**Commonwealth** Bank

Commonwealth Bank of Australia

ACN 123 123 124

# Annual U.S. Disclosure Document

## Year Ended 30 June 2009

**Dated: 11 September 2009**

# Contents


| | |
|---|---|
| Introduction | 2 |
| Special Note Regarding Forward-Looking Statements | 3 |
| Financial Information Definitions | 4 |
| Highlights | 5 |
| Financial Review | 11 |
| Group Performance Analysis | 17 |
| Acquisition of Bankwest and St Andrew’s | 24 |
| Segment Reporting Changes | 25 |
| Retail Banking Services | 26 |
| Business and Private Banking | 29 |
| Institutional Banking and Markets | 33 |
| Premium Business Services | 36 |
| Wealth Management | 37 |
| International Financial Services | 41 |
| Bankwest | 45 |
| Other | 47 |
| Investment Experience | 49 |
| Group Operating Expenses | 50 |
| Integrated Risk Management | 51 |
| Capital Management | 55 |
| Liquidity and Capital Resources | 61 |
| Off-Balance Sheet Arrangements | 64 |
| Contractual and Commercial Commitments | 67 |
| Description of Business | 69 |
| Corporate Governance | 77 |
| Five Year Financial Summary | 83 |
| Appendices | 85 |

# 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 Financial Statements, in particular Note 41 Market Risk Management. 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 2009 (the "Document") should be read in conjunction with:

- 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");
- The Commonwealth Bank of Australia Financial Report (U.S. Version) – Year Ended 30 June 2008 which contains the Financial Statements for the years ended 30 June 2006, 2007 and 2008 and as of 30 June 2007 and 2008 (the "2008 Financial Report"); and
- The Commonwealth Bank of Australia Basel II Pillar 3 Capital Adequacy and Risk Disclosures as of 30 June 2009;

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

References within this Document to the Financial Report or Notes to the Financial Statements are to the 2009 Financial Report.

Except where otherwise stated, all figures relate to the financial year ended 30 June 2009 and comparatives for the balance sheet and profit and loss are to the financial year ended 30 June 2008. '$' and 'AUD' refer to Australian Dollars, while '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.

## 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”, “Premium Business Services”, “Wealth Management”, “International Financial Services”, “Other”, “Integrated Risk Management”, “Capital Management”, “Contractual and Commercial Commitments”, “Description of Business”, Note 48 to the 2009 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 demographic 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 political, social, credit, liquidity, investor confidence and economic conditions in Australia or New Zealand, global credit and equity market conditions, legislative 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.

Details on significant risk factors applicable to the Group are detailed on page 15.

# Financial Information Definitions

In addition to financial results reported in accordance with the Australian equivalents to International Financial Reporting Standards ("AIFRS") in this document, the Group reports 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 and are described below. This Document contains reconciliations of these non-GAAP financial measures to our financial results prepared in accordance with AIFRS.

In this Document, the Group presents its profit from ordinary activities after tax on a "statutory basis", which is calculated in accordance with AIFRS.

The Group also presents its results on a "cash basis". "Cash basis" is defined by management as net profit after tax and minority interests, before the gain on acquisition of controlled entities, Bankwest integration expenses, merger related amortisation, the gain on the Visa Initial Public Offering, provisions for investment and restructuring, defined benefit superannuation plan income/expense, treasury shares valuation adjustment, unrealised gains and losses related to hedging and AIFRS volatility and other one-off expenses. Management believes "cash basis" is a meaningful measure of the Group's performance and it provides the basis for the determination of the Bank's dividends.

The Group also presents its Earnings per share on a statutory basis and on a cash basis. Earnings per share on a statutory basis is affected by the impact of the gain on acquisition of controlled entities, Bankwest integration expenses, merger related amortisation, the gain on the Visa Initial Public Offering, provisions for investment and restructuring, defined benefit superannuation plan income/expense, changes in the treasury shares valuation adjustment, unrealised gains and losses related to hedging and AIFRS volatility and other one-off expenses. "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.

Unrealised gains and losses related to hedging and AIFRS volatility includes 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.

The Group also presents its dividend payout ratio on a statutory and cash basis. The dividend payout ratio 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.

### Basis of preparation

The consolidated Financial Statements of the Group for the years ended 30 June 2009, 2008 and 2007 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 required 2005, 2006 and 2007 comparatives information, prepared on an AIFRS basis.

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 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| **Statutory basis** | **4,723** | 4,791 | 4,470 |
| Cash basis | **4,415** | 4,733 | 4,527 |

(1) See page 7 for reconciliation between cash and statutory profit.

The Group’s net profit after tax (statutory basis) for the full year ended 30 June 2009 was $4,723 million, which represents a decrease of 1% on the prior year. Included in this result as non-cash items were hedging and AIFRS volatility losses of $245 million after tax and the gain recognised on acquisition of Bankwest of $612 million after tax.

### Group Performance excluding Bankwest

The acquisition of Bankwest and St Andrew’s at a substantial discount to fair value created a one-off gain of $612 million. ***For ease of comparison the results of Bankwest, which was only owned for six months and contributed $122 million to statutory net profit after tax, have been excluded from the following commentary.***

Unless, specifically stated the following discussion is on a cash basis.

In a challenging market environment and slowing economic conditions the Group’s operating performance was solid. Operating income growth was strong, up 14% on the prior year, whilst operating expense growth was up 4% on the prior year. This resulted in a 170 basis point improvement in the expense to income ratio to 47.2% (on a statutory basis).

Drivers of the Group’s financial performance were:

- Net interest income growth of 21% on the prior year to $9,595 million, reflecting solid lending and deposit growth and an eight basis point improvement in underlying margins;
- Other banking income growth of 21% on the prior year to $4,008 million, as a result of strong trading income primarily in Treasury, early repayment fees received from customers exiting fixed rate loans and higher commissions and lending fees;
- Funds Management income decline of 21% on the prior year to $1,813 million, due to the adverse impact of the investment market downturn on Funds Under Administration and timing of asset sales;
- Insurance income growth of 9% on the prior year to $910 million, following a 19% increase in average inforce premiums; and
- Operating expense growth of 4% on the prior year to $7,282 million, reflecting the Group’s continued disciplined expense management.

Offsetting this operating performance was a significant (216%) increase in impairment expense on the prior year to $2,935 million. This outcome reflects higher retail and corporate provisioning, increased management overlay to the collective provision and additional provisions taken to cover a small number of single name corporate exposures in the first half of 2009. The increase in impairment expense reflects the cyclical deterioration in portfolio quality.

### Capital

The Group maintained its cautious approach in the current economic environment by maintaining a strong capital position. This was reflected in a Tier One capital ratio of 8.07% at 30 June 2009.

### Dividends

The final dividend declared was $1.15 per share, a reduction of 25% on the prior year in response to continued uncertainty in the global and domestic economies. The total dividend for the year to 30 June 2009 was $2.28.

The final dividend payment will be fully franked and will be paid on 1 October 2009 to owners of ordinary shares at the close of business on 21 August 2009 (“record date”). Shares were quoted ex–dividend on 17 August 2009.

The Bank issued $405 million of shares to satisfy shareholder participation in the Dividend Reinvestment Plan (“DRP”) in respect of the interim dividend for 2008/09.

### Strategic Priorities

Customer service remains the Group’s top strategic priority, for which further progress was made during 2009, including:

- Embedding of sales and service culture with a particular emphasis on training our front line people;
- Investing in our front line and becoming more accessible to our customers, in particular refurbishing retail branches and opening new branches; increasing customer facing staff in both the retail and business banking areas; opening new business banking centres; and continuing training for wealth management and insurance advisers to drive our cross-sell initiatives;
- Continuously reviewing and refining our product portfolio and introducing new and improved products; and
- Simplifying procedures which is intended to improve responsiveness and speed up approval and processing times.

Improving the Group’s competitive position in Business Banking remains a strategic priority, with key progress and outcomes during 2009 including:

- 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 current 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 industry-leading transaction banking capability through CommBiz saw the integration of trade finance, foreign exchange 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%;
- Growth in asset finance volumes with new business market share increasing 7% on the prior year to 21%;
- Within Institutional Banking and Markets, expanding domestic global distribution capabilities to position the Group as the leader in fixed income markets; and
- Expanding the Institutional Equities business to meet the demand from major listed corporate clients seeking to raise equity capital, and to meet the needs of institutional investors.

# **Highlights** continued

Technology and Operational Excellence initiatives are designed to deliver greater efficiency across the Group as well as providing competitive leverage through innovative processes and systems. Progress during the year included:

- Significant progress was made on the Group's Core Banking Modernisation program which will replace the Group's legacy systems and drive improvements in customer service and productivity through process simplification and the introduction of real time straight through processing;
- Introduction of a number of initiatives designed to improve customer service, increase operational efficiency and provide increased security to the Group and its customers. These include Scheme Debit Card, Home Loan Top-ups, Anti Money Laundering, Data Centre Consolidation, CommSec/IWL Integration, Global Markets Growth Initiative and further enhancements to FirstChoice; and
- The "Finest Online" program which delivered a single, Group-wide, online sales and service front end and saw the Group receive widespread recognition for the quality of its online offerings.

The commitment, engagement and enthusiasm of our people go to the heart of our success as an organisation and our ability to deliver on the Group's strategic priorities. Progress on Trust and Team Spirit initiatives includes:

- A continued improvement in employee satisfaction scores, with the Gallup workplace survey placing the Group at the 80th percentile of the Gallup Worldwide benchmark;
- Greater collaboration across the Group and better alignment to the needs of our customers, which is reflected in improvements in customer satisfaction scores, declining customer complaints and increased customer compliments;
- Improvements in workplace safety with the Group's Lost Time Injury Frequency Rate falling by 32% from 3.1 to 2.1; and
- Continued support in the community including commitments to a range of initiatives such as financial literacy, environmental partnerships and one-off assistance for communities in need of help.

The Profitable Growth priority was introduced to ensure that the Group remains focused on identifying opportunities which will ensure continued growth and value creation.

Examples of progress during the year include:

- Acquisition of Bankwest and St Andrew's at a substantial discount to book value;
- The purchase of a 33% holding in Aussie Home Loans, and the acquisition of $2.25 billion of Wizard originated high quality home loans following Aussie's purchase of the Wizard brand and distribution network;
- Indonesian and Chinese businesses, whilst still a relatively small part of the Group, are all performing well;
- Institutional Banking and Markets is seeking to build on its high level of expertise by further developing its debt and equity market capabilities and leveraging core competencies into offshore markets; and
- Continued focus on improving Group-wide cross-sell and referral rates, designed to better leverage the significant opportunities in the existing customer base.

| Group Performance Summary | Full Year Ended Including Bankwest 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| Net interest income | **10,186** | 7,907 | 7,036 |
| Other banking income | **4,176** | 3,312 | 3,321 |
| **Total banking income** | **14,362** | 11,219 | 10,357 |
| Funds management income | **1,813** | 2,307 | 1,874 |
| Insurance income | **910** | 832 | 817 |
| **Total operating income** | **17,085** | 14,358 | 13,048 |
| Investment experience | **(267)** | (17) | 149 |
| **Total income** | **16,818** | 14,341 | 13,197 |
| Operating expenses | **7,765** | 7,021 | 6,427 |
| Impairment expense | **3,048** | 930 | 434 |
| **Net profit before income tax** | **6,005** | 6,390 | 6,336 |
| Corporate tax expense (1) | **1,560** | 1,626 | 1,782 |
| Minority interests (2) | **30** | 31 | 27 |
| **Net profit after tax (cash basis)** | **4,415** | 4,733 | 4,527 |
| Hedging and AIFRS volatility | **(245)** | (42) | 13 |
| Gain on acquisition of controlled entities | **612** | - | - |
| Other non-cash items (3) | **(59)** | 100 | (70) |
| **Net profit after tax (statutory basis)** | **4,723** | 4,791 | 4,470 |
| **Represented by:** | | | |
| Retail Banking Services | **2,107** | 1,882 | 1,773 |
| Business and Private Banking (4) | **736** | 694 | - |
| Institutional Banking and Markets (4) | **143** | 781 | - |
| Premium Business Services (4) | **-** | - | 1,454 |
| Wealth Management | **258** | 797 | 549 |
| International Financial Services | **436** | 588 | 517 |
| Bankwest | **122** | - | - |
| Other | **921** | 49 | 177 |
| **Net profit after tax (statutory basis)** | **4,723** | 4,791 | 4,470 |

(1) For purposes of presentation, Policyholder tax (benefit)/expense components of Corporate tax expense are shown on a net basis for the years ended 30 June 2009: ($164) million, 30 June 2008: ($115) million and for the half years ended 30 June 2009: $31 million.

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

(3) Other non-cash items comprise: 30 June 2009: merger related amortisation expense, Bankwest integration expenses, defined benefit superannuation expense, treasury shares valuation adjustment and other one-off expenses; 30 June 2008: Gain on Visa initial public offering, investment and restructuring, defined benefit superannuation expense and treasury share valuation adjustments.

(4) On 19 January 2009 Premium Business Services was split into Business and Private Banking and Institutional Banking and Markets. Refer to “Segment Reporting Changes” on page 25 for further details.

# **Highlights** continued

| Shareholder Summary | Full Year Ended Including Bankwest 30/06/09 | 30/06/08 | 30/06/07 |
|---|---|---|---|
| Dividends per share - fully franked (cents) | **228** | 266 | 256 |
| Dividend cover - statutory (times) | **1. 3** | 1. 3 | 1. 3 |
| Dividend cover - cash (times) | **1. 3** | 1. 3 | 1. 3 |
| Earnings per share (cents) (1) | | | |
| Statutory basis - basic | **328. 5** | 363. 0 | 344. 7 |
| Statutory basis - fully diluted | **313. 4** | 348. 7 | 339. 7 |
| Cash basis - basic | **305. 6** | 356. 9 | 347. 1 |
| Cash basis - fully diluted | **292. 4** | 343. 1 | 342. 1 |
| Dividend payout ratio (%) | | | |
| Statutory basis | **73. 1** | 74. 1 | 75. 2 |
| Cash basis | **78. 2** | 75. 0 | 74. 2 |
| Weighted average no. of shares - statutory basic (M) | **1,420** | 1,307 | 1,281 |
| Weighted average no. of shares - cash basic (M) (1) | **1,426** | 1,313 | 1,289 |
| Return on equity - cash (%) | **15. 8** | 20. 4 | 21. 7 |

(1) Further details are disclosed in Note 7, Earnings Per Share to the 2009 Financial Statements.

| Balance Sheet Summary | As at Including Bankwest 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| Lending assets (1) | **473,715** | 369,597 | 319,786 |
| Total assets | **620,372** | 487,572 | 440,157 |
| Total liabilities | **588,930** | 461,435 | 415,713 |
| **Shareholders' Equity** | **31,442** | 26,137 | 24,444 |
| **Assets held and Funds Under Administration (FUA)** | | | |
| On Balance Sheet: | | | |
| Banking assets | **596,919** | 461,944 | 412,111 |
| Insurance Funds Under Administration | **15,407** | 17,345 | 19,814 |
| Other insurance and internal funds management assets | **8,046** | 8,283 | 8,232 |
| | **620,372** | 487,572 | 440,157 |
| Off Balance Sheet: | | | |
| Funds Under Administration (2) | **159,927** | 173,960 | 157,257 |
| **Total assets held and FUA** | **780,299** | 661,532 | 597,414 |

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

(2) Includes Funds Under Administration balances relating to St Andrew's Australia Pty Ltd of $823 million as at 30 June 2009.

| Market Share Percentage | As at Group (ex Bankwest and St Andrew's) 30/06/09 | 30/06/08 | 30/06/07 | Group (inc Bankwest and St Andrew's) 30/06/09 |
|---|---|---|---|---|
| Home loans | **21. 9** | 19. 3 | 18. 5 | **25. 1** |
| Credit cards (2) | **18. 7** | 18. 1 | 18. 8 | **21. 8** |
| Personal lending (APRA and other Household) (3) | **13. 6** | 15. 8 | 16. 4 | **15. 7** |
| Household deposits | **28. 8** | 29. 1 | 29. 0 | **32. 3** |
| Retail deposits (4) | **22. 6** | 23. 4 | 21. 6 | **26. 6** |
| Business Lending - APRA (1) | **13. 6** | 13. 8 | 12. 4 | **19. 4** |
| Business Lending - RBA (1) | **13. 7** | 13. 6 | 12. 6 | **17. 0** |
| Business Deposits - APRA (1) | **15. 7** | 15. 8 | 13. 0 | **20. 8** |
| Asset Finance | **13. 6** | 12. 7 | 13. 2 | **13. 6** |
| Equities trading (CommSec) (1) | **6. 4** | 6. 3 | 4. 3 | **6. 4** |
| Australian Retail - administrator view (1) (4) | **14. 2** | 13. 9 | 14. 1 | **14. 4** |
| FirstChoice Platform (1) | **9. 9** | 9. 7 | 9. 0 | **9. 9** |
| Australia (total risk) (1) | **14. 6** | 14. 7 | 14. 3 | **15. 4** |
| Australia (individual risk) (1) | **13. 3** | 13. 2 | 12. 9 | **14. 5** |
| NZ Lending for housing | **23. 3** | 23. 3 | 23. 1 | **23. 3** |
| NZ Retail Deposits | **21. 2** | 21. 2 | 21. 2 | **21. 2** |
| NZ Lending to business | **8. 8** | 8. 7 | 8. 2 | **8. 8** |
| NZ Retail FUM | **20. 3** | 16. 4 | 15. 8 | **20. 3** |
| NZ Annual inforce premiums | **31. 7** | 31. 7 | 31. 8 | **31. 7** |

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

(2) As at 31 May 2009.

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

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

# **Highlights** continued

| Key Performance Indicators - Group | Full Year Ended Including Bankwest 30/06/09 | 30/06/08 | 30/06/07 |
|---|---|---|---|
| **Group** | | | |
| Statutory net profit after tax ($M) | **4,723** | 4,791 | 4,470 |
| Net interest margin (%) | **2. 10** | 2. 02 | 2. 08 |
| Average interest earning assets ($M) (1) | **481,248** | 385,667 | 332,492 |
| Average interest bearing liabilities ($M) (1) | **453,458** | 362,249 | 311,236 |
| Statutory funds management income to average FUA (%) | **0. 86** | 1. 22 | 1. 20 |
| Funds Under Administration (FUA) - average ($M) | **173,872** | 194,156 | 164,404 |
| Statutory insurance income to average inforce premiums (%) | **42. 8** | 49. 0 | 81. 6 |
| Average inforce premiums ($M) | **1,798** | 1,511 | 1,278 |
| Statutory operating expenses to total operating income (%) | **48. 2** | 50. 8 | 47. 9 |
| Statutory effective corporate tax rate (%) | **28. 1** | 24. 3 | 28. 3 |
| **Retail Banking Services** | | | |
| Statutory net profit after tax ($M) | **2,107** | 1,882 | 1,733 |
| Statutory operating expenses to total banking income (%) | **42. 9** | 46. 9 | 47. 2 |
| **Business and Private Banking (4)** | | | |
| Statutory net profit after tax ($M) | **736** | 694 | - |
| Statutory operating expenses to total banking income (%) | **48. 8** | 52. 2 | - |
| **Institutional Banking and Markets (4)** | | | |
| Statutory net profit after tax ($M) | **143** | 761 | - |
| Statutory operating expenses to total banking income (%) | **29. 6** | 33. 3 | - |
| **Premium Business Services (4)** | | | |
| Statutory net profit after tax ($M) | **-** | - | 1,454 |
| Statutory operating expenses to total banking income (%) | **-** | - | 43. 8 |
| **Wealth Management** | | | |
| Statutory net profit after tax ($M) | **258** | 797 | 549 |
| FUA - average ($M) (2) | **167,677** | 186,696 | 157,338 |
| Average inforce premiums ($M) (2) | **1,405** | 1,136 | 938 |
| Statutory funds management income to average FUA (%) | **0. 82** | 1. 22 | 1. 21 |
| Statutory insurance income to average inforce premiums (%) | **31. 9** | 38. 0 | 80. 3 |
| Statutory operating expenses to net operating income (%) (3) | **87. 0** | 54. 8 | 49. 5 |
| **International Financial Services** | | | |
| Statutory net profit after tax ($M) | **436** | 588 | 517 |
| FUA - average ($M) | **6,195** | 7,460 | 7,066 |
| Average inforce premiums ($M) | **393** | 375 | 340 |
| Statutory funds management income to average FUA (%) | **0. 79** | 0. 64 | 0. 65 |
| Statutory insurance income to average inforce premiums (%) | **77. 4** | 76. 3 | 78. 5 |
| Statutory operating expenses to total operating income (%) | **50. 8** | 50. 8 | 51. 8 |
| **Bankwest** | | | |
| Statutory net profit after tax ($M) | **122** | - | - |
| Statutory operating expenses to total banking income (%) | **66. 5** | - | - |
| **Capital Adequacy - (Basel II)** | | | |
| Tier One (%) | **8. 07** | 8. 17 | 7. 14 |
| Total (%) | **10. 42** | 11. 58 | 9. 76 |

(1) Average interest earning assets and average interest bearing liabilities have been adjusted to remove the impact of securitisation. Average interest earning assets and interest bearing liabilities relating to Bankwest have been included for the year to 30 June 2009.

(2) Average Funds Under Administration and average inforce premiums relating to St Andrew's have been included from date of acquisition.

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

(4) On 19 January 2009 Premium Business Services was split into Business and Private Banking and Institutuional Banking and Markets. Refer to "Segment Reporting Changes" on page 25 for further details.

| Key Performance Indicators - Excluding Bankwest | Full Year Ended 30/06/09 | 30/06/08 | 30/06/07 |
|---|---|---|---|
| Statutory net profit after tax ($M) | **4,601** | 4,791 | 4,470 |
| Net interest margin (%) | **2. 11** | 2. 02 | 2. 08 |
| Average interest earning assets ($M) | **450,830** | 385,667 | 332,492 |
| Average interest bearing liabilities ($M) | **425,395** | 362,249 | 311,236 |
| Statutory operating expenses to total operating income (%) | **47. 2** | 50. 8 | 47. 9 |

| Selected Consolidated Income Statement Data | Including Bankwest 2009 US$M (2) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| | Full Year Ended 30 June | | | | | |
| | | | (A$ millions, except where indicated) | | | |
| **AIFRS** | | | | | | |
| Interest income | **25,389** | **31,519** | 29,234 | 23,862 | 19,758 | 16,781 |
| Interest expense | **17,091** | **21,218** | 21,327 | 16,826 | 13,244 | 10,755 |
| Net interest income | **8,297** | **10,301** | 7,907 | 7,036 | 6,514 | 6,026 |
| Loan impairment expense | **2,455** | **3,048** | 930 | 434 | 398 | 322 |
| Non-interest income | **4,972** | **6,173** | 6,662 | 6,355 | 5,772 | 5,252 |
| Operating expenses | **6,412** | **7,960** | 7,384 | 6,419 | 6,029 | 5,944 |
| Operating profit before income tax | **5,195** | **6,449** | 6,255 | 6,538 | 5,859 | 5,012 |
| Income tax expense attributable to operating profit | **1,366** | **1,696** | 1,433 | 2,041 | 1,900 | 1,602 |
| Operating profit after income tax | **3,829** | **4,753** | 4,822 | 4,497 | 3,959 | 3,410 |
| Outside equity interests | **(24)** | **(30)** | (31) | (27) | (31) | (10) |
| Net Income | **3,804** | **4,723** | 4,791 | 4,470 | 3,928 | 3,400 |
| Dividend declared ($) | **1,407** | **1,747** | 2,029 | 1,939 | 1,668 | 1,434 |
| Weighted average number of shares (basic) | **1,144** | **1,420** | 1,307 | 1,281 | 1,275 | 1,260 |
| Earnings per share, basic (cents) | **264. 6** | **328. 5** | 363. 0 | 344. 7 | 308. 2 | 259. 6 |
| Earnings per share, fully diluted (cents) | **252. 4** | **313. 4** | 348. 7 | 339. 7 | 303. 1 | 255. 3 |
| Dividends per share (cents) | **184** | **228** | 266 | 256 | 224 | 197 |

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

(2) USD translated from AUD using 30 June 2009 month end closing exchange rate.

## 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 2009 month end closing exchange rate was used.

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | Full Year Ended 30 June | | | | |
| | (expressed in US$ per A$1.00) | | | | |
| **Period End** | **0. 8055** | 0. 9562 | 0. 8491 | 0. 7423 | 0. 7618 |
| **Average Rate** | **0. 7546** | 0. 9007 | 0. 7867 | 0. 7475 | 0. 7534 |

| | August | July | June | May | April | March |
|---|---|---|---|---|---|---|
| | Month ended 2009 | | | | | |
| | (expressed in US$ per A$1.00) | | | | | |
| **High** | **0. 8439** | 0. 8339 | 0. 8195 | 0. 7993 | 0. 7317 | 0. 7022 |
| **Low** | **0. 8201** | 0. 7751 | 0. 7851 | 0. 7290 | 0. 6941 | 0. 6301 |
| **Month End Closing Rates** | **0. 8439** | 0. 8339 | 0. 8055 | 0. 7993 | 0. 7317 | 0. 6925 |

| Consolidated Balance Sheet Data | Including Bankwest 2009 US$M (3) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| | Full Year Ended 30 June (A$ millions, except where indicated) | | | | | |
| **AIFRS** | | | | | | |
| **Assets** | | | | | | |
| Cash and liquid assets | **9,134** | **11,340** | 7,736 | 10,108 | 5,868 | 6,055 |
| Receivables due from other financial institutions | **11,616** | **14,421** | 6,984 | 5,495 | 7,107 | 6,087 |
| Assets at fair value through income statement: | | | | | | |
| Trading | **20,461** | **25,401** | 21,676 | 21,469 | 15,758 | 14,631 |
| Insurance | **13,903** | **17,260** | 20,650 | 23,519 | 24,437 | 27,484 |
| Other | **1,351** | **1,677** | 3,266 | 4,073 | 2,207 | - |
| Derivative assets | **21,231** | **26,358** | 18,232 | 12,743 | 9,675 | - |
| Available-for-sale investments | **17,321** | **21,504** | 11,488 | 9,672 | 11,203 | - |
| Investment securities | **-** | **-** | - | - | - | 10,838 |
| Loans, advances and other receivables | **375,871** | **466,631** | 361,282 | 315,465 | 273,525 | 243,232 |
| Bank acceptances of customers | **11,863** | **14,728** | 18,278 | 18,721 | 18,310 | 16,786 |
| Investment property | **-** | **-** | - | - | 258 | 252 |
| Property, plant and equipment | **1,991** | **2,472** | 1,640 | 1,436 | 1,313 | 1,132 |
| Investments in associates | **843** | **1,047** | 906 | 836 | 190 | 52 |
| Intangible assets | **7,447** | **9,245** | 8,258 | 7,835 | 7,809 | 7,656 |
| Deferred tax assets | **1,331** | **1,653** | 76 | 254 | 48 | 651 |
| Other assets | **4,889** | **6,070** | 6,492 | 7,157 | 5,141 | 17,434 |
| | **499,255** | **619,807** | 486,964 | 438,783 | 382,849 | 352,290 |
| Assets held for sale | **455** | **565** | 608 | 1,374 | 1 | - |
| **Total Assets** | **499,710** | **620,372** | 487,572 | 440,157 | 382,850 | 352,290 |
| **Liabilities** | | | | | | |
| Deposits and other public borrowings | **297,005** | **368,721** | 263,706 | 219,068 | 187,576 | 182,912 |
| Payables due to other financial institutions | **12,170** | **15,109** | 17,672 | 14,386 | 11,184 | 8,023 |
| Liabilities at fair value through income statement | **13,368** | **16,596** | 15,526 | 16,396 | 11,667 | - |
| Derivative liabilities | **25,884** | **32,134** | 19,541 | 16,680 | 10,820 | - |
| Bank acceptances | **11,863** | **14,728** | 18,278 | 18,721 | 18,310 | 16,786 |
| Current tax liability | **711** | **883** | 768 | 882 | 378 | 833 |
| Deferred tax liability | **135** | **168** | 266 | 908 | 734 | 921 |
| Other provisions | **1,001** | **1,243** | 1,174 | 878 | 821 | 871 |
| Insurance policy liabilities | **12,933** | **16,056** | 18,495 | 21,613 | 22,225 | 24,694 |
| Debt issues | **82,015** | **101,819** | 85,817 | 88,525 | 80,735 | 70,765 |
| Managed fund units on issue | **736** | **914** | 1,109 | 310 | 1,109 | - |
| Bills payable and other liabilities | **6,863** | **8,520** | 7,524 | 7,346 | 6,053 | 17,551 |
| **Total Liabilities** | **464,686** | **576,891** | 449,876 | 405,713 | 351,612 | 323,356 |
| Loan capital (1) | **9,697** | **12,039** | 11,559 | 10,000 | 9,895 | 6,291 |
| **Total liabilities and loan capital** | **474,383** | **588,930** | 461,435 | 415,713 | 361,507 | 329,647 |
| **Net Assets** | **25,327** | **31,442** | 26,137 | 24,444 | 21,343 | 22,643 |
| **Total Shareholders' Equity (2)** | **25,327** | **31,442** | 26,137 | 24,444 | 21,343 | 22,643 |
| Preference share capital | **-** | **-** | - | - | - | 687 |
| Other equity instruments | **756** | **939** | 939 | 939 | 939 | 1,573 |
| **Total Shareholders' Equity excluding hybrid financial instruments** | **24,570** | **30,503** | 25,198 | 23,505 | 20,404 | 20,383 |

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Full-time staff equivalent | **44,218** | 39,621 | 37,873 | 36,664 | 35,313 |
| Branches/service centres (Australia) | **1,142** | 1,009 | 1,010 | 1,005 | 1,006 |
| Agencies (Australia) | **3,859** | 3,814 | 3,833 | 3,836 | 3,864 |

(1) Represents interest bearing liabilities qualifying as regulatory capital.
(2) Includes minority interests (see Note 34 to the 2009 Financial Statements).
(3) USD translated from AUD at 30 June 2009 (see month end closing exchange rate in the table on page 11).

| Consolidated Ratios and Operating Data | 2009 US$M (1) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| | | Full Year Ended 30 June (A$ millions, except where indicated) | | | | |
| **AIFRS** | | | | | | |
| **Profitability** | | | | | | |
| Net interest margin (%) (2) | | **2. 10** | 2. 02 | 2. 08 | 2. 22 | 2. 29 |
| Interest spread (%) (3) | | **1. 84** | 1. 68 | 1. 75 | 1. 90 | 1. 98 |
| Return on average Shareholders' Equity (%) (4) | | **16. 8** | 19. 8 | 20. 7 | 20. 4 | 18. 2 |
| Return on average total assets (%) (4) | | **0. 9** | 1. 0 | 1. 1 | 1. 1 | 1. 0 |
| **Productivity** | | | | | | |
| Total operating income per full-time (equivalent) | **306,348** | **380,320** | 361,955 | 348,454 | 330,760 | 314,388 |
| Staff expense/total operating income (%) (5) | | **23. 7** | 25. 5 | 24. 5 | 23. 3 | 24. 1 |
| Total operating expenses/total operating income (%) (5) | | **46. 2** | 49. 0 | 48. 7 | 49. 4 | 52. 9 |
| Ratio of earnings to fixed charges (6) | | **1. 3** | 1. 3 | 1. 4 | 1. 4 | 1. 4 |
| **Capital Adequacy (at year end) (7)** | | | | | | |
| **Basel I** | | | | | | |
| Risk weighted assets | | **n/a** | n/a | 245,347 | 216,438 | 189,559 |
| Tier One capital | | **n/a** | n/a | 17,512 | 16,354 | 14,141 |
| Tier Two capital | | **n/a** | n/a | 8,365 | 6,725 | 6,087 |
| Total capital (8) | | **n/a** | n/a | 23,951 | 20,916 | 18,479 |
| Tier One capital/risk weighted assets (%) | | **n/a** | n/a | 7. 14 | 7. 56 | 7. 46 |
| Tier Two capital/risk weighted assets (%) | | **n/a** | n/a | 3. 41 | 3. 10 | 3. 21 |
| Total capital/risk weighted assets (%) | | **n/a** | n/a | 9. 76 | 9. 66 | 9. 75 |
| **Basel II** | | | | | | |
| Risk weighted assets | **232,657** | **288,836** | 205,501 | n/a | n/a | n/a |
| Tier One capital | **18,777** | **23,311** | 16,791 | n/a | n/a | n/a |
| Tier Two capital | **5,465** | **6,784** | 7,013 | n/a | n/a | n/a |
| Total capital (8) | **24,242** | **30,095** | 23,804 | n/a | n/a | n/a |
| Tier One capital/risk weighted assets (%) | | **8. 07** | 8. 17 | n/a | n/a | n/a |
| Tier Two capital/risk weighted assets (%) | | **2. 35** | 3. 41 | n/a | n/a | n/a |
| Total capital/risk weighted assets (%) | | **10. 42** | 11. 58 | n/a | n/a | n/a |
| Average Shareholders' Equity/average total assets (%) | | **5. 0** | 5. 3 | 5. 5 | 6. 0 | 6. 5 |

(1) USD translated from AUD at 30 June 2009 (see month end closing exchange rate in the table on page 11).

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

(3) Difference between the average interest rate earned and the average interest 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 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 Liquidity and Capital Resources.

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

# Financial Review continued

| Consolidated Ratios and Operating Data | 2009 [6] | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| | | | Full Year Ended 30 June | | | |
| | US$M | (A$ millions, except where indicated) | | | | |
| **AIFRS** | | | | | | |
| **Asset Quality Data** [(1)] | | | | | | |
| Non-accrual loans [(2)] | **3,391** | **4,210** | 683 | 421 | 326 | 395 |
| Total impaired assets [(3)] | **3,391** | **4,210** | 683 | 421 | 326 | 376 |
| Individually assessed provisions for impairment | **1,393** | **1,729** | 279 | 199 | 171 | 157 |
| Collective provisions for impairment | **2,574** | **3,225** | 1,466 | 1,034 | 1,046 | 1,390 |
| Net impaired assets (net of interest reserved) | **1,998** | **2,481** | 316 | 222 | 155 | 219 |
| Total provisions for impairment/average credit risk (%) [(4)] | | **0. 7** | 0. 3 | 0. 3 | 0. 4 | 0. 5 |
| Loan impairment expense/average credit risk (%) [(4)] | | **0. 4** | 0. 2 | 0. 1 | 0. 1 | 0. 1 |
| Gross impaired assets/credit risk (%) [(5)] | | **0. 6** | 0. 1 | 0. 1 | 0. 1 | 0. 1 |
| Net impaired assets/total Shareholders' Equity (%) | | **7. 9** | 1. 2 | 0. 9 | 0. 7 | 1. 0 |
| General provision for impairment/risk weighted assets (%) Basel I | | **n/a** | n/a | n/a | n/a | 0. 7 |
| Collective provision for impairment/risk weighted assets (%) Basel I | | **n/a** | n/a | 0. 4 | 0. 5 | n/a |
| Collective provision for impairment/risk weighted assets (%) Basel II | | **1. 1** | 0. 7 | n/a | 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 15 to the 2009 Financial Statements less unearned income as calculated in Note 13 to the 2009 Financial Statements.

(6) USD translated from AUD at 30 June 2009 (see month end closing exchange rate for 2009 financial year in the table on page 11).

### Summary Cash Flow Data

Further details of the Group's cash flow are found in the 2009 Financial Statements and Notes to the Financial Statements.

| Summary Cash Flow | 2009 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| | | | Full Year Ended 30 June | | | |
| | US$M [(1)] | $M | $M | $M | $M | $M |
| Net Cash (used in)/provided by operating activities | **1,189** | **1,476** | (2,075) | 5,641 | 1,162 | (336) |
| Net Cash (used in)/provided by investing activities | **(2,651)** | **(3,291)** | (152) | (2,276) | (386) | 801 |
| Net Cash (used in)/provided by financing activities | **1,398** | **1,736** | 408 | (1,319) | (14) | (2,188) |
| Net (decrease)/increase in cash and cash equivalents | **(64)** | **(79)** | (1,819) | 2,046 | 762 | (1,723) |
| Cash and Cash Equivalents at beginning of period | **1,824** | **2,265** | 4,084 | 2,038 | 1,276 | 2,999 |
| Cash and Cash Equivalents at end of period | **1,761** | **2,186** | 2,265 | 4,084 | 2,038 | 1,276 |

(1) USD translated from AUD at 30 June 2009 (see month end closing exchange rate for August in the table on page 11).

## Forward-Looking Statements

This "Financial Review" contains certain forward-looking statements. See "Special Note Regarding Forward-Looking Statements" on page 3.

## 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 51 to 55. 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 Note 41 of the 2009 Financial Statements.

***The Group's businesses may be adversely affected by the current 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 from 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.

Our 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. As a diversified financial institution, we may be impacted in a number of ways by the current economic climate.

We continue 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, and these factors may continue to adversely impact our results of operations.

***A downturn in the Australian and New Zealand economies could adversely impact our results***

As a financial group whose core businesses are banking, Funds Management and insurance, the performance of the Group is dependent on the state of the Australian and New Zealand economies, customer and investor confidence and prevailing market rates. The results of the Group in recent years have benefited from historically high rates of growth of the Australian and New Zealand economies, strong links to the rapidly growing economies in China, India and South East Asia, low unemployment and, until the 2008 financial year, historically low rates of inflation. We 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 our control.

Australian economic conditions at the end of August 2009 revealed a weakening in retail sales, increasing unemployment and rising bankruptcies, particularly in small to medium size enterprises. As a result, our impairment expense increased 228% to $3,048 million, our total impaired assets increased 516% to $4,210 million and our collective provision for impairment rose 120% to $3,225 million.

A material downturn in the Australian and 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. Our 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 and New Zealand housing market or property valuations 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 our revenues from our Funds Management and insurance business.

***Adverse credit market conditions may significantly affect the Group's ability to access international capital markets, cost of capital or ability to meet its liquidity needs.***

Disruptions, uncertainty or volatility in credit markets may limit the Group's access to capital, particularly its ability to issue 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 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 us. Such parties may default on their obligations to us 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 us, 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.

***We are subject to extensive regulation, which could impact our 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. Our business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the Australian government and the governments of the other jurisdictions in which we conduct business.

The requirement to maintain certain levels of Tier One and Tier Two eligible 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.

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

Our businesses are highly dependent on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or 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, we are 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 our internal policies and regulations.

While we employ 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, we 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 our risk management policies and procedures, see "Integrated Risk Management" and Note 41 to the 2009 Financial Statements.

***Reputational damage could harm our business and prospects***

Various issues may give rise to reputational risk and cause harm to our business and prospects. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering laws, trade sanctions legislation, privacy laws, information security policies, sales and trading practices, legal or regulatory proceedings against us and conducted by companies in which we hold strategic investments. Failure to address these issues appropriately could also give rise to additional legal risk, subject the Group to regulatory enforcement actions, fines and penalties, or harm our reputation among our customers and our investors in the marketplace.

***Market risks, interest rate and currency risks could adversely impact our results***

The Group is subject to the risks typical of banking, insurance and Funds Management activities, such as interest rate fluctuations, exchange rate variations and capital and equity market volatility. Many of these risks are outside the control of the Group. The results of our banking and insurance operations are affected by our management of interest rate sensitivity. Activity in the securities markets generally also affects our banking, Funds Management and insurance business. We also offer a number of financial products that expose us to risks associated with fluctuations in interest rates, securities prices or the value of real estate assets. For a description of these specific risks, see Note 41 to the 2009 Financial Statements.

***Liquidity and funding risks, operational risk and life insurance risk could adversely impact our results***

The Group is subject to liquidity and funding risks, operational risk and life insurance risks which could adversely impact our future results. These risks are described in detail under "Integrated Risk Management" commencing on page 51.

***We face intense competition, which could adversely impact our 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. Further details on the competition faced by the Group are detailed in "Description of Business" – 'Competition' on page 71 of this Document.

***Our 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.

## Outlook

The 2009 financial year has been a challenging one and the economic outlook remains uncertain. However, the Australian economy has been more resilient than many had predicted a year ago and it is pleasing to see that there is some evidence of the beginnings of an economic recovery and improvements in business and consumer confidence is observable, but there are still significant risks on the downside.

Despite these positive signs, overall credit growth in Australia is expected to slow through the 2010 financial year and economic conditions are likely to remain challenging for the Group and many of its customers in the coming year. Accordingly, the Group intends to maintain appropriate levels of capital, liquidity and provisioning. The Group intends to continue with its cautious approach to the management of credit and market risk.

### 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 excluding Bankwest

Unless specifically stated the following discussion is on a cash basis.

***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 since June 2008;
- Underlying net interest margin improvement of eight basis points since June 2008;
- Decline in average Funds Under Administration of 10%, principally due to the adverse impact of volatile investment markets and outflows of short-term cash mandates;
- CommInsure inforce premium growth of 25% since June 2008 to $1,560 million, with both Life and General insurance businesses experiencing strong volumes; partly offset by
- Operating expense growth of 4% (excluding Bankwest), principally driven by continued investment in people and technology as well as higher occupancy and volume expenses; and
- Significantly higher loan impairment provisioning levels, due to a cyclical deterioration in portfolio quality and the Group's prudent and conservative approach to provisioning.

More comprehensive disclosure of performance highlights by key business segments is contained on pages 26-49.

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.

***Financial Year 2008 compared to Financial Year 2007***

The Group's Statutory net profit after tax for the 2008 financial year was $4,791 million, an increase of 7% on the prior year.

The performance during the 2008 financial year was underpinned by:

- Strong growth in lending balances, with business lending up 22% to $127 billion and housing lending up 12% to $216 billion;
- Domestic deposit volume growth of 23% since June 2007 to $234 billion;
- Underlying net interest margin contraction of 10 basis points since 30 June 2007;
- Average Funds Under Administration growth of 18% to $194 billion, reflecting positive net funds flows partly offset by falls in Australian and global equity markets;
- Operating expense growth of 9% on the prior year, reflecting continued investment in the Group's business expenses associated with investment and restructuring, as well as the effect of inflation on salary and general expenses;
- Higher funding costs resulting from widening cash to bill spreads caused by volatility in global credit markets. These additional costs were not able to be fully passed on to customers; and
- Increased corporate sector collective and individual provisioning up to $847 million consistent with market conditions.

### Net Interest Income

***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.

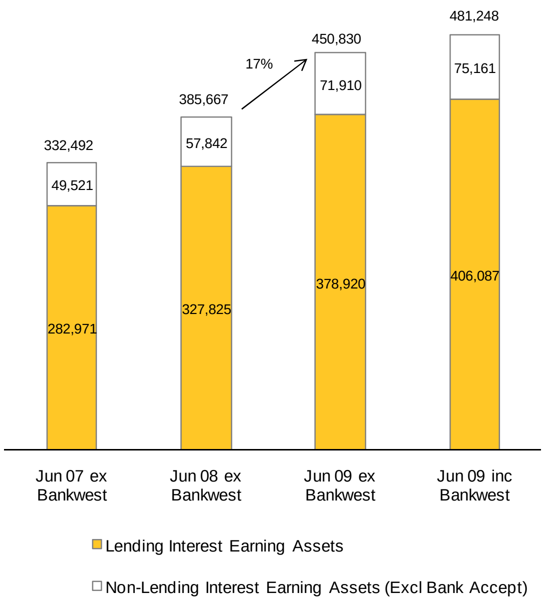
***Financial Year 2008 compared to Financial Year 2007***

Net interest income increased in the 2008 financial year by 12% on the prior year to $7,907 million.

Excluding the impact of the reclassification of net swap costs under AIFRS, net interest income growth was 10%.

This result was achieved primarily through volume growth in average interest earning assets of 16%, partly offset by underlying margin contraction of ten basis points.

### Average Interest Earning Assets



# Group Performance Analysis continued

***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 has 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 including 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 since June 2008 to $223 billion, despite tightening credit standards.

Average balances for business and corporate lending increased by $20 billion since June 2008 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.

***Financial Year 2008 compared to Financial Year 2007***

Average interest earning assets increased by $53 billion in the 2008 financial year on the prior year to $386 billion, reflecting a $45 billion increase in average lending interest earnings assets and an $8 billion increase in average non-lending interest earning assets.

Home lending growth was the largest contributor to the increase in average interest earning assets. Average home loan balances, excluding the impact of securitisation, increased by 15% since 30 June 2007.

Average balances for business and corporate lending benefited from strong volume growth. This resulted in growth of 18% since 30 June 2007.

Personal lending average balances grew by 12% since 30 June 2007. This result continues to be driven by growth in margin lending, which slowed due to the downturn in investment markets.

## Net Interest Margin

***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 underlying margin were:

<u>Asset pricing:</u> 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.

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

<u>Mix and Liquids:</u> Average liquid asset holdings increased $14 billion since June 2008, 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.

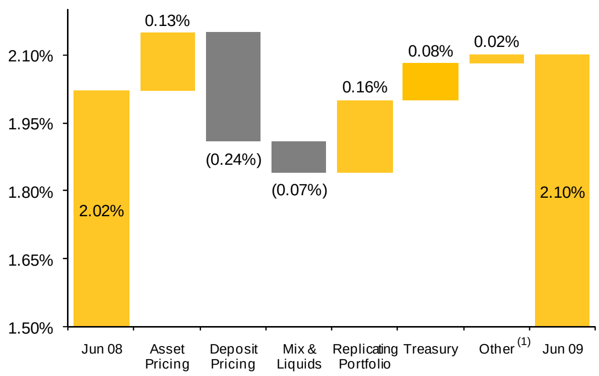
<u>Replicating portfolio:</u> As deposit margins have been adversely impacted by the declining cash rate environment the replicating portfolio has acted as a "buffer" and contributed 16 basis points to margin. The Replicating Portfolio is a technique used to stabilise the Net Interest Earnings of the 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 occurs during times when interest rates are falling.

<u>Treasury:</u> 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).

<u>Other:</u> 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).

### NIM movement June 2008 to June 2009

Additional information, including the average balances, is set out in Note 4 to the 2009 Financial Statements.




(1) Includes one basis point reduction from Bankwest and one basis point increase from AIFRS volatility.

***Financial Year 2008 compared to Financial Year 2007***

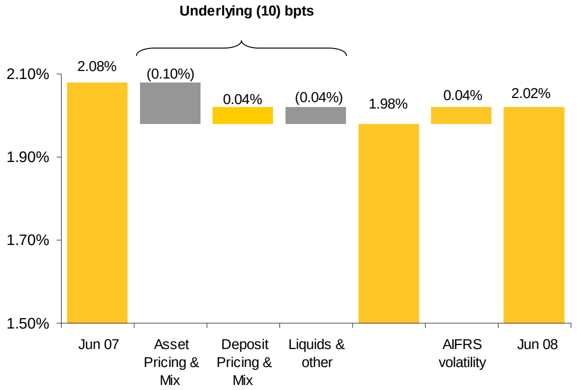
Underlying net interest margin decreased 10 basis points compared to the prior year. This was partly offset by AIFRS hedging volatility which resulted in a four basis point increase, bringing headline margin contraction to six basis points. The key drivers of the underlying margin contraction were:

Asset pricing and mix: Overall margin contraction of 10 basis points, with home lending margins contributing to a seven basis point decline during the 2008 financial year due to the impact of higher funding costs together with the increased proportion of lower margin fixed rate and packaged home lending products more than offsetting the changes in pricing of standard variable rate home loans. Business and personal lending margins contracted three basis points primarily due to higher funding costs and the strong growth in lower margin Institutional loans and lower interest rate credit cards.

Deposit pricing and mix: Retail deposit margins improved four basis points primarily due to benefits of increases in the official cash rate offsetting the ongoing mix impact of strong growth in higher interest rate deposit products.

Liquids and other: The Group increased holdings of liquid assets by $8 billion during the 2008 financial year, resulting in four basis points of margin compression.

**NIM movement June 2007 to June 2008 (1) (2)**




(1) Headline net interest margin was impacted by a change in the accounting treatment of Group Limit Facilities and Mortgage Interest Saver Accounts which led to an increase in lending and deposit balances. Prior periods were restated on a consistent basis.
(2) Refer to Note 4 to the 2009 Financial Statements, for average interest earning assets and average interest bearing liabilities yields.

### Other Banking Income

| | Full Year Ended | | |
|---|---|---|---|
| | 30/06/09 | 30/06/08 | 30/06/07 |
| | $M | $M | $M |
| Commissions (1) | **1,961** | 1,827 | 1,729 |
| Lending fees (1) | **1,348** | 976 | 896 |
| Trading income (1) | **720** | 546 | 555 |
| Other income (1) | **254** | 228 | 248 |
| | **4,283** | 3,577 | 3,428 |
| AIFRS reclassification of net swap costs (1) | **(275)** | (265) | (107) |
| Other banking income ex Bankwest | **4,008** | 3,312 | 3,321 |
| Bankwest | **168** | - | - |
| **Other banking income** | **4,176** | 3,312 | 3,321 |

(1) Excluding Bankwest.

***Financial Year 2009 compared to Financial Year 2008***

Excluding the impact of AIFRS non-trading derivative volatility and Bankwest, other banking income increased 20% over the year.

Factors impacting Other banking income were:

- Commissions: increased by 7% on 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% on 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% on 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% on the prior year to $254 million, driven by additional equity accounted profits from investments in Asia, together with higher operating lease rentals.

***Financial Year 2008 compared to Financial Year 2007***

Factors impacting Other banking income during the financial year ended 30 June 2008, as compared to the financial year ended 30 June 2007, were:

- Commissions: increased by 6% on the prior year to $1,827 million, principally driven by brokerage commissions within CommSec and volume-driven increases in international transactions;
- Lending fees: increased by 9% on the prior year to $976 million. The growth was principally due to retail and corporate customer fees increasing in line with lending volumes together with higher syndication structured transaction fee income;
- Trading income: decreased 2% on the prior year to $546 million primarily due to additional costs on derivatives used to hedge short-dated interest rate exposures; and
- Other income: decreased 8% on the prior year to $228 million. The 2007 financial year included $79 million due to the sale of the Group's share in Greater Energy Alliance Corporation Pty Limited ("Loy Yang") and $58 million in relation to the sale of MasterCard shares. In the 2008 financial year other income included the realised gains on hedges of the New Zealand operations of $31 million compared to a loss of $23 million in the prior year, accrued income of $24 million relating to a prior period tax refund, the receipt of dividend income on Group investments of $36 million, together with several other offsetting non-recurring gains and losses.

Other transactions not included in the cash definition which were included in the statutory definition of Other banking income included realised gains on the Visa Initial Public Offering of $295 million after tax, and hedging and AIFRS volatility.

# Group Performance Analysis continued

## Funds Management Income

| | Full Year Ended | | |
|---|---|---|---|
| | 30/06/09 | 30/06/08 | 30/06/07 |
| | $M | $M | $M |
| CFS GAM | **773** | 1,068 | 759 |
| Colonial First State | **696** | 884 | 819 |
| CommInsure and Other | **266** | 281 | 224 |
| ASB and Other | **78** | 74 | 72 |
| **Funds management income** | **1,813** | 2,307 | 1,874 |

### *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 Funds Under Administration ("FUA") and Funds Under Management ("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 2008 compared to Financial Year 2007*

Funds Management income increased by 23% to $2,307 million for the financial year ended 30 June 2008 from $1,874 million in 2007. This growth was driven by an increase in average FUA of 18% on the prior year to $194 billion and $108 million pre-tax gain on sale of assets.

## Insurance Income

| | Full Year Ended | | |
|---|---|---|---|
| | 30/06/09 | 30/06/08 | 30/06/07 |
| | $M | $M | $M |
| CommInsure and Other | **636** | 557 | 550 |
| Sovereign and Other | **274** | 275 | 244 |
| **Insurance income** | **910** | 832 | 794 |

### *Financial Year 2009 compared to Financial Year 2008*

Insurance income increased by 9% on the prior year to $910 million. The increase was 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.

### *Financial Year 2008 compared to Financial Year 2007*

Insurance income increased by 5% to $832 million for the financial year ended 30 June 2008. This result was primarily a combination of growth in average inforce premiums of 18%, partially offset by adverse claims experience associated with weather events concentrated on the East Coast of Australia.

## Operating Expenses

### *Financial Year 2009 compared to Financial Year 2008*

Operating expenses increased by 4% 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% 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.

### *Financial Year 2008 compared to Financial Year 2007*

Group operating expenses for the 2008 financial year increased by 9% on the prior year to $7,021 million. This result was impacted by:

- A $432 million increase in total staff expenses, as a result of:
  - Average salary increases reflecting the tight domestic labour market together with the effect of inflation; and
  - Continued investment in staff in support of strategic initiatives, with staff numbers rising 5% on the prior year;
- A $79 million increase in occupancy expenses primarily resulting from market rent increases, relocation of the Business Continuity Centre to Sydney Olympic Park and increases in other property costs;
- A one-off GST refund received in the current period ($64 million) which was used to fund $62 million of additional projects to support the Group's strategic initiatives;
- Higher volume related expenses primarily resulting from strong growth in Funds Under Administration, the IWL Limited acquisition and an increase in underlying retail equities trading volumes; and
- Continued productivity improvements achieved through process re-engineering and simplification initiatives.

## Staff Numbers

The table below details the Group's staff numbers as at 30 June 2009, 2008 and 2007.

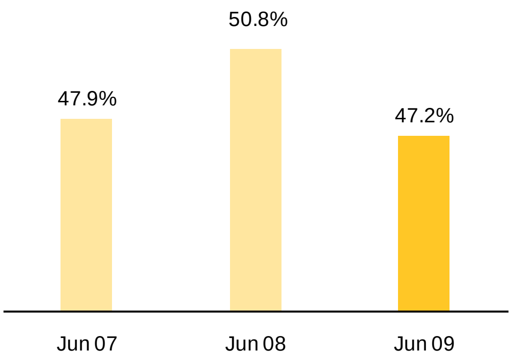
| | Full Year Ended | | |
|---|---|---|---|
| **Staff Numbers** | 2009 | 2008 | 2007 |
| Australia | **35,111** | 30,766 | 29,990 |
| Full-time staff equivalent | **44,218** | 39,621 | 37,873 |

The acquisition of Bankwest and St Andrew's resulted in an additional 4,818 and 242 FTE respectively on purchase in 2009. Full-time equivalent staff have been weighted for employees on extended leave, for example, maternity leave, unpaid sick leave or career break.

### Productivity (excluding Bankwest)

The expense to income ratio improved over the last three years from 47.9% in the financial year ended 30 June 2007 to 47.2% in the financial year ended 30 June 2009, representing a 1% improvement in productivity (on a statutory basis). The improvement in productivity in each of the last three years is a reflection of income growth, combined with improved operational efficiencies.

### Group Expense to Income Ratio (excluding Bankwest)




### Taxation Expense

***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.

***Financial Year 2008 compared to Financial Year 2007***

The corporate tax charge for the 2008 financial year was $1,548 million, representing an effective tax rate of 24.3%. For the 2008 financial year, income tax decreased $227 million as a result of a reduction in the effective tax rate in the Institutional Banking and Markets, Wealth Management and Other segments.

In 2007, the lower effective tax rate was principally due to a combination of the utilisation of domestic capital losses and lower offshore tax rates.

Segment tax expense and rates are discussed in the Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, International Financial Services and Other sections.

| | Group Full Year Ended | | |
|---|---|---|---|
| **Income Tax** | 2009 $M | 2008 $M | 2007 $M |
| Retail Banking Services | **889** | 816 | 759 |
| Premium Business Services (1) | **n/a** | n/a | 471 |
| Business and Private Banking (1) | **288** | 292 | n/a |
| Institutional Banking and Markets (1) | **(151)** | 124 | n/a |
| Wealth Management | **205** | 290 | 256 |
| International Financial Services | **149** | 163 | 123 |
| Other | **201** | (55) | 120 |
| Bankwest | **50** | n/a | n/a |
| Investment Experience | **(71)** | (4) | 53 |
| **Total income tax expense (cash basis incl Bankwest)** | **1,560** | 1,626 | 1,782 |
| Statutory adjustments | **300** | (78) | (7) |
| **Total income tax expense** | **1,860** | 1,548 | 1,775 |

| **Effective Tax** | 2009 % | 2008 % | 2007 % |
|---|---|---|---|
| Retail Banking Services | **29. 7** | 30.0 | 30. 0 |
| Premium Business Services (1) | **n/a** | n/a | 24. 3 |
| Business and Private Banking (1) | **28.1** | 28.7 | n/a |
| Institutional Banking and Markets (1) | **large** | 14.1 | n/a |
| Wealth Management | **30.1** | 28.5 | 33. 3 |
| International Financial Services | **24.0** | 22.2 | 22. 2 |
| Bankwest | **35.4** | n/a | n/a |
| **Total – corporate** | **28.1** | 24.3 | 28. 3 |

(1) On 19 January 2009 Premium Business Services was split into Business and Private Banking and Instituional Banking and Markets. Refer to "Segment Reporting Changes" on page 25 for further details.

### Impairment Expense

***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 have increased on the prior year with deterioration in the second half. Credit card arrears deteriorated over the year, although have stabilised in the second half. As a result of higher arrears levels, additional resources have been deployed to collections. Credit policies for all retail products have also been tightened.

The corporate lending portfolio was significantly impacted 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.

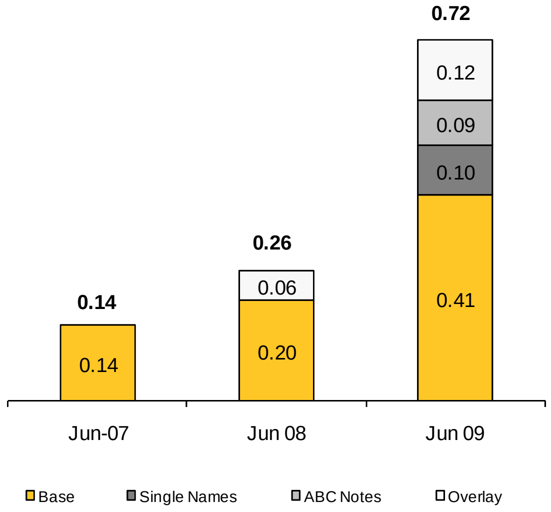
Gross impaired assets increased significantly over the prior year to $4,210 million as at 30 June 2009, compared with $683 million at 30 June 2008 and $421 million at June 2007. Of the increase in the 2009 financial year, $1,366 million was attributable to the acquisition of Bankwest.

# Group Performance Analysis continued

***Financial Year 2008 compared to Financial Year 2007***

The total charge for loan impairment for the year ended 30 June 2008 was $930 million, which represents 26 basis points of average gross loans and acceptances. This expense is $496 million higher than the year ended 30 June 2007, due to increased levels of collective and individual provisioning in the corporate portfolio reflecting a deterioration in credit conditions, particularly in the corporate portfolio.

**Impairment Expense as a % of Average Gross Loans and Acceptances (excluding Bankwest)**




### Provisions for Impairment

The Group believes it has maintained a prudent and conservative approach to provisioning, with total provisions for impairment losses including Bankwest at 30 June 2009 of $4,954 million. This represents a $3,209 million increase since June 2008. The current level reflects:

- 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 has remained relatively stable, 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 Collateralised Debt Obligations ("CDO's").

| Total Group Assets & Liabilities | As at 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| **Interest earning assets** | | | |
| Home loans including securitisation | **292,206** | 215,743 | 192,770 |
| Less: securitisation | **(12,568)** | (11,676) | (15,633) |
| Home loans excluding securitisation | **279,638** | 204,067 | 177,137 |
| Personal | **19,260** | 20,265 | 20,074 |
| Business and corporate | **160,089** | 126,987 | 103,854 |
| **Loans, bills discounted and other receivables** (1) | **458,987** | 351,319 | 301,065 |
| Provisions for loan impairment | **(4,924)** | (1,713) | (1,233) |
| Net loans, bills discounted and other receivables | **454,063** | 349,606 | 299,832 |
| Non-lending interest earning assets | **72,688** | 49,385 | 49,553 |
| **Total interest earning assets** | **531,675** | 400,704 | 350,618 |
| Other assets (2) | **88,697** | 86,868 | 89,539 |
| **Total assets** | **620,372** | 487,572 | 440,157 |
| | | | |
| **Interest bearing liabilities** | | | |
| Transaction deposits | **66,117** | 59,917 | 55,168 |
| Saving deposits | **79,736** | 53,420 | 52,408 |
| Investment deposits | **135,314** | 98,745 | 76,856 |
| Other demand deposits | **78,938** | 44,014 | 26,156 |
| **Total interest bearing deposits** | **360,105** | 256,096 | 210,588 |
| Deposits not bearing interest | **8,616** | 7,610 | 8,480 |
| **Deposits and other public borrowings** | **368,721** | 263,706 | 219,068 |
| Debt issues | **88,814** | 73,785 | 69,753 |
| Other interest bearing liabilities | **43,744** | 44,756 | 43,719 |
| **Total interest bearing liabilities** | **492,663** | 374,637 | 324,060 |
| Securitisation debt issues | **13,005** | 12,032 | 15,737 |
| Non-interest bearing liabilities (3) | **83,262** | 74,766 | 75,916 |
| **Total liabilities** | **588,930** | 461,435 | 415,713 |
| | | | |
| **Provisions for impairment losses** | | | |
| Collective provision | **3,225** | 1,466 | 1,034 |
| Individually assessed provisions | **1,729** | 279 | 199 |
| **Total provisions for impairment losses** | **4,954** | 1,745 | 1,233 |
| Less off balance sheet provisions | **(30)** | (32) | 23 |
| **Total provisions for loan impairment** | **4,924** | 1,713 | 1,256 |

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

(2) Other assets include Bank acceptances of customers, derivative assets, and provisions for impairment, securitisation assets, insurance assets and intangibles.

(3) Non-interest bearing liabilities include derivative liabilities and insurance policy liabilities.

| 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 |

# Acquisition of Bankwest and St Andrew's

## Acquisition Overview

Unless specifically stated the following discussion is on a cash basis.

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.

Since acquisition, Bankwest has continued to expand its customer base. As at 30 June 2009 Bankwest provided services to more than 960,000 retail customers and 26,000 business clients, through a network of 135 retail branches, 78 Business Banking centres, direct and third party distribution channels, agencies and electronic, telephone and internet banking facilities.

St Andrew's provides life insurance and wealth management products to the Australian marketplace, predominantly in Western Australia. Its range of products is similar to those provided by the Group's existing Wealth Management business.

The acquisition of Bankwest provides the Group with a significant opportunity to further develop its business in the Western Australian market. It complements the Group's existing operations and delivers additional growth opportunities in key market segments, as well as enhanced product and service delivery opportunities to customers.

The Group's Executive Committee and Bankwest Board are committed to delivering sustainable growth of the business in line with the Group's existing strategic priorities. Bankwest will continue to operate under the retained brand name, with a separate Board of Directors.

## Acquisition Accounting

Following the finalisation of the fair value of assets and liabilities acquired, the gain on acquisition was $983 million before tax and has been treated as a non-cash item. The gain is significantly higher than the $660 million indicated at the time the acquisition was announced, due to the increase in the final fair value of net assets acquired, including $719 million of intangible assets. This is despite an increase of $1,059 million to the collective and individual provisions arising from the acquisition.

As part of the acquisition, fair value adjustments relating to fixed interest assets and liabilities and intangible assets subject to amortisation were recognised. Due to the significant size and non-recurring nature of these adjustments, the amortisation of the adjustments will be treated as non-cash and recognised over the assets and liabilities remaining useful lives.

| Purchase Consideration as at 30 June 2009 | $M |
|---|---|
| Original purchase price | 2,100 |
| Additional purchase price adjustment | 26 |
| Costs relating to acquisition | 37 |
| Purchase consideration | 2,163 |
| Fair value of net identifiable assets acquired | 3,676 |
| Less: preference share placement | (530) |
| **Gain on acquisition** | 983 |
| Income tax expense | (371) |
| **Gain on acquisition after tax** | **612** |

Further details on the acquisition are disclosed in Note 49 Acquisition of Controlled Entities in the 2009 Financial Statements.

## Integration Progress

The initial stages of the integration of Bankwest and St Andrew's into the Group have progressed smoothly. The initial phase is focused on aligning the operations of Bankwest and the Group across Australia, and consolidating systems and processes for efficiency.

The operations of St Andrew's are run as part of the Group's Wealth Management business. The integration of St Andrew's is intended to enable existing customers to benefit from a wide range of investment platforms and product offerings.

During the half year to 30 June 2009, several key integration milestones were achieved, including:

- Reciprocal ATM access;
- Established an integration/synergy program including a cross business steering group;
- Commenced restructuring activities;
- Initiated a review of major contracts and licences to identify savings through additional buying power, notably for large IT licensing arrangements;
- Established initial technology links; and
- Introduced a target operating model for Bankwest.

## Integration Expenses and Synergies

Total integration expenditure for the initial phase is anticipated to be $313 million and is expected to be incurred over three years.

The amount of integration expenditure for the six months to 30 June 2009 was $112 million.

Anticipated cost synergies have increased from an annualised run rate (by 2012) of $220 million to $250 million. This includes benefits associated with restructuring, cessation of the East Coast store rollout and other IT and property synergies. An approach to the integration is being adopted that focuses on minimising distraction while seeking to maximise customer and business outcomes.

| Integration Expenditure for the year ended 30 June 2009 | $M |
|---|---|
| Restructuring | 16 |
| Property | 7 |
| Operations | 24 |
| IT expenditure | 60 |
| Other | 5 |
| **Total** | **112** |

### 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” division. 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 has restated the 2008 financial year comparative segment information to reflect this change. The Group has not restated the 2007 financial year segment information for Premium Business Services.

### Changes to the presentation of segment information

The Group has made a number of refinements to the presentation of segment results, 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.

### Restatement of 30 June 2008 segment reporting

In the 2009 Financial Report the Group has restated the 2008 financial year comparative segment information. The table below presents both the impact of both the Premium Business Services restructure and refinements to the segment allocation methodology, on the Group’s segment reporting for the financial year ended 30 June 2008.

The previously reported segment reporting for the financial year ended 30 June 2008 and the restated segment reporting for the financial year ended 30 June 2008 are outlined below, together with the allocation of the impact of each of the changes described above.

The Premium Business Services restructure and improvement to the segment allocation methodology has not been restated for the financial year ended 30 June 2007 and, as a result, the discussion of the results of operations for the 2009 financial year as compared to the 2008 financial year is not presented on a comparable basis to the discussion of the results for the 2008 financial year as compared to the 2007 financial year. Further, the audit reports on the Group’s historical 2007 and 2008 financial statements report on historical financial statements that have not been re-presented on the same basis that the 2009 financial statements have been prepared. ***Readers are urged to use caution in analysing the segment reporting within the Group’s historical 2007 and 2008 financial statements, including the segment reporting, which are not prepared on a consistent basis with the 2009 financial statements and restated 2008 comparatives.***

| | Year Ended 30 June 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Retail Banking Services $M | Premium Business Services $M | Business & Private Banking $M | Institutional Banking & Markets $M | Wealth Management $M | International Financial Services $M | Other $M | Group $M |
| Net profit after tax ("cash basis") - as previously reported | 1,904 | 1,480 | - | - | 740 | 589 | 20 | 4,733 |
| Restatements: | | | | | | | | |
| Increase/(Decrease) in Operating income | 80 | (94) | - | - | (49) | (11) | 74 | - |
| (Increase)/Decrease in Operating expenses | (70) | 112 | - | - | 96 | 1 | (139) | - |
| (Increase)/Decrease in Impairment expenses | - | - | - | - | - | | | |
| Increase/(Decrease) in Investment experience | - | - | - | - | (36) | - | 36 | - |
| Increase/(Decrease) in Operating income | | | | | | | | |
| (Increase)/Decrease in Corporate tax expense | (3) | (6) | - | - | (14) | 2 | 21 | - |
| Premium Business Services Restructure | - | (1,492) | 721 | 771 | - | - | - | - |
| **Net profit after tax ("cash basis") - restated** | **1,911** | **-** | **721** | **771** | **737** | **581** | **12** | **4,733** |
| **Net restatement** | **7** | **(1,480)** | **721** | **771** | **(3)** | **(8)** | **(8)** | **-** |

# 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

Unless specifically stated the following discussion is on a cash basis.

Retail Banking Services 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.

Net profit after tax (statutory basis) for the financial year ended 30 June 2008 increased by 6% to $1,882 million despite the impact of increased funding costs from volatility in global credit markets.

Growth in the year ended 30 June 2008 was primarily affected by:

- A 12% increase in retail deposits income to $3,060 million;
- A 5% decrease in home loan revenue to $1,319 million largely as a result of net interest margin contraction, partly offset by strong home loan balance growth; and
- A 3% decrease in consumer finance revenue to $1,125 million (excluding the profit on the sale of shares in MasterCard for the year ended 30 June 2007).

### Home Loans

Home loan income increased 32% to $1,742 million for the year ended 30 June 2009. Balance growth of 21%, compared to market 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.

Home loan income decreased by 5% to $1,319 million for the year ended 30 June 2008 from $1,391 million for the year ended 30 June 2007. The 2008 financial year result was impacted by net interest margin contraction which was driven by higher funding costs following volatility in global credit markets that was not able to be fully passed on to customers. The effect of net interest margin contraction was partially offset by average home loan balance growth of 15% on the prior year, driven by good performances in both the branch and broker channels, as evidenced by 15 consecutive months of market share gains. Fee revenue growth was 20% to $134 million for the year ended 30 June 2008 from $112 million for the year ended 30 June 2007, underpinned by package fee income and volume growth.

### Consumer Finance

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 unusually high redemptions of loyalty points from the Group’s loyalty program following changes to the Qantas Frequent Flyer program. Excluding the impact of higher loyalty income, growth was 22% on the prior year. The focus on profitable growth has resulted in balance growth as well as improved margins which offset increased funding costs and risk during the 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.

Consumer Finance income grew 2% to $1,125 million for the year ended 30 June 2008 from $1,103 million (excluding the profit on the sale of shares in MasterCard) for the year ended 30 June 2007. This 2008 financial year result was achieved despite increased funding costs. The contraction in net interest margin was more than offset by growth in credit card balances of 5% on the prior year. This growth has been driven by targeted customer campaigns and a focus on cross-sell initiatives which resulted in an increase in new accounts opened. Personal loans continued to perform well with steady volume growth and risk based pricing initiatives.

### Retail Deposits

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 has maintained its number one market share position. Transaction account balances grew 11%, with personal account openings across all channels up 30% on the prior year, 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.

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

Deposit income increased 12% to $3,060 million for the year ended 30 June 2008 from $2,728 million for the year ended 30 June 2007, driven by a combination of 18% volume growth and focused margin management in a competitive environment. Despite the highly competitive environment for retail deposits, Retail Banking Services maintained a dominant position and further grew market share by capturing 30% of market balance growth over the 2008 financial year (Source: APRA). The success of products such as NetBank Saver and Business Online Saver and targeted Term Deposits campaigns resulted in a stable market share of 29% in June 2008.

### Distribution

Commissions received – primarily from the distribution of business banking, wealth management, and foreign exchange products through the retail distribution network – increased 29% on 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.

Commissions received from the distribution of both Business Banking and Wealth Management products through the retail distribution network remained in line with the prior year. This performance in a difficult environment benefited from improved insurance sales capabilities in the branch network and an increased focus on cross-sell activities.

### Operating Expenses

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 (on a statutory basis).

Expense growth on the 2008 financial year was contained to 2% despite wage inflation pressures in a tight labour market, higher occupancy costs and continued strategic business investment. Sound management of these cost pressures together with the continued realisation of IT cost savings and productivity gains have contributed to further improvements in the expense to income ratio from 47.2% in the 2007 financial year to 46.9% for the 2008 financial year (on a statutory basis).

### Impairment Expense

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, contributed to the underlying increase. Home and personal lending arrears over 90 days increased on the prior year, with deterioration in the second half. Credit card arrears increased significantly in the first half of the year, but stabilised in the second half. Additional resources were allocated to collections, resulting in fewer arrears flowing into losses.

Loan impairment expense fell by 5% in the 2008 financial year on the 2007 financial year to $331 million, despite average interest earning asset growth of 13% over the same period. This 2008 financial year result reflects the Group's goals of careful portfolio management and responsible lending practices over a period of intense competition. Despite the uncertain environment, arrears rates across the portfolios have not significantly deteriorated during the 2008 financial year and in most cases were at a lower rate than in recent years.

### Corporate Tax Expense

Tax expense for the year ended 30 June 2009, 2008 and 2007 is largely in-line with the corporate tax rate.

# Retail Banking Services continued

| | 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 |

| | Full Year Ended 30 June 2007 | | | | |
|---|---|---|---|---|---|
| | Home Loans | Consumer Finance [1] | Retail Deposits | Distribution | Total |
| | $M | $M | $M | $M | $M |
| Net interest income | 1,272 | 741 | 2,066 | - | 4,079 |
| Other banking income | 119 | 418 | 662 | 174 | 1,373 |
| Total banking income | 1,391 | 1,159 | 2,728 | 174 | 5,452 |
| Operating expenses | | | | | 2,571 |
| Impairment expense | | | | | 349 |
| Net profit before tax | | | | | 2,532 |
| Corporate tax expense | | | | | 759 |
| **Cash net profit after tax** | | | | | 1,773 |
| | | | | | - |
| **Statutory net profit after tax** | | | | | 1,773 |

| | As at | | |
|---|---|---|---|
| | 30/06/09 | 30/06/08 | 30/06/07 |
| **Major Balance Sheet Items** | $M | $M | $M |
| Home loans (including securitisation) | **226,457** | 186,942 | 162,751 |
| Consumer finance [1] | **12,064** | 11,428 | 10,810 |
| **Total assets - Retail Banking Services products** | **238,521** | 198,370 | 173,561 |
| **Home loans (net of securitisation)** | **217,855** | 175,266 | 147,118 |
| Transaction deposits | **20,335** | 18,267 | 18,980 |
| Savings deposits | **55,334** | 44,261 | 41,782 |
| Investments and other deposits | **60,817** | 55,388 | 38,779 |
| Deposits not bearing interest | **2,858** | 2,305 | 2,599 |
| **Total liabilities - Retail Banking Services products** | **139,344** | 120,221 | 102,140 |

(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.

### Premium Business Services Restructure

As a result of the Premium Business Services restructure as outlined in "Segment Reporting Changes", Private Client Services was split into Private Bank and Equities & Margin Lending, Agribusiness was renamed Regional and Agribusiness and Eliminations was replaced with Other. Corporate Financial Services and Local Business Banking remained unchanged.

The Premium Business Services restructure has not been restated for the financial year ended 30 June 2007 and, as a result, the discussion of the results of operations for the 2009 financial year as compared to the 2008 financial year is not presented on a comparable basis to the discussion of the results for the 2008 financial year as compared to the 2007 financial year. Further, the audit reports on the Group's historical 2007 and 2008 financial statements report on historical financial statements that have not been re-presented on the same basis that the 2009 financial statements have been prepared. ***Readers are urged to use caution in analysing the segment reporting within the Group's historical 2007 and 2008 financial statements, which are not prepared on a consistent basis with the 2009 financial statements and restated 2008 comparatives. Readers should refer to "Premium Business Services – 2008 Financial Year compared to 2007 financial year" for a discussion of the results of operations for these businesses during those periods.***

## Financial Performance and Business Review

Unless specifically stated the following discussion is on a cash basis.

Business and Private Banking services the unique 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.

Business and Private Banking achieved a statutory net profit after tax of $736 million, 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

Corporate Financial Services income increased 11% on the prior year to $951 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 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

Regional and Agribusiness Banking income has increased by 10% on the prior year to $307 million. This result has been assisted by increased volumes from interest rate hedging and commodity linked products. Regional and Agribusiness has expanded to include some regionally based Local Business Banking and Corporate Financial Services teams. This better aligns all business banking staff under one team in regional areas and provides a greater focus on customer service.

### Local Business Banking

Local Business Banking income increased by 15% on the prior year to $613 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 – over 80% of the branch network is supported by a designated Business Banker.

### Private Bank

Private Bank income increased by 14% on the prior year to $208 million. This result has been 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 year two new offices were opened to service the needs of high net worth customers. The continued focus on customer satisfaction has seen the Private Bank being recognised in the Australian Private Banking Council Awards, winning "Best Private Bank" for high net worth customers with investible assets of between $1m – $10m.

# Business and Private Banking continued

### Equities and Margin Lending

Equities and Margin Lending income decreased by 3% on the prior year to $403 million, impacted by the equity market downturn and a 42% decline in margin lending balances. This has been 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

Operating expenses of $1,272 million 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

Impairment expense increased $142 million on the prior year, 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 has been made for losses arising from margin lending to clients of the Storm Financial financial planning company.

### Corporate Tax Expense

Tax for the year ended 30 June 2009 and 2008 is largely in-line with the corporate tax rate.

# **Business and Private Banking** continued

| | Full Year Ended 30 June 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | 590 | 205 | 389 | 108 | 177 | 56 | 1,525 |
| Other banking income | 361 | 102 | 224 | 100 | 226 | 67 | 1,080 |
| Total banking income | 951 | 307 | 613 | 208 | 403 | 123 | 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 |

| | Full Year Ended 30 June 2008 (as previously reported in Premium Business Services) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Institutional Banking $M | Private Client Services $M | Corporate Financial Services $M | Agri business $M | Local Business Banking $M | Eliminations $M | Total $M |
| Net interest income | 996 | 240 | 516 | 156 | 358 | - | 2,266 |
| Other banking income | 886 | 386 | 416 | 97 | 210 | (30) | 1,965 |
| Total banking income | 1,882 | 626 | 932 | 253 | 568 | (30) | 4,231 |
| Operating expenses | | | | | | | 1,915 |
| Impairment expense | | | | | | | 426 |
| Net profit before tax | | | | | | | 1,890 |
| Corporate tax expense | | | | | | | 410 |
| **Cash net profit after tax** | | | | | | | 1,480 |
| Investment and restructuring | | | | | | | (15) |
| Defined benefit superannuation plan expense | | | | | | | (2) |
| **Statutory net profit after tax** | | | | | | | 1,463 |

# Business and Private Banking continued

| | Full Year Ended 30 June 2007 (as previously reported in Premium Business Services) [1] | | | | | | |
|---|---|---|---|---|---|---|---|
| | Institutional Banking | Private Client Services | Corporate Financial Services | Agri business | Local Business Banking | Eliminations | Total |
| | $M | $M | $M | $M | $M | $M | $M |
| Net interest income | 854 | 189 | 435 | 154 | 260 | - | 1,892 |
| Other banking income | 760 | 321 | 359 | 90 | 178 | (40) | 1,668 |
| Total banking income | 1,614 | 510 | 794 | 244 | 438 | (40) | 3,560 |
| Operating expenses | | | | | | | 1,557 |
| Impairment expense | | | | | | | 75 |
| Net profit before tax | | | | | | | 1,928 |
| Corporate tax expense | | | | | | | 471 |
| **Cash net profit after tax** | | | | | | | 1,457 |
| Defined benefit superannuation plan expense | | | | | | | (3) |
| **Statutory net profit after tax** | | | | | | | 1,454 |

(1) During the 2008 financial year the lines of business have been re-segmented due to refinements in allocation methodology. Prior periods have been restated on a consistent basis.

| | As at | |
|---|---|---|
| | 30/06/09 | 30/06/08 |
| **Major Balance Sheet Items** | $M | $M |
| Interest earning lending assets (excluding margin loans) | **55,042** | 50,115 |
| Bank acceptances of customers | **12,099** | 13,513 |
| Non-lending interest earning assets | **1,311** | 115 |
| Margin loans | **4,569** | 7,815 |
| Other assets [1] | **1,794** | 2,047 |
| **Total assets** | **74,815** | 73,605 |
| Transaction deposits | **39,379** | 39,763 |
| Savings deposits | **4,982** | 3,088 |
| Investment deposits | **30,243** | 26,215 |
| Certificates of deposits and other | **172** | 84 |
| Due to other financial institutions | **2,101** | 935 |
| Other non-interest bearing liabilities [1] | **17,922** | 19,592 |
| **Total liabilities** | **94,799** | 89,677 |

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

### Forward-Looking Statements

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

### Premium Business Services Restructure

As a result of the Premium Business Services restructure as outlined in "Segment Reporting Changes", Institutional Banking was split into Institutional Banking and Markets.

The Premium Business Services restructure has not been restated for the financial year ended 30 June 2007 and, as a result, the discussion of the results of operations for the 2009 financial year as compared to the 2008 financial year is not presented on a comparable basis to the discussion of the results for the 2008 financial year as compared to the 2007 financial year. Further, the audit reports on the Group's historical 2007 and 2008 financial statements report on historical financial statements that have not been re-presented on the same basis that the 2009 financial statements have been prepared. ***Readers are urged to use caution in analysing the segment reporting within the Group's historical 2007 and 2008 financial statements, which are not prepared on a consistent basis with the 2009 financial statements and restated 2008 comparatives. Readers should refer to "Premium Business Services – 2008 Financial Year compared to 2007 financial year" for a discussion of the results of operations for these businesses during those periods.***

## Financial Performance and Business Review

Unless specifically stated the following discussion is on a cash basis.

Institutional Banking and Markets services the Group's major corporate, institutional and government clients, creating customised solutions based on specific needs, industry trends and market conditions. The Total Capital Solutions offering comprises debt and equity capital raising, financial risk management and transactional banking capabilities. Institutional Banking and Markets also has wholesale banking operations in London, Malta, New York, New Zealand, Singapore, Hong Kong and Japan.

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 as a result of a significant increase in impairment expense during the year.

We believe underlying performance remains strong with operating income up 37% 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 continues 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 include 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

Operating income increased 31% on the prior year to $1,536 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

Markets income increased by 50% on the prior year to $866 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

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

Impairment expense increased $1,449 million to $1,708 million in the 2009 financial year. Impairment expense during the year has been 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 has increased in response to a number of downgrades across the portfolio as a result of the deteriorating global economy.

### Corporate Tax Expense

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 2009 | | |
|---|---|---|---|
| | Institutional Banking | Markets | Total |
| | $M | $M | $M |
| Net interest income | 1,020 | 433 | 1,453 |
| Other banking income | 516 | 433 | 949 |
| Total banking income | 1,536 | 866 | 2,402 |
| Operating expenses | | | 679 |
| Impairment expense | | | 1,708 |
| Net profit before tax | | | 15 |
| Corporate tax expense/(benefit) | | | (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 | Markets | Total |
| | $M | $M | $M |
| Net interest income | 846 | 151 | 997 |
| Other banking income | 330 | 425 | 755 |
| Total banking income | 1,176 | 576 | 1,752 |
| Operating expenses | | | 598 |
| Impairment expense | | | 259 |
| Net profit before tax | | | 895 |
| Corporate tax expense | | | 124 |
| **Cash net profit after tax** | | | 771 |
| Investment and restructuring | | | 10 |
| **Statutory net profit after tax** | | | 761 |

| | Full Year Ended 30 June 2008 (as previously reported in Premium Business Services) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Institutional Banking | Private Client Services | Corporate Financial Services | Agri business | Local Business Banking | Eliminations | Total |
| | $M | $M | $M | $M | $M | $M | $M |
| Net interest income | 996 | 240 | 516 | 156 | 358 | - | 2,266 |
| Other banking income | 886 | 386 | 416 | 97 | 210 | (30) | 1,965 |
| Total banking income | 1,882 | 626 | 932 | 253 | 568 | (30) | 4,231 |
| Operating expenses | | | | | | | 1,915 |
| Impairment expense | | | | | | | 426 |
| Net profit before tax | | | | | | | 1,890 |
| Corporate tax expense | | | | | | | 410 |
| **Cash net profit after tax** | | | | | | | 1,480 |
| Investment and restructuring | | | | | | | (15) |
| Defined benefit superannuation plan | | | | | | | (2) |
| **Statutory net profit after tax** | | | | | | | 1,463 |

| | Full Year Ended 30 June 2007 (as previously reported in Premium Business Services) [1] | | | | | | |
|---|---|---|---|---|---|---|---|
| | Institutional Banking $M | Private Client Services $M | Corporate Financial Services $M | Agri business $M | Local Business Banking $M | Eliminations $M | Total $M |
| Net interest income | 854 | 189 | 435 | 154 | 260 | - | 1,892 |
| Other banking income | 760 | 321 | 359 | 90 | 178 | (40) | 1,668 |
| Total banking income | 1,614 | 510 | 794 | 244 | 438 | (40) | 3,560 |
| Operating expenses | | | | | | | 1,557 |
| Impairment expense | | | | | | | 75 |
| Net profit before tax | | | | | | | 1,928 |
| Corporate tax expense | | | | | | | 471 |
| **Cash net profit after tax** | | | | | | | 1,457 |
| Defined benefit superannuation plan | | | | | | | (3) |
| **Statutory net profit after tax** | | | | | | | 1,454 |

(1) During the 2008 financial year the lines of business have been re-segmented due to refinements in allocation methodology. Prior periods have been restated on a consistent basis.

| Major Balance Sheet Items | As at 30/06/09 $M | 30/06/08 $M |
|---|---|---|
| Interest earning lending assets | **67,213** | 63,612 |
| Bank acceptances of customers | **2,629** | 4,765 |
| Non-lending interest earning assets | **30,858** | 18,695 |
| Other assets [1] | **12,500** | 10,582 |
| **Total assets** | **113,200** | 97,654 |
| Certificate and other deposits | **12,725** | 6,567 |
| Investment deposits | **9,008** | 3,513 |
| Due to other financial institutions | **11,627** | 15,724 |
| Liabilities at fair value through the Income Statement | **2,598** | 1,914 |
| Debt issues | **11,376** | 25,438 |
| Loan Capital | **644** | 581 |
| Other non-interest bearing liabilities [1] | **33,863** | 22,824 |
| **Total liabilities** | **81,841** | 76,561 |

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

### Forward-Looking Statements

This Premium Business Services analysis contains certain forward-looking statements. See "Special Note Regarding Forward-Looking Statements" on page 3.

### Premium Business Services Restructure

As a result of the Premium Business Services restructure as outlined in "Segment Reporting Changes", Private Client Services was split into Private Bank and Equities & Margin Lending, Agribusiness was renamed Regional and Agribusiness, Eliminations was renamed Other and Institutional Banking was split into Institutional Banking and Markets. Corporate Financial Services and Local Business Banking remained unchanged.

The Premium Business Services restructure has not been restated for the financial year ended 30 June 2007 and, as a result, the discussion of the results of operations for the 2009 financial year as compared to the 2008 financial year is not presented on a comparable basis to the discussion of the results for the 2008 financial year as compared to the 2007 financial year. Further, the audit reports on the Group's historical 2007 and 2008 financial statements report on historical financial statements that have not been re-presented on the same basis that the 2009 financial statements have been prepared. ***Readers are urged to use caution in analysing the segment reporting within the Group's historical 2007 and 2008 financial statements, which are not prepared on a consistent basis with the 2009 financial statements and restated 2008 comparatives.***

The following analysis is of 2008 financial year performance of the former Premium Business Services compared to 2007 financial year financial performance.

## Financial Performance and Business Review

Unless specifically stated the following discussion is on a cash basis.

Premium Business Services total banking income grew 19% on the prior year. This result was underpinned by an improvement in customer service scores and gains in deposit market share.

The strong performance was impacted by higher funding costs, increased investment spend (including the cost of integrating the IWL business), a tax refund on the satisfactory resolution of an outstanding issue and additional loan impairment provisioning, resulting in statutory net profit after tax growth of 1% on the prior year.

### Institutional Banking

Institutional Banking income for the 2008 financial year increased by 14% (19% excluding the prior year sale of Loy Yang) on the 2007 financial year to $1,882 million primarily driven by a significant increase in Financial Markets income, balance growth and stable margins. The syndication business recorded growth and was joint lead arranger of a $3.4 billion syndication deal for Singapore Power.

### Private Client Services

Despite weaker financial markets during the 2008 financial year, Private Client Services income increased by 25% on the prior year to $626 million. This growth was the result of income growth as well as the impact of the IWL acquisition in November 2007.

The integration of IWL tracked well against the planned integration schedule with all retail clients transitioned onto the CommSec platform.

In June 2008, CommSec successfully launched an integrated cash management solution as part of its trading platform under the theme 'Better Together'.

### Corporate Financial Services

Corporate Financial Services income increased by 14% on the prior year to $932 million. Corporate Financial Services continued to invest in additional front line staff, adding 90 full-time equivalents during the 2008 financial year, as well as opening eight new Business Banking Centres across New South Wales, South Australia and Victoria adding to the eight Centres opened during the prior year. In addition, new specialist teams have been created to service the Healthcare and Financial Planning client segments which, together with the strong focus on client cross-sell activity, has driven balance growth.

### Agribusiness

Agribusiness income for the 2008 financial year grew 4% on the prior year to $253 million. This was underpinned by significant balance growth resulting from a continued focus on corporate agriculture and large scale family farming enterprises. Market share gains were achieved during the 2008 financial year by providing customers with tailored commodity and interest rate risk management solutions. 'AgriLine', the purpose built service centre based in Wagga Wagga, has continued to exceed expectations with over 30,000 client calls having been recorded since April 2007.

### Local Business Banking

Investment in Local Business Banking, as part of the Group's strategic priority in Business Banking, has resulted in a turnaround in performance since the prior year. The progressive roll out of Business Bankers across more than 700 branches, the implementation of the new 24 hour, 7 day customer service centre and the implementation of a new business model have contributed to a 65% uplift in lending activity and 30% growth in income to $568 million over the prior year.

### Operating Expenses

Operating expenses of $1,915 million represent an increase of 23% for the year ended 30 June 2008. This 2008 financial year result reflects: the expansion of the front line sales force, the opening of eight new Business Banking Centres, additional Business Bankers in Branches, as well as costs associated with the IWL acquisition. In addition, client demand for operating leases through the Structured Asset Finance business has resulted in increased depreciation costs for the Group.

### Loan Impairment Expense

Loan impairment expense increased significantly to $426 million. This 2008 financial year result was the combined result of additional collective provisioning related to the current global economic conditions, increases in individually assessed provisions and balance growth across the portfolio.

### 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

Unless specifically stated the following discussion is on a cash basis.

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.

2008 statutory net profit after tax increased by 45% to $797 million from $549 million in the 2007 financial year reflecting revenue growth across the business and gains on the sale of assets.

The Insurance business achieved strong volume growth over the year with total inforce premiums up 25% to $1.6 billion at 30 June 2009 following an increase of 22% in 2008.

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. Funds Under Administration (“FUA”) as at 30 June 2009 decreased 9% on the prior year to $169 billion. FUA increased 10% in 2008.

### CFS Global Asset Management (CFS GAM)

CFS Global Asset Management provides asset management services to wholesale and institutional investors. 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. 2008 statutory net profit after tax of $413 million was up 58% on the 2007 financial year reflecting revenue growth from global expansion and diversification of the business.

Funds Under Management (“FUM”) 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. 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.

2008 FUM was up 9% to $153 billion from $140 billion at 30 June 2007 driven by strong net flows.

Investment performance improved in 2009 relative to the market with 76% of funds outperforming 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.

- First State Investments has consistently ranked in the top 10 for net flows in the UK reflecting the profile and performance of its suite of specialist funds; and
- 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

Colonial First State provides product packaging, administration, distribution and advice to retail customers. 2009 statutory net profit after tax was down 54% on the prior year to $94 million. 2008 statutory net profit after tax was up 45% to $206 million over 2007 statutory net profit of $142 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 following an increase of 5% in 2008 to $692 million.

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

CommInsure is a provider of life and general insurance. Total inforce premiums (excluding St Andrew’s) were up 19% in 2009 and 22% in 2008 driven by strong new business sales.

2009 statutory net profit after tax of $177 million was down 16% on the prior year while 2008 statutory net profit after tax was down 29%. 2009 was adversely impacted by unrealised mark to market losses of $117 million after tax on the Guaranteed Annuities portfolio. Actual losses are expected to be lower as the underlying assets in the portfolio mature and tentative signs of recovery are emerging with some 2009 first half losses starting to unwind.

### St Andrew’s Australia Pty Ltd

St Andrew’s Australia Pty Ltd, acquired by the Group on 19 December 2008, is a domestic provider of life and general insurance and wealth management products. Statutory net profit after tax of $3 million has been included in the “Other” segment and relates to the six months to 30 June 2009.

As at 30 June 2009, St Andrew’s FUA of $823 million has been included in the categories of Legacy products ($164 million) and Cash Management ($659 million). Inforce Premiums of $68 million, which are classified as life insurance products, have been included as a separate category.

### Operating Expenses

2009 total operating expenses (excluding St Andrew’s) of $1,156 million decreased 4% on the prior year. Expenses have been 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.

2008 total operating expenses of $1,203 million increased 8% over 2007 mainly driven by:

- Investment in the expansion of the Global Asset Management businesses;
- Growth in employee profit share allocations, commensurate with profit growth and investment performance; and
- Establishment of motor underwriting.

### Corporate Tax Expense

Total tax expense decreased 29% to $205 million in the 2009 financial year from $290 million. The main driver of this reduction was the decrease in profit before tax.

Total tax expense increased 13% to $290 million in the 2008 financial year from $256 million in the previous year.

# **Wealth Management** continued

| | Full Year Ended 30 June 2009 | | | | |
|---|---|---|---|---|---|
| | | Colonial | | | |
| | CFS GAM | First State | CommInsure | Other | 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 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 | | | | |
|---|---|---|---|---|---|
| | | Colonial | | | |
| | CFS GAM | 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 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 |

| | Full Year Ended 30 June 2007 | | | | |
|---|---|---|---|---|---|
| | | Colonial | | | |
| | CFS GAM | First State | CommInsure | Other | Total |
| | $M | $M | $M | $M | $M |
| Funds management income | 759 | 819 | 228 | (4) | 1,802 |
| Insurance income | - | - | 550 | - | 550 |
| Total operating income | 759 | 819 | 778 | (4) | 2,352 |
| Volume expenses | 98 | 161 | 141 | - | 400 |
| Net operating income | 661 | 658 | 637 | (4) | 1,952 |
| Operating expenses | 310 | 407 | 306 | 92 | 1,115 |
| Net profit before tax | 351 | 251 | 331 | (96) | 837 |
| Corporate tax expense | 108 | 77 | 96 | (25) | 256 |
| Underlying profit after tax | 243 | 174 | 235 | (71) | 581 |
| Investment experience after tax | 19 | (32) | 61 | (5) | 43 |
| **Cash net profit after tax** | 262 | 142 | 296 | (76) | 624 |
| Treasury shares valuation adjustment | - | - | - | (75) | (75) |
| **Statutory net profit after tax** | 262 | 142 | 296 | (151) | 549 |

| Summary | Full Year Ended 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| Funds under administration - average | **167,677** | 186,696 | 157,338 |
| Funds under administration - spot | **169,210** | 184,970 | 168,810 |
| Funds under management - average | **136,604** | 152,328 | 128,893 |
| Funds under management - spot | **138,204** | 152,940 | 139,685 |
| Retail Net funds flows (Australian Retail) | **(1,364)** | 1,888 | (1,366) |

| Funds Under Management (FUM) (1) | Full Year Ended 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| Australian equities | **17,741** | 23,502 | 31,199 |
| Global equities | **35,705** | 35,589 | 33,709 |
| Cash and fixed interest | **61,395** | 66,729 | 48,927 |
| Property and Infrastructure (2) | **23,363** | 27,120 | 25,850 |
| **Total** | **138,204** | 152,940 | 139,685 |

| Sources of Profit from CommInsure | Full Year Ended 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| Life insurance operating margins | | | |
| Planned profit margins | **149** | 145 | 130 |
| Experience variations | **14** | 12 | 39 |
| Funds management operating margins | **156** | 117 | 55 |
| General insurance operating margins | **(10)** | (25) | 11 |
| Operating margins | **309** | 249 | 235 |
| Investment experience after tax | **(132)** | (38) | 103 |
| **Cash net profit after tax** | **177** | 211 | 338 |

Full Year Ended 30 June 2009

| Annual Inforce Premiums (3) | Opening Balance 30/06/08 $M | Sales/New Business $M | Lapses $M | Other (4) Movements $M | Closing Balance 30/06/09 $M |
|---|---|---|---|---|---|
| Retail life | 605 | 205 | (113) | - | 697 |
| Wholesale life | 366 | 103 | (34) | - | 435 |
| General insurance | 279 | 136 | (55) | - | 360 |
| St Andrew's | - | 7 | (7) | 68 | 68 |
| **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 (4) 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 |
| St Andrew's | - | - | - | - | - |
| **Total** | 1,022 | 360 | (153) | 21 | 1,250 |

Full Year Ended 30 June 2007

| Annual Inforce Premiums (3) | Opening Balance 30/06/06 $M | Sales/New Business $M | Lapses $M | Other (4) Movements $M | Closing Balance 30/06/07 $M |
|---|---|---|---|---|---|
| Retail life | 486 | 128 | (84) | - | 530 |
| Wholesale life | 199 | 176 | (64) | (3) | 308 |
| General insurance | 169 | 56 | (41) | - | 184 |
| St Andrew's | - | - | - | - | - |
| **Total** | 854 | 360 | (189) | (3) | 1,022 |

(1) FUM does not include the Group's interests in the China Joint Venture, AWG plc or ENW Limited.

(2) This asset class includes direct 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. Savings products are disclosed within Funds Management.

(4) Other movements for the current year represent balances from the acquisition of St Andrew's. Prior year represent renewals not previously included in comparatives.

# **Wealth Management** continued

| Funds Under Adminstration | Full Year Ended 30 June 2009<br>Opening Balance 30/06/08 $M | Inflows $M | Outflows $M | Net Flows $M | Investment Income & Other (7) $M | Closing Balance 30/06/09 $M |
|---|---|---|---|---|---|---|
| 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) (3) | 27,500 | 1,666 | (4,708) | (3,042) | (2,367) | 22,091 |
| **Retail products (4)** | 75,040 | 16,825 | (18,035) | (1,210) | (7,584) | 66,246 |
| Other retail (5) | 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 (6) | 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 | Full Year Ended 30 June 2008<br>Opening Balance 30/06/07 $M | Inflows $M | Outflows $M | Net Flows $M | Investment Income & Other (7) $M | Closing Balance 30/06/08 $M |
|---|---|---|---|---|---|---|
| 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 | 3,130 | 1,767 | (2,411) | (644) | 90 | 2,576 |
| Legacy products (3) | 34,061 | 2,477 | (6,110) | (3,633) | (2,928) | 27,500 |
| **Retail products (4)** | 82,611 | 24,146 | (22,210) | 1,936 | (9,507) | 75,040 |
| Other retail (5) | 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 (6) | 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 |

| Funds Under Adminstration | Full Year Ended 30 June 2007<br>Opening Balance 31/12/08 $M | Inflows $M | Outflows $M | Net Flows $M | Investment Income & Other (7) $M | Closing Balance 30/06/09 $M |
|---|---|---|---|---|---|---|
| FirstChoice | 26,177 | 17,191 | (7,995) | 9,196 | 4,172 | 39,545 |
| Custom Solutions (1) | 9,198 | 2,603 | (7,966) | (5,363) | 2,040 | 5,875 |
| Cash management (2) | 3,690 | 2,066 | (2,751) | (685) | 125 | 3,130 |
| Legacy products (2) (3) | 34,669 | 2,757 | (7,426) | (4,669) | 4,061 | 34,061 |
| **Retail products (4)** | 73,734 | 24,617 | (26,138) | (1,521) | 10,398 | 82,611 |
| Other retail (5) | 886 | 412 | (257) | 155 | 536 | 1,577 |
| **Australian retail** | 74,620 | 25,029 | (26,395) | (1,366) | 10,934 | 84,188 |
| Wholesale | 29,815 | 12,902 | (10,037) | 2,865 | 1,789 | 34,469 |
| Property | 13,909 | 1,014 | (2,411) | (1,397) | 2,331 | 14,843 |
| Other (6) | 3,708 | 136 | (608) | (472) | 399 | 3,635 |
| **Domestically sourced** | 122,052 | 39,081 | (39,451) | (370) | 15,453 | 137,135 |
| Internationally sourced | 23,596 | 12,704 | (11,874) | 830 | 7,249 | 31,675 |
| **Total Wealth Management** | 145,648 | 51,785 | (51,325) | 460 | 22,702 | 168,810 |

(1) Avanteos has been rebranded Custom Solutions, which includes the FirstWrap product.

(2) St Andrew's FUA balances have been included as at 30 June 2009. This includes $164 million in legacy products and $659 million in cash management.

(3) Includes stand alone retail and legacy retail products.

(4) Retail products align to Plan for Life market release.

(5) Includes listed equity trusts and regular premium plans. These retail products are not reported in market share data.

(6) Includes life company assets sourced from retail investors but not attributable to a Funds Management product.

(7) Includes foreign exchange gains and losses from translation of internationally sourced business.

### 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

Unless specifically stated the following discussion is on a cash basis.

International Financial Services incorporates the Group's banking operations in New Zealand, Indonesia, China, Fiji, Japan, India and Vietnam. It also includes life insurance and funds distribution activities in several of these countries.

Statutory net profit after tax for the year was $436 million, a decrease of 26% on the 2008 financial year. The lower result was due predominantly to increased impairment expense in ASB Bank which increased by $159 million to $193 million for the year.

Statutory net profit after tax for the 2008 financial year was $588 million, an increase of 14% on the 2007 financial year which was attributable to growth in the Group's New Zealand businesses, complimented by the growing contribution from Asian businesses.

### ASB Bank

ASB Bank statutory net profit after tax for the 2009 financial year was $332 million, a decrease of 18% 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 reduced from $542 million to $520 million as cost saving initiatives were implemented to offset the slowing revenue. Key drivers of the result were:

- Home loan balances increased by 4% to NZD38 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 NZD7 billion over the prior year. Retail deposits grew by 8% to NZD30 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 "Liquidity and Capital Resources" on page 61;
- Lower operating expenses which reduced from $542 million to $520 million as a result of cost saving initiatives; and
- Higher impairment expense of $193 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.

During the 2008 financial year statutory net profit after tax increased by 21% on the prior year to $406 million. The result was achieved in a challenging market with aggressive competition continuing to place downward pressure on margins and general slowing in economic activity. The major drivers of growth during the 2008 financial year were:

- Home loan balances increased by 19% with market share increasing to 23.3%. Business banking market share increased to 8.8% at 30 June 208 following a 17% growth in balances;
- Net interest margin declined by six basis points with the impact of competition and increased costs of wholesale funding, partially offset by higher mix of retail deposits; and
- Impairment expenses increased to $34 million.

### Sovereign Insurance

The life insurance operations in New Zealand operate predominantly under the Sovereign brand.

Sovereign's statutory net profit after tax for the year was $97 million, a slight increase on the prior year. The NZD result increased by 11% 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.

During 2008, statutory net profit after tax increased by 3% on the 2007 financial year. The 2008 result included the impact of a deterioration in the New Zealand exchange rate.

### Other Asia Pacific Business

Focus on the Asia Pacific region has continued during the year. Significant developments in the 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.

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

# International Financial Services continued

In the 2008 financial year, the highlights in the Asia Pacific region were:

- Acquisition of an additional 30% interest held by the Group's joint venture partner in PT Astra Life Insurance, bringing the Group's shareholding to 80%;
- Granting of a licence to operate a branch in Ho Chi Minh City in January 2008;
- Continued growth in profits of the Jinan City Commercial Bank and Bank of Hangzhou; and
- The Fiji business performed well in 2008 following disruptions which arose during the political crisis in 2007.

### Operating Expenses

Operating expenses increased by 2% over the prior year to $843 million. The main drivers of the expense increase were:

- Expanding the Group's presence in Asia, including branch openings in PT Bank Commonwealth in Indonesia, the branch opening in Vietnam and preparations for new branches in Shanghai and Mumbai;
- Depreciation of the Australian dollar against Asian currencies, offset by an appreciation against the NZD, partly offset by;
- Cost saving initiatives in ASB Bank.

During 2008 operating expenses increased 12% over the prior year to $824 million. The increase was primarily due to:

- Wage inflation averaging 6% in New Zealand and in excess of 10% in China and Indonesia; partly offset by
- Impact of the weaker New Zealand Dollar and Indonesian Rupiah against the Australian Dollar.

### Corporate Tax Expense

Total tax expense decreased 9% to $149 million in the 2009 financial year from $163 million. The main driver of this reduction was the 14% decrease in profit before tax in 2009 from the 2008 financial year.

This was partially offset by non deductible expenditure incurred in the Asia Pacific region during the 2009 financial year.

Total tax expense increased 33% to $163 million in the 2008 financial year from $123 million in the 2007 financial year.

The majority of this increase was due to the 25% increase in profit before tax in 2008 from the 2007 financial year.

| | Full Year Ended 30 June 2009 | | | |
|---|---|---|---|---|
| | ASB | Sovereign | Other | Total |
| | $M | $M | $M | $M |
| Net interest income | 737 | - | 111 | 848 |
| Other banking income | 418 | - | 88 | 506 |
| Total banking income | 1,155 | - | 199 | 1,354 |
| Funds management income | 53 | - | (4) | 49 |
| Insurance income | - | 219 | 42 | 261 |
| Total operating income | 1,208 | 219 | 237 | 1,664 |
| Operating expenses | 520 | 164 | 159 | 843 |
| Impairment expense | 193 | - | 9 | 202 |
| Net profit before tax | 495 | 55 | 69 | 619 |
| Corporate tax expense | 163 | (24) | 10 | 149 |
| Minority interests | - | - | 3 | 3 |
| Investment experience after tax | - | 18 | (15) | 3 |
| **Cash net profit after tax** | 332 | 97 | 41 | 470 |
| Hedging and AIFRS volatility | - | - | (34) | (34) |
| **Statutory net profit after tax** | 332 | 97 | 7 | 436 |

| | Full Year Ended 30 June 2008 | | | |
|---|---|---|---|---|
| | ASB | Sovereign | Other | Total |
| | $M | $M | $M | $M |
| Net interest income | 784 | - | 120 | 904 |
| Other banking income | 317 | - | 66 | 383 |
| Total banking income | 1,101 | - | 186 | 1,287 |
| Funds management income | 57 | - | (9) | 48 |
| Insurance income | - | 215 | 37 | 252 |
| Total operating income | 1,158 | 215 | 214 | 1,587 |
| Operating expenses | 542 | 150 | 132 | 824 |
| Impairment expense | 34 | - | 9 | 43 |
| Net profit before tax | 582 | 65 | 73 | 720 |
| Corporate tax expense | 176 | (6) | (7) | 163 |
| Minority interests | - | - | 2 | 2 |
| Investment experience after tax | - | 25 | 1 | 26 |
| **Cash net profit after tax** | 406 | 96 | 79 | 581 |
| Hedging and AIFRS volatility | - | - | (8) | (8) |
| Gain Visa Initial Public Offering | - | - | 25 | 25 |
| Investment and restructuring | - | - | (10) | (10) |
| **Statutory net profit after tax** | 406 | 96 | 86 | 588 |

| | Full Year Ended 30 June 2007 | | | |
|---|---|---|---|---|
| | ASB | Sovereign | Other | Total |
| | $M | $M | $M | $M |
| Net interest income | 678 | - | 60 | 738 |
| Other banking income | 267 | - | 40 | 307 |
| Total banking income | 945 | - | 100 | 1,045 |
| Funds management income | 57 | (2) | (9) | 46 |
| Insurance income | - | 225 | 19 | 244 |
| Total operating income | 1,002 | 223 | 110 | 1,335 |
| Operating expenses | 514 | 136 | 89 | 739 |
| Impairment expense | 16 | - | 4 | 20 |
| Net profit before tax | 472 | 87 | 17 | 576 |
| Corporate tax expense | 137 | 11 | (25) | 123 |
| Minority interests | - | - | - | - |
| Investment experience after tax | - | 17 | - | 17 |
| **Cash net profit after tax** | 335 | 93 | 42 | 470 |
| Hedging and AIFRS volatility | - | - | 47 | 47 |
| **Statutory net profit after tax** | 335 | 93 | 89 | 517 |

# International Financial Services continued

| Major Balance Sheet Items | As at 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| Home lending (including securitisation) | **30,082** | 28,347 | 28,581 |
| Assets at fair value through Income Statement | **5,977** | 5,186 | 4,921 |
| Other lending assets | **13,921** | 12,328 | 11,333 |
| Non-lending interest earning assets | **2,142** | 1,654 | 3,102 |
| Other assets | **5,119** | 4,119 | 4,654 |
| **Total assets** | **57,241** | 51,634 | 52,591 |
| Deposits [1] | **26,167** | 22,810 | 23,094 |
| Liabilities at fair value through Income Statement | **13,303** | 12,592 | 12,168 |
| Debt issues | **3,015** | 3,556 | 3,970 |
| Other liabilities | **6,374** | 3,792 | 4,569 |
| **Total liabilities** | **48,859** | 42,750 | 43,801 |
| **Balance Sheet** | | | |
| **Assets** | | | |
| ASB Bank | **52,429** | 46,958 | 47,688 |
| Other | **4,812** | 4,676 | 4,903 |
| **Total assets** | **57,241** | 51,634 | 52,591 |
| **Liabilities** | | | |
| ASB Bank | **45,284** | 39,231 | 39,112 |
| Other | **3,575** | 3,519 | 4,689 |
| **Total liabilities** | **48,859** | 42,750 | 43,801 |

(1) Excludes deposits held in other overseas countries (30 June 2009: $18 billion; 30 June 2008: $7 billion and 2007: $5 billion).

| Sources of Profit from Insurance Activities | Full Year Ended 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| The Margin on Services profit from ordinary activities after income tax is represented by: | | | |
| Planned profit margins | **72** | 76 | 75 |
| Experience variations | **19** | 11 | 18 |
| Operating margins | **91** | 87 | 93 |
| Investment experience after tax | **19** | 41 | 24 |
| **Cash net profit after tax** | **110** | 128 | 117 |

| New Zealand - Funds Under Administration | Full Year Ended 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| Opening balance | **6,335** | 8,261 | 5,865 |
| Inflows | **1,734** | 2,382 | 2,921 |
| Outflows | **(1,536)** | (2,905) | (1,618) |
| Net Flows | **198** | (523) | 1,303 |
| Investment income & other | **(409)** | (1,403) | 1,093 |
| **Closing balance** | **6,124** | 6,335 | 8,261 |

| New Zealand - Annual Inforce Premiums | Full Year Ended 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| Opening balance | **371** | 379 | 302 |
| Sales/New business | **57** | 54 | 55 |
| Lapses | **(19)** | (14) | (14) |
| Other movements | **6** | (48) | 36 |
| **Closing balance** | **415** | 371 | 379 |

### 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

Unless specifically stated the following discussion is on a cash basis.

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.

Since acquisition, Bankwest has continued to expand its customer base and as at 30 June 2009 provided services to more than 960,000 retail customers and 26,000 business clients through its extensive network of 135 retail branches, 78 Business Banking Centres, direct and third party distribution channels, agencies and electronic, telephone and internet banking facilities.

Bankwest has significant market share in Western Australia. Outside Western Australia, Bankwest has established itself on the East Coast as a challenger brand in Australia.

### Retail

Retail operating income during the half year ended 30 June 2009 benefited from solid home loan volume growth. Home lending balances of $35 billion have increased by 4% over the half 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 half year ended 30 June 2009 following repricing initiatives implemented to partly offset increased funding costs and credit risk as arrears deteriorate.

Deposit margins have improved over the half 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

Business operating income during the half 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 half year ended 30 June 2009.

### Operating Expenses

Operating expenses for the half 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

Impairment expense for the half 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

| | Half Year Ended 30/06/09 $M |
|---|---|
| Net interest income | **591** |
| Other banking income | **168** |
| Total banking income | **759** |
| Operating expenses | **483** |
| Impairment expense | **113** |
| Net profit before tax | **163** |
| Corporate tax expense | **50** |
| **Cash net profit after tax** | **113** |
| Hedging and AIFRS volatility | **(18)** |
| Bankwest integration expenses | **27** |
| **Statutory net profit after tax** | **122** |

| | As at | |
|---|---|---|
| | 30/06/09 | 31/12/08 |
| **Major Balance Sheet Items** | $M | $M |
| Home lending (including securitisation) | **35,048** | 33,685 |
| Other lending assets | **26,366** | 25,009 |
| Assets at fair value through income statement (1) | **48** | 5,776 |
| Other assets (1) | **6,865** | 1,726 |
| **Total assets** | **68,327** | 66,196 |
| Transaction deposits | **4,321** | 4,136 |
| Savings deposits | **10,948** | 9,649 |
| Investment deposits | **20,558** | 20,256 |
| Certificates of deposits and other (2) | **21,572** | 16,342 |
| Debt issues | **4,903** | 5,221 |
| Due to other financial institutions (3) | **27** | 4,587 |
| Other liabilities | **2,059** | 2,324 |
| **Total liabilities** | **64,388** | 62,515 |

(1) Assets at fair value through income statement previously held to meet liquid asset ratio requirements have been sold during the half and placed on deposit with Group Treasury. The deposit is included in other assets.

(2) Includes amounts due to group companies of $19.1 billion at June 2009 ($13.6 billion at December 2008).

(3) Deposits held with RBA in relation to Series 2008 securitisation funding repaid in January 2009.

| | Full Year Ended 30 June 2009 | | |
|---|---|---|---|
| | Corporate Centre | Eliminations/ Unallocated | Total |
| | $M | $M | $M |
| Net interest income (1) | 710 | (141) | 569 |
| Other banking income (1) | 230 | (33) | 197 |
| Total banking income | 940 | (174) | 766 |
| Funds management income | - | 29 | 29 |
| Insurance income | - | 13 | 13 |
| Total operating income | 940 | (132) | 808 |
| Operating expenses | 55 | - | 55 |
| Impairment expense | - | 17 | 17 |
| Net profit before tax | 885 | (149) | 736 |
| Corporate tax expense | 237 | (36) | 201 |
| Minority interests | - | 27 | 27 |
| Underlying profit after tax | 648 | (140) | 508 |
| Investment experience after tax | - | 29 | 29 |
| **Cash net profit after tax** | 648 | (111) | 537 |
| Defined benefit superannuation expense | | | (10) |
| Hedging and AIFRS volatility | | | (193) |
| Gain on acquisition of controlled entities net of integration costs | | | 587 |
| **Statutory net profit after tax** | | | 921 |

| | Full Year Ended 30 June 2008 | | |
|---|---|---|---|
| | Corporate Centre | Eliminations/ Unallocated | Total |
| | $M | $M | $M |
| Net interest income (1) | 288 | (136) | 152 |
| Other banking income (1) | (12) | (22) | (34) |
| Total banking income | 276 | (158) | 118 |
| Funds management income | - | 26 | 26 |
| Insurance income | - | 23 | 23 |
| Total operating income | 276 | (109) | 167 |
| Operating expenses | 64 | - | 64 |
| Impairment expense | - | 130 | 130 |
| Net profit before tax | 212 | (239) | (27) |
| Corporate tax expense | 74 | (129) | (55) |
| Minority interests | - | 29 | 29 |
| Underlying profit after tax | 138 | (139) | (1) |
| Investment experience after tax | - | 13 | 13 |
| **Cash net profit after tax** | 138 | (126) | 12 |
| Defined benefit superannuation expense | | | 9 |
| Hedging and AIFRS volatility | | | (34) |
| Gain on Visa Initial Public Offering | | | 271 |
| Investment and restructuring | | | (209) |
| **Statutory net profit after tax** | | | 49 |

(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 2009: $275 million; June 2008: $265 million; 30 June 2007: $107 million).

# **Other** continued

| | Full Year Ended 30 June 2007 | | |
|---|---|---|---|
| | Corporate Centre | Eliminations/ Unallocated | Total |
| | $M | $M | $M |
| Net interest income (1) | 263 | (43) | 220 |
| Other banking income (1) | 99 | (19) | 80 |
| Total banking income | 362 | (62) | 300 |
| Funds management income | - | 26 | 26 |
| Insurance income | - | 23 | 23 |
| Total operating income | 362 | (13) | 349 |
| Operating expenses | 45 | - | 45 |
| Impairment expense | - | (10) | (10) |
| Net profit before tax | 317 | (3) | 314 |
| Corporate tax expense | 132 | (12) | 120 |
| Minority interests | - | 27 | 27 |
| Underlying profit after tax | 185 | (18) | 167 |
| Investment experience after tax | - | 36 | 36 |
| **Cash net profit after tax** | 185 | 18 | 203 |
| Defined benefit superannuation expense | | | 8 |
| Hedging and AIFRS volatility | | | (34) |
| **Statutory net profit after tax** | | | 177 |

(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 2009: $275 million; June 2008: $265 million; 30 June 2007: $107 million).

### Financial Performance

Unless specifically stated the following discussion is on a cash basis.

Corporate Centre includes the results of unallocated Group support functions such as Investor Relations, Group Strategy, Secretariat and Treasury. Statutory net profit after tax increased by $872 million on the prior year, due to 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 includes intra-group elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.

Statutory net profit after tax for the 2008 financial year decreased $128 million on the prior year to $49 million due largely to the impact of $100 million of additional funding costs which were absorbed within Treasury income during the 2008 financial year.

Eliminations/Unallocated statutory net profit after tax for the 2008 financial year decreased on the prior year due to a reduction in the interest accrued on intra-group lending balances, a change in the methodology relating to the apportionment of deferred tax assets across the Group, a significant strengthening of the centralised portion of the collective loan impairment provision, the reversal of a prior period tax provision and other unallocated intra-group expenses.

| Investment Experience | Full Year Ended 30/06/09 $M | 30/06/08 $M | 30/06/07 $M |
|---|---|---|---|
| Wealth Management | **(317)** | (74) | 129 |
| International Financial Services | **8** | 25 | 20 |
| Eliminations | **42** | 32 | - |
| Investment experience before tax [1] | **(267)** | (17) | 149 |
| Corporate tax expense | **(71)** | (4) | 53 |
| **Investment experience after tax** | **(196)** | (13) | 96 |

(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.

| Shareholder Investment Asset Mix (%) | As at 30 June 2009 Australia [1] % | New Zealand % | Asia % | Total % |
|---|---|---|---|---|
| Local equities | 1 | - | - | - |
| International equities | - | 1 | 10 | - |
| Property | 14 | - | 30 | 12 |
| **Sub-total** | 15 | 1 | 40 | 12 |
| Fixed interest | 31 | 55 | 58 | 38 |
| Cash | 54 | 44 | 2 | 50 |
| **Sub-total** | 85 | 99 | 60 | 88 |
| **Total** | 100 | 100 | 100 | 100 |

| Shareholder Investment Asset Mix ($M) | As at 30 June 2009 Australia [1] $M | New Zealand $M | Asia $M | Total $M |
|---|---|---|---|---|
| Local equities | 10 | 1 | - | 11 |
| International equities | - | 1 | 9 | 10 |
| Property | 253 | - | 24 | 277 |
| **Sub-total** | 263 | 2 | 33 | 298 |
| Fixed interest | 573 | 291 | 47 | 911 |
| Cash | 969 | 234 | 1 | 1,204 |
| **Sub-total** | 1,542 | 525 | 48 | 2,115 |
| **Total** | 1,805 | 527 | 81 | 2,413 |

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

# Group Operating Expense

The following table sets out the Group's operating expenses for Financial Years 2009, 2008 and 2007.

| | Group | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | $M | $M | $M |
| **Staff Expenses** | | | |
| Salaries and wages | **3,405** | 3,097 | 2,746 |
| Share-based compensation | **125** | 106 | 89 |
| Superannuation contributions | **44** | 14 | 8 |
| Provisions for employee entitlements | **88** | 90 | 61 |
| Payroll tax | **188** | 162 | 139 |
| Fringe benefits tax | **36** | 32 | 34 |
| Other staff expenses | **94** | 160 | 152 |
| **Total staff expenses** | **3,980** | 3,661 | 3,229 |
| **Occupancy and Equipment Expenses** | | | |
| Operating lease rentals | **488** | 403 | 367 |
| Depreciation: | | | |
| Buildings | **29** | 27 | 22 |
| Leasehold improvements | **85** | 63 | 59 |
| Equipment | **89** | 84 | 73 |
| Operating lease assets | **37** | 20 | 22 |
| Repairs and maintenance | **80** | 81 | 71 |
| Other | **102** | 89 | 74 |
| **Total occupancy and equipment expenses** | **910** | 767 | 688 |
| **Information Technology Services** | | | |
| Application, maintenance and development | **167** | 224 | 304 |
| Data processing | **202** | 195 | 206 |
| Desktop | **141** | 114 | 119 |
| Communications | **179** | 174 | 168 |
| Amortisation of software assets | **122** | 88 | 62 |
| IT equipment depreciation | **62** | 31 | 24 |
| **Total information technology services** | **873** | 826 | 883 |
| **Other Expenses** | | | |
| Postage | **121** | 119 | 109 |
| Stationery | **100** | 98 | 104 |
| Fees and commissions: | | | |
| Fees payable on trust and other fiduciary activities | **453** | 538 | 402 |
| Other | **359** | 280 | 289 |
| Advertising, marketing and loyalty | **475** | 348 | 326 |
| Amortisation of intangible assets (excluding software) | **17** | 15 | 8 |
| Non-lending losses | **86** | 78 | 97 |
| Other | **391** | 291 | 292 |
| **Total other expenses** | **2,002** | 1,767 | 1,627 |
| **Investment and restructuring** | | | |
| Integration expenses (1) | **112** | - | - |
| Merger related amortisation | **37** | - | - |
| One-off expenses | **32** | - | - |
| Investment and restructuring | **-** | 377 | - |
| **Total investment and restructuring** | **181** | 377 | - |
| **Total operating expenses** | **7,946** | 7,398 | 6,427 |
| Defined benefit superannuation plan (expense)/income | **(14)** | 14 | 8 |
| **Profit before income tax** | **6,449** | 6,255 | 6,538 |
| **Net hedging ineffectiveness comprises:** | | | |
| Gain/(Loss) on fair value hedges: | | | |
| Hedging instruments | **543** | 921 | 285 |
| Hedged items | **(569)** | (970) | (271) |
| Cash flow hedge ineffectiveness | **8** | (9) | 16 |
| **Net hedging ineffectiveness** | **(18)** | (58) | 30 |

(1) Includes software impairment, refer to Note 19 of the 2009 Financial Statements.

## Risk Governance

Risk Management governance originates at Board level, and cascades through to the CEO and businesses via Group policies and delegated authorities and regular reviews of outcomes. This ensures Board level oversight and is based on 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 by 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".

The Risk Committee of the Board oversees credit, market (including traded, interest rate risk in the banking book (IRRBB), lease residual values, non-traded equity and structural foreign exchange risks), liquidity and funding, operational, regulatory and compliance and insurance risks assumed by the Group in the course of carrying on its business. Strategic and reputational risks are governed by the full Board with input from the various Board sub-committees. Tax and accounting risks are governed by the Audit Committee.

A primary action of the Risk Committee is to construct the Group's Risk Appetite for consideration by the Board in its role of oversight of the Internal Capital Adequacy Assessment Process, which is updated on at least an annual basis.

The 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.

## Risk Management Organisation

The Group has in place an integrated risk management framework to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis.

Accountability for risk management is structured by a, "Three Layers of Assurance" model as follows:

- Layer 1: Business Managers – owners of the risks within their businesses;
- Layer 2: Risk Management and Compliance – independent review and oversight of risks and their management; and
- Layer 3: Group Audit - review the risk management framework and internal controls.

This framework requires each business to manage the outcome of its risk-taking activities and benefit from the resulting risk adjusted returns. Risk management professionals deployed in each Business Unit measure risks and provide advice on what risks might be taken for better returns. These risk professionals report to the Group Chief Risk Officer, who in turn reports to the CEO and also has direct reporting requirements to the Risk Committee.

The independent risk management function undertaken by the Chief Risk Officer is managed through the Risk Management Business Unit which is comprised of risk management teams embedded in the businesses and at Group level. All employees within these risk management teams report directly through to the Chief Risk Officer.

While the independent risk management function is an important component of the risk management framework, business managers remain the owners of the risks in their business and must adhere to risk policies and procedures.

Governance processes and disciplines around the Risk Appetite Framework help to protect the Group from control and other operational failures, creating transparency over risk management and strategy decisions and, in turn, promote 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.

## Risk Appetite Statement

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 which are aligned to the Board's risk philosophy and sets minimum standards for shareholder value allowing for capital resilience, debt rating, funding, asset/liability management, liquidity, profit volatility and risks to which the Group is intolerant.

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 ensures that the assessment of the adequacy of capital and contingent capital plans into the future are also aligned with the Risk Appetite, resulting in a solid risk culture.

The Group's risk culture is to take risks that are adequately rewarded and that support its aspiration of achieving solid and sustainable growth in shareholder value at a rate equal to or above the best of the major banking groups in Australia.

Supporting this culture, the Group will:

- 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 consideration of risk;
- Understand the risks it takes on, increasing exposure to new strategic initiatives/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 regulatory and compliance breaches or risks associated with its people;

- Maintain a control environment that, within practical constraints, minimises risks; and
- Promote a culture aimed at the achievement of best practice in the recognition, assessment, management and pricing of risk.

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; and
- Quantifying the financial operating limits for major risks, principally credit risk, market risk (both traded and non-traded) and operational risk.

The Group continuously 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. In the past year, management have completed reviews of policies relating to Credit Risk (particularly relating to country, industry and large exposure concentration policies, as well as risk model oversight), Market Risk, Operational Risk and Compliance Risk. Liquidity and Funding Risk policy was also reviewed and the main parameter settings confirmed as being appropriate for current and forecast economic conditions.

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.

Tolerances are designed to be practical, relevant and capable of being aggregated across the Group. Some tolerances are explicitly contained in Risk Policies.

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

### Principal Risk Types

*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 APRA and relevant 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.

Following the acquisition of Bankwest, risk policies and procedures have been aligned where appropriate. In addition, the Group is supporting Bankwest's efforts to achieve accreditation from APRA to use the Advanced Internal Ratings Based approach to determine regulatory capital for credit risk.

Further information on credit risk management and measurement is included in Note 15 to the 2009 Financial Statements.

Principal Risk Type / Governance Framework

| Risk Type | Governing Policies | How Policy Supports Risk Appetite |
|---|---|---|
| Credit Risk including Concentration Risk | Group Credit Policy<br>Country Risk Policy<br>Aggregation Policy<br>Large Credit Exposure Policy<br>Industry Sector Concentration Policy<br>Securitisation Policy | Quantitative limits/tolerances:<br>Control Country Risk through a limits structure that captures cross-border credit risk exposures to other countries or entities based overseas;<br>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 by term to maturity and Credit Risk Rating;<br>Set industry limits for exposures by industry; and<br>Govern all Securitisation activities undertaken by the Bank. |
| Market Risk | Group Market Risk Policy<br>Funds Management and Insurance Market Risk Policy | Quantitative limits/tolerances:<br>Traded Market Risk (Total VaR and Stress Testing limits);<br>Non-Traded Market Risk (Market Value and Interest Rate Gap limits);<br>Seed Trust Market Risk Limits;<br>Residual Value Risk limits; and<br>Investment mandates for insurance Asset and Liability Management risk. |
| Liquidity Risk | Group Liquidity and Funding Policy | Quantitative limits/tolerances:<br>Liquid asset holdings under name crisis scenario; and<br>Wholesale funding limits. |
| Operational and Strategic Business Risk, Reputational Risk | Operational Risk Policy and Framework, including Group Operational and Strategic Business Risk Management Policy | Management via:<br>A suite of risk mitigating policies;<br>Reporting and case management of loss incidents;<br>Comprehensive risk assessment and control assurance processes;<br>Quantitative Risk Assessment Framework and Capital modelling; and<br>Support from skilled risk professionals embedded throughout the Group. |
| Insurance Risk | Risk Management Statement | Management via:<br>Underwriting standards;<br>Retaining the right to amend premiums on risk policies; and<br>Use of re-insurance. |
| Compliance Risk | Compliance Risk Policy Framework document | Management via:<br>Minimum Group standards for compliance;<br>Group Obligations Register and Guidance Notes that detail specific requirements and accountabilities; and<br>Business Unit compliance frameworks. |

*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. Market risk also includes risks associated with funding and liquidity management.

Further information on market risk is included in Note 41 to the 2009 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 also included in Note 41 to the 2009 Financial Statements.

Operational and Strategic Business Risk

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

- Inadequate or failed internal processes and methodologies;
- People;
- Systems and models used in making business decisions; or
- External events.

The Group's operational and strategic business 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;
- Making decisions based upon an informed risk-return analysis and appropriate standards of professional practice; and
- Achieving business growth and enhancing financial performance through efficient and effective operational processes.

Security risk is defined as threats associated with theft and fraud, information and IT security, protective security and crisis management.

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.

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;
- Social trends; or
- Regulatory changes.

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

Each business manager is responsible for the identification and assessment of these risks, and for maintaining appropriate internal controls. Skilled operational risk professionals embedded in the business maintain and improve the Group's operational risk framework and governance structures to support business managers through a suite of risk mitigating policies, the reporting of internal loss incidents and key risk indicators, and qualitative and quantitative assessment of risk exposures. Further governance and control oversight is provided by Group Audit.

The Group's operational risk measurement methodology combines expert assessment of individual risk exposures with internal loss data to calculate operational risk economic capital and determine potential loss.

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.

*Business Continuity*

Business Continuity Management (BCM) involves the development, maintenance and testing of advance action plans to respond to threats that have the potential to impact the Group's operations. BCM ensures that business processes continue with minimal adverse impact on customers, staff, products, services and brands.

BCM constitutes an essential component of the Group's risk management process by providing a controlled response to business disruption events that could have a significant impact on the Group's critical processes and revenue streams. It includes both cost-effective responses to mitigate the impact of risk events or disasters and crisis management plans to respond to crisis events.

*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 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 (floods or bushfires) 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 there is significant potential for negative financial results.

The major methods of mitigating insurance risk are:

- Sound product design and pricing, to ensure that robust procedures are in place to ensure that there are no risks which have not been priced into contracts;
- Regular review of insurance experience, to ensure 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 36 to the 2009 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 Standards 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 informs the Group's view of risk, where consideration is given to potential losses related to the Group's material risk types in a stressed environment and tested against the Group's Risk Appetite Statement.

In addition to more standard risk measures that may be used for limit setting, regular and ad-hoc risk stress testing is also undertaken to identify and assess the risk profile of the Group. Stress testing tolerances used in combination with more traditional risk measurements help the Group understand and manage its risks.

The stress testing framework includes:

- Group-wide stress scenarios embedded in the strategic planning process, which informs and engages the Board in assessing capital adequacy under various adverse operating circumstances. These tests are conducted across risk types 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. This stress testing facilitates a more robust understanding of the Group's risks and facilitates better management policies and predictability of capital requirements.

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 future surprising outcomes.

For further detail on the Group's assessment of capital management, refer to the section on Capital Management and Note 34 to the 2009 Financial Statements.

As mentioned above, the Group regularly carries out stress tests; it does so across its various businesses, as part of:

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

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 risk rated portfolio.

*Market Risk*

Traded market risk stress testing is performed on a daily basis, with results reported to line and senior management. There is a daily process in place to stress test each IRRBB risk type (including repricing, yield curve, optionality and basis risks).

Stress testing is also regularly performed on non-traded equity investments as part of the Market Risk function.

Stress testing in the Wealth Management Business is part of the risk and governance framework of The Colonial Mutual Life Assurance Society Limited (CMLA). Stress testing is undertaken as part of the annual review of the CMLA Capital Management Policy.

*Liquidity and Funding Risk*

Formal liquidity stress testing is incorporated into the Group's Funding and Liquidity Policy approved by the Board Risk Committee. The key tests are undertaken for a "name crisis" and a "market-systemic crisis".

*Operational Risk*

Operational risk stress tests are undertaken periodically; the last was completed in June 2009.

### 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 2009, there were no individual industry categories by country exceeding 1% of the Group's total assets. At 30 June 2008, there were no individual industry categories by country exceeding 1% 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. At 30 June 2008, the United Kingdom with cross border outstandings of $5.7 billion, Germany with $4.3 billion and the United States of America with $3.6 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").

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. A detailed breakdown of the components of capital is detailed on pages 57 to 59.

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 the Asset and Liability Committee of the Group. 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 and 2009 Financial Years were in compliance with both APRA minimum capital adequacy requirements and the Board Approved Target.

The Group's Tier One target range was formally amended by the Board in February 2009, from a range of 6.5% to 7.0%, to above 7.0%.

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. Banks cannot pay dividends from Retained Profits without APRA's prior approval. Under APRA guidelines, the expected dividend must be deducted from Tier One Capital.

### Regulatory Changes

***Basel II***

The Basel Committee on Banking Supervision introduced the new Basel II risk based capital framework in June 2004. The new framework reflects advances in the management of risk since the introduction of the original Basel Accord in 1988.

The aim of Basel II is to improve the stability and soundness of the financial system by more closely linking capital requirements to risks. This is achieved by allowing banks with sophisticated risk management systems and techniques to use internal models to align the assessment of risk with the assessment of regulatory capital required.

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. This is not a requirement under the Basel II Pillar 1 framework. The Group's capital calculation framework includes an appropriate allowance for IRRBB capital in its 2009 financial year regulatory capital calculations.

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.

# Capital Management

### 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 Target level at all times throughout the 2009 Financial Year.

The Tier One Capital and Total Capital ratios as at 30 June 2009 were 8.07% and 10.42% respectively, and include the consolidation of Bankwest and the finalisation of the associated fair value accounting adjustments and purchase price adjustments.

Tier One Capital declined by 68 basis points (bpts) during the half year to 30 June 2009, primarily influenced by the consolidation of Bankwest, growth in Risk Weighted Assets ("RWA") and the impact of foreign exchange and other balance sheet movements. This was partially offset by profit after tax (net of dividends and Dividend Reinvestment Plan) which contributed an additional 29 bpts of Tier One Capital.

The Group's Total Capital ratio remained strong at 10.42% albeit 97 bpts down since 31 December 2008, additionally impacted by foreign exchange movements and the redemption of Lower Tier Two debt together with growth in RWA.

RWA were $289 billion at 30 June 2009, and include $43 billion associated with Bankwest. Excluding the impact of Bankwest, RWA increased $7 billion or 3% since December 2008.

### Capital Initiatives

The following significant initiatives were undertaken during the Financial Year ended 30 June 2009 to actively manage the Group's capital:

### Tier One Capital

- Issue of $694 million ordinary shares in October 2008 to satisfy the Dividend Reinvestment Plan ("DRP") in respect of the final dividend for 2007/08;
- Issue of $2 billion ordinary shares in October 2008, via a share placement, to partially fund the acquisition of Bankwest and St Andrew's (52.6 million shares at $38.00 per share);
- Issue of $2 billion ordinary shares through share placements in December 2008: $357 million at a weighted average price of $28.37 per share and a further $1.65 billion of ordinary shares at $26.00 per share;
- Issue of $405 million ordinary shares in March 2009 to satisfy the DRP in respect of the interim dividend for 2008/09; and
- Issue of $865 million ordinary shares in March 2009 with respect to the Share Purchase Plan (33.3 million shares at $26.00 per share).

On 12 August 2009 the Group announced the issue of a new security Perpetual Exchangeable Resalable Listed Securities (PERLS V). PERLS V will have similar terms to the Group's existing non-innovative Tier 1 securities, PERLS IV. It is anticipated that the Group will raise at least $700 million from the issue and that the offering will strengthen the Group's Tier 1 ratio by at least 24 basis points.

The PERLS II securities ($750 million), which were redeemed in March 2009, were funded from the proceeds of the December 2008 share placement.

**Tier Two Capital**

- Issue of $500 million of subordinated Lower Tier Two debt in September 2008; offset by
- $500 million of subordinated Lower Tier Two debt redeemed in February 2009.

### 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 2009 ASB Bank had a Tier One ratio of 10.18% and a Total Capital ratio of 12.41%, ASB Bank was in compliance with its regulatory capital requirements at all times throughout the 2009 Financial Year.

**Bankwest**

On 19 December 2008, the Group acquired Bank of Western Australia Limited ("Bankwest") and St Andrew's Australia Pty Ltd ("St Andrew's") for $2.2 billion, funded in part through a $2 billion share placement.

At 31 December 2008, APRA allowed the Group to treat Bankwest as a non-consolidated subsidiary. Effective from 1 January 2009, Bankwest has been consolidated for regulatory capital purposes.

Bankwest operates as a separate ADI and is separately regulated by APRA. Bankwest operated under the existing Basel I prudential standards at 31 December 2008 and has adopted the standardised Basel II methodology effective from 1 January 2009. Bankwest is in the process of seeking advanced accreditation from APRA.

Bankwest's capital ratios, as at 30 June 2009, are in excess of both APRA minimum requirements and Board approved targeted levels. The Tier One ratio was 7.32% and Total Capital was 11.19%. Bankwest was in compliance with its regulatory capital requirements at all times during the 2009 financial year.

The St Andrew's operations, which include life insurance, general insurance and Funds Management businesses, are treated as non-consolidated subsidiaries for regulatory reporting purposes. The life and general insurance entities are separately regulated by APRA.

### 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 Insurers", 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 2009. The Group's Australian and New Zealand insurance and Funds Management businesses held $1,036 million of assets in excess of regulatory solvency requirements at 30 June 2009 (2008: $949 million).

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

# Capital Management

## Capital Adequacy

| Risk Weighted Capital Ratios | Basel II 30/06/09 % | Basel II 31/12/08 % | Group Basel II 30/06/08 % |
|---|---|---|---|
| Tier One | **8.07** | 8.75 | 8.17 |
| Tier Two | **2.35** | 2.64 | 3.41 |
| **Capital Base** | **10.42** | 11.39 | 11.58 |

| Regulatory Capital | Basel II 30/06/09 $M | Basel II 31/12/08 $M | Group Basel II 30/06/08 $M |
|---|---|---|---|
| **Tier One Capital** | | | |
| **Ordinary Share Capital** | **21,642** | 20,365 | 15,727 |
| Treasury shares [(1)] | **278** | 287 | 264 |
| Ordinary Share Capital and Treasury Shares | **21,920** | 20,652 | 15,991 |
| **Other Equity Instruments** | **939** | 939 | 939 |
| Trust Preferred Securities 2006 [(2)] | **(939)** | (939) | (939) |
| **Reserves** [(3)] | **516** | 958 | 1,206 |
| Cash flow hedge reserve | **813** | 675 | (341) |
| Employee compensation reserve | **-** | 32 | 39 |
| Asset revaluation reserve | **(173)** | (194) | (195) |
| Available-for-sale investments reserve | **55** | (72) | 41 |
| Foreign currency translation reserve related to non-consolidated subsidiaries | **12** | (32) | 39 |
| Total Reserves | **1,223** | 1,367 | 789 |
| **Retained Earnings and Current Period Profits** | **7,825** | 7,206 | 7,747 |
| Expected dividend [(4)] | **(1,747)** | (1,662) | (2,029) |
| Estimated reinvestment under Dividend Reinvestment Plan [(5)] | **507** | 548 | 609 |
| Gain on acquisition recognised on consolidation of Bankwest [(6)] | **-** | (547) | - |
| Retained earnings AIFRS adjustment for non-consolidated subsidiaries [(7)] | **752** | 752 | 752 |
| Other | **(181)** | (77) | (65) |
| Net Retained Earnings | **7,156** | 6,220 | 7,014 |
| **Minority Interest** [(8)] | **520** | 519 | 518 |
| ASB Perpetual Preference Shares | **(505)** | (505) | (505) |
| Minority interests less ASB Perpetual Preference Shares | **15** | 14 | 13 |
| **Total Fundamental Tier One Capital** | **30,314** | 28,253 | 23,807 |

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

(2) Trust Preferred Securities 2006 issued 15th March 2006 USD 700 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) Based on reinvestment experience related to the Bank's Dividend Reinvestment Plan (DRP) as approved by APRA.

(6) APRA prescribed that the gain on acquisition recognised on the acquisition of Bankwest be excluded from capital whilst Bankwest was treated as a non-consolidated subsidiary at 31 December 2008.

(7) Represents the write back of retained earnings upon adoption of AIFRS within the non-consolidated subsidiaries. This retained earnings write back is incorporated as part of the net equity deduction of non-consolidated subsidiaries.

(8) Minority interest classified as Tier One Innovative Capital under Basel II regulations. Comprised predominately of ASB Perpetual Preference Shares of NZD 550 million issued by New Zealand subsidiary entities. These shares are non-redeemable and carry limited voting rights.

## Capital Adequacy (continued)

| | Group | | |
|---|---|---|---|
| | Basel II 30/06/09 $M | Basel II 31/12/08 $M | Basel II 30/06/08 $M |
| **Residual Tier One Capital** | | | |
| **Innovative Tier One Capital** | | | |
| Non-cumulative preference shares [9] | **2,762** | 3,621 | 3,396 |
| Minority Interests [8] | **505** | 505 | 505 |
| Eligible loan capital | **248** | 291 | 209 |
| **Total Innovative Tier One Capital** | **3,515** | 4,417 | 4,110 |
| **Non-Innovative Residual Tier One Capital [10]** | **1,443** | 1,443 | 1,443 |
| Less: Residual capital in excess of prescribed limits transferred to Upper Tier Two Capital [11] | **-** | (627) | (1,359) |
| **Total Residual Tier One Capital** | **4,958** | 5,233 | 4,194 |
| **Tier One Capital Deductions - 100%** | | | |
| Goodwill [12] | **(8,572)** | (7,915) | (8,010) |
| Capitalised expenses | **(257)** | (137) | (110) |
| Capitalised computer software costs | **(673)** | (571) | (353) |
| Defined benefit superannuation plan surplus [13] | **(347)** | (36) | (1,075) |
| Deferred tax | **(257)** | (157) | (38) |
| | **(10,106)** | (8,816) | (9,586) |
| **Tier One Capital Deductions - 50% [14]** | | | |
| Equity investments in other companies and trusts [15] | **(422)** | (506) | (561) |
| Equity investments in non-consolidated subsidiaries (net of intangibles) [16] | **(529)** | (519) | (376) |
| Investment in Bankwest [17] | **-** | (1,828) | - |
| Expected impairment losses (before tax) in excess of eligible credit provisions (net of deferred tax) [18] | **(654)** | (605) | (587) |
| Other deductions | **(250)** | (264) | (100) |
| | **(1,855)** | (3,722) | (1,624) |
| **Total Tier One Capital Deductions** | **(11,961)** | (12,538) | (11,210) |
| **Total Tier One Capital** | **23,311** | 20,948 | 16,791 |

(8) Minority interest classified as Tier One Innovative Capital under Basel II regulations. Comprised predominately of ASB Perpetual Preference Shares of NZD 550 million issued by New Zealand subsidiary entities. These shares are non-redeemable and carry limited voting rights.

(9) APRA approved Innovative Tier One Capital instruments (PERLS III and Trust Preferred Securities 2003 and 2006). PERLS II were redeemed in March 2009.

(10) Perpetual Exchangeable Resaleable Listed Securities (PERLS IV) of $1,465 million (less costs) issued by the Bank in July 2007 and approved by APRA as Tier One Non-Innovative Capital instruments.

(11) 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. The Group was granted transitional relief to 1 January 2010 with respect to the Innovative Capital limit of 15% of Tier One capital of $765 million. This relief is to be reduced by 20% each quarter, effective from March 2009 onwards.

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

(13) 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.

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

(15) Represents the Group's non-controlling interest in major infrastructure assets and unit trusts.

(16) 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 $1,707 million in Non-Recourse Debt issued by Colonial Finance Limited (December 2008: $1,739 million, June 2008: $1,739 million) and the Colonial Hybrid Issue $700 million (December 2008: $700 million, June 2008: $700 million).

(17) APRA approved for Bankwest to be treated as a non-consolidated subsidiary as at 31 December 2008. As a result the capital invested into Bankwest, represented by ordinary share capital and subordinated Lower Tier Two capital, was deducted from the Group's capital, 50% Tier One and 50% Tier Two. From 1 January 2009 Bankwest has been consolidated from a regulatory capital perspective and the items are eliminated.

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

# Capital Management

## Capital Adequacy (continued)

| Regulatory Capital | Group Basel II 30/06/09 $M | Basel II 31/12/08 $M | Basel II 30/06/08 $M |
|---|---|---|---|
| **Tier Two Capital** | | | |
| **Upper Tier Two Capital** | | | |
| Residual capital in excess of prescribed limits transferred from Tier One Capital [1] | **-** | 627 | 1,359 |
| Prudential general reserve for credit losses (net of tax) [2] | **590** | - | - |
| Asset revaluation reserve [3] | **78** | 87 | 88 |
| Upper Tier Two note and bond issues | **373** | 320 | 196 |
| Other | **56** | 42 | 57 |
| **Total Upper Tier Two Capital** | **1,097** | 1,076 | 1,700 |
| **Lower Tier Two Capital** | | | |
| Lower Tier Two note and bond issues [4] [5] | **7,561** | 8,966 | 6,977 |
| Holding of own Lower Tier Two Capital | **(19)** | (11) | (40) |
| **Total Lower Tier Two Capital** | **7,542** | 8,955 | 6,937 |
| **Tier Two Capital Deductions** | | | |
| 50% Deductions from Tier Two Capital [6] | **(1,855)** | (3,722) | (1,624) |
| **Total Tier Two Capital** | **6,784** | 6,309 | 7,013 |
| **Total Capital** | **30,095** | 27,257 | 23,804 |

(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) Prudential general reserve for credit losses 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.

| Risk Weighted Assets | Group Basel II 30/06/09 $M | Basel II 31/12/08 $M | Basel II 30/06/08 $M |
|---|---|---|---|
| **Credit Risk** | | | |
| **Subject to Advanced IRB approach** | | | |
| Corporate | **90,389** | 93,131 | 81,431 |
| Sovereign | **1,713** | 2,144 | 1,802 |
| Bank | **8,040** | 12,510 | 5,292 |
| Residential mortgage | **54,841** | 45,231 | 39,128 |
| Qualifying revolving retail | **5,698** | 5,562 | 6,070 |
| Other retail | **6,336** | 5,479 | 5,274 |
| Impact of the regulatory scaling factor [1] | **10,021** | 9,843 | 8,340 |
| **Total risk weighted assets subject to Advanced IRB approach** | **177,038** | 173,900 | 147,337 |
| **Specialised lending (SL) exposures subject to slotting criteria** | **22,627** | 26,624 | 21,053 |
| **Subject to Standardised approach** | | | |
| Corporate | **23,018** | 6,491 | 5,347 |
| Sovereign | **282** | 430 | 84 |
| Bank | **170** | 116 | 320 |
| Residential mortgage | **20,576** | 316 | 241 |
| Other retail | **2,398** | - | - |
| Other | **7,517** | 8,763 | 9,229 |
| **Total risk weighted assets subject to standardised approach** | **53,961** | 16,116 | 15,221 |
| Securitisation | **2,724** | 2,890 | 3,536 |
| Equity exposures | **2,103** | 1,701 | 293 |
| **Total risk weighted assets for credit risk exposures** | **258,453** | 221,231 | 187,440 |
| Market risk | **3,450** | 4,138 | 4,501 |
| Interest rate risk in the banking book [2] | **8,944** | - | - |
| Operational risk | **17,989** | 13,920 | 13,560 |
| **Total risk weighted assets** [3] | **288,836** | 239,289 | 205,501 |

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

(2) Risk Weighted Assets for Interest Rate Risk in the Banking Book was not effective until 1 July 2008 and was $ nil as at 31 December 2008.

(3) 30 June 2009 Risk Weighted Assets (RWA) include the consolidation of Bankwest which operates under the Basel II Standardised methodology. As at 31 December 2008 APRA approved for Bankwest to be treated as a non-consolidated subsidiary and as a result the RWA of Bankwest were not incorporated into the Group RWA numbers.

## Liquidity and Funding Risk

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 programme; Transferable Certificate of Deposit programme; Australian dollar bank bill programme; Australian, U.S. and Euro Commercial Paper programmes; U.S. Extendible Notes programme; Australian dollar domestic borrowing programme; U.S. Medium Term Note Programme; Euro Medium Term Note Programme and its Medallion "Regulation AB" securitisation programme.

The chart on page 62 illustrates the liquidity profile of the Group's outstanding wholesale debt liabilities at 30 June 2009, broken down by type of debt instrument and maturity.

**Recent Market Environment**

Although the cost of liquidity and funding has increased significantly since July 2007 due to unfavourable market conditions, the Group's liquidity and funding policies have remained unchanged throughout this period, as with the use of the Australian Commonwealth Government's Large Deposits and Wholesale Funding Guarantee Scheme, the Group's liquidity and funding policies have proven to be effective during the recent global financial crisis. Nonetheless, the Group plans on thoroughly reviewing its liquidity policies and practices after new guidance is provided by APRA, which is expected later this year, in response to Basel II capital framework enhancements announced by the Basel Committee in July 2009. This package of measures is designed to promote the build up of capital buffers, strengthen the quality of bank capital and introduce a leverage ratio as a back stop to Basel II.

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.

In addition, the Australian Commonwealth Government (the "Australian Government") has undertaken a variety of measures to thaw frozen credit markets and stimulate economic growth, including the implementation of two government guarantee schemes aimed at improving confidence in the Australian banking sector. These schemes are:

- Guarantee of deposits: Effective 12 October 2008 the Australian Government has guaranteed the deposits in eligible Australian banks (including the Group) for a period of three years. The Group will be required to pay certain levies to fund a portion of the Australian Government's costs and a fee for the guarantee of deposits over $1,000,000, which, based on the Group's current rating by Standard and Poor's of AA, is 70 basis points per annum. Effective 12 October 2008 the New Zealand Government has also introduced similar arrangements. These measures have allowed the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ) to accept internal residential mortgage-backed securities (RMBS) and asset-backed commercial paper (ABCP) as collateral in their repurchase operations. This has led to the Group borrowing funds from the RBA and the RBNZ using RMBS created by securitising a portion of its prime residential mortgage portfolio. At 30 June 2009 the Group has $43 billion of formally securitised home loans which could provide additional funding from the RBA and the RBNZ; and
- Guarantee of wholesale term funding: Effective 28 November 2008, the Australian Government has implemented the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding, under which Australian banks may apply for a guarantee of the Australian Government of senior unsecured liabilities which are "not complex" and issued domestically or off shore with terms of up to 60 months. The Group is required to pay a fee based on the aggregate principal amount of guaranteed indebtedness, which, based on its current rating by Standard and Poor's of AA, is 70 basis points per annum. Arrangements are provided in a Deed of Guarantee dated 20 November 2008, Scheme Rules which detail the eligibility criteria and application process for how Authorised Deposit taking Institutions (of which the Bank is one) may apply for the Australian Government Guarantee under the Scheme and in additional documentation for offers to residents of the United States of America and other jurisdictions and will be reviewed on an ongoing basis and revised if necessary, and will be withdrawn once market conditions have normalized.

These schemes assisted in restoring confidence in the deposits of Australian banks and in restoring the availability of wholesale funding markets for funding by Australian banks. As of 4 September 2009 the Group has issued $27 billion of wholesale funding that is guaranteed by the Australian Government since the inception of the guarantee scheme.

The text of the Australian Government Guarantee, the Australian Government Guarantee Scheme Rules and related documents can be found at the Australian Government Guarantee website at www.guaranteescheme.gov.au. Fees are payable in relation to the Guarantee Scheme, calculated by reference to the term and amount of the liabilities guaranteed and the Bank's credit rating.

Details of the Group's regulatory capital position and capital management activities are disclosed in Note 34 Capital Adequacy to the 2009 Financial Statements.

# Liquidity and Capital Resources

| Commitments for Capital Expenditure Not Provided for | Group 2009 $M | Group 2008 $M |
|---|---|---|
| Not later than one year | **18** | 45 |
| **Total commitments for capital expenditure not provided for** | **18** | 45 |

Debt Issues (for further details see Note 27 to the 2009 Financial Statements)

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

The following table details the current debt programmes and issuing shelves along with programme or shelf size and outstandings as at 30 June 2009. 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 2009.

### 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 50 billion | Euro Medium Term Note Programme (2) |
| USD 10 billion | ASB Extendible Notes Programme |
| USD 2 billion | Bankwest Euro Commercial Paper Programme |
| | |
| Japan | |
| JPY 500 billion | Uridashi shelf (2) |
| | |
| 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 20 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 $50 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 28 and 31 to the 2009 Financial Statements.

### Events Subsequent to Balance Date

On 6 August 2009 the Group issued a 10 year EUR 1,000 million Subordinated Note with a coupon of 5.500% as part of its ongoing funding activities.

On 6 August 2009 the Group announced that effective from February 2010 the current Chairman, John Schubert, will step down and be succeeded by David Turner.

On 12 August 2009 the Group announced the issue of a new security Perpetual Exchangeable Resalable Listed Securities (PERLS V). PERLS V will have similar terms to the Group's existing non-innovative Tier 1 securities, PERLS IV. It is anticipated that the Group will raise at least $700 million from the issue and that the offering will strengthen the Group's Tier 1 ratio by at least 24 basis points. Refer to "Capital Management" section on page 57.

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

The Bank expects to issue around $507 million of shares in respect of the Dividend Reinvestment Plan for the final dividend for the year ended 30 June 2009.

### Business Strategies and Future Developments

***Acquisition of Bank of Western Australia Ltd and St Andrew's Australia Pty Ltd***

On 19 December 2008 the Group acquired the businesses of Bank of Western Australia Ltd ("Bankwest") and St. Andrew's Australia Pty Ltd ("St Andrew's") from the former parent HBOS Australia. The acquisition has seen the Group expand its customer base and market share in Western Australia, and broaden the range of products available to customers around Australia. The integration of these two entities is ongoing, and due for completion within three years of the acquisition date.

***Accommodation Strategy***

The Group is implementing a property strategy to relocate approximately 3,500 staff from the Sydney Central Business District (CBD) to Sydney Olympic Park or Parramatta by 30 June 2010. This will result in rationalisation of the existing Sydney CBD property space.

As part of the Group's accommodation strategy, staff in the CBD are being located across fewer sites, including rationalisation of certain CBD sites in line with lease expiry profiles.

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.

# Off-Balance Sheet Arrangements

### 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 | 2009 $M | 2008 $M | 2007 $M |
|---|---|---|---|
| Management fee paid to the Group | **3** | 7 | 3 |
| Liquidity facilities utilised by Issuers | **800** | 1,199 | - |
| Derivatives face value provided to Issuers | **819** | 820 | 1,784 |

### 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 $117,887 million of commitments to provide credit, of which $19 million is committed within the next year (2008: $12 million using different methodology from last year). 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 40 to the 2009 Financial Statements – Contingent Liabilities, Assets and Commitments.

# Off-Balance Sheet Arrangements

| | Face Value | | Group Credit Equivalent | |
|---|---|---|---|---|
| | 2009 $M | 2008 $M | 2009 $M | 2008 $M |
| **Credit risk related instruments** | | | | |
| Guarantees | **3,641** | 2,802 | **3,641** | 2,802 |
| Standby letters of credit | **206** | 142 | **206** | 142 |
| Bill endorsements | **537** | 61 | **538** | 61 |
| Documentary letters of credit | **43** | 53 | **43** | 53 |
| Performance related contingents | **1,994** | 1,870 | **1,951** | 1,870 |
| Commitments to provide credit | **117,887** | 97,304 | **100,798** | 83,499 |
| Other commitments | **401** | 8,846 | **265** | 672 |
| **Total credit risk related instruments** | **124,709** | 111,078 | **107,442** | 89,099 |

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 2009 Financial Statements – Derivative Assets and Liabilities).

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 maximum potential amount of future payments that may be required for Guarantees as defined in FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others is set out by term below:

| | Group As at 30 June 2009 Face Value | | | | | |
|---|---|---|---|---|---|---|
| | Less than 1 year $M | 1 to 3 years $M | 3 to 5 years $M | Over 5 years $M | Total $M | Carrying Value $M |
| Guarantees | **525** | **2,346** | **139** | **490** | **3,641** | **4. 6** |
| Standby letters of credit | **149** | **25** | **-** | **-** | **206** | **7. 1** |
| Bill endorsements | **24** | **493** | **5** | **15** | **537** | **3. 2** |
| Documentary letters of credit | **42** | **1** | **-** | **-** | **43** | **0. 5** |
| Performance related contingents | **177** | **1,658** | **83** | **70** | **1,994** | **25. 1** |
| **Total** | **917** | **4,523** | **227** | **55** | **6,421** | **40. 5** |

# Off-Balance Sheet Arrangements

| | | | | | Group As at 30 June 2008 Face Value | |
|---|---|---|---|---|---|---|
| | Less than 1 year $M | 1 to 3 years $M | 3 to 5 years $M | Over 5 years $M | Total $M | Carrying Value $M |
| Guarantees | 2,137 | 174 | 72 | 419 | 2,802 | 3. 8 |
| Standby letters of credit | 133 | 1 | - | 8 | 142 | 2. 3 |
| Bill endorsements | 61 | - | - | - | 61 | 3. 1 |
| Documentary letters of credit | 52 | 1 | - | - | 53 | 0. 1 |
| Performance related contingents | 1,531 | 150 | 86 | 103 | 1,870 | 33. 7 |
| **Total** | 3,914 | 326 | 158 | 530 | 4,928 | 43. 0 |

| | | | | | Group As at 30 June 2007 Face Value | |
|---|---|---|---|---|---|---|
| | Less than 1 year $M | 1 to 3 years $M | 3 to 5 years $M | Over 5 years $M | Total $M | Carrying Value $M |
| Guarantees | 2,839 | 12 | - | - | 2,851 | 1. 9 |
| Standby letters of credit | 126 | 86 | 63 | 60 | 335 | 2. 2 |
| Bill endorsements | 84 | - | - | - | 84 | 2. 1 |
| Documentary letters of credit | 87 | - | - | - | 87 | 0. 1 |
| Performance related contingents | 2,015 | 7 | 24 | - | 2,046 | 24. 4 |
| **Total** | 5,151 | 105 | 87 | 60 | 5,403 | 30. 7 |

### 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 Note 41 to the 2009 Financial Statements – Market Risk Management "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 2009 was $8,602 million (2008: $11,676 million). No credit losses were incurred by the Group in relation to these securitised loans during the Financial Years 2009 and 2008. The credit risk in respect of these loans is fully covered through mortgage insurance. No loan securitisation transactions were undertaken in the 2009 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 41 to the 2009 Financial Statements (2009: $208 million, 2008: $232 million). Interest rate swaps (2009: ($76) million, 2008: ($37) million) are not disclosed in Note 4 to the 2009 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 2009 and 2008 were:

| | 2009 $M | 2008 $M | 2007 $M |
|---|---|---|---|
| Servicing fee | **24** | 31 | 31 |
| Management fee | **3** | 4 | 5 |
| Excess servicing fee | **89** | 58 | 60 |
| Proceeds from sale of mortgage loans | **-** | - | 7,070 |
| Interest rate swaps | **76** | (37) | 11 |
| **Total cash receipts** | **192** | 56 | 7,177 |

# 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 2009 and 2008 the Group had commitments for capital expenditure (see Note 38 to the 2009 Financial Statements) and lease commitments (see Note 39 to the 2009 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 2009 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 2009 | | | | |
|---|---|---|---|---|---|---|
| | Total $M | Less than 1 year $M | 1 to 3 years $M | 3 to 5 years $M | Over 5 years $M | Unspecified $M |
| **On-Balance Sheet** (1) | | | | | | |
| Debt Issues | **115,919** | **42,369** | **35,545** | **22,872** | **15,133** | **-** |
| Deposits and other Public Borrowings | **372,349** | **351,564** | **14,658** | **5,984** | **143** | **-** |
| Loan Capital | **17,073** | **1,080** | **1,049** | **2,564** | **12,380** | **-** |
| **Total On-Balance Sheet** | **505,341** | **395,013** | **51,252** | **31,420** | **27,656** | **-** |
| **Off-Balance Sheet** | | | | | | |
| Credit risk related instruments (2) | **124,709** | **20,107** | **38,133** | **2,154** | **27,224** | **37,091** |
| Commitments for Capital Expenditure Not Provided for in the Accounts (3) | **1,705** | **376** | **581** | **373** | **375** | **-** |
| Lease commitments – Property, Plant and Equipment (4) | **18** | **18** | **-** | **-** | **-** | **-** |
| **Total Off-Balance Sheet** | **126,432** | **20,501** | **38,714** | **2,527** | **27,599** | **37,091** |

(1) Contractual On-Balance sheet obligations also include contractual interest; refer to Note 42 to the 2009 Financial Statements.

(2) Credit risk related instruments, see page 65 and 66.

(3) Refer Note 39 to the 2009 Financial Statements.

(4) Refer Note 40 to the 2009 Financial Statements.

# Contractual and Commercial Commitments

### Leases

Leases entered into by the Group are for the purpose of accommodating the business needs. Leases may be over retail, commercial, industrial and residential premises and reflect the needs of the occupying business and market conditions. All leases are negotiated using either internal or external professional property resources acting for the Group.

Rental payments are determined in terms of relevant lease requirements, usually reflecting market rentals.

The Group as lessee has no purchase options over premises occupied. In a small number of cases, the Group as lessee has a right of first refusal if the premises are to be sold.

There are no restrictions imposed on the Group's lease of space other than those forming part of the negotiated lease arrangements for each specific premise.

### Long Term Contracts

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.

In 2009 the Bank entered into an Agreement for Lease with Lend Lease Development and Australian Prime Property Fund for Darling Walk, 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 4,900 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 3 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. As part of entering into these contracts, the Bank terminated certain parts of the previous long term agreement with EDS (Australia) Pty Ltd relating to application software services. The remaining parts of the contract with EDS (Australia) Pty Ltd - related to mainframe, midrange, end user technology and cards-related services - continue until 2012.

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.

In 2005, the Bank entered into lease agreements for a fully refurbished existing building at 150 George Street Parramatta, with Perpetual Nominees Limited (as a custodian for the Colonial First State Commercial Property Trust) and a newly constructed building at 101 George Street Parramatta, with Commonwealth Custodial Services Limited, relating to the provision of accommodation. Both buildings have an average lease term of 10 years.

### Failure to Settle Risk

The Bank 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.

### Service 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 2009 was $12.2 million (2008: $13.6 million).

### Transactions in Own Shares

The Group had the following employee share plans in place during the year ended 30 June 2009:

- 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.

### 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 2009, the Group had total consolidated assets of over $620 billion and loans outstanding of $466 billion. The Group's net profit after tax (statutory basis) was $4,723 million for the 2009 Financial Year.

The address of the Bank's principal executive office is 48 Martin Place, Sydney, New South Wales, 1155, Australia and its telephone number is (612) 9378 2000.

The Group conducts its operations primarily through the following business units: Retail Banking Services (RBS) 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; International Financial Services, including 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.

### Operating Divisions

### Retail Banking Services (RBS)

Retail Banking Services is responsible for the development and delivery of innovative and competitive products and services to almost 10 million retail customers. 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 45% of the Group’s net profit after tax (statutory basis) for the financial year ended 30 June 2009 and represented 39% of its total assets at that date.

### Premium Business Services (PBS)

On 19 January 2009 the Group split the Premium Business Services division into two new segments; Business and Private Banking and Institutional Banking and Markets.

### 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, Australia’s leading online securities banking service.

B&PB contributed 16% of the Group’s net profit after tax (statutory basis) for the financial year ended 30 June 2009 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 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 3% of the Group’s net profit after tax (statutory basis) for the financial year ended 30 June 2009 and represented 18% 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 5% of the Group’s net profit after tax (statutory basis) for the financial year ended 30 June 2009 and represented 4% of its total assets at that date. As of 30 June 2009, Wealth Management had $169 billion of assets under management and $1,560 million of inforce insurance premiums.

### International Financial Services (IFS)

International Financial Services is leading the Bank’s international strategy by focusing on identifying and developing offshore growth opportunities for the Bank in the Asia Pacific region.

The Bank is represented in 12 countries, operating full retail banks outside of Australia in New Zealand (ASB Bank), Fiji (Colonial National Bank) and Indonesia (PT Bank Commonwealth).

IFS has two investments in Chinese city commercial banks, Qilu Bank Co. Ltd formally known as Jinan City Commercial Bank and Hangzhou City Commercial Bank, and has established a Representative Office in India.

Life insurance and fund management businesses are operating in China, Singapore, Indonesia, Vietnam, Fiji and New Zealand.

IFS contributed 9% of the Group’s net profit after tax (statutory basis) for the financial year ended 30 June 2009 and represented 9% 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.

Since 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 3% of the Group’s statutory net profit after tax.

### Support Divisions

***Enterprise IT***

Enterprise IT facilitates the delivery of best practice 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.

### History and Ownership

The origins of the Bank lie in the former Commonwealth Bank of Australia which was established in 1911 by Act of 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.

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 27 to the 2009 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. St Andrew's provides life insurance and wealth management products to the Australian marketplace, predominantly Western Australian. Its range of products is similar to those provided by the Group's existing Wealth Management 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 18 months, 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 many 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 weathered the global financial crisis significantly better than global peers. Australia is generally considered to have a strong banking industry, with four of the largest 15 banks by market capitalisation and four of only eight banks that have AA credit ratings. This strength is also reflected in the ratings of the New Zealand subsidiaries of the big four Australian banks.

The good performance reflects several factors including Australian banks having been much more conservative and cautious in the risks undertaken in the lead up to the crisis, for example, with lending standards not easing by the same extent as in the United States. As an industry, there is relatively little exposure to financial instruments such as collateralised debt obligations (CDOs) and major banks are marginal players in low-doc and non-conforming lending. The success is also attributed to better governance and regulatory oversight systems.

Despite this ongoing performance, investors became reluctant to buy debt from the domestic market with some depositors also feeling nervous about the financial environment. In Australia and New Zealand, Governments introduced guarantees of both deposits and wholesale borrowing by banks. The Commonwealth Bank, ASB Bank and Bankwest are supportive of the Government's 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 retail funds remains positive, underpinned by compulsory superannuation and retirement savings. The downturn in equity markets is reducing investment returns and fund flows as well as driving changes in the competitive landscape. The simplification of superannuation legislation, including the removal of taxes on end benefits for over 60's, should support continuing growth in superannuation investment and self managed superannuation.

Until the onset of the current global financial crisis, the search for above-market return investments has seen an increased allocation of funds to boutiques, hedge funds, private equity players and alternative asset classes. The recent uncertainties have slowed this movement with investors showing some flight from risk to quality.

Over the last decade, the corporate bond market in Australia has benefited from the growth in Funds Under Management with many of the major Australian corporations now directly accessing capital markets domestically and around the world.

#### ***Insurance***

Solid growth in the sector is expected to continue given the current levels of underinsurance and beneficial treatment of life insurance inside superannuation. The growing debt levels of households will increase the importance of life insurance and other wealth protection products. As the population ages, there will be an increased demand for products that address longevity risk. The general insurance market is mature, diversified and highly competitive. Margin pressure and other competitive activity will necessitate targeted growth strategies.

### New Zealand

The Group's activities in New Zealand are conducted through ASB Group. Through its wholly owned subsidiaries, Sovereign Group and ASB Group Investments, ASB Group also competes in the New Zealand insurance and investment market.

The New Zealand banking system is characterised by strong competition. New Zealand banking activities are led by four financial services groups, owned by the big four Australian major banks. In addition, there are several financial institutions operating largely in the wholesale banking sector. As in Australia, there is strong competition with non-bank financial institutions in the areas of Funds Management and the provision of insurance. The New Zealand economy entered recession in early 2008. Major trends in the New Zealand market include continued margin pressure, a slowing housing market, declining net migration and the commoditisation of retail lending.

### 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.

### 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 (including 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.

# Description of Business

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 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 compete strongly in the areas of accepting deposits and residential mortgage lending, mainly for owner-occupied housing. At the present time it is unclear how this will develop given the higher funding costs incurred and current uncertainties in financial markets. Other non-bank financial intermediaries include investment banks, fund managers, finance companies, and a diverse range of product and service specialists.

In recent years, a number of local and global new entrants pursued segments of the market where margins are typically the widest, including product markets such as deposits, housing loans and credit cards, and on distribution markets such as mortgage broking and business banking broking. At the present time it is unclear how this will develop given the higher funding costs incurred and current uncertain in financial markets.

***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 going forward. This, together with the possibility of new entrants, may lead to intensifying competition and to ongoing downward pressure on margins.

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

As in Australia, the New Zealand banking system is characterised by strong competition. The Bank's activities in New Zealand are conducted through ASB Group. Banks in New Zealand are free to compete in almost any area of financial activity. There is strong competition with non-bank financial institutions in the areas of Funds Management and the provision of insurance. Major trends in the New Zealand market include continued margin pressure, a slowing housing market, declining net migration and the commoditisation of retail lending,

New Zealand banking activities are led by four financial services groups, all owned by Australian based banks operating through nationwide branch networks. There is also the Government-owned Kiwibank, operating nationwide, and TSB Bank, operating in the main centres. Both banks offer retail and business banking services through branches. In addition, there are several financial institutions operating largely in the wholesale banking sector.

Through its wholly owned subsidiaries, Sovereign Group and ASB Group Investments, ASB Group also competes in the New Zealand insurance and investment market.

### Employees

The Group employs approximately 44,000 employees on a full time equivalent basis.

The past 12 months were challenging times for Australian workers and the Group focused on preserving jobs while managing costs for a weaker economy.

In April 2009, the Group announced a package of salary cuts and freezes for the Board Directors, the CEO and senior management, underlining the Group's commitment to saving jobs while providing a sustainable return to shareholders during a difficult economic climate.

The Bank views that having engaged, passionate and valued people who work together with trust and team spirit as being central to achieving its vision "to be Australia's finest financial services organisation through excelling in customer service". During the 2009 financial year, the Bank completed a number of activities as part of our people strategy.

- A refreshed set of key behaviour expectations were launched to further align the Group's culture with its customer service goal, and these were integrated into all employees' key performance indicators from 1 July 2009;
- The Gallup Workplace Survey results for the Bank for 2009 increased from 4.28 to 4.37 (out of a possible 5) and places the Bank at the 80th percentile of the Gallup global database, and in their "World's Best Practice" zone;
- The Bank is a committed Equal Employment Opportunity (EEO) employer. The Bank has been named an Employer of Choice for Women by the Equal Opportunity for Women in the Workplace Agency (EOWA) and has maintained this status since the award's inception in 2001;
- The Bank has continued to support its range of flexible working and wellbeing practices for staff – for example, part-time work, job share, career break, twelve weeks paid maternity leave, paternity and adoption leave, child care, staff influenza vaccines, health checks, access to advice and information for dependent care and health services; and
- The Group also saw improvements across safety, turnover and absenteeism indicators during the year.

### Financial System Regulation in Australia

Australia has, by international standards, a high quality financial system which 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 ("RBA"), the Australian Prudential Regulation Authority ("APRA"), the Australian Securities and Investments Commission ("ASIC"), the Australian Transaction Reports and Analysis Centre ("AUSTRAC") and the Australian Competition and Consumer Commission ("ACCC"). 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.

The 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. 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 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 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 subsidiaries Commonwealth Development Bank and Bank of Western Australia are Authorised Deposit-taking Institutions ("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.

(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 market securities. More detailed comments on the Group's liquidity and funding risks are provided in Note 41 to the 2009 Financial Statements.

(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 15 to the 2009 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 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 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 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.

### 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 will consider 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.

### 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 will guarantee deposits of up to AUD1 million per depositor per eligible ADI (including the Bank) until 12 October 2011. The Australian Government will review whether the existence of the Financial Claims Scheme is still be required after 12 October 2011.

On 20 November 2008, the Australian Government established the Australian Government Large Deposits and Wholesale Funding Guarantee Scheme and issued the Australian Government Large Deposits and Wholesale Funding Guarantee. The Australian Government Large Deposits and Wholesale Funding Guarantee came into effect on 28 November 2008. The Australian Government has agreed under the Australian Government Large Deposits and Wholesale Funding Guarantee, subject to the relevant eligible ADI making an application under the terms of the Australian Government Large Deposits and Wholesale Funding Guarantee Scheme Rules, to guarantee certain deposit amounts over AUD1 million per customer per ADI.

#### *Australian Government Guarantee of Wholesale Term Funding*

The Australian Government has also agreed under the Australian Government Large Deposits and Wholesale Funding Guarantee to guarantee certain wholesale funding liabilities of eligible ADIs. Such liabilities will have the benefit of the Australian Government Large Deposits and Wholesale Funding Guarantee if the relevant eligible ADI makes an application under the terms of Australian Government Large Deposits and Wholesale Funding Guarantee Scheme Rules and the RBA, as Scheme Administrator (as defined in the Australian Government Large Deposits and Wholesale Funding Guarantee Scheme Rules), issues an eligibility certificate in respect of them. The Australian Government Guarantee will only apply in respect of instruments that are senior unsecured debt instruments, are "not complex," fall within one of the categories set out in the Eligibility Criteria (as defined in the Australian Government Large Deposits and Wholesale Funding Guarantee Scheme Rules), have a maturity of up to 60 months and are issued in any currency by an eligible ADI.

The Australian Government has announced that the Australian Government Large Deposits and Wholesale Funding Guarantee Scheme will be reviewed on an ongoing basis and revised if necessary. Further, the Australian Government has announced that it will withdraw the Australian Government Guarantee once market conditions have normalized. Unless extended by the Australian Government, the Australian Government Guarantee will automatically terminate at midnight on the date which is 67 calendar months after the Final Application Date (as defined in the Australian Government Large Deposits and Wholesale Funding Guarantee Scheme Rules) determined by the Australian Government ("Termination Date"). Valid claims will be able to be made under the Australian Government Large Deposits and Wholesale Funding Guarantee Scheme at any time prior to midnight on the Termination Date. Under the Australian Government Large Deposits and Wholesale Funding Guarantee Scheme, fees will be payable by the Bank to the Australian Government in relation to any eligible liabilities (whether large deposits or wholesale funding) that receive the benefit of the Australian Government Large Deposits and Wholesale Funding Guarantee. The amount of fees is based on the Group's long-term credit rating (which is currently, based on Standard and Poor's rating of AA, 70 basis points per annum). The fees will be levied in arrears on a monthly basis. In addition to the fees payable by the Bank to the Australian Government, the Bank is required to indemnify the Australian Government in respect of all actions, proceedings, liabilities, claims, damages, costs and expenses in relation to or arising out of the Australian Government Large Deposits and Wholesale Funding Guarantee insofar as it applies to the liabilities of the Bank that receive the benefit of the Australian Government Large Deposits and Wholesale Funding Guarantee ("Indemnity Obligations").

The Australian Government Large Deposits and Wholesale Funding Guarantee and the Australian Government Large Deposits and Wholesale Funding Guarantee Scheme Rules are silent as to the ranking of any claims that the Australian Government may have against the Bank in respect of amounts paid by the Australian Government to the holders of Guaranteed Liabilities under the Australian Government Large Deposits and Wholesale Funding Guarantee. Sections 13A(3) and 16 of the Australian Banking Act deal with the priority given to debts owed by an ADI to APRA. The Bank's Indemnity Obligations are owed to the Australian Government rather than APRA. Neither section 13A(3) nor section 16 of the Australia Banking Act would therefore apply in respect of any amounts that the Bank may owe to the Australian Government under its Indemnity Obligations. As currently drafted, section 86 of the Reserve Bank Act 1959 of the Australian Government of Australia states that "notwithstanding anything contained in any law relating to the winding-up of companies, but subject to subsection 13(A) (3) of the Banking Act 1959, debts due to the Reserve Bank of Australia by the ADI shall, in the winding-up, have priority over all other debts other than debts due to the Australian Government."

***New Zealand Guarantee of Deposits***

ASB Bank Limited (ASB) is guaranteed under the New Zealand Deposit Guarantee Scheme ("Crown Guarantee") and the New Zealand Wholesale Funding Guarantee Facility ("Crown Wholesale Funding Guarantee").

**Guarantor Details**

The guarantor's name and address for service is: The Crown, 1 The Terrace, Wellington, New Zealand.

Further information about the Crown Guarantee and the Crown Wholesale Funding Guarantee, including a copy of the Crown Deed of Guarantee and the Crown Wholesale Funding Guarantee Deed is available on the New Zealand Treasury website www.treasury.govt.nz and in ASB's most recent Supplemental Disclosure Statement. The most recent audited financial statements of the Crown and details of its credit ratings can also be obtained at the Treasury's website www.treasury.govt.nz

As at the date of this report, the following credit ratings were assigned to the Crown's long term New Zealand dollar debt by these rating agencies:

- Fitch Ratings (AA+);
- Moody's Investors Service, Inc (Aaa); and
- Standard & Poor's (Australia) Pty Limited (AA+).

These ratings have remained unchanged in the two years preceding the date of this report.

**Crown Guarantee**

The Crown Guarantee is provided under section 65ZD of the Public Finance Act 1989 on the terms and conditions of a Crown Deed of Guarantee (Registered Bank) entered into by ASB and the Crown on 4 November 2008 ("Crown Deed of Guarantee").

**Obligations Guaranteed**

As at the date of the signing of this report the only material obligations of ASB that are guaranteed are payment obligations of ASB in respect of debt securities guaranteed under the Crown Guarantee.

The Crown Guarantee does not extend to obligations of ASB in respect of subordinated debt securities or to creditors that are Related Parties (as defined in the Crown Deed of Guarantee) of ASB or Financial Institutions (as defined in the Crown Deed of Guarantee). The Crown Guarantee extends to payment obligations of ASB under debt securities held by:

(a) the trustee of the ASB Cash Fund, on the terms and conditions of a Crown Deed of Nomination (Unit Trust) dated 19 December 2008; and

(b) the trustee of the ASB Term Fund, on the terms and conditions of a Crown Deed of Nomination (Unit Trust) dated 19 December 2008,

(each such trustee being a "Nominated Beneficiary").

The Crown Guarantee applies for a period commencing at 12.01am on 12 October 2008 and expiring at 12.01am on 12 October 2010 ("Guarantee Period").

Under the Crown Guarantee the Crown absolutely and irrevocably guarantees to each eligible creditor the due and punctual payment by ASB of:

(i) all money payable to the creditor under relevant debt securities ("Indebtedness") that becomes due and payable during the Guarantee Period;

(ii) if a Default Event (as defined in the Crown Deed of Guarantee) occurs during the Guarantee Period, all Indebtedness that exists on the date of the Default Event (whether or not that Indebtedness is due and payable during the Guarantee Period); and

(iii) all interest on the amounts referred to in (ii) above accruing after the occurrence of the Default Event.

The Crown undertakes that if ASB does not pay an amount referred to in (i), (ii) or (iii) above, the Crown will pay that amount to the creditor when it is due and payable (except to the extent that Indebtedness or interest is not paid solely as a result of administrative error or technical error and is subsequently paid within seven days of its due date).

The Crown's obligation to pay any amount under the Crown Guarantee is subject to the Crown receiving a notice of claim from the creditor in respect of the relevant Indebtedness and the Crown satisfying itself as to the amount of the Indebtedness and such other matters as the Crown reasonably considers appropriate in order to ascertain the extent of its liability under the Crown Guarantee in respect of that Indebtedness.

The maximum liability of the Crown to each creditor (not being a Nominated Beneficiary) under the Crown Guarantee is one million New Zealand dollars (NZD 1,000,000). For this purpose amounts owed to creditors by ASB under any Debt Security will be aggregated with other amounts owed to the same creditor by ASB that are supported by the Crown Guarantee.

The maximum liability of the Crown to each Nominated Beneficiary under the Crown Guarantee is the amount described in the relevant Crown Deed of Nomination (Unit Trust).

ASB has paid a non-refundable fee of NZD 18.3 million to the Crown for the Crown Guarantee and the first 12 months of the Guarantee Period. On the first anniversary of the execution of the Crown Deed of Guarantee a further non-refundable fee will be payable, equivalent to 0.1% (ten basis points) of the total Indebtedness above five billion New Zealand dollars (NZD 5,000,000,000) as at that date.

On 25 August 2009 the New Zealand Minister of Finance announced that the government intends to extend the Crown Guarantee and change some of its terms and conditions. The extension will start on 13 October 2010 and end on 31 December 2011.

### Crown Wholesale Funding Guarantee

The Crown Wholesale Funding Guarantee is provided under section 65ZD of the Public Finance Act 1989 on the terms and conditions of a Crown Wholesale Funding Guarantee Deed entered into by ASB and the Crown on 19 June 2009 ("Crown Wholesale Funding Guarantee Deed").

### Obligations Guaranteed

The Crown Wholesale Funding Guarantee is available (upon application and subject to the Crown's sole and absolute discretion on each occasion) on a case by case basis for certain debt securities issued by ASB to the wholesale market. Under the Crown Wholesale Guarantee:

(i) the Crown may determine from time to time a maximum amount, and impose special conditions for ASB's guaranteed liabilities. ASB has not been notified of any such maximum amount or special conditions as at the date of the signing of this report;

(ii) eligible debt securities must have a term of five years or less;

(iii) ASB must hedge and manage the currency risk in relation to any guaranteed liability denominated in a currency other than New Zealand dollars in accordance with established risk management practice approved by ASB's Board of Directors.

As at the signing of this report ASB had not applied for cover under the Crown Wholesale Funding Guarantee for any of its issued debt securities.

### Critical Accounting Policies and Estimates

Note 1 to the 2009 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 for loan balances, actuarial assumptions in determining life insurance policy liabilities and determining whether certain entities should be consolidated. An explanation of these policies and the related judgements and estimates involved is set out in Note 1 (mm) to the 2009 Financial Statements.

### Remuneration of Auditors

Disclosure of the Remuneration of Auditors is set out in Note 37 to the 2009 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" published in August 2007 by the Australian Securities Exchange (ASX) Limited's Corporate Governance Council.

## 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.

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.

## Composition

There are currently 11 Directors of the Bank and details of their experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors' 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 |
| J M Schubert [1] [2] | Non-Executive, independent | Chairman | Chairman | Member | | Member |
| R J Norris | Executive | Chief Executive Officer | | | | Member |
| J A Anderson | Non-Executive, independent | | | | | Member |
| R J Clairs [1] | Non-Executive, independent | | | Chairman | | Member |
| C R Galbraith [1] | Non-Executive, independent | | Member | | Member | Member |
| J S Hemstritch | Non-Executive, independent | | | Member | | Member |
| S C H Kay [1] | Non-Executive, independent | | | Member | Member | Member |
| F D Ryan | Non-Executive, independent | | | | Chairman | Member |
| D Turner [2] | Non-Executive, independent | | Member | | Member | Member |
| H H Young | Non-Executive, independent | | | | Member | Chairman |
| A M Mohl [1] | Non-Executive, independent | | | Member | | Member |

(1) Mr Schubert, Mr Clairs, Mr Galbraith, Ms Kay and Mr Mohl were appointed as members of the Risk Committee with effect from 1 January 2009.

(2) Mr Schubert has announced his resignation as the Chairman of the Group's board effective February 2010. He will be replaced by Mr Turner.

# Corporate Governance

### 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 13 (or such lower number as the Board may from time to time determine). The Board has determined that the number of directors shall be 11; 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 2009 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, noting that those dealings are not material under accounting standards;
- 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.

### 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 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.

The Committee regularly compares the skill base and experience of existing Directors with that required for the future strategy of the Group to enable identification of attributes required in new Directors.

Executive search firms are engaged to identify potential candidates based on the identified criteria.

Candidates for appointment as Directors are considered by the Board Performance and Renewal Committee, 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. A copy of the form of letter of appointment appears on the Group's website.

### 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, Group policy prohibits:

- For Directors and executives who report to the Chief Executive Officer, any hedging of publicly disclosed shareholding positions;
- For executives, any trading (including hedging) in positions prior to vesting of shares or options; and
- The use, by Directors and executives who report to the Chief Executive Officer, of investments of arrangements for margin borrowing, short selling or stock lending, in connection with the securities of the Group.

### Remuneration Arrangements

Details of the governance arrangements and policies relevant to remuneration are set out in the Directors' Report - Remuneration 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 must be a "Financial Expert" within the meaning of that term as described in the ASX Corporate Governance guidelines. The financial expert will be determined by the Board from time to time;
- 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 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;

- The Audit Committee will meet from time to time with the Group Auditor and external auditor without management or others being present;
- Similarly, 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.

***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 when 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 2009 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 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".

***Risk Committee***

The Risk Committee oversees the Group's risk management framework, including the credit, market (including traded, IRRBB, 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.

Strategic and reputational 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 primary action is to help the Board formulate the Group's risk appetite for consideration by the Board in its role of oversight of the Internal Capital Adequacy Assessment Process, which is updated on at least an annual basis.

The Committee guides the setting of risk appetite for credit risks, considers the Group's credit policies and ensures that management maintains a set of credit underwriting standards designed to achieve portfolio outcomes consistent with the Group's risk/return expectations.

The Committee approves risk management policies and procedures for market, funding and liquidity risks incurred or likely to be incurred in the Group's business. It guides the setting of risk appetite for traded and non-traded market risks, including the establishment of limits for these risk exposures. The Committee reviews progress in implementing management procedures and identifying new areas of exposure relating to market, funding and liquidity risk.

The Committee guides the setting of risk appetite for operational risks, including ratification of the Group's operational risk policies for approval by the Board and reviews and informs the Board of the measurement and management of operational risk. Operational risk is a basic line management responsibility within the Group consistent with the policies established by the Committee. A range of insurance policies maintained by the Group mitigates some operational risks, with insurance risk coverage levels disclosed to the Risk Committee for comment.

The Committee oversees risk management of compliance risk through the Group's Compliance Risk Management Framework, which provides for 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 Committee is also responsible for agreeing and recommending for Board approval a risk framework consistent with the agreed risk appetite. This framework includes:

- A capital policy, determined as part of an annual Internal Capital Adequacy Assessment Process (ICAAP);
- 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 to risk concentrations.

The Committee is charged with making recommendations regarding the high-level liquidity and funding policies and strategy, at least annually. This includes the use of securitisation and Special Investment Vehicles.

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.

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 function. The Chairman of the Risk Committee provides a report to the Board following each Risk Committee meeting.

***Framework***

The Group has in place an integrated risk management framework 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 "Integrated Risk Management" section and in Notes 15 and 41 to the 2009 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.

In addition to its role in proposing candidates for Director appointment for consideration by the Board, the Committee reviews fees payable to Non-Executive Directors and reviews, and advises the Board in relation to Chief Executive Officer succession planning and Board renewal.

### 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" 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 at www.commbank.com.au 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.

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.

# Corporate Governance

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

The Group is committed to providing fair, safe, challenging and rewarding work, recognising the importance of attracting and retaining high quality staff and consequently, being in a position to excel in customer service.

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.

### 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 application regulations.

The Board operates 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 situations of conflict of interest 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.

### Further Information

Additional information relating to the Group's Board management is set out in the Directors' Report included in the 2009 Financial Report.

# Five Year Financial Summary

| | 2009 $M | 2008 $M | 2007 $M | 2006 $M | 2005 $M |
|---|---|---|---|---|---|
| **Income Statement** | | | | | |
| Net interest income | **10,186** | 7,907 | 7,036 | 6,514 | 6,026 |
| Other operating income | **6,632** | 6,434 | 6,161 | 5,613 | 5,076 |
| Total operating income | **16,818** | 14,341 | 13,197 | 12,127 | 11,102 |
| Impairment expense | **3,048** | 930 | 434 | 398 | 322 |
| Operating expenses: | | | | | |
| Comparable business | **7,765** | 7,021 | 6,427 | 5,994 | 5,719 |
| Initiatives including Which new Bank | **-** | - | - | - | 150 |
| Total operating expenses | **7,765** | 7,021 | 6,427 | 5,994 | 5,869 |
| Operating profit before goodwill amortisation, appraisal value uplift and income tax expense | **6,005** | 6,390 | 6,336 | 5,735 | 4,911 |
| Corporate tax expense | **(1,560)** | (1,626) | (1,782) | (1,618) | (1,409) |
| Minority interests | **(30)** | (31) | (27) | (31) | (10) |
| Net profit after income tax ("cash basis") | **4,415** | 4,733 | 4,527 | 4,086 | 3,492 |
| Defined benefit superannuation plan income/(expense) | **(10)** | 9 | 5 | (25) | (53) |
| Treasury shares valuation adjustment | **(28)** | 60 | (75) | (100) | (39) |
| Hedging and AIFRS volatility | **(245)** | (42) | 13 | (33) | - |
| Visa Initial Public Offering gain after tax | **-** | 295 | - | - | - |
| Investment and restructuring | **-** | (264) | - | - | - |
| One-off expenses | **(23)** | | | | |
| Acquisition-related items: | | | | | |
| Gain on acquisition of controlled entities | **612** | - | - | - | - |
| Bankwest integration | **(78)** | - | - | - | - |
| Merger related amortisation | **80** | - | - | - | - |
| Net profit after income tax attributable to Equity holders of the Bank | **4,723** | 4,791 | 4,470 | 3,928 | 3,400 |
| **Contributions to profit (after tax)** | | | | | |
| Retail Banking Services | **2,107** | 1,911 | 1,766 | 1,576 | n/a |
| Business and Private Banking | **736** | 721 | n/a | n/a | n/a |
| Institutional Banking and Markets | **166** | 771 | 1,445 | 1,138 | n/a |
| Wealth Management | **514** | 789 | 548 | 441 | n/a |
| International Financial Services | **467** | 555 | 461 | 442 | n/a |
| Other | **508** | (1) | 211 | 278 | n/a |
| Net profit after income tax excluding Bankwest ("underlying basis | **4,498** | 4,746 | 4,431 | 3,875 | n/a |
| Bankwest | **113** | n/a | n/a | n/a | n/a |
| Net profit after income tax ("underlying basis") | **4,611** | 4,746 | 4,431 | 3,875 | 3,420 |
| Investment experience | **(196)** | (13) | 96 | 66 | 177 |
| Which new Bank | **-** | - | - | - | (105) |
| Profit on sale of the Hong Kong Insurance Business | **-** | - | - | 145 | - |
| Net profit after income tax ("cash basis") | **4,415** | 4,733 | 4,527 | 4,086 | 3,492 |
| Defined benefit superannuation plan (expense)/income | **(10)** | 9 | 5 | (25) | (53) |
| Treasury shares valuation adjustment | **(28)** | 60 | (75) | (100) | (39) |
| Hedging and AIFRS volatility | **(245)** | (42) | 13 | (33) | - |
| Visa Initial Public Offering gain after tax | **-** | 295 | - | - | - |
| Investment and restructuring | **-** | (264) | - | - | - |
| One-off expenses | **(23)** | - | - | - | - |
| Acquisition-related items: | | | | | |
| Gain on acquisition of controlled entities | **612** | - | - | - | - |
| Bankwest integration | **(78)** | - | - | - | - |
| Merger related amortisation | **80** | - | - | - | - |
| Net profit after income tax | **4,723** | 4,791 | 4,470 | 3,928 | 3,400 |
| **Balance Sheet** | | | | | |
| Loans, advances and other receivables | **466,631** | 361,282 | 315,465 | 273,525 | 243,232 |
| Total assets | **620,372** | 487,572 | 440,157 | 382,850 | 351,662 |
| Deposits and other public borrowings | **368,721** | 263,706 | 219,068 | 187,576 | 182,912 |
| Total liabilities | **588,930** | 461,435 | 415,713 | 361,507 | 329,019 |
| Shareholders' equity | **31,442** | 26,137 | 24,444 | 21,343 | 22,643 |
| Net tangible assets | **20,738** | 16,422 | 15,158 | 12,087 | 10,938 |
| Risk weighted assets | **288,836** | 205,501 | 245,347 | 216,438 | 189,559 |
| Average interest earning assets | **481,248** | 385,667 | 332,492 | 289,416 | 260,085 |
| Average interest bearing liabilities | **453,458** | 362,249 | 311,236 | 269,718 | 240,974 |
| Assets (on Balance Sheet) | | | | | |
| Australia | **528,354** | 410,225 | 360,188 | 318,578 | 294,513 |
| New Zealand | **59,606** | 54,312 | 55,160 | 43,318 | 41,383 |
| Other | **32,412** | 23,035 | 24,809 | 20,954 | 15,766 |
| Total assets | **620,372** | 487,572 | 440,157 | 382,850 | 351,662 |

# Five Year Financial Summary

| | 2009 | 2008 | 2007 | 2006 | AIFRS 2005 |
|---|---|---|---|---|---|
| **Shareholder Summary** | | | | | |
| Dividend per share – fully franked (cents) | **228** | 266 | 256 | 224 | 197 |
| Dividend cover – statutory (times) | **1. 3** | 1. 3 | 1. 3 | 1. 4 | 1. 3 |
| Dividend cover – cash (times) | **1. 3** | 1. 3 | 1. 3 | 1. 4 | 1. 3 |
| Earnings per share (cents) | | | | | |
| Basic | | | | | |
| Statutory | **328. 5** | 363. 0 | 344. 7 | 308. 2 | 259. 6 |
| Cash | **305. 6** | 356. 9 | 347. 1 | 318. 5 | 264. 8 |
| Fully diluted | | | | | |
| Statutory | **313. 4** | 348. 7 | 339. 7 | 303. 1 | 255. 3 |
| Cash | **292. 4** | 343. 1 | 342. 1 | 312. 9 | 260. 5 |
| Dividend payout ratio (%) (1) | | | | | |
| Statutory | **73. 1** | 74. 1 | 75. 2 | 73. 3 | 77. 0 |
| Cash | **78. 2** | 75. 0 | 74. 2 | 70. 5 | 74. 9 |
| Net tangible assets per share ($) | **13. 7** | 12. 38 | 11. 65 | 9. 42 | 8. 54 |
| Weighted average number of shares (statutory basic) | **1,420** | 1,307 | 1,281 | 1,275 | 1,260 |
| Weighted average number of shares (statutory fully diluted) | **1,549** | 1,424 | 1,344 | 1,329 | 1,316 |
| Number of Shareholders | **776,283** | 741,072 | 696,118 | 698,552 | 704,906 |
| Share prices for the year ($) | | | | | |
| Trading high | **46. 69** | 62. 16 | 56. 16 | 47. 41 | 38. 52 |
| Trading low | **24. 03** | 37. 02 | 42. 98 | 36. 62 | 28. 79 |
| End (closing price) | **39. 00** | 40. 17 | 55. 25 | 44. 41 | 37. 95 |
| **Performance Ratios (%)** | | | | | |
| Return on average Shareholders' equity (2) | | | | | |
| Statutory | **16. 8** | 19. 8 | 20. 7 | 20. 4 | 18. 2 |
| Cash | **15. 8** | 20. 4 | 21. 7 | 21. 5 | 18. 8 |
| Return on average total assets (2) | | | | | |
| Statutory | **0. 9** | 1. 0 | 1. 1 | 1. 1 | 1. 0 |
| Cash | **0. 8** | 1. 0 | 1. 1 | 1. 1 | 1. 1 |
| Capital adequacy - Tier One | **8. 07** | 8. 17 | 7. 14 | 7. 56 | 7. 46 |
| Capital adequacy - Tier Two | **2. 35** | 3. 41 | 3. 41 | 3. 10 | 3. 21 |
| Capital adequacy - Deductions | **-** | - | (0. 79) | (1. 00) | (0. 92) |
| Capital adequacy - Total | **10. 42** | 11. 58 | 9. 76 | 9. 66 | 9. 75 |
| **Net interest margin** | **2. 10** | 2. 02 | 2. 08 | 2. 22 | 2. 29 |
| **Other Information (numbers)** | | | | | |
| Full-time equivalent employees (3) | **44,218** | 39,621 | 37,873 | 36,664 | 35,313 |
| Branches/services centres (Australia) | **1,142** | 1,009 | 1,010 | 1,005 | 1,006 |
| Agencies (Australia) | **3,859** | 3,814 | 3,833 | 3,836 | 3,864 |
| ATMs (proprietary) | **4,075** | 3,301 | 3,242 | 3,191 | 3,154 |
| EFTPOS terminals | **167,025** | 187,377 | 171,138 | 157,350 | 137,240 |
| **Productivity** | | | | | |
| Total net operating income per full-time (equivalent) employee ($) | **380,320** | 361,955 | 348,454 | 330,760 | 314,388 |
| Employee expense/Total operating income (%) | **23. 7** | 25. 5 | 24. 5 | 23. 3 | 24. 1 |
| Total operating expenses (4)/Total operating income (%) | **46. 2** | 49. 0 | 48. 7 | 49. 4 | 52. 9 |

(1) Dividends paid divided by earnings less preference dividends.

(2) Calculations based on operating profit after tax and outside equity interests applied to average Shareholders' Equity/average total assets.

(3) Staff numbers include all permanent full-time staff, part time staff equivalents and external contractors employed by third party agencies.

(4) Total Operating Expenses excluding loan impairment expense.

# 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 2005, 2006 and 2007 information not provided within the 2009 Financial Report or the 2008 Financial Report.

## Provisions for Impairment

| | Group<br>2005<br>$M |
|---|---|
| **Collective Provisions** | |
| Opening balance [1] | 1,393 |
| Charge against profit | 322 |
| Transfer to individually assessed provisions | (352) |
| Impaired assets recovered | 81 |
| Adjustments for exchange rate fluctuations and other items | 2 |
| | 1,446 |
| Impaired losses written off | (56) |
| Closing balance | 1,390 |
| | |
| **Individually Assessed Specific Provisions** | |
| Opening balance | 143 |
| Transfer from collective provisions for: | |
| New and increased provisioning | 408 |
| Less write-back of provisions no longer required | (56) |
| Net transfer | 352 |
| Adjustment for exchange rate fluctuations and other items | (3) |
| | |
| Bad debts written off | (335) |
| Closing balance | 157 |
| **Total provisions for impairment** | 1,547 |

(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.

## Provision Ratios

| | |
|---|---|
| Specific provisions for impairment as a % of gross impaired assets net of interest reserved [1] | 41. 76 |
| Total provisions for impairment as % of gross impaired assets net of interest reserved [1] | 411 .44 |
| General provisions as % of risk weighted assets | 0. 73 |

(1) Interest reserved not recognised under AIFRS.

# Appendix A – Additional Historical Information

## Provisions for Impairment (continued)

| | Group 2005 $M |
|---|---|
| **Total charge for bad and doubtful debts** | |
| The charge is required for: | |
| **Specific provisioning** | |
| New and increased provisioning | 408 |
| Less provisions no collective required | (56) |
| Net specific provisioning | 352 |
| Provided from general provision | (352) |
| Charge to profit and loss | - |
| **Collective Provisioning** | |
| Direct write-offs | 56 |
| Recoveries of amounts previously written off | (81) |
| Movement in collective provision | (5) |
| Funding of individually assessed provisions | 352 |
| Charge to profit and loss | 322 |
| **Total charge for bad and doubtful** | 322 |

### Individually Assessed Provisions for Impairment by Industry Category

The following table sets out the Group's specified provisions for impairment by industry category as at 30 June 2005.

| | Group 2005 $M |
|---|---|
| **Australia** | |
| Government and public authorities | - |
| Agriculture, forestry and fishing | 16 |
| Financial, investment and insurance | 1 |
| Real estate | |
| Mortgage (1) | 3 |
| Construction (2) | 7 |
| Personal | 63 |
| Lease financing | 5 |
| Other commercial and industrial | 49 |
| Total Australia | 144 |
| **Overseas** | |
| Government and public authorities | - |
| Agriculture, forestry and fishing | - |
| Financial, investment and insurance | 1 |
| Real estate | |
| Mortgage (1) | 11 |
| Construction (2) | - |
| Personal | 1 |
| Lease financing | - |
| Other commercial and industrial | - |
| Total Overseas | 13 |
| **Total individually assessed provisions** | 157 |

(1) Principally owner occupied housing.

(2) Primarily financing real estate and land development projects.

## Provisions for Impairment (continued)

| | 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

## Credit Risk Management

The following table sets out the Group's impaired asset position by industry and status as at 30 June 2005.

| Industry | Total Risk (4) $M | Impaired Assets $M | Provisions for Impairment $M | Write-offs $M | Recoveries $M | Net Write-offs $M |
|---|---|---|---|---|---|---|
| Australia | | | | | | |
| Government and public authorities | 7,125 | - | - | - | - | - |
| Agriculture, forestry and fishing | 5,029 | 76 | 16 | 1 | (2) | (1) |
| Financial, investment and insurance | 35,015 | 6 | 1 | 4 | (3) | 1 |
| Real estate: | | | | | | |
| Mortgage (1) (3) | 136,559(5)(6) | 32 | 3 | 8 | (1) | 7 |
| Construction (2) | 2,211 | 2 | 7 | 4 | (1) | 3 |
| Personal | 14,970 | 46 | 63 | 280 | (60) | 220 |
| Lease financing | 5,055 | 8 | 5 | 4 | (1) | 3 |
| Other commercial and industrial (3) | 68,076(5)(7) | 211 | 49 | 83 | (8) | 75 |
| Total Australia | 274,040 | 381 | 144 | 384 | (76) | 308 |
| Overseas | | | | | | |
| Government and public authorities | 1,385 | - | - | - | - | - |
| Agriculture, forestry and fishing | 3,392 | 1 | - | - | - | - |
| Financial, investment and insurance | 15,736 | - | 1 | - | - | - |
| Real estate: | | | | | | |
| Mortgage (1) | 21,747 | 7 | 11 | 6 | - | 6 |
| Construction (2) | 346 | - | - | - | - | - |
| Personal | 581 | 4 | 1 | - | (4) | (4) |
| Lease financing | 195 | - | - | - | - | - |
| Other commercial and industrial | 10,667 | 2 | - | 1 | (1) | - |
| Total Overseas | 54,049 | 14 | 13 | 7 | (5) | 2 |
| Gross Balances | 328,089 | 395 | 157 | 391 | (81) | 310 |
| Other Risk Concentrations | | | | | | |
| Receivables due from other financial institutions | 6,042 | | | | | |
| Deposits with regulatory authorities | 45 | | | | | |
| Total Gross Credit Risk | 334,176 | | | | | |

(1) Principally owner occupied housing.

(2) Primarily financing real estate and land development projects.

(3) Certain of these loans have been reclassified for consistency.

(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 $134,913 as per (4) and $1,646 million per (5).

(7) This number comprises $54,837 as per (4) and $1,240 million per (5).

### 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):

| | 2005 Number | 2004 Number |
|---|---|---|
| 5% to less than 10% of Group's capital resources | 1 | 1 |
| 10% to less than 15% of Group's capital resources | - | - |

## Credit Risk Management (continued)

The following table sets out the Group's credit risk by industry and asset class as at 30 June 2006.

| | | | | | | Group |
|---|---|---|---|---|---|---|
| **Industry** | Total Risk $M | Impaired Assets $M | Provisions for Impairment $M | Write-offs $M | Recoveries $M | Net Write-offs $M |
| 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 credit risk by industry and asset class as at 30 June 2005.

| | Assets at Fair value through Income Statement $M | Investment Securities $M | Loans Advances (3) and Other Receivables $M | Bank Acceptances of customers $M | Contingent Liabilities $M | Derivatives $M | Total (3) $M |
|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | |
| Government and public authorities | 788 | 2,281 | 3,000 | 10 | 819 | 227 | 7,125 |
| Agriculture, forestry and fishing | - | - | 3,213 | 1,741 | 40 | 35 | 5,029 |
| Financial, investment and insurance | 7,326 | 837 | 5,882 | 1,167 | 4,563 | 15,240 | 35,015 |
| Real estate: | | | | | | | |
| Mortgage (1) | - | - | 131,559(4) | - | 5,000 | - | 136,559 (5) |
| Construction (2) | - | - | 1,694 | 274 | 216 | 27 | 2,211 |
| Personal | - | - | 14,504 | 380 | 84 | 2 | 14,970 |
| Lease financing | - | - | 5,055 | - | - | - | 5,055 |
| Other commercial and industrial | 2,912 | 2,018 | 44,441(4) | 13,214 | 3,341 | 2,150 | 68,076 (6) |
| Total Australia | 11,026 | 5,136 | 209,348 | 16,786 | 14,063 | 17,681 | 274,040 |
| **Overseas** | | | | | | | |
| Government and public authorities | 558 | 303 | 216 | - | 259 | 49 | 1,385 |
| Agriculture, forestry and fishing | - | - | 3,372 | - | 13 | 7 | 3,392 |
| Financial, investment and insurance | 1,798 | 2,122 | 7,027 | - | 1,512 | 3,277 | 15,736 |
| Real estate: | | | | | | | |
| Mortgage (1) | - | - | 20,765 | - | 982 | - | 21,747 |
| Construction (2) | - | - | 271 | - | 69 | 6 | 346 |
| Personal | - | - | 552 | - | 27 | 2 | 581 |
| Lease financing | - | - | 195 | - | - | - | 195 |
| Other commercial and industrial | 1,249 | 3,276 | 4,624 | - | 1,057 | 461 | 10,667 |
| Total Overseas | 3,605 | 5,701 | 37,022 | - | 3,919 | 3,802 | 54,049 |
| Gross Balances | 14,631 | 10,837 | 246,370 | 16,786 | 17,982 | 21,483 | 328,089 |
| **Other Risk Concentrations** | | | | | | | |
| Receivables due from other financial institutions | | | | | | | 6,042 |
| Deposits with regulatory authorities | | | | | | | 45 |
| Total Gross Credit Risk | | | | | | | 334,176 |

(1) Principally owner occupied housing.

(2) Primarily financing real estate and land development projects.

(3) The 2005 comparatives which included the first time adoption to AIFRS as published in the 2006 Financial Report.

(4) 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.

(5) This number comprises $129,913 as per (3) and $1646 million per (5).

(6) This number comprises $31,201 as per (3) and $13,240 million per (5).

## 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.

# 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**

| | Group At 30 June 2007 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Sover-eign $M | Agricul-ture $M | Bank & Other Financial $M | Real Estate Mortgage $M | Real Estate Constru-ction $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.

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 and 2005.

| Industry | 2006 $M | 2005 $M |
|---|---|---|
| Australia | | |
| Government and public authorities | 1,528 | 3,000 |
| Agriculture, forestry and fishing | 3,307 | 3,213 |
| Financial, investment and insurance | 9,683 | 5,882 |
| Real estate: | | |
| Mortgage (1) | 146,869 | 131,559(5)(6) |
| Construction (2) | 2,085 | 1,694 |
| Personal | 16,001 | 14,504 |
| Lease financing | 4,924 | 5,055 |
| Other commercial and industrial | 49,706 | 44,441(5)(7) |
| **Total Australia** | 234,103 | 209,348 |
| **Overseas** | | |
| Government and public authorities | 380 | 216 |
| Agriculture, forestry and fishing | 3,094 | 3,372 |
| Financial, investment and insurance | 8,003 | 7,027 |
| Real estate: | | |
| Mortgage (1) | 22,287 | 20,765 |
| Construction (2) | 268 | 271 |
| Personal | 521 | 552 |
| Lease financing | 139 | 195 |
| Other commercial and industrial | 7,526 | 4,624 |
| **Total Overseas** | 42,218 | 37,022 |
| **Gross loans, Advances and Other Receivables** | 276,321 | 246,370 |
| Provisions for bad and doubtful debts, unearned income, interest reserved and unearned tax remissions on leveraged leases (3) | (2,796) | (3,138) |
| **Net Loans, Advances and Other Receivables** | 273,525 | 243,232 |

(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 |

### 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 than 5% of the Group's capital resources (Tier One and Tier Two capital):

| | | Group | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | Number | Number | 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.

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 2007, master netting arrangements reduced the credit risk of the Group by approximately $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.

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 2007 these facilities reduced the credit risk of the Group by approximately $16 billion.

# Appendix A – Additional Historical Information

## Asset Quality

**Impaired Financial Assets**

| | Group 2006 % | 2005 % |
|---|---|---|
| **Impaired Asset Ratios** | | |
| Gross impaired assets as a % of gross loans and acceptances | 0. 11 | 0. 16 |
| Net impaired assets as % of: | | |
| Gross loans and acceptances | 0. 06 | 0. 09 |
| Total Shareholders' equity | 0. 73 | 0. 97 |

**Financial assets individually assessed as impaired**

| | 2008 Gross Impaired Assets $M | 2008 Individually Assessed Provisions $M | 2008 Net Impaired Assets $M | Group 2007 Gross Impaired Assets $M | 2007 Individually Assessed Provisions $M | 2007 Net Impaired Assets $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 (mm).

# Appendix A – Additional Historical Information

## 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 |

## Average Balances and Related Interest

| Net Interest Margin | 2007 Avg Bal $M | 2007 Income $M | 2007 Yield % |
|---|---|---|---|
| Total interest earning assets (excluding securitisation) | 332,492 | 22,853 | 6. 87 |
| Total interest bearing liabilities (excluding securitisation) | 311,236 | 15,932 | 5. 12 |
| **Net interest income & interest spread (excluding securitisation)** | | 6,921 | 1. 75 |
| Benefit of free funds | | | 0. 33 |
| **Net interest margin** | | | 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

## Asset Quality

### Impaired Assets

The following table sets out the Group's impaired assets as at 30 June 2005 and 2006.

| | Group 2005 $M |
|---|---|
| **Australia** | |
| Non-Performing loans: | |
| Gross balances | 381 |
| Less interest reserved (1) | (19) |
| Gross balances (net of interest reserved) | 362 |
| Less provisions for impairment | (144) |
| Net Non-Performing Loans | 218 |
| Restructured loans: | |
| Gross balances | - |
| Less interest reserved (1) | - |
| Gross balances (net of interest reserved) | - |
| Less specific provisions | - |
| Net Restructured Loans | - |
| Assets Acquired Through Security Enforcement (AATSE): | |
| Gross balances | - |
| Less provisions for impairment | - |
| Net AATSE | - |
| Net Australian Impaired assets | 218 |
| **Overseas** | |
| Non-Performing loans | |
| Gross balances | 14 |
| Less interest reserved (1) | - |
| Gross balances (net of interest reserved) | 14 |
| Less provisions for impairment | (13) |
| Net Non-Performing Loans | 1 |
| Restructured loans: | |
| Gross balances | - |
| Less interest reserved (1) | - |
| Gross balances (net of interest reserved) | - |
| Less specific provisions | - |
| Net Restructured Loans | - |
| Asset Acquired Through Security Enforcement (AATSE) | |
| Gross Balance | - |
| Less provisions for impairment | - |
| Net AATSE | - |
| Net overseas impaired assets | 1 |
| **Total Net Impaired Assets** | 219 |

(1) Interest reserved not recognised under AIFRS from 1 July 2005.

### Impaired Assets

| | Australia 2006 $M | Overseas 2006 $M | Total 2006 $M | Australia 2005 $M | Overseas 2005 $M | Group Total 2005 $M |
|---|---|---|---|---|---|---|
| **Non-Performing Loans by Size of Loan** | | | | | | |
| Less than $1 million | **140** | **11** | **151** | 119 | 13 | 132 |
| $1 million to $10 million | **125** | **3** | **128** | 116 | 1 | 117 |
| Greater than $10 million | **47** | **-** | **47** | 146 | - | 146 |
| **Total** | **312** | **14** | **326** | 381 | 14 | 395 |

## Loans, Advances and Other Receivables

| | | | Group |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | $M | $M | $M |
| **Australia** | | | |
| Overdrafts | 2,902 | 2,672 | 2,564 |
| Housing loans (1) | 161,406 | 144,834 | 129,913 |
| Credit card outstandings | 7,185 | 6,997 | 6,682 |
| Lease financing | 4,532 | 4,924 | 5,055 |
| Bills discounted | 3,640 | 2,779 | 3,399 |
| Term loans | 68,577 | 56,950 | 46,451 |
| Redeemable preference share financing | - | 1 | 9 |
| Other lending | 1,339 | 597 | 389 |
| Other securities | 11 | - | - |
| **Total Australia** | 249,592 | 219,754 | 194,462 |
| **Overseas** | | | |
| Overdrafts | 1,605 | 2,435 | 2,660 |
| Housing loans | 28,931 | 22,287 | 20,765 |
| Credit card outstandings | 533 | 428 | 406 |
| Lease financing | 531 | 139 | 195- |
| Bills discounted | 33 | 7 | - |
| Term loans | 20,027 | 15,282 | 12,804 |
| Redeemable preference share financing | 1,194 | 1,194 | - |
| Other lending | 183 | 8 | 192- |
| Other securities | 303 | 438 | - |
| **Total overseas** | 53,340 | 42,218 | 37,022 |
| **Gross loans, advances and other receivables** | 302,932 | 261,972 | 231,484 |
| **Less** | | | |
| Provisions for impairment (Note 14): | | | (1,390) |
| Collective provision | (1,034) | (1,046) | (157) |
| Individually assessed provisions against loans and advances | (199) | (171) | |
| Unearned income: | | | (889) |
| Term loans | (941) | (934) | (683) |
| Lease financing | (979) | (645) | (19) |
| | (3,153) | (2,796) | (3,138) |
| **Net loans, advances and other receivables** | 299,779 | 259,176 | 228,346 |

(1) Includes securitised loan balances for 2007 of $15,633 million (2006: $12,607 million) in the Group and $15,164 million (2006: $9,977 million) in the Bank. Liabilities of similar values are included in Debt Issues (Group) and due to controlled entities (Bank).

| | | | Group |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| | $M | $M | $M |
| **Finance Leases** | | | |
| Minimum lease payments receivable: | | | |
| Not later than one year | 1,462 | 1,271 | 1,602 |
| Later than one year but not later than five years | 2,583 | 2,792 | 2,884 |
| Later than five years | 1,018 | 1,000 | 764 |
| **Lease financing** | 5,063 | 5,063 | 5,250 |

# Appendix A – Additional Historical Information

## Deposits and Other Public Borrowings

| | Group 2007 $M |
|---|---|
| **Australia** | |
| Certificates of deposit | 20,165 |
| Term deposits | 50,888 |
| On demand and short term deposit | 93,994 |
| Deposits not bearing interest | 6,662 |
| Securities sold under agreements to repurchase | 3,323 |
| **Total Australia** | 175,032 |
| **Overseas** | |
| Certificates of deposit | 903 |
| Term deposits | 16,416 |
| On demand and short term deposits | 9,183 |
| Deposits not bearing interest | 1,818 |
| Securities sold under agreements to repurchase | 30 |
| **Total Overseas** | 28,350 |
| **Total Deposits and Other Public Borrowings** | 203,382 |