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Which / Bank

2004

CommonwealthBank 

Commonwealth Bank of Australia ACN 123 123 124
Annual Report 2004

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Chairman's Statement

The Bank experienced another strong year with the Australian economy continuing to perform well. Housing lending remained buoyant for most of the year with early signs of some slowing towards the end of the year. Very low levels of corporate and personal defaults were experienced in a favourable credit environment. Investment markets recovered which led to an improvement in the performance of the funds management and insurance businesses as well as contributing to an increase in the assessed value of the funds management business.

The Bank embarked on the three year Which new Bank program during the year, the successful execution of which is critical to the long term success of the Bank. So it is pleasing to be able to report that very good progress was made in the first year of the program in the achievement against the milestones set for the program.

Results

The Bank's statutory net profit after tax for the year ended 30 June 2004 was \$2,572 million, an increase of 28% over that earned in the prior financial year. Net profit from ordinary activities ("cash basis") was \$2,695 million, an increase of 5% over that earned in the prior year. This increase was achieved after expensing \$749 million (\$535 million after tax) on the Which new Bank program.

Strong operating performances were recorded by all businesses, with the underlying profit after tax increasing by 15% to \$3,078 million for the year. Underlying profit excludes the after tax impact of shareholder investment returns and the cost of initiatives, including Which new Bank.

The banking result was driven by the continued good performance of the Australian and New Zealand lending operations, partly offset by an anticipated contraction in the net interest margin. In funds management, recovery in funds flows was underpinned by strong international flows and the continued growth of FirstChoice, while for the insurance business, performance improved across all regions.

Loan asset quality strengthened during the year, reflecting the Bank's ongoing, disciplined approach to risk management. Productivity improvement was evident across all businesses, particularly insurance and funds management.

For more information on the company's financial performance, please refer to the Highlights on page 5.

Dividends and Capital Position

At last year's Annual General Meeting I informed shareholders that, although we would be charging the costs of the Which new Bank program against profit, we regarded that expenditure as being in the nature of an investment in the future of the Bank. I said that, for this reason, we would add back the after-tax cost of the program to the profit in determining the dividends for the year. This we did, and determined the total dividend out of the year's profit would be \$1.83 per share which represented 73.9% of the adjusted result and a 19% increase on the dividend for the prior year.

The dividend of \$1.83 per share continues the uninterrupted growth in the dividend rate since the Bank was privatised and listed as a public company twelve years ago. The final dividend of \$1.04 per share, fully franked, will be paid on 24 September 2004.

The Bank's capital position remained strong throughout the year, sitting comfortably above the Bank's target ranges and in conformance with the requirements of regulators. During the year, the Bank undertook a number of capital management initiatives that were well received by shareholders and which provide capital flexibility for the future. These included the issuance of hybrid capital and PERLS II, a \$532 million share buyback, a \$467 million share purchase plan, and a share sale facility for small shareholdings. These initiatives were in addition to the issue of new shares to the value of \$389

million under the Dividend Reinvestment Plan during the year.

Which new Bank

As foreshadowed in last year's annual report, the Which new Bank program was announced to the market in September 2003. Which new Bank is a three-year strategic program aimed at supporting the Bank's vision to excel in customer service. The aim of the program is to provide better service to customers by engaged people using improved systems and simpler processes. The focus is very much on the training and motivating of people within the Bank and giving them the authority and accountability to be able to deliver excellence in service. They can only do this if they have the systems and processes that allow them to do it. Customers are beginning to notice differences and these differences will become more pronounced as the Which new Bank program is implemented.

During the year, the Board has actively participated in activities that facilitate a better understanding of the prerequisites for strategic transformation. In September 2003, the Bank's Directors spent five days touring the Bank's branches, processing centres and call centres in Australia and New Zealand, gaining first hand experience of the Bank's systems and processes. In May 2004, the Board was pleased to conduct its monthly Board meeting in Townsville, the Bank's first regional branch in Australia. The Board will continue to be active in gaining first-hand knowledge of the operations of the Bank and its service standards throughout the duration of the program and beyond.

Outlook

The Global economy has improved noticeably, with an expectation of monetary tightening across the major economies in the near term.

The Australian economy continues to perform well although growth in domestic spending has slowed as the construction sector loses some momentum.

Consumer confidence is high while job security concerns are low and personal incomes are rising. Businesses should continue to benefit from sustained capital spending. High levels of spending on infrastructure are underway. The consequences of the housing slowdown remain a key domestic issue, although the effects so far have been muted.

Subject to market conditions being maintained, the Bank is targeting:

- Growth in cash Earnings Per Share ("EPS") exceeding 10% compound annual growth rate ("CAGR") over the three year period to 30 June 2006, which is expected to be ahead of industry growth;
- Improvement in productivity between 4-6% CAGR over this period; and
- Growth in profitable market share across major product lines.

Having regard to the factors considered in determining the dividend as set out on page 113, and subject to no significant change in the Bank's strategy and operating environment, the ratio of dividends per share to "cash" earnings is expected to be maintained at around the current level (that is, the ratio with Which new Bank costs added back). The Bank expects that the impact of expenses related to Which new Bank will be significantly lower going forward, and benefits will continue to increase. Accordingly, cash earnings should be significantly higher and we expect to increase the dividend per share each year.

Board Changes

This coming Annual General Meeting will mark my retirement as Chairman and as a Director of the Bank. Mr Ross Adler has also signalled his intention to retire from the Board at that meeting. Mr Adler has been a committed and consistent valuable contributor to the deliberations of

Chairman's Statement continued

the Board since his appointment in 1990. He has served on the Audit, Remuneration and Risk Committees of the Board at various times and has always been a diligent member of those committees.

There have been many changes in the Bank and in the financial services industry since I joined the Board in 1985 and since I became chairman in 1999. Early during my term on the Board the Bank was privatised and became a publicly listed company. There were other significant structural changes along the way, including the merger with the State Bank of Victoria and the acquisition of ASB Bank and Colonial Limited, all of which contributed to the strengthening of the competitive positioning of the Bank. During this time there has been considerable innovation as the Bank has diversified into new lines of wealth management businesses and led the introduction of banking technologies, such as telephone and internet banking and internet broking, with CommSec now

servicing the greatest number of broking transactions in the market.

Currently, the Bank is engaged in the most important change since its privatisation, with the Which new Bank program. The execution of this program is vital for the long term success of the Bank and it is pleasing, therefore, that such good progress has been made to date. It is an important underpinning of the Board's commitment to achieving strong growth in all of the Bank's businesses and in growing sustainable and reliable returns for shareholders.

I have been privileged to serve on your Board and as Chairman for the last five years. I am confident that the Board is well positioned for the future under the capable chairmanship of John Schubert who will be succeeding me. I would like to take the opportunity to thank shareholders, customers and staff for their continued support of the Bank.



John Ralph, AC
Chairman
11 August 2004

Highlights

Financial Performance and Business Review

The Bank's net profit after tax ("statutory basis") for the year ended 30 June 2004 was \$2,572 million, an increase of 28% on the prior year's result of \$2,012 million. The current year's result included an appraisal value uplift of \$201 million, compared with a reduction in the appraisal value of controlled entities of \$245 million for the previous year.

The Bank posted a strong operating result for the year, with net profit after tax ("underlying basis") up 15% to \$3,078 million from \$2,674 million for the year to 30 June 2003.

Factors contributing to the growth in operating performance included:

- Continued strong home lending growth domestically and in New Zealand were the major contributors to the growth in lending asset balances, which increased 18% to \$206 billion;
- Improved performance in Funds Management following positive investor sentiment in the market and higher assets under administration;
- Significantly stronger general and life Insurance results;
- Cost control across the business, with operating expenses increasing only 3.5% during the year;
- A favourable credit environment, with very low levels of corporate and personal defaults;
- Initial benefits arising from the Which new Bank program, offset by
- Some margin compression, in line with the industry, with net interest margin down 14 basis points to 2.53%.

The net profit after tax ("cash basis") for the year was \$2,695 million, an increase of 5% over the prior year. This result was achieved after absorbing \$535 million (after tax) of incremental expenses in relation to the Which new Bank program.

In addition, buoyant domestic and global equity markets led to investment returns on shareholders' funds in Funds Management and Insurance increasing to \$152 million (after tax) against \$73 million in the prior year.

Which new Bank Program

The Bank has made excellent progress in the Which new Bank program announced to the market in September 2003, meeting all critical project milestones set for the year. Net benefits realised in 2004 of \$237 million exceeded the market commitment of \$200 million.

Investment spend of \$634 million for the twelve months was below the target of \$660 million, however, total impact on 2004 profitability was slightly higher due mainly to lower levels of capitalisation.

Focus during the 2005 financial year will be on the execution of several major IT projects, as well as a significant cultural transformation of the domestic operations. Following the successful pilot of the Bank's new integrated customer service system, CommSee, in Tasmania, the roll out will commence progressively across the network as further development of the system is completed.

Overall, the program remains on track to deliver a total annual net benefit of \$900 million by 2006 and beyond, with a total investment of \$1,480 million over the three years. More detail is included on page 7.

Dividends

The total dividend for the year is another record at 183 cents per share, an increase of 29 cents or 18.8% on the prior year. The dividend was determined after adding back the expenses related to the Which new Bank program which, although charged against profit, is regarded as an investment in determining the dividend to shareholders. As a result, the dividend payout ratio ("cash basis") for the year is 89.1% (73.9% with Which new Bank costs added back).

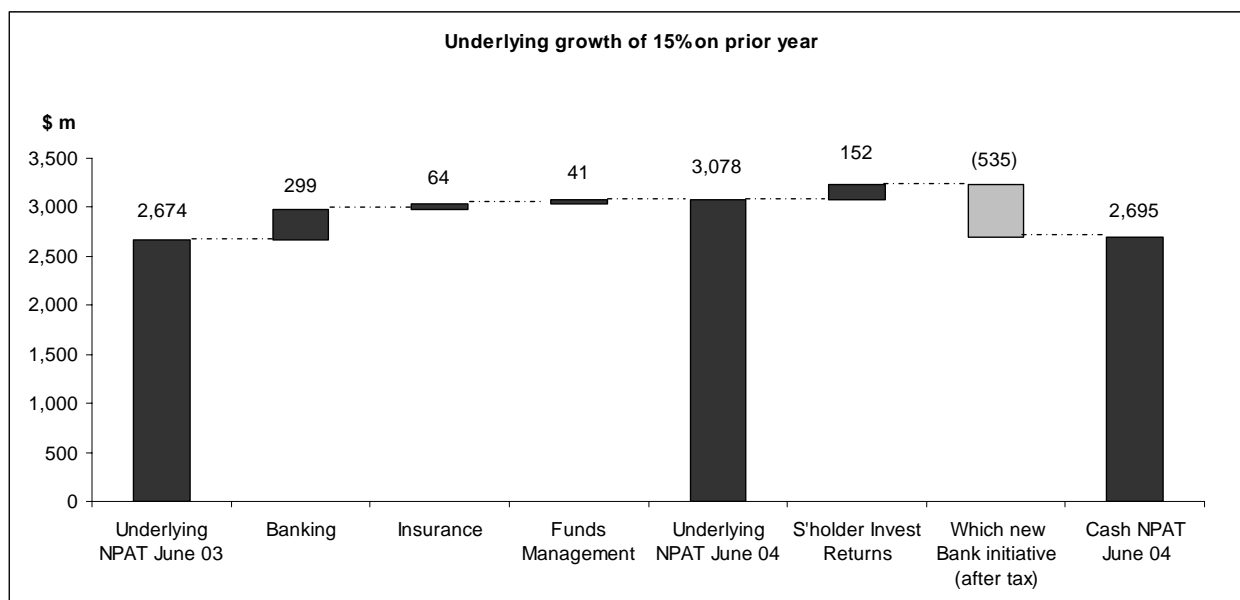
The dividend payment for the second half of the year is 104 cents per share (85 cents per share in the previous year). This dividend payment is fully franked and will be paid on 24 September 2004 to owners of ordinary shares at the close of business on 20 August 2004 (record date). Shares will be quoted ex-dividend on 16 August 2004.

During the year, the Bank issued \$201 million of shares to satisfy shareholder participation in the Dividend Reinvestment Plan ("DRP") in respect of the final dividend for 2002/03 and \$188 million in respect of the interim dividend for 2003/04. The Bank expects to issue around \$250 million of shares in respect of the DRP for the final dividend for 2003/04.

Highlights (continued)

	Full Year Ended		Increase/ (Decrease) %
	30/06/04 \$M	30/06/03 \$M	
Contributions to Profit (after income tax)			
Banking	2,675	2,376	13
Funds Management	274	233	18
Insurance	129	65	98
Net Profit after Income Tax ("underlying basis")	3,078	2,674	15
Shareholder Investment Returns (after tax)	152	73	108
Initiatives including Which new Bank (after tax) ⁽¹⁾	(535)	(168)	large
Net Profit after Income Tax ("cash basis")	2,695	2,579	5
Appraisal value uplift/(reduction)	201	(245)	large
Goodwill amortisation	(324)	(322)	1
Net Profit after Income Tax ("statutory basis")	2,572	2,012	28

Shareholder Summary	Full Year Ended		Increase/ (Decrease) %
	30/06/04	30/06/03	
Dividends per share - fully franked (cents)	183	154	19
Dividend cover - cash (times)	1.1	1.3	
Dividend cover - underlying (times)	1.3	1.4	
Earnings per share (cents)			
Statutory - basic	196.9	157.4	25
Statutory - fully diluted	196.8	157.3	25
Cash basis - basic	206.6	202.6	2
Cash basis - fully diluted	206.5	202.5	2
Underlying basis - basic	237.1	210.2	13
Underlying basis - fully diluted	237.0	210.0	13
Dividend payout ratio (%)			
Statutory	93.5	97.7	
Cash basis	89.1	75.9	
Underlying basis	77.6	73.3	
Weighted average number of shares - basic (number)	1,256	1,253	
Weighted average number of shares - fully diluted (number)	1,257	1,254	
Return on equity - cash (%)	13.2	13.3	(0.1)
Return on equity - underlying (%)	15.1	13.8	1.3



⁽¹⁾ June 2004 results reflect the Which new Bank program, while the prior year includes strategic initiatives undertaken and the cost of the June 2002 Employee Share Acquisition Plan (ESAP) paid in October 2002.

Important Dates for Shareholders

24 September 2004	Full Year Dividend Payment
5 November 2004	Annual General Meeting
9 February 2005	2005 Interim Results Announcement

Highlights (continued)

	Full Year Ended		
	30/06/04 \$M	30/06/03 \$M	Increase/ (Decrease) %
Net Profit after Income Tax ("statutory basis")	2,572	2,012	28
Net Profit after Income Tax ("cash basis")	2,695	2,579	5
Net Profit after Income Tax ("underlying basis") ⁽¹⁾	3,078	2,674	15
Net Interest Income	5,410	5,026	8
Other banking income	2,846	2,627	8
Funds management income	1,158	1,115	4
Insurance income	678	598	13
Total Operating Income	10,092	9,366	8
Shareholder investment returns	196	91	large
Policyholder tax benefit/(expense)	203	(58)	large
Total Income	10,491	9,399	12
Operating expenses	5,500	5,312	4
Initiatives including Which new Bank ⁽²⁾	749	239	large
Total Operating Expenses	6,249	5,551	13
Charge for bad and doubtful debts	276	305	(10)
Net Profit Before Income Tax	3,966	3,543	12
Policyholder tax expense/(benefits)	203	(58)	large
Corporate tax expense	1,059	1,016	4
Outside equity interests	9	6	50
Net Profit after Income Tax ("cash basis")	2,695	2,579	4
Appraisal value uplift/(reduction)	201	(245)	large
Goodwill amortisation	(324)	(322)	1
Net Profit after Income Tax ("statutory basis")	2,572	2,012	28

⁽¹⁾ Underlying basis excludes Which new Bank program and Shareholder investment returns.

⁽²⁾ June 2004 results reflect the Which new Bank program, while prior year includes strategic initiatives undertaken and the cost of the June 2002 ESAP paid in October 2002.

Key Performance Indicators	Full Year Ended		
	30/06/04 \$M	30/06/03 \$M	Increase/ (Decrease) %
Banking			
Net interest margin (%)	2.53	2.67	(0.1)
Average interest earning assets	214,187	188,270	14
Average interest bearing liabilities	197,532	174,737	13
Funds Management			
Funds under administration	109,883	98,566	11
Insurance			
Inforce premiums	1,167	1,076	8
Capital Adequacy			
Tier 1 (%)	7.43	6.96	0.5
Total (%)	10.25	9.73	0.5
Adjusted common equity	4.75	-	-

Capital Management

The Bank maintains a strong capital position. This is recognised in its credit ratings which again remained unchanged during the year.

Credit Ratings	Long Term	Short Term	Affirmed
Fitch Ratings	AA	F1+	Feb 04
Moody's Investor Services	Aa3	P-1	Dec 03
Standards & Poor's	AA-	A-1+	Apr 04

Additional information regarding the Bank's capital management initiatives are disclosed in Note 31 to the Financial Statements.

Highlights (continued)

Balance Sheet Summary	30/06/04 \$M	30/06/03 \$M	Increase %
Total assets	305,995	265,110	15
Total liabilities	281,110	242,958	16
Shareholders' equity	24,885	22,152	12
Assets held and Funds under administration			
On Balance Sheet			
Banking assets	265,062	229,289	16
Insurance Funds under administration	22,952	22,144	4
Other insurance and internal funds management assets	17,981	13,677	31
	305,995	265,110	15
Off Balance Sheet			
Funds under administration	86,931	76,422	14
	392,926	341,532	15

Productivity and Efficiency⁽¹⁾	Full Year Ended		
	30/06/04	30/06/03	Increase/ (Decrease) %
Banking			
Expense to income (%)	59.2	54.7	(8.2)
Underlying expense to income (%)	50.8	52.0	2.3
Funds Management			
Expense to average funds under administration (%)	0.80	0.87	8.0
Underlying expense to average funds under administration (%)	0.76	0.83	8.4
Insurance			
Expense to average inforce premiums (%)	47.3	50.4	6.2
Underlying expense to average inforce premiums (%)	46.1	50.4	8.5
Underlying staff expense/total operating income (%)	25.3	26.5	(4.5)
Total operating income per FTE (\$)	278,047	261,292	6.4
Full time staff equivalent (FTE's) - Australia	28,814	29,608	(2.7)
Full time staff equivalent (FTE's) - International	7,060	6,237	13.2
	35,874	35,845	-
Full time staff equivalent (FTE's) - Which new Bank	422	-	n/a
Full time staff equivalent (FTE's)	36,296	35,845	1.3

(1) Productivity changes shown as an annualised percentage change.

Which new Bank Program	Full Year 30/06/04 \$M	Market Commitment \$M
Program expenses incurred	634	660
Provision for future costs	208	210
Investment capitalised	(112)	(180)
Gross Which new Bank expense	730	690
Normal project spend	(200)	(200)
Expensing of previously capitalised software	219	215
Incremental Which new Bank expense - before tax	749	705
Incremental Which new Bank expense - after tax	535	500

Which new Bank Benefits	Full Year Ended 30 June 2004		
	Revenue \$M	Costs \$M	Total \$M
Gross benefits	152	145	297
Additional operating expenses	(60)	-	(60)
Net benefits	92	145	237

The impact on current year expenses is the net of \$145 million cost benefits, less the impact of additional operating expenses of \$60 million, totalling \$85 million.

Banking Analysis

Financial Performance and Business Review

Banking operations posted a strong result for the year with underlying net profit after tax up 13% to \$2,675 million. The underlying result was driven by strong growth in home loan and other personal lending, an improved credit environment and increased volumes.

Expenses in relation to the Which new Bank program totalled \$499 million (after tax) for the year.

Australian Retail

The strong performance of the retail banking operations was driven by continued growth in the residential housing market, improved growth in other personal lending and solid deposit growth. Performance highlights for the year to June included:

- Home lending growth of 20%, underpinned by record sales volumes in both proprietary and broker channels.
- Strong performance in other personal lending, assisted by enhancements to the Personal Loan product and the launch of a new "Platinum" credit card in March 2004.
- Improved arrears levels across the retail lending portfolios, notwithstanding strong volume growth.
- Strong gains in underlying productivity levels, supported by efficiency improvements in operations processing areas and branch operations.
- Continued growth in online channels, with the Bank's NetBank service recognised during the year as the number one Internet Banking site in Australia (source: Australian NetGuide magazine May 2004).

Significant progress has been made in the Which new Bank service transformation program designed to ensure a better service outcome for our customers. The major initiatives undertaken across the retail bank during the year included:

- Changes to our home loan process, which make applying for a new loan or changing details on an existing loan much simpler and easier. Through system and process improvements, the great majority of home loan applications through retail proprietary channels are now either conditionally approved on the spot or within one business day. Around 70% of maintenance transactions (such as amending loan repayments on existing loans) can now be completed immediately in the branch or over the telephone, compared with up to 10 days previously.
- The commencement of our "Breakaway" Service and Sales program across our 1,000-strong retail branch network, encompassing a number of changes to improve frontline customer service, including new service-focused performance measures for all frontline staff, dedicated service and sales coaching and changes to staff roles designed to ensure a greater proportion of time is spent on servicing customers. Early signs of significant improvements in service and sales outcomes are being experienced as this has been rolled out.
- The refurbishment of 125 branches to a modern layout more conducive to effective customer service. A further 200 to 250 branches are targeted for refurbishment over the next two years.
- A continued emphasis on reducing customer waiting times, with some branches showing up to a 50% improvement.
- The implementation of world class processing techniques in our back-office processing areas, delivering both significant efficiency benefits and improved turnaround times for our customers.

Asia Pacific

Asia Pacific Banking incorporates the Bank's retail and commercial banking operations in New Zealand, Fiji, and Indonesia. ASB Bank in New Zealand represents the majority of the Asia Pacific Banking business.

During the year ASB Bank achieved strong growth across the loan portfolio, particularly in housing credit.

Performance highlights were:

- Lending growth at well above market rates in the retail, commercial and rural sectors continued throughout the year. Home loan market share increased to 22.2% from 20.6% in June 2003.
- Leading customer service in the Banking sector. For the sixth consecutive year, ASB was recognised as the top major retail bank in terms of satisfied and very satisfied customers in the Auckland University Bank Customer Satisfaction survey. For the fifth consecutive year, ASB was rated the top business bank on the same criteria.
- A focus on technology innovation has led to the ASB website being judged the best Finance website for the second consecutive year by NetGuide Web Awards.
- The continued focus on process efficiencies has delivered an end-to-end credit card approval process which is faster, at a lower cost, and with improved service delivery.

The banking operations in Indonesia and Fiji continued to achieve strong balance sheet growth.

Premium, Business, Corporate & Institutional

The strong domestic economy and strict credit discipline have led to continued good credit quality. The market has been characterised by a drive to gain market share via aggressive pricing and competitive terms and conditions. Within this competitive environment we have increased market share in some segments whilst maintaining share for the others. Major achievements during the year have been:

- Growing market share in the business lending market (source: RBA) with strong performance in the institutional and corporate segments.
- Gained traction in the Transaction Banking segments through some major client wins. Market share in both the top 500 and commercial segments continued to increase (source: East & Partners).
- Strong growth in Asset Finance market share (source: AELA).
- Ranked second in Asia Pacific for project finance deals (source: Thompson).
- Maintained number one position in capital markets (source: Bloomberg, IFR, INSTO).
- Participated in the acquisition of the Loy Yang A power station as joint advisor. This was a landmark transaction in the energy sector and is the largest secondary market trade sale in the Australian infrastructure sector.

The Premium Financial Services and Institutional & Business Services business units merged on 18 May to more effectively meet the many common needs of premium and business customers. This newly formed business unit, Premium Business Services, enhances our ability to deepen relationships and in doing so, better identify high quality and relevant ideas for our customers.

Other initiatives undertaken during the year to strengthen the business have been:

- Completion of the redesign program to deliver better customer alignment and simplified processes.
- Development of the CommSee application to further enhance customer service capabilities.
- Continued focus on Customer Service Centres for day to day servicing to support the relationships with our clients.

Banking Analysis (continued)

Key Performance Indicators	Full Year Ended		Increase/ (Decrease) %
	30/06/04 \$M	30/06/03 \$M	
Net interest income	5,410	5,026	8
Other operating income	2,846	2,627	8
Total Operating Income	8,256	7,653	8
Operating expenses	4,191	3,982	5
Initiatives including Which new Bank ⁽¹⁾	698	201	large
Total Operating Expenses	4,889	4,183	17
Charge for bad and doubtful debts	276	305	(10)
Net Profit before Income Tax	3,091	3,165	(2)
Income tax expense	914	931	(2)
Outside equity interests	1	-	-
Net Profit after Income Tax ("cash basis")	2,176	2,234	(3)
Net Profit after Income Tax ("underlying basis")⁽²⁾	2,675	2,376	13

Productivity and other measures

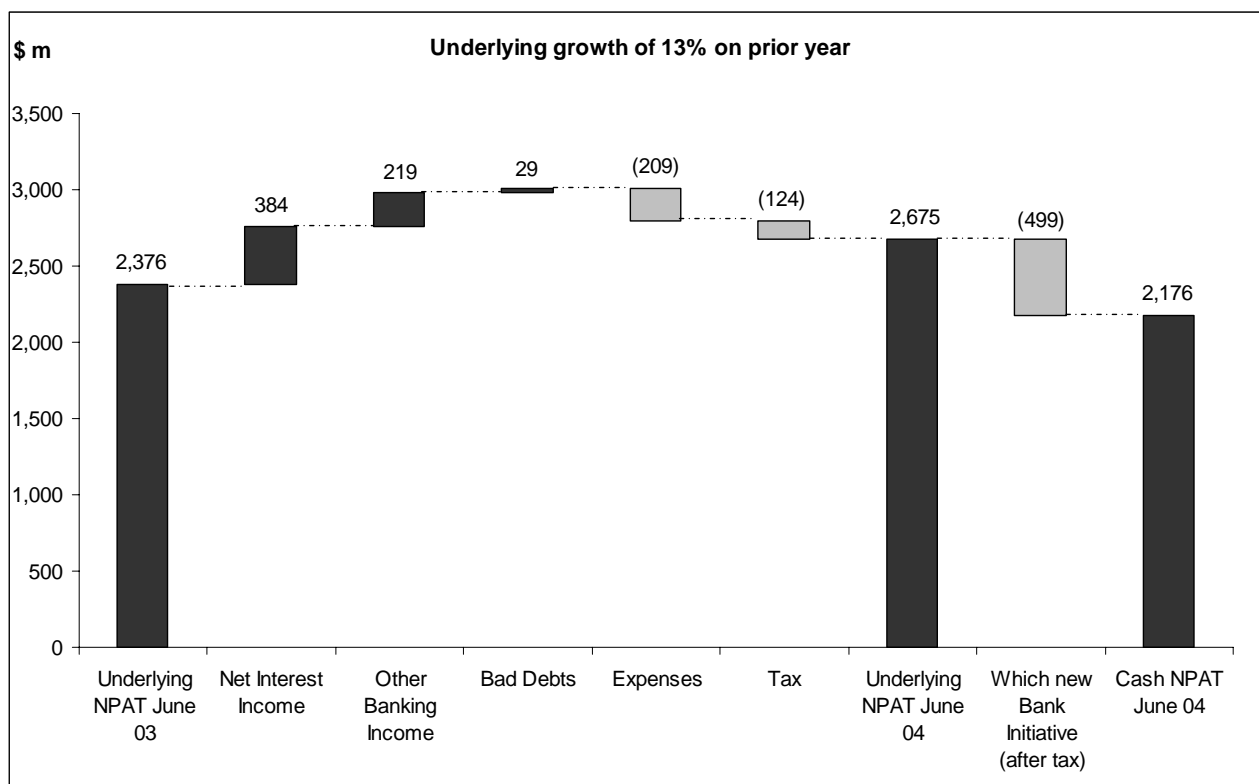
Expense to income (%)	59.2	54.7	(8.2)
Expense to income - underlying (%)	50.8	52.0	2.3
Effective corporate tax rate (%)	29.6	29.4	20bpts

Balance Sheet

Lending assets (\$m)	205,945	175,074	18
Average interest earning assets (\$m)	214,187	188,270	14
Average interest bearing liabilities (\$m)	197,532	174,737	13

Asset Quality

Risk weighted assets (\$m)	169,321	146,808	15
Net impaired assets (\$m)	197	434	(55)
General provision/Risk weighted assets (%)	0.82	0.90	(8)bpts
Total provisions/Gross impaired assets (net of interest reserved) (%)	451.8	239.4	large
Bad debt expense/Risk weighted assets (%)	0.16	0.21	(5)bpts

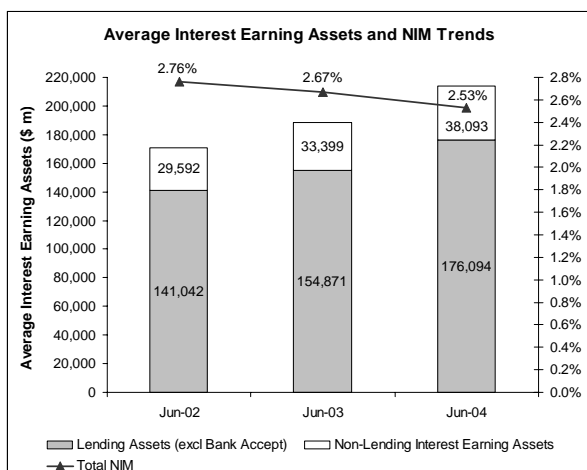


(1) June 2004 results reflect the Which new Bank program, while prior year results include strategic initiatives undertaken and the cost of the June 2002 ESAP paid in October 2002.

(2) Underlying basis excludes Which new Bank program.

Banking Analysis (continued)

Net Interest Income



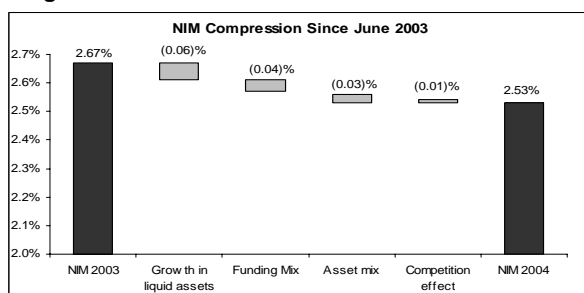
Net interest income increased by 8% to \$5,410 million for the year. This increase was achieved through an increase of 14% in average interest earning assets to \$214 billion, offset by a 14 basis point reduction in the net interest margin to 2.53%.

Volume

The increase in average interest earning assets represents an increase of \$21 billion in lending assets and \$5 billion in non-lending interest earning assets. The increase in average interest earning assets contributed \$673 million to growth in net interest income.

The largest contributor to the increase in average interest earning assets continued to be the strong residential lending market in Australia and New Zealand, with average loan balances increasing by 20% since 30 June 2003 to \$111.4 billion (net of securitisation), accounting for over 85% of the total increase in average lending assets.

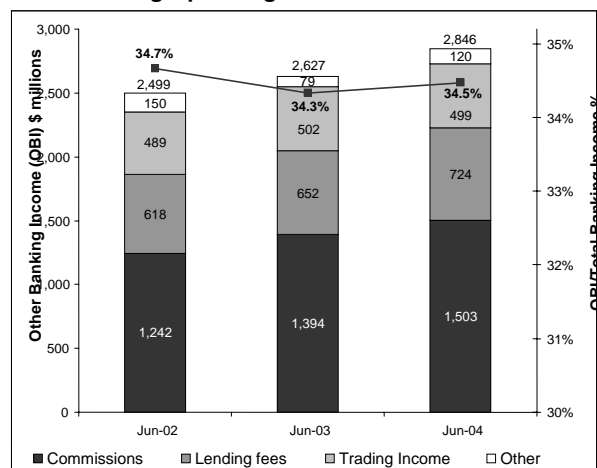
Margin



The reduction of 14 basis points in the Net Interest Margin (NIM) from 2.67% for the year to 30 June 2003 to 2.53% reduced net interest income by \$289 million. Factors impacting the margin reduction include:

- Non lending interest earning assets: Non lending interest earning assets increased by \$4.7 billion during the year largely as a result of increased liquidity requirements due to balance sheet growth and increased market making activities in Global Markets. This reduced the NIM by six basis points.
- Funding Mix: The strong growth in home loans outpaced growth in retail deposits, resulting in a higher reliance on wholesale funding. The impact was to reduce NIM by four basis points.
- Asset Mix: The continued strong growth in home loan balances compared with other lending reduced margins by three basis points.
- Competition: Represents the net impact of pricing changes on asset and liability products. Spreads on housing loans have tightened, offset by improved spreads on deposit products. The net impact of competition is a one basis point reduction in the NIM.

Other Banking Operating Income



Other banking operating income increased by 8% to \$2,846 million for the year compared with \$2,627 million for the previous year. This includes non-interest income earned on transaction accounts for the Bank's personal, business and corporate customers.

Factors impacting other banking operating income were:

- Fees and commissions increased by 8% to \$1,503 million driven by increased volumes. CommSec experienced record trading levels during the year resulting in an increase in commissions of 72%. The acquisition and integration of TD Waterhouse effective 1 May 2003 also contributed to this increase. Spending on credit cards by customers increased by 17% during the year though this was partially offset by the impact of RBA interchange regulations. Personal transaction fees are less than 5% of the Bank's total income.
- Lending fees increased by 11% to \$724 million. Growth in retail lending fees was the result of the increased activity in home lending, margin lending and overdraft line fees, which was partly offset by increased mortgage broker volumes and valuation fees. Institutional and Business fees increased, reflecting an improvement in market conditions.
- Trading income was in line with last year at \$499 million.
- Other banking income increased by \$41 million to \$120 million. The current year includes the profit on sale of the Fleet Lease business of \$43 million and Bank of Queensland shares of \$28 million partially offset by equity accounted losses of an associate entity principally related to a change in its accounting policy (\$32 million).

The income for General Insurance (previously reported in Other Banking Income) has been reallocated to the Insurance segment and prior year numbers and ratios have been restated. This reduced other banking operating income by \$47 million for the year ended 30 June 2003 and \$59 million for the year ended 30 June 2004, with a similar increase in the Insurance total operating income.

The income from the Bank's financial planners was reallocated to Funds Management, reducing other banking operating income by \$24 million for the year ended 30 June 2003 and \$15 million for the year ended 30 June 2004.

Banking Analysis (continued)

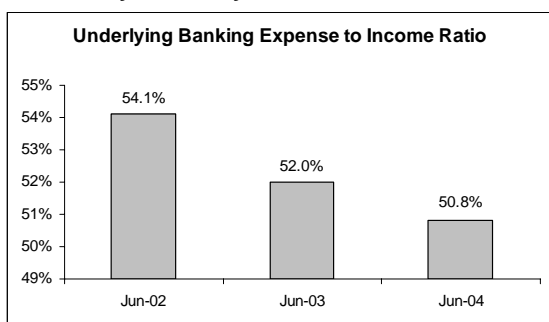
Operating Expenses

Total operating expenses on a comparable basis increased by 5% to \$4,191 million for the current year. The increase was due to:

- Salary increases of 4% awarded under the Enterprise Bargaining Agreement (EBA).
- The full year effect of establishing the Premium Financial Services business which supported the strong growth in other banking operating income.
- Increases in volume related expenses including credit card loyalty.
- Operational (non-lending) losses incurred in retail banking and institutional banking.

These increases were partly offset by initial Which new Bank savings.

Productivity Efficiency



The underlying Banking expense to income ratio continued to improve from 52.0% for the year ended 30 June 2003 to 50.8% for the current year, a productivity improvement of 2.3%.

It is expected that productivity gains will accelerate over the remaining two years of the Which new Bank program as further cost initiatives are implemented, and the full year benefits realised.

Which new Bank Program

The key strategic activities carried out in the current year included service process improvements and branch refurbishments in Retail Banking Services, as well as the continued implementation of the IBS redesign program and process improvements.

Net benefits realised within the Banking operations during the year ended 30 June 2004 totalled \$214 million pre tax. These benefits are split between ongoing cost savings of \$124 million and revenue benefits of \$90 million, and were realised across the following areas:

- Redesign of business and corporate banking and associated supporting functions.
- Several initiatives in the retail banking and premium financial segments.
- General procurement and IT&T savings.

Bad and Doubtful Debts

The total charge for bad and doubtful debts of \$276 million was low compared with the prior two years (\$305 million for the year ended 30 June 2003 and \$449 million for the year ended 30 June 2002).

The low interest rates continued to contribute to a good credit environment, with personal and corporate arrears and default levels at low levels.

The Bank remains well provisioned, with total provisions for impairment as a percentage of gross impaired assets net of interest reserved of 451.8% (June 2003 : 239.4%) and a general provision as a percentage of risk weighted assets of 0.82%, compared with 0.90% at 30 June 2003.

Taxation Expense

The corporate tax charge of \$914 million is in line with the prior year and reflects the effect of the incremental Which new Bank program expenses. The effective tax rate increased by 20 basis points to 29.6%.

Banking Analysis (continued)

Assets & Liabilities

Retail

Major Balance Sheet Items (gross of impairment)	30/06/04	30/06/03	Increase/ (Decrease)
	\$M	\$M	%
Lending assets - Home Lending	104,883	87,592	20
Lending assets - Personal Lending	13,160	11,989	10
Deposits	72,360	68,702	5

Market Share	30/06/04	30/06/03⁽¹⁾
Home Loans ⁽³⁾	19.3% ⁽²⁾	19.5%
Retail deposits ⁽⁴⁾	23.6%	24.2%
Credit cards ⁽⁴⁾	22.7% ⁽²⁾	22.8%

(1) As reported in the Dec-2003 Profit Announcement

(2) as at May 2004

(3) Source: APRA / ABS

(4) Source: Reserve Bank of Australia

Lending Assets

Australian retail banking lending assets increased by 19% to \$118 billion. Lending assets comprise Australian Home Lending and Personal Lending.

Home Lending

Home loan balances net of securitisation increased by 20% since 30 June 2003 to \$105 billion. The increase in home loans was the major factor contributing to the increase in total lending assets during the year. This reflects continued strong demand in both owner occupied and investment loans. Market share as at 31 May 2004 was 19.3%, compared with 19.5% as reported at June 2003, relating to March 2003 (source: APRA). The Bank's market share as at June 2003 was 19.3%.

The Bank maintained its position as Australia's leading home loan provider and has increased its share of broker originated loans which now account for 16% of the total Australian book compared with 11% at June 2003, while 26% of new home loans funded were originated by third party brokers.

Personal Lending

Personal lending includes Personal Loans, Credit Cards and Margin Loans. Balances increased by 10% over the year to \$13.2 billion reflecting growth in Credit Card balances and margin lending.

Retail Deposits

Retail deposits showed good growth, with total balances increasing by over \$3 billion to \$72.4 billion. Competition has intensified within the market as the improved investment market performance has started to attract customers back to equity based products. The sale of Commonwealth Custodial Services Limited during the year impacted the Bank's deposit market share by an estimated 24 basis points.

Asia Pacific

Major Balance Sheet Items (gross of impairment)	30/06/04	30/06/03	Increase/ (Decrease)
	\$M	\$M	%
Lending assets - Home Lending	16,967	12,611	35
Lending assets - Other	10,018	7,269	38
Trading & investment securities	2,459	2,953	(17)
Debt issues	5,500	2,281	large
Deposits	19,176	17,168	12

Market Share	30/06/04	30/06/03⁽¹⁾
NZ Lending for housing ⁽²⁾	22.2%	20.6%
NZ Retail Deposits ⁽²⁾	17.5%	16.4%

(1) As reported in the December 2003 Profit Announcement

(2) Source: Reserve Bank of NZ

Banking Analysis (continued)

Lending Assets

The New Zealand lending volumes were very strong during the year across all sectors, particularly in housing and business lending. Credit demand was strong and housing activity remained buoyant.

ASB Bank achieved Personal lending growth of 27%, Rural lending growth of 22% and Business/Commercial lending growth of 23%. Total operations advances growth was 26.5%. This compared with the annual market growth of 11.7% as measured by Private Sector Credit (Residents only).

ASB Bank's share of the home lending market continued to grow, with market share increasing to 22.2% from 20.6% (source: Reserve Bank of New Zealand). Focused marketing activity and ASB Bank's award winning service and sales performance underpinned this result.

Deposits

Retail funding within ASB Bank increased 15% to \$14.2 billion.

Institutional and Business and Group Treasury

Major Balance Sheet Items (gross of impairment)	30/06/04 \$M	30/06/03 \$M	Increase/ (Decrease) %
Lending assets	60,918	55,060	11
Trading & investment securities	23,884	18,518	29
Debt issues	38,542	28,347	36
Deposits	71,641	55,104	30

Market Share

Market Share	30/06/04	30/06/03⁽¹⁾
Transaction Services (Commercial) ⁽³⁾	24.4% ⁽²⁾	22.7%
Transaction Services (Corporate) ⁽⁴⁾	20.9% ⁽²⁾	18.1%
Business Lending ⁽⁵⁾	14.2%	14.0%
Asset Finance ⁽⁶⁾	16.0%	15.1%

(1) As reported in the Dec-2003 Profit Announcement

(2) as at May 2004

(3) Source: East & Partners. Survey respondents included companies with \$20 million to \$340 million turnover.

(4) Source: East & Partners. Survey respondents are companies with turnover greater than \$340 million

(5) Source: APRA / RBA

(6) Source: AELA (Aust Equip Lessors Assoc)

Lending Assets

Institutional and Business Lending has increased \$5.8 billion or 11% over the year to \$60.9 billion. This growth reflected good transaction activity in Institutional Banking, a stronger performance in Corporate Banking and steady growth in Business Banking. Market share as at May 2004 has increased to 14.2% compared with 30 June 2003 of 14.0% (source: APRA).

Trading and Investment Securities

Trading and investment securities increased by \$5.4 billion to \$23.9 billion at 30 June 2004. This increase is primarily due to increased liquidity requirements arising from liability growth.

Debt Issues

Debt issues were \$38.5 billion at 30 June 2004, an increase of \$10 billion. The increase reflects offshore funding raised on favourable terms to fund the growth in the Bank's assets.

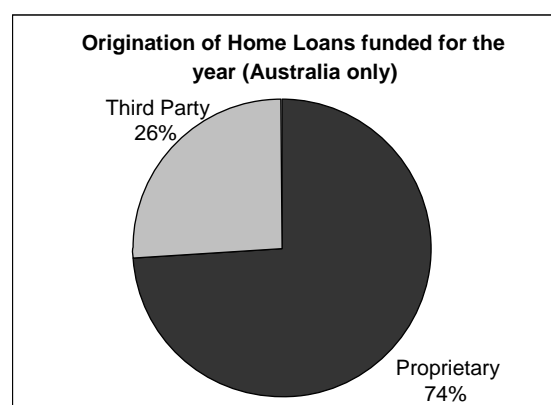
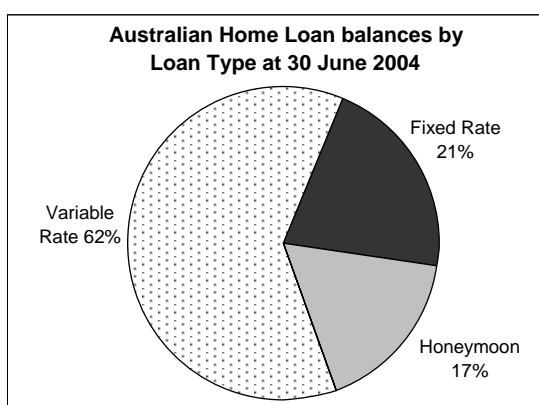
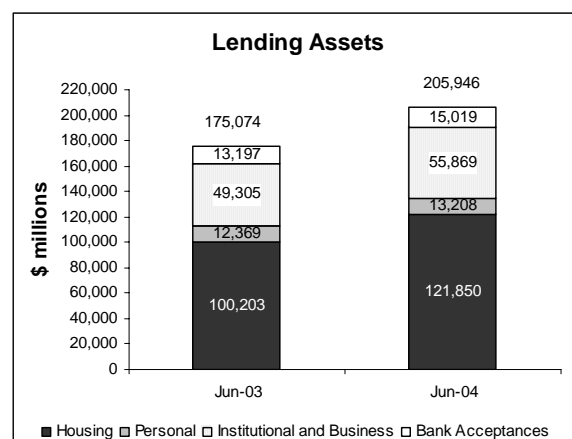
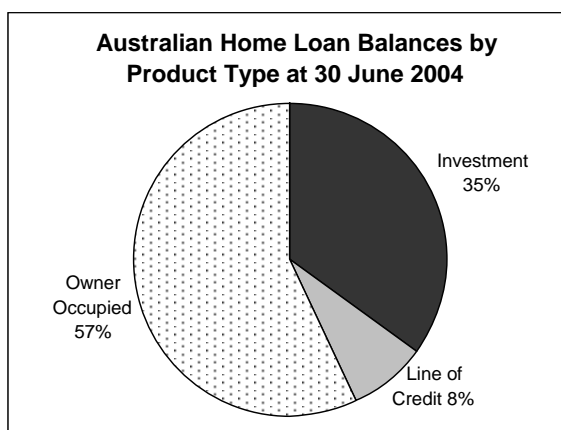
Deposits

Deposits were \$71.6 billion, an increase of \$16.5 billion. This primarily reflects an increase in business deposit market share as well as increased use of wholesale funding to fund the growth in the Bank's assets.

Banking Analysis (continued)

Total Banking

Major Balance Sheet Items (gross of impairment) - by Product	30/06/04 \$M	30/06/03 \$M	Increase/ (Decrease) %
Gross housing	129,455	106,683	21
Securitisation	(7,605)	(6,480)	17
Housing (net of securitisation)	121,850	100,203	22
Personal	13,208	12,369	7
Institutional and Business	55,869	49,305	13
Bank acceptances	15,019	13,197	14
Total Lending Assets	205,946	175,074	18
Trading & Investment Securities	26,343	21,471	23
Deposits and Other Public Borrowings	163,177	140,974	16
Debt Issues	44,042	30,629	44



Banking Analysis (continued)

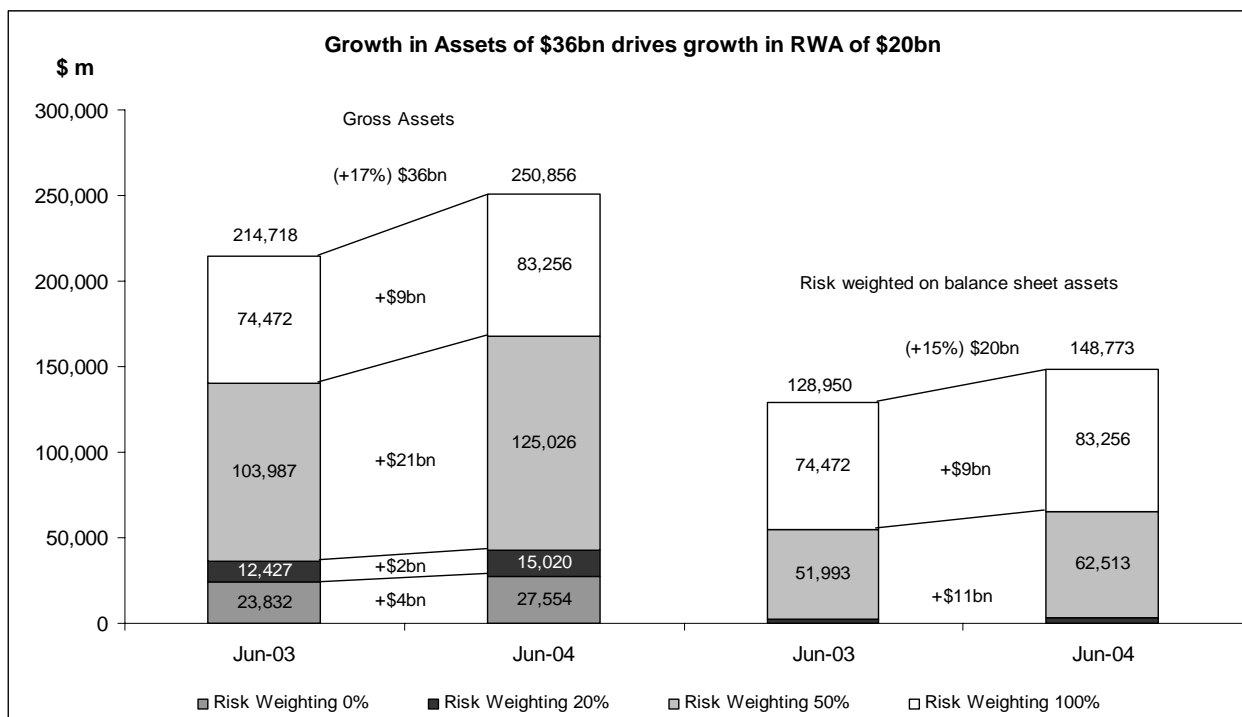
Provisions for Impairment	30/06/04 \$M	30/06/03 \$M
General provisions	1,393	1,325
Specific provisions	143	205
Total Provisions	1,536	1,530
 Total provisions for impairment as a % of gross impaired assets net of interest reserved	 451.8	 239.4
 Specific provisions for impairment as a % of gross impaired assets net of interest reserved	 42.1	 32.1
 General provisions as a % of risk weighted assets	 0.82	 0.90
 Bad debt expense as a % of risk weighted assets	 0.16	 0.21

Total provisions for impairment for the Bank at 30 June 2004 were \$1,536 million. This level of provisioning is considered adequate to cover any bad debt write offs from the current lending portfolio having regard to the current outlook.

Specific provisions for impairment have decreased by 30% to \$143 million at 30 June 2004, primarily as a result of significant reductions in the level of impaired assets (Gross Impaired Assets net of interest reserved have reduced by \$299 million since June 2003, a reduction of 47%).

The general provision for impairment has increased to \$1,393 million at 30 June 2004, an increase of 5% since June 2003. The general provision as a percentage of Risk Weighted Assets reduced to 0.82% from 0.90% in the year. This level is generally consistent with that of other major Australian banks. The general provision as a percentage of risk weighted assets has declined over the last three years reflecting:

- Major growth in credit has been in home loans which have a lower credit risk than other portfolios;
- Continuing strong asset quality in the business book; and
- The reduction in gross impaired assets to the lowest level in the past decade.



Funds Management Analysis

Financial Performance and Business Review

Performance Highlights

Underlying net profit after tax increased by 18% to \$274 million for the year. This result was achieved on increased revenues of 4% while in a competitive environment the business focused on tight cost control which resulted in a 4% reduction in non-volume related expenses.

Funds under administration (FUA) ended the year at \$110 billion, which is up 11% on 30 June 2003 levels, assisted by stronger domestic and international investment markets together with good inflows to the FirstChoice product in Australia and wholesale mandates in the United Kingdom.

Business Review

During the year there was a recovery of investment markets and an associated improvement in investor confidence. These conditions resulted in a recovery in flows into the retail funds sector after two years of relatively poor market returns.

The emerging preference of retail investors for platform products resulted in the more traditional retail products being in net outflow for the year. In the platform sector, the Bank was well positioned with the FirstChoice product increasing its FUA to over \$7 billion. This resulted in the FirstChoice product being the industry leader in platform net flows during the year (Source: Plan for Life: March 2004).

International net flows were very strong, particularly in the United Kingdom, with FUA increasing by 32.5% over the year.

There was a focus on costs during the year which resulted in a \$26 million reduction in non volume related expenses. This was achieved despite the business continuing to incur significant additional costs in respect of regulatory and compliance matters.

Which new Bank Program

The Funds Management business is a key contributor to the Bank's Which new Bank transformation program. The majority of the Funds Management initiatives undertaken during the year centred on developing the platform offerings and investing in our adviser network.

There was also a continuation of the system simplification program within the legacy product business which has and will result in significant cost savings. These initiatives will substantially improve our capacity to serve our customers and position the business to meet the changing preferences of investors. Key highlights of the initiatives during the year were:

- A continuation of the product migration strategy away from older style closed products. The number of product systems supporting legacy products has already been reduced from 17 to 11, and is targeted to reach five by December 2005.
- Launch of the improved FirstChoice mastertrust platform, with additional services and reporting for financial planners.
- A restructure of back office services to reduce costs and provide simpler processes.
- A strategic review of our UK operations which resulted in a more targeted product range and a reduction in the cost base of this business.

Investment Performance

The absolute returns of most of the funds were strong reflecting the recovery of investment markets. On a relative basis 70% of funds out-performed their benchmark during the year. The flagship Australian Equity and Global Equity funds, however, were below benchmark on a one year comparative performance which negatively impacted fund flows.

Operating Income

Operating income increased by 4% to \$1,172 million for the year. This was achieved despite the negative impact from the appreciation of the Australian Dollar and the reduction of income following the sale of the Bank's custody business.

The revenue increase was supported by an 11% increase in FUA balances from \$99 billion in 2003 to \$110 billion. Average funds under administration for the year were \$105.5 billion, which is 6% higher than in the prior year. FUA margins were very resilient with the income to average FUA ratio decreasing by three basis points to 1.11% over the year.

Shareholder Investment Returns

Shareholder investment returns attributable to the Funds Management business of \$26 million were double the prior year figure of \$13 million reflecting the strong investment markets during the year.

Operating Expenses

Operating expenses consist of two components:

- Ongoing operating costs; and
- Volume related costs which vary in relation to the level of business and revenue.

Operating costs were \$26 million lower than in the prior year, reducing from \$666 million to \$640 million. The reduction was due to:

- The exit from non-core products in the UK business;
- Rationalisation of back office processes;
- Rationalisation of legacy systems; and
- Favourable exchange rate movements.

Volume related expenses were \$8 million higher than in the prior year, an increase of 5% which was in line with revenue growth.

Productivity Efficiency

Underlying operating expenses as a percentage of average funds under administration of 0.76% were down seven basis points compared with June 2003, a productivity improvement of 8%.

Which new Bank Program

Costs of \$37 million relating to Which new Bank initiatives include the expenses of continued rationalisation of systems, development of FirstChoice mastertrust platform, with a new version launched in May 2004 and redundancies resulting from the strategic review of the UK operations. The prior year also includes the one-off cost relating to the sale of the custody business.

Taxation

The corporate tax charge for the year was \$79 million, an effective tax rate of 22% compared with 20% last year. The low effective tax rate in this business is largely due to transitional tax relief on investment style funds management products within life insurance legal entities. The benefits derived from this relief are being phased out over a five year period ending in 2005.

Funds Management Analysis (continued)

Profit Summary

Key Performance Indicators	Full Year Ended		Increase/ (Decrease) %
	30/06/04 \$M	30/06/03 \$M	
Funds Management			
Operating income - external	1,158	1,115	4
Operating income - internal	14	13	8
Total Operating Income	1,172	1,128	4
Shareholder investment returns	26	13	large
Policyholder tax expense/(benefits)	149	(62)	large
Funds Management Income	1,347	1,079	25
Volume based expenses	166	158	5
Other operating expenses	640	666	(4)
Operating expenses	806	824	(2)
Initiatives including Which new Bank ⁽¹⁾	37	38	(3)
Total Operating Expenses	843	862	(2)
Net Profit before Income Tax	504	217	large
Policyholder tax expense/(benefits)	149	(62)	large
Corporate tax expense	79	57	39
Outside equity interests	8	6	33
Net Profit after Income Tax ("cash basis")	268	216	24
Net Profit after Income Tax ("underlying basis") ⁽²⁾	274	233	18

(1) June 2004 results reflect the Which new Bank program, while prior year results include strategic initiatives undertaken including the one off cost relating to the sale of the custody business.

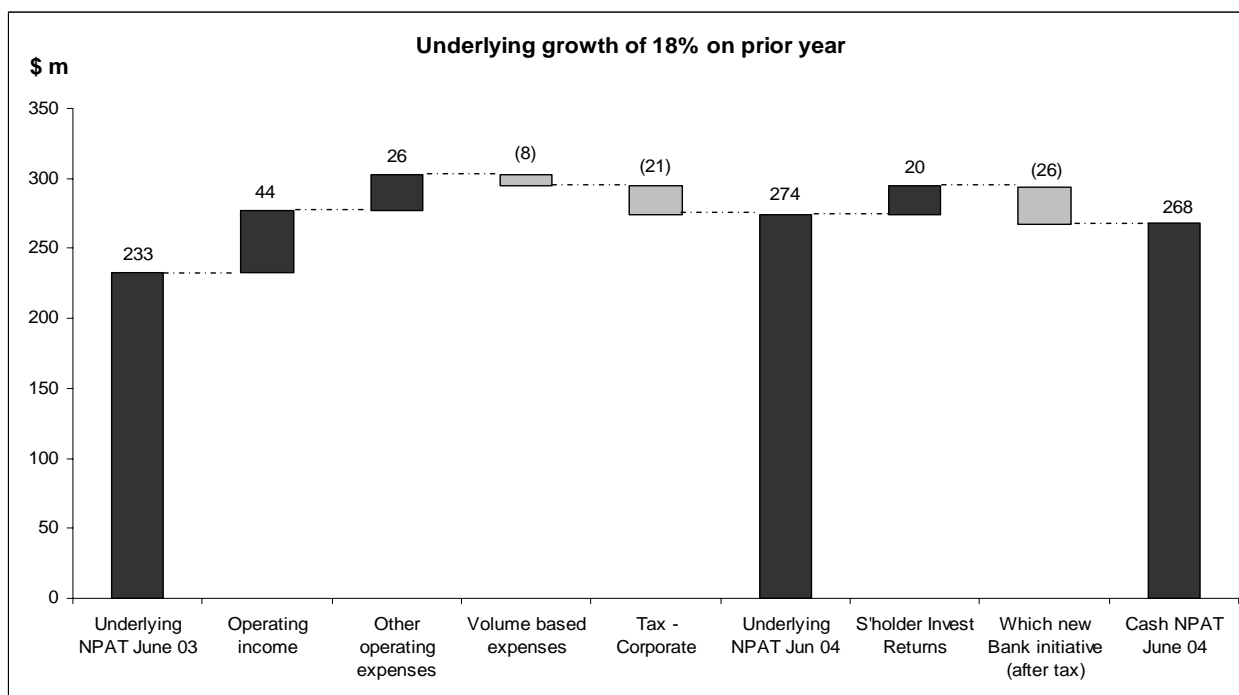
(2) Underlying basis excludes shareholder investment returns and Which new Bank program.

Funds Under Administration

Funds under administration - average	105,458	99,280	6
Net flows	846	(686)	large

Productivity and Other Measures

Operating income to average funds under administration (%)	1.11	1.14	(3)bpts
Expenses to average funds under administration - actual (%)	0.80	0.87	8.0
Expenses to average funds under administration - underlying (%)	0.76	0.83	8.4
Effective corporate tax rate (%)	22.3	20.4	190bpts



Funds Management Analysis (continued)

Funds under Administration

Funds under administration increased by 11% to \$110 billion at 30 June 2004. The primary drivers of FUA growth were the strong investment markets which added \$10 billion; the positive net flows in the FirstChoice product, and the international business.

Offsetting this was the net outflow of the other retail products due to:

- Run-off of legacy products;
- Reduced support for the Australian equity funds; and
- Industry trend towards platform products.

Average funds under administration of \$105.5 billion for the year ended 30 June 2004 was 6% higher than the prior year.

FirstChoice and Avanteos

FirstChoice achieved \$7 billion funds under administration during the year, an increase of 119% over the prior year. Net flows of \$3 billion during the year placed the product at the top of the industry for platform flows (source: Plan for Life March 04). The relaunch of FirstChoice in May 2004 resulted in record net flows into the product in June.

The Avanteos business acquired during 2003 and provider of wholesale wrap products, experienced strong inflows during the year with FUA approaching \$2 billion at the end of the year.

Other Retail (including Legacy Products)

Other Retail has two major components, being the closed legacy products and the traditional CFS retail products.

Other CFS retail funds under administration have continued to struggle to attract and retain customers as investors move away from traditional single entity managers to flexible mastertrust and wrap platforms, like FirstChoice.

The net outflow position of the legacy products results from the business decision to close most of these products to new clients. There remains a substantial inforce business in the legacy products and retention measures to minimise outflows from these products have been implemented.

Other retail funds remained steady reflecting investment returns for the year of positive \$3.9 billion, offset by net outflows.

Wholesale

Wholesale funds under administration have risen 6% to \$27 billion during the year. Investment returns were \$2.7 billion for the year partly offset by \$1.1 billion in net outflows. The net outflows on the wholesale business was largely attributable to Australian equity funds. Other asset classes showed good inflows.

Property

Property funds under administration comprise both listed and unlisted (wholesale) funds. Total property funds under administration grew by \$0.8 billion or 7%, benefiting from both asset revaluations and acquisitions of new properties.

Internationally Sourced

International funds net inflows were \$2.4 billion for the year due to some large mandate wins into the Global Emerging Markets product. Combined with good investment returns, this resulted in a 32.5% increase in international FUA over the year.

Definition

Funds under administration include all funds sourced by platforms such as FirstChoice and Avanteos, including the assets which are externally managed. This represents a change from the funds under management disclosed in previous years.

The change has been made as platform sales represent the largest growth area in the retail funds industry and to exclude these funds would present an incomplete view of the business performance.

The Bank monitors the leading market share position under both definitions. Comparative numbers have been restated.

Funds under administration for FirstChoice and Avanteos have been represented together for the first time. Comparative numbers including inflows, outflows and investment income have been restated.

Funds Management Analysis (continued)

Year Ended 30 June 2004

	Opening Balance 30/06/03	Inflows	Outflows	Investment Income	Acquisitions & Disposals	Movements Fx ⁽¹⁾	Closing Balance 30/06/04
Funds Under Administration	\$M	\$M	\$M	\$M	\$M	\$M	\$M
FirstChoice & Avanteos	4,192	5,431	(1,370)	757	-	-	9,010
Cash Management	4,963	3,178	(3,930)	203	-	-	4,414
Other Retail	37,749	4,893	(8,820)	3,916	-	-	37,738
Wholesale	25,485	12,322	(13,453)	2,666	-	-	27,020
Property	11,790	2,023	(2,079)	890	-	-	12,624
Domestically Sourced	84,179	27,847	(29,652)	8,432	-	-	90,806
Internationally Sourced	14,387	7,769	(5,118)	1,592	(255)	702	19,077
Total - Funds Under Administration	98,566	35,616	(34,770)	10,024	(255)	702	109,883

Year Ended 30 June 2003

	Opening Balance 30/06/02	Inflows	Outflows	Investment Income	Acquisitions & Disposals	Movements Fx ⁽¹⁾	Closing Balance 30/06/03
Funds Under Administration	\$M	\$M	\$M	\$M	\$M	\$M	\$M
FirstChoice & Avanteos	568	4,221	(614)	17	-	-	4,192
Cash Management	5,634	1,121	(1,970)	178	-	-	4,963
Other Retail	41,953	11,356	(13,867)	(1,693)	-	-	37,749
Wholesale	29,240	10,126	(13,329)	(552)	-	-	25,485
Property	8,895	963	(183)	(43)	2,158	-	11,790
Domestically Sourced	86,290	27,787	(29,963)	(2,093)	2,158	-	84,179
Internationally Sourced	19,522	4,603	(3,113)	(424)	(5,000)	(1,201)	14,387
Total - Funds Under Administration	105,812	32,390	(33,076)	(2,517)	(2,842)	(1,201)	98,566

⁽¹⁾ Includes foreign exchange gains and losses from translation of internationally sourced business.

Market Share	30/06/04	30/06/03
Australian Retail – administrator view ⁽²⁾	14.4% ⁽¹⁾	14.5%
New Zealand ⁽³⁾	14.4% ⁽¹⁾	14.5%
Australian Property ⁽⁴⁾	5.5%	n/a

⁽¹⁾ as at March 2004

⁽²⁾ Source: Plan for Life. The administrator view considers market share from the perspective of the company, which administers the product, and also includes badged products distributed by separate entities.

⁽³⁾ Source: Fund Source Research

⁽⁴⁾ Source: UBS Warburg

Insurance Analysis

Financial Performance and Business Review

Performance Highlights

The underlying profit after tax for the Insurance business for the year was \$129 million, an increase of 98% over the prior year. This result was achieved with a 13% increase in operating income due to improved underwriting and favourable claims experience. Non volume related expenses were maintained at last year's levels driven by improved efficiency.

Business and Financial Review

Australia

The profit growth in the Australian business was achieved from strong underwriting performance in both the general and life risk insurance categories. This was driven largely by robust claims management, favourable claims experience and improved profitability in the annuities market.

Non volume related management expenses were maintained at last year's levels at the same time as providing enhanced customer service levels. This was achieved through significant business process re-engineering delivering enhanced productivity and efficiency in the business.

Key drivers of the current year's result were:

- Premium growth with Life Risk Premiums up 8%.
- Strong investment returns.
- Improved margins in the annuity market as a result of a return to more rational competitive pricing behaviour.
- Robust claims management activity driving enhanced claims expense outcomes despite some large weather related claims in the general insurance segment early in the year.

The group maintained its number one market share of risk premiums with a 14.8% share of the market.

New Zealand

The life insurance operations in New Zealand operate predominantly under the Sovereign brand.

The market for risk products was subdued during the year. However, Sovereign increased market share in new business from 27% to 28% and maintained its market leadership position with 28.2% of the inforce premium market (source: ISI). The business continued to expand sales through aligned channels such as ASB Bank while maintaining the levels of support from traditional independent financial advisers.

During the year the business fundamentals were further improved through product repricing, tighter underwriting standards and continued rationalisation of products and systems.

The New Zealand business generated \$55 million profit after tax. This represents a 20% increase on last year's result of \$46 million.

Asia

Asia includes life insurance and pension administration operations in Hong Kong, together with life businesses in China, Vietnam, Indonesia and Fiji. Hong Kong represents our largest operation in the region.

The Asian business continued to improve. Key initiatives during the year included:

- Improved risk profile of Hong Kong business following amendments to investment mix, product repricing and product mix;

- Significant reductions in expense levels for the Hong Kong operations; and
- Development of new distribution capabilities.

The Asian business produced \$3 million in operating margins compared with a loss of \$9 million for the prior year. The favourable result for the current year was driven by:

- Improved investment markets;
- Increased sales across all markets;
- Expense containment; and
- Improved persistency.

The result was impacted by a \$16 million write off of capitalised pre-licence start-up costs in China which was reflected in Australian shareholder investment returns.

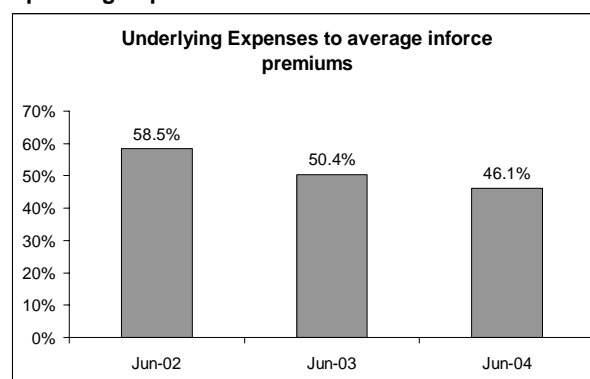
Operating Income

Operating income of \$678 million was 13% higher than in the prior year. Operating income in the prior year included a write-down of an asset in the Australian annuity fund of \$30 million. Taking this item into account, operating income was up 8% on the prior year. This was mainly attributable to growth in inforce premiums, positive experience on claims and an increase in general insurance income.

Shareholder Investment Returns

Shareholder investment returns attributable to the insurance business of \$170 million for the year represent an increase of \$92 million on the prior year, reflecting the rebound in domestic and overseas equity markets.

Operating Expenses



Operating expenses of \$517 million decreased by \$2 million compared with the prior year, due to a drop in volume related costs in the Asian business. Non volume related costs were in line with the prior year, with EBA related increases in staff costs, and increased compliance and regulatory related costs being offset by savings achieved by tight cost control and from process reengineering in the back-office.

The underlying expense to average inforce premium ratio of 46.1% represents a 9% productivity improvement over the year.

Corporate Taxation

The corporate tax charge for the year was \$66 million an effective tax rate of 20.8% compared with 17.8% last year. The low effective tax rate in this business is largely due to transitional tax relief on certain products within life insurance legal entities. The benefits derived from this relief are being phased out over a five year period ending in 2005.

Insurance Analysis (continued)

Profit Summary

Summary Financial Performance (excluding appraisal value (reduction)/uplift)	Full Year Ended		Increase/ (Decrease) %
	30/06/04 \$M	30/06/03 \$M	
Insurance			
Life Insurance Operating Income	618	551	12
General Insurance Operating Income	60	47	28
Total Operating Income	678	598	13
Shareholder investment returns	170	78	large
Policyholder tax	54	4	large
Total Insurance Income	902	680	33
Volume based expenses	224	228	(2)
Other operating expenses - external	279	278	0
Other operating expenses - internal	14	13	8
Operating expenses	517	519	(0)
Initiatives including Which new Bank ⁽¹⁾	14	-	-
Total operating expenses	531	519	2
Net Profit before Income Tax	371	161	large
Income tax expense attributable to:			
Policyholder	54	4	large
Corporate	66	28	large
Net Profit after Income Tax ("cash basis")	251	129	95
Net Profit after Income Tax ("underlying basis") ⁽²⁾	129	65	98
Productivity and Other Measures			
Expenses to average inforce premiums (actual %)	47.3	50.4	6.2
Expenses to average inforce premiums (underlying %)	46.1	50.4	8.5
Effective corporate tax rate (%)	20.8	17.8	300bpts

Sources of Profit from Insurance Activities	Full Year Ended		Increase/ (Decrease) %
	30/06/04 \$M	30/06/03 \$M	
The Margin on Services profit from ordinary activities after income tax is represented by:			
Planned profit margins	107	104	3
Experience variations	-	(42)	-
Other	(8)	(8)	-
General insurance operating margin	19	11	73
Operating margins	118	65	82
After tax shareholder investment returns	133	64	large
Net profit after Income Tax ("cash basis")	251	129	95

Geographical Analysis of Business Performance

Net Profit after Income Tax ("cash basis")	Full Year Ended							
	Australia		New Zealand		Asia		Total	
	30/06/04 \$M	30/06/03 \$M	30/06/04 \$M	30/06/03 \$M	30/06/04 \$M	30/06/03 \$M	30/06/04 \$M	30/06/03 \$M
Operating margins	78	43	37	31	3	(9)	118	65
Investment earnings on assets in excess of policyholder liabilities	101	35	18	15	14	14	133	64
Net Profit after Income Tax	179	78	55	46	17	5	251	129

⁽¹⁾ June 2004 result reflects the Which new Bank program.

⁽²⁾ Underlying basis excludes shareholder investment returns and Which new Bank program.

Insurance Analysis (continued)

Inforce Premiums

Full Year Ended 30 June 2004					
	Opening Balance 30/06/03	Sales/New Business	Lapses	Other Movements ⁽¹⁾	Closing Balance 30/06/04
Annual Inforce Premiums	\$M	\$M	\$M	\$M	\$M
General Insurance	196	46	(50)	-	192
Personal Life	626	156	(85)	6	703
Group Life	254	53	(34)	(1)	272
Total	1,076	255	(169)	5	1,167
Australia	771	177	(133)	-	815
New Zealand	221	42	(16)	11	258
Asia	84	36	(20)	(6)	94
Total	1,076	255	(169)	5	1,167

(1) Consists mainly of foreign exchange movements.

Full Year Ended 30 June 2003					
	Opening Balance 30/06/02	Sales/New Business	Lapses	Other Movements ⁽²⁾	Closing Balance 30/06/03
Annual Inforce Premiums	\$M	\$M	\$M	\$M	\$M
General Insurance	172	51	(27)	-	196
Personal Life	580	129	(78)	(5)	626
Group Life	229	58	(30)	(3)	254
Total	981	238	(135)	(8)	1,076
Australia	698	180	(107)	-	771
New Zealand	187	43	(16)	7	221
Asia	96	15	(12)	(15)	84
Total	981	238	(135)	(8)	1,076

(1) Life Insurance results for both New Zealand and Asia include savings products. Savings products are disclosed within Funds Management for the Australian business. Inforce premium relates to risk business only.

(2) Consists mainly of foreign exchange movements.

Annual inforce premiums increased by \$91 million or 8% to \$1,167 million for the year ended 30 June 2004. General Insurance lapses include \$19 million of rebadged premiums which ceased to be attributable to the CBA business due to a FSRA related business restructuring.

The Australian business maintained its leading market share of inforce premiums despite a reduction from 15.3% at 30 June 2003 to 14.8% at 31 March 2004. Sovereign maintained its leading position in New Zealand with a market share of 28.2%, slightly down from 28.3% at 30 June 2003.

Market Share – Annual Inforce Premiums	30/06/04	30/06/03 ⁽¹⁾
New Zealand ⁽⁴⁾	28.2% ⁽²⁾	28.3%
Australia (Total Risk) ⁽⁵⁾	14.8% ⁽³⁾	15.3%
Australia (Individual Risk) ⁽⁵⁾	12.8% ⁽³⁾	13.0%
Hong Kong ⁽⁶⁾	2.5% ⁽³⁾	2.8%

(1) As reported in the December 2003 Profit Announcement
(2) as at May 2004
(3) as at March 2004

(4) Source: ISI Statistics
(5) Source: Plan for Life
(6) Source: HK Insurance Assoc

Shareholder Investment Returns

Shareholder Investment Returns	Full Year Ended		Increase/ (Decrease) %
	30/06/04 \$M	30/06/03 \$M	
Funds Management Business	26	13	large
Insurance Business	170	78	large
Shareholder Investment Returns before Tax	196	91	large
Taxation	44	18	large
Shareholder Investment Returns after Tax	152	73	large

At 30 June 2004 Shareholder Investments Asset Mix (%)	Australia %	New Zealand %	Asia %	Total %
Local equities	10	1	4	7
International equities	4	6	6	5
Property	22	4	-	14
Other ⁽¹⁾	-	3	4	1
Sub-total	36	14	14	27
Fixed interest	39	38	61	44
Cash	25	35	7	23
Other	-	13	18	6
Sub-total	64	86	86	73
Total	100	100	100	100

At 30 June 2004 Shareholder Investments Asset Mix (\$M)	Australia \$M	New Zealand \$M	Asia \$M	Total \$M
Local equities	166	3	25	194
International equities	64	26	38	128
Property	357	17	-	374
Other ⁽¹⁾	-	14	21	35
Sub-total	587	60	84	731
Fixed interest	644	156	364	1,164
Cash	415	147	42	604
Other	-	52	110	162
Sub-total	1,059	355	516	1,930
Total	1,646	415	600	2,661

⁽¹⁾ Other assets include the excess of carrying value over net tangible assets.

Domestic and international investment markets rebounded strongly over the year, with the benchmark S&P/ASX200 price index increasing by 16.7% and the MSCI World index by 21.8%. All other asset classes (fixed interest, property and cash) posted positive returns.

Life Company Valuations

The following table sets out the components of the carrying values of the Bank'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 were reviewed by independent actuaries, Trowbridge Deloitte.

In determining the carrying value, Directors have taken account of certain market based factors which result in the adoption of a more conservative valuation that is \$450 million lower at 30 June 2004 (\$450 million lower at 30 June 2003) than that determined by Trowbridge Deloitte. The key consideration by Directors in determining their value is the continued uncertainty of investment markets and industry funds flows.

	Funds Management	Life Insurance			Total
		Australia	New Zealand	Asia ⁽¹⁾	
Carrying Value at 30 June 2004	\$M	\$M	\$M	\$M	\$M
Shareholders net tangible assets	515	1,131	415	600	2,661
Value of inforce business	1,850	295	286	-	2,431
Embedded Value	2,365	1,426	701	600	5,092
Value of future new business	2,774	235	277	24	3,310
Carrying Value	5,139	1,661	978	624	8,402
Increase/(Decrease) in Carrying Value since 30 June 2003	(334)	73	129	(12)	(144)

	Funds Management	Life Insurance			Total
		Australia	New Zealand	Asia ⁽¹⁾	
Analysis of Movement Since 30 June 2003	\$M	\$M	\$M	\$M	\$M
Profits	268	180	54	17	519
Capital movements ⁽²⁾	(27)	108	(29)	-	52
Dividends paid	(470)	(421)	(9)	-	(900)
FX Movements	(10)	-	19	(25)	(16)
Change in Shareholders NTA	(239)	(133)	35	(8)	(345)
Appraisal value uplift/(reduction)	(95)	206	94	(4)	201
Increase/(Decrease) to 30 June 2004	(334)	73	129	(12)	(144)

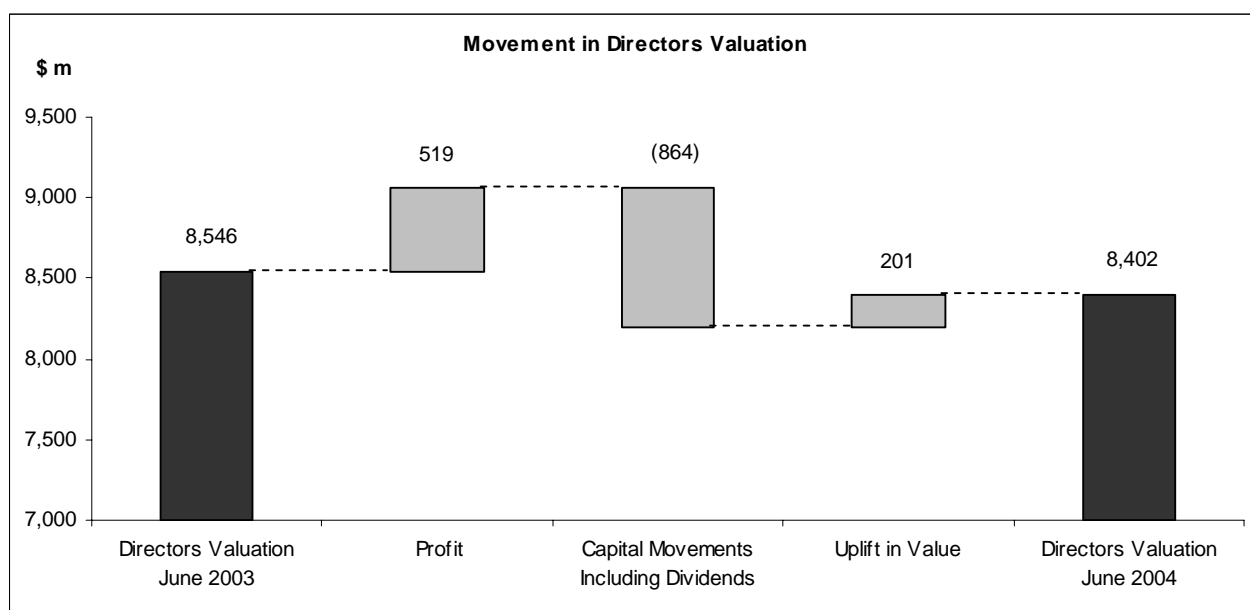
(1) The Asian life businesses are not held in a market value environment and are carried at net assets plus any excess representing the difference between appraisal value and net assets at the time of acquisition. This excess, which effectively represents goodwill, is being amortised on a straight line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

(2) Includes capital injections, transfers and movements in intergroup loans.

Change in Valuations

The valuations adopted have resulted in a total negative change in value of \$144 million since 30 June 2003. The main components comprised:

- A \$345 million decrease in net tangible assets partially reflecting improved capital efficiency.
- An appraisal value uplift of \$201 million, reflecting projected sales levels, higher retention rates and improved equity markets and their effect on industry flows.



Presentation of Financial Information

Definitions

In this annual report, the Bank presents its profit from ordinary activities after tax on a "statutory basis", which is calculated in accordance with Australian GAAP, and on a "cash basis". "Cash basis" is defined by management as net profit after tax and outside equity interests, before goodwill amortisation and funds management and life insurance appraisal value uplift/(reduction). "Cash basis" net profit after tax represents profit derived from business operating income and operating expenses after tax. The only items excluded from the net profit after tax are goodwill amortisation and appraisal value uplift/(reduction). Management believes "cash basis" is a meaningful measure of the Bank's performance and provides the basis for the determination of the Bank's dividends. Also for the year ended 30 June 2004, the Bank has added back the non-recurring 'Which new Bank' costs in considering the amount to be distributed as dividends to shareholders. The goodwill amortisation is an annual accounting charge to profit, with amortisation principally over a 20-year period. The appraisal value reduction or uplift is a movement in the value of the funds management and life insurance businesses which in part is driven by external economic factors and markets, such as world equity markets and interest rates.

The Bank also presents its earnings per share on a statutory basis and on a cash basis. Earnings per share on a statutory basis are affected by the impact of changes in the appraisal value of our funds management and life insurance businesses. "Earnings per share (cash basis)" is defined by management as net profit after tax and outside equity interests, before goodwill amortisation and funds management and life insurance appraisal value uplift/(reduction), divided by the weighted average of the Bank's ordinary shares outstanding over the relevant period. This measure shows the "cash basis" net profit after tax, as described above, per share.

"Operating Expenses – Initiatives including Which new Bank" refers to incremental expenses associated with these initiatives. Prior period numbers refer to the strategic initiatives as outlined in the Bank's annual report for the year ended 30 June 2002 and June 2002 Employee Share Acquisition Plan costs paid in October 2002 following changes to the Bank's remuneration structures and policy. These incremental costs principally relate to restructuring expenses. "Operating expenses – Initiatives including Which new Bank" plus "operating expenses – comparable business" is equal to the Australian GAAP measure "operating expenses". Management believes it is meaningful to highlight these items in an analysis of our results.

"Underlying profit" refers to profit after tax, "cash basis", before operating expenses - initiatives including Which new Bank and shareholder investment returns. "Underlying profit" is referred to across all our businesses. The underlying profit is the result of our core operating performance. Management believes it is meaningful to highlight the underlying profit in order to show performance on a comparable basis, in particular excluding the volatility of equity markets and restructuring expenses.

"Underlying" productivity ratios:

- Exclude expenses of "Initiatives including Which new Bank";
- Exclude shareholder investment returns from funds management and life insurance income; and
- Exclude policyholder tax from the funds management income and life insurance income lines.

In providing "underlying" productivity ratios, comparatives for the prior period have also been adjusted. "Underlying" productivity ratios have been presented to provide what management believes to be a more relevant presentation of our productivity ratios. Management believes that these adjustments enable comparison of our productivity ratios from period to period to be more meaningful as it reflects our core operating performance.

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 Bank's risk profile is measured by the difference between capital available to absorb loss and risk as assessed by target equity required.

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

Target equity is derived from underlying exposures to credit, market, operational and life insurance risks in the banking, 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 insurance and funds management businesses, target 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 2004 was 54% credit risk, 11% market risk, 34% operational risk and 1% insurance risk.

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

- Banking: 73% credit risk, 4% market risk and 23% operational risk;
- Insurance: 40% market risk, 50% operational risk, 6% credit risk and 4% insurance risk; and
- Funds Management: 11% market risk and 89% operational risk.

The following sections describe the integrated risk management framework components.

Credit Risk

Credit risk is the potential of 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, financial markets transactions and other associated activities. In the 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 Bank uses a diversified portfolio approach for the management of credit risk (refer to 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.

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

A centralised exposure management system records all significant credit exposures of the Bank. 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.

Off Balance Sheet Arrangements

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

As detailed in Note 1 (jj), the Bank conducts a Loan Securitisation program through which it packages and sells loans as securities to investors. Liquidity facilities are provided at arm's length to the program by the Bank in accordance with the Australian Prudential Regulation Authority ("APRA") Prudential Guidelines. These liquidity facilities are disclosed within Contingent Liabilities as commitments to provide credit.

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 and from controlled trading undertaken in pursuit of profit. The Bank 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 Bank's market risk is contained in Note 39 to the financial statements. Information on trading securities is further contained in Note 10 to the financial statements. Note 2 to the financial statements contains financial markets trading income contribution to the Bank.

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 validity of the VaR model.

In addition, because the VaR model cannot encompass 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 Bank. Refer to Note 39 to the financial statements for further details.

VaR Expressed based on 97.5% confidence	Average VaR During June 2004 Half Year \$M	Average VaR During December 2003 Half Year \$M	Average VaR During June 2003 Half Year \$M	Average VaR During December 2002 Half Year \$M
Group				
Interest rate risk	2.88	3.02	3.43	3.37
Exchange rate risk	1.09	1.24	1.31	1.47
Implied volatility risk	0.84	0.92	0.62	0.59
Equities risk	0.70	0.56	0.73	0.32
Commodities risk	0.37	0.33	0.32	0.35
Prepayment risk	0.58	0.36	0.38	0.30
ASB Bank	0.14	0.20	0.15	0.19
Diversification benefit	(2.49)	(2.51)	(2.32)	(2.14)
	4.11	4.12	4.62	4.45
Credit Spread ⁽¹⁾	4.92	-	-	-
Total	9.03	4.12	4.62	4.45

VaR Expressed based on 99.0% confidence	Average VaR During June 2004 Half Year \$M	Average VaR During December 2003 Half Year \$M	Average VaR During June 2003 Half Year \$M	Average VaR During December 2002 Half Year \$M
Group				
Interest rate risk	3.69	3.99	4.31	4.45
Exchange rate risk	1.28	1.50	1.64	1.75
Implied volatility risk	1.04	1.26	0.79	0.71
Equities risk	0.98	0.70	0.93	0.39
Commodities risk	0.45	0.40	0.41	0.42
Prepayment risk	0.58	0.36	0.38	0.30
ASB Bank	0.19	0.25	0.20	0.24
Diversification benefit	(3.21)	(3.26)	(3.02)	(2.70)
	5.00	5.20	5.64	5.57
Credit Spread ⁽¹⁾	5.84	-	-	-
Total	10.84	5.20	5.64	5.57

⁽¹⁾ At 30 June 2004 the value at risk of the movement of credit spreads has been added to the VaR model. This had previously been captured in the "Specific Risk" allocation capital charge. Inclusion of a separate risk class reflects growth in this particular market segment and increasing availability of data on which to model.

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 eligible 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 Bank'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 Bank segregates policyholder's funds from shareholder's funds and sets investment mandates that are appropriate for each. The investment mandates for assets in policyholder's 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 policyholder's 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 Bank 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 at the discretion of the policyholder.

A smaller proportion of policyholder's 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 Bank 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 inforce 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 inforce book of guaranteed policies will decline significantly as the policy payments on maturing policies continues to be offset by the premium

Integrated Risk Management (continued)

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.

The current investment mandate for shareholders' funds reflects a decision taken during this year to reduce the overall exposure of shareholders' fund to growth assets. As at 30 June 2004, shareholders' funds in the life insurance business are invested 73% in income assets (cash and fixed interest) and 27% in growth assets (shares and property), although the asset mix varies from company to company. Policyholder funds are invested to meet policyholder reasonable expectations without putting the policyholder at undue risk.

Market risk in the funds management business is the risk that an adverse movement in market prices will result in a reduction of that element of fee income related to earnings performance.

Liquidity risk is not a significant issue in life insurance companies. The life insurance companies in the Bank 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.

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. The Bank enters 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 Bank's financial markets activities. Derivatives are also used to manage the Group's own exposure to market risk. The Bank participates in both exchange traded and Over the Counter ("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 Bank buys and sells financial instruments that are traded 'over-the-counter', rather than on recognised exchanges. The terms and conditions of these transactions are negotiated between the parties, although the majority conform to accepted market conventions. Industry standard documentation is used, most commonly in the form of a master agreement supported by individual transaction confirmations. The documentation protects the Bank's interests should the counterparty default, and provides the ability to net outstanding balances in jurisdictions where the relevant law allows.

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

Operational and Strategic Business Risk

The Bank's operational and strategic business risk management framework supports the achievement of the Group's financial and business goals.

Operational Risk is defined as the risk of economic gain or loss resulting from:

- Inadequate or failed internal processes and methodologies;
- People;
- Systems; or
- External events.

Strategic Business Risk is defined as the risk of economic gain or loss resulting from changes in the business environment caused by the following factors:

- Economic;
- Competitive;
- Social trends; or
- Regulatory.

In each of the businesses, management is responsible for the identification, assessment and treatment of these risks. These business managers are supported by the Bank's framework consisting of a governance structure, a suite of risk mitigating policies, a measurement methodology and skilled operational risk employed throughout the Group.

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

Target equity for the banking business is calculated by aggregating individual risk measures which are based on expert assessment. For the insurance and funds management businesses target equity is calculated using worst-case scenarios that impact upon business risk factors such as pricing, margins and business volumes.

The Bank continues to benchmark and monitor its insurance risk transfer program for efficiency and 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.

Business Continuity Management

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

BCM constitutes an essential component of the Bank's risk management process by providing a controlled response to potential operational risks that could have a significant impact on the Bank'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.

A comprehensive BCM program including plan development, testing and education has been rolled out across all business units to embed BCM methodologies and capability throughout the Bank.

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 are 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.

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 financial services.

In all there were 51 banking groups operating in Australia at 30 June 2004. 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 14) 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. Their growth in mortgage lending has been facilitated by the proliferation of non-bank mortgage originators and brokers. The larger regional banks now operate in several states, if not nationally. Over recent years the regional banking sector has undergone substantial consolidation with several of these institutions amalgamating with other regional banks or being acquired by major banks.

There are 13 foreign owned banks operating in Australia through a locally incorporated subsidiary. An additional 24 banks conduct operations through a foreign bank branch. While many foreign banks operating in Australia initially focused 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. Five foreign banks are represented in Australia by both a locally incorporated subsidiary and a branch.

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 also making headway in achieving multi-state coverage, partly encouraged by a more accommodating regulatory environment.

A further 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.

In addition, 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 has provided opportunities for new entrants with differing combinations of expertise and has enabled the unbundling of the value chain.

Another significant factor in disintermediation in Australia has been the substantial growth in funds under management, especially within the superannuation (pension funds) industry. Future growth will be underpinned by the Australian Government's continued encouragement of long-term saving through superannuation, a mandatory superannuation guarantee levy on employers and by means of taxation concessions. This growth potential continues to attract new entrants to this market.

The pool of capital represented by funds under management provides an alternative source of capital to bank finance for borrowers. The corporate bond market in Australia has benefited from the growth in funds under management 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 four financial services groups, all owned by Australian-based banks operating through nationwide branch networks.

The Group's major competitors in New Zealand are ANZ and the National Bank of New Zealand (both wholly-owned subsidiaries of the ANZ Group), Bank of New Zealand (a wholly-owned subsidiary of NAB), and Westpac. In addition, there are several financial institutions operating largely in the wholesale banking sector including Deutsche Bank and ABN Amro.

Through its wholly owned subsidiaries, Sovereign Group and ASB Group Investments, ASB Group also competes in the New Zealand insurance and investment market, where Asteron (part of the Promina Group) and AXA are major competitors.

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

Financial System Regulation

Australia has by international standards a high quality system of financial regulation. 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 consistently regardless of the particular type of institutions providing them.

Description of Business Environment (continued)

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") – is 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.

Consistent with its functional approach to regulation, the Wallis Inquiry proposed a single licensing regime for financial sales, advice and dealings in relation to financial products, consistent and comparable financial product disclosure and a single authorisation procedure for financial exchanges and clearing and settlement facilities. The Financial Services Reform Act 2001 enacting these proposals came into force in March 2004. It is intended to facilitate innovation and promote business while at the same time ensuring adequate levels of consumer protection and market integrity.

The Government passed into law in June 2004 a package of proposals (known as CLERP 9) dealing with audit regulation and corporate disclosure designed to ensure Australia has an effective regulatory and disclosure framework that provides the structures and incentives for a fully informed market.

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.

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.

The prudential framework applied by APRA is embodied in a series of prudential standards including:

(i) *Capital Adequacy*

Under APRA capital adequacy guidelines, Australian banks are required to maintain a ratio of capital (comprising Tier One and Tier Two capital components) to risk weighted assets of at least 8%, of which at least half must be Tier One capital. Regulatory capital requirements are measured for the Bank ("Level 1") and for the Bank together with its banking subsidiaries ("Level 2"). APRA capital requirements are generally consistent with those agreed upon by the Basel Committee on Banking Supervision. APRA has advised that a third level of capital adequacy ("Level 3") for conglomerate groups will be implemented to coincide with Basel 2. For information on the capital position of the Bank, see Note 31 Capital Adequacy.

(ii) *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 Certificates of Deposits/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.

(iii) *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 25% of the capital base (prior to 1 July 2003 the limit was 30%). Exposure to authorised deposit taking institutions ("ADIs") is not to exceed 50% of the capital base. Prior consultation must be held with APRA if a bank intends to exceed set thresholds. For information on the Bank's large exposures refer to Note 14 to the Financial Statements.

(iv) *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% shareholding limit for authorised deposit taking institutions, insurance companies and their holding companies. The Treasurer has the power to approve acquisitions exceeding 15% 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.

Description of Business Environment (continued)

(v) *Banks' Association With Non-Banks*

There are formal guidelines (including maximum exposure limits applicable from 1 July 2003) 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.

(vi) *Supervision of Non-Bank Group Entities*

The Australian 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 policyholders can be met.

General insurance companies are subject to prudential standards covering capital adequacy, liability valuation, risk management and reinsurance arrangements.

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, lodgment of an audited annual return, and auditor certification covering prudential matters.

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 decisions are reviewed by a Committee of the Board.

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, quality and economic conditions.

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

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

Life Insurance Policyholder Liabilities

Life insurance policyholder liabilities are accounted for under AASB 1038: 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.

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; and
 - 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(ii) 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

Description of Business Environment (continued)

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; and
- Expenses.

The major business assumptions for funds management businesses are:

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

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

Provision for Which new Bank costs

On 19 September 2003, the Group launched its Which new Bank customer service vision. This is a three year transformation program and involves the Bank in

additional expenditure in the key areas of staff training and skilling, systems and process simplification, and technology. In the period to 30 June 2004 such expenses have totaled \$749 million and principally comprise redundancies, expensing of previously capitalised software of \$219 million, process improvements and branch refurbishment.

The Group is required to book a provision for restructuring costs to the extent that it has announced a plan or started implementing a plan, and has no realistic alternative but to proceed with the restructuring.

There is a level of management judgement involved in estimating the planned costs involved and the level of commitment to the plan, such that it is judged that the plan will proceed to completion.

On this basis a provision for 'Which new Bank' costs of \$208 million was outstanding at 30 June 2004, which is included in the expenses referred to above.

The cost estimates for the provision were determined by the businesses concerned taking into account the details of the planned initiatives and their timing. Other provisions for restructuring established in the past have proved to be appropriately estimated at the time. The provision established in June 2000 when the Group acquired the Colonial Limited Group of companies to cover the integration of the Colonial operations into the existing Group is described in Note 1(z) of the financial statements for the year ended 30 June 2003. This provision for restructuring was estimated at \$400 million at 30 June 2000. This initial estimate was subsequently revised up to \$545 million in the year ended 30 June 2001. The revision to costs of restructure principally related to additional staff redundancy payments and information technology contract termination costs. The current transformation initiative is a three year program that is estimated to cost \$1,480 million over the 2004 to 2006 period. It is expected that additional provisions for 'Which new Bank' costs will be established over this period as the provisioning criteria in the accounting standard are met.

Corporate Governance

Board of Directors

Charter

The role and responsibilities of the Board of Directors are set out in the Board Charter. The responsibilities include:

- The corporate governance of the Bank, including the establishment of Committees;
- Oversight of the business and affairs of the Bank by:
 - establishing, with management, the strategies and financial objectives;
 - approving major corporate initiatives;
 - establishing appropriate systems of risk management; and
 - monitoring the performance of management;
- Communicating with shareholders and the community, results of, and developments in, the operations of the Bank;

- Appointment of the Chief Executive Officer; and
- Approval of the Bank's major HR policies and overseeing the development strategies for senior and high performing executives.

There is in place a comprehensive set of management delegations to allow management to carry on the business of the Bank.

Composition

There are currently 12 Directors of the Bank and details of their experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors' report.

Membership of the Board and Committees is set out below:

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

- The Constitution of the Bank specifies that:
 - The Chief Executive Officer and any other executive director shall not be eligible to stand for election as Chairman of the Bank;
 - The number of Directors shall not be 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 upon the retirement of Mr Ralph and Mr Adler at the 2004 Annual General Meeting, the number of directors shall be 10; and
 - At each Annual General Meeting one-third of Directors (other than the Chief Executive Officer) shall retire from office and may stand for re-election.

The Board has established a policy that, with a phasing in provision for existing Directors, the term of directors' appointments would be limited to 12 years (except where succession planning for Chairman and appointment of Chairman requires an extended term. On appointment, the Chairman will be expected to be available for that position for five years). Directors do not stand for re-election after attaining the age of 70.

Independence

The Board regularly assesses the independence of each Director. For this purpose an independent Director is a non-executive Director whom the Board considers to be independent of management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgment.

In addition to being required to conduct themselves in accordance with the ethical policies of the Bank, Directors are required to be meticulous in their disclosure of any material contract or relationship in accordance with the Corporations Act and this disclosure extends to the interests of family companies and spouses. Directors are required to strictly adhere to the constraints on their participation and voting in relation to matters in which they may have an interest in accordance with the Corporations Act and the Bank's policies.

Each Director may from time to time have personal dealings with the Bank. Each Director is involved with other companies or professional firms which may from time to time have dealings with the Bank. Details of offices held by Directors with other organisations are set out in the Directors' Report and on the Bank's website. Full details of related party dealings are set out in notes to the Company's accounts as required by law.

All the current non-executive Directors of the Bank have been assessed as independent Directors. In reaching that determination, the Board has taken into account (in addition to the matters set out above):

- The specific disclosures made by each Director as referred to above;
- Where applicable, the related party dealings referable to each Director, noting that those dealings are not material under accounting standards;

Corporate Governance (continued)

- That no Director is, or has been associated directly with, a substantial shareholder of the Bank;
- That no non-executive Director has ever been employed by the Bank or any of its subsidiaries;
- That no Director is, or has been associated with a supplier, professional adviser, consultant to or customer of the Bank which is material under accounting standards; and
- That no non-executive Director personally carries on any role for the Bank otherwise than as a Director of the Bank.

The Bank does not consider that term of service on the Board is a factor affecting a Director's ability to act in the best interests of the Bank. Independence is judged against the ability, integrity and willingness of the Director to act. The Board has established a policy limiting Directors' tenures to ensure that skill sets remain appropriate in a dynamic industry.

Education

Directors participate in an induction programme upon appointment and in a refresher program on a regular basis. The Board has established a program of continuing education to ensure that it is kept up to date with developments in the industry both locally and globally. This includes sessions with local and overseas experts in the particular fields relevant to the Bank's operations.

Review

The Board has in place a process for annually reviewing its performance, policies and practices. These reviews seek to identify where improvements can be made and also assess the quality and effectiveness of information made available to Directors. Every two years, this process is facilitated by an external consultant, with an internal review conducted in the intervening years. The review includes an assessment of the performance of each Director.

After consideration of the results of the performance assessment, the Board will determine its endorsement of the Directors to stand for re-election at the next Annual General Meeting.

The non-executive Directors meet at least annually, without management, in a forum intended to allow for an open discussion on Board and management performance. This is in addition to the consideration of the Chief Executive Officer's performance and remuneration which is conducted by the Board in the absence of the Chief Executive Officer.

The Chairman meets at least annually with members of the senior executive team to discuss with them the Board's performance and level of involvement from their perspective.

Selection of Directors

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, have the ability to exercise sound business judgment, to think strategically and have demonstrated leadership experience, high levels of professional skill and appropriate personal qualities.

The Committee regularly reviews the skill base and experience of existing Directors to enable identification of attributes required in new Directors.

An executive search firm is engaged to identify potential candidates based on the identified criteria.

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.

The Bank has adopted a policy whereby, on appointment, a letter is provided from the Chairman to the new Director setting out the terms of appointment.

Policies

Board policies relevant to the composition and functions of Directors include:

- The Board will consist of a majority of independent non-executive Directors and the membership of the Nominations, Remuneration and Audit Committees should consist solely of independent non-executive Directors. The Risk Committee should consist of a majority of independent non-executive Directors;
- The Chairman will be an independent non-executive Director. The Audit Committee will be chaired by an independent non-executive Director other than the Board Chairman;
- The Board will generally meet monthly with an agenda designed to provide adequate information about the affairs of the Bank, allow the Board to guide and monitor management and assist in involvement in discussions and decisions on strategy. Matters having strategic implications are given priority on the agenda for regular Board meetings. In addition, ongoing strategy is the major focus of at least two of the Board meetings annually;
- The Board has an agreed policy on the basis on which Directors are entitled to obtain access to company documents and information and to meet with management; and
- 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 generally made available to all Directors.

Ethical Standards

Conflicts of Interest

In accordance with the Constitution and the Corporations Act 2001, Directors are required to 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. In addition, any director who has a conflict of interest in connection with any matter being considered by the Board or a Committee does not receive a copy of any paper dealing with the matter.

Share Trading

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 or 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 addition, Bank policy prohibits:

- For Directors and executives who report to the Chief Executive Officer, any hedging of publicly disclosed shareholding positions; and

Corporate Governance (continued)

- For executives, any trading (including hedging) in positions prior to vesting of shares or options.

Remuneration Arrangements

Remuneration Committee

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;
- Determine remuneration for senior management; 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 independent non-executive Directors. The Chief Executive Officer attends Committee meetings by invitation but does not attend 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.

Non-Executive Directors' Remuneration

The Constitution and the Australian Stock Exchange ("ASX") Listing Rules specify that the aggregate fees of non-executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined, is divided among 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 fees of \$1,500,000 per year. The Nominations Committee reviews the fees payable to non-executive Directors. Details of individual Directors' remuneration are set out in Note 44. 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 application of 20% of their annual fees. Details of this Plan were set out in the Notice of Meeting for the 2000 Annual General Meeting.

The Non-Executive Directors' Retirement Allowance Scheme which provides for retirement benefits to be paid to non-executive Directors was approved by shareholders at the 1997 Annual General Meeting. The terms of this scheme allowed for a benefit on a pro-rata basis to a maximum of four years total emoluments after 12 years service. In July 2002, the Board closed the scheme to any newly appointed directors. The entitlement of the non-executive Directors at the time were not affected and continued to accrue further benefits.

Chief Executive Officer Remuneration

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, with remuneration subject to review, from time to time, by the Board, and are consistent with those applying to other executives of the Bank.

Executive Remuneration

The Bank's remuneration systems complement and reinforce its leadership and succession planning systems.

The Bank's remuneration framework aims to reward executives with a mix of remuneration appropriate to their level in the organisation and incorporates a significant weighting towards variable ("at risk") pay linked to performance, both short term and long term. This focus aims to:

- reward executives for bankwide, business unit and individual performance against targets set by reference to appropriate benchmarks;

- align the interests of executives with those of shareholders;
- link executive reward with the strategic goals and performance of the Bank; and
- ensure total remuneration is competitive by market standards.

Remuneration and terms and conditions of employment are specified in an individual contract of employment with each executive which is signed by the executive and the Bank. Remuneration of the Bank's executives consists of three key elements"

- Fixed Remuneration;
- Short Term Incentive ("STI"); and
- Long Term Incentive ("LTI").

The relationship of fixed remuneration and variable pay (potential short term and long term incentives) is established for each level of executive management by the Remuneration Committee.

Fixed remuneration is reviewed annually by the Remuneration Committee through a process that considers bankwide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. The Committee has access to external advice independent of management.

Actual STI payments for executives depend on the extent to which operating targets set at the beginning of the financial year are met.

These targets consist of a number of Key Result Areas ("KRAs") covering both financial and non-financial measures of performance. Included are measures such as contribution to net profit after tax ("NPAT"), customer service, risk management, product management, and leadership/team contribution.

STI Payments to executives are usually delivered in two components

- Fifty percent made as an immediate cash payment; and
- Fifty percent deferred in the form of shares in the Bank.

The shares acquired vest in two equal instalments after one and two years respectively. Dividends on the shares are not paid to the executive unless and until the shares vest. Generally, the executive will need to be an employee of the Bank at the relevant vesting date to receive the shares.

LTI grants to executives are delivered in the form of Reward Shares under the Bank's Equity Reward Plan ("ERP").

No value accrues to the executive unless the Bank's Total Shareholder Return ("TSR") at least meets the median of a peer comparator group of companies. To receive the full value of the LTI grant, the Bank's performance must be in the top quartile of the peer group.

The percentage of shares vesting in the executive will be based on a sliding scale where 50% of allocated shares vest if the Bank's TSR is equal to the median return, 75% vest at the 67th percentile and 100% when the return exceeds the 75th percentile, ie. when the Bank's return is in the top quartile.

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

Purchase of Shares on the Market

Currently, Reward Shares purchased on market to satisfy incentives earned by executives under the ERP are charged against profit and loss as are incentives paid in cash and in deferred shares under the Equity Participation Plan ("EPP"). As from the beginning of the 2003 financial year, total remuneration, which includes the full cost of the ERP and EPP and also the distribution of shares to employees under the ESAP, have been expensed against profits.

Corporate Governance (continued)

Further Information

Further detail of remuneration arrangements for Directors and executives of the Bank is outlined in the Directors' Report. Individual remuneration details of Directors and Specified Executives are set out in Note 44 to the Financial Statements.

Audit Arrangements

Audit Committee

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 independent 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 chief internal audit executive and also separately with the external Auditors independently of management;
- The Audit Committee is responsible for nominating the external auditor to the Board for appointment by shareholders. The Audit Committee approves the terms of the contract with the external auditor, agrees the annual audit plan and approves payments to the Auditor;
- The Audit Committee discusses and receives assurances from the external auditors on the quality of the Bank's systems, its accounting processes and its financial results. It also receives a report from the Auditors on any significant matters raised by the Auditors with management;
- All material accounting matters requiring exercise of judgement by management are specifically reviewed by the Audit Committee and reported on by the Committee to the Board; and
- 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 Securities and Exchange Commission ("SEC") of the USA. 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 judgment by management and reports those matters to the Board.

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 and statutory requirements; and
- The quality of the accounting policies applied and any other significant judgments made.

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.

The Board has determined that Fergus Ryan is an "audit committee financial expert" within the meaning of that term as described in the SEC rules. Although the Board has determined that this individual has the requisite attributes defined under the rules of the SEC, his responsibilities are the same as those of the other Audit Committee members. He is not an auditor, does not

perform "field work" and is not a full time employee. The SEC has determined that an audit committee member who is designated as an audit committee financial expert will not be deemed to be an "expert" for any purpose as a result of being identified as an audit committee financial expert.

The Audit Committee is responsible for oversight of management in the preparation of the Bank's financial statements and financial disclosures. The Audit Committee relies on the information provided by management and the external auditor. The Audit Committee does not have the duty to plan or conduct audits to determine whether the Bank's financial statements and disclosures are complete and accurate.

Non-Audit Services

The Board has in place an External Auditor Services Policy which only permits the Independent Auditor to carry out audit services and audit related services which are an extension of the audit services and certain other services pre-approved by the Audit Committee. All other non-audit services are prohibited. The objective of this policy is to avoid prejudicing the independence of the Auditors.

The policy also ensures that the Auditors do not:

- Assume the role of management or act as an employee;
- Become an advocate for the Bank;
- Audit their own work;
- Create a mutual or conflicting interest between the Auditor and the Bank;
- Require an indemnification from the Bank to the Auditor;
- Seek contingency fees; nor
- Have a direct financial or business interest or a material indirect financial or business interest in the Bank or any of its affiliates, or an employment relationship with the Bank or any of its affiliates.

Under the policy, the Auditor shall not provide the following services:

- Bookkeeping or services relating to accounting records or financial statements of the Bank;
- Financial information systems design and implementation;
- Appraisal or valuation services and fairness opinions;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions, including acting as an employee;
- Human resources;
- Broker-dealer, investment adviser or investment banking services;
- Legal services; or
- Expert services unrelated to the audit.

In general terms, the permitted services are:

- Audit services to the Bank or an affiliate, covered by an engagement letter approved by the Audit Committee, financial and statutory audits of affiliates and services connected with the lodgement of statements or documents with ASX, ASIC, APRA, SEC or other regulatory or supervisory bodies;
- Services reasonably related to the performance of the audit services;
- Agreed upon procedures or comfort letters provided by the Auditor to third parties in connection with the Bank's financing or related activities; and
- Other services pre-approved by the Audit Committee.

The SEC has requested that the Bank produce documents and information relating to all services provided by the Bank's external auditors, Ernst & Young, since 1 July 2000, in the context of the US auditor independence rules. The Bank understands that the SEC has made similar requests to certain other Australian companies registered with the SEC and accounting firms.

The Bank is producing the documents and information requested.

Although the Bank cannot predict the nature of any future action if the SEC determines that any services

Corporate Governance (continued)

provided by Ernst & Young did not comply with the SEC's rules and while the SEC could seek sanctions of a type or in amounts not currently known, based on information currently available to the Bank, it does not believe the outcome of the SEC's ongoing inquiry will have a material adverse financial effect on the Commonwealth Bank Group.

Auditor

Ernst & Young was appointed as the Auditor of the Bank at the 1996 Annual General Meeting and continues in that office.

The audit partner from Ernst & Young attends the Annual General Meetings of the Bank and is available to respond to shareholder audit related questions.

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

The Chief Executive Officer is authorised to appoint and remove the chief internal audit executive only after consultation with the Audit Committee.

Risk Management

Risk Committee

The Risk Committee oversees credit, market, and operational 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.

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.

Framework

The Bank has in place an integrated risk management framework to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis.

A full description of the functions of the framework and the nature of the risks is set out in the section of the Annual Report entitled Integrated Risk Management and in Notes 14 and 39 to the Financial Statements.

Nominations Committee

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 independent non executive directors. The Chief Executive Officer attends the meeting by invitation.

In addition to its role in proposing candidates for director appointment for consideration by the Board, the Committee reviews fees payable to non-executive directors and reviews, and advises the Board in relation to Chief Executive Officer succession planning.

Continuous Disclosure

The Corporations Act 2001 and the ASX Listing Rules require that a company discloses to the market matters which could be expected to have a material effect on the price or value of the company's securities. The

Bank's "Guidelines for Communication between the Bank and Shareholders" sets out the processes to ensure that shareholders and the market are provided with full and timely information about the Bank's activities in compliance with continuous disclosure requirements. Management procedures 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.

Ethical Policies

Values Statement

The Bank demands the highest standards of honesty and loyalty from all its people and strong governance within the Bank.

Our values statement – "trust, honesty and integrity" - reflects this standard.

Statement of Professional Practice

The Bank has adopted a code of ethics, known as a Statement of Professional Practice, which sets standards of behaviour required of all employees and directors including:

- To act properly and efficiently in pursuing the objectives of the Bank;
- To avoid situations which may give rise to a conflict of interest;
- 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.

Our People

The Bank is committed to providing fair, safe, challenging and rewarding work, recognising the importance of attracting and retaining high quality staff and consequently, being in a position to provide good service to our customers.

There are various policies and systems in place to enable achievement of these goals, including :

- Fair Treatment Review systems;
- Equal Employment Opportunity policy;
- Occupational Health and Safety Systems;
- Recruitment and selection policies;
- Performance feedback and review processes;
- Career assessment and succession planning;
- Employee share plan; and
- Supporting Professional Development.

Behaviour Issues

The Bank is strongly committed to maintaining an ethical workplace, complying with legal and ethical responsibilities. Policy requires staff to report fraud, corrupt conduct, mal-administration or serious and substantial waste by others. A system has been established which allows staff to remain anonymous, if they wish for reporting of these matters.

The policy has been extended to include reporting of auditing and accounting issues, which will be reported to the Chief Compliance Officer by the Chief Security Officer, who administers the reporting and investigation system. The Chief Security Officer reports any such matters to the Audit Committee, noting the status of resolution and actions to be taken.

Corporate Governance (continued)

Governance Philosophy

The Board has consistently placed great importance on the governance of the Bank, which it believes is vital to the well-being of the corporation. The Bank has adopted a comprehensive framework of Corporate Governance Guidelines which are designed to properly balance performance and conformance and thereby allow the Bank to undertake, in an effective manner, the prudent risk-taking activities which are the basis of its business. The Guidelines and the practices of the Bank comply with all the current best practice recommendations set by the ASX Corporate Governance Council.

US Sarbanes-Oxley Act

On 30 July 2002, a broad US financial reporting and corporate governance reform law, called the Sarbanes-Oxley Act of 2002 ("SOX Act"), was enacted. By its terms, this Act applies to the Group because it has certain securities registered with the SEC under the Securities Exchange Act of 1934 ("Exchange Act").

Under the Exchange Act, the Bank files periodic reports with the SEC, including an annual report on Form 20-F. Pursuant to the requirements of the SOX Act, the SEC has adopted rules requiring that the Group's Chief Executive Officer and Chief Financial Officer personally provide certain certifications with respect to the disclosure contained in the annual report on Form 20-F.

Some of the more significant certifications generally include:

- That based on their knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact and the financial statements and other financial information included within the report fairly present in all material respects the financial condition, results of operations and cash flows of the Group;
- That they have ensured that appropriate disclosure controls and procedures have been put in place such that all material information has been disclosed and made known to them and they have evaluated the effectiveness of those disclosure controls and procedures as of the end of the Group's fiscal year and presented in the annual report on Form 20-F their conclusions about the effectiveness of the disclosure controls and procedures as of the end of the most recent fiscal year;
- That in respect of internal controls over financial reporting they have disclosed to the Group's external auditors and to the Audit Committee of the board of directors all significant deficiencies and material weaknesses in the design or operation of those internal controls over financial reporting which are reasonably likely to adversely affect the Group's ability to record, process, summarise and report financial information, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Group's internal control over financial reporting; and
- The annual report on Form 20-F discloses whether or not there were any changes in internal control over financial reporting during the period covered by the annual report on Form 20-F that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

The Group will in addition to providing these certifications make the following disclosures in its annual report on Form 20-F:

- The Group's Chief Executive Officer and Chief Financial Officer, with the assistance of other members of the Group's management, have evaluated the effectiveness of the Group's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Group's Chief Executive Officer and Chief Financial Officer have concluded that the Group's disclosure controls and procedures are effective.

- The Group's Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in the Group's internal control over financial reporting that have materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

The SOX Act prohibits an issuer from extending or maintaining credit, arranging for the extension of credit, or renewing an extension of credit, in the form of a personal loan, to or for any director or executive officer of the Group, unless an exception is available. Loans maintained by the Group before 30 July 2002 are exempt so long as there is no material modification to any term of the extension of credit or any renewal of the extension of credit. Ordinary course lending that is considered "consumer credit" is in certain circumstances also exempt. Furthermore, in April 2004, the SEC adopted a rule exempting from the prohibition loans made by foreign banks meeting certain requirements.

The Group is also required to disclose in its annual report on Form 20-F for the 2004 financial year, whether it has adopted a written code of ethics applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

Certifications and Disclosures

In respect of this annual report and as at the date of this annual report, the Group's Chief Executive Officer and Chief Financial Officer make the following Sarbanes-Oxley related certifications:

- That they have reviewed the report;
- That based on their knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
- That based on their knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the Group as of, and for, the periods presented in the report;
- That they are responsible for establishing and maintaining disclosure controls and procedures (as defined in the US Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Group and have:
 - designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under their supervision, to ensure that material information relating to the Group, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the report is being prepared;
 - evaluated the effectiveness of those disclosure controls and procedures and presented in this report their conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - disclosed in this report any change in the Group's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting; and
- That they have disclosed, based on their most recent evaluation of internal control over financial reporting, to the Group's auditors and the Audit Committee of the Group's Board of Directors:
 - all significant deficiencies (if any) in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Group's ability to record,

Corporate Governance (continued)

process, summarise and report financial data; and

- any fraud, whether or not material, that involves management or other employees who have a significant role in the Group's internal control over financial reporting.

Evaluation of disclosure controls and procedures

Our Chief Executive Officer and Chief Financial Officer, with the assistance of other members of the Group's management, have evaluated the effectiveness of the Group's disclosure controls and procedures as of 30 June 2004. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have each concluded that the Group's disclosure controls and procedures are effective.

Changes in internal control over financial reporting

No changes in our internal controls over financial reporting occurred during the year ended 30 June 2004 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Material changes in our internal controls over financial reporting will occur from 1 July 2005 with the transition to International Financial Reporting Standards, refer to Note 1 (pp) to the Financial Statements.

Company Secretaries

The details of the Bank's company secretaries, including their experience and qualifications are set out below.

John Hatton has been Company Secretary of the Commonwealth Bank since 1994.

From 1985-1994, he was a solicitor with the Bank's Legal Department.

He has a law degree from Sydney University and was admitted as a solicitor in New South Wales. He is a Fellow of the Chartered Secretaries Australia and a Member of the Australian Institute of Company Directors.

Henry Broekhuijse was appointed a Company Secretary to the Bank in August 2001.

He joined the Commonwealth Bank Legal Department in January 1979 and has approximately 25 years experience as an in-house lawyer.

He has a BA from Sydney University and an LLB from the University of New South Wales. He is a Member of the Law Society of NSW; Australian Corporate Lawyers Association; City of Sydney Law Society; and the Risk Management Association – Australia.

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 2004.

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.

Other Interests: Melbourne Business School (Board of Management), Australian Foundation for Science (Chairman), Australian Farm Institute (Chairman), Australian Institute of Company Directors (Fellow), Australian Institute of Management (Fellow), Australian Academy of Science (Fellow), Australian Academy of Technological Science and Engineering (Fellow), Scouts Australia Victorian Branch (President) and St Vincent's Institute Foundation (Patron).

Mr Ralph is a resident of Victoria. Age 71.

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 Risk and Nominations Committees. He holds a Bachelor's 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 and the former Chairman and Managing Director of Esso Australia Ltd.

Chairman: Worley Group Limited and G2 Therapies Limited.

Director: BHP Billiton Limited, BHP Billiton plc, and Qantas Airways Limited.

Other Interests: Academy of Technological Science (Fellow), Great Barrier Reef Research Foundation (Deputy Chairman), AGSM Advisory Board (Member), and Business Council of Australia (Member).

Dr Schubert is a resident of New South Wales. Age 61.

David V Murray, Managing Director and Chief Executive Officer

Mr Murray has been a member of the Board and Chief Executive Officer since June 1992. He holds a Bachelor of Business, Master of Business Administration, an honorary PhD from Macquarie University and has thirty-seven 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), Asia Pacific Bankers' Club (Member), Business Council of Australia

(Member), and the Financial Sector Advisory Council (Member).

Mr Murray is a resident of New South Wales. Age 55.

N R (Ross) Adler, AO

Mr Adler has been a member of the Board since 1990 and is a member of the Audit and Risk Committees. 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 Ltd and AWL Enterprises Pty Ltd.

Other Interests: Adelaide Festival (Chairman), 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 59.

Reg J Clairs, AO

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

Director: David Jones Ltd and The Cellnet Group.

Deputy Chairman: National Australia Day Council.

Other Interests: Institute of Company Directors (Member).

Mr Clairs is a resident of Queensland. Age 66.

A B (Tony) Daniels, OAM

Mr Daniels has been a member of the Board since March 2000 and is a member of the Remuneration and Risk Committees. 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. He has also worked with government in superannuation, competition policy and export facilitation.

Director: Australian Gas Light Company 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 69.

Colin R Galbraith, AM

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, Lawyers.

Chairman: BHP Billiton Community Trust.

Director: GasNet Australia (Group) and OneSteel Limited.

Directors' Report (continued)

Other Interests: Council of Legal Education in Victoria (Honorary Secretary), CARE Australia (Director) and Royal Melbourne Hospital Neuroscience Foundation (Trustee).

Mr Galbraith is a resident of Victoria. Age 56.

S Carolyn H Kay

Ms Kay has been a member of the Board since March 2003 and is also a member of the Risk Committee. She holds Bachelor Degrees in Law and Arts and a Graduate Diploma in Management. She has extensive experience in international finance. She was a senior executive at Morgan Stanley in London and Melbourne for 10 years and prior to that she worked in international banking and finance both as a lawyer and banker in London, New York and Melbourne.

Director: Mayne Group Limited and Deputy Chair Victorian Funds Management Corporation.

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

Ms Kay is resident in Victoria. Age 42.

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

Mr Kent is a resident of Western Australia. Age 68.

Fergus D Ryan

Mr Ryan has been a member of the Board since March 2000 and is a member of the Audit and Risk Committees. 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 November 2002, he was Strategic Investment Co-ordinator and Major Projects Facilitator for the Commonwealth Government.

Member: Prime Minister's Community Business Partnership and Council of the National Library of Australia.

Director: Australian Foundation Investment Company Limited and Clayton UTZ.

Other Interests: Committee for Melbourne (Patron), Pacific Institute (Counsellor) and Special Committee for Mature Age Workers (Chairman).

Mr Ryan is a resident of Victoria. Age 61.

Frank J Swan

Mr Swan has been a member of the Board since July 1997 and is a member of the Risk and Nominations Committees.

He holds a Bachelor of Science degree and has twenty three years senior management experience in the food and beverage industries.

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

Director: National Foods Limited.

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

Mr Swan is a resident of Victoria. Age 63.

Barbara K Ward

Ms Ward has been a member of the Board since 1994 and is a member of the Audit and Risk Committees. She holds a Bachelor of Economics and Master of Political Economy and has experience in policy development and public administration as a senior ministerial adviser and experience in the transport and aviation industries, most recently as Chief Executive of Ansett Worldwide Aviation Services.

Chairperson: Country Energy.

Director: Lion Nathan Limited, Allens Arthur Robinson, Multiplex Limited and Multiplex Funds Management Limited.

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

Ms Ward is a resident of New South Wales. Age 50.

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 ⁽¹⁾	No. of Meetings Attended
J T Ralph	11	11
J M Schubert	11	11
D V Murray	11	11
N R Adler	11	11
R J Clairs	11	11
A B Daniels	11	11
C R Galbraith	11	11
S C Kay	11	11
W G Kent	11	11
F D Ryan	11	10
F J Swan	11	9
B K Ward	11	9

⁽¹⁾ The number of meetings held during the time the Director held office during the year.

DIRECTOR	COMMITTEE MEETINGS					
	Risk Committee		Audit Committee		Remuneration Committee	
	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
J T Ralph	8	8			8	8
J M Schubert ⁽²⁾	4	4	7	7		
D V Murray	8	8				
N R Adler ⁽²⁾	4	3	7	7		
R J Clairs ⁽²⁾	4	4			8	8
A B Daniels ⁽²⁾	4	4			8	8
C R Galbraith	8	8				
S C Kay	8	8				
W G Kent	8	8				
F D Ryan ⁽²⁾	4	4	7	7		
F J Swan	8	7				
B K Ward ⁽²⁾	4	3	7	7		

DIRECTOR	NOMINATIONS COMMITTEE	
	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
J T Ralph	2	2
J M Schubert	2	2
D V Murray	2	2
F J Swan	2	2

⁽¹⁾ The number of meetings held during the time the Director was a member of the relevant committee.

⁽²⁾ Directors appointed to Risk Committee in April 2004.

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:

(i) Banking

The Group provides a full range of retail banking services including housing loans, credit cards, personal loans, savings and cheque accounts, and demand and term deposits. The Group has leading domestic market shares in home loans, personal loans, retail deposits and discount stockbroking, and is one of Australia's largest issuers of credit cards. The Group also offers a full range of commercial products including business loans, equipment and trade finance, and rural and agribusiness products. For our corporate and institutional clients, we offer a broad range of structured finance, equities and advisory solutions, financial markets and equity markets solutions, transactions banking, and merchant acquiring.

The Group also has full service banking operations in New Zealand and Fiji. The Group has wholesale banking operations in London, New York, Hong Kong, Singapore and Tokyo.

(ii) Funds Management

The Group is Australia's largest funds manager and largest retail funds manager in terms of its total value of funds under administration. The Group's funds management business is managed as part of the Investment and Insurance Services division. This business manages 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.

(iii) Insurance

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

Directors' Report (continued)

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 2004 was \$2,572 million (2003: \$2,012 million).

The net operating profit for the year ended 30 June 2004 after tax, and before goodwill amortisation, appraisal value uplift, shareholder investment returns and costs related to initiatives including Which new Bank was \$3,078 million. This is an increase of \$404 million or 15% over the year ended 30 June 2003.

On 19 September 2003, the Group launched its Which new Bank customer service vision. This is a three year transformation program and involves the Bank in additional expenditure in the key areas of staff training and skilling, systems and process simplification, and technology. In the period to 30 June 2004 such expenses and provisions have totalled \$749 million and principally comprise redundancies, expensing of previously capitalised software of \$219 million, process improvements and branch refurbishment. The outstanding provision for Which new Bank costs at 30 June 2004 is \$208 million.

The principal contributing factors to this profit increase were a growth in net interest income reflecting continued strong housing loan growth together with growth in commissions, and a decrease in charge for bad and doubtful debts. Underlying operating expenses have increased by 4% over the year, primarily due to salary increases and increases in volume related expenses. Funds management and insurance income rose which reflects the effect of rising equity markets for most of the year and improved underwriting and claims management.

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 104 cents per share amounting to \$1,315 million. The dividend will be payable on 24 September 2004 to shareholders on the register at 5pm on 20 August 2004. Dividends paid since the end of the previous financial year:

- As declared in last year's report, a fully franked final dividend of 85 cents per share amounting to \$1,066 million was paid on 8 October 2003. The payment comprised cash disbursements of \$865 million with \$201 million being reinvested by participants through the Dividend Reinvestment Plan; and
- In respect of the current year, a fully franked interim dividend of 79 cents per share amounting to \$996 million was paid on 30 March 2004. The payment comprised cash disbursements of \$808 million with \$188 million being reinvested by participants through the Dividend Reinvestment Plan.
- Additionally, quarterly dividends totalling \$37 million for the year were paid on the PERLS preference shares; \$15 million on the PERLS II (for distributions in March 2004 and June 2004); \$40 million on the Trust Preferred Securities; and \$9 million on the ASB Capital preference shares.

Review of Operations

An analysis of operations for the financial year is set out in the Highlights on pages 5 to 8 and business analysis on pages 9 to 25.

Changes in State of Affairs

During the year, the Bank made significant progress in implementing a number of strategic initiatives under the Which new Bank program launched in September 2003.

The program is designed to ensure a better service outcome for the Bank's customers.

The major initiatives undertaken during the year included:

- Changes to the home loan process, which make applying for a new loan much simpler and easier;
- The refurbishment of 125 branches to a modern layout conducive to effective customer service;
- A continued emphasis on reducing customer waiting times and changes to frontline customer service roles designed to ensure a greater proportion of staff time is spent serving customers; and
- A restructure of funds management back office services to reduce costs and provide simpler processes.

In May 2004 the Bank announced the merger of its Premium Financial Services and Institutional and Business Services divisions to form Premium Business Services. This merger did not result in any significant change in the nature of the business activities.

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

Events Subsequent to Balance Date

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

Future Developments and Results

Major developments, which may affect the operations of the Group in subsequent financial years, are referred to in the Chairman's Statement on page 3. 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 ("EOP") 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, the EOP was discontinued and shareholders approved the establishment of the Equity Reward Plan ("ERP"). The last grant of options to be made under the ERP was the 2001 grant, with options being granted 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 in the 2001 grant. During the financial year, the performance hurdles for the August 1999 and September 2000 EOP grants were met. During the financial year and for the period to the date of this report 1,837,600 shares were allotted by the Bank consequent to the exercise of options granted under the Executive Option Plan and Equity Reward Plan. Full details of the Plan are disclosed in Note

Directors' Report (continued)

29 to the financial statements. No options have been allocated since the beginning of the 2001/02 financial year.

The names of persons who currently hold options in the Plan are entered in the register of option holders 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 previously granted to the Chief Executive Officer, being a director, refer to Note 44 to the Financial Statements.

Directors' Interests in Contracts

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

Directors' and Officers' Indemnity

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

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

The Directors, as named on pages 41 to 42 of this report, and the Secretaries of the Commonwealth Bank, being J D Hatton and H J Broekhuijse are indemnified under Article 19 as are all the executive officers 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.

Remuneration

This report outlines the remuneration arrangements for Directors and executives of the Bank. In compiling this report, the Bank has taken into account the requirements of the Government's Corporate Law and Economic Reform Program ("CLERP 9") which is to take effect for reporting periods commencing from 1 July 2004. Whilst the Bank is not required to report under the new CLERP 9 framework for the year ended 30 June 2004, the Bank believes that this report will assist in meeting the intent of these reforms and will ensure that these requirements are met for future reporting periods.

Remuneration Committee

The Bank's remuneration arrangements are overseen by the Remuneration Committee of the Board. The Committee considers changes in remuneration policy likely to have a material impact on the Bank and is informed of leadership performance, legislative compliance in employment issues, industrial agreements and incentive plans operating across the Bank.

The Committee also considers senior appointments and remuneration arrangements for senior management. The remuneration arrangements for the CEO and his direct reports are approved by the full Board.

The policy of the Board is that the Committee shall consist entirely of independent Non-Executive Directors. The Chief Executive Officer attends Committee meetings by invitation but does not attend in relation to matters that can affect him.

The Committee engages an external consultant to advise it directly in relation to the remuneration of executives.

Non-Executive Director Remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined, is divided between the directors as they agree. The policy of the Board is that the aggregate amount should be set at a level which provides the Bank with the necessary degree of flexibility to enable it to attract and retain the services of directors of the highest calibre. The latest determination was at the Annual General Meeting held on 28 October 1999 when shareholders approved an aggregate remuneration of \$1,500,000 per year. The Nominations Committee reviews the fees payable to Non-Executive Directors. 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 application of 20% of their annual fees. Details of this Plan were set out in the Notice of Meeting to the 2000 Annual General Meeting.

Under the Directors' Retirement Allowance Scheme, which was approved by shareholders at the 1997 Annual General Meeting, Directors accumulate a retirement benefit on a pro-rata basis to a maximum of four years' total emoluments after twelve years' service. No benefit accrues until the Director has served three years on the Board. In 2002 the Board decided to discontinue the Directors' Retirement Allowance Scheme without affecting the entitlements of then existing Non-Executive Directors. After that time new Directors are not entitled to participate in the scheme. As part of a proposed arrangement relating to remuneration, the Board will be seeking shareholder approval at the 2004 Annual General Meeting to terminate accrual of further benefits under the Scheme and freeze the entitlements of current members until their respective retirements. This approach will result in remuneration arrangements being expressed in a more transparent manner which does not include retirement benefits (other than compulsory superannuation).

Remuneration Principles and Structure

The Bank's remuneration systems complement and reinforce its leadership and succession planning systems.

The Bank's remuneration framework aims to reward executives with a mix of remuneration appropriate to their level in the organisation and incorporates a significant weighting towards variable ('at risk') pay linked to performance, both short term and long term. This focus aims to:

- Reward executives for bankwide, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders;

Directors' Report (continued)

- Link executive reward with the strategic goals and performance of the Bank; and
- Ensure total remuneration is competitive by market standards.

In determining appropriate levels of executive remuneration, the Remuneration Committee engaged an external consultant to provide independent advice both in the form of a written report detailing market levels of remuneration for comparable executive roles as well as the participation of the independent consultant in the meeting from which the Committee makes its recommendations to the Board.

Remuneration and terms and conditions of employment are specified in an individual contract of employment with each executive which is signed by the executive and the Bank. Remuneration of the Bank's executives consists of three key elements:

- Fixed Remuneration;
- Short Term Incentive ("STI"); and
- Long Term Incentive ("LTI").

The relationship of fixed remuneration and variable pay (potential short term and long term incentives) is established for each level of executive management by the Remuneration Committee.

Currently, the variable component of remuneration is in the general range of around 35% to 80% of an executive's total potential remuneration depending on their level in the organisation. As a result of the review with the external consultant of developments in the market, and benchmarking against peer organisations, the distribution of total potential remuneration for executives is being modified in the current year so as to increase the percentage for the STI component and decrease the percentage for the LTI component. For senior executives, including the CEO, the maximum STI potential available will generally be an amount equal to fixed remuneration.

The structure for some specialists differs from that which applies generally to executive management. With specialists, a greater proportion of the variable component of remuneration may be in short term rather than long term incentives but the overall mix of remuneration is still heavily weighted towards 'at risk' pay.

Fixed Remuneration

Fixed remuneration is competitively set so that the Bank can attract, motivate and retain high calibre local and international executive staff.

Fixed remuneration is reviewed annually by the Remuneration Committee through a process that considers bankwide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation.

Variable Pay – Short Term Incentive ("STI")

Actual STI payments for executives depend on the extent to which operating targets set at the beginning of the financial year are met.

These targets consist of a number of Key Result Areas ("KRAs") covering both financial and non-financial measures of performance. Included are measures such as contribution to net profit after tax, customer service, risk management, product management, and leadership/team contribution.

Depending on the executive's level within the organisation, any actual STI payments received are based on a combination of bankwide, business unit and individual performance.

On an annual basis, after consideration of performance against KRAs, an overall performance rating for the Bank and each individual business unit is approved by the Remuneration Committee. Individual performance is assessed by the executive's manager based on the Bank's performance management system.

Executives who are not meeting the expectations of their role will generally not receive a payment.

The aggregate of annual STI payments available for executives across the Bank is subject to the approval of the Remuneration Committee. In the case of the Chief Executive Officer and his senior direct reports, individual payments are subject to the approval of the Board.

STI payments to executives are usually delivered in two components:

- Fifty percent made as an immediate cash payment; and
- Fifty percent deferred in the form of shares in the Bank.

Shares are acquired under the mandatory component of the Bank's Equity Participation Plan, more details of which may be found in Note 29 to the Financial Statements. The shares acquired vest in two equal instalments of one and two years respectively. Dividends on the shares are not paid to the executive unless and until the shares vest. Generally, the executive will need to be an employee of the Bank at the relevant vesting date to receive the shares.

Variable Pay – Long Term Incentive ("LTI")

LTI grants to executives are delivered in the form of Reward Shares under the Bank's Equity Reward Plan ("ERP").

LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Bank's performance against the relevant hurdle. Participation is thus restricted to executives who, in a reporting sense, are no more than three levels removed from the Chief Executive Officer.

The quantum of grants made to each executive depends on their level within the organisation and has regard to the desired mix between fixed remuneration, short term and long term incentive as well as the performance and potential of the individual executive.

No value will accrue to the executive unless the Bank's Total Shareholder Return ("TSR") at least meets the median of a peer comparator group of companies. To receive the full value of the LTI grant, the Bank's performance must be in the top quartile of the peer group. The table over the page provides a summary of the ERP grants that were in operation during the 2003/04 year

Directors' Report (continued)

	2000 Grant	2001 Grant	2002 Grant	2003 Grant
Commencement Date	13 Sep 2000	3 Sep 2001	2 Sep 2002	1 Sep 2003
First Possible Vesting Date	14 Sep 2003	4 Sep 2004	3 Sep 2005	2 Sep 2006
Final Possible Vesting Date	13 Sep 2005	3 Sep 2006	2 Sep 2007	1 Sep 2008
Performance Hurdle	TSR vs Peer Group. If the performance hurdle is not reached after three years the options may nevertheless be exercisable or the shares vest, only where the hurdle is subsequently reached within five years from the commencement date.		TSR vs Peer Group. 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. The vesting percentage will be calculated by reference to the rating at that time. 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%.	
Vesting Scale	< Weighted Average of Peers = 0% > Weighted Average of Peers = 100%		< 50 th percentile = NIL 50 th – 67 th percentile = 50% - 75% 68 th – 75 th percentile = 76% - 100%	
Status as at 30 June 2004	Vested on 31 Mar 04	Not yet vested	Not yet vested	Not yet vested
Peer Group (GIO and BankWest were included prior to 19/01/00 and 26/08/03 respectively)	<ul style="list-style-type: none"> ▪ Adelaide Bank ▪ Australia & New Zealand Banking Group ▪ AMP ▪ AXA ▪ Bank of Queensland ▪ Bendigo Bank ▪ IAG ▪ Macquarie Bank ▪ National Australia Bank ▪ St George ▪ Suncorp-Metway ▪ QBE Insurance ▪ Westpac Banking Corporation 			

The use of a relative TSR based hurdle is currently market best practice as it ensures an alignment between comparative shareholder return and reward for executives.

In assessing whether the performance hurdles for each grant have been met, the Bank receives independent data from Standard & Poors which provides both the Bank's TSR growth from the commencement of each grant and that of the peer group (excluding the Bank). The Bank's performance against the hurdle is then determined as follows:

- For grants prior to 2002, the TSR of each company in the peer group is weighted by market capitalisation to form an index against which the Bank's TSR is compared; and
- For grants in 2002 and 2003, each company in the peer group and the Bank is ranked in order of TSR growth from the commencement of each grant. The Bank's percentile ranking is determined by aggregating the weighting within the peer group (based on market capitalisation) of each company ranked below the Bank.

The peer group chosen for comparison reflects the Bank's current business mix.

Further details of the ERP may be found in Note 29 to the Financial Statements.

Severance Arrangements

The Bank's executive contracts generally provide for severance payments of up to six months in the case of retrenchment. The contracts generally provide for a four week notice period.

On exit from the Bank, executives are entitled to receive their statutory entitlements of accrued annual and

long service leave as well as accrued superannuation benefits.

Executives who leave the Bank during a given performance year (i.e. 1 July to 30 June) will generally not receive an STI payment for that year except in the circumstances of retrenchment, retirement or death. In those circumstances a pro-rated payment may be based on the length of service during the performance year.

Deferred shares from previous STI grants are usually forfeited where the executive resigns or is dismissed. In circumstances of retrenchment, retirement and death any unvested shares will generally vest immediately.

LTI grants are generally forfeited where the executive resigns or is dismissed. In circumstances of retrenchment, retirement or death the executive or their estate may, at Board discretion, retain a pro-rated grant of long term incentives. Vesting of any long term incentives retained by the executive will still be subject to the performance hurdle relevant to that grant.

Chief Executive Officer Remuneration

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, with remuneration subject to review, from time to time, by the Board.

Mr Murray's remuneration arrangements are in line with other executives except in relation to the need to seek shareholder approval of LTI grants.

At the 2004 Annual General Meeting ("AGM"), the Board will be seeking the approval of shareholders for a

Directors' Report (continued)

maximum of 250,000 shares to be allocated to Mr Murray under the ERP in two tranches prior to the 2006 AGM. Mr Murray was granted 110,000 shares in 2002 and 90,000 shares in 2003 from the 200,000 shares approved at the 2001 AGM. At the 2001 AGM, shareholders also approved 1,000,000 options to be granted to Mr Murray. In line with the Bank's decision to cease granting options to executives in 2002 none of the 1,000,000 options approved by shareholders were allocated and it is not intended to allocate these options.

The severance arrangements in Mr Murray's contract, other than for misconduct, provide for a notice period of six months and a pro-rata payment of the average of the previous three years short term incentive payment, payable in the event of termination by the Bank, after 1 May but before 30 June each year. In such circumstances, Mr Murray may exercise all vested options and obtain vested shares (including those that vest within two years from the Termination Date) within a period of three years from the Termination Date.

Individual Remuneration details for Directors and Specified Executives

The CLERP 9 reforms mentioned earlier in this report require that individual remuneration details of Directors and Specified Executives be included in this

report. These requirements duplicate those of Accounting Standard AASB 1046 which requires these same details to be set out in the notes to the accounts. To avoid duplication, individual remuneration details of Directors and Specified Executives are set out in Note 44.

Incorporation of Additional Material

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

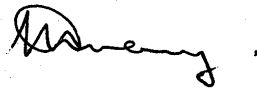
Roundings

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 (as amended by ASIC Class Order 04/667).

Signed in accordance with a resolution of the Directors.



J T Ralph, AC
Chairman



D V Murray
Managing Director and Chief Executive Officer

11 August 2004

Five Year Financial Summary

	2004 \$M	2003 \$M	2002 \$M	2001 \$M	2000 \$M
Financial Performance					
Net interest income	5,410	5,026	4,710	4,474	3,719
Other operating income	5,081	4,373	4,358	4,350	2,420
Total operating income	10,491	9,399	9,068	8,824	6,139
Charge for bad and doubtful debts	276	305	449	385	196
Operating expenses:					
Comparable business	5,500	5,312	5,201	5,170	3,407
Initiatives including Which New Bank	749	239	-	-	-
	6,249	5,551	5,201	5,170	3,407
Operating profit before goodwill amortisation, appraisal value uplift, abnormal items and income tax expense	3,966	3,543	3,418	3,269	2,536
Income tax expense	(1,262)	(958)	(916)	(993)	(820)
Outside equity interests	(9)	(6)	(1)	(14)	(38)
Net profit after tax ("cash basis")	2,695	2,579	2,501	2,262	1,678
Abnormal items	-	-	-	-	967
Income tax credit on abnormal items	-	-	-	-	20
Appraisal value uplift/(reduction)	201	(245)	477	474	92
Goodwill amortisation	(324)	(322)	(323)	(338)	(57)
Operating profit after income tax attributable to members of the Bank	2,572	2,012	2,655	2,398	2,700
Contributions to profit (after tax)					
Banking	2,675	2,376	2,067	1,793	1,513
Funds management	274	233	368	323	36
Insurance	129	65	33	20	116
Profit on operations ("underlying basis") ⁽¹⁾	3,078	2,674	2,468	2,136	1,665
Shareholder investment returns	152	73	33	126	13
Initiatives including Which New Bank	(535)	(168)	-	-	-
Profit on operations ("cash basis")	2,695	2,579	2,501	2,262	1,678
Goodwill amortisation	(324)	(322)	(323)	(338)	(57)
Appraisal value uplift/(reduction)	201	(245)	477	474	92
Abnormal income/(expense) after tax	-	-	-	-	987
Operating profit after income tax	2,572	2,012	2,655	2,398	2,700
Financial Position					
Loans, advances and other receivables	189,391	160,347	147,074	136,059	132,263
Total assets	305,995	265,110	249,648	230,411	218,259
Deposits and other public borrowings	163,177	140,974	132,800	117,355	112,594
Total liabilities	281,110	242,958	228,592	210,563	199,824
Shareholders' equity	22,405	20,024	19,030	18,393	17,472
Net tangible assets	17,700	14,995	13,639	12,677	11,942
Risk weighted assets	169,321	146,808	141,049	138,383	128,484
Average interest earning assets	214,187	188,270	170,634	160,607	129,163
Average interest bearing liabilities	197,532	174,737	157,105	145,978	117,075
Assets (on balance sheet)					
Australia	252,652	221,248	208,673	196,918	187,452
New Zealand	35,059	27,567	24,579	20,208	16,661
Other	18,284	16,295	16,396	13,285	14,146
Total Assets	305,995	265,110	249,648	230,411	218,259

⁽¹⁾ "Underlying basis" excludes shareholder investment returns, initiatives including Which new Bank, goodwill amortisation, appraisal value uplift (reduction) and abnormal items.

Five Year Financial Summary (continued)

	2004	2003	2002	2001	2000
Shareholder Summary					
Dividends per share (cents) - fully franked	183	154	150	136	130
Dividend cover (times) - statutory	1.1	0.9	1.4	1.4	1.2
Dividend cover (times) - cash	1.1	1.3	1.3	1.3	1.6
Dividend cover (times) - underlying	1.3	1.4	1.3	1.2	1.2
Earnings per share (cents)					
Basic					
before abnormal items	196.9	157.4	209.6	189.6	184.8
after abnormal items	196.9	157.4	209.6	189.6	291.2
cash basis ⁽¹⁾	206.6	202.6	197.3	178.8	181.0
Underlying basis ⁽²⁾	237.1	210.2	194.6	168.8	179.6
Fully Diluted					
before abnormal items	196.8	157.3	209.3	189.3	184.4
after abnormal items	196.8	157.3	209.3	189.3	290.7
cash basis ⁽¹⁾	206.5	202.5	197.0	178.6	180.6
underlying basis ⁽²⁾	237.0	210.0	194.3	168.5	179.2
Dividend payout ratio (%) ⁽³⁾					
before abnormal items	93.5	97.7	71.7	71.2	83.5
after abnormal items	93.5	97.7	71.7	71.2	53.0
cash basis ⁽¹⁾	89.1	75.9	76.2	75.5	85.3
underlying basis ⁽²⁾	77.6	73.3	77.2	80.2	85.9
Net tangible assets per share (\$)	12.2	11.4	10.3	9.6	9.2
Weighted average number of shares (basic) (m)	1,256	1,253	1,250	1,260	927
Weighted average number of shares (fully diluted)(m)	1,257	1,254	1,252	1,262	929
Number of shareholders	714,901	746,073	722,612	709,647	788,791
Share prices for the year (\$)					
Trading high	33.54	32.75	34.94	34.15	27.95
Trading low	27.00	23.05	24.75	26.18	22.54
End (closing price)	32.58	29.55	32.93	34.15	27.69
Performance Ratios (%)					
Return on average shareholders' equity ⁽⁴⁾⁽⁵⁾					
before abnormal items	13.0	10.7	14.7	13.5	22.1
after abnormal items	13.0	10.7	14.7	13.5	34.8
cash basis	13.2	13.3	13.1	12.0	19.1
underlying basis	15.1	13.8	12.9	11.4	18.9
Return on average total assets ⁽⁴⁾					
before abnormal items	0.9	0.8	1.1	1.1	1.1
after abnormal items	0.9	0.8	1.1	1.1	1.7
cash basis	0.9	1.0	1.0	1.0	0.9
underlying basis	1.1	1.0	1.0	1.0	0.9
Capital adequacy - Tier 1	7.43	6.96	6.78	6.51	7.49
Capital adequacy - Tier 2	3.93	4.21	4.28	4.18	4.75
Deductions	(1.11)	(1.44)	(1.26)	(1.53)	(2.49)
Capital adequacy – Total	10.25	9.73	9.80	9.16	9.75
Net interest margin	2.53	2.67	2.76	2.78	2.88
Other Information (numbers)					
Full time staff equivalent ⁽⁶⁾	36,296	35,845	37,245	37,460	39,631
Branches/service centres (Australia)	1,012	1,014	1,020	1,066	1,441
Agencies (Australia)	3,866	3,893	3,936	3,928	4,020
ATMs (Proprietary)	3,109	3,116	3,049	2,931	3,092
EFTPOS terminals	126,049	129,959	126,613	122,074	116,064
EzyBanking	815	760	730	659	603
Productivity					
Total Operating Income per full-time (equivalent) employee (\$)	278,047	262,212	262,856	235,558	198,479
Staff Expense/Total Operating Income (%)	24.3	26.1	26.4	26.7	27.8
Total Operating Expenses ⁽⁷⁾ /Total Operating Income (%)	59.6	59.1	57.4	58.6	57.2

(1) '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.

(2) 'Underlying earnings' for the purpose of these financial statements is defined as net profit after tax and before shareholder investment returns, initiatives including Which new Bank, abnormal items, goodwill amortisation and life insurance and funds management appraisal value uplift.

(3) Dividends paid divided by earnings.

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

Five Year Financial Summary (continued)

- (5) 2004 and 2003 shareholders' equity includes retained earnings before provision for final dividend of \$ 1,315 million and \$1,066 million respectively. Prior periods' return on average shareholders' equity – cash basis and underlying basis have been restated to exclude the provision for final dividend.
- (6) Staff numbers include all permanent full time staff, part time staff equivalents and external contractors employed by third party agencies.
- (7) 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.

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Statements of Financial Performance

for the year ended 30 June 2004

	Note	2004 \$M	2003 \$M	GROUP 2002 \$M	2004 \$M	BANK 2003 \$M
Interest income	2	13,287	11,528	10,455	11,053	9,477
Interest expense	2	7,877	6,502	5,745	6,649	5,336
Net interest income		5,410	5,026	4,710	4,404	4,141
Other income:						
Revenue from sale of assets		943	128	718	1,398	67
Written down value of assets sold		(874)	(106)	(628)	(1,823)	(52)
Other		2,777	2,605	2,462	3,737	3,339
Net banking operating income		8,256	7,653	7,262	7,716	7,495
Funds management fee income including premiums	3	1,175	1,149	1,083	-	-
Investment revenue	3	1,967	8	(393)	-	-
Claims and policyholder liability expense		(1,809)	(91)	457	-	-
Net funds management operating income		1,333	1,066	1,147	-	-
Premiums and related revenue	3	1,012	1,131	866	-	-
Investment revenue	3	840	620	293	-	-
Claims and policyholder liability expense		(950)	(1,071)	(500)	-	-
Insurance margin on services operating income		902	680	659	-	-
Total net operating income before appraisal value uplift/(reduction)		10,491	9,399	9,068	7,716	7,495
Charge for bad and doubtful debts	2,13	276	305	449	263	266
Operating expenses:						
Comparable business	2	5,500	5,312	5,201	4,226	3,997
Initiatives including Which new Bank ⁽¹⁾	2	749	239	-	725	239
	2	6,249	5,551	5,201	4,951	4,236
Appraisal value uplift/(reduction)	34	201	(245)	477	-	-
Goodwill amortisation		(324)	(322)	(323)	(186)	(186)
Profit from ordinary activities before income tax		3,843	2,976	3,572	2,316	2,807
Income tax expense	5	1,262	958	916	669	708
Profit from ordinary activities after income tax		2,581	2,018	2,656	1,647	2,099
Outside equity interests in net profit		(9)	(6)	(1)	-	-
Net profit attributable to members of the Bank		2,572	2,012	2,655	1,647	2,099
Foreign currency translation adjustment		(8)	(129)	(146)	10	(7)
Revaluation of properties		54	3	(1)	43	-
Total valuation adjustments		46	(126)	(147)	53	(7)
Total changes in equity other than those resulting from transactions with owners as owners		2,618	1,886	2,508	1,700	2,092
Cents per share						
Earnings per share based on net profit distributable to members of the Bank:						
Basic	7	196.9	157.4	209.6		
Fully diluted	7	196.8	157.3	209.3		
Dividends per share attributable to shareholders of the Bank:						
Ordinary shares	6	183	154	150		
Preference shares (issued 6 April 2001)	6	1,065	1,019	970		
Other equity instruments (issued 6 August 2003)		7,306	-	-		
Other equity instruments (issued 6 January 2004)		402	-	-		
		\$M	\$M	\$M		
Net Profit after Income Tax comprises:						
Net Profit after Income Tax ("underlying basis")		3,078	2,674	2,468		
Shareholder investment returns		152	73	33		
Initiatives including Which new Bank ⁽¹⁾		(535)	(168)	-		
Net Profit after Income Tax ("cash basis")		2,695	2,579	2,501		
Appraisal value uplift/(reduction)		201	(245)	477		
Goodwill amortisation		(324)	(322)	(323)		
Net Profit after Income Tax ("statutory basis")		2,572	2,012	2,655		

⁽¹⁾ June 2004 results reflects the Which new Bank program, while prior year includes strategic initiatives undertaken and the cost of the June 2002 ESAP paid in October 2002.

Statements of Financial Position

as at 30 June 2004

	Note	2004 \$M	GROUP 2003 \$M	2004 \$M	BANK 2003 \$M
Assets					
Cash and liquid assets	8	6,453	5,575	6,485	5,356
Receivables due from other financial institutions	9	8,369	7,066	7,068	5,436
Trading securities	10	14,896	10,435	12,877	8,072
Investment securities	11	11,447	11,036	6,626	6,831
Loans, advances and other receivables	12	189,391	160,347	154,139	131,537
Bank acceptances of customers		15,019	13,197	15,160	13,521
Insurance investment assets	16	28,942	27,835	-	-
Deposits with regulatory authorities	17	38	23	4	2
Shares in and loans to controlled entities	18	-	-	23,677	23,559
Property, plant and equipment	19	1,204	821	722	608
Investment in associates	42	239	287	220	252
Intangible assets	20	4,705	5,029	2,522	2,708
Other assets	21	25,292	23,459	18,849	16,748
Total Assets		305,995	265,110	248,349	214,630
Liabilities					
Deposits and other public borrowings	22	163,177	140,974	142,469	122,946
Payables due to other financial institutions	23	6,641	7,538	6,611	7,504
Bank acceptances		15,019	13,197	15,160	13,521
Due to controlled entities		-	-	14,176	11,308
Provision for dividend	6	14	12	13	12
Income tax liability	24	811	876	690	527
Other provisions	25	997	819	819	684
Insurance policyholder liabilities	34	24,638	23,861	-	-
Debt issues	26	44,042	30,629	24,449	16,684
Bills payable and other liabilities	27	19,140	19,027	17,888	17,456
		274,479	236,933	222,275	190,642
Loan Capital	28	6,631	6,025	7,338	5,937
Total Liabilities		281,110	242,958	229,613	196,579
Net Assets		24,885	22,152	18,736	18,051
Shareholders' Equity					
Share capital:					
Ordinary share capital	29	13,359	12,678	13,359	12,678
Preference share capital	29	687	687	687	687
Other equity instruments	29	1,573	-	737	-
Reserves		3,946	3,850	2,148	2,095
Retained profits		2,840	2,809	1,805	2,591
Shareholders' equity attributable to members of the Bank		22,405	20,024	18,736	18,051
Outside equity interests:					
Controlled entities	30	304	304	-	-
Insurance statutory funds and other funds	30	2,176	1,824	-	-
Total outside equity interests		2,480	2,128	-	-
Total Shareholders' Equity		24,885	22,152	18,736	18,051

Statements of Changes in Shareholders' Equity

for the year ended 30 June 2004

	Note	2004 \$M	2003 \$M	GROUP 2002 \$M	2004 \$M	BANK 2003 \$M
Ordinary Share Capital	29					
Opening balance		12,678	12,665	12,455	12,678	12,665
Buy back		(213)	-	-	(213)	-
Buy back for dividend reinvestment plan		-	(361)	(158)	-	(361)
Dividend reinvestment plan		389	361	329	389	361
Employee share ownership schemes		38	13	39	38	13
Share purchase plan		467	-	-	467	-
Closing balance		13,359	12,678	12,665	13,359	12,678
Preference Share Capital	29					
Opening balance		687	687	687	687	687
Closing balance		687	687	687	687	687
Other Equity Instruments	29					
Opening balance		-	-	-	-	-
Issue of instruments		1,573	-	-	737	-
Closing balance		1,573	-	-	737	-
Retained profits						
Opening balance		2,809	1,452	1,160	2,591	1,402
Reversal of provision for final dividend at 30 June 2002 (on adoption of AASB 1044)		-	1,027	-	-	1,027
Share buy back		(319)	-	-	(319)	-
Transfers from reserves		142	250	250	-	-
Operating profit attributable to members of Bank		2,572	2,012	2,655	1,647	2,099
Total available for appropriation		5,204	4,741	4,065	3,919	4,528
Transfers to reserves		(201)	-	(700)	-	(9)
Interim dividend - cash component		(808)	(699)	(693)	(808)	(699)
Interim dividend - dividend reinvestment plan		(188)	(166)	(159)	(188)	(166)
Provision for final dividend - cash component		-	-	(1,027)	-	-
Payment of final dividend - cash component		(865)	(832)	-	(865)	(832)
Payment of final dividend - dividend reinvestment plan		(201)	(195)	-	(201)	(195)
Other dividends		(101)	(40)	(34)	(52)	(36)
Closing balance		2,840	2,809	1,452	1,805	2,591
Reserves						
General Reserve						
Opening balance		3,751	3,998	3,548	570	570
Appropriation from profits		201	-	700	-	-
Transfer to retained profits		(142)	(247)	(250)	-	-
Closing balance		3,810	3,751	3,998	570	570
Capital Reserve						
Opening balance		289	289	289	1,531	1,531
Reversal of revaluation deficit on sale of property		(9)	-	-	-	-
Closing balance		280	289	289	1,531	1,531
Asset Revaluation Reserve						
Opening balance		7	4	5	-	-
Revaluation of investments and properties		54	3	(1)	43	-
Closing balance		61	7	4	43	-
Dividend Reinvestment Plan Reserve						
Opening balance		-	-	168	-	-
Conversion to ordinary share capital and cash dividend		-	-	(168)	-	-
Closing balance		-	-	-	-	-
Foreign Currency Translation Reserve						
Opening balance		(197)	(65)	81	(6)	(8)
Currency translation adjustments		(8)	(129)	(146)	10	(7)
Transfer to retained profits		-	(3)	-	-	9
Closing balance		(205)	(197)	(65)	4	(6)
Total Reserves		3,946	3,850	4,226	2,148	2,095
Shareholders' Equity Attributable to Members of the Bank		22,405	20,024	19,030	18,736	18,051

Statements of Cash Flows

for the year ended 30 June 2004

		GROUP			BANK	
	Note	2004 \$M	2003 \$M	2002 \$M	2004 \$M	2003 \$M
Cash Flows From Operating Activities						
Interest received		13,101	11,452	10,683	11,045	9,204
Dividends received		6	4	5	798	579
Interest paid		(7,543)	(6,455)	(5,805)	(6,351)	(5,248)
Other operating income received		3,410	3,135	3,706	2,375	2,668
Expenses paid		(5,529)	(5,438)	(5,366)	(4,459)	(4,233)
Income taxes paid		(1,366)	(1,258)	(926)	(886)	(838)
Net increase in trading securities		(4,324)	(2,484)	(1,159)	(4,672)	(1,814)
Life insurance:						
Investment income		841	644	870	-	-
Premiums received ⁽¹⁾		3,562	4,130	5,689	-	-
Policy payments ⁽¹⁾		(4,529)	(5,855)	(5,704)	-	-
Net Cash provided by/(used in) Operating Activities	46(c)	(2,371)	(2,125)	1,993	(2,150)	318
Cash Flows from Investing Activities						
Payments for acquisition of entities and management rights		-	(173)	(57)	-	-
Proceeds from disposal of entities and businesses	46(f)	63	33	314	885	-
Disposal of shares in other companies		114	-	-	114	-
Net movement in investment securities:						
Purchases		(25,587)	(18,055)	(23,488)	(15,157)	(15,761)
Proceeds from sale		697	23	295	390	31
Proceeds at or close to maturity		24,407	17,719	22,192	14,904	16,449
Withdrawal (lodgement) of deposits with regulatory authorities		(15)	66	(28)	(2)	52
Net increase in loans, advances and other receivables		(29,328)	(13,577)	(11,702)	(22,873)	(11,022)
Net amounts paid to controlled entities		-	-	-	1,412	1,027
Proceeds from sale of property, plant and equipment		69	72	109	7	64
Purchase of property, plant and equipment		(536)	(143)	(164)	(175)	(103)
Net decrease/(increase) in receivables due from other financial institutions not at call		292	513	(855)	(344)	731
Net decrease/(increase) in securities purchased under agreements to resell		(1,023)	50	(1,376)	(1,039)	(298)
Net decrease/(increase) in other assets		(1,461)	301	(241)	(1,537)	125
Life insurance:						
Purchases of investment securities		(20,286)	(13,091)	(13,926)	-	-
Proceeds from sale/maturity of investment securities		21,500	14,628	14,618	-	-
Net Cash used in Investing Activities		(31,094)	(11,634)	(14,309)	(23,415)	(8,705)
Cash Flows from Financing Activities						
Buy back of shares		(532)	-	-	(532)	-
Proceeds from issue of shares (net of costs)		505	13	39	505	13
Proceeds from issue of preference shares to outside equity interests		-	182	-	-	-
Proceeds from issue of other equity instruments (net of costs)		1,573	-	-	737	-
Net increase in deposits and other borrowings		21,997	5,129	15,135	19,254	3,004
Net movement in debt issues		13,413	7,054	(967)	7,765	4,931
Dividends paid (including DRP)		(1,774)	(1,933)	(1,661)	(1,726)	(1,929)
Net movements in other liabilities		(242)	(926)	1,809	113	(1,024)
Net increase/(decrease) in payables due to other financial institutions not at call		(929)	(796)	211	(909)	(869)
Net increase in securities sold under agreements to repurchase		206	3,046	310	269	3,045
Issue of loan capital		985	901	-	1,784	600
Redemptions of loan capital		(317)	-	-	(317)	-
Other		(2)	19	(100)	(16)	(15)
Net Cash provided by Financing Activities		34,883	12,689	14,776	26,927	7,756
Net Increase/(Decrease) in Cash and Cash Equivalents		1,418	(1,070)	2,460	1,362	(631)
Cash and Cash Equivalents at beginning of period		1,428	2,498	38	277	908
Cash and Cash Equivalents at End of Period	46(a)	2,846	1,428	2,498	1,639	277

⁽¹⁾ These were gross premiums and policy payments before splitting between policyholders and shareholders.

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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies

(a) Bases of accounting

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

The accounting policies applied are consistent with those of the previous year, except that the criteria for capitalised information technology software was amended, refer below.

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.

Software Capitalisation

The criteria for information technology software capitalisation has been amended, such that only computer software projects costing \$10 million or more are being capitalised and capitalisation is limited to those investments that will deliver identifiable and sustainable customer value and an increase in returns, in a significant line of business.

This change has been applied retrospectively and has resulted in the expensing of \$219 million of previously capitalised software at 1 July 2003.

(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.

(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 spot 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 the results.

The foreign currency assets and liabilities of overseas branches and overseas controlled entities are converted to Australian currency at 30 June 2004 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 spot exchange rate at the date of the transaction.

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 (as amended by ASIC Class Order 04/667).

(g) Financial instruments

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

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

(h) Cash and liquid assets

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

They are brought to account at the face value or the gross value of the outstanding balance where appropriate. Interest is taken to profit when earned.

(i) Receivables due from other financial institutions

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

(j) Trading securities

Trading securities are short and long term public, bank and other debt securities and equities that 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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(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 recorded 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 a 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 ("OAAATSE"). 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.

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 that 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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

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 charged 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 that 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. 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 and assets held for lease 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.

Investment property carried at lower of cost and recoverable amount is not depreciated in accordance with the depreciation guidance in AASB1021: Depreciation.

The useful lives of major depreciable assets are as follows:

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

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

(t) Goodwill

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

The goodwill so determined is amortised on a straight line basis over the period of expected benefit but not exceeding 20 years. Purchased goodwill resulting from the acquisition of the Colonial Group in June 2000, the merger with the State Bank of Victoria in 1991 and from the acquisition of the 25% minority interest in ASB Group in New Zealand in August 2000 is each being amortised over 20 years. The periods of goodwill amortisation are subject to review annually by the Directors.

(u) Other assets

Other assets include 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 \$107 million as at 30 June 2004 (2003: \$248 million). The criteria for capitalised computer software costs was amended, effective 1 July 2003, refer to Note 1 (a).

Such costs are amortised over the assessed useful life of the projects. An amortisation period of 2½ years is adopted for most software developments. 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 charged to profit when incurred.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(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 charged to profit when incurred.

(x) 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).

The Commonwealth Bank of Australia has elected to be taxed as a single entity under the tax consolidation system with effect from 1 July 2002. The Bank has formally notified the Australian Taxation Office of its adoption of the tax consolidation regime. For further details, refer to Note 5.

(y) 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, a subsidy to a registered health fund with respect to retired employees and current employees, and employee incentives under employee share plans and bonus schemes.

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

(z) Provisions for restructuring

Provisions for restructuring are brought to account where there is a detailed formal plan for restructure and a demonstrated commitment to that plan.

Provision for 'Which new Bank' costs

On 19 September 2003, the Group launched its Which new Bank customer service vision. This is a three year transformation programme and involves the Bank in additional expenditure in the key areas of staff training and skilling, systems and process simplification, and technology. In the period to 30 June 2004 such expenses have totalled \$749 million and principally comprise redundancies, expensing of previously capitalised software of \$219 million, process improvements and branch refurbishment. The outstanding provision for 'Which new Bank' costs at 30 June 2004 is \$208 million.

(aa) 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.

(bb) 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 charged against 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.

(cc) 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.

(dd) 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 guidelines. 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.

(ee) Shareholders' equity

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

Preference Share Capital and Other Equity Instruments is the amount of paid up capital from the issue of preference shares and other equity instruments respectively.

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 \$3,106 million, including the appraisal value uplift (2003: \$2,905 million and 2002: \$3,150 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.

(ff) Derivative financial instruments

The Group enters into a significant volume of derivative financial instruments that 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

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

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 as 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 that 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.

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.

(gg) 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.

(hh) 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 translations, 1(j) Trading securities and 1(ff) Derivative financial instruments. Life insurance business income recognition is explained in Note 1(ii) below.

(ii) 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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

- (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 entered into are recognised on a gross basis.

The Group conducts life insurance business through Commonwealth Insurance Holdings Limited (CIHL), Colonial Mutual Life Assurance Society Limited (CMLA) in Australia, Sovereign Assurance Company Limited in New Zealand, and several subsidiaries and joint ventures throughout Asia. CIHL is the top tier life insurance company within the life insurance corporate structure and values its interests at market in its 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 that 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.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

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

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

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

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

Participating Policies

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

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

Policy Acquisition Costs

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

(jj) 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.

(kk) Fiduciary activities

The Bank and designated controlled entities act as Responsible Entity, Trustee and/or Manager 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.

(ll) 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.

(mm) Comparative figures

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

(nn) Definitions

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

'Borrowing Corporation' as defined by Section 9 of the Corporations 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 outside equity interest before goodwill amortisation and funds management and life insurance appraisal value uplift/(reduction).

'Underlying Basis' is defined as net profit after tax ("cash basis") excluding Which new Bank initiatives, shareholder investment returns and the cost of the June 2002 Employee Share Acquisition Plan ("ESAP") paid in October 2002.

(oo) Policy changes (2003)

The consolidated entity, adopted the new Accounting Standard AASB 1044: Provisions, Contingent Liabilities and Contingent Assets, from 1 July 2002 which resulted in a change in the accounting for the dividend provisions. Previously, the consolidated entity recognised a provision for dividend based on the amount that was proposed or declared after the reporting date. In accordance with the requirements of the new standard, a provision for dividend is only recognised at the reporting date where the dividends are declared, determined or publicly recommended prior to the reporting date. The effect of the revised policy was to increase consolidated retained profits and decrease provisions at the beginning of the year ended 30 June 2003 by \$1,027 million. In accordance with the new Standard, no provision for dividend has been recognised at year end. The change in accounting policy has had no effect on basic and fully diluted earnings per share.

The Group adopted the revised accounting standard AASB 1012: Foreign Currency Translation from 1 July 2002. There were no material changes to the related calculations.

The Group adopted the revised accounting standard AASB 1028: Employee Benefits from 1 July 2002. All employee benefit liabilities expected to be settled more than 12 months after the reporting date were previously subject to actuarial review. As a result there were no material changes to the related liabilities on the adoption of the revised standard.

Share Based Compensation

In August 2002 the Bank announced that it will purchase shares to cover the Employee Share Acquisition Plan ("ESAP") and include the full cost as an expense against profits. ESAP shares earned in respect of the 2002 financial year had not been awarded at the time of the announcement, and as such the cost of \$25 million was a one off expense in the 2003 financial year. In addition, 2003 year ESAP expense accrued for the 2003 financial year was \$20 million. Similarly, the Executive Reward Plan was restructured effective from 1 July 2002, whereby incentives allocated were in the form of Reward shares and not options. This resulted in an increased expense for the 2003 year of \$5 million. Other share based compensation expense for the 2003 year was \$69 million. This was

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

incurred and charged against profit on a consistent basis with prior periods.

(pp) International Financial Reporting Standards (IFRS)

Transition Management

The Bank is well progressed in the process of ensuring that it will comply with the Australian equivalent of International Financial Reporting Standards ("IFRS") by June 2005. This is in line with the conversion timetable as set out by the Financial Reporting Council of Australia.

The Bank completed its review of the IFRS and their impact during the planning stage of the project. Conversion issues were then identified and methodologies designed to resolve these issues.

The Bank is now progressing to the implementation of these changes and will complete this process prior to 30 June 2005.

The Bank has not finalised the financial impact of the change to IFRS.

Key Accounting Issues

The following key areas of difference between current accounting practice and the treatment under IFRS have been identified:

(i) Hedge Accounting

Under IFRS all derivative financial instruments, including those used for balance sheet hedging purposes, are to be recognised on-balance sheet and measured at fair value. Hedge accounting can be applied, subject to certain rules, for fair value hedges, cash flow hedges, and hedges of investments in foreign operations. The Bank has formulated a strategy based on the use of both cash flow and fair value hedging. Cash flow hedges are expected to be the predominant form of hedging applied by the Bank.

It is expected that these new rules around accounting for hedge instruments will introduce significant volatility within equity reserves, and the potential for some minor volatility within the statement of financial performance.

(ii) Employee Benefits

With the introduction of IFRS, the net surpluses or deficits that arise within defined benefit superannuation plans must be recognised in the statement of financial position. The annual movements in those surpluses or deficits must be recorded in the statement of financial performance.

The Bank currently sponsors two defined benefit plans. Actuarial valuations of these plans are carried out periodically, and a large surplus currently exists on a net basis. On transition to IFRS, the comparative period beginning 1 July 2004 will record an opening Retained Earnings adjustment reflecting the value of this surplus. For subsequent periods, the profit is likely to be affected by significant volatility as the value of the surplus fluctuates. Given the potential significance of this item we expect to show it as a separate line item in the statement of financial performance.

(iii) Provisions for Loan Impairment

In line with market practice, the Bank's current general provisioning for impaired loans is designed to take account of our expectations of probable future losses and latent risks inherent in the credit portfolio. Under IFRS the Bank must raise collective provisions in respect of only those losses for which there is 'objective evidence' of impairment as at each balance date. The methodology to calculate this provision is still being developed.

As a result of this change, there may be a reduction in the amount of the Bank's general provisioning for impaired loans.

The practice of recording specific provisions for loan impairment will continue under IFRS, however, such provisions must be based on the discounted values of estimated future cash flows. The discount unwinds during the period between the initial recognition of the provision and the eventual recovery of the written down amount, resulting in the recording of interest in the statement of financial performance, within interest income.

(iv) Consolidation of Special Purpose Vehicles

IFRS requires the consolidation of certain special purpose vehicles that are not consolidated under the current accounting standards.

Vehicles related to the securitisation of Bank assets, and certain other customer asset securitisation vehicles, may be consolidated under IFRS. This would result in a gross up of the assets and liabilities recorded within the statement of financial position.

There is not expected to be any profit impact arising from consolidation of these vehicles.

(v) Classification of Hybrid Financial Instruments

The Bank currently has on issue two types of hybrid financial instruments: Perpetual Exchangeable Resettable Listed Securities ("PERLS I and II"); and Trust Preferred Securities ("TPS"). Refer to Note 29 for details. These instruments are currently classified as equity instruments.

Under IFRS these instruments will be reclassified as debt within the statement of financial position and dividends paid will be shown as interest expense.

(vi) Revenue and Expense Recognition

Under IFRS, the Bank will change the way it currently recognises certain revenue and expense items. Any fee income integral to the yield of an originated financial instrument, net of any direct incremental costs, must be capitalised and deferred over the expected life of the instrument. This is not expected to have a material impact on net profit within the statement of financial performance, however, some re-classifications of revenue between fee income and interest income will occur.

(vii) Accounting for Life Insurance Business

On transition to IFRS, the asset representing the excess of the net market value over net assets of the Bank's life insurance controlled entities can no longer be recognised in full. As a result, the Bank will, on the adoption of the IFRS, cease to recognise any movement in the appraisal value in the statement of financial performance. The write off of the internally generated component will ultimately be reflected against the General Reserve; and the acquired component will be reclassified as Goodwill within the statement of financial position and subjected to an annual impairment test.

(viii) Accounting for Goodwill

On transition to IFRS, Goodwill will no longer be amortised, but instead, is subject to an annual assessment for impairment to ensure that the carrying value of Goodwill is not greater than the recoverable amount. As a result, the statement of financial performance will no longer include an expense item reflecting the annual Goodwill amortisation.

(ix) Taxation

A "balance sheet" approach to tax effect accounting is followed under IFRS replacing the current "statement of financial performance" approach. This approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. It is likely there will be some increases in levels of deferred tax assets and liabilities.

(x) Statement of Financial Position

The following new material line items are expected to appear within the statement of financial position.

- 'Derivative assets' line item, being the fair value of the Bank's hedging derivative financial instruments portfolio which have a positive market value; and a 'Derivative liabilities' line item, being the fair value of the Bank's hedging derivative financial instruments portfolio which have a negative market value.
- An 'Available-for-sale assets' line item, being the fair value of those investment securities and other financial assets categorised as available-for-sale.
- A 'Retirement benefit surplus' asset line item, being the defined benefit plan surplus.

Notes to the financial statements

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

- An 'Investment contract liabilities' line item, being the fair value of the policyholder liabilities associated with those investment style contracts, which can no longer be classified as insurance contracts.
- A 'Cash Flow Hedge Reserve', being the hedge reserve associated with cash flow hedge accounting.
- An 'Available-for-Sale Securities Revaluation Reserve' being the reserve associated with the unrealised fair value gains and losses on investment securities and other financial assets categorised as available-for-sale.

Regulatory Capital Treatment

Several of the above accounting issues affect the assets and equity items currently included in the calculation of the Bank's regulatory capital. Current accounting definitions for asset and equity measurement are central to the capital adequacy requirements set by prudential regulators. The Bank anticipates that APRA will review the measurement rules in its Prudential Standards in response to the IFRS changes, however, it is unclear whether capital measurement will be fully immunised from the IFRS changes.

NOTE 2 Operating Profit

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

	GROUP			BANK	
	2004	2003	2002	2004	2003
	\$M	\$M	\$M	\$M	\$M
Interest Income					
Loans	11,675	10,126	9,231	9,504	8,077
Other financial institutions	182	191	165	90	70
Cash and liquid assets	198	150	142	214	135
Trading securities	600	454	359	486	362
Investment securities	607	566	517	229	256
Dividends on redeemable preference shares	25	41	41	3	-
Controlled entities	-	-	-	527	577
Total Interest Income	13,287	11,528	10,455	11,053	9,477
Interest Expense					
Deposits	5,949	4,732	4,256	4,833	3,795
Other financial institutions	160	198	193	159	197
Debt issues	1,506	1,352	1,064	1,081	889
Controlled entities	-	-	-	282	243
Loan capital	262	220	232	294	212
Total Interest Expense	7,877	6,502	5,745	6,649	5,336
Net Interest Income	5,410	5,026	4,710	4,404	4,141
Other Operating Income					
Lending fees	724	652	618	702	599
Commission and other fees	1,503	1,394	1,242	1,256	1,157
Trading income					
Foreign exchange earnings	228	200	243	203	175
Trading securities	165	190	113	128	162
Other financial instruments (incl derivatives)	106	112	133	106	112
Dividends - controlled entities	-	-	-	794	577
- other	6	4	5	4	2
Net gain/(loss) on investments and loans	80	(9)	78	(416)	(9)
Net (loss)/profit on sale of property, plant and equipment	(11)	22	12	(10)	13
Funds management income	1,333	1,066	1,147	-	-
Insurance income	902	680	712	-	-
Other ⁽¹⁾	45	62	55	545	566
Total Other Operating Income	5,081	4,373	4,358	3,312	3,354
Total Net Operating Income before appraisal value uplift/(reduction)	10,491	9,399	9,068	7,716	7,495
Charge for Bad and Doubtful Debts (Note 13)					
General provisions	276	305	449	263	266
Total Charge for Bad and Doubtful Debts	276	305	449	263	266

⁽¹⁾ Includes an equity accounted loss of \$32 million for the year ended 30 June 2004. Principally relates to a change in revenue recognition accounting policy by the associate entity.

Notes to the financial statements

NOTE 2 Operating Profit continued

	GROUP			BANK	
	2004	2003	2002	2004	2003
	\$M	\$M	\$M	\$M	\$M
Staff Expenses					
Salaries and wages	2,152	2,106	2,016	1,683	1,694
Superannuation contributions	8	13	11	(14)	(3)
Provisions for employee entitlements	41	11	44	34	5
Payroll tax	115	107	92	101	95
Fringe benefits tax	32	26	32	28	24
Other staff expenses	100	120	132	46	78
Comparable business	2,448	2,383	2327	1,878	1,893
Initiatives including Which new Bank	273	155	-	267	155
Total Staff Expenses (excluding share based compensation)	2,721	2,538	2,327	2,145	2,048
Share Based Compensation					
Comparable business	105	94	63	104	93
Initiatives including Which new Bank	-	25	-	-	25
Total Share Based Compensation	105	119	63	104	118
Occupancy and Equipment Expenses					
Operating lease rentals	340	354	324	280	289
Depreciation					
Buildings	21	24	26	18	20
Leasehold improvements	55	51	47	45	41
Equipment	50	53	55	22	22
Repairs and maintenance	68	58	56	61	49
Other	47	69	70	28	52
Comparable business	581	609	578	454	473
Initiatives including Which new Bank	20	3	-	20	3
Total Occupancy and Equipment Expenses	601	612	578	474	476
Information Technology Services					
Projects and development	281	194	189	247	165
Data processing	238	255	275	214	227
Desktop	159	178	169	157	176
Communications	205	171	175	178	144
Software amortisation	11	78	44	2	71
Information technology equipment depreciation	1	1	-	1	1
Comparable business	895	877	852	799	784
Initiatives including Which new Bank	292	30	-	274	30
Total Information Technology Services	1,187	907	852	1,073	814
Other Expenses					
Postage	112	109	111	98	96
Stationery	114	118	104	88	90
Fees and commissions	598	551	609	369	210
Advertising, marketing and loyalty	311	259	242	260	204
Other	336	312	315	176	154
Comparable business	1,471	1,349	1,381	991	754
Initiatives including Which new Bank	164	26	-	164	26
Total Other Expenses	1,635	1,375	1,381	1,155	780
Comparable business	5,500	5,312	5,201	4,226	3,997
Initiatives including Which new Bank	749	239	-	725	239
Total Operating Expenses before goodwill amortisation	6,249	5,551	5,201	4,951	4,236
Appraisal value uplift/(reduction)	201	(245)	477	-	-
Goodwill amortisation	(324)	(322)	(323)	(186)	(186)
Profit from ordinary activities before income tax	3,843	2,976	3,572	2,316	2,807

Notes to the financial statements

NOTE 3 Revenue from Ordinary Activities

	2004	2003	GROUP 2002	2004	BANK 2003
	\$M	\$M	\$M	\$M	\$M
Banking					
Interest income	13,287	11,528	10,455	11,053	9,477
Fee and commissions	2,227	2,046	1,860	1,958	1,756
Trading income	499	502	489	437	449
Dividends	6	4	5	798	579
Proceeds from sale of property, plant and equipment	69	72	109	9	65
Proceeds from sale of investments and loans	874	56	609	1,398	2
Other income	45	53	108	535	555
	17,007	14,261	13,635	16,188	12,883
Funds Management and Insurance					
Funds management income including premiums	1,175	1,149	1,083	-	-
Insurance premium and related income	1,012	1,131	866	-	-
Investment income	2,807	628	(100)	-	-
	4,994	2,908	1,849	-	-
Appraisal value uplift⁽¹⁾					
	201	-	477	-	-
Total revenue from ordinary activities	22,202	17,169	15,961	16,188	12,883

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

⁽¹⁾ Appraisal value reduction of \$ 245 million for year ended 30 June 2003.

Notes to the financial statements

NOTE 4 Average Balances and Related Interest

The table lists the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rates for each of the years ending 30 June 2002, 30 June 2003 and 30 June 2004. Averages used are predominantly daily averages.

The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities. Overseas intragroup 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.

Full Year Ended	2004			2003			2002		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
Average Interest Earning Asset and Income Expense									
Cash and liquid assets									
Australia	4,027	181	4.5	3,293	133	4.0	4,290	138	3.2
Overseas	868	17	2.0	813	17	2.1	285	4	1.4
Receivables due from other financial institutions									
Australia	3,382	32	0.9	2,446	37	1.5	3,231	69	2.1
Overseas	3,776	150	4.0	3,734	154	4.1	2,663	96	3.6
Deposits with regulatory authorities									
Australia	-	-	-	-	-	-	-	-	-
Overseas	62	-	-	56	-	-	174	-	-
Trading securities									
Australia	9,682	444	4.6	7,360	326	4.4	5,138	248	4.8
Overseas	3,445	156	4.5	3,395	128	3.8	2,698	111	4.1
Investment securities									
Australia	4,411	298	6.8	4,240	261	6.2	3,774	211	5.6
Overseas	8,440	310	3.7	8,062	305	3.8	7,339	306	4.2
Loans, advances and other receivables									
Australia	149,487	9,927	6.6	131,746	8,538	6.5	121,597	7,984	6.6
Overseas	26,607	1,772	6.7	23,125	1,629	7.0	19,445	1,288	6.6
Other interest earning assets	-	-	-	-	-	-	-	-	-
Intragroup loans									
Australia	-	-	-	-	-	-	-	-	-
Overseas	4,102	17	0.4	3,604	31	0.9	3,232	65	2.0
Average interest earning assets and interest income including intragroup	218,289	13,304	6.1	191,874	11,559	6.0	173,866	10,520	6.1
Intragroup eliminations	(4,102)	(17)	0.4	(3,604)	(31)	0.9	(3,232)	(65)	2.0
Total average interest earning assets and interest income	214,187	13,287	6.2	188,270	11,528	6.1	170,634	10,455	6.1
Average Non-Interest Earning Assets									
Bank acceptances									
Australia	13,877			13,144			11,965		
Overseas	1			53			66		
Insurance investment assets									
Australia	24,430			26,333			26,853		
Overseas	4,120			4,070			4,129		
Property, plant and equipment									
Australia	792			627			681		
Overseas	161			197			203		
Other assets									
Australia	29,452			24,046			23,617		
Overseas	2,264			3,303			3,411		
Provisions for impairment									
Australia	(1,411)			(1,497)			(1,546)		
Overseas	(150)			(150)			(143)		
Total average non-interest earning assets	73,536			70,126			69,236		
Total average assets	287,723			258,396			239,870		
Percentage of total average assets applicable to overseas operations	18.7%			19.5%			18.1%		

Notes to the financial statements

NOTE 4 Average Balances and Related Interest continued

Average Liabilities and Interest Expense Full Year Ended

	2004			2003			2002		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
Average Interest Bearing Liabilities and Loan Capital and Interest Expense									
Time deposits									
Australia	57,186	2,683	4.7	45,674	1,956	4.3	41,283	1,901	4.6
Overseas	15,963	1,062	6.7	14,255	876	6.1	12,479	761	6.1
Savings deposits									
Australia	31,178	514	1.6	32,780	492	1.5	32,078	412	1.3
Overseas	3,028	105	3.5	2,788	100	3.6	2,444	82	3.4
Other demand deposits									
Australia	39,044	1,499	3.8	34,043	1,230	3.6	29,517	1,037	3.5
Overseas	3,432	86	2.5	2,906	78	2.7	2,386	63	2.6
Payables due to other financial institutions									
Australia	1,916	35	1.8	1,752	34	1.9	2,043	65	3.2
Overseas	5,042	125	2.5	6,712	164	2.4	5,320	128	2.4
Debt issues									
Australia	21,885	1,292	5.9	17,651	1,047	5.9	14,578	800	5.5
Overseas	12,855	213	1.7	10,738	305	2.8	9,398	264	2.8
Loan capital									
Australia	5,793	255	4.4	5,234	212	4.1	5,491	227	4.1
Overseas	210	8	3.8	204	8	3.9	88	5	5.7
Other interest bearing liabilities	-	-	-	-	-	-	-	-	-
Intragroup borrowings									
Australia	4,102	17	0.4	3,604	31	0.9	3,232	65	2.0
Overseas	-	-	-	-	-	-	-	-	-
Average interest bearing liabilities and loan capital and interest expense including intragroup	201,634	7,894	3.9	178,341	6,533	3.7	160,337	5,810	3.6
Intragroup eliminations	(4,102)	(17)	0.4	(3,604)	(31)	0.9	(3,232)	(65)	2.0
Total average interest bearing liabilities and loan capital and interest expense	197,532	7,877	4.0	174,737	6,502	3.7	157,105	5,745	3.7
Non-Interest Bearing Liabilities									
Deposits not bearing interest									
Australia	5,112			4,784			5,424		
Overseas	1,059			871			705		
Liability on bank acceptances									
Australia	13,877			13,146			11,965		
Overseas	1			53			66		
Insurance policy liabilities									
Australia	20,658			20,828			23,092		
Overseas	3,548			3,596			3,457		
Other liabilities									
Australia	20,655			16,034			14,628		
Overseas	3,131			2,739			3,026		
Total average non-interest bearing liabilities	68,041			62,051			62,363		
Total average liabilities and loan capital	265,573			236,788			219,468		
Shareholders' equity	22,150			21,608			20,402		
Total average liabilities, loan capital and shareholders' equity	287,723			258,396			239,870		
Percentage of total average liabilities applicable to overseas operations	18.2%			18.9%			17.9%		

Notes to the financial statements

NOTE 4 Average Balances and Related Interest continued

Changes in Net Interest Income: Volume and Rate Analysis	30/06/04 vs 30/06/03 Changes due to			30/06/03 vs 30/06/02 Changes due to		
	Volume \$M	Rate \$M	Total \$M	Volume \$M	Rate \$M	Total \$M
Interest Earning Assets						
Cash and liquid assets						
Australia	31	17	48	(36)	31	(5)
Overseas	1	(1)	-	5	(5)	-
Receivables due from other financial institutions						
Australia	12	(17)	(5)	22	(12)	10
Overseas	2	(6)	(4)	41	17	58
Trading securities						
Australia	105	13	118	103	(25)	78
Overseas	2	26	28	27	(10)	17
Investment securities						
Australia	11	26	37	27	23	50
Overseas	14	(9)	5	29	(17)	12
Loans, advances and other receivables						
Australia	1,164	225	1,389	565	(53)	512
Overseas	239	(96)	143	251	90	341
Other interest earning assets	-	-	-	-	-	-
Intragroup loans						
Australia	-	-	-	-	-	-
Overseas	3	(17)	(14)	5	(39)	(34)
Change in interest income including intragroup	1,615	130	1,745	1,056	(17)	1,039
Intragroup eliminations	(3)	17	14	(5)	39	34
Change in interest income	1,597	162	1,759	1,080	(7)	1,073
Interest Bearing Liabilities and Loan Capital						
Time Deposits						
Australia	517	210	727	195	(140)	55
Overseas	109	77	186	108	7	115
Savings Deposits						
Australia	(25)	47	22	10	70	80
Overseas	8	(3)	5	12	6	18
Other demand deposits						
Australia	186	83	269	161	32	193
Overseas	14	(6)	8	14	1	15
Payables due to other financial institutions						
Australia	3	(2)	1	(7)	(24)	(31)
Overseas	(41)	2	(39)	34	2	36
Debt Issues						
Australia	251	(6)	245	175	72	247
Overseas	48	(140)	(92)	38	3	41
Loan Capital						
Australia	24	19	43	(11)	(4)	(15)
Overseas	-	-	-	6	(3)	3
Other interest bearing liabilities	-	-	-	-	-	-
Intragroup borrowings						
Australia	3	(17)	(14)	5	(39)	(34)
Overseas	-	-	-	-	-	-
Change in interest expense including intragroup	877	484	1,361	666	57	723
Intragroup eliminations	(3)	17	14	(5)	39	34
Change in interest expense	879	496	1,375	650	107	757
Change in net interest income	673	(289)	384	479	(163)	316

Notes to the financial statements

NOTE 4 Average Balances and Related Interest continued

Changes in Net Interest Income: Volume and Rate Analysis

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

the average balance. Rate variance reflects the change in interest from 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).

	2004 \$M	2003 \$M	GROUP 2002 \$M
Net interest income	5,410	5,026	4,710
Average interest earning assets	214,187	188,270	170,634

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.

	2004 %	2003 %	2002 %
Australia			
Interest Spread ⁽¹⁾	2.46	2.68	2.75
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.22	0.20	0.25
Net Interest Margin ⁽³⁾	2.68	2.88	3.00
Overseas			
Interest Spread ⁽¹⁾	1.18	1.22	1.16
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.56	0.49	0.43
Net Interest Margin ⁽³⁾	1.74	1.71	1.59
Group			
Interest Spread ⁽¹⁾	2.22	2.40	2.47
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.31	0.27	0.29
Net Interest Margin ⁽³⁾	2.53	2.67	2.76

⁽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 year.

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	
	2004	2003	2002	2004	2003
	\$M	\$M	\$M	\$M	\$M
Operating profit from ordinary activities before income tax					
Banking	3,091	3,165	2,884	2,502	2,993
Funds Management	504	217	399	-	-
Insurance	371	161	135	-	-
Appraisal value uplift/(reduction)	201	(245)	477	-	-
Goodwill amortisation	(324)	(322)	(323)	(186)	(186)
	3,843	2,976	3,572	2,316	2,807
Prima facie income tax at 30%					
Banking	927	950	866	751	898
Funds Management	151	65	120	-	-
Insurance	111	48	40	-	-
Appraisal value uplift/(reduction)	60	(73)	143	-	-
Goodwill amortisation	(97)	(97)	(97)	(56)	(56)
	1,152	893	1,072	695	842
Add/(deduct) permanent differences expressed on a tax effect basis:					
Current Period					
Specific provisions for offshore bad and doubtful debts not tax effected	3	13	(3)	(2)	8
Taxation offsets (net of accruals)	(47)	(36)	(24)	(224)	(146)
Tax adjustment referable to policy holder income	142	(41)	(25)	-	-
Non assessable income - life insurance surplus	(30)	(18)	(25)	-	-
Change in excess of net market value over net assets of life insurance controlled entities	(60)	73	(143)	-	-
Non deductible goodwill amortisation	97	97	97	56	56
Non deductible intergroup losses	-	-	-	136	-
Tax losses recognised	-	(18)	(35)	1	-
Employee share acquisition plan	-	-	(8)	-	-
Other	17	(5)	17	5	(52)
	122	65	(149)	(28)	(134)
Prior Periods					
Other	(12)	-	(7)	2	-
Total Income Tax Expense	1,262	958	916	669	708
Income tax attributable to profit from ordinary activities					
Banking	914	931	816	669	708
Funds management	79	57	96	-	-
Insurance	66	28	40	-	-
Corporate tax	1,059	1,016	952	669	708
Policyholder tax	203	(58)	(36)	-	-
Total Income Tax expense	1,262	958	916	669	708
Income tax expense comprises:					
Current taxation provision	1,128	917	1,385	639	625
Deferred income (benefit)/tax provision	138	(24)	(408)	(32)	42
Future income tax benefit	(24)	45	(86)	57	35
Notional tax expense - leveraged leases	23	22	12	5	6
Other	(3)	(2)	13	-	-
Total Income Tax Expense	1,262	958	916	669	708
The components of income tax expense consist of the following:					
Current					
Australia	977	853	1,239	633	610
Overseas	156	112	146	12	15
	1,133	965	1,385	645	625
Deferred					
Australia	99	(1)	(403)	20	83
Overseas	30	(6)	(66)	4	-
	129	(7)	(469)	24	83

Notes to the financial statements

NOTE 5 Income Tax Expense continued

	GROUP			BANK	
	2004	2003	2002	2004	2003
	\$M	\$M	\$M	\$M	\$M
The significant temporary differences are as follows:					
Deferred income tax assets arising from:					
Provisions not tax deductible until expense incurred	369	353	337	274	242
Other	195	172	288	149	70
Future income tax benefits (Note 21)	564	525	625	423	312
Intergroup deferred tax receivable (Note 21)	-	-	-	317	-
Deferred income tax liabilities arising from:					
Leveraged leasing	232	302	240	232	116
Lease financing	100	96	100	100	2
Other	52	16	240	-	44
Total deferred income tax liabilities (Note 24)	384	414	580	332	162
Intergroup deferred tax payable (Note 27)	-	-	-	153	-
Future income tax benefits attributable to tax losses carried forward as an asset	5	36	124	-	-
Future income tax benefits not taken to account					
Valuation allowance					
Opening balance	142	168	146	62	132
Prior year adjustments	(6)	(34)	(8)	(3)	(71)
Benefits now taken to account	(6)	(18)	(27)	(5)	(17)
Benefits arising during the year not recognised	40	26	57	40	18
Closing balance (Note 21)	170	142	168	94	62

Tax Consolidation

Legislation has been enacted to allow Australian resident entities to elect to consolidate and be treated as a single entity for Australian tax purposes. The Commonwealth Bank of Australia has elected to be taxed as a single entity with effect from 1 July 2002. The Bank has formally notified the Australian Taxation Office of its adoption of the tax consolidation regime. Members of the tax consolidation group have entered into a tax sharing arrangement which provides for the allocation of income tax liabilities between the entities should the head entity, Commonwealth Bank of Australia, default on its tax payment obligations.

The Commonwealth Bank of Australia has also entered into a tax funding agreement with the members of the tax consolidation group. The tax funding agreement is effective from 1 July 2002. The agreement is aimed at achieving an allocation of the Group's income tax liability to subsidiaries within the tax consolidated group as if they were operating on a stand-alone basis. The subsidiaries party to the agreement will reimburse the Commonwealth Bank of Australia for an amount calculated as if they were taxed on a stand-alone basis. Similarly, the Commonwealth Bank of Australia will reimburse subsidiaries for losses when they are utilised to reduce the group tax payable.

Calculations at 30 June 2004 have been based on legislation enacted to that date. Legislation in respect of leasing and leasing partnerships has not yet been finalised. Based on the enacted legislation, these calculations have resulted in a tax credit adjustment of \$37 million to the consolidated tax expense for the year ended 30 June 2004. The tax benefit principally arises from the generation of capital losses which have been offset against capital gains arising during the year. This tax benefit has been partially offset by non tax effected capital writedowns.

ASB Bank

The ASB Bank is being audited by the Inland Revenue Department as part of the normal Inland Revenue Department procedures, with a particular focus on structured finance transactions. No tax assessments have been issued.

Notes to the financial statements

NOTE 6 Dividends

	2004	2003	GROUP 2002	2004	BANK 2003
	\$M	\$M	\$M	\$M	\$M
Ordinary Shares					
Interim ordinary dividend (fully franked) (2004: 79 cents, 2003: 69 cents, 2002: 68 cents)					
Interim ordinary dividend paid - cash component only	808	699	693	808	699
Interim ordinary dividend paid - dividend reinvestment plan	188	166	159	188	166
Declared final ordinary dividend (fully franked) (2004: nil provided, 2003: nil provided, 2002: 82 cents)					
Provision for final ordinary dividend - cash component only	-	-	832	-	-
Provision for final ordinary dividend - dividend reinvestment plan	-	-	195	-	-
Preference Shares					
Preference dividends paid (fully franked) (2004: 1,065 cents, 2003: 1,019 cents, 2002: 970 cents)					
	28	28	26	28	28
Provision for preference dividend	9	8	8	9	8
Other Equity Instruments					
Dividends paid	55	-	-	15	-
Dividends to outside equity interests	8	4	-	-	-
Total Dividends Provided or Paid	1,096	905	1,913	1,048	901
Other provision carried	5	4	5	4	4
Dividends proposed and not recognised as a liability (fully franked) (2004: 104 cents, 2003: 85 cents, 2002: nil) ⁽¹⁾	1,315	1,066	-	1,315	1,066

⁽¹⁾ The 2003 final dividend was satisfied by cash disbursements of \$865 million and the issue of \$201 million of ordinary shares through the dividend reinvestment plan. The 2004 final dividend is expected to be satisfied by cash disbursements of \$1,065 million and the estimated issue of \$250 million of ordinary shares through the dividend reinvestment plan.

Dividend Franking Account

After fully franking the final dividend to be paid for the year ended 30 June 2004 the amount of credits available as at 30 June 2004 to frank dividends for subsequent financial years is \$75 million (2003: \$417 million). This figure is based on the combined franking accounts of the Bank at 30 June 2004, which have been adjusted for franking credits that will arise from the payment of income tax payable on profits for the year ended 30 June 2004, franking debits that will arise from the payment of dividends

proposed for the year and franking credits that the Bank may be prevented from distributing in subsequent financial periods. 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 2004 will be franked at the 30% tax rate. These calculations have been based on the taxation law as at 30 June 2004.

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 2001	68	71.8%	-	-	32	18.7%
30 June 2002	82	71.6%	71.7%	76.2%	31.9	19.0%
31 December 2002	69	143.2%	-	-	24.8	19.2%
30 June 2003	85	77.7%	97.7%	75.9%	28	18.9%
31 December 2003	79	82.7%	-	-	31.6	18.8%
30 June 2004	104	103.8%	93.5%	89.1%	-	-

⁽¹⁾ Dividend Payout Ratio: dividends divided by earnings.

⁽²⁾ Payout ratio based on net profit after tax before goodwill amortisation and appraisal value uplift/(reduction).

⁽³⁾ DRP Participation Rate: the percentage of total issued share capital participating in the Dividend Reinvestment Plan.

Notes to the financial statements

NOTE 7 Earnings Per Share

	2004	2003	GROUP 2002
	c	c	c
Earnings Per Ordinary Share			
- Basic	196.9	157.4	209.6
- Fully diluted	196.8	157.3	209.3
	\$M	\$M	\$M
Reconciliation of earnings used in the calculation of earnings per share			
Profit from ordinary activities after income tax	2,581	2,018	2,656
Less: Preference share dividends	(37)	(36)	(34)
Less: Other equity instrument dividends	(55)	-	-
Less: Dividends to outside equity interests	(8)	(4)	-
Less: Outside equity interests	(9)	(6)	(1)
Earnings used in calculation of earnings per share	2,472	1,972	2,621
	Number of Shares		
	2004	2003	2002
	M	M	M
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,256	1,253	1,250
Effect of dilutive securities - share options	1	1	2
Weighted average number of ordinary shares used in the calculation of fully diluted earnings per share	1,257	1,254	1,252
Underlying Earnings Per Ordinary Share	Cents	Cents	Cents
- Basic	237.1	210.2	194.6
- Fully diluted	237.0	210.2	194.3

NOTE 8 Cash and Liquid Assets

	GROUP		BANK	
	2004	2003	2004	2003
	\$M	\$M	\$M	\$M
Australia				
Notes, coins and cash at bankers	1,488	1,426	1,423	1,330
Money at short call	3	14	-	-
Securities purchased under agreements to resell	4,091	2,900	4,091	2,900
Bills receivable and remittances in transit	158	217	156	218
Total Australia	5,740	4,557	5,670	4,448
Overseas				
Notes, coins and cash at bankers	60	65	-	2
Money at short call	261	377	77	14
Bills receivable and remittances in transit	18	33	-	-
Securities purchased under agreements to resell	374	543	738	892
Total Overseas	713	1,018	815	908
Total Cash and Liquid Assets	6,453	5,575	6,485	5,356

NOTE 9 Receivables from Other Financial Institutions

	GROUP		BANK	
	2004	2003	2004	2003
	\$M	\$M	\$M	\$M
Australia	4,914	3,324	4,910	3,287
Overseas	3,455	3,742	2,158	2,149
Total Receivables from Other Financial Institutions	8,369	7,066	7,068	5,436

Notes to the financial statements

NOTE 10 Trading Securities

	2004	GROUP 2003	2004	BANK 2003
	\$M	\$M	\$M	\$M
Australia				
Listed:				
Australian Public Securities				
Commonwealth and States	621	551	621	551
Local and semi-government	1,114	755	1,114	755
Bills of exchange	1,576	947	1,576	947
Commercial paper	885	397	889	505
Certificates of deposit	5,088	2,141	5,088	2,142
Medium term notes	1,410	745	1,410	745
Other securities	273	679	267	675
Unlisted:				
Medium term notes	268	106	268	106
Other securities	75	13	-	13
Total Australia	11,310	6,334	11,233	6,439
Overseas				
Listed:				
Government securities	826	698	284	87
Eurobonds	524	938	524	938
Bills of exchange	772	785	-	-
Floating rate notes	836	603	836	608
Commercial paper	403	726	-	-
Unlisted:				
Commercial paper	17	-	-	-
Other securities	208	351	-	-
Total Overseas	3,586	4,101	1,644	1,633
Total Trading Securities	14,896	10,435	12,877	8,072

Notes to the financial statements

NOTE 11 Investment Securities

	2004	2003	GROUP 2002	2004	BANK 2003
	\$M	\$M	\$M	\$M	\$M
Australia					
Listed:					
Australian Public Securities					
Commonwealth and States	2,209	1,915	1,969	2,209	1,915
Bills of exchange	30	-	18	-	-
Other securities and equity investments	444	439	456	433	433
Unlisted:					
Australian Public Securities					
Local and semi-government	80	80	80	-	-
Medium term notes	448	942	968	58	57
Other securities and equity investments	611	965	578	69	58
Total Australia	3,822	4,341	4,069	2,769	2,463
Overseas					
Listed:					
Government securities	758	484	804	715	463
Treasury notes	-	5	-	-	-
Certificates of deposit	1,242	1,357	1,379	1,228	1,343
Eurobonds	792	993	1,045	655	796
Medium term notes	425	239	-	142	239
Floating rate notes	732	324	377	121	111
Other securities	1,121	1,392	787	279	631
Unlisted:					
Government securities	137	98	113	-	-
Eurobonds	155	230	212	155	230
Medium term notes	1,200	583	114	189	117
Floating rate notes	709	900	784	273	438
Other securities and equity investments	354	90	1,082	100	-
Total Overseas	7,625	6,695	6,697	3,857	4,368
Total Investment Securities	11,447	11,036	10,766	6,626	6,831

Notes to the financial statements

NOTE 11 Investment Securities continued

	2004 \$M	GROUP Market Value at 30 June	
		2003 \$M	2002 \$M
Australia			
Australian Public Securities			
Commonwealth and States	2,328	2,118	2,109
Bills of exchange	30	-	18
Medium term notes	449	935	973
Other securities and equity investments	1,034	1,400	1,042
Total Australia	3,841	4,453	4,142
Overseas			
Government securities	897	593	928
Treasury notes	-	5	-
Certificates of deposit	1,223	1,357	1,379
Eurobonds	983	1,260	1,263
Medium term notes	1,622	816	114
Floating rate notes	1,442	1,215	1,158
Other securities and equity investments	1,482	1,488	1,867
Total Overseas	7,649	6,734	6,709
Total Investment Securities	11,490	11,187	10,851
Net Unrealised Surplus	43	151	85

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 2004				At 30 June 2003			
	Amortised Cost \$M	Gross Gains \$M	Unrealised Losses \$M	Fair Value \$M	Amortised Cost \$M	Gross Gains \$M	Unrealised Losses \$M	Fair Value \$M
Australia								
Australian Public Securities								
Commonwealth and States	2,289	46	7	2,328	1,995	123	-	2,118
Bills of exchange	30	-	-	30	-	-	-	-
Medium term notes	448	1	-	449	942	4	11	935
Other securities and equity investments ⁽¹⁾	1,055	11	32	1,034	1,404	-	4	1,400
Total Australia	3,822	58	39	3,841	4,341	127	15	4,453
Overseas								
Government securities	895	3	1	897	582	11	-	593
Treasury notes	-	-	-	-	5	-	-	5
Certificates of deposit	1,242	-	19	1,223	1,357	-	-	1,357
Eurobonds	947	36	-	983	1,223	56	19	1,260
Medium term notes	1,625	-	3	1,622	822	12	18	816
Floating rate notes	1,441	1	-	1,442	1,224	-	9	1,215
Other securities and equity investments	1,475	7	-	1,482	1,482	6	-	1,488
Total Overseas	7,625	47	23	7,649	6,695	85	46	6,734
Total Investment Securities	11,447	105	62	11,490	11,036	212	61	11,187

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 Group.

⁽¹⁾ Equity derivatives are in place to hedge equity market risk in respect of structured equity products for customers. There are \$31 million of net deferred gains on these contracts (2003: \$4 million net deferred gains) which offset the above unrealised losses and these are disclosed within Note 39. At the end of the financial year there were no net deferred gains or losses (2003: \$1 million of deferred losses) included in the amortised cost value.

Notes to the financial statements

NOTE 11 Investment Securities continued

Maturity Distribution and Average Yield

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

	GROUP								Total \$M	
	Maturity Period at 30 June 2004									
	1 to 12 months		1 to 5 years		5 to 10 years		10 years or more			
	\$M	%	\$M	%	\$M	%	\$M	%		
Australia										
Australian Public Securities										
Commonwealth and States	204	6.09	1,303	5.97	717	6.41	65	6.14		2,289
Bills of exchange	30	5.30	-	-	-	-	-	-		30
Medium term notes	425	7.40	23	9.19	-	-	-	-		448
Other securities, commercial paper and equity investments	334	5.03	721	5.61	-	-	-	-		1,055
Total Australia	993		2,047		717		65			3,822
Overseas										
Government securities	633	3.06	196	2.23	66	1.33	-	-		895
Certificates of deposit	1,228	2.16	14	0.74	-	-	-	-		1,242
Eurobonds	190	6.02	695	5.76	62	5.50	-	-		947
Medium term notes	92	5.72	942	3.82	591	4.21	-	-		1,625
Floating rate notes	446	4.16	722	3.88	232	4.00	41	1.02		1,441
Other securities, commercial paper and equity investments	16	4.26	529	4.68	930	5.81	-	-		1,475
Total Overseas	2,605		3,098		1,881		41			7,625
Total Investment Securities	3,598		5,145		2,598		106			11,447
Maturities at Fair Value	3,587		5,200		2,597		106			11,490

Additional Disclosure

Proceeds at or close to maturity of investment securities were \$24,407 million (2003: \$17,719 million; 2002: \$22,192 million).

Proceeds from sale of investment securities were \$697 million (2003: \$23 million; 2002: \$295 million).

Realised capital gains were \$6 million and realised capital losses were \$4 million (2003: realised capital gains \$7 million and realised capital losses \$5 million; 2002: realised capital gains \$86 million and realised capital losses \$14 million).

Notes to the financial statements

NOTE 12 Loans, Advances and Other Receivables

	2004	GROUP 2003	2004	BANK 2003
	\$M	\$M	\$M	\$M
Australia				
Overdrafts	2,423	2,452	2,423	2,452
Housing loans	104,883	87,592	101,717	87,149
Credit card outstandings	5,890	5,227	5,890	5,227
Lease financing	3,843	3,988	1,279	1,543
Bills discounted	3,454	2,303	3,454	2,303
Term loans	39,708	36,742	36,943	31,115
Redeemable preference share financing	37	-	37	-
Equity participation in leveraged leases	1,120	1,276	433	446
Other lending	420	604	587	618
Total Australia	<u>161,778</u>	<u>140,184</u>	<u>152,763</u>	<u>130,853</u>
Overseas				
Overdrafts	2,481	2,005	-	-
Housing loans	16,967	12,611	46	51
Credit card outstandings	358	296	-	-
Lease financing	175	197	81	80
Term loans	10,314	7,444	3,222	2,098
Redeemable preference share financing	262	511	-	-
Other lending	60	13	-	-
Total Overseas	<u>30,617</u>	<u>23,077</u>	<u>3,349</u>	<u>2,229</u>
Gross Loans, Advances and Other Receivables	<u>192,395</u>	<u>163,261</u>	<u>156,112</u>	<u>133,082</u>
Less				
Provisions for impairment (Note 13)				
General provision	(1,393)	(1,325)	(1,242)	(1,152)
Specific provision against loans and advances	(143)	(205)	(121)	(157)
Unearned income				
Term loans	(758)	(618)	(412)	(12)
Lease financing	(541)	(549)	(151)	(157)
Leveraged leases	(111)	(143)	(21)	(39)
Interest reserved	(23)	(26)	(23)	(25)
Unearned tax remissions on leveraged leases	(35)	(48)	(3)	(3)
	<u>(3,004)</u>	<u>(2,914)</u>	<u>(1,973)</u>	<u>(1,545)</u>
Net Loans, Advances and Other Receivables	<u>189,391</u>	<u>160,347</u>	<u>154,139</u>	<u>131,537</u>
Lease receivables, net of unearned income (included above)				
Current	1,072	1,402	592	743
Non current	2,405	2,234	617	724
	<u>3,477</u>	<u>3,636</u>	<u>1,209</u>	<u>1,467</u>

Leasing Arrangements

Retail Banking 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 of between three and five years and rentals are generally payable monthly in

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

Notes to the financial statements

NOTE 12 Loans, Advances and Other Receivables continued

	2004	GROUP	2004	BANK
	2003	2003	2003	2003
	\$M	\$M	\$M	\$M
Finance Leases				
Minimum lease payments receivable:				
No later than one year	1,189	1,385	640	826
Later than one year but not later than five years	1,861	2,082	570	686
Later than five years	968	718	150	111
Lease financing	<u>4,018</u>	<u>4,185</u>	<u>1,360</u>	<u>1,623</u>
Leverage Leases				
Minimum lease payments receivable:				
No later than one year	421	304	217	59
Later than one year but not later than five years	546	575	97	203
Later than five years	153	397	119	184
Equity Participation in Leveraged Leases	<u>1,120</u>	<u>1,276</u>	<u>433</u>	<u>446</u>

Notes to the financial statements

NOTE 12 Loans, Advances and Other Receivables continued

Maturity Distribution of Loans

The following table sets forth the contractual maturity distribution of the Group's loans, advances and other receivables (excluding bank acceptances) at 30 June 2004.

	GROUP			
	Maturity Period at 30 June 2004			
	Maturing One Year or Less \$M	Maturing Between One & Five Years \$M	Maturing After Five Years \$M	Total \$M
Australia				
Government and public authorities	241	339	552	1,132
Agriculture, forestry and fishing	1,451	1,595	879	3,925
Financial, investment and insurance	2,754	468	471	3,693
Real estate				
Mortgage ⁽¹⁾	14,417	13,411	77,055	104,883
Construction ⁽²⁾	3,786	718	294	4,798
Personal	5,029	5,139	47	10,215
Lease financing	1,564	2,299	1,100	4,963
Other commercial and industrial	17,889	7,343	2,937	28,169
Total Australia	<u>47,131</u>	<u>31,312</u>	<u>83,335</u>	<u>161,778</u>
Overseas				
Government and public authorities	69	78	35	182
Agriculture, forestry and fishing	619	1,292	1,366	3,277
Financial, investment and insurance	2,211	1,816	1,830	5,857
Real estate				
Mortgage ⁽¹⁾	2,268	5,220	9,479	16,967
Construction ⁽²⁾	5	2	-	7
Personal	375	39	1	415
Lease financing	66	109	-	175
Other commercial and industrial	2,094	1,091	552	3,737
Total Overseas	<u>7,707</u>	<u>9,647</u>	<u>13,263</u>	<u>30,617</u>
Gross Loans, Advances and Other Receivables	<u>54,838</u>	<u>40,959</u>	<u>96,598</u>	<u>192,395</u>
Interest Rate Sensitivity of Lending				
Australia	32,398	17,523	53,767	103,688
Overseas	3,558	2,827	3,935	10,320
Total Variable Interest Rates	<u>35,956</u>	<u>20,350</u>	<u>57,702</u>	<u>114,008</u>
Australia	14,733	13,789	29,568	58,090
Overseas	4,149	6,820	9,328	20,297
Total Fixed Interest Rates	<u>18,882</u>	<u>20,609</u>	<u>38,896</u>	<u>78,387</u>
Gross Loans, Advances and Other Receivables	<u>54,838</u>	<u>40,959</u>	<u>96,598</u>	<u>192,395</u>

⁽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 five years.

⁽²⁾ Financing real estate and land development projects.

Notes to the financial statements

NOTE 13 Provisions For Impairment

	2004	2003	2002	2001	GROUP 2000	2004	BANK 2003
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
General Provisions							
Opening balance	1,325	1,356	1,399	1,358	1,081	1,152	1,190
Charge against profit	276	305	449	385	196	263	266
Acquired provisions, including fair value adjustments	-	-	-	51	214	-	-
Transfer to specific provisions	(202)	(350)	(495)	(411)	(140)	(189)	(322)
Bad debts recovered	79	74	56	88	54	66	63
Adjustments for exchange rate fluctuations and other items	2	(9)	1	(29)	(3)	19	(3)
	1,480	1,376	1,410	1,442	1,402	1,311	1,194
Bad debts written off	(87)	(51)	(54)	(43)	(44)	(69)	(42)
Closing balance	1,393	1,325	1,356	1,399	1,358	1,242	1,152
Specific Provisions							
Opening balance	205	270	234	432	275	157	231
Charge against profit	-	-	-	-	-	-	-
Acquired provisions, including fair value adjustments	-	-	-	6	219	-	-
Transfer from general provision for New and increased provisioning	264	416	546	495	236	243	382
Less write-back of provisions no longer required	(62)	(66)	(51)	(84)	(96)	(54)	(60)
Net transfer	202	350	495	411	140	189	322
Adjustments for exchange rate fluctuations and other items	3	(11)	(11)	(17)	5	2	(17)
	410	609	718	832	639	348	536
Bad debts written off	(267)	(404)	(448)	(598)	(207)	(227)	(379)
Closing balance	143	205	270	234	432	121	157
Total Provisions for Impairment	1,536	1,530	1,626	1,633	1,790	1,363	1,309
Specific provisions for impairment comprise the following segments:							
Provisions against loans and advances	143	205	270	233	431	121	157
Provisions for diminution	-	-	-	1	1	-	-
Total	143	205	270	234	432	121	157
	%	%	%	%	%	%	%
Provision Ratios							
Specific provisions for impairment as % of gross impaired assets net of interest reserved	42.06	32.08	30.54	36.06	43.03	36.00	24.84
Total provisions for impairment as % of gross impaired assets net of interest reserved	451.76	239.44	183.94	251.62	178.29	403.55	207.25
General provisions as % of risk weighted assets	0.82	0.90	0.96	1.01	1.06	0.79	0.84
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Charge to profit and loss for bad and doubtful debts comprises:							
General provisions	276	305	449	385	196	263	266
Specific provisions	-	-	-	-	-	-	-
Total Charge for Bad and Doubtful Debts	276	305	449	385	196	263	266
Ratio of net charge-offs during the period to average gross loans, advances and other receivables outstanding during the period	0.16%	0.19%	0.31%	0.28%	0.16%	0.18%	0.21%

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

	GROUP		BANK	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M
Total charge for bad and doubtful debts	276	305	263	266
The charge is required for:				
Specific Provisioning				
New and increased provisioning	264	416	243	382
Less provisions no longer required	(62)	(66)	(54)	(60)
Net specific provisioning	202	350	189	322
Provided from general provision	(202)	(350)	(189)	(322)
Charge to profit and loss	-	-	-	-
General Provisioning				
Direct write-offs	87	51	69	42
Recoveries of amounts previously written off	(79)	(74)	(66)	(63)
Movement in general provision	66	(22)	71	(35)
Funding of specific provisions	202	350	189	322
Charge to profit and loss	276	305	263	266
Total Charge for Bad and Doubtful Debts	276	305	263	266

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 2000, 2001, 2002, 2003 and 2004.

	2004 \$M	2003 \$M	2002 \$M	2001 \$M	GROUP At 30 June
					2000 \$M
Australia					
Government and public authorities	-	-	-	-	-
Agriculture, forestry and fishing	2	3	10	8	35
Financial, investment and insurance	1	2	26	24	23
Real estate					
Mortgage ⁽¹⁾	6	6	6	4	8
Construction ⁽²⁾	4	-	4	6	6
Personal	38	36	35	28	17
Lease financing	3	4	6	7	6
Other commercial and industrial	74	112	134	77	110
Total Australia	128	163	221	154	205
Overseas					
Government and public authorities	-	10	11	15	13
Agriculture, forestry and fishing	-	1	-	-	-
Financial, investment and insurance	-	-	12	4	1
Real estate					
Mortgage ⁽¹⁾	6	7	3	7	3
Construction ⁽²⁾	-	-	-	-	-
Personal	8	4	3	3	69
Lease financing	-	-	-	-	-
Other commercial and industrial	1	20	20	51	141
Total Overseas	15	42	49	80	227
Total Specific Provisions	143	205	270	234	432

⁽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 ended 30 June 2000, 2001, 2002, 2003 and 2004.

	2004	2003	2002	GROUP Year Ended 30 June	
	\$M	\$M	\$M	2001	2000
				\$M	\$M
Bad Debts Written Off					
Australia					
Government and public authorities	-	-	-	-	-
Agriculture, forestry and fishing	2	4	6	10	6
Financial, investment and insurance	6	26	6	1	2
Real estate					
Mortgage ⁽¹⁾	5	8	11	10	8
Construction ⁽²⁾	1	-	4	14	24
Personal	228	209	177	142	104
Lease financing	8	11	18	16	11
Other commercial and industrial	75	171	178	301	90
Total Australia	325	429	400	494	245
Overseas					
Government and public authorities	6	-	1	-	-
Agriculture, forestry and fishing	-	-	-	-	-
Financial, investment and insurance	1	16	58	6	-
Real estate					
Mortgage ⁽¹⁾	1	2	2	1	1
Construction ⁽²⁾	-	-	-	-	-
Personal	7	7	6	38	4
Lease financing	-	-	-	-	-
Other commercial and industrial	14	1	35	102	1
Total Overseas	29	26	102	147	6
Gross Bad Debts Written Off	354	455	502	641	251
Bad Debts Recovered					
Australia	73	57	49	59	46
Overseas	6	17	7	29	8
Bad Debts Recovered	79	74	56	88	54
Net Bad Debts Written Off	275	381	446	553	197

⁽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 ended 30 June 2000, 2001, 2002, 2003 and 2004.

	GROUP				
	2004	2003	2002	Year Ended 30 June	
	\$M	\$M	\$M	2001	2000
				\$M	\$M
Australia					
Government and public authorities	-	-	-	-	-
Agriculture, forestry and fishing	5	1	1	-	2
Financial, investment and insurance	1	4	-	9	1
Real estate					
Mortgage ⁽¹⁾	1	-	1	1	1
Construction ⁽²⁾	-	-	-	1	2
Personal	50	38	30	30	28
Lease financing	3	2	-	1	2
Other commercial and industrial	13	12	17	17	10
Total Australia	73	57	49	59	46
Overseas					
Government and public authorities	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-
Financial, investment and insurance	1	1	1	-	2
Real estate					
Mortgage ⁽¹⁾	-	-	-	-	-
Construction ⁽²⁾	-	-	3	1	1
Personal	4	4	-	3	3
Lease financing	-	-	-	-	-
Other commercial and industrial	1	12	3	25	2
Total Overseas	6	17	7	29	8
Bad Debts Recovered	79	74	56	88	54

⁽¹⁾ Principally owner occupied housing.

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

Notes to the financial statements

NOTE 14 Credit Risk Management

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

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

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 the business unit 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 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 amount ultimately recoverable from the borrower.

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 Group'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 uses 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 Group is involved in credit derivative transactions, has purchased various assets in the market, and has carried out various asset securitisations and a Collateralised Loan Obligation issue.

Notes to the financial statements

NOTE 14 Credit Risk Management continued

Total Gross Credit Risk by Industry

The following table sets out the Group's total gross credit risk by industry as at 30 June 2000, 2001, 2002, 2003 and 2004. The industry profile of the loans, advances and other receivables content for the five financial years to 30 June 2004 is shown on page 93.

Industry	GROUP				
	2004	2003	2002	2001	At 30 June 2000
	\$M	\$M	\$M	\$M	\$M
Australia					
Government and public authorities	5,672	5,810	5,955	6,012	6,195
Agriculture, forestry and fishing	5,616	5,100	5,480	6,308	6,141
Financial, investment and insurance	26,301	19,867	20,926	22,490	20,908
Real estate					
Mortgage ⁽¹⁾	110,209	91,956	85,032	73,800	63,696
Construction ⁽²⁾	5,791	2,722	3,837	4,547	4,205
Personal	10,665	12,327	11,718	10,979	12,911
Lease financing	4,963	5,264	5,425	6,628	6,937
Other commercial and industrial	57,539	51,469	43,531	42,893	47,297
Total Australia	226,756	194,515	181,904	173,657	168,290
Overseas					
Government and public authorities	2,307	1,709	1,390	385	1,152
Agriculture, forestry and fishing	3,277	2,278	1,863	1,564	1,017
Financial, investment and insurance	22,098	14,828	14,192	11,897	8,008
Real estate					
Mortgage ⁽¹⁾	17,722	13,428	10,735	8,085	7,268
Construction ⁽²⁾	8	210	185	198	152
Personal	420	1,391	343	449	1,487
Lease financing	175	197	256	146	217
Other commercial and industrial	6,144	9,080	10,173	10,359	10,300
Total Overseas	52,151	43,121	39,137	33,083	29,601
Total Gross Credit Risk	278,907	237,636	221,041	206,740	197,891
Less Unearned Income	(1,410)	(1,310)	(1,219)	(1,343)	(1,465)
Total Credit Risk	277,497	236,326	219,822	205,397	196,426
Charge for Bad and Doubtful Debts	276	305	449	385	196
Loss Rate ⁽³⁾	0.10%	0.13%	0.20%	0.19%	0.11%

⁽¹⁾ Principally owner occupied housing.

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

⁽³⁾ The loss rate is the charge as a percentage of the credit risk.

The Group has a good quality and well diversified credit portfolio in Australia, with 48.7% of the exposure in mortgage loans and a further 11.6% in finance, investment and insurance (primarily banks). 18.7% of exposure is overseas, of which 34.0% is in mortgage loans. Overall over 67% of individually risk rated exposures in the commercial portfolio (including government and finance) are of investment grade or equivalent quality.

Notes to the financial statements

NOTE 14 Credit Risk Management continued

The following table sets out the Group's credit risk by industry and asset class at 30 June 2004.

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	1,735	2,289	1,132	11	437	68	5,672
Agriculture, forestry and fishing	-	-	3,925	1,517	65	109	5,616
Financial, investment and insurance	6,664	-	3,693	684	1,186	9,160	21,387
Real estate	-	-	-	-	-	-	-
Mortgage ⁽¹⁾	-	-	104,883	-	5,326	-	110,209
Construction ⁽²⁾	-	-	4,798	302	642	49	5,791
Personal	-	-	10,215	333	116	1	10,665
Lease financing	-	-	4,963	-	-	-	4,963
Other commercial and industrial	2,911	1,533	28,169	12,172	5,956	6,798	57,539
Total Australia	11,310	3,822	161,778	15,019	13,728	16,185	221,842
Overseas							
Government and public authorities	1,050	902	182	-	98	37	2,269
Agriculture, forestry and fishing	-	-	3,277	-	-	-	3,277
Financial, investment and insurance	2,058	5,592	5,857	-	1,733	3,403	18,643
Real estate	-	-	-	-	-	-	-
Mortgage ⁽¹⁾	-	-	16,967	-	755	-	17,722
Construction ⁽²⁾	-	-	7	-	1	-	8
Personal	-	-	415	-	2	3	420
Lease financing	-	-	175	-	-	-	175
Other commercial and industrial	478	1,131	3,737	-	551	247	6,144
Total Overseas	3,586	7,625	30,617	-	3,140	3,690	48,658
Gross Balances	14,896	11,447	192,395	15,019	16,868	19,875	270,500
Other Risk Concentrations							
Receivables due from other financial institutions							8,369
Deposits with regulatory authorities							38
Total Gross Credit Risk							278,907

⁽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 Assets and Note 39, Market Risk respectively.

Notes to the financial statements

NOTE 14 Credit Risk Management continued

The following table sets out the Group's credit risk by industry and asset class as at 30 June 2003.

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	1,703	1,995	1,505	2	494	111	5,810
Agriculture, forestry and fishing	-	-	3,677	1,281	74	68	5,100
Financial, investment and insurance	3,089	-	2,024	699	1,766	8,964	16,542
Real estate							
Mortgage ⁽¹⁾	-	-	87,592	-	4,364	-	91,956
Construction ⁽²⁾	-	-	1,701	387	420	214	2,722
Personal	-	-	11,972	263	90	2	12,327
Lease financing	-	-	5,264	-	-	-	5,264
Other commercial and industrial	1,542	2,346	26,449	10,490	4,499	6,143	51,469
Total Australia	6,334	4,341	140,184	13,122	11,707	15,502	191,190
Overseas							
Government and public authorities	698	582	222	-	148	36	1,686
Agriculture, forestry and fishing	-	-	2,278	-	-	-	2,278
Financial, investment and insurance	1,135	3,143	3,210	62	1,773	1,764	11,087
Real estate							
Mortgage ⁽¹⁾	-	-	12,611	-	817	-	13,428
Construction ⁽²⁾	-	-	209	-	-	1	210
Personal	-	-	1,391	-	-	-	1,391
Lease financing	-	-	197	-	-	-	197
Other commercial and industrial	2,268	2,970	2,959	13	662	208	9,080
Total Overseas	4,101	6,695	23,077	75	3,400	2,009	39,357
Gross Balances	10,435	11,036	163,261	13,197	15,107	17,511	230,547
Other Risk Concentrations							
Receivables due from other financial institutions							7,066
Deposits with regulatory authorities							23
Total Gross Credit Risk							237,636

⁽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 2004.

Industry	Total Risk	Impaired Provisions for			Recoveries	Net Write-offs
	\$M	Assets \$M	Impairment \$M	Write-offs \$M		
Australia						
Government and public authorities	5,672	-	-	-	-	-
Agriculture, forestry and fishing	5,616	19	2	2	(5)	(3)
Financial, investment and insurance	21,387	6	1	6	(1)	5
Real estate						
Mortgage ⁽¹⁾	110,209	-	6	5	(1)	4
Construction ⁽²⁾	5,791	15	4	1	-	1
Personal	10,665	6	38	228	(50)	178
Lease financing	4,963	5	3	8	(3)	5
Other commercial and industrial	57,539	294	74	75	(13)	62
Total Australia	221,842	345	128	325	(73)	252
Overseas						
Government and public authorities	2,269	-	-	6	-	6
Agriculture, forestry and fishing	3,277	-	-	-	-	-
Financial, investment and insurance	18,643	5	-	1	(1)	-
Real estate						
Mortgage ⁽¹⁾	17,722	11	6	1	-	1
Construction ⁽²⁾	8	-	-	-	-	-
Personal	420	1	8	7	(4)	3
Lease financing	175	-	-	-	-	-
Other commercial and industrial	6,144	1	1	14	(1)	13
Total Overseas	48,658	18	15	29	(6)	23
Gross Balances	270,500	363	143	354	(79)	275
Receivables due from other financial institutions	8,369					
Deposits with regulatory authorities	38					
Total Gross Credit Risk	278,907					

⁽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 2003.

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	5,810	-	-	-	-	-
Agriculture, forestry and fishing	5,100	19	3	4	(1)	3
Financial, investment and insurance	16,542	6	2	26	(4)	22
Real estate						
Mortgage ⁽¹⁾	91,956	-	6	8	-	8
Construction ⁽²⁾	2,722	5	-	-	-	-
Personal	12,327	11	36	209	(38)	171
Lease financing	5,264	12	4	11	(2)	9
Other commercial and industrial	51,469	492	112	171	(12)	159
Total Australia	191,190	545	163	429	(57)	372
Overseas						
Government and public authorities	1,686	46	10	-	-	-
Agriculture, forestry and fishing	2,278	-	1	-	-	-
Financial, investment and insurance	11,087	5	-	16	(1)	15
Real estate						
Mortgage ⁽¹⁾	13,428	-	7	2	-	2
Construction ⁽²⁾	210	-	-	-	-	-
Personal	1,391	1	4	7	(4)	3
Lease financing	197	-	-	-	-	-
Other commercial and industrial	9,080	68	20	1	(12)	(11)
Total Overseas	39,357	120	42	26	(17)	9
Gross Balances	230,547	665	205	455	(74)	381
Receivables due from other financial institutions	7,066					
Deposits with regulatory authorities	23					
Total Gross Credit Risk	237,636					

⁽¹⁾ Principally owner occupied housing.

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

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 Bank's counterparty Corporate and Industrial exposures (including direct and contingent exposure) which individually were greater than 5% of the Group's capital resources (Tier One and Tier Two capital):

	2004 Number	2003 Number	2002 Number	2001 Number	2000 Number
10% to less than 15% of Group's capital resources	-	-	-	-	-
5% to less than 10% of Group's capital resources	1	-	1	2	1

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 2000, 2001, 2002, 2003 and 2004.

Industry	2004	2003	2002	2001	At 30 June 2000
	\$M	\$M	\$M	\$M	\$M
Australia					
Government and public authorities	1,132	1,505	2,466	1,655	1,681
Agriculture, forestry and fishing	3,925	3,677	3,893	4,734	4,686
Financial, investment and insurance	3,693	2,024	1,435	4,670	5,167
Real estate					
Mortgage ⁽¹⁾	104,883	87,592	75,394	65,466	63,471
Construction ⁽²⁾	4,798	1,701	2,182	2,548	2,627
Personal	10,215	11,972	11,488	10,576	11,759
Lease financing	4,963	5,264	5,425	6,628	6,937
Other commercial and industrial	28,169	26,449	26,866	25,782	23,603
Total Australia	161,778	140,184	129,149	122,059	119,931
Overseas					
Government and public authorities	182	222	204	165	204
Agriculture, forestry and fishing	3,277	2,278	1,863	1,258	996
Financial, investment and insurance	5,857	3,210	3,035	2,824	2,278
Real estate					
Mortgage ⁽¹⁾	16,967	12,611	10,444	8,045	7,266
Construction ⁽²⁾	7	209	185	177	152
Personal	415	1,391	337	440	1,470
Lease financing	175	197	256	146	217
Other commercial and industrial	3,737	2,959	4,573	4,081	3,254
Total Overseas	30,617	23,077	20,897	17,136	15,837
Gross Loans, Advances and Other Receivables	192,395	163,261	150,046	139,195	135,768
Provisions for bad and doubtful debts, unearned income, interest reserved and unearned tax remissions on leverage leases	(3,004)	(2,914)	(2,972)	(3,136)	(3,504)
Net Loans, Advances and Other Receivables	189,391	160,347	147,074	136,059	132,264

⁽¹⁾ Principally owner occupied housing.

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

Notes to the financial statements

NOTE 15 Asset Quality

Impaired Assets

The Group follows the Australian disclosure requirements for impaired assets contained in AASB 1032: Specific Disclosures by Financial Institutions.

There are three classifications of impaired assets:

(a) Non accruals, comprising:

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

All interest charged in the 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, comprising: 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 Group 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 Group has assumed ownership or foreclosed in settlement of a debt.

	2004	2003	GROUP 2002
	%	%	%
Impaired Asset Ratios			
Gross impaired assets net of interest reserved as percentage of risk weighted assets	0.20	0.44	0.63
Net impaired assets as percentage of:			
Risk weighted assets	0.12	0.30	0.44
Total shareholders' equity	0.79	1.96	2.92

Accounting by Creditors for Impairment of Loans

(US GAAP Definitions)

	2004	2003	GROUP Year Ended 30 June 2002
	\$M	\$M	\$M
Impaired Loans (non accrual)	346	651	920
Impaired Loans with allowance for credit losses	194	530	673
- allowance for credit losses	94	159	225
Impaired Loans with no allowance for credit loss	152	121	247
Average investment in Impaired Loans	499	786	810
Income recognised on Impaired Loans	14	30	30

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 2000, 2001, 2002, 2003 and 2004.

	2004	2003	2002	2001	GROUP At 30 June 2000
	\$M	\$M	\$M	\$M	\$M
Australia					
Non-accrual loans:					
Gross balances	345	545	732	518	722
Less interest reserved	(23)	(25)	(54)	(63)	(128)
Gross balance (net of interest reserved)	322	520	678	455	594
Less provisions for impairment	(128)	(163)	(221)	(154)	(205)
Net Non-Accrual Loans	194	357	457	301	389
Restructured loans:					
Gross balances	-	-	-	1	1
Less interest reserved	-	-	-	-	-
Gross balance (net of interest reserved)	-	-	-	1	1
Less specific provisions	-	-	-	-	-
Net Restructured Loans	-	-	-	1	1
Assets Acquired Through Security Enforcement (AATSE):					
Gross balances	-	-	-	-	1
Less provisions for impairment	-	-	-	-	-
Net AATSE	-	-	-	-	1
Net Australian Impaired Assets	194	357	457	302	391
Overseas					
Non-accrual loans:					
Gross balances	18	120	211	197	410
Less interest reserved	-	(1)	(5)	(5)	(3)
Gross balance (net of interest reserved)	18	119	206	192	407
Less provisions for impairment	(15)	(42)	(49)	(79)	(226)
Net Non-Accrual Loans	3	77	157	113	181
Restructured loans:					
Gross balances	-	-	-	-	-
Less interest reserved	-	-	-	-	-
Gross balance (net of interest reserved)	-	-	-	-	-
Less specific provisions	-	-	-	-	-
Net Restructured Loans	-	-	-	-	-
Asset Acquired Through Security Enforcement (AATSE):					
Gross balances	-	-	-	1	1
Less provisions for impairment	-	-	-	(1)	(1)
Net AATSE	-	-	-	-	-
Net overseas impaired assets	3	77	157	113	181
Total Net Impaired Assets	197	434	614	415	572

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 2000, 2001, 2002, 2003 and 2004.

	GROUP				
	Year Ended 30 June				
	2004	2003	2002	2001	2000
Gross Impaired Assets	\$M	\$M	\$M	\$M	\$M
Gross impaired assets at period beginning	665	943	717	1,135	657
New and increased	532	617	1,069	707	414
Balances written off	(278)	(456)	(481)	(666)	(226)
Returned to performing or repaid	(556)	(439)	(362)	(459)	(194)
	363	665	943	717	651
Colonial impaired assets	-	-	-	-	484
Gross Impaired Assets at Period End	363	665	943	717	1,135

	GROUP				
	At 30 June				
	2004	2003	2002	2001	2000
Loans Accruing But Past Due 90 Days or More	\$M	\$M	\$M	\$M	\$M
Accruing loans past due 90 days or more					
Housing loans	168	157	176	218	211
Other loans	78	91	73	90	64
Total	246	248	249	308	275

	GROUP				
	Year Ended 30 June				
	2004	2003	2002	2001	2000 ⁽¹⁾
Net Interest Foregone on Impaired Assets	\$M	\$M	\$M	\$M	\$M
Interest income forgone					
Australia non accrual facilities	10	15	21	8	4
Overseas non accrual facilities	-	3	7	8	5
Total	10	18	28	16	9

	GROUP				
	Year Ended 30 June				
	2004	2003	2002	2001	2000 ⁽¹⁾
Interest Taken to Profit on Impaired Assets	\$M	\$M	\$M	\$M	\$M
Australia					
Non accrual facilities	11	26	27	37	45
Restructured facilities	-	-	-	-	-
Overseas					
Non accrual facilities	3	4	3	14	6
OREO	-	-	-	-	-
Total Interest Taken to Profit	14	30	30	51	51

⁽¹⁾ Excluding Colonial

Notes to the financial statements

NOTE 15 Asset Quality continued

Impaired Assets

	Australia 2004 \$M	Overseas 2004 \$M	GROUP Total 2004 \$M	Australia 2003 \$M	Overseas 2003 \$M	GROUP Total 2003 \$M
Non Accrual Loans						
With provisions	193	13	206	431	113	544
Without provisions	152	5	157	114	7	121
Gross Balances	345	18	363	545	120	665
Less interest reserved	(23)	-	(23)	(25)	(1)	(26)
Net Balances	322	18	340	520	119	639
Less provisions for impairment	(128)	(15)	(143)	(163)	(42)	(205)
Net Non Accrual Loans	194	3	197	357	77	434
Restructured Loans						
Gross balances	-	-	-	-	-	-
Less interest reserved	-	-	-	-	-	-
Net balances	-	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-	-
Net Restructured Loans	-	-	-	-	-	-
Other Real Estate Owned (OREO)						
Gross balances	-	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-	-
Net OREO	-	-	-	-	-	-
Other Assets Acquired Through Security Enforcement (OAATSE)						
Gross balances	-	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-	-
Net OAATSE	-	-	-	-	-	-
Total Impaired Assets						
Gross balances	345	18	363	545	120	665
Less interest reserved	(23)	-	(23)	(25)	(1)	(26)
Net balances	322	18	340	520	119	639
Less provisions for impairment	(128)	(15)	(143)	(163)	(42)	(205)
Net Impaired Assets	194	3	197	357	77	434
Non Accrual Loans by Size of Loan						
Less than \$1 million	108	13	121	158	1	159
\$1 million to \$10 million	114	5	119	138	6	144
Greater than \$10 million	123	-	123	249	113	362
Total	345	18	363	545	120	665
Accruing Loans 90 days past due or more⁽¹⁾	224	22	246	227	21	248

⁽¹⁾ These are loans that are well secured and not classified as impaired assets but which are in arrears 90 days or more. Interest on these loans continues to be taken to profit.

Notes to the financial statements

NOTE 15 Asset Quality continued

Colonial State Bank

Indemnified Loan Book

Pursuant to the Sale Agreement between Colonial and the New South Wales Government, Colonial State Bank's loan book as at 31 December 1994 and any further loan losses (including interest) arising are indemnified by the NSW Government. This indemnity is to the extent of 90% of the losses after an initial \$60 million (which was provided for by Colonial State Bank as at 31 December 1994). All loans (other than impaired loans) were 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 that are covered by the loan indemnities are reimbursed by the NSW Government on a quarterly basis.

Selected Regional Exposures

Asia

Over 66% of total exposures relate to financial institutions. Exposures to Indonesia, Thailand and Korea represent approximately 25% of the Group's Asian credit risk.

The Group's credit risk exposure to Asian countries as at 30 June 2004 is set out below. The exposures exclude Group equity investments.

Country	CUSTOMER TYPE						GROUP	
	Finance	Corporate/ Multinational	Government	Project Finance ⁽¹⁾	APL/NZPL	2004 Total Exposure ⁽²⁾	2003 Total Exposure	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	
China	171	5	-	-	1	177	165	
Hong Kong	803	462	-	-	227	1,492	1,878	
	974	467	-	-	228	1,669	2,043	
Japan	411	94	35	-	6	546	759	
Malaysia	100	240	40	-	-	380	111	
Singapore	592	244	7	-	37	880	498	
Phillipines	641	-	-	-	-	641	-	
Taiwan	313	1	-	-	-	314	22	
Other	1	2	-	-	-	3	2	
	2,058	581	82	-	43	2,764	1,392	
Indonesia	17	16	171	32	10	246	137	
South Korea	636	85	264	-	-	985	477	
Thailand	199	4	17	-	-	220	91	
	852	105	452	32	10	1,451	705	
Total	3,884	1,153	534	32	281	5,884	4,140	

Other Regional Exposures

Region	CUSTOMER TYPE						GROUP	
	Finance	Corporate/ Multinational	Government	Project Finance ⁽¹⁾	APL/NZPL	2004 Total Exposure ⁽²⁾	2003 Total Exposure	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	
Eastern Europe	-	1	-	-	-	1	-	
Latin America	-	-	-	-	-	-	-	
Middle East	65	8	-	-	-	73	56	

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

(2) 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.

Notes to the financial statements

NOTE 16 Insurance Investment Assets

	2004 \$M	GROUP 2003 \$M
Equity Security Investments		
Direct	4,433	3,559
Indirect	8,025	8,408
	12,458	11,967
Debt Security Investments		
Direct	3,518	3,574
Indirect	7,710	8,273
	11,228	11,847
Property Investments		
Direct	80	80
Indirect	2,330	2,151
	2,410	2,231
Other Assets	2,846	1,790
Total Insurance Investment Assets	28,942	27,835

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

Disclosure on Asset Restriction

Investments held in the Australian 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

	2004 \$M	GROUP 2003 \$M	2004 \$M	BANK 2003 \$M
Central Banks Overseas	38	23	4	2
Total Deposits with Regulatory Authorities	38	23	4	2

NOTE 18 Shares in and Loans to Controlled Entities

	2004 \$M	GROUP 2003 \$M	2004 \$M	BANK 2003 \$M
Shares in controlled entities	-	-	12,156	11,772
Loans to controlled entities	-	-	11,521	11,787
Total Shares in and Loans to Controlled Entities	-	-	23,677	23,559

Notes to the financial statements

NOTE 19 Property, Plant and Equipment

	GROUP		BANK	
	2004	2003	2004	2003
	\$M	\$M	\$M	\$M
(a) Land and Buildings				
Land				
At 30 June 2004 valuation	160	-	148	-
At 30 June 2003 valuation	-	141	-	129
Closing balance	160	141	148	129
Buildings				
At 30 June 2004 valuation	253	-	231	-
At 30 June 2003 valuation	-	302	-	233
Closing balance	253	302	231	233
Total Land and Buildings	413	443	379	362
These valuations were established by the Directors and are lower than valuations prepared by independent valuers. This valuation process is conducted on an annual basis.				
(b) Leasehold Improvements				
At cost	657	579	545	458
Provision for depreciation	(376)	(351)	(310)	(283)
Closing balance	281	228	235	175
(c) Equipment				
At cost	639	557	333	279
Provision for depreciation	(448)	(407)	(225)	(208)
Closing balance	191	150	108	71
(d) Assets Under Lease				
At cost	67	-	-	-
Provision for depreciation	-	-	-	-
Closing balance	67	-	-	-
(e) Investment Property ⁽¹⁾				
At cost	252	-	-	-
Total Property, Plant and Equipment	1,204	821	722	608

⁽¹⁾ This investment represents a 50% interest in a long term freehold lease over property.

Notes to the financial statements

NOTE 19 Property, Plant and Equipment continued

Reconciliation	2004	GROUP	2004	BANK
	\$M	2003	\$M	2003
		\$M		\$M
Reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the 2004 and 2003 financial years.				
Land				
Opening balance	141	160	129	149
Disposals	(8)	(19)	(3)	(20)
Net revaluations	27	-	22	-
Closing balance	160	141	148	129
Buildings				
Opening balance	302	358	233	276
Acquisitions	2	1	-	1
Disposals	(57)	(33)	(5)	(24)
Revaluation	27	-	21	-
Depreciation	(21)	(24)	(18)	(20)
Closing balance	253	302	231	233
Leasehold Improvements				
Opening balance	228	205	175	158
Acquisitions	119	78	117	62
Disposals	(11)	(4)	(12)	(4)
Depreciation	(55)	(51)	(45)	(41)
Closing balance	281	228	235	175
Equipment				
Opening balance	150	139	71	58
Acquisitions	96	64	58	35
Disposals	(4)	-	-	-
Depreciation	(51)	(53)	(21)	(22)
Closing balance	191	150	108	71
Assets Under Lease				
Opening balance	-	-	-	-
Acquisitions	67	-	-	-
Depreciation	-	-	-	-
Closing balance	67	-	-	-
Investment Property				
Opening balance	-	-	-	-
Acquisitions	252	-	-	-
Closing balance	252	-	-	-

Notes to the financial statements

NOTE 20 Intangible Assets

	GROUP		BANK	
	2004	2003	2004	2003
	\$M	\$M	\$M	\$M
Purchased goodwill - Colonial	5,591	5,591	2,671	2,671
Purchased goodwill - Other	1,155	1,155	835	835
Realisation of life insurance synergy benefits	(332)	(332)	-	-
Accumulated amortisation	(1,709)	(1,385)	(984)	(798)
Total Intangibles	4,705	5,029	2,522	2,708

Segment Allocation of Goodwill

In recognition of the disclosure requirements of US SFAS 141: Business Combinations and the Australian Accounting Standard AASB 138: Intangible Assets (effective 1 July 2005), the Group's carrying amount of goodwill at 30 June 2004 is disclosed for each segment of business.

Segment	2004	2003
	\$M	\$M
Banking ⁽¹⁾	4,379	4,681
Funds Management ⁽²⁾	253	270
Insurance ⁽²⁾	73	78
Total	4,705	5,029

(1) The allocation to banking includes goodwill related to the acquisitions of Colonial, State Bank of Victoria and 25% of ASB Bank.

(2) The allocation to funds management and insurance principally relates to the goodwill on acquisition of Colonial.

Additional to the Colonial goodwill acquired, \$2,548 million in excess of net market value over net assets of life insurance controlled entities was booked at acquisition of the Colonial funds management and life insurance businesses in June 2000.

Notes to the financial statements

NOTE 21 Other Assets

	GROUP		BANK	
	2004	2003	2004	2003
	\$M	\$M	\$M	\$M
Accrued interest receivable	1,208	1,023	1,247	1,239
Shares in other companies	223	145	80	50
Accrued fees/reimbursements receivable	600	492	602	268
Securities sold not delivered	1,540	727	1,347	500
Future income tax benefits	564	525	423	312
Excess of net market value over net assets of life insurance controlled entities	5,741	5,540	-	-
Excess related to outside equity interests ⁽¹⁾	111	111	-	-
Unrealised gains on trading derivatives (Note 39)	12,827	13,907	12,798	13,908
Intergroup current tax receivable	-	-	104	-
Intergroup deferred tax receivable	-	-	317	-
Other ⁽²⁾	2,478	989	1,931	471
Total Other Assets	25,292	23,459	18,849	16,748

⁽¹⁾ This is an outside equity interest in a funds management business acquired during 2003, and is not included in the revaluation in Note 34 Life Insurance Business.

⁽²⁾ Increase primarily relates to increased volume and exchange rate increments receivable on forward foreign exchange balance sheet hedging contracts.

Potential future income tax benefits of the Company arising from:

- Capital losses arising under the tax consolidations system; and
- Tax losses and timing differences in offshore centres, have not been recognised as assets because recovery is not virtually certain.

These benefits could amount to:

- \$34 million in tax consolidation potential benefits; and
- \$136 million (2003: \$142 million) in offshore centres.

These potential tax benefits will only be obtained if:

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

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

	GROUP		
	At 30 June 2004		
	Market Value	Net Assets	Excess of Market Value Over Net Assets
	\$M	\$M	\$M
Commonwealth and Colonial entities	7,424	2,246	5,178
ASB entities	978	415	563
	8,402	2,661	5,741
	GROUP		
	At 30 June 2003		
	Market Value	Net Assets	Excess of Market Value Over Net Assets
	\$M	\$M	\$M
Commonwealth and Colonial entities	7,697	2,626	5,071
ASB entities	849	380	469
	8,546	3,006	5,540

Notes to the financial statements

NOTE 22 Deposits and Other Public Borrowings

	GROUP		BANK	
	2004	2003	2004	2003
	\$M	\$M	\$M	\$M
Australia				
Certificates of deposit	20,516	11,228	20,516	11,228
Term deposits	38,530	32,398	36,714	30,992
On demand and short term deposits	71,115	68,507	71,289	68,932
Deposits not bearing interest	5,407	5,001	5,431	5,031
Securities sold under agreements to repurchase and short sales	3,585	3,231	3,648	2,688
Total Australia	139,153	120,365	137,598	118,871
Overseas				
Certificates of deposit	3,716	2,900	1,906	1,130
Term deposits	11,724	10,326	2,448	2,295
On demand and short term deposits	6,852	5,871	73	59
Deposits not bearing interest	1,174	921	11	7
Securities sold under agreements to repurchase and short sales	558	591	433	584
Total Overseas	24,024	20,609	4,871	4,075
Total Deposits and Other Public Borrowings	163,177	140,974	142,469	122,946

Maturity Distribution of Certificates of Deposit and Time Deposits

The following table sets forth the maturity distribution of the Group's certificates of deposit and time deposits as at 30 June 2004.

	GROUP At 30 June 2004				
	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⁾	16,874	1,222	293	2,127	20,516
Time deposits	20,777	12,890	3,087	1,776	38,530
Total Australia	37,651	14,112	3,380	3,903	59,046
Overseas					
Certificates of deposit ⁽¹⁾	2,728	711	276	1	3,716
Time deposits	8,484	1,894	818	528	11,724
Total Overseas	11,212	2,605	1,094	529	15,440
Total Certificates of Deposit and Time Deposits	48,863	16,717	4,474	4,432	74,486

⁽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

	2004	GROUP	2004	BANK
	\$M	2003	\$M	2003
		\$M		\$M
Australia	2,383	2,527	2,383	2,527
Overseas	4,258	5,011	4,228	4,977
Total Payables to Other Financial Institutions	6,641	7,538	6,611	7,504

NOTE 24 Income Tax Liability

	2004	GROUP	2004	BANK
	\$M	2003	\$M	2003
		\$M		\$M
Australia				
Provision for income tax	402	433	352	355
Provision for deferred income tax	355	414	332	162
Total Australia	757	847	684	517
Overseas				
Provision for income tax	25	29	6	10
Provision for deferred income tax	29	-	-	-
Total Overseas	54	29	6	10
Total Income Tax Liability	811	876	690	527

Notes to the financial statements

NOTE 25 Other Provisions

	GROUP		BANK	
	2004	2003	2004	2003
	\$M	\$M	\$M	\$M
Provision for:				
Long service leave	300	300	293	294
Annual leave	130	143	112	127
Other employee entitlements	98	117	98	116
Which new Bank costs	208	-	208	-
Restructuring costs	-	30	-	29
General insurance claims	79	66	-	-
Self insurance/non lending losses	60	56	59	55
Other	122	107	49	63
Total Other Provisions	997	819	819	684

	GROUP		BANK	
	2004	2003	2004	2003
	\$M	\$M	\$M	\$M
Which new Bank costs:				
Opening balance	-	-	-	-
Additional provision	208	-	208	-
Amounts utilised during the year	-	-	-	-
Closing balance	208	-	208	-
Restructuring costs:				
Opening balance	30	35	29	21
Additional provision	-	20	-	20
Amounts utilised during the year	(30)	(25)	(29)	(12)
Closing balance	-	30	-	29
General insurance claims:				
Opening balance	66	63	-	-
Additional provision	44	75	-	-
Amounts utilised during the year	(31)	(72)	-	-
Closing balance	79	66	-	-
Self insurance/non lending losses:				
Opening balance	56	55	55	53
Additional provision	13	11	13	12
Amounts utilised during the year	(9)	(10)	(9)	(10)
Closing balance	60	56	59	55
Other:				
Opening balance	107	77	63	30
Additional provision	70	51	6	39
Amounts utilised during the year	(54)	(18)	(20)	(6)
Foreign exchange translation adjustment	(1)	(3)	-	-
Closing balance	122	107	49	63

Notes to the financial statements

NOTE 26 Debt Issues

	GROUP		BANK	
	2004	2003	2004	2003
	\$M	\$M	\$M	\$M
Short term debt issues	20,401	17,255	6,127	6,577
Long term debt issues	23,641	13,374	18,322	10,107
Total Debt Issues	44,042	30,629	24,449	16,684
Short Term Debt Issues				
AUD Promissory Notes	1,450	1,643	-	-
AUD Bank Bills	490	777	-	-
US Commercial Paper	9,381	6,163	-	-
Euro Commercial Paper	3,638	5,738	2,498	3,842
Long Term Debt Issues with less than One Year to Maturity	5,442	2,934	3,629	2,735
Total Short Term Debt Issues	20,401	17,255	6,127	6,577
Long Term Debt Issues				
USD Medium Term Notes	8,790	4,517	8,146	4,517
AUD Medium Term Notes	4,453	3,510	2,813	2,307
JPY Medium Term Notes	734	414	520	414
GBP Medium Term Notes	3,837	1,799	1,981	-
Other Currencies Medium Term Notes	5,583	2,752	4,822	2,682
Offshore Loans (all JPY)	40	187	40	187
Eurobonds	204	195	-	-
Total Long Term Debt Issues	23,641	13,374	18,322	10,107
Maturity Distribution of Debt Issues				
Less than 3 months	6,949	13,348	1,925	3,994
3 months to 12 months	13,452	3,907	4,202	2,696
Between 1 and 5 years	17,542	10,426	12,224	7,958
Greater than 5 years	6,099	2,948	6,098	2,036
Total Debt Issues	44,042	30,629	24,449	16,684

The Bank has a Euro Medium Term Note programme under which it may issue notes ("EMTNs") up to an aggregate amount of USD25 billion. Notes issued under the programme are both fixed and variable rates. Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework.

Subsequent to 30 June 2004, the Bank has issued:

- USD medium term notes: 3 months to less than 12 months – USD26 million (AUD38 million); between 1 and 5 years – USD964 million (AUD1,379 million); greater than 5 years – USD468 million (AUD669 million);
- CHF medium term notes: between 1 and 5 years – CHF250million (AUD287 million);
- EUR medium term notes: 3 months to less than 12 months – EUR6.7 million (AUD11.5 million); between 1 and 5 years – EUR356 million (AUD613 million); greater than 5 years – EUR2.5 million (AUD4.3 million);

- JPY medium term notes: Greater than 5 years – JPY1.2 billion (AUD15.3 million);
- CAD medium term notes: between 1 and 5 years – CAD400 million (AUD431 million); and
- HKD medium terms notes: Greater than 5 years – HKD202 million (AUD307 million).

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

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

Notes to the financial statements

NOTE 26 Debt Issues continued

Short Term Borrowings

The following table analyses the Group's short term borrowings for the financial years ended 30 June 2002, 2003 and 2004.

	GROUP		
	Year Ended 30 June		
	2004	2003	2002
	(AUD Millions, except where indicated)		
US Commercial Paper			
Outstanding at period end ⁽¹⁾	9,381	6,163	6,082
Maximum amount outstanding at any month end ⁽²⁾	11,983	8,973	7,158
Approximate average amount outstanding ⁽²⁾	8,161	5,890	6,173
Approximate weighted average rate on:			
Average amount outstanding	1.1%	1.4%	2.3%
Outstanding at period end	1.2%	1.2%	1.8%
Euro Commercial Paper			
Outstanding at period end ⁽¹⁾	3,638	5,738	2,651
Maximum amount outstanding at any month end ⁽²⁾	6,402	5,990	3,805
Approximate average amount outstanding ⁽²⁾	4,798	3,132	2,883
Approximate weighted average rate on:			
Average amount outstanding	1.0%	1.3%	1.2%
Outstanding at period end	1.2%	1.1%	0.9%
Bill Reliquification ⁽³⁾			
Outstanding at period end ⁽¹⁾	-	-	72
Maximum amount outstanding at any month end ⁽²⁾	-	250	564
Approximate average amount outstanding ⁽²⁾	-	23	268
Approximate weighted average rate on:			
Average amount outstanding	-	4.9%	4.8%
Outstanding at period end	-	-	5.0%
Other Commercial Paper			
Outstanding at period end ⁽¹⁾	1,940	2,420	2,750
Maximum amount outstanding at any month end ⁽²⁾	3,216	3,066	3,455
Approximate average amount outstanding ⁽²⁾	2,675	2,476	2,912
Approximate weighted average rate on:			
Average amount outstanding	5.2%	3.7%	4.5%
Outstanding at period end	5.6%	3.9%	5.3%

⁽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 2004	30 June 2003
AUD 1.00 =	USD	0.6894	0.6677
	GBP	0.3823	0.4043
	JPY	74.914	80.036
	NZD	1.097	1.145
	HKD	5.378	5.207
	DEM	1.116	1.143
	CHF	0.8720	0.9037
	IDR	6,487	5,528
	THB	28.229	28.051
	FJD	1.239	1.250
	PHP	38.731	35.737
	EUR	0.5706	0.5842

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	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M
Bills payable	980	993	950	874
Accrued interest payable	1,325	991	1,140	842
Accrued fees and other items payable	1,151	740	829	567
Securities purchased not delivered	1,649	699	1,458	479
Unrealised losses on trading derivatives (Note 39)	12,188	13,528	12,156	13,502
Intergroup deferred tax payable	-	-	153	-
Other liabilities	1,847	2,076	1,202	1,192
Total Bills Payable and Other Liabilities	19,140	19,027	17,888	17,456

Notes to the financial statements

NOTE 28 Loan Capital

		Currency		2004	2003	GROUP	2004	2003	BANK
		Amount (M)	Footnotes	\$M	\$M	2002	\$M	\$M	2002
						\$M			\$M
Tier 1 Capital									
Exchangeable	FRN	USD38	(1)	55	59	70	55	59	70
Exchangeable	FRN	USD95	(2)	138	142	168	138	142	168
Undated	FRN	USD100	(3)	145	150	177	145	150	177
Undated	TPS	USD550	(4)	-	-	-	799	-	-
				338	351	415	1,137	351	415
Tier 2 Capital									
Extendible	FRN	AUD25	(5)	25	25	25	25	25	25
Extendible	FRN	AUD275	(5)	275	275	275	275	275	275
Subordinated	MTN	AUD185	(6)	-	185	186	-	185	186
Subordinated	FRN	AUD115	(6)	-	115	115	-	115	115
Subordinated	FRN	AUD25	(7)	25	25	25	25	25	25
Subordinated	MTN	AUD200	(8)	200	199	199	200	199	199
Subordinated	FRN	AUD50	(8)	50	50	50	50	50	50
Subordinated	Notes	USD300	(9)	549	549	532	549	549	532
Subordinated	FRN	USD450	(9)	650	672	795	650	672	795
Subordinated	EMTN	JPY20,000	(10)	240	248	293	240	248	293
Subordinated	EMTN	USD200	(11)	313	313	313	313	313	313
Subordinated	EMTN	USD75	(12)	115	115	115	115	115	115
Subordinated	EMTN	USD100	(13)	152	152	152	152	152	152
Subordinated	EMTN	USD400	(14)	501	501	501	501	501	501
Subordinated	EMTN	GBP200	(15)	408	408	408	408	408	408
Subordinated	EMTN	JPY30,000	(16)	429	444	525	429	444	525
Subordinated	Loan	NZD100	(17)	92	88	90	-	-	-
Subordinated	FRN	AUD210	(18)	210	210	210	210	210	210
Subordinated	FRN	AUD38	(19)	38	38	38	38	38	38
Subordinated	Notes	AUD130	(20)	130	130	130	130	130	130
Subordinated	Other	AUD21	(21)	21	35	35	21	35	35
Subordinated	Notes	USD350	(22)	512	524	-	512	524	-
Subordinated	EMTN	GBP150	(23)	373	373	-	373	373	-
Subordinated	MTN	AUD300	(24)	300	-	-	300	-	-
Subordinated	FRN	AUD200	(24)	200	-	-	200	-	-
Subordinated	EMTN	JPY 10,000	(25)	127	-	-	127	-	-
Subordinated	EMTN	USD250	(26)	358	-	-	358	-	-
				6,293	5,674	5,012	6,201	5,586	4,922
Total Loan Capital				6,631	6,025	5,427	7,338	5,937	5,337

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 2004 were:
 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 2004 were:
 Due February 2005 : USD64 million
 Due February 2006 : USD24 million
 Due February 2008 : 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 One 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.

Notes to the financial statements

NOTE 28 Loan Capital continued

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);
- 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 FRNs 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) USD550 million undated Trust Preferred Securities (TPS) issued on 6 August 2003.

(5) AUD300 million extendible floating rate note 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 Two capital. For capital adequacy purposes Tier Two 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;
- The Bank, if required by the Commonwealth of Australia and subject to the agreement of the APRA, exercises its option to redeem such issue; or

- 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.

(6) AUD300 million subordinated notes, issued February 1999; due February 2009, split into AUD185 million fixed rate notes and AUD115 million floating rate notes. Called and redeemed February 2004.

(7) AUD25 million subordinated FRN, issued April 1999, due April 2029.

(8) AUD250 million subordinated notes, issued November 1999, due November 2009; split into AUD200 million fixed rate notes and AUD50 million floating rate notes.

(9) USD750 million subordinated notes, issued June 2000, due June 2010; split into USD300 million fixed rate notes and USD450 million floating rate notes.

(10) JPY20 billion perpetual subordinated EMTN, issued February 1999.

(11) USD200 million subordinated EMTN, issued November 1999, due November 2009.

(12) USD75 million subordinated EMTN, issued January 2000, due January 2010.

(13) USD100 million subordinated EMTN, issued January 2000, due January 2010.

(14) USD400 million subordinated EMTN issued June 1996 due July 2006.

(15) GBP200 million subordinated EMTN issued March 1996 due December 2006.

(16) JPY30 billion subordinated EMTN issued October 1995 due October 2015.

(17) NZD100 million subordinated loan matures 15 December 2009.

(18) AUD210 million Euro FRN issued September 1996, maturing September 2004.

(19) AUD38 million FRN issued December 1997, maturing December 2004.

(20) 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.

(21) Comprises 8 subordinated notes and FRN issues. The face value amounts are less than \$10 million each and are all in Australian Dollars. The maturities range from August 2009 to October 2009.

(22) USD350 million subordinated fixed rate note, issued June 2003, due June 2018.

(23) GBP150 million subordinated EMTN, issued June 2003, due December 2023.

(24) AUD500 million subordinated notes, issued February 2004, due February 2014; split into AUD300 million fixed rate notes and AUD200 million floating rate notes.

(25) JPY10 billion subordinated EMTN, issued May 2004, due May 2034.

(26) USD250 million subordinated EMTN issued June 2004, due August 2014.

Subsequent to 30 June 2004, the Bank has issued: USD250 million increase to the subordinated EMTN issued June 2004, due August 2014.

Notes to the financial statements

NOTE 29 Share Capital

	2004	BANK 2003
	\$M	\$M
Issued and Paid Up Ordinary Capital		
Ordinary Share Capital		
Opening balance	12,678	12,665
Dividend Reinvestment Plan: 2002/2003 Final Dividend	201	-
Dividend Reinvestment Plan: 2003/2004 Interim Dividend	188	-
Share buy back	(213)	-
Share purchase plan	467	-
Buy Back for DRP: 2001/02 Final Dividend	-	(195)
DRP 2001/2002 Final Dividend	-	195
Buy Back for DRP: 2002/2003 Interim Dividend	-	(166)
DRP 2002/2003 Interim Dividend	-	166
Exercise of Executive Options	38	13
Closing balance	<u>13,359</u>	<u>12,678</u>

	Number	Number
Shares on Issue		
Opening balance	1,253,581,363	1,252,921,363
Dividend reinvestment plan issues:		
2002/2003 Final Dividend fully paid ordinary shares at \$28.03	7,165,289	-
2003/2004 Interim Dividend fully paid ordinary shares at \$31.61	5,916,319	-
Share buy back	(19,360,759)	-
Share purchase plan shares issued at \$31.36	14,891,250	-
Buy Back for DRP: 2001/2002 Final Dividend	-	(6,111,510)
2001/2002 Final Dividend fully paid shares at \$31.92	-	6,111,510
Buyback for 2002/2003 Interim Dividend	-	(6,753,320)
2002/2003 Interim Dividend fully paid ordinary shares at \$24.75	-	6,753,320
Exercise under Executive Option Plan	1,812,600	660,000
Closing balance	<u>1,264,006,062</u>	<u>1,253,581,363</u>

Terms and Conditions of Ordinary Share Capital

Ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from sale of surplus assets in proportion to the number of and amounts paid up on shares held. A shareholder has one vote on a show of hands and one vote for each fully paid share on a poll. A shareholder may be present at a general meeting in person or by proxy or attorney, and if a body corporate it may also authorise a representative.

Preference Share Capital

	2004	BANK 2003
	\$M	\$M
PERLS		
PERLS Capital issued and paid up	<u>687</u>	<u>687</u>
	<u>Number</u>	<u>Number</u>
	<u>3,500,000</u>	<u>3,500,000</u>

Commonwealth Bank PERLS ("PERLS") are perpetual preference shares that offer a quarterly, floating rate dividend. PERLS represent a less expensive form of equity funding than ordinary shares and increase the diversity and flexibility of the Bank's capital base.

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. PERLS are listed and traded on the Australian Stock Exchange.

Holders of PERLS are entitled to vote at a general meeting of the issuer in limited circumstances.

	2004	GROUP 2003	2004	BANK 2003
	\$M	\$M	\$M	\$M
Other Equity Instruments				
Other equity instruments issued and paid up	<u>1,573</u>	<u>-</u>	<u>737</u>	<u>-</u>
	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>
	<u>4,300,000</u>	<u>-</u>	<u>550,000</u>	<u>-</u>

Notes to the financial statements

NOTE 29 Share Capital continued

Issue of other equity instruments

Trust Preferred Securities

On 6 August 2003 a wholly owned entity of the Bank issued USD550 million (AUD832 million) of perpetual non call 12 year trust preferred securities into the US Capital Markets. These securities offer a non-cumulative fixed rate distribution of 5.805% per annum payable semi-annually. The securities qualify as Tier One capital of the Bank.

PERLS II

On 6 January 2004 a wholly owned entity of the Bank (Commonwealth Managed Investments Limited as Responsible Entity of the PERLS II Trust) issued \$750 million of Perpetual Exchangeable Resettable Listed Securities ("PERLS II"). These securities are units in a registered managed investments scheme, perpetual in nature, offering a non-cumulative floating rate distribution payable quarterly. The securities qualify as Tier One capital of the Bank.

Share Buy-back

On 29 March 2004 the Bank announced the successful completion of its off-market share buy-back. A total of 19,360,759 shares were bought back at \$27.50 per share, for a total cost of \$532.4 million. An amount of \$11 per share of the consideration for each share bought back was charged to paid up capital (total \$213.0 million). The balance of \$16.50 per share was deemed to be a fully franked dividend for tax purposes and charged to retained profits (total \$319.4 million).

In accordance with the draft ATO Class Ruling CR2004/65, the "market value" of the shares bought back for tax purposes is \$30.42 ("Tax Value"). For capital gains tax purposes an Australian resident individual or complying superannuation entity shareholder participating in the buy-back will be deemed to have disposed of each share bought back for deemed capital proceeds of \$11.00 plus the amount by which the Tax Value exceeds the buy-back price. The Tax Value exceeds the buy-back price by \$2.92 (\$30.42 - \$27.50). Accordingly, for capital gains tax purposes, the deemed disposal price for each share sold into the buy-back is \$13.92 (\$11.00 + \$2.92).

Share Purchase Plan

The Bank introduced a Share Purchase Plan (SPP) during the year. On 25 June 2004 a total of 14,891,250 shares were issued at \$31.36 per share, for a total of \$467 million, in respect of the SPP.

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 104 cents per share amounting to \$1,315 million. The dividend will be payable on 24 September 2004 to shareholders on the register at 5pm on 20 August 2004.

Dividends per share are based on net profit after tax ("cash basis") per share, having regard to a range of factors including:

- Current and expected rates of business growth and the mix of business;
- Capital needs to support economic, regulatory and credit ratings requirements;
- The rate of return on assets; and
- Investments and/or divestments to support business development.

Dividends paid since the end of the previous financial year:

- As declared in last year's Annual Report, a fully franked final dividend of 85 cents per share amounting to \$1,066 million was paid on 8 October 2003. The payment comprised cash disbursements of \$865 million with \$201 million being reinvested by participants through the Dividend Reinvestment Plan; and

- In respect of the current year, a fully franked interim dividend of 79 cents per share amounting to \$996 million was paid on 30 March 2004. The payment comprised cash disbursements of \$808 million with \$188 million being reinvested by participants through the Dividend Reinvestment Plan.
- Additionally, quarterly dividends totaling \$37 million for the year were paid on the PERLS preference shares; \$15 million on the PERLS II (for distributions in March 2004 and June 2004); \$40 million on the Trust Preferred Securities, and; \$9 million on the ASB Capital preference shares.

Dividend Reinvestment Plan

The Bank expects to issue around \$250 million of shares in respect of the DRP for the final dividend for 2003/04.

The Dividend Reinvestment Plan continues to be capped at 10,000 shares per shareholder.

Record Date

The register closes for determination of dividend entitlement and for participation in the dividend reinvestment plan at 5:00pm on 20 August 2004 at ASX Perpetual Registrars Limited, Locked Bag A14, Sydney South, 1235.

Ex Dividend Date

The ex dividend date is 16 August 2004.

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 was introduced in 1996 and provides employees 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.

Under ESAP, shares granted are restricted for sale for three years or until such time as the participating employee ceases employment with the Group, whichever is earlier. Shares granted under the ESAP receive full dividend entitlements, voting rights and there are no forfeiture or vesting conditions attached to the shares granted.

Effective from 1 July 2002, shares granted under ESAP offers have been expensed against the profit and loss account. In the current year, 683,617 shares were granted to eligible employees in respect of the 2003 grant.

The Bank has determined to allocate each eligible employee shares up to a value of \$1,000 in respect of the 2004 grant. As a result, an amount of \$24 million has been accrued in respect of the year ended 30 June 2004. The shares will be purchased on-market at the then market price.

Notes to the financial statements

NOTE 29 Share Capital continued

From 1 July 2000 to 30 June 2002, details of issues under ESAP were:

Issue Date	Bonus Ordinary Shares Issued ⁽¹⁾	No. of Participants	Shares issued to Each Participant	Issue Price ⁽²⁾
13 Oct 2000	872,620	24,932	35	\$27.78
20 Dec 2000	805	23	35	\$27.78
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

From 1 July 2002, details of shares purchased under ESAP are as follows:

Purchase Date	Ordinary Shares Purchased	No. of Participants	Shares Allocated to Each Participant	Allocation Price ⁽³⁾
31 Oct 2002	830,874	25,178	33	\$29.71
22 Jan 2003	1,584	48	33	\$29.71
31 Oct 2003	683,617	23,573	29	\$27.53

(1) For Offers in 2000 and 2001 both new and existing shareholders were granted Bonus Ordinary Shares issued from the Share Capital Account.

(2) The Issue Price x Shares issued to each Participant effectively represents about \$1,000 of free shares.

(3) The Allocation Price for the offer is equal to the market value which is determined by calculating the weighted average of the prices at which the shares were traded on the ASX during the 5 trading day period up to and including the grant date. The Allocation Price x Shares issued to each participant effectively represents about \$1,000 of free shares for the 2002 Offer and \$800 of free shares for the 2003 Offer.

Equity Participation Plan ("EPP")

The EPP facilitates the voluntary sacrifice of both fixed remuneration and annual short term incentives (STIs) to be applied in the acquisition of shares. The Plan also facilitates the mandatory sacrifice of STI payments.

All shares acquired by employees under this Plan are purchased on-market at the current market price. A total number of 5,812,425 shares have been acquired under the EPP since the plan commenced in 2001.

Details of purchases under the EPP from 1 July 2003 to 30 June 2004 were as follows:

Allotment Date	Participants	Shares Purchased	Average Purchase Price
30 Sept 2003	62	8,175	\$27.89
31 Oct 2003	2,453	2,147,975	\$27.62
31 Dec 2003	73	9,915	\$29.46
31 Mar 2004	63	7,527	\$33.32
30 Jun 2004	71	9,496	\$32.72

Under the voluntary component of the EPP, shares purchased are restricted for sale for two years or when a participating employee ceases employment with the Bank, whichever is earlier. Shares purchased under the voluntary component of the EPP carry full dividend entitlements, voting rights and there are no forfeiture or vesting conditions attached to the shares.

Under the mandatory component of the EPP, fully paid ordinary shares are purchased and held in Trust until such time as the vesting conditions have been met. The vesting condition attached to the shares specifies that participants must remain employees of the Bank until the

vesting date (generally a period of one and two years after the STI award period).

Each participant of the mandatory component of the EPP for whom shares are held by the Trustee on their behalf, has a right to receive dividends. Once the shares vest, dividends which have accrued during the vesting period are paid to participants. The participant may also direct the Trustee on how the voting rights attached to the shares are to be exercised during the vesting period.

Where participating employees do not satisfy the vesting conditions, shares and dividend rights are forfeited.

The movement in shares purchased under the mandatory component of the EPP has been as follows:

Details of Movements	July 02 - June 03	July 03 - June 04
Shares held under the plan at the beginning of year	1,478,423	2,497,184
Shares allocated during year	1,968,197	2,121,075
Shares vested during year	(836,437)	(1,715,807)
Shares forfeited during year	(112,999)	(112,099)
Shares held under the plan at end of year	2,497,184	2,790,353

Shares acquired under both the voluntary and mandatory components of the EPP have been expensed against the profit and loss account. In the current year,

\$67 million was expensed against the profit and loss account to reflect the cost of allocations under the Plan.

Notes to the financial statements

NOTE 29 Share Capital continued

Equity Reward Plan ("ERP")

The Board has envisaged that up to a maximum of 500 employees would participate each year in the ERP.

Previous grants under the ERP were in two parts, comprising grants of options and grants of shares. Since 2001/02, no options have been issued under the ERP. From 2002/03, Reward Shares have only been issued under this plan.

The exercise of previously granted options and the vesting of employee legal title to the shares is 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 prescribed performance hurdle for options and Reward Shares issued prior to 2002/03 was:

- 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. The comparator group (previously companies represented in the ASX's 'Banks and Finance Accumulation Index' excluding the Bank) was widened in 2001/02 to better reflect the Bank's business mix; and
- If the performance hurdle is not reached within that three 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.

For Reward Shares granted from 2002/03 onwards, a tiered vesting scale was 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. The vesting percentage will be calculated by reference to the rating at that time.

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%.

Reward Shares acquired under the share component of the ERP are purchased on-market at the current market price. The cost of shares acquired is expensed against the profit and loss account over a three year period, reflecting the minimum vesting period. In the current year, \$8 million has been expensed to the profit and loss account reflecting the cost of Reward Shares purchased and allocated under the plan.

Executive options issued up to September 2001 have not been recorded as an expense by the Group.

Details of options issued and shares acquired under ERP as well as movements in the options and shares are as follows:

Options

Year of Grant	Commencement Date	Issue Date	Options Issued	Options Outstanding ⁽¹⁾	Participants	Exercise Price	Exercise Period
2000	13 Sep 2000	7 Feb 01	577,500	402,500	16	\$26.97 ⁽²⁾	14 Sep 2003 to 13 Sep 2010 ⁽⁴⁾
	13 Sep 2000	31 Oct 01	12,500	-	1	\$26.97 ⁽²⁾	14 Sep 2003 to 13 Sep 2010 ⁽⁴⁾
2001	3 Sep 2001	31 Oct 01	2,882,000	2,122,700	61	\$30.12 ⁽³⁾	4 Sep 2004 to 3 Sep 2011 ⁽⁵⁾
	3 Sep 2001	31 Jan 02	12,500	12,500	1	\$30.12 ⁽³⁾	4 Sep 2004 to 3 Sep 2011 ⁽⁵⁾
	3 Sep 2001	15 Apr 02	100,000	100,000	1	\$30.12 ⁽³⁾	4 Sep 2004 to 3 Sep 2011 ⁽⁵⁾

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

(2) The premium adjustment (based on the actual difference between the dividend and bond yields at the date of vesting) was nil.

(3) Will be subject to adjustment by the premium formula (based on the actual difference between the dividend and bond yields at the date of the vesting).

(4) Performance hurdle was satisfied on 31 March 2004 and options may be exercised up to 13 September 2010.

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

Options - Details of Movements

Year of Grant	July 02 - June 03		July 03 - June 04	
	2000	2001	2000	2001
Total options:				
Held by participants at the start of year	572,500	2,863,100	427,500	2,336,400
Granted during year	-	-	-	-
Exercised during year	-	-	-	-
Lapsed during year	145,000	526,700	-	101,200
Outstanding at the end of year	427,500	2,336,400	427,500	2,235,200
Granted from 30 June to date of report	-	-	-	-
Exercised from 30 June to date of report	-	-	25,000	-
Lapsed from 30 June to date of report	-	-	-	-
Outstanding as at the date of report	427,500	2,336,400	402,500	2,235,200

Notes to the financial statements

NOTE 29 Share Capital continued

Reward Shares

Year of Grant	Purchase Date	Shares Purchased	Shares Allocated	Participants	Vesting Period	Average Purchase Price
2000	20 Feb 2001	361,100	361,100	61	14 Sept 2003 to 13 Sept 2005 ⁽⁴⁾	\$29.72
	31 Oct 2001	2,000	2,000	1	14 Sept 2003 to 13 Sept 2005 ⁽⁴⁾	\$29.25
2001	31 Oct 2001	652,100	661,500 ⁽¹⁾	241	4 Sept 2004 to 3 Sept 2006 ⁽⁵⁾	\$29.25
2002	22 Nov 2002	357,500	545,500 ⁽²⁾	195	3 Sept 2005 to 2 Sept 2007 ⁽⁵⁾	\$28.26
2003	12 Nov 2003	285,531	595,600 ⁽³⁾	255	2 Sept 2006 to 1 Sept 2008 ⁽⁵⁾	\$28.33

⁽¹⁾ In October 2001, 11,400 reward shares were re-allocated to participants receiving the 2001 grant as a result of reward shares forfeited from previous ERP grant.

⁽²⁾ In November 2002, 188,000 shares were re-allocated to participants receiving the 2002 grant as a result of shares forfeited from previous grants. The total number of Reward Shares allocated in 2002 represents fifty percent of the maximum entitlement that participants may receive. It is intended that Reward Shares required to meet obligations under ERP will be acquired by the trust on-market during the three years prior to the first measurement point of the performance hurdle.

⁽³⁾ In November 2003, 310,069 shares were re-allocated to participants receiving the 2003 grant as a result of shares forfeited from previous grants. The total number of Reward Shares allocated in 2003 represents fifty percent of the maximum entitlement that participants may receive – refer to footnote 2 above for further information.

⁽⁴⁾ Performance hurdle was satisfied on 31 March 2004 and as a result 195,700 shares vested to participants of the 2000 grant.

⁽⁵⁾ Performance hurdle must be satisfied within the vesting period, otherwise shares will be forfeited.

Reward Shares - Details of Movements

Year of Grant	July 02 - June 03			July 03 - June 04			
	2000	2001	2002	2000	2001	2002	2003
Total reward shares:							
Held by participants at the start of year	337,300	638,800	-	217,100	518,500	515,300	-
Granted during year	-	-	552,000	-	-	-	597,100
Vested during year	-	-	-	195,700	-	-	-
Lapsed during year	120,200	120,300	36,700	21,400	59,000	43,225	10,725
Outstanding at the end of year	217,100	518,500	515,300	-	459,500	472,075	586,375
Granted from 30 June to date of report	-	-	-	-	-	-	-
Vested from 30 June to date of report	-	-	-	-	-	-	-
Lapsed from 30 June to date of report	-	-	-	-	22,500	26,250	28,875
Outstanding as at the date of report	217,100	518,500	515,300	-	437,000	445,825	557,500

During the vesting period, Reward Shares are held in Trust. Each participant on behalf of whom Reward Shares are held by the Trustee, has a right to receive dividends. Once the shares vest dividends are paid in relation to those accrued during the vesting period. The participant may also direct the trustee on how the voting rights attached to the shares are to be exercised during the vesting period.

For a limited number of executives including overseas based staff and those approved by the Chief Executive Officer and ratified by Remuneration Committee and Board, a cash based 'share replicator' ERP scheme is operated by way of grants of performance units. The performance unit grants are subject to the same vesting conditions as the Reward Share component of the ERP. On meeting the vesting condition, a cash payment is made to executives whereby the value is determined based on the current share price on vesting plus an accrued dividend value. An amount of \$5 million has been expensed to the profit and loss account in respect of the year ended 30 June 2004 to reflect future payments which may be required under the 'share replicator' plan.

Executive Option Plan ("EOP")

As previously notified to shareholders, this plan was discontinued in 2000/01.

Under the EOP, the Bank granted options to purchase ordinary shares to those key executives who, being 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 option plan did not grant rights to the option holders to participate in a share issue of any other body corporate.

The performance hurdle is the same TSR comparator hurdle as outlined above for the Equity Reward Plan ("ERP") grants prior to 2002/03.

The last grant under EOP was made in September 2000. The performance hurdles for the August 1999 grant and the September 2000 grant were met in 2004.

Notes to the financial statements

NOTE 29 Share Capital continued

Details of issues made under EOP as well as movements for 2002/03 and 2003/04 are as follows:

Executive Option Plan ("EOP")

Commencement Date	Issue Date	Options Issued	Options Outstanding	Participants	Exercise Price ⁽¹⁾	Exercise Period
3 Nov 1997	11 Dec 1997	2,875,000	-	27	\$15.53 ⁽²⁾	4 Nov 00 to 3 Nov 02
25 Aug 1998	30 Sep 1998	3,275,000	-	32	\$19.58 ⁽²⁾	26 Aug 01 to 25 Aug 03
24 Aug 1999	24 Sep 1999	3,855,000	1,875,000	38	\$23.84 ⁽²⁾	25 Aug 02 to 24 Aug 09 ⁽³⁾
13 Sep 2000	13 Oct 2000	2,002,500	1,144,600	50	\$26.97 ⁽²⁾	14 Sep 03 to 13 Sep 10 ⁽⁴⁾

⁽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⁾ Performance hurdle for the 1999 grant was satisfied on 28 February 2004 and options may be exercised up to 24 August 2009.

⁽⁴⁾ Performance hurdle for the 2000 grant was satisfied on 31 March 2004 and options may be exercised up to 13 September 2010.

Details of Movements

Year of Grant	1 July 2002 to 30 June 2003 ⁽¹⁾				1 July 2003 to 30 June 2004 ⁽¹⁾		
	1997	1998	1999	2000	1998	1999	2000
Total options -							
Held by participants at the start of year	50,000	1,047,500	3,525,000	1,691,700	312,500	3,221,000	1,336,200
Exercised during year	-	660,000	-	-	312,500	1,271,000	129,100
Lapsed during year	50,000	-	304,000	355,500	-	25,000	12,500
Outstanding at the end of year	-	387,500	3,221,000	1,336,200	-	1,925,000	1,194,600
Exercised from 30 June to date of report	-	-	-	-	-	50,000	50,000
Lapsed from 30 June to date of report	-	75,000	-	-	-	-	-
Outstanding as at the date of report	-	312,500	3,221,000	1,336,200	-	1,875,000	1,144,600

⁽¹⁾ The EOP was discontinued in 2000/01 and no options have been granted under the plan during the last two reporting periods.

Summary of shares issued during the period 1 July 2003 to the date of the report as a result of options being exercised are:

Option Issue Date	Shares Issued	Price paid per Share	Total Consideration Paid
30 Sep 1998	312,500	\$19.58	\$6,118,750
24 Sep 1999	1,321,000	\$23.84	\$31,492,640
13 Oct 2000	179,100	\$26.97	\$4,830,327
7 Feb 2001	25,000	\$26.97	\$674,250

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.

Notes to the financial statements

NOTE 29 Share Capital continued

Non-Executive Directors Share Plan ("NEDSP")

The NEDSP provides for the acquisition of shares by non-executive directors through the mandatory sacrifice of 20% of their annual fees (paid on a quarterly basis). Shares purchased are restricted for sale for 10 years or when the Director leaves the Board, whichever is earlier.

Shares acquired under the plan receive full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares granted under the NEDSP.

Shares are purchased on-market at the current market price and a total of 34,009 shares have been purchased under the NEDSP since the plan commenced in 2001.

Details of grants under the NEDSP from 1 July 2003 to 30 June 2004 were as follows:

Quarter Ending	Total Fees Sacrificed	Participants	Shares Purchased	Average Purchase Price
30/09/2003	\$74,636	11	2,678	\$27.87
31/12/2003	\$74,650	11	2,534	\$29.46
31/03/2004	\$73,762	11	2,214	\$33.32
30/06/2004	\$73,616	11	2,250	\$32.72

No trading restrictions were lifted on shares during the period 1 July 2003 to the date of this report.

For the current year, \$297,000 was expensed to the profit and loss account reflecting shares purchased and allocated under the NEDSP.

NOTE 30 Outside Equity Interests

	2004 \$M	GROUP 2003 \$M
Controlled Entities:		
Share capital ⁽¹⁾	300	300
Reserves	-	-
Retained profits	4	4
Life insurance statutory funds	2,176	1,824
Total Outside Equity Interests	2,480	2,128

⁽¹⁾ ASB Perpetual Preference Shares - \$182 million.

On 10 December 2002, ASB Capital Limited, a New Zealand subsidiary, issued NZD200 million (AUD182 million) of perpetual preference shares. Such shares are non-redeemable and carry limited voting rights. Dividends are payable quarterly and are non-cumulative.

Gandel Listed Property Trusts - \$111 million.

In July 2002 Colonial First State Property Retail Pty Ltd was incorporated and in August 2002, the Colonial First State Property Retail Trust ("CFSPRT") was established. Both of these entities are owned 60% by the CBA Group and 40% by outside equity interests. On 30 September 2002, unitholders of the Colonial First State Property Trust Group ("CFT"), the Commonwealth Property Office Fund ("CPA") and the Gandel Retail Trust ("GAN") approved a proposal which saw CPA acquire the industrial/office assets of CFT and GAN acquire the retail assets of CFT. GAN changed its name to the CFS Gandel Retail Trust and CFSPRT became the delegated manager of this trust along with the retail component of a wholesale property trust.

Notes to the financial statements

NOTE 31 Capital Adequacy

Commonwealth Bank of Australia ("the Bank") is subject to regulation by the Australian Prudential Regulation Authority ("APRA") under the authority of the Banking Act 1959. APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel Accord. These requirements define what is acceptable as capital and provide for standard methods of measuring the risks incurred by the Bank. APRA has set minimum ratios that compare the regulatory capital with risk weighted on and off balance sheet assets. Regulatory capital requirements are measured for the Bank (known from 1 July 2003 as "Level 1") and for the Bank and its banking subsidiaries (known from 1 July 2003 as "Level 2"). The life insurance and funds management businesses are not consolidated for capital adequacy purposes.

Regulatory capital is divided into Tier One and Tier Two capital. Certain deductions are made from the sum of Tier One and Tier Two capital to arrive at the capital base. Tier One capital consists of shareholders' equity plus other capital instruments acceptable to APRA, less goodwill and less the intangible element of the investment in life insurance and funds management businesses. Tier Two capital consists of the general provision for credit losses and other hybrid and debt instruments acceptable to APRA. The tangible element of the investment in life insurance and funds management businesses and any holdings of capital instruments issued by other banks are deducted from the sum of Tier One and Tier Two capital to arrive at the capital base.

In accordance with APRA's methodology, the standard method of measuring risk requires one of a number of risk weights to be applied to each category of assets on the balance sheet and to categories of off-balance sheet obligations. The standard risk weights are 100%, 50%, 20% and 0%. It should be noted that the risk weights are not consistent with the loss experience of the Bank and its subsidiaries. In addition, there is an agreed method for measuring market risk for traded assets.

The regulatory capital ratios of the Bank are shown on page 121. An analysis of the movement in the capital ratios is shown on page 120.

Dividends

Banks may not pay dividends if immediately after payment, they are unable to meet the minimum capital requirements. Banks cannot pay dividends from retained earnings without APRA's prior approval. Under APRA guidelines, the expected dividend must be deducted from Tier One capital.

Regulatory Capital Requirements for Other ADIs in the Group

ASB Bank Limited is subject to regulation by the Reserve Bank of New Zealand ("RBNZ"). RBNZ applies a similar methodology to APRA in calculating regulatory capital requirements. At 30 June 2004 ASB Bank Limited Group had a Tier One ratio of 8.22% and a Total Capital ratio of 10.18%.

Regulatory Capital Requirements for Life Insurance and Funds Management Business

The Group's life insurance businesses in Australia are also regulated by APRA. The Life Insurance Act 1995 includes a framework for the calculation of the regulatory capital requirements for life insurance companies. The required calculations 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. Failure may also result in closer regulatory monitoring by APRA. The capital adequacy test is always equal to or greater than the solvency test. At all times during the year to 30 June 2004, all statutory funds of the Group's life insurance companies in Australia met the capital adequacy test. At 30 June 2004, for Australian life insurance companies, the estimated excess over capital adequacy within statutory funds amounted to \$337 million in aggregate.

The Group owns two life insurance companies in Australia: Commonwealth Insurance Holdings Limited ("CIHL"), and The Colonial Mutual Life Assurance Society Limited ("CMLA"). The life insurance business of Commonwealth Life Limited ("CLL") was amalgamated into CMLA on 1 July 2003 using the provisions of part 9 of the Life Insurance Act. CLL was subsequently deregistered.

There are no regulatory capital requirements for life insurance companies in New Zealand. However, the Group determines the capital requirements for New Zealand on a basis similar to 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 as defined in local regulations and ordinances.

Funds managers in Australia are subject to responsible entity regulation by the Australian Securities and Investment Commission ("ASIC"). The regulatory capital requirements vary for responsible entities depending on the type of Australian Financial Services or Authorised Representatives' Licence held but a requirement of up to \$5 million of net tangible assets applies.

APRA supervises approved trustees of superannuation funds and requires them to also maintain net tangible assets of at least \$5 million. These requirements are not cumulative where an entity is both an approved trustee for superannuation purposes and a responsible entity.

The total Group's life and funds management companies held an estimated \$710 million excess over regulatory capital requirements at 30 June 2004 in aggregate.

Regulatory Changes

Basel II

In June 2004, the Basel Committee on Banking Supervision ("the Basel Committee") issued the Revised Framework for the calculation of capital adequacy for banks, commonly known as Basel II. The objective of the Basel II Framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks.

The Basel II Framework 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 Basel II Framework. These are Standardised and two internal ratings-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 (Foundation and Advanced), 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, in most cases, provide the parameters. Under the Advanced IRB Approach, substantially all of the parameters will be those

Notes to the financial statements

NOTE 31 Capital Adequacy continued

used by the bank in its internal models. The Commonwealth Bank is intending to implement the Advanced IRB approach.

The Basel II Framework introduces a capital requirement for operational risk. As with credit risk, there are multiple approaches. The Bank is intending to implement the Advanced Measurement Approach.

The Basel Committee intends member countries to adopt and implement the Basel II Framework for financial years ending in 2006. However, the most advanced approaches to credit and operational risk will be implemented for financial years ending in 2007, in order that further impact studies and parallel calculations can be completed.

The current capital requirements for market risk are not expected to change significantly under the Basel II Framework.

There remain a number of uncertainties regarding the Basel II Framework as it will be applied by APRA and it is not possible to provide reliable information on the regulatory position of the Bank under the new rules.

International Financial Reporting Standards

The Bank will be required to adopt International Financial Reporting Standards ("IFRS") for the financial year commencing 1 July 2005 and will report for the first time under IFRS when the results for the half year ended 31 December 2005 are announced.

Many of the IFRS changes will have an affect upon the reporting of the Bank's assets and equity. Current accounting definitions for asset and equity measurement are central to the capital adequacy requirements set by prudential regulators. APRA has stated that it will revise its prudential standards in response to the IFRS changes. However, it is currently unclear the impact this will have on the Bank's capital adequacy position. Refer to page 64 for further discussion of IFRS.

Conglomerate Groups

APRA has advised that a third level of capital adequacy ("Level 3") will be implemented to coincide with Basel II. APRA defines a conglomerate group as a group of companies containing one or more Australian incorporated Authorised Deposit-taking Institutions ("ADIs"). The Bank is an ADI and the Commonwealth Bank Group falls within APRA's definition of a conglomerate group. Each conglomerate group will be required to hold capital that corresponds to the corporate structure of that conglomerate. The calculation will have regard to all group members and the capacity to move surplus capital from one group entity to another.

The regulatory capital requirements for each conglomerate group will be specific to that group.

The proposals indicate that the use of internal capital estimation and allocation models may be permitted. However, APRA has not yet specified their requirements for internal models, nor when they will complete their review of the Bank's models.

Whilst the Bank considers that it is strongly capitalised (as evidenced by its credit ratings), no assurance can be given that our models will meet APRA's requirements or that the Bank meets the Level 3 capital requirements.

Capital Expenditure

From 1 July 2004, APRA requires banks to deduct certain capitalised expenses from Tier One capital. On a pro-forma basis, at 30 June 2004 this deduction would have been \$111 million resulting in a decrease in Tier One Capital from 7.43% to 7.37% and a decrease in Total Capital from 10.25% to 10.18%.

Active Capital Management

The Bank maintains a strong capital position. The Tier One Capital Ratio increased from 6.96% to 7.43% and the Total Capital Ratio increased from 9.73% to 10.25% during the year to 30 June 2004. The Bank's credit ratings remained unchanged.

During the year, the Bank achieved strong growth in Risk Weighted Assets from \$147 billion to \$169 billion. The following significant initiatives were undertaken to actively manage the Bank's capital:

Tier One Capital

- Issue of USD550 million (AUD832 million) of trust preferred securities in August 2003;
- Issue of \$750 million of Perpetual Exchangeable Resettable Listed Securities ("PERLS II") in January 2004;
- Issue of \$201 million shares in October 2003 to satisfy the Dividend Reinvestment Plan ("DRP") in respect to the final dividend for 2002/03;
- Issue of \$188 million shares in March 2004 to satisfy the DRP in respect to the interim dividend for 2003/04;
- In accordance with APRA guidelines, the estimated issue of \$250 million shares to satisfy the DRP in respect of the final dividend for 2003/04;
- The issue of \$467 million shares pursuant to a Share Purchase Plan ("SPP"); and
- An off-market share buy-back of \$532 million in March 2004 which reduced Tier One Capital.

Further details of these transactions are provided in Note 29.

Tier Two Capital

- Issue of \$500 million subordinated medium term notes settled in February 2004. The notes mature in 2014 and are callable in 2009. The notes qualify as Lower Tier Two capital;
- Issue of JPY10 billion (AUD127 million) subordinated medium term notes settled in May 2004. The notes mature in May 2034 and are callable in May 2010. The notes qualify as Lower Tier Two capital; and
- Issue of USD250 million (AUD358 million) subordinated medium term notes settled in June 2004. The notes mature in August 2014 and are callable in August 2009. The notes qualify as Lower Tier Two capital.

Deductions from Total Capital

The following movements in deductions have occurred during the year:

- Sale of investment in Bank of Queensland; and
- Dividend of \$194 million paid to the Bank from the life insurance and funds management businesses in excess of the dividend paid in respect of the after-tax profits of these businesses.

In July 2004, the Bank issued USD250 million (AUD357 million) subordinated medium term notes. The notes mature in 2014 and are callable in 2009. The notes qualify as Lower Tier Two capital.

Notes to the financial statements

NOTE 31 Capital Adequacy continued

	2004 Actual %	GROUP 2003 Actual %
Risk Weighted Capital Ratios		
Tier One	7.43	6.96
Tier Two	3.93	4.21
Less deductions	(1.11)	(1.44)
Total	10.25	9.73
Adjusted Common Equity ⁽¹⁾	4.75	
Regulatory Capital		
	2004 \$M	GROUP 2003 \$M
Tier One capital		
Shareholders' equity	24,885	22,152
Eligible loan capital	338	351
Estimated reinvestment under Dividend Reinvestment Plan ⁽²⁾	250	-
Foreign currency translation reserve related to non-consolidated subsidiaries	179	147
Deduct:		
Asset revaluation reserve	(61)	(7)
Goodwill	(4,705)	(5,029)
Expected dividend	(1,315)	(1,066)
Intangible component of investment in non-consolidated subsidiaries ⁽³⁾	(4,674)	(4,388)
Outside equity interest in entities controlled by non-consolidated subsidiaries	(114)	(123)
Outside equity interest in insurance statutory funds and other funds	(2,176)	(1,824)
Other	(19)	-
Total Tier One Capital	12,588	10,213
Tier Two capital		
Asset revaluation reserve	61	7
General provision for bad and doubtful debts ⁽⁴⁾	1,390	1,321
Future Income Tax Benefit related to general provision	(398)	(391)
Upper Tier Two note and bond issues	267	250
Lower Tier Two note and bond issues ⁽⁵⁾⁽⁶⁾	5,338	4,990
Total Tier Two Capital	6,658	6,177
Total capital	19,246	16,390
Deduct:		
Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier One capital) ⁽³⁾	(1,886)	(2,072)
Other deductions	(5)	(42)
Capital Base	17,355	14,276

(1) Adjusted Common Equity ("ACE") is one measure considered by Standard & Poor's in evaluating the Bank's credit rating. The ACE ratio has been calculated in accordance with the Standard & Poor's methodology. As the Bank did not disclose this ratio for the previous year, no comparatives are published.

(2) Based on reinvestment experience related to the Bank's Dividend Reinvestment Plan.

(3) Refer to Note 34 for a reconciliation of the components of the carrying value of the life insurance and funds management business to the value of investments in non-consolidated subsidiaries.

(4) Excludes general provision for bad and doubtful debts in non-consolidated subsidiaries.

(5) APRA requires these Lower Tier Two note and bond issues to be included as if they were un-hedged.

(6) For regulatory capital purposes, Lower Tier Two note and bond issues are amortised by 20% of the original amount during each of the last five years to maturity.

Notes to the financial statements

NOTE 31 Capital Adequacy continued

	2004 \$M
Adjusted Common Equity⁽¹⁾	
Tier One capital	12,588
Deduct:	
Eligible loan capital	(338)
Preference share capital	(687)
Other equity instruments	(1,573)
Outside equity interest (net of outside equity interest component deducted from Tier One capital)	(190)
Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier One capital) ⁽²⁾	(1,886)
Other deductions	(5)
Other	139
Total Adjusted Common Equity	8,048

(1) Adjusted Common Equity ("ACE") is one measure considered by Standard & Poor's in evaluating the Bank's credit rating. The ACE ratio has been calculated in accordance with the Standard & Poor's methodology. As the Bank did not disclose this ratio for the previous year, no comparatives are published.

(2) Refer to Note 34 for a reconciliation of the components of the carrying value of the life insurance and funds management business to the value of investments in non-consolidated subsidiaries.

Risk-Weighted Assets	Face Value		Risk Weights %	GROUP Risk-Weighted Balance	
	2004 \$M	2003 \$M		2004 \$M	2003 \$M
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	27,554	23,832	0%	-	-
Claims on OECD banks and local governments	15,020	12,427	20%	3,004	2,485
Advances secured by residential property ⁽¹⁾	125,026	103,987	50%	62,513	51,993
All other assets	83,256	74,472	100%	83,256	74,472
Total On Balance Sheet Assets - Credit Risk^{(2) (3)}	250,856	214,718		148,773	128,950

Off-balance sheet exposures	Face Value		Credit Equivalent		GROUP Risk-Weighted Balance	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M	2004 \$M	2003 \$M
Direct credit substitutes	3,293	3,746	3,293	3,746	2,836	3,238
Trade and performance related items	1,069	992	483	463	453	435
Commitments	65,097	58,674	12,745	10,882	9,238	7,832
Foreign exchange, interest rate and other market related transactions	769,742	603,726	20,069	17,475	5,614	5,028
Total Off Balance Sheet Exposures - Credit Risk⁽⁴⁾	839,201	667,138	36,590	32,566	18,141	16,533
Total risk weighted assets - credit risk					166,914	145,483
Risk weighted assets - market risk					2,407	1,325
Total Risk Weighted Assets					169,321	146,808

(1) For loans secured by residential property approved after 5 September 1994, a risk weight of 100% applied where the loan to valuation ratio is in excess of 80%. Effective from 28 August 1998, a risk weight of 50% applies to these loans if they are totally insured by an acceptable lender's mortgage insurer. Loans that are risk weighted at 100% 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 provision for bad and doubtful debts, and investments in life insurance and fund management business.

(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) Off balance sheet exposures secured by the residential property account for \$6.2 billion of off balance sheet credit equivalent assets (\$3.1 billion of off balance sheet risk weighted assets).

Notes to the financial statements

NOTE 32 Maturity Analysis of Monetary Assets and Liabilities

The maturity distribution of monetary assets and liabilities is based on contractual terms. The majority of the longer term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Therefore this information is not relied upon by the Bank in the management of its interest rate risk in Note 39.

	At Call \$M	Overdrafts \$M	Maturity Period At 30 June 2004					GROUP	Total \$M
			0 to 3 months \$M	3 to 12 months \$M	1 to 5 years \$M	Over 5 years \$M	Not specified \$M		
Assets									
Cash and liquid assets	888	-	5,565	-	-	-	-	-	6,453
Receivables due from other financial institutions	774	-	7,126	80	70	319	-	-	8,369
Trading securities ⁽¹⁾	-	-	14,896	-	-	-	-	-	14,896
Investment securities	-	-	1,952	1,646	5,145	2,704	-	-	11,447
Loans, advances and other receivables ⁽²⁾	2,646	4,904	27,597	19,883	39,957	95,797	(1,393)	-	189,391
Bank acceptances of customers	-	-	8,643	6,376	-	-	-	-	15,019
Life assets ⁽³⁾	51	-	2,948	554	3,924	3,466	17,999	-	28,942
Other monetary assets	390	-	17,963	5	-	-	174	-	18,532
Total Monetary Assets	4,749	4,904	86,690	28,544	49,096	102,286	16,780	-	293,049
Liabilities									
Deposits and other public borrowings ⁽³⁾	88,691	-	48,863	21,191	3,594	838	-	-	163,177
Payables due to other financial institutions	536	-	4,564	1,529	12	-	-	-	6,641
Bank acceptances	-	-	8,643	6,376	-	-	-	-	15,019
Life liabilities	-	-	-	-	-	-	-	24,638	24,638
Debt issues and loan capital	-	-	7,160	13,699	19,162	10,249	403	-	50,673
Other monetary liabilities	9	-	17,996	918	32	8	196	-	19,159
Total Monetary Liabilities	89,236	-	87,226	43,713	22,800	11,095	25,237	-	279,307

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

⁽²⁾ \$102 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 the 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 retail deposits and wholesale funding.

Notes to the financial statements

NOTE 32 Maturity Analysis of Monetary Assets and Liabilities continued

	GROUP Maturity Period At 30 June 2003							Total \$M
	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	
Assets								
Cash and liquid assets	1,033	-	4,542	-	-	-	-	5,575
Receivables due from other financial institutions	1,256	-	5,054	756	-	-	-	7,066
Trading securities ⁽¹⁾	-	-	10,435	-	-	-	-	10,435
Investment securities	-	-	1,339	2,034	6,407	1,256	-	11,036
Loans, advances and other receivables ⁽²⁾	1,515	4,457	14,128	18,094	37,167	86,311	(1,325)	160,347
Bank acceptances of customers	-	-	13,197	-	-	-	-	13,197
Life assets	-	-	3,922	656	4,075	3,878	15,304	27,835
Other monetary assets	582	-	15,616	7	5	-	631	16,841
Total Monetary Assets	4,386	4,457	68,233	21,547	47,654	91,445	14,610	252,332
Liabilities								
Deposits and other public borrowings ⁽³⁾	81,385	-	38,334	15,138	4,962	1,155	-	140,974
Payables due to other financial institutions	1,438	-	5,724	376	-	-	-	7,538
Bank acceptances	-	-	13,197	-	-	-	-	13,197
Life liabilities ⁽⁴⁾	-	-	-	-	-	-	23,861	23,861
Debt issues and loan capital	-	-	13,352	3,911	12,005	6,970	416	36,654
Other monetary liabilities	1	-	17,043	24	-	-	284	17,352
Total Monetary Liabilities	82,824	-	87,650	19,449	16,967	8,125	24,561	239,576

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

(2) \$87 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.

(4) The maturity profile of Life assets has been reclassified to be on a consistent basis with current year.

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 33 Financial Reporting by Segments

Primary Segment Business Segments Financial Performance	GROUP Year Ended 30 June 2004			Total \$M
	Banking \$M	Funds Management \$M	Insurance \$M	
Interest income	13,287	-	-	13,287
Premium and related revenue	-	-	1,012	1,012
Other income	3,720	3,142	840	7,702
Appraisal value uplift/(reduction)	-	(95)	296	201
Total Revenue	17,007	3,047	2,148	22,202
Interest expense	7,877	-	-	7,877
Segment result before income tax, goodwill amortisation and appraisal value uplift/(reduction)	3,091	504	371	3,966
Income tax expense	(914)	(228)	(120)	(1,262)
Segment result after income tax and before goodwill amortisation and appraisal value uplift/(reduction)	2,177	276	251	2,704
Outside equity interest	(1)	(8)	-	(9)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift/(reduction)	2,176	268	251	2,695
Goodwill amortisation	(302)	(17)	(5)	(324)
Appraisal value uplift/(reduction)	-	(95)	296	201
Net Profit Attributable to Shareholders of the Bank	1,874	156	542	2,572
Non-Cash Expenses				
Goodwill amortisation	302	17	5	324
Charge for bad and doubtful debts	276	-	-	276
Depreciation	110	8	9	127
Which new Bank initiatives	427	-	-	427
Other	38	3	-	41
Financial Position				
Total Assets	265,062	19,878	21,055	305,995
Acquisition of Property, Plant & Equipment, Intangibles and other Non-Current Assets	518	6	9	533
Associate Investments	194	1	44	239
Total Liabilities	254,284	17,439	9,387	281,110

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

	GROUP			Total \$M
	Year Ended 30 June 2003			
Financial Performance	Banking \$M	Funds Management \$M	Insurance \$M	
Interest income	11,528	-	-	11,528
Premium and related revenue	-	-	1,131	1,131
Other income	2,733	1,157	620	4,510
Total Revenue	14,261	1,157	1,751	17,169
Interest expense	6,502	-	-	6,502
Segment result before income tax, goodwill amortisation and appraisal value (reduction)/uplift	3,165	217	161	3,543
Income tax (expense)/credit	(931)	5	(32)	(958)
Segment result after income tax and before goodwill amortisation and appraisal value (reduction)/uplift	2,234	222	129	2,585
Outside equity interest	-	(6)	-	(6)
Segment result after income tax and outside equity interest before goodwill amortisation and appraisal value (reduction)/uplift	2,234	216	129	2,579
Goodwill amortisation ⁽¹⁾	(300)	(18)	(4)	(322)
Appraisal value (reduction)/uplift	-	(291)	46	(245)
Net Profit Attributable to Shareholders of the Bank	1,934	(93)	171	2,012
Non-Cash Expenses				
Goodwill amortisation	300	18	4	322
Charge for bad and doubtful debts	305	-	-	305
Depreciation	109	8	11	128
Appraisal value reduction/(uplift)	-	291	(46)	245
Other	112	1	-	113
Financial Position				
Total Assets	229,289	19,622	16,199	265,110
Acquisition of Property, Plant & Equipment, Intangibles and other Non-current Assets	98	16	6	120
Associate Investments	214	12	61	287
Total Liabilities	216,939	17,044	8,975	242,958

⁽¹⁾ Prior years have been restated to reflect the allocations of goodwill amortisation across businesses.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

	GROUP			
	Year Ended 30 June 2002			
	Banking	Funds Management	Insurance	Total
Financial Performance	\$M	\$M	\$M	\$M
Interest income	10,455	-	-	10,455
Premium and related revenue	-	-	866	866
Other income	3,180	690	293	4,163
Appraisal value uplift	-	381	96	477
Total Revenue	13,635	1,071	1,255	15,961
Interest Expense	5,745	-	-	5,745
Segment result before tax, goodwill amortisation and appraisal value uplift	2,884	399	135	3,418
Income tax expense	(816)	(31)	(69)	(916)
Segment result after income tax and before goodwill amortisation and appraisal value uplift	2,068	368	66	2,502
Outside equity interest	(1)	-	-	(1)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	2,067	368	66	2,501
Goodwill amortisation	(301)	(18)	(4)	(323)
Appraisal value uplift	-	381	96	477
Net Profit Attributable to Shareholders of the Bank	1,766	731	158	2,655
Non-Cash Expenses				
Goodwill amortisation	301	18	4	323
Charge for bad and doubtful debts	449	-	-	449
Depreciation	109	7	12	128
Other	87	2	1	90
Financial Position				
Total Assets	211,130	20,531	17,987	249,648
Acquisition of Property, Plant & Equipment, Intangibles and other Non-current Assets	147	17	-	164
Associate Investments	235	30	48	313
Total Liabilities	200,885	18,123	9,584	228,592

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

Secondary Segment	2004 \$M	%	2003 \$M	%	2002 \$M	%
GEOGRAPHICAL SEGMENTS						
Revenue						
Australia	17,746	80.0	14,008	81.6	12,651	79.3
New Zealand	2,671	12.0	2,025	11.8	1,591	10.0
Other Countries ⁽¹⁾	1,785	8.0	1,136	6.6	1,719	10.7
	22,202	100.0	17,169	100.0	15,961	100.0
Net profit attributable to shareholders of the Bank						
Australia	2,091	81.3	1,659	82.4	2,569	96.8
New Zealand	309	12.0	265	13.2	178	6.7
Other Countries ⁽¹⁾	172	6.7	88	4.4	(92)	(3.5)
	2,572	100.0	2,012	100.0	2,655	100.0
Assets						
Australia	252,652	82.6	221,248	83.5	208,673	83.6
New Zealand	35,059	11.4	27,567	10.4	24,579	9.8
Other Countries ⁽¹⁾	18,284	6.0	16,295	6.1	16,396	6.6
	305,995	100.0	265,110	100.0	249,648	100.0
Acquisition of Property, Plant & Equipment, Intangibles and other Non-current Assets						
Australia	495	92.9	98	81.7	134	81.7
New Zealand	29	5.4	6	5.0	26	15.9
Other Countries ⁽¹⁾	9	1.7	16	13.3	4	2.4
	533	100.0	120	100.0	164	100.0

⁽¹⁾ Other Countries are:
United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, Philippines, Fiji, Indonesia, China and Vietnam.

The geographical segments represent the location in which the transaction was booked. The New Zealand net profit for 2003 has been restated onto a consistent basis with other years.

Notes to the financial statements

NOTE 34 Life Insurance Business

The following information, in accordance with AASB 1038: Life Insurance Business, is provided to disclose the statutory life insurance business transactions contained in the Group financial statements and the underlying methods and assumptions used in their calculation. Also refer to Notes 1(ii) and 21. The life insurance segment result is prepared on a business segment basis, refer to Note 33.

	2004	GROUP
	\$M	2003
		\$M
Summarised Statement of Financial Performance		
Premium and related revenue	1,362	1,326
Outward reinsurance premiums expense	(194)	(200)
Claims expense	(501)	(471)
Reinsurance recoveries	139	132
Investment revenue (excluding investments in subsidiaries)		
Equity securities	1,582	(680)
Debt securities	558	894
Property	238	374
Other	399	46
Life insurance policy liabilities expense	(2,315)	(546)
Margin on services operating income	1,268	875
Change in excess of net market values over net assets of life insurance controlled entities	201	(245)
Life insurance operating income	1,469	630
Administration expense	(447)	(697)
Operating profit before income tax	1,022	(67)
Income tax attributable to operating profit	(300)	45
Operating profit after income tax	722	(22)
Outside equity interest in operating profit after income tax	(8)	-
Net Profit After Income Tax	714	(22)
Sources of life insurance operating profit		
The Margin on Services operating profit after income tax is represented by:		
Emergence of planned profit margins	186	228
Difference between actual and planned experience	6	(67)
Movement in excess of net market value over net assets of controlled entities	201	(245)
Reversal of previously recognised losses or loss recognition on groups of related products	10	(11)
Investment earnings on assets in excess of policyholder liabilities	311	73
Operating Profit After Income Tax	714	(22)
Life insurance premiums received and receivable	3,688	4,158
Life insurance claims paid and payable	4,356	5,843

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 Bank's life insurance and funds management businesses, together with the key actuarial assumptions that have been used. 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 Deloitte.

Analysis of Movement since 30 June 2003	Life Insurance				Total \$M
	Funds Management \$M	Australia \$M	New Zealand \$M	Asia ⁽¹⁾ \$M	
Profits	268	180	54	17	519
Net capital movements ⁽²⁾	(27)	108	(29)	-	52
Dividends paid	(470)	(421)	(9)	-	(900)
Foreign exchange movements	(10)	-	19	(25)	(16)
Change in Shareholders net tangible assets	(239)	(133)	35	(8)	(345)
Appraisal value uplift/(reduction)	(95)	206	94	(4)	201
Increase/(Decrease) to 30 June 2004	(334)	73	129	(12)	(144)
Shareholders' Net Tangible Assets	\$M	\$M	\$M	\$M	\$M
30 June 2003 balance	754	1,264	380	608	3,006
Profits	268	180	54	17	519
Net capital movements ⁽²⁾	(27)	108	(29)	-	52
Dividends paid	(470)	(421)	(9)	-	(900)
Foreign exchange movements	(10)	-	19	(25)	(16)
30 June 2004 Balance	515	1,131	415	600	2,661
Value Inforce Business	\$M	\$M	\$M	\$M	\$M
30 June 2003 balance	1,123	245	191	4	1,563
Uplift/(reduction)	727	50	95	(4)	868
30 June 2004 Balance	1,850	295	286	-	2,431
Value Future New Business	\$M	\$M	\$M	\$M	\$M
30 June 2003 balance	3,596	79	278	24	3,977
Uplift/(reduction)	(822)	156	(1)	-	(667)
30 June 2004 Balance	2,774	235	277	24	3,310
Carrying Value at 30 June 2004	\$M	\$M	\$M	\$M	\$M
Shareholders' net tangible assets	515	1,131	415	600	2,661
Value inforce business	1,850	295	286	-	2,431
Embedded value	2,365	1,426	701	600	5,092
Value future new business	2,774	235	277	24	3,310
Carrying Value	5,139	1,661	978	624	8,402

(1) The Asian life businesses are not held in the market value environment and are carried at net assets plus any 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, subject to impairment.

(2) Includes capital injections and movements in intergroup loans.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

The following table reconciles the carrying values of the life insurance and funds management businesses to the value of investments in non-consolidated subsidiaries as shown in the capital adequacy calculation in Note 31.

Reconciliation of the Components of the Carrying Value to the Value of Investments in Non-Consolidated Subsidiaries

	2004 \$M	2003 \$M
Intangible component of investment in non-consolidated subsidiaries deducted from Tier One capital comprises:		
Value future new business	3,310	3,977
Value of self-generated inforce business	1,279	411
Other ⁽¹⁾	85	-
	4,674	4,388
Investment in non-consolidated subsidiaries deducted from Total Capital comprises:		
Shareholders' net tangible assets in life and funds management businesses	2,661	3,006
Capital in other non-consolidated subsidiaries	351	286
Value of acquired inforce business	1,152	1,152
Less non-recourse debt	(2,278)	(2,372)
	1,886	2,072

⁽¹⁾ Relates to revised APRA Prudential Standards effective 1 July 2003.

Key Assumptions Used in Appraisal Values

The following key assumptions have been used 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 2004	New Business Multiplier	Risk Discount Rate %	Value of Franking Credits %
Life insurance entities			
<i>Australia</i>	8	10.9	70
<i>New Zealand</i>	9	10.3	-
<i>Asia</i>			
- Hong Kong	8	12.0	-
- Other	Various	Various	-
Funds management entities			
<i>Australia</i>	n/a	12.5	70
	New Business Multiplier	Risk Discount Rate %	Value of Franking Credits %
As at 30 June 2003			
Life Insurance entities			
<i>Australia</i>	8	10.8	70
<i>New Zealand</i>	8	10.9	-
<i>Asia</i>			
- Hong Kong	8	11.5	-
- Other	various	various	-
Funds management entities			
<i>Australia</i>	n/a	11.9	70

The movement in the risk discount rate is based on the change in the underlying risk free rate using a capital asset pricing model framework. This framework utilises the local 10-year government bond yield as the proxy for the risk free rate.

The movement in risk discount rates have been accompanied by broadly equivalent movements in assumed future investment returns on the Australian funds management business.

The assumptions for the future new business are set after considering current levels of new business and the expected growth in business. A review of current experience has resulted in a reduction in the future sales assumption for Australian funds management.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Policy Liabilities

Appropriately qualified actuaries have been appointed in respect of each life insurance business and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this financial report, including compliance with the regulations of the Life Insurance Act (Life Act) 1995 where appropriate. Details are set out in the various statutory returns of these life insurance businesses.

Components of policy liabilities	2004 \$M	2003 \$M
Future policy benefits ⁽¹⁾	27,779	27,426
Future bonuses	1,346	1,188
Future expenses	1,762	1,637
Future profit margins	1,472	1,420
Future charges for acquisition expenses	(527)	(916)
Balance of future premiums	(7,266)	(6,956)
Provisions for bonuses not allocated to participating policyholders	72	62
Total Policy Liabilities	24,638	23,861

⁽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.

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'). The principal methods and profit carriers used for particular product groups, are as follows:

Product Type	Method	Profit Carrier
Individual		
Conventional	Projection	Bonuses or expected claim payments
Investment account	Projection	Bonuses or funds under management
Investment linked	Accumulation	Not applicable
Lump sum risk	Projection	Premiums/claims
Income stream risk	Projection	Expected claim payments
Immediate annuities	Projection	Annuity payments
Group		
Investment account	Projection	Bonuses or funds under management
Investment linked	Accumulation	Not applicable
Lump sum risk	Accumulation	Not applicable
Income stream risk	Projection	Expected claim payments

Notes to the financial statements

NOTE 34 Life Insurance Business continued

The 'Projection Method' measures the present values of estimated future policy cash flows to calculate policy liabilities. The policy cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments.

The 'Accumulation Method' for investment linked measures the accumulation of amounts invested by policyholders plus investment earnings less fees specified in the policy to calculate policy liabilities. Deferred acquisition costs were 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).

Class of Business	Discount Rates	
	June 2004 Rate Range %	June 2003 Rate Range %
Traditional – ordinary business (after tax)	6.11 – 6.86	5.44 – 6.19
Traditional – superannuation business (after tax)	7.46 – 8.40	6.65 – 7.58
Annuity business (after tax)	6.17 – 6.98	5.46 – 6.67
Term insurance – ordinary business (after tax)	3.45 – 4.15	3.16 – 3.85
Term insurance – superannuation business (after tax)	3.45 – 4.15	3.16 – 3.85
Disability business (before tax)	5.93	5.50
Investment linked – ordinary business (after tax)	5.61 – 6.04	4.88 – 5.68
Investment linked – superannuation business (after tax)	7.37 – 7.42	6.33 – 6.84
Investment linked – exempt (after tax)	8.41 – 8.80	7.20 – 8.27
Investment account – ordinary business (after tax)	4.32	3.67
Investment account – superannuation business (after tax)	5.25	4.46
Investment account – exempt (after tax)	6.13	5.21

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

The maintenance expenses are based on an internal analysis of experience and are assumed to increase in line with inflation each year and to be sufficient to cover the cost of servicing the business in the coming year after adjusting for one off expenses. For participating business, expenses continue on the previous charging basis with adjustments for actual experience, and are assumed to increase in line with inflation each year.

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.

Benefit Indexation

The indexation rates are based on an analysis of past experience and estimated long term inflation and vary by

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 were the rates used to discount further cash flows to determine their net present value in the policy liabilities. The discount rates were 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 and asset mix.

business and product type. There have been no significant changes to these assumptions.

Taxation

The taxation basis and rates assumed vary by territory and product type.

Voluntary Discontinuance

Discontinuance rates were based on recent company and industry experience and vary by territory, product, age and duration inforce. The experience has generally been favourable resulting in reductions in discontinuance rates for some product lines.

Surrender Values

Current surrender value bases were assumed to apply in the future. There have been no significant changes to these assumptions.

Unit Price Growth

Unit prices are assumed to grow in line with assumed investment earnings assumptions, net of asset charges as per current company practice. There have been no significant changes to these assumptions.

Mortality and Morbidity

Rates vary by sex, age, product type and smoker status. Rates are based on standard mortality tables applicable to each territory e.g. IA90-92 in Australia for risk, IM/IF80 for annuities, adjusted for recent company and industry experience where appropriate.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Solvency

Australian Life Insurers

Australian life insurers are required to hold prudential reserves in excess of the amount of policy liabilities. These reserves were required to support capital adequacy requirements and provide protection against 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 were 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 and Fiduciary Activities

Arrangements were 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 Bank.

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, that were distinguished from each other and from the shareholders' funds. The financial statements of Australian life insurers prepared in accordance with AASB 1038: Life Insurance Business, (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.

Notes to the financial statements

NOTE 35 Remuneration of Auditors

	GROUP		BANK	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Amounts paid or due and payable for audit services to:				
Ernst & Young	7,714	6,634	2,792	2,555
Other Auditors	134	137	-	-
	7,848	6,771	2,792	2,555
Amounts paid or due and payable for non-audit services to Ernst & Young:				
Audit related services	1,113	752	894	571
Taxation services	222	325	136	170
All other services				
Corporate finance services	203	628	203	528
Staff assistance services	13	1,263	13	827
Other services	569	321	284	122
	2,120	3,289	1,530	2,218
Total Remuneration of Auditors	9,968	10,060	4,322	4,773

The Audit Committee has considered the non-audit services provided by Ernst & Young and is satisfied that the services and the level of fees are compatible with maintaining auditors' independence.

Fees for audit services includes fees associated with statutory audit services, review of the Group's half year financial statements, audit of the Group's US Form 20-F, services in relation to statutory and regulatory requirements, and other services that only the external auditor can provide such as comfort letters on debt issues.

Audit related fees principally include accounting and regulatory consultations, due diligence in connection with

acquisitions and dispositions, and investigations and verifications of internal control systems and financial or regulatory information.

Taxation fees include income tax and GST compliance and related advice, and tax technology and related training.

All other fees principally include transaction support services related to potential and actual acquisition and disposition transactions, advice regarding implementation of revised compliance and regulatory requirements, and provision of personnel to assist alleviate short term non-management resource and skill needs.

NOTE 36 Commitments for Capital Expenditure Not Provided for in the Accounts

	GROUP		BANK	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M
Not later than one year	44	48	42	23
Later than one year but not later than two years	2	-	-	-
Total Commitments for Capital Expenditure Not Provided for in the Accounts	46	48	42	23

NOTE 37 Lease Commitments - Property, Plant and Equipment

	GROUP		BANK	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M
Commitments in respect of non cancellable operating lease agreements due:				
Not later than one year	295	264	241	228
Later than one year but not later than five years	646	587	522	503
Later than five years	207	160	150	104
Total Lease Commitments - Property, Plant and Equipment	1,148	1,011	913	835
Group's share of lease commitments of associated entities:				
Not later than one year	12	9		
Later than one year but not later than five years	16	18		
Later than five years	-	1		
Total Lease Commitments - Property, Plant and Equipment	28	28		

Lease Arrangements

Leases entered into by the Group are for the purpose of accommodating the business needs. 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 using either internal or external professional property resources acting for the Group.

Rental payments are determined in terms of relevant lease requirements, usually reflecting market rentals.

The Group as lessee has no purchase options over premises occupied.

There are no restrictions imposed on the Group's lease of space other than those forming part of the negotiated lease arrangements for each specific premise.

Notes to the financial statements

NOTE 38 Contingent Liabilities and Assets

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 adverse effect on the financial condition of the Bank and its controlled entities.

Details of contingent liabilities and off balance sheet business (excluding Derivatives – Note 39) are:

	Face Value		GROUP Credit Equivalent	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M
Credit risk related instruments				
Guarantees	2,230	2,075	2,230	2,075
Standby letters of credit	362	380	362	380
Bill endorsements	308	589	308	589
Documentary letters of credit	171	110	34	22
Performance related contingents	898	882	449	441
Commitments to provide credit	64,651	58,310	12,329	10,519
Other commitments	7,158	2,720	1,156	1,081
Total Credit Risk Related Instruments	75,778	65,066	16,868	15,107

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 against production of documents 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 non performance by 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.

Contingent Assets

The credit risk related contingent liabilities of \$75,778 million (2003: \$65,066 million) detailed above also represent contingent assets of the Group. Such commitments to provide credit may in the normal course convert to loans and other assets of the Group.

Litigation

Neither the Commonwealth Bank nor any of its controlled entities is engaged in any litigation or claim which is likely to have a materially adverse effect on the business, financial condition or operating results of the Commonwealth Bank or any of its controlled entities. Where some loss is probable an appropriate provision has been made.

Notes to the financial statements

NOTE 38 Contingent Liabilities and Assets 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 prior period mis-selling activities in the UK for pension 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 that are not reported in the Group's balance sheet are as follows:

	2004 \$M	2003 \$M
Funds under administration		
Australia	67,393	61,556
United Kingdom	10,721	6,908
New Zealand	7,614	6,590
Asia	1,203	1,369
	86,931	76,423
Funds under custody		
Australia ⁽¹⁾	-	57,777

⁽¹⁾ The Group has agreed to novate or transfer all of this business to other custodians during the 2004 financial year.

Certain entities within the Group act as responsible entity or trustee of virtually all managed schemes ("schemes"), wholesale and retail trusts ("trusts") managed by the Group in Australia, United Kingdom and New Zealand. The above funds under administration do not include on balance sheet investments and policyholder liabilities held in the statutory funds of the life insurance business (refer to Note 16) where an entity within the Group may act as a trustee. 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 2004. 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 are 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 System ("Clearing Stream 1") and the Bulk Electronic Clearing System ("Clearing Stream 2") and the High Value Clearing System ("Clearing Stream 4", only if operating in 'bypass mode') 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 2004 was \$8 million (2003: \$10.6 million).

Notes to the financial statements

NOTE 39 Market Risk

The Bank 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 results in a loss of earnings or a loss of value, e.g. an adverse interest rate movement.

Under the authority of the Board of Directors, the Risk Committee of the Board ensures that all the market risk exposure is consistent with the business strategy and within risk tolerance of the Group. Regular market risk reports are tabled before the Risk Committee of the Board.

Within the Group, market risk is greatest in the balance sheets of the 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 Asset and Liability Committee, with operational management delegated to the Group Executives of the associated business units.

For bank balance sheets, market risk includes liquidity risk, funding risk, interest rate risk and foreign exchange risk. On life and general insurance balance sheets, market risk is part of the principal 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 requirements by currency and by geographical location of its operations. Subsidiaries are also included in the Group's liquidity policy framework. Liquidity policies are in place to manage liquidity 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 nature of operations. The objectives of the Group's funding and liquidity policies are to:

- Ensure all financial obligations are met when due;
- Provide adequate protection, even under crisis scenarios, at lowest cost; and
- Achieve sustainable, lowest-cost funding within the limitations of funding diversification requirements.

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 funding policy augments the Group's liquidity policy with its aim to assure the Group has a stable diversified funding base without over-reliance on any one market sector.

Domestically, the Group continues to obtain the majority of its AUD funding from a stable retail deposit base which has a lower interest cost than wholesale funds. The retail funding percentage has fallen from 67% in June 2003 to 60% in June 2004 due to the growth of "at call" savings. The relative size of the Group's retail base has enabled it to source funds at a lower than average rate of interest than the other major Australian banks. However, some of this benefit is offset by the cost of the Group's extensive retail network and the Group's large share of pensioner deeming accounts.

The cost of funds for Financial Year 2004, calculated as a percentage of interest exposure to average interest bearing liabilities, was 4.0% on a group basis compared with the 3.7% on a group basis for Financial Year 2003.

The Group obtains a significant proportion of its funding for the domestic balance sheet from wholesale sources – approximately 29.7% (2003: 22.7%), excluding Bank Acceptances. The cost of funds raised in the wholesale markets is affected by independently assessed credit ratings.

Notes to the financial statements

NOTE 39 Market Risk continued

A funding diversification policy is particularly important in offshore markets where the absence of any 'natural' offshore funding base means the Group is principally reliant on money market and capital market sources for funding. The Group 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.

Market Risk	2004 \$M	GROUP 2003 \$M
Australia		
Cheque accounts	24,699	22,341
Savings accounts	31,067	32,411
Term deposits	38,530	32,398
Cash management accounts	20,756	18,756
Debt issues	27,688	19,577
Bank acceptances	15,019	13,122
Certificates of deposit	20,516	11,228
Life insurance policy liabilities	20,834	20,443
Loan capital	6,539	5,937
Securities sold under agreements to repurchase	3,585	3,231
Other	2,383	2,527
Total Australia	211,616	181,971
Overseas		
Deposits and interbank	28,282	25,621
Commercial paper	8,776	7,802
Life insurance policy liabilities	3,804	3,418
Other debt issues	7,578	3,250
Loan capital	92	88
Bank acceptances and other	-	75
Total Overseas	48,532	40,254
Total Funding Sources	260,148	222,225
Provisions and other liabilities	20,962	20,733
Total Liabilities	281,110	242,958

Notes to the financial statements

NOTE 39 Market Risk continued

Interest rate risk (Banking)

Interest rate risk in the bank balance sheet arises from the potential for a change in interest rates to have an adverse affect on the net interest earnings, in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Bank's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net interest earnings in the long term.

The Bank measures and manages balance sheet interest rate risk from two perspectives:

(a) Next 12 months earnings

The risk to the net interest earnings over the next 12 months for 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 whole yield curve as well as other interest rate scenarios with variations in size and timing of interest rate movements. Potential variations in 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 the other assets and liabilities (those priced at the discretion of the Bank) 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 during the year (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 percentage of expected next 12 months' earnings)	2004 %	2003 %
Average monthly exposure	0.9	1.3
High month exposure	1.3	2.1
Low month exposure	0.5	0.4

(b) Economic value

Some of the Bank's assets and liabilities have interest rate risk that is not fully captured within a measure of risk to the next 12 months earnings. To measure this longer-term sensitivity, the Bank utilises an economic value-at-risk ("VaR") analysis. This analysis measures the potential change in the net present value of cash flows of assets and liabilities. Cash flows for fixed rate products are included on a contractual basis, after adjustment for forecast prepayment activities. Cash flows for products repriced at the discretion of the Bank are based on the expected repricing characteristics of those products.

The total cash flows are revalued under a range of possible interest rate scenarios using the VaR methodology. The interest rate scenarios are based on actual interest rate movements that have occurred over one year and five 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.

	2004 \$M	2003 \$M
Exposure as at 30 June	19	34
Average monthly exposure	40	24
High month exposure	92	64
Low month exposure	19	4

Notes to the financial statements

NOTE 39 Market Risk continued

The following table represents the Bank's contractual interest rate sensitivity for repricing mismatches as at 30 June 2004 and 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. All assets and liabilities are shown according to contractual repricing dates. Options are shown in the mismatch report using the delta equivalents of the option face values.

Interest Rate Risk Sensitivity

	Balance Sheet Total \$M	Repricing Period at 30 June 2004							Not Interest Bearing \$M	Weighted Average Rate %
		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			
Australia										
Assets										
Cash and liquid assets	5,740	4,802	-	-	4	-	-	934	3.27	
Receivables due from other financial institutions	4,914	3,657	1,076	78	2	-	-	101	2.88	
Trading securities	11,310	11,310	-	-	-	-	-	-	3.53	
Investment securities	3,822	81	180	792	17	1,966	782	4	6.09	
Loans, advances and other receivables	158,915	96,547	10,283	8,776	14,148	28,444	1,989	(1,272)	6.89	
Bank acceptances of customers	15,019	-	-	-	-	-	-	15,019	-	
Insurance investment assets	24,673	761	2,090	203	247	2,934	2,514	15,924	4.62	
Deposits with regulatory authorities	-	-	-	-	-	-	-	-	-	
Property, plant and equipment	1,053	-	-	-	-	-	-	1,053	-	
Intangible assets	4,270	-	-	-	-	-	-	4,270	-	
Other assets	23,236	-	-	-	-	-	-	23,236	-	
Total Assets	252,952	117,158	13,629	9,849	14,418	33,344	5,285	59,269	5.16	
Liabilities										
Deposits and other public borrowings	139,153	90,121	20,032	14,160	3,418	3,133	826	7,463	3.89	
Payables due to other financial institutions	2,383	2,147	58	153	4	20	-	1	1.19	
Bank acceptances	15,019	-	-	-	-	-	-	15,019	-	
Provision for dividend	14	-	-	-	-	-	-	14	-	
Income tax liability	757	-	-	-	-	-	-	757	-	
Other provisions	954	-	-	-	-	-	-	954	-	
Insurance policy liabilities	20,834	-	-	-	-	-	-	20,834 ⁽¹⁾	-	
Debt issues	27,688	1,428	2,258	1,834	2,022	14,370	5,776	-	5.27	
Bills payable and other liabilities	15,802	-	-	-	-	-	-	15,802	-	
Loan capital	6,539	331	221	613	999	1,825	2,550	-	4.57	
Total Liabilities	229,143	94,027	22,569	16,760	6,443	19,348	9,152	60,844	3.14	
Shareholders' Equity										
Share capital	21,079	-	-	-	-	-	-	21,079	-	
Outside equity interests	2,288	-	-	-	-	-	-	2,288	-	
Total Shareholders' Equity	23,367	-	-	-	-	-	-	23,367	-	
Off Balance Sheet Items										
Swaps	⁽²⁾	(10,161)	(12,663)	8,173	954	8,150	5,547	-	⁽³⁾	
Options	⁽²⁾	(426)	-	176	-	75	175	-	⁽³⁾	
FRAs	⁽²⁾	-	-	-	-	-	-	-	⁽³⁾	
Futures	⁽²⁾	-	5,171	(10,311)	6,264	(902)	(222)	-	⁽³⁾	
Net Mismatch	⁽²⁾	12,544	(16,432)	(8,873)	15,193	21,319	1,633	(24,942)	⁽³⁾	
Cumulative Mismatch	⁽²⁾	12,544	(3,888)	(12,761)	2,432	23,751	25,384	442	⁽³⁾	

⁽¹⁾ Technically, the 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.

⁽²⁾ No balance sheet amount applicable.

⁽³⁾ No rate applicable.

Notes to the financial statements

NOTE 39 Market Risk continued

	Repricing Period at 30 June 2004								
	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	Interest Bearing \$M	Not Weighted Average Rate %
Overseas									
Assets									
Cash and liquid assets	713	493	116	-	30	-	-	74	2.23
Receivables due from other financial institutions	3,455	2,005	1,423	15	-	-	-	12	3.20
Trading securities	3,586	2,021	1,237	221	60	25	22	-	4.29
Investment securities	7,625	827	2,193	622	374	1,843	1,766	-	4.00
Loans, advances and other receivables	30,476	10,868	2,671	2,616	4,233	9,509	700	(121)	6.87
Bank acceptances of customers	-	-	-	-	-	-	-	-	-
Insurance investment assets	4,269	67	54	32	71	990	955	2,100	2.11
Deposits with regulatory authorities	38	-	-	-	-	-	-	38	-
Property, plant and equipment	151	-	-	-	-	-	-	151	-
Intangible assets	435	-	-	-	-	-	-	435	-
Other assets	2,295	-	-	-	-	-	-	2,295	-
Total Assets	53,043	16,281	7,694	3,506	4,768	12,367	3,443	4,984	5.22
Liabilities									
Deposits and other public borrowings	24,024	14,697	4,636	2,605	1,095	515	14	462	4.22
Payables due to other financial institutions	4,258	2,844	928	485	1	-	-	-	2.80
Bank acceptances	-	-	-	-	-	-	-	-	-
Provision for dividend	-	-	-	-	-	-	-	-	-
Income tax liability	54	-	-	-	-	-	-	54	-
Other provisions	43	-	-	-	-	-	-	43	-
Insurance policy liabilities	3,804	-	-	-	-	-	-	3,804	-
Debt issues	16,354	2,919	2,411	8,504	328	1,664	481	47	1.72
Bills payable and other liabilities	3,338	-	-	-	-	-	-	3,338	-
Loan capital	92	-	-	92	-	-	-	-	8.22
Total Liabilities	51,967	20,460	7,975	11,686	1,424	2,179	495	7,748	2.74
Shareholders' Equity									
Share capital	1,326	-	-	-	-	-	-	1,326	-
Outside equity interests	192	-	-	-	-	-	-	192	-
Total Shareholders' Equity	1,518	-	-	-	-	-	-	1,518	-
Off Balance Sheet Items									
Swaps	(1)	3,273	5,205	(186)	(2,073)	(6,381)	115	47	(2)
Options	(1)	-	-	(61)	61	-	-	-	(2)
FRAs	(1)	(820)	(137)	547	410	-	-	-	(2)
Futures	(1)	-	218	(185)	526	(559)	-	-	(2)
Net Mismatch	(1)	(1,726)	5,005	(8,065)	2,268	3,248	3,063	(4,235)	(2)
Cumulative Mismatch	(1)	(1,726)	3,279	(4,786)	(2,518)	730	3,793	(442)	(2)

(1) No balance sheet amount applicable.

(2) No rate applicable.

As noted above the cumulative mismatch reflects contractual repricing periods. The balance sheet is managed based on assessments of expected pricing behaviour having regard to historical trends and competitive positioning.

The Group has a significant portfolio of loans with fixed interest rates maturing in the one to five years repricing period. Funding is principally raised from retail deposits with at call variable interest rates. The interest rate risk exposure is managed in accordance with the principles outlined above in this note.

Notes to the financial statements

NOTE 39 Market Risk continued

	Repricing Period at 30 June 2003							Not Interest Bearing	Weighted Average Rate %
	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		
Australia									
Assets									
Cash and liquid assets	4,557	3,667	-	-	-	-	-	890	3.55
Receivables due from other financial institutions	3,325	1,266	1,070	753	36	-	-	200	1.41
Trading securities	6,334	6,334	-	-	-	-	-	-	4.64
Investment securities	4,341	82	521	36	499	2,720	467	16	5.38
Loans, advances and other receivables	137,424	80,485	7,167	8,482	14,772	25,336	2,370	(1,188)	6.32
Bank acceptances of customers	13,122	-	-	-	-	-	-	13,122	-
Insurance investment assets	24,185	5,344	444	71	305	2,178	2,240	13,603	4.04
Deposits with regulatory authorities	-	-	-	-	-	-	-	-	-
Property, plant and equipment	628	-	-	-	-	-	-	628	-
Goodwill	4,552	-	-	-	-	-	-	4,552	-
Other assets	21,966	-	-	-	-	-	-	21,966	-
Total Assets	220,434	97,178	9,202	9,342	15,612	30,234	5,077	53,789	4.79
Liabilities									
Deposits and other public borrowings	120,365	82,397	15,572	7,910	4,286	4,246	861	5,093	2.97
Payables due to other financial institutions	2,527	1,486	892	132	17	-	-	-	1.54
Bank acceptances	13,122	-	-	-	-	-	-	13,122	-
Provision for dividend	12	-	-	-	-	-	-	12	-
Income tax liability	850	-	-	-	-	-	-	850	-
Other provisions	777	-	-	-	-	-	-	777	-
Insurance policy liabilities	20,443	-	-	-	-	-	-	20,443 ⁽¹⁾	-
Debt issues	19,576	4,452	6,378	1,458	1,152	4,949	1,187	-	5.50
Bills payable and other liabilities	16,867	-	-	-	-	-	-	16,867	-
Loan capital	5,937	734	2,050	15	-	1,320	1,818	-	3.31
Total Liabilities	200,476	89,069	24,892	9,515	5,455	10,515	3,866	57,164	2.44
Shareholders' Equity									
Share capital	19,910	-	-	-	-	-	-	19,910	-
Outside equity interests	1,936	-	-	-	-	-	-	1,936	-
Total Shareholders' Equity	21,846	-	-	-	-	-	-	21,846	-
Off Balance Sheet Items									
Swaps	⁽²⁾	(21,935)	8,186	623	39	7,673	5,414	-	⁽³⁾
FRAs	⁽²⁾	-	-	-	-	-	-	-	⁽³⁾
Futures	⁽²⁾	-	-	-	-	-	-	-	⁽³⁾
Net Mismatch	⁽²⁾	(13,826)	(7,504)	450	10,196	27,392	6,625	(25,221)	⁽³⁾
Cumulative Mismatch	⁽²⁾	(13,826)	(21,330)	(20,880)	(10,684)	16,708	23,333	(1,888)	⁽³⁾

⁽¹⁾ Technically, the 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.

⁽²⁾ No balance sheet amount applicable.

⁽³⁾ No rate applicable.

Notes to the financial statements

NOTE 39 Market Risk continued

	Repricing Period at 30 June 2003								Weighted Average Rate %
	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	
Overseas									
Assets									
Cash and liquid assets	1,018	868	53	1	-	-	-	96	1.75
Receivables due from other financial institutions	3,741	1,424	2,145	79	-	84	-	9	4.32
Trading securities	4,101	495	1,519	448	237	1,064	308	30	4.31
Investment securities	6,695	626	1,816	1,252	458	2,146	397	-	6.26
Loans, advances and other receivables	22,923	9,155	1,972	2,390	3,687	5,273	483	(37)	7.36
Bank acceptances of customers	75	-	-	-	-	-	-	75	-
Insurance investment assets	3,650	117	43	24	73	966	710	1,717	2.54
Deposits with regulatory authorities	23	8	-	-	-	-	-	15	2.06
Property, plant and equipment	193	-	-	-	-	-	-	193	-
Goodwill	477	-	-	-	-	-	-	477	-
Other assets	1,780	-	-	-	-	-	-	1,780	-
Total Assets	44,676	12,693	7,548	4,194	4,455	9,533	1,898	4,355	5.72
Liabilities									
Deposits and other public borrowings	20,609	11,472	4,299	2,193	749	861	149	886	4.53
Payables due to other financial institutions	5,011	4,021	763	159	68	-	-	-	3.12
Bank acceptances	75	-	-	-	-	-	-	75	-
Provision for dividend	-	-	-	-	-	-	-	-	-
Income tax liability	26	-	-	-	-	-	-	26	-
Other provisions	42	-	-	-	-	-	-	42	-
Insurance policy liabilities	3,418	-	-	-	-	-	-	3,418	-
Debt issues	11,053	1,050	7,987	331	76	1,470	139	-	2.01
Bills payable and other liabilities	2,160	-	-	-	-	-	-	2,160	-
Loan capital	88	-	88	-	-	-	-	-	8.13
Total Liabilities	42,482	16,543	13,137	2,683	893	2,331	288	6,607	3.11
Shareholders' Equity									
Share capital	114	-	-	-	-	-	-	114	-
Outside equity interests	192	-	-	-	-	-	-	192	-
Total Shareholders' Equity	306	-	-	-	-	-	-	306	-
Off Balance Sheet Items									
Options	⁽¹⁾	579	4,065	405	(2,495)	(2,349)	(205)	-	⁽²⁾
Swaps	⁽¹⁾	368	(562)	392	(445)	247	-	-	⁽²⁾
FRAs	⁽¹⁾	514	101	(550)	(109)	44	-	-	⁽²⁾
Futures	⁽¹⁾	(1,827)	(3,260)	(305)	(1,016)	4,991	1,417	-	⁽²⁾
Net Mismatch	⁽¹⁾	(4,216)	(5,245)	1,453	(503)	10,135	2,822	(2,558)	⁽²⁾
Cumulative Mismatch	⁽¹⁾	(4,216)	(9,461)	(8,008)	(8,511)	1,624	4,446	1,888	⁽²⁾

⁽¹⁾ No balance sheet amount applicable.

⁽²⁾ No rate applicable.

Notes to the financial statements

NOTE 39 Market Risk continued

As at 30 June

	Exchange Rate		Interest Rate		Total	
	Related Contracts		Related Contracts			
	2004	2003	2004	2003		2004
	\$M	\$M	\$M	\$M	\$M	\$M
Within 6 months	99	2	(34)	(11)	65	(9)
Within 6 months - 1 year	4	(3)	(13)	6	(9)	3
Within 1 - 2 years	(21)	1	16	17	(5)	18
Within 2 - 5 years	59	189	(190)	13	(131)	202
After 5 years	7	(8)	(698)	143	(691)	135
Net Deferred Gain/(loss)	148	181	(919)	168	(771)	349

Foreign exchange risk

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. The Bank hedges all balance sheet foreign exchange risks 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 risk arising from assets, liabilities, commitments of anticipated future transactions, together with the expected term of deferral are shown above.

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 rate 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 VaR measure outline above.

Additionally, there is \$31 million of net deferred gains on derivatives (2003: \$4 million net deferred gains) 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 asset returns and guaranteed liability returns on some policy changes (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 returns obtained from investing the shareholders capital held in each life company. As at 30 June 2004, shareholders funds in the life insurance business are invested 73% in income assets (cash and fixed interest) and 27% in growth assets (shares and property) with the asset mix varying from company to company. Policyholder funds are invested to meet policyholder reasonable expectations without putting the shareholder at undue risk.

Market risk in the fund 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 of fee income.

Market Risk in Financial Markets Trading

The Group's policy is that exposure to market risk from trading activities is managed by Premium Business Services. 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 to 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 to the financial statements details Financial Markets Trading Income contribution of \$499 million (2003: \$502 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 Bank provides operating leases to customers on equipment such as motor vehicles, computers and industrial equipment. Residual value risk is the risk that the amount recouped by selling the equipment at lease expiry will be less than the residual value of the lease. In managing this risk the Bank utilises industry experts to ensure that the residual value of equipment is prudently estimated at the start of the lease and the Bank realises the maximum value of the equipment at lease expiry.

Derivative Contracts

The table on the next page 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 a 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(ff).

Notes to the financial statements

NOTE 39 Market Risk continued

	Face Value		GROUP Credit Equivalent	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M
Derivatives				
Exchange rate related contracts				
Forwards				
Trading	151,595	147,998	3,083	4,201
Other than trading	30,983	5,329	1,504	291
Total Forwards	182,578	153,327	4,587	4,492
Swaps				
Trading	61,688	47,821	5,242	3,787
Other than trading	38,671	19,737	2,855	1,569
Total Swaps	100,359	67,558	8,097	5,356
Futures				
Trading	1	-	-	-
Other than trading	-	-	-	-
Total Futures	1	-	-	-
Options purchased and sold ⁽¹⁾				
Trading	64,930	69,984	856	1,234
Other than trading	126	-	2	27
Total Options Purchased and Sold	65,056	69,984	858	1,261
Total Exchange Rate Related Contracts	347,994	290,869	13,542	11,109
Interest rate related contracts				
Forwards				
Trading	28,311	33,398	13	4
Other than trading	500	2,292	11	37
Total Forwards	28,811	35,690	24	41
Swaps				
Trading	139,297	125,610	2,276	3,722
Other than trading	201,510	127,882	3,033	1,719
Total Swaps	340,807	253,492	5,309	5,441
Futures ⁽¹⁾				
Trading	38,525	47,881	67	18
Other than trading	17,251	-	-	-
Total Futures	55,776	47,881	67	18
Options purchased and sold				
Trading	15,100	14,028	110	152
Other than trading	4,683	5,602	15	28
Total Options Purchased and Sold	19,783	19,630	125	180
Total Interest Rate Related Contracts	445,177	356,693	5,525	5,680
Credit risk related contracts				
Swaps				
Trading	2,870	702	348	15
Other than trading	3,490	1,204	393	623
Total Swaps	6,360	1,906	741	638
Total Credit Risk Related Contracts	6,360	1,906	741	638
Equity risk related contracts				
Swaps				
Other than trading	340	355	33	29
Options purchased and sold				
Trading	313	247	33	55
Other than trading	25	-	1	-
Total Options Purchased and Sold	338	247	34	55
Total Equity Risk Related Contracts	678	602	67	84
Total Derivatives Exposures	800,209	650,070	19,875	17,511

⁽¹⁾ Prior year face value comparatives have been restated.

The Bank has also entered swaps to hedge property values and income related to investment property risk. Each of these has a face value of \$252 million and a credit equivalent of \$1 million.

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 loss, and together with net realised gains on trading derivatives and

realised and unrealised gains and losses on trading securities are reported within trading income under foreign exchange earnings or other financial instruments (refer to Note 2). In aggregate, derivatives trading was profitable for the Group during the year.

	Fair Value		Average Fair Value	
	2004 \$M	2003 \$M	2004 \$M	2003 \$M
Exchange rate related contracts				
Forward contracts:				
Gross unrealised gains	2,417	4,753	2,673	3,198
Gross unrealised losses	(2,742)	(4,922)	(2,975)	(3,245)
	(325)	(169)	(302)	(47)
Swaps:				
Gross unrealised gains	5,718	3,599	5,370	2,996
Gross unrealised losses	(4,335)	(2,390)	(4,145)	(2,078)
	1,383	1,209	1,225	918
Futures:				
Gross unrealised gains	-	2	1	-
Gross unrealised losses	(3)	-	(3)	-
	(3)	2	(2)	-
Options purchased and sold:				
Gross unrealised gains	482	832	822	783
Gross unrealised losses	(634)	(1,138)	(1,167)	(920)
	(152)	(306)	(345)	(137)
Net Unrealised Gains on Exchange Rate Related Contracts	903	736	576	734
Interest rate related contracts				
Forward contracts:				
Gross unrealised gains	4	4	6	7
Gross unrealised losses	(4)	(4)	(5)	(7)
	-	-	1	-
Swaps:				
Gross unrealised gains	4,084	4,431	4,833	4,294
Gross unrealised losses	(4,362)	(4,899)	(5,209)	(4,793)
	(278)	(468)	(376)	(499)
Futures:				
Gross unrealised gains	24	15	41	33
Gross unrealised losses	(25)	(18)	(50)	(23)
	(1)	(3)	(9)	10
Options purchased and sold:				
Gross unrealised gains	66	258	155	223
Gross unrealised losses	(57)	(145)	(123)	(146)
	9	113	32	77
Net Unrealised Losses on Interest Rate Related Contracts	(270)	(358)	(352)	(412)
Credit related trading derivative contracts				
Swaps:				
Gross unrealised gains	17	13	16	7
Gross unrealised losses	(11)	(12)	(13)	(6)
Net Unrealised Gains on Credit Related Contracts	6	1	3	1
Equity related contracts				
Options purchased and sold:				
Gross unrealised gains	15	20	12	17
Gross unrealised losses	(15)	(20)	(12)	(17)
Net Unrealised Gains on Equity Related Contracts	-	-	-	-
Net Unrealised Gains on Trading Derivative Contracts	639	379	227	323

Notes to the financial statements

NOTE 39 Market Risk continued

In accordance with the accounting policy set out in Note 1(ff) the above trading derivative contract revaluations have been presented on a gross basis on the balance sheet.

	Fair Value	
	2004	2003
	\$M	\$M
Unrealised gains on trading derivatives (Note 21)	12,827	13,907
Unrealised losses on trading derivatives (Note 27)	12,188	13,528
Net Unrealised Gains on Trading Derivatives	639	379

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 Actuarial Review of the Fund
Officers' Superannuation Fund ("OSF")	Defined Benefits and Accumulation	Indexed pensions and lump sums	30 June 2003
Commonwealth Bank of Australia (UK) Staff Benefits Scheme ("CBA(UK)SBS")	Defined Benefits and Accumulation	Indexed pensions and lump sums	1 August 2003

Financial Details of Defined Benefits Plans

Prior to the financial year ending 30 June 2003, the Bank prepared the following disclosures using values extracted from financial statements and actuarial assessments of each plan which have been prepared in accordance with relevant accounting and actuarial standards and practices. To maintain consistency in values, the Bank updates these values after each

actuarial assessment of the fund (when the present value of accrued benefits would be calculated).

In view of market volatility, the Bank updates the following values annually using most recently available information (including values obtained from unaudited fund financial statements).

	OSF ⁽¹⁾	CBA (UK)SBS ⁽²⁾	Total
	\$M	\$M	\$M
Net Market Value of Assets ⁽³⁾	5,416	333	5,749
Present Value of Accrued Benefits ⁽⁴⁾	3,988	409	4,397
Difference between Net Market of Assets and Present Value of Accrued Benefits	1,428	(76)	1,352
Difference as a Percentage of Plan Assets	26%	23%	24%
Value of Vested Benefits ⁽⁴⁾	3,988	304	4,292

(1) The values for the OSF are the fund actuary's estimates as at 31 March 2004. The OSF's values include the values for the former Colonial Group Staff Superannuation Scheme ("CGSSS") which was terminated on 3 October 2003 with the plan's assets, liabilities, member contributions and benefit arrangements transferred to the OSF.

(2) The values for the CBA(UK)SBS are the fund actuary's estimates as at 31 March 2004. The CBA(UK)SBS's values include the values for the former Colonial UK Staff Pension Scheme ("CUKSPS") and Stewart Ivory & Company Limited Retirement Benefits Scheme ("SI&CRBS") which were terminated on 31 July 2003 with each plan's assets, liabilities, member contributions and benefit arrangements transferred to the CBA(UK)SBS.

(3) These values have been extracted from the latest available fund financial statements (which are unaudited).

(4) The Present Value of Accrued Benefits and Value of Vested Benefits for the OSF have been calculated in accordance with the Australian Accounting Standards AAS25 – Financial Reporting by Superannuation Plans. For CBA(UK)SBS, the Present Value of Accrued Benefits and Value of Vested Benefits have been calculated in accordance with relevant UK 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 2003 was completed during the year ended 30 June 2004. In line with the actuarial advice contained in the assessment, the Bank does not intend to make contributions to the OSF until further consideration of the next actuarial assessment of the OSF as at 30 June 2006.

An actuarial review of the CBA(UK)SBS at 1 August 2003, which was finalised in August 2004, revealed a deficit of around \$80 million and the actuary recommended contributions of 26% of salary (dollar contributions estimated at \$5 million per annum) to finance future accrual of defined benefits and additional contributions of around \$8 million per annum payable over 15 years to finance the fund deficit. The Bank is currently considering these recommendations.

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 Securities Limited		Australia
Homepath Pty Limited		Australia
Chullora Equity Investments (No.2) Pty Limited		Australia
Chullora Equity Investments (No.3) Pty Limited		Australia
Commonwealth Investments Pty Limited		Australia
Commonwealth Property Limited		Australia
Infravest (No. 2) 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
TD Waterhouse Holdings (Aust) Pty Limited		Australia
Preferred Capital Limited		Australia
Newport Limited		Australia
Padang Pty Ltd		Australia
M Land Pty Ltd		Australia
PERLS II Trust		Australia
GT Funding No.1 Pty Ltd		Australia
GT Operating No.1 Pty Ltd		Australia
Watermark Limited		Australia
Emerald Limited		Australia
Loft No.1 Pty Ltd		Australia
Loft No.2 Pty Ltd		Australia
Fringe Pty Ltd		Australia
Reliance Achiever Pty Ltd		Australia
RA Partnership		Australia
Lily Pty Ltd		Australia
Pavillion Limited		Australia
Leaseway Transportation Pty Limited		Australia
Medallion 2003-2G		Australia
(b) Insurance and Funds Management		
Commonwealth Insurance Limited		Australia
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 Investments Limited		Australia
Avanteos Pty Limited		Australia
Colonial First State Property Limited		Australia
Colonial First Statutory Funds Management Limited		Australia

Notes to the financial statements

NOTE 41 Controlled Entities continued

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
(b) Insurance and Funds Management continued		
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
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
PIF Managed Property Pty Limited		Australia
Colonial Protection Insurance 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) 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 ⁽¹⁾		United Kingdom
Commonwealth Securities (Japan) Pty Limited		Japan
National Bank of Fiji Limited	51	Fiji
PT Bank Commonwealth		Indonesia
CBA Capital Holdings Inc		USA
CBA Capital Trust 1		USA
CBA Funding Trust 1		USA
Seahorse Investments UK Ltd		United Kingdom
CommInternational Limited		Malta
CommFinance Limited		Malta

Notes to the financial statements

NOTE 41 Controlled Entities continued

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
(b) 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
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
Waterloo & Victoria Limited		Cayman Islands

Non-operating and minor operating controlled entities and investment vehicles holding policyholder assets are excluded from the above list.

⁽¹⁾ Wholly owned subsidiary of CBA International Finance Pty Limited.

Notes to the financial statements

NOTE 42 Investments in Associated Entities and Joint Ventures

	GROUP		Extent of Ownership Interest %	Principal Activities	Balance Date
	2004 \$M	2003 \$M			
EDS (Australia) Pty Limited ⁽¹⁾	193	225	35	Information Technology Services	31 December
Computer Fleet Management	-	-	50	Desktop IT Lease Management	30 June
Cyberlynx Procurement Services	-	-	30	Procurement Services	30 June
PT Astra CMG Life	12	12	50	Life insurance - Indonesia	31 December
Allday Enterprises Ltd	1	1	30	Financial Services	31 December
China Life CMG Life Assurance Company Limited ⁽²⁾	20	36	49	Life insurance - China	31 December
Bao Minh CMG Life Insurance Company	12	12	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	1	50	Investment Management	31 March
Colonial First State Private Ltd	-	-	50	Investment Management	30 June
Total	239	287			

⁽¹⁾ Equity accounted loss of \$32 million principally relates to a change in revenue recognition policy by EDSA.

⁽²⁾ Equity accounted loss of \$16 million principally relates to a write-off of capitalised start up costs.

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	
	2004 \$M	2003 \$M
Share of associates' profits/(losses) after notional goodwill amortisation		
Operating profits/(losses) before income tax	(44)	1
Income tax benefit	12	-
Operating profits/(losses) after income tax	(32)	1
Carrying amount of investments in associated entities		
Opening balance	287	313
New investments	-	6
Disposals/transfers	-	(21)
Writedown value of investments	(16)	(9)
Fair value adjustments	-	(3)
Share of associates' profits/(losses)	(32)	1
Closing Balance	239	287

NOTE 43 Standby Arrangements and Unused Credit Facilities

(of controlled entities that are borrowing corporations)

	Available	Unused	Available	GROUP
	2004 \$M	2004 \$M	2003 \$M	Unused 2003 \$M
Financing arrangements accessible				
Bank overdraft	70	58	72	23
Revolving credit	-	-	-	-
	70	58	72	23

Notes to the financial statements

NOTE 44 Director and Executive Disclosures

This note outlines the remuneration arrangements for the Bank's Directors and Specified Executives. In accordance with accounting standard AASB 1046 this note also outlines details of equity holdings, loans and other transactions Directors and Specified Executives have with the Bank and its subsidiaries.

Remuneration Committee

The Bank's remuneration arrangements are overseen by the Remuneration Committee of the Board. The Committee considers changes in remuneration policy likely to have a material impact on the Bank and is informed of leadership performance, legislative compliance in employment issues, industrial agreements and incentive plans operating across the Bank.

The Committee also considers senior appointments and remuneration arrangements for senior management. The remuneration arrangements for the CEO and his direct reports are approved by the full Board.

The policy of the Board is that the Committee shall consist entirely of independent Non-Executive Directors. The Chief Executive Officer attends Committee meetings by invitation but does not attend in relation to matters that can affect him.

The Committee engages an external consultant to advise it directly in relation to the remuneration of executives.

Non-Executive Directors

Remuneration for Non-Executive Directors consists of base and committee fees within an aggregate total of \$1,500,000 per year as approved by shareholders at the Annual General Meeting held on 28 October 1999. Non-Executive Directors have 20% of their annual fees applied to the mandatory on-market acquisition of shares in the Bank.

The Bank contributes to compulsory superannuation on behalf of Non-Executive Directors.

Under the Directors' Retirement Allowance Scheme, which was approved by shareholders at the 1997 Annual General Meeting, Directors accumulate a retirement benefit on a pro rata basis to a maximum of four years' total emoluments after twelve years' service. No benefit accrues until the Director has served three years on the Board. In 2002 the Board decided to discontinue the Directors' Retirement Allowance Scheme without affecting the entitlements of then existing Non-Executive Directors. After that time new Directors are not entitled to participate in the scheme. As part of a proposed arrangement relating to remuneration, the Board will be seeking shareholder approval at the 2004 Annual General Meeting to terminate accrual of further benefits under the Scheme and freeze the entitlements of current members until their respective retirements. This approach will result in remuneration arrangements being expressed in a more transparent manner which does not include retirement benefits (other than compulsory superannuation).

Executives (including the Chief Executive Officer)

The Bank's remuneration framework aims to reward executives with a mix of remuneration appropriate to their level in the organisation and incorporates a significant weighting towards variable ('at risk') pay linked to performance, both short term and long term. This focus aims to:

- reward executives for bankwide, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link executive reward with the strategic goals and performance of the Bank; and
- ensure total remuneration is competitive by market standards.

Remuneration and terms and conditions of employment are specified in an individual contract of employment with each executive which is signed by the executive and the Bank. Remuneration of the Bank's executives consists of three key elements:

- Fixed Remuneration;
- Short Term Incentive ("STI"); and
- Long Term Incentive ("LTI").

The relationship of fixed remuneration and variable pay (potential short term and long term incentives) is established for each level of executive management by the Remuneration Committee.

Currently, the variable component of remuneration is in the general range of around 35% to 80% of an executive's total potential remuneration and increases with their level in the organisation. As a result of the review with the external consultant of developments in the market, and benchmarking against peer organisations, the distribution of total potential remuneration for executives is being modified in the current year so as to increase the percentage for the STI component and decrease the percentage for the LTI component. For senior executives, including the CEO, the maximum STI potential available will generally be an amount equal to fixed remuneration.

The structure for some specialists differs from that which applies generally to executive management. With specialists, a greater proportion of the variable component of remuneration may be in short term rather than long term incentives but the overall mix of remuneration is still heavily weighted towards 'at risk' pay.

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation.

Actual STI payments for executives depend on the extent to which targets set at the beginning of the financial year are met. These targets consist of a number of Key Result Areas ("KRAs") covering both financial and non-financial measures of performance. Included are measures such as contribution to net profit after tax (NPAT), customer service, risk management, product management, and leadership / team contribution.

STI Payments to executives are usually delivered in two components:

- Fifty percent made as an immediate cash payment; and
- Fifty percent deferred in the form of shares in the Bank.

The shares acquired vest in two equal instalments after one and two years respectively. Dividends on the deferred shares are not paid to the executive unless and until the shares vest. Generally, to receive the shares, the executive will need to be an employee of the Bank at the relevant vesting date.

LTI grants to executives are delivered in the form of Reward Shares under the Bank's Equity Reward Plan ("ERP").

No value will accrue to the executive unless the Bank's Total Shareholder Return ("TSR") at least meets the median of a peer comparator group of companies which consists of other Australian banks and financial institutions. To receive the full value of the LTI grant, the Bank's performance must be in the top quartile of the peer group. Using a comparative TSR based hurdle ensures that executives only gain where shareholders also benefit.

The Bank's executive contracts generally provide for severance payments of up to six months in the case of retrenchment. The contracts generally provide for a four week notice period. In the case of the Chief Executive Officer, the severance arrangements in Mr Murray's contract, other than for misconduct, provide for a notice period of six months and a pro-rata payment of the average of the previous three years short term incentive payment, payable in the event of termination by the Bank, after 1 May but before 30 June. In such circumstances, Mr Murray may exercise all vested options and obtain vested shares (including those that vest within two years from the Termination Date) within a period of three years from the Termination Date.

Refer Note 38 – Service Agreements.

Notes to the financial statements

NOTE 44 Director and Executive Disclosures

On exit from the Bank, executives are entitled to receive their statutory entitlements of accrued annual and long service leave as well as accrued superannuation benefits.

Individual remuneration details of Directors and Specified Executives are set out below.

Remuneration of Directors

Other than for the Managing Director, Directors receive their remuneration in the form of fees, apportioned between cash and amounts sacrificed on a mandatory basis under the Non-Executive Directors Share Plan ("NEDSP"), superannuation and the Director's Retirement Allowance Scheme (see earlier comments regarding discontinuance of the Scheme).

Year ending 30 June	PRIMARY BENEFITS			POST EMPLOYMENT BENEFITS		EQUITY BENEFITS				TOTAL REMUNERATION
	Cash	Non Monetary	STI paid in Cash	Super - Annuation	Retirement Allowance Scheme	Deferred STI	LTI Options	LTI Reward Shares	NEDSP	
	(Note 1) \$	\$	\$	(Note 2) \$	(Note 3) \$	\$	\$	\$	(Note 1) \$	\$
Mr J T Ralph, AC <i>Chairman</i>										
2004	245,887	-	-	- ⁽⁵⁾	36,479	-	-	-	61,472	343,838
2003	248,000	-	-	5,626	127,635	-	-	-	62,000	443,261
Dr J M Schubert <i>Deputy Chairman</i>										
2004	130,545	-	-	11,749	46,981	-	-	-	32,636	221,911
2003	128,000	-	-	11,520	102,537	-	-	-	32,000	274,057
Mr D V Murray <i>Managing Director (see notes to table of remuneration for Specified Executives for details of individual items)</i>										
2004	1,680,000	-	450,000	136,080	-	365,000	431,666	1,363,362	-	4,426,108
2003	1,625,000	-	375,000	131,625	-	326,250	751,258	868,892	-	4,078,025
Mr N R Adler, AO <i>Non-Executive Director</i>										
2004	90,435	-	-	8,318	23,717	-	-	-	22,609	145,079
2003	88,000	-	-	7,920	34,867	-	-	-	22,000	152,787
Mr R J Clairs, AO <i>Non-Executive Director</i>										
2004	86,424	-	-	7,778	38,988	-	-	-	21,606	154,796
2003	84,000	-	-	7,560	44,194	-	-	-	21,000	156,754
Mr A B Daniels, OAM <i>Non-Executive Director</i>										
2004	86,424	-	-	7,778	41,663	-	-	-	21,606	157,471
2003	84,000	-	-	7,560	103,796	-	-	-	21,000	216,356
Mr C R Galbraith, AM <i>Non-Executive Director</i>										
2004	89,460	-	-	8,051	46,418	-	-	-	22,365	166,294
2003	92,000	-	-	8,280	104,132	-	-	-	23,000	227,412
Ms S C Kay <i>Non-Executive Director (appointed a Director on 5 March 2003)</i>										
2004	97,482	-	-	8,773	-	-	-	-	24,370	130,625
2003	32,328	-	-	2,910	-	-	-	-	8,082	43,320
Mr W G Kent, AO <i>Non-Executive Director</i>										
2004	89,460	-	-	8,051	46,418	-	-	-	22,365	166,294
2003	92,000	-	-	8,280	104,132	-	-	-	23,000	227,412
Mr F D Ryan <i>Non-Executive Director</i>										
2004	90,435	-	-	8,139	46,466	-	-	-	22,609	167,649
2003	88,000	-	-	7,920	109,074	-	-	-	22,000	226,994
Mr F J Swan <i>Non-Executive Director</i>										
2004	89,460	-	-	8,051	44,429	-	-	-	22,365	164,305
2003	92,000	-	-	8,280	46,924	-	-	-	23,000	170,204
Ms B K Ward <i>Non-Executive Director</i>										
2004	90,435	-	-	8,139	51,566	-	-	-	22,609	172,749
2003	88,000	-	-	7,920	53,672	-	-	-	22,000	171,592
Total Remuneration for Directors										
2004	2,866,447	-	450,000	220,907	423,125	365,000	431,666	1,363,362	296,612	6,417,119
2003 ⁽⁴⁾	2,741,328	-	375,000	215,401	830,963	326,250	751,258	868,892	279,082	6,388,174

Notes to the financial statements

NOTE 44 Director and Executive Disclosures continued

Notes

Amounts in the above table reflect remuneration from the date the Director joined the Board if the Director was not in that role at the beginning of the financial year. Where this date is after 1 July 2002, the relevant date has been shown in the table.

- (1) For Non-Executive Directors, this includes base fees and committee fees paid as cash. Non-Executive Directors also sacrifice 20% of their fees on a mandatory basis under the NEDSP. Further detail on the NEDSP is contained in Note 29.
- (2) The Bank is not currently contributing to its staff superannuation fund (the Officers' Superannuation Fund) and a notional cost of contribution has been determined on an individual basis for those Non-Executive Directors who are a member of that fund. Some Directors have superannuation contributions made to other funds.
- (3) For Non-Executive Directors this represents the increase in their accrued benefit in the year under the Director's Retirement Allowance Scheme which was approved by shareholders at the 1997 Annual General Meeting. See earlier comments regarding discontinuance of the Scheme.
- (4) Group totals in respect of the financial year ended 30 June 2003 do not necessarily equal the sum of amounts disclosed for individuals specified in 2004 as there are differences to the individuals specified in 2003.
- (5) Mr J T Ralph turned 71 during the 2003/04 financial year. The Bank's compulsory superannuation obligations generally cease after a person obtains age 70.

Notes to the financial statements

NOTE 44 Director and Executive Disclosures continued

Remuneration of Specified Executives

Year ending 30 June	PRIMARY BENEFITS			POST EMPLOYMENT BENEFITS	EQUITY BENEFITS			OTHER BENEFITS		TOTAL REMUNERATION
	Cash	Non Monetary	STI paid in cash	Superannuation	Deferred STI	LTI Options	LTI Reward Shares	Termination Benefits	All other benefits	
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 6)	(Note 6)	(Note 7)	(Note 8)	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Mr M A Cameron	<i>Group Executive, Financial & Risk Management (commenced in role on 1 April 2003)</i>									
2004	600,000	13,000	170,000	243,200	99,375	-	150,325	-	-	1,275,900
2003	149,589	3,241	33,034	10,770	-	-	10,586	-	150,000	357,220
Mr A R Cosenza	<i>Group Executive, Group Strategic Development (ceased in role on 16 June 2004 and proceeded on Long Service Leave)</i>									
2004	575,410	12,503	144,262	45,530	145,464	98,214	365,062	-	-	1,386,445
2003	560,000	13,000	160,000	40,320	118,750	154,873	315,056	-	-	1,361,999
Mr L G Cupper	<i>Group Executive, Human Resources</i>									
2004	580,000	13,000	156,000	115,200	156,875	118,642	415,022	-	-	1,554,739
2003	560,000	13,000	157,500	60,100	146,250	181,946	342,553	-	-	1,461,349
Mr S I Grimshaw	<i>Group Executive, Investment & Insurance Services</i>									
2004	891,000	13,000	280,000	89,880	196,875	130,054	498,873	-	-	2,099,682
2003	774,836	13,000	262,500	399,505	-	130,054	299,538	-	-	1,879,433
Mr H D Harley	<i>Group Executive, Retail Banking Services (commenced in role on 16 October 2002)</i>									
2004	700,000	13,000	230,000	101,500	130,000	75,578	321,078	-	-	1,571,156
2003	381,699	9,189	98,959	57,582	68,675	75,795	153,287	-	-	845,186
Mr M A Katz	<i>Group Executive, Premium Business Services</i>									
2004	910,000	13,000	290,000	132,100	237,500	197,736	677,520	-	-	2,457,856
2003	870,000	13,000	240,000	67,500	228,500	303,243	563,376	-	-	2,285,619
Mr R V McKinnon	<i>Group Executive, Technology</i>									
2004	540,000	13,000	142,500	38,880	122,688	55,804	253,061	-	-	1,165,933
2003	520,000	13,000	127,500	37,440	105,188	76,905	175,191	-	-	1,055,224
Mr G L Mackrell	<i>Group Executive, International Financial Services</i>									
2004	600,000	13,000	202,500	80,500	166,250	113,718	391,143	-	-	1,567,111
2003	540,000	13,000	185,000	66,802	103,500	162,251	316,556	-	-	1,387,109
Mr J K O'Sullivan	<i>Chief Solicitor and General Counsel (commenced in role on 17 October 2003)</i>									
2004	493,443	9,164	140,984	35,528	-	-	105,232	-	-	784,351
2003	-	-	-	-	-	-	-	-	-	-
Mr G A Peterson	<i>Group Executive, Group Strategic Development (commenced in role 17 June 2004)</i>									
2004	16,716	497	4,208	2,762	2,960	-	2,559	-	-	29,702
2003	-	-	-	-	-	-	-	-	-	-
Mr M J Ullmer	<i>Group Executive, Institutional & Business Services (ceased in role 23 May 2004)</i>									
2004	754,959	6,536	250,000	118,202	244,208	177,206	607,176	845,000	332,848	3,336,135
2003	820,000	13,000	217,500	132,300	211,000	303,243	563,376	-	-	2,260,419
Total Remuneration for Specified Executives										
2004	6,661,528	119,700	2,010,454	1,003,282	1,502,195	966,952	3,787,051	845,000	332,848	17,229,010
2003 ⁽⁹⁾	5,176,124	103,430	1,481,993	872,319	981,863	1,388,310	2,739,519	-	150,000	12,893,558

Notes

Amounts in the above table reflect remuneration for the time the executive has been in the role of a Specified Executive, i.e. pro-rating is applied relative to the date the executive commenced or ceased in the role of a Specified Executive. Remuneration earned as an executive prior to appointment to a role as a Specified Executive is not included in the amounts shown for that executive.

Where appropriate, comparative information has been reclassified into appropriate categories.

(1) Reflects amounts paid in the year ended 30 June and is calculated on a total cost basis. Included may be salary sacrifice amounts (e.g. motor vehicles plus FBT) with the exception of salary sacrifice superannuation which is included under 'Post Employment Benefits'.

(2) Represents the cost of car parking (including FBT).

Notes to the financial statements

NOTE 44 Director and Executive Disclosures

⁽³⁾ Represents the STI payment made in cash for the year ended 30 June. Payment made in cash represents the amount of the payment that is not deferred in the form of shares under the mandatory component of the Equity Participation Plan ("EPP") nor voluntarily sacrificed in the form of shares under the voluntary component of the EPP or into superannuation via voluntary sacrifice. Amounts deferred under the mandatory component of the EPP are amortised over two years from the date to which the payment relates. Where part of the payment is sacrificed into superannuation, the amount sacrificed is included under "Post Employment Benefits". Mr Ullmer's STI payment for the year ended 30 June 2004 has been made fully in cash with no mandatory deferral being applied due to his departure from the Bank.

⁽⁴⁾ Represents company contribution to superannuation and includes any allocations made by way of salary sacrifice by executives.

⁽⁵⁾ Deferred STI represents the cost of shares acquired under the mandatory component of the EPP. Shares vest in two equal tranches after one and two years respectively. For example, for STI payments for the year ended 30 June 2003, half the shares vest on 1 July 2004 and half vest on 1 July 2005. The amount included in remuneration each year has been amortised on a straight-line basis over the vesting period for each tranche of shares. In the case of Mr Ullmer the value that would have been amortised in the year ended 30 June 2005 has also been included for the year ended 30 June 2004 as all unvested shares granted under the mandatory component of the EPP vest to him on his departure from the Bank. See Note 29 for further details on the operation of the EPP.

⁽⁶⁾ The value of LTIs disclosed above was calculated as follows:

- The 'fair value' of options has been calculated using the Black-Scholes valuation model that incorporates the assumptions below:

Commencement Date	Fair Value	Assumptions				
		Exercise Price	Risk Free Rate	Term	Dividend Yield	Volatility
24 Aug 1999	\$3.14	\$23.84	5.82%	37 mths	4.82%	20.0%
24 Aug 1999 (CEO Options)	\$3.48	\$23.84	5.82%	49 mths	4.82%	20.0%
13 Sept 2000	\$3.47	\$26.97	6.00%	37 mths	4.41%	17.9%
3 Sept 2001	\$4.01	\$30.12	5.24%	37 mths	4.61%	20.8%

- The 'fair value' of shares is the Bank's closing share price at the Commencement Date for each grant, i.e., \$27.64 for shares granted on 13 Sep 2000, \$29.50 for shares granted on 3 Sep 2001, \$31.42 for shares granted on 2 Sep 2002 and \$27.48 for shares granted on 1 Sep 2003.
- As required under AASB 1046 the Bank has estimated the number of options and shares expected to vest in relation to each grant. The assessment has been made as at 30 June 2004 based on the Bank's performance against the relative hurdle. In respect of options and shares granted in 1999 and 2000, 100% of the number granted have vested. For options and shares granted in 2001, the Bank currently expects 100% of the number granted to vest. For shares granted in 2002 and 2003, the Bank currently estimates that 50% of the number granted will vest.
- The annualised equivalent of the 'fair value' in respect of each grant of options and shares (multiplied by the number that have, or are expected to, vest), has been amortised on a straight line basis over the period from the Commencement Date until the first possible vesting date – a period of 37 months (49 months in respect of options granted to Mr Murray on 24 Aug 1999).

⁽⁷⁾ Represents any severance payments made on termination of employment (excluding any payment in lieu of notice).

⁽⁸⁾ All Other Benefits payable that are not covered above, including any payment made in lieu of notice on termination of employment and other contractual payments.

⁽⁹⁾ Group totals in respect of the financial year ended 30 June 2003 do not necessarily equal the sum of amounts disclosed for individuals specified in 2004 as there are differences to the individuals specified in 2003.

Notes to the financial statements

NOTE 44 Director and Executive Disclosures continued

Equity Holdings of Directors and Specified Executives

Employee Equity Plans – Shares and Options Vested and Exercised During the Year

Name	Deferred STI Vested	Reward Shares Vested	Options Vested	Shares Granted on Exercise of Options		
				No.	Exercise Price	Value in excess of Exercise Price ⁽¹⁾
Directors						
Mr D V Murray	10,853	-	1,000,000	-	-	-
Specified Executives						
Mr M A Cameron	-	-	-	-	-	-
Mr A R Cosenza	3,851	10,500	162,500	100,000	\$23.84	\$8.81
Mr L G Cupper	4,708	12,500	225,000	150,000	\$23.84	\$8.91
Mr S I Grimshaw	-	-	-	-	-	-
Mr H D Harley	3,224	6,300	87,500	50,000	\$23.84	\$9.46
Mr M A Katz	7,752	20,900	375,000	250,000	\$23.84	\$8.29
Mr R V McKinnon	3,491	4,200	25,000	-	-	-
Mr G L Mackrell	3,322	9,600	157,500	-	-	-
Mr J K O'Sullivan	-	-	-	-	-	-
Mr G A Petersen	1,133	-	-	-	-	-
Mr M J Ullmer	6,910	20,900	325,000	200,000	\$23.84	\$8.91
Total Specified Executives	34,391	84,900	1,357,500	750,000	N/A	N/A

Notes

⁽¹⁾ Difference between the exercise price and closing market value of CBA shares on date of exercise.

Options

Mr Murray is the only Director holding options in the Bank and he did not exercise any during the year ended 30 June 2004. The Bank's Non-Executive Directors do not hold any options.

Name	Balance 1 Jul 2003	Granted as Remuneration	Options Exercised	Balance 30 Jun 2004	Vested and exercisable at 30 June 2004	
					No	Exercise Price
Directors						
Mr D V Murray	1,250,000	-	-	1,250,000	1,000,000	\$23.84 ⁽¹⁾
Total for Directors	1,250,000	-	-	1,250,000	1,000,000	\$23.84⁽¹⁾
Specified Executives						
Mr M A Cameron	-	-	-	-	-	-
Mr A R Cosenza	227,500	-	(100,000)	127,500	62,500	\$26.97
Mr L G Cupper	300,000	-	(150,000)	150,000	75,000	\$26.97
Mr S I Grimshaw	100,000	-	-	100,000	-	-
Mr H D Harley	137,500	-	(50,000)	87,500	37,500	\$26.97
Mr M A Katz	500,000	-	(250,000)	250,000	125,000	\$26.97
Mr R V McKinnon	62,500	-	-	62,500	25,000	\$26.97
Mr G L Mackrell	232,500	-	-	232,500	100,000	\$23.84 ⁽¹⁾
					57,500	\$26.97
Mr J K O'Sullivan	-	-	-	-	-	-
Mr G A Petersen	-	-	-	-	-	-
Mr M J Ullmer	450,000	-	(200,000)	250,000	125,000	\$26.97
Total for Specified Executives	2,010,000	-	(750,000)	1,260,000	100,000	\$23.84⁽¹⁾
					507,500	\$26.97

Notes

⁽¹⁾ For most executives, 'Vested and exercisable' options represents those granted on 13 September 2000 with an exercise price of \$26.97. Mr Murray and Mr Mackrell hold vested but unexercised options granted on 24 August 1999 that have an exercise price of \$23.84.

Notes to the financial statements

NOTE 44 Director and Executive Disclosures continued

Shares

Details of shareholdings of Directors and Specified Executives (or relatives or entities controlled or significantly influenced by them) are as follows:

Name	Class	Balance 1 Jul 2003	Acquired/Granted as Remuneration ⁽¹⁾	Net Change Other ⁽²⁾	Balance 30 Jun 2004
Directors					
Mr J T Ralph, AC	Ordinary	21,339	2,007	515	23,861
Dr J M Schubert	Ordinary	14,428	1,064	776	16,268
Mr D V Murray	Ordinary	214,242	-	61,287	275,529
	Deferred STI	16,704	13,576	(10,853)	19,427
	Reward Shares	152,000	90,000	-	242,000
Mr N R Adler, AO	Ordinary	8,636	736	118	9,490
Mr R J Clairs, AO	Ordinary	11,927	704	-	12,631
Mr A B Daniels, OAM	Ordinary	15,135	704	553	16,392
Mr C R Galbraith, AM	Ordinary	6,579	731	379	7,689
Ms S C Kay	Ordinary	2,184	796	-	2,980
Mr W G Kent, AO	Ordinary	9,708	731	4,083	14,522
Mr F D Ryan	Ordinary	5,935	736	-	6,671
Mr F J Swan	Ordinary	4,038	731	227	4,996
Ms B K Ward ⁽³⁾	Ordinary	4,059	736	119	4,914
Total for Directors	Ordinary	318,210	9,676	68,057	395,943
	Deferred STI	16,704	13,576	(10,853)	19,427
	Reward Shares	152,000	90,000	-	242,000

Notes

⁽¹⁾ For Non-Executive Directors, represents shares acquired under NEDSP on 30 Sep 2003, 2 Jan 2004, 31 Mar 2004 and 29 Jun 2004 by mandatory sacrifice of fees. All shares are subject to a 10 year trading restriction (shares will be tradeable earlier if the Director leaves the Board). See Note 29 for further details on the NEDSP.

For Mr Murray, represents:

- Deferred STI - acquired under the mandatory component of the Bank's Equity Participation Plan ("EPP"). Shares were purchased on 31 Oct 2003 in two equal tranches, vesting on 1 July 2004 and 1 July 2005 respectively. See Note 29 for further details on the EPP.
- Reward Shares - granted under the Equity Reward Plan ("ERP") on 1 Sep 2003 and are subject to a performance hurdle. The first possible date for meeting the performance hurdle is 2 Sep 2006 with the last possible date for vesting being 1 Sep 2008. See Note 29 for further details on the ERP.

⁽²⁾ 'Net change other' incorporates changes resulting from purchases and sales during the year by Directors and, for Mr Murray, vesting of Deferred STI shares (which became Ordinary shares).

⁽³⁾ Ms Ward also purchased 250 PERLS II securities during the year and continued to hold them at 30 June 2004.

Notes to the financial statements

NOTE 44 Director and Executive Disclosures continued

Name	Class	Balance 1 Jul 2003	Acquired/Granted as Remuneration ⁽¹⁾	On Exercise of Options	Net Change Other ⁽²⁾	Balance 30 Jun 2004
Specified Executives						
Mr M A Cameron	Ordinary	-	-	-	-	-
	Deferred STI	-	4,797	-	-	4,797
	Reward Shares	10,000	22,300	-	-	32,300
Mr A R Cosenza	Ordinary	20,000	-	100,000	(89,500)	30,500
	Deferred STI	6,034	5,793	-	(3,851)	7,976
	Reward Shares	50,000	24,700	-	(10,500)	64,200
Mr L G Cupper	Ordinary	9,365	-	150,000	(132,159)	27,206
	Deferred STI	7,415	5,702	-	(4,708)	8,409
	Reward Shares	53,000	29,500	-	(12,500)	70,000
Mr SI Grimshaw	Ordinary	1,000	-	-	(744)	256
	Deferred STI	-	9,503	-	-	9,503
	Reward Shares	53,000	37,300	-	-	90,300
Mr H D Harley	Ordinary	3,792	-	50,000	(40,081)	13,711
	Deferred STI	4,971	5,069	-	(3,224)	6,816
	Reward Shares	35,300	28,700	-	(6,300)	57,700
Mr M A Katz ⁽³⁾	Ordinary	473,734	-	250,000	(316,348)	407,386
	Deferred STI	11,769	8,689	-	(7,752)	12,706
	Reward Shares	86,900	48,000	-	(20,900)	114,000
Mr R V McKinnon	Ordinary	1,601	-	-	7,691	9,292
	Deferred STI	5,382	4,616	-	(3,491)	6,507
	Reward Shares	29,700	20,000	-	(4,200)	45,500
Mr G L Mackrell	Ordinary	7,414	-	-	13,674	21,088
	Deferred STI	5,243	6,698	-	(3,322)	8,619
	Reward Shares	50,100	25,600	-	(9,600)	66,100
Mr J K O'Sullivan	Ordinary	5,401	-	-	164	5,565
	Deferred STI	-	-	-	-	-
	Reward Shares	-	33,500	-	-	33,500
Mr G A Petersen	Ordinary	1,623	-	-	1,133	2,756
	Deferred STI	2,266	2,953	-	(1,133)	4,086
	Reward Shares	11,000	8,000	-	-	19,000
Mr M J Ullmer	Ordinary	-	-	200,000	(179,100)	20,900
	Deferred STI	10,753	7,874	-	(6,910)	11,717
	Reward Shares	86,900	48,000	-	(20,900)	114,000
Total for Specified Executives	Ordinary	523,930	-	750,000	(735,270)	538,660
	Deferred STI	53,833	61,694	-	(34,391)	81,136
	Reward Shares	465,900	325,600	-	(84,900)	706,600

Notes

⁽¹⁾ Represents:

- Deferred STI - acquired under the mandatory component of the Bank's Equity Participation Plan ("EPP"). Shares were purchased on 31 Oct 2003 in two equal tranches, vesting on 1 July 2004 and 1 July 2005 respectively. See Note 29 for further details on the EPP.
- Reward Shares - granted under the Equity Reward Plan ("ERP") on 1 Sep 2003 and are subject to a performance hurdle. The first possible date for meeting the performance hurdle is 2 Sep 2006 with the last possible date for vesting being 1 Sep 2008. See Note 29 for further details on the ERP.

⁽²⁾ 'Net change other' incorporates changes resulting from purchases and sales during the year by Executives and vesting of Deferred STI and Reward Shares (which became Ordinary shares).

⁽³⁾ Mr Katz also purchased 250 PERLS II securities during the year and continued to hold them at 30 June 2004.

ASIC Class Order

Australian banks, parent entities of Australian banks and controlled entities of Australian banks have been exempted, subject to certain conditions, under an ASIC Class Order No. 98/110 (as amended by ASIC Class Order No. 04/667), from making disclosures of any loan made, guaranteed or secured by a bank to related parties (other than for directors, specified executives and entities controlled or significantly influenced by them) and financial instrument transactions (other than shares and share

options) of a bank where a director, or a specified executive, 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.

Notes to the financial statements

NOTE 44 Director and Executive Disclosures continued

The Class Order does not apply to a loan or financial instrument transaction which any director, or a specified executive, 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.

Loans to Directors and Specified Executives

Details of aggregates of loans to Directors and Specified Executives (or entities controlled or significantly influenced by them) are as follows:

Year Ended 30 June	Balance 1 July \$000s	Interest Charged \$000s	Interest Not Charged \$000s	Write-off \$000s	Balance 30 June \$000s	Number in Group at 30 June
Directors						
2004	36	3	-	-	22	2
2003	29	3	-	-	36	1
Specified Executives						
2004	4,633	377	-	-	8,829	6
2003	3,845	193	-	-	2,434	3
Total Directors and Specified Executives						
2004	4,669	380	-	-	8,851	8
2003	3,874	196	-	-	2,470	4

Details of individuals with loans above \$100,000 in the reporting period are as follows:

Name	Balance 1 July 2003 \$000s	Interest Charged \$000s	Interest Not Charged \$000s	Write-off \$000s	Balance 30 June 2004 \$000s	Highest in Period \$000s
Directors						
Not Applicable						
Specified Executives						
Mr S I Grimshaw	-	19	-	-	-	2,639
	-	14	-	-	1,543	1,543
Mr H D Harley	335	26	-	-	335	338
	904	35	-	-	272	931
	208	13	-	-	245	245
	251	15	-	-	250	253
	204	13	-	-	204	205
	55	3	-	-	116	116
	274	22	-	-	321	321
Mr M A Katz	175	11	-	-	175	175
	175	10	-	-	175	175
Mr G L Mackrell	300	20	-	-	295	303
	124	9	-	-	146	150
Mr J K O'Sullivan	1,500	91	-	-	1,500	1,502
	-	<1	-	-	200	200
	-	37	-	-	861	941
	-	8	-	-	208	208
Mr G A Petersen	-	9	-	-	900	900
	-	9	-	-	800	800

Notes to the financial statements

NOTE 44 Director and Executive Disclosures continued

Terms and conditions of Loans

All loans with Directors and Specified Executives (or related entities controlled or significantly influenced by them) have been provided on an arms-length commercial basis including the term of the loan, security required and the interest rate (which may be fixed or variable).

Shares of Directors

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 Murray the Equity Reward Plan, the previous Executive Option Plan or the Equity Participation Plan). Mr Murray did not exercise any options during the year; leaving his total holdings of options at 1,250,000 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 Murray was also awarded rights to 90,000 shares under the Equity Reward Plan and 13,576 shares under the Equity Participation Plan during the year. He has a total holding of 242,000 shares under the Equity Reward Plan and 19,427 shares under the Equity Participation Plan. Shares awarded under the Equity Reward Plan and Equity Participation Plan are registered in the name of the Trustee. The transfer of legal title to Mr Murray is subject to vesting conditions, and, in the case of the Equity Reward Plan, is conditional on the Bank achieving a prescribed performance hurdle over a minimum three year period. For further details of the Non-Executive Directors' Share Plan, Equity Reward Plan, previous Executive Option Plan and Equity Participation Plan refer to Note 29.

In addition, Mr Ralph holds an investment of \$175,780 in Commonwealth Property Securities Fund and an investment of \$532,739 in Colonial First State Global Diversified Strategies Fund. Both holdings are held beneficially. Dr Schubert holds an investment of \$654,683 in Colonial First State Wholesale Diversified Fund. Mr Daniels beneficially holds an investment of \$54,919 in Colonial First State Global Health and Biotech Fund. A related party of Mr Daniels holds an investment of

\$235,972 in Colonial First State Future Leaders Fund and \$221,772 in Colonial First State Imputation Fund.

Other Transactions of Directors, Specified Executives and Other Related Parties

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed above) of Directors and Specified Executives with 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, Specified Executive and entities controlled or significantly influenced by them.

All such financial instrument transactions that have occurred between the banks and their Directors and Specified Executives 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, Specified Executives and their 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. The interests of Mr Ralph, Dr Schubert and Mr Daniels in investment funds managed by Colonial First State are detailed above. Additionally, Mr 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 amounted to \$4,059,827.

All other such transactions that have occurred with Directors, Specified Executives and their 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.

The Directors' Retirement Allowance Scheme

The entitlements of the non-executive directors under the Directors' Retirement Allowance Scheme are:

	Increase in accrued benefit in year \$	Entitlement as at 30 June 2004 \$
Non-Executive Directors		
Mr J T Ralph, AC	36,479	1,196,479
Dr J M Schubert	46,981	624,241
Mr N R Adler, AO	23,717	419,059
Mr R J Clairs, AO	38,988	184,788
Mr A B Daniels, OAM	41,663	145,459
Mr C R Galbraith, AM	46,418	150,550
Ms S C Kay ⁽¹⁾	-	-
Mr W G Kent, AO	46,418	150,550
Mr F D Ryan	46,466	155,540
Mr F J Swan	44,429	258,086
Ms B K Ward	51,566	352,955

(1) Ms Kay was appointed as a Director after the closure of the scheme

Notes to the financial statements

NOTE 45 Related Party Disclosures

Ultimate Parent

Commonwealth Bank of Australia is the ultimate Australian parent company in the Group.

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.

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.

Other Related Entities

An amount of \$548 million (2003: \$567 million) was incurred by the Group in transactions and services provided by other related entities.

Notes to the financial statements

NOTE 46 Statements of Cash Flow

	GROUP			BANK	
	2004 \$M	2003 \$M	2002 \$M	2004 \$M	2003 \$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	1,548	1,492	2,056	1,421	1,332
Other short term liquid assets	440	641	495	233	232
Receivables due from other financial institutions - at call	4,124	2,528	2,709	3,230	1,943
Payables due to other financial institutions - at call	(3,266)	(3,233)	(2,762)	(3,245)	(3,230)
Cash and Cash Equivalents at end of year	2,846	1,428	2,498	1,639	277

Note (b) Cash Flows Presented on a Net Basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- Customer deposits to and withdrawals from deposit;
- Accounts, borrowings and repayments on loans, advances and other receivables;

- Sales and purchases of trading securities; and
- Proceeds from and repayment of short term debt issues.

Note (c) Reconciliation of Operating Profit After Income Tax to Net Cash Provided by Operating Activities	GROUP			BANK	
	2004 \$M	2003 \$M	2002 \$M	2004 \$M	2003 \$M
Net profit after income tax	2,581	2,018	2,656	1,647	2,099
Decrease/(increase) in interest receivable	(186)	(78)	210	(8)	(273)
Increase/(decrease) in interest payable	334	62	(60)	298	103
Net (increase)/decrease in trading securities	(4,324)	(2,484)	(1,159)	(4,672)	(1,814)
Net (gain)/loss on sale of investment securities	(2)	9	(78)	(2)	9
(Gain)/loss on sale of property plant and equipment	11	(22)	(12)	10	(13)
Net (gain)/loss on sale of controlled entities	(43)	-	-	453	-
Charge for bad and doubtful debts	276	305	449	263	266
Depreciation and amortisation	450	450	451	271	269
(Decrease)/increase in other provisions	185	(15)	(120)	143	(7)
Increase/(decrease) in income taxes payable	(36)	(234)	443	(7)	(137)
(Decrease)/increase in deferred income taxes payable	(29)	(166)	(522)	323	10
(Increase)/decrease in future income tax benefits	(39)	100	69	(532)	(3)
(Increase)/decrease in accrued fees/reimbursements receivable	(107)	(94)	(17)	(334)	143
(Decrease)/increase in accrued fees and other items payable	412	6	(162)	262	(73)
Amortisation of premium on investment securities	12	6	18	11	6
Unrealised gain on revaluation of trading securities	(260)	(269)	723	(264)	(246)
Change in excess of net market value over net assets of life insurance controlled entities	(201)	245	(477)	-	-
Change in policy liabilities	777	(2,056)	(1,112)	-	-
Revaluation of life insurance assets	(1,430)	164	264	-	-
Gain on sale of life insurance assets	(456)	(154)	140	-	-
Other	(296)	82	289	(12)	(21)
Net Cash (used in)/provided by Operating Activities	(2,371)	(2,125)	1,993	(2,150)	318

Note (d) Non Cash Financing and Investing Activities

Shares issued under the Dividend Reinvestment Plan for 2004 were \$389 million.

Notes to the financial statements

NOTE 46 Statements of Cash Flow continued

Note (e) Acquisition of Controlled Entities

	2004 \$M	2003 \$M	2002 \$M
Consideration			
Cash paid on acquisitions	-	71	56
Transaction costs	-	-	1
Pre-acquisition dividend received	-	2	-
	-	73	57
Fair value of net tangible assets acquired			
Cash & liquid assets	-	29	-
Other assets	-	29	-
Other provisions	-	(8)	-
Bills payable and other liabilities	-	(33)	-
Outside equity interest	-	-	-
	-	17	-
Excess market value over net assets of life insurance subsidiary	-	26	57
Goodwill	-	30	-
	-	73	57
Outflow/(inflows) of cash on acquisitions			
Cash payments	-	71	56
Transaction costs	-	-	1
Less cash and cash equivalents acquired	-	(29)	-
	-	42	57

Note (f) Disposal of Controlled Entities

	2004 \$M	2003 \$M	2002 \$M
Disposal proceeds			
Cash receipt on disposal	63	33	-
	63	33	-
Fair value of net tangible assets disposed			
Net book value of assets disposed	20	65	-
Profit/(loss) on sale	43	(32)	-
	63	33	-
Inflow of cash from disposal			
Cash proceeds	63	33	-
	63	33	-

Note (g) Financing Facilities

Standby funding lines are immaterial.

Notes to the financial statements

NOTE 47 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 would 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	2004 Net Fair Value \$M	Carrying Value \$M	2003 Net Fair Value \$M
Assets				
Cash and liquid assets	6,453	6,453	5,575	5,575
Receivables due from other financial institutions	8,369	8,369	7,066	7,066
Trading securities	14,896	14,896	10,435	10,435
Investment securities	11,447	11,490	11,036	11,187
Loans, advances and other receivables	189,391	188,954	160,347	160,441
Bank acceptances of customers	15,019	15,019	13,197	13,197
Life insurance investment assets	28,942	28,942	27,835	27,835
Deposit accounts with regulatory authorities	38	38	23	23
Other assets	24,721	24,721	23,094	23,094
Liabilities				
Deposits and other public borrowings	163,177	163,645	140,974	141,186
Payables due to other financial institutions	6,641	6,641	7,538	7,538
Bank acceptances	15,019	15,019	13,197	13,197
Life insurance policy liabilities	24,638	24,638	23,862	23,862
Debt issues	44,042	43,651	30,629	30,356
Bills payable and other liabilities	19,140	19,148	18,822	18,819
Loan capital	6,631	6,740	6,025	6,350
Asset and liability hedges - unrealised gains/(losses) (Refer to Note 39)	-	(740)	-	353

The net fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and bank acceptances of customers

The carrying values of cash and liquid assets, receivables due from other financial institutions and bank acceptances of customers approximate their net fair value as they are short term in nature or are receivable on demand.

Securities

Trading securities are carried at net market/net fair value and investment securities have their net fair value determined based on quoted market prices, broker or dealer price quotations.

Loans, advances and other receivables

The carrying value of loans, advances and other receivables is net of general and specific provisions for doubtful debts and interest/fees reserved.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of net fair value. The net fair value for fixed rate loans was calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio plus an add-on of the average credit margin of the existing portfolio, where appropriate.

Notes to the financial statements

NOTE 47 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 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 \$239 million (2003: \$287 million), and excess of net market value over net assets of life insurance controlled entities of \$5,741 million (2003: \$5,540 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 repriced 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, discounted cash flow and option pricing models were used, utilising a yield curve appropriate to the expected remaining maturity of the instrument.

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 is disclosed in Note 39.

Directors' Declaration

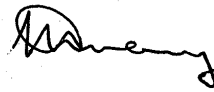
In accordance with a resolution of the directors of the Commonwealth Bank of Australia, the directors declare that:

- (a) the financial statements and notes thereto comply with Accounting Standards and in their opinion are in accordance with the Corporations Act 2001;
- (b) the financial statements and notes thereto give a true and fair view of the Bank's and the Group's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
- (c) in the opinion of the directors, 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 and
Chief Executive Officer

11 August 2004

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 2004 included on the Bank's web site. The Bank's directors are responsible for the integrity of the Bank's web site. We have not been engaged to report on the integrity of the Bank's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Commonwealth Bank of Australia and the consolidated Group, for the year ended 30 June 2004. The consolidated Group comprises both the Bank and the entities it controlled during that year.

The directors of the Bank are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Bank and the consolidated Group, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Commonwealth Bank of Australia and the consolidated Group, for the year ended 30 June 2004. The consolidated Group comprises both the Bank and the entities it controlled during that year.

The directors of the Bank are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Bank and the consolidated Group, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Bank. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Bank's and the Group's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Bank.

Independence

We are independent of the Bank, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

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 financial position of Commonwealth Bank of Australia and the Group at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young
Sydney

S J Ferguson
Partner

11 August 2004

Shareholding Information

Top 20 Holders of Fully Paid Ordinary Shares as at 10 August 2004

Rank	Name of Holder	Number of Shares	%
1	JP Morgan Nominees Australia Limited	121,384,680	9.60
2	National Nominees Limited	90,577,461	7.17
3	Westpac Custodian Nominees Ltd	87,818,339	6.95
4	Citicorp Nominees Pty Limited	63,935,139	5.06
5	RBC Global Services Australia Nominees Pty Limited	30,671,740	2.43
6	Queensland Investment Corporation	19,482,371	1.54
7	Cogent Nominees Limited	16,693,388	1.32
8	AMP Life Limited	15,615,127	1.24
9	ANZ Nominees Limited	15,511,420	1.23
10	Australian Foundation Investment Company Limited	6,705,245	0.53
11	HSBC Custody Nominees (Australia) Limited	6,087,368	0.48
12	CSS Board & PSS Board	4,942,977	0.39
13	Bond Street Custodians Limited	4,940,303	0.39
14	Invia Custodian Pty Limited	4,774,535	0.38
15	Government Superannuation Office	4,229,927	0.33
16	UBS Warburg Private Clients Nominees Pty Ltd	3,617,893	0.29
17	IAG Nominees Pty Limited	3,548,578	0.28
18	Westpac Financial Services Ltd	3,458,245	0.27
19	Suncorp Custodian Services Pty Ltd	2,821,839	0.22
20	Australian Trustees Pty Ltd	2,644,549	0.21

The twenty largest shareholders hold 509,461,124 shares which is equal to 40.31% of the total shares on issue.

Stock Exchange Listing

The shares of the Commonwealth Bank of Australia are listed on the Australian Stock Exchange under the trade symbol CBA, with Sydney being the home exchange.

Details of trading activity are published in most daily newspapers, generally under the abbreviation of CBA or C'wealth Bank. The Bank does not have a current on-market buyback of its shares.

Directors' Shareholdings as at 11 August 2004

	Shares	Options
J T Ralph, AC	23,861	
J M Schubert	16,268	
D V Murray	288,168	1,250,000
N R Adler, AO	9,490	
R J Clairs, AO	12,631	
A B Daniels, OAM	16,392	
C R Galbraith, AM	7,689	
S C Kay	2,980	
W G Kent, AO	14,522	
F D Ryan	6,671	
F J Swan	4,996	
B K Ward	4,914	

Mr Murray has a total holding of 242,000 shares under the Equity Reward Plan, registered in the name of the Trustee and 6,788 shares under the Mandatory Equity Participation plan, also registered in the name of the Trustee.

In addition, Mr Ralph beneficially holds 100,000 units in Commonwealth Property Securities Fund and 495,294

units in Colonial First State Global Diversified Strategies Fund. Dr Schubert holds 483,554 units in Colonial First State Wholesale Diversified Fund. Mr Daniels beneficially holds 73,588 units in Colonial First Global Health and Biotech Fund. A related party of Mr Daniels holds 59,818 units in Colonial First State Future Leaders Fund and 84,994 units in Colonial First State Imputation Fund.

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): 10 August 2004

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	541,661	75.80%	186,343,047	14.74%
1,001-5,000	153,521	21.49%	307,584,350	24.33%
5,001-10,000	13,405	1.88%	91,805,490	7.26%
10,001-100,000	5,646	0.79%	108,615,541	8.59%
100,001 and over	259	0.04%	569,657,634	45.08%
Total	714,492	100.00%	1,264,006,062	100.00%
Less than marketable parcel of \$500	13,329		84,336	

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 is 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 10 August 2004

Rank	Name of Holder	Number of Shares	%
1	Citicorp Nominees Pty Ltd	127,230	3.64
2	Westpac Custodian Nominees Ltd	67,117	1.92
3	National Nominees Limited	65,120	1.86
4	RBC Global Services Australia Nominees Pty Limited	63,802	1.82
5	ANZ Executors & Trustee Company Limited	42,330	1.21
6	Bond Street Custodians Limited	29,764	0.85
7	Tower Trust Limited	28,969	0.83
8	Invia Custodian Pty Limited	27,599	0.79
9	UBS Private Clients Australia Nominees Pty Ltd	26,293	0.75
10	Boxall Marine Pty Ltd	25,000	0.71
11	Permanent Trustee Australia Limited	25,000	0.71
12	Questor Financial Services Limited	24,292	0.69
13	The Australian National University	24,049	0.69
14	National Superannuation Trusts P/L	21,447	0.61
15	Brencorp No 11 Pty Limited	17,667	0.50
16	Livingstone Investments (NSW) Pty Limited	15,000	0.43
17	Ms Thelma Joan Martin-Weber	12,500	0.36
18	BT Portfolio Services Limited	11,200	0.32
19	Albert Investments Pty Limited	10,000	0.29
20	Felden Pty Ltd	10,000	0.29
21	Marbear Holdings Pty Limited	10,000	0.29
22	Mrs Fay Cleo Martin-Weber	10,000	0.29
23	Swinburne University of Technology	10,000	0.29

The twenty three largest PERLS shareholders hold 704,379 shares which is equal to 20.13% of the total shares on issue. Twenty three PERLS shareholders are disclosed in the above table due to a number of shareholders 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): 10 August 2004

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	20,911	98.58%	2,263,069	64.66%
1,001-5,000	268	1.26%	529,055	15.12%
5,001-10,000	20	0.09%	150,319	4.29%
10,001-100,000	14	0.07%	430,938	12.31%
100,001 and over	1	0.00%	126,619	3.62%
Total	21,214	100.00%	3,500,000	100.00%
Less than marketable parcel of \$500	4		5	

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.

Shareholding Information

Top 20 Holders of Perpetual Exchangeable Resettable Listed Securities II ("PERLS II") as at 10 August 2004

Rank	Name of Holder	Number of Shares	%
1	National Nominees Limited	469,501	12.52
2	Westpac Custodian Nominees Limited	259,653	6.92
3	RBC Global Services Australia Nominees Pty Limited	165,001	4.40
4	J P Morgan Nominees Australia Limited	155,447	4.15
5	AMP Life Limited	105,208	2.81
6	UBS Private Clients Australia Nominees Pty Ltd	99,086	2.64
7	Citicorp Nominees Pty Limited	86,710	2.31
8	UBS Nominees Pty Ltd	54,340	1.45
9	Cogent Nominees Pty Limited	45,028	1.20
10	Invia Custodian Limited	30,768	0.82
11	J Neave Investments Pty Limited	30,000	0.80
12	Elise Nominees Pty Limited	29,380	0.78
13	ANZ Nominees Limited	27,273	0.73
14	Questor Financial Services Limited	26,226	0.70
15	Cryton Investments No 9 Pty Ltd	25,000	0.67
16	Lutovi Investments Pty Limited	25,000	0.67
17	Votrait No.1019 Pty Ltd	25,000	0.67
18	Vision Super Pty Ltd	24,832	0.66
19	Gordon Merchant No 2 Pty Ltd	24,440	0.65
20	Marbear Holdings Pty Limited	22,500	0.60

The twenty largest PERLS II shareholders hold 1,730,393 shares which is equal to 46.14% of the total shares on issue.

Stock Exchange Listing

Commonwealth Bank PERLS II are listed on the Australian Stock Exchange under the trade symbol

PCBPA, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers.

Range of Shares (PERLS II): 10 August 2004

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	7,175	95.42%	1,088,882	29.04%
1,001-5,000	289	3.84%	642,311	17.13%
5,001-10,000	28	0.37%	232,496	6.20%
10,001-100,000	24	0.32%	796,502	21.24%
100,001 and over	4	0.05%	989,809	26.39%
Total	7,520	100.00%	3,750,000	100.00%
Less than marketable parcel of \$500	1		5	

Voting Rights

PERLS II do not confer any voting rights in the Bank but if they are exchanged for or convert into ordinary shares or preference shares of the Bank in accordance with their terms of issue, the voting rights of the ordinary or preference shares (as the case may be) will be as set out on pages 172 and 173 respectively for the Bank's ordinary shares and PERLS preference shares.

Trust Preferred Securities

550,000 Trust Preferred Securities were issued on 6 August 2003. Cede & Co is registered as the sole holder of these securities.

The Trust Preferred Securities do not confer any voting rights in the Bank but if they are exchanged for or convert into ordinary shares or preference shares of the Bank in accordance with their terms of issue, the voting rights of the ordinary or preference shares (as the case may be) will be as set out on pages 172 and 173 respectively for the Bank's ordinary shares and PERLS preference shares.

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13 2221 General Enquiries

For your everyday banking including paying bills using BPAY our automated service is available 24 hours a day, 365 days a year.

From overseas call **+61 13 2221**. Operator assistance is available between 8am and 8pm, Monday to Friday.

13 2224 Home Loans & Investment Home Loans

To apply for a new home loan/investment home loan or to maintain an existing loan. Available from 8am to 10pm, 365 days a year.

13 1431 Personal Loan Sales

To apply for a new personal loan.

Available from 8am to 8pm, Monday to Friday.

13 15 19 CommSec (Commonwealth Securities)

Available from 8am to 7pm (EST), Monday to Friday.

CommSec provides the information and tools to make smart investment easy, accessible and affordable for all Australians, by phone or Internet at www.commsec.com.au

13 17 09 CommSec Margin Loan

Enables you to expand your portfolio by borrowing against your existing shares and managed funds. To find out more simply call 13 17 09 8am to 5pm (EST) Monday to Friday or visit www.commsec.com.au.

1800 240 889 Telephone Typewriter Service

A special telephone banking service for our hearing and speech impaired customers. The service covers all the services available on 13 2221. Available from 8am to 8pm, Monday to Friday.

1800 011 217 Lost or Stolen Cards

To report a lost or stolen card 24 hours a day, 365 days a year.

13 1998 Business Line

For a full range of business banking solutions.

Available from 8am to 8pm, Monday to Friday.

13 2015 Commonwealth Financial Services

For enquires on retirement and superannuation products, or managed investments. Available from 8am to 8pm (EST), Monday to Friday.

Unit prices are available 24 hours a day, 365 days a year.

CommInsure

For all your **general insurance** needs call **13 2423** 8am to 8pm (EST), Monday to Friday – or visit

www.comminsure.com.au

For **general claims assistance** call **13 2420**, 24 hours a day, 365 days a year.

For all your **life insurance** needs call **13 1056** 8am to 8pm (EST), Monday to Friday – or visit

www.comminsure.com.au

Internet Banking

You can apply for a home loan, credit card, personal loan, term deposit or a savings account on the internet by visiting our website at www.commbank.com.au available 24 hours a day, 365 days a year.

Do your everyday banking on our internet banking service

NetBank at www.commbank.com.au/netbank available 24 hours a day, 365 days a year.

To apply for access to **NetBank**, call **13 2828** between 8am and 8pm (EST), Monday to Friday.

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Australian Stock Exchange Listing

CBA

Annual Report

To request a copy of the annual report please call 1800 022 440



CommonwealthBank