



# Prospectus

A Guide to the Commonwealth Bank  
and how to become a Shareholder

**Commonwealth Bank**  
**PUBLIC SHARE OFFER**

## How to use this Prospectus

This Prospectus provides information on the Commonwealth Bank Public Share Offer and will help you decide if you wish to invest in these shares.

The Prospectus is divided into eight sections. Section One contains general information about investing in the Commonwealth Bank. The other sections present more detailed information on the Commonwealth Bank Group, the banking industry and the Commonwealth Bank's Public Share Offer. An Investigating Accountants' Report prepared by Arthur Andersen & Co, Chartered Accountants, on the financial operations of the Group (including SBV) for the five and a half years ended 31 December, 1990 is included. All information provided is relevant to the share issue.

The Prospectus contains the application form which members of the public must complete in making an application for shares. Application forms are only available within a Prospectus.

If, after reading this Prospectus, you wish to apply for shares, you should forward the completed application form to the Commonwealth Bank to be received by 4.00pm on 14 August, 1991. This can be done by lodging the completed application form at any branch of the Commonwealth Bank or State Bank of Victoria, by following the postal application procedure detailed on the application forms, or through your stockbroker.

If you have any questions about this Prospectus or how to apply for shares, please contact the Bank's Share Information Centre toll-free on 008 022 440.

For investment advice you should contact your stockbroker or other financial adviser.

## Timetable of Critical Events

|  |                            |
|--|----------------------------|
| Issue Date .....   | 5 July, 1991               |
| Subscription Lists open on .....   | 17 July, 1991              |
| Completed application forms to be received by<br>the Commonwealth Bank by (Closing Date) ..... | 4.00 pm on 14 August, 1991 |
| Basis of allocation of shares expected to be announced<br>on (Allotment Date) .....            | 28 August, 1991            |
| Any refund cheques expected to be mailed by .....  | 9 September, 1991          |
| Share certificates expected to be mailed by .....  | 9 September, 1991          |
| Quotation of shares on the ASX expected to commence<br>on (Quotation Date) .....               | 12 September, 1991         |

## Restrictions on Applications for, and Holdings of, Shares in the Commonwealth Bank

The Commonwealth Banks Act 1959 as amended imposes certain restrictions on applications for the issue of shares under this Prospectus to "foreign persons". Further, the Banks (Shareholdings) Act prevents the acquisition by any Australian or foreign bank of "interests" in the Commonwealth Bank. The Banks (Shareholdings) Act also imposes a restriction on any persons holding interests in voting shares of the Commonwealth Bank in excess of 5% of the total number of voting shares. There are certain exceptions to each of these provisions.

These provisions and the exceptions to them are quite complex. A summary of them is contained in "Restrictions on Share Ownership or Acquisition". However, persons who may be affected by the relevant prohibitions, or the exceptions to those prohibitions, should obtain legal advice.

## Disclaimer

This Prospectus was lodged with and registered by the Australian Securities Commission on 5 July, 1991 and is dated and issued the same date. No responsibility as to the contents of this Prospectus is taken by the Australian Securities Commission. No shares will be allotted or issued on the basis of this Prospectus after 5 January, 1992.

**This offer closes at 4.00 pm on 14 August, 1991 unless extended**

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# Message from M A Besley, AM, Chairman

## COMMONWEALTH BANK OF AUSTRALIA

48 MARTIN PLACE, SYDNEY NSW 2000

A.C.N. 123 123 124

M A BESLEY  
CHAIRMAN

REPLY: GPO BOX 2719  
SYDNEY NSW 2001

TELEPHONE: 227 7111

To customers, staff and all other  
intending investors in the Commonwealth Bank.

Thank you for your interest in this exciting chapter in the Bank's history – the Commonwealth Bank Public Share Offer.

As Chairman of the Board, it is my pleasure on behalf of the Directors and staff to commend this Prospectus to you. The Prospectus presents intending investors with the opportunity to become a shareholder in Australia's largest domestic banking group.

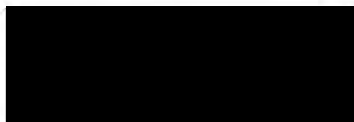
For many people, such as the cross-section who appear on the cover of this document, the Commonwealth Bank needs little introduction. Many Australians began saving with the Bank while at school and then went on to finance their homes, personal loans and businesses through us.

The Bank does not believe that its strengths begin and end with being Australia's largest domestic retail bank. Our treasury is held in high regard both in Australia and overseas and our institutional banking operations have well-established links with the business world. The Bank is also well positioned to develop further a substantial funds management business, an area which continues to offer strong growth potential in the financial services sector.

The Commonwealth Bank has played an important role in Australian society since its inception almost 80 years ago. And now, with this historic share offer, there is an opportunity for Australians to participate directly in our future through share ownership.

Directors expect that the Commonwealth Bank will be capitalised at an amount which will place it comfortably in the top ten largest Australian companies listed on the Australian Stock Exchange Limited.

I look forward to welcoming new shareholders to the Commonwealth Bank as together we work to consolidate our place as Australia's leading bank.



M A BESLEY

# Letter from the Commonwealth Treasurer, J C Kerin, MP



TREASURER  
PARLIAMENT HOUSE  
CANBERRA 2600

The Directors  
Commonwealth Bank of Australia  
48 Martin Place  
GPO Box 2719  
SYDNEY NSW 2000

Dear Directors

On behalf of the Commonwealth Government, I would like to express my best wishes to the Commonwealth Bank of Australia as it becomes a publicly listed company, through its initial public offer of ordinary fully paid shares.

The offer to the public of shares in the Commonwealth Bank gives effect to the Government's decision to convert the bank to a public company following its successful bid to acquire the State Bank of Victoria. In doing so, this issue provides the Australian public with the opportunity to participate directly in the ownership of one of Australia's leading financial institutions.

The Government is proud of the record of the Commonwealth Bank as a wholly owned Commonwealth Government business enterprise and looks forward to the Commonwealth of Australia continuing as its major shareholder. The Commonwealth Banks Restructuring Act 1990 requires the Government to maintain a shareholding of at least 70 per cent of the total voting shares issued by the bank. The Government has no plans to reverse or modify this position.

The Commonwealth Bank Board is required to submit a corporate plan and major policy issues to me for my consideration. Apart from that, I would not normally expect to be involved in the commercial policies of the bank.

Finally, it is this Government's intention that the liabilities of the Commonwealth Bank will continue to be guaranteed by the Commonwealth of Australia. This does not mean, however, that an investment in shares of the Commonwealth Bank under this offer or otherwise is in any way guaranteed by the Commonwealth, and prospective investors should be aware of that.

I wish the bank's management and staff every success in the future and look forward to welcoming Australians as fellow shareholders.

Yours sincerely

JOHN KERIN

## Glossary

In this Prospectus, the Commonwealth Bank of Australia is also referred to as the **"Commonwealth Bank"**. Its major subsidiary, Commonwealth Savings Bank of Australia, is referred to as **"CSB"**. The operations of both these banks are co-ordinated under the Board within the Commonwealth Bank and, where the general banking operations of both entities are being described, the term **"Bank"** is used (see "Description of Business").

The **"Group"** refers to the consolidated operations of the Commonwealth Bank and all its subsidiaries, which include, from 12 February, 1991, Commonwealth Development Bank of Australia (**"CDB"**). Prior to 12 February, 1991 CDB was not a subsidiary of the Commonwealth Bank (see "Major Subsidiaries"). Where indicated, CDB has been included in figures prior to 12 February, 1991 for comparative purposes.

State Bank of Victoria (**"SBV"**) was acquired by the Commonwealth Bank on 1 January, 1991 (see "Acquisition of State Bank of Victoria"). The acquisition did not include Tricontinental Holdings Limited and its subsidiaries. Where indicated, certain financial information on SBV for dates prior to 1 January, 1991 has been consolidated with the Group on a pro forma basis. Except where otherwise stated, all financial information set out in this Prospectus excludes information relating to SBV.

Historical copy of CBA's 1991 IPO prospectus — not current disclosure.  
Do not rely on this document for any current investment decision.

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## **GENERAL INFORMATION**

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# Investing in the Commonwealth Bank

This Section contains an overview of the Commonwealth Bank Group and answers to commonly asked questions about its share issue. It is a summary only. Supporting detail is contained in the body of the Prospectus.

## Commonwealth Bank of Australia

The Commonwealth Bank Group is Australia's largest domestic banking group, providing a wide range of banking, financial and related services:

- The Commonwealth Bank together with CSB has the largest domestic deposit base of any financial institution in Australia, with total deposits of approximately \$49 billion following the acquisition of SBV.
- CSB is Australia's largest lender for housing.
- The Commonwealth Bank has the largest domestic branch network of any Australian bank.
- The Group (including SBV) maintains over 18 million customer accounts.
- The Commonwealth Bank employs around 48,600 full and part-time staff.

## Purpose of the Issue

On 31 December, 1990, the Commonwealth Bank settled the purchase of SBV (see "Acquisition of State Bank of Victoria"). Proceeds of the Public Share Offer, outlined in this Prospectus, will strengthen the Commonwealth Bank's capital base following the SBV acquisition and provide a sound foundation for further development of the Bank's business as opportunities arise.

## The Public Share Offer

### What is the Commonwealth Bank share issue?

- 239.3 million new fully paid ordinary shares are being offered to the Australian public.
- Subscription is at \$5.40 per share.
- Up to 9 million new ordinary shares are offered to employees pursuant to the Employee Share Ownership Scheme.
- Currently the Commonwealth of Australia (the "Commonwealth") owns 586.5 million ordinary shares.
- At completion of the issue and the offer to employees, assuming all shares are taken up, the Commonwealth will own 586.5 million shares representing 70.25% of the total number of issued ordinary shares.

## Shares

### What does it mean to be a shareholder in the Commonwealth Bank?

If you own an ordinary share in the Commonwealth Bank, you will be a part-owner of the Commonwealth Bank, not a lender to it or a borrower from it.

While it is possible for companies to have different types of shares with different rights and obligations, the Commonwealth Bank currently has only one kind of share: an "ordinary share". The significant rights of a shareholder in the Commonwealth Bank include:

- the right to participate in the profits of the Commonwealth Bank through the receipt of dividends;
- the right to vote at shareholder meetings, which must be held at least annually; and

- in the unlikely event that the Commonwealth Bank was ever wound up, the right to participate in any surplus remaining after payment of all creditors.

Share ownership gives you the opportunity to participate in any increase in value of the Commonwealth Bank. This may be reflected in an increased share price for your ordinary shares.

There are also risks associated with share ownership. The Commonwealth Bank is a limited liability company and fully paid shareholders are not obliged to contribute more share capital in the event of losses. However, it is possible that, if there are losses or profits fall, shareholders may not receive dividends or dividends may be reduced and the value of their shares may decline.

You can obtain further detailed information about the consequences of share ownership from your stockbroker or other investment adviser. There is also more information on share ownership in "Investing in Equities – some things to know".

#### **What is the "Par Value" of each share?**

Each ordinary share in the Commonwealth Bank has a "par value" of \$2.00. This is a legal concept which does not necessarily reflect the market value or issue price of the shares. As is common with many companies, the Commonwealth Bank has valued its shares for this issue at a sum in excess of the par value. That excess is called a "premium" and the subscription price reflects the "premium" as well as the par value.

#### **What are the financial benefits from share investment?**

There are two main financial benefits that may arise from owning shares:

- income in the form of dividends; and
- growth in the value of shares, referred to as capital appreciation.

You should note, however, that a company is not bound to, or may be unable to, declare a dividend and that the value of shares can fall as well as rise.

#### **How do shares differ from other investments such as Interest Bearing Deposits?**

Interest bearing deposits pay a certain (usually fixed) rate of return. Ownership of an ordinary share gives the holder a right to participate in profits and receive dividends which may vary depending upon the profitability of the company and subject to dividend policy.

Shareholders differ from depositors in that they are part owners of the company. As such they have the right to vote at shareholder meetings and the opportunity to participate in capital appreciation resulting from growth in the underlying business. Depositors do not have these rights.

Unlike interest bearing deposits which enable a depositor to demand repayment of his or her deposit, an ordinary shareholder cannot demand that the company redeem shares. Shareholders are able to realise their investment by selling shares to a third party, usually through the stock exchange. The price of the shares and the demand for them fluctuates, reflecting market conditions and investors' perceptions of the company and its performance.

#### **What about taxation?**

The Commonwealth Bank intends to pay fully franked dividends whenever possible. This means that, depending upon your marginal tax rate, either some or all of your dividends would effectively be tax free.

Shareholders with marginal tax rates below 39% can use excess franking to offset tax payable on other income.

Capital Gains Taxation may apply should you sell some or all of your shares at a price which, after certain adjustments for tax purposes, is above your subscription price.

See "Investing in Equities – some things to know" for further information on taxation. Investors should, however, seek their own taxation advice.

**Is the share issue underwritten?**

The issue of Commonwealth Bank shares to the public is underwritten. This means that the underwriter will subscribe for any of the shares on offer (other than those offered to employees under the Employee Share Ownership Scheme) that are not taken up by other investors. See "Information on the Share Offer" for further details.

**Dividends****What are Dividends?**

Dividends are a share of the profits of the company. The size of the dividend will depend, among other things, upon the Commonwealth Bank's profitability.

**When will dividends be paid?**

Dividends are expected to be paid twice yearly. The first dividend payable on the shares issued under this Prospectus will be for the six months ending 31 December, 1991 for distribution in the first half of 1992.

**What will the dividend be?**

It is currently the intention of the Directors to pay or recommend dividends comparable with industry standards (see "Dividend Policy").

**Can dividends be re-invested?**

The Commonwealth Bank intends to establish a dividend re-investment plan. This means that, instead of being paid your dividend in cash, you may choose to receive it as more shares in the Commonwealth Bank. See "Dividend Policy" for further information.

**Financial Information****What is the Commonwealth Bank Group's profit expected to be in 1990-91?**

Because of the impact of current recessionary conditions in the business, rural and household sectors on interest margins and bad debt expense, coupled with initial funding and other costs associated with the acquisition of SBV, Directors expect profitability of the Group (which includes SBV from 1 January, 1991) to decline substantially in 1990-91. Group operating profit after tax, excluding abnormal items, was \$208.7 million for the six months ended 31 December, 1990 and \$253 million for the ten months ended 30 April, 1991. Including abnormal items, Group operating profit after tax for the ten months ended 30 April, 1991 was \$774 million. Information available to Directors suggests that profit for the full financial year will remain around the level attained at 30 April, 1991. However, Directors caution that even this broad indication for 1990-91 is necessarily subject to uncertainty, particularly in assessing the bad and doubtful debt provisions in the difficult economic circumstances of this year. See "Profit Outlook".

**By comparison, what is the Commonwealth Bank Group's recent financial performance?**

- Compounded annual growth in operating profit after tax (before extraordinary items) for the Group (including CDB) was 17.3% per annum for the five years ended 30 June, 1990.
- The average return on average equity for the same period was 12.1% per annum.
- Operating profit after tax was \$531 million in 1989-90 including abnormal items of \$35 million. For the six months ended 31 December, 1990 it was \$536 million, including abnormal items of \$328 million.

**What is the Net Tangible Asset backing of Commonwealth Bank shares?**

Following the completion of this issue and assuming employees take up their full entitlements under the Employee Share Ownership Scheme, the adjusted Net Tangible Asset backing per issued share of the Commonwealth Bank will be \$5.86 (see "Investigating Accountants' Report").

**Does the Government guarantee investments in Commonwealth Bank shares?**

No. The Commonwealth of Australia guarantees the repayment of liabilities, such as customer deposits, of the Commonwealth Bank, CSB and CDB. It does not guarantee their performance generally, nor does it guarantee the value of the Commonwealth Bank's shares.

See "Relationship with Government" for further details on the relationship between the Commonwealth Government and the Commonwealth Bank, CSB and CDB.

### **What is the Commonwealth Bank's commercial objective?**

It is the duty of the Board, within the limit of its powers, to ensure that the banking policies of the Commonwealth Bank, CSB and CDB are directed to the greatest advantage of the people of Australia and have due regard to the stability and balanced development of the Australian economy.

The Board shall, in exercising its powers, have regard to the need for the Commonwealth Bank, CSB and CDB to perform economically, efficiently and in accordance with commercial principles.

The Board believes that maximisation of long term shareholder wealth is consistent with those obligations and intends to pursue that objective vigorously.

## **How to apply for Shares**

### **What is the minimum and maximum investment?**

The minimum investment for members of the general public is \$2,160 and for employees purchasing under the Employee Share Ownership Scheme \$486. The maximum shareholding limit is 5% of all Commonwealth Bank shares. Within this range, there is no limit on investment. No guarantee can be made that investors will be allotted all or any shares that they apply for (see "Information on the Share Offer" and "Restrictions on Share Ownership or Acquisition").

### **How can I apply?**

Applications by the public must be made on one of the forms found in the middle of this Prospectus and may be lodged at a branch of the Commonwealth Bank (including SBV branches), with your stockbroker or mailed by following the postal application procedure detailed on the application forms as soon as possible but must be received no later than 4.00pm on 14 August, 1991, together with payment.

Instructions are provided in the Application Section.

### **Will receipts be given?**

A receipt will only be issued to those investors who lodge their applications at a branch of the Commonwealth Bank (including SBV branches) and who complete and lodge the receipt forms provided in the Application Section.

### **When will I know if my application has been successful?**

If your application has been successful, you will receive confirmation of the number of shares that you hold in the Commonwealth Bank by receipt of a share certificate expected to be within four weeks of the Closing Date.

### **What if my application is unsuccessful?**

If you are not successful in obtaining all or any of the shares you have applied for, the amount of money not applied to the purchase of shares will be returned to you within four weeks of the Closing Date. Interest will not be paid on application moneys.

### **Do Commonwealth Bank Group customers get preference?**

Any Australian resident can apply for shares, subject to the limits set out in "Details of the Issue". However, if the offer is oversubscribed, that is, if applications for shares are in excess of the shares available for issue, and subject to the provisions outlined under "Details of the Issue – Firm Allocation", preference will be given to existing customers of the Group (including SBV) who were customers on 1 June, 1991, together with employees (including retired Group employees).

### **How do I buy or sell Commonwealth Bank shares?**

It is intended that application by the Commonwealth Bank to the Australian Stock Exchange Limited (the "ASX") for the Official Quotation of its shares offered under this Prospectus and to employees pursuant to the Employee Share Ownership Scheme will be made by 8 July, 1991.

It is expected the shares will be quoted on 12 September, 1991. You will then be able to sell and buy Commonwealth Bank shares on the ASX at prevailing market prices through a stockbroker. You should note that transaction charges may apply on any sale or purchase.

See "Information on the Share Offer" for further information.

## Risk Factors

This section identifies some of the major specific risk factors associated with an investment in banks in general including the Commonwealth Bank. It is a summary only and intending investors should read the whole of this Prospectus in order to appreciate fully such matters and the manner in which the Commonwealth Bank operates to minimise these risks.

Risk associated with investing in the Commonwealth Bank can be divided into three broad categories.

### 1. Macro Economic Risks

The Commonwealth Bank Group is a major lender to Australian and overseas businesses and to individuals. The general state of the Australian and international economies will influence the level of profitability of the Commonwealth Bank and therefore its share price.

### 2. Banking Industry Specific Risks

In addition to economic factors, there are a number of factors which may affect the profitability of banks operating in Australia, including:

- changes in Government monetary policy;
- changes in taxation policies;
- changes in interest rates; and
- changes in Reserve Bank requirements.

### 3. Company Specific Risks

There are a number of risk factors which arise directly from the operations of the Commonwealth Bank as a major participant in the banking and finance sector and from the specific structure of the Commonwealth Bank and its relationship with the Commonwealth Government. These factors include potential losses which may result from:

- concentration of lending to one or more sectors of the economy or large exposures to individual borrowers;
- management of the Bank's interest rate spread;
- foreign currency trading operations;
- management of the Bank's liquidity;
- the operations of CDB (see "Major Subsidiaries");
- the operations of the Commonwealth Bank's finance company subsidiary, CBFC (see "Major Subsidiaries"); and
- the operations of other subsidiaries of substance.

The Commonwealth's involvement with the Commonwealth Bank has both benefits and limitations. Provisions of the Commonwealth Bank's Memorandum and Articles of Association and the Commonwealth Banks Act 1959 as amended give the Commonwealth some powers in addition to those arising from its position as a majority shareholder. They also impose some special responsibilities on the Board of the Commonwealth Bank (see "Relationship with Government"). Directors do not expect that those provisions will impinge adversely on the operations of the Commonwealth Bank.

The provisions of the Articles of Association of the Commonwealth Bank and the Commonwealth's minimum 70% shareholding mean that the co-operation of the Commonwealth is necessary for the Commonwealth Bank to raise any new share capital.

The Commonwealth of Australia guarantees all liabilities of the Commonwealth Bank.

# Capital Structure

| <i>(number of shares)</i> |  | <i>(dollars in millions)</i> |
|---------------------------|--|------------------------------|
| <u>3,250,000,000</u>      | <b>Authorised Capital</b>  |                              |
|                           | Ordinary shares of \$2.00 each   | <u>\$6,500.0</u>             |
|                           | <b>Issued Capital</b>  |                              |
|                           | Ordinary shares of \$2.00 each:  |                              |
| 586,445,840               | Shares held by the Commonwealth of Australia   | \$1,172.9                    |
| <u>239,300,000</u>        | Shares now offered for subscription and underwritten                                 | <u>478.6</u>                 |
| 825,745,840               |  | 1,651.5                      |
| 9,000,000                 | Shares now offered to employees for subscription and not underwritten <sup>(1)</sup> | <u>18.0</u>                  |
| <u>834,745,840</u>        | <b>Total Issued Capital</b>  | <u>\$1,669.5</u>             |

(1) Assumes full take up of shares offered to employees pursuant to the Employee Share Ownership Scheme.

(2) See "Information on the Share Offer" for further details of the issue.

## Overview of the Commonwealth Bank

The Commonwealth Bank, together with its subsidiaries, provides a wide range of banking, financial and related services in Australia. Following its acquisition of SBV, the Commonwealth Bank had 48,617 employees and operated through approximately 1,800 branches and service centres. The Commonwealth Bank Group conducts over 18 million accounts for its customers.

Except as otherwise indicated, the following tables are based on published accounts and show the financial development of the Group (including CDB). These figures may vary from those shown in the Investigating Accountants' Report which incorporates certain adjustments.

### Selected Group Financial Information

| (in millions)                          | Actual   |          |          |          |          | Pro Forma <sup>(1)</sup> |          |
|--|----------|----------|----------|----------|----------|--------------------------|----------|
|  | 30 June, |          |          |          |          | 31 December,             |          |
|  | 1986     | 1987     | 1988     | 1989     | 1990     | 1990                     | 1990     |
| Total Assets                           | \$39,647 | \$43,887 | \$50,445 | \$60,650 | \$67,030 | \$73,005                 | \$94,719 |
| Lending Assets <sup>(2)</sup>          | 27,438   | 30,559   | 36,583   | 45,575   | 50,792   | 52,828                   | 68,610   |
| Deposits                               | 24,107   | 26,416   | 29,083   | 34,237   | 37,763   | 42,093                   | 55,974   |
| Total Capital Resources <sup>(3)</sup> | 2,020    | 2,504    | 2,734    | 4,028    | 4,824    | 5,472                    | 7,751    |

(1) Based on the pro forma balance sheet presented in the Investigating Accountants' Report as at 31 December, 1990.

(2) Includes Loans, Advances, Lease Financing and Bills Discounted (after deducting provisions for debts considered bad or doubtful). Includes Bank Acceptances.

(3) Includes Equity, Minority Shareholders' Interests, Undated Floating Rate Notes and certain Dated Bond and Note Issues.

### Abridged Group Profit and Loss

| (in millions)                        | Actual              |         |         |         |         | Six months ended<br>31 December, 1990 |
|--------------------------------------|---------------------|---------|---------|---------|---------|---------------------------------------|
|                                      | Year ended 30 June, |         |         |         |         |                                       |
|                                      | 1986                | 1987    | 1988    | 1989    | 1990    |                                       |
| Income                               | \$4,806             | \$5,452 | \$5,825 | \$6,928 | \$9,562 | \$4,892                               |
| Expense                              | 4,361               | 5,074   | 5,159   | 6,062   | 8,778   | 4,536                                 |
| Operating Profit                     | 445                 | 378     | 666     | 866     | 784     | 356                                   |
| Income Tax                           | 156                 | 181     | 393     | 390     | 290     | 147                                   |
| Operating Profit<br>after Income Tax | 289                 | 197     | 273     | 476     | 494     | 209                                   |
| Abnormal & Extra-<br>ordinary Items  | (9)                 | 6       | 92      | 3       | 37      | 328                                   |
| Net Profit*                          | 277                 | 198     | 359     | 476     | 524     | 532                                   |

\*After abnormal items, extraordinary items and minority interests.

## Objectives and Strategies

Pursuant to the Commonwealth Banks Act 1959 as amended (the "Act"), it is the duty of the Board, within the limit of its powers, to ensure that the banking policies of the Commonwealth Bank, CSB and CDB are directed to the greatest advantage of the people of Australia and have due regard to the stability and balanced development of the Australian economy. The Board shall, in exercising its powers, have regard to the need for the Commonwealth Bank, CSB and CDB to perform economically, efficiently and to operate in accordance with commercial principles.

The Board believes that maximisation of long term shareholder wealth is consistent with those obligations and intends to pursue that objective vigorously.

In assessing the best way to achieve this objective, the Board develops an annual corporate plan, following an assessment of the economic and competitive environment and an analysis of the Group's strengths and weaknesses. In accordance with the Act, this plan is submitted by the Board to the Commonwealth Treasurer (see "Relationship with the Commonwealth Government").

The Bank's mission statement reads:

"The Commonwealth Bank strives to be the leading provider of financial services in its domestic markets, with compatible presence overseas. It operates responsibly according to commercial principles and with industry related performance objectives."

To assist in the achievement of the Bank's mission, specific objectives are set. The primary operating objective relates to profitability. The Bank aims to achieve a return which at least matches that of its major competitors.

The banking industry is reliant on the maintenance of a reputation of security and stability. To this end, the Bank has established a framework of internal prudential controls. These prudential controls require compliance with the more stringent of regulatory or internal management controls. Establishment of the Group Credit Policy and Control function is part of the Bank's commitment to credit management.

The Bank also aims to achieve growth of business so as to maintain or improve its competitive position, without compromising other objectives.

Its planning also takes account of the need to continue to achieve improvement in productivity relative to its competitors.

Retail banking is the Bank's major core business. Following the purchase of SBV, the Bank has enhanced its position of having the largest retail banking base in Australia. Retail banking is a competitive, mature business. The Bank seeks to provide service which is valued highly by its customers and to do so at lowest cost having regard to the economies of scale in its processing.

Within the Bank's Institutional Banking division, which encompasses its Corporate, International, Capital Markets and Group Treasury units, corporate strategy requires the generation of returns through improved servicing of the Bank's customer base. Group Treasury's strategic objective is to fund the liquidity needs of the Bank at the lowest cost consistent with prudent policy.

Increased emphasis on retirement planning brought about by Commonwealth Government policy changes has highlighted the important role funds management, largely associated with life insurance and superannuation, will play in the future. The Bank's Financial Services Division is working to raise the Bank's presence in this sector, based on bringing such services to its existing customer base.

Specialist activities will continue to be carried out by the Commonwealth Bank's wholly owned subsidiaries. Commonwealth Development Bank will continue to focus on lending to small businesses and to the rural sector. AEFC, the Commonwealth Bank's merchant bank subsidiary, provides corporate advisory services and structured finance. CBFC offers equipment finance and other specialised services with emphasis on the small business sector.

ASB Bank Limited, the Commonwealth Bank's 75% owned New Zealand subsidiary, aims to build on its existing base into a full service bank. This may involve expansion geographically and into other financial services.

## Acquisition of State Bank of Victoria

The Bank had recognised for some years that its share of the Victorian market was low and that this put it at a competitive disadvantage. Merger with SBV presented the Bank with a unique opportunity to overcome this disadvantage. The processing economies available from the merger form an important part of the Bank's cost leadership strategy.

Prior to purchase, the Bank carried out a detailed due diligence review of SBV's operations. This review satisfied the Directors that the purchase of SBV would be justified on the agreed terms and conditions. The purchase of SBV (which did not include Tricontinental Holdings Limited and its subsidiaries) was settled on 31 December, 1990 for a consideration of \$1.6 billion including goodwill of \$790 million. Purchased goodwill arising from the acquisition will be capitalised and amortised over a period not exceeding 20 years. The acquisition was subject to a number of representations and warranties and certain indemnities were provided by the Victorian Treasurer (see "Relevant Contracts").

The acquisition was the subject of an agreement between the Commonwealth Bank and the Victorian Government. The merger of the two organisations was effected through Acts of the Commonwealth and Victorian Parliaments which applied the principle of universal succession, the result of which was that SBV ceased to exist as a legal entity on 1 January, 1991 and the Commonwealth Bank assumed its property, rights and obligations. The creation of a unified organisation means unified management and control of the Bank and SBV.

Immediate action was taken to bring together the liquidity operations of both organisations. The establishment of centralised financial control has also been an early priority. Business and service units are working to specific timetables for integrating SBV operations into the Bank.

Integration entails review of the efficiency of the distribution network in Victoria. Combining the systems of the two organisations, particularly data processing, will be a key source of cost savings.

In its approach to the integration of the two organisations, the Bank is conscious of the need to make the best use of the skills of all its staff.

Successful integration of these two large organisations will take a considerable time. Although significant rationalisation benefits are expected to commence in 1991-92, because of the complexity and the scale of the integration, the Bank does not expect the rationalisation process to be completed for two to three years. The Bank believes that careful planning will provide the basis for a stronger, more profitable merged entity (see "Staff Resources").

## Composition of the Board

The Board of the Commonwealth Bank consists of eleven directors including the Chairman, the Deputy Chairman, two executive directors, the Secretary to the Commonwealth Treasury (ex officio) and six other members with wide financial and commercial knowledge and experience.

The members of the Board are:

**M A Besley, AM, Chairman**

Member of the Board and Chairman since 1988. Member and Chairman of the Credit Committee and the Staff Policy and Review Committee. Bachelor of Civil Engineering and Bachelor of Legal Studies. Forty years experience in engineering, finance and public service. Other directorships include The Commonwealth Industrial Gases Limited (Chairman), Leighton Holdings Limited (Chairman), Elgas Limited (Chairman), Redland Australia Limited (Chairman), Amcor Limited and Fujitsu Australia Limited. Councillor (NSW) and National President of the Metal Trades Industry Association of Australia. Member of the Board of Management, Australian Graduate School of Management, The University of New South Wales. Resident of New South Wales. Aged 64.

**J T Ralph, AO, Deputy Chairman**

Member of the Board and Deputy Chairman since 1985. Member and Chairman of the Audit Committee. Fellow of the Australian Society of Certified Practising Accountants. Forty-two years experience in the mining and finance industries. Other directorships include CRA Limited (Managing Director), Comalco Limited (Chairman) and the Australian Mining Industry Council. Vice President of the Business Council of Australia. Member of the Board of Management, Graduate School of Management, The University of Melbourne. Resident of Victoria. Aged 58.

**D N Sanders, CB, Managing Director**

Member of the Board, Managing Director of the Commonwealth Banking Corporation and Chief Executive Officer of the Commonwealth Bank of Australia since 1987. Appointed Managing Director of the Commonwealth Bank of Australia in 1991. Member of the Credit Committee and the Staff Policy and Review Committee. Bachelor of Economics. Fellow of the Australian Institute of Bankers. Forty-seven years experience in banking. Other directorships include ASB Bank Limited and Commonwealth Investments New Zealand Limited. President of the Australian Institute of Bankers. Member of the Council of the Australian Bankers' Association. Member of the Business Council of Australia. Resident of New South Wales. Aged 64.

**I K Payne, Deputy Managing Director**

Member of the Board, Deputy Managing Director of the Commonwealth Banking Corporation and Deputy Chief Executive of the Commonwealth Bank of Australia since 1987. Appointed an Executive Director of the Commonwealth Bank of Australia in 1991. Appointed Chief Operating Officer of the Commonwealth Bank Group in 1991. Member of the Credit Committee and the Staff Policy and Review Committee. Master of Economics. Thirty-two years experience in banking. Other directorships include AEFCL Limited (Chairman), CBFC Limited (Chairman), Commonwealth Management Services Limited (Chairman) and Commonwealth Life Limited (Chairman). Resident of New South Wales. Aged 49.

**N R Adler**

Member of the Board since August 1990. Member of the Audit Committee and the Staff Policy and Review Committee. Bachelor of Commerce and Master of Business Administration. Fifteen years as Chief Executive of various commercial enterprises, more recently in the oil and gas industry. Other directorships include Santos Limited (Managing Director) and QCT Resources Limited. Member of the Business Council of Australia. Resident of South Australia. Aged 46.

**A C Booth**

Member of the Board since August 1990. Also a Director of CBFC Limited since October 1990. Member of the Staff Policy and Review Committee. Bachelor of Economics (Hons) from the University of Sydney. Thirteen years experience in the trade union movement. Federal Secretary of the Clothing and Allied Trades Union of Australia, Federal Council. Member of the ACTU Wages Committee and ACTU Executive. Resident of New South Wales. Aged 35.

**A S Cole**

Member of the Board since 1991 in ex-officio capacity as Secretary to the Commonwealth Treasury. Bachelor of Economics. Joined the Commonwealth Public Service in 1968. Also an ex-officio member of the Board of Reserve Bank of Australia. Resident of Australian Capital Territory. Aged 44.

**G Gleeson, AC**

Member of the Board since 1988. Member of the Audit Committee. Bachelor of Science and Master of Education. Forty-two years experience in education and public service. Other directorships include Commonwealth Management Services Limited, Commonwealth Life Limited and Amalgamated Holdings Limited. Chairman National Catholic Education Commission. Trustee of the Museum of Applied Arts and Science. Resident of New South Wales. Aged 63.

**J J Kennedy, CBE**

Member of the Board since 1974. Fellow of the Institute of Chartered Accountants in Australia. Thirty-five years experience in commerce and accounting. Other directorships include Pacific Dunlop Limited, Santos Limited, Australian Stock Exchange Limited and the Investments Board of the Queensland Treasury Corporation (Chairman). Chairman of the Royal Children's Hospital Foundation Queensland. Resident of Queensland. Aged 57.

**G M Pemberton**

Member of the Board since November 1989. Member of the Credit Committee. Bachelor of Science. Twenty-nine years experience in wool, transport and industrial services. Other directorships include Brambles Industries Limited (Managing Director), The Prince of Wales Children's Hospital Foundation and the Benevolent Society of New South Wales. Member, The Medical Foundation, The University of Sydney. Resident of New South Wales. Aged 51.

**G H Slee, AM**

Member of the Board since 1986. Member of the Credit Committee. Bachelor of Mechanical Engineering. Thirty-one years experience in engineering and manufacturing industries. Other directorships include National Training Board (Chairman), ASB Bank Limited (Deputy Chairman), AEFC Limited, the Board of the State Transit Authority of New South Wales and the TAFE National Centre for Research and Development Ltd (Chairman). Resident of New South Wales. Aged 54.

## Senior Management

Outside of the Board, the highest policy and decision forming group within the Bank is the Executive Committee. Senior Executives forming the Executive Committee are:

| Name                   | Position   | Age | Year Joined Bank |
|------------------------|--|-----|------------------|
| <b>D N Sanders, CB</b> | Managing Director and Chief Executive Officer          | 64  | 1987             |
| <b>I K Payne</b>       | Deputy Managing Director and Chief Operating Officer   | 49  | 1959             |
| <b>C J Ker</b>         | Chief General Manager, Institutional Banking           | 51  | 1958             |
| <b>D V Murray</b>      | Chief General Manager, Retail                          | 42  | 1966             |
| <b>B A Poulter</b>     | Chief General Manager, Group Credit Policy and Control | 61  | 1946             |
| <b>P J Rizzo</b>       | Chief General Manager and Adviser to Managing Director | 46  | 1991             |
| <b>A V Baumgart</b>    | Acting Financial Controller                            | 57  | 1950             |
| <b>P A Levy</b>        | General Manager, Personnel                             | 50  | 1989             |
| <b>B J Wright</b>      | General Manager, Commonwealth Development Bank         | 56  | 1959             |

## Staff Resources

### Overview

On 31 December, 1990 the Commonwealth Bank had a total of 36,857 employees of which 4,840 were employed on a part-time basis and 523 were employed in overseas offices. Following the acquisition of SBV the total number of employees was 48,617.

The majority of the Commonwealth Bank's employees are members of either the Commonwealth Bank Officers' Association (the "CBOA") or, in the case of former SBV employees, the Australian Bank Employees' Union (the "ABEU"), which are employee representative bodies.

A new award has been negotiated bringing all award employees nearly to the same conditions as had applied to Commonwealth Bank employees prior to the merger. This new award does not materially increase ongoing staff costs.

A number of phasing arrangements were made to assist SBV staff in their transition to the new conditions and to avoid undue harshness. A new Redundancy, Redeployment and Retrenchment Agreement is being finalised.

### Rationalisation of Branch Network and Employees in Victoria

Because SBV was an independent organisation, many staff were employed in policy making and head office functions. The merged bank therefore initially contained many duplications of function, which are being rationalised as the need for separate administration disappears under integration. The rationalisation process is under senior management control and the objective is to retain the most suitable staff to maintain the effectiveness of important functions in SBV as integration proceeds.

Staff whose positions become redundant through the rationalisation process will be assisted through retraining, where appropriate, for redeployment to other suitable jobs within the Bank. This process of retraining and redeployment will be facilitated through the normal rates of staff turnover. If these processes prove insufficient to satisfy a particular case, the matter will be handled under the terms of a retrenchment agreement.

Rationalisation of the Retail branch network will meet the Bank's standards of customer service and overall efficiency. The Bank expects that the normal staff turnover will assist the rationalisation.

Staff training is already working to smooth the integration of SBV staff and to strengthen the management and service levels offered to its customers.

### **Superannuation**

Membership of the superannuation fund conducted by the Commonwealth Bank Officers Superannuation Corporation or the (now closed) SBV Staff Superannuation Fund is compulsory for most full-time staff members of the Commonwealth Bank. The Commonwealth Bank's major superannuation plans are defined benefit plans which, for most members, pay a lump sum benefit with a pension option, although around 3,000 members of the old Commonwealth Bank scheme who did not elect to transfer to the new scheme will receive their major benefit in the form of an indexed pension.

Members are required to contribute to the major plans usually after a qualifying period, and the Commonwealth Bank makes contributions, based on actuarial advice, sufficient to meet the benefits defined.

The structure and benefits of the superannuation plans were modified in 1990 to bring them fully into line with a new range of statutory requirements. At the same time new benefit structures were introduced.

It is expected that the Commonwealth Bank's contribution to the superannuation funds will initially average about 14.5% of annual salaries, reducing over time to around 13% of annual salaries as the old scheme winds down. These rates represent reductions on the contribution rate of about 18% required prior to the plan's 1990 restructure.

At 30 June, 1989 an actuarial surplus of \$874 million had been identified within the Commonwealth Bank Officers Superannuation Fund. This amount was appropriated to the Commonwealth Banking Corporation and therefore automatically vested in the Commonwealth Bank. In addition, the Commonwealth Bank reduced contributions to the fund from 1 January, 1990 and has suspended contributions to the fund from 18 May, 1990 until at least 30 June, 1991.

Part of the reserves of the fund, which were no longer required for their former purpose of smoothing interest rates declared on member contributions, was allocated to pensioned and serving members as at 30 June, 1990 who were members of the fund during a prescribed period; part was retained in the fund.

The superannuation funds are managed within Financial Services Division of the Bank. All SBV plans are now closed to new staff who will join the Commonwealth Bank Fund. The funds are actuarially valued regularly and all liabilities are fully funded.

### **Remuneration**

During 1990, the Commonwealth Bank restructured its remuneration policies. The jobs of all executives and managers are categorised using a system which is widely used within the finance industry and which allows the Bank to compare salaries with industry standards.

With the exception of the highest levels among the senior executive group, all staff are now paid on scales derived from those industry standards. While the Commonwealth Bank has chosen not to be a market leader in remuneration, it believes that, with the exception of some senior executives, its staff are at present paid appropriately and the Bank is not operating at a competitive disadvantage. The Commonwealth Bank's remuneration strategy emphasises paying staff on the basis of the work done and the performance level achieved.

A "Gainshare" system was implemented during 1989-90 on a three year trial, with staff sharing a payment pool if Group results exceed predetermined levels. Managerial staff also participate in performance payment pools shared on the basis of individual performance which is assessed according to an annual review system.

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## **THE BANKING INDUSTRY IN AUSTRALIA**

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## The Role of Banks

Banks play a central role in financial intermediation. That role is essential for the functioning of a modern market economy. Banks provide depositors with a choice of investment facilities which offer a range of interest rates and maturities; they enable borrowers (both personal and business) to gain access to various types of finance for a wide range of purposes including personal expenditure, especially the purchase of housing; business working capital (including trade finance); and other business investment.

Reflecting the special role that banks play in the functioning of the Australian economy, a comprehensive framework of prudential supervision has been developed by the Reserve Bank of Australia (the "Reserve Bank") for the continuing viability of the Australian banking system (see "Regulation and Supervision of Banking in Australia").

## Institutional Structure

The Commonwealth Bank Group is one of four, long established nationally operating banking groups providing a wide range of commercial and retail banking products and services; these banks are generally referred to as the "major banks". Twenty-eight other groups are authorised to conduct banking business. Of these, fifteen are partly or wholly owned subsidiaries of foreign banks, while another three foreign banks operate in Australia as branches. State banks operate in New South Wales, South Australia, Western Australia and Tasmania.

## Competition in Australian Banking

In January 1991, the four major bank groups in Australia (including the Commonwealth Bank Group) accounted for 73% (\$143 billion) of total bank deposits in Australia. The Commonwealth Bank Group is the largest banking group in Australia based on total Australian dollar assets, accounting for approximately 23% of the total. The Bank provides a wide range of commercial and retail banking services through its nationwide network of branches. It is the largest lender for personal housing in Australia.

In addition to competing with each other, banks provide a variety of financial products and services in direct competition with other financial institutions, in particular finance companies, money market corporations, building societies and credit unions. Some banking groups (including the Commonwealth Bank Group) also compete in the fields of insurance, superannuation and travel.

In October 1990, the Commonwealth Government announced the establishment of a Parliamentary Inquiry into the Australian Banking Industry (the "Inquiry"). The terms of reference for the Inquiry are:

- the importance of the banking system to the Australian economy;
- the profitability of the banking sector through time and in comparison with other industries;
- the effectiveness of competition in the banking sector, including the impact of any barriers to competition; and
- the benefits of competition to different sections of the community including –
  - access to financial services;
  - product innovation;
  - choice and quality of financial services; and
  - information to users.

The committee conducting the Inquiry has been asked to report to the Commonwealth Treasurer during the second half of 1991.

## Regulation and Supervision of Banking in Australia

### Bank Authorisation

Banks other than State banks (which operate under specific State legislation) require an authority in terms of the Banking Act 1959 (the "Banking Act"). Applications for an authority to carry on banking business are made to the Commonwealth Treasurer; the application is assessed by the Reserve Bank and the Commonwealth Treasury against banking and prudential policy requirements. An authority may contain conditions. Also relevant is the Banks (Shareholdings) Act which limits the proportion of voting shares which an individual or associated persons may hold in a bank; the Commonwealth Treasurer's approval is required for a shareholding beyond 10%, but the Commonwealth Treasurer may not refuse an application for approval to go beyond 10% unless he is satisfied that giving such approval would not be in the national interest. The Governor General's approval is required for a shareholding above 15% and such approval may not be given by the Governor General unless he is satisfied it is in the national interest to do so. The Commonwealth Bank, CSB and CDB have each been authorised to operate as a bank in terms of the Commonwealth Banks Act 1959 as amended. The Banks (Shareholding) Act prevents a person (or a banking entity which is exempt from compliance with Sub-section 10A(1) of that Act because of Sub-section 10A(2) of that Act) from holding more than 5% of the voting shares of the Commonwealth Bank. There are additional restrictions on share ownership in the Commonwealth Bank (see "Restrictions on Share Ownership or Acquisition").

The Banking Act and the Reserve Bank Act 1959 empower the Reserve Bank to regulate the operations of authorised banks in Australia, including the Commonwealth Bank, CSB and CDB. The measures adopted include a range of regulatory and prudential requirements.

### Prudential Supervision

Some aspects of the prudential supervision of Australian banks are outlined below.

#### Capital Adequacy

The Reserve Bank established guidelines for the capital adequacy of Australian banks in August 1988 designed to strengthen their soundness and stability. These guidelines are generally consistent with those proposed by the Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements. They require Australian banks to have a ratio of capital (comprising "Tier 1" and "Tier 2" capital) to risk-adjusted assets and off-balance sheet exposures, determined on a risk-weighted basis, of at least 8%, of which at least half must be Tier 1 capital.

Tier 1 capital consists of paid-up ordinary shares, non-repayable share premium account, general reserves, retained earnings, non-cumulative irredeemable preference shares, minority interests in subsidiaries and other eligible instruments. Tier 2 capital, which cannot exceed Tier 1 capital, includes general provisions for doubtful debts, asset revaluation reserves, certain cumulative irredeemable preference shares, certain mandatory convertible notes and similar capital instruments, certain perpetual subordinated debt and limited life redeemable preference shares and term subordinated debt which meets certain criteria.

To assess the capital adequacy of banks under the capital guidelines, a bank's capital is related to different categories of its assets and off-balance sheet exposure, which are weighted according to five risk categories: 0%, 10%, 20%, 50%, 100%. The risk based capital guidelines also set credit conversion formulae for determining the credit risk of off-balance sheet items, such as guarantees, letters of credit and foreign currency and interest rate contracts.

#### **Liquidity Adequacy**

Each Australian bank must maintain at all times a minimum proportion of its balance sheet in specified prime assets. This ratio, referred to as the Prime Assets Requirement ("PAR"), provides banks with a stock of readily realisable assets of undoubted quality which can be quickly converted into cash. Such stock is additional to the liquid assets which each bank needs for management of day-to-day liquidity needs. The minimum PAR ratio for Australian banks is equivalent to 6% of each bank's total Australian dollar assets within Australia, less its capital base (as defined in the risk based capital adequacy guidelines) and favourable overnight settlement balances. "Prime assets" comprise cash, balances with the Reserve Bank, Treasury notes and other Commonwealth Government securities, and loans to authorised money market dealers secured by Commonwealth Government securities.

#### **Supervision of Large Credit Exposures**

Banks are required to report large exposures (on a consolidated group basis) to the Reserve Bank. Each bank is required to: provide (and update as necessary) a statement of its policy in respect of large exposures to individual clients or groups of related clients; report quarterly all exposures of the consolidated group to individual clients, or groups of related clients, above 10% of the capital base (Tier 1 and Tier 2) of the consolidated group; keep large exposures under review and to place a limit on their size relative to the capital base of the consolidated group; and give prior notification of its intention to enter into an exceptionally large exposure to an individual client or group of related clients to show that the proposed exposure would not result in the consolidated group undertaking an excessive risk. See "Loan Portfolio".

Any bank which has (on a consolidated group basis) an exceptionally large exposure or a large number of exposures of more than 10% of the capital base of the consolidated group must be able to show that excessive risks are not being undertaken. A bank wishing to maintain a high volume of large exposures may be required to maintain a higher capital ratio.

#### **Arrangements with External Auditors**

The Reserve Bank, with banks' co-operation, receives from banks' external auditors reports on observance of prudential standards, on the effectiveness and observance of risk management systems; on the reliability of statistical data provided by the bank to the Reserve Bank; and on compliance with statutory or supervisory requirements. There is also provision for external auditors to bring to the Reserve Bank's attention matters with potential to prejudice the interests of depositors. None of these arrangements is intended to cut across the customary relationships between a bank and its external auditor. All communications between the Reserve Bank and the external auditors pass through the bank concerned.

#### **Associations with Non-Banks**

Reflecting the Reserve Bank's concern to ensure that the interests of depositors with a bank are not prejudiced by the activities of a bank's subsidiaries or associated companies, the following guidelines apply to banks' equity associations with other institutions:

- equity associations should normally be in the field of financial intermediation or of substantial relevance to banking operations;

- a bank should finance new or additional equity associations with other institutions from its shareholders' funds, having close regard to the principle that, over a reasonable period of time, such investments should not contribute to a deterioration in its capital adequacy;
- a bank should not give a general guarantee of the repayment of liabilities issued by its non-bank associates and should ensure that an associate does not, in an attempt to up-grade the status of its liabilities, seek to give an impression that the bank's financial resources stand generally behind, or could be called upon to stand behind, its operations;
- a bank's financial dealings with an associate should be based on normal banking principles, ie. a bank would be expected to subject the financial position of an associate to as close a scrutiny as it would in the case of an unrelated customer of similar status. Generally, any explicit financial commitment by a bank to an associate should be limited as to amount, ie. it should not be open-ended;
- a bank should provide to the Reserve Bank at regular intervals (say, quarterly), agreed data in respect of its financial exposure – by way of equity, loans, standby guarantees, etc. – with each of its subsidiaries;
- insofar as a bank feels implicit responsibility for its associate, it should exercise that responsibility by ensuring that its associate has sound and prudent management which is aimed at achieving undoubted viability within the capital resources of the associate itself; and
- a bank should ensure that the size of its subsidiaries does not become unduly large relative to the bank itself and that there should not be a proliferation of a bank's associations, particularly in the same broad area of financial markets.

#### **Foreign Exchange Operations**

The Reserve Bank closely supervises the domestic foreign exchange operations of individual banks and has established for each bank domestic limits in respect of its net open overnight foreign exchange position (over-sold or over-purchased, spot and forward) which exposes a bank to foreign exchange risk.

Australian banks' foreign exchange operations in overseas centres, like their offshore operations generally, are subject to a range of controls and limitations imposed by authorities in the host countries and by head office managements. The Reserve Bank receives information on banks' foreign exchange exposures and reviews with them the adequacy of their internal monitoring and control systems.

#### **Prudential Consultations**

A central feature of the supervisory framework in Australia is regular discussion between the Reserve Bank and senior management of individual banks. Comprehensive consultations on a wide range of issues relating to each bank's operation are held at least annually. These meetings provide the Reserve Bank with the opportunity to discuss a bank's strategic plan, recent performance, prudential compliance and management.

#### **Non-Callable Deposits ("NCD")**

Each commercial and savings bank subject to the Banking Act is required to hold an NCD account with the Reserve Bank equivalent to 1% of its Australian dollar assets within Australia after deducting shareholders' funds and favourable overnight settlement balances. NCD balances earn interest as determined by the Reserve Bank, currently 5% per annum below the average yield on 13-week Treasury Notes, with the average derived from tenders of Treasury Notes each month.

#### **Interest Rate Controls and Lending Policy**

The Reserve Bank has the power to exercise control over interest rates paid or charged by banks. With the deregulation of the banking industry, almost all controls over bank interest rates have been, in practice, removed. The only remaining ceiling on bank interest rates applies to loans of less than \$100,000 for owner occupied housing approved prior to 3 April, 1986 (see "Retail Banking"). Provisions of the Banking Act allowing the Reserve Bank to direct the lending policies of banks remain in force but have not been exercised since June 1982.

**Depositor Protection**

Section 12 of the Banking Act provides that it is the duty of the Reserve Bank to exercise certain powers and functions given to it by the Banking Act (which include the power to require the supply of information, the power to assume control of a bank in financial difficulties and the power to impose prudential requirements upon banks) for the protection of depositors of banks authorised under the Banking Act to carry on banking business.

The Banking Act provides that the assets of a bank in Australia shall be available to meet its deposit liabilities in Australia in priority to all its other liabilities. That provision applies to the Commonwealth Bank and its banking subsidiaries. The Commonwealth Bank, CSB and CDB are unique among licensed banks in Australia in that the payment of all moneys owed by them is guaranteed by the Commonwealth of Australia pursuant to Section 117 of the Commonwealth Banks Act 1959 as amended.

*Historical copy of CBA's 1991 IPO prospectus — not current disclosure.  
Do not rely on this document for any current investment decision.*

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## **DESCRIPTION OF BUSINESS**

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## Introduction

The Commonwealth Bank, together with its subsidiaries, provides a wide range of banking, financial and related services in Australia. The Group is one of the four major Australian banking groups which together hold approximately 72% of domestic banking assets.

Following the acquisition of State Bank of Victoria, the Group is the largest banking group in Australia based on domestic assets and the fourth largest based on consolidated global assets. As at 31 December, 1990, the Commonwealth Bank's consolidated assets coupled with those of SBV totalled \$95.4 billion. Approximately 84% of these assets are held in Australia with the major portion of the remainder held in the United Kingdom, the United States of America and New Zealand.

The Bank provides commercial banking services to Australian individual, corporate and government customers and to international customers. Deposit and account facilities provided by the Bank and its subsidiaries include cheque and savings accounts; the acceptance of deposits, including term deposits; plastic card services; and electronic funds transfer and point of sale terminal systems. Credit facilities include overdrafts and fully drawn loans; credit cards; term loans; housing loans and related insurance; personal loans; project financing; lease financing; commercial bill lines; foreign currency lending; and international trade finance.

The Commonwealth Bank is active in the underwriting of debt securities issues on behalf of government bodies, statutory authorities and corporations. It also engages in money market, foreign exchange, fixed interest and futures trading, and undertakes interest rate and currency swaps and options. Other services include corporate advisory, funds management, nominee and portfolio management facilities. Travel services, travellers' cheques, life insurance, unit trusts, documentary credits, safe custody facilities and services for exporters and importers are also provided.

Following acquisition of the business of SBV, the Group has the largest domestic base in the Australian banking sector, conducting well over 18 million accounts for its customers. Branches are spread throughout Australia with the concentration being in Victoria and New South Wales. In addition to the Bank's 1,792 branches and service centres, limited banking facilities are available in Australia through almost 5,000 Post Offices and private agencies. Internationally, the Commonwealth Bank is represented through branches in London, New York, Singapore, Hong Kong, Tokyo and Grand Cayman; subsidiaries in Hong Kong, New Zealand, Papua New Guinea, Solomon Islands and Netherlands Antilles; an agency in Los Angeles and a representative office in Frankfurt.

## Background

- 1911** The original Commonwealth Bank of Australia was established by Act of Parliament to conduct trading and savings banking business and opened for business on 15 July, 1912 in Melbourne. By 1913 the original bank operated in all States and Territories in Australia with a Head Office in Sydney.
- 1924** The charter of the original Commonwealth Bank was expanded to encompass certain central banking functions.
- 1927** The Savings Bank Department of the original Commonwealth Bank was replaced by a new corporate body, Commonwealth Savings Bank of Australia ("CSB"), established by the Commonwealth Bank (Savings Bank) Act of 1927. CSB began operations as a distinct entity within the framework of the original Commonwealth Bank group in June 1928.

- 1945** Further legislation was enacted to segregate the commercial and central banking activities of the original Commonwealth Bank and to confer upon it full central banking authority. A General Banking Division was created to develop trading bank operations.
- 1953** The Commonwealth Bank Act 1953 established Commonwealth Trading Bank of Australia ("CTB") as a new legal entity to carry on the business then being conducted by the General Banking Division.
- 1959** The segregation of the central and non-central banking functions was formalised by the creation of the Reserve Bank of Australia under the Reserve Bank Act 1959 to take over all of the original Commonwealth Bank's central banking functions. In the same year, the Commonwealth Banks Act 1959 (the "1959 Act") created the Commonwealth Banking Corporation (the "Corporation") and the Commonwealth Development Bank of Australia ("CDB"). The 1959 Act also preserved and continued in existence CTB and CSB.
- The Corporation was created to provide staff and other administrative services to CTB, CSB and CDB. The Corporation Board assumed overall control of the group's activities.
- 1984** A major reorganisation was implemented to improve the competitive efficiency of the Bank by strengthening its capital base and modernising its management and administrative structures.
- The reorganisation of the Bank culminated in the Commonwealth Banks Amendment Act 1984, the main provisions of which were to:
- change the name of CTB back to its original name of Commonwealth Bank of Australia;
  - establish CSB as a wholly owned subsidiary of the Commonwealth Bank;
  - inject capital into the Commonwealth Bank;
  - lower the percentage of net profits to be paid to the Commonwealth of Australia in the form of a dividend; and
  - strengthen the wording of the guarantee of the Commonwealth of Australia.
- 1987** Further legislative amendment resulting in the Commonwealth Banks Amendment Act 1987 was enacted, the main provisions of which were to:
- align the powers of the Commonwealth Bank and CSB;
  - expand the powers of the Commonwealth Bank and CSB to enable the provision of insurance and other financial services;
  - require the Board to submit at least annually a corporate plan to the Commonwealth Treasurer;
  - give the Board an advisory role to the Commonwealth Treasurer in determining the level of dividend payments to the Commonwealth of Australia; and
  - increase the Bank's flexibility in staff management.
- 1990** The Commonwealth Banks Restructuring Act 1990 was passed, the main provisions of which were:
- to amend the 1959 Act to provide for the conversion of the Commonwealth 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 1959 Act;
  - to permit issue of shares to the public;
  - to amend the 1959 Act to provide for the CDB to have a share capital wholly owned by the Commonwealth Bank; and
  - to provide for the Commonwealth Bank to become the successor in law of the State Bank of Victoria.
- See "Relationship with the Commonwealth Government" for a description of the legal structure applicable following the Commonwealth Banks Restructuring Act 1990.

## Group Structure

The Commonwealth Banks Act 1959 as amended provides for three separate banking entities –

- Commonwealth Bank of Australia;
- Commonwealth Savings Bank of Australia; and
- Commonwealth Development Bank of Australia.

While the Commonwealth Bank provides a wide range of the banking services of the Group, CSB is the main depository for the Group's large retail customer base and is Australia's largest provider of housing finance. Although a subsidiary of the Commonwealth Bank and despite its separate legal status, CSB is effectively managed with the Commonwealth Bank as one unit. While the distinction between commercial and savings banks was removed by amendments to the Banking Act in 1989, further legislation will be needed to enable the legal merger of the Commonwealth Bank and CSB, should such a merger be considered desirable.

CDB became a subsidiary of the Commonwealth Bank on 12 February, 1991. It was established in 1959 when it assumed ownership of certain specialist operations within the Group. It focuses on providing finance to the rural and small business sectors.

The Commonwealth Bank has a number of other major subsidiaries which are active in the finance company, merchant bank and other financial services areas in Australia and overseas. The activities of CDB and the Commonwealth Bank's other major subsidiaries are described under "Major Subsidiaries".

The principal organisational divisions of the Bank are Retail, Institutional Banking, Financial Services, and Group Credit Policy and Control. The operations of each of these areas are described below.

## Retail Banking

Through its Retail arm, the Bank is dedicated to servicing the needs of individuals and small and medium businesses. A comprehensive range of deposit, lending, investment and information services is provided.

The following is a break-up by State of the Bank's domestic branch network at 31 December, 1990:

|                    | Branches   | Service Centres | Total        |
|--------------------|------------|-----------------|--------------|
| New South Wales    | 382        | 141             | 523          |
| Victoria           | 193        | 68              | 261          |
| Queensland         | 157        | 63              | 220          |
| Western Australia  | 87         | 29              | 116          |
| South Australia    | 74         | 19              | 93           |
| Tasmania           | 20         | 6               | 26           |
| ACT                | 15         | 5               | 20           |
| Northern Territory | 4          | 1               | 5            |
| Islands            | 1          | 0               | 1            |
| Total              | <u>933</u> | <u>332</u>      | <u>1,265</u> |

Following the acquisition of SBV, the Bank's total number of branches and service centres increased to 1,792 at 31 January, 1991 with 788 branches and service centres in Victoria. The Victorian branch network is under review as integration of the SBV operations proceeds (see "Staff Resources").

The Bank manages its branch network through a regional management system under which regional managers are responsible to Zone General Managers for groups of up to 45 branches. Overall, the retail branch network is administered by Retail, Head Office under the direction of the Chief General Manager, Retail.

### Customer Deposits

The Bank's principal source of funds is deposits, mainly savings and term deposits from individuals gathered through its branches. At December 1990, the Commonwealth Bank and CSB had \$37.1 billion in deposits (as defined by the Reserve Bank), the largest share (19%) of all bank deposits repayable in Australia. Following the acquisition of SBV, the deposits of Commonwealth Bank and CSB for January 1991 totalled \$48.8 billion. During the twelve months to December 1990 deposits grew by 23.3% (\$7.0 billion) compared with 9.7% in 1989. The Bank believes this growth reflected depositor preferences stemming from the Bank's perceived standing in the community and the attraction of its product range. Industry-wide promotion of investment products has contributed to a continuing shift of transaction account balances into higher yielding facilities, raising the average cost of deposits to the Bank. Deposits represented approximately 71% of total liabilities of the Commonwealth Bank and CSB at December 1990.

CSB holds the major market share in Australia of traditional passbook savings accounts. The amount of these deposits has remained relatively stable in recent years. However, in recent months a shift from these accounts into higher yielding accounts has been evident. This seems largely to be a result of the Commonwealth Government's introduction of a 10% per annum "deemed" interest rate on accounts with balances of more than \$2,000 held by certain social security pension recipients. This interest rate has since been reduced to 8% per annum by the Commonwealth Government.

With the exception of Term Deposits, all the Bank's deposits are repayable on demand and bear rates of interest which the Bank may adjust at its discretion.

A description of the Bank's and SBV's funding sources is included in "Funding Sources".

### Retail Lending

#### Housing Loans and Insurance

The Bank's principal retail lending product is housing loans. Through CSB, the Bank is the largest lender for housing in Australia. At 31 December, 1990, outstanding loan balances for owner-occupied housing totalled \$13.3 billion, an increase of \$1.0 billion (8%) in the six months since 30 June, 1990. Following the acquisition of SBV, total home loans outstanding were \$19.5 billion.

Home loans are traditionally regarded as one of the safest forms of lending in Australia. Despite the loan servicing difficulties currently facing some borrowers, the Bank's home lending losses have been very small (see "Provision for Doubtful Debts").

In April 1986, the Commonwealth Government announced the removal of the interest rate ceiling of 13.5% per annum on new owner-occupied housing loans of less than \$100,000 (see "Regulation and Supervision of Banking in Australia"). As at 31 December, 1990 the Bank had \$2.1 billion (15.8%) of its housing loan portfolio outstanding in loans capped at 13.5% per annum. SBV's portfolio of capped housing loans totalled \$1.6 billion (25.2%) at 31 December, 1990. Relative to the other major banks, the Bank has a comparatively high proportion of its housing loan portfolio subject to the 13.5% per annum ceiling. This has represented a constraint on the performance of the Bank's housing loan portfolio because market interest rates have been above this ceiling. The current lower interest rate environment removes this constraint, at least for the time being.

Housing loans have historically been provided on a variable interest rate basis for terms from five to 30 years and are secured by way of a first mortgage over the real property being purchased. In late 1989, the Bank introduced a fixed rate housing loan product; outstandings totalled \$2.2 billion at 31 December, 1990.

Houses financed by the Bank must be insured, either by it or by one of a number of independent insurance companies acceptable to the Bank. The Bank provides replace-

ment and indemnity insurance cover for houses purchased or constructed with the Bank's financing. At 31 December, 1990, total insurance cover amounted to approximately \$23.7 billion. Reinsurance cover for catastrophe losses is carried on the international reinsurance market. The ratio of claims to earned premium income was approximately 88% in the twelve months ended 31 December, 1990. This ratio was higher than in recent years due to factors such as the Newcastle earthquake and storms in the eastern States.

SBV provided a similar service to housing loan customers. At 31 December, 1990, SBV's total insurance cover amounted to approximately \$8.9 billion. The ratio of claims to earned premium income was approximately 46% in the year ended 31 December, 1990. The Bank will be reviewing the procedural and systems structures in both schemes as well as the premium structure with a view to providing a consistent scheme for all customers.

#### **Credit Cards**

Purchases using the Bank's credit card products, Bankcard, MasterCard and Gold MasterCard, increased by 15% to \$3.3 billion for the year ended 31 December, 1990. Cardholder account numbers stood at 1.6 million with aggregate balances of \$1.0 billion at 31 December, 1990. MasterCard cards issued by the Bank can be used at more than 238,000 establishments in the MasterCard system throughout Australia. The Bank's Bankcard cards are accepted at approximately 280,000 outlets. Around 33% of MasterCard merchants and 20% of Bankcard merchants have established their merchant arrangements with the Bank. Following the acquisition of SBV, the Bank now also offers Visa cards to its customers. The Bank's Visa cards can be used at more than 213,000 merchants Australia-wide. Around 13% of Visa card merchants in Australia have their merchant arrangements with the Bank.

#### **Personal Lending**

The Bank also offers housing loans for investment purposes. At 31 December, 1990, such loans totalled \$1.4 billion, the same level as twelve months earlier. Customer caution was also evident in demand for the Bank's other personal lending products, outstanding balances for which fell slightly to \$2.4 billion at 31 December, 1990, while approvals for the six months to 31 December, 1990 totalled \$0.5 billion compared with \$1.3 billion for 1989-90.

#### **Small and Medium Business Lending**

In addition to providing personal banking facilities, the Retail arm of the Bank offers loans and other financial services to small and medium sized businesses (facilities less than \$10 million). Lending to businesses may take the form of overdrafts, fully drawn loans, lease financing, term or instalment loans, commercial bills of exchange or contingent liabilities. The Bank provides "product packages" to different business and professional customers including special products for franchising groups and clients requiring trade finance.

#### **Other**

At 31 December, 1990, CSB also had outstanding long-term loans of \$693 million to the States of Queensland and Tasmania, secured by Commonwealth Government stock, under agreements initially entered into over 60 years ago. On average, such loans are at below current market lending rates due to previously agreed interest rate setting mechanisms. The agreement with Queensland expired in 1985. Loans to both States are scheduled to be repaid progressively over the next 15 years.

See "Loan Portfolio" for a break-up of the Bank's and SBV's lending. Lending policies are described in "Lending Policies and Practices".

#### **Electronic Banking**

In 1969, the Bank became the first nationally operating bank in Australia to commence the implementation of nation-wide on-line computer banking. The Bank is continuing to work to displace paper based transactions with electronic processing. During 1989-90, 119 million transactions were delivered through the Bank's electronic network. The Bank's Automatic Teller Machine ("ATM") network was the major channel for these electronic transactions and its customers have access to one of the largest proprietary ATM networks in Australia with over 1,075 ATM locations. The ATM network currently handles over 300,000 transactions a day. Reciprocal arrangements with Westpac Banking Corporation and the Commonwealth Bank's New Zealand subsidiary, ASB Bank Limited, mean the

Bank's customers can transact their business at over 2,000 sites. The availability of ATMs has been further enhanced with the linkage of SBV's ATM network of approximately 300 sites.

The Bank provides an EFTPOS (Electronic Funds Transfer at Point of Sale) network whereby the cost of purchases from supermarkets, service stations and fast food chains, may be debited directly from a customer's account while the retailer's account is simultaneously credited. At 31 December, 1990, approximately 3,000 retail outlets were linked to the Bank's EFTPOS network, which is part of a national system providing cashless shopping at more than 16,500 outlets throughout Australia. A similar system offered by SBV, involving links with approximately 400 retail outlets, is to be integrated into the Bank's system.

The Bank also provides home and office banking facilities through telephones or personal computers.

### **Customer Focus**

The Bank aims to improve the customer focus of all facets of its operations. A programme has been in progress for some time to simplify procedures and focus staff training more directly on customer needs to improve the delivery of quality service.

The Bank is sensitive to the needs of customers. It consults representative interest groups about products and services so as to take their views into account in the development of its business.

A formal Code of Practice reflecting the Bank's commitment to the maintenance of high standards of ethical conduct and good banking practice has been established.

The Bank recognises that there will be cases where some customers may not be satisfied in relation to their dealings with the Bank. Accordingly, a mechanism for dispute resolution has been established with avenue of appeal to the Bank's Customer Relations Executive. In those cases where the established mechanism for dispute resolution fails to solve a particular problem, the Banking Industry Ombudsman provides a further forum.

## **Institutional Banking**

In April, 1990 the Bank's Corporate, International, Group Treasury and Capital Markets activities were merged to form one business unit, Institutional Banking. This move was designed to maximise the effective marketing and delivery of the Bank's products to corporate, institutional and government customers; to improve operational efficiency; and to eliminate areas of unnecessary duplication. The Chief General Manager, Institutional Banking has overall responsibility for the operations of Institutional Banking.

### **Corporate**

The Bank's Corporate area is principally involved in the development, marketing, provision and administration of lending and financing facilities to corporations, institutions and governments in Australia and overseas. Corporate clients generally require facilities of \$10 million or more.

The Corporate operations of the Bank have been restructured during the past 18 months. A more focused delivery channel for corporate products was sought, resulting in the establishment of nine Corporate Centres Australia-wide, staffed by corporate bankers and backed by management information systems and support teams. Client relationship managers are able to draw on the Bank's experience in highly specialised areas such as risk management and capital markets, while the daily banking needs of the Bank's customers continue to be met through its branch network. This structure, with emphasis on client relationship development, is designed to enhance the Bank's links with its existing customers as well as provide a platform on which to build an increasing share of the corporate banking market.

The Bank's total outstandings for business loans grew by \$4.0 billion during 1989-90 and approximately \$1.1 billion in the six months to 31 December, 1990 to total approximately \$25.6 billion at that date. Since 1989-90 there have been increasing difficulties in the corporate sector, causing major problems for some borrowers.

The Bank's corporate strategy aims to achieve and maintain a quality asset portfolio. International lending strategies are being focused on Australian related business and trade finance.

The Bank manages its credit exposures to individual countries, companies, and company groups with regard to internally determined exposure limits. Exposure levels are kept under notice and credit facilities are formally reviewed at least annually (see "Lending Policies and Practices" and "Loan Portfolio").

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### **International**

The Commonwealth Bank maintains branches in London, New York, Singapore, Grand Cayman, Hong Kong and Tokyo, an agency in Los Angeles and a representative office in Frankfurt. The Commonwealth Bank also operates in New Zealand through ASB Bank Limited (see "Major Subsidiaries").

International business encompasses a range of international products, including instruments to support Australian exporters and importers; overseas money transfers; travellers' cheques; foreign currency accounts; business migration; and correspondent banking relationships. The Bank maintains in excess of 1,300 individual arrangements with correspondent banks in over 155 countries.

The Bank is paying particular attention to the development of its capabilities in the Asia/Pacific region.

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### **Group Treasury**

The Bank's Group Treasury operations encompass balance sheet risk management, domestic and international dealing operations, and economic research. The primary objective of Group Treasury is to ensure a reliable flow of funds at the least cost to meet the ongoing global needs of the Bank and to satisfy the prudential requirements established by management and monetary authorities. It is also responsible for management of the Bank's global non-credit risks (see "Funding Sources" and "Interest Rate, Foreign Currency and Liquidity Risk Management").

Through its Treasury Management area, Group Treasury is responsible for overall balance sheet risk management, including involvement in formation of policies and pricing for other operational areas of the Bank. It also oversees the wholesale funding of the Bank's domestic and international operations, including management of the cost, level and distribution of the Bank's liabilities in all currencies consistent with funding policy and liquidity requirements.

The Bank's domestic and international foreign exchange and money market operations are controlled by Group Treasury. Dealing activities are conducted world-wide, 5 days a week, on a 24 hour basis through a network of dealing rooms in Australia, New York, London, Tokyo, Hong Kong and Singapore. The Commonwealth Bank deals in all major foreign currencies and is an active market maker in the Australian dollar. Through its Dealing Division, the Commonwealth Bank is active in the Australian market in the trading and placement of commercial bills, promissory notes and fixed interest securities. It also participates in the interest rate and cross currency swap markets and operates in the financial futures and options markets. The Commonwealth Bank provides a range of foreign exchange, money market and interest rate risk management products to its clients.

Group Treasury's Economic Research Division provides banking and finance analysis, and economic research on domestic and international conditions for both management and clients. It also has input to the Bank's planning process and business strategies.

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### **Capital Markets**

The investment banking arm of the Bank, Commonwealth Bank Capital Markets ("CBCM"), provides specialist support for the Bank's corporate lending, servicing existing and potential borrowers in the domestic and international capital markets. CBCM is also

active in the structuring of specialised transactions to meet the particular balance sheet, cashflow, tax and risk management considerations of corporate and institutional borrowers and investors. CBCM also provides issuing and paying agency services for paper based facilities, including those in offshore markets, and broking services for clients wishing to use the Sydney Futures Exchange.

In structured financing, increasing emphasis is being placed on capital financing requirements, including requirements of Government Business Enterprises. A treasury advisory team was established during 1989-90 to assist growing businesses to develop their treasury functions.

## Financial Services Division

The Bank's presence in the financial services sector is important to its long-run strategy of enhancing its ability to operate as a full-service financial institution. The Bank's financial services group has achieved major status in the funds management business. Established in 1987, its activities are focused on establishing a sound, well performing range of investment, superannuation and life insurance products; on further enhancing funds management capabilities; and on establishing sales arrangements integrated with the Bank's extensive branch network.

### Products

The Bank's Financial Services Division offers nineteen products in superannuation, investment and life insurance, which provide a range of products and services tailored to the needs of both existing and potential Bank clients. Products offered include rollovers and annuities; insurance bonds; unit trusts; term life and disability insurance; and mortgage protection insurance.

### Funds Management

Total funds under management were approximately \$10.7 billion at 31 March, 1991 making the Bank's financial services group one of the largest professional fund managers in Australia. Included within this amount are the Commonwealth Bank's staff superannuation funds which total approximately \$5.1 billion. Investments are made in Australian fixed interest securities, mortgages, equities, property, futures, options and in the short-term money market. There are also selective investments in the international markets.

Also included in total funds under management is approximately \$2.5 billion in two capital guaranteed funds, the "Commonwealth Bank Approved Deposit Fund" for which CSB is the trustee, and the "State Bank SuperSafe Approved Deposit Fund" for which the Commonwealth Bank is the trustee. These two funds were closed in June 1990 and May 1991 respectively. Deposits in both funds are invested in fixed interest and short-term securities, predominantly government and semi-government securities, bank accepted commercial bills and bank deposits with a small percentage in prime corporate securities.

### Sales

In addition to the Bank's branch network, a sales network of 57 separate investment centres or individual investment consultancies has been established throughout Australia. The network will be expanded so that these services are within reasonable reach of most clients. The network is staffed by Commonwealth Bank personnel trained under a continuing programme in the principles and practices of financial planning and investment advice.

## Major Subsidiaries

(Excluding Commonwealth Savings Bank)

### Development Banking

Commonwealth Development Bank of Australia ("CDB") is a special purpose bank whose functions are to provide finance for the purpose of establishing, acquiring or carrying on businesses with emphasis on small businesses including primary producers in cases where, in the opinion of CDB, the provision of finance is desirable but would not be available elsewhere on reasonable and suitable terms and conditions.

CDB is a statutory corporation of the Commonwealth. Its share capital has been wholly owned by the Commonwealth Bank since 12 February, 1991; prior to that date it was an independent corporation, but governed by the same Board as governed the Commonwealth Bank. CDB supplements the lending of Australia's commercial banks. It focuses primarily on a borrower's prospects of success and not necessarily on the value of security available.

As a consequence of CDB's focus on small and medium sized enterprises with little capital and/or proven performance, the degree of risk associated with such financing is often perceived as high relative to conventional banking standards. Since it commenced operations, CDB has developed investigatory processes and techniques, using its specialists in agricultural science and management accounting, to gain a detailed knowledge of applicants. The current economic downturn and uncertainty affecting most sectors of the economy has placed considerable strain on the viability of many enterprises. CDB maintains an on-going loan review process with a view to ensuring close management of accounts and suitably adequate provisions against loss.

The volume of term lending approvals by CDB in the six months to 31 December, 1990 was \$168 million compared with \$336 million for the year ended 30 June, 1990. Small businesses (mainly the manufacturing and tertiary sectors) accounted for approximately 68% of new term lending.

CDB's lending is spread across a diversified range of industries. At 31 December, 1990, outstanding term loans, net of specific provisions for bad and doubtful debts, totalled approximately \$1.8 billion of which \$827 million was to primary producers and \$954 million to other small businesses. Shorter term equipment finance loans outstanding at 31 December, 1990 totalled \$524 million. The average maturity of CDB's outstanding term loans is approximately 8.7 years. Outstanding equipment finance loans have an average maturity of less than 4 years.

The following table shows CDB's term loans outstanding:

| <i>(in millions)</i> | 1989           | 30 June,<br>1990 | 31 December,<br>1990 |
|----------------------|----------------|------------------|----------------------|
| <b>Industry</b>      |                |                  |                      |
| Primary Production   |                |                  |                      |
| Sheep                | \$ 163         | \$ 170           | \$ 168               |
| Beef                 | 95             | 98               | 96                   |
| Dairy                | 98             | 99               | 98                   |
| Wheat                | 132            | 116              | 123                  |
| Other                | 317            | 337              | 342                  |
|                      | <u>805</u>     | <u>820</u>       | <u>827</u>           |
| Small Business       |                |                  |                      |
| Manufacturing        | 168            | 192              | 202                  |
| Commerce             | 295            | 316              | 316                  |
| Tourism              | 121            | 129              | 134                  |
| Other                | 268            | 304              | 302                  |
|                      | <u>852</u>     | <u>941</u>       | <u>954</u>           |
| <b>Total</b>         | <u>\$1,657</u> | <u>\$1,761</u>   | <u>\$1,781</u>       |

CDB's provisions for bad and doubtful debts totalled \$65.8 million at 31 December, 1990, an increase of 17.5% from 30 June, 1990. Net bad debts written off in the six months ended 31 December, 1990 totalled \$7.5 million compared with \$12.6 million for the year ended 30 June, 1990. At 31 December, 1990, CDB had \$205 million in loans where payments of principal or interest were in arrears by 90 days or more on scheduled payment obligations but on which interest continues to be accrued and taken into income. Although spread across most industries, approximately 25% of CDB's arrears relate to the sheep and wheat industries.

To support its lending activity and replace maturing debt, during the six months ended 31 December, 1990 CDB raised approximately \$1.3 billion in negotiable and transferable certificates of deposit from the professional money market, and \$97 million through its retail deposit facility. Outstanding deposits at 31 December, 1990 totalled approximately \$2.0 billion.

At 31 December, 1990, CDB's total assets were approximately \$2.6 billion, an increase of 3.7% over 30 June, 1990. For the six months ended 31 December, 1990 net profit after tax amounted to \$14.4 million; it was \$35.6 million for the year ended 30 June, 1990.

### Finance Company

CBFC Limited ("CBFC") is a general finance company wholly owned by the Commonwealth Bank. Established in 1975, it ranks as the fourth largest finance company in Australia based on assets. CBFC's principal activities include leasing, hire purchase, commercial and other mortgage loans mainly focused on the smaller business market. Funding is primarily by the issue in Australia of secured and unsecured debt instruments.

CBFC's lending policies are primarily directed to small businesses and on a secured basis. Receivables are widely spread with the average level of borrowing around \$25,000, while the average maturity of receivables outstanding is less than 3 years. Preferred maximum exposure to any account or group is 10% of CBFC's shareholders' funds.

In the six months to 31 December, 1990 total new business written was \$497 million compared with approximately \$1.2 billion for the year ended 30 June, 1990. Lease financing, totalling \$263 million, continued to be CBFC's strongest product. Hire purchase in the six months ended 31 December, 1990 totalled \$171 million against \$357 million in the year ended 30 June, 1990. Mortgage lending in the six months ended 31 December, 1990 totalled \$63 million compared with \$211 million for the year ended 30 June, 1990. Debenture stock outstanding at 31 December, 1990 totalled approximately \$1.9 billion, compared with approximately \$1.7 billion at 30 June, 1990.

The following table shows CBFC's loans outstanding:

| <i>(in millions)</i>     | 30 June,       |                | 31 December,   |
|--------------------------|----------------|----------------|----------------|
|                          | 1989           | 1990           | 1990           |
| <b>Industry</b>          |                |                |                |
| Rural                    | \$ 91          | \$ 109         | \$ 114         |
| Manufacturing            | 165            | 196            | 193            |
| Commerce                 | 369            | 440            | 448            |
| Building & Construction  | 242            | 300            | 296            |
| Mining                   | 25             | 29             | 31             |
| Professional & Technical | 969            | 1,061          | 1,036          |
| Transport & Storage      | 273            | 320            | 322            |
| Other                    | 158            | 160            | 178            |
| <b>Total</b>             | <u>\$2,292</u> | <u>\$2,615</u> | <u>\$2,648</u> |

Aggregate provisions for bad and doubtful debts totalled \$43.3 million at 31 December, 1990, an increase of 31.2% from 30 June, 1990. Net bad debts written off in the six months ended 31 December, 1990 totalled \$24.7 million. At 31 December, 1990, CBFC had \$82.8 million in loans in arrears by 90 days or more on scheduled payment obligations but on which interest continues to be accrued and taken into income.

At 31 December, 1990, CBFC's consolidated assets totalled approximately \$2.9 billion, a decrease of 1% from the 30 June, 1990 level. Net profit after tax for the six months ended 31 December, 1990 was \$5.6 million, reflecting difficult trading conditions coupled with higher bad debt write-offs. Net profit was \$28.3 million for the year ended 30 June, 1990.

### Merchant Banking

AEFC Limited ("AEFC") is a merchant banking company established in 1970 and wholly owned by the Commonwealth Bank since March 1989.

During 1989-90, the strategic role of AEFC was examined, in light of the review of the Bank's corporate delivery strategies which led to the formation of Institutional Banking within the Bank. It was decided to merge AEFC's lending function with that of the Bank and the major part of AEFC's corporate loan portfolio was then assigned to the Commonwealth Bank.

AEFC operates as a separate entity concentrating on specialised corporate advisory services and related structured finance activities. AEFC is also continuing its domestic money market activities. The restructure allows AEFC to promote and deliver a range of specialised services outside the mainstream of the Bank's institutional activities and complementary to those provided by the Bank.

AEFC's net profit after tax and abnormal items was \$8.2 million for the six months ended 31 December, 1990, compared with \$8.4 million for 1989-90. Its total consolidated assets at 31 December, 1990 were approximately \$2.0 billion, compared with \$1.8 billion at 30 June, 1990.

### New Zealand

ASB Bank Limited ("ASB") is New Zealand's longest established bank, originating in 1847. It is the leading retail bank in the major economic regions of Auckland and Northland in the North Island of New Zealand. It recently acquired ownership of Westland Bank Limited, a small bank operating in the Westland region of the South Island.

Originally a trustee bank, with status under special legislation, ASB became a public company in 1988, when ownership was vested in a community trust. In 1989, the Commonwealth Bank, through its wholly owned subsidiary, Commonwealth Investments New Zealand Limited ("CINZ"), purchased a 75% interest in ASB from the ASB Bank Community Trust (the "Trust"). The remaining 25% continues to be held by the Trust.

An arrangement exists between the Commonwealth Bank and the Trust giving each pre-emptive rights over the other's shareholding in the event of a desire to sell by either party. Any sale resulting from exercise of such pre-emptive rights would be at a purchase price agreed between the parties or determined by an independent valuer. In addition, until 1994 the Trust is, provided it then holds at least 10% of the shares in ASB, entitled to acquire the Commonwealth Bank's shareholding in the event that more than 50% of the issued capital of the Commonwealth Bank or CINZ is acquired by any institution other than an instrumentality of the Commonwealth of Australia.

The Commonwealth Bank's investment in ASB provides it with representation in New Zealand, which it views as very important given the existing economic and financial ties and the continuing development of closer economic relations between New Zealand and Australia.

While offering a full range of financial services, ASB's business is predominantly in retail banking, reflecting its origins as a community savings bank. At 31 December, 1990, retail deposits accounted for approximately 85% of total deposits, while retail lending accounted for approximately 75% of total lending. Its links with the Bank have provided the basis for expansion of corporate, commercial and treasury operations.

While a subsidiary of the Commonwealth Bank and managed as part of the Group in terms of financial controls, management reporting and internal minimum prudential standards, ASB retains its separate identity. Management is through a Board of Directors appointed by shareholders. Three Commonwealth Bank directors and executives have been appointed to ASB's Board, as has the Managing Director and Chief Executive of ASB; two other ASB directors are also trustees of the ASB Community Trust; the remaining three are New Zealanders with business and legal experience.

ASB's lending policy continues to emphasise retail lending, in particular home mortgage loans, while seeking diversification into commercial lending where appropriate. ASB's policy on bad debts is aimed at early identification of problem loans and appropriate provisioning against loss. At 31 December, 1990 provisions totalling NZ\$40.5 million had been established, 23% higher than at 31 December, 1989. In the six months ended

31 December, 1990, net bad debts written off totalled NZ\$3.9 million, or 0.14% of ASB's total loan portfolios.

At 31 December, 1990, ASB's consolidated assets were NZ\$4.0 billion, which represented an increase of 7.1% since 30 June, 1990. Net income after tax for the six months ended 31 December, 1990 amounted to NZ\$18.9 million compared with NZ\$33.7 million for the full year 1989-90 and NZ\$50.8 million for the fifteen months ended 30 June, 1989.

The Commonwealth Bank's other subsidiaries and associated companies at 31 December, 1990 are listed in the Investigating Accountants' Report.

## Group Credit Policy and Control

A separate Group Credit Policy and Control function was established within the Group in April 1990, at the same time as the restructuring of the Corporate, International and Group Treasury functions was implemented. The separation of this function is intended to ensure that asset quality receives suitable emphasis in the operations of the Bank.

Group Credit Policy and Control seeks to develop and maintain credit policies, standards and independent control processes consistent with maintaining high quality credit exposures and good lending skills in the Bank's staff. Its influence is most closely felt in the operations of the Bank itself but extends over the Group as a whole.

Chief General Manager, Group Credit Policy and Control reports regularly to the Credit Committee of the Board, and to the Board itself.

## Lending Policies and Practices

The Group's lending policy aims to meet the reasonable borrowing needs of its customers and to attract new business of good quality from a wide range of borrowers of acceptable credit risk, working within any prudential guidelines issued by the Reserve Bank. Specific policies are established for different categories of loans.

Although cash flow capacity to service the debt is the prime consideration in lending, the Bank seeks to secure most of its credit facilities by a mortgage over assets. Most personal loans, credit card facilities and certain loans to large corporate clients and public authorities may be unsecured. In some commercial lending, a security interest in assets such as inventory, receivables and plant and equipment may be taken. Credit facilities may be provided wholly or partly against the security of a guarantee given by a guarantor considered credit-worthy.

The Bank's domestic lending activities are conducted through its network of branches throughout Australia. Lines of delegated authority give defined lending approval and control limits to branch managers and to regional, zone and state offices. Through its Credit Committee, the Board decides lending approvals in excess of \$50 million and reviews loan approvals above \$25 million.

Systems are in place which enable management to check that lending discretionary authorities and lending policies are being followed.

Existing loan facilities are reviewed at least once each year or more frequently if necessary for financial reporting. Reviews cover loan servicing performance, adequacy of security,

trading performance and financial soundness. Unsatisfactory accounts are assessed for specific provisions for loan loss. Loan concentration by industry type in Australia is reviewed so as to assess the diversification profile of lending.

Lending delegations within defined limits are extended to the Commonwealth Bank's offshore branches. The Bank's international lending policies are directed towards banks and public or private borrowers with sound financial structures or strong bank or parent company support.

All international loan applications are considered in the light of country risk, term and the Commonwealth Bank's level of exposure to the country. Facilities are structured to contain protection against increased cost of funds, through imposition of reserve requirements or change of law. All payments are required to be made clear of any withholding or other taxes. Loan facilities are reviewed at least annually, or when there are developments such as a material profit downturn or industry dislocation.

## Loan Portfolio

### Domestic Lending

The Bank's (excluding SBV) domestic loans and advances outstanding by type of facility are shown below. The table does not include bank acceptances of customers, which totalled \$9.7 billion at 31 December, 1990 and \$9.5 billion at 30 June, 1990. The dates coincide with Reserve Bank reporting requirements.

| <i>(in millions)</i>     | 30 July,<br>1986 | 29 July,<br>1987 | 27 July,<br>1988 | 26 July,<br>1989 | 25 July,<br>1990 | 30 January,<br>1991 |
|--------------------------|------------------|------------------|------------------|------------------|------------------|---------------------|
| <b>Type of Facility</b>  |                  |                  |                  |                  |                  |                     |
| Overdrafts               | \$ 4,725         | \$ 5,043         | \$ 6,401         | \$ 8,827         | \$ 9,863         | \$10,106            |
| Personal Loans           | 1,246            | 1,249            | 1,487            | 1,569            | 1,630            | 1,572               |
| Personal Housing Loans   | 7,064            | 8,038            | 9,215            | 10,679           | 12,573           | 13,333              |
| Credit Card Outstandings | 624              | 723              | 820              | 905              | 972              | 1,036               |
| Lease Financing          | 779              | 836              | 869              | 1,008            | 1,051            | 1,057               |
| Bills Discounted         | 16               | 462              | 151              | 172              | 345              | 541                 |
| Term Loans               | 3,938            | 3,578            | 3,177            | 3,157            | 3,804            | 5,743*              |
| Other                    | 3                | 376              | 661              | 950              | 1,190            | 1,034               |
| <b>Total</b>             | <b>\$18,395</b>  | <b>\$20,305</b>  | <b>\$22,781</b>  | <b>\$27,267</b>  | <b>\$31,428</b>  | <b>\$34,422</b>     |

\*Includes funding provided to the Tricontinental group, guaranteed by the Victorian Treasurer (see "Relevant Contracts").

The following table shows the Bank's (excluding SBV) outstanding domestic exposures by type of customer, (excluding acceptances of customers of the Bank). Classifications are based on definitions provided by the Australian Bureau of Statistics.

| <i>(in millions)</i>    | 30 July,<br>1986 | 29 July,<br>1987 | 27 July,<br>1988 | 26 July,<br>1989 | 25 July,<br>1990 | 30 January,<br>1991 |
|-------------------------|------------------|------------------|------------------|------------------|------------------|---------------------|
| <b>Type of Customer</b> |                  |                  |                  |                  |                  |                     |
| Rural                   | \$ 1,133         | \$ 1,072         | \$ 1,115         | \$ 1,510         | \$ 1,471         | \$ 1,137            |
| Manufacturing           | 629              | 700              | 923              | 965              | 1,029            | 1,171               |
| Finance                 | 477              | 618              | 891              | 972              | 1,352            | 3,969*              |
| Commerce                | 1,036            | 1,160            | 1,512            | 1,609            | 2,033            | 1,791               |
| Building & Construction | 374              | 499              | 514              | 616              | 1,234            | 886                 |
| Mining                  | 115              | 118              | 114              | 98               | 109              | 88                  |
| Individuals             | 3,313            | 3,344            | 3,319            | 5,049            | 5,166            | 5,388               |
| Personal Housing        | 7,064            | 8,038            | 9,215            | 10,679           | 12,573           | 13,333              |
| Community Projects      | 297              | 253              | 228              | 196              | 160              | 144                 |
| Local/Semi-Government   | 2,435            | 2,397            | 2,195            | 2,111            | 2,010            | 1,815               |
| Other                   | 1,522            | 2,106            | 2,755            | 3,462            | 4,291            | 4,700               |
| <b>Total</b>            | <b>\$18,395</b>  | <b>\$20,305</b>  | <b>\$22,781</b>  | <b>\$27,267</b>  | <b>\$31,428</b>  | <b>\$34,422</b>     |

\*Includes funding provided to the Tricontinental group, guaranteed by the Victorian Treasurer (see "Relevant Contracts").

The Bank's domestic lending activities are conducted across a broad spectrum of industries and throughout all States of Australia. Approximately 40% of loans outstanding were in New South Wales at 31 December, 1990. Victoria and Queensland had the next largest shares of loans with approximately 29% and 13%, respectively.

The following table shows the Bank's (excluding SBV) domestic lending commitments, which include the drawn commitments shown in the previous two tables plus undrawn commitments and commercial bill facilities, by type of facility:

| <i>(in millions)</i>    | 26 July,<br>1989 | 25 July,<br>1990 | 30 January,<br>1991 |
|-------------------------|------------------|------------------|---------------------|
| <b>Type of Facility</b> |                  |                  |                     |
| Overdrafts              | \$10,469         | \$11,484         | \$11,780            |
| Personal Loans          | 1,569            | 1,630            | 1,572               |
| Personal Housing Loans  | 11,174           | 13,220           | 13,803              |
| Credit Cards            | 2,884            | 3,199            | 3,289               |
| Lease Financing         | 1,008            | 1,051            | 1,057               |
| Bill Facilities*        | 14,443           | 16,802           | 17,150              |
| Term Loans              | 3,157            | 3,804            | 5,743               |
| Other                   | 318              | 1,190            | 1,034               |
| <b>Total</b>            | <b>\$45,654</b>  | <b>\$52,381</b>  | <b>\$55,428</b>     |

\*Includes discount, acceptance and endorsement facilities.

The following table shows the Bank's (excluding SBV) domestic lending commitments by type of customer:

| <i>(in millions)</i>    | 26 July,<br>1989 | 25 July,<br>1990 | 30 January,<br>1991 |
|-------------------------|------------------|------------------|---------------------|
| <b>Type of Customer</b> |                  |                  |                     |
| Rural                   | \$ 2,096         | \$ 2,283         | \$ 2,522            |
| Manufacturing           | 3,176            | 3,351            | 3,615               |
| Finance                 | 5,726            | 6,711            | 8,808               |
| Commerce                | 3,604            | 4,274            | 3,891               |
| Building & Construction | 2,252            | 2,672            | 2,544               |
| Mining                  | 431              | 320              | 311                 |
| Individuals             | 7,896            | 8,792            | 9,030               |
| Personal Housing        | 11,174           | 13,220           | 13,803              |
| Community Projects      | 196              | 160              | 144                 |
| Local/Semi-Government   | 2,111            | 2,010            | 1,815               |
| Other                   | 6,992            | 8,588            | 8,945               |
| <b>Total</b>            | <b>\$45,654</b>  | <b>\$52,381</b>  | <b>\$55,428</b>     |

The maturities of the Bank's (excluding SBV) domestic loans and advances outstanding, separately for fixed and variable rate loans, at 31 December, 1990 were:

| <i>(in millions)</i>             | Variable<br>Interest Rate | Fixed<br>Interest Rate | Total           |
|----------------------------------|---------------------------|------------------------|-----------------|
| <b>Maturity</b>                  |                           |                        |                 |
| Less than one year               | \$ 6,840                  | \$ 2,154               | \$ 8,994        |
| One year to less than five years | 11,091                    | 5,807                  | 16,898          |
| Five years and over              | 4,141                     | 4,913                  | 9,054           |
| <b>Total</b>                     | <b>\$22,072</b>           | <b>\$12,874</b>        | <b>\$34,946</b> |

The maturities of the Commonwealth Bank's commercial bill facilities at 31 December, 1990 were:

| <i>(in millions)</i>             | Discount/<br>Acceptance | Endorsement    | Total           |
|----------------------------------|-------------------------|----------------|-----------------|
| <b>Maturity</b>                  |                         |                |                 |
| Less than one year               | \$ 4,690                | \$ 857         | \$ 5,547        |
| One year to less than five years | 2,851                   | 1,723          | 4,574           |
| Five years and over              | 2,855                   | 546            | 3,401           |
| <b>Total</b>                     | <b>\$10,396</b>         | <b>\$3,126</b> | <b>\$13,522</b> |

The following table shows the total amounts of SBV's domestic loans and advances outstanding by type of facility. The table does not include bank acceptances of customers of SBV which totalled \$2.3 billion at 31 December, 1990 and \$2.7 billion at 30 June, 1990.

| <i>(in millions)</i>     | 30 June,       |                |                |                 | 31 December,    |                 |
|--------------------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|
|                          | 1986           | 1987           | 1988           | 1989            | 1990            | 1990            |
| <b>Type of Facility</b>  |                |                |                |                 |                 |                 |
| Overdrafts               | \$ 230         | \$ 373         | \$ 462         | \$ 572          | \$ 662          | \$ 607          |
| Personal Loans           | 712            | 705            | 695            | 980             | 1,149           | 1,088           |
| Personal Housing Loans   | 4,075          | 4,938          | 5,472          | 6,130           | 6,331           | 6,241           |
| Credit Card Outstandings | 155            | 181            | 195            | 214             | 231             | 249             |
| Lease Financing          | 9              | 77             | 114            | 125             | 126             | 115             |
| Bills Discounted         | 69             | 284            | 140            | 68              | 104             | 494             |
| Term Loans               | 544            | 810            | 1,136          | 1,826           | 2,746           | 2,214           |
| Other                    | 296            | 568            | 581            | 2,995*          | 2,595*          | 503             |
| <b>Total</b>             | <u>\$6,090</u> | <u>\$7,936</u> | <u>\$8,795</u> | <u>\$12,910</u> | <u>\$13,944</u> | <u>\$11,511</u> |

\*Includes funding provided to the Tricontinental group.

The following table shows the domestic lending commitments of SBV:

| <i>(in millions)</i>    | 30 June,        |                 | 31 December,    |                 |
|-------------------------|-----------------|-----------------|-----------------|-----------------|
|                         | 1989            | 1990            | 1990            | 1990            |
| <b>Type of Customer</b> |                 |                 |                 |                 |
| Rural                   | \$ 397          | \$ 442          | \$ 471          | \$ 471          |
| Manufacturing           | 1,332           | 1,794           | 1,687           | 1,687           |
| Finance                 | 3,933*          | 4,429*          | 1,607           | 1,607           |
| Commerce                | 2,722           | 2,447           | 2,317           | 2,317           |
| Building & Construction | 756             | 671             | 636             | 636             |
| Mining                  | 504             | 442             | 434             | 434             |
| Individuals             | 37              | 33              | 29              | 29              |
| Personal Housing        | 7,410           | 7,686           | 7,516           | 7,516           |
| Community Projects      | 319             | 377             | 36              | 36              |
| Local/Semi-Government   | 2,585           | 2,521           | 3,103           | 3,103           |
| Other                   | 633             | 533             | 618             | 618             |
| <b>Total</b>            | <u>\$20,628</u> | <u>\$21,375</u> | <u>\$18,454</u> | <u>\$18,454</u> |

\*Includes funding provided to the Tricontinental group.

The maturities of SBV's domestic loans and advances outstanding, separately for fixed and variable rate loans, at 31 December, 1990 were:

| <i>(in millions)</i>             | Variable        |                 | Fixed            |                  | Total |
|----------------------------------|-----------------|-----------------|------------------|------------------|-------|
|                                  | Interest Rate   | Interest Rate   | Interest Rate    | Interest Rate    |       |
| <b>Maturity</b>                  |                 |                 |                  |                  |       |
| Less than one year               | \$ 1,711        | \$ 900          | \$ 2,611         | \$ 2,611         |       |
| One year to less than five years | 4,098           | 1,267           | 5,365            | 5,365            |       |
| Five years and over              | 3,257           | 278             | 3,535            | 3,535            |       |
| <b>Total</b>                     | <u>\$ 9,066</u> | <u>\$ 2,445</u> | <u>\$ 11,511</u> | <u>\$ 11,511</u> |       |

The maturities of SBV's commercial bill facilities at 31 December, 1990 were:

| <i>(in millions)</i>             | Discount/       |               | Total           |
|----------------------------------|-----------------|---------------|-----------------|
|                                  | Acceptance      | Endorsement   |                 |
| <b>Maturity</b>                  |                 |               |                 |
| Less than one year               | \$ 1,330        | \$ —          | \$ 1,330        |
| One year to less than five years | 2,019           | 100           | 2,119           |
| Five years and over              | 213             | 24            | 237             |
| <b>Total</b>                     | <u>\$ 3,562</u> | <u>\$ 124</u> | <u>\$ 3,686</u> |

### International Lending

The Commonwealth Bank's (excluding SBV) international exposures (including direct and contingent exposure) were:

| (in millions)                      |                 |                 | 30 June,        |                 | 31 December,    |                 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                    | 1986            | 1987            | 1988            | 1989            | 1990            | 1990            |
| United States                      | \$ 2,653        | \$ 3,554        | \$ 3,380        | \$ 3,591        | \$ 3,269        | \$ 3,030        |
| Japan                              | 1,570           | 1,386           | 1,358           | 1,943           | 2,189           | 2,215           |
| South-East Asian Countries         | 977             | 1,154           | 1,159           | 1,271           | 1,105           | 1,159           |
| United Kingdom                     | 926             | 1,744           | 1,640           | 1,840           | 2,466           | 2,679           |
| Other Developed Countries          | 858             | 1,785           | 1,342           | 1,430           | 1,427           | 1,532           |
| Eastern Europe                     | 177             | 235             | 254             | 325             | 348             | 205             |
| Middle East & Africa               | 108             | 123             | 120             | 158             | 119             | 132             |
| Indian Subcontinent                | 87              | 48              | 37              | 79              | 54              | 54              |
| South & Central America            | 42              | 64              | 60              | 126             | 147             | 43              |
| People's Republic of China         | 31              | 84              | 87              | 89              | 101             | 87              |
|                                    | <u>\$ 7,429</u> | <u>\$10,177</u> | <u>\$ 9,437</u> | <u>\$10,852</u> | <u>\$11,225</u> | <u>\$11,136</u> |
| Direct exposure                    | \$ 4,219        | \$ 4,776        | \$ 4,473        | \$ 6,305        | \$ 6,647        | \$ 6,794        |
| Contingent exposure <sup>(1)</sup> | 3,210           | 5,401           | 4,964           | 4,547           | 4,578           | 4,342           |
| <b>Total<sup>(2)</sup></b>         | <u>\$ 7,429</u> | <u>\$10,177</u> | <u>\$ 9,437</u> | <u>\$10,852</u> | <u>\$11,225</u> | <u>\$11,136</u> |

(1) Includes letters of credit issued by the Commonwealth Bank, documentary credit confirmations, standby credit facilities, risk participations, exposure in revolving underwriting facilities, interest rate and currency swaps, selldowns and cross-border guarantees. The Commonwealth Bank's contingent credit exposure on foreign exchange contracts in face value terms (ie. foreign exchange contracts awaiting settlement) represented an additional \$46.4 billion at 31 December, 1990 compared with \$44.1 billion, \$43.9 billion, \$37.9 billion, \$22.9 billion and \$16.5 billion at 30 June 1990, 1989, 1988, 1987 and 1986, respectively.

(2) Includes CTB Australia Limited, a wholly owned subsidiary of the Commonwealth Bank and incorporated in Hong Kong, with assets at 31 December, 1990 of \$206 million. International exposure of the Commonwealth Bank's other subsidiaries is not considered material and not included in this table.

International exposures of SBV were:

| (in millions)                     |               |                 | 30 June,        |                 | 31 December,    |                 |
|-----------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                   | 1986          | 1987            | 1988            | 1989            | 1990            | 1990            |
| United States                     | \$ 88         | \$ 450          | \$ 842          | \$ 1,618        | \$ 1,499        | \$ 1,264        |
| Japan                             | 19            | 476             | 636             | 814             | 571             | 313             |
| Other Developed Countries         | 467           | 467             | 493             | 616             | 324             | 510             |
| United Kingdom                    | 25            | 99              | 420             | 511             | 382             | 330             |
| Other Asian and Pacific Countries | 10            | 127             | 217             | 299             | 270             | 202             |
| New Zealand                       | 7             | 164             | 188             | 237             | 319             | 283             |
| Middle East                       | -             | 20              | 62              | 58              | 42              | 25              |
| Eastern Europe                    | -             | 7               | 20              | 3               | 3               | 4               |
|                                   | <u>\$ 149</u> | <u>\$ 1,810</u> | <u>\$ 2,878</u> | <u>\$ 4,156</u> | <u>\$ 3,410</u> | <u>\$ 2,931</u> |
| Direct commitments                | n.a.          | \$ 1,499        | \$ 2,438        | \$ 3,503        | \$ 2,737        | \$ 2,357        |
| Contingent commitments*           | n.a.          | 311             | 440             | 653             | 673             | 574             |
| <b>Total</b>                      | <u>\$ 149</u> | <u>\$ 1,810</u> | <u>\$ 2,878</u> | <u>\$ 4,156</u> | <u>\$ 3,410</u> | <u>\$ 2,931</u> |

\*Includes letters of credit issued by SBV, letter of credit confirmations, standby lines of credit, risk participations, and commitments in debt underwriting facilities.

n.a. Not available

The Commonwealth Bank's international loan portfolio is primarily in US dollars and is almost entirely on a floating rate basis with short to medium-term maturities. Commercial loans outstanding at 31 December, 1990 totalled approximately \$3.6 billion with an average maturity of less than 3 years. SBV's international commercial loans totalled approximately \$1.9 billion at 31 December, 1990 and had an average maturity of approximately 3 years.

### Large Exposures

The Bank's prudential policy for large exposures provides that the preferred maximum exposure to any one individual client or groups of related entities, not being government or bank risk, is 10% of Group capital resources. Individual corporate exposures would only exceed 20% of the Group's capital resources in exceptional circumstances. Large exposures are reviewed regularly.

The following table shows the aggregate number of the Group's (including SBV) corporate exposures (including direct and contingent exposure) at 31 March, 1991 which individually were greater than 5% of the Group's capital resources at that date:

|   | Number of Corporate Exposures |
|---|-------------------------------|
| 20% and more of Group capital resources         | —                             |
| 15% to less than 20% of Group capital resources | 1                             |
| 10% to less than 15% of Group capital resources | 1                             |
| 5% to less than 10% of Group capital resources  | 8                             |

## Provision for Doubtful Debts

Loans and advances are stated in the balance sheet after deducting specific and general provisions for bad and doubtful debts. Specific provisions are made against loans and advances where recovery is considered doubtful; final write-offs of loan amounts are usually made after exhaustion of all available remedies, including realisation on any security. The Bank has well defined processes, which are under continual review, for identifying loans where there are prospects of losses occurring, including requirements that its staff members engaged in lending report bad and doubtful debts to Group Credit Policy and Control at the earliest appropriate time and keep probable/possible loss positions under notice and regular review. These processes are being closely observed. Once review procedures indicate a possible need for a specific provision, the debt is assessed for prospects of recovery, the value of security held and the level of any likely loss. The Bank's policy is to raise a specific provision to cover the estimated loss of principal and interest as soon as a loan is identified as doubtful. It has been extremely difficult during the recent period of high interest rates and downturn in the Australian economy to forecast the level of bad debt expense.

The Bank's accounting system discloses repayment arrears information for housing loans, personal loans, lease financing and credit cards. Because of the nature of overdraft and some other forms of lending, the accounting system does not provide similar information for such loans which are assessed individually for adverse trends.

The minimum amount for which a specific provision is made for doubtful loans is \$50,000. Loans of less than \$50,000 are written off by direct charge to profit and loss when assessed as non-recoverable. When a specific provision for loss has been established, the loan is placed on a non-accrual basis and the current year's interest on the loan is not taken to profit and loss.

General provisions are made to cover non-identified losses and latent risks inherent in the overall loan portfolio. The size of general provisions is assessed having regard to the level of risk-weighted credit exposures, both on and off balance sheet, and a range of other criteria. Additions to general provisions are charged to the profit and loss account.

The following table shows the Group's (including CDB) provisions for doubtful debts and loans written off:

| <i>(dollars in millions)</i>   | 1986            | 1987            | 30 June,<br>1988 | 1989                    | 1990            | 31 December,<br>1990 |
|--|-----------------|-----------------|------------------|-------------------------|-----------------|----------------------|
| Total provisions as at preceding 30 June   | \$ 146.2        | \$ 199.6        | \$ 298.2         | \$ 422.9 <sup>(1)</sup> | \$ 622.1        | \$ 730.6             |
| Funding from profit and loss   | 59.5            | 131.7           | 181.9            | 279.4                   | 448.1           | 358.1                |
| Adjustment for exchange rate fluctuations  | 0.5             | (3.2)           | (6.1)            | (4.4)                   | 4.9             | 4.5                  |
| Bad debts recovered  | 4.8             | 0.8             | 3.0              | 5.7                     | 5.1             | 3.6                  |
| Bad debts written off  | (11.4)          | (30.7)          | (67.9)           | (81.5)                  | (349.6)         | (52.0)               |
| Transfer to Other provision <sup>(2)</sup>   | —               | —               | —                | —                       | —               | (9.1)                |
| Total provisions   | <u>\$ 199.6</u> | <u>\$ 298.2</u> | <u>\$ 409.1</u>  | <u>\$ 622.1</u>         | <u>\$ 730.6</u> | <u>\$1,035.7</u>     |
| Bad debts written off direct to profit and loss  | <u>\$ 2.6</u>   | <u>\$ 8.8</u>   | <u>\$ 14.5</u>   | <u>\$ 18.6</u>          | <u>\$ 13.6</u>  | <u>\$ 27.7</u>       |
| Specific provisions  | \$ 48.7         | \$ 99.7         | \$ 123.6         | \$ 228.8                | \$ 341.8        | \$ 633.5             |
| General provisions   | 150.9           | 198.5           | 285.5            | 393.3                   | 388.8           | 402.2                |
|  | <u>\$ 199.6</u> | <u>\$ 298.2</u> | <u>\$ 409.1</u>  | <u>\$ 622.1</u>         | <u>\$ 730.6</u> | <u>\$1,035.7</u>     |
| Average loans, advances, other receivables and acceptances of customers  | <u>\$25,699</u> | <u>\$28,998</u> | <u>\$33,571</u>  | <u>\$41,079</u>         | <u>\$48,183</u> | <u>\$51,810</u>      |
| Net bad debt expense as a percentage of average loans, advances, other receivables and acceptances of customers <sup>(3)</sup> | 0.24%           | 0.49%           | 0.59%            | 0.73%                   | 0.96%           | 0.74%                |
| Total provisions for doubtful debts as a percentage of average loans, advances, other receivables and acceptances of customers | 0.78%           | 1.03%           | 1.22%            | 1.51%                   | 1.52%           | 2.00%                |

(1) Difference of \$13.8 million in carried forward figure represents provisions for doubtful debts of ASB Bank Limited which was acquired during 1989 and adjustments affected by CTB (Australia) Limited in its accounts.

(2) Provision against off balance sheet item.

(3) Net bad debt expense comprises the funding charge to increase the level of specific and general provisions and bad debts written off direct to profit and loss, after allowance for recoveries.

The following table shows SBV's provisions for doubtful debts and loans written off:

| <i>(dollars in millions)</i>   | 1986            | 1987            | 30 June,<br>1988 | 1989            | 1990            | 31 December,<br>1990* |
|--|-----------------|-----------------|------------------|-----------------|-----------------|-----------------------|
| Total provisions as at preceding 30 June   | \$ 24.0         | \$ 37.3         | \$ 58.5          | \$ 102.8        | \$ 206.7        | \$ 59.7               |
| Provisions on acquisition of Australian Bank Limited   | —               | —               | —                | 6.1             | —               | —                     |
| Funding from profit and loss   | 15.4            | 26.0            | 54.6             | 91.5            | 1.5             | 610.5                 |
| Bad debts recovered  | 0.2             | —               | 0.1              | 0.4             | 0.3             | 0.1                   |
| Bad debts written off  | (2.5)           | (4.8)           | (10.4)           | (8.0)           | (148.8)         | (14.5)                |
| Transfer to Other Provision  | 0.2             | —               | —                | 13.9            | —               | —                     |
| Total provisions   | <u>\$ 37.3</u>  | <u>\$ 58.5</u>  | <u>\$ 102.8</u>  | <u>\$ 206.7</u> | <u>\$ 59.7</u>  | <u>\$ 655.8</u>       |
| Specific provisions  | \$ 1.8          | \$ 4.1          | \$ 5.7           | \$ 135.4        | \$ 3.4          | \$ 459.8              |
| General provisions   | 35.5            | 54.4            | 97.1             | 71.3            | 56.3            | 196.0                 |
|  | <u>\$ 37.3</u>  | <u>\$ 58.5</u>  | <u>\$ 102.8</u>  | <u>\$ 206.7</u> | <u>\$ 59.7</u>  | <u>\$ 655.8</u>       |
| Average loans, advances, other receivables and acceptances of customers  | <u>\$ 5,748</u> | <u>\$ 7,977</u> | <u>\$10,567</u>  | <u>\$14,561</u> | <u>\$17,749</u> | <u>\$16,860</u>       |
| Net bad debt expense as a percentage of average loans, advances, other receivables and acceptances of customers                | 0.27%           | 0.33%           | 0.52%            | 0.63%           | 0.01%           | 3.62%                 |
| Total provisions for doubtful debts as a percentage of average loans, advances, other receivables and acceptances of customers | 0.65%           | 0.73%           | 0.98%            | 1.40%           | 0.34%           | 4.20%                 |

\*This data incorporates the effect of the indebtedness indemnity of \$510 million with the Victorian Government (see "Relevant Contracts").

The general provision includes \$10 million relating to the Bank's personal housing loan portfolio of \$13.3 billion at 31 December, 1990. Write-offs for the six months ended 31 December, 1990 totalled \$0.3 million while the aggregate amount of housing loan write-offs for the five years to 30 June, 1990 totalled \$0.7 million. SBV's experience was similar, with \$0.2 million written off over the five and a half years to 31 December, 1990 against its housing loan portfolio of \$6.2 billion at 31 December, 1990.

The following table shows the specific provisions of the Commonwealth Bank and SBV by industry:

| <i>(in millions)</i>    | Commonwealth      |              |
|-------------------------|-------------------|--------------|
|                         | Bank              | SBV          |
|                         | 31 December, 1990 |              |
| <b>Domestic</b>         |                   |              |
| Rural                   | \$ 21             | \$ 8         |
| Manufacturing           | 20                | 26           |
| Finance                 | 56                | 46           |
| Commerce                | 32                | 3            |
| Building & Construction | 56                | 150          |
| Mining                  | 15                | —            |
| Other*                  | 257               | 159          |
|                         | <u>457</u>        | <u>392</u>   |
| <b>Offshore</b>         |                   |              |
| Manufacturing           | 21                | 18           |
| Finance                 | 56                | 2            |
| Other                   | 20                | 48           |
|                         | <u>97</u>         | <u>68</u>    |
| <b>Total</b>            | <u>\$554</u>      | <u>\$460</u> |

\*Predominantly comprises Property and Business Services, and Recreation, Personal and Other Services.

The following table shows the Group's (including CDB) loan balances against which specific provisions have been made and/or on which interest has not been fully taken to profit and loss at the dates indicated:

| <i>(in millions)</i>  | 1989       | 30 June,<br>1990 | 31 December,<br>1990 |
|---|------------|------------------|----------------------|
| Non-accrual loans   |            |                  |                      |
| – Domestic  | \$342      | \$ 856           | \$1,414              |
| – Offshore  | 110        | 157              | 235                  |
|   | <u>452</u> | <u>1,013</u>     | <u>1,649</u>         |
| Less specific provisions for doubtful debts and interest reserved                 | 333        | 513              | 900                  |
| Loan balances net of specific provisions for doubtful debts and interest reserved | 119        | 500              | 749                  |

The following table shows SBV's loan balances against which specific provisions have been made and/or on which interest has not been fully taken to profit and loss at the dates indicated:

| <i>(in millions)</i>  | 1989       | 30 June,<br>1990 | 31 December,<br>1990 |
|---|------------|------------------|----------------------|
| Non-accrual loans   |            |                  |                      |
| – Domestic  | \$166      | \$267            | \$766                |
| – Offshore  | —          | 93               | 164                  |
|   | <u>166</u> | <u>360</u>       | <u>930</u>           |
| Less specific provisions for doubtful debts and interest reserved                 | 108        | 3                | 460                  |
| Loan balances net of specific provisions for doubtful debts and interest reserved | 58         | 357              | 470                  |

The following table shows the Group's (including CDB) and SBV's loans where payments of principal or interest are in arrears on scheduled payment obligations but interest continues to be accrued and taken into income. Such loans are not necessarily doubtful.

| <i>(in millions)</i>            | Group<br>31 December, 1990 | SBV          |
|---------------------------------|----------------------------|--------------|
| <b>Past Due 90 Days or More</b> |                            |              |
| Domestic <sup>(1)</sup>         | \$554 <sup>(2)</sup>       | \$304        |
| Offshore                        | 46                         | —            |
| <b>Total</b>                    | <u>\$600</u>               | <u>\$304</u> |

(1) Figures included for the Bank relate only to Personal Loans, Housing Loans, Lease Financing and Credit Cards. Because of the nature of overdraft and some other forms of lending, arrears information is not provided for such loans which are assessed individually for adverse trends.

(2) Includes \$205 million relating to CDB (see "Major Subsidiaries").

## Funding Sources

The Bank's principal source of domestic funding is deposits through its branch network (see "Retail Banking"). Funding from interbank deposits and offshore capital markets represents a relatively small proportion of total domestic funding. Branch deposits provided 69.5% of the Bank's domestic funding needs as at 31 December, 1990. Offshore funding of domestic activities was 5.7% at 31 December, 1990. The principal funding sources of the Commonwealth Bank's major subsidiaries are described in the activities of each subsidiary (see "Major Subsidiaries").

Funding of the Commonwealth Bank's offshore business is diversified among three principal sources: at 31 December, 1990, 54.5% was funded from offshore customer deposits and interbank deposits from relationship banks, 25.7% from offshore commercial paper issues and 19.8% from longer-term debt issues. The Bank has adopted a strategy of diversifying its international funding sources to reduce reliance on any one particular market or maturity span. All debt of the Commonwealth Bank denominated in a foreign currency is matched against assets denominated in the same currency or the currency risk is covered.

Offshore interbank and customer deposits (including certificates of deposit issued) totalled approximately \$4.0 billion at 31 December, 1990. The Commonwealth Bank conducts foreign currency money market activities in its licensed offshore branches (principally interbank) and in Sydney.

The Commonwealth Bank's existing capital markets funding sources are made up of a US commercial paper facility of US\$2.0 billion (outstandings at 31 December, 1990 of US\$690 million); a euro commercial paper and certificates of deposit programme of US\$2.0 billion (outstandings at 31 December, 1990 of US\$610 million); an Asian based euro commercial paper facility of \$1.0 billion (outstandings at 31 December, 1990 of \$85 million); and the domestic and international bond markets (see "Long-term Debt Issued by Commonwealth Bank of Australia").

The following table shows the funding of the Bank, from other than equity sources, at the dates indicated. Prior to 30 June, 1990, dates coincide with Reserve Bank reporting requirements.

| <i>(in millions)</i>           | 25 June,<br>1986 | 24 June,<br>1987 | 29 June,<br>1988 | 28 June,<br>1989 | 30 June,<br>1990 | 31 December,<br>1990 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|----------------------|
| <b>Domestic Sources</b>        |                  |                  |                  |                  |                  |                      |
| Cheque Accounts                | \$ 2,988         | \$ 3,228         | \$ 3,994         | \$ 4,459         | \$ 4,594         | \$ 4,412             |
| Savings Accounts               | 11,501           | 12,484           | 14,245           | 13,235           | 14,025           | 15,107               |
| Streamline Accounts*           | —                | —                | —                | —                | —                | 247                  |
| Term Deposits                  | 6,263            | 6,311            | 5,910            | 7,821            | 10,258           | 11,954               |
| Cash Management Accounts       | 551              | 1,065            | 1,208            | 2,032            | 2,788            | 3,624                |
| Certificates of Deposit        | 254              | 3                | 1                | 973              | 2                | 350                  |
| Domestic Bond Issues           | —                | —                | —                | —                | 476              | 976                  |
| Bank Acceptances               | 3,615            | 5,042            | 7,256            | 8,185            | 9,458            | 9,786                |
| Other                          | 342              | 579              | 576              | 1,153            | 1,367            | 1,461                |
|                                | <u>25,514</u>    | <u>28,712</u>    | <u>33,190</u>    | <u>37,858</u>    | <u>42,968</u>    | <u>47,917</u>        |
| <b>Offshore Sources</b>        |                  |                  |                  |                  |                  |                      |
| Deposits and Interbank         | 3,944            | 4,342            | 2,937            | 3,602            | 3,277            | 3,238                |
| Commercial Paper               | 1,006            | 243              | 1,359            | 2,136            | 1,827            | 1,768                |
| Offshore Bond Issues and Other | 1,592            | 2,088            | 2,025            | 3,351            | 3,905            | 3,858                |
|                                | <u>6,542</u>     | <u>6,673</u>     | <u>6,321</u>     | <u>9,089</u>     | <u>9,009</u>     | <u>8,864</u>         |
| <b>Total</b>                   | <u>\$32,056</u>  | <u>\$35,385</u>  | <u>\$39,511</u>  | <u>\$46,947</u>  | <u>\$51,977</u>  | <u>\$56,781</u>      |

\*"Streamline Accounts" were introduced during November 1990 and combine the benefits of both cheque and savings accounts for personal customers.

SBV's funding over the same period has been:

| <i>(in millions)</i>                | 1986            | 1987            | 30 June,<br>1988 | 1989            | 1990            | 31 December,<br>1990 |
|-------------------------------------|-----------------|-----------------|------------------|-----------------|-----------------|----------------------|
| <b>Domestic Sources</b>             |                 |                 |                  |                 |                 |                      |
| Cheque Accounts                     | \$ 651          | \$ 694          | \$ 1,035         | \$ 774          | \$ 1,253        | \$ 902               |
| Savings Accounts                    | 3,688           | 3,693           | 3,882            | 3,515           | 3,386           | 3,256                |
| State Banking System <sup>(1)</sup> | 802             | 1,097           | 1,388            | 1,415           | 1,459           | 1,383                |
| Term Deposits                       | 1,643           | 1,733           | 1,653            | 2,153           | 2,860           | 2,668                |
| Certificates of Deposit             | 1,041           | 1,449           | 1,791            | 4,692           | 3,048           | 2,845                |
| Bank Acceptances                    | 586             | 914             | 2,044            | 2,253           | 2,687           | 2,308                |
| Other <sup>(2)</sup>                | 365             | 650             | 792              | 1,344           | 2,315           | 2,433                |
|                                     | <u>8,776</u>    | <u>10,230</u>   | <u>12,585</u>    | <u>16,146</u>   | <u>17,008</u>   | <u>15,795</u>        |
| <b>Offshore Sources</b>             |                 |                 |                  |                 |                 |                      |
| Deposits and Interbank              | 274             | 1,451           | 1,522            | 2,492           | 1,899           | 2,026                |
| Commercial Paper                    | 352             | 275             | 313              | 315             | 721             | 583                  |
| Offshore Bond Issues and Other      | 185             | 768             | 1,448            | 2,369           | 2,471           | 2,674                |
|                                     | <u>811</u>      | <u>2,494</u>    | <u>3,283</u>     | <u>5,176</u>    | <u>5,091</u>    | <u>5,283</u>         |
| <b>Total</b>                        | <u>\$ 9,587</u> | <u>\$12,724</u> | <u>\$15,868</u>  | <u>\$21,322</u> | <u>\$22,099</u> | <u>\$21,078</u>      |

(1) State Banking System is an account similar to the Bank's "Streamline" account.

(2) Includes money market deposits.

The maturities of the Bank's and SBV's domestic fixed term deposits were:

| <i>(in millions)</i>                 | Bank              | SBV            |
|--------------------------------------|-------------------|----------------|
|                                      | 31 December, 1990 |                |
| <b>Maturity</b>                      |                   |                |
| Less than three months               | \$ 7,790          | \$2,149        |
| Three months to less than six months | 1,669             | 265            |
| Six months to less than one year     | 1,975             | 223            |
| One year and over                    | 520               | 31             |
| <b>Total</b>                         | <u>\$11,954</u>   | <u>\$2,668</u> |

# Interest Rate, Foreign Currency and Liquidity Risk Management

The interest rate, foreign currency and liquidity risk of the Group is measured and controlled for both its domestic and offshore operations. Day to day management is carried out on a decentralised basis within the Group but under defined policy guidelines and objectives. Following settlement of the purchase of SBV, the liquidity management, statutory requirements and day to day funding needs of the combined banks have been integrated and are managed by the Bank. Interest rate and foreign currency risk management is co-ordinated by the Bank, pending full integration.

Interest rate risk refers to the extent to which the Group's net earnings would be affected by movements in market interest rates. It arises where the effective maturity, interest rate reset or pricing characteristics of the Group's assets are not matched by similar characteristics of its liabilities. A combination of maturity gap analysis and a recognised simulation model provides the basis for management of the Bank's interest rate risk on non-traded products.

Foreign currency funding and trading activity is subject to credit, liquidity, currency and interest rate exposure controls. Foreign currency funding and trading exposures and dealing performance are managed through regular reports received from the Bank's dealing centres as well as periodic unannounced audits undertaken at each centre by staff from the Bank's Head Office. Foreign currency exposure, which is not related to funding or trading activity or long-term capital investments in offshore operations, is fully hedged as soon as the commitment is known.

Liquidity risk is the risk of being unable to fund known and potential commitments in the normal course of business. Internal prudential standards covering diversity of funding sources, reliance on wholesale markets and specification of minimum liquidity holdings are in place. Standards exist for both the management of domestic liquidity (in Australian dollars) and for foreign currencies embracing the Bank's international operations. (See "Funding Sources" for a description of the Bank's funding diversity.)

In determining liquidity and related investment strategies, the Bank takes account of i) requirements of the Reserve Bank governing the holdings of liquid and other securities (see "Regulation and Supervision of Banking in Australia"); and ii) the need to preserve adequate holdings of readily realisable assets to meet fluctuations in liquidity.

The following table shows the book and market value of the Bank's domestic holdings of trading and investment securities:

| <i>(in millions)</i>                           | 30 June, 1990  |                | 31 December, 1990 |                |
|--|----------------|----------------|-------------------|----------------|
|  | Book Value     | Market Value   | Book Value        | Market Value   |
| <b>Trading Securities</b>                      |                |                |                   |                |
| Commonwealth Government Securities             | \$ 40          | \$ 40          | \$ 109            | \$ 109         |
| Commonwealth Government Treasury Notes         | —              | —              | —                 | —              |
| State, Local and Semi-Government Authorities   | 83             | 83             | 317               | 317            |
| Other Securities                               | 72             | 72             | 172               | 170            |
|  | <u>195</u>     | <u>195</u>     | <u>598</u>        | <u>596</u>     |
| <b>Investment Securities</b>                   |                |                |                   |                |
| Commonwealth Government Securities             | 1,991          | 1,946          | 1,972             | 1,994          |
| Commonwealth Government Treasury Notes         | 355            | 355            | 774               | 774            |
| State, Local and Semi-Government Authorities   | 214            | 217            | 69                | 70             |
| Other Securities                               | 437            | 450            | 608               | 624            |
|  | <u>2,997</u>   | <u>2,968</u>   | <u>3,423</u>      | <u>3,462</u>   |
| <b>Total trading and investment securities</b> | <u>\$3,192</u> | <u>\$3,163</u> | <u>\$4,021</u>    | <u>\$4,058</u> |

At 31 December, 1990, the maturity profile of the Bank's trading and investment portfolio was:

| <i>(in millions)</i>             | Commonwealth<br>Government<br>Bonds &<br>Treasury Notes | State, Local<br>& Semi-<br>Government<br>Authorities | Other<br>Securities | Total<br>Book<br>Value |
|----------------------------------|---|--|---------------------|------------------------|
| <b>Maturity</b>                  |   |  |                     |                        |
| Less than one year               | \$1,307   | \$ 37  | \$164               | \$1,508                |
| One year to less than five years | 1,342   | 156  | 616                 | 2,114                  |
| Five years and over              | 206   | 193  | —                   | 399                    |
| <b>Total</b>                     | <u>\$2,855</u>  | <u>\$386</u>   | <u>\$780</u>        | <u>\$4,021</u>         |

The following table shows the book and market value of SBV's domestic holdings of trading and investment securities:

| <i>(in millions)</i>                               | 30 June, 1990  |                 | 31 December, 1990 |                 |
|--|----------------|-----------------|-------------------|-----------------|
|  | Book<br>Value  | Market<br>Value | Book<br>Value     | Market<br>Value |
| <b>Trading Securities</b>                          |                |                 |                   |                 |
| Commonwealth Government<br>Securities              | \$ 59          | \$ 54           | \$ 63             | \$ 63           |
| Commonwealth Government<br>Treasury Notes          | —              | —               | —                 | —               |
| State, Local and Semi-Government<br>Authorities    | 114            | 115             | 60                | 60              |
| Other Securities                                   | 3              | 3               | 2                 | 2               |
|  | <u>176</u>     | <u>172</u>      | <u>125</u>        | <u>125</u>      |
| <b>Investment Securities</b>                       |                |                 |                   |                 |
| Commonwealth Government<br>Securities              | 771            | 736             | 778               | 778             |
| Commonwealth Government<br>Treasury Notes          | 169            | 168             | 372               | 372             |
| State, Local and Semi-Government<br>Authorities    | —              | —               | —                 | —               |
| Other Securities                                   | —              | —               | —                 | —               |
|  | <u>940</u>     | <u>904</u>      | <u>1,150</u>      | <u>1,150</u>    |
| <b>Total trading and investment<br/>securities</b> | <u>\$1,116</u> | <u>\$1,076</u>  | <u>\$1,275</u>    | <u>\$1,275</u>  |

At 31 December, 1990, the maturity profile of SBV's trading and investment portfolio was:

| <i>(in millions)</i>             | Commonwealth<br>Government<br>Bonds &<br>Treasury Notes | State, Local<br>& Semi-<br>Government<br>Authorities | Other<br>Securities | Total<br>Book<br>Value |
|----------------------------------|---|--|---------------------|------------------------|
| <b>Maturity</b>                  |   |  |                     |                        |
| Less than one year               | \$ 653  | —  | \$1                 | \$ 654                 |
| One year to less than five years | 444   | \$35   | 1                   | 480                    |
| Five years and over              | 116   | 25   | —                   | 141                    |
| <b>Total</b>                     | <u>\$1,213</u>  | <u>\$60</u>  | <u>\$2</u>          | <u>\$1,275</u>         |

Book value of investment securities is reported at cost or amortised value. Premiums and discounts are amortised from the date of purchase so that the securities will attain their redemption values by maturity date.

# Capital Resources

The Bank observes the capital adequacy guidelines established by the Reserve Bank, based on the risk-weighted framework adopted internationally (see "Regulation and Supervision of Banking in Australia").

The following table shows the capital position of the Group (including CDB). The capital position shown at 31 December, 1990 is on a pro-forma basis combining that of the Group (including CDB) with that of SBV. It does not include the proceeds of the Public Share Offer. For details of the capital resources of the Group (including SBV) incorporating the proceeds of the Public Share Offer, see Note 19 of the Investigating Accountants' Report and "Profit Outlook".

| (dollars in millions)                      | 1989            | Group<br>30 June,<br>1990 | Group<br>(including SBV)<br>31 December,<br>1990 |
|--|-----------------|---------------------------|--|
| <b>Tier 1</b>                              |                 |                           |  |
| Equity                                     |                 |                           |  |
| Capital                                    | \$ 611          | \$ 1,173                  | \$ 1,173   |
| Minority Interest                          | 45              | 47                        | 50   |
| General Reserves                           | 1,537           | 1,879                     | 1,885  |
| Retained Profits                           | 111             | 165                       | 692  |
| Retained Dividend <sup>(1)</sup>           | —               | —                         | 160  |
| Goodwill                                   | —               | —                         | (790)  |
| Other Capital Resources                    |                 |                           |  |
| Undated Floating Rate Notes <sup>(2)</sup> | 928             | 889                       | 1,395  |
| <b>Total Tier 1 Capital</b>                | <u>3,232</u>    | <u>4,153</u>              | <u>4,565</u>                                     |
| <b>Tier 2</b>                              |                 |                           |  |
| General Provisions for Doubtful Debts      | 393             | 389                       | 598  |
| Dated Bond and Note Issues <sup>(3)</sup>  | —               | —                         | 559  |
| Asset Revaluation Reserve                  | 796             | 671                       | 668  |
| Notional Property Revaluation              | 447             | —                         | —  |
| <b>Total Tier 2 Capital</b>                | <u>1,636</u>    | <u>1,060</u>              | <u>1,825</u>                                     |
| <b>Total Tier 1 &amp; Tier 2 Capital</b>   | <u>\$4,868</u>  | <u>\$5,213</u>            | <u>\$6,390</u>                                   |
| <b>Risk-Weighted Assets</b>                |                 |                           |  |
| On-Balance Sheet                           | \$43,505        | \$48,534                  | \$63,217   |
| Off-Balance Sheet                          | 7,474           | 8,403                     | 10,858   |
| <b>Total Risk-Weighted Assets</b>          | <u>\$50,979</u> | <u>\$56,937</u>           | <u>\$74,075</u>                                  |
| <b>Risk-Weighted Capital Ratios</b>        | %               | %                         | %  |
| Tier 1                                     | 6.34            | 7.30                      | 6.16   |
| Tier 2                                     | 3.21            | 1.86                      | 2.47   |
| <b>Total</b>                               | <u>9.55</u>     | <u>9.16</u>               | <u>8.63</u>                                      |

(1) The Commonwealth Treasurer has agreed that the dividend payable to the Commonwealth for 1989-90 may be retained pending the allotment of shares from the Commonwealth Bank's Public Share Offer.

(2) Includes:

- US\$300 million Undated Floating Rate Notes Exchangeable into Dated Floating Rate Notes, issued 11 July, 1988.
- US\$400 million Undated Floating Rate Notes Exchangeable into Dated Floating Rate Notes, issued 22 February, 1989.
- US\$125 million Guaranteed Undated Capital Notes, issued by SBV on 15 October, 1986.
- US\$250 million Guaranteed Undated Variable Rate Capital Notes, issued by SBV on 26 June, 1989.

The Commonwealth Bank has entered into separate agreements with the Commonwealth relating to each of the above issues (the "Agreements") which qualify the issues as Tier 1 capital.

The Agreements provide that, upon the occurrence of certain events listed below, the Commonwealth Bank will issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth) rights to all shareholders to subscribe for fully paid ordinary shares up to an amount equal to the outstanding principal value of the relevant note issue or issues plus any interest paid in respect of the notes for the most recent financial year and accrued interest. The issue price of such shares will be determined by reference to the prevailing market price for the Commonwealth Bank's shares.

Any one or more of the following events will trigger the issue of shares to the Commonwealth or a rights issue:

- a relevant event of default (discussed below) occurs in respect of a note issue and the Trustee of the relevant note issue gives notice to the Commonwealth Bank that the notes are immediately due and payable;
- the most recent audited annual accounts of the Group show a loss (as defined in the Agreements);
- the Commonwealth Bank does not declare a dividend in respect of its ordinary shares;
- the Commonwealth Bank, if required by the Commonwealth and subject to the agreement of the Reserve Bank, exercises its option to redeem a note issue; or
- in respect of Undated Floating Rate Notes which have been exchanged to Dated Floating Rate Notes, the Dated Floating Rate Notes have matured.

Any payment made by the Commonwealth pursuant to its guarantee in respect of the relevant notes will trigger the issue of shares to the Commonwealth to the value of such payment.

The relevant events of default differ depending on the relevant Agreement. In summary, they cover events such as failure of the Commonwealth Bank to meet its monetary obligations in respect of the relevant notes; the insolvency of the Commonwealth Bank; any law being passed to dissolve the Commonwealth Bank or the Commonwealth Bank ceasing to carry on general banking business in Australia; and the loss of the Commonwealth guarantee in respect of the relevant notes.

(3) Includes:

- \$95 million 13¾% Bonds Due 1999.
- US\$125 million Guaranteed Extendible Floating Rate Capital Notes, issued by SBV on 27 June, 1989, Due 1999.
- \$300 million Extendible Floating Rate Stock, issued by SBV on 22 December, 1989, Due 2004.

The Commonwealth Bank has entered into separate agreements with the Commonwealth relating to each of the above issues (the "Agreements") which qualify the issues as Tier 2 capital.

With the exception of the \$95 million 13¾% Bonds Due 1999, the Agreements provide for the Commonwealth Bank to issue either fully paid ordinary shares to the Commonwealth of Australia or rights to all shareholders to subscribe for fully paid ordinary shares (as outlined in Footnote 2) on the occurrence of any one or more of the following events:

- a relevant event of default (as summarised in Footnote 2) occurs in respect of a note issue and, where applicable, the Trustee of the relevant notes gives notice of such to the Commonwealth Bank; or
- in respect of the US\$125 million Guaranteed Extendible Floating Rate Capital Notes and the \$300 million Extendible Floating Rate Stock, the Commonwealth Bank, if required by the Commonwealth and subject to the agreement of the Reserve Bank, exercises its option to redeem such issue.

With the exception of the \$95 million 13¾% Bonds Due 1999, any payment made by the Commonwealth pursuant to its guarantee in respect of the relevant issue will trigger the issue of shares to the Commonwealth to the value of such payment.

The Agreement for the \$95 million 13¾% Bonds Due 1999 provides that the Commonwealth will contribute funds to the reserves of the Commonwealth Bank on the occurrence of an event of default (as summarised in Footnote 2).

See "Long-Term Debt Issued by Commonwealth Bank of Australia" and "Long-Term Debt Issued by State Bank of Victoria".

## Property

With the acquisition of SBV, the Group has substantial property holdings that include 1,164 owner occupied branch premises in Australia and, through ASB Bank Limited, 82 in New Zealand.

In addition, the Group owns a further 962 special purpose and residential properties in Australia.

Independent valuations of a large sample of the property portfolio, reflecting current use, were carried out early in 1991 and they indicated market value to be in excess of book value.

## Legal Proceedings

Legal proceedings are commenced against the Commonwealth Bank and its subsidiaries from time to time in the course of its business. A note of the extent of significant claims against the Group may be found in the Investigating Accountants' Report. All of these claims are being defended. While the outcome of any individual proceedings cannot be accurately predicted, the Directors do not believe that the outcome of any current proceedings will have a material adverse effect on the business or financial positions of the Commonwealth Bank or its subsidiaries.

Pursuant to the SBV Acquisition Contract (see "Relevant Contracts"), the Commonwealth Bank has an indemnity from the Victorian Government in respect of all significant claims (contractually defined as a claim for not less than \$1 million unless it is one of a class with an aggregate value of not less than \$1 million) outstanding against SBV at the time of its merger with the Commonwealth Bank. Quantified and unquantified claims have been made by third parties which the Commonwealth Bank considers are covered by the indemnity. In view of the indemnity, the Commonwealth Bank has made no provision in respect of these claims. Claims of less than \$1 million which are not covered by the indemnity are not considered to be material in this context.

The Commonwealth Bank has given notice of potential claims against the Victorian Government for breach of warranties given in the SBV Acquisition Contract. The Commonwealth Bank believes that it has a valid and enforceable claim for damages for any breach of warranties arising out of the notice as long as such a claim is for not less than \$1 million or is one of a class with an aggregate value of not less than \$1 million.

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**Historical copy of CBA's 1991 IPO prospectus — not current disclosure.  
Do not rely on this document for any current investment decision.**

# Application Section

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## Introduction to Application Section of Prospectus

*There are two application forms in this Prospectus.*

*You will only need to fill out ONE.*

*The second may be used by another person who reads  
the Prospectus.*

# How to Apply

How to apply for shares in the Commonwealth Bank offered through this Public Share Offer:

**1. Complete one of the Application Forms attached to this Prospectus:**

Details on how to complete the Application Form are set out on the back of the Form.

Would you please help us by writing in LARGE BLOCK LETTERS.

Please note that your name should be entered in Section **C** of the Application Form and your address in Section **D**. Do not use the last two lines of Section **C** for your address.

Do not detach the bank deposit slip from the Application Form.

**2. The minimum amount of shares you can apply for is 400 and, thereafter, the number of shares must be in multiples of 100.**

The total application moneys will be equal to the number of shares for which you are applying multiplied by \$5.40 (the subscription price).

Table of Amounts Payable on Application (examples only).

| Shares        | Amount    | Shares | Amount     | Shares | Amount     |
|---------------|-----------|--------|------------|--------|------------|
| 400 (minimum) | – \$2,160 | 800    | – \$4,320  | 3,000  | – \$16,200 |
| 500           | – \$2,700 | 900    | – \$4,860  | 4,000  | – \$21,600 |
| 600           | – \$3,240 | 1,000  | – \$5,400  | 5,000  | – \$27,000 |
| 700           | – \$3,780 | 2,000  | – \$10,800 | 10,000 | – \$54,000 |

**3. If you are paying by cash:**

- Do not send cash in the mail. Lodge your cash and your Application Form with a branch of the Commonwealth Bank (including SBV).
- Lodge your Application Form with a branch of the Commonwealth Bank (including SBV) should you want to pay by withdrawing directly from your Commonwealth Bank Account.
- If you wish to use a credit card, you must make a cash withdrawal before lodging your Application Form.

**4. If you are paying by cheque:**

Pin (rather than staple) a cheque made payable to “Commonwealth Bank of Australia Share Issue”, for the total application moneys of the shares for which you are applying, to the top left hand corner of the Application Form.

**5. Where and how you can lodge an Application Form:**

- It would help us if you could lodge your Application Form at a Commonwealth Bank (or SBV) branch. This will also benefit you if you require a receipt and wish to know your application has been received. If appropriate, you can also confirm your “Commonwealth Bank/SBV Customer Status”; or
- Through your stockbroker; or
- By mail, with completed deposit slip and a cheque, to –  
The Manager, Commonwealth Bank of Australia, Share Information Centre,  
GPO Box 7009, SYDNEY, NSW 2001.

The Commonwealth Bank cannot be held responsible for any delays in the mail.

**Closing Time and Date**

Completed Application Forms, including those sent through the mail, **must be received** by the Commonwealth Bank, either through one of its branches (including SBV) or through the Share Information Centre, **by no later than 4.00pm on 14 August, 1991** (subject to the Commonwealth Bank’s right, with the consent of the Lead Manager if required, to extend this closing date).

Do not send cash through the mail.

**Further Information**

- If you require any further information on how to apply for Commonwealth Bank shares, contact the Share Information Centre, toll-free on 008 022 440.
- If you require advice on investing in Commonwealth Bank shares, you should consult your stockbroker or financial adviser.

# Your Guide to the Application Form

Application forms must not be handed to members of the public unless attached to the Prospectus.

Please complete all **white sections** of the **Application for Shares** and the **bank deposit slip** (front and reverse) using **BLOCK LETTERS**.

Applications should be lodged at any branch of the Commonwealth Bank (including State Bank of Victoria) where customer status confirmation and a receipt can be obtained or with a stockbroker who is a member of the Australian Stock Exchange. Applications may be mailed (together with completed deposit slip and cheque) addressed to The Manager, Commonwealth Bank of Australia, Share Information Centre, GPO Box 7009, Sydney NSW 2001.

- A** The **minimum number of shares** which may be applied for is shown in the "ready reckoner" on the page preceding these application forms. Additional shares must be applied for in multiples of 100.
- B** Application moneys must be for the **full amount** (number of shares multiplied by price per share). Cheques must be made payable to "Commonwealth Bank of Australia Share Issue". If your application form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. The Commonwealth Bank's decision as to whether to treat your application as valid, and how to construe, amend or complete it, shall be final. You will not, however, be treated as having offered to purchase more shares in the Commonwealth Bank than is indicated.
- C** Applications must be in the **name(s) of natural person(s), companies or other legal entities acceptable to the Commonwealth Bank** up to a maximum of three names per application for shares. Applications in the name of a trust or estate, business, firm or partnership, club, association or other unincorporated body cannot be accepted. However, applications made solely in the individual name(s) of (the) person(s) who is/are the trustee(s), proprietor(s), partner(s) or office bearer(s) (as applicable) of those entities will be accepted.
- D** **All communications** to you from the Commonwealth Bank's share registry (share certificates, annual/interim reports, correspondence etc) will be mailed to the **person(s) and address** as shown. Leave first line blank if mail is to be sent addressed to name(s) in Section **C**. For joint applications (more than one applicant) only one address is required.
- E** Please let us know telephone numbers (including person responsible in the case of application by a company) so that we can contact you quickly if there is an irregularity in your application.
- F** Were you on **1 June, 1991** and are you still a **customer** of the Commonwealth Bank Group? If "YES", record brief details and provide evidence when lodging your application at a branch, eg. a passbook, card, account/investment/loan statement, certificate or interest advice. If not applying in person at a branch, the details you give will be checked by the Commonwealth Bank.
- G** The application must be signed by the applicant(s) personally, or under company seal or, by an attorney.

Before signing the application the applicant(s) should read the Prospectus to which this application relates.

**Uncertificated (FAST) Investors only** - as approved by the Australian Stock Exchange Limited, please lodge a certificated to uncertificated conversion form with your application using the "application number" for "certificate number".

## Declarations and Statements on signing the application

I/We declare that:

- I am/We are not prohibited from applying for or holding shares in the Commonwealth Bank by virtue of the provisions of the Commonwealth Banks Act 1959 as amended or the Banks (Shareholdings) Act 1972 (refer to Prospectus for details).
- All details and statements made by me/us are complete and accurate.

*(If signed under a company's common seal)*

The director(s) and/or Secretary attest that the common seal was affixed in accordance with the company's Articles of Association.

*(If signed by an attorney)*

The attorney states not having been given Notice of Revocation of the Power of Attorney by which this application is signed.

|                   |            |            |
|-------------------|------------|------------|
| Applicant Name(s) | Address    |            |
|                   |            |            |
|                   | home(    ) | work(    ) |

Details of cheques lodged (made payable to "Commonwealth Bank of Australia Share Issue")

| Drawer       | Bank | Branch | Amount |
|--------------|------|--------|--------|
|              |      |        | \$     |
|              |      |        | \$     |
|              |      |        | \$     |
| <b>Total</b> |      |        | \$     |

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**COMMONWEALTH BANK OF AUSTRALIA**

A.C.N. 123 123 124

Application Number

Broker's Stamp

**Application for Shares**

131431911  
 Registrar's Use (Transaction Number)

*It is advisable to lodge your application form early to protect against unforeseen circumstances.*

PLEASE USE BLOCK LETTERS

For items **A** to **G** refer to notes on reverse

**A** I/We apply for \_\_\_\_\_ shares **B** and lodge full application moneys \$ \_\_\_\_\_ -00  
 (number)

**C** Complete full name details  
 Given Name(s) \_\_\_\_\_ Surname(s) \_\_\_\_\_  
 Applicant \_\_\_\_\_  
 Joint Applicant #2 \_\_\_\_\_  
 Joint Applicant #3 \_\_\_\_\_

**D** Complete address details  
 Name(s) of applicant(s) to receive mail \_\_\_\_\_  
 Number and Street \_\_\_\_\_  
 Suburb or City \_\_\_\_\_ State \_\_\_\_\_ Postcode \_\_\_\_\_

**E** Telephone details  
 Home ( ) \_\_\_\_\_ Work ( ) \_\_\_\_\_ Contact Name \_\_\_\_\_

**F** Are you now and were you on 1 June 1991 a customer of the Commonwealth Bank Group?  
 If "Yes" - My/our connection with Commonwealth Bank Group is through:-  
 • \_\_\_\_\_  
 • Account Number or Reference:- \_\_\_\_\_  
 Evidence sighted **Y / N**  
 Branch No. \_\_\_\_\_

**G** I/We declare that this application is signed/sealed according to the declarations/appropriate statements on the reverse of this form and agree to be bound by the Memorandum and Articles of Association of the Commonwealth Bank.  
 \_\_\_\_\_ / \_\_\_\_\_ 1991  
 Teller's Date Stamp \_\_\_\_\_  
 x \_\_\_\_\_  
 Signature(s): Applicant \_\_\_\_\_ Joint Applicant #2 \_\_\_\_\_ Joint Applicant #3 \_\_\_\_\_

**Commonwealth Bank action - teller to hand application to PSO Officer for delivery to S.I.C. SYDNEY**

ALL APPLICANTS - Please complete front and reverse of **Deposit Slip - DO NOT REMOVE**

**Bank Deposit Slip**

to remain at branch

**COMMONWEALTH BANK OF AUSTRALIA**  
 48 Martin Place SYDNEY NSW

|                                   |           |                 |        |
|-----------------------------------|-----------|-----------------|--------|
| for credit of                     |           | No. of          |        |
| COMMONWEALTH BANK SHARE ISSUE A/C |           | cheques         |        |
| TRAN CODE                         | USER CODE | Application No. | Teller |
| 831                               | 2743      | 131 431 911     |        |

|                       |    |            |  |
|-----------------------|----|------------|--|
| Cash                  |    | TELLER USE |  |
| \$                    |    | \$100      |  |
| Cheques (See reverse) |    | \$50       |  |
| \$                    |    | \$20       |  |
| Total                 |    | \$10       |  |
| \$                    | 00 | \$5        |  |
|                       |    | Coin       |  |
|                       |    | Total Cash |  |

000000 131431911: 2743 831

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**COMMONWEALTH BANK OF AUSTRALIA**

A.C.N. 123 123 124

Application Number

Broker's Stamp

**Application for Shares**

131431929

Registrar's Use (Transaction Number)

It is advisable to lodge your application form early to protect against unforeseen circumstances.

PLEASE USE BLOCK LETTERS

For items **A** to **G** refer to notes on reverse

**A** I/We apply for \_\_\_\_\_ shares **B** and lodge full application moneys \$ \_\_\_\_\_ -00

(number)

**C** Complete full name details

Given Name(s) \_\_\_\_\_ Surname(s) \_\_\_\_\_

Applicant \_\_\_\_\_

Joint Applicant #2 \_\_\_\_\_

Joint Applicant #3 \_\_\_\_\_

**D** Complete address details

Name(s) of applicant(s) to receive mail \_\_\_\_\_

Number and Street \_\_\_\_\_

Suburb or City \_\_\_\_\_ State \_\_\_\_\_ Postcode \_\_\_\_\_

**E** Telephone details

Home ( ) \_\_\_\_\_ Work ( ) \_\_\_\_\_ Contact Name \_\_\_\_\_

**F** Are you now and were you on 1 June 1991 a customer of the Commonwealth Bank Group?

If "Yes" - My/our connection with Commonwealth Bank Group is through:-

• \_\_\_\_\_

• Account Number or Reference:- \_\_\_\_\_

Evidence sighted **Y / N**

Branch No. \_\_\_\_\_

**G** I/We declare that this application is signed/sealed according to the declarations/appropriate statements on the reverse of this form and agree to be bound by the Memorandum and Articles of Association of the Commonwealth Bank.

\_\_\_\_\_/ 1991

Teller's Date Stamp

Signature(s): Applicant \_\_\_\_\_ Joint Applicant #2 \_\_\_\_\_ Joint Applicant #3 \_\_\_\_\_

Commonwealth Bank action - teller to hand application to PSO Officer for delivery to S.I.C. SYDNEY

ALL APPLICANTS - Please complete front and reverse of Deposit Slip - DO NOT REMOVE

**Bank Deposit Slip**

to remain at branch

**COMMONWEALTH BANK OF AUSTRALIA**  
48 Martin Place SYDNEY NSW

|                                   |           |                 |
|-----------------------------------|-----------|-----------------|
| for credit of                     |           | No. of          |
| COMMONWEALTH BANK SHARE ISSUE A/C |           | cheques         |
| TRAN CODE                         | USER CODE | Application No. |
| 831                               | 2743      | 131 431 929     |
|                                   |           | Teller          |

|                       |    |            |  |
|-----------------------|----|------------|--|
| Cash                  |    | TELLER USE |  |
| \$                    |    | \$100      |  |
|                       |    | \$50       |  |
| Cheques (See reverse) |    | \$20       |  |
| \$                    |    | \$10       |  |
|                       |    | \$5        |  |
| Total                 |    | Coin       |  |
| \$                    | 00 | Total Cash |  |

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000000 131431929: 2743 831

# Your Guide to the Application Form

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- A** The **minimum number of shares** which may be applied for is shown in the "ready reckoner" on the page preceding these application forms. Additional shares must be applied for in multiples of 100.
- B** Application moneys must be for the **full amount** (number of shares multiplied by price per share). Cheques must be made payable to "Commonwealth Bank of Australia Share Issue". If your application form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. The Commonwealth Bank's decision as to whether to treat your application as valid, and how to construe, amend or complete it, shall be final. You will not, however, be treated as having offered to purchase more shares in the Commonwealth Bank than is indicated.
- C** Applications must be in the **name(s) of natural person(s), companies or other legal entities acceptable to the Commonwealth Bank** up to a maximum of three names per application for shares. Applications in the name of a trust or estate, business, firm or partnership, club, association or other unincorporated body cannot be accepted. However, applications made solely in the individual name(s) of (the) person(s) who is/are the trustee(s), proprietor(s), partner(s) or office bearer(s) (as applicable) of those entities will be accepted.
- D** **All communications** to you from the Commonwealth Bank's share registry (share certificates, annual/interim reports, correspondence etc) will be mailed to the **person(s) and address** as shown. Leave first line blank if mail is to be sent addressed to name(s) in Section **C**. For joint applications (more than one applicant) only one address is required.
- E** Please let us know telephone numbers (including person responsible in the case of application by a company) so that we can contact you quickly if there is an irregularity in your application.
- F** Were you on **1 June, 1991** and are you still a **customer** of the Commonwealth Bank Group? If "YES", record brief details and provide evidence when lodging your application at a branch, eg. a passbook, card, account/investment/loan statement, certificate or interest advice. If not applying in person at a branch, the details you give will be checked by the Commonwealth Bank.
- G** The application must be signed by the applicant(s) personally, or under company seal or, by an attorney.

Before signing the application the applicant(s) should read the Prospectus to which this application relates.

**Uncertificated (FAST) Investors only** - as approved by the Australian Stock Exchange Limited, please lodge a certificated to uncertificated conversion form with your application using the "application number" for "certificate number".

## Declarations and Statements on signing the application

I/We declare that:

- I am/We are not prohibited from applying for or holding shares in the Commonwealth Bank by virtue of the provisions of the Commonwealth Banks Act 1959 as amended or the Banks (Shareholdings) Act 1972 (refer to Prospectus for details).
- All details and statements made by me/us are complete and accurate.

*(If signed under a company's common seal)*

The director(s) and/or Secretary attest that the common seal was affixed in accordance with the company's Articles of Association.

*(If signed by an attorney)*

The attorney states not having been given Notice of Revocation of the Power of Attorney by which this application is signed.

|                   |            |            |
|-------------------|------------|------------|
| Applicant Name(s) | Address    |            |
|                   |            |            |
|                   | home(    ) | work(    ) |

Details of cheques lodged (made payable to "Commonwealth Bank of Australia Share Issue")

| Drawer | Bank | Branch       | Amount |
|--------|------|--------------|--------|
|        |      |              | \$     |
|        |      |              | \$     |
|        |      |              | \$     |
|        |      | <b>Total</b> | \$     |

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## Correct Forms of Registrable Title

Applications must be in the name(s) of natural person(s), companies or other legal entities acceptable to the Commonwealth Bank – refer to **C** on the back of the Application Form. At least one full given name and the surname is required for each natural person. Some examples of incorrect and correct forms of registrable title are:

| Type of Investor                | Examples of Incorrect Form   | Correct Form  |
|---------------------------------|--|---|
| Trusts                          | (i) John Smith trustee for Michael Smith<br>(ii) John Smith Family Trust<br>(iii) John Smith Trust Account<br>(iv) John Smith No 1 A/c | John Smith<br>(do not use name of trust, use personal name of trustee)  |
| Deceased Estates                | (i) John Smith (Deceased)<br>(ii) Estate of the Late John Smith  | (i) Michael Smith, or<br>(ii) Mary Smith and Michael Smith*<br>(do not use name of deceased, use executor(s) personal names)    |
| Partnerships                    | (i) John Smith & Son<br>(ii) Smith & Smith<br>(iii) Smith & Co   | John Smith and Michael Smith*<br>(do not use name of partnership, use partners' personal names)                                 |
| Clubs/<br>Unincorporated Bodies | (i) Smith Investment Club<br>(ii) ABC Tennis Association   | (i) John Smith, or<br>(ii) John Smith and Michael Smith*<br>(do not use name of club etc., use office bearer(s) personal names) |
| Superannuation<br>Funds         | (i) John Smith Pty Ltd<br>Superannuation Fund<br>(ii) John Smith Pension Fund  | (i) John Smith Pty Ltd, or<br>(ii) John Smith<br>(do not use name of fund, use name of trustee of fund)                         |

\* Put the name(s) of joint applicants(s), #2 and #3, in designated space(s) at **C** on the Application Form.

### Powers of Attorney

If your Application Form is signed by an attorney, the Power of Attorney document is not required in support of the application.

### Australian Company Number (A.C.N.)

If the applicant is a company, when signing under seal in Section **C** make sure your company seal includes its Australian Company Number (A.C.N.).

### Receipt

Please complete a receipt form below if you require one, and hand it with your Application Form to a Commonwealth Bank branch "customer service area" for authentication.

Receipts will only be given when the Application Form is lodged at a Commonwealth Bank or SBV branch.

#### COMMONWEALTH BANK OF AUSTRALIA

A.C.N. 123 123 124

RECEIPT # 1

Received from

Applicant

Joint Applicant #2

Joint Applicant #3

the sum of

\$ -0 0

for (number)

shares in the

**Public Share Offer**

by the Commonwealth Bank

Application Number

Teller's Stamp

#### COMMONWEALTH BANK OF AUSTRALIA

A.C.N. 123 123 124

RECEIPT # 2

Received from

Applicant

Joint Applicant #2

Joint Applicant #3

the sum of

\$ -0 0

for (number)

shares in the

**Public Share Offer**

by the Commonwealth Bank

Application Number

Teller's Stamp

## Irregular Application Moneys

Shares will not be allotted for less than the minimum number which may be applied for ie. 400 shares requiring \$2,160 "the minimum application amount".

If the number of shares applied for and/or the application moneys lodged are less than the minimum application amount, the application moneys will be returned to you.

If both the number of shares applied for and application moneys lodged are greater than the minimum application amount but do not agree, then:

- (i) where more money is lodged than shares applied for, the Commonwealth Bank **may** allot the number of shares applied for and refund the surplus money to you; or
- (ii) where insufficient money is lodged for the shares applied for, the Commonwealth Bank **may** allot the number of shares paid for and refund any surplus money to you.

## Shareholders' Additional Requirements

Subsequent to allotment and mailing of share certificates we will write to shareholders about the following matters:

- Receipt of dividends by credit to a bank account.
- Election to participate in the Dividend Reinvestment Plan.
- Notification of Tax File Numbers or Exemptions.
- Election to not receive Annual/Interim Reports.

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## **FINANCIAL INFORMATION**

|                                 |    |
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| Discussion of Operating Results | 60 |
| Profit Outlook                  | 63 |
| Dividend Policy                 | 65 |
| Additional Financial Data       | 67 |



## Discussion of Operating Results

The following table is based on published accounts and shows the operating results of the Group (including CDB). Some of these figures differ from those shown in the Investigating Accountants' Report which incorporate certain adjustments made for the purposes of comparability.

| (in millions)   | Year ended 30 June, |           |           |           |                  | Six months ended 31 December, 1990 |
|---|---------------------|-----------|-----------|-----------|------------------|------------------------------------|
|   | 1986                | 1987      | 1988      | 1989      | 1990 (Unaudited) |                                    |
| Interest Income   | \$4,365.4           | \$4,909.0 | \$5,190.4 | \$6,106.6 | \$8,607.7        | \$4,373.5                          |
| Interest Expense  | 2,934.4             | 3,423.5   | 3,305.2   | 3,946.2   | 6,223.5          | 3,035.0                            |
| Net Interest Income   | 1,431.0             | 1,485.5   | 1,885.2   | 2,160.4   | 2,384.2          | 1,338.5                            |
| Commission and Other Income   | 441.0               | 543.4     | 634.5     | 821.7     | 954.1            | 518.9                              |
| Net Income  | 1,872.0             | 2,028.9   | 2,519.7   | 2,982.1   | 3,338.3          | 1,857.4                            |
| Bad and Doubtful Debts  | 62.1                | 140.7     | 196.4     | 298.0     | 461.7            | 385.7                              |
| Net Income after Bad and Doubtful Debts   | 1,809.9             | 1,888.2   | 2,323.3   | 2,684.1   | 2,876.6          | 1,471.7                            |
| Salaries and Other Staff Expenses   | 887.0               | 938.9     | 1,016.1   | 1,131.7   | 1,171.4          | 608.5                              |
| Building Occupancy Expenses   | 141.8               | 161.3     | 183.6     | 199.4     | 272.8            | 140.5                              |
| Equipment Expenses  | 112.1               | 138.7     | 148.6     | 171.2     | 221.6            | 138.4                              |
| Other Expenses  | 223.6               | 271.3     | 308.8     | 316.2     | 427.1            | 228.5                              |
|   | 1,364.5             | 1,510.2   | 1,657.1   | 1,818.5   | 2,092.9          | 1,116.0                            |
| Operating Profit (Loss) before Abnormal Items and Income Tax                        | 445.4               | 378.0     | 666.2     | 865.6     | 783.7            | 355.7                              |
| Abnormal Items (Net of Income Tax)  | —                   | —         | —         | 79.5      | 34.6             | 327.7                              |
| Operating Profit (Loss) before Income Tax   | 445.4               | 378.0     | 666.2     | 945.1     | 818.3            | 683.4                              |
| Income Tax Attributable to Operating Profit   | 156.2               | 180.8     | 392.8     | 389.7     | 289.5            | 147.0                              |
| Operating Profit (Loss) after Income Tax  | 289.2               | 197.2     | 273.4     | 555.4     | 528.8            | 536.4                              |
| Extraordinary Items (Net of Income Tax)   | (9.1)               | 5.6       | 91.5      | (76.3)    | 2.6              | —                                  |
| Operating Profit and Extraordinary Items after Income Tax                           | 280.1               | 202.8     | 364.9     | 479.1     | 531.4            | 536.4                              |
| Minority Interests in Operating Profit after Income Tax                             | 2.7                 | 5.2       | 5.8       | 2.9       | 7.1              | 4.2                                |
| Operating Profit and Extraordinary Items after Income Tax Attributable to the Group | \$ 277.4            | \$ 197.6  | \$ 359.1  | \$ 476.2  | \$ 524.3         | \$ 532.2                           |

The following discussion summarises key features of the financial performance of the Group (including CDB) for the year ended 30 June, 1990 and the six months ended 31 December, 1990.

### Summary

Recent results were achieved in a period of slowing domestic economic activity, brought about by high interest rates resulting from the tight macroeconomic policies pursued by the monetary authorities. Prior to this period, the Australian financial markets were characterised by strong expansion as buoyant demand for finance was met by strong competition among banks, other institutions and capital markets in Australia and abroad. The outcome of this period of buoyancy produced greatly increased write-offs and provisioning for bad and doubtful debts. Non-accrual loans totalled \$1.6 billion at 31 December, 1990, compared with \$1.0 billion at 30 June, 1990 and \$450 million at 30 June, 1989.

### Operating Profit

Consolidated operating profit before abnormal items and income tax of the Group (including CDB) was \$356 million for the six months ended 31 December, 1990, compared with \$386 million for the same period in the preceding year. For the year ended 30 June, 1990, operating profit before abnormal items and income tax totalled \$784 million, a decrease of \$82 million, or 9.5%, from 1988-89. The decrease in net profit for

these periods primarily reflects higher charges for bad and doubtful debts.

#### **Net Interest Income**

Net interest income for 1989-90 increased by \$224 million, or 10.4%, to \$2.4 billion, compared with an increase of 14.6% in 1988-89. In the six months ended 31 December, 1990, net interest income increased by \$130 million, 10% higher than in the same period of 1989. The interest margin was adversely impacted by loss of interest income on an increasing level of non-accrual loans together with a shift by depositors to products yielding higher interest.

#### **Non-Interest Income**

Non-interest income, primarily fee income from lending, commissions and other fees, foreign exchange trading earnings and other trading income, increased by \$132 million, or 16.1%, to \$954 million for the year ended 30 June, 1990, compared with an increase of 29.5% in 1988-89. Non-interest income, as a percentage of net income, increased steadily to 28.6% in 1989-90. For the six months ended 31 December, 1990, non-interest income as a percentage of net income was 27.9%.

#### **Non-Interest Expense**

Non-interest expense increased by 15.1% in the year ended 30 June, 1990, compared with an increase of 9.7% in 1988-89. The increase in 1989-90 was primarily due to the inclusion of a full year's expenditure for ASB Bank Limited (only three months' results for ASB were included in the 1988-89 consolidated accounts). Salaries and other staff expenses, which comprise the major component of non-interest expense, increased by \$40 million, or 3.5%, to \$1.2 billion for the year ended 30 June, 1990, compared with an increase of 11.4% in 1988-89. Staff numbers remained relatively stable in that period. The increase in salaries and other staff expenses in 1988-89 was primarily due to the progressive introduction by the Commonwealth Bank of a remuneration system more closely related to market rates. The reduced rate of increase in 1989-90 is partly due to reduction of contributions by the Commonwealth Bank to the Officers' Superannuation Fund from 1 January, 1990 (see "Staff Resources"). That also benefited staff expenses in the six months to 31 December, 1990, which were slightly lower than in the corresponding period of 1989; this kept the rise in operating expenses to 6.5%.

#### **Bad Debts and Provision for Doubtful Debts**

Bad debt expense comprises the funding charge to increase the level of specific and general provisions and also bad debts written off direct to profit and loss rather than against a provision. Bad debt expense increased by \$164 million (54.9%) in 1989-90 to \$462 million, compared with an increase of \$102 million (51.7%) in 1988-89. For the six months ended 31 December, 1990, bad debt expense was \$386 million. The increased bad debt expense reflects weakened business conditions and asset markets.

#### **Abnormal Items**

In addition to profit from operations, the Group reported abnormal profits in the six months ended 31 December, 1990 of \$534 million, before tax of \$207 million. This included a transfer of \$323 million (net of tax) being portion of the actuarially assessed surplus in the Commonwealth Banking Corporation Officers' Superannuation Fund. Abnormal items of \$35 million included in the year ended 30 June, 1990 were mainly capital profits from the sale of premises. In 1988-89, capital profits from this source were some \$78 million. In earlier years these were reported as extraordinary items in keeping with the then operative accounting practice.

#### **Extraordinary Items**

Extraordinary item of \$76.3 million in 1988-89 represented the write-off of goodwill from the acquisition of 75% of ASB Bank Limited.

#### **Net Profit**

Consolidated Group profit after income tax and minority interests for the year ended 30 June, 1990 totalled \$487 million, before abnormal and extraordinary items of \$37 million, an increase of 3.0% over 1988-89. Income tax expense was 25.7% lower in 1989-90 reflecting a lower operating profit, a large reduction in the permanent difference arising from funding of the general provision, and increased taxation rebates.

Consolidated Group profit after income tax and minority interests totalled \$204 million before abnormal items of \$328 million for the six months ended 31 December, 1990. This compared with \$244 million before abnormal items of \$23 million for the same period in the preceding year.

The following table is based on audited yearly accounts and summarises the Group's (including CDB) performance:

|   | Year ended 30 June,  |                      |          |          |                  | Six months ended 31 December, 1990 |
|---|----------------------|----------------------|----------|----------|------------------|------------------------------------|
|   | 1986                 | 1987                 | 1988     | 1989     | 1990 (Unaudited) |                                    |
| <b>Profitability</b>  |                      |                      |          |          |                  |                                    |
| Net Operating Profit/Average Total Assets <sup>(1)</sup>                                    | 0.77%                | 0.46%                | 0.57%    | 0.85%    | 0.76%            | 0.58% <sup>(2)</sup>               |
| Net Operating Profit/Average Total Equity <sup>(1)</sup>                                    | 15.0%                | 8.6%                 | 10.4%    | 16.5%    | 14.0%            | 9.9% <sup>(2)</sup>                |
| <b>Productivity</b>   |                      |                      |          |          |                  |                                    |
| Net Income per full-time (equiv) employee   | \$51,406             | \$56,132             | \$71,764 | \$80,343 | \$88,432         | \$97,768 <sup>(3)</sup>            |
| Staff Expense/Net Income  | 47.4%                | 46.3%                | 40.3%    | 38.0%    | 35.1%            | 32.8%                              |
| <b>Expense</b>  |                      |                      |          |          |                  |                                    |
| Total Expense/Total Income  | 90.7%                | 93.1%                | 88.6%    | 87.5%    | 91.8%            | 92.7%                              |
| Non-Interest Expense/Total Income   | 29.7%                | 30.3%                | 31.8%    | 30.5%    | 26.7%            | 30.7%                              |
| Bad Debt Expense/Non-Interest Expense   | 4.4%                 | 8.5%                 | 10.6%    | 14.1%    | 18.1%            | 25.7%                              |
| <b>Dividends</b>  |                      |                      |          |          |                  |                                    |
| Dividends/Net Profit Excluding Extraordinary & Abnormal Items and before Minority Interests | 34.7% <sup>(4)</sup> | 31.1% <sup>(4)</sup> | 47.4%    | 23.1%    | 32.4%            | n.a.                               |
| Dividends/Net Profit Including Extraordinary & Abnormal Items                               | 36.2% <sup>(4)</sup> | 31.1% <sup>(4)</sup> | 36.1%    | 23.1%    | 30.5%            | n.a.                               |
| <b>Asset Quality</b>  |                      |                      |          |          |                  |                                    |
| Loan Provisions/Total Loans <sup>(4)</sup>  | 0.73%                | 0.98%                | 1.12%    | 1.36%    | 1.44%            | 1.96%                              |

(1) Net operating profit is after tax and minority interests but before abnormal and extraordinary items. Averages are based on beginning and end of year balances.

(2) Annualised.

(3) Excludes payments of \$26 million for 1985-86 and \$16 million for 1986-87 under the New South Wales Amalgamation Agreement which provided for half the net profit earned by CSB in that State to be paid to the State Bank of New South Wales. The Agreement was terminated as at 30 June, 1987 by mutual consent.

(4) Includes Bank Acceptances.

n.a. Not applicable

The following table summarises SBV's performance (excluding Tricontinental Holdings Limited and its subsidiaries):

|   | Year ended 30 June, |          |          |          |                      | Six months ended 31 December, 1990 |
|---|---------------------|----------|----------|----------|----------------------|------------------------------------|
|   | 1986                | 1987     | 1988     | 1989     | 1990                 |                                    |
| <b>Profitability</b>  |                     |          |          |          |                      |                                    |
| Net Operating Profit (Loss)/Average Total Assets <sup>(1)</sup> | 0.67%               | 0.40%    | 0.51%    | 0.34%    | 0.16%                | (1.10)% <sup>(2)</sup>             |
| Net Operating Profit (Loss)/Average Total Equity <sup>(1)</sup> | 16.6%               | 11.2%    | 14.9%    | 9.8%     | 4.5%                 | (32.1)% <sup>(2)</sup>             |
| <b>Productivity</b>   |                     |          |          |          |                      |                                    |
| Net Income per full-time (equiv) employee                       | \$48,126            | \$48,067 | \$64,011 | \$68,387 | \$62,199             | \$71,966 <sup>(3)</sup>            |
| Staff Expense/Net Income  | 46.5%               | 50.0%    | 42.2%    | 41.4%    | 51.6%                | 52.5%                              |
| <b>Expense</b>  |                     |          |          |          |                      |                                    |
| Total Expense/Total Income                                      | 91.2%               | 94.9%    | 91.1%    | 93.0%    | 97.7% <sup>(3)</sup> | 104.9% <sup>(4)</sup>              |
| Non-Interest Expense/Total Income                               | 29.8%               | 25.9%    | 29.4%    | 26.8%    | 20.8% <sup>(3)</sup> | 50.8% <sup>(4)</sup>               |
| Bad Debt Expense/Non-Interest Expense                           | 4.7%                | 6.6%     | 10.5%    | 14.8%    | 0.2% <sup>(3)</sup>  | 62.5% <sup>(4)</sup>               |
| <b>Dividends</b>  |                     |          |          |          |                      |                                    |
| Dividends/Net Profit Excluding Extraordinary & Abnormal Items   | 65.6%               | 85.4%    | 24.3%    | 34.9%    | 9.5%                 | n.a.                               |
| Dividends/Net Profit Including Extraordinary & Abnormal Items   | 65.6%               | 36.7%    | 26.8%    | 33.9%    | 40.4%                | n.a.                               |
| <b>Asset Quality</b>  |                     |          |          |          |                      |                                    |
| Loan Provisions/Total Loans <sup>(5)</sup>                      | 0.55%               | 0.64%    | 0.86%    | 1.21%    | 0.32% <sup>(5)</sup> | 4.20% <sup>(5)</sup>               |

(1) Net operating profit is after tax and minority interests but before abnormal and extraordinary items. Averages are based on beginning and end of year balances.

(2) Annualised.

(3) Figures for the year ended 30 June, 1990 include only negligible bad debt expense due to the effect of the Deed of Acquisition of Indebtedness with the Government of Victoria dated 27 July, 1990 covering up to \$510 million of future write-offs.

(4) Includes \$510 million referred to in (3) above brought to account as abnormal income and expense.

(5) Includes Bank Acceptances.

n.a. Not applicable

## Profit Outlook

### Year Ended 30 June, 1991

Group profit for the six months to 31 December, 1990 is outlined in "Discussion of Operating Results".

Profitability weakened further in the second half of the financial year. This largely reflects the on-going effects of the recession, including increased provisions made for bad and doubtful debts.

The business acquired from SBV is being included in the Group's results from 1 January, 1991. However, it will contribute little in the second half of the year, especially taking account of the costs of funding the acquisition pending the issue of equity capital.

The recession is contributing to slower growth in new business and, particularly with heightened competition in retail areas, is keeping pressure on interest earnings and fee income. Depositors are migrating to higher-yielding deposit products, a move intensified by the "deeming" of interest on pensioners' deposit accounts.

The Group's expenses are benefiting from the continuing suspension of contributions by the Commonwealth Bank to the staff superannuation fund. That benefit is being offset partly by increases in payroll tax rates in most States.

Management accounts show Group operating profit before bad and doubtful debt expense, income tax expense and abnormal items for the ten months ended 30 April, 1991 was \$1,246 million. Comparable Group operating profit was \$1,245 million in the full year 1989-90.

The current state of the economy and the attendant vulnerability of many borrowers make it impossible to predict the charge against profit for bad and doubtful debts in the half-year to 30 June, and hence in the financial year 1990-91. Based on the information currently available to Directors, bad debt expense for the full financial year is not expected to be less than \$950 million, compared with \$462 million in 1989-90.

Group operating profit after bad debt expense and income tax and before abnormal items for the ten months ended 30 April, 1991 was \$253 million, \$209 million of which was recorded in the six months ended 31 December, 1990. Information available to Directors suggests that profit for the full financial year will remain around the level attained during the ten months ended 30 April, 1991. However, Directors caution that even this broad indication for 1990-91 is necessarily subject to uncertainty, particularly in assessing the bad and doubtful debt provisions in the difficult economic circumstances of this year.

Overall profitability in the six months to 30 June, 1991 will benefit from an abnormal item in the form of a transfer to the Commonwealth Bank of a second tranche of funds comprising a surplus in the staff superannuation fund, amounting to \$344 million, or \$209 million after tax. That will be partly offset by a write-off of \$20 million goodwill on the purchase of SBV. The contribution of abnormal items to profit in the full year 1990-91 on present information is likely to be around \$520 million after tax.

At 30 June, 1991 consolidated Group assets could be around \$90 billion, an increase of around one-third over the level a year earlier. This increase mostly reflects the acquisition of SBV. The Group's risk weighted capital ratio, after receipt of funds raised in this Public Share Offer and the offer to employees pursuant to the Employee Share Ownership Scheme, is expected to be a little above 9.5%.

### 1991-92 and beyond

It is not possible to forecast likely profit results for 1991-92 with any confidence. Directors caution that future profits are dependent on very many factors, of varying degrees of materiality. Some of these, such as the world economy, seasonal conditions and government policies, are outside their control.

However, it is possible to identify a number of factors, both positive and negative, which will influence the profit outcome in the medium term.

**Acquisition of State Bank of Victoria**

The Directors are confident that, over time, the additional profitability flowing from the SBV acquisition will justify the purchase cost.

A major task ahead is to integrate SBV's operations with those of the Bank. The due diligence process undertaken by the Commonwealth Bank in 1990 identified substantial rationalisation benefits, particularly administrative staff savings and elimination of dual processing and systems. Over the longer term there are likely to be some further benefits from rationalisation of the branch network. Management is seeking to achieve rationalisation benefits as early as possible. However, the magnitude of the task, including the need to retain customer loyalty as it proceeds, demands a careful, planned approach if integration is to be smooth and effective.

Integration arrangements are being progressively developed for implementation, function by function. Many administrative units' plans are already in train. Those for some major business units, including Retail Banking and more complex service units, especially Information Services, are still being prepared. Budgets for 1991-92 will be on the basis of fully integrated responsibilities.

Although significant rationalisation benefits are expected to commence in 1991-92, because of the complexity and the scale of the integration, the Bank does not expect the rationalisation process to be completed for 2 to 3 years. In the initial stages, the rationalisation benefits will be partly offset by the cost of integration.

**Other Positive Factors**

The Commonwealth Bank is well placed to benefit from the economic recovery when it occurs. The Group is well diversified geographically and across the range of businesses. As the nation's largest housing loan lender, the Bank will benefit from any surge in housing activity, traditionally one of the first sectors of the economy to recover.

The Group's lending is being kept well provisioned after stringent review, with resultant heavy write-offs and charges in 1990-91. General provisions for bad and doubtful debts are expected to be around \$530 million at 30 June, 1991, while loans written off and new specific provisions in the 1990-91 financial year are expected to be not less than \$950 million, compared with \$462 million in 1989-90. In addition, aspects affecting the value of a number of assets acquired with SBV have been indemnified or are the subject of representations and warranties by the Victorian Government (see "Relevant Contracts").

The Bank has invested heavily in technology and computer equipment over recent years. The benefits of these developments, including productivity enhancements from redesigned customer service functions at branch level, are expected to flow in coming years.

Attention is being paid to the Bank's operating expenses generally to restrain growth in overheads.

The addition of capital funds from the Public Share Offer will have a favourable impact on net interest earnings, estimated at around \$130 million, for the year ending 30 June, 1992.

The Commonwealth Bank has accumulated significant credits in its franking account and, after deductions for dividends paid/payable to the Commonwealth, the balance upon corporatisation as a public company on 17 April, 1991 was approximately \$650 million.

**Negative Factors**

The present depressed level of economic activity will have adverse effects on the Group's asset growth and the level of non-accrual loans and bad debts. Apart from the general extent, length and severity of the recession in Australia, there are particular difficulties in the rural sector, especially for sheep and wheat farmers, in view of prices being received for agricultural exports and the need to overcome earlier structural distortions. Prospects for other commodity prices are uncertain. Other sectors showing particular stresses include commercial property and the media.

Non-accrual loans have been growing. At 31 December, 1990 they amounted to \$1.6 billion gross. After deducting specific provisions for doubtful debts and interest reserved, net non-accrual loans amounted to \$749 million at that date. The inclusion of SBV non-accrual loans at 1 January, 1991 raised the total to \$2.6 billion gross (net \$1.2 billion).

Reflecting the continuing weakness in the economy, the gross level of non-accrual loans is

expected to be about 25% higher than the above level at 30 June, 1991. After deducting specific provisions for doubtful debts and interest reserved (including provisions carried over from SBV), net non-accrual loans are expected to be around 50% higher than the above net level by 30 June, 1991.

Continuing migration of deposits towards higher yielding accounts is putting pressure on net interest margins. The Bank has traditionally benefited from a larger proportion of low cost deposits than other banks, and thus is subject to greater impact from this change in investment patterns.

Following return to the Commonwealth Bank during 1990-91 of surplus funds held in the staff superannuation fund and relief from employer contributions to the fund over the year, the Commonwealth Bank may have to resume paying contributions in 1991-92, depending upon actuarial assessment. Current indications are that, if full contributions are resumed, they would add around \$130 million to staff expenses on a pre-tax basis in 1991-92.

#### **Outlook**

While present economic circumstances are depressing bank earnings in general, the Board of the Commonwealth Bank believes that the Bank is well positioned to share in the benefits of future economic growth and to consolidate its position as a major participant in Australia's financial markets.

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## **Dividend Policy**

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### **General**

The policy of the Board is to maximise returns to shareholders while conserving adequate funds within the Commonwealth Bank to build a strong capital base to support the risks inherent in the business undertaking; to support business growth and possible acquisitions; and to finance development of infrastructure.

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### **Dividend History**

Over the five years to 30 June, 1990, the Commonwealth Bank has paid cash dividends to the Commonwealth of Australia equivalent, on average, to a third of Group net operating profit after tax. This has been broadly in line with the cash payment of dividend by other major banks, after deducting dividend reinvestment from the declared dividend. For the year ended 30 June, 1991 agreement has been reached with the Commonwealth Treasurer for the Commonwealth Bank to pay a cash dividend to the Commonwealth representing a third of after tax operating profits before abnormal items. In addition, the Board and the Commonwealth Treasurer have agreed that a dividend of \$177 million will be paid to the Commonwealth in respect of surplus funds transferred from the Commonwealth Bank Officers Superannuation Corporation which were returned to the Commonwealth Bank during 1990-91. This surplus reflected what have proved to be, after actuarial assessment, higher than necessary contributions to the superannuation fund by the Commonwealth Bank over a number of years.

Shareholders other than the Commonwealth will have no entitlement to dividends in respect of periods ending prior to 1 July, 1991.

Other than as mentioned above, the Directors do not intend to recommend any further dividend in respect of the 1990-91 financial year.

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### **Future Policy**

In declaring future dividends, the Directors will have regard to the performance and dividend payouts of major competitors, the Commonwealth Bank's earnings, its overall financial condition, Government and Reserve Bank of Australia regulations and policies, and other relevant factors.

Directors anticipate that this policy will result in higher payout ratios than have applied historically, assuming an effective dividend reinvestment plan is in operation.

It is the intention of the Directors to extend to shareholders the benefits of the dividend imputation system by payment of franked dividends. On the basis of experience, the Directors expect that the Commonwealth Bank will generate sufficient franking credits to meet this intention, although this cannot be guaranteed. As noted in "Profit Outlook", the balance in the Commonwealth Bank's franking account at 17 April, 1991 was approximately \$650 million.

The Directors intend to declare two dividends each year. These would be in the form of an interim dividend relating to the half year ending 31 December, to be paid in the first half of the following calendar year; and a final dividend relating to the full year ending 30 June, to be paid in the second half of the calendar year.

### **Dividend for the Year Ending 30 June, 1992**

It is currently the intention of the Directors to recommend dividends in respect of the 1991-92 financial year which would provide subscribers with a yield comparable with those of the industry. However, the Directors stress that the actual level of dividend to be recommended will be determined in accordance with the policies outlined earlier. It may be necessary to depart from current intentions if actual events differ from the assumptions used in assessing the capability to pay those dividends.

### **Dividend Reinvestment Plan**

The Directors have established a Dividend Reinvestment Plan (the "DRP"), the major features of which are:

- shareholders may elect to have dividends paid on some or all of their shares in the Commonwealth Bank reinvested pursuant to the DRP;
- dividends paid on shares subject to the DRP will be used to subscribe for additional shares. The number of such additional shares to be issued to each participant in the DRP will be determined on the basis of the issue price set out below and rounded up to the nearest whole share provided that no shares will be issued at a discount or otherwise in contravention of any applicable law;
- shares issued under the DRP will be issued at 92.5% of the weighted average market price of all Commonwealth Bank shares traded during the five trading days immediately following the books closing date provided that the DRP will not operate if that price would be less than the par value of Commonwealth Bank shares;
- changes in participation in the DRP will be accepted up till 5.00 pm on the day books close for the relevant dividend;
- shareholders whose registered address is in the United States of America may participate in the DRP only at the discretion of the Directors. The Directors may decide, in respect of any shareholder, that the shareholder's participation in the DRP may breach any applicable law or may otherwise be undesirable or impractical in which case that shareholder shall not be permitted to participate in the DRP;
- the Directors retain the right to modify, vary, suspend or terminate the DRP in their discretion subject to the Articles of Association of the Commonwealth Bank; and
- shares will not be issued under the DRP if the issue of those shares would breach any provision of the applicable law including, without limitation, the maximum 30% public shareholding limit (see "Restrictions on Share Ownership or Acquisition").

The Commonwealth Government has agreed that the Commonwealth of Australia will participate in any approved DRP offered by the Commonwealth Bank so that the percentage increase in the number of shares held by the Commonwealth exactly matches the percentage increase in the number of shares held by other parties. This commitment is naturally restricted to the life of the current Government. In the event that the Commonwealth Government ceases this commitment, the Directors will use their powers to not issue shares under the DRP if such issue would result in a breach of the maximum 30% public shareholding limit.

Directors intend to apply for listing on the Australian Stock Exchange of shares issued pursuant to the DRP.

The above sets out in brief terms only the terms and conditions of the DRP. Prospective shareholders who wish to inspect the terms and conditions of the DRP may do so at the registered office of the Commonwealth Bank, 1st Floor, 48 Martin Place, Sydney, NSW. Shareholders will be sent full details of the DRP, together with an election form, following issue of the share certificates.

## Additional Financial Data

Asset levels for the various business entities of the Group (including CDB) were:

| <i>(in millions)</i>              | 30 June,        |                 |                 |                 |                 | 31 December,    |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                   | 1986            | 1987            | 1988            | 1989            | 1990            | 1990            |
| Commercial & Savings Banking      | \$34,834        | \$38,109        | \$43,620        | \$50,619        | \$56,025        | \$62,401        |
| Development Banking               | 1,345           | 1,773           | 1,926           | 2,210           | 2,432           | 2,525           |
| Offshore Banking Subsidiaries     | 309             | 257             | 270             | 3,022           | 3,060           | 3,302           |
| Finance Company                   | 1,679           | 1,922           | 2,127           | 2,413           | 2,941           | 2,903           |
| Merchant Banking                  | 1,305           | 1,683           | 2,043           | 1,774           | 1,636           | 1,285           |
| Life Company & Financial Services | 1               | 1               | 1               | 20              | 21              | 31              |
| Others                            | 174             | 142             | 458             | 592             | 915             | 558             |
| <b>Total</b>                      | <b>\$39,647</b> | <b>\$43,887</b> | <b>\$50,445</b> | <b>\$60,650</b> | <b>\$67,030</b> | <b>\$73,005</b> |

Contributions to net profit after tax by the various business entities of the Group (including CDB) were:

| <i>(in millions)</i>              | Year ended 30 June, |              |              |              |              | Six months<br>ended 31<br>December, |
|-----------------------------------|---------------------|--------------|--------------|--------------|--------------|-------------------------------------|
|                                   | 1986                | 1987         | 1988         | 1989         | 1990         | 1990                                |
| Commercial & Savings Banking      | \$241               | \$157        | \$276        | \$400        | \$446        | \$484                               |
| Development Banking               | 11                  | 17           | 27           | 24           | 36           | 14                                  |
| Offshore Banking Subsidiaries     | 2                   | 1            | (0)          | 1            | 7            | 11                                  |
| Finance Company                   | 14                  | 16           | 48           | 34           | 28           | 6                                   |
| Merchant Banking                  | 3                   | 5            | 6            | 6            | 9            | 8                                   |
| Life Company & Financial Services | —                   | 1            | 1            | 5            | 8            | 4                                   |
| Others                            | 6                   | 1            | 1            | 6            | (10)         | 5                                   |
| <b>Total</b>                      | <b>\$277</b>        | <b>\$198</b> | <b>\$359</b> | <b>\$476</b> | <b>\$524</b> | <b>\$532</b>                        |

## 68 FINANCIAL INFORMATION

The following table lists the major categories of interest earning assets and interest bearing liabilities, together with the respective interest rates earned or paid by the Group (including CDB) for the year ended 30 June, 1990. Averages are predominantly daily averages. The offshore component comprises the Group's foreign branches and subsidiaries.

| <i>(dollars in millions)</i>                   | Average Balance   | Interest*        | Average Rate |
|--|-------------------|------------------|--------------|
| <b>Interest Earning Assets</b>                 |                   |                  |              |
| Money at short call                            |                   |                  |              |
| Domestic                                       | \$ 280.1          | \$ 43.7          | 15.6%        |
| Offshore                                       | 0.3               | —                | 15.3%        |
| Due from other banks                           |                   |                  |              |
| Domestic                                       | 73.1              | 13.5             | 18.4%        |
| Offshore                                       | 2,383.4           | 387.7            | 16.3%        |
| Australian public securities                   | 4,627.2           | 623.3            | 13.5%        |
| Other securities                               |                   |                  |              |
| Domestic                                       | 1,568.0           | 222.7            | 14.2%        |
| Offshore                                       | 805.0             | 139.5            | 17.3%        |
| Deposits with central banks                    | 688.8             | 72.3             | 10.5%        |
| Loans, advances and other receivables          |                   |                  |              |
| Domestic                                       | 36,980.2          | 6,115.0          | 16.5%        |
| Offshore                                       | 5,552.2           | 734.3            | 13.2%        |
| <b>Total interest earning assets</b>           | <b>52,958.3</b>   | <b>\$8,352.0</b> | <b>15.8%</b> |
| Bankers acceptances                            | 8,935.1           |                  |              |
| Premises, sites and equipment                  | 1,991.3           |                  |              |
| Other assets                                   | 2,939.6           |                  |              |
| <b>Total assets</b>                            | <b>\$66,824.3</b> |                  |              |
| <b>Interest Bearing Liabilities</b>            |                   |                  |              |
| Deposits and other borrowings                  |                   |                  |              |
| Domestic – Time deposits                       | \$13,934.9        | \$2,156.3        | 15.5%        |
| – Demand deposits                              | 18,890.4          | 1,968.8          | 10.4%        |
| Offshore                                       | 3,738.5           | 414.2            | 11.1%        |
| Interbank borrowings                           |                   |                  |              |
| Domestic                                       | 187.2             | 29.2             | 15.6%        |
| Offshore                                       | 2,800.6           | 425.1            | 15.2%        |
| Short and long-term borrowings                 |                   |                  |              |
| Domestic                                       | 4,611.9           | 724.3            | 15.7%        |
| Offshore                                       | 2,409.8           | 226.9            | 9.4%         |
| Other interest bearing liabilities             | 248.1             | 22.9             | 9.2%         |
| <b>Total interest bearing liabilities</b>      | <b>46,821.4</b>   | <b>\$5,967.7</b> | <b>12.8%</b> |
| Deposits not bearing interest                  | 3,226.9           |                  |              |
| Liability on acceptances                       | 8,935.0           |                  |              |
| Other liabilities                              | 4,274.1           |                  |              |
| <b>Total liabilities</b>                       | <b>63,257.4</b>   |                  |              |
| Capital and reserves                           | 3,566.9           |                  |              |
| <b>Total liabilities, capital and reserves</b> | <b>\$66,824.3</b> |                  |              |

\*Total interest income and interest outgo do not reconcile with audited accounts because of netting of some items in these tables.

### Foreign Exchange

Exchange rates for the major currencies in which debt of the Commonwealth Bank (including that originally issued by SBV) is denominated, expressed in terms of one Australian dollar, are shown in the following table:

|                       | 31 December, 1990 |         | 31 December, 1990             |         |
|-----------------------|-------------------|---------|-------------------------------|---------|
| United States Dollars | \$                | 0.7702  | Japanese Yen                  | 103.395 |
| Pounds Sterling       |                   | 0.39915 | Canadian Dollars              | 0.89135 |
| Swiss Francs          |                   | 0.97815 | New Zealand Dollars           | 1.3032  |
| Deutsche Marks        |                   | 1.14885 | ECU (European Currency Units) | 0.5673  |

## Long-Term Debt Issued by Commonwealth Bank of Australia

| <i>(in millions)</i> |                    |                  | Principal Amount Outstanding<br>at 31 December, 1990 |                       |
|----------------------|--------------------|------------------|--|-----------------------|
| Coupon<br>%          | Maturity           | Year of<br>Issue | Currency<br>of Issue                                 | Australian<br>Dollars |
| 15½                  | 6 April, 1992      | 1987             | A\$ 99.0 <sup>(1)</sup>                              | \$ 99.0               |
| 12½                  | 24 May, 1993       | 1988             | 100.0  | 100.0                 |
| 15½                  | 7 June, 1993       | 1990             | 100.0  | 100.0                 |
| 15¼                  | 30 March, 1994     | 1989             | 100.0  | 100.0                 |
| 14                   | 1 July, 1994       | 1987             | 150.0 <sup>(2)</sup>                                 | 150.0                 |
| 14                   | 2 February, 1995   | 1990             | 100.0  | 100.0                 |
| 13                   | 15 September, 1995 | 1990             | 1,000.0  | 1,000.0               |
| 13¾                  | 21 September, 1999 | 1989             | 100.0 <sup>(3)</sup>                                 | 100.0                 |
|                      |                    |                  | A\$ 1,749.0  | 1,749.0               |
| 9¼                   | 24 June/July, 1992 | 1990             | US\$ 51.2 <sup>(4)</sup>                             | 66.5                  |
| 9¼                   | 20 September, 1993 | 1988             | 100.0  | 129.8                 |
| 10                   | 5 November, 1993   | 1985             | 100.0  | 129.8                 |
| LIBOR+0.15           | Undated            | 1988             | 300.0 <sup>(5)</sup>                                 | 389.5                 |
| LIBOR+0.06           | Undated            | 1989             | 400.0 <sup>(6)</sup>                                 | 519.3                 |
|                      |                    |                  | US\$ 951.2   | 1,234.9               |
| 13½                  | 2 November, 1993   | 1988             | NZ\$ 60.0  | 46.0                  |
| 13¼                  | 22 August, 1994    | 1989             | 60.0   | 46.0                  |
|                      |                    |                  | NZ\$ 120.0   | 92.0                  |
| 11                   | 4 April, 1992      | 1985             | £ 40.0   | 100.2                 |
| 9%                   | 8 March, 1993      | 1988             | 50.0   | 125.3                 |
|                      |                    |                  | £ 90.0   | 225.5                 |
| 5½                   | 16 October, 1992   | 1985             | SwFr 50.0  | 51.1                  |
| 0                    | 16 October, 1992   | 1985             | 64.7 <sup>(6)</sup>                                  | 66.2                  |
| 4¼                   | 19 August, 1994    | 1987             | 80.0   | 81.8                  |
|                      |                    |                  | SwFr 194.7   | 199.1                 |
| 8                    | 24 April, 1992     | 1987             | Y 7,500.0 <sup>(7)</sup>                             | 72.5                  |
| 6%                   | 1 September, 1992  | 1989             | 3,600.0  | 34.8                  |
| 6%                   | 5 March, 1993      | 1989             | 10,000.0   | 96.7                  |
| 0                    | 25 March, 1993     | 1988             | 4,562.0 <sup>(8)</sup>                               | 44.1                  |
| 6.55                 | 15 June, 1993      | 1990             | 2,000.0 <sup>(9)</sup>                               | 19.3                  |
|                      |                    |                  | Y27,662.0  | 267.4                 |
| 9½                   | 10 January, 1992   | 1986             | Can\$ 100.0  | 112.2                 |
| 9½                   | 10 January, 1992   | 1988             | 50.0   | 56.1                  |
|                      |                    |                  | Can\$ 150.00   | 168.3                 |
| 8%                   | 30 August, 1994    | 1989             | ECU 100.0  | 176.3                 |
|                      |                    |                  | ECU 100.0  | 176.3                 |
| <b>Total</b>         |                    |                  |  | <b>\$4,112.5</b>      |

- (1) Interest rate is reset each interest payment date at the annualised yield on one year Commonwealth Treasury Bonds. Originally issued as \$125 million principal, the securities may be "put" to the Commonwealth Bank at each interest payment date and are re-issuable at any time prior to maturity.
- (2) Originally issued as \$75 million principal with warrants to subscribe for an additional \$75 million of similar securities. Amount represents initial principal amount plus proceeds of warrants exercised.
- (3) \$95 million of this issue included in Tier 2 capital (see "Capital Resources").
- (4) Bond issued in two equal tranches of US\$25.6 million each. Tranche A matures 24 June, 1992; Tranche B matures 24 July, 1992.
- (5) Both Undated Floating Rate Note issues qualify as Tier 1 capital (see "Capital Resources"). "LIBOR" is the arithmetic average of the London Interbank Offered Rate of three out of five reference banks for six month US dollar deposits in London. A noteholder may exchange Undated Floating Rate Notes for five year Dated Floating Rate Notes five years from date of issue and annually thereafter. Callable (subject to the prior approval of the Reserve Bank) in whole or in part on any interest payment date on or after five years from date of issue.
- (6) Represents accrued value of SwFr70 million.
- (7) Principal payable in Australian dollars at redemption amount of \$89.4 million.
- (8) Represents accrued value of Y5,000 million.
- (9) Term Loan.
- (10) Subsequent to 31 December, 1990 the Commonwealth Bank has issued the following long-term securities:
  - 12¼% Notes Due 1998 (\$150 million, of which \$145 million is included in Tier 2 capital from 7 January, 1991).
  - 11½% "Commonwealth Bank Bonds" Due 1994 (\$300 million).
  - 12% "Commonwealth Bank Bonds" Due 1999 (\$500 million).

## Long-Term Debt Issued by State Bank of Victoria

Principal Amount Outstanding  
at 31 December, 1990

(in millions)

| Coupon %     | Maturity           | Year of Issue | Currency of Issue        | Australian Dollars |
|--------------|--------------------|---------------|--------------------------|--------------------|
| 12           | 15 March, 1993     | 1988          | A\$ 61.0                 | \$ 61.0            |
| 15½          | 13 July, 1994      | 1989          | 50.0                     | 50.0               |
| 12½          | 15 February, 1995  | 1990          | 75.0                     | 75.0               |
| 12½          | 15 October, 1996   | 1990          | 100.0                    | 100.0              |
| BBR+0.15     | December, 2004     | 1989          | 300.0 <sup>(1)</sup>     | 300.0              |
|              |                    |               | A\$ 586.0                | 586.0              |
| 8            | 27 July, 1992      | 1987          | US\$ 68.8 <sup>(4)</sup> | 89.3               |
| 8½           | 18 June, 1993      | 1986          | 125.0                    | 162.3              |
| 9¼           | 26 July, 1993      | 1988          | 100.0                    | 129.8              |
| 8.706        | 25 November, 1993  | 1988          | 20.0 <sup>(5)</sup>      | 26.0               |
| LIBID        | 25 July, 1996      | 1986          | 62.0 <sup>(4)</sup>      | 80.5               |
| LIBOR+0.0625 | Undated            | 1986          | 125.0 <sup>(5)</sup>     | 162.3              |
| LIBOR+0.6    | Undated            | 1989          | 250.0 <sup>(6)</sup>     | 324.6              |
| LIBOR+0.05   | June, 1999         | 1989          | 125.0 <sup>(7)</sup>     | 162.3              |
|              |                    |               | US\$ 875.8               | 1,137.1            |
| 11.35        | 14 April, 1994     | 1989          | £ 20.0                   | 50.1               |
| 11½          | 21 August, 1994    | 1989          | 75.0                     | 187.9              |
|              |                    |               | £ 95.0                   | 238.0              |
| 5            | 12 March, 1992     | 1987          | Y10,000.0                | 96.7               |
| 7            | 10 May, 1992       | 1988          | 15,000.0 <sup>(8)</sup>  | 145.1              |
| 4¾           | 7 July, 1992       | 1987          | 30,000.0                 | 290.1              |
| 4.9          | 31 July, 1992      | 1987          | 3,000.0 <sup>(9)</sup>   | 29.0               |
| 7            | 21 November, 1992  | 1988          | 10,000.0 <sup>(8)</sup>  | 96.7               |
| 5.7          | 29 September, 1997 | 1987          | 4,000.0 <sup>(9)</sup>   | 38.7               |
| 5.7          | 30 September, 1997 | 1987          | 4,000.0 <sup>(9)</sup>   | 38.7               |
|              |                    |               | Y76,000.0                | 735.0              |
| 11           | 26 May, 1992       | 1989          | Can\$ 75.0               | 84.1               |
|              |                    |               | Can\$ 75.0               | 84.1               |
| <b>Total</b> |                    |               |                          | <b>\$2,780.2</b>   |

(1) Extendible Floating Rate Stock which qualifies as Tier 2 capital (see "Capital Resources"). "BBR" means, in respect of those interest periods until the interest period ending in but excluding July 1992, the six month and thereafter the three month, bank bill swap reference mid rate quoted on page "BBSW" of the Reuters monitor system. Stockholders may be offered options on the interest payment dates falling in December 1999 and in December of every fifth year thereafter to extend the maturity of any stock held by five years. Callable (subject to the prior approval of the Reserve Bank) in whole or in part in December 1999 or every fifth year thereafter.

(2) Issued in the following denominations:

Y 5 Billion

A\$ 28 Million

NLG 28 Million

The debt is repayable in the above currencies.

(3) Term Loans.

(4) Floating Rate Notes. "LIBID" means the arithmetic average of the London Interbank Bid Rate of three reference banks for six month US dollar deposits in London.

(5) Guaranteed Undated Capital Notes which qualify as Tier 1 capital (see "Capital Resources"). "LIBOR" is the arithmetic average of the London Interbank Offered Rate of three reference banks for six month US dollar deposits in London. Callable (subject to the prior approval of the Reserve Bank) in whole at any time after October 1991.

(6) Guaranteed Undated Variable Rate Capital Notes which qualify as Tier 1 capital (see "Capital Resources"). "LIBOR" means the arithmetic average of the offered rates for deposits in US dollars for a period of three months which appear on "LIBO" page on the Reuters Monitor Money Rates Service at 11.00 am on the interest determination date. The margin over LIBOR is variable with a "cap" of 0.875% per annum until 1999 and thereafter 1.375% per annum. Callable (subject to the prior approval of the Reserve Bank) in whole or in part at any time after June 1994.

(7) Guaranteed Extendible Floating Rate Capital Notes which qualify as Tier 2 capital (see "Capital Resources"). "LIBOR" is the arithmetic mean of the offered rates for deposits in US dollars for a period of six months which appear on "LIBO" page on the Reuters Monitor Money Rates Service at 11.00 am on the interest determination date. Noteholders may be offered options on the interest payment dates falling in June 1994 and in June of every fifth year thereafter to extend the maturity of any Notes by five years. Callable (subject to the prior approval of the Reserve Bank) in whole or in part at any time after June 1994.

(8) Issues are puttable by the bond holders and callable by the issuer one year prior to maturity dates.

All long-term debt of the Commonwealth Bank (including that originally issued by SBV) is non-callable (other than for the imposition of withholding tax) except as otherwise indicated above.

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## **RELATIONSHIP WITH THE COMMONWEALTH GOVERNMENT**

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# Legal Structure of the Commonwealth Bank, CSB and CDB

The discussions headed "Legal Structure of the Commonwealth Bank, CSB and CDB" and "Relationship with Government" are summaries only of relevant provisions of the Commonwealth Banks Act 1959 as amended (the "Act") and the Commonwealth Bank's Memorandum and Articles of Association (the "Articles"), each of which is publicly available. Persons requiring more detailed information should read the Act and the Articles, copies of which are available for inspection at the registered office of the Commonwealth Bank, 1st Floor, 48 Martin Place, Sydney, NSW.

## Commonwealth Bank of Australia

By virtue of the amendments to the Act made by the Commonwealth Banks Restructuring Act 1990 (the "Restructuring Act") and various actions taken as required by the Restructuring Act, the Commonwealth Bank is taken to be registered as a public company limited by shares under the name "Commonwealth Bank of Australia". Its Articles are as lodged by it with the Australian Securities Commission. Before those amendments, the Commonwealth Bank was a statutory corporation. Prior to amendments in 1984, it was called the Commonwealth Trading Bank of Australia.

The Commonwealth Bank is, following its conversion to public company status, no longer a public authority or instrumentality or agency of the Crown for legal purposes. However, the Commonwealth of Australia continues to guarantee the due payment of all moneys payable by the Commonwealth Bank, CSB and CDB.

The existing exemption of the Commonwealth Bank, CSB and CDB from State and Territory taxes is expected to be abolished as a result of the Restructuring Act if and when legislation is proclaimed to permit the merging of the Commonwealth Bank with CSB (see below). The Bank estimates that, when proclamation is effected, additional costs of approximately \$30 million per annum may be incurred.

As referred to in "Composition of the Board", the Commonwealth Bank has a Board of Directors like other listed public companies. In discharging their duties as directors, members of the Board are governed by the Act, the Articles and the Corporations Law. Under the Restructuring Act it also has an issued share capital, all of which is now and will continue to be held by the Commonwealth until further shares are issued pursuant to this public share offer. Formerly, the Commonwealth Bank was governed by the Commonwealth Banking Corporation Board created by the Act.

Pursuant to the Restructuring Act, the Auditor-General for the Commonwealth of Australia is deemed to be appointed auditor of the Commonwealth Bank, CSB and CDB.

The Act does establish some arrangements affecting the Commonwealth Bank which are different from those for other listed public companies.

Those special provisions are reflected in "Restrictions on Share Ownership or Acquisition" and "Relationship with Government".

## Commonwealth Savings Bank of Australia

CSB is a statutory body corporate, not a company registered under the Corporations Law. It was established under the Commonwealth Bank Act 1911 and was continued in existence under the Commonwealth Bank Act 1945. Its corporate identity was preserved and continued in existence by section 40 of the Act.

Since 1 July, 1984, CSB has had a share capital divided into shares each of \$1 par value. The Commonwealth Bank holds all of those shares as legal and beneficial owner by force of section 42A of the Act.

CSB does not have its own board of directors but, by virtue of section 47 of the Act, is managed, under the Managing Director of the Commonwealth Bank, by a person in the Commonwealth Banks Service designated by a determination of the Board of the Commonwealth Bank. Chief General Manager, Retail has been designated to manage CSB.

Both the Managing Director and any other person managing CSB are required to act in relation to CSB in accordance with the policy of CSB and the directions of the Board of the Commonwealth Bank. That Board has power to determine the policy of CSB and to control its affairs, subject to the Board's duties and obligations under section 9 of the Act (see "Objectives and Strategies") and subject to the rights of the Commonwealth described under "Relationship with Government".

While the distinction between commercial and savings banks was removed by amendments to the Banking Act in 1989, further legislation will be needed to enable the legal merger of the Commonwealth Bank and CSB, should such a merger be considered desirable.

## Commonwealth Development Bank of Australia

CDB is established by section 71 of the Act. Like CSB, CDB is a statutory body corporate, not a company registered under the Corporations Law. It is given specific functions by Section 72 of the Act:

- (a) to provide finance to establish, acquire or carry on businesses (including primary production businesses) and in particular small businesses where the provision of finance is desirable and would not otherwise be available on reasonable and suitable terms and conditions;
- (b) in accordance with policies approved by the Commonwealth Treasurer, to participate in businesses such as those referred to above, where participation is desirable and other persons would not be prepared to participate on reasonable and suitable terms and conditions; and
- (c) to provide advice and assistance to promote the efficient organisation and conduct of such businesses.

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In determining whether or not to provide finance to a person, CDB is required to have regard primarily to the prospects of that person's operations becoming, or continuing to be, successful and not necessarily to the value of security available. CDB may only provide business finance.

The Commonwealth Treasurer may from time to time make loans to or deposits with CDB on such terms and conditions as may be agreed between the Commonwealth Treasurer and the Board.

The restructuring effected by the Restructuring Act created a share capital of CDB, divided into shares each of \$1 par value. Those shares are all held by the Commonwealth Bank as legal and beneficial owner.

The statutory management arrangements applicable to CDB are the same as apply to CSB. The person in the Commonwealth Banks Service designated by a determination of the Board of the Commonwealth Bank manages CDB under the Managing

Director of the Commonwealth Bank and, failing such a determination, the Managing Director shall manage CDB. General Manager, CDB has been designated to manage CDB. CDB does not have its own Board. Both the Managing Director and any other person managing CDB are required to act in accordance with the policy of CDB, and the directions of the Commonwealth Bank's

Board, which determines the policy in accordance with its duties and obligations (see "Objectives and Strategies") and subject to the rights of the Commonwealth described under "Relationship with Government".

### Commonwealth Bank Officers Superannuation Corporation

The Act establishes, as a separate body corporate, Commonwealth Bank Officers Superannuation Corporation (the "Superannuation Corporation"). Its function is to conduct a superannuation fund for officers of the Commonwealth Banks Service. Subject to rules governing the superannuation fund, the Managing Director manages the Superannuation Corporation.

The Act provides that any property of the Superannuation Corporation, whenever acquired, vests in the Commonwealth Bank with the exception of any property held by the Superannuation Corporation in respect of a superannuation fund established under section 110 of the Act. The assets of such a superannuation fund are set aside for the purpose of funding the superannuation liabilities of the Commonwealth Bank; and are not liable for the ordinary trading obligations of any entity of the Group.

The superannuation fund which has been established pursuant to the Act for officers of the Commonwealth Banks Service is governed by the Commonwealth Banks (Officers Superannuation) Rules and the Commonwealth Banks (Officers Superannuation – Vesting Scheme) Rules. Rule 46 of the first mentioned rules provides that the Superannuation Corporation may appropriate to itself from time to time such amounts (whether in the form of cash or other assets) as the Managing Director, on the advice of an actuary, determines as being surplus to the requirements of the superannuation fund.

Upon such a determination being made, any such surplus amount may be appropriated to the Superannuation Corporation, thereby ceasing to be held for the superannuation fund and immediately by force of the Act vesting in the Commonwealth Bank.

## Relationship with Government

Under the Act and the Articles, the Commonwealth of Australia has special rights and privileges in respect of the Commonwealth Bank.

These are contained in provisions of the Act, the Articles, or may be exercised in a general meeting of the Commonwealth Bank through the voting power attached to its shares. (The Commonwealth must hold at least 70% of total voting rights of shares in the Commonwealth Bank). The Articles provide for the provisions of the Act to prevail over the Articles.

It is also possible for the Commonwealth Government to initiate amendments to legislation which, if enacted through process of both Houses of Australian Parliament, could reduce its role or increase it.

It is relevant to mention that the Opposition Liberal-National Parties' stated policy is for the Commonwealth Bank to be fully privatised.

### The Government and the Board of the Commonwealth Bank

The Commonwealth Treasurer is, under the Act, represented on the Commonwealth Bank's Board of Directors by the Secretary to the Department of the Treasury (the "Secretary"). In addition to his or her functions as a director, the Secretary is specifically given the function of representing the views of the Commonwealth Treasurer. The Secretary is not subject to retirement by rotation, nor to removal by a general meeting of the Commonwealth Bank but remains a member of the Board whilst ever he or she occupies the position of Secretary to the Department of the Treasury.

The Secretary is permitted to delegate all or any powers or functions as the Commonwealth Treasurer's nominee to an officer of the Department of the Treasury and may in the course of official duties (but not otherwise) divulge information obtained as nominee to the Commonwealth Treasurer or to a Commonwealth officer.

The Managing Director and the Secretary to the Department of the Treasury are required to establish a close liaison with each other and keep each other fully informed on all matters of joint concern to the Commonwealth Bank, CSB or CDB and the Department of the Treasury.

The Commonwealth also has special rights under the Act in relation to the policies, objectives and corporate plan adopted by the Board.

The Board is required to inform the Commonwealth Government of any policy of the Commonwealth Bank which in the Board's opinion should be made known to the Government. The Board must also inform the Government of the banking policy of the

Commonwealth Bank, CSB and CDB.

If the Government and the Board differ on whether such a policy is directed to the greatest advantage of the people of Australia and has due regard to the stability and balanced development of the Australian economy, the Commonwealth Treasurer and the Board shall endeavour to reach agreement.

Further, the Board is required at least once in each year to prepare a corporate plan setting out its objectives in relation to the operations of the Commonwealth Bank, CSB and CDB and an outline of the policies to be pursued to achieve them. These objectives are to include financial objectives, including the level of profitability and rate of return on resources. The Board is required to give the Commonwealth Treasurer a copy of each corporate plan as soon as practicable after its preparation.

Where the Commonwealth Treasurer and the Board differ in their opinion on a corporate plan or a variation of it, they are required to endeavour to reach agreement.

If the Commonwealth Treasurer and the Board are unable to reach agreement on a corporate plan or variation of it or on policies of which the Board has informed the Government, the Board shall supply to the Commonwealth Treasurer a statement on the matter. The Commonwealth Treasurer may then submit a recommendation to the Governor General of Australia. On the advice of the Federal Executive Council, the Governor General may then determine the policy to be adopted by the Commonwealth Bank, CSB or CDB. The policy so determined must not be

inconsistent with the Banking Act, the regulations under the Banking Act or the monetary and banking policy of the Reserve Bank.

The Commonwealth Treasurer must then inform the Board of the policy so determined. At the same time, the Commonwealth Treasurer must inform the Board that the Commonwealth Government accepts responsibility for the adoption by the Commonwealth Bank, CSB or CDB of the policy and that the Government will take such action within its powers as it considers necessary by reason of adoption of the policy.

The Commonwealth Treasurer is required to lay before each House of the Commonwealth Parliament a copy of the order by which the Governor General determined the policy, a copy of a statement by the Government on the matter and a copy of

the statement furnished by the Board to the Commonwealth Treasurer.

For its part, the Board is then required to ensure that effect is given to the policy determined by the order of the Governor General.

Before the Commonwealth Bank became a public company, its management of remuneration and certain other conditions of employment of staff was subject to guidelines set from time to time by the Minister for Industrial Relations. The Commonwealth Bank will no longer be subject to the industrial relations arrangements for Government Business Enterprises. For its part, the Board intends to manage remuneration and conditions of employment within industry standards. The Board also intends to keep the Commonwealth Treasurer informed of significant developments in this area.

### Dividend Recommendations

Pursuant to the Act, the Commonwealth Treasurer also has a role in relation to dividends.

The Board must notify the Commonwealth Treasurer, in writing, of any dividend recommendation it proposes to make to a general meeting of the Commonwealth Bank before it makes the recommendation.

The Commonwealth Treasurer, not later than 14 days after that notification, must either accept the proposed recommendation or vary it by specifying a particular amount to be recommended as dividend for the financial year which does not exceed 45% of the consolidated profit, according to the accounts of the Commonwealth Bank and all its subsidiaries, excluding abnormal items of a capital nature and extraordinary items and after income tax expense.

Before making a decision to vary a proposed recommendation, the Treasurer must try to reach agreement with the Board and take into consideration the reasons for the Board's proposed recommendation.

The Annual General Meeting of the Commonwealth Bank under the Articles considers the dividend recommended and can accept or reduce the amount. However, the general meeting cannot declare a dividend exceeding the amount recommended by the Board, as affected by a variation by the Treasurer.

The Articles give the Commonwealth Bank's Directors power to set aside profits as reserves of the Commonwealth Bank, before declaring any dividend. As the Commonwealth Treasurer may vary a proposed recommended dividend to the level of 45% of the consolidated profits, that may affect the power of the Directors to carry or retain profits as reserves.

The provisions relating to dividends apply to profits for the financial year ended 30 June, 1991 as well as to later financial years. They are to be taken into account by the Board in exercising its powers to direct CSB and CDB to pay dividends to the Commonwealth Bank or place amounts of profits to the credit of the Reserve Funds of CSB and CDB.

### Powers of the Commonwealth Government under the Articles of Association of the Commonwealth Bank

There are several provisions of the Articles which have the effect of conferring special powers upon the Commonwealth of Australia. A summary of relevant powers specifically conferred on the Commonwealth by the Articles is:

- (a) Unissued shares in the Commonwealth Bank may only be allotted, issued or otherwise disposed of by the Directors of the Commonwealth Bank, and rights or options in respect of such shares may only be granted by the Directors of the Commonwealth Bank, with the Commonwealth Treasurer's prior written approval. Further, the price (and whether at a premium, par or a discount), conditions, time of allotment, issue, grant or disposal, rights or restrictions (whether with regard to dividends, voting, return of capital or otherwise) must be approved by the Commonwealth Treasurer in writing.
- (b) The Commonwealth Treasurer's prior written approval is required for the establishment of employee share schemes.
- (c) The presence of the official representative of the Commonwealth and two other persons is required to constitute a quorum for any general meeting of members of the Commonwealth Bank.
- (d) Any Managing Director or Deputy Managing Director appointed after the date of this Prospectus may only be appointed following consultation between the Directors (through the Chairman of Directors) and the Commonwealth Treasurer on the proposed appointment.
- (e) The Chairman and Deputy Chairman of Directors may be elected by the Directors only after consultation with the Commonwealth Treasurer.
- (f) Interim dividends may only be paid with the Commonwealth Treasurer's prior written approval and subject to Section 32 of the Act (which is summarised under the heading "Dividend Recommendations").
- (g) The Directors may, with the prior written approval of the Commonwealth Treasurer and subject to the Act's application, legal

requirements, resolve to permit holders of fully paid ordinary shares to forgo dividends and to receive instead ordinary shares credited as fully paid on terms and conditions set out in the Articles and determined by the Directors with the prior written approval of the Commonwealth Treasurer. The Commonwealth Treasurer also has the right, if such price is higher than par, to approve the price applied in determining the number of shares to be issued in lieu of the dividend subject to such price per share being not less than 90% of the price of one share in the Commonwealth Bank of the class to be issued being the weighted average market price (expressed in cents and fractions of a cent to two decimal points) of all fully paid shares in the Commonwealth Bank of the relevant class sold on the Australian Stock Exchange during the five trading days immediately following the books closing date in respect of the relevant dividend, determined by reference to such information as the Directors approve for the purpose from time to time. The Directors may modify, suspend or terminate any such share investment plan but only with the Commonwealth Treasurer's prior written approval.

- (h) The Directors may establish dividend and/or interest reinvestment plans with the prior written approval of the Commonwealth Treasurer. The Directors may also with the prior written approval of the Commonwealth Treasurer, extend any such plan to related bodies corporate. The Directors with the prior written approval of the Commonwealth Treasurer (except that the approval of the Commonwealth Treasurer is not required in respect of minor amendments to the plan of an administrative or procedural nature where not less than one month's prior written notice has been given to any member, debenture holder or unsecured noteholder adversely affected) may modify, suspend or terminate any dividend and/or interest reinvestment plan or any of the terms governing such plan from time to time on not less than one month's written notice to all shareholders, debenture holders or unsecured noteholders in respect of any such plan applicable to them.

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## **INFORMATION ON THE SHARE OFFER**

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## Details of the Issue

### Shares Offered for Subscription

239.3 million ordinary shares of \$2.00 par value to be issued at \$5.40, including a premium of \$3.40, are offered to the public in Australia for subscription. These shares are underwritten. Oversubscriptions will not be accepted.

In addition, up to 9 million shares of \$2.00 par value to be issued at \$4.86, including a premium of \$2.86, are offered to employees for subscription under the Employee Share Ownership Scheme. These shares are not underwritten.

All shares are payable in full on application.

### Minimum Subscription

The minimum amount which in the opinion of the Directors must be raised by the Commonwealth Bank is \$1.3 billion.

### Firm Allocation

As is customary in an underwritten issue of shares, the Commonwealth Bank and Were Stockbroking Limited (the "Lead Manager" or "Underwriter") have agreed that a firm allocation of shares will be offered to institutional investors who act as subunderwriters and to stockbrokers for distribution to their private clients.

The shares offered to the Underwriter and subunderwriters will be subject to clawback arrangements which will allow up to one quarter of the amount offered to them to be made available to satisfy general applications in the event of oversubscription. Clawback arrangements will not apply to firm offers to stockbrokers. The maximum percentage of the issue which could be subscribed for by the general public, including stockbrokers' private clients, is 56%.

### Preference in Allocation

Subject to firm offers and to the clawback arrangements mentioned above, current customers of the Group who were customers on 1 June, 1991, employees and retired Group employees will receive preference in allotment of shares offered to the public. Directors retain the absolute discretion to determine the method and extent of any preference.

This preference applies to those applicants who are currently customers of the Commonwealth Bank trading as the State Bank of Victoria and who were customers on 1 June, 1991.

### Minimum Application

Applications must be for a minimum of 400 shares and thereafter in multiples of 100 shares, excluding applications made under the Employee Share Ownership Scheme. Under this scheme, employees will have the option of applying for either 100 or 200 shares (see "Employee Share Ownership Scheme").

### Subscription Lists

Applications may be lodged at any time after the issue of this Prospectus.

Unless otherwise agreed by the Commonwealth Bank and the Lead Manager, subscription lists will open not later than 17 July, 1991. The subscription lists shall, unless the Lead Manager otherwise agrees in writing, be closed on (and not before) 14 August, 1991 except that, if the Commonwealth Bank has not received valid applications for the whole of the Public Share Offer, the Commonwealth Bank may extend the period during which the subscription lists may remain open for a period of up to a further five business days.

The Commonwealth Bank will accept lodgment of Application Forms prior to the opening of the subscription lists.

### Application for Shares

Applications for shares will only be accepted on an Application Form accompanying a Prospectus. Applications from employees under the Employee Share Ownership Scheme will be accepted only on an Employee Share Ownership Scheme Application Form. Applications for shares must be lodged together with the appropriate application moneys.

Acceptance of applications will be deemed to occur on allotment and applicants waive the right to notification of acceptance.

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Cheques must be made payable to "Commonwealth Bank of Australia Share Issue" and crossed "Not Negotiable". For further details on how to invest, see Application Section in the middle of this Prospectus.

### Allotment

Allotment will be made as soon as possible after the closing date of the offer and it is expected that the basis of allocation will be announced on 28 August, 1991.

The Commonwealth Bank reserves the right to allot shares offered under this Prospectus in full on any application or to allot any lesser number or to decline any application. Subject to that discretion, allotment will be made on the basis set out in the section headed "Preference in Allocation". When no allotment is made, the amount tendered with the relevant Application Form will be returned in full. Where the number of ordinary shares allotted is less than the number of shares applied for, the surplus application moneys will be despatched to the applicant within four weeks of Closing Date. Interest will not be paid on application moneys.

Eligible employees applying for shares in accordance with the terms of the Employee Share Ownership Scheme will be allotted the shares applied for.

Successful applicants will be forwarded their share certificates within four weeks of Closing Date.

### Underwriting and Handling Fees

The whole of the issue, apart from the shares reserved for employees pursuant to the Employee Share Ownership Scheme, has been underwritten by Were Stockbroking Limited (the "Underwriter").

Details of the Underwriting Agreement, including the provisions which may entitle the Underwriter to terminate its obligations, are set out under "Relevant Contracts".

The Underwriter is entitled to a fee, calculated at the rate of 1.1% of the amount subscribed for all shares, excepting those shares subscribed pursuant to the Employee Share Ownership Scheme. The Underwriter will be obliged to make payment of any fees to subunderwriters out of the fees received by it from the Commonwealth Bank.

A handling fee of 1.0% shall be paid by the Commonwealth Bank only to member organisations of the Australian Stock Exchange Limited in respect of shares allotted pursuant to stamped applications lodged by them (other than shares which form part of firm allotments).

The underwriting and handling fees will be paid by the Commonwealth Bank out of the proceeds of the issue.

### Australian Stock Exchange Listing

It is intended that application by the Commonwealth Bank of Australia to the Australian Stock Exchange Limited for the Official Quotation of its shares offered under this Prospectus and the Employee Share Ownership Scheme will be made by 8 July, 1991.

The ASX has informed the Commonwealth Bank that, for the purpose of Index calculations, the Commonwealth Bank will be weighted to the extent of those shares which are not subject to legislative restriction on sale (see "Restrictions on Share Ownership or Acquisition").

### Uncertificated Shareholdings

The Commonwealth Bank has requested the Australian Stock Exchange Limited to apply on its behalf for Australian Securities Commission's authorisation as a Participant Company in the Flexible Accelerated Security Transfer ("FAST") scheme.

Subject to authorisation being granted, the Commonwealth Bank may allot or register securities without share certificates.

Applicants who wish to have shares in uncertificated form should discuss the scheme with their stockbroker for appropriate action before lodging an application for shares. Stockbrokers will arrange a "Certificated to Uncertificated Conversion Request Form" for attaching to an applicant's application for shares using the application (form) number for "certificate number", or arrange establishment of an uncertificated holding when share certificates have been issued.

Institutional investors granted "Institutional Participant" authority, who wish to hold shares in uncertificated form, should complete a "Certificated to Uncertificated Conversion Request Form" for attaching to an application for shares. The application (form) number is to be used for "certificate number".

### Share Register

The Register of Shareholders will be maintained in Sydney by Coopers & Lybrand at the address shown in the "Directory" on the inside back cover between the hours of 9.00am and 5.00pm each business day.

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It is provided for archival reference only, is not current disclosure, and must not be relied on for any current investment decision.

## Employee Share Ownership Scheme

Set out below is a brief summary of the terms and conditions of the Employee Share Ownership Scheme (the "Scheme") established by the Commonwealth Bank. It is provided for the information of potential investors in the Commonwealth Bank other than employees. It is not an offer or invitation to employees to purchase shares under the Scheme. Employees wishing to purchase shares under the Scheme should obtain a copy of the detailed terms and conditions of the Scheme.

Copies of the terms and conditions of the Scheme are available from the registered office of the Commonwealth Bank, 1st Floor, 48 Martin Place, Sydney, NSW.

The Scheme provides for a number of ordinary voting shares determined by the Directors to be issued to employees. Currently, the number of shares determined by the Directors is 12 million although they may increase that number from time to time. Under the Scheme, employees (including Executive Directors but excluding casual employees) of the Commonwealth Bank and its wholly owned subsidiaries who have had 12 months' continuous service as at the date of an offer under the Scheme will be able to purchase in the initial and all subsequent offers a total of up to 500 shares each in the Commonwealth Bank. Employees not resident in Australia at the time of an offer will not be eligible to participate in an offer unless the Directors decide otherwise.

In conjunction with the Public Share Offer, up to 9 million of those shares will be made available to employees under the Scheme.

Employees may subscribe for either 100 or 200 shares at their option in the initial issue.

Shares issued to employees under the Scheme in conjunction with the Public Share Offer will be issued at 90% of the price at which they will be offered to the general public.

After the issue to employees in conjunction with the Public Share Offer, shares will be offered to employees under the Scheme at the discretion of the Directors.

The price for such subsequent offerings will be the higher of par and 90% of the weighted average market price of all fully paid shares in the Commonwealth Bank sold on the Australian Stock Exchange Limited during the five trading days immediately before the date on which the shares are offered to employees.

All shares in the Commonwealth Bank allotted to employees under the Scheme will be fully paid and will rank equally with all other shares issued under this Prospectus in all respects.

There is no restriction on transfer of shares issued to employees under the Scheme.

To enable employees to purchase shares under the Scheme, interest free loans for 90% of the cost of the shares purchased will be provided at the discretion of the Directors. These interest free loans are repayable within 12 months or when the shares are sold or the employee ceases to be an eligible employee, whichever is the earliest.

## Restrictions on Share Ownership or Acquisition

### Restrictions on Applications

The Commonwealth Banks Act 1959 as amended provides that a person may not, as principal or agent, apply for the issue of shares under this Prospectus to any "foreign person" (as defined in Section 5 of the Foreign Acquisitions and Takeovers Act). That prohibition does not apply to applications made:

- (a) by a person acting as a trustee or manager of certain Australian trust funds;
- (b) pursuant to the Employee Share Ownership Scheme, by foreign persons employed by the Commonwealth Bank or certain of its overseas subsidiaries; or
- (c) in the course of, or arising out of, the underwriting of the shares offered under this Prospectus by foreign persons who are either insurers (ie. authorised under the Insurance Act or registered under the Life Insurance Act) ("insurers") or members of the Australian Stock Exchange Limited ("brokers") and who are either underwriters or subunderwriters of the issue.

In addition, no Australian or foreign bank at any time may acquire any "interest" (which is defined in the Banks (Shareholdings) Act and may include "interests" held by such a bank as a result of shareholdings of its related or associated entities other than trustees or managers of a fund) in any voting share of the Commonwealth Bank.

This prohibition is subject to exceptions contained in the Banks

(Shareholdings) Regulations. Those exceptions are as follows:

- (a) where a bank holds interests in no more than 0.5% of the total voting shares of the Commonwealth Bank as a result of an associated broker holding interests in voting shares in the Commonwealth Bank as principal, the bank's holding is ignored;
- (b) where a bank holds interests in no more than 5% of the total voting shares of the Commonwealth Bank as a result of an associated broker holding interests in voting shares in the Commonwealth Bank as agent, the bank's holding is ignored; and
- (c) where a bank holds interests in voting shares in the Commonwealth Bank as a result of the holding by an associated broker or insurer of interests in voting shares in the Commonwealth Bank acquired by that broker or insurer in its or their capacity as an underwriter or subunderwriter of shares offered under this Prospectus, the bank's interest will be ignored until 1 July, 1992.

The relevant provisions of the Act, the Foreign Acquisitions and Takeovers Act, the Banks (Shareholdings) Act and relevant regulations are complex and if you are in any doubt as to the applicability of those provisions to you, you should obtain legal advice.

### Restrictions on Shareholding

The Banks (Shareholdings) Act prevents any person (other than the Commonwealth of Australia) holding "interests" in voting shares of the Commonwealth Bank in excess of 5% of all voting shares issued by the Commonwealth Bank. There is an exception

to this in favour of any underwriter of shares under this Prospectus. Again, the relevant provisions are complicated and if you have any concerns about these provisions and their application to you, you should obtain legal advice.

### Other

In addition to the restrictions outlined above, the Commonwealth of Australia itself is prohibited by the Act from transferring any of its shares in the Commonwealth Bank.

The Act requires that the Commonwealth retain at least 70% of the voting power in the Commonwealth Bank. Further, neither the Commonwealth nor the Commonwealth Bank is allowed to do anything to cause or contribute to the Commonwealth no longer holding or controlling Commonwealth Bank shares carrying the right to exercise at least 70% of the total voting rights attached to

the voting shares in the Commonwealth Bank. If the Commonwealth Bank becomes aware that this 70% requirement has been breached, it must, within 2 months, take all reasonable steps in its power to put a stop to the situation.

The Directors, under the Articles, are required not to register a transfer of shares which would contravene the 70% restriction. Further, the Directors are empowered under the Articles to refuse to register a transfer which would breach a restriction contained in the Banks (Shareholdings) Act.

## Investing in Equities – some things to know

By acquiring shares in the Commonwealth Bank you will become a part owner of Australia's largest domestic banking group. The rights which attach to ownership of shares are very different from those which follow from depositing your money in a savings or investment account or in a fixed term deposit. Set out below is a summary of some important issues which arise from investing in shares. For more detailed information you should contact your stockbroker or other financial adviser.

### The Australian Stock Exchange Limited

The Australian Stock Exchange Limited is a market place which enables parties to buy and sell shares and other securities through their appointed stockbrokers.

If you wish to sell your shares in the Commonwealth Bank or if you wish to acquire additional shares following the quotation of the shares on the ASX, the sale or purchase may be executed through a stockbroker at the then current market price. Stamp duty and brokerage charges may apply to such transactions.

### Buying and Selling Shares – Stockbrokers

The Commonwealth Bank will not redeem your investment in its shares. In order to realise your investment, you can sell your shares on the ASX. However, the ability to sell at a given price may be affected by the volume of orders on the market at that time.

The rules of the ASX require that only authorised stockbrokers may deal on the stock exchange. In order to sell or buy shares, you will need to contact your stockbroker. If you do not know a stockbroker, you may ask the ASX, which will provide you with a list of stockbrokers you may contact.

### The Price of Commonwealth Bank Shares

The business section of major Australian newspapers will usually contain information on recent share transactions in Commonwealth Bank shares on the ASX.

### Shares

The rights and obligations which attach to the Commonwealth Bank's shares are set out in its Memorandum and Articles of Association and in the Corporations Law.

Outlined below are some important characteristics of shares which distinguish them from other types of investments.

#### • Returns on Shares

The return from investing in shares is generally made up of two components:

#### Dividends

The Commonwealth Bank's current intention is to pay or recommend dividends in respect of the 1991-92 financial year which

would provide subscribers with a yield comparable with industry standards. It is the Commonwealth Bank's intention to pay dividends twice yearly.

Further, as indicated in "Dividend Policy", the Commonwealth Bank expects that dividends will be fully franked. To the extent the dividend you receive is franked under Australia's dividend imputation system (which is explained below), you will pay either no tax or a lower rate of tax on the dividend, depending on your income tax bracket.

#### Capital Gains/Losses

As outlined above, approval will be sought for Commonwealth Bank shares offered under this Prospectus and the Employee Share Ownership Scheme to be quoted on the Australian Stock Exchange. The price at which the shares trade on the ASX will vary up or down from the initial issue price. If you decide to sell your Commonwealth Bank shares, the amount you will receive on sale may be greater than or less than the amount of your original investment. The difference will be a capital gain or loss.

Many factors will affect the price of the Commonwealth Bank's shares. Some of these factors include:

#### Company Factors

- the current profitability of the Commonwealth Bank;
- the dividend payout policy of the Commonwealth Bank;
- the level of franking of any dividend payment; and
- assessments of the profit outlook for the Commonwealth Bank.

#### External Factors

- the economic outlook in Australia and internationally;
- changes in Government monetary policy;
- major domestic and international political developments;
- changes in taxation policies;
- changes in interest rates;
- developments in the banking industry generally; and
- movements in the general level of prices on local and international sharemarkets.

This document is a historical copy of CBA's 1991 IPO prospectus.

It is provided for archival reference only, is not current disclosure, and must not be relied on for any current investment decision.

These and other company and external factors may have an influence on the Commonwealth Bank's share price. There is no guarantee, therefore, that investors will receive the full amount of their initial investment if they decide to sell their shares.

#### • Voting Rights

By acquiring shares in the Commonwealth Bank you will receive the right to vote on certain important issues affecting its operation. Such issues will include the election of directors, changes in the Memorandum and Articles of Association and new share issues.

Shareholders will have the opportunity to exercise their voting rights at the Commonwealth Bank's shareholder meetings. These will be held at least annually.

The Commonwealth's minimum 70% ownership will effectively mean that the Commonwealth will retain control of the Commonwealth Bank. However, in line with regulatory requirements, there may be circumstances (although these would be unusual) in which the Commonwealth is precluded from exercising its vote.

#### • Ranking for Return of Capital

In the event of a winding up of the Commonwealth Bank, depositors and other creditors would be paid out first. Any surplus would be divided between ordinary shareholders in proportion to their shareholdings. This is a standard feature of investing in shares.

#### What is Dividend Imputation?

The taxation of dividends is rather complex. It is advisable that you seek professional advice on your taxation position. The summary that follows is designed to give a brief outline of some of the issues which apply to the taxation of dividends.

Under the dividend imputation system, dividends paid by Australian resident companies will qualify for imputation credits in the hands of resident individual shareholders if the dividends are paid out of company income which has borne Australian company tax at the rate of 39%. In respect of dividends which are paid out of income taxed at other than the 39% rate (eg. untaxed income), some or all of that dividend will remain taxable in the hands of individual shareholders at their marginal rates of tax, without imputation credits.

Qualifying dividends received by a resident individual shareholder will carry an imputation credit of \$39 for every \$61 of dividends received. A resident individual shareholder receiving a qualifying dividend will gross up the dividend received by the amount of the imputation credit and will include that grossed-up amount in his or her assessable income. Individual shareholders who are on a marginal tax rate higher than the 39% corporate tax rate will be able to use the imputation credit to reduce their tax liability on those dividends to a rate equal to the difference between their marginal tax rate and 39%. Individual shareholders on a marginal tax rate of 39% will be able to use the imputation credit to offset totally income tax payable on those dividends, thereby effectively giving them a tax free source of income (before Medicare levy). Shareholders who are assessed at lower rates may use the excess credit, ie. the credit over and above the tax payable on the grossed-up qualifying dividends received, to offset tax payable on other income. Excess tax credits will not be refundable in cash and cannot be carried forward to later years. The 1.25% Medicare levy will be imposed on the grossed-up (and not the cash) dividends received. Excess imputation credits will not offset the Medicare levy.

The following table is an illustrative summary of the effective after tax return from fully franked dividends. It shows the effect of different marginal tax rates on each \$100 of pre-tax company income applied for the payment of dividends:

| Marginal Income Tax Rate<br>(in dollars) | 47.0% | 42.5%  | 38.5%  | 24.5%  | 20.5%  |
|--|-------|--------|--------|--------|--------|
| Distributed to shareholders              | \$ 61 | \$ 61  | \$ 61  | \$ 61  | \$ 61  |
| Plus tax credit                          | 39    | 39     | 39     | 39     | 39     |
| Grossed-up dividend                      | 100   | 100    | 100    | 100    | 100    |
| Personal tax (on grossed-up dividend)*   | (47)  | (42.5) | (38.5) | (24.5) | (20.5) |
| Effective after tax receipt              | \$ 53 | \$57.5 | \$61.5 | \$75.5 | \$79.5 |

\*Excludes Medicare levy.

#### Capital Gains Tax on the Sale of Your Commonwealth Bank Shares

Investors who subscribe for shares in the Commonwealth Bank will generally be subject to tax, under the Capital Gains Tax ("CGT") provisions, on any capital gain made upon subsequent sale of the shares. Tax is imposed under the CGT provisions on the gain realised on the sale after adjustment for the rate of inflation ("Indexation") during the period of the shareholding, provided the shares are held for more than 12 months. If shares are held for less than 12 months, tax is imposed on any gain without Indexation relief. A capital loss will arise if the shares are sold or otherwise disposed of for an amount less than the cost of the shares. Capital

loss may only be offset against capital gains arising in the same or a subsequent year of income.

Certain investors, such as share traders, banks and insurance companies, may be subject to tax on any gain realised upon the disposal of shares under the general income tax provisions and would not be entitled to any Indexation relief.

Investors should seek their own advice as to the taxation consequences of investing in, and selling, shares in the Commonwealth Bank.

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**INVESTIGATING**  
**ACCOUNTANTS' REPORT**

7

# Investigating Accountants' Report

ARTHUR ANDERSEN & CO.

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5 July, 1991

The Board of Directors  
Commonwealth Bank of Australia  
48 Martin Place  
Sydney NSW 2000

Dear Directors

You have requested that we prepare an Investigating Accountants' Report (the "report") for inclusion in a Prospectus dated 5 July, 1991 relating to a public invitation to subscribe for ordinary shares of \$2 each at a premium of \$3.40, payable in full upon application.

For the purpose of this report, we have used the following key definitions:

- "Commonwealth Bank" – Commonwealth Bank of Australia;
- "CDB" – Commonwealth Development Bank of Australia;
- "SBV" – State Bank of Victoria and its subsidiaries excluding Tricontinental Holdings Limited and its subsidiaries;
- "Group" – Commonwealth Bank and its subsidiaries including CDB but excluding SBV; and
- "Group (including SBV)" – Commonwealth Bank and its subsidiaries, including CDB and SBV.

The purpose of our report is to present fairly the results of operations for the five and a half years ended 31 December, 1990 and the assets and liabilities of the Group (including SBV) as at 31 December, 1990, in accordance with Australian accounting standards.

In preparing our report, we have made certain adjustments to the published results of the Group, in order to consistently apply current accounting policies and Australian accounting standards. These adjustments are explained in Note 1 of Section F. All financial information included within this report is presented after our adjustments, and accordingly may differ from information shown elsewhere in the Prospectus. The results of SBV have not previously been published.

## A. Background

On 8 November, 1990, the Commonwealth Bank entered into an agreement with the State Government of Victoria. This agreement provided for the acquisition of all of the assets and liabilities of SBV on 1 January, 1991 for consideration of \$1.6 billion. This amount was subject to adjustment if the net tangible assets of SBV were less than \$850 million. Settlement of the acquisition occurred on 31 December, 1990.

Proceeds of the share issue will be used by the Commonwealth Bank to strengthen its capital base following the purchase of SBV and to provide a sound foundation for further development of the Commonwealth Bank's business as opportunity offers.

### **B. Scope of Reporting**

The accounts on which we report comprise:

- the combined balance sheet of the Group (including SBV) as at 31 December, 1990;
- the profit and loss accounts of the Group for the five and a half years ended on that date; and
- the profit and loss accounts of SBV for the five and a half years ended on that date.

We have also presented the "pro forma" balance sheet of the Group (including SBV) which includes the net proceeds of the share issue.

The accounts have been based upon financial statements of the entities in the Group (including SBV) which were audited by various auditors. Those audits were made in accordance with Australian auditing standards and included such tests of the accounting records as were considered necessary in those circumstances.

Arthur Andersen & Co. were not the auditors of either the Group or SBV during the five and a half year period ended 31 December, 1990. For the purpose of this report, we have obtained such information and explanations as we considered necessary.

Historical copy of CBA's 1991 IPO prospectus — not current disclosure.  
Do not rely on this document for any current investment decision.

## C. Profit and Loss Accounts

| (in millions)  | Notes | Group (excluding SBV)<br>Year ended 30 June, |           |           |           | Six months<br>ended 31<br>December, |           |
|--|-------|--|-----------|-----------|-----------|-------------------------------------|-----------|
|  |       | 1986   | 1987      | 1988      | 1989      | 1990                                | 1990      |
| Interest income  |       | \$4,433.0                                    | \$4,983.4 | \$5,211.2 | \$6,142.2 | \$8,658.8                           | \$4,380.7 |
| Interest expense   |       | 2,934.4                                      | 3,416.6   | 3,305.2   | 3,946.2   | 6,223.5                             | 3,035.0   |
| Net interest income  |       | 1,498.6                                      | 1,566.8   | 1,906.0   | 2,196.0   | 2,435.3                             | 1,345.7   |
| Commission and other income  |       | 442.2  | 548.4     | 634.5     | 823.6     | 956.8                               | 518.9     |
| Net income   |       | 1,940.8                                      | 2,115.2   | 2,540.5   | 3,019.6   | 3,392.1                             | 1,864.6   |
| Bad and doubtful debts   |       | 70.7   | 115.2     | 161.2     | 298.0     | 461.7                               | 385.7     |
| Net income after bad and doubtful debts  |       | 1,870.1                                      | 2,000.0   | 2,379.3   | 2,721.6   | 2,930.4                             | 1,478.9   |
| Salaries and other staff expenses  |       | 762.7  | 837.4     | 901.2     | 1,004.1   | 1,117.0                             | 608.5     |
| Building occupancy expenses  |       | 141.8  | 161.3     | 183.6     | 199.4     | 272.8                               | 140.5     |
| Equipment expenses   |       | 112.1  | 138.7     | 148.6     | 171.2     | 221.6                               | 138.5     |
| Other expenses   |       | 223.6  | 271.5     | 308.8     | 320.0     | 430.9                               | 230.4     |
| Operating profit before abnormal items<br>and income tax                               |       | 629.9  | 591.1     | 837.1     | 1,026.9   | 888.1                               | 361.0     |
| Abnormal items   |       | —  | —         | —         | —         | —                                   | —         |
| Operating profit before income tax   | 2     | 629.9  | 591.1     | 837.1     | 1,026.9   | 888.1                               | 361.0     |
| Income tax charge attributable to<br>operating profit                                  | 3     | 262.6  | 264.2     | 378.4     | 466.2     | 356.2                               | 154.2     |
| Operating profit after income tax  |       | 367.3  | 326.9     | 458.7     | 560.7     | 531.9                               | 206.8     |
| Extraordinary items (net of income tax)  | 4     | —  | —         | —         | —         | —                                   | —         |
| Operating profit and extraordinary items<br>after income tax                           |       | 367.3  | 326.9     | 458.7     | 560.7     | 531.9                               | 206.8     |
| Minority interests in operating profit after<br>income tax                             |       | 2.7  | 5.2       | 5.8       | 2.9       | 7.1                                 | 4.2       |
| Operating profit and extraordinary items<br>after income tax attributable to the Group | 6     | \$ 364.6                                     | \$ 321.7  | \$ 452.9  | \$ 557.8  | \$ 524.8                            | \$ 202.6  |

The accounting policies and the notes form an integral part of these profit and loss accounts.

| (in millions)  | Notes | SBV       |                     |           |           | Six months ended 31 December, |           |
|--|-------|-----------|---------------------|-----------|-----------|-------------------------------|-----------|
|  |       | 1986      | Year ended 30 June, |           | 1990      | 1990                          |           |
|  |       | 1987      | 1988                | 1989      |           |                               |           |
| Interest income  |       | \$1,018.5 | \$1,382.8           | \$1,635.3 | \$2,122.2 | \$2,942.7                     | \$1,324.4 |
| Interest expense   |       | 676.7     | 1,045.1             | 1,098.9   | 1,530.6   | 2,452.7                       | 1,045.3   |
| Net interest income  |       | 341.8     | 337.7               | 536.4     | 591.6     | 490.0                         | 279.1     |
| Commission and other income  |       | 101.8     | 134.8               | 153.4     | 200.9     | 220.1                         | 111.9     |
| Net income   |       | 443.6     | 472.5               | 689.8     | 792.5     | 710.1                         | 391.0     |
| Bad and doubtful debts   |       | 21.3      | 26.0                | 54.9      | 105.6     | 511.5                         | 104.6     |
| Net income after bad and doubtful debts  |       | 422.3     | 446.5               | 634.9     | 686.9     | 198.6                         | 286.4     |
| Salaries and other staff expenses  |       | 199.1     | 236.4               | 289.7     | 324.0     | 380.3                         | 196.2     |
| Building occupancy expenses  |       | 28.3      | 34.4                | 40.7      | 54.0      | 70.3                          | 45.4      |
| Equipment expenses   |       | 28.4      | 40.0                | 38.9      | 52.8      | 63.4                          | 34.8      |
| Other expenses   |       | 57.8      | 76.1                | 102.0     | 115.3     | 144.0                         | 76.8      |
| Operating profit (loss) before abnormal items and income tax                               |       | 108.7     | 59.6                | 163.6     | 140.8     | (459.4)                       | (66.8)    |
| Abnormal items   |       | —         | 4.2                 | —         | —         | —                             | —         |
| Operating profit (loss) before income tax  | 2     | 108.7     | 63.8                | 163.6     | 140.8     | (459.4)                       | (66.8)    |
| Income tax charge (credit) attributable to operating profit                                | 3     | 39.6      | 30.8                | 86.5      | 57.4      | (119.6)                       | (12.5)    |
| Operating profit (loss) after income tax   |       | 69.1      | 33.0                | 77.1      | 83.4      | (339.8)                       | (54.3)    |
| Extraordinary items (net of income tax)  | 4     | —         | —                   | —         | —         | 342.6                         | —         |
| Operating profit (loss) and extraordinary items after income tax                           |       | 69.1      | 33.0                | 77.1      | 83.4      | 2.8                           | (54.3)    |
| Minority interests in operating profit after income tax                                    |       | —         | —                   | —         | —         | —                             | —         |
| Operating profit (loss) and extraordinary items after income tax attributable to the Group | 6     | \$ 69.1   | \$ 33.0             | \$ 77.1   | \$ 83.4   | \$ 2.8                        | \$ (54.3) |

### D. Combined Balance Sheet as at 31 December, 1990

| <i>(in millions)</i>                                    | Notes | Group<br>(including<br>SBV) | Group<br>(including<br>SBV)<br>Pro Forma |
|---|-------|-----------------------------|--|
| <b>Assets</b>   |       |                             |  |
| Notes, coin, bullion and cash at bank                   |       | \$ 604.3                    | \$ 604.3                                 |
| Money at short call                                     | 9     | 1,923.6                     | 1,923.6                                  |
| Due from other banks                                    |       | 5,995.6                     | 5,995.6                                  |
| Bills receivable and remittances in transit             |       | 314.9                       | 314.9                                    |
| Australian Public Securities                            |       |                             |  |
| Commonwealth and States                                 | 10    | 4,440.1                     | 4,440.1                                  |
| Local and semi-governmental authorities                 |       | 2,534.5                     | 2,534.5                                  |
| Other securities  |       | 2,455.3                     | 2,455.3                                  |
| Statutory deposit accounts with central banks           |       | 535.3                       | 535.3                                    |
| Loans, advances and other receivables                   | 11    | 56,143.3                    | 56,143.3                                 |
| Bank acceptances of customers                           |       | 12,016.7                    | 12,016.7                                 |
| Premises, sites and equipment                           | 12    | 3,536.0                     | 3,536.0                                  |
| Goodwill  | 13    | 856.8                       | 856.8                                    |
| Other assets  | 14    | 3,362.1                     | 3,362.1                                  |
| <b>Total Assets</b>                                     |       | <u>\$94,718.5</u>           | <u>\$94,718.5</u>                        |
| <b>Liabilities</b>                                      |       |                             |  |
| Deposits  |       | \$57,272.8                  | \$55,974.4                               |
| Borrowings of subsidiary companies and businesses       | 15    | 6,023.9                     | 6,023.9                                  |
| Due to other banks                                      |       | 3,264.9                     | 3,264.9                                  |
| Bank acceptances  |       | 12,016.7                    | 12,016.7                                 |
| Provision for dividend                                  |       | 406.1                       | 406.1                                    |
| Provision for income tax                                |       | 657.8                       | 657.8                                    |
| Other provisions  | 16    | 1,394.1                     | 1,394.1                                  |
| Bills payable and other liabilities                     |       | 7,229.5                     | 7,229.5                                  |
| <b>Total Liabilities</b>                                |       | <u>\$88,265.8</u>           | <u>\$86,967.4</u>                        |
| <b>Net Assets</b>                                       |       | <u>\$ 6,452.7</u>           | <u>\$ 7,751.1</u>                        |
| <b>Capital and Reserves</b>                             |       |                             |  |
| Equity  |       |                             |  |
| Share capital   | 17    | \$ 1,172.9                  | \$ 1,669.5                               |
| Share premium reserve                                   | 17    | —                           | 801.8                                    |
| Reserve fund  |       | 1,302.7                     | 1,302.7                                  |
| General reserve   |       | 308.0                       | 308.0                                    |
| Capital reserve   |       | 273.5                       | 273.5                                    |
| Asset revaluation reserve                               | 7     | 668.5                       | 668.5                                    |
| Retained profits  |       | 722.7                       | 722.7                                    |
| Minority shareholders' interest in subsidiary companies |       | 50.3                        | 50.3                                     |
|   |       | 4,498.6                     | 5,797.0                                  |
| Other capital resources                                 | 18    | 1,954.1                     | 1,954.1                                  |
| <b>Total Capital and Reserves</b>                       |       | <u>\$ 6,452.7</u>           | <u>\$ 7,751.1</u>                        |
| <b>Net Tangible Assets</b>                              |       |                             |  |
| Net tangible assets comprise:                           |       |                             |  |
| Total Equity  |       | \$ 4,498.6                  | \$ 5,797.0                               |
| Less:   |       |                             |  |
| Minority shareholders' interest in subsidiary companies |       | (50.3)                      | (50.3)                                   |
| Goodwill  |       | (856.8)                     | (856.8)                                  |
| Net tangible assets                                     |       | <u>\$ 3,591.5</u>           | <u>\$ 4,889.9</u>                        |
| Net tangible assets per share (in dollars)              |       | <u>\$ 6.12</u>              | <u>\$ 5.86</u>                           |

Net tangible assets per share has been calculated using the total number of shares issued or offered for subscription.

The accounting policies and the notes form an integral part of the combined balance sheet.

## E. Significant Accounting Policies

The accounts have been prepared using the accounting policies described below.

### (a) Historical Cost

The accounts have been prepared in accordance with the historical cost convention and, except where indicated, do not reflect current valuations of non-monetary assets. In view of the accounting policies adopted, the amounts shown for some assets do not purport to be the amounts that would have been realisable had the assets been sold at the date of this report.

Unless otherwise indicated, all amounts are shown in \$ million and are expressed in Australian currency.

### (b) Bases of Accounting

The accounts are kept in accordance with accounting principles generally applied in commercial practice and are presented in a form that is in general compliance with the Banking Act 1959. They also conform with applicable Australian accounting standards and Schedule 5 of the Corporations Regulations as they apply to banking corporations.

SBV was acquired by the Commonwealth Bank on 1 January, 1991. We have obtained information relating to the results of this group over the five and a half years ended 31 December, 1990 from its accounting records, and presented in Section C. SBV was not managed or owned by the Commonwealth Bank during the period under review. These results reflect the difference in management and, in particular, the different credit and lending policies of the two banks. SBV results may not be indicative of the potential for future contributions by SBV to the Group. We therefore consider it preferable that the profit and loss accounts for the five and a half years ended 31 December, 1990 of the Group and SBV be presented separately.

CDB became a subsidiary of the Commonwealth Bank on 12 February, 1991, as a result of the amendment to the Commonwealth Banks Act 1959. The amendment deemed the Commonwealth Bank to be the legal and beneficial owner of CDB's issued capital of \$61.7 million. The capital of the Commonwealth Bank was increased by \$61.7 million on 12 February, 1991 as a consequence of this amendment.

For the purpose of this report, the profit and loss accounts have been drawn up to 31 December, 1990. The balance sheet is presented on a combined basis for the Group (including SBV) as at 31 December, 1990.

### (c) Consolidation

The combined balance sheet includes all companies in which the Commonwealth Bank holds directly or indirectly more than half the issued capital. It also includes CDB and the business assets and liabilities of SBV which were acquired on 1 January, 1991. All intercompany balances are eliminated on combination.

The profit and loss accounts of the Group and SBV include the results of all companies in which they hold directly or indirectly more than half the issued capital. The Group profit and loss accounts include the results of CDB over the five and a half years ended 31 December, 1990. All intercompany transactions and profits are eliminated on consolidation.

### (d) Pro Forma Balance Sheet

The pro forma balance sheet of the Group (including SBV) includes the proceeds of the issue estimated at \$1,335.9 million and the related issue costs estimated at \$37.5 million. These costs have been deducted from the share premium reserve for the purpose of this report.

|   | <i>(in millions)</i> |
|---|----------------------|
| Net assets as shown by the combined balance sheet as at 31 December, 1990           | \$6,452.7            |
| Net proceeds from share issue applied to deposits                                   | 1,298.4              |
| Pro forma net assets  | <u>\$7,751.1</u>     |
| Capital and reserves as shown by the combined balance sheet as at 31 December, 1990 | \$6,452.7            |
| Increase share capital  | 496.6                |
| Increase share premium  | 801.8                |
| Pro forma capital and reserves  | <u>\$7,751.1</u>     |

### (e) Goodwill

Net assets in businesses acquired are valued on acquisition (in the case of SBV, as at 31 December, 1990) at the Commonwealth Bank's interest in the fair value of the net assets at the date of acquisition. For the purpose of this report, any difference between the fair value of net assets acquired and cost is recognised as an asset and amortised by systematic charges against income over the period of time during which the benefits are expected to arise, but not exceeding twenty years.

### (f) Bad and Doubtful Debts

Except where a specific provision is established, all bad debts are written off against the profit and loss account in the year in which they are recognised.

Specific provisions are made against loans, advances and other receivables where recovery is considered doubtful. Interest on these loans, advances and other receivables is reserved and is not taken to the profit and loss account.

General provisions for bad and doubtful debts are maintained to cover non-identified losses and latent risks inherent in the overall portfolio of advances and other lending transactions. These are assessed having regard to the level of risk-weighted credit exposure for items both on and off the balance sheet at balance date and a range of other criteria.

The amounts required to fund the provisions for bad and doubtful debts to the assessed levels are charged to the profit and loss account.

Loans, advances and other receivables in the balance sheet are stated after deduction of specific and general provisions for bad and doubtful debts.

### (g) Premises, Sites and Equipment

Property holdings of the Group were revalued as at 30 June, 1990 to market values reflecting current use. The Directors applied a discount factor to these values in light of prevailing economic conditions and these values have not been adjusted at 31 December, 1990 as the Directors believe that their value is not overstated. Potential capital gains tax arising from the revaluation has not been taken into account in determining the revalued amounts, as this is not material.

The net surplus arising from revaluations is credited to an asset revaluation reserve (Note 7). For the purpose of this report, premises disposed of have been revalued to the net sales proceeds immediately prior to sale.

Depreciation on owned buildings is based on the assessed useful life of each building. The book value of buildings demolished as part of the redevelopment of a site is written off in the financial year in which the buildings are demolished. Leasehold improvements are capitalised and depreciated over the unexpired term of the current lease.

Equipment is shown at cost less accumulated depreciation. Equipment is depreciated at rates based upon expected useful life.

Depreciation is treated as an operating expense and charged to profit and loss account. The amounts charged for the period are disclosed (Note 2).

## E. Significant Accounting Policies (Continued)

### (h) Foreign Currency

All foreign currency monetary assets and liabilities are revalued at rates of exchange prevailing at balance dates. Unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are included in the profit and loss accounts.

The foreign currency financial statements of overseas branches and subsidiaries have been converted to Australian currency at 31 December, 1990 in accordance with the current rate method. Translation differences arising from conversion of opening balances of foreign currencies at balance date rates are reflected in the general reserve.

In accordance with its policy, the Group maintains a substantially matched position in assets and liabilities in foreign currencies and the Group's (including SBV's) level of net foreign currency exposure would not have a material effect on its financial condition.

### (i) Income Taxes

The Group (including SBV) adopts tax-effect accounting using the liability method whereby the income tax expense is calculated based on accounting profit adjusted for permanent differences. The current rate of income tax of 39% has been applied to the five and a half years ended 31 December, 1990.

The tax-effect of timing differences, which occur where items are allowed for income tax purposes in a period different from that when they are recognised in the accounts, is included in the provision for deferred income tax or future income tax benefits as applicable at the current rate of income tax.

The future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

In view of the nature of the general provision for doubtful debts, the Group (including SBV) has determined that the timing of the provision's eventual utilisation to absorb bad debts inherent in the loan portfolio, but which are not yet identified, cannot be predicted. As a consequence, the timing of the realisation of the future income tax benefits associated with the general provision is considered to be uncertain and these benefits are not recognised.

### (j) Investments and Securities

These securities include:

Treasury Notes — recorded at face value less unearned discount.  
Other Commonwealth Securities — recorded at cost or amortised value.

Securities of Local and Semi-Governmental Authorities — recorded at cost or amortised value.

Monetary authority requirements are such that banks hold large amounts of Commonwealth and State Securities. The greater proportion of these holdings are normally retained until, or close to, maturity and specific provision for differences between book values and market values is not considered necessary. The relationship of book values to market values of holdings of these securities is disclosed (Note 10).

#### Amortisation of Australian Public Securities

Premiums and discounts on Australian Public Securities held by the Group are amortised from the date of purchase so that the securities will attain their redemption values by maturity date. Appropriate proportions of premiums and discounts are included in the profit and loss accounts each year.

#### Profits and Losses on Sale of Australian Public Securities

Profits and losses are taken to profit and loss account in the year they are realised.

#### Other Securities

Other securities are recorded at cost, at face value less unearned income or discount, or at amortised value, as appropriate.

#### Trading Securities

Securities held for trading purposes are recorded at market value. Realised gains and losses on disposal and unrealised market value adjustments are included in the profit and loss account.

### (k) Other Staff Expenses

#### Superannuation Contributions

Actuarial reviews (Note 23) undertaken indicate that the Commonwealth Banking Corporation Officers' Superannuation Fund ("OSF") was self-funding for the entire five and a half years ended 31 December, 1990. Accordingly, the profit and loss accounts of the Group for that period reflect no costs of contributions to the OSF. This may not be indicative of the future levels of contributions to the OSF. An actuary will determine the level of contributions required by the Commonwealth Bank for future accounting periods.

At 31 December, 1990 a surplus of at least \$344 million resided in the OSF. On 16 April, 1991 this amount (\$209.8 million after income tax) was re-appropriated to the Group. For the purpose of this report, the net surplus has been included in the combined balance sheet.

The assets of the OSF, a statutory fund, are held by the Commonwealth Banking Corporation (the "Corporation") and are not included in the balance sheet of the Group (including SBV).

#### Provision for Staff Benefits

Includes provision for long service leave on which actuarial reviews are carried out at regular intervals. Funding is in accordance with actuarial advice.

### (l) Leasing and Leveraged Leasing

Lease financing is accounted for using the finance method whereby income is taken to account progressively over the life of the lease in relation to the outstanding investment balance.

The Group (including SBV) is an investor in various transactions whereby it contributes equity either directly or through a partnership which, together with non-recourse debt, is utilised to make investments.

The Group (including SBV) records the equity funds contributed as the initial carrying value of the investment. Subsequent cash payments and receipts, including tax payments and remissions, are recorded as adjustments to the carrying value of the investment.

Equity participation in leveraged leases is recorded under "Loans, Advances and Other Receivables" and amounts are included in the balance sheet net of unearned income.

Unearned income on lease and other finance contracts entered into by the Group is determined on actuarial bases.

### (m) Off-Balance Sheet Financial Instruments

The accounting policies adopted for the off-balance sheet instruments reflect the substance of transactions in such instruments. Gains and losses on trading transactions outstanding at balance date are brought to account after making allowance for revaluation adjustments based on market prices with the exception of forward rate agreements which are brought to account on settlement.

### (n) Associated Companies

Associated companies are defined as those companies which are not subsidiaries but in which the investment by the Group creates the ability to exercise significant influence but not control. Interests in associated companies are included under "Other Securities" in the balance sheet and dividend income only is taken to the profit and loss account (Note 27).

### (o) Approved Deposit Fund

The Commonwealth Bank Approved Deposit Fund is maintained in accordance with the Income Tax Assessment Act.

The assets of the Fund, amounting to \$1,530.8 million as at 31 December, 1990 are held in trust by the Commonwealth Savings Bank of Australia ("CSB") and are not included in the balance sheet of the Group (including SBV).

### (p) Other Capital Resources

Other capital resources include undated and dated debt issues which have been approved by the Reserve Bank of Australia to comprise part of the Tier 1 and Tier 2 capital resources of the Group (including SBV) (Note 18).

## F. Notes to the Profit and Loss Accounts and Combined Balance Sheet

### Note 1. Adjustments to Audited Results:

The Group profit and loss accounts, as presented in Section C, are after (charging)/crediting the following adjustments to the operating profit and extraordinary items, as published:

| (in millions)  | Note 1 | Group (excluding SBV)<br>Year ended 30 June, |                |                |                | Six months<br>ended 31<br>December, |                |
|--|--------|--|----------------|----------------|----------------|-------------------------------------|----------------|
|  |        | 1986   | 1987           | 1988           | 1989           | 1990                                | 1990           |
| <b>Operating profit and extraordinary items after income tax, as published</b> |        | \$280.0                                      | \$202.8        | \$364.9        | \$479.1        | \$531.4                             | \$536.4        |
| <b>Adjustments:</b>  |        |  |                |                |                |                                     |                |
| • Goodwill amortisation and reversal of write-off                              | i      | —  | —              | —              | 72.5           | (3.8)                               | (1.9)          |
| • Superannuation contributions/surplus   | ii     | 73.9   | 60.0           | 68.2           | 76.0           | 49.6                                | (323.4)        |
| • Long service leave   | iii    | 1.8  | 1.8            | 1.8            | 1.8            | (16.5)                              | —              |
| • Sale of properties   | iv     | (1.1)  | (0.6)          | (2.1)          | (77.6)         | (34.5)                              | (4.3)          |
| • General doubtful debts provision   | v      | (8.6)  | 25.2           | 35.2           | —              | —                                   | —              |
| • Income tax on specific loan loss provisions and interest reserved            | vi     | 14.4   | 24.1           | (59.1)         | —              | —                                   | —              |
| • Over/(under) provision for taxation  | vii    | (3.0)  | (11.5)         | (0.1)          | 8.9            | 5.7                                 | —              |
| • Change in tax rates  | viii   | 35.3   | 36.8           | 49.9           | —              | —                                   | —              |
| • State Bank of NSW payments   | ix     | (25.4)                                       | (15.9)         | —              | —              | —                                   | —              |
| • State Bank of NSW interest   | x      | —  | 4.2            | —              | —              | —                                   | —              |
| <b>Total Adjustments</b>   |        | <u>87.3</u>                                  | <u>124.1</u>   | <u>93.8</u>    | <u>81.6</u>    | <u>0.5</u>                          | <u>(329.6)</u> |
| <b>Operating profit and extraordinary items after income tax, as presented</b> |        | <u>\$367.3</u>                               | <u>\$326.9</u> | <u>\$458.7</u> | <u>\$560.7</u> | <u>\$531.9</u>                      | <u>\$206.8</u> |

In preparing the profit and loss accounts of the Group for the five and a half years ended 31 December, 1990, we have made certain adjustments to the amounts previously reported within the audited accounts. These adjustments include:

- i. The effect of amortising goodwill on acquisition of subsidiaries over a period not exceeding twenty years in accordance with ASRB 1013: "Accounting for Goodwill". The immediate write off of goodwill on the acquisition of the CINZ Group, previously made in the accounts for the year ended 30 June, 1989, has been removed.
- ii. The removal of the cost of contributing to the Commonwealth Banking Corporation Officers' Superannuation Fund ("OSF") for the five years ended 30 June, 1990 and of a surplus within the OSF re-appropriated to the Corporation in the six month period ended 31 December, 1990 being the excess contributions made in prior years. The superannuation fund was effectively self-funding during the five and a half years ended 31 December, 1990. As a result of these adjustments, the profit and loss accounts of the Group for that period reflect no costs of contributions to the OSF. This may not be indicative of the future levels of contributions to the OSF. An actuary will determine the level of contributions required by the Commonwealth Bank for future accounting periods.  
On 16 April, 1991 a further surplus of \$344 million was re-appropriated to the Group. For the purpose of this report, we have included the surplus net of income tax in the combined balance sheet. This amount has not been reflected in the profit and loss account for the five and a half year period ended 31 December, 1990.
- iii. The re-allocation of the surplus within the long service leave provision evenly over the years in which it had arisen. Previously the audited accounts for the year ended 30 June, 1990 had included recognition of the total surplus in that year.
- iv. The exclusion from the profit and loss account of profits and losses on the sale of property and premises. We believe that it is more appropriate to disclose the profits and losses on the sale of property and premises with the increments in the value recorded within the asset revaluation reserve, as the profits and losses are impacted by the timing and amount of the last revaluation. Property and premises are revalued periodically. Those sold have been revalued at the selling price immediately prior to disposal and the gain or loss on revaluation has been transferred to asset revaluation reserve.
- v. The impact on the three years ended 30 June, 1988 of the change to the current accounting policy for the determination of the general provision for doubtful debts. The provision is assessed on the level of risk-weighted credit exposure on and off balance sheet and a range of other criteria. Previously, the assessment had been made using a formula approach based on the bad debts experience and levels of lending of the current year and the preceding four years related to the then current level of lending and included a margin for growth in advances.
- vi. The adjustment to income tax expense for the three years ended 30 June, 1988 to the accounting policy adopted in the year ended 30 June, 1988, whereby the Group extended tax effect accounting to specific provisions for bad and doubtful debts and interest reserved on those loans against which specific provisions were made.
- vii. The over and under provisions of income tax in prior years which have been re-allocated to the years to which they related.
- viii. The application of the current rate of income tax (39%) to the profit and loss account over the five and a half year period ended 31 December, 1990. The rate of income tax payable in Australia has been in the range of 49% to 39% during the period.
- ix. "Payments" made to the State Bank of New South Wales in the two years ended 30 June, 1987. In the profit and loss accounts for the year, the payments were shown as an appropriation of net profit and income tax expense was reduced by the amounts of the payments. Prior to 1 July, 1987, the State Bank of New South Wales was entitled to half the net profit earned in that State by CSB. By agreement between the two parties, no amounts were payable from that date and, accordingly, we have excluded the payments from the respective profit and loss accounts. The effect of this treatment has been to increase the tax charge in 1986 and 1987 by the full amount of the payments made to the State Bank of New South Wales to adjust the tax treatment recorded at the time.
- x. The interest paid under Court order to the State Bank of New South Wales recorded in 1987 but relating to years prior to 1986. The payment was as a result of CSB withholding payments as described above.

For the purpose of this report, we have adjusted the combined balance sheet to make provision for dividends of \$246 million that will be paid to the Commonwealth of Australia in its capacity as shareholder (Note 8).

**Note 1. Adjustments to Audited Results (continued):**

In addition, our adjustments included the reclassification of events and transactions to operating profit from extraordinary items due to the change in the definition of extraordinary items set out in

approved accounting standard ASRB 1018: "Profit and Loss Accounts". They are now required to be both outside the ordinary operations and of a type that is not of a recurring nature.

**Note 2. Operating Profit (Loss) Before Income Tax:**

| <i>(in millions)</i>  | Group (excluding SBV)<br>Year ended 30 June, |          |          |          | Six months<br>ended 31<br>December, |          |
|---|--|----------|----------|----------|-------------------------------------|----------|
|   | 1986   | 1987     | 1988     | 1989     | 1990                                | 1990     |
| Operating profit before income tax has been determined after: |  |          |          |          |                                     |          |
| Charging as expense:  |  |          |          |          |                                     |          |
| depreciation of premises, sites and equipment                 | \$ 88.2                                      | \$ 115.5 | \$ 121.9 | \$ 152.3 | \$ 183.2                            | \$ 107.2 |
| operating lease rentals                                       | 38.4   | 46.8     | 57.4     | 91.2     | 133.0                               | 36.7     |
| provisions for  |  |          |          |          |                                     |          |
| – staff benefits  | 17.5   | 15.9     | 22.3     | 50.7     | 14.9                                | 21.9     |
| – home insurance  | 10.2   | 0.9      | 3.6      | 7.2      | 1.2                                 | 2.3      |
| – personal loan protection                                    | 2.8  | 2.3      | 1.0      | 3.6      | 3.8                                 | 0.7      |
| – self-insurance  | 0.8  | 14.0     | 8.4      | 8.3      | 2.1                                 | 1.2      |
| – amortisation of goodwill                                    | –  | –        | –        | 3.8      | 3.8                                 | 1.9      |
| – superannuation contributions                                | –  | –        | –        | –        | –                                   | –        |

**Note 3. Income Tax Expense:**

| <i>(in millions)</i>   | Group (excluding SBV)<br>Year ended 30 June, |          |          |            | Six months<br>ended 31<br>December, |          |
|--|--|----------|----------|------------|-------------------------------------|----------|
|  | 1986   | 1987     | 1988     | 1989       | 1990                                | 1990     |
| Income tax expense differs from the prima facie tax expense calculated at current taxation rate on operating profit (loss), for the following reasons: |  |          |          |            |                                     |          |
| Operating profit before income tax   | \$ 629.9                                     | \$ 591.1 | \$ 837.1 | \$ 1,026.9 | \$ 888.1                            | \$ 361.0 |
| Prima facie tax expense  | 245.7  | 230.5    | 326.5    | 400.5      | 346.4                               | 140.8    |
| Add (deduct):  |  |          |          |            |                                     |          |
| Fringe benefits tax  |  | 10.0     | 12.3     | 11.7       | 12.7                                | 7.1      |
| General provision for bad and doubtful debts   | 6.6  | 6.5      | 22.8     | 37.4       | 1.1                                 | 4.3      |
| Other provisions   | 4.0  | (0.1)    | 0.6      | 3.3        | (0.3)                               | 1.2      |
| Non-deductible depreciation and amortisation   | 5.4  | 6.9      | 7.9      | 11.1       | 11.7                                | 8.9      |
| Adjustment for overseas taxes  | (5.9)  | (7.2)    | 4.2      | 4.3        | 5.0                                 | 0.7      |
| Concessional deductions on investments   | (0.7)  | (0.1)    | (0.2)    | –          | –                                   | –        |
| Other items  | 7.5  | 17.7     | 4.3      | (2.1)      | (20.4)                              | (8.8)    |
| Income tax expense as adjusted   | \$ 262.6                                     | \$ 264.2 | \$ 378.4 | \$ 466.2   | \$ 356.2                            | \$ 154.2 |

| (in millions)  | SBV<br>Year ended 30 June, |         |         |         |         | Six months<br>ended 31<br>December, |
|--|----------------------------|---------|---------|---------|---------|-------------------------------------|
|  | 1986                       | 1987    | 1988    | 1989    | 1990    | 1990                                |
| Operating profit (loss) before income tax has been determined after: |                            |         |         |         |         |                                     |
| Charging as expense:   |                            |         |         |         |         |                                     |
| depreciation of premises, sites and equipment                        | \$ 23.2                    | \$ 31.6 | \$ 31.2 | \$ 45.8 | \$ 56.9 | \$ 36.8                             |
| operating lease rentals  | 4.4                        | 9.6     | 13.0    | 18.5    | 23.6    | 11.9                                |
| provisions for   |                            |         |         |         |         |                                     |
| – staff benefits   | 6.6                        | 7.4     | 12.8    | 8.7     | 12.0    | 2.0                                 |
| – home insurance   | —                          | —       | —       | —       | —       | —                                   |
| – personal loan protection   | —                          | —       | —       | —       | —       | —                                   |
| – self-insurance   | —                          | —       | —       | —       | —       | —                                   |
| – amortisation of goodwill   | —                          | —       | —       | —       | —       | —                                   |
| – superannuation contributions                                       | 17.1                       | 20.1    | 23.8    | 26.8    | 31.6    | 16.5                                |

| (in millions)  | SBV<br>Year ended 30 June, |         |          |          | Six months<br>ended 31<br>December, |           |
|--|----------------------------|---------|----------|----------|-------------------------------------|-----------|
|  | 1986                       | 1987    | 1988     | 1989     | 1990                                | 1990      |
| Income tax expense differs from the prima facie tax expense calculated at current taxation rate on operating profit (loss), for the following reasons: |                            |         |          |          |                                     |           |
| Operating profit (loss) before income tax  | \$ 108.7                   | \$ 63.8 | \$ 163.6 | \$ 140.8 | \$ (459.4)                          | \$ (66.5) |
| Prima facie tax expense (credit)   | 42.4                       | 24.9    | 63.8     | 54.9     | (179.2)                             | (25.9)    |
| Add (deduct):  |                            |         |          |          |                                     |           |
| Fringe benefits tax  | —                          | 2.9     | 3.9      | 3.6      | 4.6                                 | 2.4       |
| General provision for bad and doubtful debts   | 5.3                        | 9.3     | 19.5     | 26.3     | 48.6                                | —         |
| Other provisions   | 2.8                        | —       | —        | —        | —                                   | 1.6       |
| Non-deductible depreciation and amortisation   | —                          | —       | —        | —        | —                                   | —         |
| Adjustment for overseas taxes  | —                          | —       | —        | —        | —                                   | —         |
| Concessional deductions on investments   | —                          | —       | —        | —        | (14.2)                              | —         |
| Other items  | (10.4)                     | (6.3)   | (0.7)    | (27.4)   | 20.6                                | 9.4       |
| Income tax expense (benefit), as adjusted  | \$ 39.6                    | \$ 30.8 | \$ 86.5  | \$ 57.4  | \$ (119.6)                          | \$ (12.5) |

**Note 4. Extraordinary Items:**

| (in millions)         | Group (excluding SBV)<br>Year ended 30 June, |             |             |             | Six months<br>ended 31<br>December, |             |
|-----------------------|--|-------------|-------------|-------------|-------------------------------------|-------------|
|                       | 1986   | 1987        | 1988        | 1989        | 1990                                | 1990        |
| Extraordinary items   | \$ —   | \$ —        | \$ —        | \$ —        | \$ —                                | \$ —        |
| Income tax applicable | —  | —           | —           | —           | —                                   | —           |
|                       | <u>\$ —</u>                                  | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u>                         | <u>\$ —</u> |

**Note 5. Financial Reporting by Segments:**

| (in millions)                             | Group (excluding SBV)<br>Year ended 30 June, |                  |                  |                  | Six months<br>ended 31<br>December, |                  |
|---|--|------------------|------------------|------------------|-------------------------------------|------------------|
|   | 1986   | 1987             | 1988             | 1989             | 1990                                | 1990             |
| <b>(a) Geographical segments</b>          |  |                  |                  |                  |                                     |                  |
| Revenue                                   |  |                  |                  |                  |                                     |                  |
| Australia                                 | \$4,335.2                                    | \$4,893.9        | \$5,255.7        | \$6,165.7        | \$8,154.5                           | \$4,053.1        |
| Overseas*                                 | 540.0  | 637.9            | 590.0            | 800.1            | 1,461.1                             | 846.5            |
| <b>Total</b>                              | <u>\$4,875.2</u>                             | <u>\$5,531.8</u> | <u>\$5,845.7</u> | <u>\$6,965.8</u> | <u>\$9,615.6</u>                    | <u>\$4,899.6</u> |
| Operating profit (loss) before income tax |  |                  |                  |                  |                                     |                  |
| Australia                                 | \$ 609.1                                     | \$ 568.6         | \$ 818.8         | \$1,021.7        | \$ 932.7                            | \$ 326.0         |
| Overseas*                                 | 20.8   | 22.5             | 18.3             | 5.2              | (44.6)                              | 35.0             |
| <b>Total</b>                              | <u>\$ 629.9</u>                              | <u>\$ 591.1</u>  | <u>\$ 837.1</u>  | <u>\$1,026.9</u> | <u>\$ 888.1</u>                     | <u>\$ 361.0</u>  |
| <b>(b) Industry segments</b>              |  |                  |                  |                  |                                     |                  |
| Revenue                                   |  |                  |                  |                  |                                     |                  |
| Banking                                   | \$4,421.4                                    | \$4,980.8        | \$5,256.7        | \$6,315.9        | \$8,706.2                           | \$4,491.4        |
| Finance                                   | 453.8  | 551.0            | 589.0            | 649.9            | 909.4                               | 408.2            |
| <b>Total</b>                              | <u>\$4,875.2</u>                             | <u>\$5,531.8</u> | <u>\$5,845.7</u> | <u>\$6,965.8</u> | <u>\$9,615.6</u>                    | <u>\$4,899.6</u> |
| Operating profit before income tax        |  |                  |                  |                  |                                     |                  |
| Banking                                   | \$ 585.1                                     | \$ 536.2         | \$ 760.0         | \$ 971.0         | \$ 841.6                            | \$ 325.3         |
| Finance                                   | 44.8   | 54.9             | 77.1             | 55.9             | 46.5                                | 35.7             |
| <b>Total</b>                              | <u>\$ 629.9</u>                              | <u>\$ 591.1</u>  | <u>\$ 837.1</u>  | <u>\$1,026.9</u> | <u>\$ 888.1</u>                     | <u>\$ 361.0</u>  |

**(c) Asset segments**

Assets of the Group (including SBV) as at 31 December, 1990 were as follows:

| Geographical | Industry     |                   |                   |
|--------------|--------------|-------------------|-------------------|
| Australia    | Banking      | \$79,803.8        | \$90,389.8        |
| Overseas*    | Finance      | 14,914.7          | 4,328.7           |
| <b>Total</b> | <b>Total</b> | <u>\$94,718.5</u> | <u>\$94,718.5</u> |

\* Overseas operations are conducted in the United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, New Zealand, Solomon Islands, Netherlands Antilles and Papua New Guinea.

| (in millions)            | SBV<br>Year ended 30 June, |             |             |             | Six months<br>ended 31<br>December, |             |
|--------------------------|----------------------------|-------------|-------------|-------------|-------------------------------------|-------------|
|                          | 1986                       | 1987        | 1988        | 1989        | 1990                                | 1990        |
| State Government support | \$ —                       | \$ —        | \$ —        | \$ —        | \$ 561.7                            | \$ —        |
| Income tax applicable    | —                          | —           | —           | —           | 219.1                               | —           |
|                          | <u>\$ —</u>                | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 342.6</u>                     | <u>\$ —</u> |

SBV entered into a Deed on 27 July, 1990 with the State Government of Victoria whereby the State Government of Victoria agreed to acquire or procure the acquisition of certain indebtedness for an amount of up to \$510.0 million as and when SBV determined that such indebtedness was appropriate for write-off.

In accordance with the agreement dated 8 November, 1990 between the Treasurer of the State of Victoria and the Common-

wealth Bank, the State Government of Victoria was released from its obligations under the Deed upon payment of the amount of \$510.0 million to SBV on 31 December, 1990.

A further amount of \$51.7 million was paid to SBV by the State Government of Victoria for interest that had accrued which was unpaid in respect of non-performing loans as at 30 June, 1990.

| (in millions)                             | SBV<br>Year ended 30 June, |                  |                  |                  | Six months<br>ended 31<br>December, |                  |
|---|----------------------------|------------------|------------------|------------------|-------------------------------------|------------------|
|   | 1986                       | 1987             | 1988             | 1989             | 1990                                | 1990             |
| <b>(a) Geographical segments</b>          |                            |                  |                  |                  |                                     |                  |
| Revenue                                   |                            |                  |                  |                  |                                     |                  |
| Australia                                 | \$1,107.4                  | \$1,377.6        | \$1,536.4        | \$1,889.3        | \$2,628.0                           | \$1,182.7        |
| Overseas*                                 | 12.9                       | 140.0            | 252.3            | 433.8            | 534.8                               | 253.6            |
| <b>Total</b>                              | <u>\$1,120.3</u>           | <u>\$1,517.6</u> | <u>\$1,788.7</u> | <u>\$2,323.1</u> | <u>\$3,162.8</u>                    | <u>\$1,436.3</u> |
| Operating profit (loss) before income tax |                            |                  |                  |                  |                                     |                  |
| Australia                                 | \$ 112.0                   | \$ 70.5          | \$ 166.6         | \$ 130.3         | \$ (422.9)                          | \$ (68.3)        |
| Overseas*                                 | (3.3)                      | (6.7)            | (3.0)            | 10.5             | (36.5)                              | 1.5              |
| <b>Total</b>                              | <u>\$ 108.7</u>            | <u>\$ 63.8</u>   | <u>\$ 163.6</u>  | <u>\$ 140.8</u>  | <u>\$ (459.4)</u>                   | <u>\$ (66.8)</u> |
| <b>(b) Industry segments</b>              |                            |                  |                  |                  |                                     |                  |
| Revenue                                   |                            |                  |                  |                  |                                     |                  |
| Banking                                   | \$1,120.3                  | \$1,517.6        | \$1,788.7        | \$2,323.1        | \$3,162.8                           | \$1,436.3        |
| Finance                                   | —                          | —                | —                | —                | —                                   | —                |
| <b>Total</b>                              | <u>\$1,120.3</u>           | <u>\$1,517.6</u> | <u>\$1,788.7</u> | <u>\$2,323.1</u> | <u>\$3,162.8</u>                    | <u>\$1,436.3</u> |
| Operating profit (loss) before income tax |                            |                  |                  |                  |                                     |                  |
| Banking                                   | \$ 108.7                   | \$ 63.8          | \$ 163.6         | \$ 140.8         | \$ (459.4)                          | \$ (66.8)        |
| Finance                                   | —                          | —                | —                | —                | —                                   | —                |
| <b>Total</b>                              | <u>\$ 108.7</u>            | <u>\$ 63.8</u>   | <u>\$ 163.6</u>  | <u>\$ 140.8</u>  | <u>\$ (459.4)</u>                   | <u>\$ (66.8)</u> |

**Note 6. Contribution to Consolidated Profits:**

| <i>(in millions)</i>   | Group (excluding SBV)<br>Year ended 30 June, |                 |                 |                 | Six months<br>ended 31<br>December, |                 |
|--|--|-----------------|-----------------|-----------------|-------------------------------------|-----------------|
|  | 1986   | 1987            | 1988            | 1989            | 1990                                | 1990            |
| Operating profits (losses) after income tax and extraordinary items and minority interests were contributed by – |  |                 |                 |                 |                                     |                 |
| Commonwealth Bank  | \$ 221.4                                     | \$ 163.4        | \$ 208.1        | \$ 243.7        | \$ 233.7                            | \$ 5.3          |
| Commonwealth Savings Bank  | 102.0  | 99.9            | 158.3           | 235.7           | 214.3                               | 158.0           |
| Commonwealth Development Bank  | 13.0   | 23.8            | 29.4            | 25.0            | 34.9                                | 14.4            |
| CBFC Group   | 16.6   | 21.8            | 51.3            | 34.5            | 27.7                                | 5.6             |
| CINZ Group   | —  | —               | —               | 5.6             | 19.6                                | 11.8            |
| AEFC Group   | 3.0  | 7.2             | 5.9             | 6.2             | 8.2                                 | 8.2             |
| SBV  | —  | —               | —               | —               | —                                   | —               |
| Others   | 8.6  | 5.6             | (0.1)           | 7.1             | (13.6)                              | (0.7)           |
| <b>Total</b>   | <u>\$ 364.6</u>                              | <u>\$ 321.7</u> | <u>\$ 452.9</u> | <u>\$ 557.8</u> | <u>\$ 524.8</u>                     | <u>\$ 202.6</u> |

**Note 7. Asset Revaluation Reserve:**

| <i>(in millions)</i>                 | Group (excluding SBV)<br>Year ended 30 June, |                 |                   |                   | Six months<br>ended 31<br>December, |                 |
|--------------------------------------|--|-----------------|-------------------|-------------------|-------------------------------------|-----------------|
|                                      | 1986   | 1987            | 1988              | 1989              | 1990                                | 1990            |
| Balance at beginning of period       | \$ 514.9                                     | \$ 654.1        | \$ 875.8          | \$ 1,079.1        | \$ 1,243.2                          | \$ 670.7        |
| Revaluation of property and premises |  |                 |                   |                   |                                     |                 |
| – brought to account                 | —  | 221.7           | —                 | —                 | 38.0                                | —               |
| – on sales                           | 1.1  | 0.6             | 2.1               | 77.6              | 34.5                                | 4.2             |
| – not brought to account             | 139.2  | —               | 225.0             | 221.5             | —                                   | —               |
| Accretion for the period             | 140.3  | 222.3           | 227.1             | 299.1             | 72.5                                | 4.2             |
| Transfers                            |  |                 |                   |                   |                                     |                 |
| – to capital reserve                 | (1.1)  | (0.6)           | (23.8)            | (135.0)           | (83.3)                              | (6.4)           |
| – to capital                         | —  | —               | —                 | —                 | (561.7)                             | —               |
| Balance at end of period             | <u>\$ 654.1</u>                              | <u>\$ 875.8</u> | <u>\$ 1,079.1</u> | <u>\$ 1,243.2</u> | <u>\$ 670.7</u>                     | <u>\$ 668.5</u> |

| <i>(in millions)</i>   | SBV<br>Year ended 30 June, |                |                |                | Six months<br>ended 31<br>December, |                  |
|--|----------------------------|----------------|----------------|----------------|-------------------------------------|------------------|
|  | 1986                       | 1987           | 1988           | 1989           | 1990                                | 1990             |
| Operating profits (losses) after income tax and extraordinary items and minority interests were contributed by – |                            |                |                |                |                                     |                  |
| Commonwealth Bank  |                            |                |                |                |                                     |                  |
| Commonwealth Savings Bank  |                            |                |                |                |                                     |                  |
| Commonwealth Development Bank  |                            |                |                |                |                                     |                  |
| CBFC Group   |                            |                |                |                |                                     |                  |
| CINZ Group   |                            |                |                |                |                                     |                  |
| AEFC Group   |                            |                |                |                |                                     |                  |
| SBV  | \$ 69.0                    | \$ 33.5        | \$ 77.8        | \$ 80.6        | \$ 2.9                              | \$ (57.9)        |
| Others   | 0.1                        | (0.5)          | (0.7)          | 2.8            | (0.1)                               | 3.6              |
| <b>Total</b>   | <u>\$ 69.1</u>             | <u>\$ 33.0</u> | <u>\$ 77.1</u> | <u>\$ 83.4</u> | <u>\$ 2.8</u>                       | <u>\$ (54.3)</u> |

| <i>(in millions)</i>                 | SBV<br>Year ended 30 June, |                 |                 |                 | Six months<br>ended 31<br>December, |                |
|--------------------------------------|----------------------------|-----------------|-----------------|-----------------|-------------------------------------|----------------|
|                                      | 1986                       | 1987            | 1988            | 1989            | 1990                                | 1990           |
| Balance at beginning of period       | \$ 99.8                    | \$ 135.4        | \$ 225.6        | \$ 282.3        | \$ 421.5                            | \$ 52.7        |
| Revaluation of property and premises |                            |                 |                 |                 |                                     |                |
| – brought to account                 | –                          | –               | –               | –               | –                                   | –              |
| – on sales                           | 0.6                        | 6.5             | 3.5             | 12.4            | (2.2)                               | 0.6            |
| – not brought to account             | 35.0                       | 83.7            | 118.0           | 126.8           | (94.6)                              | 39.5           |
| Accretion for the period             | 35.6                       | 90.2            | 121.5           | 139.2           | (96.8)                              | 40.1           |
| Transfers                            |                            |                 |                 |                 |                                     |                |
| – to capital reserve                 | –                          | –               | –               | –               | –                                   | –              |
| – to capital                         | –                          | –               | (64.8)          | –               | (272.0)                             | –              |
| Balance at end of period             | <u>\$ 135.4</u>            | <u>\$ 225.6</u> | <u>\$ 282.3</u> | <u>\$ 421.5</u> | <u>\$ 52.7</u>                      | <u>\$ 92.8</u> |

**Note 8. Dividends:**

The Commonwealth Bank has been wholly owned by the Commonwealth of Australia for the five and a half year period to 31 December, 1990.

Dividends to the Commonwealth of Australia, in its capacity as owner, have been provided for based on the audited results of the Group. The dividends provided for or paid have been as follows:

| <i>(in millions)</i>           | <b>Dividend provided for or paid</b> |
|--------------------------------|--------------------------------------|
| Year ended 30 June, 1986       | \$100.5                              |
| Year ended 30 June, 1987       | 61.4                                 |
| Year ended 30 June, 1988       | 129.7                                |
| Year ended 30 June, 1989       | 110.0                                |
| Year ended 30 June, 1990       | 160.1                                |
| Period ended 31 December, 1990 | —                                    |

In the six month period ended 31 December, 1990, no dividend was declared. However, a dividend will be payable to the Commonwealth of Australia in its capacity as shareholder equivalent to 33.3% of after tax operating profit before abnormal items for the year ended 30 June, 1991. It has also been agreed that a dividend of \$177 million will be paid to the Commonwealth of Australia in respect of the funds re-appropriated to the Commonwealth Bank from the OSF.

For the purpose of this report, we have made provision in the combined balance sheet as at 31 December, 1990 for these dividends in the sum of:

- \$69 million, being 33.3% of published operating profit of the Group before abnormal items for the 6 months ended 31 December, 1990; and
- \$177 million in respect of funds re-appropriated from the OSF.

**Note 9. Money at Short Call:**

| <i>(in millions)</i>  | <b>Group (including SBV) 31 December, 1990</b> |
|---|--|
| Loans to authorised dealers in the Australian short-term money market | \$1,878.2                                      |
| Money at short call overseas  | 45.1   |
| Deposits in Australia with trading banks                              | 0.3  |
|   | <u>\$1,923.6</u>                               |

**Note 10. Australian Public Securities:**

| <i>(in millions)</i>              | <b>Group (including SBV) 31 December, 1990</b> |
|-----------------------------------|--|
| Commonwealth and State Securities |  |
| Treasury Notes                    | \$ 783.5                                       |
| Other Commonwealth Securities     | 3,656.6  |
|                                   | <u>\$4,440.1</u>                               |

The relationship of book value of to market value as at 31 December, 1990 is as follows:

|              |                  |
|--------------|------------------|
| Book value   | <u>\$4,440.1</u> |
| Market value | <u>\$4,481.2</u> |

**Note 11. Loans, Advances and Other Receivables:**

| <i>(in millions)</i>  | <b>Group (including SBV) 31 December, 1990</b> |
|---|--|
| Gross loans and advances  | \$54,452.2                                     |
| Lease receivables   | 3,424.3  |
| Redeemable preference share financing   | 219.0  |
| Equity participation in leveraged leases  | 1,287.3  |
| Less:   |  |
| Provisions for bad and doubtful debts   |  |
| — specific  | (1,093.3)                                      |
| — general   | (598.2)  |
| Unearned income   | (1,548.0)                                      |
| Net loans, advances and other receivables   | <u>\$56,143.3</u>                              |
| Lease receivables net of unearned income (included above)   |  |
| Current   | \$ 780.5                                       |
| Non-current   | <u>\$ 2,159.2</u>                              |
| Non-accrual loans   |  |
| Loan balances against which specific provisions have been made and/or on which interest has not been taken fully to the profit and loss account | \$ 2,579.0                                     |
| Specific provisions for doubtful debts  | (1,093.3)                                      |
| Interest reserved   | (266.8)  |
| Loan balances, net of specific provisions for doubtful debts and interest reserved  | <u>\$ 1,218.9</u>                              |

**Note 12. Premises, Sites and Equipment:**

| <i>(in millions)</i>                     | <b>Group (including SBV) 31 December, 1990</b> |
|--|--|
| (a) Land and Buildings                   |  |
| At 30 June, 1990 valuation*              |  |
| — Land                                   | \$1,034.6                                      |
| — Buildings                              | 1,299.1  |
| At 31 December, 1990 valuation           |  |
| — Land                                   | 197.4  |
| — Buildings                              | 399.2  |
|  | <u>2,930.3</u>                                 |
| (b) Leasehold improvements               |  |
| At cost                                  | 148.4  |
| Provision for depreciation               | (38.3)   |
|  | <u>110.1</u>                                   |
| (c) Equipment (Computers, Furniture etc) |  |
| At cost                                  | 807.9  |
| Provision for depreciation               | (312.3)  |
|  | <u>495.6</u>                                   |
| Total Premises, Sites and Equipment      | <u>\$3,536.0</u>                               |

\* 30 June, 1990 property holding values were discounted by the Directors after consideration of property valuations prepared by independent valuers and the prevailing economic conditions.

**Note 13. Goodwill:**

| <i>(in millions)</i>   | Group<br>(including SBV)<br>31 December,<br>1990 |
|--|--|
| Purchased goodwill arising from the acquisition of – SBV (see below) | \$ 790.0   |
| – CINZ   | 76.3   |
| Less: accumulated amortisation thereon                               | (9.5)  |
|  | <u>\$ 856.8</u>                                  |

On 1 January, 1991, the business operations of SBV were acquired. Assets, liabilities and other capital reserves of the business are reflected in the combined balance sheet of the Group (including SBV) in the amounts shown under the appropriate headings. Details of the acquisition are as follows:

| <b>Assets</b>  |                   |
|--|-------------------|
| Notes, coin, bullion and cash at bank                                | \$ 168.6          |
| Money at short call  | 1,560.0           |
| Due from other banks   | 2,171.6           |
| Australian Public Securities   |                   |
| Commonwealth and States  | 765.0             |
| Local and semi-governmental authorities                              | 400.8             |
| Other securities   | 833.2             |
| Statutory deposit accounts with central banks                        | 14.1              |
| Loans, advances and other receivables                                | 13,024.3          |
| Bank acceptances of customers  | 2,308.0           |
| Premises, sites and equipment  | 761.9             |
| Other assets   | 418.2             |
| <b>Total Assets</b>  | <u>22,425.7</u>   |
| Deduct:  |                   |
| <b>Liabilities</b>   |                   |
| Deposits   | 15,523.6          |
| Borrowings of subsidiary companies and businesses                    | 2,214.2           |
| Due to other banks   | 46.2              |
| Bank acceptances   | 2,308.0           |
| Provision for income tax   | 1.3               |
| Other provisions   | 68.7              |
| Bills payable and other liabilities                                  | 534.1             |
| <b>Total Liabilities</b>   | <u>20,696.1</u>   |
| Deduct:  |                   |
| <b>Other Capital Resources</b>                                       |                   |
| Undated floating rate notes  | 463.5             |
| Undated and variable rate notes                                      | 486.8             |
| <b>Total Other Capital Resources</b>                                 | <u>950.3</u>      |
| <b>Fair Value of Assets, Liabilities and Other Capital Resources</b> | <u>779.3</u>      |
| <b>Goodwill</b>  | <u>790.0</u>      |
| <b>Consideration and Costs Incidental to Acquisition</b>             | <u>\$ 1,569.3</u> |

**Note 14. Other Assets:**

| <i>(in millions)</i>        | Group<br>(including SBV)<br>31 December,<br>1990 |
|-----------------------------|--|
| Accrued interest receivable | \$ 296.7   |
| Future income tax benefit   | 481.3  |
| Other                       | 2,584.1  |
|                             | <u>\$3,362.1</u>                                 |

**Note 15. Borrowings of Subsidiary Companies and Businesses:**

| <i>(in millions)</i>  | Group<br>(including SBV)<br>31 December,<br>1990 |
|---|--|
| The following includes the long term bonds and notes on issue by SBV, AEFC and CBFC |  |
| Groups:   |  |
| Not later than one year   | \$3,402.5  |
| Later than one year but not later than two years                                    | 1,317.3  |
| Later than two years but not later than five years                                  | 1,055.3  |
| Later than five years   | 248.8  |
|   | <u>\$6,023.9</u>                                 |

**Note 16. Other Provisions:**

| <i>(in millions)</i>     | Group<br>(including SBV)<br>31 December,<br>1990 |
|--------------------------|--|
| Provision for:           |  |
| Staff benefits           | \$ 430.3   |
| Homes insurance          | 47.8   |
| Personal loan protection | 20.0   |
| Self-insurance           | 29.0   |
| Deferred income tax      | 848.9  |
| Other                    | 18.1   |
|                          | <u>\$1,394.1</u>                                 |

**Note 17. Share Capital and Share Premium Reserve:**

| <i>(in millions)</i>   | Number  | Pro Forma |           |
|--|---------|-----------|-----------|
| Authorised capital:  |         |           |           |
| Ordinary shares of \$2 each  | 3,250.0 | \$6,500.0 | \$6,500.0 |
| Shares issued or on offer for subscription:                                |         |           |           |
| Ordinary shares of \$2 each issued at par to the Commonwealth of Australia | 586.5   | \$1,172.9 | \$1,172.9 |
| Ordinary shares of \$2 each now offered                                    | 239.3   | —         | 478.6     |
| Ordinary shares of \$2 each now offered to employees                       | 9.0     | —         | 18.0      |
| Total capital issued/offered for subscription                              | 834.8   | \$1,172.9 | \$1,669.5 |

Since 31 December, 1990, the Commonwealth Bank of Australia has issued 586,445,840 ordinary shares of \$2 to the Commonwealth of Australia. A further 239,300,000 ordinary shares of \$2 are offered for subscription pursuant to this prospectus and a further 9,000,000 ordinary shares of \$2 pursuant to a prospectus relating to an employee share ownership scheme.

| <i>(in millions)</i>                                 | Pro Forma |
|--|-----------|
| Share premium reserve:                               |           |
| Premium of \$3.40 on shares now offered              | \$813.6   |
| Premium of \$2.86 on shares now offered to employees | 25.7      |
| Premium on issue                                     | 839.3     |
| Less: Issue expenses                                 | (37.5)    |
| Total share premium reserve                          | \$801.8   |

**Note 18. Other Capital Resources:**

| <i>(in millions)</i>   | Note 18 | Group<br>(including SBV)<br>31 December,<br>1990 |
|--|---------|--|
| <b>Undated Floating Rate Notes</b>   |         |  |
| US\$300 million undated floating rate notes issued 11 July, 1988                       | i       | \$ 389.4   |
| US\$400 million undated floating rate notes issued 20 February, 1989                   | i       | 519.4  |
| US\$125 million guaranteed undated capital notes issued 15 October, 1986               | ii      | 162.2  |
| US\$250 million guaranteed undated variable rate capital notes issued 26 June, 1989    | ii      | 324.3  |
|  |         | 1,395.3  |
| <b>Dated Bond and Note Issues</b>  |         |  |
| \$100 million 13.75% 10 year dated bonds due 21 September, 1999                        | iii     | 95.0   |
| US\$125 million guaranteed extendible floating rate capital notes issued 27 June, 1989 | iv      | 163.8  |
| \$300 million extendible floating rate stock issued 22 December, 1989                  | v       | 300.0  |
|  |         | 558.8  |
| <b>Total other capital resources</b>   |         | \$1,954.1  |

- i. These undated floating rate notes have no final maturity but may, at the holder's option, be exchanged for five-year dated notes after five years from the date of issue and annually thereafter. Servicing costs of these notes are linked to US\$ LIBOR rates.
- ii. These notes have no voting rights and have no final maturity although there is a future option to redeem the notes with the consent of the Reserve Bank of Australia. It is not the Directors' present intention to redeem the notes. Servicing costs of these notes are linked to US\$ LIBOR rates.
- iii. Within certain definitions and limits, debt issues with an original maturity of at least seven years constitute Tier 2 capital as defined by the Reserve Bank of Australia for capital adequacy purposes. \$95 million of this issue is included as Tier 2 capital.
- iv. Extendible floating rate capital notes to the value of US\$125 million was issued at par on 27 June, 1989 for a term of 10 years. Servicing costs of these notes are linked to US\$ LIBOR rates.
- v. Extendible floating rate stock to the value of \$300 million was issued at par on 22 December, 1989 for a term of 15 years. Servicing costs of this stock is linked to the bank bill swap reference mid-rate (BBSW).

**Note 19. Capital Adequacy:**

Capital adequacy assessed on Reserve Bank of Australia guidelines.

| <i>(in millions)</i>   | Group<br>(including SBV)<br>31 December,<br>1990 Pro Forma |                   |
|--|--|-------------------|
| Total risk-weighted balance sheet assets                                 | \$63,217.3   | \$63,217.3        |
| Total risk-weighted off-balance sheet items                              | 10,858.2   | 10,858.2          |
| <b>Total risk-weighted assets</b>  | <b>\$74,075.5</b>  | <b>\$74,075.5</b> |
| <b>Core Capital – Tier 1</b>   |  |                   |
| Capital and reserves   | \$ 3,830.1   | \$ 5,128.5        |
| Retained dividend  | 160.1  | —                 |
| Tier 1 capital resources   | 1,395.3  | 1,395.3           |
| Goodwill   | (856.8)  | (856.8)           |
| <b>Total Tier 1 capital</b>  | <b>4,528.7</b>   | <b>5,667.0</b>    |
| <b>Supplementary Capital – Tier 2</b>                                    |  |                   |
| Tier 2 capital resources   | 558.8  | 463.8             |
| Surplus of market value of properties                                    | 668.5  | 668.5             |
| General provision for doubtful debts                                     | 598.2  | 598.2             |
| <b>Total Tier 2 capital</b>  | <b>1,825.5</b>   | <b>1,730.5</b>    |
| <b>Total Capital</b>   | <b>\$ 6,354.2</b>  | <b>\$ 7,397.5</b> |
| Ratio of total Tier 1 capital to total risk-weighted assets (minimum 4%) | 6.11%  | 7.65%             |
| Ratio of total capital to total risk-weighted assets (minimum 8%)        | 8.58%  | 9.99%             |

**Note 20. Commitments for Capital Expenditure not Provided:**

| <i>(in millions)</i>                               | Group<br>(including SBV)<br>31 December,<br>1990 |
|--|--|
| Not later than one year                            | \$ 115.5   |
| Later than one year but not later than two years   | 32.7   |
| Later than two years but not later than five years | 13.7   |
| Later than five years                              | —  |
|  | \$ 161.9   |

**Note 21. Lease Commitments – Premises and Equipment:**

| <i>(in millions)</i>   | Group<br>(including SBV)<br>31 December,<br>1990 |
|--|--|
| Commitments in respect of non-cancellable operating lease agreements due – |  |
| Not later than one year  | \$ 140.3   |
| Later than one year but not later than two years                           | 124.8  |
| Later than two years but not later than five years                         | 192.4  |
| Later than five years  | 200.1  |
|  | <u>\$ 657.6</u>                                  |

**Note 22. Contingent Liabilities:**

| <i>(in millions)</i>             | Group<br>(including SBV)<br>31 December,<br>1990 |
|----------------------------------|--|
| Commercial bills endorsed        | \$ 3,384.2                                       |
| Letters of credit and guarantees | 6,358.0  |
| Other                            | 583.7  |
|                                  | <u>\$10,325.9</u>                                |

The Commonwealth Bank has given a Letter of Comfort to the Commissioner of Banking in Hong Kong in accordance with Section 22 (1)(b) of the Hong Kong Deposit-taking Companies Ordinance in respect of the operations of CTB Australia Limited in Hong Kong.

For the period which commenced on 31 May, 1989 and expired on 1 September, 1990, the Commonwealth Bank was liable to indemnify the New Zealand Government in respect of the Government's liability as guarantor of certain depositors of ASB Bank Limited under Section 30 of the Trustee Banks Restructuring Act 1988, New Zealand.

Under the Deed and Rules of the Commonwealth Bank Approved Deposit Fund, CSB, as Trustee of the Fund, in effect has guaranteed repayments of deposits in the Fund in full. It is not envisaged that any irrecoverable liabilities will result from this undertaking. Commonwealth Management Services Limited, as Manager of the Commonwealth Mortgage Fund, Commonwealth Managed Investment Fund, Commonwealth Fixed Interest Fund and Commonwealth Equity Imputation Fund has an obligation under the Trust Deeds of those Funds, upon request of a unitholder, to repurchase units of those Funds. The Directors consider that it is unlikely that Commonwealth Management Services Limited would need to repurchase units from its own funds.

Legal proceedings are commenced against the Commonwealth Bank and its subsidiaries from time to time in the ordinary course of its business. There are currently a number of actions involving the Group including two substantial claims against the Commonwealth Bank, one of which is in excess of \$100 million and the other in excess of \$200 million. The Commonwealth Bank is defending each of these actions vigorously and believes no provision is required in respect of these claims.

Following the acquisition of SBV, the Commonwealth Bank has an indemnity from the Victorian Government in respect of all significant claims outstanding against SBV at the time of its merger with the Commonwealth Bank. Quantified and unquantified claims have been made by third parties which the Commonwealth Bank considers are covered by the indemnity. In view of the indemnity, the Commonwealth Bank has made no provision in respect of these claims.

The Commonwealth Bank has given notice of potential claims against the Victorian Government for breach of warranties given in the SBV acquisition. The Commonwealth Bank believes that it has a valid enforceable claim for damages for any breach of warranties arising out of the notice.

**Off-Balance Sheet Transactions**

The Group is involved in underwriting operations, forward foreign exchange activities, currency and interest rate swap transactions, forward rate agreements, options and futures operations. In accordance with its policy, exposure in any of these products is not carried at a level which would have a material effect on the financial condition of the Group.

**Note 23. Superannuation Commitments:**
**Group**

A superannuation plan, known as the Commonwealth Banking Corporation Officers' Superannuation Fund ("OSF"), is established pursuant to Section 110 of the Commonwealth Banks Act 1959 as amended. The OSF provides for the payment of certain pensions, allowances and lump sum benefits according to the rules of the OSF from time to time as made by the Corporation and approved by the Minister for Finance. These obligations are legally enforceable but the rules governing them may be amended or revoked with the approval of the Minister for Finance.

The OSF was subject to major review during 1989-90 and a new scheme of benefits came into force on 5 October, 1990. The new scheme will operate beside the old scheme. Members of the old scheme were entitled to retain such membership or to elect to transfer to the new scheme. Future entrants may join only the new scheme. The new scheme introduces the option for members to choose a benefit paid fully in lump sum form. Both schemes are now subject to regulatory control by the Insurance and Superannuation Commission. The new scheme provides superannuation benefits at less cost to the Group than the old scheme.

Members contribute to the OSF under either scheme at various percentages of their salaries. Up to 31 December, 1990, the rules of the OSF required the Corporation to contribute to the OSF such amounts at such times as the Managing Director of the Commonwealth Bank, on the advice of an actuary, determined. The obligations of the Corporation to make the contributions were satisfied by the Commonwealth Bank under the terms of the Commonwealth Banks Act. From 31 December, 1990, the rules have provided for such contributions to be made directly by the Commonwealth Bank.

An actuarial assessment of the scheme was made as at 30 June, 1989. The actuarial assessment indicated that the funds available to meet all benefits that would have been vested under the scheme in the event of termination of the scheme and the voluntary or compulsory termination of the employment of each member who was an officer or employee of the Corporation, were considerably in excess of the minimum requirement. Contributions by the Commonwealth Bank to the OSF were reduced from 1 January, 1990 and ceased on 18 May, 1990.

An actuarial assessment dated 24 December, 1990 confirmed a surplus in the OSF to be at least \$874 million. On 24 December, 1990, \$530 million was re-appropriated to the Commonwealth Bank with a further \$344 million on 16 April, 1991. At present, the Managing Director of the Commonwealth Bank proposes that no contributions will be made to the scheme by the Commonwealth Bank until at least 30 June, 1991. At that time, an actuarial investigation based on actual membership of the new scheme and the old scheme will be carried out to determine the condition of the OSF and the need for future contributions.

**SBV**

Superannuation fund assets are vested with the corporate trustee, SBV Staff Superannuation Pty Limited (the "Fund"), and are not included in the accounts.

The Fund operates on defined benefit principles and benefits consist of indexed pensions and lump-sums. Member and SBV contributions are specified in the General Orders and are 6.0% and 12.0% of salary, respectively. New General Orders made by the Board of SBV came into operation on 30 June, 1990, which allow members to select lower contribution rates and do not require any increase in SBV's contribution rate.

Independent reviews of the Fund are made on a triennial basis by consulting actuaries. At the last review, 30 June, 1988, it was

**Note 23. Superannuation Commitments (Continued):**

reported that valuing the Fund as a continuing entity and allowing for future contributions at the rate of 6.0% of salary by members and 12.0% by SBV, the Fund had a post-tax actuarial surplus of \$23.1 million, which was equivalent to a contribution rate of 1.4% of salaries. It was also reported that, at the valuation date, assets available for contributors (after making due allowance for reserves for annuitants) represented 91% of the value of their accrued benefits.

The next actuarial review is to be made as at 30 June, 1991.

**Note 24. Related Party Disclosure:**

The following information is provided in respect of the Group

**(a) Members of the Board**

The members of the Board at the date of this report are:

M. A. Besley, AM (Chairman)  
 J. T. Ralph, AO (Deputy Chairman)  
 D. N. Sanders, CB (Managing Director)  
 I. K. Payne, (Deputy Managing Director)  
 N. R. Adler  
 A. C. Booth  
 A. S. Cole  
 G. Gleeson, AC  
 J. J. Kennedy, CBE  
 G. M. Pemberton  
 G. H. Slee, AM

**(b) Remuneration of Directors**

| <i>(in thousands)</i> | <b>Group<br/>(excluding SBV)<br/>Six months ended<br/>31 December, 1990</b> |
|-----------------------|---|
|-----------------------|---|

|  |              |
|--|--------------|
| Total amount received or due and receivable by executive and non-executive directors | <u>\$345</u> |
|--|--------------|

| Remuneration received or receivable classified within bands – |               |
|---|---------------|
|   | <b>Number</b> |
| \$ 0- 10,000  | 3             |
| \$ 10,001- 20,000   | 5             |
| \$ 20,001- 30,000   | 1             |
| \$ 90,001-100,000   | 1             |
| \$120,001-130,000   | 1             |

**(c) Loans to Directors**

Loans are made to non-executive directors as part of the normal business of the Bank and to executive directors on terms and conditions that apply to like loans to other employees.

There is an existing class order that grants banking corporations certain relief from the requirements of Schedule 5 of the Corporations Regulations and Approved Accounting Standard ASRB 1017: "Related Party Disclosures". It relates to the disclosure of loans to directors and has been applied in the preparation of these accounts. The class order limits disclosure requirements to the aggregate of loans made or guaranteed:

- (i) by members of the Group to directors of the Group;
- (ii) by bank subsidiaries to directors of those subsidiaries; and
- (iii) by non-bank subsidiaries to directors (or parties related to them) of those subsidiaries.

The aggregate amount of these loans as at 31 December, 1990 was \$257,003.

**(d) Transactions with Subsidiaries**

During the financial period to 31 December, 1990 the Commonwealth Bank has undertaken financial transactions with some of its subsidiary companies on normal commercial terms and conditions. During the period, the Commonwealth Bank and its subsidiaries transacted with State Government Instrumentalities in the normal course of business on normal commercial terms and conditions.

**Note 25. Standby Arrangements and Unused Credit Facilities:**

Standby arrangements and unused credit facilities for subsidiaries that are borrowing corporations (as defined by the Corporations Law) and other subsidiaries subject to the Financial Corporations Act 1974:

| <i>(in millions)</i>                  | <b>Group<br/>(including SBV)<br/>31 December, 1990</b> |                |
|---------------------------------------|--|----------------|
|                                       | <b>Available</b>                                       | <b>Unused</b>  |
| (a) Financing arrangements accessible |  |                |
| • Bank overdraft                      | \$ 13.0  | \$ 3.0         |
| • Bill facilities                     | 315.0  | 305.0          |
| • Other facilities                    | 340.0  | 233.0          |
|                                       | <u>\$668.0</u>   | <u>\$541.0</u> |
| (b) Financing arrangements provided   |  |                |
| • Wholesale finance                   | <u>\$ 20.9</u>   | <u>\$ 2.0</u>  |

**Note 26. Subsidiary Companies:**

|  | Extent of<br>Beneficial<br>Interest<br>% | Country of<br>Incorporation<br>and Principal<br>Area of Operation |
|--|--|---|
| Commonwealth Development Bank of Australia   | 100                                      | Australia   |
| Commonwealth Savings Bank of Australia       | 100                                      | Australia   |
| Adelaide Terrace Investments Pty Limited     | 76                                       | Australia   |
| AEFC Group                                   |  |   |
| AEFC Limited                                 | 100                                      | Australia   |
| AEFC Equities Limited                        | 100                                      | Australia   |
| AEFC Investments Pty Limited                 | 100                                      | Australia   |
| AEFC Leasing Pty Limited                     | 100                                      | Australia   |
| AEFC Nominees Pty Limited                    | 100                                      | Australia   |
| AEFC Securities Limited                      | 100                                      | Australia   |
| Antarctic Shipping Pty Limited               | 100                                      | Australia   |
| Balga Pty Limited                            | 100                                      | Australia   |
| Binya Pty Limited                            | 100                                      | Australia   |
| CBFC Group                                   |  |   |
| CBFC Limited                                 | 100                                      | Australia   |
| CBFC Leasing Pty Limited                     | 100                                      | Australia   |
| CBFC Properties Pty Limited                  | 100                                      | Australia   |
| Collateral Leasing Pty Limited               | 100                                      | Australia   |
| Collateral Leasing (No. 2) Pty Limited       | 100                                      | Australia   |
| Collateral Leasing (No. 3) Pty Limited       | 100                                      | Australia   |
| Collateral Leasing (No. 4) Pty Limited       | 100                                      | Australia   |
| Collateral Leasing (No. 5) Pty Limited       | 100                                      | Australia   |
| Collateral Leasing (No. 6) Pty Limited       | 100                                      | Australia   |
| Collateral Leasing (No. 7) Pty Limited       | 100                                      | Australia   |
| Commbank International NV                    | 100                                      | Netherlands Antilles  |
| CINZ Group                                   |  |   |
| Commonwealth Investments New Zealand Limited | 100                                      | New Zealand   |
| ASB Bank Limited                             | 75                                       | New Zealand   |
| ASB Investments Limited                      | 75                                       | New Zealand   |
| ASB Properties Limited                       | 75                                       | New Zealand   |
| ASB Securities Limited                       | 75                                       | New Zealand   |
| Westland Bank Limited                        | 75                                       | New Zealand   |
| Commonwealth Life Limited                    | 100                                      | Australia   |
| Commonwealth Management Services Limited     | 100                                      | Australia   |
| Corporation Properties Limited               | 100                                      | Australia   |
| Cradle Electronics Pty Limited               | 100                                      | Australia   |
| CTB Australia Limited                        | 100                                      | Hong Kong   |
| CTB Leasing Pty Limited                      | 100                                      | Australia   |
| CTB Leasing (No. 3) Pty Limited              | 100                                      | Australia   |
| CTB Nominees Limited                         | 100                                      | Australia   |
| Darontin Pty Limited                         | 100                                      | Australia   |
| Harford Pty Limited                          | 100                                      | Australia   |
| Pluteus ACT (No. 7) Pty Limited              | 76                                       | Australia   |
| Satellites No. 2 Pty Limited                 | 100                                      | Australia   |
| Travel Service Group                         |  |   |
| Travelstrength Limited                       | 100                                      | Australia   |
| Travelstrength Services Pty Limited          | 100                                      | Australia   |
| National Bank of Solomon Islands Limited     | 51                                       | Solomon Islands   |
| Resources and Investment Finance Limited     | 51#                                      | Papua New Guinea  |
| Sparad (No. 4) Pty Limited                   | 100                                      | Australia   |
| Sparad (No. 5) Pty Limited                   | 100                                      | Australia   |
| Sparad (No. 6) Pty Limited                   | 100                                      | Australia   |
| Sparad (No. 7) Pty Limited                   | 100                                      | Australia   |
| Sparad (No. 8) Pty Limited                   | 100                                      | Australia   |
| Sparad (No. 10) Pty Limited                  | 100                                      | Australia   |
| Sparad (No. 11) Pty Limited                  | 100                                      | Australia   |
| Sparad (No. 12) Pty Limited                  | 100                                      | Australia   |

**Note 26. Subsidiary Companies (continued):**

|   | Extent of<br>Beneficial<br>Interest<br>% | Country of<br>Incorporation<br>and Principal<br>Area of Operation |
|---|--|---|
| Sparad (No. 13) Pty Limited                     | 100                                      | Australia   |
| Sparad (No. 14) Pty Limited                     | 100                                      | Australia   |
| Sparad (No. 15) Pty Limited                     | 100                                      | Australia   |
| Sparad (No. 16) Pty Limited                     | 100                                      | Australia   |
| Sparad (No. 17) Pty Limited                     | 100                                      | Australia   |
| Sparad (No. 18) Pty Limited                     | 100                                      | Australia   |
| Sparad (No. 19) Pty Limited                     | 100                                      | Australia   |
| Australian Bank Limited                         | 100                                      | Australia   |
| Chosun Pty Limited                              | 100                                      | Australia   |
| Australis Operations Limited                    | 100                                      | Australia   |
| Australis Securities Limited                    | 100                                      | Australia   |
| Australis Management Pty Limited                | 100                                      | Australia   |
| Australis Assets Pty Limited                    | 66.7                                     | Australia   |
| S.B. Victoria Funding Inc.                      | 100                                      | United States   |
| SBV Asia Limited                                | 100                                      | Hong Kong   |
| Australian TIC Management Pty Limited           | 100                                      | Australia   |
| Australian TIC Management International Limited | 100                                      | Australia   |
| SBV Nominees Limited                            | 100                                      | Australia   |
| SBV Staff Superannuation Pty Limited            | 100                                      | Australia   |
| Galdnet Pty Limited                             | 100                                      | Australia   |
| Lasoace Pty Limited                             | 100                                      | Australia   |
| Balesroom Pty Limited                           | 100                                      | Australia   |
| Aquasten Pty Limited                            | 100                                      | Australia   |
| Second Navinto Pty Limited                      | 100                                      | Australia   |
| Puerto Limited                                  | 100                                      | Australia   |

# Balance date 31 December.

**Note 27. Associated Companies:**

Other assets of the Group (including SBV) as at 31 December, 1990 include the following shares in associated companies.

|   | Country of<br>Incorporation<br>and Principal<br>Area of<br>Operation | Book<br>value of<br>Investment<br>\$ | Beneficial<br>Interest<br>% | Nature of Business                      |
|---|--|--------------------------------------|-----------------------------|---|
| South Eastern Medical<br>Complex Limited            | Australia  | 500                                  | 50.0                        | Investment Company                      |
| Burdett, Buckeridge & Young<br>Limited              | Australia  | 1,300,000                            | 50.0                        | Stock Broking                           |
| House of Travel Westland<br>Limited                 | New Zealand  | NZ\$14,065                           | 37.5                        | Travel Agent                            |
| Hillston Finance Pty Limited                        | Australia  | 30                                   | 30.0                        | Investment Company                      |
| Cardlink Services Limited                           | Australia  | 266,667                              | 26.7                        | Credit Card Service Company             |
| Interstate Banking Services<br>Pty Limited          | Australia  | 1                                    | 25.0                        | Non-operative                           |
| Charge Card Services Limited                        | Australia  | 16,002                               | 20.0                        | Property ownership and<br>management    |
| Home Opportunity Loans<br>Limited                   | Australia  | 171                                  | 17.1                        | Housing Scheme Manager                  |
| Victorian Housing Bonds<br>Limited                  | Australia  | 171                                  | 17.1                        | Housing Bond Issuer                     |
| National Mortgage Securities<br>Corporation Limited | Australia  | 17                                   | 17.0                        | Housing Financier                       |
| Alamere Pty Limited                                 | Australia  | 15                                   | 10.3                        | Investment Company                      |
| Austraclear Limited                                 | Australia  | 642,624                              | 7.2                         | Securities Clearing Services            |
| National Mortgage Market<br>Corporation Limited     | Australia  | 185,000                              | 5.0                         | Secondary Mortgage Market<br>Management |
| Austech Ventures Limited                            | Australia  | 10,516,658                           | Preference<br>Shares        | Investment Company                      |

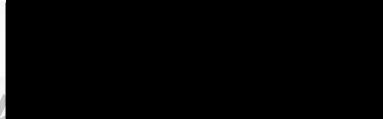
**G. Summary**

For the purpose of this report, the accounts set out above present fairly the results of operations for the five and a half years ended 31 December, 1990 and the assets and liabilities of the Group (including SBV) as at 31 December, 1990, in accordance with Australian accounting standards.

**Subsequent Events**

Other than matters dealt with in this report, and in the "Profit Outlook – Year Ended 30 June, 1991" section of the Prospectus, to the best of our knowledge and belief, there have been no material items, transactions or events subsequent to 31 December, 1990 which, although they do not relate to conditions existing at the balance date, would cause reliance on the figures shown in this report to be misleading.

Yours faithfully



Arthur Andersen & Co.



A. P. Davies  
Partner

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**RELEVANT CONTRACTS,**  
**OTHER INFORMATION AND**  
**STATEMENT BY DIRECTORS**

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## Relevant Contracts

The following contracts entered into by the Commonwealth Bank are or may be relevant to a potential investor in shares in the Commonwealth Bank:

### SBV Acquisition Contract

An agreement dated 8 November, 1990 was entered into between the Treasurer of Victoria (the "Victorian Treasurer") and the Commonwealth Bank relating to the acquisition by the Commonwealth Bank of State Bank of Victoria (the "SBV Acquisition Contract"). The acquisition of State Bank of Victoria ("SBV") pursuant to the SBV Acquisition Contract was effected by the Commonwealth Banks Restructuring Act 1990 (Commonwealth) and the State Bank (Succession of Commonwealth Bank) Act 1990 (Victoria) (the "Succession Act"). Settlement of the acquisition occurred on 31 December, 1990.

The SBV Acquisition Contract is set out in full in Schedule 1 of the Succession Act. Persons seeking more information about the SBV Acquisition Contract are encouraged to read the Succession Act, particularly Schedule 1. A summary of the material provisions of the SBV Acquisition Contract is:

#### (a) Price

The total purchase price was \$1.6 billion subject to adjustment if the adjusted Net Tangible Assets ("NTA") of SBV (ie. the sum of capital and reserves of the SBV group plus provisions for deferred tax liabilities, less future income tax benefits and goodwill, as shown in the audited completion accounts) were less than \$850 million. The adjusted NTA was \$813.7 million. Accordingly an adjustment of \$36.3 million was made giving a total purchase price of \$1,563.7 million.

#### (b) Property Acquired

The Commonwealth Bank acquired, by way of universal succession, all the property, rights and liabilities of SBV other than Tricontinental Holdings Limited and its subsidiaries (the "Trico Group"). SBV and its subsidiaries other than the Trico Group are referred to as "the SBV Group".

#### (c) Other Aspects of Acquisition

As part of the completion of the acquisition:

- (1) The Victorian Treasurer acquired the Trico Group and certain rights referred to in Section 28(1) of the Succession Act for \$194 million.
- (2) Arrangements were put in place for Commonwealth Management Services Limited to replace SBV Investment Management Limited as manager of SBV Multitrust in due course. SBV Investment Management Limited, a member of the Trico Group, covenanted to change its name to exclude "SBV".
- (3) The Commonwealth Bank extended to a special purpose borrowing subsidiary of Tricontinental Holdings Limited, guaranteed by the Victorian Treasurer, a facility of up to \$2.3 billion on commercial terms. The full amount available under that facility was drawn down and utilised to repay debts owed to SBV by members of the Trico Group.
- (4) The Capital Works Authority of the State of Victoria paid SBV \$579 million to discharge obligations assumed by SBV on behalf of the Capital Works Authority and the arrangements pursuant to which those obligations were assumed were terminated.
- (5) The arrangements under which SBV financed the acquisition by the Victorian Treasurer of bad debts owing to the Trico Group were terminated.
- (6) The SBV Staff Superannuation Trust Fund rules were changed to remove the fund from Victorian control and bring it under the Commonwealth Bank's control.

- (7) The Commonwealth Bank and the Victorian Treasurer entered into a deed amending arrangements in place between SBV and the Victorian Treasurer whereby the Victorian Treasurer indemnified SBV in respect of the acquisition by SBV of debts owed to depositors by the Pyramid, Geelong and Countrywide Building Societies.
- (8) The Victorian Treasurer paid SBV the sum of \$51.7 million on account of interest and the sum of \$510 million on account of principal payments, each of which the Victorian Treasurer was obliged to pay to SBV in relation to bad debts of SBV. These payments were made in consideration of the cancellation of the obligations of the Victorian Treasurer under arrangements for the assignment to him or his nominee of bad debts owing to SBV.

#### (d) Indemnities, Representations and Warranties

The Victorian Treasurer gave certain representations and warranties, and provided certain indemnities, in favour of the Commonwealth Bank. A summary of relevant representations, warranties and indemnities is set out below.

The Commonwealth Bank's right to claim in respect of those representations, warranties and indemnities is limited so that it does not apply where the relevant amounts are recoverable under insurance policies, where the relevant amounts were provided for in the audited completion accounts or to the extent the loss was contributed to by the Commonwealth Bank or a member of the SBV Group after the completion date or relates to finance provided by the Commonwealth Bank or a member of the SBV Group after completion date. The Commonwealth Bank's rights to claim are further limited to claims in excess of \$1.0 million and claims in respect of which due notice is given within 5 years of completion (or 7 years in relation to certain tax claims). Notice must be given within 3 months of becoming aware of the claim.

The representations, warranties and indemnities are complex and persons seeking detailed information about them should read them in full as set out in the Succession Act. A summary of material provisions of them is:

#### Indemnities

These are given against:

- (1) litigation arising from actions done or omitted prior to completion by members of the SBV Group or the Trico Group or their servants, agents and contractors; and
- (2) any loss or damage which the Commonwealth Bank or a member of the SBV Group may suffer in consequence of succeeding to liabilities:
  - under certain guarantees and indemnities given by SBV of certain obligations of members of the Trico Group;
  - arising out of actions done or omitted to be done prior to completion date by any member of the Trico Group or its officers, employees, agents or contractors;
  - arising out of fraudulent activities or unauthorised securities, currency or futures trading committed by employees or officers of members of the SBV Group prior to completion date;
  - arising in consequence of the repudiation, revocation, rescission or termination of or failure to comply with

any Victorian Government or Trico Group guarantees in favour of or for the benefit of members of the SBV Group;

- incurred as a result of losses under agreements between SBV and Austech Ventures Limited and between Victoria and SBV on 30 June, 1990;
- arising in respect of any insurance provided by Housing Loan Insurance Corporation to National Mortgage Market Corporation Limited being void, voidable or unenforceable; and
- arising out of any indemnity agreement between SBV and Tricontinental Corporation Limited dated 14 September, 1989 and a related acknowledgement.

*Representations and Warranties*

Representations and warranties were given:

- (1) as to the Victorian Treasurer's power and authority;
- (2) that members of the SBV Group had conducted business in accordance with relevant constituent documents; that business was conducted with appropriate authorisations, licences, permits and registrations and there was nothing which might materially prejudice the renewal of such authorisations, licences, permits and registrations;
- (3) that material information supplied to the Commonwealth Bank was accurate and not misleading;
- (4) that save in respect of provisions for bad and doubtful debts and capitalised computer software and development costs, the accounts for the financial year ended 30 June, 1990 of the SBV Group presented fairly the financial position and assets and liabilities and income, expenses and results of operations of the SBV Group for that period or as at that date;
- (5) that between 30 June, 1990 and the date of the SBV Acquisition Contract, the SBV Group had carried on business in the ordinary course;
- (6) that members of the SBV Group had appropriate title to assets;
- (7) that use by SBV Group members of intellectual property rights owned by them or used in their business did not breach industrial or intellectual or other property rights of other persons;
- (8) that loan agreements and security documents in favour of members of the SBV Group were valid, binding and enforceable;
- (9) that the grantors of encumbrances under security documents had good title to all property to which the encumbrances related at the time of granting those encumbrances;
- (10) that members of the SBV Group were not liable to have certain relevant contracts terminated by reason of breach by SBV Group members;
- (11) that no payment made to or for the benefit of any member of the SBV Group before the completion date is liable to be returned or refunded after that date under insolvency or bankruptcy laws;
- (12) that relevant superannuation funds had been conducted in accordance with applicable laws;
- (13) that members of the SBV Group had complied with relevant industrial obligations;
- (14) that no member of the SBV Group had pledged or mortgaged its assets other than as disclosed to the Commonwealth Bank;
- (15) that members of the SBV Group had not suffered certain proceedings relating to liquidation;

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(16) that SBV had complied with its statutory obligations in relation to corporate records;

(17) that relevant taxes payable by members of the SBV Group (other than Federal Debits Tax) had been paid or provided for in the accounts; that the after tax yield in relation to certain financing transactions will be not less than the after tax yield assumed at the time the transactions were entered into as a result of tax assumptions being incorrect;

(18) that all Federal Debits Tax payable by members of the SBV Group had been paid (but the right to claim under that warranty is limited as set out in the SBV Acquisition Contract);

(19) that no member of the SBV Group has any liability in respect of the National Safety Council of Australia (Victorian Division) (in liquidation);

(20) that, except as otherwise specifically agreed, there were no outstanding agreements or arrangements between members of the SBV Group and members of the Trico Group;

(21) that no member of the SBV Group has any liability in relation to Stateguard; and

(22) that all capitalised or accrued but unpaid interest owing to SBV or a member of the SBV Group at completion date which was included in relevant accounts will be paid when due.

**(e) Victorian Taxes**

No Victorian taxes were applicable to the transaction.

**(f) Future Operation of SBV**

The Commonwealth Bank undertook to merge the staff of SBV into the Commonwealth Bank as soon as possible after completion and to treat all staff on their merits irrespective of origin.

**Underwriting Agreement**

Pursuant to an Underwriting Agreement dated 4 July, 1991 made between Commonwealth Bank of Australia and Were Stockbroking Limited (the "Lead Manager" or "Underwriter"), all the shares offered under this Prospectus (i.e. excluding the shares offered under the Employee Share Ownership Scheme) have been underwritten by the Underwriter.

The total underwriting commission is 1.1% of the amount subscribed for the underwritten shares.

The Commonwealth Bank agrees to indemnify and keep indemnified the Underwriter against all actions or proceedings arising out of the issue of the Prospectus by the Commonwealth Bank or any announcement, advertisement or publicity made or distributed by the Commonwealth Bank in relation to the Prospectus or the share issue. That indemnity does not extend to cover penalties or fines which the Underwriter must pay for any contravention of the Corporations Law nor to any actions or proceedings arising as a result of the act or omission of the Underwriter which has not been approved by the Commonwealth Bank.

If any of the following events shall occur prior to the closing date (or where another date is indicated in relation to a particular event that date) and, in the case of the termination events referred to in (b), (c), (d), (e) or (f) below, that event has had or will have a material adverse effect on the prospects of success of the share issue, the Underwriter may without cost or liability to itself at any time within 5 business days of the closing date (or where the relevant termination event indicates another date, within 5 business days of that other date) by notice in writing to the Commonwealth Bank specifying the relevant event terminate the Underwriting Agreement. The events referred to are:

- (a) a certificate not being furnished by the Commonwealth Bank as required by the Underwriting Agreement where such failure has a material adverse effect on the Underwriter's obligations;
- (b) if:
- (i) there is introduced into the Parliament of the Commonwealth of Australia a law intended to come into effect within 12 months thereafter;
  - (ii) the Reserve Bank of Australia adopts a policy; or
  - (iii) there is any official announcement on behalf of the Government of the Commonwealth of Australia or the Reserve Bank that such a law will be introduced or policy adopted as the case may be with effect from the date of the said announcement or within 3 months thereafter, which imposes any excess profits tax or any other measure which may substantially affect adversely the profits of the Commonwealth Bank or returns or dividends by the Commonwealth Bank to its members;
- (c) the Commonwealth Bank alters its share capital or Memorandum and Articles of Association in any material respect without the prior written consent of the Underwriter which consent shall not be unreasonably withheld;
- (d) any one or more of the Commonwealth of Australia, the United Kingdom, or the United States of America is attacked by the armed forces of another country;
- (e) the Commonwealth Bank is in default under the Underwriting Agreement provided always that if such default is, in the reasonable opinion of the Underwriter, capable of remedy (and the Underwriter shall be obliged to characterise the breach as remediable or not and notify the Commonwealth Bank accordingly as soon as reasonably possible in the circumstances) and is remedied by the Commonwealth Bank within 5 business days of notification by the Underwriter of such opinion, such default shall not constitute an event entitling the Underwriter to terminate the Agreement;
- (f) the Commonwealth Bank is in breach of any representation, warranty or undertaking given or made by it in the Underwriting Agreement provided always that if such breach is, in the reasonable opinion of the Underwriter, capable of remedy (and the Underwriter shall be obliged to characterise the breach as remediable or not and notify the Commonwealth Bank accordingly as soon as reasonably possible in the circumstances) and is remedied by the Commonwealth Bank within 5 business days of notification by the Underwriter of such opinion, such breach shall not constitute an event entitling the Underwriter to terminate the Agreement;
- (g) unconditional approval (or conditional approval, provided such condition would not have a material adverse effect on the success of the share issue) by the Australian Stock Exchange Limited for the admission to the Official List of the shares offered under the Prospectus is refused or is not granted or is withdrawn or a statement to that effect is made to the Commonwealth Bank, the Underwriter or to the public by the Australian Stock Exchange Limited within 10 business days (or for such longer period as may be agreed by the Underwriter) after the closing date;

- (h) before the closing date, the All Ordinaries Index of the Australian Stock Exchange Limited falls by more than 20% below the said All Ordinaries Index as at close of business of the stock exchange on the date of the Underwriting Agreement.

Termination of the Underwriting Agreement pursuant to one of those events does not prejudice or nullify any claim for damages which the Underwriter may have against the Commonwealth Bank.

Further, the Underwriting Agreement gives the Commonwealth Bank the right to withdraw from proceeding with the share issue and to terminate the Underwriting Agreement if, in the reasonable opinion of the Board of Directors of the Commonwealth Bank, an event has occurred which has a material adverse effect on the success of the share issue and it is in the best interests of the Commonwealth Bank not to proceed. In that event, the Commonwealth Bank must pay to the Underwriter 0.25% of the intended value of the issue plus the Underwriter's legal costs.

The Lead Manager has the sole right to arrange subunderwriting. However, the Lead Manager has agreed to consult with the Commonwealth Bank regarding the identity of the subunderwriters and the terms of the subunderwriting, to inform the Commonwealth Bank as and when it arranges subunderwriting and not to unreasonably ignore the Commonwealth Bank's nomination of the identity of subunderwriters and the terms of subunderwriting. The Commonwealth Bank shall not be responsible for the payment of any fees to the subunderwriters.

#### **Memorandum and Articles of Association Articles of Association and Australian Stock Exchange Listing Rules**

As the Articles of Association are subject to the Commonwealth Banks Act 1959 as amended and also provide for the first directors to be the persons who immediately prior to the conversion of the Commonwealth Bank into a public company were the members of the Commonwealth Banking Corporation Board, they are inconsistent with the Australian Stock Exchange Listing Rules with respect to:

- (a) the special position of the Secretary to the Treasury;
- (b) the retirement of the existing directors who are not required to retire until the next annual general meeting after the date when he or she would have been due to retire under his or her appointment to the Commonwealth Banking Corporation Board; and
- (c) executive directors (other than the managing director) not being subject to election at the annual general meeting subsequent to their appointment nor being subject to retirement by rotation at any annual general meeting.

Waivers will be sought from the Australian Stock Exchange Limited with respect to these inconsistencies with the Listing Rules.

#### **Documents for Inspection**

True copies of the relevant contracts referred to above and material contracts referred to elsewhere in the Prospectus are available for inspection free of charge by any person at the registered office of the Commonwealth Bank, 1st Floor, 48 Martin Place, Sydney, NSW.

## Other Information

### Directors and Experts – Share Qualifications, Remuneration and Other Interests

- (a) Directors are not required to hold any share qualification under the Articles of Association of the Commonwealth Bank.
- (b) The Directors shall be paid by way of fees for services such aggregate sum as may be determined from time to time by the Commonwealth Bank in general meeting to be divided among them in such proportion and manner as the Directors agree and in default of agreement, equally.
- (c) No Director has any interest in the promotion of the Commonwealth Bank, or in property proposed to be acquired by it, whether individually or in consequence of a Director's partnership in a firm. No amounts of any kind have been paid or agreed to be paid to any Director or to any firm of which a Director is a member to induce him or her to become, or to qualify as, a Director or otherwise for services rendered by a Director or any firm of which a Director is a member in connection with the promotion or formation of the Commonwealth Bank.

### Options

No options over shares in the Commonwealth Bank have been granted or are proposed to be granted.

### Expenses

The total estimated amount of the expenses of the registration of the Commonwealth Bank as a company under the Corporations Law and of the issue is \$37.5 million including:

|                              |               |
|------------------------------|---------------|
| • Underwriting and Brokerage | \$16.6        |
| • Legal                      | 2.5           |
| • Printing                   | 2.0           |
| • Advertising                | 4.3           |
| • Other                      | 12.1          |
|                              | <u>\$37.5</u> |

Those expenses have been paid or are payable by the Commonwealth Bank.

### Auditors

The auditor of the Commonwealth Bank is the Auditor-General of the Commonwealth of Australia, Bowes Street, Woden, Australian Capital Territory.

### Expert's Consent

Arthur Andersen & Co has given its written consent for the inclusion of its Investigating Accountants' Report in this Prospectus in the form and context in which it appears and has not, before lodgment of this Prospectus with the Australian Securities Commission, withdrawn its consent.

### Interests of Experts

No expert nor any firm of which such expert is a partner has any interest in the promotion or formation of the Commonwealth Bank or in property proposed to be acquired by the Commonwealth Bank except as set out below. All amounts paid or agreed to be paid to such expert or firm for services (referred to below as "Relevant Services") rendered in connection with the promotion or formation of the Commonwealth Bank are set out below. No form of payment of any kind will be made or agreed to be made to any such expert or firm other than in cash. The sums shown below are the amounts paid to the particular expert for Relevant Services (except where noted). Amounts agreed to be paid are also shown.

- (a) BT Corporate Finance Limited has acted as financial adviser to the Commonwealth Bank. Amount paid – \$879,735.39. The Commonwealth Bank has agreed to pay further amounts to BT Corporate Finance Limited in accordance with its usual time based charge out rates. In addition, BT Corporate Finance Limited is entitled to receive a fee of 0.05% of the total funds raised under the issue, payable on receipt of funds, subject to total fees payable not exceeding \$2.0 million. BT Corporate Finance Limited will also be reimbursed for out-of-pocket expenses incurred as financial adviser to the Commonwealth Bank.

Pursuant to the terms under which the Commonwealth Bank engaged BT Corporate Finance Limited and to the extent lawfully permitted, the Commonwealth Bank has agreed that unless BT Corporate Finance Limited has committed gross neglect or wilful misconduct:

- (i) the Commonwealth Bank and its related companies and their respective employees will not make any claim against BT Corporate Finance Limited, its related companies, or officers or agents of any such entity (collectively "Bankers Trust") in respect of loss suffered by the Commonwealth Bank in connection with or arising in relation to the engagement of BT Corporate Finance Limited; and
- (ii) it indemnifies Bankers Trust against any loss which Bankers Trust may suffer occasioned by or resulting from or in connection with the engagement of BT Corporate Finance Limited by the Commonwealth Bank.

- (b) Baring Brothers Burrows & Co., Limited has acted as financial adviser to the Treasurer of the Commonwealth of Australia. Amount paid – \$291,847.94. The Commonwealth of Australia has agreed to pay additional fees to Baring Brothers Burrows & Co., Limited in accordance with the terms of its appointment. The Commonwealth Bank has not been provided with details of those terms of appointment.

- (c) Were Stockbroking Limited ("J B Were") has acted as sponsoring broker, lead manager and underwriter to the issue. In relation to these services, J B Were has been paid, or agreed to be paid, \$14,712,420. Out of this amount J B Were will pay fees due to subunderwriters. The Commonwealth Bank has agreed to pay further amounts to J B Were for acting as sponsoring broker after the date of this Prospectus in accordance with J B Were's usual time based charge out rates.

J B Were will receive a handling fee in respect of shares allotted pursuant to stamped applications lodged by J B Were (other than in respect of shares which form part of firm allotments).

- (d) The Auditor-General of the Commonwealth of Australia has acted as auditor of the Commonwealth Bank. The Commonwealth Bank has agreed to pay the Auditor-General of the Commonwealth of Australia an amount of \$341,000 for audit services in relation to the Commonwealth Bank Group's financial statements for the six months ended 31 December, 1990.
- (e) KPMG Peat Marwick has provided certain audit and advisory services in respect to the accounts of SBV. Amount paid – \$820,000. The Commonwealth Bank has agreed to pay KPMG Peat Marwick a further amount of \$371,510 for these services.
- (f) Arthur Andersen & Co has acted as investigating accountants to the issue and performed work in relation to due diligence enquiries. Amount paid – \$534,000. The Commonwealth Bank has agreed to pay further amounts to Arthur Andersen & Co in accordance with its usual time based charge out rates.

- (g) Mr L E Taylor, as Chief Solicitor and General Counsel of the Commonwealth Bank of Australia, is an employee of the Commonwealth Bank and no amount has been paid or agreed to be paid to him for Relevant Services
- (h) Allen Allen & Hemsley has acted as solicitors to the Underwriter. No amount has been paid. The Commonwealth Bank has agreed to pay amounts to Allen Allen & Hemsley in accordance with its usual time based charge out rates.
- (i) Freehill Hollingdale & Page has acted as solicitors to the issue and performed work in relation to due diligence enquiries (other than in jurisdictions indicated in (k)). Amount paid – \$1,583,962.71. The Commonwealth Bank has agreed to pay further amounts to Freehill Hollingdale & Page in accordance with its usual time based charge out rates.
- (j) Mallesons Stephen Jaques advised the Directors of the Commonwealth Bank. Amount paid – \$155,139.54. The Commonwealth Bank has agreed to pay further amounts to Mallesons Stephen Jaques in accordance with its usual time based charge out rates.
- (k) The following law firms each provided legal services in connection with due diligence enquiries in the jurisdictions indicated. Amounts paid or agreed to be paid to each of them for those Relevant Services are:
- |  |           |
|--|-----------|
| (1) Fisher Jeffries & Co (South Australia) | – \$9,500 |
| (2) Nishimura & Sanada (Japan)             | – \$3,100 |
| (3) Bell Gully Buddle Weir (New Zealand)   | – \$2,100 |
- (l) The following barristers have each provided legal advice and have been paid the following amounts:
- |                       |            |
|-----------------------|------------|
| (1) D M J Bennett, QC | – \$24,500 |
| (2) P G Hely, QC      | – \$4,000  |
| (3) R A Sackville     | – \$1,150  |
- The Commonwealth Bank has agreed to pay further amounts to the above-named barristers in accordance with their usual time based charge out rates.
- (m) Saatchi & Saatchi Advertising (Sydney) Pty Limited acts as advertising agent for the Commonwealth Bank. No amount has been paid. The Commonwealth Bank has agreed to pay Saatchi & Saatchi Advertising (Sydney) Pty Limited in accordance with its usual commission arrangements.
- (n) The Rowland Company Pty Limited has acted as public relations adviser to the Commonwealth Bank. Amount paid – \$262,173.47. The Commonwealth Bank has agreed to pay further amounts to the Rowland Company Pty Limited in accordance with its usual time based charge out rates plus expenses.
- (o) Horniak & Canny provided graphic design, typographic and artwork services. Amount paid – \$266,988.27. The Commonwealth Bank has agreed to pay further amounts to Horniak & Canny in accordance with its usual time based charge out rates plus out-of-pocket expenses.
- (p) Australia Market Research Pty Limited provided market research services to the Commonwealth Bank. Amount paid – \$156,277.80. The Commonwealth Bank has agreed to pay further amounts totalling \$59,200 to Australia Market Research Pty Limited.
- (q) Hogan Marketing Services Pty Limited provided assistance in the establishment and operation of telephone bureau services. This includes direct reimbursements for staff provided by Morebray Pty Limited for the telephone operation of the Commonwealth Bank's Share Information Centre. Amount paid – \$674,157.52. The Commonwealth Bank has agreed to pay further amounts to Hogan Marketing Services Pty Limited in accordance with its usual time based charge out rates plus out-of-pocket expenses and to Morebray Pty Limited in reimbursement of its costs directly associated with the Commonwealth Bank's Share Information Centre.

Experts named in "Interests of Experts" and not named in "Directory" have been involved only in preparation of the paragraph above setting out that expert's fees and have not been involved in the preparation of any other part of the Prospectus.

## Statement by Directors

1. The Directors of the Commonwealth Bank of Australia report that, in their opinion, since the date of the accounts used in the preparation of the Investigating Accountants' Report, namely 31 December, 1990 and 5 July, 1991, there have not been any circumstances that have materially affected or will materially affect the profitability of the Commonwealth Bank Group or the value of the assets of the Commonwealth Bank Group except as disclosed in this Prospectus.
2. The issue of this Prospectus is authorised by the Directors of the Commonwealth Bank.

Mr M A Besley, AM

Mr J T Ralph, AO

Mr D N Sanders, CB

Mr I K Payne

Mr N R Adler

Ms A C Booth

Mr A S Cole

Mr G Gleeson, AC

Mr J J Kennedy, CBE

Mr G M Pemberton  
*By his agent  
authorised in writing*  
Mr L E Taylor

Mr G H Slee, AM

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**Historical copy of CBA's 1991 IPO prospectus — not current disclosure.  
Do not rely on this document for any current investment decision.**

# Directory

## Registered Office and Head Office

1st Floor, 48 Martin Place  
 SYDNEY NSW 2000  
 Postal address  
 GPO Box 2719  
 SYDNEY NSW 2001

## New South Wales

9th Floor, Royal Exchange  
 Building  
 56 Pitt Street  
 SYDNEY NSW 2000  
 Postal address  
 GPO Box 2719  
 SYDNEY NSW 2001

## Victoria

367 Collins Street  
 MELBOURNE VIC 3000  
 Postal address  
 GPO Box 866J  
 MELBOURNE VIC 3001

## Queensland

240 Queen Street  
 BRISBANE QLD 4000  
 Postal address  
 GPO Box 1423  
 BRISBANE QLD 4001

## Western Australia

150 St George's Terrace  
 PERTH WA 6000  
 Postal address  
 GPO Box A32  
 PERTH WA 6001

## South Australia

96 King William Street  
 ADELAIDE SA 5000  
 Postal address  
 GPO Box 1551  
 ADELAIDE SA 5001

## Tasmania

81 Elizabeth Street  
 HOBART TAS 7000  
 Postal address  
 GPO Box 87A  
 HOBART TAS 7001

## Australian Capital Territory

Cnr London Circuit & Ainslie Avenue  
 CANBERRA ACT 2601  
 Postal address  
 GPO Box 121  
 CANBERRA CITY ACT 2601

## Northern Territory

5th Floor, National Mutual Building  
 9-11 Cavenagh Street  
 DARWIN NT 0800  
 Postal address  
 GPO Box 863  
 DARWIN NT 0801

## Auditors

Auditor-General of the Commonwealth of  
 Australia  
 Medibank House, Bowes Street  
 WODEN ACT 2606

## Financial Adviser to the Issue and Co-Manager

BT Corporate Finance Limited  
 Level 38, Australia Square  
 SYDNEY NSW 2000

## Financial Adviser to the Treasurer and Co-Manager

Baring Brothers Burrows & Co., Limited  
 Level 9, 7 Macquarie Place  
 SYDNEY NSW 2000

## Investigating Accountants

Arthur Andersen & Co  
 Chartered Accountants  
 141 Walker Street  
 NORTH SYDNEY NSW 2060

## Sponsoring Broker and Lead Manager

Were Stockbroking Limited  
 379 Collins Street  
 MELBOURNE VIC 3000

## Solicitors for the Commonwealth Bank

L E Taylor  
 Chief Solicitor and General Counsel  
 Commonwealth Bank of Australia  
 Level 11, Bank House  
 309 George Street  
 SYDNEY NSW 2000

## Solicitors to the Board of Directors of the Commonwealth Bank

Mallesons Stephen Jaques  
 Level 32, AMP Centre  
 50 Bridge Street  
 SYDNEY NSW 2000

## Solicitors to the Issue

Freehill Hollingdale & Page  
 Level 30, MLC Centre  
 19 Martin Place  
 SYDNEY NSW 2000

## Solicitors to the Underwriters

Allen Allen & Hemsley  
 Level 46, MLC Centre  
 19 Martin Place  
 SYDNEY NSW 2000

## Share Registry

Coopers & Lybrand\*  
 Level 8, Coopers & Lybrand Tower  
 580 George Street  
 SYDNEY NSW 2000

\*Coopers & Lybrand has had no involvement in the preparation of any part of this Prospectus and its name appears for information purposes only.