Annual U.S. Disclosure Document

Year Ended 30 June 2010

Dated: 24 September 2010

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Introduction

Introduction

Certain material information about the Group, including information regarding the Group's risk management policies and procedures, use of derivative financial instruments and the market risk attributable to such instruments, liquidity and capital resources and other important information, is included in the Group's 2009 and 2010 Financial Reports. In particular, Note 40 of the 2010 Financial Report (2009: Note 41) Market Risk describes certain of the Group's risk management policies and procedures. In addition, the Group prepares an APRA Pillar 3 Capital Adequacy and Risk Disclosure Report, which includes certain information about the Group's capital and assets. As a result, this Annual U.S. Disclosure Document – Year Ended 30 June 2010 (this "Document") should be read in conjunction with:

- The Commonwealth Bank of Australia Financial Report (U.S. Version) – Year Ended 30 June 2010 which contains the Financial Statements for the years ended 30 June 2008, 2009 and 2010 and as of 30 June 2009 and 2010 (the "2010 Financial Report");
- The Commonwealth Bank of Australia Financial Report (U.S. Version) – Year Ended 30 June 2009 which contains the Financial Statements for the years ended 30 June 2007, 2008 and 2009 and as of 30 June 2008 and 2009 (the "2009 Financial Report"); and
- The Commonwealth Bank of Australia Basel II Pillar 3 Capital Adequacy and Risk Disclosures as of 30 June 2010;

in each case, as found on the U.S. Investor Website located at http://www.commbank.com.au/usinvestors.

Except as otherwise stated, references within this Document to the Financial Report or Notes to the Financial Statements are to the 2010 Financial Report.

Except as otherwise stated, all figures here in relate to the Financial Year ended 30 June 2010 and comparatives for the balance sheet and profit and loss are to the Financial Year ended 30 June 2009. '$' and 'AUD' refer to Australian Dollars, 'USD' refers to U.S. Dollars, references to the "Bank" refer to the Commonwealth Bank of Australia and references to the "Group" refer to the Bank and its subsidiaries on a consolidated basis. The Group's financial years end on June 30 of each year. References to the 2010 Financial Year are to the year ended 30 June 2010, references to the 2009 Financial Year are to the year ended 30 June 2009 and references to the 2008 Financial Year are to the year ended 30 June 2008.

Appendix B provides definitions of the market share percentages on page 8.

Special Note Regarding Forward-Looking Statements

Special Note Regarding Forward-Looking Statements

Certain statements under the captions “Highlights”, “Group Performance Analysis”, “Retail Banking Services”, “Business and Private Banking”, “Institutional Banking and Markets”, “Wealth Management”, “New Zealand”, “Bankwest”, “Other”, “Integrated Risk Management”, “Capital Management”, “Contractual and Commercial Commitments”, “Description of Business”, Note 47 to the 2010 Financial Statements – “Disclosures about Fair Value of Financial Instruments” and elsewhere in this Document constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements including economic forecasts and assumptions and business and financial projections involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such factors include changes in political, social, credit, liquidity, investor confidence and economic conditions in Australia or New Zealand; global credit and equity market conditions; demographic changes; technological changes; changes in competitive conditions in Australia, New Zealand, Asia, the United States or the United Kingdom; changes in the regulatory structure of the banking, life insurance and funds management industries in Australia, New Zealand, the United Kingdom or Asia; changes in global credit market conditions including funding costs, credit ratings and access; regulatory proposals for reform of the banking, life insurance and Funds Management industries in Australia, and various other factors beyond the Group's control. Given these risks, uncertainties and other factors, potential investors are cautioned not to place undue reliance on such forward-looking statements.

Certain risk factors applicable to the Group are described beginning on page 10.

Financial Information Definitions

Basis of preparation

The consolidated Financial Statements of the Group for the years ended 30 June 2010, 2009 and 2008 comply with current Australian Accounting Standards, which consist of Australian equivalents to International Financial Reporting Standards ("AIFRS").

The basis of the AIFRS standards are the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. As a result of complying with AIFRS, the Group accounts also comply with IFRS, and interpretations adopted by the International Accounting Standards Board.

The Financial Report is presented in Australian dollars.

Appendix A supplies certain 2006, 2007 and 2008 comparative information, prepared on an AIFRS basis.

Non-GAAP Financial Measures

In this Document, the Group presents its profit on a "statutory basis", which is calculated in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS").

In addition to its financial results reported in the 2010 Financial Report and the 2009 Financial Report in accordance with AIFRS in this document, the Group reports and describes in this document certain "non-GAAP financial measures" of the financial performance and results of the Group (as defined in SEC Regulation G). These non-GAAP financial measures are not calculated in accordance with AIFRS. This Document contains reconciliations of these non-GAAP financial measures to the Group's financial results prepared in accordance with AIFRS.

The non-GAAP financial measures included in this document are:

- *cash basis* – the Group presents its results on a "cash net profit after tax basis". "Cash basis" is defined by management as net profit after tax and non-controlling interests, before certain non-cash adjustments. These non-cash adjustments are described on page 23 and a reconciliation of the Group's net profit after tax calculated on a statutory basis to the cash basis calculation is set out on page 6. Management believes that "cash basis" is a meaningful measure of the Group's performance and it provides a basis for the determination of the Bank's dividends.
- *earnings per share (cash basis)* – the Group presents its earnings per share on both a statutory and a cash basis. "Earnings per share (cash basis)" is defined by management as "cash basis" net profit after tax as described above, divided by the weighted average of the Bank's ordinary shares outstanding over the relevant period.
- *Funds Under Administration ("FUA")*, (funds administered by the Group and managed externally) and *Fund Under Management ("FUM")* (funds the Group directly manages). The Group derives funds management fees from Funds Under Administration and Funds Under Management and Management believes that the reporting of these measures assists investors in evaluating the Group's funds management operations.

The Group also presents its dividend payout ratio on a statutory and cash basis. The dividend payout ratio (statutory basis) is calculated by dividing the dividends paid on ordinary shares by the net profit after tax (statutory basis), net of dividends on other equity instruments. The dividend payout ratio (cash basis) is calculated by dividing the dividends paid on ordinary shares by the net profit after tax (cash basis), net of dividends on other equity instruments. Similarly, the Group presents "Dividend cover – statutory", which is net profit after tax (statutory basis), net of dividends on other equity instruments divided by dividends on ordinary shares for the Financial Year, and "Dividend cover – cash", which is net profit after tax (cash basis) net of dividends on other equity instruments divided by dividends on ordinary shares for the Financial Year. These ratios are provided on both a statutory and cash basis since net profit after tax, the primary component of these ratios, is also presented on a statutory and cash basis, for the reasons described above.

These "Highlights" contain certain forward-looking statements. See "Special Note Regarding Forward-Looking Statements" on page 3.

Group Performance Highlights

Net Profit after Income Tax (1)	Full Year Ended 30/06/10 $M	30/06/09 $M	30/06/08 $M
Statutory basis	**5,664**	4,723	4,791
Cash basis	**6,101**	4,415	4,733

(1) See page 6 for reconciliation between cash and statutory profit.

The Group's net profit after tax ("statutory basis") for the full year ended 30 June 2010 was $5,664 million, which represents a 20% increase on the prior year.

Statutory earnings per share increased 12% on the prior year to 367.9 cents per share. Return on Equity ("statutory basis") for the year ended 30 June 2010 was 17.5%, up 70 basis points due to increasing profitability and effective capital management.

Net profit after tax ("cash basis") for the full year was $6,101 million, which represents an increase of 38% on the prior year on a cash basis. This result was achieved in a market environment that has improved over the last 12 months, but still remains uncertain, mainly due to volatility in international markets. In Australia, credit growth has moderated, average funding costs continue to increase and competition for deposits remains intense. Additionally, our wholesale funding costs are increasing both in Australia and overseas.

The Group acquired The Bank of Western Australia Ltd and St. Andrews Pty Ltd on 19 December 2008. The 2009 Financial Year includes the Bankwest and St. Andrews results from the date of acquisition. Bankwest only contributed to six months of results in the 2009 Financial Year and contributed results for the entire 2010 Financial Year.

Despite the challenging environment, the Group's operating performance ("cash basis") has been healthy. Operating income growth of 10% and operating expense growth of 11% resulted in a 30 basis point decline in the Group's expense to income ratio ("cash basis") to 45.7%.

Drivers of the Group's financial performance ("cash basis") were:

- Net interest income growth of 17% on the prior year reflecting solid retail lending and deposit balance growth and a three basis point improvement in the full year net interest margin to 2.13%;
- Other banking income declined 2% on the prior year, impacted by lower credit card loyalty fees, exception and ATM fee income, combined with lower trading income;
- Funds management income increased by 5% on the prior year due to improved investment market returns driving higher average FUM and FUA, partly offset by lower performance fees and dividends from infrastructure assets;
- Insurance income increased by 4% on the prior year, driven by solid inforce premium growth, partially offset by higher claims experience including significant weather events; and
- Operating expense growth of 11% on the prior year reflects the impact of a full year contribution by Bankwest in the year ended 30 June 2010 and the Group's continued focus on people, customers and technology, while maintaining a disciplined approach to expense management.

In addition to the healthy operating performance, there was a significant reduction in impairment expense from $3,048 million in the prior year to $2,075 million. This was mainly due to the non-recurrence of a small number of single name corporate exposures experienced in the prior year and improved corporate portfolio credit quality. This was partly offset by additional impairment expense in Bankwest, particularly in relation to east coast property development exposures, following a comprehensive review of the pre-acquisition performing loan portfolio, discussed on page 49.

Other performance highlights relating to strategic priorities that position the Group for the medium to long term include:

- Retail, business and wealth customer satisfaction levels have increased as reflected by customer satisfaction surveys from Roy Morgan Research, TNS Business Finance Monitor and Wealth Insights publication; and
- Successful migration of over one million term deposit accounts to the new Core Banking platform, enabling real time visibility and improved functionality for customers.

Capital

The Group maintained its conservative approach in the current economic environment by maintaining a strong capital position. This was reflected in a Tier One capital ratio of 9.15% at 30 June 2010.

Dividends

The final 2010 dividend declared was $1.70 per share, an increase of 48% on the prior year. The total dividend for the year to 30 June 2010 was $2.90, taking the dividend payout ratio ("statutory basis") to 79.7%.

The final dividend payment will be fully franked and will be paid on 1 October 2010 to owners of ordinary shares on the register at the close of business on 20 August 2010 ("record date").

The Bank issued $772 million of shares to satisfy shareholder participation in the Dividend Reinvestment Plan ("DRP") in respect of the interim dividend for 2009/10.

Outlook

Despite some improvement, the global recovery remains uneven with the concerns about the advanced economies balanced out by some strength in the emerging economies.

The Australian economy remains well placed relative to most other developed countries, and remains dependent on the natural resources sector and the major Asian economies. The Group is optimistic about the medium-term outlook for Australia and for the Group's ability to deliver superior returns for its shareholders.

However, recent uncertainty over the pace of recovery in the United States and Europe highlight the downside risks still in play. These risks have not helped domestic business and consumer confidence, both of which remain fragile. This fragility manifested itself in a slowing in the underlying momentum in the Group's business in the second half of the 2010 Financial Year.

Despite these positive signs, overall credit growth in Australia is expected to slow during the 2011 Financial Year and economic conditions are likely to remain challenging for the Group and many of its customers during the remainder of the 2011 Financial year.

As a result, it is appropriate to maintain a degree of caution about the prospects for our business for 2011. The Group intends to retain conservative capital, liquidity and provisioning settings for the foreseeable future in order to provide support to our customers in these uncertain times. The Group also intends to continue with its cautious approach to the management of credit, operational and market risks.

Highlights continued

Group Performance Summary	Full Year Ended 30/06/10 $M	30/06/09 $M	30/06/08 $M
Net interest income	**11,868**	10,186	7,907
Other banking income	**4,112**	4,176	3,312
Total banking income	**15,980**	14,362	11,219
Funds management income	**1,898**	1,813	2,307
Insurance income	**945**	910	832
Total operating income	**18,823**	17,085	14,358
Investment experience	**236**	(267)	(17)
Total income	**19,059**	16,818	14,341
Operating expenses	**(8,601)**	(7,765)	(7,021)
Impairment expense	**(2,075)**	(3,048)	(930)
Net profit before income tax	**8,383**	6,005	6,390
Corporate tax expense (1)	**(2,266)**	(1,560)	(1,626)
Non-controlling interests (2)	**(16)**	(30)	(31)
Net profit after tax (cash basis)	**6,101**	4,415	4,733
Hedging and AIFRS (3)	**17**	(245)	(42)
Bankwest non-cash items	**(216)**	612	-
Tax on NZ structured finance transactions	**(171)**	-	-
Other non-cash items	**(67)**	(59)	100
Net profit after tax (statutory basis) (4)	**5,664**	4,723	4,791
Represented by:			
Retail Banking Services	**2,461**	2,107	1,882
Business and Private Banking	**893**	736	694
Institutional Banking and Markets	**1,182**	143	781
Wealth Management	**674**	258	797
New Zealand	**198**	404	538
Bankwest	**(209)**	122	-
Other	**465**	953	99
Net profit after tax (statutory basis)	**5,664**	4,723	4,791

(1) For purposes of presentation, Policyholder tax expense/(benefit) components of Corporate tax expense are shown on a net basis for the years ended 30 June 2010: $130 million, 30 June 2009: ($164) million and June 2008: ($115) million.

(2) Non-controlling interests include preference dividends paid to holders of preference shares in ASB Capital.

(3) Unrealised gains and losses relating to hedging and AIFRS volatility include non-economic gains and losses arising from the recognition of income and expense from the unwinding of structured transactions offsetting loss or profit that was not previously recognised in the Group's Income Statement due to the Group's transition to AIFRS. Such transactions are economically neutral.

(4) Refer to Group Performance Analysis on page 23 for further details on the non-cash items excluded from the Group's net profit after tax (statutory basis) to calculate the Group's net profit after tax (cash basis).

Shareholder Summary	Full Year Ended 30/06/10	30/06/09	30/06/08
Dividends per share - fully franked (cents)	**290**	228	266
Dividend cover - statutory (times)	**1. 3**	1. 3	1. 3
Dividend cover - cash (times)	**1. 4**	1. 3	1. 3
Earnings per share (cents) (1)			
Statutory basis - basic	**367. 9**	328. 5	363. 0
Statutory basis - fully diluted	**354. 2**	313. 4	348. 7
Cash basis - basic	**395. 5**	305. 6	356. 9
Cash basis - fully diluted	**379. 8**	292. 4	343. 1
Dividend payout ratio (%)			
Statutory basis	**79. 7**	73. 1	74. 1
Cash basis	**73. 9**	78. 2	75. 0
Weighted average no. of shares - statutory basic (M)	**1,527**	1,420	1,307
Weighted average no. of shares - cash basic (M) (1)	**1,531**	1,426	1,313
Return on equity - cash (%)	**18. 7**	15. 8	20. 4

(1) Further details are disclosed in Note 7, Earnings Per Share to the 2010 Financial Statements.

Balance Sheet Summary	As at 30/06/10 $M	30/06/09 $M	30/06/08 $M
Lending assets (1)	**500,760**	473,715	369,597
Total assets	**646,330**	620,372	487,572
Total liabilities	**610,760**	588,930	461,435
Shareholders' Equity	**35,570**	31,442	26,137
Assets held and Funds Under Administration (FUA)			
On Balance Sheet:			
Banking assets	**623,398**	596,919	461,944
Insurance Funds Under Administration	**14,201**	15,407	17,345
Other insurance and internal funds management assets	**8,731**	8,046	8,283
	646,330	620,372	487,572
Off Balance Sheet:			
Funds Under Administration	**172,784**	159,927	173,960
Total assets held and FUA	**819,114**	780,299	661,532

(1) Lending assets comprise Loans, Bills Discounted, and Other Receivables (gross of provisions for impairment and excluding securitisation) and Bank acceptances of customers.

Credit Ratings	Long–term	Short–term	Outlook
Fitch Ratings	AA	F1+	Stable
Moody's Investor Services	Aa1	P-1	Negative
Standard & Poor's	AA	A-1+	Stable

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and rating should be evaluated independently of any other information.

Highlights continued

Market Share Percentage [7]	As at 30/06/10 %	31/12/09 %	30/06/09 %
Home loans [1]	**26. 2**	26. 1	25. 2
Credit cards [1] [2]	**22. 5**	22. 3	21. 6
Personal lending (APRA and other Household) [3] [4]	**14. 6**	15. 0	15. 7
Household deposits	**31. 3**	31. 3	32. 3
Retail deposits [5]	**27. 3**	26. 6	26. 5
Business Lending - APRA	**19. 5**	18. 8	19. 4
Business Lending - RBA [1]	**17. 6**	17. 7	17. 4
Business Deposits - APRA	**22. 9**	21. 7	20. 7
Asset Finance	**14. 3**	14. 3	13. 6
Equities trading [1]	**6. 3**	6. 7	6. 2
Australian Retail - administrator view [1] [6]	**14. 7**	14. 7	14. 4
FirstChoice Platform [1] [6]	**10. 7**	10. 5	10. 2
Australia (total risk) [1] [6]	**13. 8**	13. 8	15. 7
Australia (individual risk) [6]	**14. 6**	14. 6	14. 7
NZ Lending for housing	**23. 0**	23. 3	23. 3
NZ Retail Deposits	**21. 6**	21. 4	21. 2
NZ Lending to business	**9. 3**	9. 2	8. 8
NZ Retail FUM [1]	**17. 4**	18. 0	18. 8
NZ Annual inforce premiums	**31. 0**	31. 3	31. 7

(1) Prior periods have been restated in line with market updates.

(2) As at 31 May 2010.

(3) Personal lending market share includes personal loans and margin loans.

(4) During the year ended 30 June 2009, Bankwest market share was impacted by a reclassification of balances from personal lending to home loans. The 30 June 2009 comparative has not been restated.

(5) In accordance with RBA guidelines, these measures include some products relating to both the Retail and Corporate segments.

(6) As at 31 March 2010.

(7) For market share definitions refer to Appendix B.

Key Performance Indicators - Group	Full Year Ended 30/06/10	30/06/09	30/06/08
Group			
Statutory net profit after tax ($M)	**5,664**	4,723	4,791
Net interest margin (%)	**2. 13**	2. 10	2. 02
Average interest earning assets ($M) (1)	**553,735**	481,248	385,667
Average interest bearing liabilities ($M) (1)	**521,338**	454,258	362,249
Statutory funds management income to average FUA (%)	**1.03**	0. 86	1. 22
Funds Under Administration (FUA) - average ($M)	**186,641**	173,872	194,156
Statutory insurance income to average inforce premiums (%)	**61.4**	42. 8	49. 0
Average inforce premiums ($M)	**2,005**	1,798	1,511
Statutory operating expenses to total operating income (%)	**45.2**	45. 6	50. 7
Statutory effective corporate tax rate (%)	**29.6**	28. 1	24. 3
Retail Banking Services			
Statutory net profit after tax ($M)	**2,461**	2,107	1,882
Statutory operating expenses to total banking income (%)	**39.6**	42. 9	46. 9
Business and Private Banking			
Statutory net profit after tax ($M)	**893**	736	694
Statutory operating expenses to total banking income (%)	**45.3**	48. 8	52. 2
Institutional Banking and Markets			
Statutory net profit after tax ($M)	**1,182**	143	781
Statutory operating expenses to total banking income (%)	**30.9**	29. 6	33. 3
Wealth Management			
Statutory net profit after tax ($M)	**674**	258	797
FUA - average ($M)	**179,802**	167,677	186,696
Average inforce premiums ($M)	**1,572**	1,405	1,136
Statutory funds management income to average FUA (%)	**1. 03**	0. 82	1. 22
Statutory insurance income to average inforce premiums (%)	**55.0**	31. 9	38. 0
Statutory operating expenses to net operating income (%) (2)	**54.4**	87. 0	54. 8
New Zealand			
Statutory net profit after tax ($M)	**198**	404	538
FUA - average ($M)	**6,839**	6,195	7,460
Average inforce premiums ($M)	**433**	393	375
Statutory funds management income to average FUA (%)	**0. 67**	0.79	0.64
Statutory insurance income to average inforce premiums (%)	**61.4**	63. 1	62. 1
Statutory operating expenses to total operating income (%)	**52.2**	46. 1	46. 8
Bankwest			
Statutory net profit after tax ($M)	**(209)**	122	-
Statutory operating expenses to total banking income (%)	**54.9**	66. 5	-
Capital Adequacy - (Basel II)			
Tier One (%)	**9. 15**	8. 07	8. 17
Total (%)	**11. 49**	10. 42	11. 58

(1) Average interest earning assets and average interest bearing liabilities have been adjusted to remove the impact of securitisation. Refer to Average Balances and Related Interest in Note 4 of the 2010 financial report.

(2) Net operating income represents total operating income less volume expenses.

Risk Factors

This section describes the principal risk factors that could materially affect the Group's businesses, its revenues, operating income, net income, net assets, liquidity and capital resources. The factors below should be considered in connection with the "Special Note Regarding Forward-Looking Statements" on page 3 and the Integrated Risk Management section as detailed on pages 56 to 60. The Integrated Risk Management section provides details on how the Group manages its credit, market (traded and non-traded), funding and liquidity, operational and strategic business, business continuity, compliance and security risks in the course of carrying on its business. Also refer to Notes 38 - 41 of the 2010 Financial Statements.

The Group's businesses may be adversely affected by disruption in the global credit markets and associated impacts.

Global credit and equity markets, particularly in the United States and Europe, have experienced extreme volatility, disruption and decreased liquidity for more than 24 months, reaching unprecedented levels of disruption for certain periods beginning in September 2008. These challenging market conditions have resulted in less liquidity, greater volatility, widening of credit spreads and a lack of price transparency in markets generally. Obtaining debt funding has at times been challenging, and the costs of both retail and wholesale funding have risen materially.

The Group's businesses operate in, or depend on the operation of, these markets, either directly or indirectly, including through exposures in securities, loans, derivatives and other activities. In addition, turmoil in the financial markets has flowed into the real economy, with major global economies either slowing substantially or contracting, which has caused increased unemployment in many countries, including Australia and New Zealand. As a diversified financial institution, the Group is impacted in a number of ways by the current economic climate. In particular, the cost of wholesale funding increased approximately 89 basis points for the Group in the 2010 Financial Year over the 2007 Financial Year and the cost of deposit funding for the Group in the 2010 Financial Year has increased approximately 146 basis points over the 2007 Financial Year. If the Group is unable to pass its increased funding costs on to its customers, its net interest margins will contract, which will adversely impact the Group's results of operations.

The Group continues to monitor industry and company specific developments and the state of the global and Australian economies; however, it is difficult to predict how long these conditions will persist and which markets, products or other businesses will be affected. These factors have and may continue to adversely impact our results of operations.

A downturn in the Australian and New Zealand economies could adversely impact the Group's results.

As a financial group whose core businesses are banking, funds management and insurance primarily located in Australia and New Zealand, the performance of the Group is dependent on the state of the Australian economy, customer and investor confidence and prevailing market conditions. The Group can give no assurances as to the likely future states of the Australian and New Zealand economies, which can be influenced by many factors within and outside Australia and New Zealand, outside of its control.

Australian economic conditions during the 2009 Financial Year were particularly difficult and the Group incurred substantial impairment charges as its institutional banking clients experienced financial difficulty and the commercial property market in Australia was negatively impacted. While economic conditions in Australia and New Zealand improved during the 2010 Financial Year, the recovery remains fragile with the concerns about advanced economies being balanced out by strength in emerging economies. This fragility has been manifested in a slowing in the underlying momentum in the Group's business in the second half of the 2010 Financial Year.

A material downturn in the Australian and/or New Zealand economies could adversely impact future results and could potentially result in further increases in the amount overdue on individual loans. Recessive economic cycles also have a negative influence on liquidity levels, credit defaults of corporations and other borrowers and return on assets. The Group's banking business is affected by market conditions in that there may be less demand for loan products or certain customers may face difficulty in meeting their obligations. In particular, a significant or sustained decrease in the Australian housing market or property valuations or a further decline in the housing market or property valuations in New Zealand could adversely affect our home mortgage portfolio. Furthermore, weaknesses in global securities markets due to credit, liquidity or other problems could result in a decline in the Group's revenues from its funds management and insurance business.

Adverse credit market conditions may significantly affect the Group's ability to access international capital markets, on which it relies for a substantial amount of its wholesale funding.

Disruptions, uncertainty or volatility in credit markets may limit the Group's access to capital, particularly its ability to issue securities, particularly longer-dated securities, in international capital markets at a cost that is acceptable to the Group. These market conditions may limit the Group's ability to replace, in a timely manner, maturing liabilities and access the capital necessary to grow our business. As such, the Group may be forced to delay raising capital, issue shorter tenors than it prefers, or pay less attractive interest rates, thereby increasing its interest expense, decreasing its profitability or significantly reducing its financial flexibility. The cost of wholesale funding may materially increase, which may impact the Group's results of operations if it is unable to pass these costs on to customers.

Failure to hedge effectively against adverse fluctuations in exchange rates could negatively impact the Group's results of operations.

The Group undertakes the majority of its wholesale funding in international capital markets in currencies other than the Australian dollar, principally the U.S. dollar and the Euro. This exposes the Group to risks associated with exchange rates for the Australian dollar, which is the currency in which it prepares its financial statements and the principal currency of the Group's revenue and operating cash flows. The impact of such exchange rate risk cannot be predicted reliably. The Group attempts to manage its exchange rate risks to minimize any adverse effect on its financial position and performance. However, the level of the Group's hedging may change over time, and the Group may change its hedging policy at any time. The Group's results of operations may be adversely affected if its hedges are not effective to mitigate exchange rate risks or for balance sheet purposes, if the Group is inappropriately hedged or if a hedge provider defaults on its obligations under the Group's hedging agreements. There can be no assurance that the Group's exchange rate hedging arrangements or hedging policy will be sufficient or effective.

The Group may incur losses associated with its counterparty exposures.

The Group faces the possibility that a counterparty may be unable to honour its contractual obligations to it. Such parties may default on their obligations to the Group due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have obligations to make payments to the Group, executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries.

The Group is subject to extensive regulation, which could impact its results.

The Group's banking, funds management and insurance activities are subject to extensive regulation, mainly relating to liquidity levels, solvency, provisioning, and insurance policy terms and conditions. The Group's business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the Australian and New Zealand governments and the governments of the other jurisdictions in which the Group conducts business.

The requirement to maintain certain levels of Tier One and total capital determines the level of lending activity, or, alternatively, requires the issue of additional equity capital or subordinated debt, which are additional sources of funds to the Group. Any change in regulation, including changes that increase the requirements of regulatory capital could have an adverse impact on the Group's results of operations.

Regulatory actions taken now or in the future may significantly affect the Group's operations and financial condition.

Recent events in the financial services industry and, more generally, in the international financial markets and the global economy, have led to various proposals for changes in the regulation of the financial services industry. In Australia, the Australian Prudential Regulatory Authority ("APRA") intends to adopt regulations designed to enhance liquidity risk management by authorised deposit-taking institutions ("ADI"s), strengthen the resilience of ADIs to liquidity risk and improve APRA's ability to assess and monitor ADIs' liquidity risk profiles, which are expected to be based on the proposals ultimately adopted by the Basel Committee on Banking Supervision. While there can be no assurance that any or all of these regulatory changes will ultimately be adopted or the form that any such regulations may ultimately take, any such changes, if enacted or adopted, may impact the profitability of the Group's business activities, require changes to certain business practices, and expose the Group to additional costs. Such additional costs may result from, among other things, holding significant liquid assets and undertaking wholesale long-term funding to replace short-term funding to more closely match the Group's long-term asset profile, which are comprised predominantly of home mortgages. These changes may also require the Group to invest significant management attention and resources to make any necessary changes, and could therefore also adversely affect the Group's business and operations.

The Group may face operational risks associated with being a complex financial institution and may incur losses as a result of ineffective risk management processes and strategies.

The Group's businesses are highly dependent on the Group's ability to process and monitor, in many cases on a daily basis, a very large number of transactions, many of which are highly complex, across multiple markets in many currencies. The Group's financial, accounting, data processing or other operating systems and facilities may fail to operate properly or may become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume, adversely affecting our ability to process these transactions or provide these services. In addition, the Group is exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems or from external events. Such operational risks may include theft and fraud, improper business practices, client suitability and servicing risks, product complexity and pricing risk or improper recording, evaluating or accounting for transactions, breach of security and physical protection systems, or breaches of the Group's internally or externally imposed policies and regulations.

While the Group employs a range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, the Group may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed in response to current market conditions will adequately anticipate additional market stress or unforeseen circumstances. For a further discussion of the Group's risk management policies and procedures, see "Integrated Risk Management".

Risk Factors continued

Reputational damage could harm the Group's business and prospects.

Various issues may give rise to reputational risk and cause harm to the Group's business, prospects and market position. These issues could include a failure to meet legal and regulatory requirements (such as money laundering, trade sanctions and privacy laws), inadequate sales and trading practices, inappropriate management of conflicts of interest and other ethical issues, and non-compliance with internal policies and procedures. Failure to address these issues appropriately could also give rise to additional legal risk, subjecting the Group to regulatory enforcement actions, fines and penalties, or harm the Group's reputation and integrity among the Group's customers, investors and other stakeholders.

Traded Market Risks could adversely impact the Group's results.

Market risk is the potential of loss arising from adverse changes in interest rates, foreign exchange rates, commodity and equity prices, credit spreads, lease residual risk values, and implied volatility levels for all assets and liabilities where options are transacted. Market risk also includes risks associated with fun ding and liquidity management. For the purposes of market risk management, the Group makes a distinction between traded and non-traded market risks. The pre-dominant non-traded market risk is interest rate risk in the banking book. Other non-traded markets risks are liquidity risk, funding risk, transactional and structural foreign exchange risk arising from capital investments in offshore operations, Non-traded equity risk, market risk arising from the insurance business and lease residual value risk.

The Group trades and distributes financial market products and risk management services to customers on a global basis.

The objectives of the Group's financial markets activities are to:

- Provide risk management and capital market products to customers;
- Efficiently assist in managing the Group's own market risks; and
- Conduct profitable trading within a controlled framework, leveraging off the Group's market presence and expertise.

For a description of these specific risks, see Note 40 to the 2010 Financial Statements.

Liquidity and funding risks, operational risk and life insurance risk could adversely impact the Group's results.

The Group is subject to liquidity risk, funding risk and life insurance risk which could adversely impact our future results. These risks are described in detail under "Integrated Risk Management" commencing on page 56.

The Group faces intense competition, which could adversely impact its results.

The Group faces intense competition in all of its principal areas of operation and geographical markets, principally Australia and New Zealand. Competition in the banking and funds management markets has, however, had the most significant effect on the Group's results and operations. As financial markets recover and the Group's competitors overcome any difficulties they have experienced, competition is expected to increase materially, especially as non-Australian financial services providers expand in Australia. Further details on the competition faced by the Group are detailed in "Description of Business – Competition" on page 79 of this Document.

The Group's business may be adversely affected by acquisitions of businesses.

From time to time, the Group evaluates and undertakes acquisitions of businesses. With acquisitions there is a risk that we may suffer a downgrade of our credit ratings, we may not achieve expected synergies from the acquisition as a result of difficulties in integrating information and other systems, we may achieve lower than expected cost savings or otherwise incur losses, we may lose customers and market share, or we may face disruptions to our operations resulting from integrating the systems and processes of the acquired business into the Group or our management's time may be diverted to facilitate the integration of the acquired business into the Group, or the acquisition may have other negative impacts on our results, financial condition or operations. The Group regularly assesses acquisition opportunities and if it were to undertake significant levels of acquisitions these risks may be exacerbated.

Selected Consolidated Income Statement Data	2010 US$M [3]	2010	2009	2008	2007	2006
		Full Year Ended 30 June (A$ millions, except where indicated)				
AIFRS						
Interest income	**27,318**	**32,215**	31,519	29,234	23,862	19,758
Interest expense	**17,208**	**20,293**	21,218	21,327	16,826	13,244
Net interest income	**10,110**	**11,922**	10,301	7,907	7,036	6,514
Impairment expense	**2,017**	**2,379**	3,048	930	434	398
Non-interest income	**6,246**	**7,366**	6,173	6,662	6,355	5,772
Operating expenses	**7,391**	**8,716**	7,960	7,384	6,419	6,029
Net profit before income tax	**6,948**	**8,193**	6,449	6,255	6,538	5,859
Income tax expense	**2,131**	**2,513**	1,696	1,433	2,041	1,900
Net profit after income tax	**4,817**	**5,680**	4,753	4,822	4,497	3,959
Non-controlling interests	**(14)**	**(16)**	(30)	(31)	(27)	(31)
Net profit attributable to Equity holders at the Bank [1]	**4,803**	**5,664**	4,723	4,791	4,470	3,928
Dividend declared	**2,233**	**2,633**	1,747	2,029	1,939	1,668
Weighted average number of shares (basic) (M)	**1,527**	**1,527**	1,420	1,307	1,281	1,275
Earnings per share, basic (cents)	**312**	**367.9**	328. 5	363. 0	344. 7	308. 2
Earnings per share, fully diluted (cents)	**300**	**354.2**	313. 4	348. 7	339. 7	303. 1
Dividends per share (cents)	**246**	**290**	228	266	256	224
Dividend payout ratio (%) [2]	**68**	**79.7**	73. 1	74. 1	75. 2	73. 3

(1) Represents dividends declared as at 30 June for each respective year.

(2) Dividends paid on ordinary shares divided by earnings (earnings are net of dividends on other equity instruments) .

(3) USD translated from AUD using 30 June 2010 month end noon buying rate, as described below.

Exchange Rates

For each of the Group's Financial Years indicated, the period end and average noon buying rate in New York City for cable transfers in Australian Dollars as certified for customs purposes by the Federal Reserve Bank of New York the ("Noon Buying Rate") are set out below, together with the high and low rates and month end closing rates for the previous six months.

To calculate the USD figures provided the 30 June 2010 month end closing exchange rate was used.

	2010	2009	2008	2007	2006
	Full Year Ended 30 June (expressed in US$ per A$1.00)				
Period End	**0. 8480**	0. 8055	0. 9562	0. 8491	0. 7423
Average Rate	**0. 8820**	0. 7546	0. 9007	0. 7867	0. 7475

	August	July	June	May	April	March
	Month ended 2010 (expressed in US$ per A$1.00)					
High	0. 9170	0. 9051	0. 8818	0. 9255	0. 9359	0. 9225
Low	0. 8807	0. 8380	0. 8192	0. 8172	0. 9170	0. 8997
Month End Closing Rates	0. 8910	0. 9051	0. 8480	0. 8491	0. 9306	0. 9169

Financial Review continued

Consolidated Balance Sheet Data	2010 US$M (2)	2010	2009	2008	2007	2006
	Full Year Ended 30 June (A$ millions, except where indicated)					
AIFRS						
Assets						
Cash and liquid assets	**8,581**	**10,119**	11,340	7,736	10,108	5,868
Receivables due from other financial institutions	**8,541**	**10,072**	14,421	6,984	5,495	7,107
Assets at fair value through income statement:						
Trading	**19,378**	**22,851**	25,401	21,676	21,469	15,758
Insurance	**13,517**	**15,940**	17,260	20,650	23,519	24,437
Other	**555**	**654**	1,677	3,266	4,073	2,207
Derivative assets	**23,480**	**27,689**	26,358	18,232	12,743	9,675
Available-for-sale investments	**27,912**	**32,915**	21,504	11,488	9,672	11,203
Loans, advances and other receivables	**418,453**	**493,459**	466,631	361,282	315,465	273,525
Bank acceptances of customers	**9,811**	**11,569**	14,728	18,278	18,721	18,310
Investment property	**-**	**-**	-	-	-	258
Property, plant and equipment	**1,994**	**2,351**	2,472	1,640	1,436	1,313
Investments in associates	**1,264**	**1,490**	1,047	906	836	190
Intangible assets	**7,988**	**9,420**	9,245	8,258	7,835	7,809
Deferred tax assets	**1,077**	**1,270**	1,653	76	254	48
Other assets	**5,497**	**6,482**	6,070	6,492	7,157	5,141
	548,046	**646,281**	619,807	486,964	438,783	382,849
Assets held for sale	**42**	**49**	565	608	1,374	1
Total Assets	**548,088**	**646,330**	620,372	487,572	440,157	382,850
Liabilities						
Deposits and other public borrowings	**317,714**	**374,663**	368,721	263,706	219,068	187,576
Payables due to other financial institutions	**10,692**	**12,608**	15,109	17,672	14,386	11,184
Liabilities at fair value through income statement	**13,010**	**15,342**	16,596	15,526	16,396	11,667
Derivative liabilities	**21,102**	**24,884**	32,134	19,541	16,680	10,820
Bank acceptances	**9,811**	**11,569**	14,728	18,278	18,721	18,310
Current tax liability	**895**	**1,056**	883	768	882	378
Deferred tax liability	**187**	**221**	168	266	908	734
Other provisions	**1,015**	**1,197**	1,243	1,174	878	821
Insurance policy liabilities	**12,374**	**14,592**	16,056	18,495	21,613	22,225
Debt issues	**110,418**	**130,210**	101,819	85,817	88,525	80,735
Managed fund units on issue	**746**	**880**	914	1,109	310	1,109
Bills payable and other liabilities	**8,501**	**10,025**	8,520	7,524	7,346	6,053
Total Liabilities	**506,465**	**597,247**	576,891	449,876	405,713	351,612
Loan capital (1)	**11,459**	**13,513**	12,039	11,559	10,000	9,895
Total liabilities and loan capital	**517,924**	**610,760**	588,930	461,435	415,713	361,507
Net Assets	**30,163**	**35,570**	31,442	26,137	24,444	21,343
Total Shareholders' Equity	**30,163**	**35,570**	31,442	26,137	24,444	21,343
Other equity instruments	**796**	**939**	939	939	939	939
Total Shareholders' Equity excluding other equity instruments	**29,367**	**34,631**	30,503	25,198	23,505	20,404

	2010	2009	2008	2007	2006
Full-time staff equivalent	**45,025**	44,218	39,621	37,873	36,664
Branches/service centres (Australia)	**1,147**	1,142	1,009	1,010	1,005
Agencies (Australia)	**3,884**	3,859	3,814	3,833	3,836

(1) Represents interest bearing liabilities qualifying as regulatory capital.

(2) USD translated from AUD at 30 June 2010 (see month end noon buying rate in the table on page 13).

Consolidated Ratios and Operating Data	2010 US$M (1)	2010	2009	2008	2007	2006
	Full Year Ended 30 June					
		(A$ millions, except where indicated)				
AIFRS						
Profitability						
Net interest margin (%) (2)		**2.13**	2.10	2.02	2.08	2.22
Interest spread (%) (3)		**1.91**	1.84	1.68	1.75	1.90
Return on average Shareholders' Equity (%) (4)		**17.5**	16.8	19.8	20.7	20.4
Return on average total assets (%) (4)		**0.9**	0.9	1.0	1.1	1.1
Productivity						
Total operating income per full-time staff equivalent	**358,957**	**423,298**	380,320	361,955	348,454	330,760
Staff expense/total operating income (%) (5)		**24.0**	23.7	25.5	24.5	23.3
Total operating expenses/total operating income (%) (5)		**45.1**	46.2	49.0	48.7	49.4
Ratio of earnings to fixed charges (6)		**1.4**	1.3	1.3	1.4	1.4
Capital Adequacy (at year end) (7)						
Basel I						
Risk weighted assets		**n/a**	n/a	n/a	245,347	216,438
Tier One capital		**n/a**	n/a	n/a	17,512	16,354
Tier Two capital		**n/a**	n/a	n/a	8,365	6,725
Total capital (8)		**n/a**	n/a	n/a	23,951	20,916
Tier One capital/risk weighted assets (%)		**n/a**	n/a	n/a	7.14	7.56
Tier Two capital/risk weighted assets (%)		**n/a**	n/a	n/a	3.41	3.10
Total capital/risk weighted assets (%)		**n/a**	n/a	n/a	9.76	9.66
Basel II						
Risk weighted assets	**246,616**	**290,821**	288,836	205,501	n/a	n/a
Tier One capital	**22,558**	**26,601**	23,311	16,791	n/a	n/a
Tier Two capital	**5,783**	**6,819**	6,784	7,013	n/a	n/a
Total capital (8)	**28,340**	**33,420**	30,095	23,804	n/a	n/a
Tier One capital/risk weighted assets (%)		**9.15**	8.07	8.17	n/a	n/a
Tier Two capital/risk weighted assets (%)		**2.34**	2.35	3.41	n/a	n/a
Total capital/risk weighted assets (%)		**11.49**	10.42	11.58	n/a	n/a
Average Shareholders' Equity/average total assets (%)		**5.1**	5.0	5.3	5.5	6.0

(1) USD translated from AUD at 30 June 2010 (see month end noon buying rate in the table on page 13).

(2) Net interest income divided by average interest earning assets for the year.

(3) Difference between the average interest rate earned and the average rate paid on funds.

(4) Calculations based on net profit after tax (statutory basis), net of dividends on other equity investments applied to average Shareholders' Equity and average total assets respectively.

(5) Total operating income represents net interest income before deducting loan impairment expense plus non-interest income.

(6) Net profit before tax and fixed charges (interest expense and rental costs) divided by fixed charges.

(7) Capital adequacy figures for 2010, 2009 and 2008 shown on Basel II basis. Prior years shown on Basel I basis. For a discussion of the difference between the calculation of capital adequacy figures under Basel I and Basel II, see Capital Management.

(8) Represents Tier One capital and Tier Two capital less deductions under statutory guidelines imposed by APRA. Refer to Capital Management for further details.

Financial Review continued

Consolidated Ratios and Operating Data	2010 (6) US$M	2010	2009	2008	2007	2006
	Full Year Ended 30 June					
		(A$ millions, except where indicated)				
AIFRS						
Asset Quality Data (1)						
Non-accrual loans (2)	**4,423**	**5,216**	4,210	683	421	326
Total impaired assets (3)	**4,423**	**5,216**	4,210	683	421	326
Individually assessed provisions for impairment	**1,689**	**1,992**	1,729	279	199	171
Collective provisions for impairment	**2,935**	**3,461**	3,225	1,466	1,034	1,046
Net impaired assets (net of interest reserved)	**2,734**	**3,224**	2,481	316	222	155
Total provisions for impairment/average credit risk (%) (4)		**0. 7**	0. 7	0. 3	0. 3	0. 4
Loan impairment expense/average credit risk (%) (4)		**0. 3**	0. 4	0. 2	0. 1	0. 1
Gross impaired assets/credit risk (%) (5)		**0. 7**	0. 6	0. 1	0. 1	0. 1
Net impaired assets/total Shareholders' Equity (%)		**9. 1**	7. 9	1. 2	0. 9	0. 7
General provision for impairment/risk weighted assets (%) Basel I		**n/a**	n/a	n/a	n/a	n/a
Collective provision for impairment/risk weighted assets (%) Basel I		**n/a**	n/a	n/a	0. 4	0. 5
Collective provision for impairment/risk weighted assets (%) Basel II		**1. 2**	1. 1	0. 7	n/a	n/a

(1) All impaired asset balances and ratios are net of interest reserved.

(2) Non-accrual facilities comprise any credit risk exposure where a specific provision for impairment has been raised, or is maintained on a cash basis because of significant deterioration in the financial position of the borrower, or where loss of principal or interest is anticipated.

(3) Total impaired assets comprise non-accrual loans, restructured loans, Other Real Estate Owned Assets and Other Assets Acquired Through Security Enforcement.

(4) Average credit risk is based on gross credit risk less unearned income. Averages are based on current and previous year end balances.

(5) Total impaired assets as a percentage of credit risk as disclosed in Note 14 to the 2010 Financial Statements less unearned income as presented in Note 13 to the 2010 Financial Statements.

(6) USD translated from AUD at 30 June 2010 (see month end noon buying rate for 2010 Financial Year in the table on page 13).

Summary Cash Flow Data

Further details of the Group's cash flow are found in the 2010 Financial Statements and Notes to the Financial Statements.

Summary Cash Flow	2010 US$M (1)	2010 $M	2009 $M	2008 $M	2007 $M	2006 $M
	Full Year Ended 30 June					
Net Cash (used in)/provided by operating activities	**2,921**	**3,445**	1,476	(2,075)	5,641	1,162
Net Cash (used in)/provided by investing activities	**(218)**	**(257)**	(3,291)	(152)	(2,276)	(386)
Net Cash (used in)/provided by financing activities	**(388)**	**(457)**	1,736	408	(1,319)	(14)
Net (decrease)/increase in cash and cash equivalents	**2,316**	**2,731**	(79)	(1,819)	2,046	762
Cash and Cash Equivalents at beginning of period	**1,854**	**2,186**	2,265	4,084	2,038	1,276
Cash and Cash Equivalents at end of period	**4,170**	**4,917**	2,186	2,265	4,084	2,038

(1) USD translated from AUD at 30 June 2010 (see month end noon buying rate for August in the table on page 13).

Forward-Looking Statements

This Group Performance Analysis contains certain forward-looking statements. See "Special Note Regarding Forward-Looking Statements" on page 3.

Financial Performance and Business Review

Group Performance

Financial Year 2010 compared to Financial Year 2009

The Group's statutory net profit after tax for the 2010 Financial Year was $5,664 million, which represents a 20% increase on the prior year.

The performance during the year was underpinned by:

- Solid growth in retail lending and deposit balances, with home lending up 11% to $324 billion and domestic deposits up 3% to $335 billion as at 30 June 2010. Business and corporate lending was down 3% to $155 billion mainly due to deleveraging by institutional clients, while small business lending remained strong;
- Full year net interest margin improved by three basis points to 2.13% as assets were repriced in response to higher funding costs and increased credit risk, along with increased earnings benefiting from higher average capital;
- A 5% increase in funds management income due to 7% growth in average Funds Under Administration to $187 billion at 30 June 2010 driven by improved investment market returns. This was partly offset by lower performance fees and dividends from infrastructure assets;
- A 4% increase in insurance income driven by solid volume growth, partially offset by higher claims experience including significant weather events;
- Operating expense growth of 11%, reflecting the impact of a full year contribution by Bankwest in the year ended 30 June 2010 and a continued investment in people, customers, technology (including the Core Banking Modernisation program) and projects to support strategic priorities and drive Group wide productivity;
- Significantly lower impairment expense due to the non-recurrence of a small number of single name corporate exposures experienced in the prior year and improved corporate portfolio credit quality, partly offset by additional impairment expense in Bankwest particularly in relation to east coast property development exposures, following a comprehensive review of the pre-acquisition performing loan portfolio discussed on page 49; and
- Significantly higher investment experience mainly as a result of the unwinding of unrealised mark to market losses in the Guaranteed Annuities portfolio.

More comprehensive disclosure of performance highlights by key business segments is contained on pages 27-54.

Other transactions not included in the cash definition of net profit after tax which are included in the statutory definition of net profit after tax are discussed on page 23.

For the half year ended 30 June 2010, the Group's statutory net profit after tax was $2,750 million, down 6% on the prior half. While impairment expense was significantly lower than the prior half, the Group's operating performance was primarily impacted by a ten basis point decline in net interest margin from 2.18% for the half year ended 31 December 2009 to 2.08% together with three less calendar days, lower CommSec trading volumes and retail exception fees.

Financial Year 2009 compared to Financial Year 2008

The Group's Statutory net profit after tax for the 2009 Financial Year was $4,723 million, which represents a less than 1% decrease on the prior year.

The performance during the 2009 Financial Year was underpinned by:

- The acquisition of Bankwest and St Andrew's on 19 December 2008, which contributed $734 million to the Group's earnings in the 2009 Financial Year (including a $612 million non-cash gain on the acquisition after taxes) and $30.4 billion of average interest earning assets;
- Solid growth in lending and deposit balances, with home lending up 19% to $257 billion, business lending up 6% to $135 billion, and domestic deposits up 23% to $287 billion at 30 June 2009 from 30 June 2008;
- Underlying net interest margin improvement of eight basis points in the 2009 Financial Year over the 2008 Financial Year;
- Decline in average Funds Under Administration of 10% from the 2008 Financial Year, principally due to the adverse impact of volatile investment markets and outflows of short-term cash mandates;
- CommInsure inforce premium growth of 25% in the 2009 Financial Year over the 2008 Financial Year to $1,560 million, with both Life and General insurance businesses experiencing strong volumes; partly offset by
- Operating expense growth of 4% (excluding Bankwest) in the 2009 Financial Year over the 2008 Financial Year, principally driven by continued investment in people and technology as well as higher occupancy and volume expenses; and
- Significantly higher loan impairment provisioning levels in the 2009 Financial Year, due to a cyclical deterioration in portfolio quality and the Group's prudent and conservative approach to provisioning.

Other transactions not included in the cash definition of net profit after tax which are included in the statutory definition of net profit after tax include:

- Hedging and AIFRS volatility of $245 million; and
- Other non-cash items of $59 million.

Net Interest Income

Financial Year 2010 compared to Financial Year 2009

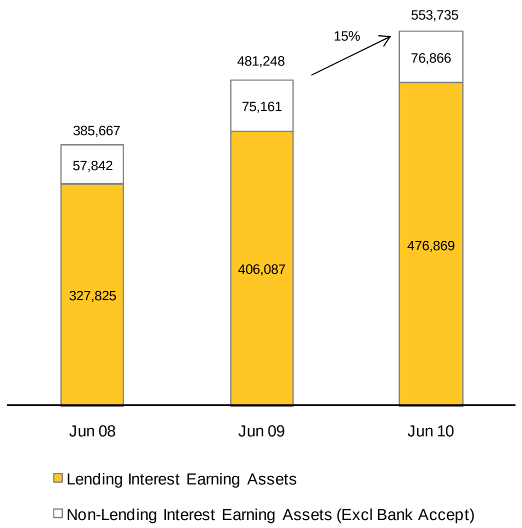
Net interest income increased by 17% on the prior year to $11,868 million. Excluding the impact of the Bankwest acquisition, net interest income increased 8% on the prior year to $10,381 million. The increase was a result of solid growth in average interest earning assets of 15%, together with a three basis point improvement in net interest margin to 2.13% each of which is discussed below.

Financial Year 2009 compared to Financial Year 2008

Net interest income increased in the 2009 Financial Year by 29% to $10,186 million, of which $591 million was attributable to the acquisition of Bankwest. Excluding the impact of the Bankwest acquisition, net interest income increased in the 2009 Financial Year by 21% on the prior year to $9,595 million. The increase was achieved primarily through continued volume growth in average interest earning assets of 17% together with an eight basis point improvement in underlying net interest margin.

Group Performance Analysis continued

Average Interest Earning Assets ($M)



Financial Year 2010 compared to Financial Year 2009

Average interest earning assets increased by $72 billion on the prior year to $554 billion, reflecting a $71 billion increase in average lending interest earning assets and a slight increase in average non-lending interest earning assets.

Average home loan balances, excluding the impact of securitisation (which was not material in the 2010 Financial Year or the 2009 Financial Year), increased by $60 billion since 30 June 2009 to $298 billion, driven by above market volume growth despite tightening credit standards, as the Group increased its home lending market share through competitive customer rates and improved customer retention and the impact of a full year contribution from Bankwest in the year ended 30 June 2010. Excluding Bankwest, average home loans increased by $35 billion to $259 billion.

Average balances for business and corporate lending increased by $10 billion since 30 June 2009 to $159 billion primarily driven by the impact of a full year contribution from Bankwest in the year ended 30 June 2010, partially offset by institutional clients deleveraging in response to the current economic environment.

Average non-lending interest earning assets increased $2 billion compared to the prior year driven by the impact of a full year contribution from Bankwest, offset by a decrease in liquid assets which were held in the prior year to fund the Bankwest operations upon acquisition.

Financial Year 2009 compared to Financial Year 2008

Average interest earning assets increased in the 2009 Financial Year by $96 billion, or 24.8%, to $481 billion, of which $30 billion was attributable to the acquisition of Bankwest. Excluding the impact of the Bankwest acquisition, average interest earning assets increased by $65 billion, or 17% in the 2009 Financial Year on the prior year to $451 billion, reflecting a $51 billion increase in average lending interest earning assets and a $14 billion increase in average non-lending interest earning assets.

The growth in average interest earning assets during the 2009 Financial Year was partially driven by decreased competition in the Australian mortgage market as non-bank lenders lost market share due to their inability to access funding to support their lending activities. Several non-bank lenders exited the market entirely in the 2009 Financial Year, including acquisition by larger commercial banks. For example, in December 2008, our associate Aussie Home Loans purchased the $2 billion prime mortgage portfolio of non-bank lender Wizard Home Loans. In addition, during the 2009 Financial Year, several foreign banks decreased their exposure to the Australian lending market to focus on their home markets, which led the Group to increase its lending to the Australian corporate sector to support its current customers and has opened an opportunity for the Group to gain new customers and market share from exiting foreign lenders.

Home lending growth excluding Bankwest was the largest contributor to the increase in average interest earning assets. Average home loan balances, excluding the impact of securitisation, increased by $33 billion in the 2009 Financial Year to $223 billion, despite tightening credit standards.

Average balances for business and corporate lending increased by $20 billion in the 2009 Financial Year to $137 billion, largely due to growth in Institutional Banking & Markets.

The growth of $14 billion in average non-lending interest earning assets reflects higher levels of liquid assets held in response to uncertain economic and financial market conditions as well as additional liquid assets acquired to fund Bankwest's operations upon acquisition.

Net Interest Margin

Financial Year 2010 compared to Financial Year 2009

The net interest margin improved three basis points on the prior year to 2.13% with the key drivers including:

Deposit pricing: Deposit margins decreased ten basis points primarily driven by increased competition on savings and investment products together with the decline in average cash rates (2010: 3.7%; 2009: 4.8%).

Asset pricing: Overall increase in margin of nine basis points, reflecting the impact of repricing on home loans (two basis points), personal lending (three basis points) and business lending (four basis points) in response to higher average funding costs and increased credit risk.

Mix: Overall decrease in margin of two basis points as a result of strong growth in relatively lower margin home loans.

Replicating Portfolio: Increased five basis points, acting as a "buffer" to the declining deposit margins. The Replicating Portfolio is a technique used to stabilise the Net Interest Earnings of the Bank over long term interest rate cycles. Replicating Portfolios are engineered portfolios of assets that have repricing characteristics that closely match the repricing characteristics of retail products like demand deposit accounts. The main benefit of Replicating Portfolios is the protection of deposit product profitability when interest rates are falling. The benefit diminishes over time in a stable interest rate environment.

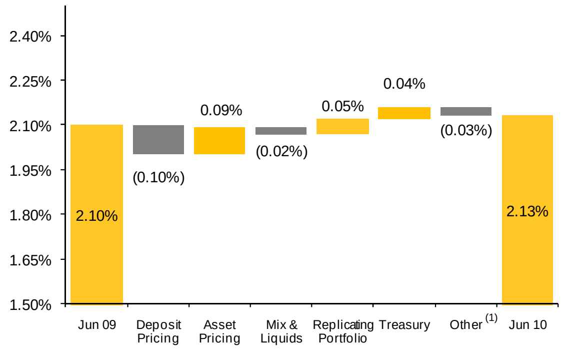
Treasury: Increased earnings benefiting from higher average capital (four basis points).

Other: Decrease of three basis points driven by lower margins in offshore businesses which are reported separately from the Group's domestic business.

Net interest margin decreased ten basis points in the second half of the 2010 Financial Year, compared to the prior half, to 2.08%. This result was mainly impacted by intense deposit competition, lower replicating portfolio (six basis points) and balance sheet positioning (four basis points) which is consistent with the current environment.

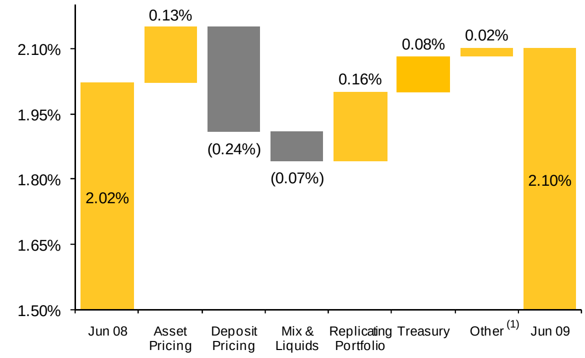
NIM movement June 2009 to June 2010

Additional information, including the average balances, is set out in Note 4 to the 2010 Financial Statements.



NIM movement June 2008 to June 2009

Additional information, including the average balances, is set out in Note 4 to the 2010 Financial Statements.



Financial Year 2009 compared to Financial Year 2008

Underlying net interest margin improved eight basis points on the prior year. Key drivers of the improvement in 2009 underlying margin were:

Asset pricing: Overall increase in margin of 13 basis points, principally due to the impact of repricing on home loans (four basis points), personal lending (six basis points) and business lending (three basis points). This has been in response to higher funding costs and increased credit risk.

Deposit pricing: Deposit margins decreased 24 basis points due to strong price competition for retail deposits and the decline in the official cash rate.

Mix and Liquids: Average liquid asset holdings increased $14 billion in the 2009 Financial Year, resulting in six basis points of margin decline. This was driven by higher levels of liquid assets held in response to uncertain economic and financial market conditions (five basis points) together with liquid assets acquired to fund the Bankwest operations upon acquisition (one basis point).

The adverse impact of higher relative growth in lower margin home loans contributed one basis point of margin contraction.

Replicating portfolio: As deposit margins have been adversely impacted by the declining cash rate environment the replicating portfolio has acted as a "buffer" and contributed 16 basis points to margin.

Treasury: Increase of eight basis points driven by higher earnings due to the free funding benefit of $5 billion from capital raised during the year (four basis points) and Treasury gains generated through the management of short dated interest rate exposures (four basis points).

Other: Increase of two basis points driven by higher margins in offshore business units (four basis points), partly offset by lower margins in ASB (two basis points).

Other Banking Income

	Full Year Ended		
	30/06/10	30/06/09	30/06/08
	$M	$M	$M
Commissions	**2,006**	2,027	1,827
Lending fees	**1,435**	1,396	976
Trading income	**597**	741	546
Other income	**333**	287	228
	4,371	4,451	3,577
AIFRS reclassification of net swap costs	**(259)**	(275)	(265)
Other banking income	**4,112**	4,176	3,312

Financial Year 2010 compared to Financial Year 2009

Excluding the impact of AIFRS reclassification of net swap costs from net interest income. Other banking income decreased 2% on the prior year to $4,371 million.

The inclusion of Bankwest results for the entire 2010 Financial year resulted in a $65 million increase in Other banking income over the 2009 Financial Year. Other factors impacting 2010 Other banking income were:

Commissions: decreased by 1% on the prior year to $2,006 million. This was primarily driven by a decrease in credit card loyalty reward income, ATM direct charging income and dishonour fees ($53 million). This was partly offset by increased brokerage commissions following higher trading volumes in CommSec.

Lending fees: increased 3% on the prior year to $1,435 million. Institutional commitment and lending fees increased together with Commercial Bill fees, following solid volume growth and improved margins. These were offset by declines in overdraft fees ($97 million) following a significant reduction in fee levels across a range of personal and business transaction accounts early in the 2010 Financial Year. Early repayment fees also declined after reaching highs in the prior year following rapid and significant reductions in official cash rates that led to high levels of fixed-rate home loan refinancing in the 2009 Financial Year.

Trading income: decreased by 19% on the prior year to $597 million. This outcome was impacted by a strong trading result in the prior year due to greater financial market volatility that resulted in higher trading volumes during the prior year. In the 2010 Financial Year, counterparty fair value mark to market valuations have benefited from narrowing credit spreads.

Other income: increased by 16% on the prior year to $333 million primarily due to gains from asset sales in Institutional

Banking and Markets.

Financial Year 2009 compared to Financial Year 2008

Excluding the impact of AIFRS non-trading derivative volatility and Bankwest, other banking income increased 20% in the 2009 Financial Year over the 2008 Financial Year.

Factors impacting 2009 Other banking income were:

- Commissions: increased by 7% in the 2009 Financial Year over the prior year to $1,961 million. This outcome was primarily due to portfolio growth, the benefit of increased collection rates in credit cards and personal lending and higher credit card loyalty reward income (offset by an increase in operating expenses). CommSec brokerage commissions were lower following weaker volumes;
- Lending fees: increased by 38% in the 2009 Financial Year over the prior year to $1,348 million. The increase was due to growth in retail, corporate and institutional lending fees arising from higher lending volumes, together with $244 million of early repayment fees received from customers exiting fixed rate loans. The associated costs from the unwind of swaps related to these fixed rate loans will largely be incurred over the next three years;
- Trading income: increased by 32% in the 2009 Financial Year over the prior year to $720 million. The increase was driven by higher foreign exchange and interest rate trading income generated from volatile market conditions together with Treasury income derived through the management of short dated interest rate risk exposures; and
- Other income: increased by 11% in the 2009 Financial Year over the prior year to $254 million, driven by additional equity accounted profits from investments in Asia, together with higher operating lease rentals.

Financial Year 2010 compared to Financial Year 2009

Funds Management Income

	Full Year Ended		
	30/06/10	30/06/09	30/06/08
	$M	$M	$M
CFS GAM	**789**	773	1,068
Colonial First State	**811**	703	884
CommInsure	**224**	259	281
New Zealand and Other	**74**	78	74
Funds management income	**1,898**	1,813	2,307

Funds management income increased by 5% on the prior year to $1,898 million. The growth was primarily attributable to a 7% increase in average FUA to $187 billion and a 6% increase in average FUM to $144 billion, reflecting improved investment market returns partly offset by lower performance fees and dividends from infrastructure assets.

Funds management income to average FUA was relatively stable over the prior year.

Financial Year 2009 compared to Financial Year 2008

Funds Management income decreased by 21% to $1,813 million for the 2009 Financial Year from $2,307 million in 2008. The decline was due to a reduction in average FUA and FUM, both down 10% on the prior year, due to the adverse impact of falling investment markets and outflows of short term cash mandates from institutional investors which lead to lower management fees.

FUA (spot) as at 30 June 2009 was $175 billion, representing an 8% decrease since 30 June 2008. This decrease was also a reflection of falling investment markets, but compares favourably with the ASX 200 and MSCI World (AUD) indices, which fell 24% and 16% respectively over the same period, reflecting the Group's diversification by asset class and geography.

The impact on Funds Management income was more pronounced than the fall in spot FUA and FUM from 30 June 2009 to 30 June 2008, as the decrease in the average of FUA and FUM during this period were more substantial than the spot changes over the year, which reflect the impact of a rally in equity markets in the fourth quarter of the 2009 Financial Year.

Funds Management income to average FUA decreased by 15 basis points on the prior year to 1.04% due to seed asset sales in the prior year and the adverse impact of higher levels of low margin short term cash mandates in the current year.

Financial Year 2010 compared to Financial Year 2009

Insurance Income

	Full Year Ended		
	30/06/10	30/06/09	30/06/08
	$M	$M	$M
CommInsure and Other	**684**	**636**	557
Sovereign and Other	**261**	**274**	275
Insurance income	**945**	**910**	832

Insurance income increased by 4% on the prior year to $945 million. The increase was driven by 12% growth in average inforce premiums to $2,005 million, partially offset by higher claims experience in the General Insurance businesses, including significant weather events.

Financial Year 2009 compared to Financial Year 2008

Insurance income increased by 9% in the 2009 Financial Year over the prior year to $910 million. The increase was primarily the result of growth in average inforce premiums of 19% due to strong sales in Life and General insurance, partly offset by higher retail and wholesale life claims.

Operating Expenses

Financial Year 2010 compared to Financial Year 2009

Operating expenses in the 2010 Financial Year increased by 11% over the prior year to $8,601 million. This was driven by:

- The impact of a full year contribution by Bankwest in the year ended 30 June 2010 ($397 million higher expenses);
- Higher staff costs, reflecting the Group's strong performance in the 2010 Financial Year and an out of cycle 2% pay rise;
- Continued investment in technology and projects to support strategic priorities and drive Group wide productivity; and
- The unfavourable impact of investment markets on the Group's defined benefit superannuation fund resulting in a $103 million expense for the current year (2009: $14 million non-cash expense).

Gross investment spend remained strong at $1,036 million ($1,075 million in the 2009 Financial Year). The primary focus is again on Core Banking Modernisation, with additional investment on the upgrade of Risk Management systems.

__Financial Year 2009 compared to Financial Year 2008__

Operating expenses increased by 4% in the 2009 Financial Year over the prior year to $7,282 million. The increase was driven by:

- Continued investment in people and technology;
- Higher volume related expenses resulting from strong growth in inforce premiums, an increase in depreciation charges relating to operating leases and additional credit card loyalty program costs (offset in other banking income); and
- Higher occupancy expenses following market rent increases and one-off costs relating to the relocation of offices to Sydney Olympic Park and Darling Park.

Gross investment continued to be strong, up 5% in the 2009 Financial Year on the prior year to $1,075 million. This includes non-capital spending on Core Banking Modernisation, Finest Online and the branch refurbishment program, together with other key strategic initiatives.

Staff Numbers

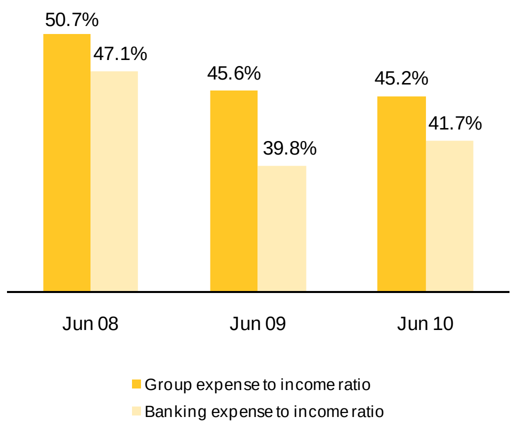
The table below details the Group's staff numbers as at 30 June 2010, 2009 and 2008.

	Full Year Ended		
Full-Time Equivalent Staff	2010	2009	2008
Australia	**36,987**	35,111	30,766
Total	**45,025**	44,218	39,621

The acquisition of Bankwest and St Andrew's resulted in an additional 4,818 and 242 FTE respectively on purchase in December 2008. Full-time equivalent staff have been weighted for employees on extended leave, for example, maternity leave, unpaid sick leave or career break.

Productivity

The expense to income ratio ("statutory basis") improved over the last three years from 50.7% in the Financial Year ended 30 June 2008 to 45.6% in the Financial Year ended 30 June 2009 to 45.2% in the Financial Year ended 30 June 2010, representing a large improvement in productivity. The improvements reflects the Group's strong income growth, combined with a continued focus on technological and operational efficiencies.



Taxation Expense

	Group		
	Full Year Ended		
	2010	2009	2008
Income Tax	$M	$M	$M
Retail Banking Services	**1,061**	889	816
Business and Private Banking	**363**	288	292
Institutional Banking and Markets	**344**	(151)	124
Wealth Management	**210**	205	290
New Zealand	**99**	135	161
Other	**105**	215	(53)
Bankwest	**26**	50	n/a
Investment Experience	**58**	(71)	(4)
Total income tax expense (cash basis)	**2,266**	1,560	1,626
Statutory adjustments	**117**	300	(78)
Total income tax expense	**2,383**	1,860	1,548

	2010	2009	2008
Effective Tax	%	%	%
Retail Banking Services	**30.1**	29. 7	30
Business and Private Banking	**28.9**	28.1	28.7
Institutional Banking and Markets	**22.5**	large	14.1
Wealth Management	**28.0**	30.1	28.5
New Zealand	**56.9**	23.8	23.4
Bankwest	**18.0**	35.4	n/a
Total – corporate	**29.6**	28.1	24.3

Financial Year 2010 compared to Financial Year 2009

The corporate tax expense for the year was $2,383 million including the impact of the tax in the New Zealand Structured Finance transaction of $171 million, representing an effective tax rate of 29.6%.

The effective tax rate is below the Australian company tax rate of 30% primarily as a result of:

- The benefit received from investment allowance tax credits associated with the structured asset finance leasing business; and
- The profit earned by the offshore banking unit and offshore jurisdictions that have lower corporate tax rates.

__Financial Year 2009 compared to Financial Year 2008__

The corporate tax expense for the 2009 Financial Year was $1,860 million, representing an effective tax rate of 28.1%. The effective tax rate is above the expected long term underlying effective tax rate due to:

- Investment allowance deductions;
- An increased domestic impairment expense that resulted in a higher proportion of profit coming from offshore jurisdictions which have lower corporate tax rates compared to Australia; and
- Tax benefits from structured finance transactions that were offset by an equivalent reduction in pre-tax operating income.

Impairment Expense

__Financial Year 2010 compared to Financial Year 2009__

Impairment expense for the 2010 Financial Year was $2,075 million, down significantly compared to $3,048 million in the prior year. The reduction was primarily driven by the non-recurrence of a small number of single name corporate exposures that impacted the prior year. Loan impairment expense in the corporate portfolio has also decreased following improved economic conditions and credit ratings.

Group Performance Analysis continued

Retail loan impairment expense, however, increased as a result of solid consumer finance volume growth and the Group continuing to support customers through difficult times. Tightening of credit policies and investment in the credit decisioning and collections capabilities saw some improvement in arrears rates over the prior half.

Bankwest loan impairment expense also increased as a result of deterioration of the pre-acquisition business lending portfolio.

Since the initial review of the Bankwest portfolio, further detailed work was undertaken into the Bankwest business banking portfolio during the 2010 Financial Year. This review identified additional pre-acquisition loans with poor asset quality, high loan to value ratios and insufficient covenant coverage. This resulted in significant risk grade reassessments and security revaluations with provisioning increasing $304 million. These loans are confined to the pre-acquisition business banking portfolio.

Given the one off nature of the impairment and the fact it relates to an understatement of provisioning in the pre-acquisition portfolio, this additional amount of loan impairment expense has been recorded as a non-cash item. This is consistent with the treatment of the gain on acquisition of Bankwest.

Gross impaired assets increased to $5,216 million at 30 June 2010, a 24% increase over the prior year, including the impact of the Bankwest business banking review.

Financial Year 2009 compared to Financial Year 2008

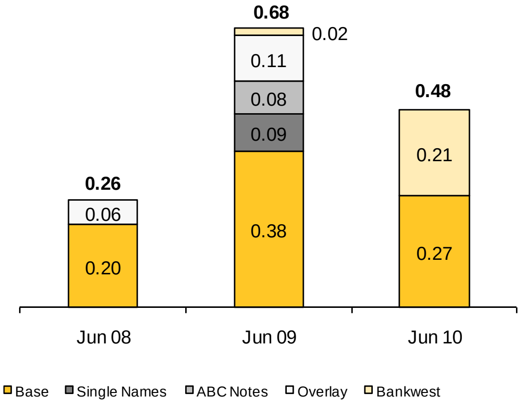
The total impairment expense for the year ended 30 June 2009 was $3,048 million. This expense reflects an additional $113 million of impairment expense in relation to Bankwest, a write off of listed notes issued by ABC Learning Limited (nine basis points), the Group's exposure to a small number of single name corporate customers (10 basis points), an increase in management overlay (12 basis points) and higher retail and corporate collective and individual provisioning (41 basis points).

Home loan arrears over 90 days and personal lending arrears had increased on the prior year with deterioration in the second half. Credit card arrears deteriorated over the 2009 Financial Year, although they stabilised in the second half. As a result of higher arrears levels, additional resources were deployed to collections. Credit policies for all retail products were tightened.

The corporate lending portfolio was significantly impacted in the 2009 Financial Year by a large increase in individual and collective provisioning due to a number of single name exposures. In addition, corporate collective provisioning increased in response to a number of downgrades and adverse migration in credit ratings across the portfolio as a result of the deteriorating domestic economy.

Gross impaired assets increased significantly over the prior year to $4,210 million as at 30 June 2009, compared with $683 million at 30 June 2008. Of the increase in the 2009 Financial Year, $1,366 million was attributable to the acquisition of Bankwest.

Impairment Expense ("statutory basis") as a % of Average Gross Loans and Acceptances



Provisions for Impairment

Financial Year 2010 compared to Financial Year 2009

The Group seeks to maintain a prudent and conservative approach to provisioning, with total provisions for impairment losses including Bankwest at 30 June 2010 of $5,453 million. This represents a $179 million increase since December 2009 and $499 million increase since June 2009. The current level reflects:

- Increased individual and collective provisioning to cover specific pre-acquisition exposures in the Bankwest loan book;
- Reduced credit exposure in the corporate portfolio;
- Growth and higher arrears rates over the 2010 Financial Year in the retail portfolios; and
- A management overlay of $1,192 million to cover the impact of economic conditions and other risks.
- No direct exposure to US sub-prime or non-recourse mortgages; and
- No material exposure to Collateralised Debt Obligations ("CDO's").

Financial Year 2009 compared to Financial Year 2008

The Group had total provisions for impairment losses including Bankwest at 30 June 2009 of $4,954 million. This represented a $3,209 million increase since June 2008. The level at 30 June 2009 reflected:

- The high quality nature of the home lending portfolio which represented 61% of lending assets excluding securitisation at 30 June 2009. Unlike housing markets in other economies (such as the United States, the United Kingdom and New Zealand), the Australian housing market remained relatively stable during the year ended 30 June 2009, with only a relatively small increase in delinquency rates and relatively small price declines in most sectors of the market;
- Significantly increased specific provisioning in the corporate portfolio resulting from the deterioration in market conditions and exposure to a number of single name corporate customers;
- Higher collective provisioning following an increase in retail arrears and adverse migration in corporate credit ratings;
- A management overlay of $1,320 million to cover the impact of economic conditions, and other risks;
- No direct exposure to US sub-prime or non-recourse mortgages; and
- No material exposure to CDO's.

Other non-cash items included in statutory profit for the Financial Year 2010

Non-cash items are excluded from net profit after tax ("cash basis"), which is Management's preferred measure of the Group's financial performance, as they tend to be non-recurring in nature or not considered representative of the Group's ongoing financial performance. The impact of these items on the Group's net profit after tax ("statutory basis") is outlined below.

Hedging and AIFRS volatility

Hedging and AIFRS volatility includes unrealised fair value gains or losses on economic hedges that do not qualify for hedge accounting under AIFRS, primarily including:

- cross currency interest rate swaps hedging foreign currency denominated debt issues; and
- foreign exchange hedges relating to future New Zealand earnings.

Hedging and AIFRS volatility also includes unrealised fair value gains or losses on the ineffective portion of economic hedges that qualify for hedge accounting under AIFRS.

Fair value gains or losses on all these economic hedges are excluded from cash profit since the asymmetric recognition of the gains or losses does not affect the Group's performance over the life of the hedge. A $17 million gain was recognised in the year ended 30 June 2010 (2009: $245 million loss).

Bankwest non-cash items

Gain on acquisition: A $612 million after tax gain on the acquisition of Bankwest was recognised in the year ended 30 June 2009. This acquisition gain was measured in accordance with AIFRS purchase price accounting requirements. The gain represents the excess of the fair value of net assets acquired over the consideration paid (net of issue costs).

Loan impairment: In the year ended 30 June 2010, a $212 million after tax loan impairment expense was recognised relating to pre-acquisition loans. Refer to the impairment expense commentary on page 22 for further details.

Merger related amortisation: The acquisition of Bankwest resulted in the recognition of fair value adjustments on certain financial instruments, core deposits and brand name intangible assets that will be amortised over their useful lives. A $25 million after tax gain was recognised in the year ended 30 June 2010 (2009: $80 million gain).

Integration expenses: As part of the acquisition of Bankwest, the Group expects to incur integration expenses over three years to 2012. A $29 million after tax expense was recognised in the year ended 30 June 2010 (2009: $78 million expense).

These items are not recognised in cash profit as they are not representative of the Group's expected ongoing financial performance.

Tax on NZ structured finance transactions

A $171 million tax expense on New Zealand structured finance transactions was recognised in the year ended 30 June 2010 representing a significant one-off impact of an adverse tax ruling by the New Zealand Commissioner of Inland Revenue involving ASB Bank that was settled in December 2009. The settlement represented 80% of the amount of tax and interest in dispute.

Loss on disposal of controlled entities/investments

The net loss on disposal of the Group's Fiji operations and Visa shares are not included in cash profit as the disposals are one-off in nature and outside the Group's ordinary operations. A $23 million after tax loss was recognised in the year ended 30 June 2010 (2009: $nil).

Treasury shares valuation adjustment

Under AIFRS, CBA shares held by the Group in the managed funds and life insurance businesses are defined as treasury shares and are held at cost. Unrealised gains or losses are recognised in cash profit representing the underlying performance of the asset portfolio attributable to the wealth and life insurance businesses. These unrealised gains or losses are reversed as a non-cash item for statutory reporting purposes. A $44 million after tax gain was included in cash profit in the year ended 30 June 2010 (2009: $28 million gain).

Policyholder tax

Policyholder tax is included in the Wealth Management business results for statutory reporting purposes. This includes recognising tax expense of $130 million, funds management income of $50 million and insurance income of $80 million for the year ended 30 June 2010. The gross up of these items are excluded from cash profit as they do not reflect the underlying performance of the business which is measured on a net of policyholder tax basis.

Integration Progress – Bankwest and St Andrew's

The integration of the Bankwest and St Andrew's businesses into the Group continues to progress smoothly, focused on operational alignment through a range of initiatives, including organisational restructuring, maximising Group property/procurement opportunities and driving operational efficiencies through process automation. One of the key initiatives was the provision of fee free reciprocal ATM access to Commonwealth Bank and Bankwest customers.

The St Andrew's insurance business was sold on 1 July 2010. The sale did not include St Andrew's investments, superannuation, retirement income and financial planning businesses which continue to be integrated into the Group's Wealth Management business. The integration of St Andrew's remaining businesses will enable existing customers to benefit from a wide range of investment platforms and product offerings.

The total integration expenditure estimate has been revised down from $313 million to $286 million following the sale of the St Andrew's insurance business. The expenditure will continue to be incurred over three years to 2012. Integration expenditure incurred through 30 June 2010 totals $152 million.

Integration Expenditure	30/06/10 $M	Total $M
Restructuring	-	16
Property	6	13
Operations	23	47
IT expenditure	9	69
Other	2	7
Total	**40**	**152**

Targeted annual cost synergies of $240 million (annualised run rate by 2012) are expected, down from the $250 million indicated in the 2009 Annual U.S. Disclosure Document due to the sale of the St Andrew's insurance business. Annualised run rate synergies already achieved since acquisition totalled approximately $178 million, including the benefits associated with restructuring and the cessation of the Bankwest east coast branch rollout. Further IT and property synergies are currently being pursued.

Review of Group Assets and Liabilities

Financial Year 2010 compared to Financial Year 2009

Asset growth of $26 billion during the 2010 Financial Year or 4% over the prior year end, was driven mainly by home lending growth of $31 billion or 11%, partly offset by lower business and corporate lending balances as a result of institutional clients deleveraging, while small business lending remained strong. Asset growth was funded by an increase in customer deposits which now represents 58% of total funding at 30 June 2010 (2009: 56%). Whilst total wholesale funding was relatively stable over the prior year, the Group has increased the share of long term wholesale funding and lengthened the tenor of the long term portfolio to 3.8 years at 30 June 2010 (2009: 3.6 years).

Financial Year 2009 compared to Financial Year 2008

Asset growth of $133 billion or 27% over the prior year end, was driven mainly by home lending growth of $76 billion or 35%. Asset growth was funded by a mix of higher customer deposits and higher wholesale funding.

Home loans excluding securitisation

Financial Year 2010 compared to Financial Year 2009

Home loans excluding securitisation experienced strong growth with balances increasing $34 billion to $314 billion as at 30 June 2010, a 12% increase on the prior year end. Domestic volume growth and market share gains benefited from competitive customer rates, improved customer retention and strong growth in the first home buyer market. Growth has moderated slightly in the second half of the year in line with lower market demand for credit following recent monetary policy tightening by the RBA.

Financial Year 2009 compared to Financial Year 2008

Home loans excluding securitisation experiences strong growth through the year with balances increasing $76 billion to $280 billion as at 30 June 2009, a 37% increase on the prior year end. A significant portion of this growth, $34 billion, resulted from the acquisition of Bankwest. In addition the Group benefited from ‘flight to quality’ and the First Home Owners Grant, which provided down payment assistance grants to first time home buyers, resulting in growth significantly above the system growth of 6%.

Personal loans

Financial Year 2010 compared to Financial Year 2009

Personal loans including credit cards, margin lending and other personal loans increased $1 billion to $21 billion as at 30 June 2010, a 7% increase on the prior year end. Growth was driven predominantly by an increase in credit card balances following the success of the Amex companion card release and targeted limit increase campaigns. Margin lending balances also increased, up 4% on the prior year to $5 billion partly due to the recovery in equity markets. Personal loan growth was relatively flat in the second half of the year including reduced margin lending balances in line with the recent volatility in equity markets.

Financial Year 2009 compared to Financial Year 2008

Personal loans including credit cards, margin lending and other personal loans decreased $1 billion to $19 billion as at 30 June 2009, a 5% decrease on the prior year end. Contraction in the balances was driven predominately by lower margin lending balances due to the impact of the global financial crisis on equity markets.

Business and corporate loans

Financial Year 2010 compared to Financial Year 2009

Business and corporate loans declined by $5 billion to $155 billion as at 30 June 2010, a 3% decrease on the prior year end. This was impacted mainly by institutional clients deleveraging as a result of the economic environment (particularly in the first half of the year). This was partially offset by strong growth and market share gains in Business and Private Banking, particularly in loans to small business customers.

Financial Year 2009 compared to Financial Year 2008

Business and corporate loans increased $33 billion to $160 billion as at 30 June 2009, a 26% increase on the prior year end. The increase is driven predominately by the acquisition of Bankwest.

Non-lending interest earning assets

Financial Year 2010 compared to Financial Year 2009

Non-lending interest earning assets increased $2 billion to $75 billion as at 30 June 2010 a 3% increase on the prior year end, mainly driven by an increase in available for sale assets.

Financial Year 2009 compared to Financial Year 2008

Non-lending interest earning assets increased $23 billion to $73 billion, a 47% increase on the prior year end, driven predominately by the acquisition of Bankwest.

Other assets

Financial Year 2010 compared to Financial Year 2009

Other assets including bank acceptances of customers, derivative assets, provisions for impairment, securitisation assets, insurance assets and intangibles, decreased $6 billion to $83 billion as at 30 June 2010, a 7% decrease on the prior year end. This was impacted by lower securitisation and bank acceptances balances driven by lower market demand for these products. Other assets increased by 9% over the prior half due to higher derivative asset balances as a result of volatility in foreign exchange and interest rate markets, with a corresponding impact in derivative liabilities.

Financial Year 2009 compared to Financial Year 2008

Other assets including bank acceptances of customers, derivative assets, provisions for impairment, securitisation assets, insurance assets and intangibles, increased $2 billion to $89 billion as at 30 June 2009, a 2% increase on the prior year end. This was impacted by higher derivative asset balances resulting from movements in foreign exchange partially offset by lower bank acceptances to customers and insurance assets.

Interest bearing deposits

Financial Year 2010 compared to Financial Year 2009

Interest bearing deposits increased by $6 billion to $366 billion as at 30 June 2010, a 2% increase on the prior year end. The increase occurred predominantly in the second half of the year, driven by targeted campaigns in a highly competitive market delivering solid growth in both investment and transaction products. This was partially offset by a $18 billion decrease in certificates of deposits (included in other demand deposits) following the Group's strategy to reduce the share of short term wholesale funding. Excluding certificates of deposit, total retail and business deposits increased 8% compared to the prior year end.

Financial Year 2009 compared to Financial Year 2008

Interest bearing deposits increased $104 billion to $360 billion as at 30 June 2009, a 41% increase on the prior year. A significant portion of this growth resulted from the acquisition of Bankwest in addition to increased certificates of deposits following increased funding requirements of the Bank.

Debt issues

Financial Year 2010 compared to Financial Year 2009

Debt issues outstanding increased $32 billion to $121 billion as at 30 June 2010, a 35% increase on the prior year end. The increase in term funding was driven by growth in lending assets and the Group's strategy to increase its long term wholesale funding and lengthen the tenor of the long term debt portfolio. Growth slowed in the second half in line with lower asset growth. Refer to "Liquidity and Capital Resources" in this Document for further information on debt programs and issuance for the year ended 30 June 2010.

Financial Year 2009 compared to Financial Year 2008

Debt issues have increased $16 billion to $90 billion as at 30 June 2009, a 22% increase on the prior year end. The increase in term funding was driven by growth in lending assets.

Other interest bearing liabilities

Financial Year 2010 compared to Financial Year 2009

Other interest bearing liabilities including loan capital, liabilities at fair value through the income statement and amounts due to other financial institutions, decreased $2 billion to $41 billion as at 30 June 2010, a 5% decrease on the prior year end due to lower amounts held on deposit from other financial institutions at year end.

Financial Year 2009 compared to Financial Year 2008

Other interest bearing liabilities including loan capital, liabilities at fair value through the income statement and amounts due to other financial institutions, decreased $1 billion to $44 billion as at 30 June 2009, a 2% decrease on the prior year end. The decrease was driven primarily through a decrease in the short sale of securities within the Markets fixed interest desk.

Non-interest bearing liabilities

Financial Year 2010 compared to Financial Year 2009

Non-interest bearing liabilities including derivative liabilities, insurance policy liabilities and bank acceptances, decreased $10 billion to $73 billion as at 30 June 2010, a 12% decrease on the prior year end. This was driven predominantly by foreign exchange volatility impacting derivative liabilities hedging term debt and lower levels of bank acceptances. Movements through the second half of the 2010 Financial Year were consistent with derivative asset movements.

Financial Year 2009 compared to Financial Year 2008

Non-interest bearing liabilities including derivative liabilities, insurance policy liabilities and bank acceptances, increased $8 billion to $83 billion as at 30 June 2009, a 11% increase on the prior year end. This was driven predominately by foreign exchange volatility impacting derivative liabilities, partially offset by lower bank acceptances.

Group Performance Analysis continued

Total Group Assets & Liabilities	As at 30/06/10 $M	30/06/09 $M	30/06/08 $M
Interest earning assets			
Home loans including securitisation	**323,573**	292,206	215,743
Less: securitisation	**(9,696)**	(12,568)	(11,676)
Home loans excluding securitisation	**313,877**	279,638	204,067
Personal	**20,572**	19,260	20,265
Business and corporate	**154,742**	160,089	126,987
Loans, bills discounted and other receivables (1)	**489,191**	458,987	351,319
Provisions for loan impairment	**(5,428)**	(4,924)	(1,713)
Net loans, bills discounted and other receivables	**483,763**	454,063	349,606
Non-lending interest earning assets	**74,610**	72,688	49,385
Total interest earning assets	**563,801**	531,675	400,704
Other assets	**82,529**	88,697	86,868
Total assets	**646,330**	620,372	487,572
Interest bearing liabilities			
Transaction deposits (2)	**71,999**	66,599	59,917
Saving deposits (2)	**78,704**	77,496	53,420
Investment deposits (2)	**159,219**	139,395	98,745
Other demand deposits (2)	**55,947**	76,615	44,014
Total interest bearing deposits	**365,869**	360,105	256,096
Deposits not bearing interest	**8,794**	8,616	7,610
Deposits and other public borrowings	**374,663**	368,721	263,706
Debt issues (3)	**121,438**	89,868	73,785
Other interest bearing liabilities	**41,461**	43,744	44,756
Total interest bearing liabilities	**528,768**	493,717	374,637
Securitisation debt issues (3)	**8,772**	11,951	12,032
Non-interest bearing liabilities	**73,220**	83,262	74,766
Total liabilities	**610,760**	588,930	461,435
Provisions for impairment losses			
Collective provision	**3,461**	3,225	1,466
Individually assessed provisions	**1,992**	1,729	279
Total provisions for impairment losses	**5,453**	4,954	1,745
Less off balance sheet provisions	**(25)**	(30)	(32)
Total provisions for loan impairment	**5,428**	4,924	1,713

(1) Gross of provisions for impairment which are included in Other assets.

(2) Comparative liability balances have been restated following alignment of Bankwest product classifications with the Group.

(3) Comparative information has been restated to conform with presentation in the current period.

Segment Disclosure

The Group conducts its businesses through six segments: Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, Wealth Management, New Zealand, and Bankwest. For an overview of each segment, see "Description of Business—Operating Divisions" in this Document.

The former International Financial Services business which incorporated the results of ASB Bank, Sovereign, Fiji and Asian businesses was restructured during the year ended 30 June 2010 as follows:

Segment disclosure at 31 December 2009

The restructure resulted in the formation of South Pacific and IFS Asia. South Pacific incorporated ASB Bank, Sovereign and Fiji businesses. IFS Asia incorporated the retail banking operations (Indonesia, Vietnam, India and Japan) investments in Chinese retail banks, and the joint venture life insurance business and life insurance operations in Indonesia. IFS Asia does not include Business and Private Banking, Institutional Banking and Markets and CFS Global Asset Management businesses in Asia.

Certain comparative information was restated to conform to the presentation in the current period.

Segment disclosure at 30 June 2010

Following the sale of the Fiji business on 15 December 2009, South Pacific was subsequently renamed New Zealand, with the results of Fiji being incorporated into the "Other" segment disclosure.

New Zealand results have been presented in NZD allowing for more meaningful discussion and analysis.

Premium Business Services Restructure

On 19 January 2009 the Group announced a restructure of its Premium Business Services division, separating it into the newly formed "Business and Private Banking" and "Institutional Banking and Markets" divisions. Separating these businesses enabled the Group to further improve its focus on servicing and supporting these diverse customer segments. The restructure was effective 1 July 2008 for financial reporting purposes. In the 2009 Financial Report the Group restated the 2008 Financial Year comparative segment information to reflect this change.

Changes to the presentation of segment information

The Group made a number of refinements to the presentation of segment results in its 2009 Financial Report, including the following improvements in the segment allocation methodology:

- Reclassification of previously unallocated Balance Sheet items, including income tax assets and liabilities, from the Corporate Centre to the appropriate revenue-generating business units, together with the associated transfer pricing adjustments;
- Improvements to the recharging of costs between revenue-generating business units to better reflect the results of cross-selling; and,
- Refinement to the overhead allocation methodology between group support functions and revenue-generating business units.

The reclassifications and refinements have been applied from 1 July 2008 for financial reporting purposes.

Retail Banking Services

Forward-Looking Statements

This Retail Banking Services analysis contains certain forward looking statements. See "Special Note regarding Forward-Looking Statements" on page 3.

Financial Performance and Business Review

Financial Year 2010 compared to Financial Year 2009

Retail Banking Services statutory net profit after tax for the year ended 30 June 2010 was $2,461 million, which represents an increase of 17% on the prior year. This result reflects strong volume growth and a continued focus on cost efficiency, partially offset by a decrease in net interest margin.

The key drivers of Retail Banking Services results for the 2010 Financial Year were:

- A 38% increase in home loan revenue to $2,405 million due to strong volume growth and improved margins as a result of a shift in portfolio mix as fixed rate loans written at historically low margins rolled off together with an increased proportion of loans written through proprietary channels;
- A 8% increase in consumer finance revenue to $1,560 million due to continued focus on quality account acquisition and pricing to reflect the current risk environment;
- Excluding loyalty, operating expenses increased 5% on prior year due to continued investment; and
- A 5% increase in impairment expense due to consumer growth and higher arrears levels in the current economic environment.

Financial Year 2009 compared to Financial Year 2008

Statutory net profit after tax for the year ended 30 June 2009 was $2,107 million, increasing 12% from $1,882 million for the year ended 30 June 2008. The result was driven by volume growth in key product lines and disciplined cost management, offset by a higher impairment expense.

The key drivers of Retail Banking Services results for the 2009 Financial Year were:

- A 32% increase in home loan revenue to $1,742 million due to strong balance growth, improvement in fee collection rates and margin recovery although still impacted by higher funding costs;
- A 28% growth in consumer finance revenue to $1,441 million (excluding higher income related to loyalty redemptions following changes to the Qantas Frequent Flyer program) driven by steady balance growth and improved margins to offset increasing arrears;
- Excluding loyalty, operating expenses increased 2% on prior year due to efficiency gains partly offsetting increased staff costs; and
- A 111% increase in impairment expense due to increased volumes and higher arrears as a result of the deteriorating economic conditions.

Home Loans

Financial Year 2010 compared to Financial Year 2009

Home Loans income increased 38% on the prior year to $2,405 million, benefiting from strong average volume growth of 18% and improved margins. Margins benefited from a shift in portfolio mix as fixed rate loans written at historically low margins rolled off together with an increased proportion of loans written through proprietary channels. This benefit was partially offset by a significant increase in funding costs. Volume growth was driven by competitive customer rates and strong growth in the first home buyer market.

Financial Year 2009 compared to Financial Year 2008

Home loan income increased 32% to $1,742 million for the year ended 30 June 2009. Balance growth of 21%, compared to system growth of 7%, was achieved through "flight-to-quality", increased lending capability in the branch network and significant presence in the broker market, while credit standards were tightened. Margins benefited from repricing but continued to be impacted by higher funding costs. Other banking income was up 18% on the prior year, underpinned by increased volumes and package fee collection rates.

Consumer Finance

Financial Year 2010 compared to Financial Year 2009

Consumer Finance income increased 8% on the prior year to $1,560 million, with continued focus on quality account acquisition and pricing to reflect the current risk environment.

The success of the Amex companion card and targeted limit increase campaigns drove 11% growth in Credit Card balances. Personal Loan balances increased 2% on the prior year.

Other banking income decreased by 14% on the prior year, primarily due to lower Credit Card loyalty income following changes to the Qantas Frequent Flyer program in 2009 , which caused a high level of loyalty point redemptions that significantly increased in the 2009 Financial Year. Excluding loyalty income, other banking income increased by 12% on the prior year largely due to volume growth.

Financial Year 2009 compared to Financial Year 2008

Consumer Finance income increased 28% to $1,441 million for the year ended 30 June 2009. This includes the impact of higher income (offset in expenses) due to changes to the Qantas Frequent Flyer program, which caused a high level of loyalty point redemptions significantly increased income and expense from the loyalty program in the 2009 Financial Year. Excluding the impact of higher loyalty income, growth was 22% on the prior year. The focus on profitable growth resulted in balance growth as well as improved margins which offset increased funding costs and risk during the 2009 Financial Year. Other banking income increased 21% on the prior year excluding loyalty income, mainly as a result of increased collection rates and an uplift in interbank interchange fee income.

Retail Deposits

Financial Year 2010 compared to Financial Year 2009

Deposit income decreased by 9% on the prior year to $2,797 million. This result was significantly impacted following the introduction of ATM direct charging in March 2009, the reduction in exception fees, such as dishonour and overdraft fees ($137 million), from October 2009 and continued margin compression in a very competitive market particularly in the second half of the 2010 Finance Year. Volume growth remained robust with a 10% increase in balances on the prior year end.

At the end of the 2010 Financial Year the Group maintained its number one market share position in deposits and continued to maintain a significant gap to the nearest competitor.

Financial Year 2009 compared to Financial Year 2008

Deposit income of $3,069 million for the year ended 30 June 2009 was in line with the previous year. Balances grew 16%, reflecting both a "flight-to-quality" and a shift by depositors to more conservative style investment products. This was marginally below market growth due to strong price competition. However, the Group maintained its number one market share position at the 2009 year end. Transaction account balances at the 2009 year end grew 11%, with personal account openings across all channels up 30% on the prior year end, supported by new product offerings such as the Debit MasterCard. Margins were negatively impacted by declining cash rates (net of replicating portfolio benefit)(1) and intense competition. Other banking income was in line with the year ended 30 June 2009 with volumes and improved collection rates being offset by a reduction in ATM fees following the introduction of direct charging for ATM transactions.

Distribution

Financial Year 2010 compared to Financial Year 2009

Income associated with the sale of foreign exchange products, and commissions received from the distribution of business banking and wealth management products through the retail distribution network increased by 29% on the prior year. Growth was driven by improved cross-sell performance and new product offerings such as Travel Money Card, particularly in the second half.

Financial Year 2009 compared to Financial Year 2008

Commissions received – primarily from the distribution of business banking, wealth management, and foreign exchange products through the retail distribution network – increased 29% over the year ended 30 June 2009. This was mainly due to increased focus on foreign exchange volumes and general insurance cross sell initiatives. Cross-sell has improved due to further improved skills in the branch network and increased numbers of needs analysis conversations conducted with customers.

Operating Expenses

Financial Year 2010 compared to Financial Year 2009

Expenses remained flat on the prior year at $2,794 million. Excluding the impact of credit card related loyalty expenses, expenses increased by 5%. This primarily reflects continuing investment in technology, marketing, risk management and collections.

Efficiency gains enabled a reduction in the expense to income ratio to 39.6%, down from 42.9% in 2009.

Financial Year 2009 compared to Financial Year 2008

Operating expenses increased 6% for the year ended 30 June 2009, mainly due to higher credit card loyalty program costs. Excluding loyalty, operating expense growth was 2% with productivity improvements partly offsetting occupancy cost increases and higher staff costs as a result of higher home loan volumes and continued focus on collections and origination criteria to manage asset quality. The expense to income ratio for the year ended 30 June 2009 decreased from 46.9% in the 2008 Financial Year to 42.9% in the 2009 Financial Year.

Impairment Expense

Financial Year 2010 compared to Financial Year 2009

Impairment expense increased 5% on the prior year to $736 million, primarily due to consumer finance volume growth, and increased arrears levels in the current economic environment. Personal loan impairments increased 37% to $375 million while home loan impairments fell 43% from $216 million at 30 June 2009 to $123 million at 30 June 2010.

Financial Year 2009 compared to Financial Year 2008

Impairment expense, increased significantly in the 2009 Financial Year to $699 million from $331 million in the 2008 Financial Year, largely due to increased volumes, higher arrears due to deteriorating economic conditions and provision for customer remediation in relation to lending to the clients of the Storm Financial financial planning company. Home and personal lending arrears over 90 days at 30 June 2009 increased on the prior year end, with increased deterioration in the second half. Credit card arrears increased significantly in the first half of the 2009 Financial Year, but stabilised in the second half. Additional resources were allocated to collections, resulting in fewer arrears flowing into losses.

Corporate Tax Expense

Tax expense for the year ended 30 June 2010 increased 19% to $1,061 million driven by increased net profit before tax. The 2010, 2009 and 2008 effective tax rate is largely in-line with the corporate tax rate.

(1) For further details on replicating portfolio refer to page 18.

Retail Banking Services continued

	Full Year Ended 30 June 2010				
	Home Loans	Consumer Finance (1)	Retail Deposits	Distribution	Total
	$M	$M	$M	$M	$M
Net interest income	2,213	1,143	2,340	-	5,696
Other banking income	192	417	457	290	1,356
Total banking income	2,405	1,560	2,797	290	7,052
Operating expenses					(2,794)
Impairment expense					(736)
Net profit before tax					3,522
Corporate tax expense					(1,061)
Cash net profit after tax					2,461
					-
Statutory net profit after tax					2,461

	Full Year Ended 30 June 2009				
	Home Loans	Consumer Finance (1)	Retail Deposits	Distribution	Total
	$M	$M	$M	$M	$M
Net interest income	1,575	958	2,392	-	4,925
Other banking income	167	483	677	224	1,551
Total banking income	1,742	1,441	3,069	224	6,476
Operating expenses					(2,781)
Impairment expense					(699)
Net profit before tax					2,996
Corporate tax expense					(889)
Cash net profit after tax					2,107
					-
Statutory net profit after tax					2,107

	Full Year Ended 30 June 2008				
	Home Loans	Consumer Finance (1)	Retail Deposits	Distribution	Total
	$M	$M	$M	$M	$M
Net interest income	1,178	779	2,381	-	4,338
Other banking income	141	346	679	173	1,339
Total banking income	1,319	1,125	3,060	173	5,677
Operating expenses					(2,619)
Impairment expense					(331)
Net profit before tax					2,727
Corporate tax expense					(816)
Cash net profit after tax					1,911
Investment and restructuring					(29)
Statutory net profit after tax					1,882

	As at		
	30/06/10	30/06/09	30/06/08
Major Balance Sheet Items	$M	$M	$M
Home loans (including securitisation)	**250,428**	226,457	186,942
Consumer finance (1)	**12,961**	12,064	11,428
Total assets - Retail Banking Services products	**263,389**	238,521	198,370
Home loans (net of securitisation)	**243,695**	217,855	175,266
Transaction deposits	**19,050**	20,335	18,267
Savings deposits	**59,206**	55,334	44,261
Investments and other deposits	**71,719**	60,817	55,388
Deposits not bearing interest	**2,840**	2,858	2,305
Total liabilities - Retail Banking Services products	**152,815**	139,344	120,221

(1) Consumer Finance includes personal loans and credit cards.

Forward-Looking Statements

This Business and Private Banking analysis contains certain forward looking statements. See "Special Note regarding Forward-Looking Statements" on page 3.

Financial Performance and Business Review

Business and Private Banking services the financial needs of a range of business customers, from small business to medium sized corporate and agribusiness sectors, through a range of product offerings including business loans, deposits, global markets products and asset finance facilities. In addition, private banking services are provided to high net worth individuals. The Equities and Margin Lending business offers a range of investment and cash products, including online broking services to retail and wholesale customers.

Financial Year 2010 compared to Financial Year 2009

Business and Private Banking delivered a strong performance, achieving 21% growth in statutory net profit after tax to $893 million for the year ended 30 June 2010.

This result reflected growth across all businesses with operating performance growth of 19% and total banking income growth of 11%. The revenue performance was driven by strong growth in business lending balances, stable margins and improved equities trading volumes within CommSec.

Financial Year 2009 compared to Financial Year 2008

Business and Private Banking achieved a statutory net profit after tax of $736 million in the 2009 Financial Year, which represents a 6% increase on the prior year. This result was impacted by a significant increase in impairment expense during the year to $309 million in the 2009 Financial Year from $167 million in the 2008 Financial Year.

The operating performance of the business was strong with total banking income increasing 9% on the prior year, driven by strong business lending and deposit volumes particularly in the first half of the year, and effective margin management.

Other performance highlights during the year included:

- The launch of the Group's Small Business Investment Package, announced in March 2009, including the Business Banking Support Line, a dedicated financial support service to help small business and agribusiness customers during the challenging economic conditions;
- The introduction of eVolve, a new product which provides small business customers with e-commerce functionality including virtual shop-front and online payment facilities;
- The introduction of SuperGear, a solution for self managed Super Funds wishing to invest in property; Continued development of our industry-leading transaction banking capability through CommBiz saw the integration of trade finance, FX and money market trading products as well as Global Cash Management functionality onto the platform. The CommBiz client base grew 20% in the year and transaction numbers grew by 39%; and
- Achievement of record asset finance volumes with new business market share increasing 7% on the prior year to 21%.

Corporate Financial Services

Financial Year 2010 compared to Financial Year 2009

Corporate Financial Services income in the 2010 Financial Year increased 11% on the prior year to $1,034 million. This was driven by business lending growth of 10%, while margins also improved. The benefit from increasing deposit balances was offset by lower deposit margins primarily due to the impact of competitive pricing.

Financial Year 2009 compared to Financial Year 2008

Corporate Financial Services income in the 2009 Financial Year increased 9% on the prior year to $930 million. There was significant investment in people, systems & processes to deliver better customer service, including the opening of a further three new Business Banking Centres during the 2009 Financial Year. The continued focus on assisting customers during more challenging times, through proactive contact and delivering solutions tailored to customer needs has led to improved customer satisfaction scores over the year. There has also been a strong focus on industry specialisation and advisory services to niche industries, including accounting, legal, franchising and healthcare.

Regional and Agribusiness Banking

Financial Year 2010 compared to Financial Year 2009

Regional and Agribusiness Banking income in the 2010 Financial Year increased 11% on the prior year to $374 million. This reflected a 9% increase in lending balances and improved margins. Growth in asset finance volumes also contributed to this result, partly offset by the impact of competitive pricing on deposit margins, particularly in the second half of the year.

Business and Private Banking

Financial Year 2009 compared to Financial Year 2008

Regional and Agribusiness Banking income for the 2009 Financial Year was increased by 21% on the prior year to $338 million. This result was assisted by increased volumes from interest rate hedging and commodity linked products. Also in the 2009 Financial Year, Regional and Agribusiness expanded to include some regionally based Local Business Banking and Corporate Financial Services teams to better align all business banking staff under one team in regional areas and provide a greater focus on customer service.

Local Business Banking

Financial Year 2010 compared to Financial Year 2009

Local Business Banking income in the 2010 Financial Year increased 10% on the prior year to $685 million. This was driven by growth in lending balances of 14%, with deposit income flat reflecting higher balances offset by the impact of competitive pricing on margins.

Financial Year 2009 compared to Financial Year 2008

Local Business Banking income in the 2009 Financial Year increased by 16% on the prior year to $621 million. The business continued embedding its distinctive support model, including a personalised, 24 hour 7 days a week support centre, and continued roll-out of Business Bankers in branches.

Private Bank

Financial Year 2010 compared to Financial Year 2009

Private Bank income in the 2010 Financial Year increased 10% on the prior year to $238 million. This was driven by growth in the lending book together with increased cross sell of financial advisory services. Deposit income remained flat year on year reflecting competitive term deposit pricing, particularly in the second half of the year.

Financial Year 2009 compared to Financial Year 2008

Private Bank income in the 2009 Financial Year increased by 19% on the prior year to $216 million. This result was driven by strong deposit and home lending growth, slightly offset by declining revenue from the advisory business due to the weakened market conditions. During the 2009 Financial Year two new offices were opened to service the needs of high net worth customers.

Equities and Margin Lending

Financial Year 2010 compared to Financial Year 2009

Equities and Margin Lending income in the 2010 Financial Year increased 14% on the prior year to $471 million. This was due to growth in both retail and wholesale brokerage, with CommSec daily trades increasing 20% on the prior year. Due to market volatility experienced in the first three months of the 2010 Financial Year, CommSec daily trading volumes were 11% higher in the first half resulting in lower second half income.

Margin lending balances in the 2010 Financial Year increased 4% on the prior year partly due to the recovery in equity markets. CommSec cash management income increased 20% driven by continued balance growth.

Financial Year 2009 compared to Financial Year 2008

Equities and Margin Lending income in the 2009 Financial Year decreased by 1% on the prior year to $412 million, impacted by the equity market downturn and a 42% decline in margin lending balances. This was partly offset by continued balance growth in the new integrated CommSec cash management products.

Integration of the IWL business, rebranded Core Equity Services, is progressing well, with the launch of the first phase of its new equities trading platform.

Operating Expenses

Financial Year 2010 compared to Financial Year 2009

Operating expenses of $1,310 million in the 2010 Financial Year represented an increase of 3% on the prior year. This result was driven predominately by increased IT costs relating to system improvements.

Financial Year 2009 compared to Financial Year 2008

Operating expenses of $1,272 million in the 2009 Financial Year increased by 6% on the prior year. This result was driven by increased IT costs relating to system improvements together with the full year impact of IWL Limited.

Impairment Expense

Financial Year 2010 compared to Financial Year 2009

Impairment expense of $326 million in the 2010 Financial Year increased 6% on the prior year, and decreased 32% in the second half of the 2010 Financial Year on the prior half. The improving trend in the second half reflects the strengthening credit quality of the business lending portfolio and the ongoing initiatives introduced to further enhance the culture of proactive risk management among frontline staff.

Financial Year 2009 compared to Financial Year 2008

Impairment expense in the 2009 Financial Year increased $142 million on the prior year, primarily due to the impact of the deterioration in the domestic environment on small to medium sized businesses. The growth in impairment expense includes higher individual provision charges together with some adverse migration in credit ratings across the portfolio contributing to an increase in collective provisions. In addition, provision was made for losses arising from margin lending to clients of the Storm Financial financial planning company.

Corporate Tax Rate

Tax expense for the year ended 30 June 2010 increased 26% to $363 million driven by increased net profit before tax. The 2010, 2009 and 2008 effective tax rate is largely in-line with the corporate tax rate.

	Full Year Ended 30 June 2010						
	Corporate Financial Services $M	Regional & Agri-business $M	Local Business Banking $M	Private Bank $M	Equities & Margin Lending $M	Other $M	Total $M
Net interest income	548	236	457	123	216	63	1,643
Other banking income	486	138	228	115	255	27	1,249
Total banking income	1,034	374	685	238	471	90	2,892
Operating expenses							(1,310)
Impairment expense							(326)
Net profit before tax							1,256
Corporate tax expense							(363)
Cash net profit after tax							893
							-
Statutory net profit after tax							893

	Full Year Ended 30 June 2009 (1)						
	Corporate Financial Services $M	Regional & Agri-business $M	Local Business Banking $M	Private Bank $M	Equities & Margin Lending $M	Other $M	Total $M
Net interest income	545	220	383	107	194	76	1,525
Other banking income	385	118	238	109	218	12	1,080
Total banking income	930	338	621	216	412	88	2,605
Operating expenses							(1,272)
Impairment expense							(309)
Net profit before tax							1,024
Corporate tax expense							(288)
Cash net profit after tax							736
							-
Statutory net profit after tax							736

	Full Year Ended 30 June 2008						
	Corporate Financial Services $M	Regional & Agri-business $M	Local Business Banking $M	Private Bank $M	Equities & Margin Lending $M	Other $M	Total $M
Net interest income	481	174	285	89	158	64	1,251
Other banking income	375	105	249	93	259	53	1,134
Total banking income	856	279	534	182	417	117	2,385
Operating expenses							(1,205)
Impairment expense							(167)
Net profit before tax							1,013
Corporate tax expense							(292)
Cash net profit after tax							721
Investment and restructuring							(27)
Statutory net profit after tax							694

Business and Private Banking continued

Major Balance Sheet Items	As at 30/06/10 $M	30/06/09 $M	30/06/08 $M
Interest earning lending assets (excluding margin loans)	**63,132**	55,042	50,115
Bank acceptances of customers	**10,155**	12,099	13,513
Non-lending interest earning assets	**295**	1,311	115
Margin loans	**4,771**	4,569	7,815
Other assets (2)	**448**	1,794	2,047
Total assets	**78,801**	74,815	73,605
Transaction deposits	**45,026**	39,379	39,763
Savings deposits	**4,744**	4,982	3,088
Investment deposits	**37,147**	30,243	26,215
Certificates of deposits and other	**162**	172	84
Due to other financial institutions	**895**	2,101	935
Other non-interest bearing liabilities (2)	**15,324**	17,922	19,592
Total liabilities (3)	**103,298**	94,799	89,677

(1) 2009 prior year comparatives have been restated for the impact of client resegmentations.

(2) Other assets include intangible assets and Other non-interest bearing liabilities include bank acceptances.

(3) Includes deposits relating to both Institutional Banking and Markets as well as Business and Private Banking customers.

Forward-Looking Statements

This Institutional Banking and Markets analysis contains certain forward looking statements. See "Special Note regarding Forward-Looking Statements" on page 3.

Financial Performance and Business Review

Institutional Banking and Markets services the Group's major corporate, institutional and government clients using a relationship management model based on industry expertise and local insights. The Group's Total Capital Solutions offering includes debt and equity capital raising, financial and commodity price risk management and transaction banking capabilities. Institutional Banking and Markets has international operations in London, Malta, New York, New Zealand, Singapore, Hong Kong, Japan and Shanghai.

Financial Year 2010 compared to Financial Year 2009

Institutional Banking and Markets achieved a statutory net profit after tax of $1,182 million for the year ended 30 June 2010, which represented a significant increase on the prior year results of $143 million. The result was driven by moderate growth in operating income and a substantial decline in impairment expense, partly offset by higher staff expenses.

Operating income increased by 7% on the prior year to $2,567 million, reflecting:

- A solid 16% increase in Institutional Banking operating income as a result of good activity levels and disciplined pricing strategies, along with enhanced focus and performance in Transaction Banking including Payments and Deposits. Margins improved across the lending portfolio, of which 63% had been repriced since 1 July 2008. Operating income was impacted by a decline in Institutional lending balances of 17% from 2009 Financial Year end to 2010 Financial Year end as a result of the deleveraging of corporations during the 2010 year. The rate of decline in lending balances moderated through the 2010 year and stabilised by year end; and
- Markets operating income declined by 10% following the exceptional growth of the prior year and also reflecting the strategic decision to withdraw from certain Structured Finance activities.

The business continues to invest for the future, building its capacity in the Institutional Equities and Debt Capital Markets business, foreign exchange platform renewal and driving enhancements through improved information technology capabilities to enrich customer experience. Customer service continues to be a key focus of Institutional Banking and Markets.

Financial Year 2009 compared to Financial Year 2008

Institutional Banking and Markets achieved statutory net profit after tax of $143 million for the year ended 30 June 2009, which represented a decrease of 81% on the prior year primarily as a result of a significant increase in impairment expense during the year.

On the prior year operating income for 2009 was up 37% on the prior year to $2,402 million. This was a positive result in a challenging market and a reflection of:

- The ability to focus on meeting customer's capital management requirements by offering a full range of capital solutions during uncertain times;
- Improved net interest margins across the loan portfolio reflecting market and risk conditions; and
- Targeted lending interest earning asset growth, achieved while maintaining credit disciplines to ensure high asset quality levels are preserved.

Institutional Banking and Markets continued to focus on productivity with the expense to income ratio improving from 34.1% for the prior year to 28.3% for the year ended 30 June 2009.

Asset balances declined in the second half of 2009 due to companies raising equity and deleveraging in response to the current market environment, together with the impact of the strengthening Australian dollar.

A number of key initiatives were implemented or approved during the year to further strengthen the Institutional Banking and Markets vision of being the leading provider of Total Capital Solutions. These included expansion of:

- Global distribution capabilities to position the Group as the leader in fixed income markets;
- Foreign Exchange capacity through investment in the product platform; and
- Institutional Equities division to meet the demand from major corporate clients seeking to raise equity capital, and to meet the needs of institutional investors.

Institutional Banking

Financial Year 2010 compared to Financial Year 2009

Net interest income increased 6% on the prior year to $1,127 million driven by higher margins whilst maintaining strong asset quality as well as focusing on innovative solutions to meet customer needs. In line with the broader market, lending balances continued to decline as customers deleverage. This resulted in a 17% reduction in Institutional Lending balances at year end compared to the prior year end.

Other banking income increased by 34% on the prior year to $718 million driven by higher fee income and sale of equity investments, partly offset by the costs associated with hedging exposures.

Financial Year 2009 compared to Financial Year 2008

Operating income increased 33% on the prior year to $1,597 million, driven primarily by effective margin management and focusing on meeting customers' overall financial services requirements, which has contributed to lending balance growth of 4% whilst maintaining high asset quality.

Markets

Financial Year 2010 compared to Financial Year 2009

Net interest income decreased by 47% on the prior year to $207 million, primarily due to margin compression in offshore branches as market liquidity gradually improved. This trend continued into the second half of the year with net interest income decreasing by 18% on the prior half.

Other banking income increased by 24% on the prior year to $515 million, as the unfavourable impact of traded market instruments and the counterparty fair value mark to market valuations taken in the prior year was not repeated. In addition, the Institutional Equities and Debt Capital Markets division continued to contribute positively to the result with stronger client flows.

Financial Year 2009 compared to Financial Year 2008

Markets income increased by 46% on the prior year to $805 million, primarily driven by strong growth in customer demand for hedging and trading activities in foreign exchange, interest rate and commodity markets.

This result was achieved by actively managing the portfolio whilst continuing to adopt a disciplined approach to risk management.

Operating Expenses

Financial Year 2010 compared to Financial Year 2009

Operating expenses increased 17% on the prior year to $792 million. The increase is predominantly due to higher staff expenses, additional operating lease depreciation expense and the continued investment in information technology.

The expense to income ratio was 30.9%, up from 28.3% in 2009.

Financial Year 2009 compared to Financial Year 2008

Operating expenses of $679 million increased 14% on the prior year. The increase was driven by depreciation charges relating to operating leases, higher staff costs, adverse foreign exchange effect on offshore activities and investment in infrastructure to support business growth.

The increase in operating expenses was largely driven by increased business activity, the impact of which was partially offset by initiatives to control costs, the result of which was a significant improvement in productivity, evidenced by the improvement in the expense to income ratio falling from 33.3% in the 2008 Financial Year to 29.6% in the 2009 Financial Year (on a statutory basis).

Impairment Expense

Financial Year 2010 compared to Financial Year 2009

Impairment expense decreased significantly on the prior year from $1,708 million to $249 million. This outcome benefitted from the improved operating environment reflected in improving customer credit ratings and the non-recurrence of a small number of large single name exposures which impacted the prior year. The decline in lending balances also led to lower levels of collective provisions.

Financial Year 2009 compared to Financial Year 2008

Impairment expense increased $1,449 million to $1,708 million in the 2009 Financial Year. Impairment expense during the year was impacted by the write off of listed notes issued by ABC Learning Ltd and higher individual and collective provisions taken to cover a small number of single name exposures. In addition, the collective provision was increased in response to a number of downgrades across the portfolio as a result of the deteriorating global economy.

Corporate Tax Expense

Financial Year 2010 compared to Financial Year 2009

The corporate tax expense for the year ended 30 June 2010 increased significantly against prior year to $344 million driven primarily by the increase in net profit before tax. The effective tax rate of 22.5% benefitted from investment allowance tax credits associated with the structured asset finance leasing business, in addition to profit generated in offshore jurisdictions that have lower corporate tax rates.

Financial Year 2009 compared to Financial Year 2008

The Corporate tax benefit for the year ended 30 June 2009 was $151 million. This was largely due to the increased domestic impairment expense which resulted in a higher proportion of profit coming from offshore jurisdictions that have lower corporate tax rates. In addition, the tax expense for the year benefitted from structured finance transactions, which are offset by an equivalent reduction in pre-tax operating income.

Institutional Banking and Markets continued

	Full Year Ended 30 June 2010		
	Institutional Banking $M	Markets $M	Total $M
Net interest income	1,127	207	1,334
Other banking income	718	515	1,233
Total banking income	1,845	722	2,567
Operating expenses			(792)
Impairment expense			(249)
Net profit before tax			1,526
Corporate tax benefit/(expense)			(344)
Cash net profit after tax			1,182
			-
Statutory net profit after tax			1,182

	Full Year Ended 30 June 2009		
	Institutional Banking [1] $M	Markets [1] $M	Total $M
Net interest income	1,062	391	1,453
Other banking income	535	414	949
Total banking income	1,597	805	2,402
Operating expenses			(679)
Impairment expense			(1,708)
Net profit before tax			15
Corporate tax benefit/(expense)			151
Cash net profit after tax			166
One-off expenses			(23)
Statutory net profit after tax			143

	Full Year Ended 30 June 2008		
	Institutional Banking [1] $M	Markets [1] $M	Total $M
Net interest income	867	130	997
Other banking income	335	420	755
Total banking income	1,202	550	1,752
Operating expenses			(598)
Impairment expense			(259)
Net profit before tax			895
Corporate tax benefit/(expense)			(124)
Cash net profit after tax			771
Investment and restructuring			10
Statutory net profit after tax			781

Institutional Banking and Markets continued

Major Balance Sheet Items	As at 30/06/10 $M	30/06/09 $M	30/06/08 $M
Interest earning lending assets	**54,892**	67,213	63,612
Bank acceptances of customers	**1,414**	2,629	4,765
Non-lending interest earning assets	**29,434**	30,858	18,695
Other assets (2)	**8,755**	12,500	10,582
Total assets	**94,495**	113,200	97,654
Certificate and other deposits	**12,834**	12,725	6,567
Investment deposits	**5,082**	9,008	3,513
Due to other financial institutions	**10,055**	11,627	15,724
Liabilities at fair value through the Income Statement	**3,974**	2,598	1,914
Debt issues (3)	**2,506**	3,413	25,438
Loan Capital	**627**	644	581
Other non-interest bearing liabilities (2)	**23,820**	33,863	22,824
Total liabilities	**58,898**	73,878	76,561

(1) Prior year comparatives have been restated for the impact of business resegmentation.

(2) Other assets include intangible assets and derivative assets, and Other non-interest bearing liabilities include derivative liabilities.

(3) 30 June 2009 comparative balances have been restated following the transfer of balances to Group Treasury.

Forward-Looking Statements

This Wealth Management analysis contains certain forward looking statements. See "Special Note regarding Forward-Looking Statements" on page 3.

Financial Performance and Business Review

Overview

The Wealth Management business comprises wholesale and retail investment, superannuation and retirement funds. Wealth Management operates its business through its Colonial First State, CFS Global Asset Management and CommInsure divisions. Investments are across all major asset classes including Australian and international shares, property, fixed interest and cash. Wealth Management also has Funds Management businesses in the United Kingdom and Asia.

FUA and FUM represent assets managed on behalf of third parties and therefore are not on the Group's balance sheet. For the definition of Funds under Administration and Funds under Management, see "Financial Information Definitions" in this Document.

Financial Year 2010 compared to Financial Year 2009

Underlying profit after tax in the 2010 Financial Year increased 15% on the prior year to $592 million. The result was driven by solid growth in underlying volumes and improved investment markets.

FUA increased 6% on the prior year to $180 billion as at 30 June 2010 largely as a result of improved investment market conditions. The impact of improved market conditions was partially offset by FUA outflows of $3 billion for the year primarily due to the outflow of short-term cash mandates from institutional investors.

Statutory net profit after tax for the Wealth Management business in the 2010 Financial Year was up significantly on the prior year to $674 million. This outcome was driven by improved investment experience due to improved investment markets, unwinding of unrealised mark to market losses in the Guaranteed Annuities portfolio and the non-recurrence of impairments encountered in the prior year.

Financial Year 2009 compared to Financial Year 2008

Statutory net profit after tax for the Wealth Management business for the 2009 Financial Year decreased by 68% on the prior year to $258 million. The result was attributable to declines in investment markets impacting the underlying result and significantly lower investment experience after tax, primarily due to unrealised mark to market losses from widening credit spreads on the valuation of assets backing the Guaranteed Annuities portfolio, and the impairment of listed and unlisted investments.

The Insurance business achieved strong volume growth over the year with total inforce premiums up 25% to $1.6 billion at 30 June 2009.

The Funds Management businesses were impacted by sustained pressure on investment markets and, while down on the prior year, market conditions showed improvements in the last quarter. FUA as at 30 June 2009 decreased 9% on the prior year to $169 billion.

CFS Global Asset Management (CFS GAM)

Financial Year 2010 compared to Financial Year 2009

CFS Global Asset Management provides asset management services to wholesale and institutional investors. Statutory net profit after tax in the 2010 Financial Year of $266 million was up significantly on the prior year, reflecting strong investment performance and higher base fee contribution partially offset by a strengthening Australian dollar, lower performance fees and dividends received from infrastructure assets.

FUM in CFS GAM as at 30 June 2010 was $144 billion, up 4% on the prior year. The impact of improved conditions in equity markets was partially offset by outflows in short term cash mandates.

Investment performance remained solid with 75%, 67% and 76% of funds outperforming benchmark over one, three and five year periods respectively, reflecting the success of CFS GAM's research-based investment philosophy.

Highlights include:

- The continuing success of the First State European Diversified Infrastructure Fund (EDIF), which raised €365 million from investors; and
- Launch of the first Global Agribusiness Funds to be managed by CFS GAM's Global Resources team.

Financial Year 2009 compared to Financial Year 2008

2009 statutory net profit after tax of $93 million was down 77% on the prior year, impacted by the overall decline in investment markets and one off gains from the sell down of seed assets in the prior year. 2009 results have been adversely impacted by impairment of investments in listed vehicles and other assets.

FUM in CFS GAM as at 30 June 2009 was $138 billion, down 10% on the prior year due to the decline in equity markets and the outflows of short-term cash mandates from institutional investors. The fall in FUM compares favourably to a 24% decline in the ASX 200 during the same period. The impact on Funds Management income was more pronounced than the fall in spot FUA and FUM from 30 June 2009 to 30 June 2008, as the decrease in the average of FUA and FUM during this period were more substantial than the spot changes over the year, which primarily reflects the impact of a rally in equity markets in the fourth quarter of the 2009 Financial Year.

Investment performance improved in 2009 relative to the market with 76% of funds outperforming their benchmark over a three year period, reflecting the success of CFS GAM's research based investment philosophy and 63% and 74% of funds outperformed benchmark on a 3 year basis in 2008 and 2007 respectively.

- The property management business continues to perform well with the flagship Listed Property Funds outperforming the sector and is well positioned in a challenging economic environment.

Colonial First State

Financial Year 2010 compared to Financial Year 2009

Colonial First State provides product packaging, administration, distribution and advice to retail customers. Statutory net profit after tax in the 2010 Financial Year increased 53% on the prior year to $144 million, driven by strong net flows and market conditions.

The FirstChoice platform, Colonial First State's investment platform, performed well with positive net flows of $3 billion for the year ended 30 June 2010. FirstChoice retained the number two Flagship platform position with a market share of 10.7% and captured 20.9% of net flows for the year ended March 2010[(1)].

Financial Year 2009 compared to Financial Year 2008

2009 statutory net profit after tax was down 54% on the prior year to $94 million. 2009 net operating income was down 21% on the prior year to $544 million due to lower FUA as a result of the decline in investment markets.

The FirstChoice platform performed well in a tough market with positive net flows of $2.2 billion for the year ended 30 June 2009. FirstChoice retained the number two flagship platform position with a market share of 9.9% as at March 2009.

CommInsure

Financial Year 2010 compared to Financial Year 2009

CommInsure is a provider of life and general insurance in Australia. Statutory net profit after tax in the 2010 Financial Year increased significantly on the prior year to $396 million, driven by improved investment performance, and the unwinding of unrealised mark to market losses in the Guaranteed Annuities portfolio.

CommInsure's strategy during the year focussed on improving service, streamlining processes and enhancing core business profitability. Increasing the profitability of the insurance businesses will continue to be the core focus, in order to offset the declining contribution from the legacy funds management business, which is in long term run-off.

Retail Life insurance business performance was relatively stable over the prior year, including strong inforce premium growth of 12%, offset by higher claims experience.

Wholesale Life insurance business performance improved, despite a reduction in inforce premiums, due to improved claims management and sustainable pricing.

General Insurance business performance improved over the prior year, experiencing strong growth in inforce premiums, up 13% to $408 million, and improved loss ratios despite major weather events.

Financial Year 2009 compared to Financial Year 2008

2009 statutory net profit after tax of $177 million was down 16% on the prior year. 2009 was adversely impacted by unrealised mark to market losses of $117 million after tax on the Guaranteed Annuities portfolio.

Operating Expenses

Financial Year 2010 compared to Financial Year 2009

Total operating expenses of $1,210 million increased 3% on the prior year. Expenses have been managed in line with current market conditions, while maintaining strategic investment spend.

Financial Year 2009 compared to Financial Year 2008

2009 Financial Year total operating expenses of $1,156 million decreased 4% on the prior year. Expenses were managed in line with current market conditions while maintaining strategic investment spend.

Drivers of the expense reductions on the prior year are:

- Cost management initiatives across Wealth Management; and
- Reduced employee incentives, commensurate with lower profits.

(1) Most recent market data available from Plan for Life quarterly market report.

	Full Year Ended 30 June 2010				
	CFS GAM	Colonial First State	CommInsure	Other	Total
	$M	$M	$M	$M	$M
Funds management income	789	811	226	(2)	1,824
Insurance income	-	-	684	-	684
Total operating income	789	811	910	(2)	2,508
Volume expenses	(126)	(160)	(209)	(1)	(496)
Net operating income	663	651	701	(3)	2,012
Operating expenses	(358)	(444)	(281)	(127)	(1,210)
Net profit before tax	305	207	420	(130)	802
Corporate tax benefit/(expense)	(69)	(60)	(121)	40	(210)
Underlying profit after tax	236	147	299	(90)	592
Investment experience after tax	30	(3)	97	2	126
Cash net profit after tax	266	144	396	(88)	718
Treasury shares valuation adjustment	-	-	-	(44)	(44)
Statutory net profit after tax	266	144	396	(132)	674

	Full Year Ended 30 June 2009				
	CFS GAM	Colonial First State (1)	CommInsure (1)	Other (1)	Total
	$M	$M	$M	$M	$M
Funds management income	773	696	258	8	1,735
Insurance income	-	-	615	21	636
Total operating income	773	696	873	29	2,371
Volume expenses	(134)	(152)	(183)	(8)	(477)
Net operating income	639	544	690	21	1,894
Operating expenses	(353)	(408)	(267)	(147)	(1,175)
Net profit before tax	286	136	423	(126)	719
Corporate tax benefit/(expense)	(79)	(41)	(114)	29	(205)
Underlying profit after tax	207	95	309	(97)	514
Investment experience after tax	(114)	(1)	(132)	19	(228)
Cash net profit after tax	93	94	177	(78)	286
Treasury shares valuation adjustment	-	-	-	(28)	(28)
Statutory net profit after tax	93	94	177	(106)	258

	Full Year Ended 30 June 2008				
	CFS GAM	Colonial First State	CommInsure	Other	Total
	$M	$M	$M	$M	$M
Funds management income	1,068	884	279	2	2,233
Insurance income	-	-	557	-	557
Total operating income	1,068	884	836	2	2,790
Volume expenses	(153)	(192)	(163)	-	(508)
Net operating income	915	692	673	2	2,282
Operating expenses	(369)	(416)	(321)	(97)	(1,203)
Net profit before tax	546	276	352	(95)	1,079
Corporate tax benefit/(expense)	(136)	(84)	(103)	33	(290)
Underlying profit after tax	410	192	249	(62)	789
Investment experience after tax	3	14	(38)	(31)	(52)
Cash net profit after tax	413	206	211	(93)	737
Treasury shares valuation adjustment	-	-	-	60	60
Statutory net profit after tax	413	206	211	(33)	797

(1) Prior year comparative has been restated for the resegmentation of St Andrew's.

Wealth Management continued

Summary	Full Year Ended 30/06/10 $M	30/06/09 $M	30/06/08 $M
Funds under administration - average (1)	**179,802**	167,677	186,696
Funds under administration - spot (1)	**179,614**	169,210	184,970
Funds under management - average (1)	**144,624**	136,604	152,328
Funds under management - spot (1)	**144,298**	138,204	152,940
Retail Net funds flows (Australian Retail)	**246**	(1,364)	1,888

Funds Under Management (FUM) (1)	Full Year Ended 30/06/10 $M	30/06/09 $M	30/06/08 $M
Australian equities	**21,499**	17,741	23,502
Global equities	**45,685**	35,705	35,589
Cash and fixed interest	**54,180**	61,395	66,729
Property and Infrastructure (2)	**22,934**	23,363	27,120
Total	**144,298**	138,204	152,940

Sources of Profit from CommInsure	Full Year Ended 30/06/10 $M	30/06/09 $M	30/06/08 $M
Life insurance operating margins			
Planned profit margins	**166**	149	145
Experience variations	**6**	14	12
Funds management operating margins	**120**	156	117
General insurance operating margins	**7**	(10)	(25)
Operating margins	**299**	309	249
Investment experience after tax	**97**	(132)	(38)
Cash net profit after tax	**396**	177	211

	Full Year Ended 30 June 2010				
Annual Inforce Premiums (3)	Opening Balance 30/06/09 $M	Sales/New Business $M	Lapses $M	Other Movements $M	Closing Balance 30/06/10 $M
Retail life	765	223	(135)	-	853
Wholesale life (4)	435	66	(178)	-	323
General insurance	360	107	(59)	-	408
Total	1,560	396	(372)	-	1,584

	Full Year Ended 30 June 2009				
Annual Inforce Premiums (3)	Opening Balance 30/06/08 $M	Sales/New Business $M	Lapses $M	Other Movements $M	Closing Balance 30/06/09 $M
Retail life	605	212	(120)	68	765
Wholesale life	366	103	(34)	-	435
General insurance	279	136	(55)	-	360
Total	1,250	451	(209)	68	1,560

	Full Year Ended 30 June 2008				
Annual Inforce Premiums (3)	Opening Balance 30/06/07 $M	Sales/New Business $M	Lapses $M	Other Movements $M	Closing Balance 30/06/08 $M
Retail life	530	156	(81)	-	605
Wholesale life	308	91	(33)	-	366
General insurance	184	113	(39)	21	279
Total	1,022	360	(153)	21	1,250

(1) FUM & FUA do not include the Group's interest in the China Cinda JV.

(2) This asset class includes Wholesale and Listed property trusts as well as indirect Listed Property Securities funds which are traded through the ASX.

(3) Inforce premiums relate to risk business.

(4) Lapses include a $130 million reduction as a result of the loss of the wholesale portfolio for the Australian Super business.

Funds Under Adminstration	Opening Balance 30/06/09 $M	Inflows $M	Outflows $M	Net Flows $M	Investment Income & Other (6) $M	Closing Balance 30/06/10 $M
	Full Year Ended 30 June 2010					
FirstChoice	35,955	12,418	(9,019)	3,399	4,286	43,640
Custom Solutions (1)	5,341	1,713	(1,497)	216	557	6,114
Cash management (2)	24,950	4,021	(7,303)	(3,282)	1,274	22,942
Retail products (3)	66,246	18,152	(17,819)	333	6,117	72,696
Other retail (4)	1,154	42	(129)	(87)	86	1,153
Australian retail	67,400	18,194	(17,948)	246	6,203	73,849
Wholesale	45,092	17,638	(24,631)	(6,993)	2,951	41,050
Property	18,722	955	(1,759)	(804)	(751)	17,167
Other (5)	3,236	36	(145)	(109)	(94)	3,033
Domestically sourced	134,450	36,823	(44,483)	(7,660)	8,309	135,099
Internationally sourced	34,760	11,748	(7,275)	4,473	5,282	44,515
Total Wealth Management	169,210	48,571	(51,758)	(3,187)	13,591	179,614

Funds Under Adminstration	Opening Balance 30/06/08 $M	Inflows $M	Outflows $M	Net Flows $M	Investment Income & Other (6) $M	Closing Balance 30/06/09 $M
	Full Year Ended 30 June 2009					
FirstChoice	38,707	10,862	(8,617)	2,245	(4,997)	35,955
Custom Solutions (1)	6,257	2,176	(2,165)	11	(927)	5,341
Cash management (2)	2,576	2,121	(2,545)	(424)	707	2,859
Legacy products (2)	27,500	1,666	(4,708)	(3,042)	(2,367)	22,091
Retail products (3)	75,040	16,825	(18,035)	(1,210)	(7,584)	66,246
Other retail (4)	1,366	54	(208)	(154)	(58)	1,154
Australian retail	76,406	16,879	(18,243)	(1,364)	(7,642)	67,400
Wholesale	52,376	21,457	(27,089)	(5,632)	(1,652)	45,092
Property	20,210	1,281	(2,336)	(1,055)	(433)	18,722
Other (5)	3,248	508	(165)	343	(355)	3,236
Domestically sourced	152,240	40,125	(47,833)	(7,708)	(10,082)	134,450
Internationally sourced	32,730	9,589	(8,728)	861	1,169	34,760
Total Wealth Management	184,970	49,714	(56,561)	(6,847)	(8,913)	169,210

Funds Under Adminstration	Opening Balance 30/06/07 $M	Inflows $M	Outflows $M	Net Flows $M	Investment Income & Other (6) $M	Closing Balance 30/06/08 $M
	Full Year Ended 30 June 2008					
FirstChoice	39,545	17,537	(12,610)	4,927	(5,765)	38,707
Custom Solutions (1)	5,875	2,365	(1,079)	1,286	(904)	6,257
Cash management (2)	3,130	1,767	(2,411)	(644)	90	2,576
Legacy products (2)	34,061	2,477	(6,110)	(3,633)	(2,928)	27,500
Retail products (3)	82,611	24,146	(22,210)	1,936	(9,507)	75,040
Other retail (4)	1,577	209	(257)	(48)	(163)	1,366
Australian retail	84,188	24,355	(22,467)	1,888	(9,670)	76,406
Wholesale	34,469	37,097	(17,470)	19,627	(1,720)	52,376
Property	14,843	3,481	(1,713)	1,768	3,599	20,210
Other (5)	3,635	159	(267)	(108)	(279)	3,248
Domestically sourced	137,135	65,092	(41,917)	23,175	(8,070)	152,240
Internationally sourced	31,675	17,481	(12,042)	5,439	(4,384)	32,730
Total Wealth Management	168,810	82,573	(53,959)	28,614	(12,454)	184,970

(1) Custom Solutions includes the FirstWrap product.
(2) Includes cash management trusts.
(3) This is an estimate of the Retail Funds that align to Plan for Life market share releases.
(4) Includes regular premium plans. These retail products are not reported in market share data.
(5) Includes life company assets sourced from retail investors but not attributable to a funds management product.
(6) Includes foreign exchange gains and losses from translation of internationally sourced business.

New Zealand

Forward-Looking Statements

This International Financial Services analysis contains certain forward looking statements. See “Special Note regarding Forward-Looking Statements” on page 3.

Financial Performance and Business Review

The Group’s New Zealand segment conducts banking operations through ASB Bank. The segment also comprises life insurance and funds management business through Sovereign.

Financial Year 2010 compared to Financial Year 2009

New Zealand statutory net profit after tax[(1)] for the year ended 30 June 2010 was NZ$230 million, a decrease of 53% on the prior year. NZ$209 million of this decrease represents a one off expense in relation to the settlement of tax on New Zealand structured finance transactions with the New Zealand tax authority. Excluding the impact of this one-off tax expense, statutory net profit after tax decreased 11%. The result reflects the impact of tightening credit markets, which increased funding costs, along with the recession in New Zealand impacting the banking and insurance businesses.

Financial Year 2009 compared to Financial Year 2008

Statutory net profit after tax for the year was NZ$494 million, a decrease of 21% on the 2008 Financial Year. The lower result was due predominantly to increased impairment expense in ASB Bank which increased by NZ$198 million to NZ$238 million for the 2009 Financial Year.

ASB Bank

Financial Year 2010 compared to Financial Year 2009

ASB Bank statutory net profit after tax [(1)] for the year ended 30 June 2010 was NZ$123 million, a decrease of 66% on the prior year. This was achieved in a very challenging environment for the New Zealand banking industry. The key drivers of the ASB underlying result for the 2010 Financial Year were:

- A continued change in portfolio mix from fixed rate to higher margin floating rate home loans, offset by lower margins on deposits in an extremely competitive market;
- Retail deposits grew 3% to NZ$31 billion as at 30 June 2010 as ASB offered competitive term investments rates to customers, as part of its strategy to grow local funding and reduce reliance on the wholesale funding market. Market share for retail deposits improved slightly to 21.6% over the prior year;
- New Zealand home loan market share decreased marginally to 23.0% with a 2% increase in balances over the prior year to NZ$38 billion;
- Business lending market share increased to 9.3% with a decline of 1% in balances over the prior year;
- Other banking income decreased 33% on the prior year to NZ$342 million reflecting reduced trading income as markets stabilised during the year. In addition, early repayment adjustment fees relating to customers breaking fixed rate mortgages decreased compared to the prior year. Early repayment adjustment fees continued to decline in the second half of the year to more normal levels; and
- Impairment expense has decreased 47% on the prior year due to a continuing improvement in the underlying economy, including lower unemployment and stronger business sentiment. There has also been a focus on collections and recoveries procedures.

An amount of NZ$209 million in relation to the settlement of tax on New Zealand structured finance transactions was included in the Group’s statutory net profit after tax in the first half.

Financial Year 2009 compared to Financial Year 2008

ASB Bank statutory net profit after tax for the 2009 Financial Year was NZ$365 million, a decrease of 24% on the prior year. The result reflects the impacts of the downturn in the New Zealand economy which entered recession in early 2008. Balance sheet growth slowed, margins contracted due to higher funding costs and impairment expense increased sharply. Despite these challenging conditions, ASB Bank was able to grow revenue, mainly through a strong trading result. Expenses remained relatively flat year on year increasing slightly from NZ$630 million to NZ$634 million as cost saving initiatives were implemented to offset the slowing revenue. Key drivers of the result for the 2009 Financial Year were:

- Home loan balances increased by 12% to NZ$37 billion at 30 June 2009, with market share of 23.3%. Business lending market share was stable at 8.8%, following 4% growth in balances to NZ$7 billion over the prior year. Retail deposits grew by 59% to NZ$30 billion at 30 June 2009. Market share for retail deposits was 21.2%;
- Trading income was strong, principally due to Treasury income derived through the management of short dated interest rate and foreign exchange risk exposures;
- Other banking income was favourably impacted by the recovery of costs associated with customers exiting fixed rate mortgages as interest rates dropped sharply. Part of the cost of unwinding swap positions associated with these fixed rate loans was included in net interest income during the year, with the remainder to unwind over the next three years;
- Net interest margin declined by 23 basis points on the prior year due to higher wholesale funding costs and intense competition for retail deposits;
- In October 2008, the New Zealand government introduced a guarantee scheme for retail depositors of financial institutions. ASB Bank has opted into the scheme that includes payment of a fee to the New Zealand government, the cost of which is recorded in net interest income. Refer to “Description of Business” on page 82;
- Flat operating expenses which increased from NZ$630 million to NZ$634 million as a result of cost saving initiatives; and
- Higher impairment expense of NZ$238 million was driven by increased specific corporate provisions and higher collective provisions as a result of a general deterioration in loan arrears. Past due and impaired assets have increased from historic lows across all asset classes.

(1) Includes the underlying ASB and Sovereign results, capital charges and other costs allocated to ASB and Sovereign.

Sovereign Insurance

Financial Year 2010 compared to Financial Year 2009

Sovereign's statutory net profit after tax[1] for the full year ended 30 June 2010 was NZ$103 million, a decrease of 13% on the prior year. The key drivers of the Sovereign underlying result were:

- Claims volumes increased significantly in the current year, particularly in the first half, primarily in the health, trauma and disability income areas;
- One-off NZ$18 million gain recognised in the second half of the year due to the revaluation of deferred tax on policy liabilities driven by the reduction in New Zealand corporate tax rate from 30% to 28% on 1 July 2011;
- Valuation gains on policy liabilities were recognised in the prior year, driven by lower New Zealand bond rates. This gain has partially reversed this year as bond rates recovered;
- Inforce premiums increased by 7% over the prior year with market share of 31%[2] and persistency remaining superior to the rest of the New Zealand market; and
- Despite a fall in share of new business sales to 27%[2], Sovereign continues to lead the market in new business sales.

Financial Year 2009 compared to Financial Year 2008

Sovereign's statutory net profit after tax for the 2009 Financial Year was NZ$118 million, a 6% increase on the prior year. The main drivers of this result were:

- Market leading new business sales with Sovereign capturing 30.9% of new business sales market share to 30 June 2009 on a rolling 12 month basis;
- Growth in risk and health inforce premiums of 10% on the prior year;
- Positive claims experience in the lump sum disability class; and
- Lower persistency levels.

Sovereign pre-tax income in 2009 Financial Year has been impacted by a change in accounting treatment, which results in the recognition of a $10 million tax benefit under current New Zealand tax legislation within tax expense, offset by an equivalent reduction in Sovereign pre-tax income.

(1) Includes the underlying ASB and Sovereign results, capital charges and other costs allocated to ASB and Sovereign.

(2) As at 31 March 2010.

New Zealand continued

	Full Year Ended 30 June 2010				
	ASB	Sovereign	Other (1)	Total	Total
	NZ$M	NZ$M	NZ$M	NZ$M	A$M
Net interest income	908	-	(9)	899	716
Other banking income	342	-	(31)	311	278
Total banking income	1,250	-	(40)	1,210	994
Funds management income	61	-	(3)	58	46
Insurance income	-	251	15	266	213
Total operating income	1,311	251	(28)	1,534	1,253
Operating expenses	(666)	(205)	42	(829)	(667)
Impairment expense	(125)	-	-	(125)	(100)
Net profit before tax	520	46	14	580	486
Corporate tax expense	(166)	45	1	(120)	(99)
Investment experience after tax	-	12	(11)	1	1
Cash net profit after tax	354	103	4	461	388
Hedging and AIFRS volatility	(22)	-	-	(22)	(19)
New Zealand tax provision	(209)	-	-	(209)	(171)
Statutory net profit after tax	123	103	4	230	198

	Full Year Ended 30 June 2009				
	ASB	Sovereign	Other (1)	Total	Total
	NZ$M	NZ$M	NZ$M	NZ$M	A$M
Net interest income	905	-	24	929	756
Other banking income	509	-	(16)	493	404
Total banking income	1,414	-	8	1,422	1,160
Funds management income	65	-	(5)	60	49
Insurance income	-	269	(15)	254	207
Total operating income	1,479	269	(12)	1,736	1,416
Operating expenses	(634)	(200)	41	(793)	(649)
Impairment expense	(238)	-	-	(238)	(194)
Net profit before tax	607	69	29	705	573
Corporate tax expense	(200)	27	4	(169)	(135)
Investment experience after tax	-	22	(22)	-	-
Cash net profit after tax	407	118	11	536	438
Hedging and AIFRS volatility	(42)	-	-	(42)	(34)
Statutory net profit after tax	365	118	11	494	404

	Full Year Ended 30 June 2008				
	ASB	Sovereign	Other (1)	Total	Total
	NZ$M	NZ$M	NZ$M	NZ$M	A$M
Net interest income	900		82	982	840
Other banking income	346		(32)	314	300
Total banking income	1,246	-	50	1,296	1,140
Funds management income	67		(12)	55	48
Insurance income	-	251	(29)	222	199
Total operating income	1,313	251	9	1,573	1,387
Operating expenses	(630)	(176)	32	(774)	(664)
Impairment expense	(40)			(40)	(34)
Net profit before tax	643	75	41	759	689
Corporate tax expense	(193)	6	18	(169)	(161)
Investment experience after tax	-	30	(27)	3	3
Cash net profit after tax	450	111	32	593	531
Hedging and AIFRS volatility	(9)	-	-	(9)	(8)
Gain Visa Initial Public Offering	29	-	-	29	25
Investment and restructuring	12	-	-	12	(10)
Statutory net profit after tax	482	111	32	625	538

(1) Other includes ASB and Sovereign funding entities and elimination entries between Sovereign and ASB.

(2) Total Other banking income disclosed in AUD includes realised gains or losses associated with the hedge of the New Zealand operations.

Major Balance Sheet Items	As at 30/06/10 NZ$M	30/06/09 NZ$M	30/06/08 NZ$M
Home lending (including securitisation)	**37,778**	36,991	32,949
Assets at fair value through Income Statement	**5,815**	7,429	6,080
Other lending assets	**15,960**	16,327	13,293
Non-lending interest earning assets	**1,543**	1,522	1,415
Other assets	**4,723**	5,198	3,933
Total assets	**65,819**	67,467	57,670
Deposits	**30,889**	29,892	18,803
Liabilities at fair value through Income Statement	**13,261**	16,535	14,764
Debt issues	**3,805**	3,564	3,992
Due to other financial institutions [1]	**6,488**	5,048	5,499
Other liabilities	**6,640**	8,066	10,146
Total liabilities	**61,083**	63,105	53,204
Balance Sheet			
Assets			
ASB Bank	**63,557**	65,230	55,092
Other	**2,262**	2,237	2,578
Total assets	**65,819**	67,467	57,670
Liabilities			
ASB Bank	**60,010**	62,072	52,123
Other	**1,073**	1,033	1,081
Total liabilities	**61,083**	63,105	53,204

(1) Includes deposits due to Group companies.

Sources of Profit from Insurance Activities	Full Year Ended 30/06/10 NZ$M	30/06/09 NZ$M	30/06/08 NZ$M
The Margin on Services profit from ordinary activities after income tax is represented by:			
Planned profit margins	**81**	84	76
Experience variations	**10**	12	5
Operating margins	**91**	96	81
Investment experience after tax	**12**	22	30
Cash net profit after tax	**103**	118	111

New Zealand - Funds Under Administration	Full Year Ended 30/06/10 NZ$M	30/06/09 NZ$M	30/06/08 NZ$M
Opening balance	**7,611**	**8,001**	8,859
Inflows	**3,339**	**2,173**	2,817
Outflows	**(2,462)**	**(1,925)**	(3,345)
Net Flows	**877**	**248**	(528)
Investment income & other	**590**	**(638)**	(330)
Closing balance	**9,078**	**7,611**	8,001

New Zealand - Annual Inforce Premiums	Full Year Ended 30/06/10 NZ$M	30/06/09 NZ$M	30/06/08 NZ$M
Opening balance	**516**	468	418
Sales/New business [1]	**97**	100	95
Lapses [1]	**(59)**	(52)	(45)
Other movements [1]	**-**	-	-
Closing balance	**554**	516	468

(1) Prior year comparatives have been restated to conform to the presentation in the Wealth Management business.

Bankwest

Forward-Looking Statements

This Bankwest analysis contains certain forward looking statements. See “Special Note regarding Forward-Looking Statements” on page 3.

Financial Performance and Business Review

The Group acquired 100% of the share capital of Bank of Western Australia Ltd (“Bankwest”) on 19 December 2008, providing the opportunity to expand the Group’s business in the Western Australian and East Coast markets.

Bankwest operates in the Australian market, predominantly in Western Australia and is focused on providing a comprehensive range of products to the business banking and retail segments.

Bankwest statutory net loss after tax for the year ended 30 June 2010 was $209 million, down from the profit of $122 million in the prior year. The result reflects higher loan impairment and integration expenses, partially offset by a strong operating performance.

Key highlights of the operating performance were:

- Banking income increased from $759 million to $1,720 million due to a full year contribution of income, supported by strong retail lending volume growth and higher margins; and
- Operating expenses increased from $483 million to $880 million reflecting a full year contribution of expenses, partially offset by efficiency gains.

The statutory net profit after tax was unfavourably impacted by loan impairment expense of $754 million, up significantly on the prior year. The increase in impairment expense was mainly due to property related exposures, primarily in Queensland and New South Wales. An additional $304 million non-cash loan impairment was recognised after a review of performing loans conducted by the Group in the 2010 Financial Year discussed under “Impairment Expense”.

Deposit balances at year end increased 9% over the prior year end in a highly competitive market at year end, with more pronounced growth in the second half driven by attractive product offerings and a strong focus on sales.

Lending balances increased 10% over the prior year, driven by growth in home loans, with lending growth moderating in the second half.

Bankwest retained a focus on customer satisfaction, with a commitment to value, innovation and service. A number of initiatives were implemented during the year to meet this vision. These include:

- The introduction of e-statements for Retail Customers, with over 140,000 customers converting from paper to e-statements in the four months since the initiative was launched in February 2010;
- Continuing to introduce late night and weekend trading across the branch network, particularly to stores located in metropolitan, high density areas;
- A re-invigoration of the brand in Western Australia to embed the market leading position on the West Coast; and
- Continued investment in the customer network, which now includes 138 branches, 742 ATMs and phone and internet banking platforms.

The success of the above initiatives has been reflected in:

- An improvement in customer satisfaction scores, up 2.7% from June 2009 to 78.9% at June 2010[(1)]; and
- An increase in home loan market share, up 0.45% to 3.62% as at 30 June 2010.

Retail

Financial Year 2010 compared to Financial Year 2009

Home loan balances increased 19% on the prior year end to $42 billion at 30 June 2010, driven by improved customer retention rates, competitive loan rates and an increased number of branches on the East Coast. Margins improved in the first half due to repricing for the current risk environment and increasing funding costs.

Retail deposit balances at 30 June 2010 decreased 9% on the prior year end and margins remained relatively stable reflecting the highly competitive market.

Financial Year 2009 compared to Financial Year 2008

Retail operating income during the year ended 30 June 2009 benefited from solid home loan volume growth. Home lending balances of $35 billion at 30 June 2009 increased by 4% over the year ended 30 June 2009, driven by the East Coast expansion, Commonwealth Government first home buyers grant stimulus and customer acquisition campaigns.

Lending margins improved during the year ended 30 June 2009 following repricing initiatives implemented to partly offset increased funding costs and credit risk as arrears deteriorate.

Deposit margins improved over the year ended 30 June 2009, benefiting from effective margin management and the run off of low margin term deposits. Deposit balances were favourably impacted by the launch of innovative new products such as Smart eSaver, an on-line savings account.

Business

Financial Year 2010 compared to Financial Year 2009

Business lending balances at 30 June 2010 decreased 3% on the prior year end to $24 billion due to weaker market demand and a strategic shift in focus away from the property sector. Lending margins were broadly in line with the prior year.

Business deposits at 30 June 2010 increased 19% on the prior year end due to strong demand for money market products and a focus on sales. This compares to system growth of 2%. Business deposit margins increased due to a focus on profitable growth.

(1) Source: Roy Morgan Research satisfaction with Main Financial Institution.

Financial Year 2009 compared to Financial Year 2008

Business operating income during the year ended 30 June 2009 was strong, supported by solid asset growth and favourable margins from improved lending pricing strategies.

Business advances and business deposits increased 6% and 5% respectively during the year ended 30 June 2009.

Operating Expenses

Financial Year 2010 compared to Financial Year 2009

Operating expenses increased 82% over the prior year to $880 million. The increase was primarily driven by the full year contribution of expenses in fiscal 2010. Expense management remains a key focus, with numerous expense containment and integration initiatives currently in progress.

Financial Year 2009 compared to Financial Year 2008

Operating expenses for the year ended 30 June 2009 were $483 million. The implementation of cost management initiatives and integration strategies resulted in an improvement in productivity during the period. The expense to income ratio as at 30 June 2009 was 66.5% (on a statutory basis).

Impairment Expense

Financial Year 2010 compared to Financial Year 2009

Impairment expense for the 2010 Financial Year was $754 million, up significantly from the prior year end. The increase in impairment expense was mainly due to property related exposures, primarily in Queensland and New South Wales.

Arrears levels have improved during the year, with greater than 90 day rates declining across the entire retail portfolio, in particular credit cards.

The Group has also included $304 million of loan impairment expense as a non-cash item which relates specifically to the Bankwest pre-acquisition loan portfolio.

Since the initial review of the Bankwest portfolio, further detailed work was undertaken into the Bankwest business banking portfolio. This comprehensive review identified many pre-acquisition loans reflecting poor asset quality, high loan to value ratios and insufficient covenant coverage. This resulted in significant risk grade reassessments and security revaluations with loan impairment expense increasing $304 million. These loans are confined to the pre-acquisition business banking book.

Given the one off nature of the impairment and the fact it relates to an understatement of the provisioning on the pre-acquisition portfolio, this additional amount of loan impairment expense was recorded as a non-cash item. This is consistent with the treatment of the gain on acquisition of Bankwest.

Financial Year 2009 compared to Financial Year 2008

Impairment expense for the year to 30 June 2009 was $113 million. In an attempt to strengthen asset quality, credit risk management disciplines and improved lending practices were implemented during the period.

Bankwest continued

	Full Year Ended 30/06/10 $M	Full Year Ended 30/06/09 $M
Net interest income	**1,487**	591
Other banking income	**233**	168
Total banking income	**1,720**	759
Operating expenses	**(880)**	(483)
Impairment expense	**(754)**	(113)
Net profit before tax	**86**	163
Corporate tax expense	**(26)**	(50)
Cash net profit after tax	**60**	113
Hedging and AIFRS volatility	**(66)**	(18)
Pre-acquisition loan impairment (after tax)	**(212)**	-
Merger amortisation integration expenses	**9**	27
Statutory net profit after tax	**(209)**	122

	As at		
Major Balance Sheet Items	30/06/10 $M	30/06/09 $M	31/12/08 $M
Home lending (including securitisation)	**41,681**	35,048	33,685
Other lending assets	**25,975**	26,366	25,009
Assets at fair value through income statement	**2**	48	5,776
Other assets	**7,026**	6,865	1,726
Total assets	**74,684**	68,327	66,196
Transaction deposits	**4,854**	4,803	4,136
Savings deposits	**7,514**	8,708	9,649
Investment deposits	**29,106**	24,639	20,256
Certificates of deposits and other	**130**	157	16,342
Debt issues	**10,211**	4,903	5,221
Due to other financial institutions (1)	**15,382**	19,119	4,587
Other liabilities	**2,671**	2,059	2,324
Total liabilities (2)	**69,868**	64,388	62,515

(1) Includes amounts due to Group companies (30 June 2010: $15.4 billion, 31 December 2009: $16.7 billion, 30 June 2009: $19.1 billion).

(2) 30 June 2009 comparative liability balances have been restated following alignment of product classifications with the Group.

Forward-Looking Statements

This Other analysis contains certain forward looking statements. See "Special Note regarding Forward-Looking Statements" on page 3.

Financial Performance and Business Review

IFS Asia

International Financial Services Asia ("IFS Asia") incorporates the Asian retail banking operations (Indonesia, Vietnam, India and Japan) investments in Chinese retail banks and the joint venture life insurance business and life insurance operations in Indonesia. It does not include the Business and Private Banking, Institutional Banking and Markets, and Colonial First State Global Asset Management businesses in Asia.

Financial Year 2010 compared to Financial Year 2009

IFS Asia statutory net profit after tax for the year ended 30 June 2010 was $45 million, an increase of 50% over the prior year. The result was underpinned by strong income growth from the Chinese retail banks and Indonesian life insurance business, partially offset by an increase in impairment expense.

The key activities in IFS Asia during the year were:

- The Group entered into a strategic partnership (15% ownership) with Vietnam International Bank (VIB) in April 2010 and settlement is anticipated post year end. The Group's Ho Chi Minh City branch which opened in August 2008 has had strong customer growth over the year and opened 19 ATM's across the City;
- The Group entered into a new strategic partnership (38% ownership) with Bank of Communications (BoCom) for the life insurance joint venture in Shanghai. BoCom is China's fifth largest bank. The life insurance joint venture was renamed to BoCommLife Insurance Company Limited and commenced operations in January 2010;
- The Group's first branches in India and Shanghai were opened in the second half of the year;
- Participated in the Bank of Hangzhou and Qilu Bank equity raisings to maintain the Group's 20% shareholding in each of the Banks. The equity raisings were to strengthen capital ratios and support growth. Bank of Hangzhou was ranked number one among all City Commercial Banks in a review by Chinese Banker magazine;
- PT Bank Commonwealth in Indonesia opened 20 new branches; and
- Development of the Bancassurance model between PT Bank Commonwealth and PT Commonwealth Life in Indonesia. 27% of new business sales in PT Commonwealth Life for the period were sourced via the PT Bank Commonwealth branch network (increased from 3% last year).

Financial Year 2009 compared to Financial Year 2008

In the 2009 Financial Year, the highlights in the Asia Pacific region were:

- Indonesia: PT Bank Commonwealth established an additional seven branches during the year and consolidated two, bringing the total number of branches to 57 as at 30 June 2009;
- Vietnam: The Group's first branch in Vietnam was opened in August 2008 in Ho Chi Minh city;
- China: The shareholding in Qilu Bank (formerly Jinan City Commercial Bank) was increased to 20% in December 2008 from 11% at June 2008. The banking investments in China achieved strong profit growth during the year; and
- Fiji: Net interest margin improved over the year, whilst there was limited deterioration in arrears.

IFS Asia net profit after tax decreased on the prior year due to lower investment experience returns.

Fiji

Fiji statutory net loss after tax until the date of disposal on 15 December 2009 was $24 million, down from a $2 million net profit in the prior year. A loss on sale of $30 million, which includes realised structural foreign exchange losses, has been recorded as a non-cash item.

Corporate Centre

Corporate Centre includes the results of unallocated Group support functions such as Investor Relations, Group Strategy, Secretariat and Treasury. Operating income in the Corporate Centre represents the business activities of the Group's Treasury function.

Treasury is primarily focussed on the management of the Group's interest rate risk, funding and liquidity requirements, and management of the Group's capital. The Treasury function includes:

- Asset & Liability Management: manages the interest rate risk of the Group's non-traded balance sheet using transfer pricing to consolidate risk into Treasury and hedging the residual mismatch between assets and liabilities using swaps, futures and options;
- Liquidity Operations: manages the Group's short term wholesale funding and prudential liquidity requirements;
- Group Funding: manages the Group's long term wholesale funding requirements; and
- Capital Management: manages the Group's capital requirements.

Financial Year 2010 compared to Financial Year 2009

Corporate Centre statutory net profit after tax for the year ended 30 June 2010 was $541 million, a 48% decrease on the prior year.

Total banking income decreased 6% to $884 million driven by:

- Lower Asset & Liability Management income from the management of short dated interest rate risk exposures; partially offset by increased Capital Management income due to the benefit of higher earnings on capital following capital raisings in the prior year.

Operating expenses increased significantly to $276 million due to the unfavourable impact of investment market performance on the Group's defined benefit superannuation fund due to strong financial performance by the Group ($103 million) and an increase in Group provisions for staff costs.

Financial Year 2009 compared to Financial Year 2008

2009 Financial Year statutory net profit after tax increased by $854 million on the prior year, due to the gain on Bankwest acquisition, higher Treasury income derived through the management of short dated interest rate risk exposures, early repayment fees received from customers exiting fixed rate loans (the associated swap unwind costs will be borne over the next three years) and the passing on of additional funding costs absorbed by Treasury in the prior year to the revenue generating businesses.

Eliminations/Unallocated

Eliminations/Unallocated includes intra-group elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.

Financial Year 2010 compared to Financial Year 2009

Eliminations/Unallocated statutory net loss after tax for the year ended 30 June 2010 was $97 million, representing a $14 million improvement on the prior year. The result included the release of central impairment provisions.

Financial Year 2009 compared to Financial Year 2008

Statutory net loss after tax for the 2009 Financial Year decreased $15 million on the prior year to $111 million, driven largely by a lower centralised impairment expense in 2009 as impairment provisions were booked in individual businesses. This was partially offset by lower tax benefit relating to a large one-off tax benefit taken in 2008.

	Full Year Ended 30 June 2010				
	IFS Asia $M	Fiji $M	Corporate Centre $M	Eliminations/ Unallocated $M	Total $M
Net interest income [1]	62	9	883	(221)	733
Other banking income [1]	124	3	1	(106)	22
Total banking income	186	12	884	(327)	755
Funds management income	-	-	-	28	28
Insurance income	40	6	-	2	48
Total operating income	226	18	884	(297)	831
Operating expenses	(164)	(12)	(276)	-	(452)
Impairment expense	(11)	1	-	100	90
Net profit before tax	51	7	608	(197)	469
Corporate tax benefit/(expense)	(7)	(1)	(163)	66	(105)
Minority interests	(2)	-	-	(14)	(16)
Underlying profit after tax	42	6	445	(145)	348
Investment experience after tax	3	-	-	48	51
Cash net profit after tax	45	6	445	(97)	399
Defined benefit superannuation expense	-	-	-	-	-
Hedging and AIFRS volatility	-	-	109	-	109
Loss on sale of Fiji	-	(30)	-	-	(30)
Other	-	-	(13)	-	(13)
Statutory net profit after tax	45	(24)	541	(97)	465

	Full Year Ended 30 June 2009				
	IFS Asia $M	Fiji $M	Corporate Centre $M	Eliminations/ Unallocated $M	Total $M
Net interest income [1]	59	33	710	(141)	661
Other banking income [1]	102	-	230	(33)	299
Total banking income	161	33	940	(174)	960
Funds management income	-	-	-	29	29
Insurance income	37	17	-	13	67
Total operating income	198	50	940	(132)	1,056
Operating expenses	(157)	(37)	(55)	-	(249)
Impairment expense	(4)	(4)	-	(17)	(25)
Net profit before tax	37	9	885	(149)	782
Corporate tax benefit/(expense)	(7)	(7)	(237)	36	(215)
Minority interests	(3)	-	-	(27)	(30)
Underlying profit after tax	27	2	648	(140)	537
Investment experience after tax	3	-	-	29	32
Cash net profit after tax	30	2	648	(111)	569
Defined benefit superannuation expense	-	-	(10)	-	(10)
Hedging and AIFRS volatility	-	-	(193)	-	(193)
Gain on acquisition of controlled entities net of integration costs	-	-	587	-	587
Statutory net profit after tax	30	2	1,032	(111)	953

	Full Year Ended 30 June 2008				
	IFS Asia $M	Fiji $M	Corporate Centre $M	Eliminations/ Unallocated $M	Total $M
Net interest income (1)	39	25	288	(136)	216
Other banking income (1)	73	10	(12)	(22)	49
Total banking income	112	35	276	(158)	265
Funds management income	-	-	-	26	26
Insurance income	35	18	-	23	76
Total operating income	147	53	276	(109)	367
Operating expenses	(123)	(37)	(64)	-	(224)
Impairment expense	(2)	(7)	-	(130)	(139)
Net profit before tax	22	9	212	(239)	4
Corporate tax benefit/(expense)	-	(2)	(74)	129	53
Minority interests	(2)	-	-	29	27
Underlying profit after tax	20	7	138	(139)	26
Investment experience after tax	21	2	-	13	36
Cash net profit after tax	41	9	138	(126)	62
Defined benefit superannuation expense	-	-	9	-	9
Hedging and AIFRS volatility	-	-	(34)	-	(34)
Gain on Visa Initial Public Offering	-	-	271	-	271
Investment and restructuring	-	-	(209)	-	(209)
Statutory net profit after tax	41	9	175	(126)	99

(1) Excludes the impact of the reclassification of net swap costs from Net interest income to Other banking income related to certain economic hedges which do not qualify for AIFRS hedge accounting (June 2010: $259 million; June 2009: $275 million; half year to 30 June 2010: $136 million).

Investment Experience

Investment Experience	Full Year Ended 30/06/10 $M	30/06/09 $M	30/06/08 $M
Wealth Management	**183**	(317)	(74)
International Financial Services	**1**	8	25
Eliminations	**52**	42	32
Investment experience before tax (1)	**236**	(267)	(17)
Corporate tax benefit/(expense)	**(58)**	71	4
Investment experience after tax	**178**	(196)	(13)

(1) Investment experience of ($267) million before tax was impacted by unrealised mark to market losses from widening credit spreads on the valuation of assets backing the guaranteed annuities portfolio of ($166) million and the impairment of listed and unlisted investments.

	As at 30 June 2010			
Shareholder Investment Asset Mix (%)	Australia (1) %	New Zealand %	Asia %	Total %
Local equities	1	-	-	1
International equities	-	1	-	-
Property	14	-	2	10
Sub-total	15	1	2	11
Fixed interest	24	51	97	32
Cash	61	48	1	57
Sub-total	85	99	98	89
Total	100	100	100	100

	As at 30 June 2010			
Shareholder Investment Asset Mix ($M)	Australia (1) $M	New Zealand $M	Asia $M	Total $M
Local equities	11	1	-	12
International equities	-	1	-	1
Property	268	-	2	270
Sub-total	279	2	2	283
Fixed interest	462	283	77	822
Cash	1,201	266	1	1,468
Sub-total	1,663	549	78	2,290
Total	1,942	551	80	2,573

(1) Includes Shareholders' funds in the CFS Global Asset Management, Colonial First State and CommInsure businesses.

Group Operating Expenses

The following table sets out the Group's operating expenses for Financial Years 2010, 2009 and 2008.

	Group		
	2010	2009	2008
	$M	$M	$M
Staff Expenses			
Salaries and wages	**3,845**	3,405	3,097
Share-based compensation	**130**	125	106
Superannuation contributions	**48**	44	14
Defined benefit superannuation plan expense	**103**	14	(14)
Provisions for employee entitlements	**58**	88	90
Payroll tax	**202**	188	162
Fringe benefits tax	**40**	36	32
Other staff expenses	**157**	94	160
Total staff expenses	**4,583**	3,994	3,647
Occupancy and Equipment Expenses			
Operating lease rentals	**527**	488	403
Depreciation:			
Buildings	**30**	29	27
Leasehold improvements	**98**	85	63
Equipment	**90**	89	84
Operating lease assets	**45**	37	20
Repairs and maintenance	**84**	80	81
Other	**103**	102	89
Total occupancy and equipment expenses	**977**	910	767
Information Technology Services			
Application, maintenance and development	**209**	167	224
Data processing	**227**	202	195
Desktop	**141**	141	114
Communications	**199**	179	174
Amortisation of software assets	**178**	122	88
IT equipment depreciation	**75**	62	31
Total information technology services	**1,029**	873	826
Other Expenses			
Postage	**115**	121	119
Stationery	**97**	100	98
Fees and commissions:			
Fees payable on trust and other fiduciary activities	**497**	453	538
Other	**367**	359	280
Advertising, marketing and loyalty	**398**	475	348
Amortisation of intangible assets (excluding software and merger related amortisation)	**27**	17	15
Non-lending losses	**103**	86	78
Other	**408**	391	291
Total other expenses	**2,012**	2,002	1,767
Total expenses	**8,601**	7,779	7,007
Investment and restructuring			
Integration expenses (1)	**40**	112	-
Merger related amortisation	**75**	37	-
One-off expenses	**-**	32	-
Investment and restructuring	**-**	-	377
Total investment and restructuring	**115**	181	377
Total operating expenses	**8,716**	7,960	7,384
Net hedging ineffectiveness comprises:			
Gain/(Loss) on fair value hedges:			
Hedging instruments	**771**	543	921
Hedged items	**(838)**	(569)	(970)
Cash flow hedge ineffectiveness	**5**	8	(9)
Net hedging ineffectiveness	**(62)**	(18)	(58)

(1) Includes software impairment, refer to Note 16 of the 2010 Financial Statements.

Integrated Risk Management

Risk Governance

The Board and its Risk Committee operate as the highest level of the Group's risk governance and under the direction of their respective charters.

The Board Charter stipulates amongst other things that:

- The Board is responsible for "overseeing the establishment of systems of risk management by approving accounting policies, financial statements and reports, credit policies and standards, risk management policies and procedures and operational risk policies and systems of internal controls"; and
- The CEO is responsible for "implementing processes, including a system of internal controls and audits, to identify and manage risks that are material to the business of the Group".

A primary action of the Risk Committee is to construct the Group's Risk Appetite for adoption by the Board.

The Risk Committee is also responsible for agreeing and recommending for Board approval a risk management framework consistent with the agreed risk appetite.

Further information of the role and function of the Risk Committee is discussed in the Corporate Governance section of this report.

At management level, risk governance is undertaken by a structured hierarchy of committees and forums across the Group, each with specified accountabilities.

Risk Management Organisation

Independent risk management for the Group is undertaken by the Chief Risk Officer, who uses a matrix management approach within the Risk Management Business Unit. This Unit is comprised of risk management teams embedded in the businesses and Group functional teams that develop controls for each type of risk and who help the Group understand risk aggregation to produce enterprise wide risk management. Employees within these risk management teams report directly through to the Chief Risk Officer who in turn reports to the CEO and who also has direct reporting requirements to the Risk Committee.

Risk management professionals deployed in each Business Unit measure risks and assist the business in making decisions that optimise their risk-adjusted returns. They also take actions to ensure businesses adhere to risk policies and procedures.

Whilst the Risk Management function is an important component of the risk management framework, business managers understand that they are the consequential owners of the risks taken in their businesses. As such owners, they are expected to support their businesses with employees who are appropriately knowledgeable about risk and its management.

The Risk Appetite Framework helps to protect the Group from control and other operational failures, creating transparency over risk management and strategy decisions and, in turn, promotes a strong risk culture. Furthermore, governance processes and disciplines create independence of the Risk Management function from the Group's Business Units and the internal audit function, as well as encourage and protect whistle blowing actions when required.

Independent review of the risk management framework is carried out through Group Audit through audits of the actions of business and risk management teams. In addition, risk management and audit support "whistle blower" protocols to encourage employees to raise issues they believe reveal weaknesses in the Group's risk undertakings.

Further information on financial risk governance and management is included in Note 38 to the Financial Statements.

Risk Appetite

The Risk Appetite of the Group represents the types and degree of risk that it is willing to accept for its shareholders. Fundamentally, it guides the Group's risk culture and sets out quantitative and qualitative boundaries on risk-taking activities which apply Group wide.

The Board is of the view that a well articulated Risk Appetite is important in giving the Group's stakeholders a clear expectation as to how the Group will operate from a risk taking perspective.

This expectation is defined by a number of principles and metrics that are aligned to the Board's risk philosophy and sets minimum standards for shareholder value; allowing for resiliency factors in capital, funding, asset/liability management, our liquidity, risk culture, and other risk mitigants.

Risk Appetite is dynamic in nature and is reviewed on a regular basis in conjunction with the Group's strategic plans and business actions. The validation of strategic plans against the Risk Appetite is intended to ensure that the assessment of the adequacy of capital and contingent capital plans into the future are also aligned with the Risk Appetite.

The Group's risk appetite is to take risks that are adequately rewarded and that support its aspiration of achieving solid and sustainable growth in shareholder value.

Supporting this appetite, the Group works to:

- Operate responsibly, meet the needs of its customers, provide excellent customer service and maintain impeccable professional standards and business ethics;
- Make business decisions only after careful recognition, assessment, management and pricing of risk;
- Understand the risks it takes on, increasing exposure to new strategic initiatives and products only as sufficient experience and insight is gained;
- Exercise disciplined moderation in risk-taking, underpinned with strength in capital, funding and liquidity;
- Diligently strive to protect and enhance its reputation whilst being intolerant of a wide range of actions including regulatory and compliance breaches and risks associated with health and safety of employees;
- Maintain a control environment that, within practical constraints, minimises risks; and
- Promote a culture aimed at the achievement of best practice, quality outcomes.

Risk Policies and Tolerances support the Risk Appetite Statement by:

- Summarising the principles and practices to be used by the Group in managing its major risks;
- Quantifying the financial operating limits for major risks, principally credit risk, market risk (both traded and non-traded) and operational risk; and
- Stating clearly the types of risk outcomes to which the Group is intolerant.

The Group regularly benchmarks and aligns its policy framework against existing prudential and regulatory standards. Potential developments in Australian and international standards and best practice generally are considered during a review.

Risks that are readily quantifiable (such as credit, market and liquidity risks) have their risk profiles restricted by limits. Other significant risk categories are not managed in terms of defined financial limits, but via comprehensive qualitative management standards and procedures.

Principal Risk Types

The principal risk types, their relevant governing policies and how they support the Risk Appetite are outlined in the table below.

Principal Risk Type / Governance Framework

Risk Type	Governing Policies	How Policy Supports Risk Appetite
Credit Risk including Concentration Risk	Group Credit Policy; Country Risk Policy; Aggregation Policy; Large Credit Exposure Policy; Industry Sector Concentration Policy; and Securitisation Policy.	Quantitative limits/tolerances: Control Country Risk through a limits structure that captures cross-border credit risk exposures to other countries or entities based overseas; Set industry limits for exposures by industry; Govern the authority of management with regard to the amount of credit provided to any single counterparty after applying the aggregation policy within the Credit Risk Rated segment; and Govern all Securitisation activities undertaken by the Group.
Market Risk	Group Market Risk Policy; and Funds Management and Insurance Market Risk Policy.	Quantitative limits/tolerances: Traded Market Risk (Total VaR and Stress Testing limits); Non-Traded Market Risk (Market Value Sensitivity and Net Interest at Risk limits for interest rate risk in the banking book); Seed Trust Market Risk limits; Lease Residual Value Risk limits; Investment mandates for insurance Asset and Liability Management Risk (including VaR and stress testing limits); and Non-Traded Equity Investment limits.
Liquidity and Funding Risk	Group Liquidity and Funding Policy.	Quantitative limits/tolerances: Liquid asset holdings under name crisis scenario; and Wholesale funding limits.
Operational Risk	Operational Risk Policy and Framework.	Management via: A suite of risk mitigating policies; Reporting and case management of loss and near loss incidents; Comprehensive risk assessment and control assurance processes; Quantitative Risk Assessment Framework and Capital modelling; and Support from skilled risk professionals embedded throughout the Group.
Strategic Business Risk	Strategic Framework.	Management via a suite of management controls including: Strategic planning; Strategic implementation; and Financial management.
Reputational Risk	Ethics Framework.	Management via: Support from risk professionals embedded throughout the Group; and Crisis management testing of leadership team.
Insurance Risk	Risk Management Framework.	Management via: Risk Management Strategy and Risk Statement; Underwriting and claims standards; Retaining the right to amend premiums on risk policies; and Re-insurance purchases under policy guidance.
Compliance Risk	Compliance Risk Management Framework (“CRMF”).	Management via: The CRMF Minimum Group standards for compliance; Obligations Register and Guidance Notes that detail specific requirements and accountabilities for each Business Unit; Business Unit compliance frameworks; and Support from skilled compliance professionals embedded throughout the Group.

Credit Risk

Credit risk is the potential of loss arising from failure of a debtor or counterparty to meet their contractual obligations. At a portfolio level, credit risk includes concentration risk arising from interdependencies between counterparties (large credit exposures), and concentrations of exposure to countries, industry sectors and geographical regions.

The Group's credit risk policies have been developed as a matter of sound risk management practice and in accordance with the expectations of regulators' prudential standards.

The measurement of credit risk is based on an internal credit risk-rating system, which uses analytical tools to estimate expected and unexpected loss for the credit portfolio.

Further information on credit risk management and measurement is included in Note 39 to the Financial Statements.

Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates, foreign exchange prices, commodity and equity prices, credit spreads, lease residual values, and implied volatility levels.

Further information on market risk is included in Note 40 to the Financial Statements.

Liquidity and Funding Risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. 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.

Further information on liquidity and funding risk is included in "Liquidity and Capital Resources" and Note 41 to the Financial Statements.

Operational Business Risk

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

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

It includes legal, regulatory, fraud, business continuity and technology risks.

The Group's operational risk management framework supports the achievement of its financial and business goals. Framework objectives approved by the Risk Committee are:

- Maintenance of an effective internal control environment and system of internal control;
- Demonstration of effective governance, including a consistent approach to operational risk management across the Group;
- Transparency, escalation and resolution of risk and control incidents and issues; and
- Making decisions based upon an informed risk-return analysis and appropriate standards of professional practice.

The Group's security risk management framework forms part of the operational risk framework and sets out the key roles, responsibilities and processes for security risk management across the Group. Security risk is defined as threats associated with theft and fraud, information and IT security, protective security and crisis management.

Within the Group, accountability for operational risk has been structured into "Three Lines of Defence" as illustrated below:

- Line 1 – Business Management
  Business managers are responsible for managing operational risk for their business and the processes they own. This includes understanding and articulating their risk profile, testing and monitoring key controls, and escalating, reporting and rectifying incidents and control weaknesses;
- Line 2 – Risk Management & Compliance
  Group, Business Unit and Divisional Risk Management and Compliance units support the risk strategy and philosophy, support business decisions within the Group's risk appetite and facilitate the embedding of the Group's operational risk framework and culture within the Group's businesses;
- Line 3 – Internal and External Audit
  Group Audit is responsible for reviewing risk management frameworks and Business Unit practices for risk management and internal controls.

  External Audit is responsible for providing an independent opinion on the financial statements and control environments of the Group and Bank.

The Group's operational risk measurement methodology combines expert assessment of individual risk exposures with loss data from various sources to determine potential loss, purchase insurance and calculate operational risk economic capital.

The Group benchmarks and monitors its insurance risk transfer program for efficiency and effectiveness. This is primarily achieved through a methodology that optimises total shareholder returns and determines the most appropriate blend of economic capital coverage and insurance risk transfer.

Strategic Business Risk

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

- Macroeconomic conditions;
- Competitive forces at work; or
- Social trends.

Strategic business risk is taken into account when defining business strategy and objectives. The Board receives reports on business plans, major projects and change initiatives and monitors progress and reviews successes compared to plans.

Reputational Risk

Reputational risk can be defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, regulators and other relevant parties. This risk can adversely affect the Group's ability to maintain existing, or establish new, business relationships and access to sources of funding. Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organisation and exposure to reputational risk is essentially a function of the adequacy of the Group's internal risk management processes, as well as the manner and efficiency with which management responds to external influences on Group-related transactions. In many respects, adverse reputational risk outcomes flow from poor outcomes from the failure to manage other types of risk.

Insurance Risk

Insurance risk is the risk of loss due to increases in policy benefits arising from variations in the incidence or severity of insured events.

Insurance Risk exposure arises in the insurance business as the risk that claims payments are greater than expected. In the life insurance business this arises primarily through mortality (death) or morbidity (illness or injury) risks being greater than expected, whereas for the general insurance business variability arises mainly through weather related incidents and similar calamities, as well as general variability in home, motor and travel insurance claim amounts.

The management of insurance risk is an integral part of the operation of the insurance business and is essential in the control of claims on an end-to-end basis, from underwriting to claim termination or payment, without which significant potential for negative financial results arises.

The major methods of mitigating insurance risk are:

- Sound product design and pricing, to ensure that robust procedures are in place and there are no risks which have not been priced into contracts;
- Regular review of insurance experience, so that product design and pricing remains sound;
- Carrying out underwriting, so that the level of risk associated with an individual contract can be accurately assessed, charged for through premium rates, and reserved for;
- Claims management, where an assessment is made such that only genuinely insured claims are admitted and paid, and only paid to the insured extent; and
- Transferring a proportion of the risk carried to reinsurers.

The insurance risk management framework is subject to a process of regular review and enhancement.

Further information on the Life Insurance Business is included in Note 33 to the Financial Statements.

Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Group may suffer as a result of its failure to comply with the requirements of relevant laws, regulatory bodies, industry standards and codes.

The Group's Compliance Risk Management Framework ("CRMF") is a key element of the Group's integrated risk management framework. The CRMF is designed to meet the Group's obligations under relevant financial services laws and industry standards. It incorporates a number of components including Group Policies and Guidance Notes that detail specific requirements and accountabilities. These are complemented by Business Unit compliance frameworks including obligations registers, standards and procedures.

The CRMF provides for the assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness and the escalation, remediation and reporting of compliance incidents and control weaknesses.

The Group's compliance strategy is based on two fundamental principles:

- Line Management in each Business Unit have the responsibility to ensure their business is and remains compliant with legislative, regulatory, industry code and organisational requirements; and
- Group and Business Unit Regulatory Risk and Compliance teams work together to monitor, overview and report on compliance to management, compliance committees and the Board.

Stress Testing Framework

Stress testing is used, in combination with other risk management practices, to understand, manage and quantify the Group's risks.

The Group regularly carries out stress tests across its various businesses as part of:

- Formal business and strategic planning as well as capital assessment at Board level;
- Regular risk management stress testing exercises;
- Business contingency planning; and
- Requests from regulators or external agencies.

In addition to more standard risk measures, regular and ad-hoc risk stress testing is undertaken to identify and assess the risk profile of the Group.

The stress testing framework includes:

- Group-wide credit risk stress scenarios embedded in the strategic planning process, which informs and engages the Board in assessing capital adequacy under various operating circumstances using current macro-economic parameter settings. These tests are conducted across Businesses with the results aggregated to the Group level; and
- Risk Management related stress testing, which supports enhanced risk identification, assessment and management within the Group's Risk Appetite. Such stress testing facilitates a more robust understanding of the Group's risks and facilitates better management policies and predictability of capital requirements in more extreme circumstances.

Stress testing also provides an input into the development of capital contingency plans which detail how the Group would respond to the need for increases in capital held to cover the potential for unexpected future outcomes.

For further detail on the Group's assessment of capital, refer to the section on Capital Management and Note 31 to the Financial Statements.

Specific risk types for which stress tests are conducted on a routine basis for business risk management purposes are outlined below.

Credit Risk

Business Units conduct credit risk stress tests on the Home Loan portfolio, as well as for secured and unsecured non-mortgage products (Credit Cards, Personal Loans, and Cheque Accounts), in conjunction with Group-wide stress tests.

Business Units also conduct stress testing of the commercial loan portfolio.

Market Risk

Stress testing is performed on the traded market risk, non-traded interest rate risk, non-traded equity risk and non-traded insurance risk portfolios. Stress testing is undertaken on a frequency from daily to monthly for a holding period consistent with the appropriateness of the risks being considered.

The stress events considered are extreme but plausible market movements and have been backtested against moves seen during 2008 and 2009 at the height of the global financial crisis.

The results are reported to the Board's Risk Committee and the Group Asset and Liability Committee ("ALCO") on a regular basis. Stress tests also include a range of forward looking macro scenario stresses.

Liquidity and Funding Risk

A range of liquidity stress tests that determine survival horizons are performed and reported to Group ALCO on a monthly basis. The stress tests look to identify the timeframe over which high quality liquid assets could survive under various stress liability run-off scenarios, including a "name crisis" and various "market-systemic crises".

The funding early warning indicators monitor a range of balance sheet metrics focussing on external market conditions, changing patterns of business activity and concentration risk within the Group's wholesale funding profile. These are also reported to Group ALCO on a regular basis.

Operational Risk

The Group has a framework for operational risk stress testing. The purpose of this framework is to assess the potential for operational risk outcomes. In addition, crisis management exercises are undertaken to test Executive leadership team preparedness to handle a large, unexpected operational risk failure.

Operational risk stress tests are undertaken on an annual basis. Crisis management exercises are more frequent.

Risk Management Initiatives

In order to remain effective in constantly evolving economic, strategic and regulatory environments, the risk management framework and culture requires a continuous cycle of review and refinement. Over the last twelve months the Group has made the following key refinements to its framework:

- Upgraded its risk management governance structure by formalising various committees and forums across the Group and refreshing the charters for the key governance committees;
- Established formal risk appetite statements for each of the Group's major Business Units, to articulate at a more granular level the types and degrees of risk that the Group is willing to accept, including specific risk tolerances and intolerances;
- Embedded, more fully and formally, considerations of risk into remuneration policy and practices;
- Further enhanced the Group's policy framework including the articulation of appropriate lower level sub-limits that are consistent with Group level limits;
- Integrated subsidiary entities more fully into the Group's risk management framework and practices to ensure a more consistent and efficient risk environment. The most significant example of this is the Group supporting Bankwest's efforts to extend the Group's accreditation to use the Advanced Internal Ratings Based approach to determine regulatory capital;
- Undertaken various risk optimisation strategies and portfolio reviews that have provided insight into key risk dependencies and resulted in adjusting risk exposure levels based on available risk-adjusted returns;
- Secured Executive and Board support and funding for projects that will substantially enhance core risk systems, data and processes. Key appointments have been made and work on delivering these projects is in train;
- Strengthened the credit decisioning process, the monitoring of deteriorating credits, the provisioning process and risk-based pricing models;
- Management completed annual reviews of policies relating to Credit Risk, Market Risk, Operational Risk, Compliance Risk and the Insurance Risk Management Framework. Liquidity and Funding Risk policy was also reviewed and the main parameter settings confirmed as being appropriate for current and forecast economic conditions;
- Continued to develop the Group's risk modelling and stress testing capabilities to meet the demands of an ever-changing macroeconomic environment; and
- Monitored and responded to regulatory changes and likely future regulatory change, both of which are being driven by evolving thinking by regulators, banking and economic organisations in light of the learnings from the global financial crisis. In particular, the Group has increased its participation in global financial forums and taken actions to influence regulators and Government to help shape future regulatory reform.

Cross Border Outstandings

Cross-border outstandings are based on the country of domicile of the borrower or guarantor of the ultimate risk. Outstandings include loans, acceptances and other monetary assets denominated in other than the counterparties' local currency. Local currency activities with local residents by foreign branches and controlled entities of the Group are excluded.

At 30 June 2010, there were no individual industry categories by country exceeding 1% of the Group's total assets. At 30 June 2009, there were no individual industry categories by country exceeding 1% of the Group's total assets.

At 30 June 2010, there was no country cross border outstanding exceeding 0.75% of the Group's total assets. At 30 June 2009, the United Kingdom with cross border outstandings of $6.5 billion and Germany with $4.3 billion, were the only countries to exceed 0.75% of the Group's total assets.

Capital Management

The Bank is an Authorised Deposit-taking Institution ("ADI") and is subject to regulation by APRA under the authority of the Banking Act 1959. APRA has set minimum regulatory capital requirements for banks that are consistent with the International Convergence of Capital Measurement and Capital Standards: A Revised Framework ("Basel II") issued by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide methods of measuring the risks incurred by the Bank.

The regulatory capital requirements are measured for the Extended Licence Entity Group (known as "Level One", comprising the Bank and APRA approved subsidiaries) and for the Bank and all of its banking subsidiaries (known as "Level Two" or the "Group"), which includes both Bankwest and ASB Bank.

All entities which are consolidated for accounting purposes are included within the Group capital adequacy calculations except for:

- The insurance and funds management operations; and
- The entities through which securitisation of Group assets are conducted.

Regulatory capital is divided into Tier One and Tier Two Capital. Tier One Capital primarily consists of Shareholders' Equity plus other capital instruments acceptable to APRA, less goodwill and other prescribed deductions. Tier Two Capital is comprised primarily of hybrid and debt instruments acceptable to APRA less any prescribed deductions. Total Capital is the aggregate of Tier One and Tier Two Capital.

The tangible component of the investment in the insurance and funds management operations are deducted from capital, 50% from Tier One and 50% from Tier Two.

Capital adequacy is measured by means of a risk based capital ratio. The capital ratios reflect capital (Tier One, Tier Two or Total Capital) as a percentage of total Risk Weighted Assets ("RWA"). RWA represents an allocation of risks associated with the Group's assets and other related exposures.

The Group actively manages its capital to balance the requirements of various stakeholders (regulators, rating agencies and shareholders). This is achieved by optimising the mix of capital while maintaining adequate capital ratios throughout the Financial Year.

The Group has a range of instruments and methodologies available to effectively manage capital including share issues and buybacks, dividend and dividend reinvestment plan policies, hybrid capital raising and dated and undated subordinated debt issues. All major capital related initiatives require approval of the Board.

The Group's capital position is monitored on a continuous basis and reported monthly to ALCO. Three year capital forecasts are conducted on a quarterly basis and a detailed capital and strategy plan is presented to the Board annually.

The Group's capital ratios throughout the 2008, 2009 and 2010 Financial Years were in compliance with both APRA minimum capital adequacy requirements and the Board Approved minimums.

The Bank is required to inform APRA immediately of any breach or potential breach of its minimum capital adequacy requirements, including details of remedial action taken or planned to be taken.

Dividends

Banks may not pay dividends if, immediately after payment, they are unable to meet the minimum capital requirements. APRA does not permit banks to pay dividends from retained profits without prior approval. Under APRA guidelines, the expected dividend must be deducted from Tier One Capital.

Current Regulatory Framework

Basel II

The Basel II framework consists of three pillars:

- Pillar 1 – defines the rules for calculating the minimum regulatory capital requirements for credit, market and operational risk;
- Pillar 2 – addresses the supervisory review process including the Group's internal capital adequacy assessment process (ICAAP); and
- Pillar 3 – specifies public disclosure requirements to enable market participants to assess key pieces of information on risk exposures and processes of a banking group.

The Group was granted "advanced" Basel II accreditation by APRA on 10 December 2007.

As a result of receiving advanced Basel II accreditation, the advanced internal ratings based approach (AIRB) for credit risk and the advanced measurement approaches (AMA) for operational risk were adopted in the calculation of RWA effective from 1 January 2008.

APRA specifically requested Australian banks to incorporate regulatory capital for Interest Rate Risk in the Banking Book (IRRBB) in their assessment of total regulatory capital from 1 July 2008. Interest rate risk in the banking book is the risk that the Bank's profit derived from Net Interest Income (interest earned less interest paid), in current and future periods, is adversely impacted from changes to interest rates. This is measured from two perspectives; firstly by quantifying the change in the net present value of the balance sheet's future earnings potential and secondly; as the anticipated change to the Net Interest Income which is reported in the Bank's Income Statement. This is not a requirement under the Basel II Pillar 1 framework.

There is an agreed methodology for measuring market risk for traded assets, which remained unchanged from Basel I.

The work undertaken for the Bank to achieve the advanced accreditation has provided the Group with increased sophistication in risk measurement and management, thereby increasing the flexibility with which the Group manages its decision making and capital management.

Proposed Regulatory Changes

In the current environment, regulatory reform is expected to continue to evolve as global regulators seek to address risks highlighted through the global financial crisis.

Basel Committee proposal

On 17 December 2009 the Basel Committee on Banking Supervision ("BCBS") released its consultation package of proposals to strengthen global capital and liquidity regulations. The capital proposals relate to the quality, consistency and transparency of capital, enhancing the risk coverage framework, introduction of a non-risk based leverage ratio, reducing pro-cyclicality, and addressing systemic risk. Subsequent to this, the BCBS has issued more details with respect to specific areas addressed in the original proposals. This includes a refinement of the definition of capital and the leverage ratio and a proposal for the introduction of a counter cyclical capital buffer.

It is expected that APRA will implement these proposals in a form appropriate for Australian banks after adoption by the BCBS. These new standards are expected to be finalized during the 2011 Financial Year and implemented over the next 5 years. While it is not yet clear what the content of the final regulations will ultimately be, the Group expects the primary impact on it will be a requirement to hold more liquid assets and a higher level of capital than it has historically.

Delivery of a fully calibrated and finalised package of capital reforms is expected by the end of 2010 with implementation due to commence from 2012. The leverage ratio is set to be phased in over a more extended time period including parallel reporting undertaken between 2013 and 2017 with a view to migrating to Pillar 1 in 2018.

Basel II enhancements announced in July 2009, relating to securitisation and market risk, intended for introduction by the end of 2010 have been deferred until the end of 2011.

Supervision of conglomerate groups

On 18 March 2010, APRA released a Discussion Paper titled “Supervision of Conglomerate Groups”. The proposal aims to extend APRA’s current prudential supervision framework to conglomerate groups that have material operations in more than one APRA-regulated industry and/or have one or more material unregulated entities. The aims of the Level 3 proposal are to ensure that a conglomerate group holds adequate capital to protect the APRA-regulated entities from potential contagion and other risks within the group. APRA is conducting a Quantitative Impact Study (“QIS”) in the second half of 2010, prior to finalising the standards in 2011 and implementation of the Level 3 supervision framework in 2012.

Capital standards for general insurers and life insurers

On 13 May 2010, APRA released a Discussion Paper titled “Review of capital standards for general insurers and life insurers” and more detailed technical papers in July 2010. APRA proposes introducing a common framework for required capital and eligible capital across general insurers and life insurers. APRA is conducting a QIS on the proposed changes in the second half of 2010 calendar year. The final capital standards are expected to be released in mid-2011 and to take effect in 2012.

Risk Weighted Assets under Basel I and Basel II

Beginning on 1 January 2008, the Group began calculating and reporting its capital adequacy ratios in accordance with guidelines set by APRA in applying the Basel II capital adequacy framework, prior to which it calculated its capital adequacy ratios in accordance with guidelines set by APRA in applying the Basel I capital adequacy framework. There are substantial differences between how capital adequacy ratios are calculated under Basel I and Basel II, the most pronounced of which is in the calculation of risk weighted assets, which is used as the denominator in the calculation of each of the Tier 1 capital ratio, Tier 2 capital ratio and total capital ratio.

Under the Basel I framework, to calculate risk weighted assets, the Group’s assets were classified into one of several risk categories and assigned a risk weighting determined by regulation based on that classification. The Group’s assets were classified into the following five risk categories with the applicable risk weighting:

- cash, central bank and government debt and any OECD government debt – 0% risk weighting;
- public sector debt – 0%, 10%, 20% or 50%, depending on the credit quality of the issuer;
- development bank debt, OECD bank debt, OECD securities firm debt, non-OECD bank debt (under one year maturity) and non-OECD public sector debt, cash in collection – 20%;
- eligible residential mortgages – 50%; and
- private sector debt, non-OECD bank debt (maturity over a year), real estate, plant and equipment, capital instruments issued at other banks – 100%.

Risk weightings assigned to each asset class were determined by regulation and were not necessarily consistent with the loss experience of the Group. In addition, there was an agreed method for measuring market risk for traded assets.

Under the Basel II framework, to calculate risk weighted assets, the Group has developed models that measures certain risk metrics (e.g., market risk, credit risk, operational risk). The determination of risk-weighted assets under Basel II for credit risk depends on four key variables and the asset category the exposures fall under. The main variables are:

- Probability of default (PD) per rating grade, which gives the average percentage of borrowers that default in this rating grade in the course of one year;
- Exposure at default (EAD), which gives an estimate of the amount outstanding (drawn amounts plus likely future drawdowns of yet undrawn lines) in case the borrower defaults;
- Loss given default (LGD), which gives the percentage of exposure the Group might lose in case the borrower defaults. These losses are usually shown as a percentage of EAD, and depend, amongst others, on the type and amount of collateral as well as the type of borrower and the expected proceeds from the work-out of the assets; and
- Maturity (M) – effective maturity of the obligation.

The risk weightings assigned to each asset are more precise and reflect the Group’s historical performance with respect to that asset class, subject to certain limitations imposed by APRA. Under the Basel II framework, risk weighted assets are intended to more accurately reflect the actual risks associated with the Group’s assets on an asset by asset basis to allow it to more accurately measure the risk associated with its portfolio.

As a result of the different methodologies used in calculating risk weighted assets under Basel I and Basel II, capital adequacy figures as calculated in accordance with the differing regulatory frameworks will necessarily differ and are not comparable.

The Group also notes that the application of the Basel II framework by each home-country regulator may be different. As a result, risk weighted assets calculated in accordance with Basel II, as interpreted by APRA, may differ from risk weighted assets calculated in accordance with Basel II as may currently or in future be interpreted by the Federal Reserve Bank of the United States, the Financial Services Authority of the United Kingdom, or any other regulator.

Active Capital Management

The Group maintains a strong capital position with the capital ratios well in excess of APRA minimum capital adequacy requirements (Prudential Capital Ratio ("PCR")) and the Board Approved minimum levels at all times throughout the 2010 Financial Year.

The Tier One Capital and Total Capital ratios as at 30 June 2010 were 9.15% and 11.49% respectively.

Tier One Capital increased by five basis points over the prior half, reflecting strong profit growth and a net reduction in RWA, partially offset by the provision for final dividend. No allowance has been taken into account in the capital ratios for the Dividend Reinvestment Plan ("DRP") in respect of the 30 June 2010 final dividend, as it has been assumed the DRP is expected to be satisfied in full by an on market purchase of shares.

The Group's Total Capital as at 30 June 2010 dropped by 14 bps over the prior half year end to 11.49%, with the improvement in Tier One more than offset by the planned redemptions of Lower Tier Two Capital.

RWA were $291 billion at 30 June 2010, a decrease of $7 billion since 31 December 2009, primarily influenced by a $6 billion decrease in IRRBB RWA, reflecting a change in repricing and yield curve risk.

During the year ended 30 June 2010, Tier One Capital increased by 108 bps reflecting the impact of the strong profit performance and the issue of PERLS V. Total Capital increased by 107 bps at 30 June 2010 compared to 30 June 2009, benefitting from the improvement in Tier One Capital and a major Lower Tier Two Capital issue, partially offset by planned redemption of Lower Tier Two Capital. Further details on the PERLS V and Lower Tier Two Capital are provided in the capital initiatives section below.

Capital Initiatives

The following significant initiatives were undertaken during the 2010 Financial Year to actively manage the Group's capital:

Tier One Capital

- The allocation of $685 million of ordinary shares in order to satisfy the DRP in respect of the final dividend for the 2008/2009 Financial Year, representing a DRP participation rate of 39%, inclusive of DRP discount of 1.5%;
- The allocation of $772 million of ordinary shares in order to satisfy the DRP, in respect of the interim dividend for the 2009/2010 Financial Year, representing a participation rate of 42%, inclusive of DRP discount of 1.5%; and
- The Group issued $2 billion ($1,964 million net of issue costs) PERLS V securities in October 2009 which qualify as Non-Innovative Tier One Capital.

Tier Two Capital

- Issue of $1.7 billion (EUR 1 billion) subordinated Lower Tier Two debt in August 2009; offset by
- Redemption of subordinated Lower Tier Two debt including $615 million (USD 500 million) in August 2009, $300 million in February 2010 and a further $450 million (EUR 300 million) in March 2010.

Regulatory Capital Requirements for Other Major ADI's in the Group

ASB Bank Limited

ASB Bank Limited (ASB Bank) is subject to regulation by the Reserve Bank of New Zealand ("RBNZ"). The RBNZ applies a similar methodology to APRA in calculating regulatory capital requirements. ASB Bank operates under Basel II advanced status.

At 30 June 2010 ASB Bank had a Tier One ratio of 10.85% and a Total Capital ratio of 13.20%.

ASB Bank was in compliance with its regulatory capital requirements at all times throughout the 2010 Financial Year.

Bankwest

Bankwest operates as a separate ADI and is separately regulated by APRA. Bankwest operates under the standardised Basel II methodology. There is a program to extend the Group's advanced accreditation to determine regulatory capital to Bankwest.

Bankwest's capital ratios, as at 30 June 2010, are in excess of both APRA minimum requirements and Board approved minimum levels. The Tier One ratio was 8.59% and Total Capital was 12.39%. Bankwest was in compliance with its regulatory capital requirements at all times during the 2010 Financial Year.

Regulatory Capital Requirements for Insurance and Funds Management Business

The Group's life insurance business in Australia is regulated by APRA. The Life Insurance Act 1995 includes a two tiered framework for the calculation of regulatory capital requirements for life insurance companies – "solvency" and "capital adequacy". The capital adequacy test for statutory funds is always equal to or greater than the solvency test (1).

There are no regulatory capital requirements for life insurance companies in New Zealand, though the directors of any company must certify its solvency under the Companies Act 1993. The Group determines the minimum capital requirements for its New Zealand life insurance business according to the professional standard, "Solvency Reserving for Life Insurance Business", issued by the New Zealand Society of Actuaries.

The Group's general insurance businesses are regulated by APRA under the Insurance Act 1973. The Group determines capital requirements for general insurance businesses in accordance with APRA Prudential Standards.

Fund managers in Australia are subject to "Responsible Entity regulation by the Australian Securities and Investment Commission ("ASIC"). The regulatory capital requirements vary depending on the type of Australian Financial Services Licence or Authorised Representatives' Licence held, but a requirement of up to $5 million of net tangible assets applies.

APRA supervises approved trustees of superannuation funds and requires them to also maintain net tangible assets of at least $5 million. These requirements are not cumulative where an entity is both an approved trustee for superannuation purposes and a responsible entity.

The Group's insurance and funds management companies held assets in excess of regulatory capital requirements at 30 June 2010. The Group's Australian and New Zealand insurance and funds management businesses held $1,007 million of assets in excess of regulatory solvency requirements at 30 June 2010 (2009: $1,036 million).

(1) The Shareholders' fund is subject to a separate capital requirement.

Capital Management continued

Capital Adequacy

Risk Weighted Capital Ratios	Basel II 30/06/10 %	Basel II 31/12/09 %	Group Basel II 30/06/09 %
Tier One	**9.15**	9.10	8.07
Tier Two	**2.34**	2.53	2.35
Capital Base	**11.49**	11.63	10.42

Regulatory Capital	Basel II 30/06/10 $M	Basel II 31/12/09 $M	Group Basel II 30/06/09 $M
Tier One Capital			
Ordinary Share Capital	**23,081**	22,344	21,642
Treasury shares (1)	**298**	262	278
Ordinary Share Capital and Treasury Shares	**23,379**	22,606	21,920
Other Equity Instruments	**939**	939	939
Trust Preferred Securities 2006 (2)	**(939)**	(939)	(939)
Reserves (3)	**1,089**	459	516
Cash flow hedge reserve	**417**	625	813
Employee compensation reserve	**(125)**	15	-
Asset revaluation reserve	**(194)**	(169)	(173)
Available-for-sale investments reserve	**(173)**	(50)	55
Foreign currency translation reserve related to non-consolidated subsidiaries	**8**	21	12
Total Reserves	**1,022**	901	1,223
Retained Earnings and current period profits	**9,938**	9,320	7,825
Expected dividend (4)	**(2,633)**	(1,841)	(1,747)
Estimated reinvestment under Dividend Reinvestment Plan (5)	**-**	608	507
Retained earnings adjustment for non-consolidated subsidiaries (6)	**392**	752	752
Other	**(52)**	(91)	(181)
Net Retained Earnings	**7,645**	8,748	7,156
Non-controlling Interest (7)	**523**	521	520
ASB Perpetual Preference Shares (7)	**(505)**	(505)	(505)
Non-controlling interests less ASB Perpetual Preference Shares	**18**	16	15
Total Fundamental Tier One Capital	**32,064**	32,271	30,314

(1) Represents shares held by the Group's life insurance operations and employee share scheme trusts.

(2) Trust Preferred Securities 2006 issued 15 March 2006 of USD700 million. These instruments qualify as Tier One Innovative Capital of the Group.

(3) The Group's general reserve, capital reserve and foreign currency translation reserve (excluding balances related to non consolidated subsidiaries) qualify as Fundamental Tier One Capital.

(4) Represents expected dividends required to be deducted from current period earnings.

(5) The 30 June 2010 capital position assumes that the Bank's Dividend Reinvestment Plan (DRP) in respect of the June 2010 final dividend will be satisfied in full by an on-market purchase of shares. The DRP in respect of the December 2009 interim dividend and the June 2009 final dividend were satisfied through the issue of shares.

(6) Represents retained earnings adjustment for non-consolidated subsidiaries. This includes adjustments to the extent to which profits from non-consolidated subsidiaries are not repatriated back to the Bank in dividends (June 2010: $360 million, December 2009: nil, June 2009: nil). The retention of these profits will be used to fund the future growth of these operations. This has been offset by the one-off write back adjustments upon adoption of AIFRS of $752 million.

(7) Non-controlling interest classified as Tier One Innovative Capital under Basel II regulations. Comprised predominately of ASB Perpetual Preference Shares of NZD550 million issued by New Zealand subsidiary entities. These shares are non-redeemable and carry limited voting rights.

Capital Adequacy (continued)

Regulatory Capital	Basel II 30/06/10 $M	Basel II 31/12/09 $M	Group Basel II 30/06/09 $M
Residual Tier One Capital			
Innovative Tier One Capital			
Non-cumulative preference shares [(1)]	**2,728**	2,699	2,762
Non-controlling Interests [(2)]	**505**	505	505
Eligible loan capital	**236**	225	248
Total Innovative Tier One Capital	**3,469**	3,429	3,515
Non-Innovative Residual Tier One Capital [(3)]	**3,407**	3,407	1,443
Less: Residual capital in excess of prescribed limits transferred to Upper Tier Two Capital [(4)]	**(225)**	(73)	-
Total Residual Tier One Capital	**6,651**	6,763	4,958
Tier One Capital Deductions - 100%			
Goodwill and other intangibles (excluding software) [(5)]	**(8,470)**	(8,523)	(8,572)
Capitalised expenses	**(288)**	(283)	(257)
Capitalised computer software costs	**(950)**	(799)	(673)
Defined benefit superannuation plan surplus [(6)]	**(221)**	(411)	(347)
General reserve for credit losses [(7)]	**(90)**	-	-
Deferred tax	**(96)**	(34)	(257)
	(10,115)	(10,050)	(10,106)
Tier One Capital Deductions - 50% [(8)]			
Equity investments in other companies and trusts [(9)]	**(323)**	(315)	(422)
Equity investments in non-consolidated subsidiaries (net of intangibles) [(10)]	**(518)**	(600)	(529)
Expected impairment losses (before tax) in excess of eligible credit provisions (net of deferred tax) [(11)]	**(830)**	(727)	(654)
Other deductions	**(328)**	(277)	(250)
	(1,999)	(1,919)	(1,855)
Total Tier One Capital Deductions	**(12,114)**	(11,969)	(11,961)
Total Tier One Capital	**26,601**	27,065	23,311

(1) APRA approved Innovative Tier One Capital instruments (PERLS III and Trust Preferred Securities 2003 and 2006).

(2) Non-controlling interest classified as Tier One Innovative Capital under Basel II regulations. Comprised predominately of ASB Perpetual Preference Shares of NZD550 million issued by New Zealand subsidiary entities. These shares are non-redeemable and carry limited voting rights.

(3) Comprises PERLS IV $1,465 million (less costs) issued by the Bank in July 2007 and PERLS V $2,000 million (less costs) issued by the Bank in October 2009. These have been approved by APRA as Tier One Non-Innovative Capital instruments.

(4) Residual Capital eligible for inclusion as Tier One Capital is subject to an APRA prescribed limit of 25% of Tier One capital with any excess transferred to Upper Tier Two Capital.

(5) Represents total Goodwill and other intangibles (excluding capitalised computer software costs) which is required to be deducted from Tier One Capital.

(6) In accordance with APRA regulations, the surplus (net of tax) in the Bank's defined benefit superannuation fund which is included in Shareholders' equity must be deducted from Tier One Capital.

(7) Capital deduction at 30 June 2010 of $90 million (after tax) to ensure the Group has sufficient provisions and capital to cover credit losses estimated to arise over the full life of the individual facilities, as required by APS 220.

(8) Represents 50% Tier One and 50% Tier Two Capital deductions under Basel II.

(9) Represents the Group's non-controlling interest in major infrastructure assets and unit trusts. During the half year ended 30 June 2010 the Bank sold its remaining interest in ENW Limited to the First State European Diversified Infrastructure Fund ("EDIF") and acquired a 10% interest in Air Lease Corporation, a US based aircraft leasing business. The Bank's holding in AWG plc was sold to EDIF in the half year ended 31 December 2009.

(10) Represents the net equity within the non-consolidated subsidiaries (primarily the Colonial Group) which is deducted 50% from Tier One and 50% from Tier Two Capital. This deduction is net of $1,495 million in Non-Recourse Debt issued by Colonial Finance Limited (December 2009: $1,538 million, June 2009: $1,707 million) and the Colonial Hybrid Issue $700 million (December 2009: $700 million, June 2009: $700 million).

(11) Regulatory Expected Loss (pre tax) using stressed loss given default assumptions associated with the loan portfolio in excess of eligible credit provisions (collective provision and general reserve for credit losses net of tax and individually assessed provision pre tax) are deducted 50% from both Tier One and Tier Two capital.

Capital Adequacy (continued)

	Group		
	Basel II	Basel II	Basel II
	30/06/10	31/12/09	30/06/09
Regulatory Capital	$M	$M	$M
Tier Two Capital			
Upper Tier Two Capital			
Residual capital in excess of prescribed limits transferred from Tier One Capital (1)	**225**	73	-
Prudential general reserve for credit losses (net of tax) (2)	**603**	603	590
Asset revaluation reserve (3)	**87**	76	78
Upper Tier Two note and bond issues	**382**	350	373
Other	**83**	64	56
Total Upper Tier Two Capital	**1,380**	1,166	1,097
Lower Tier Two Capital			
Lower Tier Two note and bond issues (4) (5)	**7,454**	8,299	7,561
Holding of own Lower Tier Two Capital	**(16)**	(17)	(19)
Total Lower Tier Two Capital	**7,438**	8,282	7,542
Tier Two Capital Deductions			
50% Deductions from Tier Two Capital (6)	**(1,999)**	(1,919)	(1,855)
Total Tier Two Capital	**6,819**	7,529	6,784
Total Capital	**33,420**	34,594	30,095

(1) Residual Capital eligible for inclusion as Tier One Capital is subject to an APRA prescribed limit of 25% of Tier One Capital with any excess transferred to Upper Tier Two Capital.

(2) Represents the after tax collective provisions and general reserve for credit losses of banking entities in the Group (including Bankwest) which operate under the Basel II Standardised methodology.

(3) APRA allows only 45% of asset revaluation reserve to be included in Tier Two Capital.

(4) APRA requires these Lower Tier Two note and bond issues to be included as if they were unhedged.

(5) For regulatory capital purposes, Lower Tier Two note and bond issues are amortised by 20% of the original amount during each of the last five years to maturity.

(6) Represents 50% Tier One and 50% Tier Two Capital deductions under Basel II rules.

Capital Adequacy (continued)

Risk Weighted Assets	Basel II 30/06/10 $M	Basel II 31/12/09 $M	Group Basel II 30/06/09 $M
Credit Risk			
Subject to Advanced IRB approach			
Corporate	**44,252**	43,031	54,242
SME Corporate	**26,216**	25,322	31,222
SME Retail	**5,170**	4,765	4,925
Sovereign	**2,800**	1,956	1,713
Bank	**7,492**	6,745	8,040
Residential mortgage	**55,882**	56,909	54,841
Qualifying revolving retail	**6,772**	6,292	5,698
Other retail	**6,322**	6,315	6,336
Impact of the regulatory scaling factor (1)	**9,294**	9,079	10,021
Total risk weighted assets subject to Advanced IRB approach	**164,200**	160,414	177,038
Specialised lending (SL) exposures subject to slotting criteria	**35,483**	38,678	22,627
Subject to Standardised approach			
Corporate	**8,872**	10,053	11,094
SME Corporate	**7,746**	7,540	7,455
SME Retail	**4,684**	4,505	4,469
Sovereign	**215**	233	282
Bank	**1,136**	1,206	170
Residential mortgage	**22,436**	22,531	20,576
Other retail	**2,530**	2,411	2,398
Other	**5,472**	6,405	7,517
Total risk weighted assets subject to standardised approach	**53,091**	54,884	53,961
Securitisation	**1,569**	1,962	2,724
Equity exposures	**2,420**	2,528	2,103
Total risk weighted assets for credit risk exposures	**256,763**	258,466	258,453
Market risk	**3,503**	4,033	3,450
Interest rate risk in the banking book	**10,272**	16,601	8,944
Operational risk	**20,283**	18,349	17,989
Total risk weighted assets (2)	**290,821**	297,449	288,836

(1) APRA requires risk weighted assets amounts that are derived from IRB risk weight functions be multiplied by a factor of 1.06.

(2) 30 June 2010, 31 December 2009 and 30 June 2009 RWA include the consolidation of Bankwest which operates under the Basel II Standardised methodology.

Liquidity and Capital Resources

The Group's key funding tools include:

- Its consumer, small business and institutional deposit base;
- Its consumer retail funding base which includes a wide range of retail transaction accounts, investment accounts, term deposits and retirement style accounts for individual consumers; and
- Its wholesale international and domestic funding programmes which includes its: Australian dollar Negotiable Certificates of Deposit; Australian dollar bank bill; Asian Transferable Certificates of Deposit programme; Australian, U.S. and Euro Commercial Paper programmes; Bankwest Euro Commercial Paper programme; U.S. Extendible Notes programme; Australian dollar Domestic Debt Programme; U.S. Medium Term Note Programme; Euro Medium Term Note Programme and its Medallion and Swan securitisation programmes.

The table on page 69 illustrates the maturity profile of the Group's outstanding wholesale debt liabilities at 30 June 2010, broken down by type of debt instrument and maturity. Also refer to Note 41 of the 2010 financial report for additional information about the Group's liquidity and capital resources and Note 40 for quantitative and qualitative information about market risk.

Recent Market Environment

The cost of liquidity and funding has moderated from last year's peak but remains high. The Group remains dependent upon wholesale funding markets outside of Australia, with the substantial majority of wholesale funding being undertaken in the international capital markets. Issuance under the Group's US Commercial Paper and US Medium Term Note programs comprises approximately 26% of the Group's total wholesale funding as at 30 June 2010. The Group continually monitors the cost of funding markets and investor appetite for debt issues of the Group. The Group has managed its liquidity to avoid concentrations such as dependence on single sources of funding and has taken advantage of its diversified funding base and significant funding capacity in the global unsecured debt markets.

During the year several regulatory bodies have released consultative documents. APRA and the BCBS review of liquidity standards have yet to be finalised while the Financial Services Authority (FSA) and RBNZ have released new standards.

The final impact of new liquidity and funding regulations on the Group is still uncertain though it is likely that they will require increased long term debt issuance and higher holdings of liquid assets. The Group continues to monitor developments in this area and will update its liquidity and funding policies as appropriate.

The Bank issued debt under its programs which has the benefit of a guarantee by the Australian Government announced on 12 October 2008 and formally commenced on 28 November 2008 (Guarantee Scheme). On 7 February 2010 it was announced that the Guarantee Scheme would close to new liabilities from 31 March 2010. The Group is required to continue paying fees in relation to the Guarantee Scheme, calculated by reference to the term and amount of the liabilities guaranteed and the Bank's credit rating.

Existing guaranteed debt issued by the Bank (approximately $32 billion) remains guaranteed until maturity.

Separate arrangements continue to apply for deposit balances totalling up to and including $1 million under the Financial Claim Scheme. Such deposits are guaranteed without charge.

Details of the Group's regulatory capital position and capital management activities are disclosed in Note 31 Capital Adequacy to the 2010 Financial Statements.

In the second half of the 2010 Financial Year, the Group experienced increased competition for deposits. This has led to an increased cost of funding due to the use of higher interests rates on deposits to lure depositors. Since 1 July 2007, the cost of deposit funding has increased by 146 basis points while the cost of wholesale funding has increased by 89 basis points.

Commitments for Capital Expenditure Not Provided for	Group 2010 $M	2009 $M
Not later than one year	**19**	18
Total commitments for capital expenditure not provided for	**19**	18

Debt Issues (for further details see Note 24 to the 2010 Financial Statements)

	Group 2010 $M	2009 $M	2008 $M
Short term debt issues	**49,757**	39,586	35,877
Long term debt issues	**80,453**	62,233	49,940
Total debt issues	**130,210**	101,819	85,817
Short Term Debt Issues			
AUD Commercial Paper	**494**	258	1,024
USD Commercial Paper	**20,423**	20,419	14,116
EUR Commercial Paper	**1,981**	566	622
GBP Commercial Paper	**4,980**	609	-
Other Currency Commercial Paper	**88**	-	416
Long Term Debt Issues with less than one year to maturity	**21,791**	17,734	19,699
Total short term debt issues	**49,757**	39,586	35,877
Long Term Debt Issues			
USD Medium Term Notes	**41,074**	23,221	19,065
AUD Medium Term Notes	**9,796**	12,273	10,232
NZD Medium Term Notes	**1,112**	1,163	438
JPY Medium Term Notes	**8,808**	9,489	6,463
GBP Medium Term Notes	**1,558**	2,116	3,482
EUR Medium Term Notes	**11,044**	8,971	6,478
Other Currencies Medium Term Notes	**6,971**	4,851	3,630
Offshore Loans (all JPY)	**90**	149	152
Total long term debt issues	**80,453**	62,233	49,940
Maturity Distribution of Debt Issues (1)			
Less than three months	**27,939**	23,883	21,757
Between three and twelve months	**21,818**	15,703	14,120
Between one and five years	**61,741**	52,899	35,234
Greater than five years	**18,712**	9,334	14,706
Total debt issues	**130,210**	101,819	85,817

(1) Represents the contractual maturity of the underlying instrument.

The following table details the current debt programmes and issuing shelves along with programme or shelf size as at 30 June 2010. Access in a timely and flexible manner to a diverse range of debt markets and investors is provided by the following programmes as at 30 June 2010.

Debt Programmes and Issuing Shelves

Programme/Issue Shelf	Programme/Issuing Shelf Type
Australia	
No Limit	Domestic Debt Issuance Programme
AUD 3 billion	CBFC Domestic Borrowing Programme
AUD 3 billion	CFL Domestic Borrowing Programme
Euro Market	
USD 7 billion	ASB Euro Commercial Paper Programme
USD 7 billion	CBA Euro Commercial Paper Programme
USD 70 billion	Euro Medium Term Note Programme (2)
USD 10 billion	ASB Extendible Notes Programme
USD7.52 billion	Bankwest Euro Commercial Paper Programme
Asia	
JPY 500 billion	Uridashi shelf (2)
USD 5 billion	Asian Transferable Certificates of Deposit Programme
New Zealand	
No Limit	ASB Domestic Medium Term Note Programme
No Limit	ASB Registered Certificate of Deposit Programme
No Limit	CBA Domestic Medium Term Note Programme
United States	
USD 7 billion	ASB Commercial Paper Programme
USD 30 billion	CBA Commercial Paper Programme
USD 30 billion	U.S. Medium Term Note Programme

(1) ASB Bank Limited is also an issuer under this program.

(2) Amounts are also reflected under the $70 billion Euro Medium Term Note Programme.

An analysis of our borrowings and outstandings from existing debt programmes and issuing shelves including the maturity profile, currency and interest rate structure can be found in Notes 24 and 26 to the 2010 Financial Statements.

Off-Balance Sheet Arrangements

The Group is a full service financial institution that offers a range of On-Balance Sheet and Off-Balance Sheet arrangements and commitments to customers in the normal course of business. In addition, the Group has a number of other arrangements that form part of its day-to-day business operations. Such activities include traditional Off-Balance Sheet credit risk related instruments, commitments under capital and operating leases, long term debt issues, provision of liquidity facilities to securitisation programs and other contractual arrangements. These transactions combine varying levels of credit, interest rate, foreign exchange and liquidity risk. In accordance with Group policy, exposure to any of these transactions is not carried at a level that would have a material effect on the financial condition of the Group. The impact on the Consolidated Income Statement from these Off-Balance Sheet arrangements is not material.

Consolidated Entities

The Group is involved with a number of special purpose entities in the ordinary course of business, primarily to provide funding and financial services to our customers. Under AIFRS these entities are consolidated in the Financial Statements if they meet the criteria of control. The definition of control depends upon substance rather than form and, accordingly, determination of the existence of control involves management judgment. The Group has no Off-Balance Sheet financing entities that it is considered to control under AIFRS.

Asset Backed Finance Programs

The Group is an active participant in the asset backed financing market where it assists customers' financing needs through providing customer access to the capital markets through issuer sponsored special purpose entities under master series agreements. The issuers are separate bankruptcy remote entities in the business of acquiring approved investments and/or entering into hedge transactions or other agreements by issuing debt securities. The issuers operate through segregated series and the debt issues of different series may have different credit ratings. The primary source of repayment of the debt issues is the cash flow from the pools of assets. Investors in the debt issues have no recourse to the general assets of the Group.

Under AIFRS the assets and liabilities of some of the issuers are deemed to be controlled and therefore consolidated into the Group's Consolidated Balance Sheet.

Under the management deeds, the issuers have appointed the manager, subject to certain limitations, to manage on the issuers' behalf the performance of the issuers' obligations and the exercise of the issuers' rights under the transaction documents. The issuers have appointed a wholly owned subsidiary of the Group as manager. The liability of the manager is limited to fraud or a negligent or wilful default by the manager of its obligations under the management deed.

As manager of the program, the Group provides deal origination services, asset portfolio monitoring, treasury and financial administration services for the issuers. Assets acquired by the issuers are appropriately diversified and credit enhanced to support the debt issuances. The Group does not service these assets and does not transfer its own assets to the issuers. The Group receives management fees at arms length for its services to the issuer.

In certain instances the Group provides deal specific credit enhancements as an arms length financial arrangement for the issuers in the form of liquidity facilities and derivatives. The following table summarises the total amount of the Group's arrangements to the program:

Group Arrangements with Issuers	2010 $M	2009 $M	2008 $M
Management fee paid to the Group	**1**	3	7
Liquidity facilities utilised by Issuers	**800**	800	1,199
Derivatives face value provided to Issuers	**819**	819	820

Credit Risk Related Instruments

The Group is involved in a range of transactions that give rise to contingent and/or future liabilities. These transactions meet the financing requirements of customers and include endorsed bills of exchange, letters of credit, guarantees and commitments to provide credit. These are transacted on a commercial basis to attract fees in line with market prices for similar arrangements, with terms and conditions having due regard to the nature of the transaction and the risks involved. They are not sold or traded. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. The only material category of commitments is the $109,420 million of commitments to provide credit (2009: $117,887 million). These are committed but undrawn facilities available to borrowers at call. The commitment to provide cash under these instruments is managed within the Group's liquidity and funding policies under current APRA Prudential Standards.

Details of contingent liabilities and Off-Balance Sheet business are set out in Note 36 to the 2010 Financial Statements – Contingent Liabilities, Assets and Commitments.

Off-Balance Sheet Arrangements continued

	Group			
	Face Value		Credit Equivalent	
	2010	2009	2010	2009
	$M	$M	$M	$M
Credit risk related instruments				
Guarantees	**3,658**	3,641	**3,364**	3,641
Standby letters of credit	**817**	206	**809**	206
Bill endorsements	**57**	537	**57**	538
Documentary letters of credit	**71**	43	**70**	43
Performance related contingents	**1,240**	1,994	**1,208**	1,951
Commitments to provide credit	**109,420**	117,887	**89,019**	100,798
Other commitments	**478**	401	**1,167**	265
Total credit risk related instruments	**115,741**	124,709	**95,694**	107,442

Guarantees represent unconditional undertakings by the Group to support the obligations of its customers to third parties.

Standby letters of credit are undertakings by the Group to pay, against production of documents, an obligation in the event of a default by a customer.

Bill endorsements relate to bills of exchange that have been endorsed by the Group and represent liabilities in the event of default by the acceptor and the drawer of the bill.

Documentary letters of credit represent an undertaking to pay or accept drafts drawn by an overseas supplier of goods against production of documents in the event of payment default by a customer.

Performance related contingents involve undertakings by the Group to pay third parties if a customer fails to fulfil a contractual non-monetary obligation.

Commitments to provide credit include all obligations on the part of the Group to provide credit facilities. These credit facilities are both fixed and variable.

Fixed rate or fixed spread commitments extended to customers that allow net settlement of the change in the value of the commitment are written options and are recorded at fair value (Refer to Note 11 to the 2010 Financial Statements – Derivative Financial Instruments).

Other commitments include the Group's obligations under sale and repurchase agreements, outright forward purchases and forward deposits and underwriting facilities. Other commitments also include obligations not otherwise disclosed above to extend credit, that are irrevocable because they cannot be withdrawn at the discretion of the Bank without the risk of incurring significant penalty or expense. In addition commitments to purchase or sell loans are included in other commitments.

The transactions are categorised and credit equivalents calculated under APRA guidelines for the risk based measurement of capital adequacy. The credit equivalent amounts are a measure of the potential loss to the Group in the event of non-performance by the counterparty.

Under the Basel II advanced internal ratings approach for credit risk, the credit equivalent amount is the face value of the transaction, on the basis that at default the exposure is the amount fully advanced. Only where approved by APRA may an exposure less than the fully advanced amount be used as the credit equivalent exposure.

As the potential loss depends on counterparty performance, the Group utilises the same credit policies and assessment criteria for off-balance sheet business as for on-balance sheet business and if deemed necessary, collateral is obtained based on management's credit evaluation of the counterparty. If an event has occurred that gives rise to a present obligation and it is probable a loss will eventuate then provisions are raised.

The carrying value of future payments that may be required for Guarantees as defined in ASC Codification Topic 460: Guarantees,is set out by term below:

	Group		
	Carrying Value (1)		
	2010	2009	2008
	$M	$M	$M
Guarantees	1	1	-
Standby letters of credit	4	7	2
Bill endorsements	1	2	2
Documentary letters of credit	1	-	-
Performance related contingents	18	20	28
Total	25	30	32

(1) These instruments have a maturity profile within one year from the balance sheet date.

Securitisation of Assets

The Group conducts a Loan Securitisation program through which it packages loans and issues securities to investors. The Group has a policy of funding diversification and assets are securitised to provide greater diversification of the Group's funding sources. The Group is not over-reliant on funding from any one market sector (refer to Note 41 to the 2010 Financial Statements – Liquidity and Funding Risk). In addition, the Group's capital management benefits from reduced risk under APRA Prudential capital adequacy guidelines.

The Group securitises mortgage loans to a special purpose entity (SPE). The SPE is a separate bankruptcy remote entity that operates under master series agreements. The SPE operates through segregated series and the securities issued in different series may have different credit ratings. The primary source of repayment of the securities issued is the cash flow from the pools of assets. Investors in the securities issued have no recourse to the general assets of the Group. Under AIFRS these loans are recorded on the Group's Consolidated Balance Sheet.

The outstanding balance of securitised loans at 30 June 2010 was $6,732 million (2009: $8,602 million). No credit losses were incurred by the Group in relation to these securitised loans during the Financial Years 2010 and 2009. The credit risk in respect of these loans is fully covered through mortgage insurance. No loan securitisation transactions were undertaken in the 2010 Financial Year.

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

As the SPE is consolidated under AIFRS, these liquidity facilities are not disclosed within Contingent Liabilities as commitments to provide credit within Note 36 to the 2010 Financial Statements (2010: $89 million, 2009: $208 million). Interest rate swaps (2010: $116 million, 2009: $76 million) are not disclosed in Note 11 to the 2010 Financial Statements. These commitments are considered minor in the totality of the Group's business.

Fee income is recognised in income on an accruals basis in relation to the period in which the costs of providing these services are incurred. The Group is entitled to any residual income of the program after all payments due to investors and costs of the program have been met. The value of securitisation fee and residual income is not a material component of the Group's fee income.

Cashflows paid to/ (from) the Bank from the SPE in Financial Years 2010 and 2009 were:

	2010 $M	2009 $M	2008 $M
Servicing fee	**18**	24	31
Management fee	**3**	3	4
Excess servicing fee	**49**	89	58
Proceeds from sale of mortgage loans	**-**	-	-
Interest rate swaps	**116**	76	(37)
Total cash receipts	**186**	192	56

Contractual and Commercial Commitments

Forward-Looking Statements

This "Contractual and Commercial Commitments" contains certain forward-looking statements. See "Special Note Regarding Forward-Looking Statements" on page 3.

Contractual and Commercial Commitments

At the end of Financial Years 2010 and 2009 the Group had commitments for capital expenditure (see Note 36 to the 2010 Financial Statements) and lease commitments (see Note 35 to the 2010 Financial Statements). These commitments are minor in the totality of the Group's commitments.

The Group also had various monetary contractual liabilities, such as deposits and other public borrowings, payables to other financial institutions, bank acceptances, life liabilities, debt issues and loan-capital, and other monetary liabilities. Refer to Note 41 to the 2010 Financial Statements for the maturity distribution of these monetary contractual liabilities. Details of the Group's contractual obligations are set out in the following table:

Contractual Obligations

	Payments due by period at 30 June 2010					
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Unspecified
	$M	$M	$M	$M	$M	$M
On-Balance Sheet (1)						
Debt Issues	**148,018**	**53,548**	**39,488**	**30,038**	**24,944**	**-**
Deposits and other Public Borrowings	**379,593**	**361,789**	**9,997**	**7,423**	**384**	**-**
Loan Capital	**18,598**	**1,084**	**2,857**	**3,512**	**11,145**	**-**
Total On-Balance Sheet	**546,209**	**416,421**	**52,342**	**40,973**	**36,473**	**-**
Off-Balance Sheet						
Credit risk related instruments (2)	**115,741**	**115,741**	**-**	**-**	**-**	**-**
Lease commitments – Property, Plant and Equipment (4)	**2,776**	**478**	**755**	**540**	**1,003**	**-**
Commitments for Capital Expenditure Not Provided for in the Accounts (3)	**19**	**19**				**-**
Total Off-Balance Sheet	**118,536**	**116,238**	**755**	**540**	**1,003**	**-**

(1) Contractual On-Balance sheet obligations also include contractual interest; refer to Note 39 to the 2010 Financial Statements.

(2) Credit risk related instruments, see page 71 and 72.

(3) Refer Note 36 to the 2010 Financial Statements.

(4) Refer Note 35 to the 2010 Financial Statements.

Leases

Operating leases are entered into to meet the business needs of entities in the Group. Leases are primarily over commercial and retail premises and plant and equipment.

Lease rentals are determined in accordance with market conditions when leases are entered into or on rental review dates.

Long Term Contracts

On 26 September 1997, the Bank entered the Information Technology and Telecommunications Services Agreement with EDS (Australia) Pty Ltd now HP Enterprise Services Australia Pty Ltd. This agreement continues until 30 June 2012 and covers the provision of enterprise processing services, end user computing services and cards services.

In April 2009, the Bank entered into an agreement with Telstra Corporation Ltd for the provision of telecommunications services. The term of the agreement is ten years. The current supplier, Gen-I Australia Pty Limited, is progressively transitioning most services to Telstra. The transition program is scheduled to complete in 2011.

In 2009 the Bank entered into an Agreement for Lease with Lend Lease Development and Australian Prime Property Fund for Commonwealth Bank Place, a new building in the Sydney CBD comprising over 50,000m^2 of commercial accommodation located above a retail podium. It is currently under construction and will accommodate around 5,500 of the Group's employees from early 2012.

In April 2009 the Group entered into an Agreement to Lease for 12 years (with options to extend) on completion of Raine Square, a new 21 level office tower in Perth that will provide almost 40,000m^2 of office accommodation above three levels of retail space. Once complete it will accommodate over 3,500 of the Group's Perth based employees. Bankwest has also exercised an extension option on existing premises from November 2009.

In April 2008, the Bank signed agreements with SAP Australia Pty Limited and Accenture Australia Limited for its Core Banking Modernisation program.

In December 2007, the Bank entered into separate agreements with each of Tata Consultancy Services Ltd, HCL Technologies Ltd and IBM Australia Ltd for the provision of application software related services.

In November 2007, the Bank signed a lease agreement with a term of 12 years with DPT Operator Pty Ltd and DPPT Operator Pty Ltd for accommodating approximately 5,000 of the Group's employees at Darling Park Tower 1 at 201 Sussex Street in the Sydney CBD.

In July 2006, the Bank entered into a lease agreement with Colonial First State Property Limited as trustee for both the Site 6 Homebush Bay Trust, and for the Site 7 Homebush Bay Trust relating to the provision of accommodation. The development is a campus style multi-building facility at Sydney Olympic Park to accommodate around 3,500 employees. The average lease term is 12 years.

Failure to Settle Risk

The Group is subject to a credit risk exposure in the event that another financial institution fails to settle for its payments clearing activities, in accordance with the regulations and procedures of the following clearing systems of the Australian Payments Clearing Association Limited: The Australian Paper Clearing System, The Bulk Electronic Clearing System, The Consumer Electronic Clearing System and the High Value Clearing System (only if operating in "fallback mode"). This credit risk exposure is unquantifiable in advance, but is well understood, and is extinguished upon settlement at 9am each business day.

Services Agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Chief Executive Officer and other Group Key Management Personnel at 30 June 2010 was $6.5 million (2009: $12.2 million).

Transactions in Own Shares

The Group had the following employee share plans in place during the year ended 30 June 2010:

- Commonwealth Bank Employee Share Acquisition Plan ("ESAP");
- Commonwealth Bank Equity Participation Plan ("EPP");
- Commonwealth Bank Group Leadership Share Plan ("GLSP");
- Commonwealth Bank Equity Reward Plan ("ERP"); and
- Commonwealth Bank Non-Executive Directors Share Plan ("NEDSP").

The current ESAP and ERP arrangements were each approved by Shareholders at the Annual General Meeting ("AGM") on 26 October 2000. The GLSP was approved by Shareholders at the AGM on 7 November 2007. Shareholders' consent was not required for either the EPP or NEDSP but details were included in the Explanatory Memorandum to the 2000 meeting to ensure Shareholders were fully informed.

For further information regarding compensation arrangements and agreements with Group Key Management Personnel, see the Remuneration Report in the 2010 Financial Report.

Description of Business

Forward-Looking Statements

This “Description of Business” contains certain forward-looking statements. See “Special Note Regarding Forward-Looking Statements” on page 3.

Overview

Commonwealth Bank of Australia provides a comprehensive range of banking, financial, life and risk business insurance and Funds Management services in Australia, New Zealand, throughout Asia and in the United Kingdom. The Bank is Australia's largest bank in terms of housing loans and retail deposits. At 30 June 2010, the Group had total consolidated assets of over $646 billion and loans outstanding of $493 billion. The Group's net profit after tax (statutory basis) was $5,664 million for the 2010 Financial Year.

The address of the Bank's principal executive office is Tower 1, 201 Sussex Street, Sydney, New South Wales, 2000, Australia and its telephone number is (612) 9118 4500.

The Group conducts its operations primarily through the following business units: Retail Banking Services through which the Group conducts its Australian retail business; Business and Private Banking through which the Group conducts its Corporate Financial Services, Regional and Agribusiness, Local Business, Private Bank, and Equities and Margin Lending businesses; Institutional Banking and Markets through which the Group conducts its Institutional Banking and Markets businesses; Wealth Management, through which the Group conducts its Australian Funds Management and insurance businesses; New Zealand, through which the Group conducts its New Zealand banking and insurance businesses and Bankwest, through which the Group conducts full service retail and commercial banking services within Australia under the Bankwest brand. Each of these business groups is discussed in more detail below.

Recent Development

On September 14, 2010, consistent with its Asia growth strategy, the Group announced that it has completed arrangements for a strategic partnership in Vietnam with Vietnam International Bank (“VIB”) through a 15% ownership stake in VIB, becoming its exclusive foreign strategic shareholder. As part of the investment arrangements, a long-term “Capability Transfer Program” will begin next month at VIB that is designed to help VIB further enhance its operational and commercial capabilities, risk management and competitiveness.

Operating Divisions

Retail Banking Services (RBS)

Retail Banking Services is responsible for the development and delivery of innovative and competitive products and services. The business is responsible for the retail banking network in Australia comprising branches, 24 hour call centres, area offices, third party banking and support office. The retail bank is also responsible for the Bank's ATM network and its online banking service, NetBank.

RBS contributed 43% of the Group’s net profit after tax (statutory basis) for the Financial Year ended 30 June 2010 and represented 41% of its total assets at that date.

Business and Private Banking (B&PB)

The Group offers commercial products within Australia including business loans and deposits and asset finance facilities to small and medium sized corporate customers and to rural and agribusiness customers. This segment also provides private banking services to high net worth individuals and margin lending through CommSec.

B&PB contributed 16% of the Group’s net profit after tax (statutory basis) for the Financial Year ended 30 June 2010 and represented 12% of its total assets at that date.

Institutional Banking and Markets (IB&M)

The Group provides a range of resources to assist institutional/corporate clients to grow and manage their business, creating customised solutions based on specific needs, industry trends and market conditions. The Total Capital Solutions offering comprises debt and capital markets, risk management and transactional banking to corporate and institutional clients. IB&M also has wholesale banking operations in London, New York, Singapore, Hong Kong and Malta.

IB&M contributed 21% of the Group’s net profit after tax (statutory basis) for the Financial Year ended 30 June 2010 and represented 15% of its total assets at that date.

Wealth Management (WM)

The Wealth Management segment conducts Australian Funds Management business comprising wholesale and retail investment, superannuation and retirement funds. Wealth Management conducts its business under the brands of Colonial First State, CFS Global Asset Management and CommInsure. Investments are across all major asset classes including Australian and international shares, property, fixed interest and cash. WM also has Funds Management businesses in the United Kingdom and Asia.

WM also provides Australian term insurance, disability insurance, annuities, master trusts, investment products and general insurance.

WM contributed 12% of the Group’s net profit after tax (statutory basis) for the Financial Year ended 30 June 2010 and represented 3% of its total assets at that date. As of 30 June 2010, Wealth Management had $180 billion of assets under administration and $1,584 million of inforce insurance premiums.

New Zealand (NZ)

The Group’s New Zealand segment conducts banking operations through ASB Bank. The segment also comprises life insurance and funds management business through Sovereign that were included in this segment. The Group previously had operations in Fiji, which were disposed of on 15 December 2009. New Zealand contributed 3% of the Group’s net profit after tax (“statutory basis”) for the Financial Year ended 30 June 2010 and represented 8% of its total assets at that date.

Bankwest

Bankwest offers retail and small business banking services and provides a comprehensive range of products for these clients. Bankwest is a market leader in Western Australia.

As a result of the acquisition of Bank of Western Australia Ltd on 19 December 2008, the Group operates full service retail and commercial banking services within Australia under the Bankwest brand. Bankwest contributed (4)% of the Group’s statutory net profit after tax for the financial year ended 30 June 2010 and represented 12% of its total assets as at that date.

Support Divisions

Enterprise IT

Enterprise IT facilitates the delivery of Information Technology and Telecommunications services and strategic planning practices across the Group. Enterprise IT also helps business units with the implementation of new project initiatives, while maintaining the optimisation of existing operations.

Human Resources

Human Resources (HR) supports each business unit through recruitment, employee relations, HR administration, remuneration and benefits, occupational health and safety, project work and leadership development training.

Marketing and Communications

Marketing and Communications brings together the Group's marketing, sponsorship, employee communication, media and public relations, brand and customer insights teams to provide strategic support and advice to the Group's leaders.

Financial Services and Risk Management

Financial and Risk Management provides professional services and support to other divisions in the Group as well as to external parties. Value is added through policy formulation, strategic support and specialist advice on financial, risk and capital management as well as managing investor relations.

Business Strategies and Future Developments

Accommodation Strategy

The Group is implementing a property strategy to consolidate its Sydney metropolitan teams across three main precincts: Sydney Central Business District (CBD), Sydney Olympic Park and Parramatta. At 30 June 2010, over 4,000 employees are accommodated in Darling Park Tower 1. In the coming 12 months, employees will commence occupying a new building – Commonwealth Bank Place. This will result in rationalisation of the existing Sydney CBD property space in line with lease expiry profiles.

The buildings in which employees are now being accommodated are either new builds or substantially refurbished, providing improved working environments, more efficient use of space and greater open plan and collaborative work spaces.

These changes have not had a material financial impact on the Group's results and it is not anticipated that the future relocation will have a material impact on the Group's results.

Core Banking Modernisation

In the 2008 Financial Year, the Group commenced a comprehensive program to modernise its existing banking legacy IT systems with a single customer-centric IT platform, which it refers to as the Core Banking Modernisation program. The Core Banking Modernisation program has provided and is expected to continue to provide significant ongoing efficiency gains that will lower annual operating costs and provide a better customer service platform and simplicity, as well as provide operational benefits. The announced forecast cost of the Core Banking Modernisation program is expected to be approximately $580 million, which is expected to be spent through the 2013 Financial Year. The Group has been migrating systems to its new platform in stages in order to mitigate the risk associated with a comprehensive IT roll-out and to minimize business disruption.

History and Ownership

The origins of the Bank lie in the former Commonwealth Bank of Australia which was established in 1911 by Act of the Australian Parliament to conduct commercial and savings banking businesses. Its functions were later expanded to encompass those of a central bank. Subsequent legislative amendment in 1959 created a separate Reserve Bank of Australia to take over the central bank functions from the Bank.

In December 1990, the Commonwealth Bank's Restructuring Act 1990 was passed, which provided for:

- the conversion of the Bank into a public company with a share capital, governed by its Memorandum and Articles of Association but subject to certain overriding provisions of the Banking Act – this conversion occurred on 17 April 1991;
- the Bank to become the successor in law of the State Bank of Victoria (SBV), which occurred on 1 January 1991; and
- the issue of shares in the Bank to the public.

An offer of just under 30% of the issued voting shares in the Bank was made to members of the Australian public and staff of the Bank in July 1991. This was done to strengthen the Bank's capital base following its acquisition of SBV and to provide a sound foundation for further development of the Bank's business.

In October 1993, the Commonwealth Government sold a portion of its shareholding in the Bank, thereby reducing its shareholding to 50.4% of the total number of issued voting shares.

In June 1996, the Commonwealth Government sold through a public offer its remaining 50.4% shareholding in the Bank. In conjunction with this offer, the Bank, pursuant to a buy-back Agreement between the Bank and the Commonwealth of Australia, agreed to buy back 100 million shares in the Bank from the Commonwealth. The public offer and buy back were completed on 22 July 1996.

In connection with the public offer of the Commonwealth's shares in 1996, transitional arrangements were implemented which provided that:

- all demand and term deposits were to be guaranteed by the Commonwealth government for a period of three years from 19 July 1996, when the Commonwealth of Australia ceased to hold more than 50% of the total voting shares in the Bank, with term deposits outstanding at the end of that three year period being guaranteed until maturity; and
- all other amounts payable under a contract that was entered into before, and was outstanding at 19 July 1996, were to be guaranteed by the Commonwealth Government until their maturity.

Under the terms of an agreement reached between the Commonwealth and the Bank, the Bank reports to the Commonwealth annually on the level and maturity profile of outstanding liabilities which are subject to the Commonwealth's guarantees.

The agreement also includes an undertaking from the Bank that it will not seek to extend the maturity profile of its deposit liabilities beyond that required in the normal course of business during the three years following the effective time. The liabilities of the Bank's subsidiary Commonwealth Development Bank Limited will continue to remain guaranteed by the Commonwealth. For full details of all guarantee arrangements refer to Note 24 to the 2010 Financial Statements.

In June 2000, the Group acquired 100% of the share capital of Colonial Limited, a life insurance, banking and Funds Management group. Colonial had operations in Australia, New Zealand, the United Kingdom and throughout Asia and the Pacific. The Group purchased ASB Bank Community Trust's remaining 25% interest in the ASB Group in New Zealand in August 2000 (the bank acquired 75% of ASB Group in February 1989).

The Commonwealth Bank of Australia became the successor in law to the State Bank of New South Wales (known as Colonial State Bank) and to all the assets and liabilities of State Bank of New South Wales effective on 4 June 2001 pursuant to legislation (acquired on 13 June 2000).

The Group acquired 100% of the share capital of the Bank of Western Australia Limited ("Bankwest") and St Andrew's Australia Pty Ltd ("St Andrew's") on 19 December 2008.

Bankwest operates in the Australian market providing a comprehensive range of products, focusing on the small business banking and retail segments in Western Australia.

On 1 July 2010, the Bank completed the sale of the St Andrew's Insurance business.

Australia

Financial Services

Financial services providers in Australia offer a wide range of products and services to consumer and business customers, encompassing retail, business and institutional banking, Funds Management, superannuation, insurance, investment and stockbroking services. The domestic competitive landscape includes the four major banks, regional banks, building societies and credit unions, foreign entrants to the Australian market, local and global investment banks and fund managers, private equity firms, insurance companies and third party distributors.

Over the past couple of years, the global financial system has experienced considerable stress. These difficulties saw a marked rise in risk aversion around the world, impairing the normal functioning of the credit supply process and significantly increasing money market spreads. The financial crisis also saw several long standing large banks collapse or significantly reduce in size.

The crisis in the global financial system led to substantial public sector support being provided to financial institutions in a number of countries. Support for banks include increased caps on deposit insurance schemes, guarantees on wholesale funding, the injection of capital, removal of certain types of assets completely or providing insurance against losses on the assets of banks' balance sheets, and the establishment of public-private investment funds.

While the Australian and New Zealand banking industries have not been immune to this disruption, the banking industries in these countries have generally weathered the global financial crisis better than global peers.

Despite the relative strength of the Australian banking system, Australian wholesale investors became reluctant to buy debt from the banks with some depositors also feeling nervous about the financial environment. In Australia and New Zealand, the federal governments introduced guarantees of both deposits and wholesale borrowing by banks in November 2008. This Australian guarantee program was lifted for new wholesale borrowing and deposits above $1m in March 2010. Existing amounts remain guaranteed, for a fee, for the relevant term. Deposits up to and including $1m will remain guaranteed without charge. The guarantee scheme will remain effective in New Zealand until 31 December 2011. The Commonwealth Bank, ASB Bank and Bankwest are supportive of the Australian and New Zealand federal governments' intention of enhancing certainty and confidence, particularly in the local banking system.

However, these schemes have not completely eased the pressure faced in the wholesale funding markets as uncertainty still remains. Looking ahead, a reduction in risk aversion is central to resolving these domestic and global concerns.

Funds Management

The long term growth outlook for the Australian funds management industry remains positive, underpinned by compulsory superannuation increasing from 9% at 30 June 2010 to 12% by 2019/20 and the proposed simplification of superannuation.

Fund management profit margins remain under pressure with further Australian regulatory changes expected to reduce fees and increase capital requirements and compliance costs. Consolidation continues as industry participants seek scale to counteract margin pressure and expand capabilities.

The demand for simple, transparent and lower fee products will continue as retail commissions are removed and investors focus on net-of-fee performance. Demand for solutions that address market volatility, inflationary threats and longevity risks is being driven by ageing populations and widening retirement funding gaps.

Insurance

Underinsurance and government policy supporting the beneficial treatment of life insurance inside superannuation will drive continued strong growth in the life insurance sector.

Distribution dynamics continue to evolve, with bancassurance, master trusts and industry funds emerging as growth channels. Insurance manufacturers are placing a greater emphasis on technology and service efficiency to meet the growing needs of these distribution channels.

Despite the entry of low cost operators, the general insurance market remains concentrated and is highly competitive. Industry profitability continues to be challenged by claims events and instability of investment markets, even following a recent period of price hardening.

New Zealand

New Zealand incorporates the banking, investment market and insurance activities of ASB Bank and Sovereign Insurance.

The New Zealand banking system is characterised by strong competition, with the four main banks operating in the market being owned by Australian parents and accounting for 90% of the total banking system.

The New Zealand economy ended five consecutive quarters of negative growth in early 2010, signaling the end of the technical recession. Economic recovery has been and is expected to continue to be gradual, with future growth expected to be driven by fixed capital expenditure and export receipts rather than household spending. Lending volumes remain constrained, particularly in the business sector where balances declined. ASB Bank's contraction was less than its peers, shown by an improving market share. The housing market rebound has slowed against a backdrop of tax changes targeting residential property investment and an expectation that interest rates will rise, signaled by the first increase in the Official Cash Rate since April 2009 in May 2010.

Long-term trends that impact Financial Services

Long-term trends that impact financial services providers in Australia and New Zealand include: increasing consumer power as a result of electronic delivery channels; industry consolidation; an ageing population impacting retirement savings and the provision of retirement solutions placing pressure on labour supply.

In December 2009, the Basel Committee on Banking Supervision released a consultation package of proposals aimed at strengthening global capital and liquidity regulations. Some of the proposed changes may have effect Australian financial institutions.

Competition

Australia

Competitive Landscape

Financial services providers in Australia offer a wide range of products and services to retail and business customers, encompassing for the most part banking, funds management and insurance.

The domestic competitive landscape includes the four major banks (Commonwealth Bank of Australia, National Australia Bank, the ANZ Group and the Westpac Banking Group – (noting that and Bankwest was acquired by the Group on 19 December 2008), St George was acquired by Westpac on 18 November 2008), regional banks, smaller players (including foreign banks) and both local and international non-bank financial intermediaries although, since the onset of the global financial crisis, foreign banks and international non-bank financial intermediaries have curtailed their activities outside of their home markets.

Each of the major banks offers a full range of financial products and services through branch networks, electronic channels and third party intermediaries across Australia. The regional banks, while smaller than the majors, now mostly operate across state borders, or nationally. They have experienced strong growth over the last decade, primarily in mortgage lending, facilitated by the proliferation of non-bank mortgage originators and brokers. Non-bank financial intermediaries such as building societies and credit unions operate in the areas of accepting deposits and residential mortgage lending, mainly for owner-occupied housing. Since 2008's credit crisis regional banks and non bank financial intermediaries have not been as active competitors of the major banks as they had in the past.

The insurance business competes generally in Australia and New Zealand with the other three major Australian banks, as well TOWER, AIG and other major international insurance providers. The Wealth Management business competes primarily with the other three major Australian banks, as well as AMP Limited.

Trends

The Australian financial services sector performed strongly in the decade ended in late 2008, largely driven by strong growth in lending. More recently, however, the expectation is for continuing lower credit growth over the 2011 Financial Year.

Substantial growth has also occurred in Funds Under Management, especially within the superannuation (pension funds) industry although the recent downturn in equity markets impacted returns and inflows. Future growth will be underpinned by the Australian Government's continued encouragement of long-term saving through private superannuation and compulsory employer pension contributions, as well as the establishment of the Future Fund in 2008 (designed to address the public sector's superannuation liabilities). This growth potential continues to attract new entrants to this market, from international fund managers to boutique players.

The major banks have expanded into funds management and/or insurance, either through acquisition or through agreements with third parties. The corporate bond market in Australia has also benefited from the growth in Funds Under Management with many of the major Australian corporates now directly accessing capital markets domestically and around the world.

Changes in the financial needs of consumers, deregulation, and technology developments have also changed the mode of competition. In particular, the development of electronic delivery channels and the reduced reliance on a physical network facilitate the entry of new players from related industries, such as retailers, telecommunication companies and utilities. Technological change has provided opportunities for new entrants with differing combinations of expertise and has enabled the unbundling of the value chain.

New Zealand

The New Zealand banking system is characterised by strong competition, with the four main banks operating in the market being owned by Australian parents, and accounting for 90% of the total banking system. In addition, Kiwibank, the Government owned and operated bank launched in 2002, continues to compete aggressively in the retail sector. The non-bank financial sector remains weak following increased credit spreads and liquidity pressure arising from the Global Financial Crisis, with further consolidation expected. Competition for retail funding has increased as banks move to secure more domestic and medium to long term funding and reduce reliance on the wholesale funding market, in line with more stringent Reserve Bank requirements for liquidity introduced in April 2010.

Employees

The Group employs approximately 45,000 people on a full time equivalent basis.

In the past 12 months a number of initiatives have been developed for the Group's people, with a particular focus on diversity, talent development, and health and wellbeing.

In the 12 months to June 2010 the Group-wide Diversity Strategy was refreshed. The strategy has a focus on four primary areas: diversity in leadership, respect and inclusion, adaptable work practices and diversity support.

The Group believes that a focus on women in leadership is a leading indicator of broader diversity within the organisation. As a result the Group has set a specific goal to increase the representation of women in senior management levels from the current level of 26% to 35% by December 2014.

During the year the Group made significant progress on its Indigenous Employment Strategy, following the commitment announced in July 2009 to create 350 additional positions for Indigenous Australians by June 2012. By 30 June 2010, the Group had made significant progress towards this target, with 130 new Indigenous employees joining the Group.

A continued focus on developing a culture of trust and team spirit and embedding the Group's behaviours has assisted with delivering strong people engagement and pride within the organisation.

The Group enhanced its commitment to the development of its people with a particular focus on leadership competencies and the ability of existing leaders to assess and coach their teams. The Talent Review process now requires talent review plans to be discussed by the whole Executive Committee, providing a more robust assessment of the workforce. The Group also modifies succession plans according to market dynamics and individual development plans. In response, leadership development programs are tailored across a range of career levels and audiences.

The Group provides numerous initiatives, services, resources and tools to its people to support their health and wellbeing.

This includes flexible working arrangements, health checks, flu vaccinations, child care and carer services, the CBA Sports Club, fitness deals, competitive private health insurance through the CBHS Health Fund and confidential counselling services.

During the year, a number of new initiatives were introduced, including:

- My Wellbeing online – a personal online health and wellness centre providing interactive resources tailored to help define and achieve individual wellness goals. All Group employees and their families can use this resource;
- RealTime Health videos – all employees and their families have access to this 'speaking from experience' video resource which includes personal patient and carer stories covering a range of conditions;
- Dealing With Stress Toolkit – An online toolkit created to provide easy access to information about the resources available to employees dealing with stress and mental health matters; and
- Drugs and Alcohol Policies – Policies relating to drugs and alcohol were reviewed and communicated to employees, including the promotion of responsible alcohol consumption.

The past few years saw significant decreases in the Group's Lost Time Injury Frequency Rate (LTIFR) which can be attributed to the continued implementation of the safety management system. The 12 months to June 2010 saw a levelling out of the declining trend in the LTIFR. A focused approach of targeting identified risk areas within each business as well as looking at safety behaviours is being adopted to attain further decreases in the LTIFR.

The Group remained relatively steady against other key indicators. There was no material change in absenteeism, while voluntary turnover increased slightly as a result of the improving economic conditions.

Financial System Regulation in Australia

Australia has, by international standards, a high quality financial system that regulates financial products and services consistently regardless of the type of financial institutions providing them.

The main regulators of financial services in Australia are the Reserve Bank of Australia, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Australian Transaction Reports and Analysis Centre and the Australian Competition and Consumer Commission. Each agency has system-wide responsibilities for the different objectives of government oversight of the financial system. A description of these agencies and their general responsibilities and functions is set out below.

Reserve Bank of Australia ("RBA") is responsible for monetary policy, financial system stability and regulation of the payments system. The RBA also administers sanctions implemented via the 'Banking (Foreign Exchange) Regulations 1959'.

APRA has responsibility for the prudential supervision of banks, building societies and credit unions, life and general insurance companies, friendly societies and superannuation funds (pension funds). Unless an institution is authorised under the 'Banking Act 1959' or exempted by APRA, it is prohibited from engaging in the general business of deposit-taking.

ASIC has responsibility for regulating and enforcing Company and financial services laws that protect consumers, investors and creditors, including the 'Corporations Act 2001'. The 'Corporations Act 2001' provides for a single licensing regime for sales, advice and dealings in financial products and services, consistent and comparable financial product disclosure and a single authorisation procedure for financial exchanges and clearing and settlement facilities. From 1 July 2010, ASIC also regulates consumer credit activities. Credit providers and intermediaries are required to apply for an Australian Credit Licence by 31 December 2010. The current financial services regulatory framework is intended to facilitate innovation and promote business while at the same time ensuring consumer protection and market integrity.

The Australian Transaction Reports and Analysis Centre ("AUSTRAC") has responsibility for overseeing compliance with the 'Anti-Money Laundering and Counter Terrorism Financing Act 2006' and the 'Financial Transaction Reports Act 1988'. As a provider of financial services in Australia and internationally, the Group is committed to the principles of the Financial Action Task Force as the international standard setter for anti-money laundering and counter-terrorism financing efforts.

The Australian Competition and Consumer Commission ("ACCC") promotes competition and fair trade to benefit consumers, business and the community through the administration of the 'Trade Practices Act 1974'.

In addition to the above, the Department of Foreign Affairs and Trade ("DFAT"), a federal government department, has responsibility for implementing legislation giving effect to sanctions-related decisions of the United Nations Security Council (UNSC), including the freezing of terrorist assets.

Supervisory Arrangements

The Bank and its subsidiary Bank of Western Australia are ADIs under the 'Banking Act 1959' and are subject to prudential regulation by APRA.

In carrying out its prudential responsibilities, APRA closely monitors the operations of banks to ensure that they operate within the prudential framework and that sound management practices are followed.

APRA currently supervises ADIs by a system of off-site examination. It closely monitors the operations of banks through the collection of regular statistical returns and regular prudential consultations with each bank's management. APRA also conducts a program of specialised on-site visits to assess the adequacy of individual banks' systems for identifying, measuring and controlling risks associated with the conduct of these activities.

In addition, APRA has established arrangements under which each bank's external auditor reports to APRA regarding observance of prudential standards and other supervisory requirements.

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

(i) Capital Adequacy

APRA has approved the Group's application to use the advanced internal ratings-based approach to credit risk and the advanced measurement approach to operational risk for the purposes of calculating capital requirements under the Basel II Framework. The Group is seeking the same approval for Bankwest.

APRA's regulation of capital adequacy is expected to change as a result of the BCBS proposals described under "Capital Management – Proposed Regulatory Changes".

(ii) Funding and Liquidity

APRA exercises liquidity control by requiring each bank to develop a liquidity management strategy that is appropriate for itself. Each policy is formally approved by APRA. A key element of the Group's liquidity policy is the holding of high quality liquid assets to meet liquidity requirements.

The liquid assets held are assets that are available for repurchase by the RBA (over and above those required to meet the Real Time Gross Settlement obligations, AUD Certificates of Deposit/Bills of other banks and AUD overnight interbank loans) and other highly liquid marketable securities. More detailed comments on the Group's liquidity and funding risks are provided in Note 41 to the Financial Statements.

APRA's regulation of funding and liquidity is expected to change as a result of the BCBS proposals described under "Capital Management – Proposed Regulatory Changes".

(iii) Large Credit Exposures

APRA requires banks to ensure that, other than in exceptional circumstances, individual credit exposures to non-bank, non-government clients do not exceed 25% of the capital base. Exposure to unrelated ADIs is not to exceed 50% of the capital base. Prior consultation must be held with APRA if a bank intends to exceed set thresholds. For information on the Bank's large exposures refer to Note 39 to the Financial Statements.

(iv) Ownership and Control

In pursuit of transparency and risk minimisation, the 'Financial Sector (Shareholding) Act 1998' embodies the principle that regulated financial institutions should maintain widespread ownership. The Act applies a common 15% shareholding limit for ADIs, insurance companies and their holding companies. The Commonwealth Treasurer has the power to approve acquisitions exceeding 15% where this is in the national interest, taking into account advice from the ACCC in relation to competition considerations and APRA on prudential matters. The Commonwealth Treasurer may also delegate approval powers to APRA where one financial institution seeks to acquire another.

The Government's present policy is that mergers among the four major banks will not be permitted until the Government is satisfied that competition from new and established participants in the financial industry has increased sufficiently.

Proposals for foreign acquisition of Australian banks are subject to approval by the Treasurer under the 'Foreign Acquisitions and Takeovers Act 1975'.

(v) Banks' Association with Non-Banks

There are formal guidelines (including maximum exposure limits) that control investments and dealings with subsidiaries and associates. A bank's equity associations with other institutions should normally be in the field of finance. APRA has expressed an unwillingness to allow subsidiaries of a bank to exceed a size which would endanger the stability of the parent. No bank can enter into any agreements or arrangements for the sale or disposal of its business, or effect a reconstruction or carry on business in partnership with another bank, without the consent of the Commonwealth Treasurer.

(vi) Fit & Proper and Governance

ADIs are subject to APRA's "Fit and Proper" and "Governance" prudential standards. ADIs are required to implement a Board approved Fit and Proper policy covering minimum requirements for the fitness and proprietary of their responsible persons which include designated members of senior management. ADIs also have to comply with APRA's governance prudential standard which sets out requirements for Board size and composition, independence of directors, executive remuneration and other APRA governance matters.

(vii) Supervision of Non-Bank Group Entities

The Australian life insurance company subsidiaries, general insurance company subsidiaries and the superannuation trustees of the Group also come within the supervisory review of APRA.

APRA's prudential supervision of both life insurance and general insurance companies is exercised through the setting of minimum standards for solvency and financial strength to ensure obligations to policyholders can be met. Trustees operating APRA regulated superannuation entities are required to hold a Registrable Superannuation Entity ("RSE") licence from APRA.

Life insurance and general insurance companies are subject to prudential standards including capital adequacy, risk management and reinsurance arrangements. Compliance with APRA regulation is monitored through regular returns, independent actuarial investigations, auditor certification and supervisory inspections.

Life and general insurance companies are also subject to similar Fit and Proper and governance requirements as those applying to ADIs.

Australian Government and New Zealand Guarantees

Australian Government Guarantee of Deposits

In response to challenging global financial conditions, on 12 October 2008 the Australian Government announced that it would guarantee deposits of up to AUD1 million per depositor per eligible ADI (including the Bank) until 12 October 2011 (the Financial Cliams Scheme). The Australian Government plans to review whether the Financial Claims Scheme is still required after 12 October 2011.

Australian Government Guarantee of Wholesale Term Funding

On 12 October 2008 the Australian Government also announced the establishment of the Guarantee Scheme for Large Deposits and Wholesale Funding ("Guarantee Scheme").

Under the Guarantee Scheme, certain wholesale funding liabilities of eligible ADIs (including the Bank) were eligible to benefit from a guarantee by the Australian Government dated 20 November 2008 ("Government Guararantee"). The guarantere applied to liabilities where the eligible ADI made an application under the Guarantee Scheme Rules and received an eligibility certificate in respect of those liabilities.

On 31 March 2010, the Guarantee Scheme closed to new liabilities. Existing guaranteed debt issued by the Bank remains guaranteed until maturity. Valid claims will be able to be made under the Guarantee Scheme at any time prior to expiry of the Guarantee under the Guarantee Scheme Rules.

New Zealand Guarantee Arrangements

ASB Bank Limited (ASB) is guaranteed under the New Zealand Deposit Guarantee Scheme ("Crown Guarantee").

The New Zealand Wholesale Funding Guarantee Facility was closed on 30 April 2010. No debt securities with the benefit of that Guarantee Facility were issued by ASB.

Insurance and Wealth Management Regulation

In addition, the Group conducts general and life insurance business, funds management, asset management, custodial services, financial advice and superannuation (trustee) businesses through its Wealth Management division. The key regulators for the Group's wealth management businesses are APRA and ASIC. The Group's insurance and superannuation businesses are required to comply with relevant legislations including the Life Insurance Act 1995, Insurance Act 1973 and the Superannuation Industry (Supervision) Act 1993. They are also required to comply with APRA's prudential standards. These standards cover, amongst others, capital adequacy, governance and risk management. The Group's wealth management businesses are also governed by the Corporations Act 2001 which is administered by ASIC. Many of the Group's wealth management businesses are holders of Australian Financial Services licences and are required to meet various ongoing obligations thereunder.

Legal Proceedings

Neither the Bank nor any of its controlled entities are engaged in any litigation or claim which is likely to have a materially adverse effect on the business, financial condition or operating results of the Bank or any of its controlled entities. Where some loss is probable and can be reliably estimated, an appropriate provision has been made.

Among other things, ASIC is currently in the course of investigating the Bank's conduct in relation to Storm Financial, a Queensland-based financial planning firm that collapsed and went into receivership in March 2009. The Bank has established a resolution scheme for clients of Storm Financial who borrowed money from the Bank. The resolution scheme is processing individual claims on a case by case basis and the Bank believes that appropriate provisions are held to cover the outcomes and costs of the scheme. Certain borrowers who have opted out of the resolution scheme, or who chose not to participate are pursuing litigation against the Bank.

On 2 July 2010, class action proceedings were commenced against the Bank in relation to Storm Financial. At this stage the size of the class action has not been defined and damages sought have not been quantified. The Group is also aware from media reports and other public announcements that class action proceedings may be commenced against it in the next few month with respect to certain bank 'exception' fees. Such a class action was commenced in Australian Federal Court against another major Australian bank on September 22, 2010 for the recovery of certain bank 'exception' fees imposed by that bank. It is not practicable at this stage to predict the amount of such claims or likely success of any such class action.

Critical Accounting Policies and Estimates

Note 1 to the 2010 Financial Statements contains a summary of the Group's significant accounting policies. Certain of these policies are considered to be more important in the determination of the Group's financial position, since they require management to make difficult, complex or subjective judgements, some of which may relate to matters that are inherently uncertain. These decisions are reviewed by a Committee of the Board.

These policies include judgements as to levels of provisions for impairment, actuarial assumptions in determining life insurance policy liabilities, determining whether certain entities should be consolidated, determining the fair value of financial instruments, assessing goodwill for impairment and actuarial assumptions in determining defined benefit plan obligations. An explanation of these policies and the related judgements and estimates involved is set out in Note 1 (ii) to the 2010 Financial Statements.

On 1 July 2010, the Tax consolidated Group began to apply the new tax regime for financial instruments – Taxation of Financial Arrangements 'TOFA'. Further details are set out in Note 5 – Income Tax.

Remuneration of Auditors

Disclosure of the Remuneration of Auditors is set out in Note 34 to the 2010 Financial Statements.

Introduction

This statement reflects the key aspects of the Commonwealth Bank's corporate governance framework. The Board has consistently placed great importance on the governance of the Group, which it believes is vital to its well-being. The Board has adopted a comprehensive framework of Corporate Governance Guidelines which are designed to properly balance performance and conformance and thereby allow the Group to undertake, in an effective manner, the prudent risk-taking activities which are the basis of its business. The Guidelines and the practices of the Group comply with the revised "Corporate Governance Principles and Recommendations", dated 30 June 2010, released by the Australian Securities Exchange (ASX) Limited's Corporate Governance Council. Information related to the compensation of the Directors is set out in the Remuneration Report in the Directors' Report in the 2010 financial report.

Charter

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

- The corporate governance of the Group, including the establishment of Committees;
- Oversight of the business and affairs of the Group by:
  - Establishing, with management, and approving the strategies and financial objectives;
  - Approving major corporate and capital initiatives and approving capital expenditure in excess of limits delegated to management;
  - Overseeing the establishment of appropriate systems of risk management including defining the Group's risk appetite and establishing appropriate financial policies such as target capital and liquidity ratios; and
  - Monitoring the performance of management and the environment in which the Group operates;
- Approving documents (including reports and statements to shareholders) required by the Bank's Constitution and relevant regulation;
- Employment of the Chief Executive Officer; and
- Approval of the Group's major HR policies and overseeing the development strategies for senior and high performing executives.

A copy of the Board Charter appears on the Group's website.

The Board carries out the legal duties of its role in accordance with the Group's values of trust, honesty and integrity and having regard to the interests of the Group's customers, staff, shareholders and the broader community in which the Group operates.

The Board delegates to the Chief Executive Officer the authority to achieve the Group's objective of creating long term value for its shareholders through providing financial services to its customers and providing sustained best-in-industry performance in safety, community reputation and environmental impact.

The Chief Executive Officer is responsible for the day to day management of the Group and maintaining a comprehensive set of management delegations under the Group's Delegation of Authorities framework. These delegations cover commitments around project investment, operational expenditure and non-financial activities or processes. They are designed to accelerate decision-making processes and improve efficiency and customer service.

Composition

As at 30 June 2010 there were nine Directors of the Bank and details of their experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors' Report included in the 2010 Financial Report.

Membership of the Board and Committees is set out below:

	Board Membership	Position Title	Committee Membership			
Director			Board Performance & Renewal	People & Remuneration	Audit	Risk
D J Turner (1)	Non-Executive, independent	Chairman	Chairman	Member		Member
R J Norris	Executive	Chief Executive Officer				Member
J A Anderson	Non-Executive, independent		Member			Member
C R Galbraith	Non-Executive, independent		Member		Member	Member
J S Hemstritch (2)	Non-Executive, independent			Chairman		Member
S C H Kay	Non-Executive, independent			Member	Member	Member
A M Mohl	Non-Executive, independent			Member		Member
F D Ryan	Non-Executive, independent				Chairman	Member
H H Young	Non-Executive, independent				Member	Chairman
J M Schubert (3)	Non-Executive, independent					
R J Clairs (3)	Non-Executive, independent					

(1) Mr Turner was appointed Chairman of the Board and the Board Performance and Renewal Committee following Mr Schubert's retirement on 10 February 2010.
(2) Ms Hemstritch was appointed Chairman of the People and Remuneration Committee following Mr Clairs' retirement from the position on 1 January 2010.
(3) Mr Schubert and Mr Clairs retired from the Board on 10 February 2010 and 13 April 2010 respectively.
(4) Mr B Long was appointed onto the Board on 10 August 2010, effective 1 September 2010.

Constitution

The Constitution of the Bank specifies that:

- The Chief Executive Officer and any other Executive Director shall not be eligible to stand for election as Chairman of the Bank;
- The number of Directors shall not be less than nine nor more than thirteen (or such lower number as the Board may from time to time determine). The Board has determined that the number of directors shall be nine; and
- At each Annual General Meeting one third of Directors (other than the Chief Executive Officer) shall retire from office and may stand for re-election.

The Board has established a policy that the term of Directors' appointments would be limited to 12 years (except where succession planning for Chairman and appointment of Chairman requires an extended term. On appointment, the Chairman will be expected to be available for that position for five years).

Independence

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

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

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

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

- The specific disclosures made by each Director as referred to above;
- Where applicable, the related party dealings referrable to each Director;
- That no Director is, or has been associated directly with, a substantial shareholder of the Bank;
- That no Non-Executive Director has ever been employed by the Bank or any of its subsidiaries;
- That no Director is, or has been associated with, a supplier, professional adviser, consultant to or customer of the Group which is material under accounting standards; and
- That no Non-Executive Director has a material contractual relationship with the Group other than as a Director of the Bank.

Education

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

Review

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

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

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

Performance evaluations in accordance with the above processes have been undertaken during the 2010 Financial Year.

Details on Management performance evaluations are contained in the Remuneration Report section of the Directors' Report.

Selection of Directors

The Board Performance and Renewal Committee has developed a set of criteria for Director appointments which has been adopted by the Board. The criteria are aimed at creating a Board capable of challenging, stretching and motivating management to achieve sustained outstanding company performance in all respects. These criteria, which are reviewed annually, aim to ensure that any new appointee is able to contribute to the Board constituting a competitive advantage for the Group and:

- Be capable of operating as part of an exceptional team;
- Contribute outstanding performance and exhibit impeccable values;
- Be capable of inputting strongly to risk management, strategy and policy;
- Provide appropriate mix of skills and experience required currently and for the future strategy of the Group;
- Be excellently prepared and receive all necessary education;
- Provide important and significant insights, input and questions to management from their experience and skill; and
- Vigorously debate and challenge management.

Professional intermediaries are engaged to identify a diverse range of potential candidates for appointment as Directors based on the identified criteria.

The Board Performance and Renewal Committee will assess the skills and experience of these candidates as well as take into consideration other attributes such as diversity to ensure that any appointment decisions are made in line with the objectives of the Board.

Candidates who are considered suitable for appointment as Directors by the Board Performance and Renewal Committee are then recommended for decision by the Board and, if appointed, stand for election, in accordance with the Constitution, at the next general meeting of shareholders.

The Group has adopted a policy whereby, on appointment, a letter is provided from the Chairman to the new Director setting out the terms of appointment and relevant Board policies including time commitment, code of ethics and continuing education. All current Directors have been provided with a letter confirming the terms of their appointment.

Policies

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

- The Board will consist of a majority of independent Non-Executive Directors and the membership of the Board Performance and Renewal, People & Remuneration and Audit Committees should consist solely of independent Non-Executive Directors. The Risk Committee should consist of a majority of independent Non-Executive Directors;
- The Chairman will be an independent Non-Executive Director. The Audit Committee will be chaired by an independent Non-Executive Director other than the Board Chairman;
- The Board will meet regularly with an agenda designed to provide adequate information about the affairs of the Group, allow the Board to guide and monitor management and assist in involvement in discussions and decisions on strategy. Matters having strategic implications are given priority on the agenda for regular Board meetings. In addition, ongoing strategy is the major focus of at least one Board meeting annually;
- The Board has an agreed policy on the basis on which Directors are entitled to obtain access to Company documents and information and to meet with management; and
- The Group has in place a procedure whereby, after appropriate consultation, Directors are entitled to seek independent professional advice, at the expense of the Group, to assist them to carry out their duties as Directors. The policy of the Group provides that any such advice is generally made available to all Directors.

Ethical Standards

Conflicts of Interest

In accordance with the Constitution and the Corporations Act 2001, Directors are required to disclose to the Board any material contract in which they may have an interest. In compliance with section 195 of the Corporations Act 2001 any Director with a material personal interest in a matter being considered by the Board will not be present when the matter is being considered and will not vote on the matter. In addition, any Director who has a conflict of interest in connection with any matter being considered by the Board or a Committee does not receive a copy of any paper dealing with the matter.

Share Trading

The restrictions imposed by law on dealings by Directors in the securities of the Group have been supplemented by the Board of Directors adopting guidelines which further limit any such dealings by Directors, their spouses, any dependent child, family Company or family trust.

The guidelines provide, that in addition to the requirement that Directors not deal in the securities of the Group or any related Company when they have or may be perceived as having relevant unpublished price-sensitive information, Directors are only permitted to deal within certain periods. These periods include between three and 30 days after the announcement of half yearly and final results and from the date of the Annual General Meeting until 14 days after the Annual General Meeting. Further, the guidelines require that Directors not deal on the basis of considerations of a short term nature or to the extent of trading in those securities. Similar restrictions apply to executives of the Group, in addition to the prohibition of any trading (including hedging) in positions prior to vesting of shares or options.

Directors and executives who report to the Chief Executive Officer are also prohibited from:

- Any hedging of publicly disclosed shareholding positions; and
- Entering into or maintaining arrangements for margin borrowing, short selling or stock lending, in connection with the securities of the Group.

In June 2010 the Board approved a revised Group Securities Trading Policy, which replaces the guidelines and applies to all Directors, employees & contractors of the Group from 21 September 2010.

Remuneration Arrangements

Details of the governance arrangements and policies relevant to remuneration are set out in the Directors' Report - Remuneration Report in the 2010 Financial Report.

Audit Arrangements

Audit Committee

The purpose of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities by providing an objective non-executive review of the effectiveness of the external reporting of financial information, and the internal control environment of the Group, including obtaining an understanding of the tax and accounting risks which face the Group. The Audit Committee is also responsible for the oversight of accounting policies, professional accounting requirements, internal and external audit and APRA statutory regulatory requirements, and the appointment of the external auditor.

The Charter of the Audit Committee incorporates a number of policies and practices to ensure that the Committee is independent and effective. Among these are:

- The Audit Committee shall comprise at least three members. All members must be non-executive, independent directors and financially literate. At least one member should have relevant qualifications and experience as referred to in the ASX Corporate Governance Principles and Recommendations;
- The Audit Committee chairman may not be the Chairman of the Board. The term of each member will be determined by the Board through annual review. The Risk Committee chairman will be a member of the Audit Committee and vice-versa to ensure the flow of relevant information between the two committees;
- The Audit Committee will meet at least quarterly, and as required. The Audit Committee will invite the external auditor to all meetings of the Committee;

- The Audit Committee will meet from time to time with the Group Auditor and external auditor without management or others being present;
- The Audit Committee has the power to call attendees as required, including open access to management, auditors (external and internal) and the right to seek explanations and additional information;
- Senior management and the internal and external auditor have free and unfettered access to the Audit Committee, with the Group Auditor having a direct reporting line, whilst maintaining a management reporting line to the Chief Financial Officer; and
- The Audit Committee has the option, with the concurrence of the Chairman of the Board, to retain independent legal, accounting, or other advisors to the extent the Committee considers necessary at the Group's expense.

A copy of the Audit Committee Charter appears on the Group's website.

Non-Audit Services

The Board has in place an External Auditor Services Policy which requires the Audit Committee (or its delegate) to approve all audit and non-audit services before engaging the Auditors. The policy also prohibits the Auditors from providing certain services to the Group or its affiliates. The objective of this policy is to avoid prejudicing the independence of the Auditors.

The policy is designed to ensure that the Auditors do not:

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

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

- Bookkeeping or other services relating to accounting records or Financial Statements of the Group;
- Financial information systems design and implementation;
- Appraisal or valuation services (other than certain tax only valuation services) and fairness opinions;
- Actuarial services unless approved in accordance with independence guidelines;
- Internal audit outsourcing services;
- Management functions, including acting as an employee and secondment arrangements;
- Human resources;
- Broker-dealer, investment adviser or investment banking services;
- Legal services; or
- Expert services for the purpose of advocating the interests of the Group.

In general terms, the permitted services are:

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

Auditor

PricewaterhouseCoopers was appointed as the Auditor of the Bank at the 2007 Annual General Meeting, effective from the beginning of the 2008 Financial Year.

The audit partner from PricewaterhouseCoopers will attend the 2010 Annual General Meeting of the Bank and will be available to respond to shareholder audit-related questions.

The Group currently requires that the partner managing the audit for the external Auditor be changed after a period of no longer than five years.

The Chief Executive Officer is authorised to appoint and remove the Group Auditor only after consultation with the Audit Committee.

Due to the U.S. Securities and Exchange Commission ("SEC") rules that apply to various activities that the Group continues to undertake in the United States, notwithstanding the Bank's de-registration under the Exchange Act, the Group and its Auditor must continue to comply with U.S. Auditor independence requirements.

Risk Management

Risk Management governance originates at Board level, and cascades through to the CEO and businesses, via policies and delegated authorities. This ensures Board-level oversight and a clear segregation of duties between those who originate and those who approve risk exposures. Independent review of the risk management framework is carried out through Group Audit.

The Board and its Risk Committee operate under the direction of their respective charters. The Board Charter stipulates, amongst other things that:

- The Board is responsible for "overseeing the establishment of systems of risk management by approving accounting policies, financial statements and reports, credit policies and standards, risk management policies and procedures and operational risk policies and systems of internal controls"; and
- The CEO is responsible for "implementing a system, including a system of internal controls and audits, to identify and manage risks that are material to the business of the Group".

As part of the process whereby the Board reviews the annual financial statements, the Chief Executive Officer and the Chief Financial Officer have given the Board their declaration in accordance with section 259A(2) of the Corporations Act 2001 (Cth), as well as the assurance that the declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risks.

Risk Committee

The Risk Committee oversees the Group's risk management framework, including the credit, market (including traded, interest rate risk in the banking book, lease residual values, non-traded equity and structural foreign exchange), liquidity and funding, operational, insurance, compliance and regulatory risks assumed by the Group in the course of carrying on its business. It reviews regular reports from Management on the measurement of risk and the adequacy and effectiveness of the Group's risk management and internal controls systems.

Strategic risks are governed by the full Board, with input from the various Board sub-committees. Tax and accounting risks are governed by the Board Audit Committee.

A key purpose is to help formulate the Group's risk appetite for consideration by the Board, and agreeing and recommending a risk management framework to the Board that is consistent with the approved risk appetite. This framework, which is designed to achieve portfolio outcomes consistent with the Group's risk/return expectations, includes:

- High-level risk management policies for each of the risk areas it is responsible for overseeing; and
- A set of risk limits to manage exposures and risk concentrations.

The Committee monitors Management's compliance with the Group risk framework (high-level policies and limits); it also makes recommendations on the key policies relating to capital, liquidity and funding that underpin the Internal Capital Adequacy Assessment Process, which is overseen and reviewed by the Board on at least an annual basis.

In overseeing the risk framework, and through its dialogues with the risk leadership team and executive management, the Committee also monitors the health of the Group's risk culture, and reports any significant issues to the Board.

As part of the remuneration policy, the Risk Committee provides written input to the People & Remuneration Committee to assist in the alignment of executive remuneration with appropriate risk behaviours.

The Committee reviews significant correspondence between the Group and its regulators, receives reports from management on the Group's regulatory relations and reports any significant regulatory issues to the Board.

Levels of insurance cover on insurance policies maintained by the Group to mitigate some operational risks are disclosed to the Risk Committee for comment.

The Committee meets at least seven times each year and at least annually with the Group Chief Risk Officer, in the absence of other management to allow the Committee to form a view on the independence of the risk management function. The Chairman of the Risk Committee provides a report to the Board following each Risk Committee meeting.

A copy of the Risk Committee charter appears on the Group's website.

Framework

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

A description of the functions of the framework and the nature of the risks is set out in the Risk Management section of the Annual Report and in Notes 38 to 41 to the Financial Statements.

Board Performance and Renewal Committee

The Board Performance and Renewal Committee critically reviews, at least annually, the corporate governance procedures of the Group and the composition and effectiveness of the Commonwealth Bank of Australia Board and the Boards of the major wholly owned subsidiaries. The policy of the Board is that the Committee shall consist solely of independent Non-Executive Directors. The Chief Executive Officer attends the meeting by invitation.

A copy of the Board Performance and Renewal Committee Charter appears on the Group's website.

Continuous Disclosure

The Corporations Act 2001 and the ASX Listing Rules require that a Company discloses to the market matters which could be expected to have a material effect on the price or value of the Company's securities. The Group's "Guidelines for Communication between the Bank and Shareholders", a copy of which appears on the Group's website, sets out the processes to ensure that shareholders and the market are provided with full and timely information about the Group's activities in compliance with continuous disclosure requirements. Continuous Disclosure Policy and Processes are in place throughout the Commonwealth Bank Group to ensure that all material matters which may potentially require disclosure are promptly reported to the Chief Executive Officer, through established reporting lines, or as a part of the deliberations of the Group's Executive Committee. Matters reported are assessed and, where required by the ASX Listing Rules, advised to the market. A Disclosure Committee has been formed to provide advice on the requirements for disclosure of information to the market. The Company Secretary is responsible for communications with the ASX and for ensuring that such information is not released to any person until the ASX has confirmed its release to the market.

Shareholder Communication

The Group believes it is important for its shareholders to make informed decisions about their investment in the Group. In order for shareholders to have an understanding of the business operations and performance, the Group seeks to provide shareholders with access to quality information in a timely fashion. This will be communicated in the form of:

- Interim and final Results;
- Annual Reports;
- Shareholder newsletters;
- Annual General Meetings;
- Quarterly trading updates and Business Unit briefings where considered appropriate;
- All other price sensitive information will be released to the ASX in a timely manner; and
- The Group's dedicated shareholder website is kept up-to-date so that shareholders can access this information at all times.

The Group employs a wide range of communication approaches, including direct communication with shareholders, publication of all relevant Group information on the shareholder centre section of the website and webcasting of most market briefings for shareholders. Upcoming webcasts are announced to the market via ASX announcements and publicised on the Bank's website so all interested parties may participate.

A summary record of issues discussed at one-on-one or group meetings with investors and analysts, including a record of those present, time and venue of the meeting are kept for internal reference only.

The Group is committed to maintaining a level of disclosure that meets the highest of standards and provides all investors with timely and equal access to information.

Ethical Policies

The Group's objective is to create long term value for its shareholders through providing financial services to its customers and producing sustained best-in-industry performance in safety, community, reputation and environmental impact.

The Group's vision is to be Australia's finest financial services organisation through excelling in customer service.

The values of the Group are trust, honesty and integrity. The Board carries out the legal duties of its role in accordance with the values and having appropriate regard to the interests of the Group's customers, shareholders, staff and the broader community in which the Group operates.

Policies and codes of conduct have been established by the Board and the Group Executive team to support the Group's objectives, vision and values.

Statement of Professional Practice

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

- To act properly and efficiently in pursuing the objectives of the Group;
- To avoid situations which may give rise to a conflict of interest;
- To know and adhere to the Group's Equal Employment Opportunity policy and programs;
- To maintain confidentiality in the affairs of the Group and its customers; and
- To be absolutely honest in all professional activities.

These standards are regularly communicated to staff. In addition, the Group has established insider trading guidelines for staff to ensure that unpublished price-sensitive information about the Group or any other Company is not used in an illegal manner or so that inside information could be used for personal advantage.

Our People

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

- Fair Treatment Review;
- Equal Employment Opportunity;
- Occupational Health and Safety;
- Recruitment and selection;
- Performance management;
- Talent management and succession planning;
- Remuneration and recognition;
- Employee share plans; and
- Supporting Professional Development.

Information on the Group's diversity strategy can be found in the Corporate Sustainability section of this report.

Behaviour Issues

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

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

Code of Conduct

In carrying out its role, the Board will operate in a manner reflecting the Group's values and in accordance with its agreed corporate governance guidelines, the Bank's Constitution, the Corporations Act and all other applicable regulations.

The Board employs and requires at all levels, impeccable values, honesty and openness. Through its processes, it achieves transparent, open governance and communications under all circumstances, with both performance and conformance addressed.

The Board's policies and codes include detailed provisions dealing with:

- The interface between the Board and Management to ensure there is effective communication of the Board's views and decisions, resulting in motivation and focus towards long term shareholder value behaviours and outcomes;
- Disclosure of relevant personal interests so that potential of conflict of interest situations can be identified and appropriate action undertaken to avoid compromising the independence of the Board; and
- Securities dealings in compliance with the Group's strict guidelines and in accordance with the values of honesty and integrity.

Five Year Financial Summary

	2010 $M	2009 $M	2008 $M	2007 $M	2006 $M
Income Statement					
Net interest income	**11,868**	10,186	7,907	7,036	6,514
Other operating income	**7,191**	6,632	6,434	6,161	5,613
Total operating income	**19,059**	16,818	14,341	13,197	12,127
Operating expenses	**(8,601)**	(7,765)	(7,021)	(6,427)	(5,994)
Impairment expense	**(2,075)**	(3,048)	(930)	(434)	(398)
Operating profit before income tax expense	**8,383**	6,005	6,390	6,336	5,735
Corporate tax expense	**(2,266)**	(1,560)	(1,626)	(1,782)	(1,618)
Non-controlling interests	**(16)**	(30)	(31)	(27)	(31)
Net profit after income tax ("cash basis")	**6,101**	4,415	4,733	4,527	4,086
Defined benefit superannuation plan (expense)/income (1)	**-**	(10)	9	5	(25)
Treasury shares valuation adjustment	**(44)**	(28)	60	(75)	(100)
Hedging and AIFRS volatility	**17**	(245)	(42)	13	(33)
Visa Initial Public Offering gain after tax	**-**	-	295	-	-
Investment and restructuring	**-**	-	(264)	-	-
One-off expenses	**-**	(23)	-	-	-
Tax on NZ structured finance transactions	**(171)**	-	-	-	-
Loss on disposal of controlled entities / investments	**(23)**	-	-	-	-
Bankwest significant items	**(216)**	614	-	-	-
Net profit after income tax attributable to Equity holders of the Bank	**5,664**	4,723	4,791	4,470	3,928
Contributions to profit (after tax)					
Retail Banking Services	**2,461**	2,107	1,911	1,766	1,576
Business and Private Banking	**893**	736	721	n/a	n/a
Institutional Banking and Markets	**1,182**	166	771	n/a	n/a
Premium Business Services	**n/a**	n/a	n/a	1,445	1,138
Wealth Management	**592**	514	789	548	441
New Zealand	**387**	438	n/a	n/a	n/a
Bankwest	**60**	113	n/a	n/a	n/a
International Financial Services	**n/a**	n/a	555	461	442
Other	**348**	537	(1)	211	278
Net profit after income tax ("underlying basis")	**5,923**	4,611	4,746	4,431	3,875
Investment experience after tax	**178**	(196)	(13)	96	66
Net profit after income tax ("cash basis")	**6,101**	4,415	4,733	4,527	3,941
Defined benefit superannuation plan (expense)/income (1)	**-**	(10)	9	5	(25)
Treasury shares valuation adjustment	**(44)**	(28)	60	(75)	(100)
Hedging and AIFRS volatility	**17**	(245)	(42)	13	(33)
Profit on sale of the Hong Kong Insurance Business	**-**	-	-	-	145
Visa Initial Public Offering gain after tax	**-**	-	295	-	-
Investment and restructuring	**-**	-	(264)	-	-
One-off expenses	**-**	(23)			
Tax on NZ structured finance transactions	**(171)**	-	-	-	-
Loss on disposal of controlled entities / investments	**(23)**	-	-	-	-
Bankwest significant items	**(216)**	614	-	-	-
Net profit after income tax	**5,664**	4,723	4,791	4,470	3,928
Balance Sheet					
Loans, bills discounted and other receivables	**493,459**	466,631	361,282	315,465	273,525
Total assets	**646,330**	620,372	487,572	440,157	382,850
Deposits and other public borrowings	**374,663**	368,721	263,706	219,068	187,576
Total liabilities	**610,760**	588,930	461,435	415,713	361,507
Shareholders' equity	**35,570**	31,442	26,137	24,444	21,343
Net tangible assets	**24,688**	20,738	16,422	15,158	12,087
Risk weighted assets	**290,821**	288,836	205,501	245,347	216,438
Average interest earning assets	**553,735**	481,248	385,667	332,492	289,416
Average interest bearing liabilities	**521,338**	453,458	362,249	311,236	269,718
Assets (on Balance Sheet)					
Australia	**561,618**	528,354	410,225	360,188	318,578
New Zealand	**56,948**	59,606	54,312	55,160	43,318
Other	**27,764**	32,412	23,035	24,809	20,954
Total assets	**646,330**	620,372	487,572	440,157	382,850

(1) Due to the change in expectations on the size and impact of defined benefit superannuation plan (income)/expense, from 1 July 2009 this amount has been included as part of total expenses ("cash basis") and is recorded in the Other segment.

Five Year Financial Summary continued

	2010	2009	2008	2007	2006
Shareholder Summary					
Dividend per share – fully franked (cents)	**290**	228	266	256	224
Dividend cover – statutory (times)	**1. 3**	1. 3	1. 3	1. 3	1. 4
Dividend cover – cash (times)	**1. 4**	1. 3	1. 3	1. 3	1. 4
Dividend cover – underlying (times)	**1. 3**	1. 3	1. 3	1. 3	1. 3
Earnings per share (cents)					
Basic					
Statutory	**367. 9**	328. 5	363. 0	344. 7	308. 2
Cash basis	**395. 5**	305. 6	356. 9	347. 1	318. 5
Underlying basis	**383. 9**	319. 3	357. 9	339. 6	302. 0
Fully diluted					
Statutory	**354. 2**	313. 4	348. 7	339. 7	303. 1
Cash basis	**379. 8**	292. 4	343. 1	342. 1	312. 9
Underlying basis	**369. 0**	305. 0	344. 0	335. 0	297. 1
Dividend payout ratio (%)					
Statutory	**79. 7**	73. 1	74. 1	75. 2	73. 3
Cash basis	**73. 9**	78. 2	75. 0	74. 2	70. 5
Underlying basis	**76. 1**	74. 9	74. 8	75. 8	74. 3
Net tangible assets per share ($)	**15. 9**	13. 7	12. 4	11. 7	9. 4
Weighted average number of shares (statutory basic) (M)	**1,527**	1,420	1,307	1,281	1,275
Weighted average number of shares (statutory fully diluted) (M)	**1,640**	1,548	1,424	1,344	1,329
Weighted average number of shares (cash basic) (M)	**1,531**	1,426	1,313	1,289	1,283
Weighted average number of shares (cash fully diluted) (M)	**1,644**	1,554	1,430	1,351	1,338
Number of Shareholders	**784,382**	776,283	741,072	696,118	698,552
Share prices for the year ($)					
Trading high	**60. 00**	46. 69	62. 16	56. 16	47. 41
Trading low	**36. 20**	24. 03	37. 02	42. 98	36. 62
End (closing price)	**48. 64**	39. 00	40. 17	55. 25	44. 41
Performance Ratios (%)					
Return on average Shareholders' equity					
Statutory	**17. 5**	16. 8	19. 8	20. 7	20. 4
Cash basis	**18. 7**	15. 8	20. 4	21. 7	21. 5
Underlying basis	**18. 2**	16. 5	20. 4	21. 2	20. 4
Return on average total assets					
Statutory	**0. 9**	0. 9	1. 0	1. 1	1. 1
Cash basis	**1. 0**	0. 8	1. 0	1. 1	1. 1
Underlying basis	**0. 9**	0. 8	1. 0	1. 1	1. 1
Capital adequacy – Tier One	**9. 15**	8. 07	8. 17	7. 14	7. 56
Capital adequacy – Tier Two	**2. 34**	2. 35	3. 41	3. 41	3. 10
Capital adequacy – Deductions	**-**	-	-	(0. 79)	(1. 00)
Capital adequacy – Total	**11. 49**	10. 42	11. 58	9. 76	9. 66
Net interest margin	**2. 13**	2. 10	2. 02	2. 08	2. 22
Other Information (numbers)					
Full-time equivalent employees	**45,025**	44,218	39,621	37,873	36,664
Branches/services centres (Australia)	**1,147**	1,142	1,009	1,010	1,005
Agencies (Australia)	**3,884**	3,859	3,814	3,833	3,836
ATMs (proprietary)	**4,149**	4,075	3,301	3,242	3,191
EFTPOS terminals	**165,621**	167,025	187,377	171,138	157,350
Productivity					
Total operating income per full-time (equivalent) employee ($)	**423,298**	380,343	361,955	348,454	330,760
Employee expense/Total operating income (%)	**24. 0**	23. 7	25. 5	24. 5	23. 3
Total operating expenses/Total operating income (%)	**45. 1**	46. 2	49. 0	48. 7	49. 4

Appendix A – Additional Historical Information

For the purposes of providing investors with a thorough understanding of the Group's performance, this Appendix provides relevant Financial Year 2006, 2007 and 2008 information not provided within the 2010 Financial Report or the 2009 Financial Report.

Provisions for Impairment

	Group 2006 $M
Provisions for impairment losses	
Collective provisions	
Opening balance	1,021
Total charge against profit and loss for impairment losses	398
Net transfer to individually assessed provisions	(440)
Impairment losses recovered	127
Adjustments for exchange rate fluctuations and other items	(7)
	1,099
Impairment losses written off	(53)
Closing balance	1,046
Individually assessed provisions	
Opening balance	191
Charge against profit and loss for:	
New and increased provisioning	468
Less write-back of provisions no longer required	(28)
Net transfer from collective provision	440
Discount unwind to interest income	(13)
Adjustment for exchange rate fluctuations and other items	(3)
Impairment losses	(444)
Closing balance	171
Total provisions for loan impairment	1,217
Other credit provisions	24
Total provisions for impairment losses	1,241

	Group 2006 %
Coverage Ratios	
Collective provision as a % of gross loans and acceptances	0. 36
Collective provisions as a % of risk weighted assets – Basel I	0. 48
Individually assessed provisions for impairment as a % of gross impaired assets	24. 5
Total provisions for impairment as % of gross impaired assets	380. 7

Appendix A – Additional Historical Information

Provisions for Impairment (continued)

	Group 2006 $M
Total Loan Impairment Expense	398
Comprising:	
Individually assessed provisioning	
New and increased provisioning	468
Less provisions no longer required	(28)
Net individually assessed provisions	440
Provided from collective provisioning	(440)
Charge to profit and loss	-
Collective provisioning	
Direct write-offs	53
Recoveries of amounts previously written off	(127)
Movement in collective provision	32
Funding of individually assessed provisions	440
Charge to profit and loss	398
Total charge to profit and loss for loan impairment expense	398

Provisions for Impairment (continued)

	Group 2007 $M
Provisions for impairment losses	
Collective provision	
Opening balance [1]	**1,046**
Total charge against profit and loss for impairment losses	**434**
Net transfer to individually assessed provisions	**(507)**
Impairment losses recovered	**103**
Adjustments for exchange rate fluctuations and other items	**9**
	1,085
Impairment losses written off	**(51)**
Closing balance	**1,034**
Individually assessed provisions	
Opening balance [1]	**171**
Charge against profit and loss for:	
New and increased provisioning	**523**
Less write-back of provisions no longer required	**(16)**
Net transfer from collective provision	**507**
Discount unwind to interest income	**(6)**
Adjustment for exchange rate fluctuations and other items	**(5)**
Impairment losses	**(468)**
Closing balance	**199**
Total provisions for loan impairment	**1,233**
Other credit provisions	**23**
Total provisions for impairment	**1,256**

(1) The opening balance at 1 July 2005 includes the impact of adopting AASB 132, AASB 137 and AASB 139 which have not been applied to the 2005 comparatives in accordance with AASB 1.

	Group 2007 %
Coverage Ratios	
Collective provision as a % of gross loans and acceptances	**0. 32**
Collective provisions as a % of risk weighted assets	**0. 42**
Individually assessed provisions for impairment as a % of gross impaired assets [1]	**23. 8**
Total provisions for impairment as % of gross impaired assets	**298. 3**

(1) Bulk portfolio provisions of $99 million at 30 June 2007 ($91 million at 30 June 2006 and $62 million at 30 June 2005) to cover unsecured personal loan and credit card lending have been deducted from individually assessed provisions to calculate this ratio. These provisions are deducted due to the exclusion of the related assets from gross impaired assets. The related asset amounts are instead included in the 90 days or more past due disclosure.

Appendix A – Additional Historical Information

Provisions for Impairment (continued)

	Group
	2007
	$M
Provisions for impairment losses	
Collective provision	
Opening balance	**1,161**
Acquisitions	**-**
Net collective provision funding	**316**
Impairment losses written off	**(432)**
Impairment losses recovered	**103**
Fair value and other	**8**
Closing balance	**1,156**
Individually assessed provisions	
Opening balance	**80**
Acquisitions	**-**
Net new and increased individual provisioning	**134**
Write-back of provisions no longer required	**(16)**
Discount unwind to interest income	**(6)**
Fair value and other	**(5)**
Impairment losses written off	**(87)**
Closing balance	**100**
Total provisions for impairment losses	**1,256**
Less: Off balance sheet provisions	**(23)**
Total provisions for loan impairment	**1,233**

	Group
	2007
	%
Provision Ratios	
Collective provision as a % of gross loans and acceptances	**0.34**
Collective provision as a % of risk weighted assets - Basel II	**n/a**
Individually assessed provisions for impairment as a % of gross impaired assets	**23.8**
Total provisions for impairment losses as a % of gross loans and acceptances	**0.37**

Credit Risk Management

The following table sets out the Group's impaired asset position by industry and asset class as at 30 June 2006.

Industry	Total Risk $M	Impaired Assets $M	Provisions for Impairment $M	Write-offs $M	Recoveries $M	Net Write-offs $M
						Group
Australia						
Government and public authorities	6,765	-	-	1	-	1
Agriculture, forestry and fishing	5,227	12	4	8	(1)	7
Financial, investment and insurance	26,923	2	1	1	(2)	(1)
Real estate:						
Mortgage (1)	151,993	40	19	9	(1)	8
Construction (2)	3,501	7	2	5	-	5
Personal	16,566	56	97	388	(100)	288
Lease financing	4,924	12	1	6	(1)	5
Other commercial and industrial	80,567	183	42	68	(17)	51
Total Australia	296,466	312	166	486	(122)	364
Overseas						
Government and public authorities	904	-	-	-	-	-
Agriculture, forestry and fishing	3,097	1	-	-	-	-
Financial, investment and insurance	17,553	-	1	-	-	-
Real estate:						
Mortgage (1)	23,267	6	2	-	-	-
Construction (2)	294	4	-	-	-	-
Personal	524	2	2	7	(5)	2
Lease financing	139	-	-	-	-	-
Other commercial and industrial	14,686	1	-	4	-	4
Total Overseas	60,464	14	5	11	(5)	6
Gross Balances	356,930	326	171	497	(127)	370
Other Risk Concentrations						
Receivables due from other financial institutions	7,033					
Deposits with regulatory authorities	74					
Total Gross Credit Risk	364,037					

(1) Principally owner-occupied housing.

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

Large Exposures

Concentrations of exposure to any debtor or counterparty group are controlled by a large credit exposure policy. All exposures outside the policy are approved by the Board Risk Committee.

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

	2006 Number	2005 Number
5% to less than 10% of Group's capital resources	-	1
10% to less than 15% of Group's capital resources	-	-

Appendix A – Additional Historical Information

Credit Risk Management (continued)

The following table sets out the Group's impaired asset position by industry and asset class as at 30 June 2007.

	Group 2007					
	Loans	Gross Impaired Assets	Individually Assessed Provisions	Write-offs	Recoveries	Net Write-offs
Industry	$M	$M	$M	$M	$M	$M
Australia						
Sovereign	1,777	-	-	-	-	-
Agriculture	2,491	5	3	1	(1)	-
Bank and other financial	7,894	2	2	-	(1)	(1)
Real estate:						
Mortgage	163,839	182	23	20	(1)	19
Construction	1,588	8	1	1	(1)	-
Personal	18,252	3	104	408	(77)	331
Asset Financing	7,827	35	13	49	(10)	39
Other commercial and industrial	61,610	163	39	30	(8)	22
Total Australia	265,278	398	185	509	(99)	410
Overseas						
Sovereign	3,189	-	-	-	-	-
Agriculture	4,151	-	-	-	-	-
Bank and other financial	6,943	-	1	-	-	-
Real estate:						
Mortgage	28,931	12	4	-	-	-
Construction	618	-	-	-	-	-
Personal	660	2	1	7	(4)	3
Asset Financing	507	1	1	-	-	-
Other commercial and industrial	8,341	8	7	3	-	3
Total Overseas	53,340	23	14	10	(4)	6
Gross balances	318,618	421	199	519	(103)	416

Credit Risk Management (continued)

The following table sets out the Group's impaired asset position by industry and asset class as at 30 June 2008.

Industry	Loans $M	Gross Impaired Assets $M	Individually Assessed Provisions $M	Net Impaired Assets $M	Write-offs $M	Recoveries $M	Net Write-offs $M
							Group 2008
Australia							
Sovereign	1,568	-	-	-	-	-	-
Agriculture	2,547	15	4	11	3	-	3
Bank and other financial	8,917	58	27	31	5	-	5
Real estate:							
Mortgage	186,926	157	34	123	23	(1)	22
Construction	1,647	11	1	10	1	(1)	-
Personal	19,233	14	9	5	364	(61)	303
Asset Financing	7,894	55	12	43	49	(5)	44
Other commercial and industrial	80,423	310	161	149	34	(5)	29
Total Australia	309,155	620	248	372	479	(73)	406
Overseas							
Sovereign	1,230	-	-	-	-	-	-
Agriculture	4,814	1	-	1	-	-	-
Bank and other financial	6,743	4	4	-	4	-	4
Real estate:							
Mortgage	28,817	37	7	30	1	-	1
Construction	606	3	8	(5)	1	-	1
Personal	532	2	2	-	13	(3)	10
Asset Financing	548	1	2	(1)	-	-	-
Other commercial and industrial	12,779	15	8	7	5	(1)	4
Total Overseas	56,069	63	31	32	24	(4)	20
Gross balances	365,224	683	279	404	503	(77)	426

Appendix A – Additional Historical Information

Credit Risk Management (continued)

The following table sets out the Group's credit risk by industry and asset class as at 30 June 2006.

	Assets at Fair Value through Income Statement $M	Available For Sale Investments $M	Loans Advances and Other Receivables $M	Bank Acceptances of Customers $M	Derivatives $M	Contingent Liabilities $M	Total $M
Australia							
Government and public authorities	1,282	3,551	1,528	8	52	344	6,765
Agriculture, forestry and fishing	-	-	3,307	1,814	38	68	5,227
Financial, investment and insurance	8,013	122	9,683	1,103	6,518	1,484	26,923
Real estate:							
Mortgage (1)	-	-	146,869	-	-	5,124	151,993
Construction (2)	-	-	2,085	411	143	862	3,501
Personal	-	-	16,001	429	3	133	16,566
Lease financing	-	-	4,924	-	-	-	4,924
Other commercial and industrial	3,537	2,338	49,706	14,545	2,486	7,955	80,567
Total Australia	12,832	6,011	234,103	18,310	9,240	15,970	296,466
Overseas							
Government and public authorities	361	-	380	-	69	94	904
Agriculture, forestry and fishing	-	-	3,094	-	2	1	3,097
Financial, investment and insurance	1,543	518	8,003	-	4,352	3,137	17,553
Real estate:							
Mortgage (1)	-	-	22,287	-	-	980	23,267
Construction (2)	-	-	268	-	3	23	294
Personal	-	-	521	-	-	3	524
Lease financing	-	-	139	-	-	-	139
Other commercial and industrial	1,022	4,674	7,526	-	195	1,269	14,686
Total Overseas	2,926	5,192	42,218	-	4,621	5,507	60,464
Gross Balances	15,758	11,203	276,321	18,310	13,861	21,477	356,930
Other Risk Concentrations							
Receivables due from other financial institutions							7,033
Deposits with regulatory authorities							74
Total Gross Credit Risk							364,037

(1) Principally owner-occupied housing.

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

Risk concentrations for contingent liabilities are based on the credit equivalent balance in Note 42 Contingent Liabilities, Assets and Commitments of the 2007 Financial Report. Risk concentrations for derivatives are based on the credit equivalent balance in Note 43 Market Risk of the 2007 Financial Report.

Credit Risk Management (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

Group
At 30 June 2007

	Sovereign $M	Agriculture $M	Bank & Other Financial $M	Real Estate Mortgage $M	Real Estate Construction $M	Personal $M	Asset Financing $M	Other Comm & Indust. $M	Other $M	Total $M
Australia										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	5,984	-	-	-	-	-	-	5,984
Receivables due from other financial institutions	-	-	2,809	-	-	-	-	-	-	2,809
Assets at fair value through Income Statement:										
Trading	3,894	-	10,193	-	-	-	-	4,924	-	19,011
Insurance (1)	4,300	-	3,888	374	33	-	-	12,225	-	20,820
Other	-	-	423	-	-	-	-	-	-	423
Derivative assets	170	-	8,494	-	14	-	-	296	-	8,974
Available-for-sale investments	2,456	-	1,417	-	-	-	-	1,572	-	5,445
Loans, advances and other receivables	1,777	2,491	7,894	163,839	1,588	18,252	7,827	61,610	-	265,278
Bank acceptances	11	2,155	441	-	571	-	-	15,543	-	18,721
Other assets (2)	28	39	960	2,575	25	287	123	968	10,745	15,750
Total on balance sheet Australia	12,636	4,685	42,503	166,788	2,231	18,539	7,950	97,138	10,745	363,215
Credit risk exposures relating to off balance sheet items:										
Guarantees										2,281
Loan commitments										72,167
Other commitments										12,842
Total Australia										450,505
Overseas										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	4,124	-	-	-	-	-	-	4,124
Receivables due from other financial institutions	-	-	2,686	-	-	-	-	-	-	2,686
Assets at fair value through Income Statement:										
Trading	383	-	977	-	-	-	-	1,098	-	2,458
Insurance (1)	487	-	1,641	-	-	-	-	571	-	2,699
Other	244	365	2,369	-	67	-	-	605	-	3,650
Derivative assets	50	-	1,541	-	-	-	-	2,178	-	3,769
Available-for-sale investments	210	-	1,841	-	-	-	-	2,176	-	4,227
Loans, advances and other receivables	3,189	4,151	6,943	28,931	618	660	507	8,341	-	53,340
Bank acceptances	-	-	-	-	-	-	-	-	-	-
Other assets (2)	63	82	137	571	12	13	10	1,236	1,018	3,142
Total on balance sheet Overseas	4,626	4,598	22,259	29,502	697	673	517	16,205	1,018	80,095
Credit risk exposures relating to off balance sheet items:										
Guarantees										570
Loan commitments										13,264
Other commitments										598
Total Overseas										94,527
Total gross credit risk										545,032

(1) In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

(2) Other assets predominantly comprises assets which do not give rise to credit exposure, including intangible assets, property, plant and equipment, and defined benefit superannuation plan surplus, which are shown in "Other" for the purpose of reconciling to the Balance Sheet.

Appendix A – Additional Historical Information

Credit Risk Management (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

	Sovereign	Agri-culture	Bank & Other Financial	Real Estate Mortgage	Real Estate Constr-uction	Personal	Asset Financing	Other Comm & Indust.	Other	Total
Group At 30 June 2008	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Australia Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	4,841	-	-	-	-	-	-	4,841
Receivables due from other financial institutions	-	-	4,880	-	-	-	-	-	-	4,880
Assets at fair value through Income Statement:										
Trading	2,043	-	12,910	-	-	-	-	3,504	-	18,457
Insurance (1)	4,096	-	3,527	313	24	-	-	10,716	-	18,676
Other	-	-	295	-	-	-	-	-	-	295
Derivative assets	204	15	13,560	-	5	-	-	2,555	-	16,339
Available-for-sale investments	2,981	-	1,419	-	-	-	-	2,764	-	7,164
Loans, bills discounted and other receivables	1,568	2,547	8,917	186,926	1,647	19,233	7,894	80,423	-	309,155
Bank acceptances	8	2,764	485	-	533	-	-	14,488	-	18,278
Other assets (2)	20	32	1,018	2,338	21	240	99	1,405	10,647	15,820
Total on balance sheet Australia	10,920	5,358	51,852	189,577	2,230	19,473	7,993	115,855	10,647	413,905
Credit risk exposures relating to off balance sheet assets:										
Guarantees	51	9	176	25	110	-	-	2,335	-	2,706
Loan commitments	907	840	8,262	38,094	770	12,124	-	24,256	-	85,253
Other commitments	155	6	634	69	2,145	-	-	7,689	-	10,698
Total Australia	12,033	6,213	60,924	227,765	5,255	31,597	7,993	150,135	10,647	512,562
Overseas Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	2,895	-	-	-	-	-	-	2,895
Receivables due from other financial institutions	-	-	2,104	-	-	-	-	-	-	2,104
Assets at fair value through Income Statement:										
Trading	823	-	1,425	-	-	-	-	971	-	3,219
Insurance (1)	394	-	1,070	-	-	-	-	510	-	1,974
Other	1,069	33	1,204	-	40	29	-	596	-	2,971
Derivative assets	54	19	1,213	-	-	-	-	607	-	1,893
Available-for-sale investments	225	-	2,031	-	-	-	-	2,068	-	4,324
Loans, bills discounted and other receivables	1,230	4,814	6,743	28,817	606	532	548	12,779	-	56,069
Bank acceptances	-	-	-	-	-	-	-	-	-	-
Other assets (2)	23	89	125	535	11	10	10	433	924	2,160
Total on balance sheet Overseas	3,818	4,955	18,810	29,352	657	571	558	17,964	924	77,609
Credit risk exposures relating to off balance sheet assets:										
Guarantees	-	1	1	-	25	-	-	69	-	96
Loan commitments	267	360	541	2,884	195	1,141	-	6,663	-	12,051
Other commitments	41	1	86	-	2	-	-	145	-	275
Total Overseas	4,126	5,317	19,438	32,236	879	1,712	558	24,841	924	90,031
Total gross credit risk	16,159	11,530	80,362	260,001	6,134	33,309	8,551	174,976	11,571	602,593

Credit Risk Management (continued)

Credit Portfolio Receivables by Industry

The following table sets out the distribution of the Group's loans, advances and other receivables (excluding bank acceptances) by industry at 30 June 2006.

Industry		2006 $M
Australia		
Government and public authorities		1,528
Agriculture, forestry and fishing		3,307
Financial, investment and insurance		9,683
Real estate:		
Mortgage (1)		146,869
Construction (2)		2,085
Personal		16,001
Lease financing		4,924
Other commercial and industrial		49,706
Total Australia		234,103
Overseas		
Government and public authorities		380
Agriculture, forestry and fishing		3,094
Financial, investment and insurance		8,003
Real estate:		
Mortgage (1)		22,287
Construction (2)		268
Personal		521
Lease financing	9	139
Other commercial and industrial		7,526
Total Overseas		42,218
Gross loans, Advances and Other Receivables		276,321
Provisions for bad and doubtful debts, unearned income, interest reserved and unearned tax remissions on leveraged leases (3)		(2,796)
Net Loans, Advances and Other Receivables		273,525

(1) Principally owner occupied housing.

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

(3) Interest reserved not recognised under AIFRS from 1 July 2005.

(4) The 2005 comparatives which included the first time adoption to AIFRS as published in the 2006 Financial Report.

(5) A review of the accounting treatment of Group Limit Facilities and Mortgage Interest Saver Accounts led to an increase in lending and deposit balances (30 June 2008: $20 billion, 30 June 2007: $16 billion, 30 June 2006: $14 billion, 30 June 2005: $14 billion). Prior periods have been restated on a consistent basis.

(6) This number comprises the $129,913 as per (4) and restatement of $1,646 million per (5).

(7) This number comprises the $31,201 as per (4) and restatement of $13,240 million per (5).

Appendix A – Additional Historical Information

Credit Risk Management (continued)

Credit Portfolio Loans and Advances by Industry

The following table sets out the distribution of the Group's loans, advances and other receivables (excluding bank acceptances) by industry.

	Group
	2007
Industry	$M
Australia	
Sovereign	1,777
Agriculture	2,491
Bank and other financial	7,894
Real estate:	
Mortgage	163,839
Construction	1,588
Personal	18,252
Asset financing	7,827
Other commercial and industrial	61,610
Total Australia	265,278
Overseas	
Sovereign	3,189
Agriculture	4,151
Bank and other financial	6,943
Real estate:	
Mortgage	28,931
Construction	618
Personal	660
Asset financing	507
Other commercial and industrial	8,341
Total Overseas	53,340
Gross loans, advances and other receivables	318,618
Provisions for Loan Impairment and unearned income	(3,153)
Net loans, advances and other receivables	315,465

Credit Risk Management (continued)

Credit Portfolio Loans and advances by Industry

The following table sets out the distribution of the Group's loans, advances and other receivables (excluding bank acceptances) by industry.

Industry	Group 2008 $M
Australia	
Sovereign	1,568
Agriculture	2,547
Bank and other financial	8,917
Real estate:	
Mortgage	186,926
Construction	1,647
Personal	19,233
Asset Financing	7,894
Other commercial and industrial	80,423
Total Australia	309,155
Overseas	
Sovereign	1,230
Agriculture	4,814
Bank and other financial	6,743
Real estate:	
Mortgage	28,817
Construction	606
Personal	532
Asset Financing	548
Other commercial and industrial	12,779
Total Overseas	56,069
Gross loans and other receivables	365,224
Provisions for loan impairment and unearned income	(3,942)
Net loans and other receivables	361,282

Large Exposures

Concentrations of exposure to any debtor or counterparty group are controlled by a large credit exposure policy. All exposures outside the policy are approved by the Board Risk Committee.

The following table shows the aggregated number of the Group's counterparty Corporate and Industrial exposures (including direct and contingent exposures) which individually were greater then 5% of the Group's capital resources (Tier One and Tier Two capital):

	Group 2008 Number	2007 Number	2006 Number
5% to less than 10% of Group's capital resources	**1**	-	-
10% to less than 15% of Group's capital resources	**-**	-	-

The Group has a good quality and well diversified credit portfolio, with 51.2% of the gross loans and advances in domestic mortgage loans and a further 7.9% in overseas mortgage loans primarily in New Zealand. Overseas loans account for 15.4% of loans and advances at $56.1 billion.

The Group restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of Balance Sheet assets and liabilities as transactions are usually settled on a gross basis.

However, the credit risk associated with favourable contacts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. As at 30 June 2008, master netting arrangements reduced the credit risk of the Group by approximately $6.5 billion (2007: $4.8 billion).

Derivative financial instruments expose the Group to credit risk where there is a positive fair value current. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative. For further information regarding derivatives see Notes 11, 42 and 49 of the 2008 Financial Report.

The Group also nets its credit exposure through the operation of certain consumer and corporate facilities that allow on balance sheet netting for credit management purposes. As at 30 June 2008 these facilities reduced the credit risk of the Group by approximately $20 billion (2007: $16 billion).

Appendix A – Additional Historical Information

Asset Quality

Impaired Financial Assets

	Group
	2006
	%
Impaired Asset Ratios	
Gross impaired assets as a % of gross loans and acceptances	0. 11
Net impaired assets as % of:	
Gross loans and acceptances	0. 06
Total Shareholders' equity	0. 73

Financial assets individually assessed as impaired

		2008				Group 2007
	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets
	$M	$M	$M	$M	$M	$M
Australia						
Loans and other receivables:						
Housing loans	157	34	123	182	23	159
Other personal (1)	14	97	(83)	3	104	(101)
Asset financing	55	12	43	35	13	22
Other commercial and industrial	394	193	201	178	45	133
Financial assets individually assessed as impaired-Australia	620	336	284	398	185	213
Overseas						
Loans and other receivables:						
Housing loans	37	7	30	12	4	8
Other personal	2	2	-	2	1	1
Asset financing	1	2	(1)	1	1	-
Other commercial and industrial	23	20	3	8	8	-
Financial assets individually assessed as impaired-Overseas	63	31	32	23	14	9
Total financial assets individually assessed as impaired	**683**	**367**	**316**	**421**	**199**	**222**

(1) Portfolio provisions of $88 million at 30 June 2008 (2007: $99 million) to cover unsecured personal loans and credit card lending are included in the individually assessed provisions. However, the related assets are not included in impaired assets. The related asset amounts are instead included in the 90 days or more past due disclosure. Refer Note 1 (ii).

Asset Quality (continued)

Impaired Assets by classification

	Group 2006 $M
Australia	
Non-Performing loans:	
Gross balances	312
Less provisions for impairment	(166)
Net non-performing loans	146
Restructured loans:	
Gross balances	-
Less provisions	-
Net restructured loans	-
Assets Acquired Through Security Enforcement:	
Gross balances	-
Less provisions for impairment	-
Net assets acquired through security enforcement	-
Net Australia impaired assets	146
Overseas	
Non-Performing loans:	
Gross balances	14
Less provisions for impairment	(5)
Net non-performing loans	9
Restructured loans:	
Gross balances	-
Less provisions for impairment	-
Net restructured loans	-
Assets Acquired Through Security Enforcement:	
Gross balances	-
Less provisions for impairment	-
Net assets acquired through security enforcement	-
Net Overseas impaired assets	9
Total net impaired assets	155

	Group					
	Australia 2008 $M	Overseas 2008 $M	Total 2008 $M	Australia 2007 $M	Overseas 2007 $M	Total 2007 $M
Non-Performing Loans by Size of Loan						
Less than $1 million	189	39	228	194	14	208
$1 million to $10 million	175	24	199	151	9	160
Greater than $10 million	256	-	256	53	-	53
Total	620	63	683	398	23	421

	Group		
	Australia 2006 $M	Overseas 2006 $M	Total 2006 $M
Non-Performing Loans by Size of Loan			
Less than $1 million	140	11	151
$1 million to $10 million	125	3	128
Greater than $10 million	47	-	47
Total	312	14	326

Appendix A – Additional Historical Information

Average Balances and Related Interest

	2008			2007		
	Avg Bal	Income	Yield	Avg Bal	Income	Yield
Net Interest Margin	$M	$M	%	$M	$M	%
Total interest earning assets (excluding securitisation)	385,667	28,146	7.30	332,492	22,853	6. 87
Total interest bearing liabilities (excluding securitisation)	362,249	20,359	5.62	311,236	15,932	5. 12
Net interest income & interest spread (excluding securitisation)			1.68		6,921	1. 75
Benefit of free funds			0.34			0. 33
Net interest margin			2.02			2. 08

Available-for-Sale Investments

	Group 2007 $M
Australia	
Market Quoted:	
Australian Public Securities:	
Local and semi-government	2,376
Shares and equity investments	41
Medium term notes	524
Floating rate notes	605
Mortgage backed securities	1,417
Other securities	191
Non-Market Quoted:	
Australian Public Securities:	
Local and semi-government	80
Medium term notes	-
Shares and equity investments	54
Mortgage backed securities	-
Other securities	158
Total Australia	5,446
Overseas	
Market Quoted:	
Government securities	174
Shares and equity investments	-
Bills of exchange	78
Certificates of deposit	1,763
Eurobonds	161
Medium term notes	365
Floating rate notes	967
Other securities	436
Non-Market Quoted:	
Government securities	36
Floating rate notes	66
Other securities	181
Total Overseas	4,227
Less: specific provisions for impairment	(1)
Total available-for-sale investments	9,672

Revaluation of Available-for-sale investments resulted in a gain of $28 million recognised directly in equity. As a result of sale, derecognition or impairment of Available-for-sale investments, net gains of $138 million were removed from equity and reported in profit and loss for the year ended 2007.

Appendix A – Additional Historical Information

Loans, Advances and Other Receivables

	Group		
	2008	2007	2006
	$M	$M	$M
Australia			
Overdrafts	20,047	2,902	2,672
Housing loans [1]	186,926	161,406	144,834
Credit card outstandings	7,555	7,185	6,997
Lease financing	4,239	4,532	4,924
Bills discounted	5,868	3,640	2,779
Term loans	83,431	68,577	56,950
Redeemable preference share financing	-	-	1
Other lending	1,076	1,339	597
Other securities	13	11	-
Total Australia	309,155	249,592	219,754
Overseas			
Overdrafts	716	1,605	2,435
Housing loans	28,817	28,931	22,287
Credit card outstandings	538	533	428
Lease financing	563	531	139
Bills discounted	-	33	7
Term loans	23,916	20,027	15,282
Redeemable preference share financing	1,194	1,194	1,194
Other lending	25	183	8
Other securities	300	303	438
Total overseas	56,069	53,340	42,218
Gross loans, advances and other receivables	365,224	302,932	261,972
Less			
Provisions for impairment (Note 14):			
Collective provision	(1,434)	(1,034)	(1,046)
Individually assessed provisions against loans and advances	(279)	(199)	(171)
Unearned income:			
Term loans	(1,047)	(941)	(934)
Lease financing	(1,182)	(979)	(645)
	(3,942)	(3,153)	(2,796)
Net loans, advances and other receivables	361,282	299,779	259,176

(1) Includes securitised loan balances for 2008 of $11,676 million (2007: $15,633 million and 2006: $12,607 million) in the Group. Liabilities of similar values are included in Debt Issues (Group).

	Group		
	2008	2007	2006
	$M	$M	$M
Finance Leases			
Minimum lease payments receivable:			
Not later than one year	1,354	1,462	1,271
Later than one year but not later than five years	2,328	2,583	2,792
Later than five years	1,120	1,018	1,000
Lease financing	4,802	5,063	5,063

Appendix A – Additional Historical Information

Deposits and Other Public Borrowings

	Group	
	2008	2007
	$M	$M
Australia		
Certificates of deposit	36,981	20,165
Term deposits	71,637	50,888
On demand and short term deposit	117,712	93,994
Deposits not bearing interest	6,142	6,662
Securities sold under agreements to repurchase	1,462	3,323
Total Australia	233,934	175,032
Overseas		
Certificates of deposit	4,139	903
Term deposits	15,687	16,416
On demand and short term deposits	8,351	9,183
Deposits not bearing interest	1,468	1,818
Securities sold under agreements to repurchase	127	30
Total Overseas	29,772	28,350
Total Deposits and Other Public Borrowings	263,706	203,382

Appendix B – Market Share Definitions

Retail Banking Services

Home Loans	CBA Total Housing Loans (APRA) + CBA Securitised Housing Loans (APRA) + Home Path Balance Total Housing Loans (incl securitisations) (from RBA which includes NBFI's unlike APRA) (1)
Credit Cards	CBA Personal Credit Card Lending (APRA) Credit Cards excluding those issued to Business with Interest Free + without Interest Free (from RBA which includes NBFI's unlike APRA) (1)
Personal Lending (Other Household Lending)	CBA Term Personal Lending + 88% of Margin Lending balances + Personal Leasing + Revolving credit Other Loans to Households (APRA)
Household Deposits	Total transaction and investment account deposit balances recorded on the domestic books of CBA from individual Australian residents excluding self-managed superannuation funds (as per APRA definitions) Total Bank Household Deposits (from APRA monthly banking statistics)
Retail Deposits	CBA Deposits from Residents excluding those by Banks and Governments and also excluding FX AUD equivalent Total RBA: Current Deposits with banks + Term (excl CD's) + Other with banks (from RBA monthly bulletin statistics) (1)

Business Market Share

Business Lending (APRA)	Loans to residents that are recorded on the domestic books of CBA within the non-financial corporation's sector, where this sector comprises private trading corporations, private unincorporated businesses and commonwealth, state, territory and local government non-financial corporation's (as per lending balances submitted to APRA in ARF 320.0) Total loans to the non-financial corporation's sector for all licensed banks that submit to APRA
Business Lending (RBA)	CBA business lending and credit (specific 'business lending' categories in lodged APRA returns – 320.0, 320.1 and 320.4) Total of business lending and credit to the private non-financial sector by all financial intermediaries (sourced from RBA table Lending & Credit Aggregates which is in turn sourced from specific 'business lending' categories in lodged APRA returns – 320.0, 320.1 and 320.4) (includes bills on issue and securitised business loans). (1)
Business Deposits (APRA)	Total transaction and non-transaction account deposit balances recorded on the domestic books of CBA from residents within the non-financial corporation's sector, where this sector comprises private trading corporations, private unincorporated businesses and commonwealth, state, territory and local government non-financial corporation's (as per deposit balances submitted to APRA in ARF 320.0) Total transaction and non-transaction deposit balances from the non-financial corporation's sector for all licensed banks that submit to APRA
Equities Trading	Twelve months rolling average of total value of equities trades Twelve months rolling average of total value of equities market trades as measured by ASX

Wealth Management

Australian Retail Funds	Total funds in CBA Wealth Management retail investment products (including WM products badged by other parties) Total funds in retail investment products market (from Plan for Life)
FirstChoice Platform	Total funds in FirstChoice platform Total funds in platform/masterfund market (from Plan for Life)
Australia (Total Life Insurance Risk)	Total risk inforce premium of all CBA Group Australian life insurance companies Total risk inforce premium for all Australian life insurance companies (from Plan for Life)
Australia (Individual Life Insurance Risk)	(Individual lump sum + individual risk income) inforce premium of all CBA Group Australian life insurance companies Individual risk inforce premium for all Australian life insurance companies (from Plan for Life)

(1) The RBA restates the total of all financial intermediaries retrospectively when required. This may be due to a change in definition, the inclusion of a new participant or correction of errors in prior returns.

Appendix B – Market Share Definitions

New Zealand

Lending for housing	All ASB residential mortgages to personal customers for housing purposes (including off balance sheet) / Total New Zealand residential mortgages to personal customers for housing purposes (from New Zealand Reserve Bank)
Lending to Business	All New Zealand dollar claims on ASB Balance Sheet excluding agriculture, Finance, Insurance, Government, Household and Non-Resident sector loans. / Total New Zealand dollar credit to the resident business sector, based on Australia New Zealand Standard Industrial Classification (ANZSIC) excluding the following: Agriculture, Finance, Insurance, General Government, Household and Non-Resident sector loans (from New Zealand Reserve Bank)
Retail Deposits	All New Zealand dollar retail deposits on ASB Balance Sheet / Total New Zealand dollar retail deposits of all New Zealand registered banks (from New Zealand Reserve Bank)
Retail FUM	Total ASB FUM + Sovereign FUM / Total Market net Retail Funds under Management (from Fund Source Research Limited)
Inforce Premiums	Total Sovereign inforce premiums excluding health (inforce annual premium income + new business – exits – other) / Total inforce premium for New Zealand (from ISI statistics)

Bankwest

Home Loans	Bankwest Total Housing Loans (APRA) + Bankwest Securitised Housing loans (APRA) / Total Housing Loans (incl securitisations) (from RBA which includes NBFI's unlike APRA) (1)
Business Lending (APRA)	Loans and advances to residents that are recorded on the domestic books of Bankwest within the non-financial corporations sector, where this sector comprises private trading corporations, private unincorporated businesses and commonwealth, state, territory and local government non-financial corporations (as per lending balances submitted to APRA in ARF 320.0) / Total loans and advances to the non-financial corporations sector for all licensed banks that submit to APRA
Business Lending (RBA)	Bankwest business lending and credit (specific 'business lending' categories in lodged APRA returns - 320.0, 320.1 and 320.4) / Total of business lending and credit to the private non-financial sector by all financial intermediaries (sourced from RBA table Lending & Credit Aggregates which is in turn sourced from specific 'business lending' categories in lodged APRA returns - 320.0, 320.1 and 320.4) (includes bills on issue and securitised business loans). (1)
Credit Cards	Bankwest Personal Credit Card Lending (APRA) / Credit Cards excluding those issued to Business with Interest Free + without Interest Free (from RBA which includes NBFI's unlike APRA) (1)
Personal Lending (Other Household Lending)	Bankwest Term Personal Lending + Margin Lending net balances + Personal Leasing + Revolving credit / Other Loans to Households (APRA)
Household Deposits	Total transaction and investment account deposit balances recorded on the domestic books of Bankwest from individual Australian residents excluding self-managed superannuation funds (as per APRA definitions) / Total Bank Household Deposits (from APRA monthly banking statistics)
Business Deposits (APRA)	Total transaction and non-transaction account deposit balances recorded on the domestic books of Bankwest from residents within the non-financial corporations sector, where this sector comprises private trading corporations, private unincorporated businesses and commonwealth, state, territory and local government non-financial corporations (as per deposit balances submitted to APRA in ARF 320.0) / Total transaction and non-transaction deposit balances from the non-financial corporations sector for all licensed banks that submit to APRA

(1) The RBA restates the total of all financial intermediaries retrospectively when required. This may be due to a change in definition, the inclusion of a new participant or correction of errors in prior returns.