

**COLONIAL HOLDING COMPANY LIMITED
AND CONTROLLED ENTITIES
ABN 61 074 706 782**

Annual Financial Report
For the year ended 30 June 2010



Contents

Directors' Report	3
Income Statement	7
Statement of Comprehensive Income	8
Balance Sheet	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Note 1 Corporate Information	12
Note 2 Summary of Significant Accounting Policies	12
Note 3 Actuarial Methods and Assumptions	20
Note 4 Premium Income	26
Note 5 Investment Revenue	26
Note 6 Claims Expense and Withdrawals	26
Note 7 Operating Expenses	27
Note 8 Finance Costs	27
Note 9 Statement of Sources of Operating Profit	27
Note 10 Income Tax Expense	28
Note 11 Dividends	30
Note 12 Other Receivables	30
Note 13 Financial Assets at Fair Value through Profit or Loss	31
Note 14 Investment in Associates and Joint Ventures	32
Note 15 Property, Plant and Equipment	33
Note 16 Other Assets	33
Note 17 Intangible Assets	34
Note 18 Payables	35
Note 19 Derivative Financial Assets and Liabilities	35
Note 20 Interest Bearing Liabilities	36
Note 21 Provisions	37
Note 22 Life Insurance and Life Investment Contract Liabilities	38
Note 23 Controlled Unit Trusts – Minority Interests	39
Note 24 Contributed Equity	40
Note 25 Other Equity Instruments	40
Note 26 Reserves	41
Note 27 Statement of Cash Flows	42
Note 28 Solvency Requirements of Controlled Life Insurance Companies	43
Note 29 Restriction on Assets, Managed Assets, and Trustee Activities	43
Note 30 Controlled Entities	44
Note 31 Auditor's Remuneration	46
Note 32 Commitments	46
Note 33 Contingent Assets and Liabilities	47
Note 34 Related Party Disclosures	48
Note 35 Risk Management Policies and Procedures	50
Note 36 Risk Management and Financial Instruments	51
Note 37 Capital Management	57
Note 38 Subsequent Events after Balance Sheet Date	57
Note 39 Correction of Error in the Previous Financial Year	57
Directors' Declaration	58
Auditors Report	

Directors' Report

The Directors of Colonial Holding Company Limited (the Company) present their report for the year ended 30 June 2010, together with the financial report of the Company and the economic entity (the Group) consisting of the Company and the entities it controlled at the end of or during the year ended 30 June 2010.

Directors

The Directors of the Company at any time during the year, and to the date of this report, are:

John Damien Hatton

Leanne Lee Huay Leong (date ceased 05/02/2010)

Gregg Johnston (date appointed 23/07/2009)

Michael John Venter

Paul Rayson (date ceased 28/07/2009)

Lynette Elizabeth Cobley

Directors were in the office for the full period unless otherwise stated.

Secretary

The Secretary of the Company during the year, and to the date of this report, is:

John Francis Greenhalgh

Principal Activities

The Company acts as a holding company within the Commonwealth Bank of Australia Group (CBA Group). The principal activities of the Group during the year were the provision of a wide range of financial services to individuals and businesses, encompassing:

- Investment management;
- Funds administration;
- Financing; and
- Superannuation, life assurance, non-life insurance and investment products and services.

There was no significant change in the nature of these activities during the year.

The Group operates in Australia, New Zealand, the United Kingdom and throughout Asia and the Pacific.

Review of Operations and Results

The Group's consolidated net profit after income tax attributable to the shareholder is \$904m (2009: \$573m).

Borrowing Program and Capital Position of the Group

The Group operates a borrowing program through a wholly owned subsidiary Colonial Finance Limited (CFL). Debt issued by CFL is guaranteed by the Company. As at 30 June 2010, the net borrowing (external borrowings less cash at bank) of CFL amounted to \$1.9 billion (2009: \$1.8 billion).

Funds raised by CFL are used to support the business activities of the CBA Group. Standard and Poor's rate the debt program of CFL and, due to the guarantee provided by the Company, also rate the financial strength of the Company. The Company's rating is 'AA-.' As part of the rating process, Standard & Poor's assess the capital position of the Group.

Dividends

Dividends totalling \$534m (2009: \$286m) were paid on ordinary shares. Dividends totalling \$8m (2009: \$17m) were paid on mandatory convertible notes.

Significant Changes in the State of Affairs

There has been no other significant change in the state of affairs of the Group during the financial year.

Directors' Report

Events Occurring after the Reporting Date

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

Likely Developments

In the opinion of the Directors, disclosure of additional information about likely developments in the operations of the Group in future financial years would be likely to result in unreasonable prejudice to the Group.

Environmental Regulation and Performance

The Group has assessed whether there are any particular or significant environmental regulations which apply to it and has determined there are none.

Indemnification and Insurance of Directors and Officers

Indemnification

The Constitution of the Company provides for the Company to indemnify:

- (a) every person who is or has been a Director, Secretary or Executive Officer of the Company out of the property of the Company against any liability (other than for legal costs and expenses) incurred by that person in his or her capacity as a Director, Secretary or Executive Officer of the Company except:
 - (i) a liability owed to the Company or a related body corporate; or
 - (ii) a liability for which indemnity is prohibited by or not permitted under the Corporations Act 2001 from time to time;
- (b) every person who is or has been a Director, Secretary or Executive Officer of the Company out of the property of the Company against legal costs and expenses incurred in defending an action for a liability incurred by the person in his or her capacity as a Director, Secretary or Executive Officer of the Company except in the circumstances prohibited by or not permitted under the Corporations Act 2001.

Insurance

During or since the end of the financial year, Commonwealth Bank of Australia, the ultimate parent entity, or its related entities has paid an insurance premium in respect of a contract insuring all current and former Directors and Secretaries, Executive Officers and employees of the Company (and the Directors and Secretaries, Executive Officers and employees of any related bodies corporate as defined in the insurance policy) against liabilities incurred in the performance of their duties to the extent permitted under the Corporations Act 2001. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

Auditor Independence

We have obtained an independence declaration from our auditor PricewaterhouseCoopers as presented on the following page.

Rounding off

The Company is an entity of the kind referred to in the Australian Securities and Investments Commission Class Order 98/0100 (as amended). In accordance with that Order, amounts in this Directors' Report and the accompanying financial report have been rounded off to the nearest million Australian dollars, unless stated to be otherwise.

Signed in accordance with a resolution of the Directors.



Director

28 September 2010

Sydney

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the audit of Colonial Holding Company Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Colonial Holding Company Limited and the entities it controlled during the year.



R Balding
Partner
PricewaterhouseCoopers

Sydney
28 September 2010

THIS PAGE IS INTENTIONALLY LEFT BLANK

Financial Statements

Income Statements

For the year ended 30 June 2010

	Note	Group		Company	
		2010 \$M	2009 \$M	2010 \$M	2009 \$M
Insurance premium revenue	4	2,017	1,957	-	-
Outward reinsurance expense		(298)	(302)	-	-
Net insurance premium revenue		1,719	1,655	-	-
Fees for life insurance management services		297	248	-	-
Investment revenue	5	1,890	(1,027)	702	285
Gain on acquisition		-	17	-	-
Fees and commissions		1,538	1,361	-	-
Other revenue		95	170	-	-
Net revenue		5,539	2,424	702	285
Insurance claims expense	6	1,640	1,345	-	-
Reinsurance recoveries revenue		(303)	(317)	-	-
Net insurance claims expense		1,337	1,028	-	-
Finance costs	8	197	283	144	141
Operating expenses	7	1,753	1,719	2	2
Change in life insurance contract liabilities	22	(131)	(405)	-	-
Change in life investment contract liabilities	22	934	(686)	-	-
Change in reinsurers' share of insurance contract liabilities	22	31	(71)	-	-
Change in unvested policyowner benefits		49	151	-	-
Change in controlled unit trust liabilities		62	(135)	-	-
Total expenses		2,895	856	146	143
Net claims and expenses		4,232	1,884	146	143
Profit before income tax		1,307	540	556	142
Income tax expense / (benefit)	10	403	(33)	(37)	(69)
Profit After Income Tax		904	573	593	211

The above Income Statements are to be read in conjunction with the accompanying notes.

Financial Statements

Statements of Comprehensive Income

For the year ended 30 June 2010

	Note	Group		Company	
		2010 \$M	2009 \$M	2010 \$M	2009 \$M
Profit for the year		904	573	593	211
Other comprehensive income					
Exchange differences on translation of foreign operations	26	(8)	17	(1)	1
Other Comprehensive Income for the Year, Net of Tax		(8)	17	(1)	1
Total Comprehensive Income for the Year		896	590	592	212

The above Statements of Comprehensive Income are to be read in conjunction with the accompanying notes.

Financial Statements

Balance Sheets

As at 30 June 2010

	Note	Group			Company		
		2010 \$M	2009 \$M	1 July 2008 \$M	2010 \$M	2009 \$M	1 July 2008 \$M
Assets							
Cash and cash equivalents	27	1,532	1,239	1,274	1	1	1
Outstanding premiums		221	194	12	-	-	-
Current tax assets		54	48	52	-	-	-
Intergroup current tax assets		-	-	-	41	40	55
Derivative financial assets	19	69	110	90	-	11	9
Property, plant and equipment	15	35	46	48	-	-	-
Investment in subsidiaries	30	-	-	-	6,958	7,072	6,907
Other receivables	12	531	565	661	1	2	6
Financial assets at fair value through profit or loss	13	18,177	19,344	21,127	681	643	778
Investment in associates	14	58	58	71	-	-	-
Life insurance contract liabilities ceded under reinsurance	22	188	219	145	-	-	-
Deferred tax assets	10	6	121	14	39	44	15
Other assets	16	179	199	181	17	19	23
Intangible assets	17	2,815	2,814	2,807	-	-	-
Total Assets		23,865	24,957	26,482	7,738	7,832	7,794
Liabilities							
Payables	18	987	950	1,102	2,513	2,677	2,727
Premiums in advance		232	216	12	-	-	-
Derivative financial liabilities	19	25	47	27	1	-	-
Interest bearing liabilities	20	3,138	3,306	2,574	-	-	-
Current tax liabilities		38	26	28	-	-	-
Intergroup current tax liabilities		231	22	221	-	-	-
Deferred tax liabilities	10	175	128	238	-	-	-
Provisions	21	213	215	53	2	2	6
Life insurance contract liabilities	22	3,282	3,665	4,054	-	-	-
Life investment contract liabilities	22	11,259	12,328	14,392	-	-	-
Unvested policyowner benefits		50	64	69	-	-	-
Controlled unit trusts - minority interests	23	778	915	1,109	-	-	-
Total Liabilities		20,408	21,882	23,879	2,516	2,679	2,733
Net Assets		3,457	3,075	2,603	5,222	5,153	5,061
Equity							
Contributed equity	24	4,119	4,100	3,917	4,119	4,100	3,917
Other contributed equity	25	276	276	276	276	276	276
Foreign currency translation reserve	26	(71)	(63)	(80)	(7)	(6)	(7)
Shareholder retained profits		(878)	(1,246)	(1,516)	834	783	875
Shareholders Equity		3,446	3,067	2,597	5,222	5,153	5,061
Minority Interest in Controlled Entities		11	8	6	-	-	-
Total Equity		3,457	3,075	2,603	5,222	5,153	5,061

The above Balance Sheets are to be read in conjunction with the accompanying notes.

Financial Statements

Statements of Changes in Equity

For the year ended 30 June 2010

	Note	Group		Company	
		2010 \$M	2009 \$M	2010 \$M	2009 \$M
Shareholder Retained Profits/(Accumulated Losses)					
Balance at the beginning of the year		(1,246)	(2,206)	876	900
Correction of error	39	-	690	(93)	(25)
Restated balance at the beginning of the year		(1,246)	(1,516)	783	875
Profit after income tax		904	573	593	279
Correction of error	39	-	-	-	(68)
Restated profit after income tax		904	573	593	211
Dividends provided for or paid	11	(542)	(303)	(542)	(303)
Transfer of retained earnings from St. Andrew's Life Insurance Pty Limited		6	-	-	-
Balance at the End of the Year		(878)	(1,246)	834	783
Contributed Equity					
Balance at the beginning of the year		4,100	3,917	4,100	3,917
Capital issued during the year		19	424	19	424
Capital returned to shareholders		-	(241)	-	(241)
Balance at the End of the Year	24	4,119	4,100	4,119	4,100
Other Contributed Equity					
Balance at the beginning of the year		276	276	276	276
Movement during the year		-	-	-	-
Balances at the End of the Year	25	276	276	276	276
Foreign Currency Translation Reserve					
Balance at the beginning of the year		(63)	(80)	(6)	(7)
Currency translation adjustment		(8)	17	(1)	1
Balance at the End of the Year	26	(71)	(63)	(7)	(6)

The above Statements of Changes in Equity are to be read in conjunction with the accompanying notes.

Financial Statements

Statements of Cash Flows

For the year ended 30 June 2010

	Note	Group		Company	
		2010 \$M	2009 \$M	2010 \$M	2009 \$M
Cash Flows From Operating Activities					
Premiums received from life insurance contracts		1,710	1,695	-	-
Premiums received from life investment contracts		656	706	-	-
Fees, rents and other cash receipts		2,009	2,048	-	-
Interest received		114	438	21	9
Distributions received		118	147	682	376
Payments to suppliers and employees		(1,730)	(1,925)	(2)	(2)
Payments made in respect of life insurance contracts		(1,545)	(1,030)	-	-
Payments made in respect of life investment contracts		(2,738)	(2,085)	-	-
Finance charges		(197)	(284)	-	-
Income tax (paid)/refund		(56)	(384)	42	55
Net Cash Provided by/(Used in) Operating Activities	27(b)	(1,659)	(674)	743	438
Cash Flows From Investing Activities					
Proceeds from sale of financial assets		9,308	12,798	70	-
Payments for purchase of financial assets		(6,640)	(13,168)	(86)	-
Net loans and advances		(35)	(407)	(319)	(152)
Proceeds from sale of other assets		8	4	-	-
Payments for purchase of other assets		(4)	(9)	-	(1)
Net Cash Provided by/(Used in) Investing Activities		2,637	(782)	(335)	(153)
Cash Flows From Financing Activities					
Dividends paid		(542)	(303)	(542)	(303)
Capital returned from subsidiaries		-	(241)	-	(241)
Net (payments)/proceeds from borrowings		(162)	802	-	-
Proceeds from the issue of shares		19	424	19	424
Return of capital from controlled entities		-	-	115	(165)
Net Cash Provided by/(Used in) Financing Activities		(685)	682	(408)	(285)
Net Increase/(Decrease) in Cash and Cash Equivalents		293	(774)	-	-
Cash and Cash Equivalents at the Beginning of the Year		1,239	2,013	1	1
Cash and Cash Equivalents at the End of the Year	27(a)	1,532	1,239	1	1

The above Statements of Cash Flows are to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Note 1 Corporate Information

Colonial Holding Company Limited (the Company or CHCL) is a company limited by shares that is incorporated and domiciled in Australia. Its parent entity is Commonwealth Bank of Australia (CBA). CBA is also the ultimate parent.

The registered office of the Company is located at Ground floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000.

During the year the principal activities of the CHCL Group (being CHCL and the entities controlled by CHCL and referred to hereinafter as the Group or the economic entity) were the provision of investment management and fund administration services, financing and superannuation, life assurance, non-life insurance and investment products.

All employees are employed by the ultimate parent entity or other wholly owned entities within the Group.

The financial report of Colonial Holding Company Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 28 September 2010.

Note 2 Summary of Significant Accounting Policies

(a) Basis of preparation

The financial report has been prepared on the basis of historical cost except that the following assets and liabilities are stated at their fair value: financial assets at fair value through profit or loss, investment contract liabilities, derivative financial instruments and investment properties, which have been measured at fair value. The Balance Sheet is presented in order of liquidity.

The accounting policies applied are consistent with those of the previous year, unless otherwise stated.

All amounts are expressed in Australian currency and all values are rounded to the nearest million dollars (\$m) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100.

(b) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB being Australian equivalents to IFRS (AIFRS). The financial report of the Company also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

The following standards and amendments have been applied by the Company during the financial year commencing 1 July 2009:

- Revised AASB 101, AASB 2007-8 and AASB 2007-10 Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards. This revised standard introduces a Statement of Comprehensive Income. Other revisions include impacts on the presentation of items in the Statement of Changes in Equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.
- Revised AASB 127 Consolidated and Separate Financial Statements and AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in Subsidiary, Joint Controlled Entity or Associate.
- Revised AASB 3 Business Combination and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3.
- AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments. The amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using a three level hierarchy.

The following standards and amendments that have been issued or amended but are not yet effective have not been adopted for the reporting period ending 30 June 2010. When applied in future periods, these recently issued or amended standards are not expected to have a material effect on the Company's results, financial position or disclosures:

- AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013). AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the Company's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Company is yet to assess its full impact. However, initial indications are that it is not expected to materially impact the financial results of the Company.

(c) Life insurance and life investment contracts

Activities of the life insurance operations

The activities of the statutory funds of the Australian insurer, the shareholders' fund and the other life insurers are reported in aggregate in the financial statements. For the purposes of the financial report, the life insurance policies issued by the statutory funds are classified as either life insurance contracts or life investment contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Life insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death or injury or a disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held, and the financial risks are substantially borne by the insurer.

Notes to the Financial Statements

Note 2 Summary of Significant Accounting Policies (continued)

Life investment contracts involve the origination of one or more financial instruments and may involve the provision of management services. Life investment contracts do not meet the definition of life insurance contracts under AASB 1038: Life Insurance Contracts, because they do not involve an acceptance of significant insurance risk by the Group's life insurers.

Contracts that include both investment and insurance elements are separated into these two elements and reported accordingly, if the conditions set out in AASB 1038 are met.

For the purposes of this financial report, holders of life insurance contracts and life investment contracts are referred to as policyholders.

Investment linked and non investment linked business are terms applicable to the Australian life insurers. Each type of business is held in separate statutory funds. Non investment linked business is business where the insured benefit under the policy contract is not directly linked to the market value of investments held by the fund. These benefits are payable on death or the occurrence of an insured event. The financial risk of the occurrence of such an event which crystallises the payment of the insured benefit is borne by the insurer issuing the policy.

Investment linked business is business where the benefit payable is directly linked to the market value of investments held by the statutory fund in which the policy resides. While the underlying assets are registered in the name of the insurer and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the investment performance and risks on policyholder funds are borne by the policyholder. The Group derives fee income from the administration of the investment linked business.

Participating policyholder benefits, both vested and unvested, are treated as expenses when incurred and liabilities until paid. In accordance with the Life Insurance Act 1995, 80% of the net profit of participating business is allocated to policyholders. The amount allocated is expensed in the Income Statement. The remaining 20% is allocated to the shareholder. All profits and losses of non-participating business are allocated to the shareholder.

Shareholder's entitlement to monies held in the life insurance funds

Monies held in the Australian statutory funds are subject to the distribution and transfer restrictions and other requirements of the Life Insurance Act 1995.

Life insurance business conducted overseas is undertaken in compliance with regulatory requirements in the local jurisdiction.

(d) Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CHCL as at 30 June 2010 and the results of all subsidiaries for the year then ended. CHCL and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The life statutory funds and shareholders' funds hold controlling interests in trusts and companies. The total amounts of the assets, liabilities, revenues and expenses of each controlled entity are recognised in the consolidated financial report, applicable to the period of ownership of the entity.

Policyholder transactions within the life statutory funds are also included in the consolidated financial report.

Controlled entities are consolidated on a line by line basis and are included from the date control commenced and up to the date control ceased.

All balances and transactions between entities within the economic entity have been eliminated on consolidation.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company.

(e) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are the actuarial assumptions. Actuarial assumptions made in determining the carrying amount of life insurance contracts and life investment contracts are detailed in Note 3.

(f) Fair value estimates

Financial instruments classified as fair value through profit or loss are presented on the Balance Sheet at their fair value. For other financial assets and financial liabilities, fair value is estimated as follows:

Notes to the Financial Statements

Note 2 Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

These assets are brought to account at fair value being the principal amount.

Other financial assets

The carrying amount on the Balance Sheet is considered a reasonable estimate of their fair value after allowing for the non-accrual and recoverability testing of loans and receivables.

Interest bearing liabilities

For floating rate borrowings, the carrying amount on the Balance Sheet is considered a reasonable estimate of their fair value. For fixed rate borrowings, fair value is estimated using a discounted cash flow model.

Other liabilities

These financial liabilities are short term in nature and the carrying value is equivalent to their fair value.

(g) Premium revenue

Life insurance contracts

Premiums are recognised as revenue or as an increase in life insurance contract liabilities, depending on the type of contract. Premium amounts earned by providing services and bearing risks are treated as revenue. Other premium amounts are akin to deposits and are recognised, net of initial entry fee income, as an increase in life insurance contract liabilities.

Premiums with no due date are recognised on a cash received basis. Premiums with a regular due date are recognised on a due and receivable basis. Unpaid premiums are only recognised as revenue during the days of grace for payment or where secured by the surrender value of the policy and are included as 'outstanding premiums' in the Balance Sheet.

Life investment contracts

Premiums received generally include a fee component. This component is recognised as revenue as described in Note 2(j) below. The deposit portion is 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, when due and receivable.

(h) Claims expense

Life insurance contracts

Claims are recognised as an expense or as a decrease in life insurance contract liabilities, depending on the type of contract. Claims incurred that relate to the provision of services and the bearing of risks are treated as expenses and recognised on an accruals basis once the liability to the policyholder has been established under the terms of the contract. Withdrawal components of life insurance contracts are not expenses and are treated as a reduction in life insurance contract liabilities.

Claims are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event, depending on the type of claim.

Life investment contracts

There is no claims expense in respect of life investment contracts. Surrenders represent investment withdrawals and are treated as a reduction in life investment contract liabilities. Surrenders are recognised when the policyholder formally notifies the insurer.

(i) Investment revenue

All investment income is recognised on an accruals basis.

Dividend income is recognised when a right to attainment has been obtained. Unit trust distributions are recognised when declared.

Interest income is recognised using the effective interest method.

Investment assets are rebalanced to the non linked liabilities recorded in the general ledger (including tax balances) on a monthly basis.

Consistent with the principles of fair value accounting, movements in the fair value of investment assets are recognised in the Income Statement.

(j) Fee revenue

AASB 1038: Life Insurance Contracts requires income from life investment contracts sold by life insurers to be shown separately from income from life insurance contracts sold. Life insurance contracts are accounted for in accordance with the requirements of AASB 1038: Life Insurance Contracts and AASB 4: Insurance Contracts and life investment contracts are accounted for in accordance with AASB 118: Revenue, AASB 139: Financial Instruments Recognition and Measurement and AASB 1038: Life Insurance Contracts.

In accordance with AASB 118, the initial entry fee income on investment contracts is recognised on receipt where the Group provides services including financial advice as part of the acquisition process. Where financial advice is not provided, fees are deferred and recognised in the Income Statement over the life of the contract.

Notes to the Financial Statements

Note 2 Summary of Significant Accounting Policies (continued)

For companies in the economic entity which act as the responsible entity for managed investment schemes, AASB 118 requires initial entry fees received on investments into those schemes to be deferred and amortised. The revenue is recognised over the average life of the investments using the straight line method. Commission costs relating to these investments are deferred and amortised to commission expense on a straight line basis over the same period.

Where fees relate to a specific transactions or events, they are recognised as income in the period in which they are earned. Where they are charged for any services to be provided over a period of time, they are recognised in the income on an accrual basis in line with the period over which the services are provided.

(k) Policy acquisition costs

Life insurance contract acquisition costs

Policy acquisition costs are the fixed and variable costs of acquiring new business. The Group's Appointed Actuaries assess the value and future recoverability of these costs in determining life insurance contract liabilities. Amounts which are deemed recoverable in premiums or policy charges are deferred and amortised over the life of the policy. The net profit impact is included in the Income Statement as a change in life insurance contract liabilities. The deferral is determined as the lesser of actual costs incurred and the allowance for recovery of those costs from the premiums or policy charges as appropriate for each business class. This is subject to an overall limit that future profits are anticipated to cover these costs. Losses arising on acquisition are recognised in the Income Statement in the year in which they occur.

Life investment contract acquisition costs

Acquisition costs for life investment contracts include the variable costs of acquiring new business. The deferral of investment acquisition costs is limited by the application of AASB 139 only to the extent that direct and incremental transaction costs (for example commissions and volume bonuses) are deferred.

Acquisition costs may only be deferred if there is a significant probability that they may be recovered from future revenues. This probability can be measured through identification of the excess of future fees over future expenses.

(l) Taxation

Current and deferred tax

As one of the principal activities of the Group during the period was the provision of investment management and fund administration services, financing and superannuation, life assurance and investment products, for the purpose of calculating the Group's tax liability, assets may be segregated to the extent that they support liabilities.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Agreements made between life insurers and superannuation funds where the trustee is a member company of the Group, may result in the insurer making payments in relation to the contributions tax liability arising in the funds. The amounts paid are classified as claims expense and do not form part of the income tax expense of the Group.

Tax consolidation

The Company and all of its wholly owned Australian controlled entities are entities in a tax-consolidated group, with Commonwealth Bank of Australia as the head entity.

Notes to the Financial Statements

Note 2 Summary of Significant Accounting Policies (continued)

The consolidated entity recognises the current and deferred tax assets and deferred tax liabilities applicable to the transactions undertaken by it, as if it continued to be a separately taxable entity in its own right, reasonably adjusted for certain intragroup transactions. The head entity recognises the entire tax-consolidated group's current tax liability. Any differences between the current tax liability and any tax funding arrangement amounts are recognised by the Company as an equity contribution from the head entity.

The tax-consolidated group has entered into a tax sharing agreement that requires wholly-owned subsidiaries to make contributions to the head entity for tax liabilities arising from external transactions occurring after the implementation of tax consolidation. The contributions are calculated as if the individual tax liability of the subsidiary was payable (as if the subsidiary was a separately taxable entity in its own right), reasonably adjusted for certain intragroup transactions.

The head entity, together with the other members of the consolidated tax group, have also, via the tax sharing agreement, provided for the determination of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this component of the agreement as this outcome is considered remote.

(m) Goods and services tax

As providers of financial service, Australia and New Zealand resident entities within the Group are input taxed for the purposes of calculating Goods and Services Tax (GST) and cannot fully recover GST paid. The amount of non-recoverable GST is included in the cost of the related asset or expense in respect of which it is incurred. The net amount of GST recoverable or payable to the taxation authority is included as part of receivables or payables on the Balance Sheet. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the taxation authority are classified as operating cash flows.

(n) Foreign currency translation

All amounts in the financial statements are presented in Australian currency. Amounts receivable and payable in other currencies at balance sheet date have been translated at rates of exchange ruling at balance sheet date. Transactions in foreign currencies are recorded in Australian currency at the rates of exchange applicable at the relevant date of the transaction.

The assets and liabilities of the Group's foreign operations are translated from their functional currency at exchange rates applicable at balance sheet date. The profit or loss attributable to these operations is translated at a weighted average rate for the period. Exchange differences arising on translation of the balances and transactions of foreign operations are taken to the foreign currency translation reserve.

(o) Intangible assets

Intangible assets are recognised only when they can be reliably measured and where it is probable they will lead to future economic benefits. The Group carries these assets at cost less amortisation and any impairment losses. These assets are either deemed to have indefinite lives and assessed annually for impairment, or are amortised over their estimated useful lives. Any impairment loss is recognised in the Income Statement when incurred.

(p) Life insurance assets

Assets backing insurance and investment contracts

All financial assets within the life statutory funds have been determined to back either life insurance contracts or life investment contracts. These assets are designated as at fair value through profit or loss. Measurement at fair value of the assets which back life investment contracts is consistent with the measurement basis of the liabilities. Assets which back life insurance contracts are also measured on a fair value basis as they are managed and their performance is evaluated on this basis.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on balance sheet date. For investments in unlisted unit trusts, fair value is determined by reference to the calculated unit price of each trust, being the Trust's buy-back price. For investments with no active market, fair value is determined using valuation techniques such as recent arm's length market transactions.

Assets not backing life insurance contract liabilities or life investment contract liabilities

Financial assets held outside the statutory funds and other non-life controlled entities do not back life insurance contract liabilities or life investment contract liabilities. To ensure consistency across the Group, and except where specifically stated otherwise, all financial assets and all non-financial assets are recognised at fair value to the extent permitted under accounting standards. Adjustments to the value of such assets are recognised in the Income Statement when the corresponding accounting standards allow such treatment.

Notes to the Financial Statements

Note 2 Summary of Significant Accounting Policies (continued)

(q) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Group assesses at each balance sheet date whether there is any objective evidence of impairment. If there is objective evidence that an impairment on receivables has been incurred, an impairment charge is recognised in the Income Statement and is measured as the difference between the asset's carrying amount and the present value of the expected future cash flows.

(r) Liabilities

Life insurance contract liabilities

AASB 1038 requires separate disclosure of life investment contract and life insurance contract liabilities. Various financial reporting methodologies are used to determine the life insurance contract liabilities of the Group's life insurers with reference to local regulations and general accepted practices. The liabilities are recorded as expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments to policyholders, less the expected discounted value of the future receipts from policyholders that would be required to meet the benefits based on the valuation assumptions used. The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued.

The assumptions used in the calculation of the life insurance and life investment contract liabilities are reviewed at each reporting date. A summary of the significant actuarial methods and assumptions used is contained in Note 3.

Life investment contract liabilities

Life investment contracts consist of a financial instrument and an investment management services element, both of which are measured at fair value.

All contracts issued by the Group which are classified as investment contracts are unit-linked except for term annuities (Australia) and term deposit bonds (New Zealand).

The financial instrument liabilities are measured in accordance with AASB 139 with changes in fair value taken to the Income Statement. Fair value at the reporting date represents the value of future benefit payments and fees subject to a minimum of the surrender value. Fees are those paid to the Company for the management services contract.

The liability to policyholders is closely linked to the performance and value of the assets (net of income tax) that back those liabilities.

Contingent liabilities

The Group discloses a Contingent Liability when it has a possible obligation arising from past events, which will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control. A Contingent Liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Other liabilities

Other liabilities of the Group are carried at amortised cost, being the invoice amounts due or face value.

(s) Reinsurance

The recoverable amount under contracts entered into by the Group with reinsurers which meet the definition of an insurance contract have been classified as an asset "Gross insurance contract liabilities ceded in reinsurance" on the Balance Sheet.

(t) Outward reinsurance

Premiums ceded to reinsurers are recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the pattern of reinsurance service received.

(u) Leases

Leases are classified at their inception as either finance or operating leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

The minimum lease payments under operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Any lease incentive liability in relation to the non-cancellable operating lease is reduced on an imputed interest basis over the lease term at the interest rate implicit in the lease. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Notes to the Financial Statements

Note 2 Summary of Significant Accounting Policies (continued)

(v) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(w) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(x) Borrowings

Borrowings are recorded initially at fair value net of transaction costs that are directly attributable to the borrowings. After initial recognition the borrowings are measured at amortised cost on an effective yield basis.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion options. This is recognised and included in shareholder's equity, net of income tax.

(y) Cash and cash equivalents

Cash comprises cash at bank and short-term deposits with original maturity less than three months. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(z) Provisions

Provisions are recognised when entities within the Group have a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The estimate is made based on experience and an assessment of likely outcomes.

(aa) Expense apportionment

Expenses relating to the life insurance contract and life investment contract activities are apportioned between acquisition, maintenance, claims management and investment management expenses. Expenses which are directly attributable to an individual life insurance contract or life investment contract or product are allocated directly to a particular expense category, fund, class of business and product line as appropriate.

Where expenses are not directly attributable, they are appropriately apportioned, according to detailed expense analysis, with due regard for the objective in incurring that expense and the outcome achieved. The apportionment basis has been made in accordance with Actuarial Standards and on an equitable basis to the different classes of business in accordance with the Life Act.

Other life insurer expenses not related to life insurance or life investment contracts are allocated to the respective company's shareholder's fund.

Notes to the Financial Statements

Note 2 Summary of Significant Accounting Policies (continued)

(ab) Derivative financial instruments

The Group, either directly or through investments in unlisted trusts, uses derivative financial instruments to hedge its equity, money market and foreign exchange market exposures. Hedge accounting can be applied, subject to certain rules, to fair value hedges and cashflow hedges. Derivatives used by Group entities that do not meet the hedging criteria under AASB 139 are classified as derivatives held for trading. The Group currently has not adopted hedge accounting and therefore designates all derivatives as non-hedge.

Derivative financial instruments are recognised at fair value, and continue to be re-measured to fair value at each reporting date. Any gains or losses arising from changes in fair value are taken to the Income Statement.

(ac) Contributed equity

Issued and paid up capital is classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company. The mandatory convertible notes issued by the Company are also classified as equity.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(ad) Controlled Unit Trusts - minority unitholders

Minority unitholders in controlled unit trusts have the right to redeem their interests in the unit trust at any time for cash equal to their proportionate share of the net asset value of the unit trust. The economic entity's liability to minority unitholders is measured at fair value through profit or loss. The fair value of the liability is measured on the same basis as the assets that back that liability.

The minority interests in controlled unit trusts are classified as a liability on the consolidated balance sheet and shown separately as finance costs in the Income Statement.

(ae) Associates and joint ventures

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities which the Group controls 50% of the voting rights. Investments in associates and joint ventures are accounted in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of the post-acquisition profits or losses of associates is recognised in the Income Statement and adjusted against the carrying amount of the investment.

Dividends receivable from associates reduce the carrying amount of the investment.

(af) Comparative figures

The presentation of prior year comparatives has been changed for comparability with current year presentation where required.

(ag) Rounding

In accordance with the Australian Securities and Investment Commission Class Order 98/0100 amounts in this financial report have been rounded to the nearest million Australian dollars unless otherwise stated. The Company is of a kind to which the Class Order applies.

Notes to the Financial Statements

Note 3 Actuarial Methods and Assumptions

Appropriately qualified actuaries are appointed in respect of each of the Group's life insurance businesses. The Appointed Actuaries have reviewed and satisfied themselves as to the accuracy of the data from which the amounts of life insurance and life investment contract liabilities included in this financial report have been determined and that the amount of such liabilities was determined in accordance with relevant actuarial standards and legislation in Australia and New Zealand. The actuarial methods and assumptions for general insurance have not been included as the general insurance business is immaterial for the Group.

Disclosure of assumptions – life insurers in Australia and New Zealand

Life insurance contract liabilities have been calculated in accordance with AASB 1038, and the valuation methodology set out in LPS 1.04. The principal methods and profit carriers used for the major life insurance contract product types are as follows:

Product Type	Method	Profit Carrier
Individual		
Traditional	Projection	Bonuses or expected claim payments
Investment Account	Projection	Bonuses or funds under management
Lump Sum Risk	Projection	Premiums
Disability Income	Projection	Premiums
Lifetime Annuities	Projection	Annuity payments
Group		
Investment Account	Projection	Bonuses or funds under management
Lump Sum Risk	Accumulation	Expected claim payments
Disability Income	Accumulation	Expected claim payments

The Projection Method measures the present value of estimated future policy cash flows and profit margins to calculate the life insurance contract liabilities. The policy cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments.

For Group Risk business, valued under the accumulation approach, the most significant liabilities are for claims that have been incurred but not reported and for open claims on disability income products.

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

In regards to life investment contracts, the accumulation method is used for investment linked business with liabilities being determined as the surrender value (i.e. the value that would be paid to policyholders if every policy was closed at the valuation date). For fixed term annuities, the projection method is used with annuity payments as the profit carrier.

Notes to the Financial Statements

Note 3 Actuarial Methods and Assumptions (continued)

Key actuarial assumptions

The following table shows the key assumptions used in the calculation of life insurance and life investment contract liabilities. Any significant difference by business or product type, and any material changes in the assumptions from those of the previous year are disclosed.

(i) Discount rates

The discount rates assumed vary by product and are based on the risk-free rate except for discretionary participatory products where the rate is based on the expected earning rate on the underlying assets. The following table shows the applicable rates for the major classes of business in Australia and New Zealand.

Class of business ¹	30 June 2010 Rate Range %	30 June 2009 Rate Range %
Traditional – ordinary business (after tax)	4.01 - 5.30	4.33 - 6.06
Traditional – superannuation business (after tax)	4.87 - 6.47	5.25 - 7.41
Annuity – term and lifetime (exempt from tax)	4.60 - 5.85	3.05 - 6.35
Lump Sum Risk (before tax)	3.32 - 6.29	3.20 - 6.35
Disability Income (before tax)	3.32 - 6.29	3.20 - 6.35
Investment account – ordinary (after tax)	3.83 - 4.02	4.13 - 4.68
Investment account – superannuation (after tax)	4.66 - 4.89	5.03 - 5.71
Investment account – annuities (exempt from tax)	5.43 - 5.68	5.86 - 6.60

¹ For New Zealand, investment earning rates assumed were 3.4% to 6.0% net of tax (2009: 3.4% to 6.4%).

(ii) Asset mix

The asset mix assumed was the target asset mix for each product group.

(iii) Inflation

The inflation assumption is based on current inflation levels together with consideration of future inflation rates implied by inflation-linked securities. Expenses and some premiums and claims inflate by the inflation assumption. Allowance for future inflation of 2.75% p.a. (2009: 2.5% p.a.) is assumed, except for annuities where an inflation rate of 2.55% p.a. (2009: 2.35% p.a.) is assumed, based on the average duration of the Group's CPI-linked annuities and the real yields on CPI-linked assets. An inflation rate of 2% p.a. (2009: 2.0% p.a.) was assumed in New Zealand.

(iv) Bonuses

The valuation assumed the long term supportable bonuses will be paid, which is accordance with the Group's bonus philosophy.

(v) Future expenses and indexation

Maintenance expenses are based on an internal analysis of current expenses and next year's planned expenses, after adjusting for one-off expenses. Expenses are assumed to increase in line with inflation each year. In general, maintenance expense assumptions for risk products increased compared to the prior period while those for other product types decreased.

Investment management expenses are based on agreed rates with investment managers with bonuses for performance above benchmarks. Assumptions are based on the contractual fees set out in the Fund Manager agreements and vary by asset class based on the negotiated fees.

Benefits and premiums under most of the regular premium policies are automatically indexed. The indexation rates are based on an analysis of past experience and estimated long-term CPI, and vary by business and product type.

(vi) Tax

The taxation basis and rates assumed vary by territory and product type. Current tax legislation and rates are assumed to continue unaltered.

Notes to the Financial Statements

Note 3 Actuarial Methods and Assumptions (continued)

(vii) Voluntary discontinuance

Voluntary discontinuance rates are based on recent Company experience and vary by age, product and duration in force. For the individual risk business, while select durations on certain products were increased, there were reductions in the discontinuance rates assumed for personal masterfund risk and telemarketing products. Current surrender value terms and policies are applied to assumptions for future surrenders.

For major classes of business the assumed aggregate rates of discontinuances are:	Rates for 30 June 2010		Rates for 30 June 2009	
	Minimum %	Maximum %	Minimum %	Maximum %
Traditional	2	10	2	10
Lump Sum Risk (excluding Telemarketing)	2	50	7	50
Disability Income	9	23	8	35
Investment Account	9	14	10	17

(viii) Surrender values

Surrender values are based on current terms and policies. There have been no significant changes.

(ix) Mortality

Rates vary by sex, age, product-type and smoker status. Rates are based on standard mortality tables adjusted for recent Group and industry experience.

Risk Products	<p>Australia: The mortality rates range from 42% to 150% of IA95-97 (2009: 42% to 157%) adjusted for selection and size of insured benefit.</p> <p>New Zealand: 53% to 120% of NZ97 (2009: 53% to 120%).</p>
Annuity Products	<p>Australia : Base mortality 72% IM/IF80 for calendar year 1996, 3.5% p.a. mortality improvement factor for ages 60 and below scaling down uniformly to 0.75% p.a. for age 110 (applying from 1996). No changes from prior period.</p> <p>New Zealand: 80%/83% PMA/PFA92 with allowance for mortality improvement (2009: 115% PMA/PFS92). No change in assumptions.</p>

(x) Morbidity

Rates are based on recent Group and industry experience. Incidence and termination rates can vary by product type, age, sex, occupation and smoker status.

Income:	<p>Australia: Incidence rates: 24.1% to 218.9% of IAD89-93 (2009: 24.1% to 218.9%) adjusted for selection. Termination rates: 41.3% to 110.0% of IAD89-93 (2009: 32.6% to 231.0%).</p> <p>New Zealand: Based on overall experience over recent years. No significant changes in assumptions have been made in the current period.</p>
Trauma:	<p>Australia: 31.9% to 120.0% of Fabrizio and Gratton population experience adjusted for selection and size of insured benefit. (2009: 31.9% to 102.2%).</p> <p>New Zealand: Table developed based on population incidence rates of specified traumas, similar to the approach in the prior year.</p>
TPD:	<p>Australia: 37.6% to 74.0% of Munich Reinsurance TPD Base. No change from prior year.</p> <p>New Zealand: Company specific tables developed for pricing, similar to approach in prior year.</p>

(xi) Group lump sum risk – Claims and rebate liabilities

Incurred But Not Reported (IBNR): A combination of the chain ladder method, based upon past statistical analysis, and assumed loss ratio approach is used to determine the IBNR claims liability. For the most recent incurred periods the loss ratio approach is used. This is gradually blended into the chain ladder method used for earlier incurred periods. This "blending" is done using a set of factors, which varies by claim type, reflecting the rate of claims development. The loss ratios are based on historical claims experience over at least three years, and the pricing loss ratio where there is insufficient experience. There were no significant changes to these assumptions in the current period.

Pending: The pending claim liability is determined by applying a factor to all notified outstanding claims. The factors reflect the historical rate of decline applicable for each reporting business segment and associated types of claims.

Rebate: A profit share provision is determined by feeding the premium and claims liabilities into the profit share formula.

Notes to the Financial Statements

Note 3 Actuarial Methods and Assumptions (continued)

(xii) Group disability income – Claims and rebate liabilities

An open claims liability is determined using claim termination rates ranging from 45% to 70% of IAD 89-93 (2009: 45% to 90%). The IBNR claims liability calculation uses the same method as for lump sum products. A profit share provision is determined by feeding the premiums and claims liabilities into the profit share formula. No significant changes in assumptions have been made in the current period.

(xiii) Future participating benefits

For participating business, the Group's policy is to set bonus rates such that over long periods, the return to policyholders is commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business.

Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions at the maximum allowable rate of 20%. In applying the policyholders' share of distributions to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in life insurance contract liabilities are set such that the present value of life insurance contract liabilities equates to the present value of the assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in distributions.

Bonus rates for individual participating business are not disclosed as it is only practical to show reversionary bonus rates and not terminal bonus rates.

Solvency requirements of statutory funds in Australia

The Life Insurance Act 1995 requires life insurers to hold prudential reserves in excess of the amount of life insurance and investment contract liabilities. These reserves are required to support capital adequacy requirements and provide protection against adverse experience. Prudential Standard LPS 2.04 Solvency Standard (LPS 2.04) prescribes a minimum capital requirement and the minimum level of assets required to be held in each life insurance statutory fund. The Group complied with the solvency requirements of LPS 2.04 or the requirements of the jurisdiction in which it operates. Details are set out in Note 28 Solvency Requirements of Statutory Funds.

Impact of changes in assumptions

The following table shows the impacts of changes in assumptions from 30 June 2009 to 30 June 2010 in respect of life insurance contracts:

Assumption change ¹	Changes in future profit margins \$M	Changes in life insurance contract liabilities \$M
Base results (2010 results using 2009 non-economic assumptions)	1,220	2,718
Non-market related changes to discount rates	3	-
Mortality and morbidity	(177)	22
Discontinuance rates	39	-
Maintenance expenses	(49)	-
Other assumption changes	(6)	(2)
Total	1,030	2,738

The following table shows the impacts of changes in assumptions from 30 June 2008 to 30 June 2009 in respect of life insurance contracts:

Assumption change ¹	Changes in future profit margins \$M	Changes in life insurance contract liabilities \$M
Base results (2009 results using 2008 non economic assumptions)	911	2,811
Non-market related changes to discount rates	(19)	-
Mortality and morbidity	25	1
Discontinuance rates	24	-
Maintenance expenses	65	-
Other assumption changes	(8)	1
Total	998	2,813

¹ Relates to Australian profit assumptions only.

Notes to the Financial Statements

Note 3 Actuarial Methods and Assumptions (continued)

The policy liabilities for life insurance contracts are calculated in a way that allows for the systematic release of planned profit margins as services are provided to policyholders and premiums are received. Where sufficient planned margins exist, this method allows for the absorption of changes to assumptions (excluding changes to economic assumptions) into the profit margin amount, resulting in no change to the contract liability in the current period. Where the assumption change results in the level of planned profit margins being exhausted, the resulting losses are recognised during the year via a change in the contract liability.

Where a change is made to the discount rate or related economic assumptions, the impact is not absorbed into planned profit margins and the level of contract liability will change. These outcomes of the Margin on Services methodology are reflected in the above table.

Assumption changes decreased profit margins by \$192m (from \$1,220m to \$1,030m) (2009: increased by \$87m). The contributors to this were:

- Changes to future claims assumptions on risk business decreased margins by \$177m, primarily from decreases to individual termination assumptions on disability income products and by mortality assumption increases in some individual lump sum risk products;
- Reductions in discontinuance assumptions (particularly on the personal masterfund risk business) increased future profit margins by \$39m; and
- An increase in maintenance expense assumptions reduced profit margins by \$49m.

Assumption changes increased life insurance contract liabilities by \$20m (2009: \$1m). This increase was primarily due to a decrease in termination assumptions on some individual legacy disability income products resulting in loss recognition.

Sensitivity analysis

The Group conducts a sensitivity analysis on the Australian life operations to quantify its exposure to changes in key variables such as: interest rates, equity prices, mortality, morbidity and inflation. The policy liability valuation included in this report is based on best estimate assumptions for these variables. Any difference in actual experience to these best estimate assumptions will impact the long term performance and net assets of the Group and as such represents a risk.

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Mortality rates	For insurance contracts that pay a death benefit, higher rates of mortality will increase claim costs and therefore reduce both profit and shareholder equity. For lifetime annuity contracts, lower mortality rates increase the duration of annuity payments and therefore reduce both profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders' equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between various factors, there is not always an adverse outcome from an increase in discontinuance rates.

Sensitivity to market risk is shown in Note 36.

The table below shows the sensitivity of insurance contract liabilities (gross and net of reinsurance), current year profits and equity for the year ended 30 June 2010, to changes in those assumptions used in the policy liability calculation.

The sensitivity of the contract liability to changes in assumptions will be dependent upon:

- whether the change is to discount rates and related economic assumptions; or
- whether the product is (or remains) in loss recognition after the assumption change.

For products which do not move into loss recognition, there is typically no change to the current year contract liability (and therefore profit) however the impact on planned profit margins will give rise to a difference in the emergence of future planned profit margins.

These sensitivities are often non-linear and larger or smaller impacts may not easily be determined from these results. The impact of multiple assumption changes may not be additive.

Notes to the Financial Statements

Note 3 Actuarial Methods and Assumptions (continued)

	Percentage change in assumptions	Impact on life insurance policy liabilities		30 June 2010	
		Gross of reinsurance \$M	Net of reinsurance \$M	Impact on profit* and equity Gross of reinsurance \$M	Net of reinsurance \$M
Mortality and morbidity on lump sum products	10% increase in total costs	17.0	17.8	(12.0)	(12.6)
	10% decrease in total costs	(0.4)	(0.4)	0.4	0.4
Annuitant mortality	20% increase in rate of future mortality improvement	15.8	1.3	(11.3)	(1.1)
	20% decrease in rate of future mortality improvement	(15.2)	(1.2)	10.8	1.0
Morbidity on disability income	10% increase in total costs	34.4	25.9	(24.2)	(18.3)
	10% decrease in total costs	(21.1)	(17.6)	14.9	12.5
Discontinuance	10% increase in discontinuance rates	1.0	1.0	(0.7)	(0.7)
	10% decrease in discontinuance rates	(1.1)	(1.1)	0.8	0.8
Expenses	10% increase in maintenance expenses	7.1	7.1	(5.1)	(5.1)
	10% decrease in maintenance expenses	(7.1)	(7.1)	5.1	5.1

* Profit numbers are net of tax.

The mortality and morbidity impacts on lump sum products relate to the group risk and masterfund risk products. The impact of changes in annuitant mortality is small as a result of the reinsurance arrangement for lifetime annuities. The morbidity impact on disability income products relates to individual legacy disability income and group risk products. The discontinuance and expense impacts primarily relate to the individual legacy disability income products.

	Percentage change in assumptions	Impact on life insurance policy liabilities		30 June 2009	
		Gross of reinsurance \$M	Net of reinsurance \$M	Impact on profit* and equity Gross of reinsurance \$M	Net of reinsurance \$M
Mortality and morbidity on lump sum products	10% increase in total costs	16.9	18.5	(12.0)	(13.1)
	10% decrease in total costs	(0.5)	(0.5)	0.5	0.5
Annuitant mortality	20% increase in rate of future mortality improvement	16.8	2.5	(12.3)	(1.9)
	20% decrease in rate of future mortality improvement	(15.2)	(2.4)	10.8	1.9
Morbidity on disability income	10% increase in total costs	9.8	8.2	(7.0)	(5.9)
	10% decrease in total costs	(0.7)	(0.7)	0.7	0.7
Discontinuance	10% increase in discontinuance rates	(0.2)	(0.2)	0.2	0.2
	10% decrease in discontinuance rates	-	-	-	-
Expenses	10% increase in maintenance expenses	0.8	0.8	(0.6)	(0.6)
	10% decrease in maintenance expenses	(0.9)	(0.9)	0.8	0.8

* Profit numbers are net of tax.

Notes to the Financial Statements

Note 4 Premium Income

	Group	
	2010	2009
	\$M	\$M
Life insurance contracts premium revenue	1,622	1,629
General insurance premium revenue	395	328
Insurance Premium Revenue	2,017	1,957

Note 5 Investment Revenue

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Interest	114	438	3	6
Dividends	16	87	682	376
Trust distributions	783	1,121	-	-
Other Investment revenue	16	43	-	-
Net realised and unrealised gains/(losses)	961	(2,716)	17	(97)
Total Investment Revenue	1,890	(1,027)	702	285

Note 6 Claims Expense and Withdrawals

	Group	
	2010	2009
	\$M	\$M
Life insurance contracts claims expense	1,326	1,010
General insurance claims expense	314	335
Insurance Claims Expense	1,640	1,345

Notes to the Financial Statements

Note 7 Operating Expenses

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Commissions	546	500	-	-
Management fees	342	293	-	-
Service fees	267	262	-	-
Salaries, wages and other staff related expenses	263	307	-	-
Information technology services	50	56	-	-
Advertising, marketing and loyalty	25	31	-	-
Occupancy and equipment	27	30	-	-
Stationery and postage	13	27	-	-
Custodian fees	9	6	-	-
Others	211	207	2	2
Total Operating Expenses	1,753	1,719	2	2

Note 8 Finance Costs

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Interest - borrowings	197	283	144	141
Total Finance Costs	197	283	144	141

Note 9 Statement of Sources of Operating Profit

	Group	
	2010	2009
	\$M	\$M
Shareholder operating profit after income tax arose from:		
Components of Profit Related to Movements in Life Insurance Contract Liabilities		
Planned margins of revenues over expenses released	206	207
Difference between actual and assumed experience	26	(47)
Effect of changes to underlying assumptions (change in actuarial valuation method and assumptions)	13	8
Reversal of previously recognised losses or loss recognition on groups of relate	(3)	11
Other	16	-
Components of Profit Related to Movements in Life Investment Contract Liabilities		
Planned margins of revenues over expenses released	83	98
Difference between actual and assumed experience	60	(11)
Other Items		
Investment earnings on shareholder retained profits and Capital	487	297
Amortisation of goodwill and impairment	-	(7)
Other	16	17
Operating Profit After Income Tax	904	573

Notes to the Financial Statements

Note 10 Income Tax Expense

(a) Analysis of income tax expense

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Current tax expense / (benefit) - current year	320	198	(42)	(40)
Deferred tax expense / (benefit) - current year	105	(220)	5	(29)
Current tax expense / (benefit) - prior year	(78)	(12)	-	-
Deferred tax expense / (benefit) - prior year	56	1	-	-
Income Tax Expense / (Benefit)	403	(33)	(37)	(69)
Taxation recognised in shareholders' equity	1	(2)	-	-

(b) Relationship between income tax expense and accounting profit

Differences exist between the amounts of income and expenses recognised in the Financial Statements and the amounts recognised for income tax purposes. The table below provides a reconciliation of differences between prima facie tax calculated as 30% of the profit before income tax for the year and the actual income tax expense recognised in the Income Statement for the year.

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Profit before income tax per Income Statement	1,307	540	556	142
Policyholder tax	130	(164)	-	-
Profit before income tax excluding tax attributable to policyholders	1,177	704	556	142
Prima facie tax at 30% (2009:30%)	353	211	167	43
Tax effect of differences between amounts of income and expenses recognised for accounting and the amounts taxable in calculating taxable income:				
Taxation offsets and dividend adjustments	-	-	(204)	(112)
Prior year (over) / under provision relating to shareholders	(11)	(18)	-	-
Other (non-assessable) / non-deductible	(61)	(58)	-	-
Difference in overseas tax rates	(8)	(4)	-	-
Income tax expense attributable to shareholders	273	131	(37)	(69)
Income tax expense/ (benefit) attributable to policyholders	130	(164)	-	-
Income Tax Expense / (Benefit)	403	(33)	(37)	(69)

Notes to the Financial Statements

Note 10 Income Tax Expense (continued)

(c) Analysis of deferred tax assets and liabilities

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Deferred Tax Assets				
Unrealised investment losses	50	214	-	-
Other	70	72	39	44
Total Deferred Tax Assets (Before Set off)	120	286	39	44
Set off of tax ¹	(114)	(165)	-	-
Net Deferred Tax Assets	6	121	39	44
Deferred Tax Liabilities				
Unrealised investment gains	1	2	-	-
Deferred tax on life insurance and investment contracts	204	186	-	-
Other	84	105	-	-
Total Deferred Tax Liabilities (Before Set Off)	289	293	-	-
Set off of tax ¹	(114)	(165)	-	-
Net Deferred Tax Liabilities	175	128	-	-

(d) Movement analysis of deferred tax assets and liabilities

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Deferred Tax Assets²				
Balance at the beginning of the year	121	14	4	4
Correction of error	-	-	40	11
Restated balance at the beginning of the year	121	14	44	15
Increase / (decrease) in unrealised investment losses	(164)	203	-	-
Other	(2)	72	(5)	29
Set off of tax ¹	51	(168)	-	-
Balance at the End of the Year	6	121	39	44
Deferred Tax Liabilities				
Balance at the beginning of the year	128	238	-	-
Increase / (decrease) in unrealised investment gains	(1)	(26)	-	-
Deferred tax on life insurance and investment contracts	18	41	-	-
Other	(21)	43	-	-
Set off of tax ¹	51	(168)	-	-
Balance at the End of the Year	175	128	-	-

¹ Deferred tax assets and liabilities are set off where they relate to income tax levied by the same taxable entity or different taxable entities within the same taxable group. As a result the components of the 2009 deferred tax assets and liabilities have been adjusted accordingly.

² The opening balance of deferred tax assets was restated due to an error in previous years. The error has no effect on the Group's consolidated financial statements. Further information on the error is set out in Note 39.

Notes to the Financial Statements

Note 11 Dividends

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Dividends paid - ordinary shares	534	286	534	286
Dividends paid and payable - mandatory convertible notes	8	17	8	17
Total Dividends Paid	542	303	542	303

Note 12 Other Receivables

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Reinsurance claims receivable	141	155	-	-
Investment income accrued and receivable	35	60	1	2
Investment settlements outstanding	1	-	-	-
Other	354	350	-	-
Total Other Receivables	531	565	1	2
Maturity of Other Receivables				
Receivable within 12 months	474	527	1	2
Receivable in more than 12 months	57	38	-	-
Total Other Receivables	531	565	1	2

Notes to the Financial Statements

Note 13 Financial Assets at Fair Value through Profit or Loss

	Group		Company		
	2010	2009	2010	2009	1 July 2008
	\$M	\$M	\$M	\$M	\$M
Equity Securities	360	258	-	-	-
Debt Securities	2,126	2,128	-	-	-
Fixed term deposits	208	163	-	-	-
Loans	211	176	96	86	124
Convertible Notes	-	14	-	-	-
Unit Trusts	15,227	16,515	-	-	-
Other ¹	45	90	585	557	654
Total Financial Assets at Fair Value through Profit or Loss²	18,177	19,344	681	643	778

- (1) The balance for the Company represents the fair value of assignment rights to receive NZD mandatory convertible notes issued by a controlled entity upon redemption.

Correction of error in previous years

Due to an error in the valuation in previous years, the value of the assignment rights was overstated. The error had the effect of overstating the Company's other financial assets at fair value through profit & loss by \$133m as at 30 June 2009 and \$36m as at 1 July 2008.

The error has no effect on the Group's consolidated financial statements.

The error has been corrected by restating the affected line items for the prior year, as described above. Further information on the error is set out in Note 39.

- (2) Total amount of investment assets expected to be recovered no more than 12 months after the reporting date: Investment assets of the life statutory funds comprising cash, equity securities, debt securities, property securities, other financial assets and investment property held to back life investment contract liabilities amount to \$12bn (2009: \$12bn) and to back life insurance contract liabilities amount to \$5bn (2009: \$4bn). Investment assets are traded on a regular basis taking into account the changes in the liability balances which they support, net cash flows and investment objectives. For the majority of life investment contract and life insurance contract liabilities, there is no fixed settlement date. Based on the assumptions as to likely withdrawal patterns in the various product groups, it is estimated that approximately \$4bn (2009: \$4bn) may be settled within 12 months of the reporting date.

Notes to the Financial Statements

Note 14 Investment in Associates and Joint Ventures

Investments held			Extent of		Country of Incorporation	Balance Date
	2010	2009	Ownership Interest %	Principal Activities		
	\$M	\$M				
First State Cinda Fund Management Company Limited	15	14	46	Funds Management	China	31-Dec
Acadian Australian Asset Management (Australia) Limited	2	2	50	Investment Management	Australia	30-Jun
AMTD Group Limited	1	1	30	Financial Services	Virgin Islands	31-Dec
BoComm Life Insurance Company Limited	28	11	37.5	Life Insurance	China	31-Dec
452 Capital Pty Limited	12	30	30	Investment Management	Australia	30-Jun
Total	58	58				

** CMLA held a 49% interest in a joint venture (China Life CMG Life Assurance Company Limited) at 30 June 2009. In April 2010, CMLA diluted its shareholding to 37.5% and formed a new joint venture BoComm Life Insurance Company Limited.

Financial information on the above associates and joint ventures:

	Group	
	2010	2009
	\$M	\$M
Share of profits before income tax	7	5
Income tax expense	1	2
Operating profit after income tax	6	3
Assets	337	247
Liabilities	203	180
Revenues	102	71
Expenses	81	54

Notes to the Financial Statements

Note 15 Property, Plant and Equipment

	Group	
	2010	2009
	\$M	\$M
Written Down Amount		
At cost	60	75
Accumulated depreciation	(25)	(29)
Total Operating Assets	35	46
Reconciliation		
Balance at the beginning of the year	46	48
Additions	4	9
Disposals	(8)	(4)
Depreciation	(7)	(7)
Balance at the End of the Year	35	46

Note 16 Other Assets

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Prepayments	3	4	17	19
Other	176	195	-	-
Total Other Assets	179	199	17	19

The above amounts are expected to be recovered within twelve months of the balance sheet date.

Notes to the Financial Statements

Note 17 Intangible Assets

	Group	
	2010	2009
	\$M	\$M
Acquired goodwill	2,486	2,484
Management fee rights	324	325
Capitalised software	5	5
Total Intangibles	2,815	2,814

	Group	
	2010	2009
	\$M	\$M
Acquired Goodwill		
Balance at the beginning of the year	2,484	2,491
Movement during the year	2	(7)
Balance at the End of Year	2,486	2,484

	Group	
	2010	2009
	\$M	\$M
Management Fee Rights		
Balance at the beginning of the year	325	311
Movement during the year	(1)	14
Balance at the End of Year	324	325

	Group	
	2010	2009
	\$M	\$M
Capitalised Software		
Balance at the beginning of the year	5	5
Movement during the year	-	-
Balance at the End of Year	5	5

Management fee rights have an indefinite useful life under the contractual terms of the management agreements and are subject to an independent valuation for impairment testing purposes. No impairment was required as a result of this valuation.

Impairment testing for goodwill

Goodwill has been allocated for impairment testing purposes to cash-generating units in the business segments. In accordance with AASB 136, each cash-generating unit to which goodwill has been allocated has been tested for impairment. Whenever the cash-generating unit is impaired, the carrying amounts of goodwill are written down to the recoverable amount.

There was no impairment of goodwill in the current year (2009: Nil).

Key assumptions used in impairment test

Life Insurance (Australia and New Zealand) and Funds Management cash-generating units are valued based on an actuarial assessment. The key assumptions used when completing the actuarial assessment included new business multiples, discount rates, valuation allowances for franking credits, investment market returns, mortality, morbidity, persistency and expense inflation. These have been determined by reference to historical company and industry experience and publicly available data.

Notes to the Financial Statements

Note 18 Payables

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Policy claims in process of settlement	81	78	-	-
Due to controlled and related entities	18	134	2,513	2,677
Other payables	888	738	-	-
Total Payables	987	950	2,513	2,677
Maturity of Payables				
Payable within 12 months	758	841	2,513	2,677
Payable in more than 12 months	229	109	-	-
Total Payables	987	950	2,513	2,677

Note 19 Derivative Financial Assets and Liabilities

	Group					
	Notional Principal	Fair Value Asset	Fair Value Liability	Notional Principal	Fair Value Asset	Fair Value Liability
	2010	2010	2010	2009	2009	2009
	\$M	\$M	\$M	\$M	\$M	\$M
Interest rate related contracts - swaps	1,573	54	18	2,769	66	41
Exchange rate related contracts - forward contracts	1,627	15	7	1,175	44	6
Total	3,200	69	25	3,944	110	47

	Company					
	Notional Principal	Fair Value Asset	Fair Value Liability	Notional Principal	Fair Value Asset	Fair Value Liability
	2010	2010	2010	2009	2009	2009
	\$M	\$M	\$M	\$M	\$M	\$M
Exchange rate related contracts - forward contracts	700	-	1	700	11	-
Total	700	-	1	700	11	-

Non-hedge derivatives at fair value through profit or loss

The ASB Group (Life) Limited Group, as part of the Group, enters into derivative transactions which provide economic hedges for risk exposures but which do not meet the accounting requirements for hedge accounting treatment. The Group purchases forward currency contracts as economic hedges to manage foreign exchange risk. Gains or losses on these contracts have been recorded in investment income.

Notes to the Financial Statements

Note 20 Interest Bearing Liabilities

	Group	
	2010	2009
	\$M	\$M
Interest Bearing Liabilities		
Debt issues	3,138	3,306
Total Interest Bearing Liabilities	3,138	3,306
Maturity of Interest Bearing Liabilities		
Payable within 12 months	882	454
Payable in more than 12 months	2,256	2,852
Total Interest Bearing Liabilities	3,138	3,306

The Company guarantees the performance of debt issued by Colonial Finance Limited ("CFL"). CFL has a mixture of debt issued via either the domestic and international capital markets or bank loans.

In January 2001, CFL established a Note Programme under which it may issue notes up to an aggregate amount of AUD \$1bn. This programme was increased to AUD \$2bn in February 2002, and subsequently increased to AUD \$3bn in November 2002. At 30 June 2010, the debt issued was \$1,920m (2009: \$1,873m). To date notes issued under the programme have been floating rate (at a margin over bank bills) though fixed rate and other interest rate structures are possible.

GT Operating (No.4) Pty Limited and GT Operating (No.2) Pty Ltd act as a financing vehicle which raised funds through the issuing of Convertible Notes to investors. The funds raised from the issue of Convertible Notes have been used to purchase the right to fee income from Colonial First State Investments Limited and Colonial First State Asset Management (Australia) Limited. At 30 June 2010, the debt issued was \$678m (2009: \$696m).

Colonial First State Capital Management Pty Ltd issues Commercial Mortgage-Backed Securities (CMBS) and Commercial Paper (CP) to public note holders. At 30 June 2010, the debt issued was \$540m (2009: \$737m).

Notes to the Financial Statements

Note 21 Provisions

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Rectification projects	1	3	-	-
Employee entitlements	8	7	-	-
Outstanding claims liability	191	184	-	-
Other	11	19	-	-
Dividends	2	2	2	2
Total Provisions	213	215	2	2
Maturity of Provisions				
Expected to be settled within 12 months	194	184	2	2
Expected to be settled after 12 months	19	31	-	-
Total Provisions	213	215	2	2
Movement in Provision for Rectification projects				
Balance at the beginning of the year	3	21	-	-
Additional provisions recognised	-	-	-	-
Reductions from settlement or reassessment	(2)	(18)	-	-
Balance at the End of the Year	1	3	-	-
Movement in Provision for Employee Entitlements				
Balance at the beginning of the year	7	20	-	-
Additional provisions recognised	3	2	-	-
Reductions from settlement or reassessment	(2)	(15)	-	-
Balance at the End of the Year	8	7	-	-
Movement in Provision for Outstanding Claims Liability				
Balance at the beginning of the year	184	-	-	-
Provision attributed to acquisitions	-	117	-	-
Additional provisions recognised	323	336	-	-
Reductions from settlement or reassessment	(316)	(269)	-	-
Balance at the End of the Year	191	184	-	-
Movement in Provision for Other				
Balance at the beginning of the year	19	6	-	-
Additional provisions recognised	90	79	-	-
Reductions from settlement or reassessment	(98)	(66)	-	-
Balance at the End of the Year	11	19	-	-
Movement in Provision for Dividend				
Balance at the beginning of the year	2	6	2	6
Additional provisions recognised	2	-	2	-
Reductions from settlement or reassessment	(2)	(4)	(2)	(4)
Balance at the End of the Year	2	2	2	2

Notes to the Financial Statements

Note 22 Life Insurance and Life Investment Contract Liabilities

(a) Movement in net life insurance and life investment contract liabilities during the year

	Group	
	2010	2009
	\$M	\$M
Life Insurance Contract Liabilities		
Gross life insurance contract liabilities excluding provision for bonus at beginning	3,612	3,984
Add: Bonus appropriated from prior year earnings and credited in the current year	53	70
Gross insurance contract liabilities at the beginning of the year	3,665	4,054
Add: Investment contract liabilities acquired	-	39
Provision for bonus to participating policyowners	29	53
Foreign currency translation adjustment	19	(2)
Liabilities transferred out on acquisition/disposal of controlled entity	(151)	-
Add: Deposit component of premiums recognised as a change in insurance contract liabilities	2	16
Less: Withdrawal component of claims recognised as a change in insurance contract liabilities	(151)	(90)
Change in life insurance contract liabilities as shown in the Income Statement	(131)	(405)
Gross Life Insurance Contract Liabilities at the End of the Year	3,282	3,665
Life Investment Contract Liabilities		
Investment contract liabilities at the beginning of the year	12,328	14,392
Add: Investment contract liabilities acquired	-	165
Foreign currency translation adjustment	7	(14)
Add: Premiums recognised as a change in investment contract liabilities	728	706
Less: Withdrawal recognised as a change in investment contract liabilities	(2,738)	(2,235)
Change in life investment contract liabilities as shown in the Income Statement	934	(686)
Investment Contract liabilities at the End of the Year	11,259	12,328
Gross Insurance Contract Liabilities Ceded Under Reinsurance		
Reinsurers' share of insurance contract liabilities at the beginning of the year	219	145
Reinsurance attributed to acquisitions	-	2
Movement during the year	(31)	72
Gross Insurance Contract Liabilities Ceded Under Reinsurance at the End of the Year	188	219

Notes to the Financial Statements

Note 22 Life Insurance and Life Investment Contract Liabilities (continued)

(b) Components of net life insurance and life investment contract liabilities

	Group	
	2010	2009
	\$M	\$M
Net Life Insurance Contract Liabilities		
Future policy benefits	9,680	8,693
Future bonuses	700	579
Balance of future expenses	3,199	2,588
Planned margins of revenues over expenses	1,720	1,757
Future tax on shareholders' margin	147	369
Future charges for acquisition costs	(802)	(678)
Balance of future revenues	(11,550)	(9,862)
Total Net Life Insurance Contract Liabilities	3,094	3,446
Maturity of Insurance Contract Liabilities		
Expected to be settled within 12 months	461	563
Expected to be settled between 1 and 5 years	827	841
Expected to be settled in more than 5 years	1,806	2,042
Total Net Life Insurance Contract Liabilities	3,094	3,446
Insurance contract liabilities subject to guarantees	2,340	2,106
Net Life Investment Contract Liabilities		
Future policy benefits	11,184	12,244
Balance of future expenses	32	40
Planned margins of revenues over expenses	51	54
Future tax on shareholders' margin	7	7
Balance of future revenues	(15)	(17)
Total Net Life Investment Contract Liabilities	11,259	12,328
Investment contract liabilities subject to guarantees	1,049	1,234

Note 23 Controlled Unit Trusts – Minority Interests

	Group	
	2010	2009
	\$M	\$M
Minority interest in managed funds units on issue	778	915

Amounts representing outside interests in unit trusts partly owned and controlled by The Colonial Mutual Life Assurance Society Limited, a controlled entity, are reported as a non-current liability.

Notes to the Financial Statements

Note 24 Contributed Equity

		Group and Company	
		2010	2009
		\$M	\$M
Issued and Fully Paid			
Ordinary shares fully paid		4,119	4,100
Movement in Ordinary Shares			
Date	Details	Number of Shares	Issue Price
1 July 2009	Opening balance	4,100,010,547	\$1.00
21 June 2010	Capital contributed by parent	18,915,002	\$1.00
30 June 2010	Balance	4,118,925,549	

		Group and Company	
		2010	2009
		\$M	\$M
Movement in Shares on Issue			
Balance at the beginning of the year		4,100	3,917
Capital issued during the year		19	424
Capital returned to shareholders		-	(241)
Balance at the End of the Year		4,119	4,100

Note 25 Other Equity Instruments

Mandatory convertible notes of \$276m (2009: \$276m) were issued by the Company's New Zealand Branch to Commonwealth Bank of Australia. The Notes are subordinated to the Company's senior creditors and rank ahead of ordinary shares. The Notes were issued in 2005-06 for a fixed period of five years. Returns were an interest rate being bank bill plus margin.

Notes to the Financial Statements

Note 26 Reserves

(a) Foreign currency translation reserve

This reserve records the effect of exchange differences which arise on translation into Australian dollars of the balances and transactions of Group's foreign operations. Exchange differences arise where at balance sheet date the opening net assets are translated at a closing rate that differs from the previous closing rate or where revenue and expense items are translated at average exchange rates for the year rather than the closing rate applying at the date of the Balance Sheet.

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Balance at the beginning of the year	(63)	(80)	(6)	(7)
Currency translation adjustment	(8)	17	(1)	1
Balance at the End of the Year	(71)	(63)	(7)	(6)

(b) Asset revaluation reserve

In the prior year, the Group held an asset revaluation reserve of \$690m that recorded the excess of market value over net total assets upon the acquisitions of Legal & General Australia Limited and Prudential Australia Limited by Colonial Limited on 1 July 1998 and 31 October 1998 respectively. This was recognised and carried forward since the acquisitions in 1998 which was before the adoption of AIFRS. Upon adoption of AIFRS, this amount should have been transferred to shareholder retained profits.

The error has been corrected by restating the affected line items for the prior year. Further information on the error is set out in Note 39.

	Group			Company	
	2010	2009	1 July 2008	2010	2009
	\$M	\$M	\$M	\$M	\$M
Balance at the beginning of the year	-	-	690	-	-
Correction of error	-	-	(690)	-	-
Balance at the end of the year	-	-	-	-	-

Notes to the Financial Statements

Note 27 Statement of Cash Flows

(a) Reconciliation of cash

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Cash at bank	1,532	1,239	1	1
Cash at the End of the Year	1,532	1,239	1	1

(b) Reconciliation of net cash provided by operating activities to operating result after income tax:

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Profit from operating activities after income tax	904	573	593	211
(Increase)/decrease in receivables and other assets	3	(204)	1	3
Increase/(decrease) in payables and provisions	49	215	-	(3)
Increase/(decrease) in taxation	377	(415)	4	15
Net realised/unrealised (gain)/loss on investments	(944)	2,757	-	-
Distributions reinvested	(680)	(1,063)	-	-
Movement in life insurance contract liabilities	(456)	(392)	-	-
Movement in life investment contract liabilities	(923)	(2,080)	-	-
Movement in unvested policyowner benefits, net of bonuses paid	(13)	(61)	-	-
Depreciation	7	7	-	-
Non-cash other costs (capitalised interest)	-	-	147	209
Net exchange differences	18	(4)	(2)	-
Impairment of acquired goodwill	(1)	(7)	-	-
Accrued income	-	-	-	3
Net Cash used in Operating Activities	(1,659)	(674)	743	438

Notes to the Financial Statements

Note 28 Solvency Requirements of Controlled Life Insurance Companies

Australian life insurer

Under the Life Insurance Act 1995 ('the Act') life insurers are required to hold reserves in excess of the amount of policy liabilities. These additional reserves are necessary to support the life insurer's capital requirements under its business plan and to provide a cushion against adverse experience in managing long term risks. APRA has issued Prudential Standard 2.04 'Solvency Standard' for determining the level of solvency reserves. This 'Solvency Standard' prescribes a minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund.

Overseas life insurers

The overseas life insurers are required to hold reserves in excess of the amount of policy liabilities. The summarised information provided has been prepared in accordance with local solvency requirements, as prescribed by local Acts and prevailing local prudential rules.

Solvency coverage

The figures in the table below represent the number of times coverage for each life insurance subsidiary for the assets available for solvency over the solvency reserve.

	2010	2009
	Times	Times
The Colonial Mutual Life Assurance Society Limited, Australia	1.74	2.00
Sovereign Assurance Company Limited, New Zealand	1.20	1.26
PT Commonwealth Life, Indonesia	5.84	4.45
St Andrew's Life Insurance Pty Ltd, Australia	1.30	1.11

Note 29 Restriction on Assets, Managed Assets, and Trustee Activities

Restriction on assets - Australia

Investments held in the statutory life insurance funds are subject to various prudential restrictions imposed under the Life Insurance Act 1995 and other relevant jurisdictional legislation. Assets held by a fund can be utilised to meet only the expenses and liabilities of that fund, to acquire investments and to further the business of the insurer. Distributions can only be made after solvency and capital adequacy and other regulatory requirements have been met.

Managed assets and fiduciary duties

Entities within the Group conduct investment management and other fiduciary activities as responsible entity, trustee, custodian or manager for numerous investment funds and trusts, including superannuation funds and wholesale and retail trusts.

The assets and liabilities of these funds are not included in the consolidated financial report, as Group entities do not have direct or indirect control of the trusts and funds. Fees earned in respect of these activities are included in the consolidated Income Statement. No entity within the Group guarantees the performance or obligations of the funds.

The subsidiary companies of Colonial First State Group Limited ("CFSG"), a controlled entity within the Group, manage retail and wholesale funds with combined total assets under management of \$144 billion (\$138 billion as at 30 June 2009). Arrangements are in place to ensure that the asset management activities of CFSG's subsidiaries are managed separately from the activities of other entities within the Group.

Custodial and trustee activities

Colonial Mutual Superannuation Pty Limited acts as trustee in relation to superannuation policies issued by another controlled entity within the Group. Arrangements are in place to ensure the activities of Colonial Mutual Superannuation Pty Limited are managed separately.

Commonwealth Custodial Services Limited, also a controlled entity within the Group, acts as trustee in relation to the superannuation and funds management activities of other entities managed by the Group.

Notes to the Financial Statements

Note 30 Controlled Entities

(a) Controlled entities of the Group

Investments in controlled entities with contributions to consolidated operating revenue of \$10 million or more, or those that are deemed to be of particular interest are summarised below.

Controlled Entities - Companies	Country of Incorporation	Holding %		Principal Activity
		2010	2009	
Commonwealth Insurance Holdings Limited	Australia	100	100	Holding company
Colonial Finance Limited	Australia	100	100	Finance company
Colonial Holding Company (No2) Pty Limited	Australia	-	100	Holding company
Emerald Holding Company Limited	Australia	100	100	Holding company
Copacabana Beach Pty Limited	Australia	100	100	Special purpose entity (funding)
GT Operating No.2 Pty Limited	Australia	100	100	Special purpose entity (funding)
GT Operating No.4 Pty Limited	Australia	100	100	Special purpose entity (funding)
ASB Group (Life) Limited	New Zealand	100	100	Holding company
Avanteos Investments Limited	Australia	100	100	Superannuation trustee
Avanteos Pty Limited	Australia	100	100	Wrap platform provider
Capital 121 Pty Limited	Australia	100	100	Holding company
CFS Managed Property Limited	Australia	100	100	Property management
CMG Asia Life Holdings Limited	Bermuda	100	100	Holding company
CMG Asia Pty Limited	Australia	100	100	Holding company
Colonial AFS Services Pty Limited	Australia	100	100	Distribution Service
Colonial Fiji Life Limited	Fiji	-	100	Life insurance
Colonial Financial Corporation Pty Limited	Australia	100	100	Investment
Colonial First State Asset Management (Australia) Limited	Australia	100	100	Funds management
Colonial First State Capital Management Pty Limited	Australia	100	-	Capital management
Colonial First State Group Limited	Australia	100	100	Holding company
Colonial First State Investment Managers (NZ) Limited	New Zealand	-	100	Funds management
Colonial First State Investment Managers (UK) Limited	UK	100	100	Funds management
Colonial First State Investments (NZ) Limited	New Zealand	100	100	Property management
Colonial First State Investments Limited	Australia	100	100	Funds management
Colonial First State Property (NZ) Limited	New Zealand	-	100	Property management
Colonial First State Property Limited	Australia	100	100	Property management
Colonial First State Property Retail Pty Limited	Australia	100	100	Property management
Colonial Health Care (Fiji) Limited	Fiji	-	100	Health and travel insurance
Colonial Investment Services Limited	Australia	-	100	Funds management
Colonial LGA Holdings Pty Limited	Australia	100	100	Holding company
Colonial Mutual Property Group Pty Limited	Australia	-	100	Property management
Colonial Mutual Superannuation Pty Limited	Australia	100	100	Superannuation trustee
Colonial Portfolio Services Pty Limited	Australia	-	100	Holding company
Colonial Services Pty Limited	Australia	100	-	Employment company
Commonwealth Custodial Services Limited	Australia	100	100	Trustee
Commonwealth Insurance Limited	Australia	100	100	General insurance
Commonwealth Financial Planning Limited	Australia	100	100	Financial planning (AFS licensee)
Commonwealth Investment Services Pty Limited	Australia	100	100	Funds management
Commonwealth Managed Investments Limited	Australia	100	100	Trustee
Commonwealth International Holdings Pty Limited	Australia	100	100	Holding company
Devonport Limited Partnership	Australia	100	100	Special purpose entity (funding)
Financial Wisdom Limited	Australia	100	100	Financial planning (AFS licensee)
First State Hong Kong LLC	USA	100	100	Funds management
First State Investment International Limited	UK	100	100	Funds management
First State Investment Management (UK) Limited	UK	100	100	Funds management
First State Investment Managers (Asia) Limited	Australia	100	100	Funds management
First State Investment Services (UK) Limited	UK	100	100	Funds management
First State Investments Holdings (Singapore) Limited	Singapore	100	100	Funds management
First State Investments (UK) Limited	UK	100	100	Funds management
Harboard Beach Pty Limited	Australia	100	100	Special purpose entity (funding)
Jacques Martin Administration and Consulting Pty Limited	Australia	100	100	Financial services company
Jacques Martin Pty Limited	Australia	100	100	Holding company
Kiwi Income Properties Limited	New Zealand	100	100	Property management
Kiwi Property Management Limited	New Zealand	100	100	Property management
Advice Essentials Pty Limited	Australia	100	100	Financial planning (AFS licensee)
PT Commonwealth Life	Indonesia	80	80	Life insurance
Sovereign Assurance Company Limited	New Zealand	100	100	Life insurance
Sovereign Financial Services Limited	New Zealand	100	100	Financial services company
Sovereign Limited	New Zealand	100	100	Holding company
Sovereign Services Limited	New Zealand	100	100	Service company
St Andrews Australia Pty Limited	Australia	100	100	Service company
St Andrews Insurance (Australia) Pty Limited	Australia	100	100	General insurance
St Andrews Life Insurance Pty Limited	Australia	100	100	Life insurance
The Colonial Mutual Life Assurance Society Limited	Australia	100	100	Life insurance
Torquay Beach Pty Limited	Australia	100	100	Special purpose entity (funding)
Whittaker Macnaught Pty Limited	Australia	100	100	Financial planning services

Notes to the Financial Statements

Note 30 Controlled Entities (continued)

Controlled Entities – Investment Trusts	Country of Incorporation	Holding %	
		2010	2009
CMLA Australian Share Fund No.1	Australia	100	100
CMLA Australian Share Fund No.2	Australia	100	100
CFS Wholesale Indexed Global Share Fund	Australia	70	58
CMLA Australian Indexed Listed Property Securities Fund	Australia	100	100
CFS Global Diversified Infrastructure Fund	Australia	92	91
CLL Property Trust	Australia	100	100
CMLA Indexed Australian Share Fund	Australia	100	100
Statutory Cash Fund	Australia	100	100
CMLA International Share Fund	Australia	100	100
Colonial First State Wholesale World Equities Fund	Australia	100	100
Commonwealth Diversified Fund 8 Perpetual Fid Split Growth	Australia	54	57
Commonwealth Lifetime Australian Active 0-5 Year Bond Fund	Australia	100	100
International Private Equity Real Estate Fund	USA	67	67
Statutory Annuity Investments Fund	Australia	100	100
Statutory Annuity Investments Fund 2	Australia	100	100
Statutory Fixed Interest Fund	Australia	100	100
Statutory Annuity Investments Fund 3	Australia	100	100
Commonwealth Global Property Securities Fund 4	Australia	86	92
CMLA Multi-Strategy Global Equity Fund No.2	Australia	100	100
CMLA Global Emerging Markets Fund	Australia	100	100
CFS Wholesale Global Bond Fund	Australia	66	100
Colonial Mortgage Trust	Australia	100	100
CMLA International Property Securities Fund	Australia	100	100

The principal activity of the above trusts is investment business.

(b) Controlled entities of the Company

	Company	
	2010	2009
	\$M	\$M
Controlled entities	6,958	7,072
Total Investment in Subsidiaries	6,958	7,072

Entities directly controlled by the Company are listed below:

Controlled entities - Companies	Country of Incorporation	Holding %		Principal Activity
		2010	2009	
Commonwealth Insurance Holdings Limited	Australia	100	100	Holding company
Colonial Finance Limited	Australia	100	100	Finance company
Colonial Holding Company (No2) Pty Limited	Australia	-	100	Holding company
Emerald Holding Company Limited	Australia	100	100	Holding company
Copacabana Beach Pty Limited	Australia	100	100	Special purpose entity (funding)
GT Operating No.2 Pty Limited	Australia	100	100	Special purpose entity (funding)
GT Operating No.4 Pty Limited	Australia	100	100	Special purpose entity (funding)

Notes to the Financial Statements

Note 31 Auditor's Remuneration

The auditor is remunerated by the ultimate parent entity, Commonwealth Bank of Australia.

Note 32 Commitments

	Group	
	2010	2009
	\$M	\$M
Lease Commitments		
Operating Leases (non-cancellable)		
Minimum lease payments		
- not later than one year	8	8
- later than one year and not later than five years	19	21
- later than five years	38	39
Aggregate Lease Expenditure Contracted for at Reporting Date	65	68
Representing :		
Non-cancellable Operating Leases	65	68

Notes to the Financial Statements

Note 33 Contingent Assets and Liabilities

(a) Contingent asset

Colonial First State Property Limited, a controlled entity within the Group, had contingent assets of \$10m (2009: \$17m), representing performance and incentive fees which have not been recognised in the Income Statement. The amount of performance and incentive fees which will be ultimately realised is linked to the underlying performance of the respective funds and is payable upon certain events or conditions, such as expiry of the agreement or sale of properties.

(b) Contingent liabilities

	Group		Company	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
The estimated contingent liabilities as at 30 June are as follows:				
Estimated maximum liabilities under legal action pending ¹	58	58	-	-
Financial guarantees in relation to controlled entities ²	-	-	1,921	1,873
Disputed tax assessment ³	54	43	-	-
Total Contingent Liabilities	112	101	1,921	1,873

¹The Group has two legal claims pending against it which have a total maximum potential liability of \$58m. The value of each potential claim is estimated by CBA General Counsel. Only claims with a potential liability of over \$100k are included in the contingent liability.

²The Company has unconditionally and irrevocably guaranteed the repayment of certain debt obligations of Colonial Finance Limited and ASB Group (Life) Limited.

³On 30 September 2005, Sovereign Assurance Company Limited (SACL) received a reassessment from the Inland Revenue Department (IRD) of New Zealand in relation to the tax treatment of reinsurance arrangements in the 2000 tax year. SACL is confident the tax treatment it has adopted for the transactions to which the assessment relates is correct and has lodged proceedings in the High Court.

Should the IRD issue reassessments to SACL for these reinsurance arrangements for all tax years post 2000, the estimated maximum potential liability for the adjustments currently proposed would be NZD \$67m (AUD equivalent \$54m) (2009: NZD\$53 (AUD equivalent \$43m)). The increase in estimated liability since 30 June 2009 results from increased use of money interest, addition of expected reassessments for 2009 and 2010 years and from the separate recognition of a tax asset arising from the successful resolution of an unrelated matter that had been offset against the contingent liability as at 30 June 2009.

Other contingent liabilities

- Certain entities within the Group act as responsible entity, trustee or manager of various managed schemes (schemes), wholesale and retail trusts (trusts). Liabilities are incurred by these entities in their capacity as responsible entity, trustee or manager. Rights of indemnity are held against the schemes and trusts, whose assets exceeded their liabilities at 30 June 2010 except in cases where the Trustee acts negligently. Indemnity insurance arrangements are in place to cover such circumstances. There was no such contingent liability as at 30 June 2010 (30 June 2009: Nil).
- Where entities within the Group act as manager of unit trusts, obligations exist under the relevant Trust Deeds, whereby upon request from a unit holder, the manager has an obligation to repurchase units from the trust or to arrange for the relevant trustee to redeem units from the assets of those trusts. It is considered unlikely that these entries will need to repurchase units from their own funds.
- The Company has provided a letter of comfort to a controlled entity (Colonial Finance Corporation Limited) in relation to payment of that company's debts and payables should the need arise. During the financial year no calls for payment has been made.
- A mortgage fund, Colonial First State Wholesale Guaranteed Mortgage Fund (the Fund), is managed by an entity within the Group. Colonial First State Group Limited (the Guarantor), a controlled entity of the Company, has guaranteed to reimburse the Fund any capital shortfall in making unit repurchase payments to unit-holders. The guarantor also covenants to pay to investors a minimum rate of return of the Fund. On 16th February 2010, Colonial First State Investments Limited announced the termination of the Fund. It has been assessed that the maximum possible guarantee payment the Company would need to make is \$6m plus any outstanding accrued interest. Based on the current portfolio position of the Fund, the likelihood of the Guarantor being required to make any payment is considered low.
- On 1 April 2010 Colonial First State Group Limited (the Guarantor) sold its 50% interest in the First State Media Group (Ireland) Limited Joint Venture and unconditionally guaranteed the purchaser, Chrystalis PLC. The total aggregate cash amount which the guarantor may be liable to pay in respect of the guarantee will not exceed USD \$8m (AUD equivalent \$7m).
- The Company has provided a letter of Undertaking to the Monetary Authority of Singapore for a maximum liability not exceeding Singapore Dollars 30 million (AUD 25 million) in respect of obligations and liabilities of First State Investments (Singapore).
- The Directors are not aware of any circumstance or information which would lead them to believe that these contingent liabilities will crystallise.

Notes to the Financial Statements

Note 34 Related Party Disclosures

Directors

The Directors of the Company have been determined to be key management personnel (KMP) within the scope of AASB 124: Related Party Disclosures. The names of the persons who were Directors of Colonial Holding Company Limited at any time during the financial year were as follows:

Directors

John Damien Hatton

Leanne Lee Huay Leong (date ceased 05/02/2010)

Gregg Johnston (date appointed 23/07/2009)

Michael John Venter

Paul Rayson (date ceased 28/07/2009)

Lynette Elizabeth Cobley

There were no changes to key management personnel after the reporting date and the date the financial report was authorised for issue.

Compensation of Directors and key management personnel

The Company does not pay remuneration to its Directors and has no employees. The Directors of the Company have been determined to be key management personnel (KMP) within the scope of AASB 124. The Directors are employees of the Bank and their role as KMP is incidental to their role as an employee of the Bank. All Directors' remuneration is borne by the ultimate parent entity. None of the Directors of Colonial Holding Company Limited hold any shares, options or other interests in the Company.

Loans and other transactions

Any loans to Directors and KMP or their related parties are made by the ultimate parent entity, a provider of finance on terms and conditions that apply to similar transactions with other Directors and key management personnel of the parent entity.

There are no other transactions with Directors and KMP or their related parties.

Related party transactions

The ultimate parent entity is Commonwealth Bank of Australia.

Transactions that have occurred with related parties within the wholly owned Group are conducted on terms and conditions no more favourable than those available to external parties except as indicated otherwise.

- the Company has unsecured interest free and interest bearing loans provided to or received from other entities within the wholly owned Group;
- the Company and other entities within the Group use standard banking arrangements provided by the ultimate parent entity.
- Management fees paid to the ultimate parent entity include payments in relation to administration services, IT services, banking services, and investment services. Terms of settlement are generally 30 days in arrears. Management services provided by CBA are primarily transacted on the basis of full cost recovery, which includes an equitable share of the overhead costs incurred in providing those services.
- Costs of goods and services consumed are initially paid by CBA on behalf of the Company. The Company settles these amounts on a regular basis. Amounts owing are non-interest bearing and have no specified repayment date nor are they subject to any contract.
- The Company is party to a tax sharing agreement with CBA.
- No doubtful debt provision has been deemed necessary for any related party receivable.

Notes to the Financial Statements

Note 34 Related Party Disclosures (continued)

Related party disclosures

	Group		Company	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Receipts and Payments During the Year:				
Interest income received from related parties	66,436	49,030	26	38
Fees and commissions expenses paid to related parties	632,087	400,972	-	-
Intergroup tax paid/(received) to/(from) ultimate parent	(13,046)	390,768	(41,231)	(55,017)
Purchase of common controlled entities	-	76,886	-	-
Dividend receipt from controlled entities	-	-	682,251	376,202
Balances as at Year End:				
Loans, advances and investments outstanding with ultimate parent	1,486,095	1,149,747	-	-
Other borrowings with related parties	(42,123)	(133,801)	(2,512,507)	(2,677,072)
Derivative assets/(liabilities) with ultimate parent	43,561	63,186	(1,498)	10,508
Intergroup current tax assets/(liabilities) with ultimate parent	(230,564)	(21,619)	41,661	40,487
Shares held in ultimate parent on behalf of policyholders	185,476	200,642	-	-

Notes to the Financial Statements

Note 35 Nature and Extent of Risks Arising from Life Insurance Contracts

The financial condition and operating results of the Group's life insurers are affected by a number of key risks including insurance risk, asset and liability management-related risks, strategic risk and operational and compliance risk. Further information about insurance risk is set out below.

The Board of each of the Group's life insurers has responsibility for overseeing the establishment, implementation and ongoing effectiveness of each insurer's risk management framework within the context of its approved risk appetite. The risk management framework of each insurer is used to identify, assess, manage and report risks and risk-adjusted returns on a consistent and reliable basis. The frameworks are documented by risk management strategies approved by each insurer's Board and subject to a process of regular review and updating.

Independent risk management for the CBA Group is undertaken by the Chief Risk Officer. Risk management professional deployed in each business unit measure risks and assist the business in making decisions that optimise their risk-adjusted returns. While the take actions to ensure businesses adhere to risk policies and procedures, business managers are the owners of the risks taken in their businesses.

The objectives of the life insurers in managing risk include:

- Reduction of operational surprises and losses;
- Alignment of risk appetite and strategy;
- Assessment and realisation of opportunities;
- Continual improvements in the deployment of capital; and
- Embedding a risk management capability throughout each business.

Insurance risk

Insurance risk is defined as an unexpected economic gain or loss relating to movements in claims costs. The risk considered unique to life insurance business is that the incidence of mortality (death) and morbidity (illness and injury) claims is higher than assumed when pricing life insurance policies, or is greater than the best estimate assumptions used to determine the policy liabilities of the business.

Insurance risk may arise through reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. For contracts where morbidity is a relevant variable, the time to recovery may be longer than assumed.

Insurance risk is controlled by ensuring underwriting standards adequately identify the level of risk associated with an individual contract, managing claims in accordance with policy conditions, review and validation of total claims liabilities by an actuary, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of the Group's life insurance business is reviewed annually.

Insurance risk in the Group's life insurance business arises on policies written in Australia, New Zealand and Indonesia (Fiji: to 17 December 2009 only). The gross and net life insurance contract liabilities by country are as follows:

Australia:

Gross life insurance contract liabilities \$2,798m (2009: \$2,897m)

Net life insurance contract liabilities \$2,664m (2009: \$2,729m)

New Zealand:

Gross life insurance contract liabilities \$333m (2009: \$415m)

Net life insurance contract liabilities \$279m (2009: \$364m)

Fiji*:

Gross life insurance contract liabilities \$nil (2009: \$153m)

Net life insurance contract liabilities \$nil (2009: \$153m)

* Colonial Fiji Life Limited was sold effective on 17 December 2009.

Indonesia*:

Gross life insurance contract liabilities \$151m (2009: \$200m)

Net life insurance contract liabilities \$151m (2009: \$200m)

* amounts shown are 80% of PT Commonwealth Life's total balance sheet amounts, consistent with the Group's interest in the Company.

Notes to the Financial Statements

Note 36 Risk Management and Financial Instruments

The Group's activities expose it to a variety of financial risks. Financial risks can be categorised as follows:

- market risk, including interest rate, currency, equity and other market price risk, and credit spreads;
- funding risk;
- credit risk; and
- liquidity risk.

(a) Market risk

Market risk is the risk that the fair value of a financial instrument or future cash flows in relation to a financial instrument will fluctuate because of changes in market prices. Market risk is a fundamental characteristic of the Group's businesses, to which the Group is exposed through its investment, funds management, and commission-generating activities, through its borrowing programs and through its capital investments in offshore operations.

The funds management and commission-generating activities are generally not directly exposed to asset price risk, but the fee and other revenues generated are impacted by changes in underlying market prices. Indirect exposure also arises through the impact of changing asset values on fees earned from the life investment contract portfolio. Some direct exposure to equity markets arises through a swap transaction agreement entered into between an entity within the Group and two seeding trusts. A net loss of \$9m was recognised in 2010 (2009: \$8m net loss).

A significant component of the Group's market risk arises from the holding of assets related to the insurance business. All financial assets within the Group's life insurers directly support either the insurers' life insurance contracts or life investment contracts. For life insurance contracts with guaranteed liabilities, the Group bears the risk of mismatch between assets and liabilities. The risk of this mismatch is managed by monthly monitoring and rebalancing to benchmark asset allocations which are set to broadly reflect the nature and duration of the liabilities they support. Life insurers also hold reserves to provide for the impact of any mismatch which may arise. For investment-linked business, policyholders bear the full risk of variations in the value of the investment assets supporting policy liabilities and the risk arising from asset allocation within mandated ranges.

The Group is also exposed to the impact of market risk through the impact of market risk factors on the value of assets representing shareholder equity.

Market risk management activities are governed by the CBA Group's market risk framework approved by the Risk Committee of the CBA Board. Implementation of the policy, procedures and limits of the framework is the responsibility of the Group Executive of the associated Business Unit with senior management oversight performed through the CBA Group's Asset and Liability Committee (ALCO) and the ALCOs and risk committees of various subsidiary companies and Business Units.

Market risk is also managed via prescribed policies and procedures documented in a Board-approved Market Risk Policy. The Policy has regard to the obligations to and the expectations of policyholders and shareholders. The Australian life insurers also prepare a financial condition report on an annual basis in which risks facing the business are formally identified and management plans prepared and reported to the Boards and the applicable regulatory authority.

The Company is exposed to interest rate risk but not equity or other asset price risk.

Currency risk

Currency risk is the risk to earnings or reserves caused by a change in foreign exchange rates. The Group's largest structural foreign exchange exposure is to New Zealand dollars. The New Zealand operation's functional currency is New Zealand dollars. Gains or losses in value may result from translating this capital into Australian dollars, being the presentational currency for the Company and the Group.

The Group has other non-Australian dollar currency exposures. These may be hedged to the currency of the foreign operation, hedged to Australian dollars, or remain unhedged. These exposures are insignificant to the Group's balance sheet. Where there is hedging, it is implemented through foreign exchange forward contracts.

Notes to the Financial Statements

Note 36 Risk Management and Financial Instruments (continued)

(a) Market risk (continued)

Quantitative analysis of market risks

The table below shows the sensitivity of the Group's profit and equity to changes that are believed to be reasonably possible at the reporting date in the market risk variables described above.

	Movement		Financial Impact on Profit after Income Tax and Equity	
	2010	2009	2010	2009
	%	%	\$M	\$M
Adverse Change in Risk Variable :				
Interest rates	+1%	+1%	(15)	(17)
Exchange rates ¹	-10%	-10%	(18)	(16)
Equity market prices	-10%	-10%	(40)	(27)
Credit spreads	50bps	50bps	(17)	(17)
Favourable Change in Risk Variable :				
Interest rates	-1%	-1%	6	17
Exchange rates ¹	+10%	+10%	22	20
Equity market prices	+10%	+10%	40	26
Credit spreads	50bps	50bps	17	17

¹ The impact of a 10% exchange rate valuation in translating the results of the New Zealand operations to Australian dollars is to equity foreign currency translation reserve only and not to profit.

(b) Funding risk

Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. Colonial Finance Limited (CFL), a member of the Group, has been delegated responsibility for operational liquidity and funding management through the CBA Group's Liquidity and Funding Policy. With this designation, CFL has a liquidity management strategy, the aim of which is to ensure the CHCL Group has a stable and diversified funding base without over-reliance on any one market sector. As at 30 June 2010, CFL had obtained the majority of its funding through the wholesale market.

(c) Credit risk

Credit risk is the potential for loss arising from failure of a debtor or other counterparty to meet their contractual obligations. The maximum exposure to credit risk is the carrying amount of each recognised financial asset as stated in the Balance Sheet.

In the insurance business, credit risk arises from investment in bonds and notes, loans and from reinsurance arrangements. Exposure to reinsurers arises when claim recoveries become due under negotiated reinsurance arrangements. The credit rating of reinsurers is taken into account in selecting and retaining them. For investment-linked business, policyholders bear the full risk of any counterparty default on interest and/or principal payments.

Credit risk policies have been developed to ensure credit risk is managed within the risk appetite of the Group's businesses, and to ensure that the businesses comply with legislative, regulatory and CBA Group requirements.

Concentration risk of credit

Concentration of credit risk arises where there is undue exposure to any single asset or counterparty. Cash holdings within the Group are primarily with Commonwealth Bank of Australia or ASB Bank Limited, both of which have a Standard and Poor's credit rating of AA. Some cash holdings are with Citigroup Inc, which has a Standard and Poor's rating of A. For fixed interest securities, limits apply to any one exposure taking into account the credit quality of the counterparty. An asset concentration risk reserve will be held where exposures exceed regulatory guidelines.

Notes to the Financial Statements

Note 36 Risk Management and Financial Instruments (continued)

(c) Credit risk (continued)

The following tables provide information regarding the aggregate credit risk exposures of the Group and the Company at the balance sheet date in respect of the major classes of financial assets. The analysis classifies the assets according to Standard and Poor's counterparty credit ratings. AAA is the highest possible rating.

							Group
	AAA	AA	A	BBB	Below BBB	Not rated	Total
	2010	2010	2010	2010	2010	2010	2010
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash and cash equivalents	-	1,399	-	-	-	-	1,399
Reinsurance claims receivable	2	49	70	9	-	11	141
Financial assets at fair value through profit or loss	543	954	58	-	-	4,775	6,330

	AAA	AA	A	BBB	Below BBB	Not rated	Total
	2009	2009	2009	2009	2009	2009	2009
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash and cash equivalents	-	1,127	-	-	-	-	1,127
Reinsurance claims receivable	6	32	109	-	-	8	155
Financial assets at fair value through profit or loss	487	442	145	1	-	4,903	5,978

							Company
	AAA	AA	A	BBB	Below BBB	Not rated	Total
	2010	2010	2010	2010	2010	2010	2010
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash and cash equivalents		1					1

	AAA	AA	A	BBB	Below BBB	Not rated	Total
	2009	2009	2009	2009	2009	2009	2009
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash and cash equivalents	-	1	-	-	-	-	1

The assets represented in the tables above are those which back non-investment linked policies, annuity and shareholder capital. The tables do not include the assets which back investment linked business as the shareholder has no direct exposure to any credit risk in respect of these assets.

Notes to the Financial Statements

Note 36 Risk Management and Financial Instruments (continued)

(c) Credit risk (continued)

Apart from outstanding premiums the Group or the Company do not have financial assets that have been impaired or past due but not impaired at both the 2009 and 2010 balance sheet date.

Not past due, not impaired	Past due but not impaired				Group	
	0 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Impaired	Total
	2010	2010	2010	2010	2010	2010
	\$M	\$M	\$M	\$M	\$M	\$M
Outstanding premiums	191	30	-	-	-	221

Not past due, not impaired	Past due but not impaired				Group	
	0 to 3 months	3 to 6 months	6 to 12 months	Greater than 1 year	Impaired	Total
	2009	2009	2009	2009	2009	2009
	\$M	\$M	\$M	\$M	\$M	\$M
Outstanding premiums	166	28	-	-	-	194

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its debt obligations, or other cash outflows, as they fall due because of a shortage of liquid assets or access to adequate funding on acceptable terms. The value of investment assets are expected to be recovered within 12 months of the reporting date.

Liquidity risk has two components, funding liquidity risk and market liquidity risk. These are described below.

Funding liquidity risk is the risk that expected and unexpected cash demands of policyholders and creditors cannot be met without incurring unacceptable losses or endangering the business franchise. Market liquidity risk refers to the inability to realise assets due to inadequate market depth, or market disruption.

Liquidity risk management is a combination of managing funding resources while maintaining a portfolio of highly marketable assets that can be liquidated as a protection against any unforeseen interruption of cashflows. Businesses within the Group have frameworks for sound liquidity risk management. Their primary goal is to ensure that the businesses maintain sufficient cash and liquid assets to meet their current and future financial obligations at all times.

Liquidity Risk Policies have been developed to ensure compliance with legislative and regulatory requirements and management of liquidity risk via prescribed policies and procedures.

Notes to the Financial Statements

Note 36 Risk Management and Financial Instruments (continued)

(d) Liquidity risk (continued)

The following tables summarise the maturity profile of the financial liabilities of the Group and the Company. They are based on contractual undiscounted repayment obligations.

	Group				
	Up to 1 year	1 to 5 years	Greater than 5 years	No term or Investment Linked	Total
	2010	2010	2010	2010	2010
	\$M	\$M	\$M	\$M	\$M
Payables	752	229	-	29	1,009
Premiums in advance	232	-	-	-	232
Derivative financial liabilities	25	-	-	-	25
Interest bearing liabilities	882	2,256	-	-	3,138
Life investment contract liabilities ¹	808	678	659	9,359	11,504

	Up to 1 year	1 to 5 years	Greater than 5 years	No term or Investment Linked	Total
	2009	2009	2009	2009	2009
	\$M	\$M	\$M	\$M	\$M
	Payables	841	-	-	109
Premiums in advance	216	-	-	-	216
Derivative financial liabilities	47	-	-	-	47
Interest bearing liabilities	454	2,852	-	-	3,306
Life investment contract liabilities ¹	920	717	715	10,195	12,547

¹ For investment-linked business (which forms part of life investment contract liabilities), the liability to policyholders is linked to the performance of and value of the assets that back those liabilities. The shareholder has no direct exposure to any risk in the assets which back these liabilities. The tables in this section therefore show the investment-linked policies liability in aggregate only, without any maturity profile analysis.

	Company				
	Up to 1 year	1 to 5 years	Greater than 5 years	No term or Investment Linked	Total
	2010	2010	2010	2010	2010
	\$M	\$M	\$M	\$M	\$M
Payables	2,513	-	-	-	2,513

	Up to 1 year	1 to 5 years	Greater than 5 years	No term or Investment Linked	Total
	2009	2009	2009	2009	2009
	\$M	\$M	\$M	\$M	\$M
	Payables	2,677	-	-	-

(e) Collateral

Apart from the guarantees provided to Colonial Finance Limited and the undertaking in relation to First State Investments (Singapore), no entity within the Group has pledged any financial assets as collateral for liabilities or contingent liabilities.

Notes to the Financial Statements

Note 36 Risk Management and Financial Instruments (continued)

(f) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, and for disclosure purposes.

As of 1 July 2009, the Group has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

2010	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Assets				
Financial assets at fair value through profit or loss:				
Equity securities	216	145	-	360
Debt securities	627	1,499	-	2,126
Fixed term deposits	-	209	-	209
Loans	-	211	-	211
Other	-	40	6	46
Unit Trusts	3,566	11,660	-	15,226
Derivatives used for hedging	-	68	-	68
	-	-	-	-
Liabilities				
Life investment contract liabilities	-	11,259	-	11,259
Derivatives used for hedging	-	25	-	25

The following tables present the changes in level 3 instruments for the year ended 30 June 2010:

2010	Mortgages \$M
Opening balance	6
Gains recognised in profit or loss	-
Closing balance	6

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

Mortgages carried at fair value in ASB Group (Life) Limited was derived using a valuation technique that uses experienced judgement to estimate the credit risk component of the valuation. The experienced judgement is not supported by observable market prices; it is based on assessments concerning economic conditions, loss experience, and the risk characteristics associated with the particular mortgages. These assessments are subjective in nature and the range of possible alternative assumptions is considered immaterial.

Notes to the Financial Statements

Note 37 Capital Management

The Company's and the Group's capital comprises the assets which represent its contributed equity, reserves and retained earnings.

Entities within the Group manage their capital to achieve the following objectives:

- continuation of each as a going concern;
- compliance with legislative, regulatory and contractual obligations; and
- compliance with the capital management framework and strategy of the CBA Group including the capitalisation and dividend policies for companies within the CBA Group.

Each entity monitors its own capital position through its management and Board structures, with oversight of the efficient use of capital undertaken by the CBA Group.

There was no change in the capital management objectives, policies and procedures of the Company or the Group during the year.

Note 38 Subsequent Events after Balance Sheet Date

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

Note 39 Correction of Error in the Previous Financial Year

The Company holds assignment rights to receive NZD mandatory convertible notes issued by a controlled entity upon redemption. Due to an error in the valuation in previous years, the negative impact of the credit spreads on the value of the assignment rights was not taken into account. As a result, the error had the following effects in the Company's financial statements:

- overstating the Company's financial assets at fair value through profit or loss by \$133m as at 30 June 2009 and \$36m as at 1 July 2008;
- understating the Company's deferred tax asset by \$40m as at 30 June 2009 and \$11m as at 1 July 2008;
- overstating the Company's total assets, total equity and retained profit by \$93m as at 30 June 2009 and \$25m as at 1 July 2008; and
- overstating the Company's profit after tax by \$68m for the year ended 30 June 2009.

The error has no effect on the Group's consolidated financial statements, as the negative impact relates to a controlled entity that is part of the Group, which will eliminate on consolidation leaving the Group unaffected by the revaluation.

The error has been corrected by restating each of the affected financial statement items for the prior year, as described above.

In the prior year, the Group held an asset revaluation reserve of \$690m that recorded the excess of market value over net total assets upon the acquisitions of Legal & General Australia Limited and Prudential Australia Limited by Colonial Limited on 1 July 1998 and 31 October 1998 respectively. This was recognised and carried forward since the acquisition in 1998 which was before the adoption of AIFRS. Upon adoption of AIFRS, this amount should have been transferred to shareholder retained profits. As a result, the error had the following effects in the Group's financial statements:

- overstating the Group's asset revaluation reserve by \$690m as at 1 July 2008;
- understating the Group's shareholder retained profits by \$690m as at 1 July 2008;

The error has been corrected by restating the affected line items for the prior year.

Directors' Declaration

In accordance with a resolution of the Directors of Colonial Holding Company Limited, the Directors state that in their opinion:

- (a) the financial statements and notes set out from page 7 to 57 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the financial position as at 30 June 2010 of the Company and the economic entity, and of their performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 2(b) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



Director

Sydney

28 September 2010

**Independent auditor's report to the members of
Colonial Holding Company Limited**

Report on the financial report

We have audited the accompanying financial report of Colonial Holding Company Limited (the company), which comprises the balance sheet as at 30 June 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Colonial Holding Company Limited and the Colonial Holding Company Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

**Independent auditor's report to the members of
Colonial Holding Company Limited
(continued)**

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Colonial Holding Company Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2(b).



PricewaterhouseCoopers



R Balding
Partner

Sydney
28 September 2010