strategy • Focus on policy and standards • Reporting and monitoring • Methodology and measurement • Risk governance and assurance 	
OPERATIONALISE	BUSINESS UNIT RISK MANAGEMENT	FACILITATION
	<ul style="list-style-type: none"> • Operationalise framework & policies • Educate and create awareness • Ensure risk requirements embedded in business • Review controls in processes • Ensure separation • Ensure clear accountabilities established for identifying and managing risk 	

2. Overall Bank Portfolio



2. Net lending losses in consumer book remain low



2. Diversification “Drivers”

- ***Large Credit Exposure Policy***

Aligned to the Bank’s earnings and economic capital

- ***Industry Limits***

Determined by each industry’s share of Australian borrowings aggregates

- ***Country Limits***

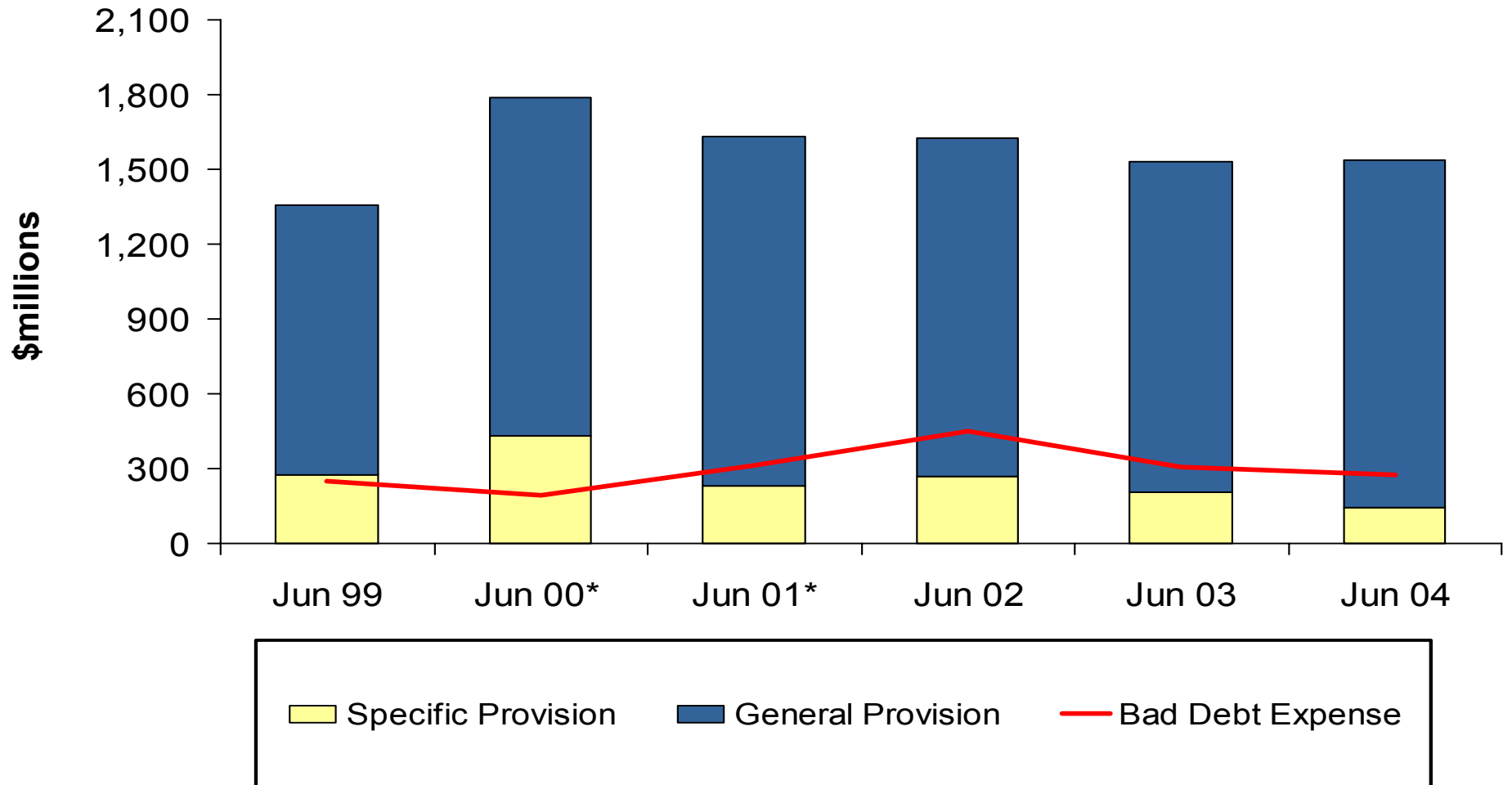
Based on the country’s GDP relative to the US, Financial Flow Indicators and the credit quality classification.

2. Credit Risk Forecast

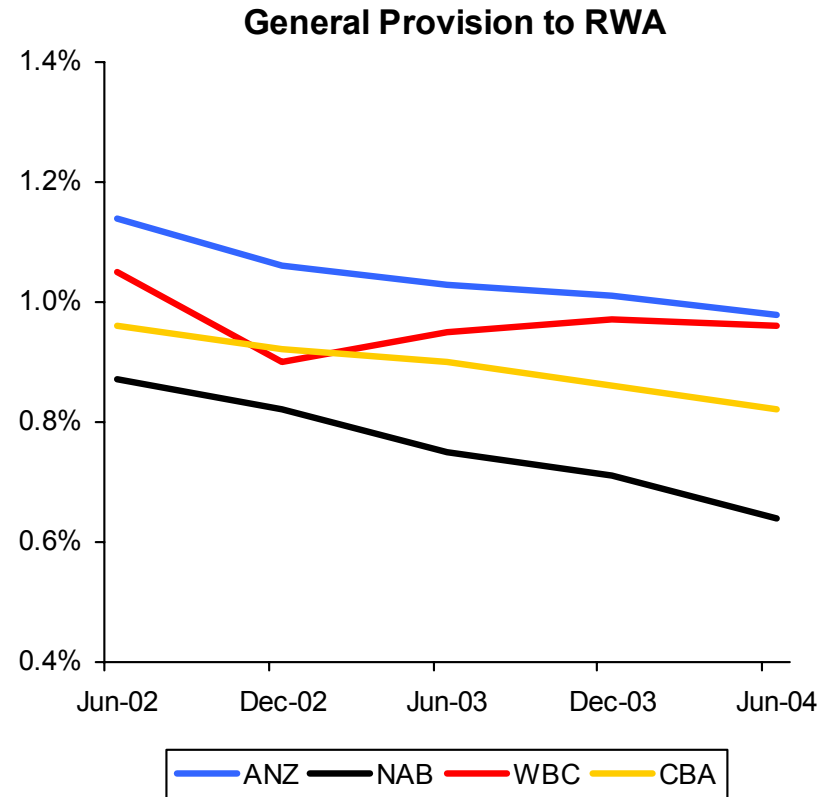
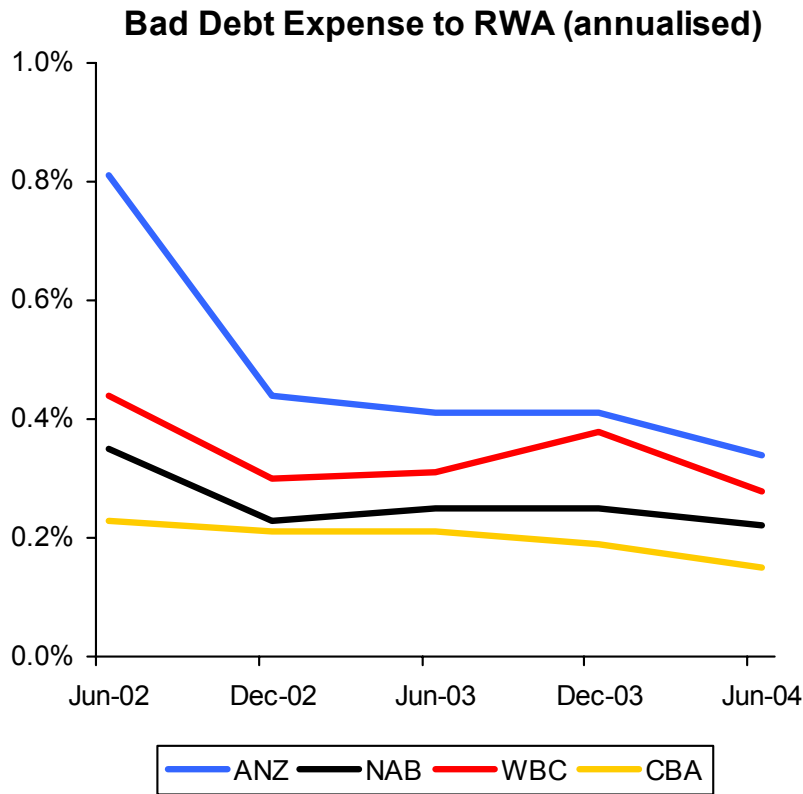
The main drivers of credit risk for loans are:

- interest rates
- the unemployment rate
- gross domestic production
- private consumption

2. The Bank remains well provisioned



2. Peer Group Comparisons



3. Market Risk

A sophisticated risk management framework is used for the identification and quantification of market risk, and for its measurement and control.

Systems/Processes

- Market risk is a small but significant part of total Bank risk profile.
- Sophisticated management and measurement processes optimise the market risk capital adequacy allocation requirement.
- Value at Risk (VaR) modelling is extensively used. Additional exposure limits, scenario testing and stress testing of portfolios are prudently preformed.
- Board of Directors review and approve Bank market risk policies and limits annually.

Recent Initiatives

- Centres of Excellence approach to provide support/expertise for domestic and off-shore businesses
- Bank-wide policies (eg. liquidity and funding) ensure consistent application of core principles of risk management across the Bank.
- Common risk systems (eg. traded VaR) to consistently capture our global market risk exposure.
- Introduction of a revised VAR measurement for the insurance businesses

Internal/external audits verify the continuing adequacy and applicability of risk management policies and procedures in a practical environment



4. Operational Risk

CBA is constantly developing and improving its internal mechanisms to anticipate and manage operational risk exposures to strive to operational excellence.

Strategy & Processes	Recent Initiatives/Results
<ul style="list-style-type: none"> ■ Policies and processes to ensure business managers identify and manage operational risks ■ Periodic reporting to Risk Committee on Risk Profile and trends on security and fraud ■ Operational risk measurement based on business judgments and scenario analysis ■ Measurement provides a basis for management prioritisation and economic capital allocation ■ Regular testing of controls in key areas of the bank through a Controls Assurance Program ■ Business continuity achieved through mature Crisis Management, Business Continuity and Technology Recovery plans for all critical processes / resources 	<ul style="list-style-type: none"> ■ Enhancing risk management through: <ul style="list-style-type: none"> ■ Process for loss incident reporting and management commenced 1 Jan 2004 ■ Monitoring of key risk and control indicators ■ Data mining and profiling being enhanced to detect internal and external fraud. ■ Review of financial reporting controls in accordance with SOX is in progress ■ Integrated crisis management and business continuity plan testing ■ Enhancing economic capital allocation through: <ul style="list-style-type: none"> ■ use of internal and external loss data; ■ use of risk indicators

5. Compliance and Prudential Regulation

CBA is constantly developing and improving its internal mechanisms to ensure compliance requirements are effectively implemented and managed, and prudential regulations met.

Systems/Processes

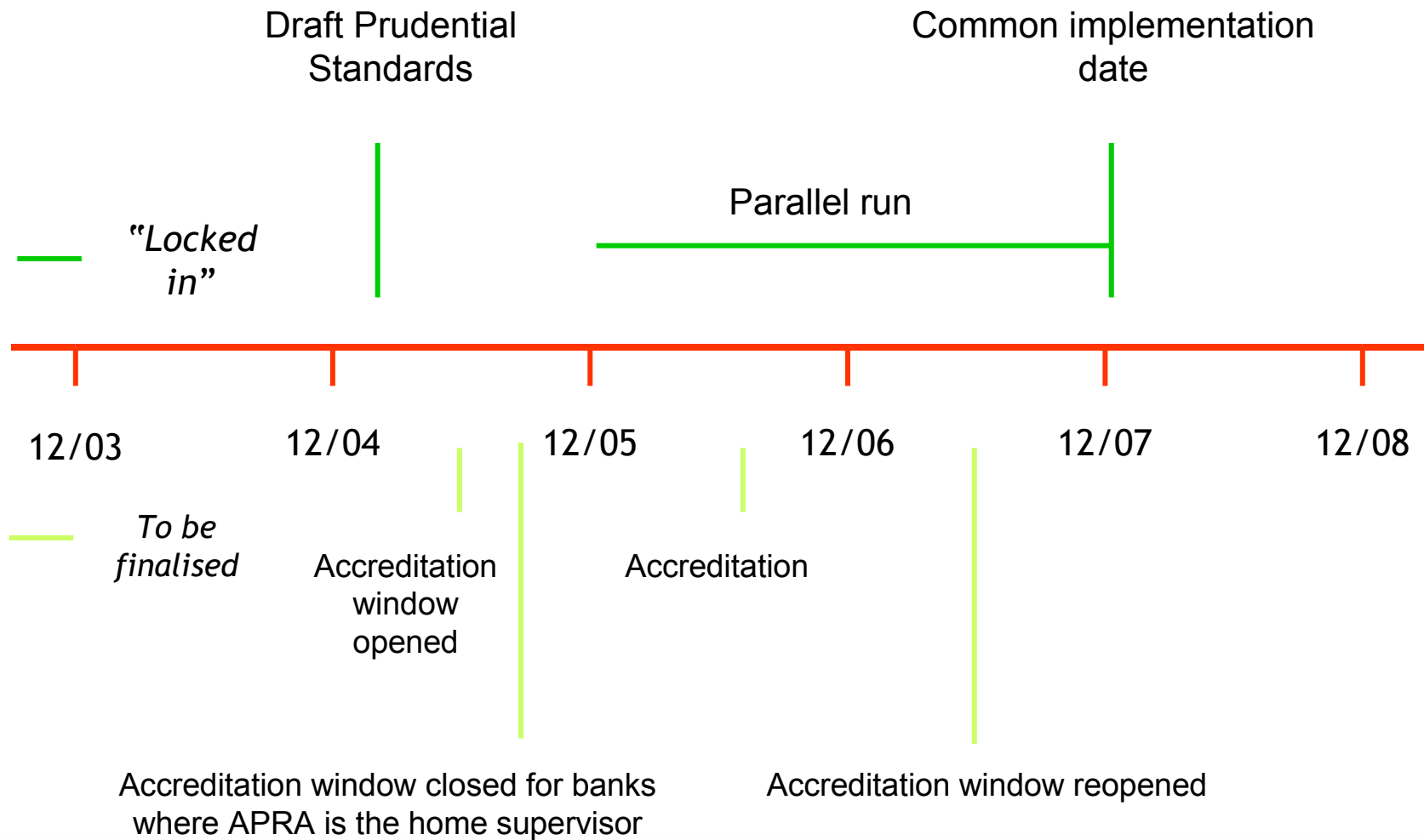
- Board endorsement of Compliance Risk Management Framework
- Compliance matters are reported to Business Unit Heads, Board Committees and Boards, with escalation process as necessary
- Expanded Group Compliance function to include centralised review and approval of marketing material

Recent Initiatives/Results

- Implementation of key regulatory reform projects continue including the Sarbanes-Oxley Act, Basel II, Corporate Law Economic Reform Program 9, Superannuation Safety Reform and International Financial Reporting Standards
- Review of compliance reporting and incident management across the Bank. New protocols have been implemented and tools are currently being developed for rollout



5. Basel II timetable



5. IFRS

- Many practical issues & hurdles to overcome
 - Uncertainty underlying principles and methodologies (eg emergence period for IBNR book)
- “Excess” provisions booked back to equity on transition
- General Provision likely to fall
- Specific Provision likely to increase slightly
- Some increase in volatility for P&L
- APRA is yet to advise on regulatory position
- Education of shareholders and analysts

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