

Off Market Share Buy-back

Questions & Answers – 14 February 2001

Q. Why is the Bank raising new equity and undertaking a share Buy-Back at the same time?

A. The capital management strategy that the Bank is implementing involves replacing ordinary shares with a less expensive form of Tier 1 regulatory capital in order to achieve a more efficient capital structure. The new issue of preference shares (PERLS) is a cheaper form of equity funding than ordinary shares and increases the diversity and flexibility of the Bank's capital base. The preference shares are expected to attract new investors in the Bank and will provide new and existing investors with a different instrument through which they can gain exposure to the Bank. Shareholders, as well as the general public, will be offered the opportunity to invest in these preference shares. The Bank will continue to implement a range of capital management initiatives as part of its strategy to maximise returns to all shareholders.

Q. How many Shares will the Bank buy back?

A. The Bank may, in its complete discretion, buy back any number of Shares up to a maximum value of \$700 million. The major factor the Bank will consider when exercising its discretion will be the take-up under the proposed new issue of PERLS. If \$700 million of PERLS are issued, the Bank intends to buy back \$700 million of Shares.

If acceptances under the buy-back exceed the amount the Bank decides to buy back, the Bank will buy back the first 200 Shares nominated for sale by each shareholder. The balance of all acceptances will then be scaled back on a pro-rata basis. It is possible that there may be a significant scale back of acceptances.

Q. What are the tax implications of the Buy-Back price?

A. The price shareholders receive for any Shares sold into the Buy-Back will have two components:

- a capital component of \$10.00. For a number of shareholders, including Australian resident individuals and superannuation funds, this is the price at which they will be deemed to have sold their Shares; and
- a fully franked dividend equal to the difference between the capital component of \$10 and the Buy-Back Price.

Shareholders' tax positions will vary according to individual circumstances.

Q. Why are you using such a complicated pricing formula?

A. It is, in our opinion, the most appropriate mechanism to achieve a buy-back price that will represent the market value of the shares at the time of the offer. It recognises market influences (other than the announced buy-back) that could affect the price over the offer period.

Further, the Tax Act defines the market value of a share for the purposes of a Buy-Back as being "the market value of the share at the time of the Buy-Back if the Buy-Back did not occur and was never proposed to occur". A Buy-Back, which is not at "market value", may result in adverse tax treatment for shareholders.

Q. If the Buy-Back is at current market price, why will shareholders participate in the Buy-Back as opposed to selling their shares on the stock market?

A. Shareholders benefit from selling the shares into the Buy-Back as they will not incur stamp duty and brokerage costs which apply to on-market sales. Also, for many shareholders, there is value in the franking credits which effectively increases the value of the Buy-Back price relative to the market price.

Q. How does this Buy-Back create value for your shareholders?

A. The Buy-Back, coupled with the issue of PERLS, will enable the Bank to maintain a more efficient capital structure, taking into account our long term growth strategies, which is of benefit to all shareholders. The Buy-Back also enables the Bank to distribute some of its franking credits to shareholders participating in the Buy-Back.

Q. What are the implications of the “45 day rule”?

A. Shareholders participating in the Offer should be aware of a number of anti-avoidance rules which are designed to discourage trading in franking credits and misuse of the section 46 intercorporate dividend rebate. Where these rules apply, a shareholder may be denied the benefit of franking credits and rebates attaching to dividends paid on shares.

Shareholders should have regard to the operation of the holding period rules (“the 45 day rule” and “the related payments rule”) in relation to their participation in the Buy-Back. Broadly, these rules require a shareholder in certain circumstances to have held their shares at risk for a specified period in order to qualify for the benefit of franking credits and rebates attaching to dividends paid on those shares, unless the shareholder qualifies for a specific exemption from those rules.

In particular, the 45 day rule requires that ordinary shares be held for a period of 45 days at risk (excluding the days of acquisition and disposal) within a period beginning on the date those shares were acquired and ending 45 days after the shares become ex-dividend, in order to qualify for the benefit of franking credits and rebates attaching to dividends paid on those shares, including the fully franked deemed dividend arising under the Buy-Back. Specifically, an individual will be required to satisfy the 45 day rule in order to claim a franking rebate (broadly, a rebate of the tax paid at the company level) in relation to a franked dividend. Similarly a corporate shareholder will be required to satisfy the 45 day rule before it may credit its franking account for the receipt of the franked dividend and claim the section 46 intercorporate dividend rebate. The 45 day rule also works on a last-in-first-out (“LIFO”) basis so that a shareholder will be deemed to have disposed of their most recently acquired Shares for the purpose of applying the 45 day rule.

On the basis that the Buy-Back price will not vary with movements in the share price after close of trading on 30 March 2001, a shareholder participating in the Offer will not be holding their Shares at risk after that date. As such, a shareholder who acquired their Shares on or after 13 February 2001 would fail the 45 day rule.

For an individual shareholder, a blanket exemption from the 45 day rule applies if the shareholder has a total franking credit rebate entitlement of \$5,000 or less (in respect of all their holdings of shares and interests in shares) for any relevant income year. The exemption does not apply to the related payments rule.

Shareholders should seek advice in relation to the implications of the holding period rules for their participation in the Offer, in light of their specific circumstances.

Q. You have outlined tax benefits. How will shareholders know the effect on them?

A. As with the previous Buy-Back, shareholders will receive a detailed booklet explaining the Buy-Back. In the Buy-Back Booklet we outline in general the consequences of the tax law (as we have been advised) for some typical types of shareholders. It is not possible for us to advise shareholders on the tax implications of accepting the Buy-Back as this depends on each shareholder's own circumstances (which are not known to the Bank). We strongly advise all shareholders to obtain their own tax advice in relation to the Buy-Back offer.

Q. What are the key dates for the buy-back?

A. The important dates for the buy-back are as follows:

<u>Event</u>	<u>Date</u>
Record Date for determination of entitlements to Buy-Back offer	23 February 2001
Buy-Back Offer opens for acceptance	5 March 2001
Buy-Back Offer closes	30 March 2001
Acceptances from issuer sponsored holders must be received by the registry, and acceptances from CHESS holders must be processed by their controlling participant, no later than 5.00pm (Sydney time) on	30 March 2001
Completion of Buy-Back by	1 April 2001
Announcement of the Buy-Back Price and any scale back	2 April 2001
Proceeds sent to participating shareholders	9 April 2001
