Commonwealth Bank
Commonwealth Bank of Australia
ACN 123 123 124

Profit Announcement
For the half year ended
31 December 2002

Results have been subject to an independent review
by the external auditors
Released 12 February 2003

This Profit Announcement is available on the Internet at:
www.commbank.com.au

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Financial Highlights

(*Except where otherwise stated, all figures relate to the half year ended 31 December 2002 and comparatives for the profit and loss are to the half year ended 31 December 2001. The term 'prior comparative period' refers to the six months ended 31 December 2001. Comparisons on balance sheet are to 30 June 2002 unless otherwise stated.)*

The result for the half year comprises:

	31/12/02 $M	% change on 31/12/01
Segment profit after tax		
- Banking	**1,079**	11
- Funds management	**135**	(26)
- Life insurance	**(6)**	Large
Net Profit After Tax "Cash Basis"	**1,208**	**1**
Goodwill Amortisation	**(160)**	(1)
Appraisal Value Reduction	**(426)**	Large
Net Profit After Tax	**622**	**(48)**

After deducting goodwill amortisation of $160 million and a net reduction in appraisal value of $426 million, the Commonwealth Bank recorded a net profit after income tax of $622 million, or 48% below the prior comparative period.

The net profit from ordinary activities ('cash basis')[(1)] for the half year ended 31 December 2002 after tax is $1,208 million. This is an increase of $16 million or 1% over the half ended 31 December 2001.

The banking business achieved strong profit growth of $104 million or 11% over the prior comparative period. The profit from the funds management business reduced by $47 million, or 26% and the life insurance profit reduced by $41 million over the prior comparative period.

A fully franked dividend of 69 cents per ordinary share will be paid on 28 March 2003 to owners of ordinary shares at the close of business on 21 February 2003 (record date). Shares purchased on or after 17 February 2003 (ex-dividend date) do not qualify for the dividend.

On a cash basis, the dividend payout ratio for the half year is 72.7%, consistent with 72.6% for the prior comparative period.

The contribution to the results from each of the businesses is as follows:

Banking

The contribution to profit after tax from the banking business increased to $1,079 million, or 11% over the prior comparative period. Strong growth in lending assets, primarily housing, together with growth in other operating income, led to income growth of $133 million. Expenses from comparable businesses were flat at $1,976 million. Bad debt expense for the half year is $151 million, 0.11% of Risk Weighted Assets, reflecting continued improvement in the overall credit quality of the lending portfolio.

Funds Management

The funds management business contributed $135 million to the after tax result representing a decrease of $47 million, or 26% from the prior comparative period. The further decline in world equity markets led to reduced levels of funds under management. Continued uncertainty surrounding equity markets also diverted some fund flows towards bank deposits.

Funds under management reduced by $11 billion to $95 billion over the prior comparative period. Included in the reduction in funds under management is a net $3 billion outflow as a result of the acquisition and disposal of businesses.

Life Insurance

The Bank's life insurance businesses have reported a loss of $6 million for the half year ended 31 December 2002, compared with a profit of $35 million in the prior comparative period. Operating margins in Australia declined by $31 million from the prior comparative period to $3 million. This result was due to a significant write down of an individual asset in the annuity fund of $18 million combined with a slight increase in claims experience. Operating margins in New Zealand and Asia increased by $30 million over the prior comparative period. The prior comparative period result in New Zealand was impacted by an unexpected increase in disability claims which recovered in the half year to June 2002 and have remained in line with expectations during the current half year. Operating margins in Asia have improved significantly following tighter expense control, improved policy persistency and improving net margins.

Investment returns in the current period include a $10 million loss on the sale of the Philippine life company. Excluding this item, investment returns on shareholder's funds decreased by $30 million in the current period, impacted by equity market movements. The ASX200 fell 6.5% and MSCI World Index fell 12.7% over the period.

Investment Earnings on Shareholders' Funds

Investment earnings on shareholders' funds after tax included in the above results for the funds management and life insurance businesses are as follows:

	31/12/02 $M	31/12/01 $M	Change %
Funds Management	**4**	6	(2)
Life Insurance			
- Australia	**(7)**	7	(14)
- New Zealand	**1**	3	(2)
- Asia	**(6)**	18	(24)
	(12)	28	(40)
Net Result After Tax	**(8)**	**34**	**(42)**

The Asian result for 31 December 2002 includes loss on sale of Philippines life company $10 million after tax.

Operating Expenses

Operating expenses from comparable businesses were only marginally higher than the prior comparative period at $2,627 million, an increase of 1%. As outlined in the June 2002 profit announcement, costs associated with the implementation of strategic initiatives and additional share based compensation following a change in the Bank's policy have been included for the first time. These amounted to $83 million for the half year ended 31 December 2002. Associated benefits of $26 million have been realised during the six months.

Income Tax

Income tax expense has decreased by $56 million, 12% less than the prior comparative period. Of this reduction, $115 million relates to tax on behalf of policyholders in the funds management and life insurance businesses. Excluding policyholder tax, corporate tax has increased by $59 million, which reflects the increase in profits and a higher effective tax rate in the banking business.

Appraisal Value (Reduction)/Uplift

For the half year ended 31 December 2002 the appraisal value reduction of the funds management and life businesses was $426 million.

In determining the value of the funds management and life insurance businesses, the Directors have taken into account the increased volatility and uncertainty within world equity markets, together with lower industry funds flows. As a result, the Directors' valuation of $8,358 million is $780 million lower than the mid point of the range of reasonable values assessed by Trowbridge Deloitte in their independent valuation of the businesses. This is consistent with the approach taken in June 2002, when the Directors' value was $748 million less than the mid-point of reasonable values.

Goodwill Amortisation

Consistent with the prior period, the goodwill amortisation charged in determining the result for the half year was $160 million.

Financial Highlights (continued)

Key Performance Measures

	Half Year Ended 31/12/02	% Change on 31/12/01
Banking[(2)]	**$M**	
Total operating income	3,760	Up 4%
Operating expenses – comparable businesses	1,976	Up 1%
Operating expenses – included for the first time	83	
Bad debt charge	151	Down 48%
Profit after tax[(1)]	1,079	Up 11%
Net interest margin	2.65%	Down 12 bp
	$B	
Average interest earning assets[(3)]	184	Up 9%
Funds Management	**$M**	
Profit after tax[(1)]	135	Down 26%
	$B	
Funds under management	95	Down 10%
Life Insurance	**$M**	
Operating margins	6	Down 12%
Loss on sale of Philippines	(10)	-
Investment earnings on assets in excess of policyholder liabilities	(2)	Down 106%
Profit after tax[(1)]	(6)	Down 117%
Commonwealth Bank		
Earnings per share (cents) (statutory)	48.2	Down 47 cents
Earnings per share (cents) (cash basis)	95.0	Up 1 cent
Return on equity (statutory)	6.59%	Down 608 bp
Return on equity (cash basis)	12.39%	Down 4 bp

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

(2) Includes General Insurance.

(3) Net of loans securitised of $5,911 million ($7,047 million at 30 June 2002 and $5,705 million at 31 December 2001)

Performance Summary

	Half Year Ended			
	31/12/02 $M	30/06/02 $M	31/12/01 $M	31/12/02 vs 31/12/01 %
Profit from ordinary activities after tax (statutory)	**622**	1,451	1,204	(48)
Profit from ordinary activities after tax ('cash basis' [1])	**1,208**	1,309	1,192	1
Income				
Interest income	**5,668**	5,086	5,369	6
Interest expense	**3,214**	2,725	3,020	6
Net interest income	**2,454**	2,361	2,349	4
Other banking operating income	**1,306**	1,274	1,278	2
Total banking income	**3,760**	3,635	3,627	4
Funds management income [2]	**504**	547	600	(16)
Life insurance income [2]	**221**	340	319	(31)
Total Income	**4,485**	4,522	4,546	(1)
Expenses				
Operating expenses - comparable businesses	**2,627**	2,607	2,594	1
Operating expenses - included for the first time [3]	**83**	-	-	-
Charge for bad and doubtful debts	**151**	159	290	(48)
Total Expenses	**2,861**	2,766	2,884	(1)
Profit from ordinary activities before goodwill amortisation, appraisal value (reduction)/uplift and income tax	**1,624**	1,756	1,662	(2)
Income tax expense	**413**	447	469	(12)
Profit from ordinary activities after income tax	**1,211**	1,309	1,193	2
Outside equity interests	**(3)**	-	(1)	200
Profit from ordinary activities after income tax and before goodwill amortisation and appraisal value (reduction)/uplift	**1,208**	1,309	1,192	1
Appraisal value (reduction)/uplift	**(426)**	303	174	(345)
Goodwill amortisation	**(160)**	(161)	(162)	(1)
Net profit after income tax attributable to shareholders of the Bank	**622**	1,451	1,204	(48)
Contributions to profit (after tax)				
Banking	**1,079**	1,092	975	11
Funds management	**135**	186	182	(26)
Life insurance	**(6)**	31	35	(117)
Profit after tax from ordinary activities ('cash basis' [1])	**1,208**	1,309	1,192	1
Goodwill amortisation	**(160)**	(161)	(162)	(1)
Appraisal value (reduction)/uplift	**(426)**	303	174	(345)
Net profit after income tax attributable to shareholders of the Bank	**622**	**1,451**	**1,204**	**(48)**

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

(2) Included within funds management and life insurance income and income tax expense is a $90 million tax credit relating to policyholder losses (31 December 2001: $25 million expense; 30 June 2002: $61 million tax credit). These amounts are offsetting and therefore the impact on the net profit after tax is nil.

(3) Operating Expenses - included for the first time refers to one-off costs associated with the strategic initiatives as outlined at 30 June 2002 and additional share based compensation following changes to remuneration structures and the Bank's policy.

Performance Summary (continued)

PERFORMANCE SUMMARY

As at	Half Year Ended 31/12/02 $M	30/06/02 $M	31/12/01 $M	31/12/02 vs 31/12/01 %
Balance Sheet - Summary				
Total assets	**262,017**	249,648	239,653	9
Total liabilities	**239,571**	228,592	219,249	9
Shareholders' equity	**22,446**	**21,056**	**20,404**	**10**
Assets Held and Funds Under Management				
On Balance Sheet				
Banking assets	**226,729**	211,130	200,573	13
Life insurance funds under management	**23,969**	25,355	26,199	(9)
Other life insurance and internal funds management assets	**11,319**	13,163	12,881	(12)
	262,017	**249,648**	**239,653**	**9**
Off Balance Sheet				
Funds under management	**71,297**	77,483	80,103	(11)
Total assets held and funds under management	**333,314**	**327,131**	**319,756**	**4**

	Half Year Ended 31/12/02	30/06/02	31/12/01	31/12/02 vs 31/12/01 %
Shareholder Summary				
Dividends per share - fully franked	**69c**	82c	68 c	1
Dividend cover (times) – statutory	**0.7**	1.4	1.4	(50)
Dividend cover (times) – cash	**1.4**	1.3	1.4	-
Earnings per share(1)				
Statutory – basic(2)	**48.2c**	114.5c	95.0c	
Statutory – fully diluted(2)	**48.2c**	114.3c	94.9c	
Cash basis - basic (3)	**95.0c**	103.2c	94.1c	
Cash basis – fully diluted(3)	**94.9c**	103.0c	94.0c	
Dividend payout ratio (%) (4)				
Statutory	**143.2**	71.6	71.8	
Cash basis (3)	**72.7**	79.4	72.6	
Net tangible assets per share ($)	**11.68**	10.89	10.51	
Weighted average number of shares (basic)	**1,253m**	1,253m	1,248m	
Shares at end of period	**1,254m**	1,253m	1,253m	
Number of shareholders	**744,176**	722,612	728,768	
Share prices for the period ($)				
Trading high	**32.75**	34.94	33.60	
Trading low	**26.50**	29.50	24.75	
End (closing price)	**27.00**	32.93	29.94	

(1) The earnings per share on a statutory basis are affected by the impact of changes in the appraisal value. The earnings per share on a cash basis are not impacted by appraisal value changes.

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

(3) 'Cash basis' for the purpose of this performance summary is defined as net profit after tax and before goodwill amortisation, life insurance and funds management appraisal value (reduction)/uplift. Earnings are net of dividends on preference shares of $18 million. (31 December 2001: $18 million; 30 June 2002: $16 million).

(4) Dividends paid divided by earnings.

Performance Summary (continued)

	Half Year Ended		
	31/12/02	**30/06/02**	**31/12/01**
Performance Ratios (%)			
Return on average shareholders' equity [(1)]			
- statutory[(3)]	**6.59**	15.21	12.67
- cash basis[(3) (4)]	**12.39**	13.71	12.43
Return on average total assets [(2)]			
- statutory	**0.48**	1.20	1.02
- cash basis	**0.94**	1.08	1.01
Capital adequacy - Tier 1	**7.06**	6.78	6.75
Capital adequacy - Tier 2	**4.08**	4.28	4.27
Deductions	**(1.33)**	(1.26)	(1.71)
Capital adequacy - Total	**9.81**	9.80	9.31
Productivity (%)			
Cost to total average assets ratio	**2.10**	2.15	2.19
Cost to assets held and funds under management	**1.63**	1.63	1.64
Staff expense/Total operating income	**28.87**	25.98	26.73
Total operating income per FTE	**$132,712**	$131,080	$132,674
Other Information (numbers)			
Full time staff equivalent	**33,795**	34,498	34,265

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

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

(3) Prior periods have been restated to exclude dividends provided for in line with the required change in the current year following the introduction of accounting standard AASB1044.

(4) Cash return on average shareholders' equity excludes the effect of goodwill amortisation and appraisal value (reduction)/uplift from both profit and equity.

Cost to Income Ratio

To provide a more relevant presentation of the underlying cost performance of the business, "underlying" ratios have been determined. The underlying ratio:

- Excludes policyholder tax from the funds management income and life insurance income line.
- Substitutes an assumed long-term 8% pre tax return on shareholders' funds for actual investment returns on shareholders funds within the funds management and life insurance businesses.
- Excludes expenses "included for the first time"[(1)].

Comparatives for the prior period have also been adjusted.

	Half Year Ended		
	31/12/02	**30/06/02**	**31/12/01**
Cost to Income Ratios (%)			
Banking	**54.8**	54.0	54.2
Funds management	**78.6**	70.0	61.6
Life insurance	**115.8**	77.1	82.1
Banking (underlying)	**52.6**	54.0	54.2
Funds management (underlying)	**67.4**	60.1	60.3
Life insurance (underlying)	**77.5**	64.5	76.0

(1) Operating Expenses - included for the first time refers to one-off costs associated with the strategic initiatives as outlined at 30 June 2002 and additional share based compensation following changes to remuneration structures and the Bank's policy.

Overview

The Bank provides banking and financial services, primarily in Australia and New Zealand. These services include personal, business and corporate banking, funds management and life insurance. The Bank is structured into five business divisions -

- Retail Banking Services (RBS) - delivers services to personal customers through a range of points of access and support banking services.
- Premium Financial Services (PFS) – delivers services to personal customers who have more complex financial needs.
- Institutional and Business Services (IBS) – delivers services to business and corporate clients, ranging from small businesses through to large corporations.
- Investment and Insurance Services (IIS) – delivers investment and insurance services to personal and corporate customers, manages the managed funds (in Australia, UK and Asia), master funds, superannuation and insurance services, as well as supporting third-party financial planners and in-house advisers.
- International Financial Services (IFS) – manages operations in New Zealand, Fiji, Indonesia, Vietnam, Hong Kong and China.

These divisions are supported by human resources, technology, legal, finance, communications, strategy and governance.

Strategic Initiatives

Early in 2002 the Bank updated its view on the trends and forces shaping the future, and accordingly adapted its strategic response. Details can be found in the 2002 Annual Report. Events during the year have reaffirmed the assumptions underpinning the Bank's strategy, and have confirmed the importance of rapid and successful execution of its strategy as well as the need for continued innovation.

The Bank's vision remains "to be chosen and respected as an excellent provider of financial services". The Bank's strategy remains focussed on providing a superior service experience to meet the unique lifetime financial needs of its customers, through a full range of financial services.

Achieving the Bank's strategic vision is dependent on ensuring that its people are skilled, authorised, equipped, and engaged to provide a superior service experience to customers. Key activities have focused on restructuring the levels of work in each area to remove unnecessary layers of supervision to empower people and streamline decision making.

The Bank's strategy is being pursued through several initiatives that target its key growth opportunities. Progress against each initiative is outlined below.

- The Bank has developed the Premium Financial Services ("PFS") business, which is an integrated banking and broking business, incorporating the Commonwealth Securities business. PFS provides clients with access to premium products exclusive to the PFS client base together with banking services, direct and indirect investments and advisory services. Teams of relationship managers and investment advisors serve clients seeking personalised advice. The focus to date has been on building the infrastructure to service the premium client base and developing the range of premium services. PFS is now serving over 70,000 client relationships and is expecting significant growth in the number of relationships by the end of this financial year.
- The restructure of the Institutional and Business Services division is progressing. To date the integration of service and support areas and allocation of clients into three distinct segments has been completed. The strategic focus from here, is on aligning cost-to-serve with client needs. New service models are being progressively implemented and will be completed over the next half. The goals are to increase market share in the corporate segment, increase cross-sell in the institutional segment, and improve service delivery in business banking. This will be achieved by up-skilling the sales force, rationalising and bundling services, and streamlining operational processes to improve turnaround times and reduce cost.
- A key growth opportunity is to leverage the strong capabilities in our Investment and Insurance Division, specifically Colonial First State's expertise in dealing with independent financial advisers and to build a stronger in-house advisory capability to meet the financial planning advice needs of all our personal customers. Activities to date have focused on developing the training and technology infrastructure for advisers located in our branch network.
- The Retail Banking area is focused on significantly improving the service levels provided to retail customers. Steps have been taken to provide enhanced customer information to customer service staff, and to empower them to deal immediately with concerns raised by customers. A number of processes formerly performed within branches have been centralised to allow greater time to focus on customers, and a major re-engineering programme has commenced to streamline the home loan approval process.
- In international markets, the strategic focus is to develop the Bank's presence by leveraging its financial services expertise. ASB Bank in New Zealand continues to grow at above market rates and has received several customer satisfaction awards from nationwide surveys. In November the Philippines business was divested in order to allow strategic focus on the Bank's preferred markets.

Outlook

The world economic outlook remains uncertain and continues to present a risk to Australia's economic growth over the year. Key uncertainties in the global arena are the fragile state of equity markets, continuing economic weakness in the US, Europe and Japan, the possible escalation of conflicts in the Middle East, threats of terrorism and other political tensions.

In contrast to the global environment, Australian economic growth has held up well. Nevertheless widespread drought conditions, combined with the weak global outlook, will have some dampening effect on domestic growth going forward.

While much of Australia's recent strong performance has been underpinned by strong residential construction, some moderation in housing demand is now in train. A continuation of the strong growth in credit over recent years will depend on business lending increasing as housing lending slows.

Against this background, within the finance sector strong competitive pressures will exist for lending opportunities. As a consequence, pressure on net interest margins will persist. Softness in equity markets will also restrain growth in income on asset management activities.

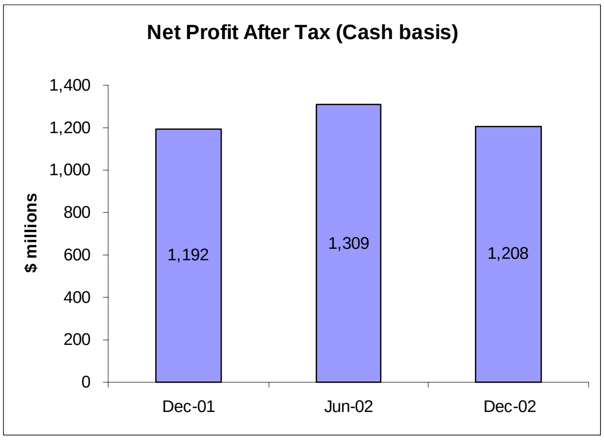
The outlook for the full year will depend on the direction of investment markets and continuing growth in housing and business credit in Australia. With the continuing costs of strategic initiatives in the second half, the Bank continues to expect modest growth in reported Net Profit After Tax (cash basis).

Consistent with past practice, the Directors expect to maintain a high ratio of dividends to cash profits relative to its peers.

Main Financial Indicators

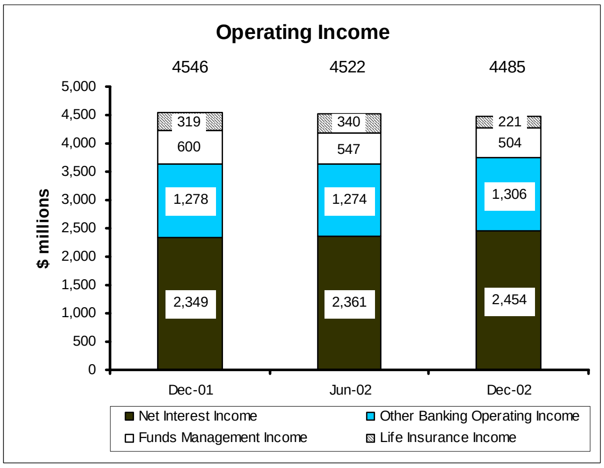
Net Profit After Tax (Cash basis)

- The Bank recorded a net profit after tax "Cash Basis" for the half year of $1,208 million. This result represents a 1% increase over the prior comparative period ended 31 December 2001.



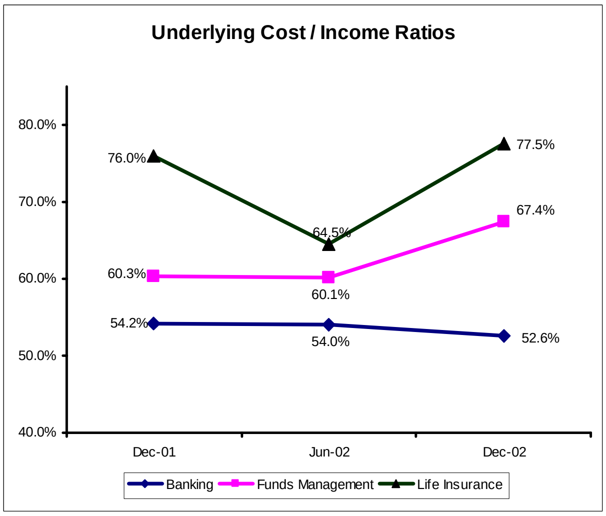
Operating Income

- Total operating income for the half year was $4,485 million (31 December 2001: $4,546 million)
- Net interest income of $2,454 million represents an increase of $105 million, or 4% over the prior comparative period.
- Other banking operating income of $1,306 million represents an increase of $28 million, or 2% over the prior comparative period.
- Funds management income of $504 million represents a decrease of 16% from the prior comparative period.
- Life insurance income of $221 million represents a decline of 31% from the prior comparative period.



Underlying Cost Ratios

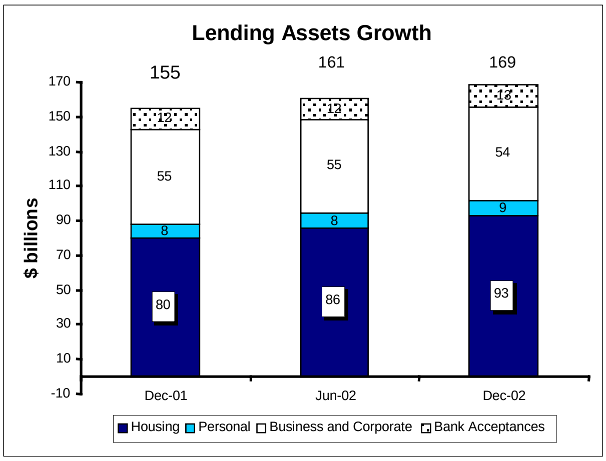
- The banking cost to income ratio on underlying businesses has improved from 54.2% for the half year ended 31 December 2001 to 52.6% for the current half year.
- The funds management cost to income ratio has increased from 60.3% in the half year ended 31 December 2001 to 67.4% for the current half year.
- The life insurance cost to income ratio has increased from 76.0% for the half year ended 31 December 2001 to 77.5% for the current half year. Current period income includes an unfavourable one off item of $23 million.



Main Financial Indicators (continued)

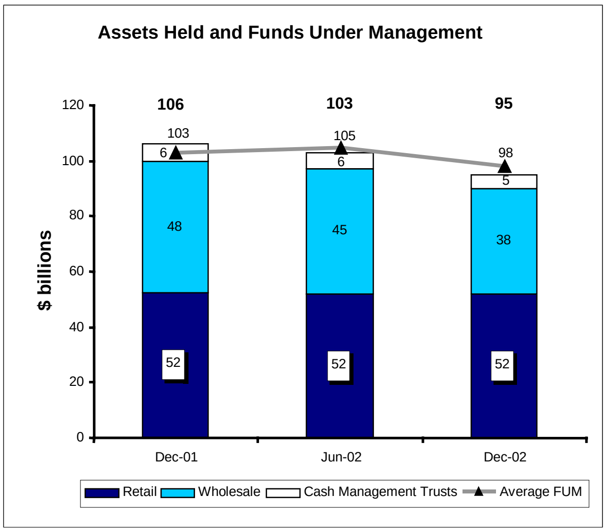
Lending Assets Growth

- Lending assets spot balances (net of securitisation) have increased by $14 billion or 9% over the prior comparative period. Housing balances have increased $14 billion or 17% over the prior comparative period to $93 billion at 31 December 2002. This reflects market conditions and the effect of strategic initiatives. Personal lending balances, which include credit card outstandings, have increased slightly.
- Business and corporate lending balances, together with bank acceptances have remained flat.



Funds Under Management

- Total funds under management (FUM) at 31 December 2002 decreased by $11 billion or 10% from the prior comparative period. The decrease in funds under management includes $3 billion net outflow relating to the acquisition and disposal of businesses. In addition, the underlying decline in FUM balances were impacted by falling world equity markets, a diversion of fund flows to Bank deposits and subdued market conditions.
- Retail FUM has remained stable over the prior comparative period at $52 billion.
- Wholesale FUM have decreased by $10 billion or 21% from the prior comparative period to $38 billion.
- Retail Cash Management FUM has decreased by $1 billion, or 17% from the prior comparative period.



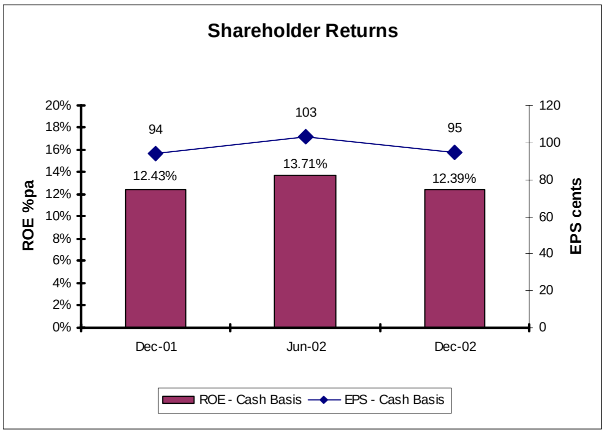
Shareholder Returns

Earning Per Share – Cash Basis

Earnings per share are up 1 cent in the half year ended 31 December 2002 compared with the prior comparative period.

Return on Equity

- Return on equity (cash basis) for the half year ended 31 December 2002 has decreased by 0.04 percentage points from the prior comparative period from 12.43% to 12.39%.
- Return on equity (statutory basis) for the half year ended 31 December 2001 has decreased by 6.08 percentage points from the prior comparative period from 12.67% to 6.59%.



Banking – Business Analysis

BANKING PERFORMANCE SUMMARY

Profit Summary	Half Year Ended 31/12/02 $M	30/06/02 $M	31/12/01 $M	31/12/02 vs 31/12/01 %
Underlying profit (before expenses included for the first time, bad debts and income tax expense)	**1,784**	1,671	1,662	7
Profit from ordinary activities after tax (1)	**1,079**	1,092	975	11
Balance Sheet Summary				
Lending assets (2)	**169,084**	161,216	155,284	9
Average interest earning assets	**183,675**	173,084	168,222	9
Average interest bearing liabilities	**171,460**	159,636	154,614	13
Risk weighted assets	**143,771**	141,049	138,271	4
Net impaired assets	**599**	614	674	(11)
Performance Ratios (%)				
Net interest margin	**2.65**	2.75	2.77	(4)
General provision/Risk weighted assets	**0.92**	0.96	0.96	(4)
Total provisions/Gross impaired assets (net of interest reserved)	**184.1**	183.9	167.1	10
Non-interest income/Total operating income	**34.7**	35.0	35.2	(1)
Cost to average assets ratio	**1.88**	1.92	1.99	(6)
Other Information (numbers)				
Branches/service centres (Australia)	**1,020**	1,020	1,045	
Agencies (Australia) (3)	**3,888**	3,936	3,927	
ATMs (4)	**3,996**	3,950	3,968	
EFTPOS terminals	**126,940**	126,613	124,503	
EzyBanking sites	**750**	730	725	

(1) Represents profit after tax and outside equity interests and before goodwill amortisation.
(2) Lending assets represents loans, advances and receivables and bank acceptances excluding provisions for bad and doubtful debts and securitised balances. Securitised balances are not included in lending assets and amounted to $5.9 billion as at 31 December 2002 compared to $7.0 billion as at 30 June 2002 and $5.7 billion at 31 December 2001.
(3) Includes Australia Post and private agencies.
(4) Includes third party ATMs.

The banking business has achieved strong growth and increased profit by $104 million or 11% over the prior comparative period to $1,079 million and underlying profit has increased by $122 million or 7% to $1,784 million.

Average interest earning assets have increased by 9% over the prior comparative period to $184 billion. Strong asset growth together with the benefit of changes to fee structures has led to income growth of $133 million or 4%.

Net interest margin has reduced by 12 basis points from 2.77% at 31 December 2001 to 2.65% at 31 December 2002. The competitive environment and a stronger weighting of home loans in the portfolio have primarily driven this.

Banking – Business Analysis (continued)

Retail Banking

Retail banking includes services, which are distributed to retail customers through the Premium and Retail distribution divisions.

Housing Loans

The Bank achieved strong growth in home lending during the half to 31 December 2002, with increased demand experienced in both proprietary and third party channels. Growth was achieved notwithstanding a reduction in the First Home Owners' Grant and despite continued speculation over the sustainability of domestic housing prices. Within the continued low interest rate environment, competition for home loans remained strong resulting in increased pressure on the net interest margin.

In the absence of official market share data subsequent to March 2002, the Bank believes it has maintained its home loan market share positioning over the period to December 2002. The Bank's home loan market share as at 31 March 2002 was 20.1% (source: APRA Residentially Secured All Lenders). The current half year result reflects the success of specific campaigns and offers made during the half to new customers through proprietary and third party channels, as well as further retention based strategies executed during the half in relation to existing customers. In particular, the Bank increased its penetration into the third party market during the half, increasing market share to an estimated 15% at September 2002 (Source: MISC).

During the half, the Bank commenced an initiative to redesign the end-to-end home loan process in order to lower processing costs and significantly improve customer service outcomes. A staged implementation program is underway, with initial focus on system and process improvements.

Approval levels over the last six months have remained strong.

Credit Cards

Despite the domestic market for credit cards showing some signs of consolidation, the Bank maintained strong new cardholder account growth during the half.

The Bank's market share of credit card outstanding balances was 21.6% as at 31 October 2002 compared with 21.4% at 31 December 2001 (Source: RBA). During the half, the Bank relaunched its credit card loyalty program, Commonwealth Awards, enhancing many of its features for customers. Fee structures for all credit cards were reviewed during the half, with announced changes effective from January 2003.

During the 2002 calendar year, the Reserve Bank proposed substantial reforms to credit card schemes in Australia. The Bank is well placed to respond to these reforms, with the advantages of scale, a balanced issuing and acquiring profile, a broad portfolio of merchant customers and a high proportion of interest to interchange fee income.

Retail Deposits

The Bank is the largest acceptor of retail deposits in Australia, with a market share of 24.2% at 31 March 2002 (source: APRA All banks – most recent data available). In the six months to 31 December 2002, the growth in deposits was largely driven by increased demand for cash management accounts and is reflective of weak equity markets and new compliance requirements on the sale of cash management trusts.

Changes to transaction account fee structures in 2002 have resulted in a simpler and more transparent product for customers and banking income that is less reliant on transaction volumes and interest earning balances. Since the introduction of the account fee changes there has been a consolidation of customer accounts, however balances have remained stable.

Share Trading

Commonwealth Securities (CommSec) maintained its position as the leading broker in Australia on a transaction volume basis. The total number of accounts at December 2002 was more than 773,000, representing an increase of more than 9% from December 2001 (706,000 accounts). Over 87% of CommSec trades are now conducted online and 50% of all telephone calls are handled by VoiceBroker speech recognition technology.

Through CommSec, the Bank has participated in a number of offers over the last six months, including the co-management of the Salmat Initial Public Offering and issues by AMP and Seven Network. A number of products and initiatives were also launched during the half including the co-branded distribution of CommSec margin loan products through Credit Union branches across Australia. Service to CommSec clients has also been enhanced through the provision of advanced charting tools and research publications for retail shareholders.

These enhancements to the CommSec offering are key initiatives in our Premium customer strategy of providing more comprehensive financial services to the Premium client base.

Institutional and Business Services

Lending and Deposits

Despite subdued levels of business confidence, the business and corporate banking segments performed soundly during the half year to 31 December 2002, with most growth indicators equalling or outperforming the market. The Bank's market share of business lending at 30 November 2002 was 14.72%, up from 14.64% at 30 June 2002 (Source: RBA). This was primarily driven by strong growth in commercial lending, reinforced by growth in bank acceptances. The growth in bank acceptances to business customers is the result of an initiative to provide a total package to the client, incorporating funds for borrowing and interest rate risk management solutions.

Business deposit growth was also strong over the period to 31 December 2002, mainly led by strong performance in business cheque accounts and cash deposit accounts.

Lending demand from institutional clients was weaker than anticipated during the half year to 31 December 2002, reflecting market conditions generally. Despite the subdued market environment, the Bank has not eased its approach to credit. This has resulted in reduced credit exposure and reduced interest earnings from the corporate sector for the period. Overall credit quality has improved.

Initiatives launched during the half year focussed on creating a lower cost operating environment and improved client experiences. A number of cross-sell initiatives were implemented during the half, including the development of structured products for ASB Bank. As part of the Bank's objective to increase market share in business banking, a number of campaigns were launched that focus on increasing client retention and relationship balances.

The Bank was also active in providing support to farmers in analysing the financial outcomes of alternative drought strategies.

Structured Finance

The Bank continues to develop and implement innovative financing structures to meet the needs of clients. While corporate activity was relatively subdued during the half, approximately $11 billion of capital was raised for clients in the six months to 31 December 2002. Substantial transactions undertaken included:

- Lead arranger and adviser for a US qualified technological equipment (QTE) cross border lease transaction for Air Services Australia
- Coordinating arranger and joint lead underwriter for BHP Steel's inaugural financing facility.
- Joint lead arranger, joint lead manager and debt provider of a debt restructure for Centro Property Group.

Banking – Business Analysis (continued)

- Joint lead arranger for the demerger financing facility for WMC Resources.

Global Markets

Trading income for the half was impacted by margin squeeze across a number of products, reduced currency volatility, soft credit conditions and the drought. Notwithstanding this, the Bank is currently the Number 1 ranked lead manager in the domestic capital markets (excluding self-led deals) (INSTO December 2002). Process re-engineering of the foreign exchange process and the launch of new commodities products were among important initiatives undertaken during the half.

Working Capital Services

Working Capital Services, which provides cash management solutions for clients through corporate accounts, payments, merchant and information services, experienced solid growth over the half year. Funds and transaction volumes increased as a result of growth in new business. During the half year to 31 December 2002, the Bank improved its transactional banking market penetration to the Top 500 corporates, being principal transaction banker to 17% of survey respondents (source: East & Partners, October 2002).

Distribution and Customer Access

The Bank operates the largest financial services distribution network in the country. Strategic emphasis is on better aligning sales and service to the needs of distinct customer segments by recognising that different customer segments require different types of service.

Premium Financial Services

Premium Financial Services is an integrated banking and broking business, created to provide customised products and services for the Bank's clients with more complex financial needs. By bringing together the banking and broking businesses, the Bank can capitalise on its strengths in equities and margin lending, which are vital to provide structured, high value products and access to Initial Public Offerings.

Three units have been established to service the needs of premium clients:

- Private Client Services provides a comprehensive private banking service, offering investment, insurance and international services to clients meeting the definition of 'sophisticated' or 'professional' investors as defined under the Corporations Act.
- Premium Banking and Investment Services caters for clients other than those serviced by Private Client Services that require advisory or relationship management service.
- Direct Services caters for clients requiring access to premium products and services without advisory or relationship management services.

A premium call centre has been established as a primary point of contact for premium clients who are not seeking relationship management services, and provides an outbound sales capability for both banking and equity products. In addition, two new premium banking centres were established and three were extended, bringing the total number of dedicated contact points for premium customers to 25.

Direct Customer Service

With over 1,000 branches, the Commonwealth Bank's branch network remains Australia's largest, exceeding its nearest competitor by around 200 branches. The Bank is now well positioned in terms of overall points of representation and will further intensify its focus on service delivery processes.

In implementing the Bank's customised approach to service, a number of initiatives were undertaken during the half, including:

- The launch of a branch re-engineering program, which will facilitate the removal of processing activities from branches, enabling staff to focus on delivering quality sales and services to customers.
- The rollout of the team based selling initiative for Business and Corporate banking clients was completed in South Australia, Western Australia, Queensland and the ACT. This initiative is based on restructuring products around core areas of expertise and aims to enhance the client experience through increased responsiveness, service quality and streamlining of processes.

Other initiatives currently underway include the upgrade of ATM network infrastructure and branch telling platforms to enhance functionality and customer service.

The Bank's direct customer contact network continues to be augmented by the alliance with Australia Post. Personal Banking services are available at 3,717 Australia Post agencies across the country, together with the expansion of transactional banking services for business clients to 212 Australia Post locations.

Electronic and Direct Banking

Customer usage of direct and self-service banking continues to gain pace. The total number of transactions performed in direct/electronic channels increased over the half year to 31 December 2002, while branch teller transactions continued to decline. As a result, the proportion of total transactions carried out in-branch was further reduced, from 14.4% to 12.2% in the 6 months to 31 December 2002. Over this period, NetBank was the fastest growing channel, processing more than 134 million transactions.

Strong usage of telephone banking has continued during the half, with in excess of 76 million calls received on the 132221 customer service line over the period.

ATM and EFTPOS usage continue to grow, albeit at a lower rate, with total transactions up 6% and 15% respectively over the prior comparative period. The Bank retains the largest proprietary ATM and EFTPOS terminal networks in the country (3,996 and 126,940 terminals respectively).

Third Party

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

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

New Zealand Banking Operations

Performance Overview

ASB Bank has had a strong first half, with earnings 25% higher than those in the prior comparative period. The primary profit drivers were growth in net interest income due to increased lending volumes, an improved cost structure resulting from both lower unit costs and better productivity, and other income growth particularly from financial services. Customer retention and acquisition were key drivers of volume growth and the customer base grew by over 61,000 or 6.5% during the year. As at 31 December 2002, ASB Bank had total assets of NZ$26.0 billion (31 December 2001:NZ$22.0 billion), including total advances of NZ $25.7 billion (31 December 2001 NZ $21.7 billion).

Lending

Personal and Rural lending volumes continued at record levels in the first half. Personal lending growth was 17.5%, Rural-lending growth was 24%, and total-lending assets increased by 17.8%. This compared with the annual market growth rate of 7.6% as measured by Private Sector

Credit (Residents only) (*Source: Reserve Bank of New Zealand*). Record growth in home loans was due to ASB Bank's significant presence in the key Auckland market, effective spring marketing campaigns, together with positive market dynamics such as positive economic conditions, lower interest rates, and much higher immigration levels.

Funding

ASB Bank's annual funding (total deposits) growth in the first half was 16.7% compared with the annual market growth rate of 10.6% (*Source: Reserve Bank of New Zealand*). The majority of ASB Bank's growth was from term investments, as safety and security of capital remain important drivers given general poor performance of world equity markets.

Transactions

Customer transaction volumes for the year were 8% higher than in the same half last year, as the migration of transaction activity to self-service and direct channels helped to reduce overall costs to serve. Customer uptake of ASB Bank's internet banking service FASTNET continued to grow strongly. By 31 December 2002, FASTNET customer numbers had reached 229,590 (149,545 at 31 December 2001). Each month 11%, or 2.9 million transactions are initiated through the FASTNET Classic and FASTNET Office services.

Banking – Business Analysis (continued)

Major Balance Sheet Items

As At	31/12/02 $M	30/06/02 $M	31/12/01 $M	31/12/02 vs 31/12/01 %
Loans, advances and other receivables [(1)]				
Gross housing	**99,456**	92,886	85,450	16
Securitisation	**(5,911)**	(7,047)	(5,705)	4
Housing (net of securitisation)	**93,545**	85,839	79,745	17
Personal	**8,780**	8,230	8,105	8
Total retail lending assets	**102,325**	94,069	87,850	16
Business and corporate	**53,928**	54,630	55,569	(3)
Bank acceptances	**12,831**	12,517	11,865	8
Total institutional lending	**66,759**	67,147	67,434	(1)
Total lending assets	**169,084**	161,216	155,284	9
Trading securities				
Corporate	**13,462**	8,389	7,080	90
Deposits and other public borrowings				
Personal	**68,390**	64,229	62,783	9
Business and corporate	**70,958**	68,571	63,411	12
	139,348	132,800	126,194	10
Debt issues				
Corporate	**29,025**	23,575	24,571	18

(1) Loan balances are before provisions for impairment.

Retail Banking

Housing (net of securitisation)

Home loan outstandings, including securitisation, totalled $99.5 billion at 31 December 2002, a 16% increase over the prior comparative period. This growth was achieved as a result of specific initiatives on new volumes and customer retention.

Personal Lending

Personal lending includes credit card outstanding balances and personal loans. The growth in personal lending of $0.7 billion or 8% reflects strong growth in credit card balances in line with market trends and successful marketing campaigns. Personal loans declined marginally and reflect the mature nature of this product where alternative financing (credit cards and home loan redraw facilities) are being progressively used for personal financing.

Personal Deposits

Personal deposits include transaction, savings and investment deposits. Personal deposits totalled $68 billion, an increase of 9% on the prior comparative period. This reflects strong growth in savings and investment products with flat performance in transaction accounts.

Institutional and Business Services

Business and Corporate Lending

Business and Corporate lending outstandings totalled $54 billion at 31 December 2002, a 3% decline over the prior comparative period. This reflects growth in business banking, offset by subdued performance in corporate lending.

Bank Acceptances

Bank acceptances outstanding totalled $13 billion as at 31 December 2002, an 8% increase over the prior comparative period and is a result of strong performance in business lending. The growth in bank acceptances in the business segments is a result of the cross sell initiative outlined on page 12; this substitutes products between business and corporate lending and bank acceptances. Fee structures on bank acceptances differ from traditional lending products, with a lower interest margin and higher other banking income.

Trading Securities

Trading securities totalled $13 billion at 31 December 2002 an increase of $6 billion on the prior comparative period.

Business and Corporate Deposits

Business and corporate deposits totalled $71 billion at 31 December 2002, an increase of 12% and reflects strong growth in business cheque accounts and cash deposit accounts.

Corporate Debt Issues

Debt Issues totalled $29 billion at 31 December 2002, an increase of 18% on the prior comparative period.

Banking – Business Analysis (continued)

PERFORMANCE ANALYSIS

Profit summary	**Half Year Ended 31/12/02 $M**	**30/06/02 $M**	**31/12/01 $M**	**31/12/02 vs 31/12/01 %**
Interest income	**5,668**	5,086	5,369	6
Interest expense	**3,214**	2,725	3,020	6
Net interest income	**2,454**	2,361	2,349	4
Other operating income	**1,306**	1,274	1,278	2
Total operating income	**3,760**	3,635	3,627	4
Operating expenses comparable business	**1,976**	1,964	1,965	1
Operating expenses included for the first time	**83**	-	-	-
Profit before charge for bad and doubtful debts	**1,701**	1,671	1,662	2
Charge for bad and doubtful debts	**151**	159	290	48
Profit from ordinary activities before income tax	**1,550**	1,512	1,372	13
Income tax expense	**471**	420	396	19
Outside equity interests	**-**	-	1	-
Profit from ordinary activities after income tax	**1,079**	1,092	975	11

Further analysis of the components of Banking Profit is provided on pages 17 to 20

The contribution from the banking business has increased by $104 million or 11% to $1,079 million. This was achieved through strong growth in assets, which led to an increase in net interest income of $105 million or 4% to $2,454 million.

Changes to transaction account fee structures and further increases in credit card transaction volumes have more than offset reductions in trading income and loss on investments, to achieve an increase of $28 million or 2% in other banking income. Efficiency gains as a result of strategic initiatives and volume based productivity improvements have led to flat expenses from comparable businesses. Costs include strategic initiatives included for the first time that will help further improve the Bank's cost position in the future. Improved credit quality of the lending portfolio has led to a significantly reduced bad debt expense of $151 million for the half year, down $139 million from the prior comparative period.

The elements of the banking business are further detailed in the following pages.

Banking – Business Analysis (continued)

Net Interest Income	Half Year Ended			
	31/12/02 $M	30/06/02 $M	31/12/01 $M	31/12/02 vs 31/12/01 %
Interest Income				
Loans	**4,949**	4,530	4,701	5
Other financial institutions	**122**	96	69	77
Liquid assets	**72**	65	77	(6)
Trading securities	**216**	156	203	6
Investment securities	**280**	225	292	(4)
Dividends on redeemable preference shares	**23**	17	24	(4)
Other interest income	**6**	(3)	3	100
Total Interest Income	**5,668**	5,086	5,369	6
Interest Expense				
Deposits	**2,360**	2,035	2,206	7
Financial institutions	**106**	78	115	(8)
Debt issues	**625**	511	553	13
Loan capital	**111**	100	132	(16)
Other interest expense	**12**	1	14	(14)
Total Interest Expense	**3,214**	2,725	3,020	6
Net Interest Income	**2,454**	2,361	2,349	4

Half Year Increase/Decrease	December 2002 Vs December 2001 $M	December 2002 Vs June 2002 $M
Due to changes in average volume of interest earning assets and interest bearing liabilities	**211**	144
Due to changes in interest margin	**(106)**	(90)
Due to days variance in periods	**-**	39
Change in net interest income	**105**	93

Net Interest Income

Net interest income for the half year increased by 4% or $105 million from $2,349 million in the prior comparative period to $2,454 million.

The increase in the net interest income was due to a $15 billion or 9% increase in average interest earning assets between 31 December 2001 and 31 December 2002 as detailed in Appendix 1. The increase was offset partially by a reduction in the NIM from 2.77% at 31 December 2001 to 2.65% at 31 December 2002.

The table above highlights the effect of movements in net interest earning assets and interest margin on net interest income and further details can be found in Appendix 1 of this report.

Banking – Business Analysis (continued)

Interest Margins and Spreads

The following table shows margins and spreads for the Bank. Interest spread represents the difference between the average interest rate earned and the average interest rate paid on funds.

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

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

	Half Year Ended		
	31/12/02 %	30/06/02 %	31/12/01 %
Australia			
Interest spread (1)	**2.65**	2.77	2.73
Benefit of interest free liabilities, provisions and equity (2)	**0.21**	0.23	0.27
Net interest margin (3)	**2.86**	3.00	3.00
Overseas			
Interest spread (1)	**1.36**	1.19	1.14
Benefit of interest free liabilities, provisions and equity (2)	**0.35**	0.36	0.49
Net interest margin (3)	**1.71**	1.55	1.63
Bank			
Interest spread (1)	**2.40**	2.48	2.46
Benefit of interest free liabilities, provisions and equity (2)	**0.25**	0.27	0.31
Net interest margin (3)	**2.65**	2.75	2.77

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

Interest Margin

The average net interest margin for the half year to 31 December 2002 decreased by 12 basis points from the prior comparative period to 2.65%.

The decline in the margin is attributable to:

- The higher weighting of home loan balances in the portfolio due to its strong growth as outlined in the balance sheet summary on page 15.
- The full half year effect of prior period cash rate reductions and competitive pressures across all lending product groups.
- A decline in Institutional lending margins as a result of higher weighting in bank acceptances as outlined in the balance sheet summary on page 15.
- Slight improvement in the deposit margin as a result of strong growth in investment style deposits, with funds flows diverted from funds management.

Banking – Business Analysis (continued)

Other Banking Income from Ordinary Activities

The following table sets out the Bank's other banking operating income for the half year ended 31 December 2002 together with comparatives.

	Half Year Ended			31/12/02
	31/12/02	30/06/02	31/12/01	vs 31/12/01
	$M	$M	$M	%
Lending fees	**314**	325	293	7
Commission and other fees	**702**	636	606	16
Trading income	**226**	238	251	(10)
Dividends	**3**	3	2	50
Net (loss)/gain on investments and loans	**(12)**	18	60	(120)
Net profit/(loss) on sale of property, plant and equipment	**6**	(4)	16	(63)
General insurance premium income	**57**	60	59	(3)
Less general insurance claims	**(33)**	(32)	(34)	(3)
Other	**43**	30	25	72
Total other banking operating income	**1,306**	1,274	1,278	2

Other Banking Operating Income

Other banking operating income increased by 2%, or $28 million from $1,278 million in the prior comparative period to $1,306 million in the current period. Included within other banking income is non-interest income earned on transactions and accounts of the Bank's personal business and corporate customers. The principal reasons for the overall increase are set out below.

Lending Fees

Lending fees have increased by 7% or $21 million to $314 million over the prior comparative period mainly due to more effective price realisations on establishment fee offers. Discounted fees are now aligned to cross sell targets, which combined with the use of brokers is part of the Bank's strategy to build lending balances.

Commission and Other Fees

Growth in commission and other fees has been driven primarily by new fee structures on retail transaction and savings accounts. This initiative reflected a simplified fee structure for customers and a more stable income structure for the Bank, which is less dependent on interest income and transactional volumes. The result also includes strong growth in card volumes reflecting market growth and successful marketing campaigns, and a strong growth in bill endorsement and bank acceptance fees following the cross sell initiatives outlined previously.

Trading Income

The Bank's financial markets operations contributed $226 million of trading income, which was a decline of 10% from the prior comparative period. While the Bank's franchise and level of client activity remains strong, reduced currency volatility and a weaker credit market adversely affected this business.

Net (Loss)/Gain on Investments and Loans

Losses during the current half year include a provision against certain strategic investments. In the prior comparative period the profit included the profit on sale of strategic investments.

Net Profit/(Loss) on Sale of Property Plant and Equipment

Net profit on sale of property, plant and equipment includes the proceeds from the sale of properties as a continuation of the Bank's sale and leaseback strategy.

General Insurance Income (net of claims)

General insurance premium income less claims decreased slightly by $1 million to $24 million for the current half year.

Canberra fires are expected to cost a maximum of $10 million net of reinsurance in the June 2003 half year.

Banking – Business Analysis (continued)

Charge for Bad and Doubtful Debts

The following table sets out the charge for bad and doubtful debts for the half year ending 31 December 2002 together with comparatives.

Charge for Bad and Doubtful Debts	Half Year Ended		
	31/12/02 $M	30/06/02 $M	31/12/01 $M
Specific provisioning			
New and increased provisioning	**205**	163	383
Less provisions no longer required	**(15)**	(24)	(27)
Net specific provisioning	**190**	139	356
Provided from general provision	**(190)**	(139)	(356)
Charge to profit and loss	**-**	-	-
General provisioning			
Direct write offs	**23**	26	25
Recoveries of amounts previously written off	**(33)**	(28)	(28)
Movement in general provision	**(29)**	22	(63)
Funding of specific provisions	**190**	139	356
Charge to profit and loss	**151**	159	290
Total charge for bad and doubtful debts	**151**	159	290
Bad and doubtful debt expense / Risk weighted assets	**0.11%**	0.11%	0.21%

Total charge for bad and doubtful debts for the half year ended 31 December 2002 was $151 million which was $139 million (48%) lower than the charge in the prior comparative period. The current period charge reflects the continued improvement in the credit quality of the lending portfolio due to an increased proportion of home lending balances together with an overall improvement within the business and corporate portfolio. The prior half year included a small number of large corporate and commercial lending exposures that became impaired in the half year to 31 December 2001 and were provisioned for potential loss. Bad debt expense to risk weighted assets for the current half year has reduced to 0.11% (0.21% annualised). The average for the last decade was 0.26% annualised.

The lower net specific provisioning is a result of the reduction in the inflow of impaired assets (new and increased impaired exposures for the half were $354 million compared to $804 million for the prior comparative period). The small reduction in the level of the general provision reflects the ability of the Bank to maintain the high quality of the credit portfolio.

Provisions for Impairment	Half Year Ended		
	31/12/02 $M	30/06/02 $M	31/12/01 $M
General provisions	**1,327**	1,356	1,334
Specific provisions	**264**	270	309
Total provisions	**1,591**	1,626	1,643
Total provisions for impairment as a % of gross impaired assets net of interest reserved	**184.1**	183.9	167.1
Specific provisions for impairment as a % of gross impaired assets net of interest reserved	**30.56**	30.54	31.43
General provisions as a % of risk weighted assets	**0.92**	0.96	0.96

Total provisions for impairment at 31 December 2002 were $1,591 million, down 3.2% from 31 December 2001. This level of provisioning is considered adequate to cover any bad debt write offs from the current lending portfolio having regard to the current outlook.

Specific provisions for impairment have decreased 14.6% from $309 million at 31 December 2001 to $264 million at 31 December 2002, primarily in line with the reduction in impaired assets from $983 million at 31 December 2001 to $863 million at 31 December 2002.

The general provisions for impairment have reduced to $1,327 million at 31 December 2002 from $1,334 million at 31 December 2001, a decrease of $7 million. The general provision as a percentage of Risk Weighted Assets reduced to 0.92% from 0.96%, a level consistent with that of other major Australian Banks. Gross impaired assets less interest reserved have decreased 2.4% from $884 million to $863 million over the half year. Additions to gross impaired assets (including interest reserved) for the six months of $354 million are offset by realisation activities on the impaired asset portfolio resulting in reductions of $378 million for the half.

Funds Management – Business Analysis

The funds management business manages a wide range of wholesale, retail, superannuation and retirement funds. Funds management operations are in Australia, United Kingdom, New Zealand and Asia.

Funds management includes for the first time, investment style products written within life insurance companies. Prior period numbers have been restated in line with the current year numbers. Appendix 11 shows how these numbers have been restated.

The funds management businesses have contributed $135 million to the result for the half year. This represents a decrease of $47 million or 26% from the prior comparative period. The decline in net profit reflects lower levels of funds under management, which have decreased by $11 billion from the prior comparative period.

The following tables set out the funds management result for the half year ending 31 December 2002 together with comparatives

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	Half Year Ended			
	31/12/02 $M	**30/06/02 $M**	**31/12/01 $M**	**31/12/02 vs 31/12/01 %**
Funds management				
Operating income – external	**565**	622	578	(2)
Operating income – internal	**5**	7	6	(17%)
Shareholder investment returns	**5**	3	9	(Large)
Policyholder tax	**(66)**	(78)	13	(Large)
Total income from funds management	**509**	554	606	(16)
Operating expenses	**400**	388	373	7
Profit before tax	**109**	166	233	(53)
Policyholder tax (benefit)/expense	**(66)**	(78)	13	Large
Corporate tax expense	**37**	58	38	3
Outside equity interests	**3**	-	-	Large
Profit from ordinary activities after tax[1]	**135**	186	182	(26)

(1) Income, operating expenses and tax expense included in the table above includes both policyholders' and shareholders' components. The inclusion of the policyholder tax within income causes fluctuations in the cost to income ratio and the effective tax rate between periods.

The tables below show the split of each type of funds managed.

	Half Year Ended			
	31/12/02 $M	**30/06/02 $M**	**31/12/01 $M**	**31/12/02 vs 31/12/01 %**
Funds under management (FUM) [1]				
Retail	**52,415**	51,650	52,358	-
Wholesale	**37,607**	45,554	47,611	(21)
Retail Cash Management Trusts	**5,244**	5,634	6,333	(17)
Total FUM	**95,266**	102,838	106,302	(10)
Australia	**79,603**	81,670	84,786	(6)
United Kingdom	**6,704**	12,089	13,713	(51)
New Zealand	**5,743**	5,690	4,706	22
Asia	**3,216**	3,389	3,097	4
Total	**95,266**	102,838	106,302	(10)

(1) Excludes non-Group funds under trusteeship and custody. Includes $1.86 billion in relation to FirstChoice, of which $1 billion is invested in the funds management business.

Funds Management – Business Analysis (continued)

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

Funds Under Management Half year to December 2002	Opening Balance 30/06/02 $M	Inflows $M	Outflows $M	Investment Income $M	Other Movements and Transfers $M	Closing Balance 31/12/02 $M
Retail	51,650	5,617	(5,613)	(1,426)	2,187	52,415
Wholesale	45,554	8,784	(14,793)	(1,724)	(214)	37,607
Cash management trusts	5,634	596	(1,091)	105	-	5,244
Total FUM	**102,838**	**14,997**	**(21,497)**	**(3,045)**	**1,973**	**95,266**

Funds Under Management Half year to June 2002	Opening Balance 31/12/01 $M	Inflows $M	Outflows $M	Investment Income $M	Other Movements and Transfers $M	Closing Balance 30/06/02 $M
Retail	52,358	8,934	(8,211)	(1,791)	360	51,650
Wholesale	47,611	6,875	(7,165)	(711)	(1,056)	45,554
Cash management trusts	6,333	2,273	(3,117)	116	29	5,634
Total FUM	**106,302**	**18,082**	**(18,493)**	**(2,386)**	**(667)**	**102,838**

Funds Under Management Half year to December 2001	Opening Balance 30/06/01 $M	Inflows $M	Outflows $M	Investment Income $M	Other Movements and Transfers $M	Closing Balance 31/12/01 $M
Retail	51,902	6,136	(4,196)	71	(1,555)	52,358
Wholesale	43,407	8,246	(5,016)	(846)	1,820	47,611
Cash management trusts	6,172	3,364	(3,347)	173	(29)	6,333
Total FUM	**101,481**	**17,746**	**(12,559)**	**(602)**	**236**	**106,302**

Performance Analysis

Profit from ordinary activities after tax was $135 million for the period, a decline of $47 million or 26% from the prior comparative period.

Funds management external operating income decreased by $13 million, or 2% from the prior comparative period. This reflects the decline in funds under management due to negative investment market returns and a reduction in the flow of funds under management as a result of the market downturn. The gross margin on funds under management has remained strong at 58 basis points, consistent with the prior comparative period.

Shareholder investment returns of $5 million have decreased by $4 million on the prior comparative period.

Expenses for the period were $400 million, a $27 million or 7% increase on the prior comparative period. In addition to underlying staff increases, the increased expenses include higher information technology expenses incurred in complying with FSR and Family Law changes, costs associated with merging the Commonwealth and First State Funds Management Businesses and costs associated with the launch of new products, including FirstChoice Corporate Super product. These costs were partly offset by lower commissions due to lower volumes during the period. Initiatives are underway to streamline systems and processes associated with these businesses to reduce future period costs.

Funds under management have decreased by $11 billion from the prior comparative period. Included within this is a net inflow of $2.2 billion following the property trust merger, an outflow of $3.5 billion following the previous sale of the UK life business to Winterthur and $1.5 billion in relation to the sale by First State UK of its private client business. The underlying reduction of $8 billion in funds under management was due to a decline in wholesale funds under management and retail cash management trusts.

Australian Business

Despite the weakness experienced throughout the industry the business continues to be well positioned in the funds management industry and has:

- A strong position across all segments of the wealth management value chain
- Significant scale, being the largest player in both the Australian retail and wholesale markets
- Broad and diversified distribution, including strength in internal distribution (CBA owned financial planners) and external distribution (independent financial advisers), as well as being well represented on master trust lists and having a presence in the institutional market
- A strong brand in both the investor and adviser market places through Colonial First State
- Strengthened its position as a leading property fund manager with two listed trusts in the ASX top 100 leaders.

However, the results for the current half-year have been disappointing, mainly due to equity markets where negative equity market returns have reduced assets under management, which together with reduced net funds flow have reduced fee revenue. The reduction in funds flow was caused by market and company specific issues, namely:

- Cautious investor sentiment caused by the poor investment markets. Industry flows into the retail market were down 40% for the September 2002 quarter compared with the previous year. (Source: Plan for Life September 2002). This also resulted in a diversion of funds towards banking style retail products.
- Weak relative performance in the last two years within Colonial First State Australian Equities (as "value" style managers have outperformed), together with the departure of a key fund manager in June

Funds Management – Business Analysis (continued)

2002 and resultant downgrading by some research houses.

Offsetting these negative factors has been the highly successful launch of FirstChoice, the new Colonial First State master trust range. Since its launch in mid May, FirstChoice has attracted net flows of over $1.8 billion.

Property

In September 2002, the respective unit holders approved the merger of Colonial First State Property Trust Group (CFT) with the Commonwealth Property Office Fund (CPA) and Gandel Retail Trust (GAN).

The merger resulted in CPA and GAN creating two leading sector specific listed property trusts.

International Business

The international managed funds operations are represented by the brand 'First State Investments' ('First State'). First State has operations in the United Kingdom and Asia. First State UK has the responsibility for the management of all non-domestic assets.

The decline in international equity markets combined with a withdrawal of $3.5 billion as a result of the terms of a sale and purchase agreement following the sale of Colonial Life UK in June 2000 impacted the performance of the international business.

During the period First State UK sold its Edinburgh-based client business ('Stewart Ivory Wealth Management') to a division of the Royal Bank of Scotland (Adam & Company). This divestment was motivated by the desire to provide focus on the core skills and aims of the operation in pure funds management.

In August 2002 First State UK acquired the interests of its North American distribution partner (David L. Babson) to provide it with full control in the marketing and distribution of First State's international funds to North American institutional asset consultants and investors.

Key Initiatives

The two main areas of focus over the period were the rollout of FirstChoice, continued work on integrating Commonwealth Investment Management and Colonial First State and identification of improvements in systems and processes associated with legacy systems impacting this business.

In September 2002, FirstChoice Employer Super was launched. This is the fourth and final product, which completes the FirstChoice range.

Further significant enhancements to FirstChoice will be launched in late February. Of note is the exclusive retail access to "452 Capital" Australian Share Fund with Peter Morgan as fund manager as announced in December 2002. Under the alliance, funds managed by "452 Capital" will be available exclusively through Colonial First State's FirstChoice.

In line with the strategy for Colonial First State to be the main wealth management brand going forward, the majority of the Commonwealth and Colonial branded products will be closed to new business from 31 March 2003.

Life Insurance – Business Analysis

The life insurance business provides term insurance, disability insurance and annuities in Australia, Asia and New Zealand. The life insurance operations contributed a loss of $6 million to the result for the half year compared with a profit of $35 million in the prior comparative period. Operating margins in New Zealand increased by $6 million. The Asian result improved by $24 million over the prior comparative period. Operating margins in Australia declined by $31 million.

After tax Investment earnings on shareholder funds declined by $40 million over the prior comparative period. This reduction includes $10 million on loss on sale of the Philippine life operations, combined with adverse movements in the equity markets.

The following table sets out the life insurance income result for the half year ending 31 December 2002 together with comparatives.

	Half Year Ended			
Summary Financial Performance (excluding appraisal value (reduction)/uplift)	**31/12/02 $M**	**30/06/02 $M**	**31/12/01 $M**	**31/12/02 vs 31/12/01 %**
Life insurance				
Operating income	**255**	327	268	(5)
Shareholder investment returns	**(10)**	(4)	39	(Large)
Policyholder tax	**(24)**	17	12	(Large)
Total life insurance income	**221**	340	319	(31)
Operating expenses – external	**251**	255	256	2
Operating expenses - internal	**5**	7	6	17
(Loss)/profit from life insurance activities before tax	**(35)**	78	57	(161)
Income tax (credit)/expense attributable to:				
Policyholder	**(24)**	17	12	(Large)
Corporate	**(5)**	30	10	(Large)
Net (loss)/profit after tax	**(6)**	31	35	(117)

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

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

The inclusion of the policyholder tax within life insurance income causes fluctuations in the cost to income ratio and the effective tax rate between periods.

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

	Half Year Ended			
	31/12/02 $M	**30/06/02 $M**	**31/12/01 $M**	**31/12/02 vs 31/12/01 %**
Sources of profit from life insurance activities				
The Margin on Services profit from ordinary activities after income tax is represented by:				
Planned profit margins	**52**	45	49	6
Experience variations	**(46)**	(5)	(38)	(21)
New business losses / reversal of capitalised losses	**-**	(6)	(4)	100
Operating margins	**6**	34	7	-
After tax shareholder investment returns	**(12)**	(3)	28	Large
Operating (loss)/profit after income tax	**(6)**	31	35	(117)

Life Insurance – Business Analysis (continued)

Underlying results of life insurance businesses by geographical region.

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

Underlying Profit after Tax

	Australia		**New Zealand**		**Asia**	
Half Year Ended	**31/12/02 \$M**	**31/12/01 \$M**	**31/12/02 \$M**	**31/12/01 \$M**	**31/12/02 \$M**	**31/12/01 \$M**
Operating margins	**3**	34	**12**	6	**(9)**	(33)
Investment earnings on assets in excess of policyholder liabilities	**(7)**	7	**1**	3	**(6)**	18
Operating profit after income tax	**(4)**	41	**13**	9	**(15)**	(15)

Performance Analysis

Operating margins within Australia decreased by \$31 million. This result was due to a significant write down of an individual asset in the annuity fund of \$18 million. The prior comparative period included favourable claims experience, which has not been repeated in the current period. Claims in the current period are in line with expectations.

Operating margins in New Zealand increased by \$6 million. The prior period result was impacted by adverse experience variations, which increased the level of morbidity and disability claims. There have been minimal experience variations in the current half year.

Operating margins in Asia have increased by \$24 million compared with the prior comparative period. This improvement reflects improved policy persistency, improved margins in the Hong Kong operations and tighter expense control.

Investment returns on shareholders' funds of negative \$12 million include the loss on sale of the Philippine life company of \$10 million. Excluding this item, investment returns on shareholders' funds have decreased by \$31 million and reflect the downturn in global equity markets.

Annual Premiums	**Opening Balance 30/06/02 \$M**	**Sales/New Business**	**Lapses**	**Closing Balance 31/12/02 \$M**
Personal	582	71	(50)	603
Group	228	31	(9)	250
Total	810	102	(59)	853

The level of inforce premium on the life insurance risk business increased by \$43million or 5% to \$853 million in the current period. The majority of this growth came from term insurance business within the Australian business and was a result of strong sales performance through the Bank's owned distribution network.

Summary of Funds Management and Life Insurance Valuations

The following table sets out the components of the carrying values of the funds management and life insurance businesses. This is a Directors' valuation, based on appraisal values using a consistent application of long-term assumptions, together with an assessment of the current market environment. The valuation has been reviewed by independent actuaries, Trowbridge Deloitte, who have assessed that the assumptions used in the Directors' valuation are realistic and produce a value that is reasonable for the businesses.

In determining the value of the funds management and life insurance businesses, the Directors have taken into account the increased volatility and uncertainty within world equity markets, together with lower industry funds flows. As a result, the Directors' valuation of $8,358 million is $780 million lower than the mid point of the range of reasonable values assessed by Trowbridge Deloitte in their independent valuation of the businesses. This is consistent with the approach taken in June 2002, when the Directors' value was $748 million less than the mid-point of reasonable values.

As at 31 December 2002	**Funds Management[1]**	**Life Insurance Australia[2]**	**Life Insurance New Zealand**	**Life Insurance Asia[3]**	**Total**
	$M	**$M**	**$M**	**$M**	**$M**
Shareholders net tangible assets	774	1,178	380	683	3,015
Value of inforce business	1,249	119	191	19	1,578
Embedded Values	**2,023**	**1,297**	**571**	**702**	**4,593**
Value of future new business	3,394	55	278	38	3,765
Carrying Values	**5,417**	**1,352**	**849**	**740**	**8,358**
Change in Carrying Values since 30 June 2002	**(166)**	**(58)**	**61**	**(59)**	**(222)**

Analysis of Movement Since 30 June 2002	**Funds Management**	**Life Insurance Australia**	**Life Insurance New Zealand**	**Life Insurance Asia**	**Total**
	$M	**$M**	**$M**	**$M**	**$M**
Profits	135	(4)	13	(15)	129
Capital movements[4]	86	28	8	38	160
Dividends paid	(59)	(55)	-	-	(114)
Disposals / Acquisitions of business	(103)	-	-	(18)	(121)
FX Movements	13	-	25	(1)	37
Change in Shareholders NTA	**72**	**(31)**	**46**	**4**	**91**
Acquired excess	113	-	-	-	113
Net appraisal value uplift	(351)	(27)	15	(63)	(426)
Change in Carrying Values	**(166)**	**(58)**	**61**	**(59)**	**(222)**

(1) "Funds Management" business was reported at 30/06/02 as "Funds Management" and "Life Insurance – Australia – Investment" business. These businesses have been combined.

(2) "Life Insurance – Australia" business was reported at 30/06/02 as "Life Insurance – Australia – Risk" business.

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

(4) Includes capital injections and movements in intergroup loans.

Change in life insurance and funds management valuations

The valuations adopted have resulted in a total valuation reduction of $222 million since 30 June 2002. The main components of the reduction comprise:

- A $91 million change to net tangible assets as shown above.
- Acquired excess of $113 million in relation to the merger of the Colonial First State Property Trust Group (CFT) with the Commonwealth Property Office Fund (CPA) and Gandel Retail Trust (GAN) ("the property trust merger").
- Appraisal value reduction of $426 million for the period ending 31 December 2002.

Capital movements in the current period include an injection of equity into the Australian funds management business in relation to the property trust merger.

Disposals and acquisitions reflect the sale of the Philippine life insurance business, sale of Colonial First State Private Client business in the UK and the property trust merger.

The underlying appraisal value reduction of $426 million reflects

- Continued uncertainty and low returns in world equity markets.
- The performance of the business during the half year.

Operating Expenses

The following table sets out the operating expenses for the half year ended 31 December 2002 together with comparatives.

	Half Year Ended			
	31/12/02 $M	30/06/02 $M	31/12/01 $M	31/12/02 vs 31/12/01 %
Expenses – comparable businesses	**2,627**	2,607	2,594	1
Expenses – included for the first time	**83**	-	-	Large
Total Operating Expenses	**2,710**	2,607	2,594	4

	Half Year Ended			
	31/12/02 $M	30/06/02 $M	31/12/01 $M	31/12/02 vs 31/12/01 %
Banking – comparable businesses	**1,976**	1,964	1,965	1
Banking – included for the first time	**83**			Large
Funds management	**400**	388	373	7
Life insurance	**251**	255	256	(2)
Total Operating Expenses	**2,710**	2,607	2,594	4

	Half Year Ended			
Cost to Income Ratio	31/12/02 %	30/06/02 %	31/12/01 %	31/12/02 vs 31/12/01
Banking	**54.8**	54.0	54.2	(1)
Funds management	**78.6**	70.0	61.6	(28)
Life insurance	**115.8**	77.1	82.1	(41)
Banking (underlying)	**52.6**	54.0	54.2	3
Funds management (underlying)	**67.4**	60.1	60.3	(12)
Life insurance (underlying)	**77.5**	64.5	76.0	(2)
Cost to average assets held and funds under management	**1.63**	1.63	1.64	1

Operating Expenses

Total operating expenses were $2,710 million for the half-year, an increase of $116 million, or 4% over the prior comparative period. Expenses of $83 million associated with implementation of the strategic initiatives of the Bank and additional share based compensation following changes to remuneration structures and the Bank's policy have been included for the first time. Operating expenses for comparable businesses were $2,627 million, a marginal increase of $33 million, or 1% over the prior comparative period. This result reflects a reduction in the life insurance expenses offset by increases in the banking and funds management businesses.

This movement includes a 4% wage increase as a result of the finalisation of the enterprise bargaining agreement combined with volume based and productivity changes within the businesses. Further detail of costs within each of the businesses are outlined below.

Banking

Costs from comparable businesses increased by $11 million, or 1%. Expenses reflect $25 million of benefits associated with strategic initiatives. Other increases are primarily due to increased volumes across the following areas:

- Gross housing balance growth was 16% in the current period compared with 12% in the prior comparative period, an increase of 33%.
- Credit card spend increased by 20% over the prior comparative period, this growth results in increased processing and loyalty costs.
- Increase of 18% in the number of retail customer accounts in savings products.

Other non-volume related increases include:

- Increased costs associated with the transaction account fee changes as part of the Bank's commitment to providing a more transparent product for customers.

The impact of the wage increases combined with the above volume increases were partly offset by productivity efficiencies as evidenced through the reduction in the cost to income ratio.

Funds Management

Costs increased by $27 million or 7% on the prior comparative period primarily due to:

- Costs associated with product innovation initiatives including the launch of the FirstChoice corporate product.
- Compliance costs associated with implementation of the Financial Services Reform Act and Family Law changes.

Increased volumes of wholesale redemptions offset reductions in retail commission expenses.

Life Insurance

Life insurance costs decreased by $5 million, or 2%. Expense synergies in New Zealand and Asia partly offset increased volumes across all markets.

Cost to Income Ratios

The banking cost to income ratio on underlying businesses was 52.6% for the half year ending 31 December 2002, compared with 54.2% in the prior comparative period. This reflects the benefits of strategic initiatives and strong volume growth which produced favourable cost economies, partly offset by a general increase in staff costs.

Operating Expenses (continued)

The funds management cost to income ratio on an underlying basis was 67.4%, an increase of seven percentage points on the prior half year. This reflects a decline in income combined with an increase in costs. Income was negatively impacted in the current year by the decline in investment market performance combined with net outflows and increased costs associated with the launch of new products and regulatory compliance.

The life insurance cost to income ratio on a normalized basis was 77.5% an increase of one and a half percentage points on the prior comparative period. This primarily reflects the one off income item in the Australian business as outlined in the life insurance business analysis.

OPERATING EXPENSES

	Half Year Ended			
	31/12/02 $M	**30/06/02 $M**	**31/12/01 $M**	**31/12/02 vs 31/12/01 %**
Expenses by category as follows:				
Staff	**1,236**	1,138	1,189	4
Share based compensation	**59**	37	26	127
Occupancy and equipment	**301**	308	270	12
Information technology services	**430**	411	427	1
Other expenses	**684**	713	682	0
Total Operating Expenses	**2,710**	2,607	2,594	4

Staff Numbers

The table below details the Bank's staff numbers as at 31 December 2002.

Staff Numbers as at	**31/12/02**	**30/06/02**	**31/12/01**
Full time staff equivalent	**33,795**	**34,498**	**34,265**
Australia	28,023	28,742	28,513
New Zealand	3,953	3,932	3,958
Other Overseas	1,819	1,824	1,794
	33,795	**34,498**	**34,265**

The decline in full time staff equivalent numbers of 703 from 34,498 at 30 June 2002 to 33,795 in the current period represents a reduction in staff numbers within retail banking of 1,000 as a result of strategic initiatives, partly offset by an increase in positions in Premium Financial Services as outlined in the June 2002 profit announcement.

	Half Year Ended			
Income Tax Expense	**31/12/02 $M**	**30/06/02 $M**	**31/12/01 $M**	**31/12/02 vs 31/12/01 %**
Banking	**471**	420	396	19
Funds management – corporate	**37**	58	38	(3)
Life Insurance – corporate	**(5)**	30	10	Large
Corporate tax	**503**	508	444	13
Policyholder	**(90)**	(61)	25	Large
Total Income Tax Expense	**413**	**447**	**469**	**(12)**
Effective tax rate				
Group – corporate	29%	28%	27%	
Banking – corporate	30%	28%	29%	
Funds management – corporate	21%	24%	17%	
Life Insurance – corporate	46%	49%	22%	

Income tax expense has decreased 12% from $469 million for 31 December 2001 to $413 million for 31 December 2002. The tax expense consists of corporate tax of $503 million (half year to 31 December 2001 $444 million) and policyholder tax credit of $90 million (half year to 31 December 2001 $25 million expense).

The banking effective tax rate has increased by 1% over the prior comparative period. This primarily reflects the utilisation of capital losses on the sale of a strategic investment in the prior comparative period.

The funds management effective tax rate has increased from 17% at 31 December 2001 to 21% in the period ending 31 December 2002. The low effective tax rate in this business is due to transitional relief on funds management within the life legal entities.

Other Items

Strategic Initiatives

As outlined in the June 2002 profit announcement the Bank is implementing a number of significant strategic initiatives aimed at further improving the Bank's productivity and service levels. At 30 June 2002 the planned net cost of implementing strategic initiatives was $120 million after tax, $165 million pre tax. The four key initiatives outlined were:

- Re-organisation within the retail banking operations aimed at eliminating duplication, inefficiencies and some back office processing.
- Empowering front line retail sales staff with better information, tools and decision-making capabilities to better meet customer needs.
- A redesign of system and relationship management processes in the small to medium sized business segments.
- Simplification and consolidation of legacy systems and processes within the Investment and Insurance business.

In the current reporting period the net expenditure on these initiatives has been $30 million pre tax, with full year net costs now expected to be $143 million pre tax.

The table below sets out the pre tax costs and benefits together with annualised benefits expected from implementation of these initiatives.

	Costs $m	Benefits $m	Net cost $m	Annualised benefits $m
Half year to 31 December 2002	56	26	30	52
Full Year to 30 June 2003	227	84	143	159

Expenditure of $56 million in the current half year primarily related to the re-organisation within the retail banking operations.

This initiative resulted in a reduction in staff numbers of almost 1,000. It is expected that the total reduction in staff numbers will be 1,600 for the full financial year partly offset by an increase of 500 positions, principally in providing customer service as outlined in the June 2002 profit announcement

The full year annualised benefits of $159 million comprise $133 million in cost savings and $26 million in revenue growth.

Dividends

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

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

Subject to these factors, the Bank will continue to maintain a high payout ratio relative to its peers. The dividend payout ratio for the half year was 72.7% on a cash basis, compared with the prior half year payout of 72.6%.

Capital Management

The Bank maintains a strong capital position. This is recognised in its credit ratings.

	Long-term	Short-term	Affirmed
Fitch Ratings	AA	F1+	January 02
Moody's Investor Services	Aa3	P-1	October 01
Standard and Poor's	AA-	A-1+	December 02

Risk Weighted Capital Ratios

	31/12/02 %	30/06/02 %	31/12/01 %
Tier 1 Capital	7.06	6.78	6.75
Total Capital	9.81	9.80	9.31

The increase in the ratios from 30 June 2002 can be attributed to:

- An increase in tier 1 capital of $587 million principally due to an increase in retained earnings and the issue of NZD200 million (AUD181 million) of preference shares by ASB Bank (included in outside equity interest on the balance sheet).
- A decrease in tier 2 capital is mainly due to a reduction in lower tier 2 note and bond issues resulting from changes in foreign exchange rates. (Whilst these notes are hedged, the unhedged value is included in the calculation of regulatory capital).
- An increase in risk weighted assets from $141 billion to $144 billion. Housing loans secured by residential mortgages, which attract a concessionary risk weighting of 50%, increased by $7.7 billion.

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

The Bank intends to purchase on-market the shares needed to satisfy shareholder participation in the DRP in respect of the interim dividend for 2002/03 payable in March 2003.

Withdrawal of Terrorism Insurance Cover

The Federal Government introduced the Terrorism Insurance Bill 2002 into the House of Representatives on 12 December 2002.

The Bill provides the framework for a scheme to provide terrorism insurance cover for commercial property and infrastructure located in Australia. It will cover loss or damage to the property and cover for public liability claims associated with the property except in the event of a nuclear occurrence.

The Bill, subject to approval, will commence to provide cover from 30 June 2003.

For the period until 30 June 2003, the Bank purchased from the insurance market a limited amount of property damage terrorism insurance cover. The limit is shared across the Bank's owned real estate and managed fund real estate. Until the commencement of the Government scheme, exposure remains for losses due to terrorist events for property damage in excess of the insurance cover purchased and associated public liability claims.

Commonwealth Bank Foundation

On 31 December 2002, under the Trust Deed of the Colonial Foundation Trust, the Bank became entitled to half of the assets of the Transitional Fund of the Colonial Foundation Trust. This has been recognised in the balance sheet as an investment with Colonial Foundation Trust of $87 million, with goodwill paid on the Colonial merger being reduced by $71 million after taking into account the establishment of a taxation provision of $16 million. There is no effect on profit for the half year.

As previously announced the Board has decided to use the net redemption proceeds of this investment to establish a fund with the principal purpose of encouraging development in education, including the development of financial skills for young Australians. This fund will be known as the Commonwealth Bank Foundation.

Directors' Report

The Directors submit their report for the half year ended 31 December 2002.

Directors

The names of the Directors holding office during the half year ended 31 December 2002 and until the date of this report were:

J T Ralph AC	Chairman
J M Schubert	Deputy Chairman
D V Murray	Chief Executive Officer
N R Adler AO	Director
R J Clairs AO	Director
A B Daniels OAM	Director
C R Galbraith	Director
W G Kent AO	Director
F D Ryan	Director
F J Swan	Director
B K Ward	Director

Review and Results of Operations

Commonwealth Bank recorded a net profit after tax of $622 million for the half year ended 31 December 2002, compared with $1,204 million for the half year ended 31 December 2001, a decrease of 48%. The decrease was principally due to the appraisal value reduction in respect of the life insurance and funds management businesses.

The reported net profit from Banking of $1,079 million (2001: $975 million) reflects strong growth in interest earnings based on lending asset growth, primarily housing, growth in other banking income, from changes in fee structures and a reduction in bad debt expense mainly due to the small number of corporate exposures that became impaired.

The net profit from funds management of $135 million (2001: $182 million) reflects the decline in world equity markets leading to reduced levels of funds under management and reduced earnings on shareholder funds.

Life insurance reported a net loss of $6 million (2001: $35 million profit) reflecting a write down of an individual asset combined with a slight increase in claims experience.

The funds management and life insurance businesses are recorded at a value of $8,358 million (funds management $5,417 million, life insurance $2,941 million). For the half year ended 31 December 2002, there was a $222 million decrease in value, represented by a $426 million appraisal value reduction offset by $204 million in net asset movements.

Signed in accordance with a resolution of the Directors.

J T Ralph AC
Chairman

D V Murray
Chief Executive Officer

12 February 2003

Consolidated Statement of Financial Performance

For the half year ended 31 December 2002

	Note	31/12/02 $M	30/06/02 $M	31/12/01 $M
Interest income		**5,668**	5,086	5,369
Interest expense		**3,214**	2,725	3,020
Net interest income		**2,454**	2,361	2,349
Other income:				
Revenue from sale of assets		**67**	496	222
Written down value of assets sold		**(63)**	(482)	(146)
Other		**1,302**	1,260	1,202
Net banking operating income		**3,760**	3,635	3,627
Funds management income including premiums		**512**	543	540
Investment revenue		**(268)**	(491)	98
Claims and policyholder liability expense		**260**	495	(38)
Net funds management operating income		**504**	547	600
Premiums and related revenue		**426**	410	456
Investment revenue		**114**	138	155
Claims and policyholder liability expense		**(319)**	(208)	(292)
Life insurance margin on services operating income		**221**	340	319
Net funds management and life insurance operating income before appraisal value (reduction)/uplift		**725**	887	919
Total net operating income before appraisal value (reduction)/uplift		**4,485**	4,522	4,546
Charge for bad and doubtful debts		**151**	159	290
Operating expenses:				
Staff expenses	3	**1,236**	1,138	1,189
Share based compensation	1,3	**59**	37	26
Occupancy and equipment expenses	3	**301**	308	270
Information technology services	3	**430**	411	427
Other expenses	3	**684**	713	682
		2,710	2,607	2,594
Appraisal value (reduction)/uplift		**(426)**	303	174
Goodwill amortisation		**(160)**	(161)	(162)
Profit from ordinary activities before income tax		**1,038**	1,898	1,674
Income tax expense	4	**413**	447	469
Profit from ordinary activities after income tax		**625**	1,451	1,205
Outside equity interests in net profit		**(3)**	-	(1)
Net profit attributable to shareholders of the Bank		**622**	1,451	1,204
Foreign currency translation adjustment		**156**	(106)	(40)
Revaluation of properties		**-**	(1)	-
Total valuation adjustments		**156**	(107)	(40)
Increase in retained profits on adoption of revised accounting standard AASB 1044: Provisions, Contingent Liabilities and Contingent Assets	1	**1,027**	-	-
Total changes in equity other than those resulting from transactions with owners as owners		**1,805**	**1,344**	**1,164**

		Cents per share		
Earnings per share based on net profit distributable to shareholders of the Bank				
Basic		**48.2**	114.5	95.0
Fully diluted		**48.2**	114.3	94.9
Dividends per share for the period attributable to shareholders of the Bank:				
Ordinary shares		**69**	82	68
Preference shares (issued 6 April 2001)		**519**	468	502

Net profit comprises:				
Underlying Profit		**1,267**	1,309	1,232
Less Restructuring expenses (net of tax)		**(40)**	-	-
Less Employee compensation adjustments (net of tax)		**(19)**	-	-
Less Appraisal value (reduction)/uplift		**(426)**	303	134
Less Goodwill amortisation		**(160)**	(161)	(162)
Net profit		**622**	1,451	1,204

Consolidated Statement of Financial Position

As at 31 December 2002

	Note	31/12/02 $M	30/06/02 $M	31/12/01 $M
Assets				
Cash and liquid assets		**5,015**	6,044	5,865
Receivables due from other financial institutions		**6,735**	7,728	4,628
Trading securities		**13,462**	8,389	7,080
Investment securities		**12,591**	10,766	11,179
Loans, advances and other receivables	5	**154,663**	147,074	141,777
Bank acceptances of customers		**12,831**	12,517	11,865
Life insurance investment assets		**28,847**	30,109	31,269
Deposits with regulatory authorities		**21**	89	273
Property, plant and equipment		**832**	862	879
Investment in associates		**323**	313	335
Intangible assets		**5,161**	5,391	5,554
Other assets		**21,536**	20,366	18,949
Total Assets		**262,017**	**249,648**	**239,653**
Liabilities				
Deposits and other public borrowings	7	**139,348**	132,800	126,194
Payables due to other financial institutions		**8,458**	7,864	7,267
Bank acceptances		**12,831**	12,517	11,865
Provision for dividend	1	**13**	1,040	864
Income tax liability		**774**	1,276	1,448
Other provisions		**745**	834	981
Life insurance policyholder liabilities		**24,762**	25,917	27,012
Debt issues		**29,025**	23,575	24,751
Bills payable and other liabilities		**18,166**	17,342	13,181
		234,122	223,165	213,563
Loan capital		**5,449**	5,427	5,686
Total Liabilities		**239,571**	**228,592**	**219,249**
Net Assets		**22,446**	**21,056**	**20,404**
Shareholders' Equity				
Share capital				
Ordinary share capital		**12,678**	12,665	12,661
Preference share capital		**687**	687	687
Reserves		**4,014**	4,226	4,131
Retained profits		**2,424**	1,452	1,246
Shareholders' equity attributable to shareholders of the Bank		**19,803**	19,030	18,725
Outside equity interests:				
Controlled entities		**300**	9	(3)
Life insurance statutory funds and other funds		**2,343**	2,017	1,682
Total outside equity interests		**2,643**	2,026	1,679
Total Shareholders' Equity		**22,446**	**21,056**	**20,404**

Consolidated Statement of Cash Flows

For the half year ended 31 December 2002

	Note	31/12/02 $M	30/06/02 $M	31/12/01 $M
Cash Flows From Operating Activities				
Interest received		**5,510**	5,249	5,434
Dividends received		**3**	3	2
Interest paid		**(3,071)**	(2,877)	(2,928)
Other operating income received		**1,941**	2,182	1,524
Expenses paid		**(2,728)**	(2,570)	(2,796)
Income taxes paid		**(965)**	(584)	(342)
Net decrease (increase) in trading securities		**(5,277)**	(1,016)	(143)
Life insurance:				
Investment income		**215**	530	340
Premiums received (1)		**2,411**	2,815	2,874
Policy payments (1)		**(3,012)**	(3,089)	(2,615)
Net Cash provided by Operating Activities	9(a)	**(4,973)**	**643**	**1,350**
Cash Flows from Investing Activities				
Payments for acquisition of entities		**(114)**	(105)	-
Proceeds from disposal of entities		**33**	314	48
Net movement in investment securities:				
Purchases		**(13,361)**	(9,874)	(13,614)
Proceeds from sale		**24**	161	134
Proceeds at or close to maturity		**11,505**	9,909	12,283
Withdrawal (lodgement) of deposits with regulatory authorities		**68**	184	(212)
Net (increase) in loans, advances and other receivables		**(7,740)**	(5,694)	(6,008)
Proceeds from sale of property, plant and equipment		**43**	31	78
Purchase of property, plant and equipment		**(68)**	(82)	(82)
Net decrease (increase) in receivables due from other financial institutions not at call		**63**	(1,374)	519
Net decrease (increase) in securities purchased under agreements to resell		**1,555**	(508)	(868)
Net (increase) decrease in other assets		**(1,030)**	295	(536)
Life insurance:				
Purchases of investment securities		**(5,790)**	(7,769)	(6,157)
Proceeds from sale/maturity of investment securities		**7,004**	8,604	6,014
Net Cash used in Investing Activities		**(7,808)**	**(5,908)**	**(8,401)**
Cash Flows from Financing Activities				
Proceeds from issue of shares (net of costs)		**13**	5	34
Proceeds from issue of preference shares to outside equity interests		**182**	-	-
Net increase (decrease) in deposits and other borrowings		**6,015**	7,749	7,386
Net movement in debt issues		**5,435**	(1,469)	502
Dividends paid (including DRP buy back of shares)		**(1,045)**	(880)	(781)
Net movements in other liabilities		**672**	1,890	(81)
Net increase (decrease) in payables due to other financial institutions not at call		**926**	1,098	(887)
Net increase (decrease) in securities sold under agreements to repurchase		**532**	(1,143)	1,453
Other		**(22)**	(87)	(13)
Net Cash provided by Financing Activities		**12,708**	**7,163**	**7,613**
Net (decrease) increase in Cash and Cash Equivalents		**(73)**	1,898	562
Cash and Cash Equivalents at beginning of period		**2,498**	600	38
Cash and Cash Equivalents at end of period	9(b)	**2,425**	**2,498**	**600**

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

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

Notes to the financial statements

Note 1 Accounting Policies

The half year report should be read in conjunction with the annual consolidated financial statements of Commonwealth Bank of Australia (the Bank) as at 30 June 2002 and with any public announcements made by the Bank and its controlled entities during the half year ended 31 December 2002 in accordance with the continuous disclosure obligations under the Corporations Act 2001.

These half year consolidated financial statements are a general purpose financial report made out in accordance with the Corporations Act 2001, applicable Accounting Standards including AASB 1029: Interim Financial Reporting, Urgent Issues Group Consensus Views and other mandatory reporting requirements so far as the requirements are considered appropriate to a banking corporation. This half year report does not include all notes of the type normally included in the annual financial report.

The accounting policies followed in this half year report are the same as those applied in the 30 June 2002 annual financial report, except as noted below. This half year report has been prepared in accordance with the historical cost convention and, except for AASB 1038: Life Insurance Business requirements and Directors' valuations of property holdings, does not reflect current valuations of non monetary assets. Trading securities and traded derivative financial instruments are brought to account at net fair value.

In accordance with the Australian Securities and Investments Commission Class Order No. 98/100 dated 10 July 1998, amounts in these financial statements have been rounded to the nearest million dollars unless otherwise stated.

For the purposes of preparing the half year financial statements, the half year has been treated as a discrete reporting period.

Change in accounting policies

The consolidated entity has adopted the new Accounting Standard AASB 1044: Provisions, Contingent Liabilities and Contingent Assets, which has resulted in a change in the accounting for 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 will only be 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 has been to increase consolidated retained profits and decrease provisions at the beginning of the half-year by $1,027 million. In accordance with the new Standard, no provision for dividend has been recognised for the half-year ended 31 December 2002. The change in accounting policy has had no effect on basic and fully diluted earnings per share.

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 is a one off expense in the current half year. Similarly, the Executive Reward Plan has been restructured effective from 1 July 2002, whereby incentives allocated will be in the form of Reward shares and not options. This resulted in an increased expense for the period of $2 million. Other share based compensation expense for the half year was $32 million. This was incurred and charged against profit on a consistent basis with prior periods.

Note 2 Revenue from Ordinary Activities

	Half Year Ended		
	31/12/02 $M	**30/06/02 $M**	**31/12/01 $M**
Revenue from Ordinary Activities			
Banking			
Interest income	**5,668**	5,086	5,369
Fee and commissions	**1,016**	961	899
Trading income	**226**	238	251
Dividends	**3**	3	2
Sale of property, plant and equipment	**43**	31	78
Sale of investment securities	**24**	465	144
Other	**57**	58	50
	7,037	**6,842**	**6,793**
Funds Management and Life Insurance			
Life insurance premium and related revenue	**426**	410	456
Investment revenue	**(154)**	(353)	253
Funds management income including premiums	**512**	543	540
	784	600	1,249
Appraisal value uplift [1]	**-**	303	174
Total revenue from ordinary activities	**7,821**	**7,745**	**8,216**

[1] Appraisal value reduction of $426 million for the half year ended 31 December 2002.

Notes to the financial statements

Note 3 Expenses

Expenses	Note	Half Year Ended 31/12/02	30/06/02	31/12/01
Staff Expenses				
Salaries and wages		**1,050**	1,011	1,005
Superannuation contributions		**5**	6	5
Provision for long service leave		**7**	10	26
Provisions for other employee entitlements		**(3)**	(3)	11
Payroll tax		**50**	43	49
Fringe benefits tax		**14**	7	25
Other staff expenses		**57**	64	68
Recurrent Expenses		**1,180**	1,138	1,189
Restructuring		**56**	-	-
Total Staff Expenses (excluding share based compensation)		**1,236**	**1,138**	**1,189**
Share Based Compensation	1	**59**	**37**	**26**
Occupancy and Equipment Expenses				
Operating lease rentals		**175**	169	155
Depreciation				
Buildings		**13**	13	13
Leasehold improvements		**23**	26	21
Equipment		**25**	29	26
Repairs and maintenance		**27**	29	27
Other		**38**	42	28
Total Occupancy and Equipment Expenses		**301**	308	270
Information Technology Services				
Projects and development		**140**	104	129
Data processing		**132**	145	130
Desktop		**76**	76	79
Communications		**82**	86	89
Total Information Technology Services		**430**	411	427
Other Expenses				
Postage		**54**	58	53
Stationery		**66**	53	51
Fees and commissions		**282**	312	297
Advertising and marketing		**148**	136	120
Other		**134**	154	161
Total Other Expenses		**684**	713	682
Total Operating Expenses		**2,710**	**2,607**	**2,594**

Some prior period comparatives have been amended to reflect current classification of expenses.

Notes to the financial statements

Note 4 Income Tax Expense

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

	Half Year Ended		
	31/12/02	**30/06/02**	**31/12/01**
Profit from ordinary activities before income tax	**$M**	**$M**	**$M**
Banking	**1,550**	1,512	1,372
Funds management	**109**	166	233
Life insurance	**(35)**	78	57
Appraisal value (reduction)/uplift	**(426)**	303	174
Goodwill amortisation	**(160)**	(161)	(162)
	1,038	**1,898**	**1,674**
Prima facie income tax at 30%			
Banking	**465**	454	412
Funds management	**33**	50	38
Life insurance	**(11)**	23	49
Appraisal value (reduction)/uplift	**(128)**	91	52
Goodwill amortisation	**(48)**	(48)	(49)
	311	**570**	**502**
Add (or deduct) permanent differences expressed on a tax effect basis			
Current period			
Specific provisions for offshore bad and doubtful debts not tax effected	**(2)**	(20)	17
Taxation rebates (net of accruals)	**(5)**	(14)	(10)
Tax adjustment referable to policyholder income	**(63)**	(42)	17
Non-assessable income - life insurance surplus	**(20)**	(21)	(25)
Change in excess of net market value over net assets of life insurance controlled entities	**128**	(91)	(52)
Non-deductible goodwill amortisation	**48**	48	49
Tax losses recognised	**(6)**	(10)	(25)
Employee share acquisition plan	**-**	-	(8)
Other items	**28**	40	(2)
	108	(110)	(39)
Prior Periods			
Other	**(6)**	(13)	6
Total income tax expense	**413**	**447**	**469**
Income tax attributable to profit from ordinary activities			
Banking	**471**	420	396
Funds management	**37**	58	38
Life insurance	**(5)**	30	10
Corporate tax	**503**	508	444
Policyholder tax	**(90)**	(61)	25
Total Income Tax Expense	**413**	**447**	**469**

Notes to the financial statements

Note 5 Loans, Advances and Other Receivables

	31/12/02 $M	30/06/02 $M	31/12/01 $M
Australia			
Overdrafts	**2,034**	2,513	2,145
Housing loans	**81,713**	75,394	70,678
Credit card outstandings	**4,992**	4,552	4,292
Lease financing	**3,932**	4,094	4,292
Bills discounted	**2,431**	1,753	1,829
Term loans	**37,519**	38,544	39,204
Equity participation in leveraged leases	**1,259**	1,331	1,374
Other lending	**637**	968	1,230
Total Australia	**134,517**	**129,149**	**125,044**
Overseas			
Overdrafts	**2,387**	1,691	1,407
Housing loans	**11,832**	10,444	9,067
Credit card outstandings	**323**	274	264
Lease financing	**238**	256	279
Term loans	**7,744**	7,494	8,276
Redeemable preference share financing	**585**	695	445
Other lending	**56**	43	47
Total Overseas	**23,165**	**20,897**	**19,785**
Gross Loans, Advances and Other Receivables	**157,682**	**150,046**	**144,829**
Less:			
Provisions for impairment			
General provision	**(1,327)**	(1,356)	(1,334)
Specific provision against loans and advances	**(263)**	(270)	(308)
Unearned income			
Term loans	**(628)**	(631)	(635)
Lease financing	**(542)**	(426)	(466)
Leveraged leases	**(146)**	(162)	(160)
Interest reserved	**(56)**	(59)	(64)
Unearned tax remissions on leveraged leases	**(57)**	(68)	(85)
	(3,019)	**(2,972)**	**(3,052)**
Net Loans, Advances and Other Receivables	**154,663**	**147,074**	**141,777**

Note 6 Asset Quality

Balances of Impaired Assets	31/12/02 $M	30/06/02 $M	31/12/01 $M
Total Impaired Assets			
Gross non-accruals	**919**	943	1,045
Gross restructured	**-**	-	1
Other assets acquired through security enforcement	**-**	-	1
Total Gross impaired assets	**919**	943	1,047
Less Interest reserved	**(56)**	(59)	(64)
Subtotal	**863**	884	983
Less Specific provisions for impairment	**(264)**	(270)	(309)
Total Net Impaired assets	**599**	**614**	**674**
Net Impaired Assets by Geographical Segments			
Australia	**499**	457	566
Overseas	**100**	157	108
Total	**599**	**614**	**674**

Notes to the financial statements

Provisions for Impairment	Half Year Ended 31/12/02 $M	30/06/02 $M	31/12/01 $M
General Provisions			
Opening balance	**1,356**	1,334	1,399
Charge against profit and loss	**151**	159	290
Transfer to specific provisions	**(190)**	(139)	(356)
Bad debts recovered	**33**	28	28
Adjustments for exchange rate fluctuations and other items	**-**	1	-
	1,350	1,383	1,361
Bad debts written off	**(23)**	(27)	(27)
Closing balance	**1,327**	**1,356**	**1,334**
Specific Provisions			
Opening balance	**270**	309	234
Transfer from general provision for:			
New and increased provisioning	**205**	163	383
Less write-back of provisions no longer required	**(15)**	(24)	(27)
Net transfer	**190**	139	356
Adjustments for exchange rate fluctuations and other items	**-**	(10)	(1)
	460	438	589
Bad debts written off	**(196)**	(168)	(280)
Closing balance	**264**	270	309
Total Provisions for Impairment	**1,591**	**1,626**	**1,643**
Specific provisions for impairment comprise the following segments:			
Provisions against loans and advances	**263**	270	308
Provisions for diminution	**1**	-	1
Total	**264**	**270**	**309**

Provision Ratios	%	%	%
Specific provisions for impairment as % of gross impaired assets net of interest reserved	**30.56**	30.54	31.43
Total provisions for impairment as % of gross impaired assets net of interest reserved	**184.1**	183.9	167.1
General provisions as % of risk weighted assets	**0.92**	0.96	0.96
Impaired Asset Ratios			
Gross impaired assets net of interest reserved as % of risk weighted assets	**0.60**	0.63	0.71
Net impaired assets as % of:			
Risk weighted assets	**0.42**	0.44	0.49
Total shareholders' equity	**2.67**	2.92	3.30

Accounting Policy

Provisions for impairment are maintained at an amount adequate to cover anticipated credit related losses. 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.
- Each statistically managed portfolio to cover facilities that are not well secured and past due 180 days or more.
- Credit risk rated managed segment for exposures aggregating less than $250,000 and 90 days past due or more and;
- Emerging credit risks identified in specific segments in the credit risk rated managed portfolio. Provisions against segments are determined primarily by reference to historical ratios of write offs to balances in default.

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

The amounts required to bring the provisions for impairment to their assessed levels are charged to profit. Provisions for impairment and movements therein are set out above.

Income Received and Forgone on Impaired Assets

Interest is only taken to profit on non-accrual loans when received in cash. Interest entitlement on non-accrual loans that is not received represents income forgone.

Notes to the financial statements

	Half Year Ended		
	31/12/02	**30/06/02**	**31/12/01**
	$M	**$M**	**$M**
Impaired Assets			
Income received			
Current period	**6**	11	5
Prior period	**7**	8	6
Total income received	**13**	19	11
Income forgone	**15**	13	15
Movement in Impaired Asset Balances			
Gross impaired assets at period beginning	**943**	1,047	717
New and increased	**354**	265	804
Balances written off	**(213)**	(184)	(297)
Returned to performing or repaid	**(165)**	(185)	(177)
Gross impaired assets at period end	**919**	**943**	**1,047**

	31/12/02	**30/06/02**	**31/12/01**
Loans Accruing But Past 90 Days or More	**$M**	**$M**	**$M**
Housing loans	**136**	176	168
Other loans	**75**	73	79
Total	**211**	**249**	**247**

Note 7 Deposits and Other Public Borrowing

	31/12/02	**30/06/02**	**31/12/01**
	$M	**$M**	**$M**
Australia			
Certificates of deposit	**13,535**	15,832	12,589
Term deposits	**31,382**	28,991	28,136
On demand and short term deposits	**66,772**	63,844	60,818
Deposits not bearing interest	**5,267**	6,072	5,409
Securities sold under agreements to repurchase	**689**	753	1,855
Other	**-**	4	7
Total Australia	**117,645**	**115,496**	**108,814**
Overseas			
Certificates of deposit	**3,607**	2,258	3,462
Term deposits	**10,725**	9,035	8,547
On demand and short term deposits	**5,822**	5,185	4,572
Deposits not bearing interest	**935**	806	740
Agreements to repurchase	**614**	20	59
Total Overseas	**21,703**	**17,304**	**17,380**
Total Deposits and Other Public Borrowings	**139,348**	**132,800**	**126,194**

Notes to the financial statements

Note 8 Financial Reporting by Segments

This note sets out segment reporting in accordance with statutory reporting requirements. Refer to the business analysis at the front of this report for detailed profit and loss accounts by segment.

A part of the business previously reported under the Life Insurance segment namely Commonwealth & Colonial Products and part of the ASB business, is now reported under the funds management segment. Management believes that this classification more appropriately represents the industry segments in which the Commonwealth Bank operates. Prior period numbers have been reclassified accordingly.

	Half Year Ended 31 December 2002			
Primary Segment Business Segments Financial Performance	**Banking $M**	**Life Insurance $M**	**Funds Management $M**	**Total $M**
Interest income	**5,668**	**-**	**-**	**5,668**
Premium and related revenue	**-**	**426**	**-**	**426**
Other income	**1,369**	**114**	**244**	**1,727**
Total Revenue	**7,037**	**540**	**244**	**7,821**
Interest Expense	**3,214**	**-**	**-**	**3,214**
Segment result before tax, goodwill amortisation and appraisal value (reduction)/uplift	**1,550**	**(35)**	**109**	**1,624**
Income tax (expense)/credit	**(471)**	**29**	**29**	**(413)**
Segment result after tax and before goodwill amortisation and appraisal value (reduction)/uplift	**1,079**	**(6)**	**138**	**1,211**
Outside equity interest	**-**	**-**	**(3)**	**(3)**
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value (reduction)/uplift	**1,079**	**(6)**	**135**	**1,208**
Goodwill amortisation	**-**	**-**	**-**	**(160)**
Appraisal value (reduction)/uplift	**-**	**-**	**-**	**(426)**
Net profit attributable to shareholders of the Bank	**1,079**	**(6)**	**135**	**622**
Non-Cash Expenses				
Goodwill amortisation	**-**	**-**	**-**	**(160)**
Appraisal value reduction	**-**	**-**	**-**	**(426)**
Charge for bad and doubtful debts	**(151)**	**-**	**-**	**(151)**
Depreciation	**(49)**	**(7)**	**(4)**	**(60)**
Other	**(3)**	**0**	**(1)**	**(4)**
Financial Position				
Total Assets	**226,728**	**16,771**	**18,518**	**262,017**
Acquisition of Property, Plant & Equipment, Intangibles and Other Non-current Assets	**40**	**-**	**142**	**182**
Associate Investments	**229**	**58**	**36**	**323**
Total Liabilities	**212,781**	**9,267**	**17,523**	**239,571**

(1) Appraisal value reduction of $426 million for the half year ended 31 December 2002.

Notes to the financial statements

Note 8 Financial Reporting by Segments (continued)

	Half Year Ended 31 December 2001			
Financial Performance	**Banking $M**	**Life Insurance $M**	**Funds Management $M**	**Total $M**
Interest income	5,369	-	-	5,369
Premium and related revenue	-	456	-	456
Other income	1,424	155	638	2,217
Appraisal value uplift	-	-	-	174
Total Revenue	6,793	611	638	8,216
Interest Expense	3,020	-	-	3,020
Segment Result before tax, goodwill amortisation and appraisal value uplift	1,372	57	233	1,662
Income tax (expense)	(396)	(22)	(51)	(469)
Segment result after income tax and before goodwill amortisation and appraisal value uplift	976	35	182	1,193
Outside equity interest	(1)	-	-	(1)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	975	35	182	1,192
Goodwill amortisation				(162)
Appraisal value uplift				174
Net profit attributable to shareholders of the Bank	975	35	182	1,204
Non-Cash Expenses				
Goodwill amortisation	-	-	-	(162)
Charge for bad and doubtful debts	(290)	-	-	(290)
Depreciation	(53)	(4)	(3)	(60)
Other	(36)	(1)	(1)	(38)
Financial Position				
Total Assets	200,573	18,249	20,831	239,653
Acquisition of Property, Plant & Equipment, Intangibles and Other Non-current Assets	79	3	-	82
Associate Investments	240	59	36	335
Total Liabilities	190,083	10,089	19,077	219,249

Financial Reporting by Segments	**31/12/02 $M**	**%**	**31/12/01 $M**	**%**
GEOGRAPHICAL SEGMENTS				
Revenue [(1)]				
Australia	**6,490**	**82.9**	6,954	84.6
New Zealand	**894**	**11.5**	752	9.2
Other Countries[(2)]	**437**	**5.6**	510	6.2
	7,821	**100.0**	8,216	100.0
Net profit attributable to shareholders of the Bank				
Australia	**476**	**76.5**	1,130	93.9
New Zealand	**130**	**20.9**	52	4.3
Other Countries[(2)]	**16**	**2.6**	22	1.8
	622	**100.0**	1,204	100.0
Assets				
Australia	**217,207**	**82.9**	200,250	83.6
New Zealand	**27,879**	**10.7**	23,497	9.8
Other Countries[(2)]	**16,931**	**6.4**	15,906	6.6
	262,017	**100.0**	239,653	100.0
Acquisition of Property, Plant & Equipment, Intangibles and Other Non-current Assets				
Australia	**165**	**90.7**	60	73.2
New Zealand	**8**	**4.4**	19	23.2
Other Countries[(2)]	**9**	**4.9**	3	3.6
	182	**100.0**	82	100.0

(1) Comparatives have been restated on a consistent basis with the current half.

(2) Other Countries are:
United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, the Philippines, Fiji, Thailand, Indonesia, Malaysia, China and Vietnam. Businesses in Thailand and Malaysia were sold during the year ended 30 June 2002.

Notes to the financial statements

Note 9 Statement of Cash Flows

(a) Reconciliation of Operating Profit after Income Tax to Net Cash Provided by Operating Activities

	Half Year Ended		
	31/12/02 $M	**30/06/02 $M**	**31/12/01 $M**
Profit from ordinary activities after income tax	**625**	1,451	1,205
Decrease (increase) in interest receivable	**(163)**	145	65
Increase (decrease) in interest payable	**142**	(152)	92
Net (increase) decrease in trading securities	**(5,277)**	(1,016)	(143)
Net (gain)/loss on sale of investment securities	**1**	(18)	(60)
(Gain)/Loss on sale property plant and equipment	**(6)**	(12)	-
Charge for bad and doubtful debts	**151**	159	290
Depreciation and amortisation	**221**	229	222
Other provisions	**(89)**	(147)	(26)
(Decrease) increase in income taxes payable	**(443)**	188	255
(Decrease) increase in deferred income taxes payable	**(59)**	(360)	(162)
(Increase) decrease in future income tax benefits	**(33)**	35	34
(Increase) decrease in accrued fees/reimbursements receivable	**(90)**	(17)	-
(Increase) decrease in accrued fees and other items payable	**5**	(162)	-
Unrealised gain on revaluation of trading securities	**6**	501	222
Amortisation of premium on investment securities	**239**	9	9
Change in excess of net market value over net assets of life insurance controlled entities	**426**	(303)	(174)
Other	**(629)**	113	(479)
Net Cash provided by Operating Activities	**(4,973)**	643	1,350

(b) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank, money at short call, at call deposits with other financial institutions and settlement account balances with other banks.

	Half Year Ended		
	31/12/02 $M	**30/06/02 $M**	**31/12/01 $M**
Notes, coins and cash at bankers	**2,387**	2,056	2,072
Other short term liquid assets	**689**	495	808
Receivables due from other financial institutions - at call	**1,779**	2,709	983
Payables due to other financial institutions - at call	**(2,430)**	(2,762)	(3,263)
Cash and Cash Equivalents at end of year	**2,425**	2,498	600

(c) Non Cash Financing and Investing Activities

The value of shares issued under the Dividend Reinvestment Plan was nil during the half year ended 31 December 2002 (31 December 2001: $172 million)

Note 10 Events after the end of the Financial Period

The Directors have declared a fully franked dividend of 69 cents per share – amounting to $865 million for the half year ended 31 December 2002.

A senior executive of Colonial First State resigned from the end of the half year. Included in the half yearly accounts is a payment of $3.39 million for an incentive payment in respect of the previous year, paid in the current year. Additionally, the executive received a $26.54 million payment from a provision raised at the acquisition of Colonial for liabilities relating to the conditions in the contract with that company. The executive also received, after the balance date, $2.82 million representing the payment of statutory entitlements and remuneration for the current year.

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

Note 11 Contingent Liabilities

There have been no material changes in contingent liabilities since those disclosed in the financial statements for the year ended 30 June 2002, refer to note 38 of the 2002 Annual Report.

Note 12 Class Order 02/0606

By virtue of Australian Securities and Investments Commission (ASIC) Class Order 02/0606 dated 24 May 2002, Ernst & Young were relieved from compliance with sections 324(1) and 324(2) of the Corporations Act 2001 until 30 November 2002. The details of the requirements of the Class Order are detailed in the 2002 Annual Report, Note 35.

Directors' Declaration

In accordance with a resolution of the Directors of the Commonwealth Bank of Australia we state that in the opinion of the Directors:

(a) the half year consolidated financial statements and notes as set out on pages 31 to 42:

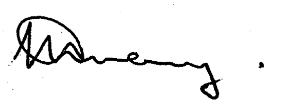
  (i) give a true and fair view of the financial position as at 31 December 2002 and the performance for the half year ended on that date of the consolidated entity; and

  (ii) comply with Accounting Standard AASB1029: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company 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
Chief Executive Officer

12 February 2003

Independent Review Report

To the Members of Commonwealth Bank of Australia

Matters relating to the Electronic Presentation of the Financial Report subject to Independent Review

This independent review report relates to the financial report of the Commonwealth Bank of Australia for the half year ended 31 December 2002 included on the Commonwealth Bank of Australia's web site. The company's Directors are responsible for the integrity of the Commonwealth Bank of Australia's web site. The independent review report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Scope

We have reviewed the financial report of Commonwealth Bank of Australia for the half year ended 31 December 2002, set out on pages 31 to 43, including the Directors' Declaration. The financial report includes the consolidated financial statements of the consolidated entity comprising the Commonwealth Bank of Australia and the entities it controlled at the end of the half year or from time to time during the half year. The company's directors are responsible for the financial report.

We have conducted an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting, other mandatory professional reporting requirements in Australia and statutory requirements, and in order for the company to lodge the financial report with the Australian Securities and Investment Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. Our review was limited primarily to inquiries of the disclosing entity's personnel and analytical review procedures applied to financial data. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review Statement

As a result of our review, we have not become aware of any matters that make us believe that the half year financial report of Commonwealth Bank of Australia is not in accordance with:

(a) the Corporations Act 2001 including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2002 and its performance for the half year ended on that date; and
- (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Ernst & Young
Sydney

S J Ferguson
Partner

12 February 2003

APPENDICES

1. Average Interest Earning Assets and Liabilities
2. Interest Rate and Volume Analysis
3. Integrated Risk Management
4. Capital Adequacy
5. Credit Rating
6. Share Capital and Reserves
7. Definitions
8. Valuations of Funds Management and Life Insurance Businesses
9. Intangible Assets
10. Performance Schedule
11. Funds Management and Life Insurance Comparatives

1. AVERAGE INTEREST EARNING ASSETS AND LIABILITIES

The table lists the major categories of interest earnings assets and interest bearing liabilities of the Bank together with the respective interest earned or paid and the average interest rates for each of the half years ending 31 December 2002, 30 June 2002 and 31 December 2001. 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 into the interest spread and margin calculations to more appropriately reflect the overseas cost of funds. Non-accrual loans are included in Interest Earning Assets under loans, advances and other receivables.

Half Year Ended	**31/12/02**			**30/06/02**			**31/12/01**		
	Average Balance $M	**Interest $M**	**Average Rate %**	**Average Balance $M**	**Interest $M**	**Average Rate %**	**Average Balance $M**	**Interest $M**	**Average Rate %**
Average Interest Earning Assets and Interest Income									
Cash and liquid assets									
Australia	**3,598**	**70**	**3.9**	4,280	64	3.0	4,300	74	3.4
Overseas	**598**	**2**	**0.7**	305	1	0.7	264	3	2.3
Receivables due from other financial institutions									
Australia	**2,497**	**37**	**2.9**	2,015	43	4.3	1,631	26	3.2
Overseas	**3,540**	**85**	**4.8**	2,958	53	3.6	2,373	43	3.6
Deposits with regulatory authorities									
Australia	**-**	**-**	**n/a**	-	-	n/a	-	-	n/a
Overseas	**339**	**-**	**-**	235	-	-	114	-	-
Trading securities									
Australia	**6,443**	**157**	**4.8**	4,906	109	4.5	5,368	139	5.1
Overseas	**2,888**	**59**	**4.1**	2,562	47	3.7	2,831	64	4.5
Investment securities									
Australia	**4,207**	**119**	**5.6**	4,022	101	5.1	3,530	110	6.2
Overseas	**7,794**	**161**	**4.1**	7,405	124	3.4	7,274	182	5.0
Loans, advances and other receivables									
Australia	**129,508**	**4,221**	**6.5**	124,419	3,909	6.3	121,680	4,075	6.6
Overseas	**22,263**	**753**	**6.7**	19,977	638	6.4	18,857	650	6.8
Other interest earning assets	**-**	**5**	**n/a**	-	(3)	n/a	-	3	n/a
Intragroup loans									
Australia	**-**	**-**	**n/a**	-	-	n/a	-	-	n/a
Overseas	**2,502**	**12**	**1.0**	3,361	25	1.5	3,106	40	2.6
Average interest earning assets and interest income including intragroup	**186,177**	**5,681**	**6.1**	176,445	5,111	5.8	171,328	5,409	6.3
Intragroup eliminations	**(2,502)**	**(13)**	**1.0**	(3,361)	(25)	1.5	(3,106)	(40)	2.6
Total average interest earning assets and interest income	**183,675**	**5,668**	**6.1**	173,084	5,086	5.9	168,222	5,369	6.3

Half Year Ended	31/12/02 Average Balance $M	30/06/02 Average Balance $M	31/12/01 Average Balance $M
Non-Interest Earning Assets			
Bank acceptances			
Australia	**13,237**	12,187	11,748
Overseas	**40**	79	53
Life insurance investment assets			
Australia	**27,569**	26,842	26,865
Overseas	**4,090**	4,154	4,104
Property, plant and equipment			
Australia	**635**	662	699
Overseas	**200**	189	217
Other assets			
Australia	**21,118**	22,710	24,548
Overseas	**4,459**	3,053	3,723
Provisions for impairment			
Australia	**(1,525)**	(1,541)	(1,550)
Overseas	**(149)**	(148)	(139)
Total average non-interest earning assets	**69,674**	68,187	70,268
Total Average Assets	**253,349**	241,271	238,490
Percentage of total average assets applicable to overseas operations	**19.2%**	18.3%	17.9%

Half Year Ended	31/12/02			30/06/02			31/12/01		
	Average	Interest Balance	Average Rate	Average	Interest Balance	Average Rate	Average	Interest Balance	Average Rate
	$M	$M	%	$M	$M	%	$M	$M	%
Average Interest Bearing Liabilities and Loan Capital and Interest Expense									
Time Deposits									
Australia	**45,941**	**1,031**	**4.5**	40,465	887	4.4	42,107	1,014	4.8
Overseas	**14,722**	**402**	**5.4**	13,955	379	5.5	11,017	367	6.6
Savings Deposits									
Australia	**33,059**	**249**	**1.5**	32,894	185	1.1	31,277	227	1.4
Overseas	**2,693**	**47**	**3.5**	2,535	40	3.2	2,353	42	3.5
Other demand deposits									
Australia	**32,517**	**592**	**3.6**	30,610	513	3.4	28,442	524	3.7
Overseas	**2,817**	**39**	**2.7**	2,486	31	2.5	2,287	32	2.8
Payables due to other Financial institutions									
Australia	**1,868**	**22**	**2.3**	1,910	23	2.4	2,174	42	3.8
Overseas	**6,732**	**84**	**2.5**	5,555	55	2.0	5,079	73	2.8
Debt issues									
Australia	**16,307**	**487**	**5.9**	15,055	415	5.6	14,108	385	5.4
Overseas	**9,319**	**138**	**2.9**	8,629	96	2.2	10,155	168	3.3
Loan capital									
Australia	**5,339**	**107**	**4.0**	5,456	99	3.7	5,525	128	4.6
Overseas	**146**	**4**	**5.4**	86	1	2.3	90	4	8.8
Other interest bearing liabilities	**-**	**13**	**n/a**	-	-	n/a	-	14	n/a
Intragroup borrowings									
Australia	**2,502**	**12**	**1.0**	3,361	25	1.5	3,106	40	2.6
Overseas	**-**	**-**	**n/a**	-	-	n/a	-	-	n/a
Average interest bearing liabilities and loan capital and interest expense including intragroup	**173,962**	**3,227**	**3.7**	162,997	2,749	3.4	157,720	3,060	3.8
Intragroup eliminations	**(2,502)**	**(13)**	**1.0**	(3,361)	(25)	1.5	(3,106)	(40)	2.6
Total average interest bearing liabilities and loan capital and interest expense	**171,460**	**3,214**	**3.7**	159,636	2,724	3.4	154,614	3,020	3.9

Half Year Ended	31/12/02 Average Balance $M	30/06/02 Average Balance $M	31/12/01 Average Balance $M
Non-Interest Bearing Liabilities			
Deposits not bearing interest			
Australia	**4,720**	5,029	5,813
Overseas	**830**	745	665
Liability on acceptances			
Australia	**13,242**	12,187	11,748
Overseas	**40**	79	53
Life insurance policy liabilities			
Australia	**21,564**	22,875	23,305
Overseas	**3,695**	3,539	3,376
Other liabilities			
Australia	**12,865**	13,337	15,907
Overseas	**2,782**	3,214	2,831
Total average non-interest bearing liabilities	**59,738**	61,005	63,698
Total average liabilities and loan capital	**231,198**	220,641	218,312
Shareholders' equity	**22,151**	20,630	20,178
Total average liabilities, loan capital and shareholders' equity	**253,349**	241,271	238,490
Percentage of total average liabilities applicable to overseas operations	**18.9%**	18.5%	17.4%

2. Interest Rate and Volume Analysis

Changes in Net Interest Income:
Volume and Rate Analysis

	31/12/2002 vs 31/12/2001 Changes due to			31/12/2002 vs 30/6/2002 Changes due to		
	Volume $M	Rate $M	Total $M	Volume $M	Rate $M	Total $M
Interest Earning Assets						
Cash and liquid assets						
Australia	(13)	9	(4)	(12)	17	5
Overseas	2	(3)	(1)	1	-	1
Receivables due from other financial institutions						
Australia	13	(2)	11	9	(16)	(7)
Overseas	25	17	42	12	19	31
Trading securities						
Australia	27	(9)	18	36	10	46
Overseas	1	(6)	(5)	6	5	11
Investment securities						
Australia	20	(11)	9	5	11	16
Overseas	12	(33)	(21)	7	28	35
Loans, advances and other receivables						
Australia	259	(113)	146	164	83	247
Overseas	116	(13)	103	75	29	104
Other interest earning assets	-	2	2	-	8	8
Intragroup loans						
Australia	-	-	-	-	-	-
Overseas	(5)	(23)	(28)	(5)	(8)	(13)
Change in interest income including intragroup	452	(180)	272	285	200	485
Intragroup eliminations	5	23	28	5	8	13
Change in interest income	485	(185)	300	322	177	498
Interest Bearing Liabilities and Loan Capital						
Time Deposits						
Australia	89	(72)	17	122	7	129
Overseas	113	(78)	35	21	(4)	17
Savings Deposits						
Australia	13	9	22	1	60	61
Overseas	6	(1)	5	2	4	6
Other demand deposits						
Australia	75	(7)	68	33	37	70
Overseas	7	-	7	4	3	7
Payables due to other financial institutions						
Australia	(5)	(15)	(20)	-	(1)	(1)
Overseas	22	(11)	11	13	15	28
Debt Issues						
Australia	63	39	102	36	29	65
Overseas	(13)	(17)	(30)	9	31	40
Loan Capital						
Australia	(4)	(17)	(21)	(3)	9	6
Overseas	2	(2)	-	1	2	3
Other interest bearing liabilities	-	(1)	(1)	-	12	12
Intragroup borrowings						
Australia	(5)	(23)	(28)	(5)	(8)	(13)
Overseas	-	-	-	-	-	-
Change in interest expense including intragroup	315	(147)	168	197	234	429
Intragroup eliminations	5	23	28	5	8	13
Change in interest expense	322	(127)	195	214	231	444
Change in net interest income	211	(106)	105	144	(90)	54
Change due to Variation in Time Periods			-			39

These Volume and Rate Analyses are for half year periods. The calculations are based on balances over the half year. The volume and rate variances for both total interest earning assets and liabilities have been calculated separately (rather than being the sum of the individual categories). The variation in time periods allows for the different number of days in the respective half years.

3. INTEGRATED RISK MANAGEMENT
(Excludes Life Insurance and Funds Management)

The major categories of risk actively managed by the Bank include credit risk, liquidity and funding risk, market risk and other operational risks. The 2002 Annual Report pages 35 to 38, Integrated Risk Management, details the major risks managed by a diversified financial institution.

Credit Risk

The Bank uses a portfolio approach for the management of its credit risk. Further details are provided in Note 14 of the Annual Report. A key element is a well diversified portfolio. The Bank is using various portfolio management tools to assist in diversifying the credit portfolio.

The commercial portfolio remains well rated regardless of small number of large impaired assets. The level of exposure within Australia to the commercial portfolio and the home lending segment further supports the strength of the portfolio, with Australia expected to have a comparatively quick recovery on the international stage.

Industry	**31/12/02 %**	**30/06/02 %**
Accommodation, Cafes and Restaurants	**1.4**	1.5
Agriculture, Forestry and Fishing	**2.9**	3.1
Communication Services	**0.7**	0.8
Construction	**1.7**	0.9
Cultural and Recreational Services	**0.8**	0.8
Electricity, Gas and Water Supply	**1.6**	1.7
Finance and Insurance	**10.9**	10.9
Government Administration and Defence	**4.3**	5.0
Health and Community Services	**1.7**	1.5
Manufacturing	**5.1**	5.2
Mining	**1.3**	1.1
Personal and Other Services	**0.6**	0.6
Property and Business Services	**8.1**	6.5
Retail Trade	**2.2**	2.4
Transport and Storage	**2.5**	3.2
Wholesale Trade	**1.6**	1.6
Consumer	**52.6**	53.2
Total	**100.0**	**100.0**

The Bank is traditionally a large home loan provider in both Australia and New Zealand (see 'Consumer' above), where historically losses have been less than 0.03% of the portfolio in most years.

Region	**31/12/02 %**	**30/06/02 %**
Australia	**85.4**	86.9
New Zealand	**10.2**	8.3
Europe	**1.6**	1.8
Americas	**1.5**	1.8
Asia	**1.0**	1.1
Other	**0.3**	0.1
Total	**100.0**	**100.0**

The Bank has the bulk of the exposure concentrated in Australia and New Zealand.

Commercial Portfolio Quality

Bank Equivalent Rating	**31/12/02 %**	**30/06/02 %**	**31/12/01 %**
AAA/AA	**29**	27	29
A	**17**	19	20
BBB	**14**	15	15
Other	**40**	39	36
Total	**100**	**100**	**100**

Bank equivalent rating as a percentage of commercial portfolio exposure (including finance and insurances) which has been individually risk rated. The Bank has 60% of commercial exposures at investment grade quality.

Consumer Portfolio Quality

	31/12/02	30/06/02	31/12/01
Housing loans accruing but past 90 days or more $m	**136**	176	168
Housing loan balances $m*	**93,545**	85,839	79,745
Arrears rate %	**0.15**	**0.21**	**0.21**

* Housing loan balances net of securitisation and includes home equity and similar facilities.

Interest Rate Risk in the Balance Sheet is discussed within Note 39 of the 2002 Annual Report.

Next 12 months' Earnings

Over the half year to 31 December 2002 the potential impact on net interest earnings of 1% parallel rate shock and the expected change in price of assets and liabilities held for purposes other than trading is as follows:

(Expressed as a % of expected next 12 months earnings)	31/12/02 %	30/06/02 %	31/12/01 %
Average monthly exposure	**1.8**	1.3	1.6
High month exposure	**2.1**	1.8	1.7
Low month exposure	**1.6**	0.7	1.4

Value at Risk (VaR) within Financial Markets Trading is discussed in the 2002 Annual Report.

	Average VaR During Dec 2002 Half $M	Average VaR During June 2002 Half $M	Average VaR During December 2001 Half $M
Group (excluding ASB Bank)			
Interest rate risk	3.37	3.23	2.60
Exchange rate risk	1.47	2.07	1.54
Implied volatility risk	0.59	0.59	0.48
Equities risk	0.32	0.42	0.47
Commodities risk	0.35	0.31	0.48
Prepayment risk	0.30	0.21	0.32
ASB Bank	**0.19**	**0.17**	**0.14**
Diversification benefit	(2.14)	(2.39)	(2.45)
Total	**4.45**	**4.61**	**3.58**

4. CAPITAL ADEQUACY

Risk Weighted Capital Ratios	31/12/02	30/06/02	31/12/01
Tier one	**7.06%**	6.78%	6.75%
Tier two	**4.08%**	4.28%	4.27%
Less deductions	**(1.33%)**	(1.26%)	(1.71%)
Total capital	**9.81%**	9.80%	9.31%

	Half Year Ended		
	31/12/02	30/06/02	31/12/01
	$M	$M	$M
Tier One Capital			
Shareholders' equity	**22,446**	21,056	20,404
Eligible loan capital	**414**	415	459
Total Shareholders' Equity and Loan Capital	**22,860**	**21,471**	**20,863**
Less Foreign currency translation reserve related to non-consolidated subsidiaries	**(3)**	90	-
Less Asset revaluation reserve	**(4)**	(4)	(5)
Less Goodwill	**(5,161)**	(5,391)	(5,554)
Less Expected dividend	**(865)**	-	-
Less Retained earnings in non-consolidated subsidiaries	**(35)**	-	-
Less Intangible component of investment in non-consolidated subsidiaries	**(4,191)**	(4,588)	(4,286)
Less Outside equity interest in life insurance statutory funds	**(2,343)**	(2,017)	(1,682)
Less Outside equity interest in entities controlled by non-consolidated subsidiaries	**(110)**	-	-
Total Tier One Capital	**10,148**	**9,561**	**9,336**
Tier Two Capital			
Asset revaluation reserve	**4**	4	5
General provision for bad and doubtful debts [1]	**1,323**	1,351	1,331
FITB related to general provision	**(384)**	(392)	(391)
Upper tier 2 note and bond issues	**298**	297	298
Lower tier 2 note and bond issues	**4,620**	4,934	5,241
Less Lower tier 2 adjustment to 50% of tier 1 capital	**-**	(154)	(573)
Total Tier Two Capital	**5,861**	**6,040**	**5,911**
Tier One and Tier Two Capital	**16,009**	15,601	15,247
Less Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1)	**(1,868)**	(1,741)	(2,328)
Less Other deductions	**(42)**	(40)	(38)
Capital Base	**14,099**	**13,820**	**12,881**

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

	Face Value			Risk	Risk Weighted Balance		
	31/12/02	30/06/02	31/12/01	Weights	31/12/02	30/06/02	31/12/01
Risk-weighted assets	$M	$M	$M	%	$M	$M	$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	**24,980**	22,315	26,474	0	-	-	-
Claims on OECD banks and local governments	**14,329**	13,401	12,452	20	**2,866**	2,680	2,490
Advances secured by residential property	**97,717**	86,378	79,693	50	**48,858**	43,189	39,847
All other assets	**74,701**	77,474	78,949	100	**74,701**	77,474	78,949
Total on balance sheet assets - credit risk	**211,727**	199,568	197,568		**126,425**	123,343	121,286
Total off balance sheet exposures - credit risk[1]					**16,088**	16,516	16,191
Risk weighted assets - market risk					**1,258**	1,190	794
Total risk weighted assets					**143,771**	141,049	138,271

(1) Off balance sheet exposures secured by residential property account for $9.6 billion of off balance sheet credit equivalent assets ($4.8 billion of off balance sheet risk weighted assets).

For an analysis of the movements in the capital ratios see page 29.

5. CREDIT RATING

Debt issues not guaranteed by the Commonwealth of Australia

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

6. SHARE CAPITAL RESERVES

	Shares Issues	$M
Ordinary Share Capital		
Opening balance 1 July 2002	1,252,921,363	12,665
Exercise of executive options	660,000	13
Buy Back for DRP; 2001/02 Final Dividend	(6,111,510)	(195)
DRP: 2001/2002 Final Dividend	6,111,510	195
Closing balance 31 December 2002	1,253,581,363	12,678
Preference Share Capital		
Opening balance 1 July 2002	3,500,000	687
Closing balance 31 December 2002	3,500,000	687
Retained Profits		
Opening balance 1 July 2002		1,452
Reversal of provision for final dividend at 30 June 2002 (on adoption of AASB 1044)		1,027
Net profit for the half year		622
Payment of final dividend		(1,027)
Provision for dividend (preference shares)		(18)
Appropriations from reserves (net)		368
Closing balance 31 December 2002		2,424
Reserves		
Opening balance 1 July 2002		4,226
Appropriation to profits (net)		(368)
Movement in Foreign Currency Translation Reserve		156
Closing balance 31 December 2002		4,014
Outside Equity Interests: Controlled Entities		
Opening balance 1 July 2002		9
Issue of Perpetual Preference Shares by ASB Capital		181
Listed Property Trusts acquired (Gandel)		110
Other		-
Closing balance 31 December 2002		300

Dividend Franking Account

After fully franking the dividend to be paid in respect of the half year ended 31 December 2002 the amount of credits available as at 31 December 2002 to frank dividends for subsequent financial years is $260 million. This would enable a fully franked dividend of $607 million to be paid. This figure is based on the combined franking accounts of the Bank at 31 December 2002, which have been adjusted for franking credits that will arise from the payment of income tax payable on profits of the half year ended 31 December 2002, franking debits that will arise from the payment of dividends proposed for the half 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 January 2003 will be franked at the 30% tax rate. These calculations have been based on the taxation law as at 31 December 2002.

Dividend Reinvestment Plan

The Dividend Reinvestment plan is capped at 10,000 shares per shareholder.

Record Date

The register closes for determination of dividend entitlement and for participation in Dividend Reinvestment Plan at 5:00pm on 21 February 2003 at ASX Perpetual Registrars Limited, Locked Bag A14, Sydney South, 1232

Ex Dividend Date

The ex dividend date is 17 February 2003.

7. DEFINITIONS

Item	Description
Appraisal Value	The embedded value plus estimated value of profits from future business.
Cash Earnings	Represents profit from ordinary activities after tax and outside equity interest before appraisal value (reduction)/uplift and goodwill amortisation.
Dividend Payout Ratio	Dividend paid, net of dividends on preference shares, divided by earnings.
DRP	Dividend Reinvestment Plan.
DRP Participation Rate	The percentage of total issued capital participating in the Dividend Reinvestment Plan.
Earnings Per Share	Calculated in accordance with the AASB 1027: Earnings per Share.
Embedded Value	The estimated value of future profits from existing business together with net tangible assets.
Other Countries	United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, the Philippines, Fiji, Thailand, Indonesia, Malaysia, China and Vietnam. Thailand and Malaysia were sold during the year ended 30 June 2002.
Return on Average Shareholders' Equity	Based on profit from ordinary activities after tax and outside equity interests applied to average shareholders' equity.
Return on Average Total Assets	Based on profit from ordinary activities after tax and outside equity interests. Averages are based on beginning and end of period balances.
Total Assets	Includes the gross amount of trading derivative contract revaluations.
Underlying profit	Represents profit from ordinary activities before tax, charge for bad and doubtful debts and goodwill amortisation.

8. Valuations of Funds Management and Life Insurance Businesses

Carrying Values of Funds Management and Life Insurance Business

The following table sets out the components of the carrying values of the 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 2002	**Funds Management**	**Life Insurance**			
		Australia[5]	**New Zealand[6]**	**Asia[1]**	**Total**
	$M	**$M**	**$M**	**$M**	**$M**
Profits	135	(4)	13	(15)	129
Net Capital Movements[2]	86	28	8	38	160
Dividends	(59)	(55)	-	-	(114)
Disposals / Acquisitions of Business[3]	(103)	-	-	(18)	(121)
Foreign Exchange Movements	13	-	25	(1)	37
Change in Shareholders NTA	**72**	**(31)**	**46**	**4**	**91**
Acquired Excess	113	-	-	-	113
Net Appraisal value (reduction)/uplift	(351)	(27)	15	(63)	(426)
Increase to 31 December 2002	**(166)**	**(58)**	**61**	**(59)**	**(222)**

SHAREHOLDERS' NET TANGIBLE ASSETS

	Funds Management	**Life Insurance Australia**	**New Zealand**	**Asia**	**Total**
30 June 2002 balance	702	1,209	334	679	2,924
Profits	135	(4)	13	(15)	129
Net capital movements	27	(27)	8	38	46
Disposals / Acquisitions of business[3]	(103)	-	-	(18)	(121)
Foreign Exchange Movements	13	-	25	(1)	37
31 December 2002 balance	**774**	**1,178**	**380**	**683**	**3,015**

VALUE IN FORCE BUSINESS

	Funds Management	**Life Insurance Australia**	**New Zealand**	**Asia**	**Total**
30 June 2002 balance	1,221	178	179	40	1,618
Disposals / Acquisitions of business[4]	84	-	-	-	84
(Reduction)/Uplift	(56)	(59)	12	(21)	(124)
31 December 2002 balance	**1,249**	**119**	**191**	**19**	**1,578**

VALUE FUTURE NEW BUSINESS

	Funds Management	**Life Insurance Australia**	**New Zealand**	**Asia**	**Total**
30 June 2002 balance	3,660	23	275	80	4,038
Disposals/Acquisitions of business	29	-	-	-	29
(Reduction)/Uplift	(295)	32	3	(42)	(302)
31 December 2002 balance	**3,394**	**55**	**278**	**38**	**3,765**

CARRYING VALUE AT 31 DECEMBER 2002

	Funds Management	**Life Insurance Australia**	**New Zealand**	**Asia**	**Total**
Shareholders' net tangible assets	774	1,178	380	683	3,015
Value in force business	1,249	119	191	19	1,578
Embedded value	**2,023**	**1,297**	**571**	**702**	**4,593**
Value future new business	3,394	55	278	38	3,765
Carrying Value	**5,417**	**1,352**	**849**	**740**	**8,358**

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

(2) Includes capital injections, payments for investments in controlled entities and movements in intergroup loans.

(3) Represents the purchase of management rights in CFS Retail Property Trust, disposal of part of CFS UK business and disposal of the Philippines life insurance business.

(4) Represents the value of acquired management rights of CFS Retail Property Trust.

(5) "Funds Management" business was reported at 30/06/02 as "Funds Management" and "Life Insurance – Australia – Investment" business. These businesses have been combined.

(6) "Life Insurance – Australia" business was reported at 30/06/02 as "Life Insurance – Australia – Risk" business.

Reconciliation of the components of the carrying value to the value of investments in non-consolidated subsidiaries

	31/12/02 $M	30/06/02 $M	31/12/01 $M
Intangible component of investment in non-consolidated subsidiaries deducted from Tier 1 capital comprises:			
Value of future new business	**3,765**	4,038	3,673
Value of self-generated in force business	**426**	550	613
	4,191	4,588	4,286
Investment in non-consolidated subsidiaries deducted from Total Capital comprises:			
Shareholders' NTA in life and funds management businesses	**3,015**	2,924	3,333
Capital in other non-consolidated subsidiaries	**243**	122	72
Value of acquired in force business[1]	**1,152**	1,068	1,010
Less non-recourse debt	**(2,542)**	(2,373)	(2,087)
	1,868	1,741	2,328

(1) The increase in the value of acquired in force business represents the value of acquired management rights of CFS Retail Property Trust.

Key Assumptions Used in Appraisal Values

The following Key Assumptions have been used by Trowbridge Deloitte in determining the appraisal values. Other actuarial assumptions used in the valuation are described in the section Actuarial Methods and Assumptions.

31 December 2002	**New Business Multiplier** [1]	**Risk Discount Rate %**	**Value of Franking Credits %**
Life Insurance entities			
Australia	9	11.1	70
New Zealand	8	12.0	-
Asia			
- Hong Kong	8.5	12.0	-
Funds management entities			
Australia	N/a	12.2	70

As at 30 June 2002	**New Business Multiplier**	**Risk Discount Rate %**	**Value of Franking Credits %**
Life Insurance entities			
Australia	9	11.5	70
New Zealand	8	12.0	-
Asia			
- Hong Kong	10	HKD 13.0 [2] USD 12.0	-
Funds management entities			
Australia	N/a	13.0	70

(1) Changes in multipliers reflect changed risk discount rates, changes to business mix and changes to views on future new business growth.

(2) These are the risk discount rates for Hong Kong dollars business and US dollar business.

Policy Liabilities

Appropriately qualified actuaries have been appointed in respect of each life insurance business and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this financial report, including compliance with the regulations of the Life Insurance Act 1995 where appropriate.

	31/12/02 $M	30/06/02 $M	31/12/01 $M
Components of policy liabilities:			
Future policy benefits [1]	**28,654**	29,164	29,858
Future bonuses	**1,277**	1,493	1,398
Future expenses	**2,318**	2,259	1,798
Future profit margins	**959**	1,007	1,187
Future charges for acquisition expenses	**(348)**	(413)	(344)
Balance of future premiums	**(8,147)**	(7,666)	(6,934)
Provisions for bonuses not allocated to participating policyholders	**49**	73	49
Total policy liabilities	**24,762**	25,917	27,012

[1] Including bonuses credited to policyholders in prior years

Taxation

Taxation has been allowed for in the determination of policy liabilities in accordance with the relevant legislation applicable in each territory.

On 1 July 2000 a new tax regime for life insurance companies commenced in Australia. The primary effect of this regime is to tax profits that had previously not been subject to taxation. Allowance has been made in the appraisal values and policy liabilities of the life insurance businesses for the impact of the new tax requirements.

Actuarial Methods and Assumptions

Policy liabilities have been calculated in accordance with the Margin of 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/ dividends or expected claim Payments
Investment account	Projection	Bonuses or asset charges
Investment linked	Projection	Asset charge
	Accumulation	Not applicable
Lump sum risk	Projection	Premiums/claims
Income stream risk	Projection	Expected claim payments
Immediate annuities	Projection	Bonuses or annuity payment
Group		
Investment account	Projection	Bonuses or asset charges
Investment linked	Projection	Asset charge
Lump sum risk	Projection	Claims
	Accumulation	Premiums (implied)
Income stream risk	Projection	Expected claim payments

The 'Projection Method' measures the present values of estimated future policy cash flows to calculate policy liabilities. The policy cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments.

The 'Accumulation Method' measures the accumulation of amounts invested by policyholders plus investment earning less fees specified in the policy to calculate policy liabilities. Deferred acquisition costs are offset against this liability.

Bonuses are amounts added, at the discretion of the life insurer, to the benefits currently payable under Participating Business. Under the Life Act, bonuses are a distribution to policyholders of profits and may take a number of forms including reversionary bonuses, interest credits and capital growth bonuses (payable on the termination of the policy).

Actuarial Assumptions

Set out below is a summary of the material assumptions used in the calculation of policy liabilities. These assumptions are also used in the determination of appraisal values.

Discount Rates

These are the rates used to discount future cash flows to determine their net present value in the policy liabilities. The discount rates are determined with reference to the expected earnings rate of the assets that support the policy liabilities adjusted for taxation where relevant. The following table shows the applicable rates for the major classes of business in Australia and New Zealand. The changes relate to changes in long term earnings rates, asset mix and reflect the new tax regime for Australian business.

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Class of Business	31 December 2002 Rate Range %	June 2002 Rate Range %	June 2001 Rate Range%
Traditional - ordinary business (after tax)	**5.55-6.30**	6.21-6.96	6.38-6.72
Traditional - superannuation business (after tax)	**6.78-7.71**	7.58-8.52	7.80-8.23
Annuity business (after tax)	**5.66-6.95**	6.49-7.86	6.51-7.97
Term life insurance - ordinary business (after tax)	**3.26-4.55**	3.89-4.55	4.20-4.55
Term life insurance - superannuation business (after tax)	**3.26-4.55**	3.89-4.55	4.20-4.55
Disability business (before tax)	**6.50**	6.50	4.20-4.55
Investment linked - ordinary business (after tax)	**5.21-5.77**	5.89-6.45	5.86-6.36
Investment linked - superannuation business (after tax)	**6.60-6.96**	7.51-7.96	7.34-7.92
Investment linked - exempt (after tax)	**7.50-8.22**	8.52-9.13	8.34-9.12
Investment account - ordinary business (after tax)	**3.77**	4.41	4.51
Investment account - superannuation business (after tax)	**4.59**	5.36	5.49

Bonuses

The valuation assumes that the long term supportable bonuses will be paid, which is in line with company bonus philosophy. There have been no significant changes to these assumptions.

Maintenance expenses

For the Australian operations of the Colonial Group, maintenance expenses are based on an analysis of the underlying expenses and contractual fees where appropriate. For the New Zealand operations of the Colonial Group, maintenance expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in the service company agreements. These have increased in line with inflation.

For other operations maintenance expense assumption are based on an analysis of experience over the past year taking into account future business plans. 'One off' expenses are excluded.

Investment management expenses

Investment management expense assumptions are based on the contractual fees (inclusive of an allowance for inflation) as set out in Fund Manager agreements. There have been no significant changes to these assumptions.

Inflation

The inflation assumption is consistent with the investment earning assumptions. There have been no significant changes to these assumptions.

Benefit indexation

The indexation rates are based on an analysis of past experience and estimated long term inflation and vary by business and product type. There have been no significant changes to these assumptions.

Taxation

The taxation basis and rates assumed vary by territory and product type. For the Australian business it reflects the current regime for life insurance companies effective 1 July 2000.

Voluntary discontinuance

Discontinuance rates are based on recent company and industry experience and vary by territory, product, age and duration in force. There have been no significant changes to these assumptions.

Surrender values

Current surrender value bases are assumed to apply in the future. There have been no significant changes to these assumptions.

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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 table 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.

Solvency

Australian Life Insurers

Australian life insurers are required to hold prudential reserves in excess of the amount of policy liabilities. These reserves are required to support capital adequacy requirements and provide protection against adverse experience. Actuarial Standard AS2.03 'Solvency Standard' prescribes a minimum capital requirement and the minimum level of assets required to be held in each life insurance fund. All controlled Australian life insurance entities complied with the solvency requirements of AS2.03. Further information is available from the individual statutory returns of subsidiary life insurers.

Overseas life insurers

Overseas life insurance subsidiaries are required to hold reserves in excess of policy liabilities in accordance with local Acts and prudential rules. Each of the overseas subsidiaries complied with local requirements. Further information is available form the individual statutory returns of subsidiary life insurers.

Managed assets & fiduciary activities

Arrangements are in place to ensure that asset management and other fiduciary activities of controlled entities are independent of the life insurance funds and other activities of the Group.

Disaggregated Information

Life insurance business is conducted through a number of life insurance entities in Australia and overseas. Under the Australian Life Insurance Act 1995, life insurance business is conducted within one or more separate statutory funds which are distinguished from each other and from the shareholders fund. The financial statements of Australian life insurers prepared in accordance with AASB 1038, (and which are lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various life insurance statutory funds and their shareholder funds.

9. INTANGIBLE ASSETS

	31/12/02 $M	30/06/02 $M	31/12/01 $M
Purchased goodwill - Colonial	**5,592**	5,662	5,662
Purchased goodwill - Other	**1,125**	1,125	1,131
Realisation of Life Insurance Synergy benefits(1)	**(332)**	(332)	(332)
Accumulated amortisation	**(1,224)**	(1,064)	(907)
Total Goodwill	**5,161**	**5,391**	**5,554**

(1) Cost and revenue synergies, planned on acquisition of Colonial, are being achieved from the integration of the Commonwealth and Colonial life insurance businesses. Changes in the excess of net market value over net assets of life insurance controlled entities that are directly attributable to these cost and revenue synergies have been recorded as a realisation of goodwill.

Amortisation

	31/12/02 $M	30/06/02 $M	31/12/01 $M
Analysis of movement in Goodwill			
Opening balance	**5,391**	5,554	5,716
Amortisation for the half year	**(160)**	(161)	(162)
Transfer of funds from Colonial Foundation Trust (refer Page 29)	**(71)**	-	-
Other adjustments	**1**	(2)	-
Closing Balance	**5,161**	**5,391**	**5,554**

10. Performance Summaries

	Half Year Ended			
	31/12/02 $M	30/06/02 $M	31/12/01 $M	30/06/01 $M
Profit from ordinary activities after tax (statutory)	**622**	**1,451**	**1,204**	**1,263**
Profit from ordinary activities after tax ('cash basis' [(1)])	**1,208**	**1,309**	**1,192**	**1,153**
Income				
Interest income	**5,668**	5,086	5,369	5,876
Interest expense	**3,214**	2,725	3,020	3,623
Net interest income	**2,454**	2,361	2,349	2,253
Other banking operating income	**1,306**	1,274	1,278	1,185
Total banking income	**3,760**	3,635	3,627	3,438
Funds management income [(2)]	**504**	419	390	381
Life insurance income [(2)]	**221**	468	529	624
Total Income	**4,485**	4,522	4,546	4,443
Expenses				
Operating expenses - comparable businesses	**2,627**	2,607	2,594	2,585
Operating expenses - included for the first time	**83**	-	-	-
Charge for bad and doubtful debts	**151**	159	290	203
Total Expenses	**2,861**	2,766	2,884	2,788
Profit from ordinary activities before goodwill amortisation, appraisal value (reduction)/uplift and income tax	**1,624**	1,756	1,662	1,655
Income tax expense [(2)]	**413**	447	469	499
Profit from ordinary activities after income tax	**1,211**	1,309	1,193	1,156
Outside equity interests	**(3)**	0	(1)	(3)
Profit from ordinary activities after income tax and before goodwill amortisation and appraisal value (reduction)/uplift	**1,208**	1,309	1,192	1,153
Appraisal value (reduction)/uplift	**(426)**	303	174	285
Goodwill amortisation	**(160)**	(161)	(162)	(175)
Net profit after income tax attributable to shareholders of the Bank	**622**	1,451	1,204	1,263
Contributions to profit (after tax)				
Banking	**1,079**	1,092	975	918
Funds management	**135**	120	96	71
Life insurance	**(6)**	97	121	164
Profit after tax from ordinary activities ('cash basis' [(1)])	**1,208**	1,309	1,192	1,153
Goodwill amortisation	**(160)**	(161)	(162)	(175)
Appraisal value (reduction)/uplift	**(426)**	303	174	285
Net profit after income tax attributable to shareholders of the Bank	**622**	**1,451**	**1,204**	**1,263**

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

(2) Included within life insurance and funds management income and tax expense is a $90 million tax credit relating to policyholder losses (31 December 2001: $25 million expense; 30 June 2002: $61 million tax credit). This item is also included in the income tax line in the above profit and loss. The net impact on the net profit after tax is therefore nil.

(3) Operating Expenses included for the first time include costs associated with the strategic initiatives of the Bank as outlined at 30 June 2002 and additional share based compensation following changes to remuneration structures and the Bank's accounting policy.

Banking Profit After Tax

	Half Year Ended			
	31/12/02 $M	30/06/02 $M	31/12/01 $M	30/06/01 $M
Income				
Interest income	**5,668**	5,086	5,369	5,876
Interest expense	**3,214**	2,725	3,020	3,623
Net interest income	**2,454**	2,361	2,349	2,253
Other operating income	**1,306**	1,274	1,278	1,185
Total Operating Income	**3,760**	3,635	3,627	3,438
Expenses				
Operating expenses - comparable businesses	**1,976**	1,964	1,965	1,973
Operating expenses - included for the first time	**83**	-	-	-
Charge for bad and doubtful debts	**151**	159	290	203
Total Expenses	**2,210**	2,123	2,255	2,176
Profit from ordinary activities before goodwill amortisation, appraisal value (reduction)/uplift and income tax	**1,550**	1,512	1,372	1,262
Income tax expense	**471**	420	396	341
Profit from ordinary activities after income tax	**1,079**	1,092	976	921
Outside equity interests	**-**	-	(1)	(3)
Profit from ordinary activities after income tax and before goodwill amortisation and appraisal value (reduction)/uplift	**1,079**	**1,092**	**975**	**918**

Net Interest Income

	Half Year Ended			
	31/12/02 $M	30/06/02 $M	31/12/01 $M	30/06/01 $M
Interest Income				
Loans	**4,949**	4,530	4,701	5,034
Other financial institutions	**122**	96	69	138
Liquid assets	**72**	65	77	52
Trading securities	**216**	156	203	311
Investment securities	**280**	225	292	308
Dividends on redeemable preference shares	**23**	17	24	28
Other interest income	**6**	(3)	3	5
Total Interest Income	**5,668**	**5,086**	**5,369**	**5,876**
Interest Expense				
Deposits	**2,360**	2,035	2,206	2,435
Financial institutions	**106**	78	115	165
Debt issues	**625**	511	553	834
Loan capital	**111**	100	132	179
Other interest expense	**12**	1	14	10
Total Interest Expense	**3,214**	2,725	3,020	3,623
Net Interest Income	**2,455**	**2,361**	**2,349**	**2,253**

Other Banking Income

	Half Year Ended			
	31/12/02	30/06/02	31/12/01	30/06/01
	$M	$M	$M	$M
Lending fees	**314**	325	293	284
Commission and other fees	**702**	636	606	594
Trading income	**226**	238	251	222
Dividends	**3**	3	2	4
Net (loss)/gain on investments and loans	**(12)**	18	60	20
Net profit/(loss) on sale of property, plant and equipment	**6**	(4)	16	24
General insurance premium income	**57**	60	59	52
Less general insurance claims	**(33)**	(32)	(34)	(28)
Other	**43**	30	25	13
Total Other Banking Operating Income	**1,306**	**1,274**	**1,278**	**1,185**

Funds Management Profit after tax				
Total income from funds management business	**509**	554	606	N/a
Operating expenses	**400**	388	373	N/a
Profit before tax	**109**	166	233	N/a
Income tax (credit)/expense	**(29)**	(20)	51	N/a
Outside equity interest	**3**	-	-	N/a
Net profit after tax	**135**	**186**	**182**	**N/a**

Life Insurance Profit after tax	Half Year Ended			
	31/12/02	30/06/02	31/12/01	30/06/01
	$M	$M	$M	$M
Life Insurance				
Operating income	**221**	340	319	N/a
Operating expenses	**(256)**	(262)	(262)	N/a
Profit from life insurance activities before tax	**(35)**	78	57	N/a
Income tax (credit)/expense attributable to:				N/a
Policyholder	**(24)**	17	12	N/a
Corporate	**(5)**	30	10	N/a
Net Profit after tax	**(6)**	**31**	**35**	**N/a**

11. FUNDS MANAGEMENT AND LIFE INSURANCE COMPARATIVES

This table sets out the re-statement of prior periods funds management and life insurance results to reflect the re-classification of investment linked products previously within life insurance to funds management.

Funds Management Segment Profit & Loss	Full Year Ended 30/06/02			Half Year Ended 30/06/02			Half Year Ended 31/12/01		
	Funds Management Previous $M	Life - Funds Management $M	Funds Management Current $M	Funds Management Previous $M	Life - Funds Management $M	Funds Management Current $M	Funds Management Previous $M	Life - Funds Management $M	Funds Management Current $M
Operating income - external	809	338	**1,147**	419	128	**547**	390	210	**600**
Operating income - internal	33	(20)	**13**	19	(12)	**7**	14	(8)	**6**
Total income	842	318	**1,160**	438	116	**554**	404	202	**606**
Operating expenses - external	(548)	(213)	**(761)**	(272)	(116)	**(388)**	(276)	(97)	**(373)**
Operating expenses - internal	-	-	**-**	-	-	**-**	-	-	**-**
Total expenses	(548)	(213)	**(761)**	(272)	(116)	**(388)**	(276)	(97)	**(373)**
Operating profit before tax	294	105	**399**	166	-	**166**	128	105	**233**
Income tax expense attributable									
Policyholder	-	(65)	**(65)**	-	(78)	**(78)**	-	13	**13**
Corporate	78	18	**96**	46	12	**58**	32	6	**38**
Operating profit after tax	**216**	**152**	**368**	**120**	**66**	**186**	**96**	**86**	**182**

Life Insurance Segment Profit & Loss	Full Year Ended 30/06/02			Half Year Ended 30/06/02			Half Year Ended 31/12/01		
	Life Insurance Previous $M	Life - Funds Management $M	Life Insurance Current $M	Life Insurance Previous $M	Life - Funds Management $M	Life Insurance Current $M	Life Insurance Previous $M	Life - Funds Management $M	Life Insurance Current $M
Operating income - external	997	(338)	**659**	468	(128)	**340**	529	(210)	**319**
Operating income - internal	-	-	**-**	-	-	**-**	-	-	**-**
Total income	997	(338)	**659**	468	(128)	**340**	529	(210)	**319**
Operating expenses - external	(724)	213	**(511)**	(371)	116	**(255)**	(353)	97	**(256)**
Operating expenses - internal	(33)	20	**(13)**	(19)	12	**(7)**	(14)	8	**(6)**
Total expenses	(757)	233	**(524)**	(390)	128	**(262)**	(367)	105	**(262)**
Operating profit before tax	240	(105)	**135**	78	-	**78**	162	(105)	**57**
Income tax expense attributable									
Policyholder	(36)	65	**29**	(61)	78	**17**	25	(13)	**12**
Corporate	58	(18)	**40**	42	(12)	**30**	16	(6)	**10**
Operating profit after tax	**218**	**(152)**	**66**	**97**	**(66)**	**31**	**121**	**(86)**	**35**