Commonwealth Bank of Australia

ASX Announcement

Disclosure of comparative period results under Australian equivalent to International Financial Reporting Standards

Introduction
The results for the six months ended 31 December 2005 are the first under the Australian equivalent to International Financial Reporting Standards ("AIFRS"). Prior period results have been restated to comply with AIFRS, except for certain standards which were adopted and applied from 1 July 2005 onwards.

The Bank will release it's interim results on 15 February 2006, and this will contain a more comprehensive disclosure than that presented in this document.

The prior period results have undergone a number of restatements as a result of adopting AIFRS. The objective of this document, prior to the release of our results, is to:

- Communicate the major changes and the impact on the Income Statement and Balance Sheet,
- Provide information on changes to the formatting, layout and definitions within the Profit Announcement, and
- Provide insight into the major accounting policies adopted by the Bank under AIFRS.

These disclosures will be updated for the impact of AIFRS on the 1 July 2005 Balance Sheet and for the six months to 31 December 2005, as part of the Profit Announcement which will be released on 15 February 2006.

Disclosures
The following sections are included:

Section A: High level summary of AIFRS impacts
This highlights the major impacts of AIFRS on the Income Statement categories, the Net Profit, together with Analysis Templates and other key ratio's.

Section B: Accounting Policy
This section details the Bank's accounting policies under AIFRS and describes the changes compared with the previous policies under Australian GAAP ("AGAAP").

Section C: Reconciliation of prior period Balance Sheets and Income Statements

This provides a reconciliation of Balance Sheet and Income Statement disclosures under previous AGAAP policies, to the adjusted comparatives under AIFRS. This includes the Balance Sheets as at 1 July 2004, 31 December 2004 and 30 June 2005, together with the Income Statements for the six months ended 31 December 2004 and 30 June 2005.

Section D: Detailed schedules from the Profit Announcement impacted by AIFRS

This section shows the key tables which will be included within the Profit Announcement which has been affected by AIFRS. The tables include the adjusted comparative information and changes to individual line items.

Teleconference

A teleconference will be arranged for Friday, 10 February 2006 at 10.30 am to provide an opportunity to ask any questions in relation to these disclosures. Details of the teleconference will be posted to the CBA website www.commbank.com.au

AIFRS Comparatives

Section A
High Level Summary of AIFRS Impacts

Summary of Major AIFRS Impacts

	Half Year Ended				
	31 Dec 05 $M	30 Jun 05 $M	31 Dec 04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Net Interest Income (AIFRS basis)		**3,068**	**2,958**		
AIFRS Impacts:					
Reclassification of Securitisation OBI [1]		(40)	(31)		
Income Deferral - Banking [2]		5	6		
Hybrid Instruments [3]		-	-		
Hedging & Derivatives[4]		-	-		
Net Interest Income (AGAAP equivalent)		**3,033**	**2,933**		
Other Banking Income (AIFRS basis)		**1,462**	**1,383**		
AIFRS Impacts:					
Reclassification of Securitisation to NIE [1]		41	29		
Income Deferral – Banking [2]		-	-		
Hedging & Derivatives [4]		-	-		
Other Banking Income (AGAAP equivalent)		**1,503**	**1,412**		
Total Banking Income (AIFRS basis)		**4,530**	**4,341**		
Total AIFRS Impacts		6	4		
Total Banking Income (AGAAP equivalent)		**4,536**	**4,345**		
Funds Management Income (AIFRS cash basis)		**638**	**609**		
AIFRS Impacts:					
Income Deferral - Funds Management [5]		8	6		
Funds Management Income (AGAAP equivalent)		**646**	**615**		
Insurance Income (AIFRS cash basis)		**387**	**360**		
AIFRS Impacts:					
Income Deferral & DAC – Insurance [6]		-	-		
Insurance Income (AGAAP equivalent)		**387**	**360**		
Operating Expenses – comparable business (AIFRS basis)		**2,878**	**2,841**		
AIFRS Impacts:					
Volume Expense Deferral - Funds Management [5]		8	6		
Share-Based Compensation & Other – Banking [6]		(17)	(19)		
Operating Expenses (AGAAP equivalent)		**2,869**	**2,828**		
Bad and Doubtful Debts Expense (AIFRS)		**176**	**146**		
AIFRS Impacts:					
Movement in General Reserve for Credit Losses [7]		-	-		
Bad and Doubtful Debts Expense (AGAAP equivalent)		**176**	**146**		
Total AIFRS Impact on Net Profit Before Tax (“cash basis”)		23	23		
Total AIFRS Impact on Net Profit After Tax (“cash basis”) [8]		23	23		
AIFRS Non-cash items:					
Defined benefit superannuation plan expense		25	28		
Treasury share mismatch expense/(income)		46	(7)		
Total AIFRS Non-Cash Items After Tax		71	21		
Total AIFRS Impact on Net Profit After Tax (“statutory basis”)		94	44		

Description of AIFRS Impacts:

(1) Reclassification of Securitisation income from other banking income to net interest income.
(2) Netting of Fees and Commissions against Interest Income , and measuring on an effective yield basis.
(3) On reclassification of hybrid instruments from equity to loan capital, preference share dividends paid are reclassified to interest paid.
(4) Reclassification of interest expense on non-hedged derivatives to other banking income, and measuring all derivatives on a Fair Value basis.
(5) Capitalisation and amortisation of certain funds management revenue and expense items.
(6) Principally relates to share-based compensation expense arising on the final issue under the mandatory Equity Participation Plan.
(7) Recalculation of loan impairment provisions.
(8) Due to the tax treatment of distributions on some hybrid instruments, and non-deductibility of other expenses (e.g. share base compensation) the tax effected AIFRS impact is larger than the pre-tax impact.

Summary of Major AIFRS Impacts (continued)

	Half Year Ended				
	31 Dec 05 $M	**30 Jun 05 $M**	**31 Dec 04 $M**	**Dec 05 vs Jun 05 %**	**Dec 05 vs Dec 04 %**
Net Profit After Tax ("underlying basis") (AIFRS)		1,779	1,641		
AIFRS Impact		23	23		
Net Profit After Tax ("underlying basis") (AGAAP equivalent)		**1,802**	**1,664**		
Net Profit ex HK sale After Tax ("cash basis") (AIFRS)		1,759	1,733		
AIFRS Impact		23	23		
Net Profit ex HK sale After Tax ("cash basis") (AGAAP equivalent)		**1,782**	**1,756**		
Net Profit After Tax ("statutory basis") (AIFRS)		1,688	1,712		
AIFRS Impact		94	44		
Net Profit After Tax ("statutory basis") (AGAAP equivalent) (1)		**1,782**	**1,756**		

	Half Year Ended		
	Dec 05 $M	**Jun 05 $M**	**Dec 04 $M**
Weighted average number of shares - cash basic (number)			
AIFRS		1,273	1,265
AIFRS Adjustments (2)		4	4
AGAAP		1,277	1,269
Weighted average number of shares - cash diluted (number)			
AIFRS		1,329	1,331
AIFRS Adjustments (3)		(51)	(61)
AGAAP		1,278	1,270
Weighted average number of shares – statutory basic (number)			
AIFRS		1,264	1,256
AIFRS Adjustments (4)		13	13
AGAAP		1,277	1,269
Net Assets ($M)			
AIFRS		22,643	22,101
AIFRS Adjustments (5)		3,417	2,966
AGAAP		26,060	25,067
Intangible Assets ($M)			
AIFRS		7,656	7,638
AIFRS Adjustments (6)		(3,262)	(3,083)
AGAAP		4,394	4,555
Average Interest Earning Assets ($M)			
AIFRS		250,357	239,150
AIFRS Adjustments (7)		(771)	(748)
AGAAP		249,586	238,402

Description of AIFRS Impacts:

(1) Net profit after tax ("statutory basis") (AGAAP equivalent) excludes the impact of appraisal value uplifts and goodwill amortisation from comparative periods.

(2) Relates to the deduction of "Treasury Shares" held within the employee share scheme trust.

(3) Relates to the dilutive impact under AIFRS which requires inclusion of hybrid instruments which have any probability of conversion to ordinary shares.

(4) Relates to the deduction of all Treasury Shares.

(5) Relates principally to the write-off of internally-generated appraisal value excess.

(6) Relates principally to the reclassification of acquired appraisal value excess from Other assets to Intangible assets.

(7) Average interest earning assets are increased under AIFRS due to the consolidation of non-home loan securitisation assets.

Analysis Template

Profit Summary – Input Schedule	Half Year Ended Dec 05 $M	Jun 05 $M	Dec 04 $M	Page References
Income				
Net interest income		3,068	2,958	
Other banking operating income		1,462	1,383	
Total banking Income		4,530	4,341	
Operating income		638	609	
Shareholder investment returns		9	24	
Funds management income		647	633	
Operating income – life insurance		363	330	
Operating income – general insurance		24	30	
Operating income insurance		387	360	
Shareholder investment returns		83	121	
Gain on disposal of the Hong Kong business		-	-	
Insurance income		470	481	
Total income		5,647	5,455	
Expenses				
Banking		2,201	2,179	
Funds management		398	400	
Insurance		279	262	
Operating expenses		2,878	2,841	
Banking		97	15	
Funds management		24	12	
Insurance		1	1	
Which new Bank expenses		122	28	
Total expenses		3,000	2,869	
Profit before impairment losses on financial instruments		2,647	2,586	
Charge for impairment losses on financial instruments		176	146	
Profit before tax expense		2,471	2,440	
Income tax – corporate		707	702	
Operating profit after tax		1,764	1,738	
Minority interest (OEI)		5	5	
Net profit after tax & OEI – cash basis		1,759	1,733	
Defined benefit superannuation plan expense		(25)	(28)	
Treasury share mismatch		(46)	7	
Net profit after tax & OEI – statutory		1,688	1,712	
Investment return on shareholder funds		92	145	
Tax expense on shareholder investment returns		26	34	
Shareholder investment returns – after tax		66	111	
Which new Bank transformation expenses		122	28	
Tax expense on Which new Bank transformation expenses		(36)	(9)	
Which new Bank expenses – after tax		86	19	
Net profit after tax – cash – underlying		1,779	1,641	

Analysis Template (continued)

Profit Summary – Input Schedule	Half Year Ended Dec 05 $M	Half Year Ended Jun 05 $M	Half Year Ended Dec 04 $M	Page References
Other Data				
Net interest income (excluding securitisation)		3,028	2,928	
Average interest earning assets		250,357	239,150	
Average net assets		22,372	22,036	
Average minority interest		1,916	2,261	
Average preference shares & other equity instruments		2,260	2,260	
Average treasury shares		(344)	(337)	
Average defined benefit superannuation plan net surplus		440	411	
Preference dividends		70	61	
Preference dividends (after tax)		45	45	
Average number of shares – statutory		1,264	1,256	
Average number of shares – fully diluted – statutory		1,320	1,323	
Average number of shares – cash and underlying		1,273	1,265	
Average number of shares – fully diluted – cash and underlying		1,329	1,331	
Dividends per share		112	85	
No of shares at end of period		1,280	1,274	
Average funds under administration		120,507	112,185	
Operating expenses – internal		5	5	
Average inforce premiums		1,232	1,183	
Net assets		22,643	22,101	
Total intangible assets		7,656	7,638	
Minority interests		1,789	2,042	
Preference share capital		687	687	
Other equity instruments		1,573	1,573	
Tier one capital		14,141	13,487	
Eligible loan capital		304	298	
Preference share capital		687	687	
Other equity interests		1,573	1,573	
Minority interest (net of OEI deducted from Tier 1 capital)		520	518	
Investment in non consolidated subsidiaries (net of Intangible component deducted from Tier 1 capital)		1,721	1,776	
Other deductions		28	27	
Other		-	-	
Risk-weighted assets		189,559	180,674	

(1) Average of opening & closing balance

Analysis Template (continued)

Ratio's – Output Summary	Dec 05 $M	Jun 05 $M	Dec 04 $M
		Half Year Ended	
EPS			
Earnings per share – cash basis		132. 7	132. 1
Net profit after tax – cash basis		1,759	1,733
less preference dividends		(70)	(61)
Adjusted profit for EPS calculation		1,689	1,672
Average number of shares		1,273	1,265
Add back preference dividends (after tax)		45	45
Adjusted diluted profit for EPS calculation		1,734	1,717
Diluted average number of shares		1,329	1,331
EPS diluted – cash basis		130. 6	128. 9
Earnings per share – underlying basis		134. 2	124. 9
Net profit after tax – underlying		1,779	1,641
less preference dividends		(70)	(61)
Adjusted profit for EPS calculation		1,709	1,580
Average number of shares		1,273	1,265
DPS			
Dividends			
Dividends per share		112	85
No of shares at end of period		1,280	1,274
Total dividend		1,434	1,083
Dividend payout ratio – cash basis			
Net profit after tax – cash basis		1,759	1,733
less preference dividends		(70)	(61)
NPAT – ordinary shareholders		1,689	1,672
Total dividend		1,434	1,083
Payout ratio – cash basis		84. 9	64. 8
Dividend cover			
NPAT – ordinary shareholders		1,689	1,672
Total dividend		1,434	1,083
Dividend cover – cash		1. 2	1. 5
ROE			
Return on equity – cash			
Average net assets		22,372	22,036
Less:			
Average minority interests		(1,916)	(2,261)
Pref shares		(2,260)	(2,260)
Average equity		18,198	17,515
Less average treasury shares		(344)	(337)
Less average defined benefit superannuation plan net surplus		440	411
Net average equity		18,102	17,442
NPAT (Cash)		1,759	1,733
less preference dividends		(70)	(61)
Adjusted profit for ROE calculation		1,689	1,672
Return on equity – cash		18. 8	19. 0
Return on equity – underlying			
Average net assets		22,374	22,036
Average minority interests		(1,916)	(2,261)
Pref shares		(2,260)	(2,260)
Average equity		18,198	17,515
Less average treasury shares		(344)	(337)
Less average defined benefit superannuation plan net surplus		440	411
Net		18,102	17,442
Underlying NPAT (Cash)		1,779	1,641
Less preference dividends		(70)	(61)
Adjusted profit for ROE calculation		1,709	1,580
Return on equity – underlying		19. 0	18. 0
NIM			
Net interest income		3,068	2,958
Average interest earning assets		250,357	239,150
NIM %pa		2. 44	2. 43

Analysis Template (continued)

Ratio's – Output Summary	Dec 05 $M	Jun 05 $M	Dec 04 $M
	Half Year Ended		
Productivity			
Banking expense to income ratio			
Expenses including Which new Bank expenses		2,298	2,194
Banking Income		4,530	4,341
Expense to Income – cash		50. 7	50. 5
Operating expenses		2,201	2,179
Banking Income		4,530	4,341
Expense to income – underlying		48. 6	50. 2
Funds management expenses to average FUA ratio			
Expenses		422	412
Average funds under administration		120,507	112,185
Expenses to average FUA – cash		0. 71	0. 73
Expenses		398	400
Average funds under administration		120,507	112,185
Expenses to average FUA – underlying		0. 67	0. 71
Insurance expenses to average in-force premiums ratio			
Operating expenses – external		280	263
Operating expenses – internal		5	5
Total expenses		285	268
Average inforce premiums		1,232	1,183
Expenses to average in-force premiums – cash		46. 6	44. 9
Operating expenses – external		279	262
Operating expenses – internal		5	5
Total expenses		284	267
Average inforce premiums		1,232	1,183
Expenses to average in-force premiums – underlying		46. 5	44. 8
Net Tangible Assets (NTA) per share			
Net assets		22,643	22,101
Less:			
Intangible assets		(7,656)	(7,638)
Minority interests		(1,789)	(2,042)
Preference share capital		(687)	(687)
Other equity instruments		(1,573)	(1,573)
Total net tangible assets		10,938	10,161
No of shares at end of period		1,280	1,274
Net tangible assets (NTA) per share $		8.55	7.98
ACE ratio			
Tier one capital		14,141	13,487
Deduct:			
Eligible loan capital		(304)	(298)
Preference share capital		(687)	(687)
Other equity instruments		(1,573)	(1,573)
Minority Interest (net of OEI deducted from Tier 1 capital)		(520)	(518)
Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier 1 capital)		(1,721)	(1,776)
Other deductions		(28)	(27)
Add other		-	-
Total adjusted common equity		9,308	8,608
Risk weighted assets		189,559	180,674
ACE ratio		4. 91	4. 76

Section B
Accounting Policy

Notes to the Financial Statements

Note 1 Accounting Policies

General Information

This half year reporting period is the first under the Australian equivalent to International Financial Reporting Standards ("AIFRS"). For this reason, a full explanation of all AIFRS Accounting policies and differences from previous Australian GAAP is set out below. The financial impact of these changes is summarised in Note 1 (mm).

The financial statements of the Commonwealth Bank of Australia (the 'Bank') and the Bank and its subsidiaries (the 'Group') for the half year ended 31 December 2005, were approved and authorised for issue by the Board of Directors on 15 February 2006.

The Bank is incorporated and domiciled in Australia. It is a company limited by shares that are publicly traded on the Australian Stock Exchange. The address of its registered office is Level 7, 48 Martin Place, Sydney NSW 1155, Australia.

The Group is one of Australia's leading providers of integrated financial services including retail, business and institutional banking, superannuation, life insurance, general insurance, funds management, broking services and finance company activities. The principal activities of the Commonwealth Bank Group during the financial period were:

(i) Banking

The Group provides retail banking services including housing loans, credit cards, personal loans, savings and cheque accounts, and demand and term deposits. The Group also offers commercial products including business loans, equipment and trade finance, and rural and agribusiness products. The Group also has full service banking operations in New Zealand, Fiji and the Philippines. The Group has wholesale banking operations in London, New York, Hong Kong, Singapore, Indonesia, China, Tokyo and Malta.

(ii) Funds Management

The Group's funds management business comprises wholesale and retail investment, superannuation and retirement funds. Investments are across all major asset classes including Australian and International shares, property, fixed interest and cash. The Group also has funds management businesses in New Zealand, United Kingdom and Asia.

(iii) Insurance

The Group provides term insurance, disability insurance, annuities, master trusts, investment products and household general insurance. Life insurance operations are also conducted in New Zealand, where the Group has the leading market share, and in Asia and the Pacific.

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

(a) Bases of accounting

This general purpose financial report for the interim half-year reporting period ended 31 December 2005 has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 Interim Financial Reporting.

This half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the consolidated entity as that given by the annual financial report.

As a result, this report should be read in conjunction with the 30 June 2005 Annual Financial Report of the Group and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

For the purpose of this half-year financial report, the half-year has been treated as a discrete reporting period.

The 30 June 2005 Annual Financial Report was prepared under the Australian Accounting Standards applicable to reporting periods beginning prior to 1 January 2005 (AGAAP). This half-year financial report, however, complies with current Australian Accounting Standards which consist of Australian equivalents to International Financial Reporting Standards (AIFRS).

Accounting policies for the Bank have changed significantly due to the adoption of AIFRS. These changes have been summarised by comparing prior periods accounting policy to the new AIFRS accounting policy. Differences in measurement, recognition and disclosure have been noted in the change in accounting policy section within each topic. The preparation of the financial report in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates although it is not anticipated that such differences would be material.

(b) Basis of preparation

The financial statements are prepared on the basis of historical cost except that the following assets and liabilities are stated at their fair value: derivative financial instruments, assets and liabilities at fair value through the Income Statement, available-for-sale investments, insurance policy liabilities, domestic bills discounted which are included in loans, advances and other receivables held by the Group, investment property and owner occupied property, defined benefit plans assets and liabilities, and employee share-based compensation liability. Recognised assets and liabilities that are hedged and are attributable to the hedged risk are stated at fair value.

The accounting policies which had changed as a result of the adoption of AIFRS, have been applied retrospectively and consistently by the Group to all periods presented in these financial statements and in preparing an opening AIFRS balance sheet at 1 July 2004, except for the following standards which were adopted and applied from 1 July 2005 onwards:-

i) AASB 132 Financial Instruments – Disclosure and Presentation;

ii) AASB 139 Financial Instruments – Recognition and Measurement;

iii) AASB 4 Insurance Contracts;

iv) AASB 1023 General Insurance Contracts; and

v) AASB 1038 Life Insurance Contracts

On this basis, comparison with prior period results should be read in conjunction with the following accounting policy notes.

AIFRS has been applied retrospectively subject to the following elections under AASB 1 First Time Adoption of AIFRS:-

Note 1 Accounting Policies (continued)

i) not to restate any past business combinations that occurred prior to 1 July 2004 in preparing the Group's opening AIFRS balance sheet at 30 June 2005.

ii) to transfer the Foreign Currency Translation Reserve as at 1 July 2004 to Retained Earnings.

The Group has applied its previous AGAAP in the comparative information to financial instruments and insurance contracts within the scope of the above standards.

(c) Consolidation

Additional entities have been consolidated within the Group due to the adoption of AASB 127 Consolidated and Separate Financial Statements and UIG 112 Consolidation – Special Purpose Entities. These changes do not have a material impact on net assets or net profit however they have resulted in material gross ups of individual asset and liability line items of the Group.

For further details, refer to the change in accounting policy below.

(i) Current accounting policy

The consolidated financial statements include the financial statements of the Bank and all entities where it is determined that there is a capacity to control as defined in AASB 127 and UIG 112. These also include Group's share of the financial results of all entities where the Group holds an investment in and has significant influence over the financial and operating policies of entities as defined in AASB 128 Investments in Associates.

Associated companies are defined as those entities over which the Group has significant influence but there is no capacity to control. Investments in associates are carried at cost plus the Group's share of post-acquisition profit or loss. The Group's share of profit or loss of associates is included in the profit from ordinary activities.

All balances and transactions between Group entities, including unrealised gains and losses, have been eliminated on consolidation.

(ii) Change in accounting policy

With the adoption of AASB 127 and UIG 112, a number of additional entities have been included in the Group. This is due to a change in what constitutes control and the inclusion of potential voting rights when considering control. Some of these entities were formed by the Group for the purpose of asset securitisation transactions and structured debt issuance, and to accomplish certain narrow and well-defined objectives. Such entities may acquire assets directly or indirectly from the Bank or its affiliates. Additionally, some of these entities are bankruptcy-remote (i.e. their assets are not available to satisfy the claims of creditors of the Group or any other of its subsidiaries). However, these entities have been consolidated in the Group's financial statements as the variability of return from the entity with the Group.

The adoption of AASB 127 and UIG 112 has been applied retrospectively from 1 July 2004.

(d) Revenue recognition

The adoption of AASB 118 Revenue and AASB 139 has had a impact on the recognition and measurement of revenue. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

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

Interest income

Interest income is recognised on an accrual basis using the effective interest method. Further information is included in Note 1(j) Available-for-sale investments, Note 1(l) Loans, advances and other receivables, and Note 1(m) Leasing.

Lending fees

Fee income and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest method. Fees received for commitments which are not expected to result in a loan are recognised in the profit and loss over the commitment period. Loan syndication fees where the Group does not retain a portion of the syndicated loan are recognised in income once the syndication has been completed. Where fees are received on an ongoing basis and represent the recoupment of the costs of maintaining and administering existing loans, these fees are taken to profit and loss on an accrual basis.

Fees and commission

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

Other income

Trading income is brought to account when earned based on changes in fair value of financial instruments and recorded from trade date. Further information is included in Notes 1(e) Foreign currency translations, 1(i) Assets at fair value through the Income Statement and Note 1(ff) Derivative financial instruments. Life insurance business income recognition is explained in Note 1(hh) below.

(iii) Change in accounting policy

Under AASB 118 and AASB 139, interest income now includes fees integral to the establishment of financial instruments using the effective interest method. Fee income and direct costs relating to loan origination are deferred and amortised to interest earned on loans, advances and other receivables over the life of the loan using the effective interest method.

There is no material change in the recognition and measurement of fees and commission and other income.

The changes have been applied from 1 July 2005.

(e) Foreign currency translations

The adoption of AASB 121 The Effects of Changes in Foreign Exchange Rates has not had a substantial impact on the reporting currency of the Group's entities or the translation of foreign currency assets and liabilities. However, on transition under AASB 1 First-time Adoption of Australian Equivalents to IFRS, an option exists to transfer any amounts recorded within Foreign Currency Translation Reserve (FCTR) as at 1 July 2004 to retained earnings. For further details, refer to the change in accounting policy below.

Note 1 Accounting Policies (continued)

(i) Current accounting policy

The functional currency of the domestic operations of the Bank has been determined to be Australian Dollars (AUD) as this currency best reflects the economic substance of the underlying events and circumstances relevant to the Bank. Each entity and overseas branch within the Group has also determined their functional currency based on their own primary economic indicators.

All foreign currency monetary items are revalued at spot rates of exchange prevailing at balance sheet date and changes in the spot rate are recorded in the profit and loss. Foreign currency forward, futures, swaps and option positions are revalued at the appropriate market rates applying at balance sheet date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AUD at foreign exchange rates ruling at the dates the fair value was determined. With the exception of the revaluations classified in equity, unrealised foreign currency gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are included in the profit and loss.

The foreign currency assets and liabilities of overseas branches and controlled entities with an overseas functional currency are converted to AUD at balance sheet date in accordance with the foreign exchange rates ruling at that date. Profit and loss items for overseas branches and controlled entities are converted to AUD progressively throughout the year at the spot exchange rate at the date of the transaction. All resulting exchange differences are recognised in the FCTR as a separate component of equity.

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

(iii) Change in accounting policy

Under the option available within AASB 1 the Bank transferred the FCTR as at 30 June 2004 to Retained earnings.

The translation on non-monetary available-for-sale securities, the cash flow hedge reserve and net investments in foreign entities are all recorded in FTCR.

These changes have been applied retrospectively from 1 July 2004.

(f) Cash and liquid assets

The adoption of AIFRS, AASB 127 Consolidated and Separate Financial Statements and UIG 112 Consolidation – Special Purpose Entities has not had a substantial impact on the definition of cash and liquid assets. Additional entities have been consolidated into the Group, refer to Note 1(c) Consolidation. These changes have resulted in a gross-up of cash and liquid assets. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Cash and liquid assets includes cash at branches, cash at bankers, nostro balances, money at short call with an original maturity of three months or less and securities held under reverse repurchase agreements. They are brought to account at the face value or the gross value of the outstanding balance. Interest is taken to profit and loss using the effective interest method when earned.

(ii) Change in accounting policy

Under AASB 127 and UIG 112 special purpose vehicles used for the securitisation of loans and receivables by the Group will be consolidated under AIFRS. This will result in an increase in cash and liquid assets.

Under AASB 107 Cash Flow Statements, the definition of cash and liquid assets includes nostro balances. This balance was previously recorded in receivables from other financial institutions.

The change has been applied retrospectively from 1 July 2004.

(g) Receivables from other financial institutions

The adoption of AIFRS has not had a substantial impact on receivables from other financial institutions. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Receivables from other financial institutions includes loans, deposits with regulatory authorities and settlement account balances due from other banks. They are brought to account at the gross value of the outstanding balance. Interest is taken to profit and loss using the effective interest method.

(ii) Change in accounting policy

Under AASB 107 Cash Flow Statements, nostro balances, previously recorded separately in receivables from other financial institutions, have been reclassified to cash and liquid assets.

Deposits with regulatory authorities, previously recorded separately on the face of the balance sheet, have been reclassified to receivables from other financial institutions.

The change has been applied retrospectively from 1 July 2004

(h) Financial instruments

The adoption of AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement and AASB 130 Disclosures in the Financial Statements of Banks and Similar Financial Institutions from 1 July 2005 has had a significant impact on the recognition, measurement and disclosure of financial instruments. Under these standards, the accounting policy has changed to recognise all derivatives in the balance sheet and to record all derivatives and some financial assets and liabilities at fair market value. Those financial assets and financial liabilities which are not at fair value will be carried at cost or amortised cost.

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

Note 1 Accounting Policies (continued)

Under AASB 132 and AASB 139, financial instruments are required to be classified into one of the following measurement categories which determines the accounting treatment of the item:

- Assets at fair value through the Income Statement (Note 1 (i))
- Available-for-sale investments (Note 1 (j))
- Loans, advances and other receivables (Note 1 (l))
- Liabilities at fair value through the Income Statement (Note 1 (x))
- Liabilities at amortised cost
- Equity (Note 1 (ee))

The change in accounting policy on transition to AIFRS for each class of financial instrument is detailed below. The application of AASB 139 to the recognition and measurement of financial assets and financial liabilities, including derivatives, has given rise to a transition adjustment and will increase volatility in reported profits. For a summary of the change in accounting policy for hedge accounting see Note 1(ff), Derivative financial instruments.

The Group has no held to maturity investments.

In line with the exemption provided by AASB 1, comparative information has not been restated under AASB 132 and AASB 139.

Offsetting financial instruments

The Group offsets financial assets and liabilities and reports the net balance in the Balance Sheet where there is a legally enforceable right to set off, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party and the risks and rewards have substantially been transferred.

(i) Assets at fair value through the Income Statement

Assets at fair value through the Income Statement is a new class of financial asset under AASB 139. There is a substantial change in the recognition and disclosure of these financial assets, however, there is no material change in measurement. For further details, refer to the change in accounting policy below.

(i) Current Accounting policy

Assets at fair value through the Income Statement include assets that are primarily held for trading and assets that upon initial recognition are designated by the Group as at fair value through the Income Statement at origination. The assets are recognised initially at fair value and transaction costs are taken directly to profit and loss. Changes in the fair value of assets at fair value through the Income Statement are reported in other operating income. Dividends are reflected in other operating income when earned.

Assets at fair value through the Income Statement have been reclassified into three subcategories: Trading, Insurance and Other investments.

Trading

Trading assets are short and long term public, bank and other debt securities and equities that are acquired and held for trading purposes. They are brought to account at fair value based on quoted bid prices. In a trading portfolio with offsetting risk positions, quoted mid prices are used to measure the fair value. For non-market quoted assets, fair values have been determined using valuation techniques that are based on market conditions and risks existing at balance sheet date. Changes in fair value, and the reporting of interest and dividends earned are accounted for as outlined above. Trading assets are recorded on a trade date basis.

Insurance

Insurance investment assets include investment securities that back life insurance contracts and life investment contracts. They have been classified as “Assets at fair value through the Income Statement”. Refer to Note 1(hh), Life insurance business for further details.

Other investments

Other investments include financial assets which the Group has designated as assets at fair value through the Income Statement. They are brought to account at fair value based on quoted bid prices. Quoted mid prices are used to measure assets with offsetting risk positions in a portfolio at fair value.

For non-market quoted instruments, fair values have been determined using various methods and assumptions that are based on market conditions and risks existing at balance sheet date. Changes in fair value, and the reporting of interest and dividends earned are accounted for as outlined above. Other investments are recorded on a trade date basis.

(ii) Change in accounting policy

Under AASB 132 and AASB 139, there is a substantial change in the disclosure, recognition, measurement and presentation of financial assets. The standards have been applied from 1 July 2005. The changes are summarised below:

Assets at fair value through the Income Statement is a new category of financial asset.

Trading securities have been reclassified into assets at fair value through the Income Statement.

Insurance investment assets have been reclassified into Assets at fair value through the Income Statement.

Other investments is a new category of financial assets which is disclosed under Assets at fair value through the Income Statement. Other investments are measured at fair value. They were previously carried at cost or amortised cost predominantly in investment securities.

Quoted bid prices where available, are used to account for the fair value of assets. Quoted mid prices where available, are used to account for fair value of assets where there is an offsetting risk position in a portfolio. There is no material change in the measurement of assets at fair value.

Realised gains and losses on disposal and unrealised fair value adjustments are reflected in other operating income. Interest on other investments is reported in net interest earnings using the effective interest method. Dividends are reflected in other operating income when earned.

Note 1 Accounting Policies (continued)

Other investments are recorded on a trade date basis.

(ii) Change in accounting policy

Under AASB 132 and AASB 139, there is a substantial change in the disclosure, recognition, measurement and presentation of financial assets. The standards have been applied from 1 July 2005. The changes are summarised below:

Assets at fair value through the Income Statement is a new category of financial asset.

Trading securities have been reclassified into assets at fair value through the Income Statement.

Insurance investment assets have been reclassified into Assets at fair value through the Income Statement.

Other investments is a new category of financial assets which is disclosed under Assets at fair value through the Income Statement.

Quoted bid prices where available, are used to account for the fair value of assets. Quoted mid prices where available, are used to account for fair value of assets where there is an offsetting risk position in a portfolio. There is no material change in the measurement of assets at fair value.

Other investments are measured at fair value. They were previously carried at cost or amortised cost predominantly in investment securities.

The financial impact of the changes in accounting policy is outlined in Note 1(oo).

(j) Available-for-sale investments

The adoption of AASB 132 and AASB 139 has had a substantial impact on the measurement and disclosure of those financial instruments now classified as available-for-sale investments. Additional entities have been consolidated into the Group, refer to Note 1(c) Consolidation. These changes have resulted in a material gross up of available-for-sale investments. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Available-for-sale investments are short and long term public, bank and other securities and include bonds, notes, bills of exchange, commercial paper, certificates of deposit, equities and rolling originations and syndications.

Available-for-sale investments are initially recognised at fair value including direct and incremental transaction costs and thereafter at fair value. Unquoted equities and investments whose fair value cannot be reliably measured are valued at cost. Gains and losses arising from changes in the fair value are reported in the available-for-sale revaluation reserve net of applicable income taxes until investments are sold, collected, otherwise disposed of, or until such investments become impaired. Interest, premiums and dividends are reflected in other operating income when earned.

Available-for-sale investments are tested for lasting impairment in line with Note 1(n) Provisions for impairment.

On disposal, the accumulated change in fair value within the available-for-sale revaluation reserve is transferred to profit and loss and reported under other operating income in available-for-sale investments.

(ii) Change in accounting policy

Under AASB 139, financial assets previously disclosed as investment securities have predominantly been reclassified to Available-for-sale investments and Loans, advances and other receivables.

Under AASB 139, the Group recognises available-for-sale investments initially at fair value, including direct and incremental transaction costs and thereafter at fair value. Investment securities which were previously recognised at cost or amortised cost have been restated to fair value. Changes in fair value have been included as a separate component of equity (available-for-sale revaluation reserve) until sale when the cumulative gain or loss is transferred to profit and loss. The change in measurement has been applied from 1 July 2005.

(k) Repurchase agreements

There is no material change in accounting policy.

Securities sold under agreements to repurchase are retained within the Available-for-sale investments or Assets at fair value through the Income Statement line items and accounted for accordingly in line with Note 1 (j) and (i) respectively.

Liability accounts are used to record the obligation to repurchase and disclosed as Deposits. Securities held under reverse repurchase agreements are recorded within Cash and liquid assets.

(l) Loans, advances and other receivables

The adoption of AASB 127, AASB132, AASB139 and UIG 112 has had a substantial impact on the recognition, measurement and disclosure of those financial instruments classified as loans, advances and other receivables. Additional entities have been consolidated into the Group, refer to Note 1(c) Consolidation. These changes have resulted in a material gross up of loans, advances and other receivables. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Loans, advances and other receivables are financial assets with fixed and determinable payments that are not quoted in an active market.

They include overdrafts, home loans, credit card and other personal lending, term loans, bill financing, redeemable preference shares, securities and finance leases. Loans, advances and other receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using the effective interest method. Where loans, advances and other receivables are originated with the intent to be sold immediately or in the short term, they are recorded in Assets at fair value through the Income Statement.

Note 1(m) and Note 1(n) provides additional information with respect to leasing and impairment respectively. For more details on revenue recognition refer to Note 1(d) Revenue recognition.

Non Performing Facilities

Individual provisions for impairment are recognised to reduce the carrying amount of loans and advances to their estimated recoverable amounts. Individually significant provisions are calculated based on discounted cash flows.

Note 1 Accounting Policies (continued)

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through 'Interest Income'. In subsequent periods, interest in arrears/due on non performing facilities is taken to profit and loss when a cash payment is received/ realised and the amount is not designated as a principal payment.

Restructured Facilities

There is no change in accounting policy.

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

Assets Acquired Through Securities Enforcement

("AATSE")

There is no change in accounting policy.

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

Impairment of loans, advances and other receivables

There has been a change in the recognition and measurement of impairment of loans, advances and other receivables as explained in Note 1(n) Provisions for impairment.

(ii) Change in accounting policy

Under AASB 139, loans are measured at amortised cost using the effective interest rate method.

As explained in Note 1(n), the Group has individually assessed provisions and collective provisions for impairment. In addition, the measurement and recognition of those provisions has changed, which is also explained in Note 1(n).

The change in measurement has been applied from 1 July 2005.

Under AASB 127 and UIG 112 special purpose vehicles used for the securitisation of loans and receivables by the Group will be consolidated under AIFRS. This will result in an increase in loans, advances and other receivables.

The change in recognition associated with AASB 127 and UIG 112 has been applied retrospectively from 1 July 2004.

(m) Leasing

The adoption of AASB 117 Leases has not had a significant impact on the recognition, measurement or disclosure of leases. The changes are minimal except and so far as leveraged leases that were 'grandfathered leveraged leases' are now measured and disclosed as finance leases. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Leveraged leases are accounted for with income being brought to account at the rate which yield a constant rate of return on the outstanding investment balance over the life of the transaction so as to reflect the underlying assets, liabilities, revenue and expense that flowed from the arrangements. Where a change has occurred in the estimated lease cash flows or available tax benefits at any stage during the term of the lease, the total lease profit is recalculated for the entire lease term and apportioned over the remaining lease term.

Leases where the Group transfers substantially all the risks and rewards incident to ownership of an asset to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised.

AASB 117 requires income on finance lease transactions to be recognised on a basis reflecting a constant periodic return based on the lessor's net investment outstanding in respect of the finance lease.

The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest method. Finance lease receivables are included in loans, advances and other receivables.

Leveraged leases are accounted for with income being brought to account at the rate which yield a constant rate of return on the outstanding investment balance over the life of the transaction so as to reflect the underlying assets, liabilities, revenue and expenses that flowed from the arrangements. Where a change has occurred in the estimated lease cash flows or available tax benefits at any stage during the term of the lease, the total lease profit is recalculated for the entire lease term and apportioned over the remaining lease term.

Leases where the Group retains substantially all the risk and rewards incident to ownership of an asset are classified as operating leases.

Operating lease rental revenue and expense is recognised in profit and loss on a straight-line basis over the lease term. The Group includes assets leased out under operating leases in property, plant and equipment. These assets are depreciated over their expected useful lives on a basis consistent with similar fixed assets.

(ii) Change in accounting policy

Previously, only leveraged leases with a lease term beginning from 1 July 1999 were accounted for as finance leases with income brought to account progressively over the lease term. With the adoption of AASB 117 Leases, all leveraged leases, including those written prior to 1 July 1999 will now be measured and disclosed as finance leases.

(n) Provisions for impairment

The adoption of AASB 139 Financial Instruments: Recognition and Measurement and AASB 136 Impairment of Assets has had a substantial impact on the measurement and recognition of impairment of financial and non-financial assets. For further details, refer to the change in accounting policy below.

Note 1 Accounting Policies (continued)

(i) Current accounting policy

Financial assets

Financial assets, excluding derivative assets and assets at fair value through the Income Statement, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ("a loss event") and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. If any such indication exists, the asset's carrying amount is written down to the asset's estimated recoverable amount.

Loans, advances and other receivables

The Group assesses at each balance date whether there is any objective evidence of impairment.

If there is objective evidence that an impairment loss on loans, advances and other receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of provisions for loan impairment. The Group has Individually Assessed provisions and Collectively Assessed provisions. Individually assessed provisions are made against individually significant financial assets and those that are not individually significant, including groups of financial assets with similar credit risk characteristics. All other loans and advances that do not have an individually assessed provision are assessed collectively for impairment. Collective provisions are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date.

The expected future cash flows for portfolios of similar assets are estimated on the basis of historical loss experience, for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Increases or decreases in the provision amount are recognised in the profit and loss.

Available-for-sale investments

When a decline in the fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity (refer Note 1(j)) shall be removed from equity and recognised in the profit and loss.

If in a subsequent period the amount of an impairment loss for an available-for-sale debt security decreases and the decrease can be linked objectively to an event occurring after the impairment event, the impairment is reversed through the profit and loss. However impairment losses on available for sale equity securities are not reversed while the asset is still recognised.

Goodwill and other non-financial assets

Goodwill balances and intangible assets with an indefinite useful life are assessed for impairment at each reporting date or more regularly where an indication of impairment exists. Please refer to Note 1(t) Intangibles for more details on goodwill and intangibles impairment testing. If any such indication exists, the asset's carrying amount is written down to the asset's estimated recoverable amount and this loss is recognised in the profit and loss in the period in which it occurs.

The carrying amounts of the Group's other non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset (other than goodwill) can be the greater of their fair value less cost to sell or value in use. The Group's policy is to use the fair value less costs to sell in assessing recoverable amount. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss.

A previously recognised impairment loss (except for goodwill) is reversed if there has been a change in the estimates used to determine the recoverable amount. However, the reversal is not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

Off-balance sheet items

Under AASB 137 Provisions, Contingent Liabilities and Contingent Assets, provisions for impairment on off-balance sheet items such as a commitment are reported in other provisions. Measurement of provisions is discussed further in Note 1(aa) Provisions.

The amounts required to bring the provisions for impairment to their assessed levels are charged to profit and loss.

(ii) Change in accounting policy

Under previous AGAAP and in line with market practice, the Group's general provision for bad and doubtful debts was maintained to cover non identified probable losses and latent risks inherent in the overall portfolio of advances and other credit transactions.

Under AIFRS, the Group must raise impairment provisions in respect of only those advances and credit transactions, for which there is 'objective evidence' of impairment as at each balance sheet date.

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

The discount unwinds during the period between the initial recognition of the impairment provision and the eventual recovery of the written down amount, resulting in the recording of interest income in the Income Statement.

Specific provisions will now be known as individually assessed provisions and are established where objective evidence of impairment has been identified via an individual assessment of a financial asset or group of financial assets.

Note 1 Accounting Policies (continued)

Individually significant provisions are assessed as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the assets original effective interest rate.

Loans and advances that do not have an individually assessed provision are assessed collectively for impairment.

The transitional provisions for loan impairment will result in adjustments to existing provisions being taken to Retained profits.

The difference between the post-tax equivalents of the previous general provision and new collective provision has been appropriated from Retained profits to a separate component of equity, general reserve for credit losses.

(o) Bank acceptances of customers

There is no change in accounting policy.

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

(p) Shares in and loans to controlled entities

There has been no substantial change in accounting policy.

Shares in controlled entities are carried in the Bank's financial statements at the lower of cost of acquisition or recoverable amount, and loans to controlled entities are measured at amortised cost using the effective interest method. These assets are brought to account at fair value when impaired and a provision is raised as per Note 1(n) Provisions for impairment.

(q) Investment property

The adoption of AASB 116 Property, Plant and Equipment and AASB 140 Investment Property have not had a material impact on the recognition and measurement of these assets. There have however been some disclosure changes in relation to investment property. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Investment properties are classified as properties held to earn rental income and/or for capital appreciation. The Group carries investment properties at fair value based on a valuation performed by professional valuers. Valuations are carried out annually. Fair value movements are taken to the profit and loss in the year in which they arise.

Investment properties are separately disclosed on the face of the balance sheet and in the notes to the financial statements.

(ii) Change in accounting policy

Investment properties were previously included within Property, Plant and Equipment and are now split out and separately disclosed on the face of the balance sheet and in the notes to the financial statements.

The changes in disclosure have been applied from 1 July 2005.

(r) Assets classified as held for sale

The adoption of AASB 5 Non-Current Assets Held for Sale and Discontinued Operations, and AASB 116 Property, Plant and Equipment have not had a material impact on the recognition and measurement of these assets. There have been some disclosure changes in relation to assets classified as held for sale. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Assets are classified as held for sale when their carrying amounts will be recovered principally through sale within 12 months. They are measured at the lower of carrying amount and fair value less costs to sell and if material are disclosed separately on the face of the balance sheet.

Assets classified as held for sale are neither amortised nor depreciated.

(ii) Change in accounting policy

Assets classified as held for sale were previously included within Property, Plant and Equipment and are now split out and if material, separately disclosed on the face of the balance sheet and in the notes to the financial statements.

The changes in disclosure have been applied from 1 July 2005.

(s) Property, Plant and Equipment

The adoption of AASB 5 Non-Current Assets Held for Sale and Discontinued Operations, AASB 116 Property, Plant and Equipment and AASB 140 Investment Property have not had a material impact on the recognition and measurement of these assets. There have been some disclosure changes in relation to investment property and assets classified as held for sale. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

The Group measures its property assets (land and buildings) on a fair value measurement basis which is based upon independent market valuations.

Any increments in fair value is recognised in the profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit and loss. Gains or losses on disposals are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Realised amounts in the Asset Revaluation Reserve are transferred to Retained profits.

Equipment is shown at cost less accumulated depreciation and provision for impairment, if any. Depreciation is calculated principally on a category basis at rates applicable to each category's useful life using the straight-line method. It is treated as an operating expense and charged to the profit and loss. The amounts charged for the year are shown in Note 3 Operating Expenses.

Computer software is capitalised at cost and classified as Property, Plant and Equipment where it is deemed integral to the operation of associated hardware.

The useful lives of major depreciable asset categories are as follows:

Note 1 Accounting Policies (continued)

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

Depreciation rates and methods underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.

No depreciation is provided on freehold land, although, in common with all long-lived assets, it is subject to impairment testing, if deemed appropriate.

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately through profit and loss to its recoverable amount.

Where the Group expects the carrying amount of assets held within property, plant and equipment to be recovered principally through a sale transaction in the short-term rather than through continuing use, these assets are classified as held for sale.

(ii) Change in accounting policy

Under AASB 116 Property, Plant and Equipment, property revaluations were previously recognised on a class of asset basis where increments and decrements are offset against each other when they relate to the same class of assets. Under AIFRS, such increments and decrements can now be only offset when they relate to the same asset. This has led to revaluation amounts that were previously offset being allocated back to assets.

Investment properties and assets classified as held for sale previously included within property, plant and equipment have been split out and if material, are separately disclosed on the face of the balance sheet and in the notes to the financial statements. For further details refer to Note 1(q) and Note 1(r) on Investment property and Assets classified as held for sale respectively.

Previously, realised amounts in the Asset Revaluation Reserve were transferred to Capital Reserve, but are now transferred to Retained profits.

The changes in disclosure have been applied from 1 July 2004.

(t) Intangibles

The adoption of AASB 138 Intangible Assets has had a substantial impact on the recognition, measurement and disclosure of Intangibles. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Goodwill

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

Goodwill is reviewed annually for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired. For the purposes of impairment testing, goodwill is allocated to cash-generating units or groups of units. A cash-generating unit is the smallest identifiable group of assets that generate independent cash flows. Goodwill is allocated by the Group to cash generating units or groups of units based on how goodwill is monitored by management.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit/ group of units is less than the carrying amount of the unit/group of units. The recoverable amount of the cash-generating units is calculated as the fair value less costs to sell measured using readily available market data and assumptions. Impairment losses on goodwill are not subsequently reversed.

Gains and losses on the disposal of an entity are net of the carrying amount of the goodwill relating to the entity sold.

Computer software costs

Where computer software costs are not integrally related to associated hardware, the Group recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Group controls.

The Group carries capitalised software assets at cost less amortisation and any impairment losses, if any.

These assets are amortised over the estimated useful lives on a straight-line basis at a rate applicable to the expected useful life of the asset, but which is usually 2½ years. Software maintenance costs continue to be expensed as incurred.

Any impairment loss is recognised in the profit and loss when incurred.

Other Intangibles

Other intangibles comprise acquired management fee rights and customer lists where they are clearly identifiable, can be reliably measured and where it is probable they will lead to future economic benefits that the Group controls.

The Group carries capitalised management fee rights and customer lists at costs less amortisation and any impairment losses. These assets are either deemed indefinite and assessed annually for impairment or amortised over the estimated useful lives on a straight-line basis over a period not usually exceeding ten years.

Any impairment loss is recognised in the profit and loss when incurred.

Under AASB 138, the acquired component of any excess of the net market value over net assets of the Group's life insurance controlled entities is classified to goodwill.

Note 1 Accounting Policies (continued)

(ii) Change in accounting policy

Under AASB 138, goodwill is no longer required to be amortised, but is subject to an annual impairment test, or more frequent tests if events or changes in circumstances indicate that it might be impaired. On transition, goodwill is included on the basis of its deemed cost as at 1 July 2004 which represents the carrying amount recorded under previous AGAAP.

The AIFRS standards have not been applied retrospectively to business combinations that occurred prior to 1 July 2004 in preparing the Group's opening AIFRS balance sheet at 30 June 2005. The only adjustment made to goodwill has been the recognition of other separately identifiable intangible assets for capitalised management fee rights and customer lists.

Computer software cost was previously included in Other assets, but has either been reclassified to intangible assets or property, plant and equipment.

Under AASB 138 the asset representing the excess of the net market value over net assets of the Group's life insurance controlled entities can no longer be recognised in full. The acquired component has been reclassified to goodwill and the write off of the internally generated component has been reflected on transition at 1 July 2004 against the General Reserve. For further details, refer to Note 1(hh) Life Insurance Business.

(u) Other assets

The adoption of AASB 132, AASB 138 and AASB 1038 Life Insurance Contracts, has resulted in the reclassification of derivative assets, computer software costs and the asset representing the excess of the net market value of net assets of the Group's Life Insurance controlled entities. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

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

The net surpluses or deficits that arise within defined benefit superannuation plans are recognised and disclosed separately in other assets and bills payable and other liabilities. As the bank carries a net surplus, no funding of the Australian defined benefit superannuation plan is required, therefore the related expense has been treated as a non cash item.

(ii) Change in accounting policy

Capitalised computer software cost has been reclassified to Intangible assets. Trading derivatives have been reclassified to Derivative assets.

Under AASB 138 the asset representing the excess of the net market value over net assets of the Group's life insurance controlled entities can no longer be recognised in full.

The acquired component has been reclassified to goodwill and the write off of the internally generated component has been reflected on transition at 1 July 2004 against the General Reserve. For further details, refer to Note 1(hh) Life Insurance Business.

Under AASB 119, the surplus within the defined benefit superannuation plan has been recognised and disclosed within other assets. The change in measurement has been applied retrospectively from 1 July 2004.

(v) Deposits from Customers

The adoption of AASB 132 and AASB 139 has not had a substantial impact on deposits and other public borrowings. The changes relate to measurement and recognition. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Deposits and other public borrowings includes certificates of deposits, term deposits, savings deposits, cheque and other demand deposits, debentures and other funds raised publicly by borrowing corporations. They are brought to account at fair value plus directly attributable transaction costs at inception. Deposits and other public borrowings are subsequently stated at amortised cost. Interest and yield related fees are taken to profit and loss based on the effective interest method when incurred.

Where the Group has hedged the deposits with derivative instruments, hedge accounting rules are applied (refer to Note 1(ff) Derivative financial instruments).

(ii) Change in accounting policy

Interest and yield related fees are taken to profit and loss based on the effective interest method when incurred, whereas previously interest was taken to profit and loss on an accrual basis when incurred. There has been no substantial change in the carrying value of deposits and other public borrowings as a result of this change.

The change has been applied from 1 July 2005.

(w) Payables to other financial institutions

The adoption of AASB 132 and AASB 139 has not had a substantial impact on payables to other financial institutions. The changes relate to measurement and recognition. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Payables to other financial institutions includes deposits, vostro balances and settlement account balances due to other banks. They are brought to account at fair value plus directly attributable transaction costs at inception.

Payables to other financial institutions are subsequently stated at amortised cost. Interest and yield related fees are taken to profit and loss using the effective interest method when incurred.

(ii) Change in accounting policy

Interest and yield related fees are taken to the profit and loss based on the effective interest method when incurred, whereas previously interest was taken to profit and loss on an accrual basis when incurred. There has been no substantial change in the carrying value of Payables to other financial institutions as a result of this change.

The liabilities are measured at fair value plus directly attributable transaction costs at inception. They are subsequently stated at amortised cost. They were previously carried at the gross value of the outstanding balance. The change has been applied from 1 July 2005.

Note 1 Accounting Policies (continued)

(x) Liabilities at fair value through the Income Statement

Liabilities at fair value through the Income Statement is a new class of financial liabilities under AASB 139. There is a substantial change in the recognition, measurement and disclosure of these liabilities. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

The Group designates certain liabilities as at fair value through the Income Statement on origination where those liabilities are managed on a fair value basis. Changes in the fair value of liabilities through the Income Statement are reported in profit and loss. For quoted liabilities quoted offer prices are used to measure fair value. Quoted mid prices are used to measure liabilities at fair value through the Income Statement with offsetting risk positions in a portfolio at fair value. For non-market quoted liabilities, fair values have been determined using valuation techniques.

(ii) Change in accounting policy

Under AASB 139, certain financial liabilities that were predominantly disclosed as deposits from customers and debt issues at amortised cost under previous AGAAP, are now reclassified to liabilities at fair value through the Income Statement. The change in measurement has been applied from 1 July 2005.

(y) Income taxes

The adoption of AASB 112 Income Taxes and UIG 1052 Tax Consolidation Accounting has had an impact on the measurement and disclosure of income taxes of the tax-consolidated Group, and thus, of various members of the Group. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Commonwealth Bank of Australia elected to be taxed as a single entity under the tax consolidation system with effect from 1 July 2002.

The Bank has formally notified the Australian Taxation Office of its adoption of the tax consolidation regime. In addition to the Bank electing to be taxed as a single entity under the tax consolidation regime, the measurement and disclosure of deferred tax assets and liabilities has been performed in accordance with the principles in AASB 112, and on a stand alone basis under UIG 1052.

Any current tax liabilities/assets (after the elimination of intra-group transactions) and deferred tax assets arising from unused tax losses assumed by the Bank from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Bank as an equity contribution to or distribution from the subsidiary.

The Bank recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the Bank only.

The members of the tax-consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts.

(ii) Change in accounting policy

A “balance sheet” approach to tax-effect accounting is followed under AIFRS replacing the previous “liability method”. This approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. Also, unused tax losses are now recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available, whereas previously the tax losses had to be virtually certain of being utilised. As at 1 July 2004 these changes in approach did not result in any material adjustment to Shareholders’ Equity other than as a result of other AIFRS transition adjustments.

In addition, deferred tax assets/liabilities are now separately disclosed on the face of the Balance Sheet. Additional disclosures have been provided in the notes to the financial statements.

(z) Employee benefits

The adoption of AASB 119 Employee Benefits and AASB 2 Share-based Payments have had a substantial impact on the recognition, measurement and disclosure of net surpluses and/or deficits of the defined benefit superannuation plans. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Annual leave

The provision for annual leave represents the current outstanding liability to employees at balance sheet date.

Long service leave

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

Note 1 Accounting Policies (continued)

Other employee benefits

The provision for other employee entitlements represents liabilities for staff housing loan benefits, a subsidy to a registered health fund with respect to retired employees and current employees, and employee incentives under employee share plans and bonus schemes.

The level of these provisions has been determined in accordance with the requirements of AASB 119.

Under AASB 2 Share-based Payments, the Group engages in equity settled share-based compensation in respect of services received from certain of its employees. The fair value of the share-based compensation is calculated at grant date and amortised to profit and loss against the Equity Compensation Reserve over the vesting period, subject to service and performance conditions being met.

When allocating share based payments, the Bank purchases shares on market and recognises them at cost as a deduction to Share capital (Treasury Shares). On settlement the shares are issued and recognised against the Equity Compensation Reserve.

Defined benefit superannuation plan

The Group currently sponsors two defined benefit superannuation plans for its employees. The assets and liabilities of these plans are legally held in separate trustee-administered funds. They are calculated separately for each plan by assessing the fair value of plan assets and deducting the amount of future benefit that employees have earned in return for their service in current and prior periods discounted to present value. The discount rate is the yield at balance sheet date on government securities which have terms to maturity approximating to the terms of the related liability. The defined benefit superannuation plan surpluses and/or deficits are calculated by fund actuaries. Contributions to all superannuation plans are made in accordance with the rules of the plans. As the Australian plan is in surplus, no funding is currently necessary.

Actuarial gains and losses related to defined benefit superannuation plans are directly recorded in retained profits. The net surpluses or deficits that arise within defined benefit superannuation plans are recognised and disclosed separately in other assets and bills payable and other liabilities.

Defined contribution superannuation plan

The Group sponsors a number of defined contribution superannuation plans. Certain plans permit employees to make contributions and earn matching or other contributions from the Group. The Group recognises contributions due in respect of the accounting period in the profit and loss. Any contributions unpaid at the balance sheet date are included as a liability.

Superannuation plan expense

Under AIFRS, an additional non-cash expense is recognised reflecting the accrual accounting charge to profit and loss associated with defined benefit superannuation plans.

(ii) Change in accounting policy

The Group sponsors two defined benefit superannuation plans on behalf of its employees. Previously, the net surpluses and/or deficits of these plans were not included in the financial statements.

Under AASB 119, the surpluses or deficits that arise within defined benefit superannuation plans are recognised and disclosed separately in other assets and bills payable and other liabilities. From 1 July 2004, the actuarial gains and losses relating to defined benefit superannuation plans are recorded in retained profits. On transition to AIFRS, the comparative period beginning 1 July 2004 recorded an opening Retained profits adjustment where an additional non-cash expense is recognised reflecting the accrual accounting charge to profit and loss associated with defined benefit superannuation plans.

Under previous AGAAP, the Bank accrued all share-based compensation on a cost basis and amortised it to expense over the vesting period where there were performance hurdles to be met. Shares in the Bank were purchased by a Trust when the shares were granted and held until they are vested to the employee. Under AASB 2, AASB 119 and AASB 132 the fair value of the share-based compensation is calculated at grant date and amortised to the profit and loss over the vesting period, subject to service and performance conditions being met.

Shares in the Bank held by the Trust will be consolidated, reclassified as ‘Treasury Shares’ and accounted for as a deduction from Share capital.

(aa) Provisions

The adoption of AASB 137 Provisions, Contingent Liabilities and Contingent Assets has not had any material impact on provisions.

(i) Current accounting policy

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provision for dividend

A provision for dividend payable is recognised when dividends are declared in the period in which they are approved by the Group’s shareholders.

Provisions for restructuring

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

Provision for ‘Which new Bank’ costs

On 19 September 2003, the Group launched its “Which new Bank” customer service vision. This is a three year transformation programme and involves the Bank in additional expenditure in the key areas of staff training and skilling, systems and process simplification, and technology. Such expenses provided for principally comprise redundancies and process improvements.

Provision for self-insurance

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

(bb) Debt issues

The adoption of AASB 127 and AASB 139 and UIG 112 has had a substantial impact on the recognition and measurement of debt issues.

Note 1 Accounting Policies (continued)

Additional entities have been consolidated into the Group, refer to Note 1(c) Consolidation. These changes have resulted in a material gross up of debt issues.

Certain debt issues are designated within fair value hedging relationships and as a result the debt hedge has been measured at fair value for the risk that has been hedged.

For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Debt issues are short and long term debt issues of the Group including commercial paper, notes, term loans and medium term notes. Commercial paper, floating, fixed and structured debt issues are recorded at cost or amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the profit and loss from the date of issue to ensure that securities attain their redemption values by maturity date.

Interest is charged against profit and loss using the effective interest method when incurred. Any profits or losses arising from redemption prior to maturity are taken to the profit and loss in the period in which they are realised.

Hedging

The Group hedges interest rate and foreign currency risk on certain debt issues. When hedge accounting is applied to fixed rate debt issues, the carrying values are adjusted for changes in fair value related to the hedged risks rather than carried at amortised cost. Refer to Note 1(ff) Derivative financial instruments.

(ii) Change in accounting policy

Premiums, discounts and associated issue expenses are recognised using the effective interest method through the profit and loss each year from the date of issue to ensure securities attain their redemption values by maturity date. Under previous AGAAP, these items were recognised on an accrual basis through the profit and loss.

The requirement to separate embedded derivatives from debt issues is new under AASB 139. The change has been applied from 1 July 2005.

Debt issued by entities used to securitise assets of the Group, and certain asset-backed conduit entities, are consolidated under AIFRS. This results in material gross-ups of debt issues and the related interest expense (assets and related income are similarly grossed up). This change has been applied retrospectively from 1 July 2004.

(cc) Bills payable and other liabilities

The adoption of AASB 119, AASB 127 and AASB 139 and UIG 112 has not had a substantial impact on Bills payable and other liabilities. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Bills payable and other liabilities includes interest, fees, defined benefit superannuation plan deficit, other unrealised expenses payable and securities purchased not delivered.

The superannuation plan deficit is recorded in line with Note 1(z) Employee benefits while the remaining liabilities are recorded at amortised cost using the effective interest method.

(ii) Change in accounting policy

Additional entities have been consolidated into the Group, refer to Note 1(c) Consolidation. These changes have resulted in a reduction of bills payable and other liabilities due to inter company eliminations.

Market revaluation of trading derivatives previously recorded in bills payable and other liabilities have been reclassified to derivative financial instruments from 1 July 2005.

Under AASB 119, the deficit within one defined benefit superannuation plan has been recognised and disclosed in bills payable and other liabilities. The change in measurement has been applied retrospectively from 1 July 2004.

(dd) Loan capital

The adoption of AASB 132 and AASB 139 has had a substantial impact on the disclosure and measurement of loan capital. Certain hybrid financial instruments of the Group previously classified as equity instruments, have now been classified as loan capital. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

Loan capital is debt issued by the Group with terms and conditions, such as being undated or subordinated, which qualify the debt issue for inclusion as capital under APRA. Loan capital debt issues are initially recorded at fair value plus transaction costs that are directly attributable to the loan capital debt issue. After initial recognition the loan capital debt issue shall be measured at amortised cost using the effective interest method.

Interest inclusive of premiums, discounts and associated issue expenses are recognised using the effective interest method over the expected life of the instrument through the profit and loss each year from the date of issue so that they attain their redemption values by maturity date. Any profits or losses arising from redemption prior to expected maturity are taken to the profit and loss in the period in which they are realised.

(ii) Change in accounting policy

From 1 July 2005, under AASB 132, certain hybrid financial instruments of the Group which were previously classified as equity with the associated distribution reported as dividends paid, are now classified as loan capital and the associated distribution reported as interest expense.

Interest, inclusive of premiums, discounts and associated issue expenses are amortised through profit and loss each year using the effective interest method.

Previously, they were taken to the profit and loss on a straight line basis when incurred.

(ee) Shareholders' equity

The adoption of AASB 132 has had a substantial impact on the recognition and disclosure of shareholder's equity. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

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

Under AASB 132, Treasury Shares are deducted from Ordinary share capital. Gains or losses on the reissue of Treasury Shares are recognised in Shareholders' Equity within Other contributed capital.

Note 1 Accounting Policies (continued)

Other contributed capital represents the movement between acquisition and reissue price of Treasury Shares.

General reserve is derived from revenue profits and is available for dividend except for undistributable profits in respect of the Group's life insurance businesses.

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

A General Reserve for Credit Loss has been appropriated from Retained profits to comply with APRA's proposed prudential requirements.

(ii) Change in accounting policy

From 1 July 2004, under AASB 127 Treasury Shares are deducted from ordinary share capital. The gain or loss on reissue of Treasury Shares is recognised in Other contributed capital. The minority interests in controlled unit trusts of the life insurance companies no longer qualify as equity. As a result, the Group has, on adoption of AIFRS, reclassified outside equity interests in life insurance statutory funds and other funds as liabilities.

From 1 July 2005 certain hybrid financial instruments previously recorded in Shareholders' Equity have been reclassified as Loan capital.

(ff) Derivative financial instruments

The adoption of AASB 132 and 139 has had a substantial impact on the recognition, measurement and disclosure of derivative financial instruments. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

The Group has a significant volume of derivative financial instruments that include foreign exchange contracts, forward rate agreements, futures, options and interest rate, currency, equity and credit swaps. Derivative financial instruments are used as part of the Group's trading activities and to hedge certain assets and liabilities. All derivatives that do not meet the hedging criteria under AASB 139 are classified as derivatives held for trading.

The Group initially recognises derivative financial instruments in the balance sheet at the fair value of consideration given or received. They are subsequently remeasured to fair value based on quoted market prices, broker or dealer price quotations. A positive revaluation amount of a contract is reported as an asset and a negative revaluation amount of a contract as a liability. Changes in fair value of trading derivatives are reflected in the profit and loss immediately as they occur unless a derivative is designated within a hedging relationship.

Derivative financial instruments utilised for hedging relationships

The Group also uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. Hedge accounting can be applied subject to certain rules for fair value hedges, cash flow hedges and hedges of foreign operations. Cash flow and fair value hedges are the predominant hedging models applied by the Group.

Swaps

Interest rate swap receipts and payments are accrued to the profit and loss using the effective interest method as interest of the hedged item or class of items being hedged over the term for which the swap is effective as a hedge of that designated item.

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

Fair value hedges

For fair value hedges, the change in fair value of the hedging derivative, and the hedged risk of the hedged item, is recognised in the Income Statement within Other operating income. If the fair value hedge relationship is terminated for reasons other than the derecognising of the hedged item, fair value hedge accounting ceases and the fair value of the hedged item is amortised to profit and loss over the remaining term of the original hedge. If the hedged item is derecognised the unamortised fair value adjustment is recognised immediately in the profit and loss.

Cash flow hedges

A fair valuation gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in Shareholders' Equity within the cash flow hedge reserve. Amounts from the cash flow hedge reserve are transferred to the profit and loss when the cash flows on the hedged item are recognised in profit and loss. Gains and losses resulting from cash flow hedge ineffectiveness are recorded in the profit and loss.

This represents the amount by which changes in the fair value of the expected cash flow of the hedging derivative differ from the fair value of the changes (or expected changes) in the cash flow of the hedged item.

Where the hedged item is derecognised, the cumulative gain or loss is recognised immediately in the profit and loss. If for reasons other than the derecognition of the hedged item, cash flow hedge accounting ceases, the cumulative gains or losses are amortised over the remaining term of the original hedge.

Embedded derivatives

A derivative may be embedded within a host contract. If the host contract is not already carried at fair value with changes in fair value reported in the profit and loss, the embedded derivative is separated from the host contract where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. This is then accounted for as a stand-alone derivative instrument at fair value.

(ii) Change in accounting policy

The adoption of AASB 132 and AASB 139 has had a substantial impact on the recognition, measurement and disclosure of derivative financial instruments. The changes are summarised below:

Derivative assets and derivative liabilities are to be recognised at fair value and disclosed separately on the face of the balance sheet.

Note 1 Accounting Policies (continued)

The Group complies with new hedge accounting rules which include the use of predominantly fair value or cash flow hedges, the designation of hedging relationships and the documentation of these relationships.

Embedded derivatives are now required to be identified, separated and fair valued provided they are not closely related to their host contract.

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

The adoption of AASB 132 and AASB 139 has had a substantial change in the disclosure, recognition, measurement and presentation of certain financial liabilities which were previously treated as contingent liabilities. For further details, refer to change in accounting policy below.

(i) Current accounting policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities, and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties.

Financial guarantee contracts are initially recognised in the financial statements at fair value on the date that the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit and loss the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the profit and loss. Any liability remaining is recognised in the profit and loss when the guarantee is discharged, cancelled or expires.

(ii) Change in accounting policy

Under AGAAP, credit related instruments (other than credit derivatives) were treated as contingent liabilities and these are not shown on the balance sheet unless, and until, the Group is called upon to make a payment under the instrument. Fees received for providing these instruments are taken to profit over the life of the instrument and reflected in fees and commissions receivable.

Under AIFRS, the Group recognises financial guarantee contracts as financial liabilities, initially at fair value through profit and loss and subsequently at the higher of the initial measurement, less amortisation calculated to recognise in the profit and loss the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

(hh) Life Insurance Business

The adoption of AASB 4 Insurance Contracts and AASB 1038 Life Insurance Contracts has impacted on the measurement, recognition and disclosure of the life insurance business.

Under AASB 4, life insurance contracts are accounted for in accordance with AASB 1038 (which is largely consistent with previous AGAAP except there is a change in determination of discount rates) while investment contracts are accounted for a as financial instruments with a separate management services element in accordance with AASB 139 and AASB 118. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

The Group’s life insurance business is comprised of insurance contracts and investment contracts as defined by AASB 4.

Insurance contracts are accounted for in accordance with the requirements of AASB 1038. Investment contracts are accounted for in accordance with AASB 139. Details are set out below:

All assets, liabilities, revenues, expenses and equity are included in the financial report irrespective of whether they are designated as relating to policyholders or to shareholders.

All assets backing insurance liabilities are classified as assets at fair value through the Income Statement. They are brought to account at fair value based on quoted bid prices or using valuation techniques.

Life insurance contract liabilities are measured at net present value of future receipts from and payments to policyholders using a risk free discount rate (or expected fund earning rate where benefits are contractually linked to the asset performance), and are calculated in accordance with the principles of Margin on Services (MoS) profit reporting as set out in Actuarial Standard AS 1.04: Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board.

Life investment contract liabilities are measured in accordance with AASB 139 as liabilities with changes in fair value taken to the Income Statement.

Premiums and claims are separated on a product basis into their revenue, expense and change in liability components unless the separation is not practicable or the components cannot be reliably measured.

Returns on all investments controlled by life insurance entities within the Group are recognised as revenues. Investments in the Group’s own equity instruments held within the life insurance statutory funds and other funds, are treated as Treasury Shares in accordance with Note 1(ee) Shareholders’ Equity.

Initial entry fee income on investment contracts issued by life insurance entities is recognised upfront where the Group provides financial advice. Other fees are deferred over the life of the underlying investment contract.

Participating benefits vested in relation to the financial year, other than transfers from unvested policyholder benefits liabilities, are recognised as expenses.

Reinsurance contracts entered into are recognised on a gross basis.

Note 1 Accounting Policies (continued)

Premiums and Claims

(i) Life insurance contracts

Premiums received for providing services and bearing risks are recognised as revenue. Premiums with a regular due date are recognised as revenue on an accruals basis. Premiums with no due date are recognised on a cash received basis. Insurance contract claims are recognised as an expense when a liability has been established.

(ii) Investment contracts

Premiums received~~,~~ include the fee portion of the premium recognised as revenue over the period the underlying service is provided and the deposit portion recognised as an increase in investment contract liabilities. Premiums with no due date are recognised on a cash received basis. Fees earned for managing the funds invested are recognised as revenue. Claims under investment contracts represent withdrawals of investment deposits and are recognised as a reduction in investment contract liabilities.

Life Insurance Liabilities and Profit

Policy liabilities are calculated in a way that allows for the systematic release of planned profit margins as services are provided to policyowners and the revenues relating to those services are received. Selected profit carriers including premiums and anticipated policy payments are used to determine profit recognition.

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

Participating Policies

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

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

Life Insurance Contract Acquisition Costs

Acquisition costs for life insurance contracts include the fixed and variable costs of acquiring new business. These costs are effectively deferred through the determination of life insurance contract liabilities at the balance date to the extent that they are deemed recoverable from premium or contract charges.

Deferred acquisition costs are effectively amortised over the expected life of the life insurance contract.

Investment Contract Acquisition Costs

Acquisition costs for investment contracts include the fixed and variable costs of acquiring new business. However, the deferral of investment contract acquisition costs is limited by the application of AASB 118 and 139 to the extent that only incremental transaction costs (for example commissions and volume bonuses) are deferred and minimum investment contract liability is no less than the contract surrender value.

Managed Fund Units on Issue – held by minority unitholders

The life insurance statutory funds and other funds include controlling interests in trusts and companies, and the total amounts of each underlying asset, liability, revenue and expense of the controlled entities are recognised in the consolidated financial statements.

When a controlled unit trust is consolidated, the share of the unit holder liability attributable to the controlling entity is eliminated but amounts due to external unit holders remain as liabilities in the consolidated balance sheet. The share of the net assets of controlled companies attributable to minority unit holders is disclosed separately on the balance sheet. In the Income Statement, the net profit or loss of the controlled entities relating to minority interests is removed before arriving at the net profit or loss attributable to shareholders of the parent entity.

(ii) Change in accounting policy

The changes in the accounting policy for the life insurance business apply retrospectively from 1 July 2004 and the remainder on 1 July 2005.

The following are changes which have been applied retrospectively from 1 July 2004:

(a) Under AASB 1038, the asset representing the excess of the net market value over net assets of the Bank's life insurance controlled entities is no longer recognised in full. As a result, the Group has ceased to recognise any movement in this asset. The internally generated component has been written off against the General Reserve; and the acquired component has been reclassified as Goodwill within the balance sheet and subjected to annual impairment test. For further details on goodwill, refer to Note 1(t) Intangibles.

(b) Under previous AGAAP, direct investments in the Group's own equity securities by the Group's life insurance statutory funds are recognised in the balance sheet at market value. Under AASB 127 these assets have been reclassified as 'Treasury Shares' and accounted for as a deduction from Ordinary share capital. For further details, refer to Note 1(ee) Shareholders Equity.

The following are changes which have been applied from 1 July 2005:

(a) AASB 1038 requires income from investment contracts sold by life insurance businesses to be shown separately from income from insurance contracts sold by insurance companies. Insurance contracts are accounted for in accordance with the requirements of AASB 1038, and investment contracts are accounted for in accordance with AASB 118, 139 and 1038.

(b) Under AIFRS, the actuarial calculation of insurance contract liabilities is affected by a change in the determination of the discount rate applied for some contracts.

(c) Certain acquisition costs related to investment contracts which were deferred under previous AGAAP can no longer be deferred under AIFRS.

(d) On transition to AIFRS, the minority interests in controlled unit trusts of the life insurance companies no longer qualify as equity. As a result, the Group has, on adoption of AIFRS, reclassified outside equity interests in life insurance statutory funds and other funds as liabilities.

Note 1 Accounting Policies (continued)

(e) Initial entry fee income on investment contracts issued by life insurance entities is recognised upfront where the Group provides financial advice. Other fees are deferred over the life of the underlying investment contract.

(f) AASB 1038 requires separate disclosure of investment contract and insurance contract liabilities.

(ii) Asset Securitisation

The adoption of AASB 127, 132, 139 and UIG 112 has had a substantial impact on the recognition of asset securitisation. However there is no material change in disclosure and measurement of asset securitisation. For further details, refer to the change in accounting policy below.

(i) Current accounting policy

The Group conducts an asset securitisation program through which it packages and sells assets as securities to investors. The Group is entitled to any residual income of the program after all payments due to investors and costs of the program have been met. Therefore the Group is considered to hold the majority of the residual risks and benefits within the entities through which asset securitisation is conducted and therefore consolidates these entities.

Additional entities have been consolidated into the Group, refer to Note 1(c) Consolidation. These changes have resulted in material gross-ups of individual asset, liability and profit and loss line items of the Group.

The liabilities associated with the asset securitisation entities and related issue costs are accounted for on an amortised cost basis using the effective interest method.

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

The derivatives return the risks and rewards of ownership of the securitised assets to the Bank and consequently the Bank cannot derecognise these assets. An imputed liability is recognised inclusive of the derivative and any related fees.

For further details on the treatment of the securitisation entities, refer to Note 1(c) Consolidation.

(ii) Change in accounting policy

AIFRS requires the consolidation of certain asset securitisation entities that were not consolidated under previous AGAAP. AIFRS also requires the recognition by the Bank of assets and liabilities that were not recognised under the previous AGAAP. This has resulted in the gross up of the entities' assets and liabilities recorded within the Balance Sheet. The changes have been applied from 1 July 2004.

(jj) Fiduciary activities

(i) Current accounting policy

There is no change in accounting policy.

The Bank and designated controlled entities act as Responsible Entity, Trustee and/or Manager for a number of Wholesale, Superannuation and Investment Funds, Trusts and Approved Deposit Funds.

The assets and liabilities of these Trusts and Funds are not included in the consolidated financial statements as the Group does not have direct or indirect control of the Trusts and Funds as defined by AASB 1024. Commissions and fees earned in respect of the activities are included in the Income Statement of the Group and the designated controlled entity.

(kk) Comparative figures

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

Comparative figures have been prepared in accordance with AIFRS as outlined in Note 1(a) and (b) except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. These standards have not been applied against comparative information in line with the exemption provided by AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards.

The Group has continued to apply its previous AGAAP in preparing the comparative information within the scope of the above standards.

(ll) Roundings

The amounts contained in this report and the financial statements are presented in Australian Dollars and have been rounded to the nearest million dollars unless otherwise stated, under the option available to the Company under ASIC Class Order 98/100 (as amended by ASIC Class Order 04/667).

(mm) Explanation of transition to Australian equivalents to IFRS

As stated in Note 1(a), these are the Group's first consolidated financial statements prepared in accordance with Australian equivalents to IFRS.

As required by AASB 1, the accounting policies set out in Note 1 have been applied in preparing the financial statements for the half year ended 31 December 2005, the comparative information presented in these financial statements for the half years ended 31 December 2004 and 30 June 2005 and in the preparation of an opening Australian equivalents to IFRS balance sheet at 1 July 2004 (the Group's date of transition).

As noted in Note 1(b) and 1(jj) comparative figures and the opening Australian equivalents to IFRS balance sheet at 1 July 2004 have been prepared in accordance with IFRS as outlined in Note 1(a) and 1(b) except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts.

These standards have not been applied against comparative information in line with the exemption provided by AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards.

In preparing its opening Australian equivalents to IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with the previous basis of accounting (Australian GAAP).

An explanation of how the transition from previous GAAP to Australian equivalents to IFRS has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Section C
Reconciliation of Prior Periods
Balance Sheets and Income Statements

Reconciliation of Prior Periods

Note 1 Accounting Policies (continued)

Explanation of AIFRS Transition Adjustments

In the following reconciliations, AIFRS impacts have been shown as Reclassifications, Gross-Ups and Re-Measurements. The major impacts are as follows:

(i) Reclassifications

Relates to the reclassification of various assets and liabilities in line with AIFRS disclosure requirements.

Significant items reclassified for periods prior to 1 July 2005 included:

- Investment properties reclassified from Property, Plant and Equipment to a separate line on the face of the Balance Sheet (refer note 1 (q));
- Capitalised computer software reclassified from Other assets to Intangible assets – computer software costs (refer note 1 (t));
- The acquired portion of excess market value over net assets is reclassified from Other assets to Intangible assets – goodwill (refer note 1 (t)); and
- Separation and reclassification of deferred tax assets and tax liabilities (refer note 1 (y)).

Additional items reclassified with effect from 1 July 2005 include:

- Derivative assets and liabilities reclassified from Other assets and Other liabilities to separate lines on the face of the Balance Sheet (refer note 1 (ff));
- Insurance and trading assets reclassified to Assets at fair value through the Income Statement (refer note 1 (i));
- Investment securities predominately reclassified to Available-for-sale investments (refer note 1 (j));
- Some Deposits from customers and Debt issues reclassified to Liabilities at fair value through the Income Statement (refer note 1 (x));
- Reclassification of minority interests in Insurance Statutory funds and other funds to liabilities (refer note 1 (hh)); and
- Reclassification of preference share capital and other equity instruments from shareholders' equity to loan capital (refer note 1 (dd)).

There is no net impact on net assets, shareholders' equity nor net profit.

(ii) Gross-up

Impact of the consolidation of certain special purpose vehicles related to the securitisation of Bank assets, and certain other customer asset securitisations. On transition to AIFRS, consolidation of these vehicles has the effect of grossing up individual asset, liability and profit and loss line items. This has no net impact on net assets, shareholders' equity nor net profit.

(iii) Re-measurements

Relates to AIFRS transition adjustments which involve a change in the measurement basis relative to previous Australian GAAP. Affected line items are explained by reference to the relevant accounting policy note. Material impacts are further explained in the tables on page 34 to 37, and referenced to the re-measure column of the following AIFRS transitions tables:

Reconciliation of Prior Periods continued

Note 1 Accounting Policy (continued)

(mm) Effect of Transition to Australian Equivalents of IFRS

Balance Sheet reconciliation

		1 Jul 2004					
				Transition Adjustments			
Assets	Policy Note[(2)]	AGAAP Group $M	Reclass $M	Gross-up $M	Re-Measure $M [(1)]	Total $M	AIFRS Group $M
Cash and liquid assets	(f)	6,453	168	153	-	321	6,774
Receivables from other financial institutions	(g)	8,369	(130)	-	-	(130)	8,239
Assets at fair value through Income Statement:							
Trading	(i)	14,896	-	3	-	3	14,899
Insurance	(i),(hh)	28,942	(16)	-	(301) A	(317)	28,625
Investment securities		11,447	-	531	-	531	11,978
Loans, advances, and other receivables	(l),(m),(n)	189,391	-	7,605	24	7,629	197,020
Bank acceptances of customers	(o)	15,019	-	-	-	-	15,019
Deposits with regulatory authorities	(g)	38	(38)	-	-	(38)	-
Investment property	(q)	-	252	-	-	252	252
Property, plant and equipment	(s)	1,204	(228)	-	31	(197)	1,007
Investment in associates	(c)	239	-	-	-	-	239
Intangible assets	(t)	4,705	2,836	-	-	2,836	7,541
Deferred tax assets	(y)	-	564	-	23 H	587	587
Other assets	(u)	25,292	(3,408)	(17)	(2,512) I	(5,937)	19,355
Total assets		305,995	-	8,275	(2,735)	5,540	311,535
Liabilities							
Deposits from customers	(v)	163,177	-	24	-	24	163,201
Payables to other financial institution	(w)	6,641	-	-	-	-	6,641
Bank acceptances	(o)	15,019	-	-	-	-	15,019
Income tax liability	(y)	811	(811)	-	-	(811)	-
Current tax liabilities	(y)	-	426	-	-	426	426
Deferred tax liabilities	(y)	-	385	-	188 L	573	573
Other provisions	(z),(aa)	1,011	-	-	(85) M	(85)	926
Insurance policyholder liabilities	(hh)	24,638	-	-	-	-	24,638
Debt issues	(bb)	44,042	-	8,732		8,732	52,774
Bills payable and other liabilities	(cc)	19,140	-	(481)	77 P	(404)	18,736
Loan capital	(dd)	6,631	-	-	-	-	6,631
Total liabilities		281,110	-	8,275	180	8,455	289,565
Net assets		24,885	-	-	(2,915)	(2,915)	21,970
Shareholders' Equity							
Share capital							
Ordinary share capital	(ee)	13,359	-	-	(371) Q	(371)	12,988
Preference share capital		687	-	-	-	-	687
Other equity instruments		1,573	-	-	-	-	1,573
Reserves	(ee)	3,946	492	-	(3,045) R	(2,553)	1,393
Retained profits		2,840	(492)	-	501 S	9	2,849
Shareholders' equity attributable to members of the Bank		22,405	-	-	(2,915)	(2,915)	19,490
Minority interests:							
Controlled entities		304	-	-	-	-	304
Insurance statutory funds and other funds	(hh)	2,176	-	-	-	-	2,176
Total shareholders' equity		24,885	-	-	(2,915)	(2,915)	21,970

(1) References relate to explanations of the key AIFRS re-measure adjustment set out on pages 34 to 37

(2) References relate to key Accounting Policies as set out on pages 10 to 26.

Reconciliation of Prior Periods continued

Note 1 Accounting Policy (continued)

(mm) Effect of Transition to Australian Equivalents of IFRS

Balance Sheet reconciliation

			31 Dec 2004				
			Transition Adjustments				
Assets	Policy Note[1]	AGAAP Group $M	Reclass $M	Gross-up $M	Re-Measure $M	Total $M	AIFRS Group $M
Cash and liquid assets	(f)	5,648	90	167		257	5,905
Receivables from other financial institutions	(g)	6,456	(59)	-		(59)	6,397
Assets at fair value through Income Statement:							
Trading	(i)	15,881	-	3	-	3	15,884
Insurance	(i),(hh)	28,232	(16)	-	(251) A	(267)	27,965
Investment securities		11,022	-	597	-	597	11,619
Loans, advances, and other receivables	(l),(m),(n)	206,346	-	6,391	18	6,409	212,755
Bank acceptances of customers	(o)	16,297	-	-	-	-	16,297
Deposits with regulatory authorities	(g)	32	(32)	-	-	(32)	-
Investment property	(q)	-	252	-	-	252	252
Property, plant and equipment	(s)	1,262	(229)	-	30	(199)	1,063
Investment in associates	(c)	233	-	-	-	-	233
Intangible assets	(t)	4,555	2,922	-	161 G	3,083	7,638
Deferred tax assets	(y)	-	579	-	27 H	606	606
Other assets	(u)	24,988	(3,507)	(30)	(2,706) I	(6,243)	18,745
Total assets		320,952	-	7,128	(2,721)	4,407	325,359

Liabilities							
Deposits from customers	(v)	167,425	-	(2)	-	(2)	167,423
Payables to other financial institution	(w)	9,512	-	-	-	-	9,512
Bank acceptances	(o)	16,297	-	-	-	-	16,297
Income tax liability	(y)	1,195	(1,195)	-	-	(1,195)	-
Current tax liabilities	(y)	-	424	-	-	424	424
Deferred tax liabilities	(y)	-	771	-	211 L	982	982
Other provisions	(z),(aa)	904	-	-	(55) M	(55)	849
Insurance policyholder liabilities	(hh)	24,967	-	-	-	-	24,967
Debt issues	(bb)	51,346	-	7,504	-	7,504	58,850
Bills payable and other liabilities	(cc)	18,438	-	(374)	89 P	(285)	18,153
Loan capital	(dd)	5,801	-	-	-	-	5,801
Total liabilities		295,885	-	7,128	245	7,373	303,258
Net assets		25,067	-	-	(2,966)	(2,966)	22,101

Shareholders' Equity							
Share capital							
Ordinary share capital	(ee)	13,647	-	-	(303) Q	(303)	13,344
Preference share capital		687	-	-	-	-	687
Other equity instruments		1,573	-	-	-	-	1,573
Reserves	(ee)	3,959	492	-	(3,353) R	(2,861)	1,098
Retained profits		3,159	(492)	-	690 S	198	3,357
Shareholders' equity attributable to members of the Bank		23,025	-	-	(2,966)	(2,966)	20,059
Minority interests:							
Controlled entities		629	-	-	-	-	629
Insurance statutory funds and other funds	(hh)	1,413	-	-	-	-	1,413
Total shareholders' equity		25,067	-	-	(2,966)	(2,966)	22,101

(1) References relate to key Accounting Policies as set out on pages 10 to 26.

Note 1 Accounting Policy (continued)

(mm) Effect of Transition to Australian Equivalents of IFRS

Balance Sheet reconciliation

		30 Jun 2005					
				Transition Adjustments			
Assets	Policy Note[1]	AGAAP Group $M	Reclass $M	Gross-up $M	Re-Measure $M	Total $M	AIFRS Group $M
Cash and liquid assets	(f)	5,715	163	177	-	340	6,055
Receivables from other financial institutions	(g)	6,205	(118)	-	-	(118)	6,087
Assets at fair value through Income Statement:							
Trading	(i)	14,628	-	3	-	3	14,631
Insurance	(i),(hh)	27,837	(16)	-	(337) A	(353)	27,484
Investment securities		10,272	-	566	-	566	10,838
Loans, advances, and other receivables	(l),(m),(n)	217,516	-	10,818	12	10,830	228,346
Bank acceptances of customers	(o)	16,786	-	-	-	-	16,786
Deposits with regulatory authorities	(g)	45	(45)	-	-	(45)	-
Investment property	(q)	-	252	-	-	252	252
Property, plant and equipment	(s)	1,344	(237)	-	25	(212)	1,132
Investment in associates	(c)	52	-	-	-	-	52
Intangible assets	(t)	4,394	2,941	-	321 G	3,262	7,656
Deferred tax assets	(y)	-	627	-	24 H	651	651
Other assets	(u)	24,241	(3,567)	(37)	(3,203) I	(6,807)	17,434
Total assets		329,035	-	11,527	(3,158)	8,369	337,404

Liabilities							
Deposits from customers	(v)	168,029	-	(3)	-	(3)	168,026
Payables to other financial institution	(w)	8,023	-	-	-	-	8,023
Bank acceptances	(o)	16,786	-	-	-	-	16,786
Income tax liability	(y)	1,550	(1,550)	-	-	(1,550)	-
Current tax liabilities	(y)	-	833	-	-	833	833
Deferred tax liabilities	(y)	-	717	-	204 L	921	921
Other provisions	(z),(aa)	895	-	-	(24) M	(24)	871
Insurance policyholder liabilities	(hh)	24,694	-	-	-	-	24,694
Debt issues	(bb)	58,621	-	12,144	-	12,144	70,765
Bills payable and other liabilities	(cc)	18,086		(614)	79 P	(535)	17,551
Loan capital	(dd)	6,291	-	-	-	-	6,291
Total liabilities		302,975	-	11,527	259	11,786	314,761
Net assets		26,060	-	-	(3,417)	(3,417)	22,643

Shareholders' Equity							
Share capital							
Ordinary share capital	(ee)	13,871	-	-	(385) Q	(385)	13,486
Preference share capital		687	-	-	-	-	687
Other equity instruments		1,573	-	-	-	-	1,573
Reserves	(ee)	4,624	492	-	(3,851) R	(3,359)	1,265
Retained profits		3,516	(492)	-	819 S	327	3,843
Shareholders' equity attributable to members of the Bank		24,271	-	-	(3,417)	(3,417)	20,854
Minority interests:							
Controlled entities		631	-	-	-	-	631
Insurance statutory funds and other funds	(hh)	1,158	-	-	-	-	1,158
Total shareholders' equity		26,060	-	-	(3,417)	(3,417)	22,643

(1) References relate to key Accounting Policies as set out on pages 10 to 26.

Reconciliation of Prior Periods continued

Note 1 Accounting Policy (continued)

(mm) Effect of Transition to Australian Equivalents of IFRS

Income Statement Reconciliation

		31 Dec 2004				
			Transition Adjustments			
	Policy Note[2]	AGAAP Group $M	Gross-up $M	Re-Measure $M	AIFRS Transition $M	AIFRS Group $M
Interest Income	(m)	7,840	255	(6)	249	8,089
Interest Expense		4,907	224		224	5,131
Net Interest Income		2,933	31	(6)	25	2,958
Other operating income		1,412	(29)	-	(29)	1,383
Net banking operating income		4,345	2	(6)	(4)	4,341
Funds management income including investment contract premiums		611	-	(6)	(6)	605
Investment revenue	(hh)	1,223	-	11 T	11	1,234
Claims and investment contract liability expense		(1,143)	-	-	-	(1,143)
Net funds management and investment contract operating income		691	-	5	5	696
Premiums from insurance contracts		575	-	-	-	575
Investment revenue		716	-	-	-	716
Claims and policy liability expense from insurance contracts		(751)	-	-	-	(751)
Insurance contracts margin on services operating income		540	-	-	-	540
Net funds management and insurance operating income		1,231	-	5	5	1,236
Total net operating income		5,576	2	(1)	1	5,577
Bad and doubtful debts expense		146	-	-	-	146
Operating expenses:						
Comparable business		2,828	2	11	13	2,841
Which new Bank		28	-	-	-	28
Total operating expenses		2,856	2	11	13	2,869
Defined benefit superannuation plan expense	(z)	-	-	(40) U	(40)	(40)
Appraisal value uplift	(hh)	265	-	(265) V	(265)	-
Goodwill amortisation	(t)	(162)	-	162 W	162	-
Profit before income tax		**2,677**	**-**	**(155)**	**(155)**	**2,522**
Income tax expense	(y)	813	-	(8)	(8)	805
Profit after income tax		**1,864**	**-**	**(147)**	**(147)**	**1,717**
Minority interest		(5)	-	-	-	(5)
Net profit attributable to members of the Bank		**1,859**	**-**	**(147)**	**(147)**	**1,712**
Net profit after income tax comprises:						
Net profit after income tax ("underlying basis")		1,664	-	(23)	(23)	1,641
Shareholder investment returns		111	-	-	-	111
Which new Bank		(19)	-	-	-	(19)
Net profit after income tax ("cash basis")		1,756	-	(23)	(23)	1,733
Defined benefit superannuation plan expense	(z)	-	-	(28)	(28)	(28)
Treasury share mismatch	(hh)	-	-	7	7	7
Net profit after income tax (“statutory basis”) [1]		1,756	-	(44)	(44)	1,712

(1) AGAAP Net profit after income tax (“statutory basis”) excludes the impact of appraisal value and goodwill amortisation.

(2) References relate to key Accounting Policies as set out on pages 10 to 26.

Detailed Schedules continued

Note 1 Accounting Policy (continued)

(mm) Effect of Transition to Australian Equivalents of IFRS

Income Statement Reconciliation

			30 Jun 2005			
			Transition Adjustments			
	Policy Note[2]	AGAAP Group $M	Gross-up $M	Re-Measure $M	AIFRS Transition $M	AIFRS Group $M
Interest Income	(m)	8,354	343	(5)	338	8,692
Interest Expense		5,321	303	-	303	5,624
Net Interest Income		3,033	40	(5)	35	3,068
Other operating income		1,503	(41)	-	(41)	1,462
Net banking operating income		4,536	(1)	(5)	(6)	4,530
Funds management income including investment contract premiums		650	-	(8)	(8)	642
Investment revenue	(hh)	785	-	(63) T	(63)	722
Claims and investment contract liability expense		(728)	-	-	-	(728)
Net funds management and investment contract operating income		707	-	(71)	(71)	636
Premiums from insurance contracts		557	-	-	-	557
Investment revenue		470	-	-	-	470
Claims and policy liability expense from insurance contracts		(492)	-	-	-	(492)
Insurance contracts margin on services operating income		535	-	-	-	535
Net funds management and insurance operating income		1,242	-	(71)	(71)	1,171
Total net operating income		5,778	(1)	(76)	(77)	5,701
Bad and doubtful debts expense		176	-	-	-	176
Operating expenses:						
Comparable business		2,869	(1)	10	9	2,878
Which new Bank		122	-	-	-	122
Total operating expenses		2,991	(1)	10	9	3,000
Defined benefit superannuation plan expense	(z)	-	-	(35) U	(35)	(35)
Appraisal value uplift	(hh)	513	-	(513) V	(513)	-
Goodwill amortisation	(t)	(163)	-	163 W	163	-
Profit before income tax		**2,961**	**-**	**(471)**	**(471)**	**2,490**
Income tax expense	(y)	824	-	(27)	(27)	797
Profit after income tax		**2,137**	**-**	**(444)**	**(444)**	**1,693**
Minority interest		(5)	-	-	-	(5)
Net profit attributable to members of the Bank		**2,132**	**-**	**(444)**	**(444)**	**1,688**
Net profit after income tax comprises:						
Net profit after income tax ("underlying basis")		1,802	-	(23)	(23)	1,779
Shareholder investment returns		66	-	-	-	66
Which new Bank		(86)	-	-	-	(86)
Net profit after income tax ("cash basis")		1,782	-	(23)	(23)	1,759
Defined benefit superannuation plan expense	(z)	-	-	(25)	(25)	(25)
Treasury share mismatch	(hh)	-	-	(46)	(46)	(46)
Net profit after income tax ("statutory basis") [1]		1,782	-	(94)	(94)	1,688

(1) AGAAP Net profit after income tax ("statutory basis") excludes the impact of appraisal value and goodwill amortisation.

(2) References relate to key Accounting Policies as set out on pages 10 to 26.

Reconciliation of Prior Periods continued

Note 1 Effect of Transition to Australian Equivalents to IFRS

(mm) Explanation of AIFRS Re-measure Transition Adjustments

Re-measure Adjustment Reference	Transition Date	AIFRS Balance Sheet Impacts Adjustment $M	Explanation of material AIFRS re-measurements
A	**Insurance Assets at Fair Value through Income Statement (refer note 1 (i) and (hh))**		
	1 July 2004	(301)	The recognition of direct investments in Commonwealth Bank shares by the Bank's life insurance statutory funds as 'Treasury Shares' results in the reversal of the fair value of these shares from consolidated Insurance assets while the cost of these shares is reversed from ordinary share capital (refer adjustment Q). The associated insurance policyholder liability is not reversed, resulting in an accounting mismatch (see Adjustment T).
	31 December 2004	(251)	As above.
	30 June 2005	(337)	As above.
B	**Derivative assets (refer note 1 (ff))**		
	1 July 2004	-	
	31 December 2004	-	
	30 June 2005	-	
C	**Available-for-sale investments (refer note 1 (j))**		
	1 July 2004	-	
	31 December 2004	-	
	30 June 2005	-	
D	**Loans, advances and other receivables – gross (refer note 1 (l))**		
	1 July 2004	-	
	31 December 2004	-	
	30 June 2005	-	
E	**Loans, advances and other receivables - collective provision for impairment (refer note 1 (n))**		
	1 July 2004	-	
	31 December 2004	-	
	30 June 2005	-	
F	**Loans, advances and other receivables – individually assessed provision for impairment (refer note 1 (n))**		
	1 July 2004	-	
	31 December 2004	-	
	30 June 2005	-	
G	**Intangible assets (refer note 1 (t))**		
	1 July 2004	-	
	31 December 2004	161	Goodwill no longer amortised under AIFRS. Reflects the reversal of amortisation of goodwill for the half year ended 31 December 2004.
	30 June 2005	321	As above for the full year ended 30 June 2005.

Note 1 Effect of Transition to Australian Equivalents to IFRS

(mm) Explanation of AIFRS Re-measure Transition Adjustments

Re-measure Adjustment Reference	Transition Date	AIFRS Balance Sheet Impacts Adjustment $M	Explanation of material AIFRS re-measurements
H	**Deferred tax assets (refer note 1 (y))**		
	1 July 2004	23	Principally relates to the deferred tax asset recognised on the defined benefit superannuation plan deficit liability, under the AIFRS "balance sheet" approach to tax-effect accounting.
	31 December 2004	27	As above.
	30 June 2005	24	As above.
I	**Other assets (refer note (u))**		
	1 July 2004	(2,512)	Principally relates to two adjustments: (1) the reversal of internally generated appraisal value excess (-$3,123m); and (2) the recognition of the defined benefit superannuation plan surplus asset (+$633m). Refer to adjustments R and S.
	31 December 2004	(2,706)	As above, though adjustments become (1) -$3,388m; and (2) +$706m.
	30 June 2005	(3,203)	As above, though adjustments become (1) -$3,901m; and (2) +$717m.
J	**Deposits from customers (refer note 1 (v))**		
	1 July 2004	-	
	31 December 2004	-	
	30 June 2005	-	
K	**Derivative liabilities (refer note 1 (ff))**		
	1 July 2004	-	
	31 December 2004	-	
	30 June 2005	-	
L	**Deferred tax liabilities (refer note 1 (y))**		
	1 July 2004	188	Principally relates to the deferred tax liability recognised on the defined benefit superannuation plan surplus asset, under the AIFRS "balance sheet" approach to tax-effect accounting. Refer adjustment I above.
	31 December 2004	211	As above.
	30 June 2005	204	As above.
M	**Other provisions (refer note 1 (z) and (aa))**		
	1 July 2004	(85)	Principally relates to the reversal of accrued liabilities in respect of employee share-based compensation. This is a one-off adjustment in the comparative period due to the discontinuance of the mandatory component of the Equity Participation Plan.
	31 December 2004	(55)	As above.
	30 June 2005	(24)	As above.
N	**Insurance policyholder liabilities (refer note 1 (hh))**		
	1 July 2004	-	
	31 December 2004	-	
	30 June 2005	-	

Note 1 Effect of Transition to Australian Equivalents to IFRS
(mm) Explanation of AIFRS Re-measure Transition Adjustments

AIFRS Balance Sheet Impacts

Re-measure Adjustment Reference	Transition Date	Adjustment $M	Explanation of material AIFRS re-measurements
O	**Debt issues (refer note 1 (bb))**		
	1 July 2004	-	
	31 December 2004	-	
	30 June 2005	-	
P	**Bills payable and other liabilities (refer note 1(cc))**		
	1 July 2004	77	Relates to the recognition of the defined benefit superannuation plan deficit liability.
	31 December 2004	89	As above.
	30 June 2005	79	As above.
Q	**Ordinary share capital (refer note 1 (ee))**		
	1 July 2004	(371)	Relates to two adjustments: (1) recognition of direct investments in Commonwealth Bank shares by the Bank's life insurance statutory funds as 'Treasury Shares' results in the reversal of the cost of these shares from ordinary share capital (-$245m, being fair value of $301m less market value appreciation $46m (less $10m tax effect)); and (2) the consolidation of the Employee Share Scheme Trust, which holds shares in the Bank on behalf of employees, results in the reversal of the cost of these shares from ordinary share capital ($126m).
	31 December 2004	(303)	As above, though adjustments become (1) ($205m); and (2) ($98m).
	30 June 2005	(385)	As above, though adjustments become (1) ($253m); and (2) ($132m).
R	**Reserves (refer note 1 (ee))**		
	1 July 2004	(3,045)	Principally relates to the reversal from general reserve of the internally generated appraisal value excess (-$3,123m).
	31 December 2004	(3,353)	As above (-$3,388m).
	30 June 2005	(3,851)	As above (-$3,901m).
S	**Retained profits**		
	1 July 2004	501	Principally relates to three adjustments: (1) Recognition of the net after tax surplus on the Bank's defined benefit superannuation plans (+$389m) comprising an opening surplus of ($443m) less an opening deficit of (-$54m); (2) adjustment related to employee share-based compensation accounting under AIFRS (+$141m); and (3) the reversal of the cumulative market value appreciation on life insurance treasury shares (-$46m).
	31 December 2004	690	As above, though adjustments become (1) +$432m; (2) +$126m; and (3) -$39m, together with (4) the reversal of goodwill amortisation for the half year (+$161m)
	30 June 2005	819	As above, though adjustments become (1) +$447m; (2) +$112m; and (3) -$66m, together with (4) the reversal of goodwill amortisation for the full year (+$321m)
T	**Funds Management Investment Revenue (refer note 1 (hh))**		
	31 December 2004	11	Relates to reversal of net losses on treasury shares held in the life insurance statutory funds.
	30 June 2005	(63)	Relates to reversal of net gains on treasury shares held in the life insurance statutory funds.

Note 1 Effect of Transition to Australian Equivalents to IFRS

(mm) Explanation of AIFRS Re-measure Transition Adjustments

Re-measure Adjustment Reference	Transition Date	AIFRS Balance Sheet Impacts Adjustment $M	Explanation of material AIFRS re-measurements
U	**Defined Benefit Superannuation Plan Expense (refer note 1 (hh))**		
	31 December 2004	(40)	Relates to the additional, non-cash expense item reflecting the accrual accounting charge to profit and loss associated with accounting for defined benefit superannuation plans.
	30 June 2005	(35)	As above.
V	**Appraisal Value Uplift (refer note 1 (t))**		
	31 December 2004	(265)	Relates to the reversal of the appraisal value uplift on cessation of appraisal value accounting under AIFRS.
	30 June 2005	(513)	As above.
W	**Goodwill Amortisation (refer note 1 (t))**		
	31 December 2004	162	Relates to the reversal of goodwill amortisation under AIFRS.
	30 June 2005	163	As above.

Section D
Detailed Schedules from Profit Announcement impacted by AIFRS

Detailed Schedules

Contributions to Profit (after income tax)	31/12/05 $M	Half Year Ended 30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Net Profit after Income Tax ("statutory basis")		1,688	1,712		
Add back AIFRS non cash items (1)		71	21		
Net Profit after Income Tax ("cash basis")		1,759	1,733		
Less profit on sale of the Hong Kong business		-	-		
Net Profit after Income Tax ("cash basis excl HK sale")		1,759	1,733		

(1) Includes "Treasury Shares" mismatch $xx million (Dec 04: ($7) million and Jun 05: $46 million) and defined benefit superannuation plan expense $xx million (Dec 04: $28 million and Jun 05: $25 million).

Contributions to Profit (after income tax)	31/12/05 $M	Half Year Ended 30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Net Profit after Income Tax ("cash basis")		1,759	1,733		
Less profit on sale of the Hong Kong business		-	-		
Less Shareholder Investment Returns (after tax)		(66)	(111)		
Add back Which new Bank		86	19		
Net Profit after Income Tax ("underlying basis")		1,779	1,641		
Represented by:					
Banking		1,509	1,404		
Funds Management		181	170		
Insurance		89	67		

Shareholder Summary	31/12/05	Half Year Ended 30/06/05	31/12/04	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Dividend per share – fully franked (cents)		112	85		
Dividend cover – cash (times)		1. 2	1. 5		
Dividend cover – underlying (times)		1. 2	1. 5		
Earnings per share (cents) (2)					
Statutory – basic		128. 1	131. 4		
Cash basis – basic		132. 7	132. 1		
Underlying basis – basic		134. 2	124. 9		
Dividend payout ratio (%)					
Statutory		88. 6	65. 6		
Cash basis		84. 9	64. 8		
Weighted average number of shares – statutory basic (1)		1,264	1,256		
Weighted average number of shares – cash basic		1,273	1,265		
Return on equity – cash (%)		18. 8	19. 0		
Return on equity – underlying (%)		19. 0	18. 0		

(1) Fully diluted EPS and weighted average number of shares (fully diluted) are disclosed on pages 6 and 7.

Detailed Schedules continued

Group Performance Summary	Half Year Ended 31/12/05 $M	30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
NPAT ("statutory basis")		1,688	1,712		
NPAT ("cash basis")		1,759	1,733		
NPAT ("underlying") [(1)]		1,779	1,641		
Net interest income		3,068	2,958		
Other banking income		1,462	1,383		
Funds management income		638	609		
Insurance income		387	360		
Total Operating Income		5,555	5,310		
Shareholder investment returns		92	145		
Profit on sale of the Hong Kong business		-	-		
Total Income		5,647	5,455		
Operating expenses		2,878	2,841		
Which new Bank		122	28		
Total Operating Expenses		3,000	2,869		
Bad and doubtful debts expense		176	146		
Net profit before income tax		2,471	2,440		
Corporate tax expense [(2)]		707	702		
Minority interests		5	5		
NPAT ("cash basis")		1,759	1,733		
Defined benefit superannuation plan expense		(25)	(28)		
Treasury shares		(46)	7		
NPAT ("statutory basis")		1,688	1,712		

(1) Underlying basis excludes Which new Bank, Shareholder investment returns and the profit on sale of the Hong Kong business in the current half year.
(2) For purposes of presentation, Policyholder tax benefit and Policyholder tax expense are shown on a net basis.

Key Performance Indicators	Half Year Ended 31/12/05	30/06/05	31/12/04	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Banking					
Net interest margin (%)		2. 44	2. 43		
Average interest earning assets [(1)]		250,357	239,150		
Average interest bearing liabilities [(1)]		230,352	220,919		
Funds Management					
Operating income to average funds under administration (%)		1. 08	1. 09		
Funds under administration – spot		123,064	117,440		
Insurance					
Inforce premiums [(2)]		1,265	1,199		
Capital Adequacy					
Tier 1 (%)		7. 46	7. 46		
Total (%)		9. 75	9. 60		
Adjusted common equity		4. 91	4. 76		

(1) Average interest earning assets and average interest bearing liabilities have been adjusted to remove the impact of securitisation. Refer to Average Balance Sheet Page 49.
(2) Prior periods have been adjusted to reflect the impact of the sale of the Hong Kong Business

Banking Analysis

Key Performance Indicators	Half Year Ended 31/12/05 $M	30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Net interest income		3,068	2,958		
Other banking income		1,462	1,383		
Total Operating Income		4,530	4,341		
Operating expenses		2,201	2,179		
Which new Bank		97	15		
Total Operating Expenses		2,298	2,194		
Bad and Doubtful debts expense		176	146		
Net profit before Income Tax		2,056	2,001		
Income tax expense		615	605		
Minority interests		1	2		
NPAT ("cash basis")		1,440	1,394		
NPAT("underlying basis") (1)		1,509	1,404		
Productivity and other measures					
Net interest margin		2. 44	2. 43		
Expense to income (%)		50. 7	50. 5		
Expense to income – underlying (%)		48. 6	50. 2		
Effective corporate tax rate (%)		29. 9	30. 2		
Balance Sheet					
Lending assets ($M) (2)		235,861	224,220		
Average interest earning assets ($M) (3)		250,357	239,150		
Average interest bearing liabilities ($M) (3)		230,352	220,919		
Asset Quality (4)					
Risk weighted assets ($M) (5)		189,559	180,673		
Net impaired assets ($M)		219	238		
General provision/Risk weighted assets (%)		0. 73	0. 76		
Collective provision plus general reserve for credit losses (pre-tax equivalent)/risk weighted assets		-	-		
Total provisions/Gross impaired assets (net of interest reserved) (%) (6)		411. 4	373. 0		
Total provisions plus general reserve for credit losses (pre-tax equivalent)/gross impaired assets		-	-		
Impairment losses on financial instruments as a % of risk weighted assets annualised (%)		0. 19	0. 16		

(1) Underlying basis excludes Which new Bank expenses.

(2) Lending assets is comprised of Loans, Advances, Other Receivables (gross of provisions for impairment) and Bank Acceptances of Customers.

(3) Average interest earning assets and average interest bearing liabilities have been adjusted to remove the impact of securitisation. Refer to Average Balance Sheet page 49.

(4) Asset quality coverage ratios are not comparable to prior periods due to AIFRS.

(5) No AIFRS adjustment is made to Risk Weighted Assets in the prior periods as the APRA prudential requirement is to apply previous Australian GAAP for regulatory capital purposes.

(6) Interest/fees reserved no longer recognised under AIFRS.

Detailed Schedules continued

Total Banking Assets & Liabilities	31/12/05 $M	30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
	Half Year Ended				
Interest Earning Assets					
Home loans including securitisation		150,677	140,649		
Less: securitisation		10,818	6,391		
Home loans		139,859	134,258		
Personal		15,668	14,806		
Business and corporate		63,549	58,859		
Loans, Advances and Other Receivables (1)		219,076	207,923		
Cash and other liquid assets(2)		10,804	10,450		
Assets at fair value through the Income Statement		14,631	15,884		
Investment securities/ Available-for-sale investments		10,838	11,619		
Non Lending Interest Earning Assets		36,273	37,953		
Total Interest Earning Assets		255,349	245,876		
Other Assets (3)		49,271	46,417		
Total Assets		304,620	292,293		
Interest Bearing Liabilities					
Transaction deposits		34,694	32,608		
Savings deposits		38,461	38,052		
Investment deposits		66,087	64,312		
Other demand deposits		21,806	25,438		
Total Interest Bearing Deposits		161,048	160,410		
Deposits not bearing interest		6,978	7,013		
Deposits and Other Public Borrowings		168,026	167,423		
Due to other financial institutions		8,023	9,512		
Liabilities at fair value through the Income Statement		-	-		
Debt issues		58,621	51,346		
Loan capital		6,291	5,801		
Total Interest Bearing Liabilities		240,961	234,082		
Securitisation Debt Issues		12,144	7,504		
Non Interest Bearing Liabilities		34,444	34,419		
Total Liabilities		287,549	276,005		

(1) Gross of provisions for impairment, which are included in “other assets”.
(2) Includes interest earning portion only. Non interest earning portion is included under “other assets”.
(3) Other assets include Bank acceptances of customers, provision for impairment and securitisation assets.

Funds Managements Analysis

Key Performance Indicators	31/12/05 $M	30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
		Half Year Ended			
Operating income – external		638	609		
Operating income – internal		5	5		
Total Operating Income		643	614		
Shareholder investment returns		9	24		
Funds Management Income		652	638		
Volume expense		84	72		
Operating expenses		314	328		
Which new Bank		24	12		
Total Operating Expenses		422	412		
Net Profit before Income Tax (“cash basis”)		230	226		
Net Profit before Income Tax (“underlying basis”) (1)		241	217		
Corporate tax expense (2)		56	44		
Minority interests		4	3		
Net Profit after Income Tax (“cash basis”)		170	179		
Net Profit after Income Tax (underlying basis) (1)		181	170		

(1) Underlying basis excludes shareholder investment returns and Which new Bank expenses.
(2) For purpose of presentation, Policyholder tax benefit and Policyholder tax expense are shown on a net basis.

Funds under Administration	31/12/05	30/06/05	31/12/04	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Funds under Administration – average		120,507	112,185		
Funds under Administration – spot		123,064	117,440		
Net flows		(394)	850		
Total retail net flows		547	1,643		

Productivity and Other Measures	31/12/05	30/06/05	31/12/04	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Operating income to average Funds under Administration (%)		1. 08	1. 09		
Operating expenses to average Funds under Administration – (%)		0. 67	0. 71		
Effective corporate tax rate (%)		24. 3	19. 5		

Detailed Schedules continued

Insurance Analysis

Summary Financial Performance	Half Year Ended 31/12/05 $M	30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Insurance					
Life insurance operating income		363	330		
General insurance operating income		24	30		
Total operating income		387	360		
Shareholder investment returns		83	121		
Profit on sale of the Hong Kong business		-	-		
Total Insurance Income		470	481		
Volume expense		106	112		
Other operating expenses (1)		178	155		
Which new Bank		1	1		
Total operating expenses		285	268		
Net Profit before Income Tax		185	213		
Income tax expense attributable to:					
Corporate (3)		36	53		
Net Profit after Income Tax (“cash basis”)		149	160		
Net Profit after Income Tax (“underlying basis”)(2)		89	67		

Profit Summary

Productivity and Other Measures					
Expenses to average inforce premiums (actual %)		46. 6	44. 9		
Expenses to average inforce premiums (underlying %) (2)		46. 5	44. 8		
Effective corporate tax rate including impact of profit on sale of Hong Kong business (%)		19. 5	24. 9		

(1) Operating expenses include $x million internal expenses (2004: $14 million)

(2) Underlying basis excludes shareholder investment returns, the profit on the sale of the Hong Kong business and Which new Bank expenses.

(3) For purpose of presentation, Policyholder tax benefit and Policyholder tax expense are shown on a net basis.

Sources of Profit from Insurance Activities	Half Year Ended 31/12/05 $M	30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
The Margin on Services profit from ordinary activities after income tax is represented by:					
Planned profit margins		60	62		
Experience variations		28	(1)		
Other		(8)	-		
General insurance operating margins		6	7		
Operating margins		86	68		
After tax shareholder investment returns		63	92		
Profit on sale of the Hong Kong business		-	-		
Net profit after Income Tax (“cash basis”)		149	160		

Geographical Analysis of Business Performance

	Half Year Ended							
	Australia		New Zealand		Asia		Total	
Net Profit after Income Tax (“cash basis”)	31/12/05 $M	30/06/05 $M	31/12/05 $M	30/06/05 $M	31/12/05 $M	30/06/05 $M	31/12/05 $M	30/06/05 $M
Operating margins		55		26		5		86
After tax shareholder investment returns		44		12		7		63
Profit on sale of Hong Kong		-		-		-		-
Net Profit after Income Tax		99		38		12		149

Consolidated Income Statement

For the half year ended 31 December 2005

	Note	31/12/05 $M	30/06/05 $M	31/12/04 $M
Interest income			8,692	8,089
Interest expense			5,624	5,131
Net interest income			3,068	2,958
Other operating income			1,462	1,383
Net banking operating income			4,530	4,341
Funds management income including investment contract premiums			642	605
Investment revenue			722	1,234
Claims and policyholder liability expense			(728)	(1,143)
Net funds management and investment contract operating income			636	696
Premiums from insurance contracts			557	575
Investment revenue			470	716
Claims and policyholder liability expense from insurance contracts			(492)	(751)
Insurance contracts margin on services operating income			535	540
Total net operating income			5,701	5,577
Bad and doubtful debts expense			176	146
Operating expenses:				
Comparable business			2,878	2,841
Which new Bank			122	28
Total operating expenses			3,000	2,869
Defined benefit superannuation plan expense			(35)	(40)
Profit before income tax			2,490	2,522
Corporate tax expense			680	694
Policyholder tax expense			117	111
Profit after income tax			1,693	1,717
Minority interests			(5)	(5)
Net profit attributable to members of the Bank			1,688	1,712

		Cents per share	
Earnings per share based on net profit distributable to members of the Bank			
Basic		128. 1	131. 4
Fully Diluted		126. 1	128. 2
Dividends per share attributable to shareholders of the Bank:			
Ordinary shares		112	85
Preference shares		557	558
Other equity instruments – issued 6 August 2003		4,074	3,721
Other equity instruments – issued 6 January 2004		459	449

	$M	$M	$M
Net Profit after Income Tax comprises			
Net Profit after income tax ("underlying basis")		1,779	1,641
Shareholders investment returns		66	111
Which new Bank		(86)	(19)
Profit on sale of the Hong Kong business		-	-
Net Profit after income tax ("cash basis")		1,759	1,733
Defined benefit superannuation plan expense		(25)	(28)
Treasury share mismatch (expense)/income		(46)	7
Net Profit after income tax ("statutory basis")		1,688	1,712

Detailed Schedules continued

Consolidated Balance Sheet

As at 31 December 2005

Assets	Note	31/12/05 $M	30/06/05 $M	31/12/04 $M
Cash and liquid assets			6,055	5,905
Receivables due from other financial institutions			6,087	6,397
Assets as at fair value through the Income Statement:				
Trading			14,631	15,884
Insurance			27,484	27,965
Other			-	-
Derivative assets			-	-
Investment securities			10,838	11,619
Available for sale investments			-	-
Loans, advances and other receivables			228,346	212,755
Bank acceptances of customers			16,786	16,297
Investment property			252	252
Property, plant and equipment			1,132	1,063
Investment in associates			52	233
Intangible assets			7,656	7,638
Deferred tax assets			651	606
Other assets			17,434	18,745
Total assets			337,404	325,359

Liabilities	Note	31/12/05 $M	30/06/05 $M	31/12/04 $M
Deposits and other public borrowings			168,026	167,423
Payables due to other financial institutions			8,023	9,512
Liabilities at fair value through the Income Statement			-	-
Derivative liabilities			-	-
Bank acceptances			16,786	16,297
Current tax liabilities			833	424
Deferred tax liabilities			921	982
Other provisions			871	849
Insurance policy liabilities			24,694	24,967
Debt issues			70,765	58,850
Managed fund units on issue			-	-
Bills payable and other liabilities			17,551	18,153
			308,470	297,457
Loan Capital			6,291	5,801
Total liabilities			314,761	303,258
Net assets			22,643	22,101

Shareholders' Equity	Note	31/12/05 $M	30/06/05 $M	31/12/04 $M
Share Capital:				
Ordinary share capital			13,486	13,344
Preference share capital			687	687
Other equity instruments			1,573	1,573
Reserves			1,265	1,098
Retained profits			3,843	3,357
Shareholders' equity attributable to members of the Bank			20,854	20,059
Minority Interests:				
Controlled entities			631	629
Insurance statutory funds and other funds			1,158	1,413
Total shareholders' equity			22,643	22,101

Net Interest Income

	Half Year Ended				
	31/12/05 $M	30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05%	Dec 05 vs Dec 04%
Interest Income					
Loans		7,703	7,143		
Other financial institutions		128	101		
Cash and liquid assets		91	107		
Investment securities		379	344		
Assets at fair value through the Income Statement		391	394		
Available-for-sale investments		-	-		
Total interest income		8,692	8,089		
Interest Expense					
Deposits		3,626	3,437		
Other financial institutions		131	126		
Liabilities at fair value through the Income Statement		-	-		
Debt issues		1,681	1,403		
Loan capital		186	165		
Total interest expense		5,624	5,131		
Net interest income		3,068	2,958		

Net Interest Margin

	Half Year Ended		
	31/12/05	30/06/05	31/12/04
	%	%	%
Australia			
Interest spread (1)		2. 33	2. 33
Benefit of interest free liabilities, provisions and equity (2)		0. 27	0. 23
Net interest margin (3)		2. 60	2. 56
Overseas			
Interest spread (1)		0. 94	1. 12
Benefit of interest free liabilities, provisions and equity (2)		0. 71	0. 65
Net interest margin (3)		1. 65	1. 77
Total Bank			
Interest spread (1)		2. 07	2. 09
Benefit of interest free liabilities, provisions and equity (2)		0. 37	0. 34
Net interest margin (3)		2. 44	2. 43

(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 year.

Detailed Schedules continued

Average Balances and Related Interest

The following table lists the major categories of interest earning assets and interest bearing liabilities of the Bank together with the respective interest earned or paid and the average interest rate for each of the periods ending 31 December 2005, 30 June 2005 and 31 December 2004. Averages used were predominately daily averages. Interest is accounted for based on product yield, while all trading gains and losses are disclosed as trading income within other banking income.

Where assets or liabilities are hedged, the amounts are shown net of the hedge, however individual items not separately hedged may be affected by movements in exchange rates. The overseas component comprises overseas branched of the Bank and overseas domiciled controlled entities.

Non-accrual loans were included in interest earning assets under loans, advances and other.

Average Balances

	Half Year Ended 31/12/05			Half Year Ended 30/06/05			Half Year Ended 31/12/04		
Interest Earning Assets	Avg Bal $M	Income $M	Yield %	Avg Bal $M	Income $M	Yield %	Avg Bal $M	Income $M	Yield %
Home loans excluding securitisation				136,102	4,529	6. 71	128,135	4,240	6. 56
Personal [(1)]				15,342	810	10. 65	13,900	731	10. 43
Business and corporate				60,261	2,021	6. 76	57,226	1,918	6. 65
Loans, Advances and Other Receivables				211,705	7,360	7. 01	199,261	6,889	6. 86
Cash and other liquid assets				10,969	219	4. 03	10,986	208	3. 76
Assets at fair value through Income Statement (excluding life insurance)				14,960	391	5. 27	15,803	394	4. 95
Investment Securities				12,723	379	6. 01	13,099	344	5. 21
Available-for-sale investments				-	-	-	-	-	-
Non Lending Interest Earning Assets				38,652	989	5. 16	39,888	946	4. 70
Total interest earning assets (excluding securitisation) [(2)]				250,357	8,349	6. 73	239,150	7,835	6. 50
Securitisation home loan assets				9,932	343	6. 96	7,227	254	6. 97
Non interest earning assets				70,197	-	-	70,448	-	-
Total Average Assets				330,486	-	-	316,825	-	-

Interest Bearing Liabilities									
Transaction deposits				32,454	414	2. 57	31,132	356	2. 27
Savings deposits				38,193	638	3. 37	38,249	636	3. 30
Investment deposits				65,577	1,870	5. 75	62,498	1,748	5. 55
Certificates of deposits and other				25,467	704	5. 57	26,193	697	5. 28
Total Interest Bearing Deposits				161,691	3,626	4. 52	158,072	3,437	4. 31
Payable due to other financial Institutions				8,181	131	3. 23	7,820	126	3 .20
Liabilities at fair value through the Income Statement				-	-	-	-	-	-
Debt issue				54,277	1,378	5. 12	48,556	1,179	4. 82
Loan Capital				6,203	186	6. 05	6,471	165	5. 06
Other interest bearing liabilities									
Total Interest Bearing Liabilities				230,352	5,321	4. 66	220,919	4,907	4. 41
Securitisation debt issues				11,124	303	5. 49	8,718	224	5. 10
Non Interest Bearing Liabilities				66,609	-	-	65,524	-	-
Total Average Liabilities				308,085	-	-	295,161	-	-

(1) personal includes personal loans, credit cards, and margin loans

(2) Used for calculating net interest margin

Detailed Schedules continued

Average Balances and Related Interest (continued)

Net Interest Margin	Half Year Ended 31/12/05			Half Year Ended 30/06/05			Half Year Ended 31/12/04		
	Avg Bal $M	Income $M	Yield %	Avg Bal $M	Income $M	Yield %	Avg Bal $M	Income $M	Yield %
Total interest earning assets excluding securitisation				250,357	8,349	6. 73	239,150	7,835	6. 50
Total interest bearing liabilities excluding securitisation				230,352	5,321	4. 66	220,919	4,907	4. 41
Net Interest Income & Interest spread				-	3,028	2. 07	-	2,928	2. 09
Benefit of free funds				-	-	0. 37	-	-	0. 34
Net interest margin				-	-	2. 44	-	-	2. 43

Other Banking Operating Income

	Half Year Ended				
	31/12/05 $M	30/06/05 $M	31/12/04 $M	Dec 05 vs Jun 05 %	Dec 05 vs Dec 04 %
Lending fees		384	349		
Commission and other fees		768	777		
Trading income		221	219		
Net (loss)/gain on disposal of non-trading instruments:					
Loans		(14)	1		
Available-for-sale investments		-	-		
Net revaluation gain transferred from equity		-	-		
Other financial instruments(incl hedging derivatives)		-	-		
Dividends		2	1		
Net profit/(loss) on sale of property, plant and equipment		3	1		
Other		98	35		
Total other banking operating income		1,462	1,383		