

DETERMINED TO BE BETTER THAN WE'VE EVER BEEN.

Annual Report 2011



CommonwealthBank



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Chairman's Statement

Introduction

The Group has delivered another good result for the year despite the uncertain and challenging economic environment. The result is attributable to the Group's strong position and the continued focus on providing solid returns and dividends to our shareholders. The Group's strategy and focus of serving our customers remains paramount. We continue to be conservative and at the same time sensitive to change in the external environment, while competing strongly in all the markets and segments we serve.

Operating and Financial Results

The Group's cash net profit after tax for the year ended 30 June 2011 was \$6,835 million, which represented a 12% increase on the prior year. Cash earnings per share increased 11% on the prior year to 438.7 cents, whilst cash return on equity increased 80 basis points to 19.5%.

This solid result was achieved in an environment where the impacts of the global financial crisis continue to linger. Credit growth remains low, business and consumer confidence is fragile and there is significant volatility and uncertainty in global markets. Despite the challenging market conditions, effective execution of the Group's five strategic priorities of Customer Satisfaction, Business Banking, Trust and Team Spirit, Technology and Operational Excellence and Profitable Growth has driven a sound financial performance. The result was characterised by:

- Net interest income increasing 7% to \$12,658 million, reflecting a six basis point increase in net interest margin and 4% growth in average interest earning assets;
- Other banking income declining 3% to \$3,983 million, with reduced retail fees and commissions, lower CommSec brokerage and Markets trading income partly offset by higher bills income and improved Treasury earnings;
- Funds management income increasing 8% to \$2,041 million, supported by a 5% increase in average funds under administration and stronger investment performance, partly offset by the appreciation of the Australian dollar;
- Insurance income declining 9% to \$856 million, partly reflecting the sale of the St Andrew's insurance business. After adjusting for the sale of St Andrew's, insurance income decreased 4% due to higher claims in the wholesale and retail life businesses;
- Operating expenses increasing 3% on the prior year to \$8,891 million, with 1% of the growth driven by continued investment in projects supporting the Group's strategic priorities. Operating expenses, excluding investment expenses, increased 2% reflecting the Group's disciplined approach and continued focus on productivity initiatives which have delivered operational efficiencies; and
- Impairment expense decreasing 38% to \$1,280 million, mainly reflecting lower Bankwest property related impairments.

All of the Group's businesses performed satisfactorily in a challenging operating environment with highlights for the year;

- Retail Banking Services cash net profit after tax was \$2,845 million, representing a 16% increase on the prior year. The result was driven by solid growth in net interest income partially offset by lower other banking income, sound management of operational expenses and an improvement in loan impairment expense;

- Business and Private Banking delivered a strong performance, achieving cash net profit after tax of \$1,039 million, which represents a 16% increase on the prior year. The business banking segments contributed significantly to this result, with growth in lending volumes, improving deposit margins and a lower impairment expense;
- Institutional Banking and Markets achieved a cash net profit after tax of \$1,004 million for the year ended 30 June 2011, which represented a 14% decrease on the prior year, reflecting a decrease in operating income due to lower trading income in Markets and the effect of the decline in lending balances in Institutional Banking;
- Wealth Management's underlying profit after tax for the year was \$581 million, up marginally on the prior year. A solid Funds Management and General Insurance result was partially offset by an increase in claims and compliance related expenditure. Funds under Administration increased 5% on the prior year to \$189 billion;
- New Zealand cash net profit after tax was NZ\$588 million, an increase of 28% on the prior year. The result was driven by a strong performance from ASB Bank with margins benefiting from a shift in portfolio mix towards variable rate loans and repricing initiatives in response to higher funding costs;
- Bankwest cash net profit after tax for the year ended 30 June 2011 was \$463 million, up significantly from the \$45 million loss in the prior year. The improved performance was driven by lower loan impairment expense and a 12% increase in operating performance; and
- IFS Asia cash net profit after tax was \$53 million, an increase of 18% over the prior year. The key drivers of the result were a 10% increase in banking income driven by robust lending growth from the Indonesian retail business together with strong contributions from the Bank of Hangzhou and Vietnam International Bank (VIB) investments and an 18% increase in Insurance income reflecting improved sales volumes from the Indonesian life insurance business, particularly bancassurance sales.

Dividends and Capital

A final dividend of \$1.88 per share was declared - an increase of 11% on the prior year. The total dividend for the year to 30 June 2011 was \$3.20 per share, taking the cash dividend payout ratio for the year to 73.2%. The final dividend will be fully franked and will be paid on 6 October 2011.

The Group's Dividend Reinvestment Plan will continue to operate but no discount will be applied to shares issued under the plan for the 2011 final dividend.

During the year dividend and interest payments were also made to the holders of the Group's various capital securities: PERLS III, PERLS IV, PERLS V, Trust Preferred Securities 2003, Trust Preferred Securities 2006, ASB Capital Preference Shares and ASB Capital No 2 Preference Shares.

The Group maintained a strong capital position and remains one of a handful of global banks with a AA credit rating. The Tier One capital ratio was 10.01%, up 86 basis points over the year.

Chairman's Statement

It is this ratio under the Basel II Accord by which the Group's capital position is measured. At 10.01%, it is well in excess of the Board's current minimum requirement of 7%. However, this measure will almost certainly be increased under the G-20 and Basel III initiatives. This is manageable, however, and the Group's Balance Sheet will continue to be strengthened with retained earnings from ongoing profits. The liquidity requirements, however, are less certain and the Group remains actively involved in the consultation process, working closely with other industry participants and the regulators.

The Group remains well funded which has enabled it to provide ongoing support to customers. Strong deposit growth coupled with subdued credit growth has seen the Group satisfy a significant proportion of its funding requirements from domestic deposits. Customer deposits at \$349 billion comprised 61% of the Group's funding requirement, up from 58% last year. However, the Board is aware that the level of these deposits can vary, notwithstanding the attractiveness of the Bank's terms and rates compared with other institutions and instruments.

If the level of deposit funding decreases either through lower deposits or an increase in credit growth, the Group will generally fund its requirements through accessing the wholesale markets, both within and outside Australia.

Inevitably the depth of these markets and the cost of funds to the Group will vary as a result of economic and other pressures affecting this market. The ongoing strength of the Group's balance sheet, coupled with strong performance and the skill of our people, are important to ensure that this critical pool of funding remains both accessible and at an optimal cost.

Corporate Governance and Board Performance

In alternate years we use an external firm to assist with the assessment of Board performance and effectiveness. This year we performed the review internally. Further detail is provided in the Corporate Governance section of this Annual Report.

The Risk Committee, which continues to be chaired by Harrison Young, comprises all members of the Board and reflects the ongoing importance of the assessment of risk. The membership of this committee will continue to be kept under review.

Other committees of the Board have a composition that reflects individual skills and contribution to committee effectiveness.

During the year, two new independent non-executive Directors joined your Board.

On 1 September 2010, Brian Long was appointed a Director of the Bank. Brian was a senior partner of Ernst & Young and Chairman of both the Ernst & Young Global Advisory Council and the Oceania Area Advisory Council and has had more than 30 years experience in serving as audit signing partner on major Australian public companies. Brian brings wide accounting, auditing and governance experience to the Board.

On 16 March 2011, Launa Inman was appointed a Director of the Bank. Launa has been Managing Director of Target Australia Pty Ltd since 2005, a leading Australian retailer with more than 25,000 employees and 290 Target and Target Country stores across the country. Launa's business and retail experience in Australia complements the mix of skills and experience on the Board.

Chief Executive Officer

You will have seen that Ralph Norris decided to retire at the end of November this year.

Ralph has been Chief Executive Officer of the Bank for the past six years. They have been six years of exceptional achievement in terms of both financial and cultural performance.

Ralph's unswerving focus on customer satisfaction has driven the financial results and his attention to developing top talent has resulted not only in an excellent executive team, but also a pool of talent for succession to the most senior positions.

On behalf of the Board, I would like to thank Ralph for his tremendous performance and exemplary contribution to the Group.

The Board has appointed Ian Narev to succeed Ralph on December 1st this year. Ian is currently CEO Designate. You will have read of Ian's qualifications for the position and his inclusive and impressive leadership skills as Group Executive responsible for Business and Private Banking.

Ian has a background as head of strategy within the Group and prior to that with the financial services practice of McKinsey in New York, Sydney and Auckland. On top of an excellent academic grounding, Ian is a senior banker with an outstanding breadth of experience. In the course of the selection process, we also assured ourselves that Ian was benchmarked against the best available talent outside Australia.

Your Board has every confidence in Ian's ability to deliver the best possible outcomes for the Group and is ideally suited to deliver the best possible outcomes in the face of a challenging future.

Finally, I would like to thank my fellow Directors very much indeed for their hard work and support during the past year.

Outlook

The 2011 financial year has been a challenging one for the Group and many of its customers. While the resources sector has performed well, other parts of the economy have been subject to headwinds including fragile consumer and corporate confidence, political uncertainty, a strong currency and natural disasters.

Ongoing offshore instability continues to impact the domestic economy and has the potential to place further upward pressure on wholesale funding costs for domestic banks.

The 2011 financial year has been characterised by subdued system credit growth and intense competition. At this stage there is nothing to suggest that the 2012 financial year will see any material improvement on this front. Nor is it clear what the catalyst will be for a meaningful revival in consumer and corporate confidence which is a prerequisite to stronger demand for credit.

Against this backdrop the Group will continue to operate in a disciplined and prudent manner with a focus on driving productivity initiatives which will deliver sustainable improvements in business performance. The Group's priority is to maintain a robust and stable financial and operating platform, which will enable us to support our customers and provide superior returns to shareholders.

Chairman's Statement

Conclusion

While I have no doubt that the 2012 financial year will be a challenging one for the Group and its customers, I am nonetheless very optimistic about the Group's future and its ability to continue to deliver superior returns to its stakeholders. While we have much to celebrate about the achievements of the last 100 years, we also have much to look forward to. As the Group enters a new era, we have a stable and strong organisation with a business franchise which is the envy of many of our peers.

However, despite these obvious advantages, we cannot afford to be complacent in the face of a rapidly changing domestic and global competitive environment. In fact we will need to be increasingly innovative and nimble if we are to take advantage of the opportunities which will inevitably accompany these changes. Looking forward, our decisions over the last five years to invest heavily in technology and productivity initiatives, including Core Banking Modernisation, have placed us in a strong position. Our challenge now is to ensure that as an organisation we optimise these investments for the benefit of our customers and our shareholders.

Finally, I would like to thank our customers and shareholders for their continuing support for the Commonwealth Bank of Australia and of course all the staff of the Group on whom we depend for our success.



David J Turner

Chairman

10 August 2011

Chief Executive Officer's Statement

On 22 December 2011, the Commonwealth Bank will be 100 years old.

On that day in 1911, the Commonwealth Bank of Australia was enacted by Parliament, with our first day of trading taking place on 15 July 1912.

We are a proud company with a proud history.

Our centenary is an important milestone, one that will allow us to reflect with pride on the difference we've made to millions of Australian families and businesses in this country over such a long period of time.

I have had the great privilege to lead this organisation for six of those 100 years. We have achieved a significant amount in that time, thanks to the collective efforts of every one of our 52,000 staff.

While there remains a lot more to be done, it is opportune to reflect on some of these achievements, on the eve of our 100 year anniversary, and how they have set us up to deal with the inevitable challenges we will continue to face, and just as importantly, how they will enable us to take advantage of the tremendous opportunities that lie ahead.

I don't need to remind you that over the past three years, the world has been through an unprecedented crisis that, at its' darkest hour, had many fearing for the very future of the global financial system itself. Around the globe, economies struggle to recover from the ravages of the Global Financial Crisis (GFC), and after-shocks continue to be felt, most notably the sovereign debt crisis that is still being played out across Europe, as well as debt and growth concerns in the US.

The GFC has precipitated significant changes across global economies and banking systems.

I would like to talk to you about these changes, how they have arisen and most importantly how your company is responding to them.

The story is in three parts:

- Navigating the GFC;
- The current banking landscape; and
- Why the Group has continued to outperform.

Navigating the GFC

As a starting point, it is worthwhile briefly reflecting on the tumultuous events that have occurred over the past three years or so, and how the Group has responded to the greatest challenge we have had to face since we became fully privatised in the mid 1990's.

At its zenith, the GFC claimed some of the world's largest and most well-known institutions, including famous names like Lehman Brothers, and came close to crippling countless others. Many large and venerable institutions were only able to survive thanks to the urgent intervention of regulators and multibillion dollar tax-payer funded bailouts.

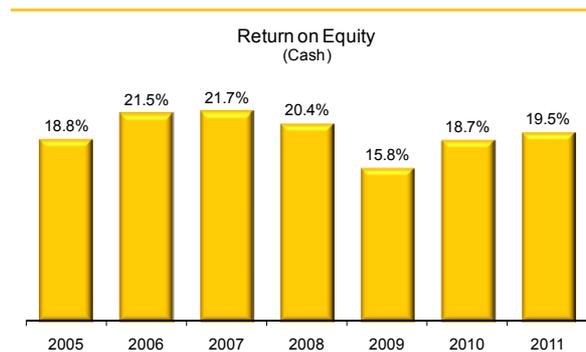
Against this global backdrop, Australian banks were able to navigate their way through the GFC relatively unscathed, emerging in a position of strength compared to our global peers. There are a number of reasons why this was the case, including the robustness of the Australian economy, our sound regulatory regime, decisive government action and the strength and financial discipline of the major banks themselves.

Faced with the uncertainties created by the GFC, the Group adopted a set of guiding principles and implemented a range of specific measures to ensure we were able to respond to the challenge in a proactive manner, including:

- Further strengthening already strong capital, liquidity and provisioning levels;
- Maintaining our traditionally high lending and credit standards throughout the crisis;
- Being one of the first banks to prudently adjust loan pricing as soon as the sustained nature of higher international wholesale funding costs became apparent; and
- Lengthening our portfolio funding maturities and adopting other measures to ensure our funding position remained very strong.

The Group's ability to weather the GFC in such a robust fashion is evidenced by the fact we have continued to deliver sustainable financial results, highlighted by a Return on Equity (ROE) which has remained sector leading here in Australia and at the upper-end of banking institutions world-wide.

As shown in the chart below, the Group's ROE experienced only a slight dip in 2009, reflecting both the impact of higher loan impairments at the worst point in the crisis, as well as the prudent decision to increase the Group's capital base at that time.



That is not to say that the Australian banking sector navigated through the GFC without issues. A small number of larger corporate customers came under pressure, as their business models were unable to withstand the stresses imposed by the GFC. In terms of our personal customers, the level of loan impairments was relatively low. Certainly, the fact that unemployment in Australia remained low by world standards throughout the crisis played a critical role in ensuring that the majority of our customers were able to manage through this period reasonably well.

Also important in this regard was the quality of our lending portfolios, a function of the consistent application of conservative values over many years. Our home lending, for example, has always been governed by prudent standards, demonstrated by the fact that:

- Our portfolio average Loan-to-Value (LVR) ratio has consistently been maintained below 50%;
- For new home loan borrowers, the average LVR is about 50%, and this too, has remained consistent over time; and
- Almost 70% of our home loan customers are paying in advance of requirements.

The strength of our home loan book is such that losses have always remained very low.

Chief Executive Officer's Statement

While overall loss rates amongst our personal customers have remained relatively low through the GFC, it is true that some of our customers have experienced some form of stress or hardship. I am particularly proud of the fact that we were able to put in place a range of special assistance measures to assist these customers, including repayment holidays for home loan customers who had either lost their job or experienced other types of upheavals.

In a similar vein, more recently we have extended \$65 million in assistance for victims of the Queensland and Victorian floods, and through our New Zealand subsidiary ASB Bank, similar assistance measures have been made available to victims of the Christchurch earthquakes.

The current banking landscape

While it now appears that we are through the worst of the crisis, the current landscape remains a challenging one. The global economy is fragile and susceptible to damaging after-shocks, with the ongoing debt concerns in the Euro zone and the US being perhaps the most problematic. Growth rates are expected to remain low in the United States and across most European Union economies for some time.

In Australia, the operating environment for banks is a very different one from that which prevailed in the decade or so before the GFC. Some of these changes might be seen as welcome ones, others less so. Regardless, these changed circumstances present a different set of challenges for Australian banks to deal with.

For simplicity's sake, I have grouped these changes into two broad categories which have come to characterise the new banking environment – (i) higher costs of banking and (ii) lower credit growth.

(i) Higher costs of banking

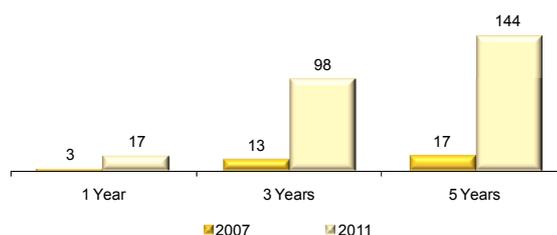
One of the most immediate and obvious impacts of the GFC is that banking is now a higher cost business than it was before.

Probably the most visible area of increased costs is in relation to bank funding. By way of background, the funds we use to lend to our customers have traditionally come from two sources; retail deposits here in Australia and international and domestic wholesale markets. The reliance on international debt markets to finance a large proportion of our domestic lending is a function of a broader structural imbalance in the Australian economy. Australia has been running a current account deficit for many years. This has meant that as a country we have had to seek funds from overseas to help finance our growth.

The GFC highlighted this structural exposure of the Australian economy to international debt markets, as the cost of borrowing money in international markets increased exponentially, as rates adjusted to what was seen as a much riskier environment to borrow and lend money.

To illustrate this point, prior to the GFC, it was costing the Group about 13 basis points or 0.13% above the prevailing market swap rate to borrow money for a three year term. Today, the cost the Group incurs to borrow money for the same three year term is almost 100 basis points (1.00%).

Indicative Long Term Wholesale Funding Costs (Basis Points)



At the same time, the costs associated with the other part of our funding – retail deposits, has also risen, as all banks are now competing more aggressively for this type of funding. This is reflected in the higher interest rates now being offered for various deposit products, such as term deposits and online savings accounts.

The other area that is likely to add to the cost of banking is that of international regulatory reform.

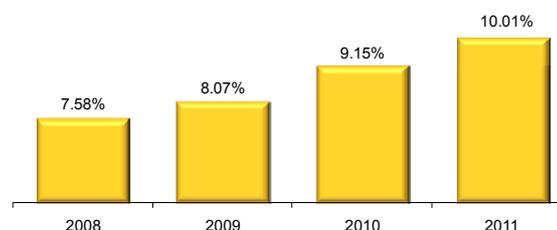
Globally, regulators have sought to develop and implement a range of measures designed to strengthen global financial systems in an effort to ensure we never again face a crisis of the magnitude of the GFC. As with all reforms however, one of the greatest risks is that the regulatory response goes too far, leading to unintended consequences that, in some cases, may be worse than the problem that is trying to be resolved.

We remain actively engaged with regulators both here in Australia and overseas to ensure the ultimate outcomes are measured, sensible, and lead to practical improvements appropriate to each country's individual circumstances. All the indications to date suggest that this will be the case.

Regardless of the final outcomes, it is clear that whatever measures are progressed, they will add an extra impost to the cost of banking.

As far as Basel III capital requirements are concerned, there is no doubt that our capital levels will need to be maintained above pre-GFC regulatory minimums. Meeting higher capital requirements should not present any significant difficulty for the Group, given our capital levels are already very strong by international standards, and we continue to generate good organic capital growth through our consistently strong financial performance. Our Tier 1 Capital ratio now stands at 10.01%.

Tier 1 Capital Ratio



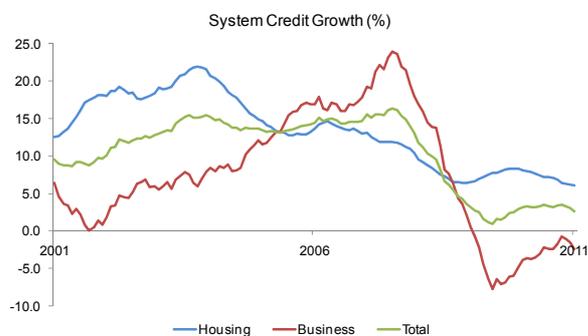
Chief Executive Officer's Statement

Another area of significant regulatory change is that of liquidity. There is no doubt that we will need to hold higher levels of liquid assets, and that the definition for what qualifies as quality liquidity from the regulators perspective is likely to become more prescriptive. Holding a higher amount of these assets will add to the cost of funding customer loans.

(ii) Lower credit growth

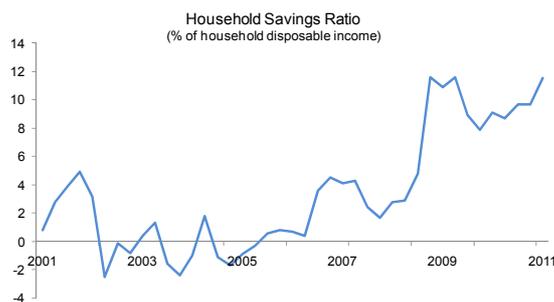
Perhaps the most important lasting effect of the GFC has been the impact it has had on the collective mindsets of our customers. Given the scale and magnitude of the GFC and the fragile nature of the current global economic environment, it is only natural that people are now more cautious and conservative than they were before the crisis.

One of the key manifestations of this extra caution is that people are saving more and borrowing less. As shown in the following chart, this slowdown in credit growth has been across all key sectors of the market – both personal and business.



Source: RBA

As credit growth has slowed, the national savings rate has grown. Where before people may have borrowed for a home improvement or to purchase a new car, they are now saving their money and waiting for "better times". This increase in savings can be seen from the chart below.



Source: ABS

The operating environment today is a vastly different one to that which prevailed here in Australia for many years. For the foreseeable future, growth is going to be harder to come by, and all institutions need to work harder and smarter to achieve it.

While many factors will come into play, in my view the most successful institutions will be those who understand the needs of their customers' best and are the most efficient at meeting these needs.

I would now like to spend some time talking about why I think your Bank is ideally placed to succeed in this environment.

Why the Group has continued to outperform

Since 2005, when I joined this organisation as Chief Executive, we have been pursuing a consistent and deliberate strategy, at the heart of which is a desire to transform this organisation into one that is truly focussed on meeting the needs of our customers. Our vision has been and remains to be Australia's largest financial services organisation through excelling in customer service.

This vision builds on and recognises our unique heritage as the Bank for all Australians. It is a strategy which aims to tap the tremendous potential we have in our franchise, by better understanding our customers, improving the service we offer them and doing so in the most efficient way possible.

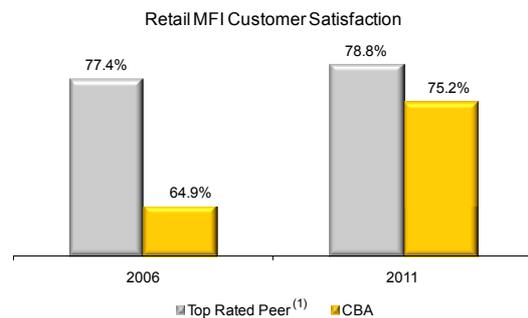
This is a strategy which has helped deliver strong financial returns over the past five years, and in many ways has helped us navigate through the GFC from a position of relative strength.

I would like to take this opportunity to talk to you about why I think this strategy has ensured we have continued to deliver in the current environment. There are five elements to our strategy, and I will talk to each of these in turn.



1. Customer Satisfaction

Five years ago, Commonwealth Bank trailed the other major banks by a considerable margin on customer satisfaction. Since then, we have closed the gap between ourselves and the top-rated peer bank from 12.5 to 3.6 percentage points.



(1) Retail MFI Customer Satisfaction – Roy Morgan Research, Australians 14+ that have an account relationship with that MFI, "Very" or "Fairly" satisfied with the relationship at that institution. 6 month rolling average.

The gains we have made in improving customer satisfaction are not just confined to Retail Banking. In Wealth Management, our FirstChoice platform is consistently ranked at or near the top for service amongst financial advisors and our FirstWrap platform ranked first for overall advisor satisfaction in its first year in the survey.

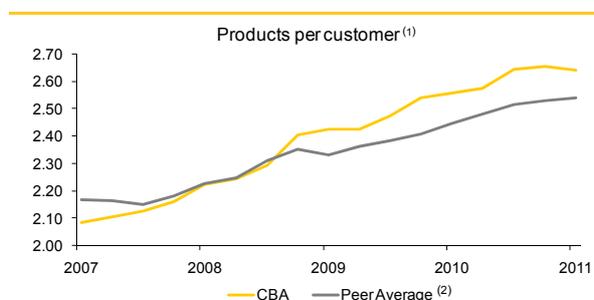
Chief Executive Officer's Statement

In Business Banking, we are ranked outright or equal first in customer satisfaction for both medium sized businesses (those with annual turnover between \$5m and \$50m) and larger businesses (those with annual turnover of \$50m and above).

There is no doubt in my mind that we will achieve our goal of being the number one bank for customer satisfaction. The tremendous gains we have already made, the momentum we have and the commitment of our people to achieving this outcome makes it inevitable that we will get there.

The more satisfied a customer is, the more likely they are to do more business with you.

In an environment of constrained credit growth and tighter margins, improving the service we provide to our customers and earning more business from them will be one of the key drivers of future growth. So, it is very pleasing that over the same period, we have made significant improvements in customer satisfaction; the average number of products held by each of our customers has grown by over 20%. We now have the highest number of products per customer of any major bank in Australia at 2.64, well ahead of the average of our peers.



(1) Roy Morgan Research, Australians 14+, Banking and Finance products per Banking and Finance customers, six months rolling average.

(2) Average of the major four banks excluding CBA.

2. Business Banking

When most people think about the Commonwealth Bank it is probably fair to say they think about things like our extensive branch network, our heritage as the "people's bank" or our leading positions in home lending or retail deposit accounts. It is less likely they will nominate us as being particularly strong in business banking.

For many years the Bank was a relatively small competitor in this segment of the market. However, over the last five years we have set about addressing our relatively underweight position in business banking as a core element of our overall Group strategy.

We have made significant progress in that time:

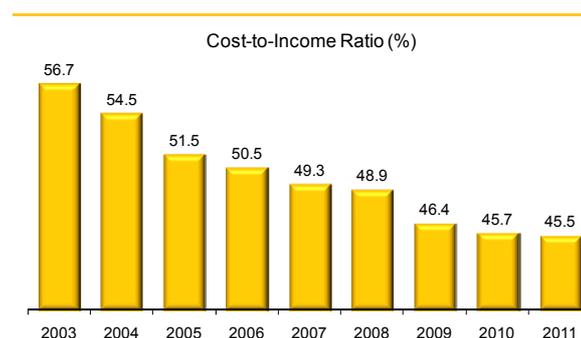
- Opened 23 new dedicated business banking centres across the country (45 in total);
- Located over 150 new local business bankers in selected key branches;
- Launched CommBiz, our innovative online banking facility for business customers;
- Provided our customers with 24/7 access to business bankers;
- Considerably improved customer satisfaction; and
- Grown our market share from 12.1% in June 2006 to 18.1% in June 2011.

Our Business and Private Bank is now delivering consistently strong financial results, off the back of improved customer satisfaction levels and stronger volume and market share outcomes. The business is operating with strong momentum and we are very well placed to take advantage of the eventual upturn in business sector demand.

3. Technology and Operational Excellence

In an environment of softer credit growth and additional cost pressures, only the most efficient banks will be able to deliver consistently strong shareholder returns.

We have a very strong track record in this regard, with a progressive improvement in our cost-to-income ratio in recent years



These gains have not been achieved through indiscriminate cost cutting, nor have they been achieved by under investing in our business. We have invested over \$1 billion back into the business in each of the past four years.

Through our Technology and Operational Excellence strategy, we are well advanced in achieving our goal of transforming the Group's domestic banking operations into the most efficient in Australia.

From a technology perspective, much of the focus to date has been on improving our front end, customer facing systems, to improve the productivity of our staff and to better enhance the customer experience. As a result, the Bank now offers the leading range of frontline banking systems and delivery platforms in the Australian market, including:

- CommSee – our leading edge customer interface system, which was rolled out across our branch and call centre networks in 2006/07;
- NetBank – our market leading online and mobile banking solution, with almost six million registered users;
- CommBiz – our innovative secure online banking solution which has made banking so much easier for our business customers;
- CommSec – for 15 years the leading online retail broking platform, accounting for over 50% of all online retail trades in the market; and
- FirstChoice – providing customers with real time access to secure superannuation and investment portfolio information and transacting capabilities.

The next stage of this efficiency evolution is our Core Banking Modernisation programme.

Chief Executive Officer's Statement

I am tremendously excited about the potential of Core Banking. This is truly a transformational undertaking which I believe will revolutionise the way we do banking in this country. Once completed in 2012, we will have transitioned our Australian banking business to a completely new core operating platform, replacing the myriad of old standalone systems previously operating across the various divisions of the Bank.

Since launch in April 2008, we have achieved every key milestone we have set for ourselves, including:

- Migrated over 50 million customer records to the new platform;
- Migrated over 10 million deposit and transaction accounts to the new platform – the largest banking migration in Australian history; and
- Replaced overnight “batch” processing with real time, 24/7 banking for millions of customers.

The benefits of real time transactions are already being seen in customer service improvements and I continue to receive many positive comments from customers on the real time functionality of our new systems.

However, it is important not to look on Core Banking as being simply a technology upgrade. Supporting the technology component of the programme is a comprehensive change programme that is designed to ensure we achieve maximum leverage and benefit from this investment through changes to staff roles, dedicated training programmes and specialised sales and marketing processes.

With Core Banking we are building a valuable strategic asset for the Bank, which will ensure we remain at the forefront of banking efficiency and productivity for many years to come.

4. Profitable Growth

Our Profitable Growth strategy is about maintaining discipline in the Group's growth agenda, be it organically generated growth in our traditional markets or our investments in new markets. Put simply, it means ensuring we earn an appropriate level of return for all our growth strategies and investments.

Our track record in this regard has been good.

The Group's acquisition of Bankwest in 2008 is an excellent example of this discipline in practice. By acquiring these businesses at a highly attractive price, the Group obtained a strong business with an important presence in one of Australia's fastest growing states, with strong leverage to the mining and resources boom.

Another key platform of our Profitable Growth strategy is that of Asia, where we have been pursuing a considered, prudent and focussed growth strategy over many years. For several years we have operated the largest foreign network in Indonesia, and we hold 20% stakes in two City Commercial Banks in China, the maximum foreign ownership allowed in that country.

Over the past 12 months we have made further progress with:

- The launch of our BoComm Life Joint Venture in China;
- The opening of a branch in Shanghai China;
- The opening of the first CBA branch in India;
- The acquisition of a 15% shareholding in Vietnam International Bank;
- The expansion of our existing networks in other countries, with a further ten branches opened in Indonesia and 43 new ATM's installed across Indonesia and Vietnam; and
- The opening of three County Banks in Jiyuan, DengFeng and Lankao, China.

Our Asian growth story is very much focussed on selective targeted expansion in key growth regions, achieved through a patient, on the ground understanding of local markets and jurisdictions built up over many years.

Profitable Growth is not solely about acquisitions and overseas expansions. Profitable Growth plays just as important a role in our core domestic businesses, ensuring we continue to manage these in a way which optimises returns and value to shareholders while meeting the needs of our customers. It ensures we are continually refining and adjusting our areas of focus, to take advantage of those opportunities which offer the greatest return at any particular point in time. We are not an organisation which chases market share for market share's sake.

Profitable growth is all about balancing shareholder value and customer needs. Our single minded focus in this regard has enabled us to navigate the GFC from a position of relative strength, and has seen us continue to outperform, as we fine-tune this organisation to meet the challenges of the new environment.

5. Trust and Team Spirit

Finally, I would like to talk about our people.

All of the success we have had is due to the hard work, enthusiasm and commitment of our people. They are the ones who serve our customers every day, who process the transactions, who answer the enquiries in our call centres, and who ensure loans are processed and funded in a timely manner.

Every day there are millions of interactions between our staff and our customers, and the overwhelming majority of these interactions are handled professionally and with the highest level of customer service. The gains we have made in customer satisfaction are testimony to the efforts and commitment of our people.

One of the most pleasing parts of my job as CEO of the Commonwealth Bank is to read the many customer compliments that I receive every day, highlighting the numerous examples of situations where our staff have delighted a customer so much that they have felt compelled to write to me to share the experience.

Every day I have the opportunity to talk to staff all across this organisation, and I am constantly impressed by the level of enthusiasm they display, and of their absolute commitment to our journey to be number one in customer satisfaction. More than any other factor, the energy and drive of the people I meet every day gives me the utmost confidence that we will achieve this goal in the very near future.

Chief Executive Officer's Statement

Summary

The Commonwealth Bank has a proud and distinguished history. For almost a century, we have been the financial services organisation that many Australians have relied on for their banking and financial needs – from their first banking account, to a loan for their first car, to their first home loan, to saving for retirement.

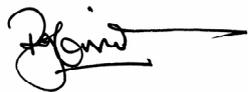
Over the course of those 100 years, we have undergone many changes. Today, we are a significantly more diverse organisation. From our relatively humble beginnings we are now a global banking organisation, with a strong and growing presence outside this country in New Zealand, Asia and around the world.

In that time, we have faced many challenges, the most recent and perhaps most significant of these being the Global Financial Crisis.

As has always been the case, this organisation not only met this challenge, but emerged from it a stronger organisation than we have ever been.

The current operating environment poses its own challenges, its own set of problems and issues.

The message I would like to leave you with is that I am extremely confident that as an organisation we are well placed to meet these challenges, and continue to deliver consistently strong returns to you, our shareholders.

A handwritten signature in black ink, appearing to read 'Ralph Norris', with a long horizontal line extending to the right from the end of the signature.

Ralph Norris

Chief Executive Officer

10 August 2011

Group Performance Highlights

Net Profit after Income Tax	Full Year Ended		Half Year Ended	
	30/06/11	30/06/10	30/06/11	31/12/10
	\$M	\$M	\$M	\$M
Statutory basis	6,394	5,664	3,342	3,052
Cash basis	6,835	6,101	3,500	3,335

The Group's net profit after tax ("statutory basis") for the year ended 30 June 2011 was \$6,394 million, up 13% on the prior year.

Return on equity ("statutory basis") was 18.4% and Earnings per share ("statutory basis") was 411.2 cents, up 12% on the prior year.

The Management Discussion and Analysis discloses the net profit after tax on both a "statutory basis" and a "cash basis". The statutory basis is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). The cash basis is used by management to present a clear view of the Group's underlying operating results, excluding a number of items that introduce volatility and/or one off distortions of the Group's current period performance. These items, such as hedging and IFRS volatility, are calculated consistently year on year and do not discriminate between positive and negative adjustments. A complete list of items excluded from statutory profit is provided in the reconciliation of the Net profit after tax ("cash basis") on page 12 and described in greater detail on page 18.

This result was achieved in a challenging environment where the impacts of the Global Financial Crisis (GFC) continue to linger. Credit growth remains at historic lows, business and consumer confidence is fragile and there is significant uncertainty in global markets.

Despite these difficult conditions, the Group, with its well managed, diversified business model and strong and stable financial platform, has delivered another solid result. This has been supported by a continued disciplined approach to the execution of the Group's five strategic priorities and prudent management in uncertain times.

Operating income growth was impacted by a low credit growth environment, strong competition, particularly in the home lending and deposit markets, together with difficult trading conditions for the Markets and Wealth businesses.

Operating expenses were managed tightly, laying the platform for continued investment in the business, including the effective execution of the Core Banking initiative which is now past the half way stage, having achieved significant milestones during the year.

Impairment expense continued to decrease as credit quality gradually improved however some of the Group's customers are finding business conditions challenging. The Group has maintained a conservative approach to provisioning.

Net profit after tax ("cash basis") for the year ended 30 June 2011 was \$6,835 million, which represented an increase of 12% on the prior year.

Cash earnings per share increased 11% to 438.7 cents per share.

Return on Equity ("cash basis") for the year ended 30 June 2011 was 19.5%, up 80 basis points on the prior year, reflecting increased profitability and effective capital management.

Performance highlights include:

- "Bank of the Year" in the 2011 Money Magazine Awards, for the second year in a row;

- Awarded the "Australian Financial Institution of the Year – Major Banks" at the 2011 Australian Banking and Finance Awards;
- Continued investment in the business, including the Core Banking Modernisation initiative with customers now enjoying the benefits of real time banking; and
- The Group achieved a major milestone when its first teams began working out of new state-of-the-art buildings in Sydney's Darling Harbour. This facility will be home to approximately 6,300 staff by early next year.

Capital and Funding

The Group maintained a strong capital position and remains one of a handful of global banks with a AA credit rating. The Tier One capital ratio was 10.01%, up 86 basis points over the year.

The Group remains well funded which has enabled it to provide ongoing support to customers. Strong deposit growth coupled with subdued system credit growth has seen the Group satisfy a significant proportion of its funding requirements from domestic deposits.

Customer deposits made up 61% of the Group's total funding source at 30 June 2011, up from 58% in the prior year. Customer deposits increased \$26 billion to \$349 billion.

Recent initiatives by global regulators have helped to clarify future capital and liquidity requirements for the Australian banking industry. The G-20 and Basel III initiatives regarding capital are manageable within the timeframes however the new liquidity rules require further clarification.

The Group remains actively involved in the consultation process, working closely with other industry participants and the regulators.

Dividends

The final dividend declared was \$1.88 per share, up 11% on the prior year. The total dividend for the year to 30 June 2011 was \$3.20, taking the dividend payout ratio ("cash basis") to 73.2%.

The final dividend payment will be fully franked and will be paid on 6 October 2011 to owners of ordinary shares at the close of business on 19 August 2011 ("record date"). Shares will be quoted ex-dividend on 15 August 2011.

Outlook

The 2011 financial year has been a challenging one for the Group and many of its customers. While the resources sector has continued to perform well, many other parts of the economy have been impacted by a range of headwinds including fragile consumer confidence, political uncertainty, a high Australian dollar and natural disasters.

Ongoing offshore instability, often flowing from the GFC, continues to impact the domestic economy and has the potential to place further upward pressure on wholesale funding costs for the domestic banking industry.

The 2011 financial year has been characterised by subdued system credit growth and intense competition. At this stage there is nothing to suggest that the 2012 financial year will see any material improvement nor is it clear what the catalyst will be for a meaningful revival in consumer and corporate confidence which is prerequisite to stronger demand for credit.

Against this backdrop the Group will continue to operate in a disciplined and prudent manner with a focus on driving productivity initiatives which will deliver sustainable improvements in business performance. The Group's priority is to maintain a robust and stable financial and operating platform, which will enable us to support our customers and provide superior returns to shareholders.

Highlights

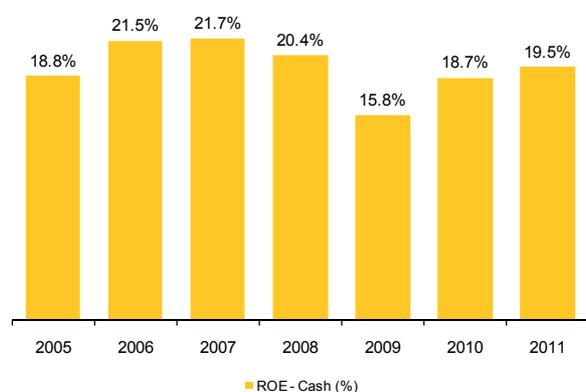
Group Performance Summary	Full Year Ended			Half Year Ended			Statutory Full Year Ended	
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %	30/06/11	Jun 11 vs Jun 10 %
	\$M	\$M		\$M	\$M		\$M	
Net interest income	12,658	11,868	7	6,488	6,170	5	12,607	6
Other banking income	3,983	4,112	(3)	1,924	2,059	(7)	3,630	(14)
Total banking income	16,641	15,980	4	8,412	8,229	2	16,237	1
Funds management income	2,041	1,898	8	1,024	1,017	1	2,042	6
Insurance income	856	945	(9)	398	458	(13)	1,118	(9)
Total operating income	19,538	18,823	4	9,834	9,704	1	19,397	1
Investment experience	121	236	(49)	86	35	large	n/a	n/a
Total income	19,659	19,059	3	9,920	9,739	2	19,397	1
Operating expenses	(8,891)	(8,601)	3	(4,483)	(4,408)	2	(9,060)	4
Loan impairment expense	(1,280)	(2,075)	(38)	(558)	(722)	(23)	(1,280)	(46)
Net profit before tax	9,488	8,383	13	4,879	4,609	6	9,057	11
Corporate tax expense ⁽¹⁾	(2,637)	(2,266)	16	(1,372)	(1,265)	8	(2,647)	5
Non-controlling interests ⁽²⁾	(16)	(16)	-	(7)	(9)	(22)	(16)	-
Net profit after tax ("cash basis")	6,835	6,101	12	3,500	3,335	5	n/a	n/a
Hedging and IFRS volatility	(265)	17	large	(49)	(216)	(77)	n/a	n/a
Bankwest non-cash items	(147)	(216)	(32)	(99)	(48)	large	n/a	n/a
Tax on NZ structured finance transactions	-	(171)	large	-	-	-	n/a	n/a
Other non-cash items	(29)	(67)	(57)	(10)	(19)	(47)	n/a	n/a
Net profit after tax ("statutory basis")	6,394	5,664	13	3,342	3,052	10	6,394	13
Represented by:								
Retail Banking Services ⁽³⁾	2,845	2,461	16	1,453	1,392	4		
Business and Private Banking ⁽³⁾	1,039	898	16	532	507	5		
Institutional Banking and Markets ⁽³⁾	1,004	1,173	(14)	506	498	2		
Wealth Management	642	718	(11)	283	359	(21)		
New Zealand	470	388	21	236	234	1		
Bankwest	463	(45)	large	239	224	7		
Other ⁽³⁾	372	508	(27)	251	121	large		
Net profit after tax ("cash basis")	6,835	6,101	12	3,500	3,335	5		
Investment experience - after tax	(81)	(178)	(54)	(52)	(29)	79		
Net profit after tax ("underlying basis")	6,754	5,923	14	3,448	3,306	4		

(1) For purposes of presentation, Policyholder tax expense components of Corporate tax expense are shown on a net basis (30 June 2011: \$166 million, 30 June 2010: \$130 million and for the half years ended 30 June 2011: \$66 million and 31 December 2010: \$100 million).

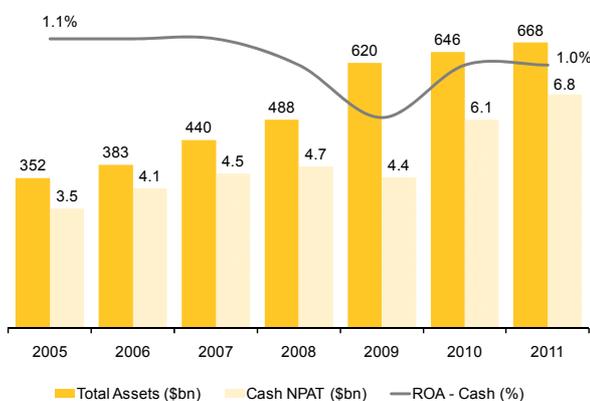
(2) Non-controlling interests include preference dividends paid to holders of preference shares in ASB Capital Limited and ASB Capital No.2 Limited.

(3) Comparatives have been restated for the impact of business resegmentation.

Group Return on Equity



Group Return on Assets



Highlights

Shareholder Summary	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs	30/06/11	31/12/10	Jun 11 vs
			Jun 10 %			Dec 10 %
Dividends per share - fully franked (cents)	320	290	10	188	132	42
Dividend cover - cash (times)	1.4	1.4	-	1.2	1.6	(25)
Earnings per share (cents)						
Statutory basis - basic	411.2	367.9	12	214.7	196.5	9
Cash basis - basic	438.7	395.5	11	224.4	214.3	5
Dividend payout ratio (%)						
Statutory basis	78.3	79.7	(140)bpts	88.2	67.5	large
Cash basis	73.2	73.9	(70)bpts	84.2	61.7	large
Weighted average no. of shares - statutory basic (M)	1,545	1,527	1	1,547	1,542	-
Weighted average no. of shares - cash basic (M)	1,548	1,531	1	1,551	1,546	-
Return on equity - cash (%)	19.5	18.7	80 bpts	20.0	19.2	80 bpts

Credit Ratings

	Long-term	Short-term	Outlook
Fitch Ratings	AA	F1+	Stable
Moody's Investor Services ⁽¹⁾	Aa2	P-1	Stable
Standard & Poor's	AA	A-1+	Stable

(1) On 18 May 2011, Moody's Investor Services downgraded the long-term credit ratings of the Bank along with the other three major Australian banks.

Market Share Percentage	As at		
	30/06/11	31/12/10	30/06/10
	%	%	%
Home loans	25.7	25.9	26.1
Credit cards ^{(1) (2)}	22.6	22.7	22.5
Personal lending (APRA and other Household) ⁽³⁾	14.9	14.6	14.6
Household deposits	30.0	30.5	31.3
Retail deposits ^{(1) (4)}	26.9	26.7	27.4
Business Lending - APRA	18.1	18.6	19.5
Business Lending - RBA ⁽¹⁾	17.0	17.2	17.4
Business Deposits - APRA	21.2	21.3	22.9
Asset Finance	14.8	14.6	14.3
Equities trading	5.9	5.7	6.3
Australian Retail - administrator view ^{(1) (5)}	15.0	15.0	14.6
FirstChoice Platform ^{(1) (5)}	11.3	11.2	10.9
Australia (total risk) ^{(1) (5)}	12.4	12.5	12.6
Australia (individual risk) ^{(1) (5)}	13.3	13.3	13.3
NZ Lending for housing	22.2	22.4	22.8
NZ Retail Deposits	21.4	21.2	21.6
NZ Lending to business ⁽¹⁾	9.1	9.2	9.5
NZ Retail FUM ⁽¹⁾	14.4	14.5	17.9
NZ Annual inforce premiums	29.9	30.3	31.0

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

(2) As at 31 May 2011.

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

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

(5) As at 31 March 2011.

Highlights

Key Performance Indicators	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %
Group						
Cash profit after tax (\$M)	6,835	6,101	12	3,500	3,335	5
Net interest margin (%)	2.19	2.13	6 bpts	2.25	2.12	13 bpts
Average interest earning assets (\$M) ⁽¹⁾	576,369	553,735	4	578,982	573,800	1
Average interest bearing liabilities (\$M) ⁽¹⁾	538,843	521,338	3	540,772	536,948	1
Funds management income to average FUA (%)	1.04	1.02	2 bpts	1.04	1.04	-
Funds Under Administration (FUA) - average (\$M)	196,254	186,418	5	198,851	194,011	2
Insurance income to average inforce premiums (%)	41.5	47.1	large	39.2	44.9	large
Average inforce premiums (\$M)	2,063	2,005	3	2,050	2,022	1
Operating expenses to total operating income (%)	45.5	45.7	(20)bpts	45.6	45.4	20 bpts
Effective corporate tax rate (%)	27.8	27.0	80 bpts	28.1	27.4	70 bpts
Retail Banking Services⁽²⁾						
Cash net profit after tax (\$M)	2,845	2,461	16	1,453	1,392	4
Operating expenses to total banking income (%)	38.7	39.5	(80)bpts	38.6	38.7	(10)bpts
Business and Private Banking⁽²⁾						
Cash net profit after tax (\$M)	1,039	898	16	532	507	5
Operating expenses to total banking income (%)	43.7	44.9	(120)bpts	44.3	43.2	110 bpts
Institutional Banking and Markets⁽²⁾						
Cash net profit after tax (\$M)	1,004	1,173	(14)	506	498	2
Operating expenses to total banking income (%)	33.6	32.0	160 bpts	34.2	32.9	130 bpts
Wealth Management						
Cash profit after tax (\$M)	642	718	(11)	283	359	(21)
FUA - average (\$M)	188,866	179,802	5	191,252	186,849	2
Average inforce premiums (\$M)	1,612	1,572	3	1,608	1,580	2
Funds management income to average FUA (%)	1.05	1.01	4 bpts	1.05	1.04	1 bpt
Insurance income to average inforce premiums (%)	38.8	43.5	(470)bpts	35.7	42.7	large
Operating expenses to net operating income (%) ⁽³⁾	61.6	60.1	150 bpts	65.6	57.7	large
New Zealand						
Cash profit after tax (\$M)	470	388	21	236	234	1
FUA - average (\$M)	7,388	6,616	12	7,599	7,162	6
Average inforce premiums (\$M)	451	433	4	442	442	-
Funds management income to average FUA (%)	0.54	0.70	(16)bpts	0.53	0.55	(2)bpts
Insurance income to average inforce premiums (%)	46.8	49.2	(240)bpts	47.9	47.6	30 bpts
Operating expenses to total operating income (%)	51.1	53.2	(210)bpts	51.3	51.0	30 bpts
Bankwest						
Cash net profit after tax (\$M)	463	(45)	large	239	224	7
Operating expenses to total banking income (%)	53.0	56.1	(310)bpts	52.3	53.7	(140)bpts
Capital Adequacy						
Common Equity (%)	7.66	6.86	80 bpts	7.66	7.35	31 bpts
Tier One (%)	10.01	9.15	86 bpts	10.01	9.71	30 bpts
Total Capital (%)	11.70	11.49	21 bpts	11.70	11.50	20 bpts

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

(2) Comparatives have been restated for the impact of business resegmentation.

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

Group Performance Analysis

Financial Performance and Business Review

The Group's net profit after tax ("cash basis") for the year ended 30 June 2011 was \$6,835 million, which represented a 12% increase on the prior year.

Earnings per share ("cash basis") increased 11% on the prior year to 438.7 cents per share, whilst Return on equity ("cash basis") increased 80 basis points to 19.5%.

This solid result was achieved in an environment where the impacts of the GFC continue to linger. Credit growth remains at historic lows, business and consumer confidence is fragile and there is significant uncertainty in global markets. Despite the challenging market conditions, effective execution of the Group's five strategic priorities has driven a sound financial performance. The result was characterised by:

- Net interest income increased 7% to \$12,658 million, reflecting a six basis point increase in net interest margin and 4% growth in average interest earning assets;
- Other banking income declined 3% to \$3,983 million, with reduced retail fees and commissions, lower CommSec brokerage and Markets trading income partly offset by higher bills income and improved Treasury earnings derived through management of short dated interest rate exposures;
- Funds management income increased 8% to \$2,041 million, supported by a 5% increase in average funds under administration and stronger investment performance, partly offset by the appreciation of the Australian dollar;
- Insurance income declined 9% to \$856 million, partly reflecting the sale of the St Andrew's insurance business. After adjusting for the sale of St Andrew's, insurance income decreased 4% due to higher claims in the wholesale and retail life businesses;
- Operating expenses increased 3% on the prior year to \$8,891 million, with 1% of the growth driven by continued investment in projects supporting the Group's strategic priorities. Operating expenses, excluding investment expenses, increased 2% reflecting the Group's disciplined approach and continued focus on productivity initiatives which have delivered operational efficiencies; and
- Impairment expense decreased 38% to \$1,280 million, mainly reflecting lower Bankwest property related impairments.

The Group's net profit after tax ("cash basis") for the half year ended 30 June 2011 increased 5% on the prior half, underpinned by a 13 basis point improvement in net interest margin and lower loan impairment expense.

More comprehensive disclosure of performance highlights by key business segments is contained on pages 22-40.

Net Interest Income

Net interest income increased by 7% on the prior year to \$12,658 million. This was a result of growth in average interest earning assets of 4% together with a six basis point improvement in net interest margin to 2.19%.

Net interest income increased by 5% on the prior half driven by average interest earning assets growth of 1% and a 13 basis point improvement in net interest margin.

Average Interest Earning Assets

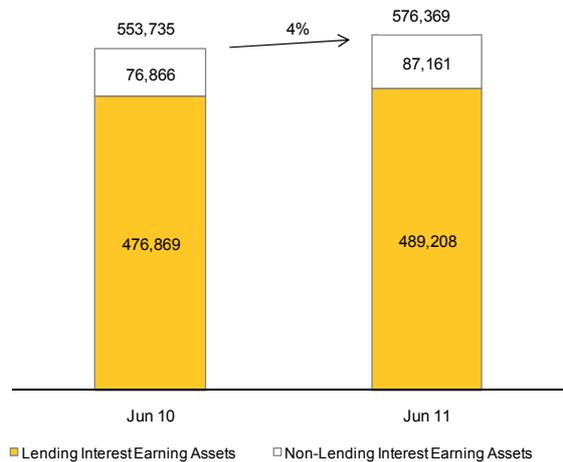
Average interest earning assets increased by \$22 billion on the prior year to \$576 billion, reflecting a \$12 billion increase in average lending interest earning assets and a \$10 billion increase in average non-lending interest earning assets.

Home loan average balances, excluding the impact of securitisation, increased by \$20 billion or 7% since 30 June 2010 to \$318 billion.

Average balances for business and corporate lending decreased by \$8 billion since 30 June 2010 to \$150 billion, largely due to institutional clients deleveraging their balance sheets, a strategic shift away from higher risk property and complex lending in Bankwest and the impact of the strengthening Australian dollar on foreign currency denominated loans.

Average non-lending interest earning assets have increased \$10 billion since 30 June 2010 due to higher levels of liquid assets driven by balance sheet growth and in anticipation of future regulatory requirements.

Average Interest Earning Assets (\$M)



Net Interest Margin

The Group's net interest margin increased six basis points compared to the prior year to 2.19%. The Australian contribution to Group net interest margin (which excludes the IFRS reclassification and New Zealand) decreased one basis point. The key drivers were:

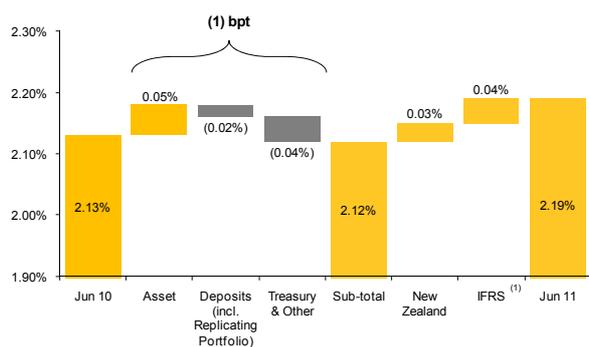
Asset pricing and mix: Increase in margin of five basis points, reflecting the impact of repricing on home loans (six basis points) and personal loans (one basis point), partly offset by a reduction in business lending margins (one basis point). The solid growth in home loans relative to business lending, which has a higher average margin, resulted in a negative mix impact (one basis point).

Deposit pricing and mix: Decrease of two basis points as market competition for retail deposits continues to impact Investment account margins (one basis point). In addition, the favourable impact of the increasing cash rate environment on transaction and savings account margins has been offset by a reduction in replicating portfolio benefit and ongoing market competition (one basis point).

Treasury and other: Decrease of four basis points driven by holding higher levels of non-lending interest earning assets.

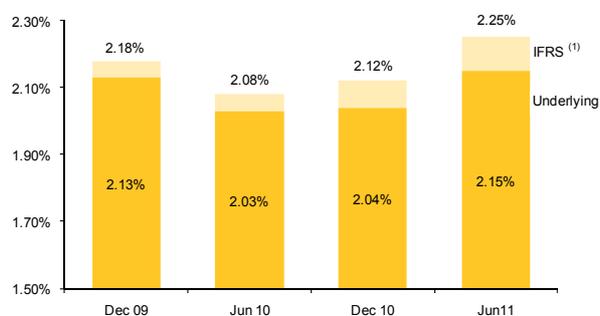
Group Performance Analysis

NIM movement since June 2010



The New Zealand contribution to Group net interest margin has increased three basis points compared to 30 June 2010. This reflected a shift in portfolio mix as customers switched from fixed to variable rate home loans together with repricing initiatives.

Group NIM (Half Year Ended)



Over the last six months, net interest margin increased 13 basis points compared to the prior half to 2.25%. Excluding the IFRS reclassification⁽¹⁾, the underlying net interest margin for the Group increased 11 basis points. This was mainly due to asset repricing (seven basis points).

Other Banking Income

	Full Year Ended		Half Year Ended	
	30/06/11	30/06/10	30/06/11	31/12/10
	\$M	\$M	\$M	\$M
Commissions	1,946	2,006	961	985
Lending fees	1,467	1,435	760	707
Trading income	717	597	291	426
Other income	351	333	183	168
	4,481	4,371	2,195	2,286
IFRS reclassification of net swap costs ⁽¹⁾	(498)	(259)	(271)	(227)
Other banking income	3,983	4,112	1,924	2,059

(1) The reclassification from Net interest income to Other banking income relates to certain economic hedges which do not qualify for IFRS hedge accounting.

Excluding the impact of IFRS reclassification of net swap costs, other banking income increased 3% on the prior year to \$4,481 million.

Factors impacting other banking income were:

- **Commissions:** decreased 3% on the prior year to \$1,946 million. This was primarily driven by lower dishonour exception fees, customer migration to lower fee products and lower contract note volumes in CommSec;
- **Lending fees:** increased 2% on the prior year to \$1,467 million. This was driven by higher commercial bill income, partially offset by lower early repayment and overdrawn exception fees;
- **Trading income:** increased 20% on the prior year to \$717 million. This was due to improved Treasury earnings relating to the management of short dated interest rate exposures, partly offset by lower Institutional Banking and Markets earnings impacted by a challenging environment characterised by lower domestic volatility, flattening yield curves and narrowing credit spreads; and
- **Other income:** increased 5% on the prior year to \$351 million mainly due to higher leasing fee income.

Excluding the impact of the IFRS reclassification of net swap costs, other banking income decreased 4% on the prior half. This was mainly driven by lower Markets income following continued challenging market conditions together with a decrease in the counterparty fair value adjustment.

Funds Management Income

	Full Year Ended		Half Year Ended	
	30/06/11	30/06/10	30/06/11	31/12/10
	\$M	\$M	\$M	\$M
CFS GAM	907	789	458	449
Colonial First State	860	811	434	426
CommInsure	208	224	101	107
New Zealand and Other	66	74	31	35
Funds management income	2,041	1,898	1,024	1,017

Funds Management income increased 8% on the prior year to \$2,041 million. This outcome was supported by a 5% increase in average funds under administration (FUA) to \$196 billion. Internationally sourced fund flows were solid and FirstChoice and FirstWrap attracted their share of net flows ahead of system.

Investment performance was solid but impacted by difficult market conditions, particularly through the quarter leading up to 30 June 2011. Base fee contributions were higher as a result of improved business mix. This was partially offset by the continued strengthening of the Australian dollar.

Funds management income to average FUA increased by two basis points to 1.04% compared to the prior year, mainly reflecting improved business mix.

Funds management income increased 1% compared to the prior half. Average FUA growth was 2%, with investment performance being subdued and the Australian dollar continuing to appreciate.

Group Performance Analysis

Insurance Income

	Full Year Ended		Half Year Ended	
	30/06/11	30/06/10	30/06/11	31/12/10
	\$M	\$M	\$M	\$M
CommInsure	625	630	285	340
New Zealand and Other	231	261	113	118
	856	891	398	458
St Andrew's Insurance	-	54	-	-
Insurance income	856	945	398	458

Insurance income decreased 9% on the prior year to \$856 million. On 1 July 2010 the Group completed the sale of the St Andrew's insurance business. Excluding St Andrew's from the prior year, insurance income decreased by 4%. This result was impacted by higher claims in the wholesale and retail life businesses. The general insurance business saw improved performance with inforce premium growth of 7% together with improved claims despite the impact of severe weather events.

Insurance income decreased 13% compared to the prior half. While inforce premiums increased 4%, the result was impacted by higher life insurance claims.

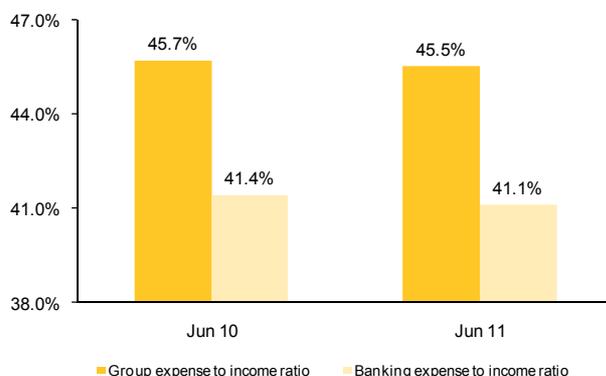
Operating Expenses

Operating expenses increased 3% on the prior year to \$8,891 million. Of this increase, 1% was driven by continued investment in projects supporting the Group's strategic priorities, including the Core Banking Modernisation initiative. Operating expenses, excluding investment expenses, increased only 2% on the prior year. This reflects the Group's continued focus on productivity initiatives which have delivered operational efficiencies. This was offset by inflation-related salary increases, investment in staff (with full time equivalent employees increasing by 2%) and higher defined benefit superannuation plan expense (30 June 2011: \$137 million; 30 June 2010: \$103 million).

Operating expenses increased 2% on the prior half mainly driven by higher technology expenses.

Group Expense to Income Ratio

The expense to income ratio decreased by 20 basis points over the prior year to 45.5%. Whilst income growth has slowed, the Group maintained a continued focus on technology and operational efficiencies.

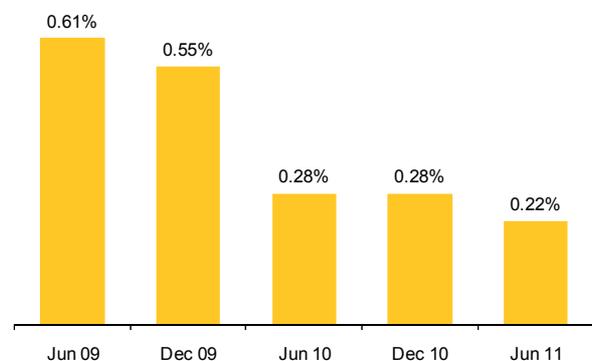


Loan Impairment Expense

Loan impairment expense for the year was \$1,280 million, representing 25 basis points of average gross loans and acceptances. Loan impairment expense decreased 38% on the prior year, largely driven by:

- A significant reduction in Bankwest's loan impairment expense following the detailed review and increased provisioning of the business banking portfolio in the prior year;
- Improved average arrears rates in the unsecured retail portfolio in this financial year resulting in a lower collective provision charge for these portfolios; and
- Improvement in ASB's loan impairment expense in line with the improvement of the economic environment in New Zealand. This improvement has been partially offset by provisions set aside to assist customers impacted by the Christchurch earthquakes.

Half Year Impairment Expense (annualised) as a % of Average Gross Loans and Acceptances

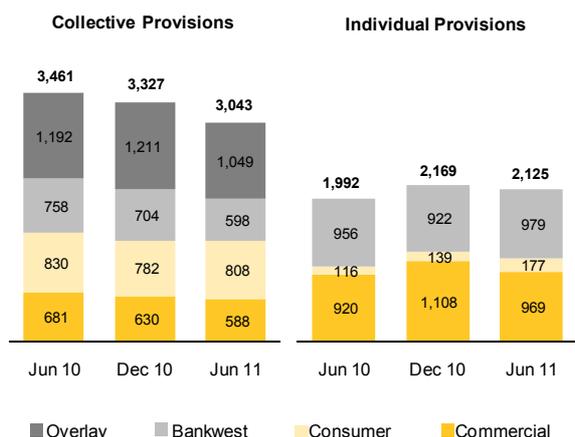


Provisions for Impairment

The Group maintains a prudent and conservative approach to provisioning, with total provisions for impairment losses of \$5,168 million as at 30 June 2011, which is a 5% reduction compared to 30 June 2010. The current level of provision reflects:

- A reduction of Bankwest provisions as pre-acquisition troublesome or impaired loans run off, and the credit quality of new loans improve;
- Increased CBA individually assessed provisions associated with new impaired loans as the conservative coverage of impaired loans continues; and
- A decline in management overlay as the modelled overlay reduced in line with the reduction in the base collective provisions. This was partly offset by a slight increase in the economic overlay.

Group Performance Analysis



Taxation Expense

The corporate tax expense was \$2,637 million, representing an effective tax rate of 27.8%.

The effective tax rate is below the Australian company tax rate of 30% primarily as a result of the profit earned by the offshore banking unit and offshore jurisdictions that have lower corporate tax rates.

Non-cash items included in statutory profit

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

Hedging and IFRS volatility

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

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

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

Fair value gains or losses on all of these economic hedges are excluded from cash profit since the asymmetric recognition of the gains or losses does not affect the Group's performance over the life of the hedge. A \$265 million after tax loss was recognised in statutory profit for the year ended 30 June 2011 (2010: \$17 million gain).

Bankwest non-cash items

Integration expenses: As part of the acquisition of Bankwest, the Group has incurred \$246 million of integration expenses since acquisition. A \$66 million after tax expense was recognised in the year ended 30 June 2011 (2010: \$29 million expense).

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

Merger related amortisation: The acquisition of Bankwest resulted in the recognition of fair value adjustments on certain financial instruments, core deposits and brand name intangible assets that will be amortised over their useful lives. An \$81 million after tax expense was recognised in the year ended 30 June 2011 (2010: \$25 million gain).

Loan impairment: In the prior year, a \$212 million after tax loan impairment expense was recognised relating to Bankwest pre-acquisition loans. This non-cash treatment was consistent with the treatment of the gain on acquisition of Bankwest.

Tax on NZ structured finance transactions

A \$171 million tax expense on New Zealand structured finance transactions was recognised in the prior year representing a significant one-off impact from an adverse tax ruling which ASB Bank and the New Zealand Commissioner of Inland Revenue settled in December 2009.

Gains/losses on disposal of controlled entities/investments

The statutory profit for the current year includes a \$7 million after tax loss mainly representing the loss on sale of the St Andrew's insurance business (2010: \$23 million after tax loss from the disposal of the Group's Fiji operations and sale of Visa shares).

Treasury shares valuation adjustment

Under IFRS, CBA shares held by the Group in the managed funds and life insurance businesses are defined as treasury shares and are held at cost. Unrealised gains or losses are recognised in cash profit representing the underlying performance of the asset portfolio attributable to the wealth and life insurance businesses. These unrealised gains or losses are reversed as a non-cash item for statutory reporting purposes. A \$22 million after tax gain was included in cash profit in the year ended 30 June 2011 (2010: \$44 million gain).

Policyholder tax

Policyholder tax is included in the Wealth Management business results for statutory reporting purposes. In the year ended 30 June 2011, tax expense of \$166 million (2010: \$130 million tax expense), funds management income of \$62 million (2010: \$50 million income) and insurance income of \$104 million (2010: \$80 million income) was recognised. The gross up of these items are excluded from cash profit as they do not reflect the underlying performance of the business which is measured on a net of policyholder tax basis.

Core Banking Modernisation

Gross investment spend remained strong during the year at \$1,179 million, with the primary focus being on the Core Banking Modernisation (CBM) initiative. The CBM initiative continues to make significant progress. Highlights over the year include the:

- Launch of new retail savings and transaction account functionality, with over 1.2 million new accounts opened on the new platform;
- Successful migration of 10 million retail savings and transaction accounts onto the new platform, allowing these customers to enjoy the benefits of real time banking and providing the organisation with streamlined customer centric processes; and
- Development of business savings and transaction account functionality.

Group Performance Analysis

The 2012 financial year will see the launch of business savings and transaction account functionality and migration of an additional one million business savings and transaction accounts onto the platform. In addition, SAP will be implemented as the primary customer solution for the Group, with the existing customer system decommissioned. Planning for the lending phases of the initiative has begun, with development commencing in the 2012 financial year.

Credit Quality

During the year ended 30 June 2011, the credit quality of the business and corporate portfolios gradually improved. The retail portfolios arrears improved over the first half, however there were some increases in arrears over the second half of the year.

Home loan arrears reduced over the first half of the year, but that trend reversed over the second half with 30+ day arrears increasing over the full year from 1.90% to 2.08% and 90+ day arrears increasing from 1.02% to 1.17%. The increase in arrears is due to loans originated in 2008 and early 2009, along with the impact from some home owners finding it difficult to service their higher monthly payments arising from increasing interest rates. The increase in arrears also reflects assistance provided to customers for natural disasters.

Unsecured retail arrears improved substantially over the first half of the year but experienced some deterioration over the second half. Credit Card 30+ days arrears fell from 3.09% to 2.99% over the year, and 90+ days arrears increased slightly from 1.14% to 1.20%. Personal Loans showed significant improvement over the year with 30+ day arrears falling from 3.69% to 3.07% and 90+ days arrears falling from 1.52% to 1.26%.

The CBA commercial and institutional portfolio improved during the year with more upgrades than downgrades. In addition, troublesome assets reduced and impaired assets remained stable throughout the year.

In New Zealand, asset quality continued to improve with the broader economy.

Gross impaired assets were \$5,297 million as at 30 June 2011, broadly in line with 30 June 2010. Gross impaired assets as a proportion of Gross Loans and Acceptances of 1.02% remained stable compared to 30 June 2010. The impaired asset portfolio remains well provisioned with provision coverage of 40.12%.

Loans 90 days past due but not impaired have increased to 0.73% of gross loans and acceptances, from 0.65% at 30 June 2010.

Other Credit Quality Metrics	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %
Gross loans and acceptances (\$M)	518,075	512,838	1	518,075	509,779	2
Risk weighted assets (RWA) (\$M)	281,711	290,821	(3)	281,711	285,563	(1)
Credit risk weighted assets (\$M)	246,742	256,763	(4)	246,742	244,608	1
Gross impaired assets (\$M)	5,297	5,216	2	5,297	5,184	2
Net impaired assets (\$M)	3,172	3,224	(2)	3,172	3,015	5
Collective provision as a % of risk weighted assets	1.08	1.19	(11)bpts	1.08	1.17	(9)bpts
Total provision as a % of credit risk weighted assets	2.09	2.12	(3)bpts	2.09	2.25	(16)bpts
Collective provision as a % of gross loans and acceptances	0.59	0.67	(8)bpts	0.59	0.65	(6)bpts
Individually assessed provisions for impairment as a % of gross impaired assets	40.12	38.19	193 bpts	40.12	41.84	(172)bpts
Impairment expense annualised as a % of average RWA - cash basis ⁽¹⁾	0.45	0.71	(26)bpts	0.40	0.50	(10)bpts
Impairment expense annualised as a % of average gross loans and acceptances - cash basis ⁽²⁾	0.25	0.41	(16)bpts	0.22	0.28	(6)bpts

(1) Impairment expense as a percentage of average RWA including the Bankwest non-cash loan impairment expense of \$304 million was 0.81% for the year ended 30 June 2010.

(2) Impairment expense as a percentage of average gross loans and acceptances including the Bankwest non-cash loan impairment expense of \$304 million was 0.48% for the year ended 30 June 2010.

Group Performance Analysis

Review of Group Assets and Liabilities

Asset growth of \$22 billion or 3% over the prior year, was driven mainly by growth in home lending and non-lending interest earning assets, partly offset by lower business and corporate lending balances as a result of institutional clients deleveraging and strengthening of the Australian dollar.

Asset growth was funded by an increase in customer deposits which now represent 61% of total funding (June 2010: 58%). Wholesale funding decreased compared to the prior year, as a result of the strong growth in customer deposits, the low credit growth environment and the strengthening of the Australian dollar.

Home loans excluding securitisation

Home loans excluding securitisation experienced steady growth with balances increasing \$11 billion to \$325 billion as at 30 June 2011, a 3% increase on the prior year. This outcome was impacted by moderating credit growth and intense price competition. The Group has maintained its competitive position through product innovation, targeted discounting and a focus on customer service.

Personal loans

Personal loans, including credit cards, margin lending and other personal loans, increased 2% over the prior year. Steady growth in credit card balances was influenced by new product offerings. This was offset by a decline in margin lending balances due to continued conservative investor sentiment. Other personal loans remained flat compared to the prior year.

Business and corporate loans

Business and corporate loans declined by \$6 billion to \$148 billion as at 30 June 2011, a 4% decrease on the prior year. This was driven mainly by institutional clients deleveraging, a strategic shift away from higher risk property and complex lending in Bankwest and the strengthening of the Australian dollar. This was partly offset by solid growth in business lending in Business and Private Banking.

Non-lending interest earning assets

Non-lending interest earning assets increased \$14 billion to \$88 billion as at 30 June 2011, an 18% increase on the prior year. This was primarily an increase in liquid assets in anticipation of future regulatory requirements.

Other assets

Other assets, including bank acceptances of customers, derivative assets, provisions for impairments, securitisation assets, insurance assets and intangibles, increased \$3 billion to \$86 billion as at 30 June 2011, a 4% increase on the prior year. This was impacted by higher derivative asset balances as a result of volatility in foreign exchange and interest rate markets.

Interest bearing deposits

Interest bearing deposits increased by \$26 billion to \$392 billion as at 30 June 2011, a 7% increase on the prior year.

Targeted campaigns in a highly competitive market resulted in growth of \$19 billion in investment deposits, representing a 12% increase on the prior year. Transaction deposits increased 8% to \$79 billion.

Other demand deposits decreased 2% compared to the prior year and decreased 14% compared to the prior half. This was mainly driven by lower certificates of deposits being replaced by the growth in customer deposits.

Debt issues

Debt issues have decreased \$13 billion to \$108 billion as at 30 June 2011, an 11% decrease on the prior year. The decrease in term funding was driven by the strengthening Australian dollar in addition to maturing debt being replaced by the growth in customer deposits. Refer to Note 24 for further information on debt programmes and issuance for the year ended 30 June 2011.

Other interest bearing liabilities

Other interest bearing liabilities, including loan capital, liabilities at fair value through the income statement and amounts due to other financial institutions, decreased \$4 billion to \$38 billion as at 30 June 2011, an 8% decrease on the prior year. This was driven mainly by New Zealand replacing maturing facilities with debt issues.

Non-interest bearing liabilities

Non-interest bearing liabilities, including derivative liabilities, insurance policy liabilities and bank acceptances, increased \$9 billion to \$82 billion as at 30 June 2011, a 12% increase on the prior year. This was driven predominantly by foreign exchange volatility impacting derivative liabilities hedging term debt.

Group Performance Analysis

Total Group Assets & Liabilities	As at				
	30/06/11	31/12/10	30/06/10	Jun 11 vs Dec 10 %	Jun 11 vs Jun 10 %
	\$M	\$M	\$M		
Interest earning assets					
Home loans including securitisation	335,841	327,704	323,573	2	4
Less: securitisation	(11,296)	(9,583)	(9,696)	18	17
Home loans excluding securitisation	324,545	318,121	313,877	2	3
Personal	20,943	20,665	20,572	1	2
Business and corporate	148,420	148,984	154,742	-	(4)
Loans, bills discounted and other receivables ⁽¹⁾	493,908	487,770	489,191	1	1
Non-lending interest earning assets	88,142	83,633	74,610	5	18
Total interest earning assets	582,050	571,403	563,801	2	3
Other assets	85,849	78,239	82,529	10	4
Total assets	667,899	649,642	646,330	3	3
Interest bearing liabilities					
Transaction deposits ⁽²⁾	79,466	72,150	73,783	10	8
Savings deposits ⁽²⁾	81,680	81,798	79,435	-	3
Investment deposits ⁽²⁾	176,100	168,770	156,694	4	12
Other demand deposits ⁽²⁾	54,613	63,361	55,957	(14)	(2)
Total interest bearing deposits	391,859	386,079	365,869	1	7
Deposits not bearing interest	9,288	9,266	8,794	-	6
Deposits and other public borrowings	401,147	395,345	374,663	1	7
Debt issues	108,421	105,086	121,438	3	(11)
Other interest bearing liabilities	37,950	37,678	41,461	1	(8)
Total interest bearing liabilities	538,230	528,843	528,768	2	2
Securitisation debt issues	10,231	8,523	8,772	20	17
Non-interest bearing liabilities	82,151	76,927	73,220	7	12
Total liabilities	630,612	614,293	610,760	3	3
Provisions for impairment losses					
Collective provision	3,043	3,327	3,461	(9)	(12)
Individually assessed provisions	2,125	2,169	1,992	(2)	7
Total provisions for impairment losses	5,168	5,496	5,453	(6)	(5)
Less: Off balance sheet provisions	(21)	(25)	(25)	(16)	(16)
Total provisions for loan impairment	5,147	5,471	5,428	(6)	(5)

(1) Excludes provisions for impairment which are included in Other Assets.

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

Retail Banking Services

Financial Performance and Business Review

Retail Banking Services cash net profit after tax for the year ended 30 June 2011 was \$2,845 million, representing a 16% increase on the prior year. The result was driven by solid growth in net interest income partially offset by lower other banking income, sound management of operational expenses and an improvement in loan impairment expense.

Cash net profit after tax increased 4% compared to the prior half. The six month result was driven by income growth of 5% reflecting improved lending margins and volume growth, offset by a fall in other banking income, and an increase in impairment expense.

CBA remains committed to excellence in customer service, with all retail channels performing strongly.

Business performance and innovation highlights during the year included:

- The successful launch of Core Banking with the migration of 10 million existing accounts to the new platform, delivering real time banking and new account functionality to Retail Deposit customers;
- The introduction of GoalSaver, a high interest bearing savings product, and the launch of the new premium Diamond Awards credit card;
- Continued growth in registered Netbank users, with 20% of monthly log-ons now happening via a mobile device; and
- Ongoing commitment to improving the financial literacy skills of Australian students through expansion of the School Banking programme, now in its 80th year.

Service improvement progress and product innovation in the business was recognised through:

- “Best Retail Bank in Asia Pacific” and the “Best Retail Bank in Australia” at the Asian Banker Excellence in Retail Financial Services Awards;
- Money Magazine “Credit Card Issuer of the Year” and “Banking Website of the Year” awards;
- CANSTAR CANNEX “Best Online Banking” award for the second year in a row;
- “Innovative Mortgage Product of the Year” at the Australian Banking and Finance awards for the No Fee Variable rate home loan; and
- The iPhone Property Guide application won the “Best of the Best”, “Best Financial Service” and “Best Mobile Advertising or Marketing” awards at the Australian Interactive Media Industry Awards.

Home Loans

Home Loan income for the year ended 30 June 2011 was \$2,893 million, a 20% increase on the prior year. Average volume growth was 6% in a period of reduced market activity. Net interest margin improved, benefitting from portfolio repricing and the continued roll off of fixed rate loans written at historically low margins. Funding costs continued to increase as lower cost funding rolled off and was replaced with higher priced new wholesale debt.

Other banking income fell 3% primarily due to the abolition of switching fees for customers refinancing loans with CBA. Deferred establishment fees for new customers were also removed in March 2011.

Consumer Finance

Consumer Finance income for the year ended 30 June 2011 was \$1,700 million, an increase of 9% on the prior year. This result benefited from improved margins and volume growth in both the Credit Card and Personal Lending portfolios. Other banking income was flat as the impact from the reduction in over-limit and late payment fees was offset by higher volume related income.

Other banking income decreased 5% compared to the prior half. This was a result of seasonally lower credit card spend.

Retail Deposits

Retail Deposit income for the year ended 30 June 2011 was \$2,609 million, a decrease of 7% on the prior year. Net interest income fell by 5% with continued margin pressure from price competition and a shift towards lower margin products within the portfolio offsetting strong average balance growth of 10%. Other banking income decreased 15% primarily due to the reduction in exception fees in October 2009.

Retail Deposit income was flat compared to the prior half, as volume growth eased and margins stabilised.

Distribution

Distribution income for the year ended 30 June 2011 was \$306 million, an increase of 11% on the prior year. This reflected increased revenue from foreign exchange products and commissions received from the distribution of Business Banking and Wealth Management products through the retail network. The Group continues to focus on building deeper relationships with customers and now has the highest average products per customer⁽¹⁾ of the major banks.

Distribution income increased by 5% compared to the prior half due to higher foreign exchange income.

Operating Expenses

Expenses for the year were \$2,903 million, up 4% on the prior year, with the cost to income ratio falling to 38.7%. Expenses included investment spend relating to the Core Banking Modernisation initiative. Underlying expense growth was 2%, driven primarily by staff inflationary increases.

Expense growth was 5% in the second half, inclusive of investment in Core Banking Modernisation. Excluding the impact of Core Banking, growth was 4%. This was primarily a result of higher credit card loyalty redemptions in the second half and increased marketing spend.

Impairment Expense

Impairment expense for the year ended 30 June 2011 was \$558 million, a decrease of 24% on the prior year. This result was supported by improved average arrears rates in the unsecured portfolio as well as continued investment in collections and credit decisioning capabilities.

In the second half impairment expense increased 21% as a result of an uplift in arrears rates and the support that the Group provided through special assistance to customers following the severe weather events during the half.

(1) Roy Morgan Research, Australians 14+, Banking and Finance products per Banking and Finance customers, six months rolling average.

Retail Banking Services

Full Year Ended 30 June 2011					
	Home Loans \$M	Consumer	Retail		Total \$M
		Finance ⁽¹⁾ \$M	Deposits \$M	Distribution \$M	
Net interest income	2,706	1,281	2,222	-	6,209
Other banking income	187	419	387	306	1,299
Total banking income	2,893	1,700	2,609	306	7,508
Operating expenses					(2,903)
Loan impairment expense					(558)
Net profit before tax					4,047
Corporate tax expense					(1,202)
Cash net profit after tax					2,845

Full Year Ended 30 June 2010 ⁽²⁾					
	Home Loans \$M	Consumer	Retail		Total \$M
		Finance ⁽¹⁾ \$M	Deposits \$M	Distribution \$M	
Net interest income	2,213	1,143	2,340	-	5,696
Other banking income	192	417	457	276	1,342
Total banking income	2,405	1,560	2,797	276	7,038
Operating expenses					(2,779)
Loan impairment expense					(736)
Net profit before tax					3,523
Corporate tax expense					(1,062)
Cash net profit after tax					2,461

Half Year Ended 30 June 2011					
	Home Loans \$M	Consumer	Retail		Total \$M
		Finance ⁽¹⁾ \$M	Deposits \$M	Distribution \$M	
Net interest income	1,441	660	1,115	-	3,216
Other banking income	87	204	187	157	635
Total banking income	1,528	864	1,302	157	3,851
Operating expenses					(1,486)
Loan impairment expense					(305)
Net profit before tax					2,060
Corporate tax expense					(607)
Cash net profit after tax					1,453

Balance Sheet	As at				
	30/06/11 \$M	31/12/10 \$M	30/06/10 \$M	Jun 11 vs Dec 10 %	Jun 11 vs Jun 10 %
Home loans (including securitisation)	260,583	255,484	250,428	2	4
Consumer finance	13,989	13,504	12,961	4	8
Other assets	201	243	250	(17)	(20)
Total assets	274,773	269,231	263,639	2	4
Home loans (net of securitisation)	252,438	249,466	243,695	1	4
Transaction deposits	19,357	19,060	19,050	2	2
Savings deposits	59,127	60,519	59,206	(2)	-
Investments and other deposits	83,951	78,558	71,719	7	17
Deposits not bearing interest	3,057	2,984	2,840	2	8
Other liabilities	2,926	2,307	2,519	27	16
Total liabilities	168,418	163,428	155,334	3	8

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

(2) Comparatives have been restated for the impact of business resegmentation.

Business and Private Banking

Financial Performance and Business Review

Business and Private Banking delivered a strong performance, achieving cash net profit after tax of \$1,039 million for the year ended 30 June 2011, which represented a 16% increase on the prior year.

The business banking segments contributed significantly to this result, experiencing growth in lending and deposit volumes, improving deposit margins and a lower impairment expense. While equities trading market volumes were lower, CommSec continued to maintain its leading share of the online non advisory market in a highly competitive environment.

Compared to the prior half, cash net profit after tax increased 5%, with the first half of the year benefiting from the increasing cash rate environment and three more calendar days.

Performance highlights during the year included:

- CBA consistently held either equal first or equal second position in the whole-of-market business banking segment throughout the past year, according to DBM Business Financial Services Monitor⁽¹⁾,
- CBA was awarded "Best Cash Management Bank in Australia" for the second year running by the Asian Banker magazine. The award acknowledges commitment to customer service and operational excellence;
- Further improvements within CommBiz continued to make it simpler for customers to do business. These included improved security features and greater analytical functionality giving customers insights into their business, demographics and cash flow;
- CBA launched a new Business Debit MasterCard in January 2011 and has since issued over 20,000 cards. The card offers customers greater service, security and accessibility;
- Private Bank was recognised in the Australian Private Banking Council Awards, winning "Outstanding Private Banking Institution of the Year" in the \$1 million to \$10 million category for the third year running;
- CommSec was awarded the CANSTAR CANNEX "Online Share Trading Outstanding Value" award for casual and active investors, together with a Gold award for "Best Feature-Packed Online Broker" for the fourth year running in Money Magazine's 2011 Best of the Best Awards; and
- Equities and Margin Lending was awarded "Margin Lender of The Year" in Money Magazine's Bank of The Year awards in recognition of its competitive pricing and Smart Risk Management tool which promotes responsible lending.

Corporate Financial Services

Corporate Financial Services income increased 13% on the prior year to \$1,084 million. This was driven by commercial lending balance growth of 10% and deposit balance growth of 13%.

CBA has maintained outright or equal first position in customer satisfaction in both the medium and large segments among the four major banks for 10 out of the past 12 months⁽²⁾.

There has been ongoing investment in people, systems and processes and a focus on delivering an outstanding client experience for new and existing customers. Following a national rollout, the Acquisition Finance and Advisory team has continued to build on its early success.

Regional and Agribusiness Banking

Regional and Agribusiness Banking income increased 8% on the prior year to \$426 million. This reflected a 5% increase in lending balances and a 5% increase in deposit balances, whilst margins were stable.

Through the Specialised Agri Solutions team, the business continued to focus on identifying and delivering innovative solutions to customers with more complex needs. The business has also strongly supported its customers who were affected by the natural disasters which occurred earlier in the year. In addition, the business continued to make targeted investment in frontline staff and brand awareness, and customer satisfaction has improved significantly.

Local Business Banking

Local Business Banking income increased 9% on the prior year to \$774 million. This was driven by growth in both lending and deposit balances of 9%.

This result reflected continued investment of business bankers within the retail branch network and a focus on broadening frontline staff capabilities. In addition, a proactive outbound contact programme has reached the majority of customers resulting in improved customer satisfaction. The business also successfully launched a new BizAwards credit card in March 2011, which provides additional benefits to customers.

Private Bank

Private Bank income increased 5% on the prior year to \$251 million. This result was driven by growth in home lending and deposit balances.

Funds under administration balances grew 16%, driven by a stronger financial advisory services offering which includes enhanced research capabilities and an expanded investment support function.

Equities and Margin Lending

Equities and Margin Lending income decreased 12% on the prior year to \$410 million. This result reflected lower market volumes in equities trading and subdued market volumes in margin lending, while cautious investor sentiment contributed to strong balance growth in cash management products.

Despite lower equities trading volumes, CommSec maintained market share above 50% and stable yields in a highly competitive market while strong market share was also maintained in margin lending.

Operating Expenses

Operating expenses of \$1,335 million increased 3% on the prior year reflecting a disciplined approach to expense management. The business continued to make targeted investments in frontline staff and technology whilst continuing to focus on achieving operational efficiencies.

Impairment Expense

Impairment expense of \$261 million decreased 20% on the prior year and 7% on the prior half. This trend reflects the strong underlying quality of the business lending portfolio.

(1) DBM Business Financial Services Monitor (June 2011), average satisfaction rating of each financial institution's MFI business customers across all Australian businesses, six month rolling average. Rank is among four major banks.

(2) DBM Business Financial Services Monitor (June 2011), average satisfaction rating of each financial institution's MFI business customers across all Australian businesses, six month rolling average. Rank is among four major banks. Medium segment includes business with annual turnover from \$5 million to less than \$50 million. Large segment includes businesses with annual turnover \$50 million and above.

Business and Private Banking

Full Year Ended 30 June 2011

	Corporate Financial Services \$M	Regional & Agri- business \$M	Local Business Banking \$M	Private Bank \$M	Equities & Margin Lending \$M	Other \$M	Total \$M
Net interest income	528	265	515	110	177	92	1,687
Other banking income	556	161	259	141	233	15	1,365
Total banking income	1,084	426	774	251	410	107	3,052
Operating expenses							(1,335)
Loan impairment expense							(261)
Net profit before tax							1,456
Corporate tax expense							(417)
Cash net profit after tax							1,039

Full Year Ended 30 June 2010 ⁽¹⁾

	Corporate Financial Services \$M	Regional & Agri- business \$M	Local Business Banking \$M	Private Bank \$M	Equities & Margin Lending \$M	Other \$M	Total \$M
Net interest income	541	257	461	114	183	87	1,643
Other banking income	419	137	247	126	284	26	1,239
Total banking income	960	394	708	240	467	113	2,882
Operating expenses							(1,295)
Loan impairment expense							(326)
Net profit before tax							1,261
Corporate tax expense							(363)
Cash net profit after tax							898

Half Year Ended 30 June 2011

	Corporate Financial Services \$M	Regional & Agri- business \$M	Local Business Banking \$M	Private Bank \$M	Equities & Margin Lending \$M	Other \$M	Total \$M
Net interest income	258	133	260	54	86	45	836
Other banking income	291	82	133	74	120	3	703
Total banking income	549	215	393	128	206	48	1,539
Operating expenses							(682)
Loan impairment expense							(126)
Net profit before tax							731
Corporate tax expense							(199)
Cash net profit after tax							532

As at

Balance Sheet	30/06/11	31/12/10	30/06/10	Jun 11 vs	Jun 11 vs
	\$M	\$M	\$M	Dec 10 %	Jun 10 %
Interest earning lending assets (excluding margin loans)	67,737	63,559	63,132	7	7
Bank acceptances of customers	9,808	9,149	10,155	7	(3)
Non-lending interest earning assets	480	473	295	1	63
Margin loans	4,213	4,489	4,771	(6)	(12)
Other assets ⁽²⁾	690	235	448	large	54
Total assets	82,928	77,905	78,801	6	5
Transaction deposits	49,309	43,461	45,026	13	10
Savings deposits	5,720	5,164	4,744	11	21
Investments deposits	41,650	38,684	37,147	8	12
Certificates of deposit and other	57	171	162	(67)	(65)
Due to other financial institutions	403	366	895	10	(55)
Other non-interest bearing liabilities ⁽²⁾	16,149	14,580	15,324	11	5
Total liabilities ⁽³⁾	113,288	102,426	103,298	11	10

(1) Comparatives have been restated for the impact of resegmentation.

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

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

Institutional Banking and Markets

Financial Performance and Business Review

Institutional Banking and Markets achieved a cash net profit after tax of \$1,004 million for the year ended 30 June 2011, which represented a 14% decrease on the prior year, reflecting:

- A 5% decrease in banking income to \$2,467 million primarily due to lower trading income in Markets as a result of lower volatility and the effect of the decline in lending balances in Institutional Banking;
- A reduction in investment allowance tax credits; and
- An increase in impairment expense as a result of a write-back in provisions in the prior year.

Compared to the prior half, banking income decreased 4% primarily due to a reduction in Markets trading revenue and a less favourable contribution of the counterparty fair value mark to market valuation. This was offset by lower impairment expense reflecting stabilisation in the credit quality of the portfolio.

The business has maintained its focus of continuous investment through its foreign exchange platform renewal, enhanced online Transaction Banking Platform (CommBiz) and continued build-out of the Institutional Equities and Debt Capital Markets business. Customer service continues to be a key focus for Institutional Banking and Markets through deepening client relationships, growing transaction banking, increasing foreign exchange market share and developing stronger institutional investor focus.

Performance highlights in our goal to provide Total Capital Solutions to clients during the year include:

- East & Partners semi-annual "Australian Institutional Banking Markets" survey has listed CBA as best in market for the last five years in the categories of "Loyalty to the Relationship" and "Understanding Customers' Business". Over the last five years, CBA has also been cited as the number one primary lender and ranked first in product satisfaction for 10 out of the 17 products measured against the major peer banks;
- DBM Business Financial Services Monitor⁽¹⁾ ranked CBA first or equal first in the Institutional Banking segment in 10 out of the past 12 months;
- Global Finance magazine recognised CBA as the best Australian foreign exchange provider for the third year in a row based on transaction volume, market share, scope of global coverage, customer service, competitive pricing and the use of innovative technologies;
- In a global poll, Bloomberg has awarded CBA ninth most accurate overall foreign exchange forecaster and fifth most accurate Asia Currency foreign exchange forecaster for the six quarters ending 30 June 2011;
- Insto 12th Annual Distinction Awards (March 2011) acknowledged CBA as the "Australian Issuer of the Year (Australian Bond Market)";
- Insto Fixed Income Credit Research poll of institutional investors (August 2010) ranked CBA as the number one provider of Australian macroeconomic research and strategy, and Australian credit research and analysis;
- CBA was the multi-product lead relationship banking provider for the privatisation of Queensland Rail National; and
- Institutional Banking and Markets was the arranger and sole lead manager of a \$3 billion Residential Mortgage Backed Security (RMBS) issue for the CBA Group, which was the largest Australian dollar RMBS tranche issued since 2007.

Institutional Banking

Net interest income decreased 5% on the prior year to \$1,073 million as a result of a 10% decrease in average loan balances, higher funding costs and reduced margins on deposits from transactional banking customers. This was partly offset by the recognition of deferred fees from the early repayment of debt facilities and improved deposit volumes from transactional banking customers.

Other banking income increased 2% on the prior year to \$755 million driven by increased leasing fee income and a favourable contribution from hedging credit exposures.

Other banking income increased 19% on the prior half due to higher leasing fee income and gains from the sale of an equity investment in the second half of the year.

Markets

Net interest income increased 6% on the prior year to \$220 million primarily due to modest growth in interest earning assets.

Other banking income decreased 19% on the prior year to \$419 million due to a challenging trading environment as a result of flattening yield curves, lower domestic market volatility, narrowing spreads and weaker activity in equity capital markets. This was partly offset by the favourable contribution of the counterparty fair value mark to market valuation as credit spreads tightened.

Compared to the prior half, other banking income was down 42% due to a less favourable contribution of the counterparty fair value mark to market valuation and lower trading income as market activity remained subdued.

Operating Expenses

Operating expenses decreased slightly on the prior year to \$828 million representing a disciplined approach to cost management across the business while continuing to focus on maintaining a competitive advantage through targeted investment in technology and people.

Impairment Expense

Impairment expense increased 30% on the prior year to \$324 million. This was impacted by the write-back of provisions on a small number of single names in the prior year.

Impairment expense decreased 32% on the prior half due to continued stabilisation in the credit quality of the portfolio.

Corporate Tax Expense

Corporate tax expense for the year ended 30 June 2011 was \$311 million. The effective tax rate of 23.7% benefited from profit generated from offshore jurisdictions attracting lower corporate tax rates and tax credits associated with asset finance transactions.

(1) DBM Business Financial Services Monitor (June 2011), average satisfaction rating of each financial institution's MFI business customers across all Australian businesses, six month rolling average. Rank is among four major banks. Institutional Banking segment includes businesses with annual turnover of \$100 million and above.

Institutional Banking and Markets

	Full Year Ended 30 June 2011		
	Institutional		
	Banking	Markets	Total
	\$M	\$M	\$M
Net interest income	1,073	220	1,293
Other banking income	755	419	1,174
Total banking income	1,828	639	2,467
Operating expenses			(828)
Loan impairment expense			(324)
Net profit before tax			1,315
Corporate tax expense			(311)
Cash net profit after tax			1,004

	Full Year Ended 30 June 2010 ⁽¹⁾		
	Institutional		
	Banking	Markets	Total
	\$M	\$M	\$M
Net interest income	1,127	207	1,334
Other banking income	742	515	1,257
Total banking income	1,869	722	2,591
Operating expenses			(830)
Loan impairment expense			(249)
Net profit before tax			1,512
Corporate tax expense			(339)
Cash net profit after tax			1,173

	Half Year Ended 30 June 2011		
	Institutional		
	Banking	Markets	Total
	\$M	\$M	\$M
Net interest income	528	115	643
Other banking income	410	154	564
Total banking income	938	269	1,207
Operating expenses			(413)
Loan impairment expense			(131)
Net profit before tax			663
Corporate tax expense			(157)
Cash net profit after tax			506

	As at				
	30/06/11	31/12/10	30/06/10	Jun 11 vs Dec 10 %	Jun 11 vs Jun 10 %
Balance Sheet	\$M	\$M	\$M		
Interest earning lending assets	48,097	51,414	54,892	(6)	(12)
Bank acceptances of customers	925	996	1,414	(7)	(35)
Non-lending interest earning assets	32,664	34,953	29,434	(7)	11
Other assets ⁽²⁾	15,452	11,395	8,755	36	76
Total assets	97,138	98,758	94,495	(2)	3
Certificates of deposit and other	8,241	14,421	12,834	(43)	(36)
Investments deposits	6,982	8,064	5,082	(13)	37
Due to other financial institutions	13,457	11,684	10,055	15	34
Liabilities at fair value through Income Statement	4,234	3,891	3,974	9	7
Debt issues	3,490	1,475	2,506	large	39
Loan capital	544	555	627	(2)	(13)
Other non-interest bearing liabilities ⁽²⁾	26,683	25,526	23,820	5	12
Total liabilities	63,631	65,616	58,898	(3)	8

(1) Comparatives have been restated for the impact of business resegmentation.

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

Wealth Management

Financial Performance and Business Review

Underlying profit after tax for the year was \$581 million, up marginally on the prior year. A solid Funds Management and General Insurance result was partially offset by an increase in claims and compliance related expenditure.

Funds under Administration increased 5% on the prior year to \$189 billion as at 30 June 2011. This was supported by solid internationally sourced fund flows, partly offset by the outflow of cash mandates and the run-off of the legacy book. FirstChoice and FirstWrap have achieved an above market share of net flows in the retail domestic market.

Cash net profit after tax was \$642 million, which represents a 9% decrease on the prior year mainly due to the unwinding of mark to market losses on the Guaranteed Annuities portfolio in the prior years.

Cash net profit after tax in the second half decreased 21% to \$283 million, reflecting subdued investment market returns, higher compliance costs and an increase in Life insurance claims.

CFS Global Asset Management (CFSGAM)

CFSGAM provides asset management services to wholesale and institutional investors. CFSGAM continues to execute strategies to capitalise on global growth opportunities and enhance its domestic business.

Underlying profit after tax of \$275 million increased 17% on the prior year, reflecting strong investment performance and higher base fee contributions due to improved business mix even as the Australian dollar strengthened.

Funds under Management as at 30 June 2011 were \$149 billion, up 3% on the prior year mainly driven by improving equity markets offset by foreign exchange movements.

Investment performance continues to be strong with 76%, 74% and 83% of funds outperforming benchmark over one, three and five year periods respectively.

Highlights include:

- CFSGAM received in excess of 60 global industry accolades including First State Investments being named “Best International Equity Group” and “Best Fund Management Group of the Year (Small)” in the Professional Adviser Awards 2011 (UK);
- “Fund Manager of the Year” in Australia at the Standard & Poor’s Investment Manager of the Year awards, recognising the strength and range of high-quality competencies of the business;
- Chadstone Shopping Centre won the Laing O’Rourke award for best Shopping Centre Development for the West Mall at the Property Council of Australia Innovation and Excellence Awards in Sydney; and
- First State Infrastructure was awarded “Best Infrastructure Provider” at the Global Pension Awards 2011 (UK).

Cash net profit after tax of \$281 million represents an increase of 6% on the prior year.

Cash net profit after tax in the second half decreased 19% to \$126 million driven by a decline in equity markets and further strengthening of the Australian dollar.

Colonial First State (CFS)

Colonial First State provides wealth creation solutions for retail customers and market leading platforms for advisers, offering product packaging, administration, distribution and advice.

Underlying profit after tax of \$141 million decreased 4% on the prior year, reflecting solid funds growth and stable margins offset by increasing compliance costs and claims.

FirstChoice and Custom Solutions platforms performed well in a challenging retail market with positive net flows of \$3.4 billion.

Highlights include:

- FirstChoice retaining the largest flagship platform as at March 2011⁽¹⁾ with a market share of 11% and ranked second for net flows in the year to March 2011 with 24% of the market;
- CFS won the “Best Fund Manager” service level award from Wealth Insights for the fourth year running. FirstWrap had the highest overall satisfaction rating from advisers with FirstChoice ranking second; and
- FirstChoice Wholesale Personal Superannuation introduced lowered minimum entry limits, positioning it well for pending “Future of Financial Advice” reforms.

Cash net profit after tax of \$143 million represents a decrease of 1% on the prior year.

Cash net profit after tax in the second half decreased 14% to \$66 million due to slowing markets and compliance activities.

Commlnsure

Commlnsure is a provider of life and general insurance in Australia. Commlnsure’s strategy continues to focus on improving service and streamlining processes.

Underlying profit after tax of \$254 million decreased 11% on the prior year:

- Life Insurance performance declined due to higher claims in income protection and wholesale risk, balanced by strong growth in bank channels;
- General Insurance performance improved due to volume growth and improved claims despite the impact of weather events in the second half of the year; and
- Legacy funds management income declined in line with expectations.

Highlights include:

- Awarded the Plan for Life/Association of Financial Advisers “Life Insurance Company of the Year” and the “Service Quality Award” for the second consecutive year, recognising excellence in new business/underwriting and claims services;
- General Insurance business awarded the “Australian Service Excellence Award” in the NSW Medium Business category; and
- Delivery of enhancements to Retail Life products aimed at improving flexibility and affordability for customers by allowing existing insurance policies to be integrated with the FirstChoice and FirstWrap platforms.

Cash net profit after tax of \$305 million represents a decrease of 20% on the prior year, mainly due to the unwinding of mark to market losses on the Guaranteed Annuities portfolio in the prior years.

Cash net profit after tax in the second half decreased 22% to \$134 million impacted by claims experience in both the Life and General Insurance business.

Operating Expenses

Total operating expenses of \$1,280 million increased 7% on the prior year. Expense growth reflects strategic investment in the business to support offshore growth and expansion as well as meeting the compliance related costs in the retail advice and platform businesses.

(1) March 2011 Plan for Life quarterly market release.

Wealth Management

Full Year Ended 30 June 2011

	Colonial				Total \$M
	CFSGAM	First State	CommInsure	Other	
	\$M	\$M	\$M	\$M	
Funds management income	907	860	209	(1)	1,975
Insurance income	-	-	625	-	625
Total operating income	907	860	834	(1)	2,600
Volume expenses	(151)	(171)	(199)	-	(521)
Net operating income	756	689	635	(1)	2,079
Operating expenses	(391)	(489)	(276)	(124)	(1,280)
Net profit before tax	365	200	359	(125)	799
Corporate tax expense	(90)	(59)	(105)	36	(218)
Underlying profit after tax	275	141	254	(89)	581
Investment experience after tax	6	2	51	2	61
Cash net profit after tax	281	143	305	(87)	642

Full Year Ended 30 June 2010

	Colonial				Total \$M	St Andrew's Insurance ⁽¹⁾ \$M
	CFSGAM	First State	CommInsure	Other		
	\$M	\$M	\$M	\$M		
Funds management income	789	811	226	(2)	1,824	-
Insurance income	-	-	630	-	630	54
Total operating income	789	811	856	(2)	2,454	54
Volume expenses	(126)	(160)	(187)	(1)	(474)	(22)
Net operating income	663	651	669	(3)	1,980	32
Operating expenses	(358)	(444)	(267)	(127)	(1,196)	(14)
Net profit before tax	305	207	402	(130)	784	18
Corporate tax expense	(69)	(60)	(116)	40	(205)	(5)
Underlying profit after tax	236	147	286	(90)	579	13
Investment experience after tax	30	(3)	94	2	123	3
Cash net profit after tax	266	144	380	(88)	702	16

Half Year Ended 30 June 2011

	Colonial				Total \$M
	CFSGAM	First State	CommInsure	Other	
	\$M	\$M	\$M	\$M	
Funds management income	458	434	101	-	993
Insurance income	-	-	285	-	285
Total operating income	458	434	386	-	1,278
Volume expenses	(80)	(87)	(103)	(1)	(271)
Net operating income	378	347	283	(1)	1,007
Operating expenses	(201)	(259)	(140)	(61)	(661)
Net profit before tax	177	88	143	(62)	346
Corporate tax expense	(44)	(26)	(42)	18	(94)
Underlying profit after tax	133	62	101	(44)	252
Investment experience after tax	(7)	4	33	1	31
Cash net profit after tax	126	66	134	(43)	283

(1) The St Andrew's insurance business was sold effective 1 July 2010.

Wealth Management

Summary	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %
	\$M	\$M		\$M	\$M	
Funds under administration - average ⁽¹⁾	188,866	179,802	5	191,252	186,849	2
Funds under administration - spot ⁽¹⁾	188,511	179,614	5	188,511	191,454	(2)
Funds under management - average ⁽¹⁾	150,396	144,624	4	151,411	149,723	1
Funds under management - spot ⁽¹⁾	148,639	144,298	3	148,639	152,791	(3)
Retail Net funds flows (Australian Retail)	(349)	246	large	317	(666)	large

Funds Under Management (FUM) ⁽¹⁾	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %
	\$M	\$M		\$M	\$M	
Australian equities	22,336	21,499	4	22,336	23,716	(6)
Global equities	50,860	45,685	11	50,860	52,831	(4)
Cash and fixed interest	50,946	54,180	(6)	50,946	52,097	(2)
Property and Infrastructure ⁽²⁾	24,497	22,934	7	24,497	24,147	1
Total	148,639	144,298	3	148,639	152,791	(3)

Sources of Profit from Commlnsure	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %
	\$M	\$M		\$M	\$M	
Life insurance operating margins						
Planned profit margins	164	157	4	86	78	10
Experience variations	(36)	2	large	(40)	4	large
Funds management operating margins	112	120	(7)	53	59	(10)
General insurance operating margins	14	7	100	2	12	(83)
Operating margins	254	286	(11)	101	153	(34)
Investment experience after tax	51	94	(46)	33	18	83
Cash net profit after tax	305	380	(20)	134	171	(22)

Annual Inforce Premiums - Risk Business	Full Year Ended 30 June 2011				
	Opening Balance 30/06/10	Sales/New Business	Lapses	Other	Closing Balance 30/06/11
	\$M	\$M	\$M	\$M	\$M
Retail life	782	208	(130)	-	860
Wholesale life	323	67	(46)	-	344
General insurance	408	100	(72)	-	436
Sub-total	1,513	375	(248)	-	1,640
St Andrew's Insurance	71	-	-	(71)	-
Total	1,584	375	(248)	(71)	1,640

Annual Inforce Premiums - Risk Business	Full Year Ended 30 June 2010				
	Opening Balance 30/06/09	Sales/New Business	Lapses	Other	Closing Balance 30/06/10
	\$M	\$M	\$M	\$M	\$M
Retail life	697	200	(115)	-	782
Wholesale life ⁽³⁾	435	66	(178)	-	323
General insurance	360	107	(59)	-	408
Sub-total	1,492	373	(352)	-	1,513
St Andrew's Insurance	68	23	(20)	-	71
Total	1,560	396	(372)	-	1,584

Annual Inforce Premiums - Risk Business	Half Year Ended 30 June 2011				
	Opening Balance 31/12/10	Sales/New Business	Lapses	Other	Closing Balance 30/06/11
	\$M	\$M	\$M	\$M	\$M
Retail life	820	103	(63)	-	860
Wholesale life	331	41	(28)	-	344
General insurance	424	49	(37)	-	436
Total	1,575	193	(128)	-	1,640

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

(2) This asset class includes wholesale and listed property trusts as well as indirect listed property securities funds which are traded through the ASX.

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

Wealth Management

Full Year Ended 30 June 2011

Funds Under Administration	Opening				Investment	Closing
	Balance	Inflows	Outflows	Net Flows	Income & Other ⁽⁶⁾	Balance
	30/06/10					30/06/11
	\$M	\$M	\$M	\$M	\$M	\$M
FirstChoice	43,640	13,690	(11,194)	2,496	2,982	49,118
Custom Solutions ⁽¹⁾	6,114	2,496	(1,599)	897	425	7,436
Standalone (including Legacy) ⁽²⁾	22,942	3,589	(7,210)	(3,621)	1,319	20,640
Retail products⁽³⁾	72,696	19,775	(20,003)	(228)	4,726	77,194
Other retail ⁽⁴⁾	1,153	39	(160)	(121)	73	1,105
Australian retail	73,849	19,814	(20,163)	(349)	4,799	78,299
Wholesale	41,050	18,658	(23,069)	(4,411)	2,985	39,624
Property	17,167	1,948	(352)	1,596	145	18,908
Other ⁽⁵⁾	3,033	33	(156)	(123)	173	3,083
Domestically sourced	135,099	40,453	(43,740)	(3,287)	8,102	139,914
Internationally sourced	44,515	12,857	(9,462)	3,395	687	48,597
Total Wealth Management	179,614	53,310	(53,202)	108	8,789	188,511

Full Year Ended 30 June 2010

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

Half Year Ended 30 June 2011

Funds Under Administration	Opening				Investment	Closing
	Balance	Inflows	Outflows	Net Flows	Income & Other ⁽⁶⁾	Balance
	31/12/10					30/06/11
	\$M	\$M	\$M	\$M	\$M	\$M
FirstChoice	47,729	6,969	(5,589)	1,380	9	49,118
Custom Solutions ⁽¹⁾	6,887	1,404	(807)	597	(48)	7,436
Standalone (including Legacy) ⁽²⁾	22,224	1,749	(3,358)	(1,609)	25	20,640
Retail products⁽³⁾	76,840	10,122	(9,754)	368	(14)	77,194
Other retail ⁽⁴⁾	1,155	20	(71)	(51)	1	1,105
Australian retail	77,995	10,142	(9,825)	317	(13)	78,299
Wholesale	41,183	10,617	(13,026)	(2,409)	850	39,624
Property	18,523	188	(63)	125	260	18,908
Other ⁽⁵⁾	3,243	17	(74)	(57)	(103)	3,083
Domestically sourced	140,944	20,964	(22,988)	(2,024)	994	139,914
Internationally sourced	50,510	4,827	(5,690)	(863)	(1,050)	48,597
Total Wealth Management	191,454	25,791	(28,678)	(2,887)	(56)	188,511

(1) Custom Solutions includes the FirstWrap product.

(2) Includes cash management trusts.

(3) Retail Funds that align to Plan for Life market share releases.

(4) Includes regular premium plans. These retail products are not reported in market share data.

(5) Includes life company assets sourced from retail investors but not attributable to a funds management product.

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

New Zealand

Financial Performance and Business Review

The New Zealand result incorporates ASB Bank and Sovereign Insurance businesses. The CBA branch results relating to the Institutional Banking and Markets business in New Zealand are not included.

New Zealand cash net profit after tax⁽¹⁾ for the year ended 30 June 2011 was NZ\$588 million, an increase of 28% on the prior year. The result was driven by a strong performance from ASB Bank with margins benefiting from a shift in portfolio mix towards variable rate loans and repricing initiatives. Sovereign's growth in inforce premiums, positive claims experience and lower lapse rates were offset by the impacts of the Christchurch earthquakes.

Cash net profit after tax⁽¹⁾ in the second half increased 1% to NZ\$295 million with the result impacted by the Christchurch earthquakes.

Following the earthquakes in Christchurch, ASB Bank donated NZ\$1.5 million to earthquake relief funds and launched a NZ\$250 million investment programme, which included NZ\$1 million in community assistance grants. This was in addition to support offered by both ASB Bank and Sovereign to their customers and people.

ASB Bank

ASB Bank cash net profit after tax⁽¹⁾ for the year ended 30 June 2011 was NZ\$504 million, up 42% on the prior year.

Net interest income for the year ended 30 June 2011 was NZ\$1,107 million, up 22% on the prior year reflecting:

- Improving home loan margins as a result of a continued shift by customers from fixed to variable rate loans and repricing initiatives. Home loan balances remained steady at NZ\$37 billion;
- Business lending margins also benefited from a shift in portfolio mix from fixed to variable rate loans and from risk based pricing initiatives. Business lending balances declined slightly as customers continued to deleverage; and
- Deposit margins remained under pressure in a competitive local market with customers moving towards higher yielding investment deposits. Balances have increased 3% to NZ\$32 billion.

Other banking income for the year ended 30 June 2011 was NZ\$367 million, up 7% on the prior year due to higher trading income, partially offset by lower early repayment adjustment fees from customers.

Operating expenses for the year ended 30 June 2011 were NZ\$733 million, up 10% on the prior year. The increase was driven by investment in strategic initiatives to benefit and support ASB Bank's customers (including Christchurch) and enhanced risk management, partially offset by disciplined expense management and efficiency gains.

Impairment expense decreased 42% on the prior year to NZ\$72 million, as asset quality improved in line with the broader economic conditions.

Cash net profit after tax⁽¹⁾ for the second half was NZ\$258 million, up 5% on the prior half, reflecting ongoing margin improvement, partially offset by higher operating expenses.

Key highlights for ASB Bank include:

- Continued commitment to customer satisfaction has seen ASB Bank ranked first in an independent survey⁽²⁾ for being "the most dedicated to providing the customer with the best possible service";
- Multiple awards for innovation, including New Zealand's "Best use of Social Media" for the world-first Virtual Branch on Facebook and CANSTAR CANNEX Innovation Excellence Award for the online savings tool "Save the Change";
- Recognition in the inaugural New Zealand Randstad Awards for ASB Bank as the employer offering the most job security; and
- Ongoing commitment to the communities in which ASB Bank operates, including working together with St John to create safer communities; and school banking and financial literacy, with more than 100,000 children now having taken part in the ASB GetWise programme.

Sovereign Insurance

Sovereign cash net profit after tax⁽¹⁾ for the year ended 30 June 2011 was NZ\$86 million, a decrease of 17% on the prior year. The major drivers of the result were:

- Policy valuation gains recognised in the prior year due to legislation changes in life tax and premium changes in legacy disability income products;
- The non-recurrence of a gain on the revaluation of deferred tax on policy liabilities in the prior year as a result of the reduction of the New Zealand corporate tax rate from 30% to 28%;
- Claims due to the Christchurch earthquake, partially offset by;
- 5% growth in inforce premiums; and
- Positive claims experience and a continued improvement in risk and health lapse rates.

Cash net profit after tax⁽¹⁾ for the second half was NZ\$41 million, down 9% on the prior half primarily due to the impact of the Christchurch earthquakes.

Key highlights for Sovereign include:

- Being accepted as a Qualifying Financial Entity, enabling Sovereign to provide a high level of support for its advisors in complying with new financial advisor legislation, streamline distribution processes and offer customers a greater level of customer protection;
- Winning an Innovation Excellence Award from CANSTAR CANNEX for Sovereign's Best Doctors programme, a service initiative unique in New Zealand; and
- Continuing its reputation as New Zealand's most financially secure life insurance company by retaining an AM Best A+⁽³⁾ financial strength rating, the only life insurer in New Zealand to achieve this rating.

(1) Includes allocated capital charges and other CBA costs.

(2) Source: Colmar Brunton Poll, a member of the Millward Brown Group.

(3) Source: A.M. Best Company

Full Year Ended 30 June 2011

	ASB NZ\$M	Sovereign NZ\$M	Other ⁽¹⁾ NZ\$M	Total NZ\$M	Total A\$M
Net interest income	1,107	-	(10)	1,097	840
Other banking income ⁽²⁾	367	-	(30)	337	286
Total banking income	1,474	-	(40)	1,434	1,126
Funds management income	54	-	(2)	52	40
Insurance income	-	257	19	276	211
Total operating income	1,528	257	(23)	1,762	1,377
Operating expenses	(733)	(218)	32	(919)	(704)
Loan impairment expense	(72)	-	-	(72)	(54)
Net profit before tax	723	39	9	771	619
Corporate tax expense	(219)	34	-	(185)	(150)
Underlying profit after tax	504	73	9	586	469
Investment experience after tax	-	13	(11)	2	1
Cash net profit after tax	504	86	(2)	588	470

Full Year Ended 30 June 2010

	ASB NZ\$M	Sovereign NZ\$M	Other ⁽¹⁾ NZ\$M	Total NZ\$M	Total A\$M
Net interest income	908	-	(9)	899	716
Other banking income ⁽²⁾	342	-	(31)	311	278
Total banking income	1,250	-	(40)	1,210	994
Funds management income	61	-	(3)	58	46
Insurance income	-	251	15	266	213
Total operating income	1,311	251	(28)	1,534	1,253
Operating expenses	(666)	(205)	42	(829)	(667)
Loan impairment expense	(125)	-	-	(125)	(100)
Net profit before tax	520	46	14	580	486
Corporate tax expense	(166)	45	1	(120)	(99)
Underlying profit after tax	354	91	15	460	387
Investment experience after tax	-	12	(11)	1	1
Cash net profit after tax	354	103	4	461	388

Half Year Ended 30 June 2011

	ASB NZ\$M	Sovereign NZ\$M	Other ⁽¹⁾ NZ\$M	Total NZ\$M	Total A\$M
Net interest income	569	-	(12)	557	421
Other banking income ⁽²⁾	189	-	(17)	172	148
Total banking income	758	-	(29)	729	569
Funds management income	27	-	(1)	26	20
Insurance income	-	126	15	141	105
Total operating income	785	126	(15)	896	694
Operating expenses	(378)	(107)	13	(472)	(356)
Loan impairment expense	(36)	-	-	(36)	(26)
Net profit before tax	371	19	(2)	388	312
Corporate tax expense	(113)	18	-	(95)	(77)
Underlying profit after tax	258	37	(2)	293	235
Investment experience after tax	-	4	(2)	2	1
Cash net profit after tax	258	41	(4)	295	236

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

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

New Zealand

	As at				
	30/06/11	31/12/10	30/06/10	Jun 11 vs Dec10 %	Jun 11 vs Jun 10 %
Balance Sheet	NZ\$M	NZ\$M	NZ\$M		
Home lending	37,444	37,508	37,778	-	(1)
Assets at fair value through Income Statement	4,165	4,232	5,815	(2)	(28)
Other lending assets	15,148	15,740	15,960	(4)	(5)
Non-lending interest earning assets	4,003	3,665	1,543	9	large
Other assets	4,597	4,714	4,723	(2)	(3)
Total assets	65,357	65,859	65,819	(1)	(1)
Deposits	31,921	31,279	30,889	2	3
Liabilities at fair value through Income Statement	7,671	10,426	13,261	(26)	(42)
Debt issues	6,910	5,680	3,805	22	82
Due to other financial institutions ⁽¹⁾	6,368	6,934	6,488	(8)	(2)
Other liabilities	7,314	6,525	6,640	12	10
Total liabilities	60,184	60,844	61,083	(1)	(1)
Assets					
ASB Bank	63,050	63,496	63,557	(1)	(1)
Other	2,307	2,363	2,262	(2)	2
Total assets	65,357	65,859	65,819	(1)	(1)
Liabilities					
ASB Bank	59,103	59,686	60,010	(1)	(2)
Other	1,081	1,158	1,073	(7)	1
Total liabilities	60,184	60,844	61,083	(1)	(1)

	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %
Sources of Profit from Insurance Activities	NZ\$M	NZ\$M		NZ\$M	NZ\$M	
The Margin on Services profit from ordinary activities after income tax is represented by:						
Planned profit margins ⁽²⁾	58	60	(3)	29	29	-
Experience variations ⁽²⁾	15	31	(52)	8	7	14
Operating margins	73	91	(20)	37	36	3
Investment experience after tax	13	12	8	4	9	(56)
Cash net profit after tax	86	103	(17)	41	45	(9)

	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %
New Zealand - Funds Under Administration	NZ\$M	NZ\$M		NZ\$M	NZ\$M	
Opening balance	8,771	7,389	19	9,580	8,771	9
Inflows	2,528	3,233	(22)	1,151	1,377	(16)
Outflows	(1,529)	(2,439)	(37)	(439)	(1,090)	(60)
Net Flows	999	794	26	712	287	large
Investment income & other	637	588	8	115	522	(78)
Closing balance	10,407	8,771	19	10,407	9,580	9

	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %
New Zealand - Annual Inforce Premiums	NZ\$M	NZ\$M		NZ\$M	NZ\$M	
Opening balance	554	516	7	570	554	3
Sales/New business	87	97	(10)	42	45	(7)
Lapses	(55)	(59)	(7)	(27)	(28)	(4)
Other movements	(2)	-	large	(1)	(1)	-
Closing balance	584	554	5	584	570	2

(1) Includes deposits due to Group companies.

(2) Comparatives have been restated to conform to the presentation in the Wealth Management business.

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Bankwest

Financial Performance and Business Review

Bankwest cash net profit after tax for the year ended 30 June 2011 was \$463 million, up significantly from the \$45 million loss in the prior year. The improved performance was driven by a 12% increase in operating performance and lower loan impairment expense.

Key drivers of the year's performance were:

- Banking income increased to \$1,640 million, up 5% compared to the prior year, mainly due to improved deposit margins and above system home loan balance growth;
- Operating expenses decreased by 1% from the prior year due to a continuing focus on discretionary expenditure and efficiency gains from the integration of processes with CBA. The expense to income ratio continues to improve, now at 53%; and
- Impairment expense of \$109 million, 86% lower than the prior year due to the non-recurrence of property related impairment that impacted the prior year.

Lending balances increased 1% on the prior year, with the increase in home lending partly offset by the strategic run-off of complex business lending. Lending margins increased on the prior year with higher funding costs in the first half offset by improved margins in the second half due to pricing initiatives.

Deposit balances increased 2% on the prior year, however were down 1% on the first half following a reduction in lower margin investment deposits. Deposit margins increased on the prior year due to improved pricing of Term Deposits and Institutional Clients.

Bankwest retains an absolute focus on customer satisfaction, with a commitment to value, innovation and service. A number of initiatives during the year have supported this vision, these include:

- Continued reinvigoration of the Bankwest brand in Western Australia (WA), with new WA-specific marketing strategies;
- Further investment in the WA branch network, with four new branches, 38 branches refurbished and innovative new customer concepts such as an Express Kiosk;
- The implementation of a Drought Assistance Initiative to support WA Rural & Regional customers who were impacted by record low winter rainfalls in 2010; and
- The successful launch of new internet and mobile phone banking services.

The success of the above initiatives has been reflected in:

- Winning the AFR Smart Investor 2010 "Bank of the Year Award";
- An outstanding achievement award from the International Interactive Media Council for the new public website;
- Five products receiving gold awards in Money Magazine's 2011 Best of the Best Awards, including "Best Everyday Branch Access Account" and "Cheapest Business Transaction Account";
- The CANSTAR CANNEX 2011 "Innovation Excellence Award" for the Business Zero Transaction Account; and
- An improvement in both Retail and Business customer satisfaction, with the Retail score increasing 4.7% to 83.6% at June 2011⁽¹⁾ and the Business score increasing 0.2 to 6.8 at June 2011⁽²⁾.

Retail

Home loan balances increased 10% on the prior year with above system growth driven by new products and targeted marketing campaigns. Full year and second half margins improved on prior periods following repricing in November 2010, partly offset by increased funding costs.

Retail deposit balances increased below system growth, reflecting a strategy of margin management over pricing for growth.

Business

Business lending balances decreased 13% on the prior year due to higher risk exposures being managed down. Lending margins increased on the prior year due to improved product mix.

Business deposit balances increased 2% on the prior year driven by growth in Transaction Accounts, partly offset by a second half decrease in lower margin money market balances driving an improvement in deposit margins.

Operating Expenses

Operating expenses decreased 1% over the prior year to \$869 million due to efficiency gains, lower consultancy and discretionary spend. For the six months to 30 June 2011, costs increased 3% on the prior half due to increased marketing spend and the continued refresh of the branch network.

Impairment Expense

Impairment expense for the year was \$109 million, down 86% compared to the prior year.

Business lending experienced more stable client ratings, exits and reductions of troublesome asset exposures and non-recurrence of property related impairments, primarily in Queensland and New South Wales. Retail lending benefited from higher recoveries driving an overall lower impairment charge.

Home loan arrears remained flat on the prior year, while credit card arrears increased slightly, mainly as a result of the Queensland floods.

(1) Source: Roy Morgan Research six months rolling average Main Financial Institution score.

(2) Source: DBM Business Financial Services Monitor (June 2011), average satisfaction rating of each financial institution's MFI business customers across all Australian businesses, six month rolling average on a scale of 0 to 10. Rank is among four major banks.

	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs	30/06/11	31/12/10	Jun 11 vs
	\$M	\$M ⁽³⁾	Jun 10 %	\$M	\$M	Dec 10 %
Net interest income	1,420	1,336	6	741	679	9
Other banking income	220	233	(6)	102	118	(14)
Total banking income	1,640	1,569	5	843	797	6
Operating expenses	(869)	(880)	(1)	(441)	(428)	3
Loan impairment expense	(109)	(754)	(86)	(60)	(49)	22
Net profit before tax	662	(65)	large	342	320	7
Corporate tax expense	(199)	20	large	(103)	(96)	7
Cash net profit after tax	463	(45)	large	239	224	7

Balance Sheet	As at				
	30/06/11	31/12/10	30/06/10	Jun 11 vs	Jun 11 vs
	\$M	\$M	\$M	Dec 10 %	Jun 10 %
Home lending (including securitisation)	45,673	43,070	41,681	6	10
Other lending assets	22,722	23,956	25,975	(5)	(13)
Other assets	8,433	8,813	7,028	(4)	20
Total assets	76,828	75,839	74,684	1	3
Transaction deposits	8,731	8,034	8,409	9	4
Savings deposits	7,033	7,189	6,848	(2)	3
Investments deposits	26,956	27,766	26,584	(3)	1
Certificates of deposit and other	59	25	130	large	(55)
Debt issues	9,064	8,637	10,211	5	(11)
Due to other financial institutions ⁽¹⁾	16,644	15,682	15,382	6	8
Other liabilities	3,068	3,647	2,304	(16)	33
Total liabilities⁽²⁾	71,555	70,980	69,868	1	2

(1) Includes amounts due to Group companies (30 June 2011: \$16.5 billion, 31 December 2010: \$15.7 billion, 30 June 2010: \$15.4 billion).

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

(3) Net interest income has been restated following an allocation of capital costs previously held centrally in Other.

Integration Progress – Bankwest and St Andrew's

The integration of the Bankwest and the remaining St Andrew's businesses into the Group that began in the 2009 financial year is now largely complete.

Major outcomes achieved include:

- Integration of various support functions, including property and procurement;
- Alignment of risk models, data definitions, market rate risk and pricing models, and operating models;
- Upgrade and integration of general ledger and financial reporting capabilities;
- Reciprocal ATM access with customers of both CBA and Bankwest having access to over 4,000 ATMs, the largest network of any bank nationally, without paying any additional fees;
- Bankwest and CBA IT interoperability links;
- Aligning various IT and business contract arrangements between Bankwest and CBA, including cheque processing supplier; and
- Establishment of strong and collaborative cross divisional working arrangements between Bankwest and CBA, building strong foundations for the future.

The total integration expenditure incurred to complete the programme was \$246 million. Costs synergies of \$240 million (annualised run rate) have largely been delivered, including the benefits associated with restructuring and the cessation of the Bankwest east coast branch rollout.

Integration Expenditure ⁽¹⁾	Year	Total
	Ended	
	30/06/11	\$M
Restructuring	2	18
Property	28	41
Operations	40	87
IT expenditure	24	93
Other	-	7
Total	94	246

(1) These costs are recognised as non-cash items as they are one off in nature and therefore are not representative of the Group's ongoing performance.

Other Divisions

Financial Performance and Business Review

IFS Asia

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

IFS Asia cash net profit after tax for the year ended 30 June 2011 was \$53 million, an increase of 18% over the prior year. The key drivers of the result were as follows:

- Banking income increased 10% to \$204 million driven by strong lending growth from the Indonesian retail business together with strong contributions from the Bank of Hangzhou and Vietnam International Bank (VIB) investments;
- Insurance income increased by 18% to \$47 million, reflecting improved sales volumes from the Indonesian life insurance business, particularly bancassurance sales; partially offset by,
- An increase of 12% in operating expenses to \$184 million, largely due to the continued expansion of the Indonesian businesses.

After adjusting for foreign exchange movements, cash net profit after tax increased 36% compared to the prior year.

IFS Asia cash net profit after tax for the half year ended 30 June 2011 was \$27 million, an increase of 4% on the prior half. Strong revenue growth from Bank of Hangzhou and VIB was partly offset by the adverse impact of the strengthening Australian dollar. After adjusting for foreign exchange movements, cash net profit after tax increased 8% compared to the prior half.

IFS Asia continued its investment during the year with the key activities being:

- Expansion of the PT Bank Commonwealth branch and ATM network in Indonesia bringing the total number of branches and ATMs to 84 and 129 respectively, from 74 and 89 in 2010;
- PTBC lending balances grew 54% during the year, with growth of 86% in SME, 154% in Consumer and 29% in Commercial. Net interest margin increased 84 basis points in 2011;
- Opening of three County Banks in China in Jiyuan, DengFeng and Lankao, following the signing of a strategic cooperation agreement with the Henan Government (China's most populated Province);
- BoCommLife was ranked third of the foreign and joint venture insurers for bancassurance new business premium in Shanghai;
- Development of the bancassurance model between PT Bank Commonwealth and PT Commonwealth Life in Indonesia. 42% of new business sales in PT Commonwealth Life for the year were sourced via the PT Bank Commonwealth branch network, up from 27% in the prior year. Total bancassurance new business sales increased 124% on the prior year;
- PT Bank Commonwealth in Indonesia maintained its number one ranking among foreign banks for customer service as rated by Synovate for the sixth consecutive year;

- PT Commonwealth Life in Indonesia received several awards during the year in recognition of its strong financial performance and excellent customer service. The awards included being the highest ranked life insurance company in Indonesia by Infobank Magazine, the "Best Mid Size Life Insurance Company 2011" by Investor Magazine and "Best Call Centre 2011" by Service Excellence Magazine;
- Bank of Hangzhou was ranked number two (out of 147) among City Commercial Banks in a review by the prestigious Chinese Banker magazine;
- Acquisition of 15% shareholding in VIB on 1 September 2010. VIB appointed two CBA nominated Directors to the Board following the completion of the transaction. CBA received Prime Ministerial approval to move to 20% ownership in VIB in July 2011; and
- Official opening of the CBA India Branch in August 2010.

Fiji

The Fiji business was sold on 15 December 2009.

Corporate Centre

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

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

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

Corporate Centre cash net profit after tax for the year ended 30 June 2011 was \$403 million, a 10% decrease on the prior year.

Total banking income decreased 8% to \$812 million driven by:

- Lower Asset and Liability Management earnings from the impact of the rising interest rate environment on interest rate positioning and reduced loan prepayment fees; partially offset by
- Wider spreads achieved on liquid portfolios in Liquidity Operations; and
- Increased Capital Management earnings from growth in retained earnings.

Group wide Eliminations/Unallocated

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

Group wide Eliminations/Unallocated cash net loss after tax for the year ended 30 June 2011 was \$84 million, a \$92 million decrease compared to the prior year. This was primarily driven by the release of centrally held impairment provisions of \$100 million in the prior year.

Other Divisions

Full Year Ended 30 June 2011

	IFS Asia	Corporate	Eliminations ⁽³⁾	Total
		Centre	Unallocated	
	\$M	\$M	\$M	\$M
Net interest income ⁽¹⁾	80	718	(87)	711
Other banking income ⁽¹⁾	124	94	(81)	137
Total banking income	204	812	(168)	848
Funds management income	-	-	26	26
Insurance income	47	-	(27)	20
Total operating income	251	812	(169)	894
Operating expenses	(184)	(267)	-	(451)
Loan impairment expense	(10)	-	36	26
Net profit before tax	57	545	(133)	469
Corporate tax expense	(5)	(142)	47	(100)
Non-controlling interests	(2)	-	(14)	(16)
Underlying profit after tax	50	403	(100)	353
Investment experience after tax	3	-	16	19
Cash net profit after tax	53	403	(84)	372

Full Year Ended 30 June 2010

	IFS Asia	Corporate	Eliminations ⁽³⁾	Total	Fiji
		Centre ⁽⁴⁾	Unallocated ⁽²⁾		
	\$M	\$M	\$M	\$M	\$M
Net interest income ⁽¹⁾	62	883	(70)	875	9
Other banking income ⁽¹⁾	124	1	(106)	19	3
Total banking income	186	884	(176)	894	12
Funds management income	-	-	28	28	-
Insurance income	40	-	2	42	6
Total operating income	226	884	(146)	964	18
Operating expenses	(164)	(268)	-	(432)	(12)
Loan impairment expense	(11)	-	100	89	1
Net profit before tax	51	616	(46)	621	7
Corporate tax expense	(7)	(167)	20	(154)	(1)
Non-controlling interests	(2)	-	(14)	(16)	-
Underlying profit after tax	42	449	(40)	451	6
Investment experience after tax	3	-	48	51	-
Cash net profit after tax	45	449	8	502	6

Half Year Ended 30 June 2011

	IFS Asia	Corporate	Eliminations ⁽³⁾	Total
		Centre	Unallocated	
	\$M	\$M	\$M	\$M
Net interest income ⁽¹⁾	40	351	(31)	360
Other banking income ⁽¹⁾	64	14	(35)	43
Total banking income	104	365	(66)	403
Funds management income	(1)	-	12	11
Insurance income	22	-	(14)	8
Total operating income	125	365	(68)	422
Operating expenses	(89)	(84)	-	(173)
Loan impairment expense	(8)	-	98	90
Net profit before tax	28	281	30	339
Corporate tax expense	(2)	(70)	(29)	(101)
Non-controlling interests	-	-	(7)	(7)
Underlying profit after tax	26	211	(6)	231
Investment experience after tax	1	-	19	20
Cash net profit after tax	27	211	13	251

(1) Excludes the impact of the reclassification of net swap costs from Net interest income to Other banking income related to certain economic hedges which do not qualify for IFRS hedge accounting (June 2011: \$498 million; June 2010: \$259 million; half year to 30 June 2011: \$271 million).

(2) Net interest income has been restated following an allocation of capital costs to Bankwest.

(3) Represents Group wide eliminations.

(4) Comparatives have been restated for the impact of business resegmentation.

Investment Experience

Investment Experience	Full Year Ended			Half Year Ended		
	30/06/11	30/06/10	Jun 11 vs Jun 10 %	30/06/11	31/12/10	Jun 11 vs Dec 10 %
	\$M	\$M		\$M	\$M	
Wealth Management	83	183	(55)	52	31	68
New Zealand	1	1	-	1	-	large
Other	37	52	(29)	33	4	large
Investment experience before tax	121	236	(49)	86	35	large
Corporate tax expense	(40)	(58)	(31)	(34)	(6)	large
Investment experience after tax	81	178	(54)	52	29	79

Shareholder Investment Asset Mix (%)	As at 30 June 2011 ⁽¹⁾			
	Australia	New Zealand	Asia	Total
	%	%	%	%
Local equities	1	1	-	-
International equities	-	-	-	-
Property	13	-	-	10
Sub-total	14	1	-	10
Fixed interest	23	51	96	32
Cash	63	48	4	58
Sub-total	86	99	100	90
Total	100	100	100	100

Shareholder Investment Asset Mix (\$M)	As at 30 June 2011 ⁽¹⁾			
	Australia	New Zealand	Asia	Total
	\$M	\$M	\$M	\$M
Local equities	9	2	-	11
International equities	-	1	-	1
Property	242	-	-	242
Sub-total	251	3	-	254
Fixed interest	424	280	80	784
Cash	1,171	267	3	1,441
Sub-total	1,595	547	83	2,225
Total	1,846	550	83	2,479

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

Risk Governance

The Board and its Risk Committee operate as the highest level of the Group's risk governance and under the direction of their respective charters. At management level, risk governance is undertaken by a structured hierarchy of committees and forums across the Group, each with specified accountabilities. A more detailed description of the risk governance structure is set out in the Corporate Governance section of the Annual Report.

Risk Management Organisation

The Group Chief Risk Officer (CRO), who heads the Risk Management function, oversees independent risk management for the Group. This unit is comprised of both risk management teams embedded in the businesses and Group functional teams that develop controls for each type of risk and who help the Group understand risk aggregation to enable enterprise wide risk management. The CRO reports to the Chief Executive Officer (CEO) and has direct reporting requirements to the Risk Committee.

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

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

The Group's risk appetite framework creates transparency over risk management and strategy decisions and, in turn, promotes a strong risk culture. Governance processes and disciplines are connected to the Group's, and aligned businesses, risk appetite statements. These promote independence of the risk management function from the Group's Business Units and the Group Audit and Assurance (GAA) function.

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

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

Risk Appetite

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

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

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

Risk appetite is dynamic in nature and is reviewed on a regular basis in conjunction with the Group's strategic plans and business actions. The validation of strategic plans against the risk appetite ensures that the assessment of current capital adequacy and future contingent capital plans are also aligned with the risk appetite.

The Group's risk culture is to take risks that are adequately rewarded and that support its aspiration of achieving solid and sustainable growth in shareholder value. Supporting this culture, the Group will:

- Operate responsibly, meet the financial needs of its customers, provide excellent customer service and maintain impeccable professional standards and business ethics;
- Differentiate between risk (with a relatively clearly discernable distribution of possible outcomes), which is to be assessed on its merits, and uncertainty (which has an unknown distribution of possible outcomes that is hard to discern), which is to be minimised;
- Make business decisions only after careful consideration of risk, including consideration of potential upside and downside scenarios;
- Understand the risks it takes on (or the nature of uncertainties involved), undertaking strategic initiatives or exposure to new products and services only as sufficient experience and insight is gained;
- Exercise disciplined moderation in risk-taking, underpinned with strength in capital, funding and liquidity;
- Diligently strive to protect and enhance its reputation;
- Maintain a control environment that, within practical constraints, minimises risks to the sustainability of its business; and
- Promote a culture aimed at the achievement of best practice in the recognition, assessment, pricing and management of risk.

Risk policies and tolerances support the Group and business risk appetite statements by:

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

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

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

Risk Management

Principal Risk Types

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

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

Credit Risk

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

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

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

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

Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates, foreign exchange rates, commodity and equity prices, credit spreads, lease residual values, and implied volatility levels. Market risk also includes risks associated with funding and liquidity management.

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

Liquidity and Funding Risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. Funding risk is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds.

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

Operational Risk

Operational risk is defined as the risk of economic loss arising from inadequate or failed internal processes, people, systems or from external events. It includes legal, regulatory, fraud, business continuity and technology risks.

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

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

Insurance Risk

Insurance risk is the risk of loss due to increases in policy benefits arising from variations in the incidence or severity of insured events. Risk exposure arises in the insurance business as the risk that claims payments are greater than expected. In the life insurance business, this arises primarily through mortality (death) or morbidity (illness or injury) risks being greater than

expected. For the general insurance business, variability arises mainly through weather related incidents and similar events, as well as general variability in home, motor and travel insurance claim amounts.

The management of insurance risk is an integral part of the operation of the insurance business. It is essential in the control of claims on an end-to-end basis, from underwriting to policy termination or claim payment.

The major methods of mitigating insurance risk are:

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

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

Compliance Risk

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

The Group's Compliance Risk Management Framework (CRMF) is consistent with the Australian Standard on Compliance Programmes. It is designed to help the Group meet its obligations under the Corporations Act 2001, the Group's Australian Financial Services Licence and Australian Credit Licences. CRMF incorporates a number of components, including Group policies, a Compliance Obligations Register and a Compliance Review programme to monitor compliance with policies.

These are complemented by Business Unit compliance frameworks including obligations registers, standards and procedures.

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

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

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

Risk Management

Strategic Business Risk

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

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

Strategic business risk is taken into account as business strategies and objectives are defined. The Board receives reports on business plans, major projects and change initiatives and monitors progress and reviews successes compared to plans.

Reputational Risk

Reputational risk arises from the negative perception on the part of customers, counterparties, shareholders, investors, debt holders, market analysts, regulators and other relevant parties of the Group.

This risk can adversely affect the Group's ability to maintain existing, or establish new, business relationships and access to sources of funding. Reputational risk is multidimensional and reflects the perception of other market participants. Furthermore, it exists throughout the organisation and exposure to reputational risk is a function of the adequacy of the Group's control of its risk management processes, as well as the manner and efficiency with which management responds to external influences on Group-related transactions. In many but not all respects, adverse reputational risk outcomes flow from the failure to manage other types of risk.

Stress Testing Framework

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

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

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

Ad-hoc risk stress testing is also regularly undertaken to identify and assess the risk profile of the Group.

The stress testing framework includes:

- Group-wide stress scenarios which inform and engage the Board in assessing capital requirements and other key financial outcomes under various severe but plausible scenarios. These tests are conducted across businesses with the results aggregated to the Group level; and
- Risk Management related stress testing, which supports enhanced risk identification, assessment and management within the Group's Risk Appetite.

Such stress testing facilitates a more robust understanding of the Group's risks and facilitates better management policies and predictability of capital requirements in more extreme circumstances.

Stress testing also provides an input into the formation of internal views of the adequacy of the Group's capital, liquidity, and provisions and the development of capital and liquidity contingency plans which detail how the Group would respond to potential future adverse scenarios.

Specific risk types for which stress tests are conducted on a routine basis for business risk management purposes include:

- Credit risk stress tests on a number of retail and commercial portfolios (which includes stressing the property prices of the exposures underlying security);
- Traded market risk, non-traded interest rate risk, non-traded equity risk and non-traded insurance risk portfolios;
- Liquidity stress tests that determine survival horizons are performed and reported to the Asset and Liability Committee (ALCO) on a monthly basis. The stress tests look to identify the timeframe over which high quality liquid assets could survive under various stress liability run-off scenarios;
- Funding indicators monitor a range of balance sheet metrics focussing on external market conditions, changing patterns of business activity and concentration; and
- Operational risk to assess the potential for operational risk outcomes.

Risk Management Initiatives

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

- Developed a refreshed three year risk management strategic plan to provide a roadmap for future development of the risk management framework;
- Updated the risk appetite statements for the Group and for each of the Group's major Business Units;
- Explicitly considered risk behaviours into remuneration policy and practices;
- Enhanced the Group's policy framework by including the articulation of appropriate lower level sub-limits that are consistent with Group level limits;
- Refreshed credit risk assessment models;
- Continued to integrate subsidiary entities into the Group's risk management framework and practices;
- Undertaken various risk optimisation strategies and portfolio reviews that have provided insight into key risk dependencies and resulted in adjusting risk exposure levels based on available risk-adjusted returns;
- Implemented projects that will substantially enhance core risk systems, data and processes;
- Strengthened the credit decisioning process, the monitoring of deteriorating credits, the provisioning process and risk-based pricing models;
- Enhanced the structured learning framework for credit risk management professionals as well as risk training for front line staff;
- Completed annual reviews of policies relating to Credit Risk, Market Risk, Operational Risk, Compliance Risk and the Insurance Risk Management Framework;
- Enhanced the Group's risk modelling and stress testing frameworks to meet the demands of an ever-changing macroeconomic environment; and
- Monitored and responded to regulatory changes and likely future regulatory changes. The Group has increased its participation in global financial forums and taken actions to influence regulators and the Government to help shape future regulatory reform.

Capital Management

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

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

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

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

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

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

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

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

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

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

The Group's capital ratios throughout the 2010 and 2011 financial years were in compliance with both APRA minimum capital adequacy requirements and the Board Approved minimums.

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

Dividends

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

Current Regulatory Framework

Basel II

The Basel II framework consists of three pillars:

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

The Group, excluding Bankwest, was granted advanced Basel II accreditation by APRA on 10 December 2007.

From 1 January 2008, the advanced internal ratings based approach (AIRB) for credit risk and the advanced measurement approaches (AMA) for operational risk were adopted in the calculation of RWA.

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

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

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

Regulatory Changes

There are a number of regulatory changes in progress that will impact the measurement of capital for the Group in regards to Banking, General and Life Insurance and Conglomerate Groups.

Capital Management

Banking - Basel Committee Changes

On 16 December 2010, the Basel Committee on Banking Supervision (BCBS) published details of its main banking reforms to strengthen global capital and liquidity regulations with the aim of promoting a more resilient banking sector.

The “*Basel III: A global regulatory framework for more resilient banks and banking systems*” reforms are designed to increase the quality, consistency and transparency of capital, to enhance the risk coverage framework, and to reduce systemic and pro-cyclical risks.

The regulations will increase the common equity minimum requirement from 2% to 4.5%. They introduce a capital conservation buffer of 2.5%, taking the minimum common equity requirement to 7%. Tier One and Total Capital minimum requirements (inclusive of the capital conservation buffer) will increase to 8.5% and 10.5% respectively. The reforms also introduce a minimum leverage ratio of Tier One Capital to total exposures of 3%.

The reforms will be phased in from 1 January 2013 to 1 January 2019.

Banking - APRA Changes

APRA has begun work on developing draft prudential standards to implement the changes outlined by the BCBS.

APRA is expected to release a consultation paper on implementation in Australia in August 2011. Draft prudential standards are expected by December 2011, and final standards are expected in December 2012.

The BCBS and APRA conducted several recent Quantitative Impact Studies (QIS) to assess the impact of the proposed changes. The results of these studies are expected to be used to calibrate appropriate capital levels.

Basel II enhancements announced in July 2009, relating to securitisation and market risk, will be implemented from 1 January 2012.

General and Life Insurers

APRA released a Discussion Paper titled “*Review of capital standards for general insurers and life insurers*” in May 2010, followed by more detailed technical papers in July 2010. APRA is seeking to improve the risk sensitivity of its capital standards, and to introduce a definition and measurement of the capital base for insurers that is consistent with ADIs. A QIS to assess the impact of the proposed changes was completed in 2010 and after some refinements, APRA requested a further QIS be completed in 2011. The final standards are expected to be released by APRA in 2012 with implementation to commence in 2013.

The Reserve Bank of New Zealand (RBNZ) issued draft solvency standards for life insurance operations in August 2010. Following a period of consultation with the industry, the RBNZ is close to finalising the standard which will take effect during 2012.

Supervision of Conglomerate Groups

APRA released a Discussion Paper titled “*Supervision of Conglomerate Groups*” in March 2010. APRA is seeking to extend its current prudential supervision framework to conglomerate groups that have material operations in more than one APRA regulated industry and/or have one or more material unregulated entities. The aims of the Level 3 proposal are to ensure that a conglomerate group holds adequate capital to protect the APRA regulated entities from potential contagion and other risks within the group.

A QIS to assess the impact of the proposed changes was completed in February 2011. Draft capital standards are expected in 2012 with implementation to commence in 2013.

Pillar 3 Disclosures

Full details on the market disclosures required under Pillar 3, per prudential standard APS 330 “*Public Disclosure of Prudential Information*”, are provided on the Group’s website.

Capital Management

The Group maintains a strong capital position with the capital ratios well in excess of APRA minimum capital adequacy requirements (Prudential Capital Ratio (PCR)) and the Board approved minimum levels at all times throughout the year ended 30 June 2011.

The Group’s Common Equity, Tier One Capital and Total Capital ratios as at 30 June 2011 were 7.66%, 10.01% and 11.70% respectively.

The Group’s Common Equity and Tier One Capital increased by 31 and 30 basis points respectively over the prior half, primarily influenced by both solid cash profit after tax (net of dividend and DRP) and an overall net reduction in RWA.

The Group’s Total Capital ratio increased 20 basis points over the prior half to 11.70%, with the benefits from the improvement in Tier One Capital partially offset by the planned redemption of a Lower Tier Two instrument.

RWA were \$282 billion at 30 June 2011, a decrease of \$4 billion since 31 December 2010. This decrease was primarily influenced by a \$7 billion reduction in Interest Rate Risk in the Banking Book (IRRBB) RWA with the balance sheet duration moving closer to its neutral risk position. This was achieved through treasury risk management activities and change in loan and deposit pricing terms.

Compared to the prior year, the Group’s Common Equity and Tier One Capital increased 80 and 86 basis points respectively, reflecting a solid profit performance and reduction in RWA.

Total Capital increased 21 basis points compared to the prior year. The benefits from the growth in Tier One Capital being partially offset by the planned redemption of a number of Lower Tier Two instruments, and foreign currency translation impacts of these instruments.

The Group’s Common Equity, Tier One and Total Capital ratios as at 30 June 2011 under the Financial Services Authority (the UK regulator) method of calculating regulatory capital as a percentage of RWA were 10.9%, 13.7% and 15.0% respectively. This has been provided for comparative purposes as the Group is not regulated by the Financial Services Authority.

Capital Initiatives

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

Tier One Capital

- The DRP for the 2010 final dividend was satisfied in full by an on market purchase and transfer of shares. As such there was no impact on the Group's capital ratios. The DRP participation rate was 25.8% and follows the removal of the 1.5% discount;
- The allocation of \$513 million of ordinary shares in order to satisfy the DRP in respect of the interim dividend for the 2011 financial year, representing a participation rate of 25.1%; and
- The redemption of \$65 million in Exchangeable Floating Rate notes, classified as Innovative Tier One Capital, in February 2011.

Tier Two Capital

- Redemption of five separate subordinated Lower Tier Two debt issues totalling \$795 million, the majority of which took place in November 2010; and
- Redemption of a \$152 million (NZ\$ 200 million) Lower Tier Two debt issue in June 2011.

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

ASB Bank Limited

ASB Bank Limited's (ASB) operations are included in the Group's capital requirements however, ASB operates as a stand-alone Bank under Basel II advanced status and is subject to regulation by the RBNZ. The RBNZ applies a similar methodology to APRA in calculating regulatory capital requirements.

ASB had a Tier One ratio of 11.2% and a Total Capital ratio of 12.8% at 30 June 2011. ASB Bank was in compliance with its regulatory capital requirements at all times during the year. Once Basel III reforms are implemented, ASB will be required to report a common equity ratio.

Bankwest

Bankwest's operations are included in the Group's capital requirements however, Bankwest operates as a stand-alone Bank under Basel II standardised status and is separately regulated by APRA. There is a programme to extend the Group's advanced accreditation to determine regulatory capital for Bankwest.

Bankwest's capital ratios, at 30 June 2011, are in excess of both APRA minimum requirements and Board approved minimum levels. The Tier One ratio was 9.1% and Total Capital was 12.9%. Bankwest was in compliance with its regulatory capital requirements at all times during the year. Once Basel III reforms are implemented, Bankwest will be required to report a common equity ratio.

Regulatory Capital Requirements for Insurance and Funds Management Business

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

There are no regulatory capital requirements for life insurance companies in New Zealand, though the directors of any company must certify its solvency under the Companies Act 1993. The Group determines the minimum capital requirements for its New Zealand life insurance business according to the professional standard, 'Solvency Reserving for Life Insurance Business', issued by the New Zealand Society of Actuaries. The Group's general insurance businesses are regulated by APRA under the Insurance Act 1973. The Group determines capital requirements for general insurance businesses in accordance with APRA Prudential Standards.

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

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

The Group's insurance and funds management companies held assets in excess of regulatory capital requirements at 30 June 2011. The Group's Australian and New Zealand insurance and funds management businesses held \$1,014 million of assets in excess of regulatory solvency requirements at 30 June 2011 (31 December 2010: \$1,147 million; 30 June 2010: \$1,007 million).

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

Capital Management

Capital Adequacy

Risk Weighted Capital Ratios	As at		
	30/06/11	31/12/10	30/06/10
	%	%	%
Common Equity ⁽¹⁾	7.66	7.35	6.86
Tier One	10.01	9.71	9.15
Tier Two	1.69	1.79	2.34
Total Capital	11.70	11.50	11.49

Regulatory Capital	As at		
	30/06/11	31/12/10	30/06/10
	\$M	\$M	\$M
Ordinary Share Capital	23,602	23,083	23,081
Treasury shares ⁽²⁾	294	301	298
Ordinary Share Capital and Treasury Shares	23,896	23,384	23,379
Other Equity Instruments	939	939	939
Trust Preferred Securities 2006 ⁽³⁾	(939)	(939)	(939)
Total Other Equity Instruments	-	-	-
Reserves ⁽⁴⁾	392	269	1,089
Cash flow hedge reserve	402	490	417
Employee compensation reserve	(135)	(100)	(125)
Asset revaluation reserve	(191)	(189)	(194)
Available-for-sale investments reserve	(245)	(22)	(173)
Foreign currency translation reserve related to non-consolidated subsidiaries	149	118	8
Total Reserves	372	566	1,022
Retained Earnings and current period profits	11,826	10,534	9,938
Expected dividend ⁽⁵⁾	(2,930)	(2,045)	(2,633)
Estimated reinvestment under Dividend Reinvestment Plan ⁽⁶⁾	733	511	-
Retained earnings adjustment for non-consolidated subsidiaries ⁽⁷⁾	227	230	392
Other	(189)	(63)	(52)
Net Retained Earnings	9,667	9,167	7,645
Non-controlling Interest ⁽⁸⁾	528	524	523
ASB Perpetual Preference Shares ⁽⁸⁾	(505)	(505)	(505)
Non-controlling interests less ASB Perpetual Preference Shares	23	19	18
Total Fundamental Tier One Capital	33,958	33,136	32,064

(1) Represents Fundamental Tier One Capital net of Tier One deductions.

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

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

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

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

(6) Dividend Reinvestment Plan (DRP) in respect of the June 2011 final dividend is to be satisfied through the issue of shares, with the assumed reinvestment rate based on reinvestment experience as approved by APRA. The DRP in respect of the December 2010 interim dividend was satisfied by the issue of shares. The DRP in respect of the June 2010 final dividend was satisfied in full by an on market purchase and transfer of shares.

(7) Represents cumulative current year profit and retained earnings adjustment for subsidiaries not consolidated for regulatory purposes. This includes adjustments to the extent to which retained earnings from non-consolidated subsidiaries have not been repatriated to the Bank in dividends (June 2011: \$525 million, December 2010: \$522 million, June 2010: \$360 million). The retention of these profits are used to fund the future growth of these operations. This has been offset by the one-off write back adjustments upon adoption of IFRS of \$752 million.

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

Capital Management

Capital Adequacy (continued)

	As at		
	30/06/11	31/12/10	30/06/10
	\$M	\$M	\$M
Regulatory Capital			
Tier One Capital Deductions - 100%			
Goodwill and other intangibles (excluding software) ⁽¹⁾	(8,306)	(8,382)	(8,470)
Capitalised expenses	(252)	(242)	(288)
Capitalised computer software costs	(1,297)	(1,100)	(950)
Defined benefit superannuation plan surplus ⁽²⁾	(53)	(255)	(221)
General reserve for credit losses top up ⁽³⁾	(132)	(106)	(90)
Deferred tax	(287)	(47)	(96)
Tier One Capital deductions - 100%	(10,327)	(10,132)	(10,115)
Tier One Capital Deductions - 50% ⁽⁴⁾			
Equity investments in other companies and trusts ⁽⁵⁾	(317)	(328)	(323)
Equity investments in non-consolidated subsidiaries (net of intangibles) ⁽⁶⁾	(526)	(539)	(518)
Expected impairment losses (before tax) in excess of eligible credit provisions (net of deferred tax) ⁽⁷⁾	(817)	(748)	(830)
Other deductions	(396)	(390)	(328)
Tier One Capital deductions - 50%	(2,056)	(2,005)	(1,999)
Total Tier One Capital Deductions	(12,383)	(12,137)	(12,114)
Fundamental Tier One Capital After Deductions	21,575	20,999	19,950
Residual Tier One Capital			
Innovative Tier One Capital			
Non-cumulative preference shares ⁽⁸⁾	2,598	2,626	2,728
Non-controlling Interests ⁽⁹⁾	505	505	505
Eligible loan capital	128	198	236
Total Innovative Tier One Capital	3,231	3,329	3,469
Non-Innovative Residual Tier One Capital ⁽¹⁰⁾	3,407	3,407	3,407
Less: Residual capital in excess of prescribed limits transferred to Upper Tier Two Capital ⁽¹¹⁾	-	-	(225)
Total Residual Tier One Capital	6,638	6,736	6,651
Total Tier One Capital	28,213	27,735	26,601

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

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

(3) Capital deduction at 30 June 2011 of \$132 million after tax (31 December 2010: \$106 million, 30 June 2010: \$90 million) to ensure the Group has sufficient provisions and capital to cover credit losses estimated to arise over the full life of the individual facilities, as required by APS 220.

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

(5) Represents the Group's non-controlling interest in other companies and unit trusts.

(6) Represents the net equity within the non-consolidated subsidiaries (primarily the Colonial Group) which is deducted 50% from Tier One and 50% from Tier Two Capital. This deduction is net of \$1,452 million in Non-Recourse Debt issued by Colonial Finance Limited (December 2010: \$1,446 million, June 2010: \$1,495 million) and the Colonial Hybrid Issue \$700 million (December 2010: \$700 million, June 2010: \$700 million).

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

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

(9) Non-controlling interest classified as Tier One Innovative Capital under Basel II regulations. Comprised predominantly of ASB Perpetual Preference Shares of NZ\$550 million issued by New Zealand subsidiary entities. These shares are non-redeemable and carry limited voting rights.

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

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

Capital Management

Capital Adequacy (continued)

	As at		
	30/06/11	31/12/10	30/06/10
	\$M	\$M	\$M
Regulatory Capital			
Tier Two Capital			
Upper Tier Two Capital			
Residual capital in excess of prescribed limits transferred from Tier One Capital ⁽¹⁾	-	-	225
Prudential general reserve for credit losses (net of tax) ⁽²⁾	620	618	603
Asset revaluation reserve ⁽³⁾	86	85	87
Upper Tier Two note and bond issues	336	350	382
Other	124	108	83
Total Upper Tier Two Capital	1,166	1,161	1,380
Lower Tier Two Capital			
Lower Tier Two note and bond issues ^{(4) (5)}	5,728	5,990	7,454
Holding of own Lower Tier Two Capital	(89)	(35)	(16)
Total Lower Tier Two Capital	5,639	5,955	7,438
Tier Two Capital Deductions			
50% Deductions from Tier Two Capital ⁽⁶⁾	(2,056)	(2,005)	(1,999)
Total Tier Two Capital	4,749	5,111	6,819
Total Capital	32,962	32,846	33,420

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

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

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

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

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

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

Capital Management

Capital Adequacy (continued)

	As at		
	30/06/11	31/12/10	30/06/10
	\$M	\$M	\$M
Risk Weighted Assets			
Credit Risk			
Subject to Advanced IRB approach			
Corporate	39,180	40,129	44,252
SME Corporate	22,471	22,071	26,216
SME Retail	4,435	4,896	5,170
Sovereign	2,517	2,557	2,800
Bank	7,216	6,686	7,492
Residential mortgage	55,709	56,412	55,882
Qualifying revolving retail	6,398	6,761	6,772
Other retail	7,253	6,398	6,322
Impact of the regulatory scaling factor ⁽¹⁾	8,711	8,755	9,294
Total risk weighted assets subject to Advanced IRB approach	153,890	154,665	164,200
Specialised lending exposures subject to slotting criteria	35,990	34,339	35,483
Subject to Standardised approach			
Corporate	8,048	8,040	8,872
SME Corporate	7,389	7,597	7,746
SME Retail	4,461	4,377	4,684
Sovereign	103	99	215
Bank	1,238	1,583	1,136
Residential mortgage	23,515	22,605	22,436
Other retail	2,574	2,510	2,530
Other	4,751	4,619	5,472
Total risk weighted assets subject to standardised approach	52,079	51,430	53,091
Securitisation	2,670	1,894	1,569
Equity exposures	2,113	2,280	2,420
Total risk weighted assets for credit risk exposures	246,742	244,608	256,763
Market risk	3,162	3,873	3,503
Interest rate risk in the banking book	9,699	17,033	10,272
Operational risk	22,108	20,049	20,283
Total risk weighted assets ⁽²⁾	281,711	285,563	290,821

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

(2) RWA include the consolidation of Bankwest which operates under the Basel II Standardised methodology.

Description of Business Environment

Australia

Financial Services

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

Banking

While the Australian economy has performed well over the past year, the domestic banking environment has encountered headwinds characterised by strong competition, muted credit growth, elevated funding costs, fragile business and consumer confidence, regulatory uncertainty, a subdued global economy and the financial impact of natural disasters.

Despite the challenging operating conditions, all major Australian banks have reported improved financial results reflected in higher cash profits, driven by modest growth in operating income and lower impairments. In addition, major banks have retained strong capital and liquidity positions, largely through organic growth, which should see them well placed to meet upcoming Basel III requirements.

The structure of the Australian financial industry has continued to evolve over the course of the year. The resilience of the Australian financial sector has proven attractive to international investment banks, some are returning to the market after they withdrew during the GFC, and regional banks and specialist players are beginning to re-establish themselves.

Lower domestic credit growth has resulted in strong competition for lending, whilst elevated wholesale funding costs have continued to put pressure on deposit margins as banks compete for this source of funding.

In the short to medium term significant challenges and uncertainties remain for both the domestic and global financial systems. Domestic credit growth is likely to remain subdued, and the impact of recent natural disasters will dampen economic growth in the short term. In addition, concerns about sovereign debt credit risk, particularly in Europe, continue to impact global financial markets. This is likely to result in a continuation of conservative capital and liquidity settings.

Funds Management

The long term growth outlook for the Australian funds management industry remains positive, underpinned by the proposal to both simplify superannuation and increase compulsory superannuation contributions to 12% by the 2020 financial year.

The demand for simple, transparent low fee products is expected to continue as retail commissions are removed and investors focus on net-of-fee performance.

Australia's ageing population and widening retirement funding gap is expected to drive demand for products which address market volatility, inflationary threats and longevity risks, and there continues to be significant demand from global investors for well managed international funds.

Domestic funds management margins remain under pressure with further Australian regulatory changes expected to reduce fees and increase capital requirements and associated compliance costs. Consolidation of the industry is set to continue as industry participants seek scale to counteract margin pressure and expand capabilities.

Insurance

Government policy supporting the beneficial treatment of life insurance inside superannuation is expected to drive strong growth in the life insurance sector, increasing overall coverage.

At the same time, life insurance distribution dynamics continue to evolve, with bancassurance, master trusts and industry funds emerging as the strongest growth channels. To meet the growing needs of these channels, insurance manufacturers are placing a greater emphasis on technology and service efficiency.

The general insurance market remains concentrated but is highly competitive, particularly with the entry of low cost operators. Industry profitability during the financial year has been negatively impacted by significant weather related event claims.

New Zealand

The Group's banking activities in New Zealand are conducted through the ASB Group and insurance activities through Sovereign Group.

Competition in the New Zealand banking sector remains intense, with the four main banks being owned by Australian parents and accounting for 90% of the total banking system. In addition, Kiwibank, the New Zealand Government and New Zealand Post owned and operated bank launched in March 2002, continues to compete aggressively in the retail sector.

The non-bank financial sector remains weak due to elevated funding costs arising from the GFC. There have been some collapses and further consolidation of this segment is expected.

The Christchurch earthquake is likely to dampen New Zealand economic growth in the short term. Lending growth has been subdued and this is expected to continue, with forecast economic growth only returning to above 3% in the 2013 financial year.

Competition for retail deposits remains strong as banks move to secure increased domestic funding whilst at the same time reduce reliance on wholesale funding.

Description of Business Environment

Financial System Regulation in Australia

Australia has, by international standards, a high quality financial system which regulates financial products and services consistently regardless of the type of financial institutions providing them.

The main regulators of financial services in Australia are the Reserve Bank of Australia, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Australian Transaction Reports and Analysis Centre and the Australian Competition and Consumer Commission. Each agency has system-wide responsibilities for the different objectives of government oversight of the financial system. A description of these agencies and their general responsibilities and functions is set out below.

The Reserve Bank of Australia (RBA) is responsible for monetary policy, financial system stability and regulation of the payments system. The RBA also administers sanctions implemented via the Banking (Foreign Exchange) Regulations 1959.

The Australian Prudential Regulation Authority (APRA) has responsibility for the prudential supervision of banks, building societies and credit unions, life and general insurance companies, friendly societies and superannuation funds (pension funds). Unless an institution is authorised under the Banking Act 1959 or exempted by APRA, it is prohibited from engaging in the general business of deposit-taking.

The Australian Securities and Investments Commission (ASIC) has responsibility for regulating and enforcing Company and financial services laws that protect consumers, investors and creditors, including the Corporations Act 2001. The Corporations Act 2001 provides for a single licensing regime for sales, advice and dealings in financial products and services, consistent and comparable financial product disclosure and a single authorisation procedure for financial exchanges and clearing and settlement facilities. ASIC is also responsible for the National Consumer Credit Protection Act and the responsible lending framework it imposes upon credit providers.

The Australian Transaction Reports and Analysis Centre (AUSTRAC) has responsibility for overseeing compliance with the Anti-Money Laundering and Counter Terrorism Financing Act 2006 and the Financial Transaction Reports Act 1988. As a provider of financial services in Australia and internationally, the Group is committed to the principles of the Financial Action Task Force as the international standard setter for anti-money laundering and counter-terrorism financing efforts.

The Australian Competition and Consumer Commission (ACCC) promotes competition and fair trade to benefit consumers, business and the community through the administration of the Trade Practices Act 1974.

In addition to the above, the Department of Foreign Affairs and Trade (DFAT), a federal government department, has responsibility for implementing legislation giving effect to decisions of the United Nations Security Council (UNSC) relating to sanctions, including the freezing of terrorist assets.

Supervisory Arrangements

The Bank and its subsidiary Bank of Western Australia are Authorised Deposit-taking Institutions (ADIs) under the Banking Act 1959 and are subject to prudential regulation by APRA.

In carrying out its prudential responsibilities, APRA closely monitors the operations of banks to ensure that they operate within the prudential framework and that sound management practices are followed.

APRA currently supervises ADIs by a system of off-site examination. It closely monitors the operations of banks through the collection of regular statistical returns and regular prudential consultations with each bank's management. APRA also conducts a programme of specialised on-site visits to assess the adequacy of individual banks' systems for identifying, measuring and controlling risks associated with the conduct of these activities.

In addition, APRA has established arrangements under which each bank's external auditor reports to APRA regarding observance of prudential standards and other supervisory requirements.

The prudential framework applied by APRA is embodied in a series of prudential standards and other requirements including:

(i) Capital Adequacy

APRA has approved the Bank's application to use the advanced internal ratings-based approach to credit risk and the advanced measurement approach to operational risk for the purposes of calculating capital requirements under the Basel II Framework.

(ii) Funding and Liquidity

APRA exercises liquidity control by requiring each bank to develop a liquidity management strategy that is appropriate for itself. Each policy is formally approved by APRA. A key element of the Group's liquidity policy is the holding of high quality liquid assets to meet liquidity requirements.

The liquid assets held are assets that are available for repurchase by the RBA (over and above those required to meet the Real-time Gross Settlement obligations, Certificates of Deposit / Bills of other banks and overnight interbank loans) and other highly liquid marketable securities. More detailed comments on the Group's liquidity and funding risks are provided in Note 41 to the Financial Statements.

(iii) Large Credit Exposures

APRA requires banks to ensure that, other than in exceptional circumstances, individual credit exposures to non-bank, non-government clients do not exceed 25% of the capital base. Exposure to unrelated ADIs is not to exceed 50% of the capital base. Prior consultation must be held with APRA if a bank intends to exceed set thresholds. For information on the Group's large exposures refer to Note 39 to the Financial Statements.

(iv) Ownership and Control

In pursuit of transparency and risk minimisation, the Financial Sector (Shareholding) Act 1998 embodies the principle that regulated financial institutions should maintain widespread ownership. The Act applies a common 15% shareholding limit for ADIs, insurance companies and their holding companies.

Description of Business Environment

Supervisory Arrangements (continued)

The Commonwealth Treasurer has the power to approve acquisitions exceeding 15% where this is in the national interest, taking into account advice from the ACCC in relation to competition considerations and APRA on prudential matters. The Treasurer may also delegate approval powers to APRA where one financial institution seeks to acquire another.

The Government's present policy is that mergers among the four major banks will not be permitted until the Government is satisfied that competition from new and established participants in the financial industry has increased sufficiently.

Proposals for foreign acquisition of Australian banks are subject to approval by the Treasurer under the Foreign Acquisitions and Takeovers Act 1975.

(v) Banks' Association with Non-Banks

There are formal guidelines (including maximum exposure limits) that control investments and dealings with subsidiaries and associates. A bank's equity associations with other institutions should normally be in the field of finance. APRA has expressed an unwillingness to allow subsidiaries of a bank to exceed a size which would endanger the stability of the parent. No bank can enter into any agreements or arrangements for the sale or disposal of its business, or effect a reconstruction or carry on business in partnership with another bank, without the consent of the Treasurer.

(vi) Fit and Proper and Governance

ADIs are subject to APRA's "Fit and Proper" and "Governance" prudential standards. ADIs are required to implement a Board approved Fit and Proper policy covering minimum requirements for the fitness and propriety of their responsible persons which include designated members of senior management. ADIs also have to comply with APRA's Governance prudential standard which sets out requirements for Board size and composition, independence of directors, executive remuneration and other APRA governance matters.

(vii) Supervision of Non-Bank Group Entities

The Australian life insurance company subsidiaries, general insurance company subsidiaries and the superannuation trustees of the Group also come within the supervisory review of APRA.

APRA's prudential supervision of both life insurance and general insurance companies is exercised through the setting of minimum standards for solvency and financial strength to ensure obligations to policyholders can be met. Trustees operating APRA regulated superannuation entities are required to hold a Registrable Superannuation Entity (RSE) licence from APRA.

Life insurance and general insurance companies are subject to prudential standards including capital adequacy, risk management and reinsurance arrangements. Compliance with APRA regulation is monitored through regular returns, independent actuarial investigations, auditor certification and supervisory inspections.

Life and general insurance companies are also subject to similar Fit and Proper and Governance requirements as those applying to ADIs.

Accounting Policies and Estimates

The Group's accounting policies including critical accounting policies and estimates are set out in Note 1 to the Financial Statements.

Sustainability Commitment

For the Group, sustainability is about being a successful business today while ensuring long term value is delivered to customers, people, shareholders and the wider community. The Group's sustainability approach centres around five foundations that are key to the business – Customers, People, Community, Environment and Governance.

This section of the report covers the first four foundations: Customers, People, Community and the Environment. Details about the Group's Governance approach can be found in the Corporate Governance section of this report.

The sustainability information in this section, including the sustainability scorecard of key metrics, captures data from Australian domestic operations only (excluding Bankwest), unless otherwise stated.

More detailed information about the Group's approach to sustainability, as well as initiatives and achievements, will be covered in the Sustainability Report 2011, available in October on www.commbank.com.au/sustainability-reporting.

Customers

Customer satisfaction remains a key focus for the Group and during the year a number of initiatives were introduced to support the Group's retail, business and wealth management customers, providing innovative financial solutions and improvements to the customer experience.

As illustrated in the metrics table on page 58, customer satisfaction performance was solid across retail, business and wealth management customer segments. Refer to the CEO Statement and Business Unit performance highlights for more information on the Group's customer satisfaction achievements over the year.

Responsible Banking

The Group's Emergency Assistance Packages were activated to support both retail and business customers, as well as the broader community, in all Australian states affected by natural disasters.

The Group's flood and cyclone financial assistance totalled \$65 million and included:

- Compassionate Assistance Fund of up to \$50 million and CommInsure ex gratia payments of \$8 million;
- Community Flood Assistance Grants Programme of \$5 million; and
- Cash donations of \$2 million to flood relief appeals.

In addition,

- \$1 billion was set aside for loans to business and agribusiness customers;
- No interest was charged for the first three months on new or increased overdraft facilities; and
- Hardship assistance was offered through Special Emergency Assistance packages.

Following the earthquake in Christchurch, ASB Bank donated NZ\$1.5 million to earthquake relief funds and launched a NZ\$250 million investment programme. This was in addition to the support offered by both ASB and Sovereign to their customers and people.

Innovative product development

During the year the Group developed and launched a number of new products for retail and business customers. These included:

- The introduction of GoalSaver, a high interest bearing savings product;
- The launch of the new premium Diamond Awards credit card;
- Bankwest launched their first Express Store;
- A No Fee Variable Interest Rate Home Loan is available in the branch, over the phone, online or through a broker; and
- The Business Debit Mastercard; customers can access money from business transaction accounts at ATMs and pay for purchases using EFTPOS.

Customer-supporting technology

The Group's Core Banking Modernisation project, initiated in 2008, is changing the Group's core banking processes and systems. The world class technology platform is enhancing the way the Group provides services to customers and the way business is undertaken.

The programme continued its rollout and achieved significant milestones during the year. Migrating ten million accounts to a new platform, delivering real-time banking and new account functionality to Retail deposit customers.

Youth financial literacy

Improving financial literacy among Australians is one of the Group's key goals. During the year, the Group continued its focus on:

- The 'one million kids' programme which aims to improve the financial literacy of more than one million Australian school children;
- The Commonwealth Bank Foundation's StartSmart programme, a series of classroom sessions and workshops designed to help young Australians build better money management skills; and
- The Group's online game, Coinland. To date over 115,000 children have created an account to experience the online world and have fun while learning the basics of money management with the help of characters such as the Dollarmites and Platy.

People

During the year, a number of initiatives were developed to benefit the Group's people, with a particular focus on diversity (including gender, leadership and disability support), indigenous employment and culture.

Diversity

In June 2011, the Group launched its Diversity Policy, outlining the Group's approach to creating and maintaining an inclusive and collaborative workplace culture. The Diversity Policy provides the strategy and measurable objectives with a key focus on gender diversity. With over 61% of employees in the Group being female, the aim is to increase the representation of women in senior management levels from 26.6% in December 2009 to 35% by December 2014. Solid progress was made towards that goal, with women comprising 28.2% of senior management roles, as at June 2011.

Sustainability

Disability Support

The Group launched its updated Disability Action Plan (DAP) in December 2010. The DAP outlines the Group's strategies for supporting staff and customers with a disability, mental illness or other serious health condition. During the year, the Group appointed a Diversity Support Manager, focusing on leading the Group's approach and providing advice and support to implementing strategies across the business.

Indigenous Employment Strategy

The Indigenous Employment Strategy remained a key focus. The Group has made good progress towards its target of creating 350 additional positions for indigenous Australians by June 2012, with 30 new indigenous employees joining the Group over the period.

People and Culture Survey

The Group continued its focus on developing a culture of trust and team spirit and helping foster people engagement and pride within the organisation.

In the 2011 people engagement survey, the Group recorded a People and Culture Indicator (PCI) result of 4.30 and Gallup GrandMean score of 4.30. This put the Group in the 73rd percentile in the Gallup Worldwide database.

Safety, Absenteeism and Turnover

The Group's Lost Time Injury Frequency Rate (LTIFR) has improved over the past several years due to the continued implementation of the safety management system. In the 12 months to June 2011 the LTIFR was 1.9, down from 2.9 in the prior year.

Group absenteeism was broadly in line with the prior year, while voluntary turnover declined from 12.73% in 2010 to 12.65% in 2011.

Community

The Group continued its ongoing work with a range of Australian communities through its programmes and partnerships across health and welfare, the arts, environment, sport and indigenous affairs.

Natural disaster relief appeal

The Queensland floods and Cyclone Yasi impacted not only the Group's customers but also the wider community. In recognition of both the economic and social significance of community groups, a Community Flood Assistance Grants Program was launched by the Group to help support a number of groups. Not-for-profit community groups that had suffered damage or loss of uninsured equipment were invited to apply for a grant of up to \$20,000. This was the only programme of its size and scale offered to community groups in flood-affected areas around Australia. The programme received applications from Queensland, Victoria, New South Wales and Western Australia representing health, arts and history, children's wellbeing, sport and social welfare. A total of 381 groups received grants totaling over \$5 million.

The Group also donated \$2 million to flood relief appeals and accepted donations through all Commonwealth Bank branches and online channels. The Australian community showed its unwavering support for people in need, with the Group collecting in excess of \$44 million in donations from staff and customers.

Community Partnerships

The Group continued its support for cricket from the grandstands to grassroots through its ongoing sponsorship of the One Day International Cricket Series and its assistance for local cricket

clubs. In November 2010, the Group's Grants for Grassroots cricket programme rolled out for the second year, with over 200 local men's, women's, and children's cricket clubs around Australia receiving a \$1,000 cash grant plus \$750 worth of equipment.

The number of grant applications increased by 43% from the previous year's programme.

The Fours and Sixes for Local Pitches initiative, which supported cricket clubs that had been affected by the Queensland floods, saw the Group donate \$4,000 for every four and \$6,000 for every six hit during the Commonwealth Bank Series match at the Gabba in Brisbane in January 2011. As a result, a total of \$188,000 was raised to help cricket clubs rebuild and get players back on the pitch.

The Group's Staff Community Fund, Australia's longest running workplace giving programme, drove a month-long campaign for the Humour Foundation.

This raised more than \$180,000 for the Clown Doctors, an organisation that brings fun and humour to children's hospitals around Australia, using magic, mime and mimicry.

During Legacy Badge Week the Group sold Legacy Badges in all branches nationally, helping raise over \$90,000.

As the major sponsor of Clean Up Australia Day, the Group hosted over 65 cleanup sites nationally in 2011.

The Group continued its major sponsorship of the Australian of the Year Awards in 2011. In conjunction with these awards, the Group developed a new programme – Launching Local Heroes. This programme supports eight inspiring Australians – one from each state and territory, all nominated for the Australian of the Year Awards 2011, to have an even greater impact in the community.

The Group aims to bring the arts to a broader range of people from all backgrounds in Australian communities through enduring partnerships with Opera Australia, Australian Chamber Orchestra, Bangarra Dance Theatre and, since June 2010, the Museum of Contemporary Art.

The Group continued its support of important health initiatives. During the year, the Group helped raise more than \$452,000 for the Breast Cancer Institute of Australia from fundraising and the sale of the Australian Women's Health Diary in Commonwealth Bank branches. The Group also continued its support of the Prostate Cancer Foundation of Australia and their national 'BBQ for Prostate Cancer' awareness campaign. During September 2010, International Prostate Cancer Awareness Month, the Group surpassed \$1 million of funds raised since the start of the partnership in 1999.

For more information on the full range of community programmes the Group supports visit

www.commbank.com.au/about-us.

Indigenous Commitment

During the year the Group has supported various indigenous initiatives and programmes including participating in National Aborigines and Islanders Day Observance Committee (NAIDOC) week, fundraising and support for the Australian Indigenous Mentoring Experience (AIME), and the Bawaka cultural programme in Arnhem Land, which has been attended by some 60 employees including the Group's CEO.

The Group is committed to supporting the indigenous enterprise sector in Australia and working with the Australian Indigenous Minority Supplier Council's (AIMSC) to provide a direct business-to-business purchasing link between Corporate Australia, Government agencies and indigenous-owned businesses as well as increase its supply chain diversity.

Environment

Property Environmental Performance

The Group continued its shift to environmentally responsible commercial properties with the construction of Commonwealth Bank Place, located in Sydney's Darling Walk precinct. Commonwealth Bank Place consists of two commercial A-grade office spaces, the North and South Towers, each with eight levels and retail areas on the ground floor. The first teams took occupancy in June 2011.

Commonwealth Bank Place is targeting a number of environmental performance ratings including a six star Green Star rating for its base building office design, a five star Green Star rating for office interiors and a five star NABERS Energy rating for energy use. The buildings adopt a range of sustainability principles including state-of-the-art technology and innovative features to help reduce energy consumption of the facility by 50% and water consumption by 90%, while targeting 80% of waste to be recycled or diverted from landfill.

The buildings encompass multiple working style spaces to cater for Activity Based Working, where employees choose to work in the space best suited to the task they are doing at the time. To maximise mobility, connectivity and efficiency, employees will be equipped with the latest technology, including laptops with a built-in webcam for video calls, a unified communication system, LCD collaboration screens and smart boards, while having access to a secure wireless network anywhere in the building. More than 6,000 of the Group's people will be located in Commonwealth Bank Place's North and South Tower buildings by early 2012.

Managing Carbon Emissions

The Group continued to progress towards its 20% carbon reduction target during the year, with a number of initiatives and pilot programmes implemented to reduce the Group's energy and fuel consumption. Additional activities are set to be implemented throughout the remainder of the calendar year and beyond to further reduce the impacts of increased energy and fuel prices. The Group remains confident in achieving its 20% carbon emissions reduction target, from 2008-09 emission levels, by mid 2013.

Reporting

The Group is subject to the National Greenhouse and Energy Reporting (NGER) scheme. This provides a consistent reporting framework for Australia's greenhouse gas emissions. The Energy Efficiency Opportunities (EEO) Act provides a framework for identifying cost-effective energy savings. In October 2010, the Group submitted its response to the NGER scheme and in December 2010 published its Energy Efficiency Opportunities Report 2010.

The Group once again voluntarily reported its carbon emissions to the Carbon Disclosure Project (CDP) in May 2011. It was announced as a global sector leader in the Carbon Disclosure Leadership Index by achieving third place in world-standing for carbon disclosure within the 2010 CDP Global 500 Report released in September 2010.

Future Developments

The Group is committed to sustainability and is maintaining its focus on delivering long term value and ensuring its policies and practices support customers, staff, the environment, the community and rigorous corporate governance.

The Group will publish its annual Sustainability Report in October 2011 to share its sustainability performance. The Sustainability Report 2011 will be available online at:

www.commbank.com.au/sustainability-reporting.

Sustainability

How the Group Performed

	2011	2010	2009
Metric ⁽¹⁾			
Customers			
Roy Morgan Research main financial institution customer satisfaction ⁽²⁾	75.2%	75.6%	73.0%
Rank	4th	2 nd	3 rd
DBM Business Financial Services Monitor ⁽³⁾	7.1	7.0	-
Rank	Equal 2nd	Equal 1 st	-
Wealth Insights Platform Service Level survey ⁽⁴⁾	84.7%	86.5%	84.1%
Rank	1st	1 st	1 st
People			
Absenteeism (Average days per full-time equivalent staff member) ⁽⁵⁾	6.0	5.9	5.9
Employee turnover (voluntary) ⁽⁶⁾	12.65%	12.73%	11.37%
Gallup Survey GrandMean ⁽⁷⁾	4.30	4.32	4.37
People and Culture Indicator ⁽⁸⁾	4.30	4.31	4.36
Lost time injury frequency rate (LTIFR) ⁽⁹⁾	1.9	2.9	2.4
Environment			
Property and fleet carbon emissions total (tonnes CO2-e) ⁽¹⁰⁾	172,087	176,806	172,752

(1) All metrics capture data from Australian domestic operations only (excluding Bankwest), unless otherwise stated.

(2) The proportion of each financial institution's MFI retail customers surveyed by Roy Morgan Research that are either 'Very Satisfied' or 'Fairly Satisfied' with their overall relationship with that financial institution on a scale of 1 to 5 where 1 is 'Very Dissatisfied' and 5 is 'Very Satisfied'. The metric is reported as a six months rolling average to June, based on the Australian population aged 14 and over. The ranking refers to the Group's position relative to the other three main Australian banks (Westpac, NAB, and ANZ). The competitor set changed in 2010/11 to reflect the four major banks, rank adjustments have been applied historically.

(3) The average satisfaction of each financial institution's MFI business customers surveyed by DBM Business Financial Services Monitor. Respondents rate their overall satisfaction with that institution on a scale from 0 to 10 where 0 is 'Extremely Dissatisfied' and 10 is 'Extremely Satisfied'. The metric is reported as a 6 month rolling average as at June 2011. The ranking refers to the Group's position relative to the other three major Australian banks. The Group began reporting business customer satisfaction using the new industry currency, DBM Business Financial Services Monitor in August 2010, however DBM have provided top line back data from June 2010.

(4) The proportion of financial advisers giving the Colonial FirstChoice platform an overall satisfaction score of 7-10, on a scale of 1-10 where 1 is 'Poor' and 10 is 'Excellent', in the Wealth Insights Platform Service Level survey. Ranking captures the relative position of Colonial FirstChoice compared with bank peer master trusts measured in the survey, based on the percentage of advisers giving 7-10 for overall satisfaction. Until 2010 this survey was known as the Wealth Insights MasterTrust/Wrap survey.

(5) Absenteeism is the annualised figure as at 31 May each year. Absenteeism refers to the average number of sick leave days (and, for CommSec employees, carers' leave days) per full-time equivalent (FTE), reported by domestic, permanent employees. FTE captures domestic, permanent employees (full-time, part-time, job share or on extended leave).

(6) Employee turnover refers to all voluntary exits of domestic, permanent employees as a percentage of the average domestic, permanent headcount (full-time, part-time, job share or on extended leave).

(7) The Gallup Survey GrandMean measures the average response, on a 5-point scale (where 5 is the most positive response), summarising the average (mean) responses to the Gallup Q12 statements, given by employees in the People and Culture survey. The result captures the responses of domestic and international CBA employees excluding those of Bankwest, ASB Bank and other overseas banking subsidiaries.

(8) The PCI measures the average response on a 5-point scale (where 5 is the most positive response), by summarising the average (mean) responses to 25 People and Culture Survey statements comprising the Gallup Q12 statements and 13 additional statements selected by the Group, all of which measure progress towards the Group's cultural aspiration of trust and team spirit. The surveyed population is the same as for the Gallup GrandMean. The PCI was first measured in 2009.

(9) LTIFR is the reported number of occurrences of lost time arising from injury or disease that have resulted in an accepted workers compensation claim, for each million hours worked by domestic employees. The metric captures claims relating to domestic employees only (permanent, casual and those contractors paid directly by the Group). Data is complete as at 30 June each year, however it may be updated in future reports due to late reporting of incidents that occurred during the year, or the subsequent acceptance or rejection of claims made in the year. To reflect this, the 2010 figure (previously reported as 2.5) has been adjusted.

(10) Emissions relate to the consumption of electricity, gas and fuel (gasoline and diesel) by domestic retail and commercial properties, the business use of domestic tool-of-trade vehicle fleet, dedicated bus services, business use of private vehicles, business use of hire cars and domestic ATMs. Due to the electricity billing cycle, 26% of the 2010-11 electricity data was estimated to meet publication deadlines.

Corporate Governance

Introduction

This statement outlines the key aspects of the Commonwealth Bank's corporate governance framework. The Board has consistently placed great importance on the governance of the Group, which it believes is vital to its well-being. The Board has adopted a comprehensive framework of Corporate Governance Guidelines, designed to properly balance performance and conformance. This enables the Group to undertake, in an effective manner, the prudent risk-taking activities which are the basis of its business. The Guidelines and the practices of the Group comply with the revised "Corporate Governance Principles and Recommendations", dated 30 June 2010, released by the ASX Corporate Governance Council.

Charter

The role and responsibilities of the Board of Directors are set out in the Board Charter. The responsibilities include:

- The corporate governance of the Group, including the establishment of Committees;
- Oversight of the business and affairs of the Group by:
 - Establishing with management and approving the strategies and financial objectives;
 - Approving major corporate and capital initiatives and approving capital expenditure in excess of limits delegated to management;
 - Overseeing the establishment of appropriate systems of risk management including defining the Group's risk appetite and establishing appropriate financial policies such as target capital and liquidity ratios; and
 - Monitoring the performance of management and the environment in which the Group operates;

- Approving documents (including reports and statements to shareholders) required by the Bank's Constitution and relevant regulation;
- Employment of the Chief Executive Officer (CEO); and
- Approval of the Group's major HR policies and overseeing the development strategies for senior and high performing executives.

A copy of the Board Charter appears on the Group's website.

The Board carries out the legal duties of its role in accordance with the Group's values of trust, honesty and integrity. It has regard to the interests of the Group's customers, people, shareholders and the broader community in which the Group operates at all times.

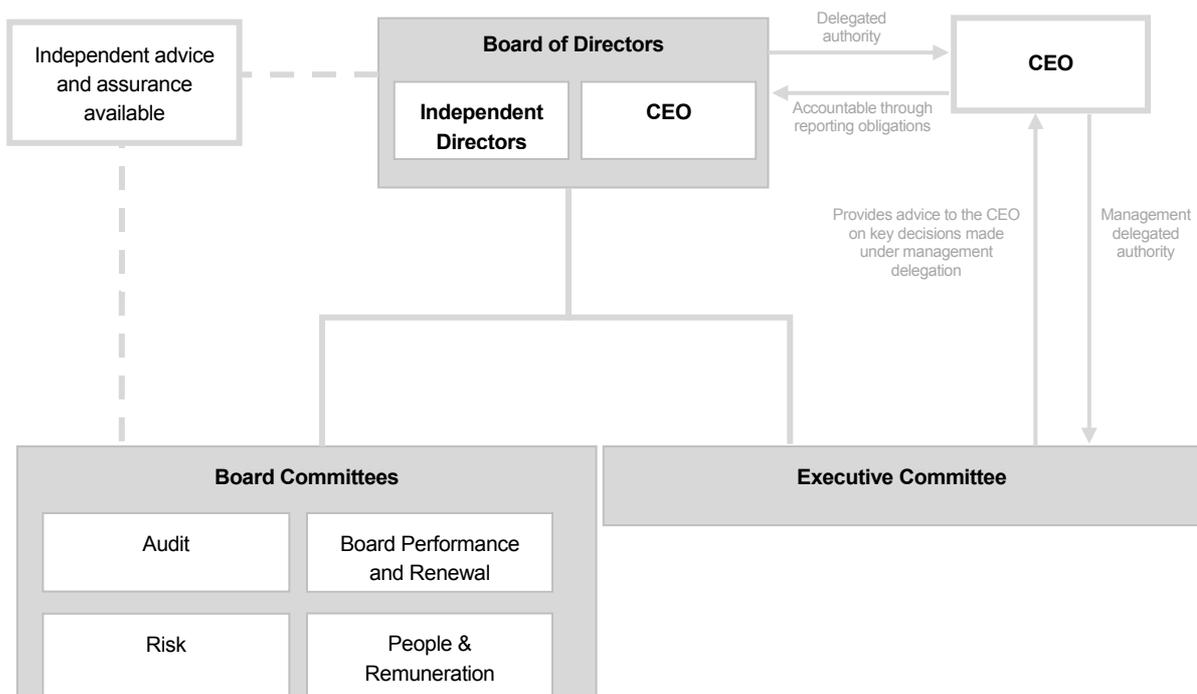
Delegation of Authority

The Board delegates to the CEO the authority to achieve the Group's objective of creating long term value for its shareholders through providing financial services to its customers and providing sustained best-in-industry performance in safety, community reputation and environmental impact.

The CEO is responsible for the day to day management of the Group and maintaining a comprehensive set of management delegations under the Group's Delegation of Authorities framework. These delegations cover commitments around project investment, operational expenditure and non-financial activities or processes. They are designed to accelerate decision-making and improve both efficiency and customer service.

An overview of the Group's Corporate Governance framework is outlined below.

Corporate Governance Framework



Corporate Governance

Composition

There are currently eleven Directors of the Bank and details of their experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors' Report.

Membership of the Board and Committees is set out below:

Director	Board Membership	Position Title	Committee Membership			
			Board Performance and Renewal	People & Remuneration	Audit	Risk
D J Turner	Non-Executive, Independent	Chairman	Chairman	Member	-	Member
R J Norris	Executive	Chief Executive Officer	-	-	-	Member
J A Anderson	Non-Executive, Independent	-	Member	-	-	Member
C R Galbraith	Non-Executive, Independent,	-	Member	-	Member	Member
J S Hemstritch	Non-Executive, Independent	-	-	Chairman	-	Member
S C H Kay	Non-Executive, Independent	-	-	Member	Member	Member
A M Mohl	Non-Executive, Independent	-	-	Member	-	Member
F D Ryan	Non-Executive, Independent	-	-	-	Chairman	Member
H H Young	Non-Executive, Independent	-	-	-	Member	Chairman
B J Long ⁽¹⁾	Non-Executive, Independent	-	-	-	Member	Member
L K Inman ⁽²⁾	Non-Executive, Independent	-	-	-	-	Member

(1) Mr Long was appointed to the Board with effect from 1 September 2010. He was elected at the Annual General Meeting held 26 October 2010.

(2) Ms Inman was appointed to the Board with effect from 16 March 2011. In accordance with the Bank's Constitution and the ASX Listing Rules, she will stand for election at the Annual General Meeting to be held on 8 November 2011.

Constitution

The Constitution of the Bank specifies that:

- The CEO and any other Executive Director shall not be eligible to stand for election as Chairman of the Bank;
- The number of Directors shall not be less than nine nor more than thirteen (or such lower number as the Board may from time to time determine). The Board has determined that the number of Directors shall be eleven; and
- At each Annual General Meeting (AGM) one third of Directors (other than the CEO) shall retire from office and may stand for re-election.

The Board has established a policy that the term of Directors' appointments would be limited to 12 years (except where succession planning for Chairman and appointment of Chairman requires an extended term). On appointment, the Chairman will be expected to be available for that position for five years.

Independence

The Board regularly assesses the independence of each Director. For this purpose an independent Director is a Non-Executive Director whom the board considers to be independent of management and free of any business or other relationship that could materially interfere with the exercise of unfettered and independent judgment.

Directors are required to conduct themselves in accordance with the ethical policies of the Group. They are required to be meticulous in their disclosure of any material contract or relationship in accordance with the Corporations Act 2001. This disclosure extends to the interests of family companies and spouses. Directors are also required to strictly adhere to the constraints on their participation and voting in relation to matters in which they may have an interest in accordance with the Corporations Act 2001 and the Group's policies. Each Director

may from time to time have personal dealings with the Group. Each Director could be involved with other companies or professional firms which may from time to time have dealings with the Group. Details of offices held by Directors with other organisations are set out in the Directors' Report and on the Group's website. Full details of related party dealings are set out in the notes to the Financial Statements as required by law.

All the current Non-Executive Directors of the Bank have been assessed as independent Directors. In reaching that determination, the Board has taken into account (in addition to the matters set out above):

- The specific disclosures made by each Director as referred to above;
- Where applicable, the related party dealings referable to each Director;
- That no Director is, or has been associated directly with, a substantial shareholder of the Bank;
- That no Non-Executive Director has ever been employed by the Bank or any of its subsidiaries;
- That no Director is, or has been associated with, a supplier, professional adviser, consultant to or customer of the Group which is material under accounting standards; and
- That no Non-Executive Director has a material contractual relationship with the Group other than as a Director of the Bank.

Education

Directors participate in an induction programme upon appointment and in a refresher programme on a regular basis. This programme of continuing education ensures that the Board is kept up to date with developments in the industry both locally and globally. It also includes sessions with local and overseas experts in the particular fields relevant to the Group's operations.

Review

The Board has an annual process for reviewing its own performance, policies and practices. These reviews seek to identify where improvements can be made. They also assess the quality and effectiveness of information made available to Directors. The review process includes an assessment of the performance of the Board Committees and each Director. Every two years, this process is facilitated by an external consultant, with an internal review conducted in the intervening years.

After consideration of the results of the performance assessment, the Board will determine its endorsement of the Directors to stand for re-election at the next AGM.

The Non-Executive Directors meet at least annually without management, in a forum intended to allow for an open discussion on Board and management performance. This is in addition to the consideration of the CEO's performance and remuneration which is conducted by the Board in the absence of the CEO.

Performance evaluations in accordance with the above processes have been undertaken during the year. Details on management performance evaluations are contained in the Remuneration Report section of the Directors' Report.

Board Performance and Renewal Committee

The Board Performance and Renewal Committee reviews annually the corporate governance procedures of the Group. It considers the composition and effectiveness of the Commonwealth Bank of Australia Board and also the boards of the major wholly owned subsidiaries. The policy of the Board is that the Committee shall consist solely of independent Non-Executive Directors, with the CEO attending the meeting by invitation.

A copy of the Board Performance and Renewal Committee Charter appears on the Group's website.

Selection of Directors

The Board Performance and Renewal Committee has developed a set of criteria for Director appointments which has been adopted by the Board. These are aimed at creating a Board capable of challenging, stretching and motivating management to achieve sustained, outstanding performance in all respects. These criteria, which are reviewed annually, aim to ensure that any new appointee is able to contribute to the Board constituting a competitive advantage for the Group. Each Director should:

- Be capable of operating as part of an exceptional team;
- Contribute outstanding performance and exhibit impeccable values;
- Be capable of inputting strongly to risk management, strategy and policy;
- Provide an appropriate mix of skills, diversity and experience required currently and for the future strategy of the Group;
- Be excellently prepared and receive all necessary education;
- Provide important and significant insights, input and questions to management from their experience and skill; and
- Vigorously debate and challenge management.

Professional intermediaries are engaged to identify a diverse range of potential candidates for appointment as Directors based on the identified criteria.

The Board Performance and Renewal Committee will assess the skills, experience and personal qualities of these candidates as well as take into consideration other attributes including diversity to ensure that any appointment decisions are made in line with the objectives of the Board and the Group's Diversity Policy. A copy of the Policy is available on the Group's website. Information on the Group's diversity strategy can also be found in the Sustainability section of this report.

Candidates who are considered suitable for appointment as Directors by the Board Performance and Renewal Committee are then recommended for decision by the Board and, if appointed, will stand for election at the next AGM, in accordance with the Constitution.

The Group has adopted a policy whereby, on appointment, a letter is provided from the Chairman to the new Director setting out the terms of appointment and relevant Board policies. These include time commitment, code of ethics and continuing education. All current Directors have been provided with a letter confirming the terms of their appointment. A copy of the form of letter of appointment appears on the Group's website.

Policies

Board policies relevant to the composition of Committees and functions of Directors include:

- The Board will consist of a majority of independent Non-Executive Directors;
- The Board Performance and Renewal, People & Remuneration and Audit Committees should consist solely of independent Non-Executive Directors. The Risk Committee should consist of a majority of independent Non-Executive Directors;
- The Chairman will be an independent Non-Executive Director;
- The Audit Committee will be chaired by an independent Non-Executive Director other than the Chairman;
- The Board will meet on a regular and timely basis. The agenda will provide adequate information about the affairs of the Group. It also enables the Board to guide and monitor management, and assist in its involvement in discussions and decisions on strategy. Strategic matters are given priority on the agenda for regular Board meetings. In addition, ongoing strategy is the major focus of at least one Board meeting annually;
- The Board has an agreed policy on the basis on which Directors are entitled to obtain access to Group documents and information, and to meet with management; and
- The Group has in place a procedure whereby, after appropriate consultation, Directors are entitled to seek independent professional advice, at the expense of the Group, to assist them to carry out their duties as Directors. The policy of the Group provides that any such advice is generally made available to all Directors.

Ethical Standards

Conflicts of Interest

In accordance with the Constitution and the Corporations Act 2001, Directors are required to disclose to the Board any material contract in which they may have an interest. In compliance with section 195 of the Corporations Act 2001 any Director with a material personal interest in a matter being considered by the Board will not be present when the matter is being considered and will not vote on the matter. In addition, any Director who has a conflict of interest in connection with any

Corporate Governance

matter being considered by the Board or a Committee does not receive a copy of any paper dealing with the matter.

Share Trading

The restrictions imposed by law on dealings by Directors in the securities of the Group have been supplemented by the Board adopting guidelines which further limit any such dealings by Directors, their spouses, any dependent child, family company or family trust.

The guidelines provide, that in addition to the requirements that Directors not deal in the securities of the Group or any related Company when they have or may be perceived as having relevant unpublished price sensitive information, Directors are only permitted to deal within certain periods.

These periods include between three and 30 days after the announcement of half yearly and final results and from the date of the AGM until 14 days after the AGM. The guidelines also require that Directors do not deal on the basis of considerations of a short term nature or to the extent of trading in those securities. Similar restrictions apply to Executives of the Group, which is in addition to the prohibition of any trading (including hedging) in positions prior to vesting of shares or options.

Directors and Executives who report to the CEO are also prohibited from:

- Any hedging of publicly disclosed shareholding positions; and
- Entering into or maintaining arrangements for margin borrowing, short selling or stock lending, in connection with the securities of the Group.

In June 2010, the Board approved a revised Group Securities Trading Policy, which replaced the guidelines. This policy applied to all Directors, employees and contractors of the Group from 21 September 2010. A copy of the policy is available on the Group's website.

Remuneration Arrangements

Details of the governance arrangements and policies relevant to remuneration are set out in the Remuneration Report.

Audit Arrangements

Audit Committee

The purpose of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities. It provides an objective and independent review of the effectiveness of the external reporting of financial information and the internal control environment of the Group, as well as obtaining an understanding of the tax and accounting risks which face the Group. The Audit Committee is responsible for the oversight of accounting policies, professional accounting requirements, internal audit (GAA), external audit, APRA statutory and regulatory reporting requirements, and the appointment of the external auditor.

The Charter of the Audit Committee incorporates a number of policies and practices to ensure that the Committee is independent and effective.

These include:

- The Audit Committee shall comprise at least three members. All members must be Non-Executive, Independent Directors and be financially literate. At least one member should have relevant qualifications and experience as referred to in the ASX Corporate Governance Principles and Recommendations;

- The chairman of the Audit Committee may not be the Chairman of the Board. The term of each member will be determined by the Board through annual review. The Risk Committee chairman will be a member of the Audit Committee and vice-versa to ensure the flow of relevant information between the two committees;
- Meetings will be at least quarterly and as required. The external auditor will be invited to all meetings.
- Meetings will be held from time to time with GAA and the external auditor without management or others being present;
- The Committee has the power to call attendees as required, including open access to management, GAA, external audit and the right to seek explanations and additional information;
- Senior management and the internal and external auditor have free and unfettered access to the Audit Committee with the Group Auditor having a direct reporting line, whilst maintaining a management reporting line to the Chief Financial Officer; and
- It has the option, with the concurrence of the Chairman of the Board, to retain independent legal, accounting or other advisors to the extent the Committee considers necessary at the Group's expense.

A copy of the Audit Committee Charter appears on the Group's website.

Auditor

PricewaterhouseCoopers (PwC) was appointed as the external auditor of the Bank at the 2007 AGM, effective from the beginning of the 2008 financial year.

The PwC audit partner will attend the 2011 AGM and be available to respond to shareholder questions relating to the external audit.

The Group requires that the partner managing the external audit be changed after a period of no longer than five years, in line with current regulations.

The Group and its external auditor must continue to comply with U.S Auditor independence requirements. U.S. Securities and Exchange Commission (SEC) rules still apply to various activities that the Group continues to undertake in the United States, notwithstanding the Bank's de-registration under the Exchange Act.

Non-Audit Services

The External Auditor Services Policy requires the Audit Committee (or its delegate) to approve all audit and non-audit services before engaging the external auditors to perform the work. The policy also prohibits the external auditors from providing certain services to the Group or its affiliates. The objective of this policy is to avoid prejudicing the independence of the external auditors.

The policy is designed to ensure that the external auditors do not:

- Assume the role of management or act as an employee;
- Become an advocate for the Group;
- Audit their own work;
- Create a mutual or conflicting interest between themselves and the Group;
- Require an indemnification from the Group to themselves;
- Seek contingency fees; nor

- Have a direct financial or business interest or a material indirect financial or business interest in the Group or any of its affiliates, or an employment relationship with the Group or any of its affiliates.

Under the policy, the external auditor shall not provide certain services including the following services:

- Bookkeeping or other services relating to accounting records or Financial Statements of the Group;
- Financial information systems design and implementation;
- Appraisal or valuation services (other than certain tax only valuation services) and fairness opinions or contribution-in-kind reports;
- Actuarial services unless approved in accordance with independence guidelines;
- Internal audit outsourcing services;
- Management functions, including acting as an employee and secondment arrangements;
- Human resources;
- Broker-dealer, investment adviser or investment banking services;
- Legal services;
- Expert services for the purpose of advocating the interests of the Group;
- Services relating to marketing, planning or opining in favour of the tax treatment of certain transactions;
- Tax services in connection with certain types of tax transactions;
- Tax services to individuals, and any immediate family members of any individuals, in a Financial Reporting Oversight Role; and
- Certain corporate recovery and similar services.

In general terms, the permitted services are:

- Audit services to the Group or an affiliate;
- Related services connected with the lodgement of statements or documents with the ASX, ASIC, APRA or other regulatory or supervisory bodies;
- Services reasonably related to the performance of the audit services;
- Agreed-upon procedures or comfort letters provided by the external auditor to third parties in connection with the Group's financing or related activities; and
- Other services pre-approved by the Audit Committee.

Risk Management

Risk Management governance originates at Board level, and cascades through to the CEO and businesses, via policies and delegated authorities. This ensures Board level oversight and a clear segregation of duties between those who originate and those who approve risk exposures. Independent review of the risk management framework is carried out through GAA.

The Board and its Risk Committee operate under the direction of their respective charters. The Board Charter stipulates, amongst other things that:

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

The CEO and the Chief Financial Officer have given the Board their declaration in accordance with section 295A of the Corporations Act 2001 and confirmation that the declaration is founded on a sound system of risk management and internal control and also that the system is operating effectively in all material respects in relation to financial risks.

Risk Committee

The Risk Committee oversees the Group's risk management framework. This includes credit, market (including traded interest rate risk in the banking book, lease residual values, non-traded equity and structural foreign exchange), liquidity, funding, operational, insurance, compliance and regulatory risks assumed by the Group in the course of carrying on its business. It reviews regular reports from management on the measurement of risk and the adequacy and effectiveness of the Group's risk management and internal controls systems.

Strategic risks are governed by the Board, with input from the various Board sub-committees. Tax and accounting risks are governed by the Audit Committee.

A key purpose is to help formulate the Group's risk appetite for consideration by the Board, and agreeing and recommending a risk management framework to the Board that is consistent with the approved risk appetite.

This framework, which is designed to achieve portfolio outcomes consistent with the Group's risk-return expectations, includes:

- High-level risk management policies for each of the risk areas it is responsible for overseeing; and
- A set of risk limits to manage exposures and risk concentrations.

The Committee monitors management's compliance with the Group risk framework (high-level policies and limits). It also makes recommendations on the key policies relating to capital (that underpin the Internal Capital Adequacy Assessment Process), liquidity and funding. These are overseen and reviewed by the Board on at least an annual basis.

The Committee also monitors the health of the Group's risk culture, and reports any significant issues to the Board.

As part of the remuneration policy, the Risk Committee provides written input to the People & Remuneration Committee to assist in the alignment of executive remuneration with appropriate risk behaviours.

The Committee reviews significant correspondence between the Group and its regulators, receives reports from management on the Group's regulatory relations and reports any significant regulatory issues to the Board.

Levels of insurance cover on insurance policies maintained by the Group to mitigate some operational risks are disclosed to the Risk Committee for comment.

The Risk Committee charter states that the Committee will meet at least quarterly, and as required. In practice this is at least six times a year. To allow it to form a view on the independence of the function, the Risk Committee meets with the Group Chief Risk Officer (CRO) in the absence of other management at least annually or at the will of the Committee or the CRO. The chairman of the Risk Committee provides a report to the Board following each Committee meeting.

A copy of the Risk Committee charter appears on the Group's website.

Framework

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

Corporate Governance

A description of the functions of the framework and the nature of the risks is set out in the Risk Management section of the Annual Report and in Notes 38 to 41 to the Financial Statements.

Continuous Disclosure

Market matters which could be expected to have a material effect on the price or value of the Company's securities must be disclosed under the Corporations Act 2001 and the ASX Listing Rules. The Group's "Guidelines for Communication between the Bank and Shareholders" is available on the Group's website. These set out the processes to ensure that shareholders and the market are provided with full and timely information about the Group's activities in compliance with continuous disclosure requirements.

Continuous Disclosure policy and processes are in place throughout the Group to ensure that all material matters which may potentially require disclosure are promptly reported to the CEO, through established reporting lines or as a part of the deliberations of the Group's Executive Committee. Matters reported are assessed and, where required by the ASX Listing Rules, advised to the market. A Disclosure Committee has also been formed to provide advice on the requirements for disclosure of information to the market. The Company Secretary is responsible for communications with the ASX and for ensuring that such information is not released to any person until the ASX has confirmed its release to the market.

Shareholder Communication

The Group believes it is very important for its shareholders to make informed decisions about their investment in the Group. In order for shareholders to have an understanding of the business operations and performance, the Group seeks to provide shareholders with access to quality information in a timely fashion. This will be communicated in the form of:

- Interim and final results;
- Annual Reports;
- Shareholder newsletters;
- AGM;
- Quarterly trading updates and Business Unit briefings where considered appropriate;
- All other price sensitive information will be released to the ASX in a timely manner; and
- The Group's website at www.commbank.com.au.

The Group employs a wide range of communication approaches. These include direct communication with shareholders, publication of all relevant Group information on the shareholder centre section of the website and webcasting of most market briefings for shareholders. Upcoming webcasts are announced to the market via ASX announcements and publicised on the website to enable interested parties to participate. In order to make its general meetings more accessible to shareholders, the Group moves the location between Australian capital cities each year and live webcasts are available for viewing online. These actions are aimed at encouraging shareholder participation at general meetings.

A summary record of issues discussed at one-on-one or group meetings with investors and analysts, including a record of those present, time and venue of the meeting, are kept for internal reference only.

The Group is committed to maintaining a level of disclosure that meets the highest of standards and provides all investors with timely and equal access to information.

Ethical Policies

The values of the Group are trust, honesty and integrity. The Board carries out its legal duties in accordance with these values and having appropriate regard to the interests of the Group's customers, shareholders, people and the broader community in which the Group operates.

Policies and codes of conduct have been established by the Board and the Group Executive team to support the Group's objectives, vision and values.

Statement of Professional Practice

The Group has adopted a code of ethics, known as a Statement of Professional Practice. This sets standards of behaviour required of all employees and directors including:

- To act properly and efficiently in pursuing the objectives of the Group;
- To avoid situations which may give rise to a conflict of interest;
- To know and adhere to the Group's Equal Employment Opportunity policy and programmes;
- To maintain confidentiality in the affairs of the Group and its customers; and
- To be absolutely honest in all professional activities.

These standards are regularly communicated to our people. The Group has also established insider trading guidelines for our people to ensure that unpublished price-sensitive information about the Group or any other company is not used in an illegal manner or so that inside information could be used for personal advantage.

Our People

There are various policies and systems in place to enable our people to carry out their duties in accordance with the values of the Group. These include:

- Fair Treatment Review;
- Equal Employment Opportunity;
- Occupational Health and Safety;
- Recruitment and selection;
- Performance management;
- Talent management and succession planning;
- Remuneration and recognition;
- Employee share plans; and
- Supporting Professional Development.

Information on the Group's diversity strategy can be found in the Sustainability section of this report.

Behaviour Policy

The Group is strongly committed to maintaining an ethical workplace and to complying with legal and ethical responsibilities. Policy requires our people to report fraud, corrupt conduct, mal-administration or serious and substantial waste by others. A system has been established which allows our people to remain anonymous, if they wish, for reporting of these matters.

The policy has been extended to include reporting of auditing and accounting issues. These are reported to the Chief Compliance Officer by the Chief Security Officer, who administers the reporting and investigation system. The Chief Security Officer reports any such matters to the Audit Committee, noting the status of resolution and actions to be taken.

Code of Conduct

The Board will operate in a manner reflecting the Group's values and in accordance with its agreed corporate governance guidelines, the Bank's Constitution, the Corporations Act and all other applicable regulations.

The Board employs and requires at all levels, impeccable values, honesty and openness. Through its processes, it achieves transparent, open governance and communications under all circumstances, with both performance and conformance addressed.

The Board's policies and codes include detailed provisions dealing with:

- The interface between the Board and management to ensure there is effective communication of the Board's views and decisions, resulting in motivation and focus towards long term shareholder value behaviours and outcomes;
- Disclosure of relevant personal interests so that potential conflict of interest situations can be identified and appropriate action undertaken to avoid compromising the independence of the Board; and
- Securities dealings in compliance with the Group's strict guidelines and in accordance with the values of honesty and integrity.

Website

The Group's Corporate Governance statement can be viewed at www.commbank.com.au > About us > Shareholders > Corporate Profile.

The current charters and summary of policies and guidelines referred to in this statement are also published on this section of this website.

Directors' Report

The Directors of the Commonwealth Bank of Australia submit their report, together with the financial report of the Commonwealth Bank of Australia (the Bank) and of the Group, being the Bank and its controlled entities, for the year ended 30 June 2011.

The names of the Directors holding office during the financial year are set out below, together with details of Directors' experience, qualifications, special responsibilities and organisations in which each of the Directors have declared an interest.

David J Turner, Chairman

Mr Turner was appointed to the Board in August 2006 and has been Chairman since February 2010. He is Chairman of the Board Performance and Renewal Committee and a member of the Risk Committee and the People & Remuneration Committee.

Mr Turner has extensive experience in finance, international business and governance. He was Chairman of Cobham plc from May 2008 until May 2010. He was CEO of Brambles Limited from October 2003 until his retirement in June 2007 and formerly CFO from 2001 to 2003. He was also Finance Director of GKN plc, Finance Director of Booker plc and spent six years with Mobil Oil.

Mr Turner has also been a Non Executive Director of Whitbread plc, Director of the Iron Trades Insurance Group and Member of the Quotations Committee of the London Stock Exchange.

Director: Great Barrier Reef Foundation and O'Connell Street Associates.

Other Interests: Institute of Chartered Accountants in England and Wales (Fellow).

Mr Turner is a resident of New South Wales. Age 66.

Ralph J Norris, KNZM, Managing Director and Chief Executive Officer

Mr Norris was appointed as Managing Director and Chief Executive Officer effective September 2005. From 2002, Mr Norris was Chief Executive Officer and Managing Director of Air New Zealand having been a Director of that Company since 1998. He retired from that Board in 2005 to take up his position with the Group. He is a member of the Risk Committee.

Mr Norris has a 30 year career in Banking. He was Chief Executive Officer of ASB Bank Limited from 1991 until 2001 and Head of International Financial Services from 1999 until 2001.

In 2005, Mr Norris retired from the Board of Fletcher Building Limited where he had been a Director since 2001.

Chairman: Australian Bankers' Association and Comm-Foundation Pty Limited.

Director: Business Council of Australia and Financial Markets Foundation for Children.

Other Interests: New Zealand Institute of Management (Fellow) and New Zealand Computer Society (Fellow).

Mr Norris is a resident of New South Wales. Age 62.

Sir John A Anderson, KBE

Sir John joined the Board in March 2007. He is a member of the Risk Committee and Board Performance and Renewal Committee. Sir John is a highly respected business and community leader, having held many senior positions in the New Zealand finance industry including Chief Executive Officer and Director of ANZ National Bank Limited from 2003 to 2005 and the National Bank of New Zealand Limited from 1989 to 2003.

In 1994, Sir John was awarded Knight Commander of the Civil Division of the Order of the British Empire, and in 2005 received the inaugural Blake Medal for "Outstanding Leadership Contributions to New Zealand".

Chairman: Television New Zealand Limited, New Zealand Venture Investment Fund, National Property Trust Limited and PGG Wrightson Limited.

Other Interests: Institute of Financial Professionals New Zealand (Fellow), Institute of Directors (Fellow), New Zealand Institute of Chartered Accountants (Fellow), Australian Institute of Banking and Finance (Life Member).

Sir John is a resident of Wellington, New Zealand. Age 66.

Colin R Galbraith, AM

Mr Galbraith has been a member of the Board since June 2000 and is a member of the Risk Committee, Audit Committee and Board Performance and Renewal Committee. He is a special advisor for Gresham Partners Limited.

Chairman: BHP Billiton Community Trust.

Director: OneSteel Limited and Australian Institute of Company Directors.

Other Interests: CARE Australia (Director) and Royal Melbourne Hospital Neuroscience Foundation (Trustee).

Mr Galbraith is a resident of Victoria. Age 63.

Jane S Hemstritch

Ms Hemstritch was appointed to the Board effective October 2006. She is Chairman of the People & Remuneration Committee and a member of the Risk Committee.

Ms Hemstritch was Managing Director - Asia Pacific for Accenture Limited from 2004 until her retirement in February 2007. In this role, she was a member of Accenture's global executive leadership team and oversaw the management of Accenture's Asia Pacific business portfolio. She holds a Bachelor of Science Degree in Biochemistry and Physiology and has professional expertise in technology, communications, change management and accounting. She also has experience across the financial services, telecommunications, government, energy and manufacturing sectors and in business expansion in Asia.

Director: The Global Foundation, Victorian Opera Company Limited, Tabcorp Ltd and Santos Ltd.

Other Interests: Institute of Chartered Accountants in Australia (Fellow), Institute of Chartered Accountants in England and Wales (Fellow), Australian Institute of Company Directors (Fellow), Chief Executive Women Inc. (Member), Walter and Eliza Hall Institute Financial Sustainability Committee (Member), Council of Governing Members of The Smith Family and CEDA's Policy and Research Committee (Member) and Council of the National Library of Australia (Member).

Ms Hemstritch is a resident of Victoria. Age 57.

Carolyn H Kay

Ms Kay has been a member of the Board since March 2003 and is also a member of the Audit, People & Remuneration and Risk Committees.

Ms Kay holds Bachelor Degrees in Law and Arts and a Graduate Diploma in Management. She has over 25 years of experience in Finance, particularly in International Finance, including working as both a banker and a lawyer at Morgan Stanley, JP Morgan and Linklaters & Paines in London, New York and Australia.

Director: Allens Arthur Robinson, Brambles Industries Limited, Infrastructure NSW and Sydney Institute.

Other Interests: Australian Institute of Company Directors (Fellow) and Chief Executive Women's Inc (Member).

Ms Kay is a resident of New South Wales. Age 50.

Brian J Long

Mr Long was appointed to the Board effective September 2010. He is a member of the Audit and Risk Committees.

Mr Long retired as a partner of Ernst & Young in June 2010. Until that time he was the Chairman of both the Global Advisory Council and of the Oceania Area Advisory Council. He was one of the firm's most experienced audit partners with over 30 years experience in serving as audit signing partner on major Australian public companies including those in the financial services, property, insurance and media sectors.

Director: Cantarella Bros, Pty Ltd

Chairman: Ten Network Holdings Limited

Other Interests: Institute of Chartered Accountants in Australia (Fellow), Chairman of United Way Australia, Member of Council and Chairman of Audit Committee for each of the National Library of Australia and the University of NSW.

Mr Long is a resident of New South Wales. Age 65.

Andrew M Mohl

Mr Mohl was appointed to the Board effective July 2008 and is a member of the Risk and People & Remuneration Committees.

He has over 30 years of financial services experience. Mr Mohl was Managing Director and Chief Executive Officer of AMP Limited from October 2002 until December 2007.

Mr Mohl's previous roles at AMP included Managing Director of AMP Financial Services and Managing Director and Chief Investment Officer of AMP Asset Management.

Mr Mohl was a former Group Chief Economist, Chief Manager, Retail Banking and Managing Director of ANZ Funds Management at ANZ Banking Group. He began his career at the Reserve Bank of Australia where his roles included Senior Economist and Deputy Head of Research.

Chairman: Federal Government Export Finance and Insurance Corporation.

Director: AMP Foundation.

Other Interests: Coaching services to Chief executives, Member of the Board of Governors for the Committee of Economic Development of Australia, the Advisory Council of the Australian School of Business at the University of New South Wales and the Corporate Council of the European Australian Business Council.

Mr Mohl is a resident of New South Wales. Age 55.

Directors' Report

Fergus D Ryan

Mr Ryan has been a member of the Board since 2000 and is Chairman of the Audit Committee and a member of the Risk Committee.

He has extensive experience in accounting, audit, finance and risk management. He was a senior partner of Arthur Andersen until his retirement in 1999, after 33 years with that firm, including five years as Managing Partner Australasia. Until 2002, he was Strategic Investment Co-ordinator and Major Projects Facilitator for the Commonwealth Government.

Director: Australian Foundation Investment Company Limited, and Centre for Social Impact.

Other Interests: Chairman of the Advisory Council of the Global Foundation, Committee for Melbourne (Counsellor) and Pacific Institute (Patron).

Mr Ryan is a resident of Victoria. Age 68.

Harrison H Young

Mr Young has been a member of the Board since February 2007. He is Chairman of the Risk Committee and a member of the Audit Committee.

From 2003 to 2007, Mr Young was Chairman of Morgan Stanley Australia, and from 1997 to 2003 Vice Chairman of Morgan Stanley Asia. Prior to that, he spent two years in Beijing as Chief Executive Officer of China International Capital Corporation. From 1991 to 1994 he was a senior officer of the Federal Deposit Insurance Corporation in Washington.

Chairman: NBN Co Limited and Better Place (Australia) Pty Limited.

Director: Bank of England and Financial Services Volunteer Corps.

Mr Young is a resident of Victoria. Age 66.

Launa K Inman

Ms Inman was appointed to the Board effective March 2011. She is a member of the Risk Committee.

Ms Inman has been Managing Director of Target Australia Pty Limited since 2005. Prior to that appointment, Ms Inman was Managing Director of Officeworks.

Ms Inman won the 2003 Telstra Australian Business Woman of the Year and was winner of the Commonwealth Government Private and Corporate Sector Award.

Other Interests: Australian Institute of Company Directors (Member), Chief Executive Women Inc. (Member), Australian Institute of Management (Member) and World Retail Congress Advisory Board (Member).

Ms Inman is a resident of Victoria. Age 55

Other Directorships

The Directors held directorships on listed companies within the last three years as follows:

Director	Company	Date Appointed	Date of Ceasing (if applicable)
D J Turner	Cobham plc	01/12/2007	06/05/2010
J A Anderson	PGG Wrightson Ltd (NZ) National Property Trust (NZ)	01/04/2010 01/04/2011	- -
C R Galbraith	OneSteel Limited	25/10/2000	-
J S Hemstrich	Tabcorp Holdings Limited Santos Limited	13/11/2008 16/02/2010	- -
S C H Kay	Brambles Industries Limited	01/06/2006	-
B J Long	Ten Network Holdings Limited	01/07/2010	-
F D Ryan	Australian Foundation Investments Company Limited	08/08/2001	-

Directors' Report

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors during the financial year were:

Director	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
D J Turner	11	11
R J Norris	11	11
J A Anderson	11	10
C R Galbraith	11	11
J S Hemstritch	11	11
S C H Kay	11	11
B J Long ⁽²⁾	9	9
A M Mohl	11	11
F D Ryan	11	11
H H Young	11	10
L K Inman ⁽³⁾	3	3

(1) The number of meetings held during the time the Director was a member of the Board and was eligible to attend.

(2) Mr Long was appointed effective 1 September 2010.

(3) Ms Inman was appointed effective 16 March 2011.

Committee Meetings

Director	Risk Committee		Audit Committee		People & Remuneration Committee	
	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
D J Turner	6	6	-	-	9	9
R J Norris	6	6	-	-	-	-
J A Anderson	6	5	-	-	-	-
C R Galbraith	6	6	6	6	-	-
J S Hemstritch	6	6	-	-	9	9
S C H Kay	6	5	6	6	9	8
B J Long	5	5	5	5	-	-
A M Mohl	6	6	-	-	9	9
F D Ryan	6	5	6	6	-	-
H H Young	6	6	6	6	-	-
L K Inman	1	1	-	-	-	-

Director	Board Performance and Renewal Committee	
	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
D J Turner	7	7
J A Anderson	7	7
C R Galbraith	7	7

(1) The number of meetings held during the time the Director was a member of the relevant committee.

Principal Activities

The principal activities of the Group during the financial year were the provision of a broad range of banking and financial products and services to retail, small business, corporate and institutional clients.

The Group conducts its operations primarily in Australia, New Zealand and the Asia Pacific region. It also operates in a number of other countries including the United Kingdom and the United States.

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

Directors' Report

Consolidated Profit

The Group's net profit after income tax and non controlling interests for the year ended 30 June 2011 was \$6,394 million (2010: \$5,664 million).

This result was achieved in a challenging environment where the impacts of the GFC continue to linger. Credit growth remains at historic lows, business and consumer confidence is fragile and there is significant uncertainty in global markets.

Despite these difficult conditions, the Group, with its well managed, diversified business model and strong and stable financial platform, has delivered another solid result. This has been supported by a continued disciplined approach to the execution of the Group's five strategic priorities and prudent management in uncertain times.

Operating income growth was impacted by a low credit growth environment, strong competition, particularly in the home lending and deposit markets, together with difficult trading conditions for the Markets and Wealth businesses.

Operating expenses were managed tightly, laying the platform for continued investment in the business, including the effective execution of the Core Banking Modernisation initiative which is now past the half way stage, having achieved significant milestones during the year.

Impairment expense continued to decrease as credit quality gradually improved however some of the Group's customers are finding business conditions challenging. The Group has maintained a conservative approach to provisioning.

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

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 188 cents per share amounting to \$2,930 million. The dividend will be payable on 6 October 2011 to shareholders on the register at 5pm EST on 19 August 2011.

Dividends paid in the year ended 30 June 2011 were as follows:

- In respect of the year to 30 June 2010, a fully franked final dividend of 170 cents per share amounting to \$2,633 million was paid on 1 October 2010. The payment was fully comprised of cash disbursements of \$2,633 million. This included \$679 million in respect of the DRP which was satisfied in full by an on market purchase and transfer of shares; and
- In respect of the year to 30 June 2011, a fully franked interim dividend of 132 cents per share amounting to \$2,045 million was paid on 1 April 2011. The payment comprised direct cash disbursements of \$1,532 million, with \$513 million being reinvested by participants through the DRP.

Review of Operations

An analysis of operations for the financial year is set out in the Highlights section and in the sections for Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, Wealth Management, New Zealand, Bankwest and Other Divisions.

Changes in State of Affairs

During the year, the Group continued to make significant progress in implementing a number of initiatives designed to ensure a better service outcome for the Group's customers.

Highlights included:

- "Bank of the Year" in the 2011 Money Magazine Awards, for the second year in a row;
- Awarded the "Australian Financial Institution of the Year – Major Banks" at the 2011 Australian Banking and Finance Awards;
- Continued investment spend, including the Core Banking Modernisation initiative with these customers now enjoying the benefits of real time banking;
- The Group achieved a major milestone when its first teams began working out of new state-of-the-art buildings in Sydney's Darling Harbour. This facility will be home to over 6,000 staff by early next year; and
- Bankwest was awarded the AFR Smart Investor 2010 "Bank of the Year award".

There were no other significant changes in the state of affairs of the Group during the financial year.

Events Subsequent to Balance Sheet date

On 22 July 2011, the Board announced the appointment of Ian Narev to the role of Chief Executive Officer of the Bank upon the retirement of Ralph Norris at the end of November 2011.

The Bank expects to issue approximately \$733 million of ordinary shares in respect of the DRP for the final dividend for the year ended 30 June 2011.

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

Business Strategies and Future Developments

Accommodation Strategy

The Group continues to implement its property strategy to consolidate the Sydney metropolitan teams across three main precincts: Sydney Central Business District, Sydney Olympic Park and Parramatta. The first teams took occupancy in Commonwealth Bank Place in June 2011 and more than 6,000 of the Group's people will be located there by early 2012.

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

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

Business Strategies

Business strategies, prospects and future developments which may affect the operations of the Group in subsequent years are referred to in the Chief Executive Officer's Statement.

In the opinion of the Directors, disclosure of any further information on likely strategic developments would be unreasonably prejudicial to the interests of the Group.

Environmental Reporting

The Group is subject to the Federal Government's National Greenhouse and Energy Reporting (NGER) scheme. The scheme makes it mandatory for controlling corporations to report annually on greenhouse gas emissions, energy production and energy consumption, if they exceed certain threshold levels. As a result of a long history in voluntary environmental reporting, the Group is well placed to meet the NGER requirements, and has recently updated its energy and emissions data management and reporting systems to comply with the legislation.

The Group is also subject to the Energy Efficiency Opportunities Act 2006 (EEO Act), which encourages large energy-using businesses to improve their energy efficiency.

The Group, including several Colonial First State managed funds, is required to comply with the EEO Act due to exceeding certain energy consumption thresholds.

As required by the EEO Act, the Group lodged a five year energy efficiency assessment plan and reported to Federal Government on 31 December 2008. The Group is subsequently required to report to the Federal Government every three years and to release a public report annually, covering all preceding years' assessment outcomes.

The Group is not subject to any other particular or significant environmental regulation under any law of the Commonwealth or of a State or Territory, but can incur environmental liabilities as a lender. The Group has developed policies to ensure this is managed appropriately.

Directors' Shareholdings and Options

Particulars of shares held by Directors and the Chief Executive Officer in the Commonwealth Bank or in a related body corporate are set out in the Remuneration Report within this report.

No options have previously been granted to the Directors or Chief Executive Officer. Refer to the Remuneration Report within this report for further details.

Options outstanding

As at the date of this report there are 36,100 options outstanding in relation to Commonwealth Bank ordinary shares. The expiry date of the share options is 3 September 2011 and the exercise price is \$30.12.

There were 50,000 Commonwealth Bank ordinary shares issued since the end of the financial year as a result of options being exercised.

Persons holding outstanding options and rights in relation to Commonwealth Bank ordinary shares are not entitled to participate in any share issue or interest of the Commonwealth Bank or any other body corporate as a result of those options or share rights.

The names of all persons who currently hold options and share rights are entered in the register kept by the Bank pursuant to section 170 of the Corporations Act 2001. This register may be inspected free of charge.

Directors' Interests in Contracts

A number of Directors have given written notices, stating that they hold office in specified companies and accordingly are to be regarded as having an interest in any contract or proposed contract that may be made between the Bank and any of those companies.

Directors' and Officers' Indemnity

The Directors, as named on pages 66 to 68 of this report, and the Secretaries of the Bank, being J D Hatton and C F Collingwood, are indemnified pursuant to the Constitution of Commonwealth Bank of Australia (the Constitution), as are all senior managers of the Bank.

Deeds of Indemnity have been executed by the Bank, consistent with the Constitution, in favour of each Director of the Bank.

An Indemnity Deed Poll has been executed by the Bank, consistent with the Constitution, in favour of each:

- secretary and senior manager of the Bank;
- director, secretary and senior manager of a related body corporate of the Bank; and
- person who, at the prior formal request of the Bank, acts as director, secretary or senior manager of a body corporate which is not a related body corporate of the Bank (in which case the indemnity operates only excess of protection provided by that body corporate).

In the case of a partly-owned subsidiary of the Bank, where a director, secretary or senior manager of that entity is a nominee of a third party body corporate which is not a related body corporate of the Bank the Indemnity Deed Poll will not apply to that person unless the Bank's CEO has certified that the indemnity shall apply to that person.

Directors' and Officers' Insurance

The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and those named and referred to above including the directors, secretaries, officers and certain employees of the Bank and related bodies corporate as defined in the insurance policy. The insurance grants indemnity against liabilities permitted to be indemnified by the Bank and the Group under Section 199B of the Corporations Act 2001. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

Rounding and presentation of amounts

The Bank is of the kind of entity referred to in ASIC Class Order 98/100 (as amended) pursuant to section 341(1) of the Corporations Act 2001.

As a result, amounts in this Directors' Report and the accompanying financial statements have been rounded to the nearest million dollars except where otherwise indicated.

The financial information included in this Annual Report, unless otherwise indicated, has been prepared and presented in accordance with Australian Accounting Standards. This ensures compliance with International Financial Reporting Standards.

The Group manages its' business performance using a "cash basis" profit measure. The key items that are excluded from statutory profit for this purpose are non-recurring or not considered representative of the Group's ongoing financial performance. Profit on an "underlying basis" is used primarily in the Wealth Management businesses. It provides a profit measure that excludes the volatility of equity markets on shareholder funds for a measure of core operating performance.

Directors' Report – 2011 Remuneration Report

Message from the People & Remuneration Committee Chairman

Dear Shareholder

The People & Remuneration Committee has conducted reviews of various aspects of remuneration in 2011, as a cornerstone of our governance of CBA Group's remuneration arrangements.

This year we have also closely monitored the evolving regulatory environment and emerging remuneration market practices, both in Australia and other jurisdictions in which we operate.

The Committee reviewed the Remuneration Framework for the CEO and the Group Executives. We also considered potential alternative frameworks.

We concluded that, in this evolving environment, our executive remuneration framework still provides an appropriate balance of short term and long term remuneration, and focuses executives on achieving our business strategy and strategic priorities.

We met with representatives from the Australian Prudential Regulation Authority (APRA) twice during the year to discuss the Group's remuneration arrangements and the Committee's role in managing risk within these arrangements.

During the year we also conducted detailed reviews of the remuneration principles and policies that apply throughout the Commonwealth Bank, as well as the governance of the employee equity plans under which many of our deferred awards are delivered.

At the same time we reviewed our Committee Charter, and recommended only minor adjustments to the Board for approval. Our Charter sets out the Committee's role and responsibilities.

We have introduced improvements to our remuneration framework and practices to provide for the systematic review of performance, risk and compliance across the Group. Further, we have strengthened the Board's existing broad scope to manage individual performance, risk management and compliance through remuneration outcomes and adjustments.

During the year we also conducted a detailed review of our funding policy for our corporate superannuation fund, the OSF. Our revised policy best ensures our superannuation obligations will continue to be properly funded, to the benefit of all employees who choose to be members. This superannuation benefit continues to be an important part of our overall employee value proposition for our employees in Australia.

Throughout the year, the Committee dealt directly with its independent remuneration consultant for input on the various reviews we have undertaken, as well as in relation to the CEO and Group Executives' remuneration plans and outcomes.

While the Committee's remuneration consultant provides insight into market practice, remuneration levels and the very complex components of remuneration, the Committee ultimately formulates its own decisions, independent of its consultant and also independent of management.

The Committee's focus continues to be on achieving the most effective remuneration framework for our varied businesses, with transparency in design, strong governance and risk oversight.

We do this to ensure the Group continues to earn the respect of the community and our customers, while paying our people to drive sustainable value for our shareholders.



Jane Hemstrich
Committee Chairman

Directors' Report – 2011 Remuneration Report

The Information Provided in this Report

This report details the Group's remuneration frameworks and 2011 outcomes for Key Management Personnel and Other Executives. The information is set out in four sections:

Section	Information	Page
2011 Remuneration in Review	Provides an update of how our remuneration and governance frameworks are meeting the challenges of the changing economic and regulatory environments.	73
Remuneration Arrangements	Details the Group's remuneration arrangements for Key Management Personnel and Other Executives required for disclosure.	76
Statutory Remuneration Disclosures	Discloses the 2011 remuneration for Key Management Personnel and Other Executives.	86
Glossary of Key terms	Provides a reference of key terms used in this report	91

This report has been prepared and audited in accordance with the requirements of the Corporations Act 2001.

2011 Remuneration in Review

Our remuneration and governance frameworks are designed to deliver on the Board's remuneration philosophies for:

- Non-Executive Directors;
- CEO and Group Executives; and
- Other executives, including those disclosed in this remuneration report.

This section provides shareholders with an update of how those frameworks are meeting the continuing challenges of the economic environment and regulatory change.

We explain how our remuneration frameworks have focused executives' efforts to deliver tangible results to our customers and shareholders, results that are strong relative to our peers, both in terms of our business strategy, and creating sustainable shareholder value.

Non-Executive Directors

Key developments for 2011:

- Brian Long was appointed to the Board effective 1 September 2010, and joined both the Audit and Risk Committees;
- Launa Inman was appointed to the Board effective 16 March 2011, and joined the Risk Committee; and
- AON Hewitt continued as Independent Remuneration Consultant to the People & Remuneration Committee.

Non-Executive Director Remuneration

We continue to retain a strong line-up of skilled, knowledgeable and experienced Directors. Non-Executive Directors are remunerated in their role of providing strategic leadership to the Group. They receive fees which are market competitive compared to other large complex organisations, and managed within a cap approved by shareholders.

Fees also reflect the scope of Directors' roles, and the responsibilities that come with those roles. As is appropriate for such a role, Non-Executive Directors do not receive incentive awards based on performance.

However, Non-Executive Directors continue to align their remuneration to the performance of our share price and dividend yield. They do this by receiving at least 20% of their annual fees as Commonwealth Bank shares.

CEO and Group Executives

Key developments for 2011:

- The Committee reviewed the remuneration framework for the CEO and Group Executives; and
- Barbara Chapman was appointed as Chief Executive and Managing Director of the Group's New Zealand subsidiary ASB Bank Limited, with effect from 26 April 2011.

Key achievements for 2011:

- Our 2011 financial performance was solid;
- We have delivered profitable growth through innovative new product offerings, disciplined margin and cost management, and continued selective expansion into Asia;
- We are progressing towards our customer satisfaction goals;
- We have achieved key milestones in our technology and operations excellence strategy; and
- Our employees are engaged and committed to our business strategy.

The achievements listed above are directly related to our executive remuneration framework. The framework is based on the strategic direction set by the Board, and articulated through its executive remuneration philosophy.

Executive Remuneration Philosophy

1. We provide target remuneration which is market competitive, without putting upward pressure on the market.

The executive remuneration framework has three components:

- Fixed Remuneration (including base remuneration and employer superannuation);
- Short term incentives; and
- Long term incentives.

Together, these components make up an executive's total target remuneration.

When setting our target remuneration levels, we consider the size of the role and its responsibilities. We also consider the market for similar roles. To support this, we participate in a range of executive remuneration surveys.

Our goal is always to remain competitive, and we generally set target remuneration at the market median for similar roles at peer organisations so that we can attract and retain high calibre people.

Directors' Report – 2011 Remuneration Report

We also aim to avoid adding pressure to the market. This is particularly important for our most senior roles, given the small size of the market for these types of roles in Australia and New Zealand in particular.

2. We clearly articulate the link between individual and Group performance and individual reward.

We clearly articulate to each executive the performance objectives for each component of their performance-based remuneration.

• Short Term Incentives Drive Performance Over the Financial Year.

Short term incentive performance objectives are managed through a balanced scorecard approach. We select financial and non-financial performance objectives and weight them in support of our overall business strategy.

These performance objectives are then communicated to each executive at the beginning of the performance year. This effectively focuses each executive on our key performance objectives because the short term incentive that they will ultimately receive will depend on Group and individual achievements against those objectives.

Executives' performance evaluations are conducted following the end of each financial year. Performance evaluations for the 2011 financial year were conducted in July 2011. Similarly, performance evaluations for the 2010 financial year were conducted in July 2010.

• Long Term Incentives Drive Performance Over Four Years.

Long term incentives focus the CEO and Group Executives on Group performance over the longer term. Performance hurdles for our long term incentive plan have been specifically chosen to support our business strategy, and to drive the long term creation of shareholder value.

Performance hurdles must be achieved before an executive can receive any value from this portion of their total target remuneration.

Performance is measured over a four year period. For the long term incentive award made during the 2011 financial year:

- One quarter of the award measures our customer satisfaction results relative to the peers with which we compete for customers. Our research demonstrates a direct relationship between high levels of customer satisfaction and high levels of shareholder returns; and
- The other three quarters measures our Total Shareholder Return relative to a set of peer companies with which we compete for capital. Shareholder return is a cornerstone of our remuneration philosophy.

This mix has a greater weighting on shareholder return than the previous year's award. This recognises the considerable achievements already made in Customer Satisfaction by 1 July 2010 (the beginning of the performance period), and sets meaningful goals to focus executives' performance for the four years to 30 June 2014.

3. We actively manage risks associated with delivering and measuring short term performance.

All our activities are carefully managed within our risk appetite, and individual incentive outcomes are reviewed and may be reduced or even eliminated in light of any risk management issues. Risk management is also built into our remuneration

framework. Profit After Capital Charge (PACC) is the performance measure that drives short term incentive outcomes. This is important, as PACC is a risk-adjusted measure. That is, it takes into account not just the profit achieved, but also considers the risk to capital that was taken to achieve it.

Risk is also managed by deferring half of the short term incentive of the CEO and each Group Executive for one year.

This deferral serves two key purposes. Firstly, it is an important retention mechanism which helps us manage the risk of losing key executive talent. Secondly, it provides a mechanism for the Board to reduce or cancel the deferred component of a short term incentive where eventual performance outcomes are materially lower than expected.

4. We align rewards with shareholder interests and our business strategy.

We explained above how the performance objectives and hurdles we have selected for our short term and long term incentives align our executives' rewards with:

- shareholder interests, through shareholder returns and other financial performance measures; and
- our business strategy, through customer satisfaction.

Our results for 2011 are strong. Our one year Total Shareholder Return is ranked in the top 25% of our peers. The peer group includes the large financial services companies we compete with for customers and capital. We continue to make progress in Customer Satisfaction across all segments of our business compared with the position of a few years ago.

5. We provide flexibility to meet changing needs and emerging market practice.

The framework also provides flexibility to make additional payments to new executives and key executives at risk of being enticed to other organisations. An appropriate governance framework exists to review and approve (or reject) any such proposed awards.

The framework provides flexibility to tailor remuneration arrangements in specialised parts of our business. This includes the Other Executives disclosed in this report, whose performance related remuneration arrangements recognise the unique market practice of that business segment.

6. We provide appropriate entitlements on termination that do not deliver any windfall payment.

Employment arrangements for the CEO, Group Executives and the Other Executives disclosed in this report are set out in individual employment agreements. These agreements include the terms that will apply when an executive leaves the Group.

Termination entitlements are set out on page 90 of this report. They are appropriate and do not deliver windfall payments on termination. As part of these arrangements, executives who resign or are dismissed forfeit their long term incentive awards.

Where an executive is retrenched or retires, the performance periods of any outstanding long term incentive awards continue unchanged, and the Board retains discretion to prorate where appropriate. Performance is measured at the end of the performance period in the normal way, and the Board determines the portion of the remaining award that may vest.

Directors' Report – 2011 Remuneration Report

2011 Executive Remuneration Outcomes Summary

CEO & Group Executives

The CEO and Group Executives receive a mix of remuneration, with a portion paid during the year, and a portion received up to four years later, depending on service and performance. This can make it difficult for shareholders to get a clear picture of the actual amount of remuneration an executive received in the financial year in review.

To assist shareholders, table (a) below provides a clear report of the remuneration the CEO and Group Executives actually received in relation to the 2011 financial year. The table sets out base remuneration, employer superannuation, the portion of the 2011 short term incentive that is not required to be deferred, and

the value of previous years' deferred short term incentive and long term incentive awards that vested during the 2011 financial year.

The information provided in table (a) is different to the information provided in the statutory remuneration table on page 87, which has been prepared in accordance with the accounting requirements and shows the accounting expense incurred for the 2011 financial year of each component of remuneration.

Table (b) provides a reconciliation in relation to the CEO of the remuneration details set out in table (a) with the remuneration information provided in the statutory remuneration table on page 87.

(a) Remuneration in relation to the 2011 financial year

	Base Remuneration & Superannuation ⁽¹⁾	2011 STI for Performance to 30 June 2011 ⁽²⁾	Total cash payments	Previous years' awards that vested during 2011 ⁽³⁾	
				2010 Deferred STI Awards	LTI Awards
	\$	\$	\$	\$	\$
Managing Director and CEO					
Ralph Norris	3,120,000	1,638,000	4,758,000	1,944,465	5,780,000
Current Executives					
Simon Blair	800,000	508,667	1,308,667	487,510	-
David Cohen	865,000	523,542	1,388,542	527,692	1,190,000
David Craig	1,350,000	827,213	2,177,213	671,608	1,360,000
Michael Harte	1,050,000	548,888	1,598,888	607,646	1,190,000
Ross McEwan	1,250,000	647,657	1,897,657	767,552	1,700,000
Ian Narev	900,000	488,250	1,388,250	543,683	357,410
Grahame Petersen	1,150,000	488,750	1,638,750	703,589	1,530,000
Ian Saines	1,330,000	613,463	1,943,463	831,515	684,162
Alden Toevs	1,400,000	798,350	2,198,350	895,477	2,067,546

(1) Base Remuneration and Superannuation make up an executive's Fixed Remuneration.

(2) This is the 50% of the 2011 short term incentive (STI) for performance during the 12 months to 30 June 2011, payable following year-end. The remaining 50% is deferred until 1 July 2012.

(3) The value of deferred and/or long term incentive awards that vested during the 2011 financial year. This is calculated as the value of the award that vested, plus any dividends (for equity awards) or interest (for cash awards) accrued during the vesting period.

(b) Cash payments from table (a) and non-cash remuneration expenses for the CEO

	2011 \$	Financial award vests
Cash remuneration received in relation to 2011 - refer to table (a) above	4,758,000	n/a
2011 STI deferred for 12 months at risk	1,638,000	2013
Annual leave and long service leave accruals	330,579	n/a
Other Payments	91,965	n/a
Share based payments: accounting expense for 2011 for LTI awards made over the past 4 years		
2009 GLSP: Expense reflecting the final vesting level for the award (see page 85)	(963,268)	2012
2010 GLRP: Expense for 2 awards that may vest subject to improved customer satisfaction performance	1,009,764	2013 & 2014
2010 GLRP: Expense for 2 awards that may vest subject to improved relative TSR performance	1,157,657	2013 & 2014
2011 GLRP: Expense for 1 award that may vest subject to improved relative TSR performance	489,404	2015
2011 GLRP: Expense for 1 award that may vest subject to improved customer satisfaction performance	126,071	2015
Total Accounting Expense as per page 87	8,638,172	

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Remuneration Arrangements

This section details the Group's remuneration arrangements for Key Management Personnel (KMP) and Other Executives during the year ended 30 June 2011.

Name	Position	Term
1. Key Management Personnel		
Non-Executive Directors		
David Turner	Chairman	Full Year
John Anderson	Director	Full Year
Colin Galbraith	Director	Full Year
Jane Hemstritch	Director	Full Year
Launa Inman	Director (from 16 March 2011)	Part Year
Carolyn Kay	Director	Full Year
Brian Long	Director (from 1 September 2010)	Part Year
Andrew Mohl	Director	Full Year
Fergus Ryan	Director	Full Year
Harrison Young	Director	Full Year
Managing Director and CEO		
Ralph Norris	Managing Director and CEO	Full Year
Group Executives		
Simon Blair	Group Executive, International Financial Services	Full Year
Barbara Chapman	Group Executive, Human Resources and Group Services (until 26 April 2011)	Part Year
David Cohen	Group General Counsel	Full Year
	Acting Group Executive Human Resources (from 26 April 2011)	
David Craig	Group Executive, Financial Services and Chief Financial Officer	Full Year
Michael Harte	Group Executive, Enterprise Services and Chief Information Officer	Full Year
Ross McEwan	Group Executive, Retail Banking Services	Full Year
Ian Narev	Group Executive, Business and Private Banking	Full Year
Grahame Petersen	Group Executive, Wealth Management	Full Year
Ian Saines	Group Executive, Institutional Banking and Markets	Full Year
Alden Toevs	Group Chief Risk Officer	Full Year
2. Other Executives		
Martin Lau	Director, Greater China Equities, First State Investments (FSI)	Full Year
Mark Lazberger	CEO, Colonial First State Global Asset Management (CFSGAM)	Full Year
Stuart Paul	Joint Managing Director Global Emerging Markets Asia Pacific (FSI)	Full Year
Alistair Thompson	Deputy Head of Asia Pacific (FSI)	Full Year

Governance & Risk Management

People & Remuneration Committee

The Group adheres to high standards of corporate governance. The People & Remuneration Committee (the Committee) is responsible for developing the Group's remuneration philosophy, framework and policies for approval by the Board.

The Committee is made up of independent Non-Executive Directors and meets at least four times per year. The CEO attends meetings by invitation, but is absent when matters affect him personally.

The role and responsibilities of the Committee are set out in their Charter, which is reviewed by the Board each year. The Charter is available on the Group's website at www.commbank.com.au/shareholder. In general, the Committee is responsible for recommending to the Board for approval:

- senior executive appointments, and appointments where the remuneration target of the individual exceeds that of the head of their business/service unit;

- remuneration arrangements and all reward outcomes for the CEO, senior direct reports to the CEO and other individuals whose roles may affect the financial soundness of the Group;
- remuneration arrangements for finance, risk & internal control personnel;
- remuneration arrangements for employees who have a significant portion of their total remuneration based on performance; and
- significant changes in remuneration policy and structure, including superannuation, employee equity plans and benefits.

The Committee is also responsible for reviewing and approving Group remuneration policies that apply to subsidiaries of the Group that do not have their own remuneration committees.

Membership

During 2011 the Committee consisted of:

- Jane Hemstritch (Chairman);
- Carolyn Kay;
- Andrew Mohl; and
- David Turner.

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Independent Remuneration Consultants

Throughout the year, the People & Remuneration Committee retained AON Hewitt as their independent remuneration consultant.

AON Hewitt is engaged directly by the Committee and any input is provided directly to the Committee Chairman who has the discretion to share this with Management.

During the 2011 financial year the Committee received input directly from AON Hewitt on matters including regulatory developments, emerging and current market practice, alternative short and long term incentive schemes and benchmarking in relation to the remuneration review of the CEO and Group Executives.

While the Committee takes note of the input from AON Hewitt, the Committee itself is responsible for making decisions within the terms of its Charter, including making recommendations in relation to the CEO and Group Executives' remuneration for approval ultimately by the Board.

Risk Management

The Committee has free and unfettered access to all risk, legal and financial control personnel as required. This is documented within the Committee Charter.

The Committee conducts a full review of the Group's Remuneration Policy and practices in December of each year. The Risk Committee is involved in this process to ensure that any risks associated with remuneration arrangements are managed within the Group's risk management framework.

Remuneration Arrangements in Detail

Non-Executive Directors' Remuneration

Non-Executive remuneration is fixed and Directors do not receive incentive based pay. Rather they receive fees for service on the Board and Committees.

The total amount of all fees for Non-Executive Directors is capped by a pool approved by shareholders. The current Non-Executive Director fee pool is \$4 million, and was approved by shareholders at the Annual General Meeting held on 13 November 2008.

Fee Structure

The Bank's Non-Executive Directors' receive a base fee for service on the Board and fees for serving on Committees. Different Committees have different fees, according to workload, and there are separate fees for chairing and membership of a Committee. The following table sets out the fee structure for Non-Executive Directors at 30 June 2011, which did not change during the financial year.

	Position	Fees (\$)
Board	Chairman	695,000
	Non-Executive Director	210,000
Audit Committee	Chairman	50,000
	Member	25,000
Risk Committee	Chairman	50,000
	Member	25,000
People & Remuneration Committee	Chairman	50,000
	Member	25,000
Board Performance & Renewal Committee	Chairman	10,000
	Member	10,000

The Board Performance and Renewal Committee reviews the Non-Executive Directors' fee schedule annually and assesses fee levels in comparison to market trends.

Superannuation

Non-Executive Directors also receive statutory superannuation contributions of 9% of their superannuation salary, up to the superannuation concessional contribution cap that applies to them. In general, superannuation salary is 80% of their total fees.

Shareholder Alignment

Non-Executive Directors receive 20% of their after-tax annual fees as Commonwealth Bank Shares. These shares cannot be traded until the earlier of a director's retirement from the Board or 10 years from the date the shares are granted.

Service Agreements

Each Non-Executive Director enters into a service agreement with the Bank when they are appointed to the Board. This service agreement is set out in a letter of appointment, and includes the terms of their engagement and their responsibilities. A copy of the pro-forma letter of appointment is provided on the Group's website.

Retirement Benefits

During the year, two Non-Executive Directors held entitlements under the Directors' Retirement Allowance Scheme. This scheme was approved by shareholders at the 1997 Annual General Meeting. However, the Board discontinued the scheme in 2002 and froze entitlements for participating directors at that time. The scheme was also closed to new participants at that time. Frozen entitlements for directors under this scheme are set out in the remuneration disclosures on page 86.

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Executive Remuneration

Remuneration Framework and Pay Mix

The CEO and Group Executives receive an appropriate mix of fixed remuneration and incentive-based remuneration. Incentive-based remuneration includes short term incentives and long term incentives. Performance conditions for these incentives are aligned to the Group's short term and long term business strategies and reflect the Group's strategic priorities.

Financial and non-financial performance measures are set at the beginning of the performance period. Performance against these measures drives the value each individual ultimately receives from their incentive-based remuneration.

Our incentive programmes are designed to discourage excessive risk taking. The Committee has discretion to reduce deferred incentive awards where performance outcomes are materially lower than expected.

Remuneration for the Other Executives disclosed in this report is explained in the following section.

CEO and Group Executives

The following table sets out the mix of each component of the CEO and Group Executives' remuneration, and demonstrates how each component links to our business strategy.

Target Mix	Component	Link to Business Strategy
1/3	Fixed Remuneration, comprising: <ul style="list-style-type: none"> • Base remuneration • Employer Superannuation 	Fixed remuneration targets the median of the market for similar roles in the same country, primarily in large financial services companies.
1/3	Short Term Incentive: <ul style="list-style-type: none"> • 50% paid after final results • 50% deferred for 12 months 	Short term incentives reward financial and non-financial performance over the 12 months to 30 June. We pay the deferred portion after 12 months provided the executive has remained with the Group. The Board retains discretion to reduce the deferred portion if warranted on the basis of realised performance.
1/3	Long term incentive: <ul style="list-style-type: none"> • 4 year performance period • Split performance hurdle: <ul style="list-style-type: none"> - Customer satisfaction - Total Shareholder Return 	Long term incentive awards are subject to performance hurdles over a period of four years. Executives only receive value from this component if performance hurdles are met at the end of the four year period. Performance hurdles are aligned to: <ul style="list-style-type: none"> • our business strategy, through the Customer Satisfaction performance hurdle; and • shareholders' interests, through the relative Total Shareholder Return performance hurdle.

CEO and Group Executives' Remuneration in Detail

Fixed Remuneration

The Board sets fixed remuneration for the CEO and Group Executives considering recommendations from the Committee. The Board considers the size and responsibility of each role as well as external benchmarks when setting fixed remuneration levels, in order to maintain market competitiveness.

Fixed remuneration includes cash salary, any salary sacrifice items and employer superannuation contributions. The Group provides employer superannuation contributions of 9% of each executive's superannuation salary, up to the superannuation concessional contribution cap that applies to them.

Fixed remuneration is reviewed annually in July. This review takes into account changes in the size or responsibilities of each role. Changes to our remuneration philosophy, and market competitiveness are also taken into account.

Short Term Incentives

Short term incentives reward performance over the financial year to 30 June, within a funding cap set by the Board. Both financial and non financial performance is measured against performance objectives set at the beginning of the year. Financial performance objectives include PACC, which is a risk-adjusted financial measure, and NPAT. Performance objectives are aligned with our business strategy, and are chosen as drivers of long term shareholder value.

Setting Performance Objectives

At the beginning of each financial year, each executive's performance objectives are set. The performance objectives are linked to our strategic priorities. The Committee reviews the performance objectives and measures and recommends them to the Board for approval. For 2011, short term incentive performance measures included:

- Financial objectives:
 - Cash Net Profit After Tax (Cash NPAT);
 - Profit After Capital Charge (PACC); and
 - Profitable Growth.
- Non financial objectives:
 - Increasing customer satisfaction and our reputation;
 - Excellence in technology and operations; and
 - Employee engagement, teamwork and effective talent management.

Financial objectives have a substantial weighting, and non-financial objectives vary by role. Executives managing business units typically have a 50% weighting on direct financial outcomes, while for executives managing support functions the typical weighting is 30%.

Measuring Performance and Determining Short Term Incentive Outcomes

At the end of the financial year, the Board and the Committee review performance against each performance objective. They also receive advice from the Risk Committee on appropriate risk matters to be considered when assessing the performance.

The review by the Board and Committee determines the short term incentive outcome for each executive, within an overall cap.

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Depending on performance outcomes, executives may receive 0% to 150% of their 2011 short term incentive target.

The Board recognises that the business environment changes over time and it is not always possible to anticipate these changes. Given this, the Board retains discretion to adjust remuneration outcomes up or down to ensure consistency with the Group's remuneration philosophy, and to prevent any inappropriate reward outcomes.

Payment and Mandatory Deferral

Half the CEO and Group Executives' short term incentive is paid in cash following the annual results announcement, usually in September each year. The other half is deferred for one year. The 2011 deferred component will be paid as cash, and will attract interest at the same rate as a Commonwealth Bank one year term deposit.

The CEO and Group Executives will forfeit the deferred portion if they resign or are dismissed from the Group before the applicable deferral period has passed.

The Board retains discretion to vest deferred amounts, for example in cases of retirement with Board approval. The Board reserves the right to reduce the deferred portion, or reduce future short term incentive outcomes, and receives advice from the Risk Committee each year in this regard.

Other Executives' Remuneration Arrangements

The Other Executives each receive fixed remuneration (including superannuation/pension benefits), a short term incentive and a long term incentive. Their remuneration is set considering the size and responsibility of their role as well as external benchmarks, and is reviewed annually.

Mark Lazberger's short term incentive is determined against a balanced scorecard of financial and non-financial performance measures aligned to the business objectives. Financial measures receive the highest individual weightings, and include Cash NPAT and PACC. Non-financial measures include customer satisfaction, employee engagement and teamwork, talent management, and technology and operations.

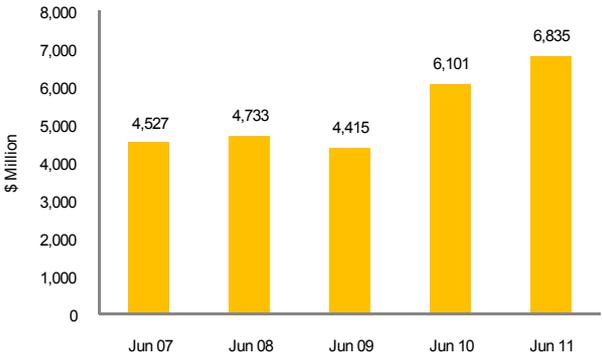
One third of Mark Lazberger's short term incentive is received as Commonwealth Bank Shares restricted for three years and subject to service conditions. He also receives a long term incentive, which is described on page 84.

Short term incentives for Martin Lau, Stuart Paul and Alistair Thompson are determined predominantly by one to five year performance against investment benchmarks relevant to the business they operate in. Qualitative factors and behaviours are also considered when determining the amount of their short term incentives.

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2011 Performance Outcomes

The following table provides a summary of performance for the year ended 30 June 2011 against the financial and non-financial performance objectives.

Performance Objective	2011 Achievements												
Cash NPAT and PACC	<p>Our 2011 financial performance was solid</p> <p>Each year the Board sets challenging financial targets for the CEO and Group Executives, with reference to profit based measures of PACC and Cash NPAT.</p> <p>PACC is an internal measure of profit that takes into account the risk to capital taken to achieve that profit and the Board determined that 2011 performance against this measure was strong.</p> <p>Cash NPAT is \$6,835 million, also representing solid 2011 performance. The following graph demonstrates our Cash NPAT performance for 2011 and each of the past four years.</p>  <table border="1"> <caption>Cash NPAT Performance (\$ Million)</caption> <thead> <tr> <th>Year</th> <th>Cash NPAT (\$ Million)</th> </tr> </thead> <tbody> <tr> <td>Jun 07</td> <td>4,527</td> </tr> <tr> <td>Jun 08</td> <td>4,733</td> </tr> <tr> <td>Jun 09</td> <td>4,415</td> </tr> <tr> <td>Jun 10</td> <td>6,101</td> </tr> <tr> <td>Jun 11</td> <td>6,835</td> </tr> </tbody> </table>	Year	Cash NPAT (\$ Million)	Jun 07	4,527	Jun 08	4,733	Jun 09	4,415	Jun 10	6,101	Jun 11	6,835
Year	Cash NPAT (\$ Million)												
Jun 07	4,527												
Jun 08	4,733												
Jun 09	4,415												
Jun 10	6,101												
Jun 11	6,835												
Profitable Growth	<p>We have delivered profitable growth through innovative new product offerings, disciplined margin and cost management, and continued selective expansion into Asia</p> <p>Profitable growth is growth which will provide our shareholders with increased returns on their investment by broadening our base in growth markets where the Group can leverage its assets and capabilities, including selected Asian markets, selected business banking segments, and other core domestic sectors.</p> <p>In our retail and business banking areas, we increased volumes in a number of core products and launched innovative new offerings, which supported 16% profit growth in those business units.</p> <p>We have incrementally expanded our capabilities and introduced new products in our corporate and institutional offerings, strengthened our business banking offerings including CommBiz enhancements, and built up our Private Bank financial advisory services.</p> <p>In Asia we progressed our long-term growth strategy, including acquiring a 15% shareholding in Vietnam International Bank and opening three County Banks in China.</p>												
Customer Satisfaction and Reputation	<p>We are progressing towards our customer satisfaction goals</p> <p>The Group vision is "to be Australia's finest financial services organisation through excelling in customer service". The more satisfied a customer is, the more likely they are to do more business with us.</p> <p>The 2011 customer satisfaction performance targets were based on the Board's assessment of Group performance in customer satisfaction across key segments of our business.</p> <ul style="list-style-type: none"> Customer satisfaction in retail banking is measured by Roy Morgan Research⁽¹⁾. During the 2011 financial year the Bank attained the highest score in customer satisfaction for customers who use us as their main financial institution since the inception of the survey, although overall customer satisfaction declined in the second half of the year; Customer satisfaction in our wealth management business is measured by the Wealth Insights 2011 Service Level Report, Platforms. This survey measures wealth management service performance of master trusts/wraps in Australia. Under this survey our FirstChoice and FirstWrap platforms are now consistently ranked at or near the top for service amongst financial advisors; In Institutional Banking, we consistently top the East and Partners survey, ranking number one in the two most important service measures for institutional clients: loyalty to the relationship; and our understanding of each customer's business; and 												

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Performance Objective	2011 Achievements
	<ul style="list-style-type: none">In Business Banking, customer satisfaction is measured by DBM's Business Financial Services Monitor⁽²⁾ (BFSM). CBA has maintained outright or equal first position in customer satisfaction in both the medium and large segments among the four major banks for 10 out of the past 12 months. <p>At the same time as achieving improvements in customer satisfaction, the average number of products⁽³⁾ held by each of our Retail customers has also grown. We now have the highest number of products-per-customer of any major bank in Australia at 2.64, ahead of the average of our peers.</p> <p>We have also been recognised with awards including 2011 Money Magazine's Bank of the Year (for the third time in four years), and Australian Banking and Finance's Australian Financial Institution of the Year.</p>
Technology & Operational Excellence	We achieved key milestones in our Technology & Operations Excellence strategy <p>The Group's Technology and Operational Excellence initiatives are designed to improve efficiency and productivity levels, while at the same time enhancing the service proposition to customers through more innovative and responsive systems, processes and procedures.</p> <p>The Core Banking Modernisation programme, a four year programme on schedule for completion by the end of 2012, is a key feature of this strategy. The programme will transition our Australian banking business to a completely new customer-centric core operating platform, replacing the myriad of obsolete systems previously operating across the various divisions of the Bank.</p> <p>We made significant progress in this area during 2011, including:</p> <ul style="list-style-type: none">Migrating ten million existing retail bank accounts to the new core banking platform;Integrating NetBank with our Core Banking systems to provide real-time transactions for personal accounts; andStarting to integrate the frontline customer interface with core banking to provide better customer service.
Trust & Team Spirit	Our employees are engaged and committed to our business strategy <p>Our continuing success is due to the hard work, enthusiasm and commitment of our people, and their commitment to our priorities. We continue to embed a collaborative and customer service culture across the Group. The Board assesses the Group's achievements in this area, with reference to the Group's results in the Gallup worldwide benchmark.</p> <p>The 2011 People & Culture Survey indicates we have maintained strong levels of people engagement. Our people describe our culture as customer focused, collaborative and caring supported by strong positive views of our senior leaders.</p> <p>Gender diversity is a commercial imperative to tap into the entire potential workforce. It is also increasingly seen as an asset to organisations and linked to better economic performance. We believe that women in leadership is a lead indicator of broader diversity in leadership. Our goal, announced in June 2010, is to increase the representation of women in Executive Management and above to 35 per cent by December 2014. Since announcing this goal the Group has lifted the proportion of women in Executive Management by 2%.</p>

(1) Roy Morgan Research, Australians 14+ that have an account relationship with CBA, "Very" or "Fairly" satisfied with their relationship with that financial institution, six months to October 2011.

(2) DBM Business Financial Services Monitor (June 2011), average satisfaction rating of each financial institution's MFI business customers across all Australian businesses, 6 month rolling average. Rank is among four major banks. Medium segment includes businesses with annual turnover from \$5m to less than \$50m. Large segment includes businesses with annual turnover \$50m and above.

(3) Roy Morgan Research, Australians 14+, Banking and Finance products per Banking and Finance customers, six months rolling average to June 2011.

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Long Term Incentives

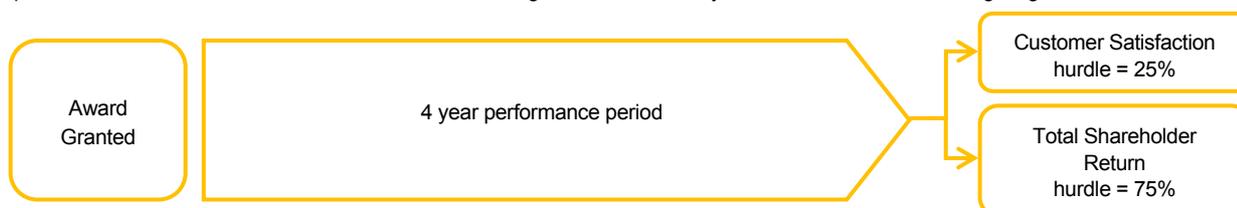
Long term incentives reward sustained performance over the longer term, and are subject to performance hurdles designed to build shareholder value and achieve the Group's long term business objectives. An overview of the CEO and Group Executives' long term incentive awards in progress during the 2011 financial year is set out in the following table. Further information is provided in the table below regarding the equity plans under which each award has been made.

Overview of long term incentive awards outstanding during the 2011 Financial Year

Performance Period Ends	Equity Plan	Performance Hurdles	Progress
1 July 2011	Group Leadership Share Plan (GLSP)	<ul style="list-style-type: none"> Growth in PACC NPAT growth relative to peer group Customer Satisfaction ranking relative to peer group 	Based on performance against the respective hurdles, 25% of the award vested on 1 July 2011
30 June 2012	Group Leadership Reward Plan (GLRP)	<p>Each award is split and tested:</p> <ul style="list-style-type: none"> 50% Total Shareholder Return relative to peer group 50% Customer Satisfaction ranking relative to peer group 	In progress
30 June 2013	Group Leadership Reward Plan (GLRP)	<p>Each award is split and tested:</p> <ul style="list-style-type: none"> 50% Total Shareholder Return relative to peer group 50% Customer Satisfaction ranking relative to peer group 	In progress
30 June 2014	Group Leadership Reward Plan (GLRP)	<p>Each award is split and tested:</p> <ul style="list-style-type: none"> 25% Customer Satisfaction ranking relative to peer group 75% Total Shareholder Return relative to peer group 	In progress

2011 Financial Year GLRP Award

CEO and Group Executives received long term incentive awards under the GLRP during the 2011 financial year. These GLRP awards may deliver value to executives after a four year performance period, subject to meeting performance hurdles. The timing and performance hurdle mix for the GLRP award made during the 2011 financial year are set out in the following diagram.



The key features of the GLRP awards during the 2011 financial year are set out in the following table.

Feature	Description
Instrument	Reward Rights. Each Reward Right entitles the executive to receive one Commonwealth Bank ordinary share in the future, subject to meeting performance hurdles set out below.
Determining the number of Reward Rights	The number of Reward Rights each executive receives depends on their long term incentive target. The number of Reward Rights received is calculated taking into account the expected number of shares to vest at the end of the performance period.
Performance Period	The performance period for awards made in 2011 is four years, starting at the beginning of the financial year in which the award is made.

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Feature	Description
Performance Hurdles	<p>One quarter of each award is subject to a performance hurdle which measures the Group's Customer Satisfaction achievements relative to a peer group. The remaining three quarters is subject to a performance hurdle which measures the Group's Total Shareholder Return relative to a separate peer group.</p> <p><u>Peer Groups for the long term incentive awarded during the 2011 financial year</u></p> <ul style="list-style-type: none"> The peer group for the Customer Satisfaction performance hurdle includes Australia & New Zealand Banking Group Limited (ANZ), National Australia Bank Limited (NAB), and Westpac Banking Corporation (WBC) and other key competitors for our wealth business such as AMP Limited and Macquarie Group Limited. The peer group for the Total Shareholder Return performance hurdle is made up of the 20 largest companies listed on the Australian Securities Exchange at the beginning of the performance period, after excluding resources companies and CBA. The peer group at the time of grant for the most recent award included: AGL Energy Limited, AMP Limited, Australia and New Zealand Banking Group Limited, AXA Asia Pacific Holdings Limited, Brambles Industries Limited, Coca Cola Amatil Limited, CSL Limited, Foster's Group Limited, Insurance Australia Group Limited, Leighton Holdings Limited, Macquarie Group Limited, National Australia Bank Limited, QBE Insurance Group Limited, Stockland, Suncorp-Metway Limited, Telstra Corporation Limited, Wesfarmers Limited, Westfield Group, Westpac Banking Corporation and Woolworths Limited.
Vesting Framework	<p><u>Vesting Framework for the long term incentive awarded during the 2011 financial year</u></p> <p>(i) <i>Customer Satisfaction hurdle (25% of the award)</i></p> <ul style="list-style-type: none"> For this part of the GLRP awarded during 2011: <ul style="list-style-type: none"> Full vesting applies if the Group is ranked first relative to our peers in each of the three surveys; 75% will vest if the Group is ranked first across two of the three surveys; 50% will vest if the Group is ranked at least second across the three surveys; The Board will exercise discretion to determine the portion to vest where our ranking has improved, but in a different variation than those described above; and None of the Reward Rights in this portion of the award will vest where the Board determines that our overall Customer Satisfaction at the end of the performance period is worse than it was at the beginning. <p>(ii) <i>Total Shareholder Return hurdle (75% of the award)</i></p> <ul style="list-style-type: none"> Full vesting is achieved if the Group's Total Shareholder Return is ranked in the top quarter of the peer group (i.e. 75th percentile or higher); If the Group is ranked at the median, half the Reward Rights will vest; Vesting increases on a sliding scale if the Group is ranked between the median and below the 75th percentile; and No Reward Rights in this part of the award will vest if the Group's Total Shareholder Return is ranked below the median of the peer group. <p>The Board retains discretion to take into account unforeseen changes or events, and to prevent any unintended outcomes.</p>
Who calculates the performance results	<p>Customer satisfaction is measured with reference to three separate independent surveys provided by:</p> <ul style="list-style-type: none"> Roy Morgan Research, which measures customer satisfaction across the retail bank base; DBM, Business Financial Services Monitor, which measures business banking customer satisfaction; and Wealth Insights 2011 Service Level Report, Platforms, which measures wealth management service performance of master trusts/wraps in Australia. <p>Total Shareholder Return is calculated independently by Standard & Poors.</p>
Board discretion	<p>Where an executive leaves prior to the end of the performance period, they will generally forfeit that award unless the Board determines otherwise, in which case the terms of any portion that is not forfeited will continue unchanged, including any performance conditions. Any portion of the award that vests may be satisfied by cash rather than shares.</p> <p>The Board also retains sole discretion to determine the amount of any award that may vest (if any) to prevent any unintended outcomes, or in the event of a corporate restructuring or event, e.g. a takeover.</p>
Expiry	At the end of the applicable performance period, any Reward Rights that have not vested will expire.

Directors' Report – 2011 Remuneration Report

Previous and Other Long Term Incentive Plans

The Group regularly reviews remuneration arrangements to ensure they continue to align with and support our strategic objectives. The Group introduced the GLRP for long term incentive awards to the CEO and Group Executives during the 2010 financial year. Prior years' long term incentive awards were made under the Group Leadership Share Plan (GLSP). The GLSP is now closed to new offers, and the final award completed its performance period on 1 July 2011.

Group Leadership Share Plan (GLSP)

During the 2008 and 2009 financial years, long term incentive awards were made under the GLSP. Details of the GLSP were provided to shareholders in the Remuneration Reports for those years, and a summary of the key features is provided below.

Under the GLSP, executives were awarded rights to receive Commonwealth Bank ordinary shares in the future, subject to meeting set performance hurdles over a three year period.

- The GLSP award made during the 2008 financial year reached the end of its performance period during the 2011 financial year. Performance and vesting results are set out on page 85; and
- The GLSP award made during the 2009 financial year reached the end of its performance period on 1 July 2011 (i.e. during the 2012 financial year).

The number of shares each executive ultimately receives under the GLSP is determined in three steps:

- The Group's growth in PACC is measured and determines the size of the rights pool. The rights pool was subject to a cap of \$34.0 million for the 2008 financial year award, and for the 2009 financial year award the cap is \$36.1 million;
- The Group's cash NPAT growth is measured. The rate of growth must be greater than the average of the peer group (ANZ, WBC, NAB and St. George) or nothing will vest; and
- Provided the relative NPAT growth hurdle is met, the Group's customer satisfaction ranking relative to the peer group drives the portion of the rights pool that will vest, according to the following scale:

Customer Satisfaction ranking	Percentage of rights pool to vest ⁽¹⁾	
	2008 financial year award	2009 financial year award
1	100%	100%
2	75%	75%
3	50%	50%
4	30%	Nil
5	Nil	Nil

(1) The vesting scale for each award is different, because it is determined with reference to the Group's position relative to the peer group at the time of each invitation.

The number of shares an executive ultimately receives is calculated by dividing their individual portion of the GLSP rights pool by the market value of Commonwealth Bank ordinary shares at the end of the performance period.

The Board retains discretion to take into account unforeseen changes, and prevent any unintended outcomes.

Long Term Incentive Plans for Other Executives

In line with our philosophy of providing flexible and effective reward structures linked to our business strategy, the Group provides tailored long term incentive arrangements for the Other Executives in this report.

Mark Lazberger participates in the Colonial First State Global Asset Management (CFSGAM) cash-settled long term incentive plan. Under this plan participants share in the growth of CFSGAM profit over a three year period.

The purpose of this plan is retention and motivation of key employees with specific and unique skill sets highly valued in the market, and alignment of their reward with the success of the business.

The decision of investors to grant an investment mandate to CFSGAM is dependent on their confidence in the investment capability, experience and long term tenure of individual fund managers.

Awards made under this plan during 2011 have a three year vesting period and are not subject to further performance hurdles once awarded.

Martin Lau, Stuart Paul and Alistair Thompson participate in a profit share arrangement in the Global Emerging Markets Asia Pacific (GEM AP) business in CFSGAM.

The purpose of the profit share arrangement is to reward and retain key talent in that business. Each year allocations are made from a pool that reflects a percentage of profit generated by this part of the CFSGAM business. Allocations to participants are co-invested in GEM AP funds and allocations may vest after three years.

Hedging

All employees are prohibited from hedging, or otherwise limiting, their exposure to risk in relation to unvested shares, options or rights issued or acquired under the Group's employee equity arrangements. The Board has discretion under respective employee equity plan rules to enforce this policy.

Executives who report to the CEO are also prohibited from using instruments or arrangements for margin borrowing, short selling or stock lending in relation to any securities of the Bank or of any other member of the Group. These restrictions are set out in the Group's Securities Trading Policy.

Directors' Report – 2011 Remuneration Report

Group Performance Relating to Long Term Incentives

Group Leadership Share Plan (GLSP)

Executives only receive value from their long term incentive awards when performance hurdles are met.

During the 2011 financial year, the long term incentive award made under the GLSP during the 2008 financial year reached its performance test date. The performance hurdles relating to this award are described in the previous section.

Performance outcomes relating to the 2008 financial year GLSP award

- The Group achieved PACC growth over the performance period of \$2.4 billion. Based on this performance, the maximum rights pool was achieved in relation to the 2008 financial year GLSP award;
- The Group's NPAT growth over the performance period was greater than the average of the peer group, which was a requirement before any vesting could occur; and
- The Board determined that the Group's overall Customer Satisfaction ranking was third against the peer group.

The Board reviewed the performance outcomes following the end of the performance period relating to the 2008 financial year GLSP award. They also considered whether there were any issues that may warrant the Board exercising discretion in relation to vesting outcomes. Based on this review, no discretion was exercised, and 50% of the available rights pool vested. This resulted in a total distribution of \$14.8 million during the 2011 financial year.

Performance relating to the 2009 financial year GLSP award

The GLSP award granted during the 2009 financial year reached the end of its three-year performance period on 1 July 2011.

- The Group achieved strong PACC growth over the performance period of \$2.2 billion. Based on this performance, the maximum rights pool was achieved in relation to the 2009 financial year GLSP award;
- The Group's NPAT growth over the performance period was greater than the average of the peer group, which was a requirement before any vesting could occur; and
- The Group's customer satisfaction ranking for Wealth customers was first out of the peer group, while the satisfaction ranking for business customers was equal second in the peer group and for retail customers, fifth in the peer group. The Board determined that the Group's overall Customer Satisfaction ranking was fourth against the peer group.

Since the year end, the Board has reviewed this performance against the financial and customer satisfaction hurdles. In considering overall performance the Board also noted that:

- The Group's Total Shareholder Return for the three years exceeded its peers';
- The Group's return on equity has been amongst the highest of any major international bank; and
- Retail customer satisfaction improved from 70% to 75% over the period.

After consideration, the Board has exercised its discretion to determine that 25% of the available pool will vest. This will result in a total distribution of \$8.5 million during the 2012 financial year.

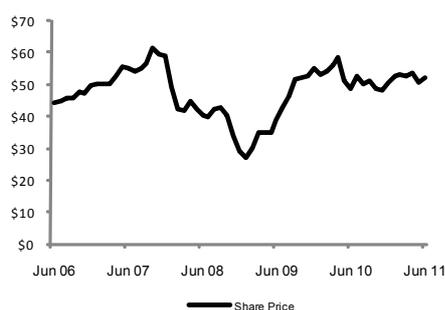
Group Leadership Reward Plan (GLRP)

The GLRP is the Group's current LTI plan for the CEO and Group Executives. Awards under the GLRP are subject to performance hurdles of relative Customer Satisfaction and Total Shareholder Return.

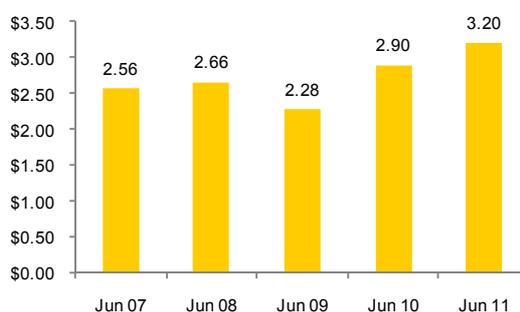
We continue to make progress in Customer Satisfaction across all segments of our business.

Total Shareholder Return measures a company's share price movement, dividends and any return of capital over a specific period. The Commonwealth Bank's share price movement and dividends per share for the five year period to June 2011 are shown in the following graphs.

Share Price



CBA Dividends Per Share



Directors' Report – 2011 Remuneration Report

Statutory Remuneration Disclosures

Remuneration of Non-Executive Directors

Individual remuneration details for Non-Executive Directors for the year ended 30 June 2011.

	Short Term	Post employment Benefits		Share-based	Total
	Benefits			payments	
	Cash ⁽¹⁾	Super- annuation ⁽²⁾	Retiring Allowance Paid	Non-executive Directors' Share Plan ⁽³⁾	Accounting Expense ⁽⁴⁾
	\$	\$	\$	\$	\$
Chairman					
David Turner ⁽⁵⁾					
2011	608,360	50,000	-	151,000	809,360
2010	353,933	47,854	-	88,483	490,270
Non-Executive Directors					
John Anderson					
2011	196,000	17,640	-	49,000	262,640
2010	180,232	16,221	-	45,058	241,511
Colin Galbraith ⁽⁶⁾					
2011	216,000	19,440	-	54,000	289,440
2010	205,111	18,460	-	51,278	274,849
Jane Hemstrich					
2011	228,000	20,520	-	57,000	305,520
2010	205,618	18,506	-	51,404	275,528
Launa Inman					
2011	54,071	4,866	-	13,518	72,455
Carolyn Kay					
2011	228,000	20,520	-	57,000	305,520
2010	214,692	19,322	-	53,673	287,687
Brian Long					
2011	168,175	15,136	-	42,044	225,355
Andrew Mohl					
2011	192,000	34,720	-	52,000	278,720
2010	179,700	33,613	-	48,925	262,238
Fergus Ryan ⁽⁶⁾					
2011	228,000	20,520	-	57,000	305,520
2010	216,506	19,486	-	54,127	290,119
Harrison Young					
2011	228,000	20,520	-	57,000	305,520
2010	216,506	19,486	-	54,127	290,119

(1) Cash includes base fees and committee fees paid as cash.

(2) Superannuation arrangements include statutory superannuation contributions and any allocations made by way of salary sacrifice.

(3) Non-Executive Directors receive 20% of their total annual fees as Commonwealth Bank shares under the Non-Executive Directors' Share Plan. The amount shown in the table is the pre-tax portion of fees received as shares. However, the number of shares each Non-Executive Director receives is calculated on a post-tax basis.

(4) Former Directors' 2010 comparative remuneration expense included John Schubert (former Chairman) \$1,085,980, and Reg Clairs \$401,126.

(5) David Turner was appointed Chairman on 10 February 2010, and his 2010 fees represent only a part-year as Chairman.

(6) These Directors are entitled to a retirement allowance, which was frozen in 2002. The entitlements are Colin Galbraith (\$159,092) and Fergus Ryan (\$168,263).

Directors' Report – 2011 Remuneration Report

Remuneration of Executives

The following table sets out remuneration disclosures for the CEO, Group Executives (who are KMP), and the Other Executives for the year ended 30 June 2011. The table has been prepared in accordance with the accounting requirements and does not represent the remuneration each individual executive actually received during the year. Details of the remuneration the CEO and Group Executives received in relation to the 2011 performance year are set out in the tables on page 75.

In the table below, where a component of remuneration (such as an equity award) vests over a number of years and some of the vesting period fell during 2011, we are required to show the portion of the expense relating to the 2011 year. In some cases, where performance differs from expectations we may be required to recognise a greater or lesser final expense. This has occurred during the 2010 and 2011 financial years in relation to vesting of the GLSP awards that were awarded during the 2008 and 2009 financial years. The 2010 year figure under 'LTI Performance Rights at Risk' shows the impact of a higher than expected financial performance for the 2008 award, while the 2011 year figure in the same column shows a partial reversal in the 2011 year of amounts previously recognised for the 2009 award due to lower than expected customer satisfaction performance.

	Short Term Benefits					Post employment	Long-term benefits	Share-based payments			Total Accounting Expense ⁽¹¹⁾
	Cash Fixed ⁽¹⁾	Non Monetary Fixed ⁽²⁾	Cash STI Payment At Risk ⁽³⁾	STI Deferred At Risk ⁽⁴⁾	Other ⁽⁵⁾	Superannuation fixed ⁽⁶⁾	Other ⁽⁷⁾	LTI Performance Rights At Risk ⁽⁸⁾	LTI Reward Shares/Rights At Risk ⁽⁹⁾	LTI Performance Units At Risk ⁽¹⁰⁾	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Managing Director and CEO											
Ralph Norris											
2011	3,316,557	-	1,638,000	1,638,000	91,965	50,000	84,022	(963,268)	2,782,896	-	8,638,172
2010 ⁽¹²⁾	3,128,875	-	1,852,500	1,852,500	441	50,000	85,891	6,415,735	2,771,804	-	16,157,746
Group Executives											
Simon Blair											
2011	807,534	13,398	508,667	508,667	23,057	50,000	21,483	-	437,060	-	2,369,866
2010	746,742	14,078	464,453	464,453	-	49,338	17,219	-	228,441	-	1,984,724
Barbara Chapman ⁽¹³⁾											
2011	734,524	13,398	431,420	431,420	38,297	41,096	6,346	(166,344)	652,789	-	2,182,946
2010	865,094	13,231	517,969	517,969	20,744	25,000	151,926	1,334,602	630,874	-	4,077,409
David Cohen											
2011	877,521	13,398	523,542	523,542	24,958	50,000	22,152	(203,063)	775,585	-	2,607,635
2010	811,941	25,237	502,734	502,734	-	50,000	15,811	1,334,602	493,756	-	3,736,815
David Craig											
2011	1,411,998	13,398	827,213	827,213	31,764	50,000	65,468	(225,625)	1,035,096	-	4,036,525
2010	1,047,974	13,231	639,844	639,844	-	50,000	27,859	1,506,616	791,291	-	4,716,659
Michael Harte											
2011	1,103,630	16,835	548,888	548,888	51,653	25,000	28,200	(203,063)	903,749	-	3,023,780
2010	970,037	14,341	578,906	578,906	24,475	25,000	15,540	1,334,602	671,174	-	4,212,981
Ross McEwan											
2011	1,292,055	13,398	647,657	647,657	45,257	50,000	59,553	(258,717)	1,126,515	-	3,623,375
2010	1,205,475	13,045	731,250	731,250	12,815	50,000	30,344	1,815,846	718,201	121,487	5,429,713
Ian Narev											
2011	943,236	13,515	488,250	488,250	34,944	25,000	17,179	(129,358)	800,825	-	2,681,841
2010	845,414	13,182	517,969	517,969	10,505	43,182	11,743	374,100	516,871	-	2,850,935
Grahame Petersen											
2011	1,185,050	15,929	488,750	488,750	33,277	50,000	76,738	(258,717)	1,033,458	-	3,113,235
2010	1,100,413	14,666	670,313	670,313	-	50,000	53,602	1,709,081	914,029	-	5,182,417
Ian Saines											
2011	1,347,899	13,398	613,463	613,463	39,327	87,313	44,610	(129,358)	1,215,626	-	3,845,741
2010	1,274,982	11,832	792,188	792,188	-	85,101	73,266	374,100	832,237	-	4,235,894
Alden Toeys											
2011	1,445,329	14,047	798,350	798,350	98,862	50,000	36,948	(187,618)	1,302,760	-	4,357,028
2010	1,415,581	14,341	853,125	853,125	1,011,765	50,000	536,909	506,339	837,902	-	6,079,087
Other Executives⁽¹⁴⁾											
Martin Lau											
2011	290,887	-	290,887	-	-	58,177	-	-	-	6,997,852	7,637,803
Mark Lazberger											
2011	797,177	15,929	816,015	408,007	-	25,000	681,773	-	-	2,750,000	5,493,901
2010	791,835	12,038	807,934	403,967	-	25,000	1,261,296	-	-	2,500,000	5,802,070
Stuart Paul											
2011	422,754	-	422,754	-	-	78,327	-	-	-	7,284,428	8,208,263
Alistair Thompson											
2011	537,824	-	537,824	-	-	177,482	-	-	-	4,635,522	5,888,652

(1) Cash Fixed remuneration is the total cost of salary, including annual leave accruals and any salary sacrificed benefits. For Ralph Norris annual leave accrual was \$246,557.

(2) Non Monetary Fixed represents the cost of car parking (including associated fringe benefits tax).

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- (3) 2011 Cash STI payment includes, for the CEO and Group Executives 50%, Mark Lazberger 66.6%, and the remaining Other Executives all of their STI award in recognition of performance for the year ended 30 June 2011.
- (4) STI Deferred includes the compulsory 12 month deferral of 50% (2010: 50%) of the CEO and Group Executives' STI payments, and for Mark Lazberger the compulsory three year deferral of 33.4% (2010: 33.4%) of his STI payment, in each case for performance for the year ended 30 June 2011.
- (5) Other Short Term Benefits relate to company funded benefits (including associated fringe benefits tax where applicable). These benefits include preparation of Australian taxation returns for expatriates, club memberships, and relocation costs. This item also includes interest accrued in relation to the CEO and Group Executives' 2010 STI deferred award which vested on 1 July 2011.
- (6) Superannuation arrangements include superannuation or pension contributions, including any voluntary contributions.
- (7) Includes long service entitlements accrued during the year. For Mark Lazberger this also includes amounts relating to his sign-on arrangements. For Alden Toevs, the 2010 comparative figure includes amounts relating to retention arrangements.
- (8) This includes the 2011 expense for Performance Rights awarded under the GLSP during the 2009 financial year (now closed to new offers).
- (9) This includes the 2011 expense for Reward Shares/Rights awarded during the 2010 and 2011 financial years under the GLRP.
- (10) For Ross McEwan the 2010 figure includes the 2010 expense for a cash-based long term incentive award received during the 2007 financial year. For Mark Lazberger, this represents awards made under the CFGAM long term incentive plan. For Martin Lau, Stuart Paul and Alistair Thompson, this represents awards made under the GEM AP profit share scheme.
- (11) The percentage of 2011 remuneration related to performance was: Ralph Norris 59%, Simon Blair 61%, Barbara Chapman 62%, David Cohen 62%, David Craig 61%, Michael Harte 59%, Martin Lau 95%, Mark Lazberger 72%, Ross McEwan 60%, Ian Narev 61%, Stuart Paul 94%, Grahame Petersen 56%, Ian Saines 60%, Alistair Thompson 88% and Alden Toevs 62%. None of the remuneration was received as options.
- (12) CEO and Group Executive Cash Fixed for 2010 reflects voluntary pay-cuts of 10% and 5% respectively from 1 July 2009 to 31 December 2009 during the worst of the global financial crisis.
- (13) The remuneration disclosed for Barbara Chapman relates to the period she was a KMP of the Group, prior to her appointment to the role of Chief Executive and Managing Director of the Group's New Zealand subsidiary ASB Bank Limited.
- (14) The five executives who received the highest remuneration for the year ended 30 June 2011 as defined in the Section 300A of the Corporations Act 2001, include Martin Lau, Mark Lazberger, Stuart Paul, Alistair Thompson and Ralph Norris.

STI Allocations to Executives for the Year Ended 30 June 2011

	STI Target	Maximum STI Potential ⁽¹⁾	STI Paid ⁽²⁾		STI Portion Deferred ⁽³⁾	
	(\$)	(%)	(%)	(\$)	(%)	(\$)
Managing Director and CEO						
Ralph Norris	3,120,000	150%	50%	1,638,000	50%	1,638,000
Group Executives						
Simon Blair	800,000	150%	50%	508,667	50%	508,667
Barbara Chapman	880,000	150%	50%	431,420	50%	431,420
David Cohen	865,000	150%	50%	523,542	50%	523,542
David Craig	1,350,000	150%	50%	827,213	50%	827,213
Michael Harte	1,050,000	150%	50%	548,888	50%	548,888
Ross McEwan	1,250,000	150%	50%	647,657	50%	647,657
Ian Narev	900,000	150%	50%	488,250	50%	488,250
Grahame Petersen	1,150,000	150%	50%	488,750	50%	488,750
Ian Saines	1,330,000	150%	50%	613,463	50%	613,463
Alden Toevs	1,400,000	150%	50%	798,350	50%	798,350
Other Executives						
Mark Lazberger	n/a	n/a	67%	816,015	33%	408,007
Martin Lau	n/a	n/a	100%	290,887	-	-
Stuart Paul	n/a	n/a	100%	422,754	-	-
Alistair Thompson	n/a	n/a	100%	537,824	-	-

(1) The maximum STI is represented as a percentage of Fixed Remuneration. The minimum STI potential is \$nil.

(2) Includes the annual cash award immediately payable in recognition of performance for the year ended 30 June 2011.

(3) This represents the portion of STI that is deferred. The Executive will need to be an employee of the Group at the end of the respective deferral period to receive this payment.

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Equity Awards Received as Remuneration

The following table sets out the number and value of equity awards that were granted, exercised, or forfeited/lapsed during 2011. It also shows the number of awards made in previous years that vested during 2011. Further information about equity holdings of KMP are provided in Note 44 to the financial statements.

Name	Class	Granted during 2011		Previous years' awards that vested during 2011 ⁽¹⁾	Forfeited or lapsed during 2011	
		(Units)	(\$)	(Units)	(Units)	(\$)
Managing Director and CEO						
Ralph Norris	Reward Shares/Rights	85,976	3,561,986	-	-	-
	Deferred Shares	-	-	-	-	-
	Ordinary Shares	-	-	117,056	-	-
Group Executives						
Simon Blair	Reward Shares/Rights	22,046	913,358	-	-	-
	Deferred Shares	-	-	-	-	-
	Ordinary Shares	-	-	-	-	-
Barbara Chapman	Reward Shares/Rights	24,250	1,004,670	-	-	-
	Deferred Shares	-	-	-	-	-
	Ordinary Shares	-	-	24,100	-	-
David Cohen	Reward Shares/Rights	23,837	987,563	-	-	-
	Deferred Shares	-	-	-	-	-
	Ordinary Shares	-	-	24,100	-	-
David Craig	Reward Shares/Rights	37,202	1,534,533	-	-	-
	Deferred Shares	-	-	-	-	-
	Ordinary Shares	-	-	27,543	-	-
Michael Harte	Reward Shares/Rights	28,935	1,198,781	-	-	-
	Deferred Shares	-	-	-	-	-
	Ordinary Shares	-	-	24,100	-	-
Ross McEwan	Reward Shares/Rights	34,446	1,427,090	-	-	-
	Deferred Shares	-	-	-	-	-
	Ordinary Shares	-	-	34,429	-	-
Ian Narev	Reward Shares/Rights	24,801	1,027,502	-	-	-
	Deferred Shares	-	-	6,610	-	-
	Ordinary Shares	-	-	-	-	-
Grahame Petersen	Reward Shares/Rights	31,690	1,312,909	-	-	-
	Deferred Shares	-	-	-	-	-
	Ordinary Shares	-	-	30,986	-	-
Ian Saines	Reward Shares/Rights	36,650	1,518,402	-	-	-
	Deferred Shares	-	-	12,653	-	-
	Ordinary Shares	-	-	-	-	-
Alden Toevis	Reward Shares/Rights	38,579	1,598,332	-	-	-
	Deferred Shares	-	-	37,784	-	-
	Ordinary Shares	-	-	-	-	-
Other Executive ⁽²⁾						
Mark Lazberger	Reward Shares	-	-	23,463	-	-
	Deferred Shares	8,180	404,010	-	-	-
	Ordinary Shares	-	-	-	-	-

(1) Previous year's awards that vested include long term incentive and other deferred awards. There are no instruments on issue for the executives shown that would require the exercise of a right to receive an ordinary share.

(2) Martin Lau, Stuart Paul and Alistair Thompson have no equity holdings under any CBA Employee Share Plans.

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Equity Awards Outstanding during 2011 – Fair Value Assumptions

The fair value of LTI awards granted has been calculated using a Monte-Carlo simulation method incorporating the assumptions below:

Award type	Grant Date	Fair Value (\$)	Exercise Price (\$)	Performance Period End	Assumptions			
					Expected Life (years)	Expected Dividend Yield (%)	Expected Volatility (%)	Risk free rate (%)
GLRP - Reward Rights ⁽¹⁾	10/03/2011	\$51.30	Nil	30/06/2014	3.3	Nil	30	5.5
GLRP - Reward Rights ⁽²⁾	10/03/2011	\$36.51	Nil	30/06/2014	3.3	Nil	30	5.5
GLRP - Reward Rights ⁽¹⁾	27/09/2010	\$52.86	Nil	30/06/2014	3.8	Nil	30	5.5
GLRP - Reward Rights ⁽²⁾	27/09/2010	\$37.62	Nil	30/06/2014	3.8	Nil	30	5.5
GLRP - Reward Shares ⁽¹⁾	25/09/2009	\$51.30	Nil	30/06/2012	2.8	Nil	30	5.1
GLRP - Reward Shares ⁽²⁾	25/09/2009	\$36.52	Nil	30/06/2012	2.8	Nil	30	5.1
GLRP - Reward Shares ⁽¹⁾	25/09/2009	\$51.30	Nil	30/06/2013	3.8	Nil	30	5.4
GLRP - Reward Shares ⁽²⁾	25/09/2009	\$37.24	Nil	30/06/2013	3.8	Nil	30	5.4
GLSP - Performance Rights	3/12/2008	\$26.20	Nil	1/07/2011	2.6	6.75	30	4.7

(1) The performance hurdle for this portion of the GLRP award is Customer Satisfaction relative to our peers.

(2) The performance hurdle for this portion of the GLRP award is Total Shareholder Return relative to our peers.

Termination Arrangements

The Group's executive contracts provide for the following termination arrangements for current KMP and the Other Executives

Name	Contract Type ⁽¹⁾	Notice	Severance ⁽²⁾
Managing Director & CEO			
Ralph Norris ⁽³⁾	Permanent	6 months	n/a
Group Executives			
Simon Blair	Permanent	6 months	6 months
Barbara Chapman ⁽⁴⁾	Permanent	6 months	6 months
David Cohen	Permanent	6 months	6 months
David Craig	Permanent	6 months	6 months
Michael Harte	Permanent	6 months	6 months
Ross McEwan	Permanent	6 months	6 months
Ian Narev	Permanent	6 months	6 months
Grahame Petersen	Permanent	6 months	6 months
Ian Saines	Permanent	6 months	6 months
Alden Toevs	Permanent	6 months	n/a
Other Executive			
Mark Lazberger	Permanent	3 months	3 months
Martin Lau	Permanent	9 months	9 months
Stuart Paul	Permanent	6 months	6 months
Alistair Thompson	Permanent	9 months	9 months

(1) Permanent contracts are ongoing until notice is given by either party.

(2) Severance applies where termination is initiated by the Group, other than for misconduct or unsatisfactory performance.

(3) Termination benefits for Ralph Norris when he retires on 30 November 2011 will be consistent with the Group's remuneration policy as outlined in this report.

(4) Termination arrangements for Barbara Chapman relate to her period as a KMP in her role as Group Executive Human Resources and Group Services until 26 April 2011.

Executives receive their statutory entitlements of accrued annual leave, long service leave and superannuation benefits when they leave the Group. Those executives who cease employment with the Group during a performance year (i.e. 1 July to 30 June) will generally not receive a short term incentive payment for that year except if they leave due to retrenchment, retirement or death.

Loans to KMP

Information on loans to KMP, including loan amounts, interest charged, and loan balances outstanding are set out in Note 44 to the financial statements.

Directors' Report – 2011 Remuneration Report

Glossary of Key Terms

To assist readers, key terms and abbreviations used in the remuneration report are set out below.

Term	Definition
Base Remuneration	Cash and non-cash remuneration paid regularly with no performance conditions.
Board	The Board of Directors of the Group.
Fixed Remuneration	Consists of Base Remuneration plus employer contributions to superannuation.
Group	Commonwealth Bank of Australia and its subsidiaries.
Group Executive	Key Management Personnel who are also members of the Group's Executive Committee.
Group Leadership Reward Plan (GLRP)	The Group's long term incentive plan from 1 July 2009 for the CEO and Group Executives.
Group Leadership Share Plan (GLSP)	The Group's previous long term incentive plan applying to grants made in the 2008 and 2009 financial years for the CEO and Group Executives.
Key Management Personnel (KMP)	Persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.
Long Term Incentive (LTI)	A remuneration arrangement which grants benefits to participating executives that may vest if, and to the extent that, performance hurdles are met over a period of three or more years. The Group's long term incentive plans include the GLRP, and the closed GLSP and ERP.
NPAT	Net profit after tax.
Other Executives	Those executives who are not Key Management Personnel but are amongst the "Company Executives" or "Group Executives" as defined by the Corporations Act 2001 and for whom disclosure is required in accordance with section 300A(1)(c) of the Corporations Act 2001.
Performance Rights	Rights to acquire a Commonwealth Bank of Australia ordinary share with no payment by the recipient if relevant performance hurdles are met.
PACC	Profit after capital charge.
Remuneration	All forms of consideration paid, payable or provided by the Group, or on behalf of the Group, in exchange for services rendered to the Group. In reading this report, the term "remuneration" means the same as the term "compensation" for the purposes of the Corporations Act 2001 and the accounting standard AASB124.
Remuneration Mix	The relative weighting of each component of remuneration (Fixed Remuneration, STI and LTI).
Reward Shares	Shares in the Bank granted under the GLRP during the 2010 financial year and subject to performance hurdles.
Reward Rights	Rights to ordinary shares in the Bank granted under the GLRP during the 2011 financial year and subject to performance hurdles.
Salary Sacrifice	An arrangement where an employee agrees to forego part of his or her cash component of Base Remuneration in return for non-cash benefits of a similar value.
Short Term Incentive (STI)	Remuneration paid with direct reference to the Group's and the individual's performance over one financial year.
Total Shareholder Return (TSR)	TSR measures a company's share price movement, dividend yield and any return of capital over a specific period.

Directors' Report

Company Secretaries

The details of the Bank's Company Secretaries, including their experience and qualifications are set out below.

John Hatton has been Company Secretary of the Commonwealth Bank of Australia since 1994. From 1985 until 1994, he was a solicitor with the Bank's Legal Department.

He has a Bachelor of Laws degree from Sydney University and was admitted as a solicitor in New South Wales. He is a Fellow of Chartered Secretaries Australia and a Member of the Australian Institute of Company Directors.

Carla Collingwood was appointed a Company Secretary to the Bank in July 2005.

From 1994 until 2005, she was a solicitor with the Bank's Legal Department, before being appointed to the position of General Manager, Secretariat. She holds a Bachelor of Laws degree (Hons.) and a Graduate Diploma in Company Secretary Practice from Chartered Secretaries Australia. She is a Graduate of the Australian Institute of Company Directors.

Non-Audit Services

Amounts paid or payable to PricewaterhouseCoopers (PwC) for audit and non-audit services provided during the year, as set out in Note 34 to the Financial Statements are as follows:

	2011
	\$'000
Project assurance services	2,780
Taxation services	3,051
Controls review and related work	135
Other	693
Total non-audit services⁽¹⁾	6,659
Total audit and audit related services	22,442

(1) An additional amount of \$1,713,328 was paid to PwC for non audit services provided to entities not consolidated into the Financial Statements.

Auditor's Declaration of Independence

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

Signed in accordance with a resolution of the Directors.



D J Turner

Chairman

10 August 2011

Auditor Independence

The Bank has in place an Independent Auditor Services Policy, details of which are set out in the Corporate Governance section of this Annual Report, to assist in ensuring the independence of the Bank's external auditor.

The Audit Committee has considered the provision, during the year, of non-audit services by PwC and has concluded that the provision of those services did not compromise the auditor independence requirements of the Corporations Act 2001.

The Audit Committee advised the Board accordingly and, after considering the Committee's advice, the Board of Directors agreed that it was satisfied that the provision of the non-audit services by PwC during the year was compatible with the general standard of independence imposed by the Corporations Act 2001.

The Directors are satisfied that the provision of the non-audit services during the year did not compromise the auditor independence requirements of the Corporations Act 2001. The reasons for this are as follows:

- The operation of the Independent Auditor Services Policy during the year to restrict the nature of non-audit services engagements, to prohibit certain services and to require Audit Committee pre-approval for all such engagements; and
- The relative quantum of fees paid for non-audit services compared to the quantum for audit and audit related services.

The above Directors' statements are in accordance with the advice received from the Audit Committee.

Incorporation of Additional Material

This report incorporates the Chairman's Statement (pages 2 to 4), Highlights (pages 11 to 14), Analysis sections for Retail Banking Services (pages 22 to 23), Business and Private Banking (pages 24 to 25), Institutional Banking and Markets (pages 26 to 27), Wealth Management (pages 28 to 31), New Zealand (pages 32 to 34), Bankwest (pages 36 to 37) Other Divisions (pages 38 to 39) and Shareholding Information (pages 233 to 236) sections of this Annual report.



R J Norris

Managing Director and Chief Executive Officer

10 August 2011



Auditor's Independence Declaration

As lead auditor for the audit of the Commonwealth Bank of Australia for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of the Commonwealth Bank of Australia and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Rahoul Chowdry'.

Rahoul Chowdry
Partner
PricewaterhouseCoopers

Sydney
10 August 2011

PricewaterhouseCoopers, ABN 52 780 433 757

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Five Year Financial Summary

	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Net interest income	12,658	11,868	10,186	7,907	7,036
Other operating income ⁽¹⁾	7,001	7,191	6,632	6,434	6,161
Total operating income	19,659	19,059	16,818	14,341	13,197
Operating expenses	(8,891)	(8,601)	(7,765)	(7,021)	(6,427)
Impairment expense	(1,280)	(2,075)	(3,048)	(930)	(434)
Operating profit before goodwill and income tax expense	9,488	8,383	6,005	6,390	6,336
Corporate tax expense	(2,637)	(2,266)	(1,560)	(1,626)	(1,782)
Non-controlling interests	(16)	(16)	(30)	(31)	(27)
Net profit after tax ("cash basis")	6,835	6,101	4,415	4,733	4,527
Defined benefit superannuation plan income/(expense) ⁽²⁾	-	-	(10)	9	5
Treasury shares valuation adjustment	(22)	(44)	(28)	60	(75)
Hedging and IFRS volatility	(265)	17	(245)	(42)	13
Visa Initial Public Offering gain after tax	-	-	-	295	-
Investment and restructuring	-	-	-	(264)	-
One-off expenses	-	-	(23)	-	-
Tax on NZ Structured finance transactions	-	(171)	-	-	-
Loss on disposal of controlled entities/investments	(7)	(23)	-	-	-
Bankwest non cash items	(147)	(216)	614	-	-
Net profit after income tax attributable to Equity holders of the Bank	6,394	5,664	4,723	4,791	4,470
Contributions to profit (after tax)					
Retail Banking Services	2,845	2,461	2,107	1,911	1,766
Business and Private Banking	1,039	898	736	721	n/a
Institutional Banking and Markets	1,004	1,173	166	771	n/a
Premium Business Services	n/a	n/a	n/a	n/a	1,445
Wealth Management	581	592	514	789	548
New Zealand	469	387	438	n/a	n/a
Bankwest	463	(45)	113	n/a	n/a
International Financial Services	n/a	n/a	n/a	555	461
Other ⁽²⁾	353	457	537	(1)	211
Net profit after tax ("underlying basis")	6,754	5,923	4,611	4,746	4,431
Investment experience after tax	81	178	(196)	(13)	96
Net profit after tax ("cash basis")	6,835	6,101	4,415	4,733	4,527
Defined benefit superannuation plan income/(expense) ⁽²⁾	-	-	(10)	9	5
Treasury shares valuation adjustment	(22)	(44)	(28)	60	(75)
Hedging and IFRS volatility	(265)	17	(245)	(42)	13
Visa Initial Public Offering gain after tax	-	-	-	295	-
Investment and restructuring	-	-	-	(264)	-
One-off expenses	-	-	(23)	-	-
Tax on NZ Structured finance transactions	-	(171)	-	-	-
Loss on disposal of controlled entities/investments	(7)	(23)	-	-	-
Bankwest non cash items	(147)	(216)	614	-	-
Net profit after tax ("statutory basis")	6,394	5,664	4,723	4,791	4,470
Balance Sheet					
Loans, bills discounted and other receivables	500,057	493,459	466,631	361,282	315,465
Total assets	667,899	646,330	620,372	487,572	440,157
Deposits and other public borrowings	401,147	374,663	368,721	263,706	219,068
Total liabilities	630,612	610,760	588,930	461,435	415,713
Shareholders' equity	37,287	35,570	31,442	26,137	24,444
Net tangible assets	26,217	24,688	20,738	16,422	15,158
Risk weighted assets	281,711	290,821	288,836	205,501	245,347
Average interest earning assets	576,369	553,735	481,248	385,667	332,492
Average interest earning liabilities	538,843	521,338	454,258	363,049	311,236
Assets (on Balance Sheet) - Australia	581,695	561,618	528,354	410,225	360,188
Assets (on Balance Sheet) - New Zealand	54,993	56,948	59,606	54,312	55,160
Assets (on Balance Sheet) - Other	31,211	27,764	32,412	23,035	24,809

(1) Includes investment experience.

(2) Due to the change in expectations on the size and impact of defined benefit superannuation plan (income)/expense, from 1 July 2009 this amount has been included as part of total expenses ("cash basis") and is recorded in the Other segment.

Five Year Financial Summary

	2011	2010	2009	2008	2007
Shareholder summary					
Dividends per share - fully franked (cents)	320	290	228	266	256
Dividends cover - statutory (times)	1.3	1.3	1.3	1.3	1.3
Dividends cover - cash (times)	1.4	1.4	1.3	1.3	1.3
Earnings per share (cents)					
Basic					
Statutory	411.2	367.9	328.5	363.0	344.7
Cash basis	438.7	395.5	305.6	356.9	347.1
Fully diluted					
Statutory	395.1	354.2	313.4	348.7	339.7
Cash basis	420.6	379.8	292.4	343.1	342.1
Dividend payout ratio (%)					
Statutory	78.3	79.7	73.1	74.1	75.2
Cash basis	73.2	73.9	78.2	75.0	74.2
Net tangible assets per share (\$)	16.8	15.9	13.7	12.4	11.7
Weighted average number of shares (statutory basic) (M)	1,545	1,527	1,420	1,307	1,281
Weighted average number of shares (statutory fully diluted) (M)	1,668	1,640	1,548	1,424	1,344
Weighted average number of shares (cash basic) (M)	1,548	1,531	1,426	1,313	1,289
Weighted average number of shares (cash fully diluted) (M)	1,671	1,644	1,554	1,430	1,351
Number of shareholders	792,765	784,382	776,283	741,072	696,118
Share prices for the year (\$)					
Trading high	55.77	60.00	46.69	62.16	56.16
Trading low	47.05	36.20	24.03	37.02	42.98
End (closing price)	52.30	48.64	39.00	40.17	55.25
Performance ratios (%)					
Return on average Shareholders' equity					
Statutory	18.4	17.5	16.8	19.8	20.7
Cash basis	19.5	18.7	15.8	20.4	21.7
Return on average total assets					
Statutory	1.0	0.9	0.9	1.0	1.1
Cash basis	1.0	1.0	0.8	1.0	1.1
Capital adequacy - Tier One	10.01	9.15	8.07	8.17	7.14
Capital adequacy - Tier Two	1.69	2.34	2.35	3.41	3.41
Capital adequacy - Deductions	-	-	-	-	(0.79)
Capital adequacy - Total	11.70	11.49	10.42	11.58	9.76
Net interest margin	2.19	2.13	2.10	2.02	2.08
Other information (numbers)					
Full-time equivalent employees	46,060	45,025	44,218	39,621	37,873
Branches/services centres (Australia)	1,160	1,147	1,142	1,009	1,010
Agencies (Australia)	3,795	3,884	3,859	3,814	3,833
ATM's (proprietary)	4,173	4,149	4,075	3,301	3,242
EFTPOS terminals	170,855	165,621	167,025	187,377	171,138
Productivity					
Total income per full-time (equivalent) employee (\$)	424,186	418,057	386,381	362,384	344,520
Employee expense/Total income (%)	24.9	24.3	23.3	25.5	24.7
Total operating expenses/Total income (%)	45.5	45.7	45.4	48.9	49.3

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Financial Statements

Income Statements

For the year ended 30 June 2011

	Note	Group			Bank	
		2011 \$M	2010 \$M	2009 \$M	2011 \$M	2010 \$M
Interest income	2	37,304	32,215	31,519	32,945	27,754
Interest expense	2	(24,697)	(20,293)	(21,218)	(23,163)	(18,603)
Net interest income		12,607	11,922	10,301	9,782	9,151
Other banking income		3,630	4,208	3,914	5,617	5,260
Net banking operating income		16,237	16,130	14,215	15,399	14,411
Funds management income		1,996	1,906	1,618	-	-
Investment revenue/(expense)		854	975	(859)	-	-
Claims and policyholder liability (expense)/revenue		(808)	(953)	731	-	-
Net funds management operating income	2	2,042	1,928	1,490	-	-
Premiums from insurance contracts		1,884	1,794	1,651	-	-
Investment revenue/(expense)		547	687	(232)	-	-
Claims and policyholder liability expense from insurance contracts		(1,313)	(1,251)	(650)	-	-
Net insurance operating income	2	1,118	1,230	769	-	-
Total net operating income	2	19,397	19,288	16,474	15,399	14,411
Gain on acquisition of controlled entities		-	-	983	-	-
Impairment expense	2,14	(1,280)	(2,379)	(3,048)	(1,080)	(1,193)
Operating expenses	2	(9,060)	(8,716)	(7,960)	(6,113)	(5,917)
Net profit before income tax	2	9,057	8,193	6,449	8,206	7,301
Corporate tax expense	5	(2,481)	(2,383)	(1,860)	(1,726)	(1,686)
Policyholder tax (expense)/benefit	5	(166)	(130)	164	-	-
Net profit after income tax		6,410	5,680	4,753	6,480	5,615
Non-controlling interests		(16)	(16)	(30)	-	-
Net profit attributable to Equity holders of the Bank		6,394	5,664	4,723	6,480	5,615

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

	Note	Group		
		2011	2010	2009
		Cents per share		
Earnings per share:				
Basic	7	411.2	367.9	328.5
Fully diluted	7	395.1	354.2	313.4

Financial Statements

Statements of Comprehensive Income

For the year ended 30 June 2011

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Profit from ordinary activities after income tax for the financial year	6,410	5,680	4,753	6,480	5,615
Other comprehensive income/(expense):					
Actuarial gains and losses from defined benefit superannuation plans	(89)	(64)	(739)	(89)	(64)
Gains and losses on cash flow hedging instruments:					
Recognised in equity	(754)	(239)	(1,630)	(748)	11
Transferred to Income Statement	769	828	(21)	650	208
Gains and losses on available-for-sale investments:					
Recognised in equity	124	327	10	264	160
Transferred to Income Statement on disposal	(24)	(24)	(24)	(24)	(16)
Transferred to Income Statement on impairment	-	2	37	-	-
Revaluation of properties	6	50	(25)	9	39
Foreign currency translation reserve	(546)	(19)	168	(204)	(67)
Income tax on items transferred directly to/from equity:					
Foreign currency translation reserve	16	(1)	94	10	1
Available-for-sale investments revaluation reserve	(28)	(77)	(37)	(73)	(33)
Revaluation of properties	-	(9)	9	-	(7)
Cash flow hedge reserve	-	(193)	497	23	(71)
Other comprehensive income/(expense) net of income tax	(526)	581	(1,661)	(182)	161
Total comprehensive income for the financial year	5,884	6,261	3,092	6,298	5,776
Total comprehensive income for the financial year is attributable to:					
Equity holders of the Bank	5,868	6,245	3,062	6,298	5,776
Non-controlling interests	16	16	30	-	-
Total comprehensive income for the financial year	5,884	6,261	3,092	6,298	5,776

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

Financial Statements

Balance Sheets

As at 30 June 2011

	Note	Group		Bank	
		2011 \$M	2010 \$M	2011 \$M	2010 \$M
Assets					
Cash and liquid assets	8	13,241	10,119	10,979	8,711
Receivables due from other financial institutions	9	10,393	10,072	10,123	9,766
Assets at fair value through Income Statement:	10				
Trading		20,469	22,851	17,765	18,775
Insurance		14,998	15,940	-	-
Other		824	654	300	-
Derivative assets	11	30,317	27,689	30,731	27,363
Available-for-sale investments	12	45,171	32,915	75,699	65,779
Loans, bills discounted and other receivables	13	500,057	493,459	387,888	377,195
Bank acceptances of customers		10,734	11,569	10,734	11,569
Shares in and loans to controlled entities	49	-	-	47,357	49,809
Property, plant and equipment	15	2,366	2,351	1,526	1,506
Investment in associates	43	1,712	1,490	1,343	1,194
Intangible assets	16	9,603	9,420	3,726	3,382
Deferred tax assets	5	1,300	1,270	1,112	1,242
Other assets	17	6,681	6,482	4,917	4,706
		667,866	646,281	604,200	580,997
Assets held for sale	18	33	49	33	49
Total assets		667,899	646,330	604,233	581,046
Liabilities					
Deposits and other public borrowings	19	401,147	374,663	332,964	307,844
Payables due to other financial institutions	20	15,899	12,608	15,686	12,422
Liabilities at fair value through Income Statement	21	10,491	15,342	4,700	4,613
Derivative liabilities	11	33,976	24,884	32,817	23,689
Bank acceptances		10,734	11,569	10,734	11,569
Due to controlled entities		-	-	52,353	52,411
Current tax liabilities	22	1,222	1,056	1,133	1,016
Deferred tax liabilities	22	301	221	-	-
Other provisions	23	1,277	1,197	957	934
Insurance policy liabilities	33	13,652	14,592	-	-
Debt issues	24	118,652	130,210	94,385	107,039
Managed funds units on issue		1,048	880	-	-
Bills payable and other liabilities	25	10,652	10,025	9,348	10,733
		619,051	597,247	555,077	532,270
Loan capital	26	11,561	13,513	11,808	13,575
Total liabilities		630,612	610,760	566,885	545,845
Net assets		37,287	35,570	37,348	35,201
Shareholders' Equity					
Share capital:					
Ordinary share capital	28	23,602	23,081	23,896	23,379
Other equity instruments	28	939	939	1,895	1,895
Reserves	27	392	1,089	1,964	2,047
Retained profits	27	11,826	9,938	9,593	7,880
Shareholders' equity attributable to Equity holders of the Bank		36,759	35,047	37,348	35,201
Non-controlling interests	30	528	523	-	-
Total Shareholders' equity		37,287	35,570	37,348	35,201

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

Financial Statements

Statements of Changes in Equity

For the year ended 30 June 2011

	Group						
	Ordinary share capital \$M	Other equity instruments \$M	Reserves \$M	Retained profits \$M	Shareholders' equity attributable to Equity holders of the Bank \$M	Non- controlling interests \$M	Total Shareholders' equity \$M
As at 30 June 2009	21,642	939	516	7,825	30,922	520	31,442
Total comprehensive income for the financial year	-	-	645	5,600	6,245	16	6,261
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	-	-	-	(3,621)	(3,621)	-	(3,621)
Dividend reinvestment plan (net of issue costs)	1,457	-	-	-	1,457	-	1,457
Other equity movements:							
Share based payments	2	-	125	-	127	-	127
(Purchase)/sale and vesting of treasury shares	(20)	-	-	-	(20)	-	(20)
Other changes	-	-	(197)	134	(63)	(13)	(76)
As at 30 June 2010	23,081	939	1,089	9,938	35,047	523	35,570
Total comprehensive income for the financial year	-	-	(437)	6,305	5,868	16	5,884
Transactions with equity holders in their capacity as equity holders:							
Dividends paid	-	-	-	(4,707)	(4,707)	-	(4,707)
Dividend reinvestment plan (net of issue costs)	511	-	-	-	511	-	511
Other equity movements:							
Share based payments	6	-	10	-	16	-	16
(Purchase)/sale and vesting of treasury shares	4	-	-	-	4	-	4
Other changes	-	-	(270)	290	20	(11)	9
As at 30 June 2011	23,602	939	392	11,826	36,759	528	37,287

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

Financial Statements

Statements of Changes in Equity (continued)

For the year ended 30 June 2011

	Ordinary share capital \$M	Other equity instruments \$M	Reserves \$M	Retained profits \$M	Bank Shareholders' equity attributable to Equity holders of the Bank \$M
As at 30 June 2009	21,825	1,895	1,697	6,009	31,426
Total comprehensive income for the financial year	-	-	225	5,551	5,776
Transactions with equity holders in their capacity as equity holders:					
Dividends paid	-	-	-	(3,587)	(3,587)
Dividend reinvestment plan (net of issue costs)	1,457	-	-	-	1,457
Other equity movements:					
Share based payments	2	-	125	-	127
Sale/(purchase) and vesting of treasury shares	95	-	-	-	95
Other changes	-	-	-	(93)	(93)
As at 30 June 2010	23,379	1,895	2,047	7,880	35,201
Total comprehensive income for the financial year	-	-	(93)	6,391	6,298
Transactions with equity holders in their capacity as equity holders:					
Dividends paid	-	-	-	(4,678)	(4,678)
Dividend reinvestment plan (net of issue costs)	511	-	-	-	511
Other equity movements:					
Share based payments	6	-	10	-	16
Sale/(purchase) and vesting of treasury shares	-	-	-	-	-
Other changes	-	-	-	-	-
As at 30 June 2011	23,896	1,895	1,964	9,593	37,348

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

	Note	2011 Cents per share	2010 Cents per share	Group 2009 Cents per share
Dividends per share attributable to shareholders of the Bank:				
Ordinary shares	6	320	290	228
Trust preferred securities		6,020	6,715	8,142

Financial Statements

Statements of Cash Flows ⁽¹⁾

For the year ended 30 June 2011

	Note	Group			Bank
		2011	2010	2009	2011
		\$M	\$M	\$M	\$M
Cash flows from operating activities					
Interest received		36,961	31,663	31,745	27,197
Interest paid		(24,278)	(19,387)	(20,986)	(17,625)
Other operating income received		5,725	5,573	5,551	3,181
Expenses paid		(8,474)	(7,766)	(7,334)	(4,988)
Income taxes paid		(2,370)	(2,022)	(2,043)	(1,628)
Net decrease/(increase) in assets at fair value through Income Statement (excluding life insurance)		4,452	(2,466)	4,864	(3,962)
Net increase/(decrease) in liabilities at fair value through Income Statement:					
Life insurance:					
Investment income		552	335	275	-
Premiums received ⁽²⁾		2,200	2,094	2,063	-
Policy payments ⁽²⁾		(3,374)	(3,901)	(3,144)	-
Other liabilities at fair value through Income Statement		(4,317)	(1,200)	287	1,260
Cash flows from operating activities before changes in operating assets and liabilities		7,077	2,923	11,278	3,435
Changes in operating assets and liabilities arising from cash flow movements					
Movement in available-for-sale investments:					
Purchases		(62,733)	(60,021)	(37,200)	(36,325)
Proceeds from sale		4,440	4,107	4,996	4,095
Proceeds at or close to maturity		45,417	44,201	22,189	26,635
Net change in deposits with regulatory authorities		(72)	-	25	2
Net increase in loans, bills discounted and other receivables		(11,489)	(28,999)	(52,878)	(25,159)
Net decrease/(increase) in receivables due from other financial institutions not at call		1,115	2,725	(5,575)	1,134
Net (increase)/decrease in securities purchased under agreements to resell		(2,834)	776	(507)	751
Life insurance business:					
Purchase of insurance assets at fair value through Income Statement		(4,101)	(5,660)	(11,950)	-
Proceeds from sale/maturity of insurance assets at fair value through Income Statement		5,914	8,384	14,478	-
Net decrease/(increase) in other assets		201	254	(77)	193
Net increase in deposits and other public borrowings		31,893	8,852	47,394	5,321
Net increase/(decrease) in payables due to other financial institutions not at call		5,112	(1,157)	(8,012)	(1,112)
Net (decrease)/increase in securities sold under agreements to repurchase		(1,698)	(2,814)	6,985	(2,650)
Net decrease/(increase) in other liabilities		(575)	(240)	344	1,309
Changes in operating assets and liabilities arising from cash flow movements		10,590	(29,592)	(19,788)	7,597
Net cash provided by/(used in) operating activities	46(a)	17,667	(26,669)	(8,510)	(20,864)
Cash flows from investing activities					
Payments for acquisition of controlled entities		-	-	(1,741)	-
Net proceeds from disposal of controlled entities	46(c)	19	(11)	-	44
Net proceeds from disposal of entities and businesses (net of cash disposals)		15	(22)	-	-
Dividends received		26	71	76	1,648
Net amounts received from/(paid to) controlled entities		-	-	-	(23,823)
Proceeds from sale of property, plant and equipment		27	70	9	61
Purchases of property, plant and equipment		(443)	(293)	(987)	(230)
Payments for acquisitions of investments in associates/joint ventures		(164)	(414)	(144)	(396)
Purchase of intangible assets		(533)	(454)	(405)	(427)
Sale/(purchase) of assets held for sale		12	542	(22)	346
Net cash (used in)/provided by investing activities		(1,041)	(511)	(3,214)	(22,777)

(1) It should be noted that the Group does not use these accounting Statements of Cash Flows in the internal management of its liquidity positions.

(2) Represents gross premiums and policy payments before splitting between policyholders and shareholders.

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

Financial Statements

Statements of Cash Flows (continued) ⁽¹⁾

For the year ended 30 June 2011

	Note	Group			Bank	
		2011 \$M	2010 \$M	2009 \$M	2011 \$M	2010 \$M
Cash flows from financing activities						
Proceeds from issue of shares (net of issue costs)		6	2	4,830	5	2
Dividends paid (excluding Dividend Reinvestment Plan)		(4,188)	(2,149)	(2,620)	(4,157)	(2,119)
Net proceeds from issuance of debt securities		(8,321)	30,128	10,253	(8,092)	43,042
Net sale/(purchase) of treasury shares		4	(20)	(14)	-	95
Issue of loan capital		-	3,707	500	-	3,707
Redemption of loan capital		(1,064)	(1,760)	(1,250)	(911)	(1,760)
Other		(52)	3	(54)	(214)	284
Net cash (used in)/provided by financing activities		(13,615)	29,911	11,645	(13,369)	43,251
Net increase/(decrease) in cash and cash equivalents		3,011	2,731	(79)	2,845	(390)
Cash and cash equivalents at beginning of year		4,917	2,186	2,265	3,046	3,436
Cash and cash equivalents at end of year	46(b)	7,928	4,917	2,186	5,891	3,046

(1) It should be noted that the Group does not use these accounting Statements of Cash Flows in the internal management of its liquidity positions.

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

Notes to the Financial Statements

Note 1 Accounting Policies

The Financial Statements of the Commonwealth Bank of Australia (the Bank) and the Bank and its subsidiaries (the Group) for the year ended 30 June 2011, were approved and authorised for issue by the Board of Directors on 10 August 2011.

The Bank is incorporated and domiciled in Australia. It is a company limited by shares that are publicly traded on the Australian Securities Exchange. The address of its registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000, Australia.

The Group is one of Australia's leading providers of integrated financial services, including retail, business and institutional banking, superannuation, life insurance, general insurance, funds management, broking services and finance company activities.

(a) Bases of Accounting

This General Purpose Financial Report for the year ended 30 June 2011 has been prepared in accordance with Australian Accounting Standards (the standards), which include Australian Interpretations by virtue of AASB 1048 'Interpretation and Application of Standards', and the requirements of the Corporations Act 2001.

The basis of the standards is the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). As a result of complying with the standards, the Group Financial Statements comply with IFRS, and interpretations as issued by the International Financial Reporting Interpretations Committee (IFRIC).

(b) Basis of Preparation

The principal accounting policies adopted in the preparation of this financial report and that of the previous financial year are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The assets and liabilities are presented in order of liquidity on the Balance Sheet.

Historical Cost Convention

This financial report has been prepared under the historical cost convention, as modified by the revaluation of investment securities available for sale and certain other assets and liabilities (including derivative instruments) at fair value.

Use of Estimates and Assumptions

The preparation of the financial report requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are discussed in Note 1 (jj).

Comparatives

Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

Rounding of Amounts

The Bank is of a kind referred to in ASIC Class Order 98/0100 (as amended), relating to the rounding off of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

The Financial Report is presented in Australian dollars.

Segment Reporting

Operating segments are reported based on the Group's organisational and management structures. Senior management review the Group's internal reporting based around these segments, in order to assess performance and allocate resources.

All transactions between segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated in "Other".

Changes in Accounting Policies

The Group has continued to apply the accounting policies used for the 2010 Annual Report and has adopted the following amendments to the standards, which are of a technical or clarifying nature and do not have a material impact on the Bank or the Group:

- AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project';
- AASB 2009-8 'Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions';
- AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues';
- AASB Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments' and AASB 2009-13 'Amendments to Australian Accounting Standards arising from Interpretation 19'; and
- AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'.

Future Accounting Developments

The following amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2011 or later periods, but have not been adopted. They are not expected to result in significant changes to the Group's accounting policies.

- AASB 124 'Related Party Disclosures' and AASB 2009-12 'Amendments to Australian Accounting Standards';
- AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project';
- AASB 2010-5 'Amendments to Australian Accounting Standards';
- AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets';
- AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets';
- AASB 2011-1 'Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project';
- AASB 11 'Joint Arrangements';
- AASB 13 'Fair Value Measurement'; and
- AASB 1054 'Australian Additional Disclosures'.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

AASB 9 'Financial Instruments' contains new requirements for classification, measurement and de-recognition of financial assets and liabilities, replacing the corresponding requirements in AASB 139 'Financial Instruments: Recognition and Measurement'. It will introduce significant changes in the way that the Group accounts for financial instruments.

Adoption of the standard is not mandatory until accounting periods beginning on or after 1 January 2013 however early adoption is permitted. The key changes include:

- Financial assets: financial assets will be classified as either amortised cost or fair value through Income Statement, except for certain non-trading equity investments which may be classified as fair value through Other Comprehensive Income (OCI); and
- Financial liabilities: gains and losses on own credit arising from financial liabilities designated at fair value through profit or loss will be excluded from the Income Statement and instead taken to OCI.

By June 2012, it is expected that IFRS 9 'Financial Instruments' will include new requirements for impairment, offsetting and hedge accounting. It will introduce significant changes in the way that the Group accounts for financial instruments. The key changes proposed relate to:

- Impairment: both expected losses and incurred losses will be reflected in impairment allowances for loans and advances;
- Hedge accounting: hedge accounting will be more closely aligned with financial risk management; and
- Offsetting: the conditions for offsetting financial assets and financial liabilities in the Balance Sheet will be clarified.

AASB 10 'Consolidated Financial Statements' introduces control as the single basis for consolidation for all entities, regardless of the nature of the investee. AASB 10 replaces those parts of AASB 127 'Consolidated and Separate Financial Statements' that address when and how an investor should prepare consolidated financial statements and replaces SIC-12 'Consolidation – Special Purpose Entities' in its entirety.

This approach comprises a series of indicators of control, requiring an analysis of all facts and circumstances and the application of judgement in making the control assessment.

Concurrent with the issue of AASB 10, the following standards were also issued:

- AASB 11 'Joint Arrangements';
- AASB 12 'Disclosure of Interests in Other Entities';
- AASB 127 'Separate Financial Statements', amended for the issuance of AASB 10; and
- AASB 128 'Investments in Associates', amended for conforming changes based on the issuance of AASB 10 and AASB 11.

Each of these standards has an effective date for annual periods beginning on or after 1 January 2013, with early adoption permitted so long as each of the standards in this package is also applied early.

The key changes include:

- Using control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12;
- The definition of control includes three elements: power over an investee, exposure or rights to variable returns of the investee, and the ability to use power over the investee to affect the investor's returns; and

- An investor would reassess whether it controls an investee if there is a change in facts and circumstances.

AASB 12 'Disclosure of Interests in Other Entities' applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. It serves to integrate the disclosure requirements of interests in other entities, currently included in several standards, and also adds additional requirements in a number of areas. The disclosure requirements are extensive and significant effort will be required to accumulate the necessary information.

AASB 119 'Employee Benefits' has been amended, which will result in changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. These changes could affect a number of performance indicators, and significantly increase the volume of disclosures. The key changes include:

- Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets, and may increase the benefit expense; and
- Benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income.

The amendment is effective for periods beginning on or after 1 January 2013, with early adoption being permitted.

AASB 101 'Presentation of Financial Statements' has been amended. The amendment changes the disclosure of items presented in OCI in the Statement of Comprehensive Income.

The key changes include:

- Items are presented separately, in two groups in OCI, based on whether or not they may be recycled to profit or loss in the future; and
- Where OCI items have been presented before tax, the amount of tax related to the two groups will need to be shown.

The amendment is effective for annual periods beginning on or after 1 July 2012, with early adoption permitted.

In addition to the above, the IASB plans to issue new standards on Leases, Insurance Contracts and Revenue Recognition. The Group will consider the financial impacts of these new standards as they are finalised.

(c) Principles of Consolidation

Subsidiaries

The consolidated Financial Report comprises the financial report of the Bank and its subsidiaries. Subsidiaries are all those entities (including special purpose entities) over which the Bank has the power to govern directly or indirectly the decision-making in relation to financial and operating policies, so as to require those entities to conform with the Bank's objectives. The effects of all transactions between entities in the Group are eliminated in full. Non-controlling interests in the results and equity of subsidiaries, where the parent owns less than 100 per cent of the issued capital, are shown separately in the consolidated Income Statement and consolidated Balance Sheet, respectively.

Where control of an entity was obtained during the financial year, its results have been included in the consolidated Income Statement from the date on which control commenced.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

Impairment of Subsidiaries

Investments in subsidiaries are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the investments' carrying amount exceeds its recoverable amount (which is the higher of fair value less costs to sell and value in use). At each Balance Sheet date, the investments in subsidiaries that have been impaired are reviewed for possible reversal of the impairment.

Interests in Associates and Joint Ventures Accounted for Using the Equity Method

Associates and joint ventures are entities over which the Group has significant influence or joint control, but not control, and are accounted for under the equity method. The equity method of accounting is applied in the consolidated Financial Report and involves the recognition of the Group's share of its associates' and joint ventures' post-acquisition profits or losses in the Income Statement, and its share of post acquisition movements in OCI.

(d) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for each major revenue stream as follows:

Interest Income

Interest income is brought to account using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs associated with loans, are capitalised and included in the effective interest rate and recognised in the Income Statement, over the expected life of the instrument. Interest income on finance leases is brought to account progressively over the life of the lease, consistent with the outstanding investment balance.

Fee and Commission Income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are capitalised and included in the effective interest rate and recognised in the Income Statement over the expected life of the instrument.

Commitment fees to originate a loan, which is unlikely to be drawn down, are recognised as fee income as the service is provided.

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed. Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

Other Income

Trading income is recognised when earned based on changes in fair value of financial instruments and is recorded from trade date.

(e) Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Bank's functional and presentation currency.

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items, or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the Income Statement in the period in which they arise.

Translation differences on non-monetary items, such as derivatives measured at fair value through Income Statement, are reported as part of the fair value gain or loss on these items. Translation differences on non-monetary items measured at fair value through equity, such as equities classified as available-for-sale financial assets, are recognised in equity through OCI.

Foreign Operations

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy), that have a functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:

- Assets and liabilities of each foreign operation are translated at the rates of exchange at Balance Sheet date;
- Revenue and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case revenue and expenses are translated at the exchange rate at transaction date; and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

When a foreign operation is disposed of, exchange differences are recognised in the Income Statement as part of the gain or loss on sale.

(f) Cash and Liquid Assets

Cash and liquid assets include cash at branches, cash at banks, nostro balances, money at short call with an original maturity of three months or less and securities held under reverse repurchase agreements. They are measured at face value, or the gross value of the outstanding balance. Interest is recognised in the Income Statement using the effective interest method.

Note 1 Accounting Policies (continued)

For the purposes of the Statements of Cash Flows, cash includes cash, money at short call, at call deposits with other financial institutions and settlement account balances with other banks.

(g) Receivables From Other Financial Institutions

Receivables from other financial institutions include loans, deposits with regulatory authorities and settlement account balances due from other banks. They are measured at amortised cost using the effective interest rate method.

(h) Financial Instruments

Financial Assets

The accounting policy for each class of financial instrument is detailed below.

The Group classifies its financial assets in the following categories: financial assets at fair value through Income Statement, derivative assets, loans and receivables, and available-for-sale investments. Management determines the classification of its financial assets at initial recognition.

Purchases and sales of financial assets at fair value through Income Statement, and available-for-sale are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets at fair value through Income Statement are recognised initially at fair value.

All other financial assets are recognised initially at fair value, as well as directly attributable transaction costs. Financial assets are derecognised, when the rights to receive cash flows from the financial assets have expired, or where the Group has transferred substantially all the risks and rewards of ownership.

The Group has not classified any of its financial assets as held to maturity investments.

Financial Liabilities

The Group classifies its financial liabilities in the following categories: liabilities at fair value through Income Statement, liabilities at amortised cost and derivative liabilities.

Financial liabilities are initially recognised at fair value less transaction costs, except where they are designated at fair value, in which case, transaction costs are expensed as incurred. They are subsequently measured at amortised cost, except for derivatives and liabilities at fair value, which are held at fair value through Income Statement. Financial liabilities are recognised when an obligation arises and derecognised when it is discharged.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability; The difference in the respective carrying amounts is recognised in Income Statement.

Offsetting

Financial assets and liabilities are offset where there is a legally enforceable right to set off, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Recognition of Deferred Day One Profit or Loss

The best evidence of fair value at initial recognition is the transaction price, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets.

The Group enters into transactions where fair value is determined using valuation models, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit or loss', is not recognised immediately in the Income Statement.

The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit or loss. Subsequent changes in fair value are recognised immediately in the Income Statement, without reversal of deferred day one profits or losses.

Derecognition of Financial Assets

Financial assets are derecognised either when sold, or when the rights to receive cash flows from the financial assets, have expired or have been transferred, or when the Group has transferred substantially all the risks and rewards of ownership. In transactions where substantially all the risks and rewards are neither retained nor transferred, the Group derecognises assets, or when control is retained the assets are recognised to the extent of the Group's continuing involvement.

(i) Assets at Fair Value Through Income Statement

Assets classified at fair value through Income Statement include assets held for trading and assets that, upon initial recognition are designated by the Group as at fair value through Income Statement. Designation is made, when it reduces significant accounting mismatches between assets and related liabilities, the group of financial assets are managed and their performance is evaluated on a fair value basis, or where the asset is a contract which contains an embedded derivative.

These assets are recognised on trade date at fair value, with transaction costs including brokerage, commissions and fees expensed through the Income Statement. Subsequent to initial recognition, where an active market exists, fair value is measured using quoted market bid prices. In a trading portfolio with offsetting risk positions, quoted mid prices, where available, are used to measure fair value.

Non-market quoted assets are valued using valuation techniques based on market observable inputs. In a limited number of instances, valuation techniques are based on non-market observable inputs.

Subsequent to initial recognition, changes in fair value are recognised in other operating income. Dividends earned, are recorded in other operating income. Interest earned, is recorded within net interest earnings, using the effective interest method.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

In addition, the Group measures bills discounted intended to be sold into the market at fair value, which are classified within loans, bills discounted and other receivables.

Assets classified at fair value through Income Statement are further classified into three sub-categories: trading, insurance and other.

Trading

Trading assets are debt and equity securities, that are actively traded.

Insurance

Insurance assets are investments that back life insurance contracts and life investment contracts.

Other

Other investments include financial assets, which the Group has designated at fair value through Income Statement at inception, to either eliminate an accounting mismatch or as they are managed on a fair value basis.

(j) Available-for-Sale Investments

Available-for-sale investments are public and other debt and equity securities that are not classified at fair value through Income Statement or as loans and receivables.

Available-for-sale investments are initially recognised at fair value including transaction costs. Subsequent to initial recognition, where an active market exists, fair value is measured using quoted market bid prices. Quoted mid prices, where available, are used to measure fair value in a portfolio with offsetting risk positions.

Non-market quoted instruments are valued using valuation techniques, based on observable inputs. In a limited number of instances, valuation techniques are not based on observable market data.

Equity investments classified as available for sale, whose fair value cannot be reliably measured, are valued at cost. Gains and losses arising from changes in fair value, are recognised in the available-for-sale investments' reserve within equity, net of applicable income taxes until such investments are sold, collected, otherwise disposed of, or become impaired. Interest, premiums and dividends are recognised in income when earned.

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

Upon disposal or impairment, the accumulated change in fair value within the available-for-sale investments' reserve is transferred to the Income Statement and reported within other operating income.

(k) Repurchase Agreements

Securities sold under agreements to repurchase, are recognised within the available-for-sale investments or assets at fair value through Income Statement categories and accounted for accordingly.

A liability is recognised within deposits in respect of the obligation to repurchase. Securities held under reverse repurchase agreements are recorded within cash and liquid assets.

(l) Loans, Bills Discounted and Other Receivables

Loans, bills discounted and other receivables are non-derivative financial assets, with fixed and determinable payments that are not quoted in an active market. They are measured at amortised cost, with the exception of bills discounted, which are measured at fair value.

Loans, bills discounted and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, bill financing, redeemable preference shares, securities and finance leases. Initially recognised at fair value, including direct and incremental transaction costs, loans and receivables are subsequently measured at amortised cost using the effective interest method and are presented net of provisions for impairment. Bills discounted (bank acceptances) intended to be sold into the market are measured at fair value until sold.

Non-Performing Facilities

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

The unwinding of the discount, from initial recognition of impairment through to recovery of the written down amount, is recognised as interest income. In subsequent periods, interest in arrears/due on non-performing facilities is recognised in the Income Statement using the original effective interest rate.

Restructured Facilities

When the original contractual terms of facilities (primarily loans) are modified, they become classified as restructured.

These facilities continue to accrue interest, as long as the facility is performing in accordance with the restructured terms. If performance is not maintained, or collection of interest and/or principal is no longer probable, the facility will be returned to the non-performing classification. Facilities are generally kept as non-performing until they are returned to a performing basis.

Assets Acquired Through Securities Enforcement (AATSE)

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

Impairment of Loans, Bills Discounted and Other Receivables

The Group has individually assessed and collective provisions for impairment as explained in Note 1 (n).

(m) Leases

When the Group is a lessor, leases are classified as either finance leases or operating leases. Under a finance lease, substantially all the risks and rewards incidental to legal ownership, are transferred to the lessee. In contrast, an operating lease exists where the leased assets are allocated to the lessor.

In its capacity as a lessor, the Group recognises the assets held under finance leases in the Balance Sheet, as loans at an amount equal to the net investment in the lease.

Note 1 Accounting Policies (continued)

The recognition of finance income is based on a pattern reflecting a constant periodic return on the Group's net investment in the finance leases. Finance lease income is included within interest income in the Income Statement.

In its capacity as a lessor, the Group recognises the assets held under operating leases in the Balance Sheet as property, plant and equipment and depreciates the assets accordingly.

Operating lease revenue is recognised in the Income Statement on a straight line basis over the lease term.

When the Group is a lessee, it engages in operating leases for which rental expense is recognised on a straight line basis over the lease term.

(n) Provisions for Impairment

Financial Assets

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

Loans, Bills Discounted and Other Receivables

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

Loans and bills discounted are presented net of provisions for loan impairment. The Group has individually assessed provisions and collectively assessed provisions. Individually assessed provisions are made against financial assets that are individually significant, or which have been individually assessed as impaired.

All other loans and advances that do not have an individually assessed provision, are assessed collectively for impairment. Collective provisions are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the Balance Sheet date.

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

Available-for-Sale Investments

The Group assesses at each Balance Sheet date, whether there is any objective evidence of impairment. For available-for-sale debt securities, the Group uses the same indicators as loans, bills discounted and other receivables. For available-for-sale equity securities, a significant or prolonged decline in the fair value below the cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale securities, cumulative losses are removed from equity and recognised in the Income Statement. If, in a subsequent period, the fair value of an available-for-sale debt security increases and the increase can be linked objectively to an event occurring after the impairment event, the impairment is reversed through the Income Statement. However, impairment losses on available-for-sale equity securities are not reversed through the Income Statement.

Goodwill, Intangibles and Other Non-Financial Assets

Goodwill and intangible assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable.

All definite useful life intangibles, are tested for impairment, should an event or change in circumstance indicate that the carrying amount may not be recoverable.

If any such indications exist, the asset's carrying amount is written down to the asset's estimated recoverable amount and the loss is recognised in the Income Statement in the period in which it occurs.

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

An impairment loss is recognised whenever the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its recoverable amount. Impairment losses are recognised in the Income Statement. The recoverable amount of an asset or CGU is the greater of the fair value less cost to sell, or value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets. Assets (other than goodwill) that have previously been impaired, are reviewed for possible reversal of the impairment at each reporting date. A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. However, the reversal is not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

Off Balance Sheet Items

Guarantees and other contingent liabilities are accounted for as off balance sheet items. Provisioning for these exposures is calculated under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

The receivable for an off balance sheet item, only crystallises when the facility is drawn upon. Generally, therefore, it will not be appropriate to provision for these assets under an incurred loss model.

The Group however, has determined that it is appropriate to include these assets in an impairment calculation where a customer has been downgraded. A risk rated model is used to calculate these provisions (e.g. Collective Provision = Probability of Default (PD) x Loss Given Default x Exposure At Default). The PD is based on the remaining life of the exposure, capped at five years.

These provisions are disclosed as other liabilities as there are no on balance sheet assets to offset these provisions against.

(o) Bank Acceptances of Customers

The exposure arising from the acceptance of bills of exchange that are sold into the market is recognised as a liability. An asset of equal value is recognised to reflect the offsetting claim against the drawer of the bill. Bank acceptances generate fee income that is recognised in the Income Statement when earned.

(p) Shares in and Loans to Controlled Entities

Investments in controlled entities are initially recorded at cost and subsequently held at the lower of cost and recoverable amount.

(q) Assets Classified as Held for Sale

Assets are classified as held for sale, when their carrying amounts are expected to be recovered principally through sale within twelve months. They are measured at the lower of carrying amount and fair value less costs to sell, unless the nature of the assets requires they be measured in line with another accounting standard.

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

(r) Property, Plant and Equipment

The Group measures its property assets (land and buildings) at fair value, based on independent market valuations.

Revaluation adjustments are generally reflected in the asset revaluation reserve, except to the extent they reverse a revaluation decrease of the same asset previously recognised in the Income Statement. Gains or losses on disposals, are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Realised amounts in the asset revaluation reserve are transferred to the capital reserve.

Equipment is measured at cost less accumulated depreciation and provision for impairment. Depreciation is calculated using the straight line method to allocate the cost of assets less any residual value over the estimated useful economic life.

Computer software is capitalised at cost and classified as property, plant and equipment where it is integral to the operation of associated hardware.

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

Buildings	Up to 30 years
Fixtures and fittings	10 – 20 years
Leasehold improvements	Lesser of unexpired lease term or lives as above
Furniture and equipment	3 - 8 years

Depreciation rates and methods are reviewed on a timely basis to take account of any change in circumstances.

No depreciation is charged on freehold land, although, in common with all long-lived assets, it is subject to impairment testing, if deemed appropriate. Property, plant and equipment are periodically reviewed for impairment. Where an indication of impairment exists and the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately through the Income Statement to its recoverable amount.

(s) Business Combinations

Business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values of assets given, equity instruments issued, or liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at the fair value on the acquisition date. The acquirer can elect, on a transaction-by-transaction basis, to measure any non-controlling interest either at fair value, or at the non-controlling interest's proportionate share of the fair value of the identifiable assets and liabilities. The excess of the cost of acquisition over the fair value of the acquirer's share of the identifiable net assets acquired, is recorded as goodwill. If the cost of acquisition is less than the acquirer's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the consolidated Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(t) Intangibles

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill arising from business combinations is included in intangible assets on the Balance Sheet. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates.

Computer Software Costs

Certain internal and external costs directly incurred in acquiring and developing software, are capitalised and amortised over the estimated useful life, a period of three to twelve years.

Costs incurred on software maintenance are expensed as incurred.

Core Deposits

Core deposits have been recognised following the acquisition of Bankwest and represent the value of the deposit base acquired in the business combination. Initially recognised at fair value, they are subsequently amortised over the estimated useful life of seven years.

Brand Names

Brand names are recognised when acquired in a business combination. Initially recognised at fair value, they are considered to have an indefinite useful life as there is no foreseeable limit to the period over which the brand name is expected to generate cash flows.

Note 1 Accounting Policies (continued)

Management Fee Rights

Management fee rights are recognised when acquired as part of a business combination and are considered to have an indefinite useful life under the contractual terms of the management agreements.

Other Intangibles

Other intangibles predominantly comprise customer lists. Customer relationships acquired as part of a business combination, are initially measured at fair value at the date of acquisition and subsequently measured at cost less accumulated amortisation and any impairment losses. Amortisation is calculated based on the timing of projected cash flows of the relationships over their estimated useful lives.

(u) Deposits From Customers

Deposits and other public borrowings include certificates of deposits, term deposits, savings deposits, other demand deposits and debentures. They are initially recognised at fair value, including directly attributable transaction costs and subsequently measured at amortised cost. Interest and yield related fees are recognised on an effective interest basis.

(v) Payables to Other Financial Institutions

Payables to other financial institutions include deposits, vostro balances and settlement account balances due to other banks. Initially they are recognised at fair value, including directly attributable transaction costs. They are subsequently recognised at amortised cost. Interest and yield related fees are recognised using the effective interest method.

(w) Liabilities at Fair Value Through Income Statement

The Group designates certain liabilities at fair value through Income Statement on origination, where those liabilities are managed on a fair value basis, or where the liabilities eliminate an accounting mismatch. Initially they are recognised on trade date at fair value, with transaction costs being taken directly to the Income Statement. Subsequently, they are measured at fair value using quoted market offer prices, where an active market exists. Quoted mid prices, where available, are used to measure liabilities with offsetting risk positions in a portfolio at fair value.

Non-market quoted instruments are valued using valuation techniques based on observable inputs existing at Balance Sheet date. In a limited number of instances, valuation techniques are based on non-market data.

(x) Income Taxes

Income tax on the profit and loss for the period, comprises current and deferred tax.

Income tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly in OCI, in which case it is recognised in the Statement of Comprehensive Income.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the Balance Sheet date which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

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

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

The Group has formally notified the Australian Taxation Office of its adoption of the tax consolidation regime. In addition, the measurement and disclosure of deferred tax assets and liabilities has been performed in accordance with the principles in AASB 112 'Income Taxes', and on a modified standalone basis under UIG 1052 'Tax Consolidation Accounting'.

Any current tax liabilities/assets (after the elimination of intra-group transactions) and deferred tax assets arising from unused tax losses assumed by the Bank from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts.

Any difference between these amounts is recognised by the Bank as an equity contribution to, or distribution from, the subsidiary.

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

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

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

(y) Employee Benefits

Annual Leave

The provision for annual leave represents the current outstanding liability to employees at Balance Sheet date.

Long Service Leave

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

Other Employee Benefits

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

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

The Group engages in share based remuneration in respect of services received from certain employees. The share based remuneration may be cash settled or equity settled. The fair value of equity settled remuneration is calculated at grant date and amortised to the Income Statement over the vesting period, with a corresponding increase in the employee compensation reserve. For these awards, market vesting conditions, such as share price performance conditions, are taken into account when estimating the fair value. Non-market vesting conditions, such as service conditions, are taken into account by adjusting the number of the equity instruments included in the measurement of the expense.

Cash settled remuneration is recognised as a liability and remeasured to fair value until settled, with changes in the fair value recognised as an expense.

Defined Benefit Superannuation Plans

The Group currently sponsors two defined benefit superannuation plans for its employees. The assets and liabilities of these plans are legally held in separate trustee-administered funds. They are calculated separately for each plan, by assessing the fair value of plan assets and deducting the amount of future benefit that employees have earned in return for their service in current and prior periods discounted to present value. The discount rate is the yield at Balance Sheet date on government securities, which have terms to maturity approximating to the terms of the related liability.

The defined benefit superannuation plan surpluses and/or deficits, are calculated by fund actuaries. Contributions to all superannuation plans are made in accordance with the rules of the plans. As the Australian plan is in surplus, no funding is currently necessary.

Actuarial gains and losses related to defined benefit superannuation plans, are directly recorded in retained profits through OCI.

The net surpluses or deficits that arise within defined benefit superannuation plans, are recognised and disclosed separately in other assets or bills payable and other liabilities.

Defined Contribution Superannuation Plans

The Group sponsors a number of defined contribution superannuation plans. Certain plans permit employees to make contributions and earn matching or other contributions from the Group.

The Group recognises contributions due, in respect of the accounting period in the Income Statement. Any contributions unpaid at the Balance Sheet date are included as a liability.

(z) Provisions

Provision for Dividends

A provision for dividend payable is recognised when dividends are declared by the Directors.

Provisions for Restructuring

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

Provision for Self-Insurance

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

(aa) Debt Issues

Debt issues are short and long term debt issues of the Group, including commercial paper, notes, term loans and medium term notes issued by the Group. Commercial paper, floating, fixed and structured debt issues are recorded at cost or amortised cost using the effective interest method.

Premiums, discounts and associated issue expenses are recognised in the Income Statement, using the effective interest method, from the date of issue, to ensure that securities attain their redemption values by maturity date.

Interest is recognised in the Income Statement using the effective interest method. Any profits or losses arising from redemption prior to maturity are taken to the Income Statement in the period in which they are realised.

Where the Group has designated debt instruments at fair value through Income Statement, the changes in fair value are recognised in the Income Statement.

Embedded derivatives with economic characteristics and risks that are not closely related to the economic characteristics and risks of the host instruments are separated from the debt issues.

Hedging

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

(bb) Loan Capital

Loan capital is debt issued by the Group with terms and conditions that qualify for inclusion as capital, under APRA Prudential Standards. It is initially recorded at fair value, plus directly attributable transaction costs and thereafter at amortised cost using the effective interest method.

(cc) Shareholders' Equity

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Where the Bank or other members of the Group, purchase shares in the Bank, the consideration paid, is deducted from total shareholders' equity and the shares are treated as treasury shares until they are subsequently sold, reissued or cancelled. Where such shares are sold or reissued, any consideration received, is included in shareholders' equity.

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

The capital reserve is derived from capital profits and is available for dividend payments.

(dd) Derivative Financial Instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variables. They include foreign exchange contracts, forward rate agreements, futures, options and interest rate, currency, equity and credit swaps. Derivatives are entered into for trading purposes or for hedging purposes. Derivatives entered into as economic hedges that do not qualify for hedge accounting are classified as other derivatives.

Note 1 Accounting Policies (continued)

Derivative financial instruments are recognised initially at the fair value of consideration given or received. Subsequent gains or losses are recognised in the Income Statement, unless designated within a cash flow hedging relationship.

Where an active market exists, fair value is measured based on quoted market prices. Non-market quoted instruments are valued using valuation techniques. Included in the determination of the fair value of derivatives is a credit valuation adjustment to reflect the credit worthiness of the counterparty.

Derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative.

Swaps

Interest rate swap receipts and payments are recognised within net interest income, using the effective interest method as interest of the designated hedged item or class of items being hedged over the term for which the swap is effective as a hedge. Revaluation gains and losses are recognised within other operating income.

Similarly with cross currency swaps, interest rate receipts and payments are recognised on the same basis as for interest rate swaps. In addition, the initial principal flows are revalued to fair value at the current market exchange rate with revaluation gains and losses recognised in the Income Statement against revaluation losses and gains of the underlying hedged item or class of items.

Derivative Financial Instruments Utilised for Hedging Relationships

The Group uses derivatives to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions.

Where derivatives are held for risk management purposes and when transactions meet the required criteria, the Group applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation as appropriate to the risks being hedged.

Fair Value Hedges

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the Income Statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the Income Statement over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the Income Statement.

Cash Flow Hedges

Changes in fair value associated with the effective portion of a derivative designated as a cash flow hedge, are recognised in the Cash Flow Hedge Reserve, in equity. Ineffective portions are recognised immediately in the Income Statement. Amounts deferred in equity are transferred to the Income Statement in the period in which the hedged forecast transaction takes place.

When a hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the period in which the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recycled immediately to the Income Statement.

Net Investment Hedges

Gains and losses on derivative contracts relating to the effective portion of the net investment hedge are recognised in the foreign currency translation reserve in equity. Ineffective portions are recognised immediately in the Income Statement. Gains and losses accumulated in equity are included in the Income Statement when the foreign subsidiary or branch is disposed of.

Embedded Derivatives

In certain instances, a derivative may be embedded within a host contract. If the host contract is not carried at fair value through Income Statement and the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, the embedded derivative is separated from the host contract. It is then accounted for as a stand-alone derivative instrument at fair value.

(ee) Commitments to Extend Credit, Letters of Credit, Guarantees, Warranties and Indemnities Issued

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

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

Financial guarantee contracts are initially recognised at fair value.

Subsequent to initial recognition, financial guarantees are measured at the higher of the initial measurement amount, less amortisation calculated to recognise fee income earned, and the best estimate of the expenditure required to settle any financial obligation at the Balance Sheet date.

Any increase in the liability relating to financial guarantees is recognised in the Income Statement. Any liability remaining, is recognised in the Income Statement when the guarantee is discharged, cancelled or expires.

(ff) Life and General Insurance Business

Life Insurance Business

The life insurance business is comprised of insurance contracts and investment contracts as defined in AASB 4 'Insurance Contracts'. The following are key accounting policies in relation to the life insurance business.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

Disclosure

The consolidated financial statements include the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the Bank in accordance with AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 1038 'Life Insurance Contracts' respectively. These amounts represent the total life insurance business of the subsidiary, including underlying amounts that relate to both policyholders and shareholders of the life insurance business.

Investment Assets

Investment assets are carried at fair value through Income Statement. Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (and for unlisted securities), fair value is established by using valuation techniques, including recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Changes in fair values are recognised in the Income Statement in the financial period in which the changes occur.

Restriction on Assets

Investments held in the Life Funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of the fund, acquire investments to further the business of the fund or pay distributions when solvency and capital adequacy requirements allow. Shareholders can only receive a distribution when the capital adequacy requirements of the Life Insurance Act 1995 are met.

Policy Liabilities

Life insurance liabilities are measured as the accumulated benefits to policyholders in accordance with AASB 139 and AASB 1038, which apply to investment contracts and insurance liabilities, respectively. Life insurance contract liabilities are measured at the net present value of future receipts from and payments to policyholders using a risk free discount rate (or expected fund earning rate where benefits are contractually linked to the asset performance), and are calculated in accordance with the principles of Margin on Services (MoS) profit reporting as set out in Prudential Standard LPS 1.04 'Valuation of Policy Liabilities' (LPS 1.04) issued by APRA.

Life investment contract liabilities are measured at fair value in accordance with AASB 139 as liabilities at fair value.

Returns on all investments controlled by life insurance entities within the Group are recognised as revenue. Investments in the Group's own equity instruments held within the life insurance statutory funds and other funds are treated as Treasury Shares.

Initial entry fee income on investment contracts issued by life insurance entities is recognised upfront, where the Group provides financial advice. Other entry fees are deferred and recognised over the life of the underlying investment contract. Participating benefits vested in relation to the financial year, other than transfers from unvested policyholder benefits liabilities, are recognised as expenses.

Reinsurance contracts entered into are recognised on a gross basis.

Premiums and Claims

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

(i) Life insurance contracts

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

(ii) Life investment contracts

Premiums received include the fee portion of the premium recognised as revenue over the period the underlying service is provided and the deposit portion recognised as an increase in investment contract liabilities. Premiums with no due date are recognised on a cash received basis.

Fees earned for managing the funds invested are recognised as revenue. Claims under investment contracts represent withdrawals of investment deposits and are recognised as a reduction in investment contract liabilities.

Life Insurance Liabilities and Profit

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

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

Participating Policies

Life insurance contract policy liabilities attributable to participating policies include the value of future planned shareholder profit margins and an allowance for future supportable bonuses.

The value of supportable bonuses and planned shareholder profit margins account for all profit on participating policies based on best estimate assumptions.

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

Life Insurance Contract Acquisition Costs

Acquisition costs for life insurance contracts include the fixed and variable costs of acquiring new business. These costs are effectively deferred through the determination of life insurance contract liabilities at the Balance Sheet date to the extent that they are deemed recoverable from the expected future profits of an amount equivalent to the deferred cost.

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

Note 1 Accounting Policies (continued)

Life Investment Contract Acquisition Costs

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

Managed Funds Units on Issue – Held by Non-controlling Unit-Holders

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

When a controlled unit trust is consolidated, the share of the unit-holder liability attributable to the Group is eliminated but amounts due to external unit-holders remain as liabilities in the Group's consolidated balance sheet. The share of the net assets of controlled companies attributable to non-controlling unit-holders is disclosed separately on the Balance Sheet.

In the Income Statement, the net profit or loss of the controlled entities relating to non-controlling interests is eliminated before arriving at the net profit or loss attributable to Equity holders of the Bank.

General Insurance Business

Premium Revenue

Premium revenue comprises amounts charged to policyholders, including fire service levies, but excludes taxes collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. Premium revenue is earned from the date of attachment of risk and over the term of the policies written, based on assessment of the likely pattern in which risk will emerge. The portion not earned as determined by the above methods is recognised as unearned premium liability.

Unearned Premium Liability

The adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims covered by current insurance contracts.

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in the estimate, exceeds the unearned premium liability less related deferred acquisition costs, then the unearned premium liability is deemed deficient. Any deficiency is recognised immediately in the Income Statement as an expense, both gross and net of reinsurance. The deficiency is recognised by writing down any related deferred acquisition costs, with any excess being recorded on the Balance Sheet as an unexpired risk liability.

Reinsurance

Premium ceded to reinsurers is recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at the Balance Sheet date as deferred reinsurance.

Claims Expense

Claims expense and a liability for outstanding claims are recognised in respect of all business. The liability covers claims reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct and indirect costs of settling those claims. The liability for outstanding claims is determined having regard to an independent actuarial assessment. The liability is measured as the estimate of the present value of the expected future payments against claims incurred at the Balance Sheet date, with an additional risk margin to allow for the inherent uncertainty in the estimate. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement, such as inflation. The expected future payments are discounted to present value at the Balance Sheet date using market-determined, risk-adjusted discount rates.

A risk margin is applied to the outstanding claims liability, sufficient to ensure the probability of adequacy of the liabilities to a 75% confidence level.

Acquisition Costs

Acquisition costs include brokerage and other selling and underwriting costs incurred in obtaining general insurance premiums. A portion of acquisition costs relating to unearned premium revenue is recognised as an asset. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure and are stated at the lower of cost and recoverable value.

(gg) Asset Securitisation

The Group conducts an asset securitisation programme through which it packages and sells assets as securities to investors.

The Group is entitled to any residual income of the programme after all payments due to investors and costs of the programme have been met. Therefore the Group is considered to hold the majority of the residual risks and benefits within the entities through which asset securitisation is conducted and so it consolidates these entities.

Liabilities associated with asset securitisation entities and related issue costs are accounted for on an amortised cost basis using the effective interest method. Interest rate swaps and liquidity facilities are provided at arm's length to the programme by the Group in accordance with APRA Prudential Guidelines.

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

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

(hh) Fiduciary Activities

Certain controlled entities within the Group, act as Responsible Entity, Trustee and/or Manager for a number of wholesale, superannuation and investment funds, trusts and approved deposit funds.

The assets and liabilities of these trusts and funds are not included in the consolidated Financial Statements as the Group does not have direct or indirect control of the trusts and funds. Commissions and fees earned in respect of the activities are included in the Income Statement of the Group.

Notes to the Financial Statements

(ii) Earnings Per Share

Basic earnings per share is calculated by dividing the Group's profit attributable to ordinary equity holders, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the Group's profit attributable to ordinary equity holders, after deducting interest on the convertible redeemable loan capital instruments, by the weighted average number of ordinary shares adjusted for the effect of dilutive options and dilutive convertible non-cumulative redeemable loan capital instruments.

(jj) Critical Accounting Policies and Estimates

The application of the Group's accounting policies requires the use of judgement, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Group.

Management discusses the accounting policies, which are sensitive to the use of judgement, estimates and assumptions with the Board Audit Committee.

Provisions for Impairment of Financial Assets

Provisions for impairment of financial assets are raised where there is objective evidence of impairment and at an amount adequate to cover assessed credit related losses. In addition, provisions are raised where no objective evidence of impairment exists for an individually assessed financial asset, but for which a loss event has occurred which is likely to result in a loss within a group of financial assets.

Credit losses arise primarily from loans, but also from other credit instruments such as bank acceptances, contingent liabilities, guarantees and other financial instruments and AATSE.

Individually Assessed Provisions

Individually assessed provisions are raised where there is objective evidence of impairment, that is where the Group does not expect to receive all of the cash flows contractually due.

Individually assessed provisions are made against individual risk rated credit facilities where a loss of \$20,000 or more is expected. The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken and are measured as the difference between a financial asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short term balances are not discounted.

Collective Provision

All other loans and receivables that do not have an individually assessed provision are assessed collectively for impairment.

The collective provision is maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the Balance Sheet date.

The evaluation process is subject to a series of estimates and judgements. In the risk rated segment, the risk rating system, including the frequency of default and loss given default rates, loss history, and the size, structure and diversity of individual credits are considered. Current developments in portfolios (industry, geographic and term) are reviewed.

In the statistically managed (retail) segment, the history of defaults and losses, and the size, structure and diversity of portfolios are considered.

In addition, management considers overall indicators of portfolio performance, quality and economic conditions.

Changes in these estimates could have a direct impact on the level of provision determined.

The amount required to bring the collective provision to the level assessed is recognised in the Income Statement as set out in Note 14.

Life Insurance Policyholder Liabilities

Life insurance policyholder liabilities are accounted for under AASB 1038 'Life Insurance Contracts'. A significant area of judgement is in the determination of policyholder liabilities, which involve actuarial assumptions.

The areas of judgement where key actuarial assumptions are made in the determination of policyholder liabilities are:

- Business assumptions including:
 - Amount, timing and duration of claims/policy payments;
 - Policy lapse rates; and
 - Acquisition and long term maintenance expense levels.
- Long term economic assumptions for discount and interest rates, inflation rates and market earnings rates; and
- Selection of methodology, either projection or accumulation method. The selection of the method is generally governed by the product type.

The determination of assumptions relies on making judgements on variances from long term assumptions. Where experience differs from long term assumptions:

- Recent results may be a statistical aberration; or
- There may be a commencement of a new paradigm requiring a change in long term assumptions.

The Group's actuaries arrive at conclusions regarding the statistical analysis using their experience and judgement.

Additional information on the accounting policy is set out in Note 1 (ff).

Consolidation of Special Purpose Entities

The Group assesses, at inception and periodically, whether a special purpose entity should be consolidated based on the risks and rewards of each entity and whether the majority pass to the Group. Such assessments are predominantly required in the context of the Group's securitisation programme and structured transactions.

Financial Instruments at Fair Value

A significant portion of financial instruments are carried on the Balance Sheet at fair value.

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Note 1 Accounting Policies (continued)

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Data inputs that the Group relies upon when valuing financial instruments relate to counterparty credit risk, volatility, correlation and extrapolation.

Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Goodwill

The carrying value of goodwill is reviewed annually and is written down, to the extent that it is no longer supported by probable future benefits.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management reporting purposes.

Impairment testing of purchased goodwill is performed annually, or more frequently when there is an indication that the goodwill may be impaired, by comparing the recoverable amount of the CGU with the current carrying amount of its net assets, including goodwill. Where the current carrying value is greater than recoverable amount, a charge for impairment of goodwill will be recorded in the Income Statement.

Additional information on goodwill impairment testing is included in Note 16.

Provisions (Other than Loan Impairment)

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs and non-lending losses. Provisions carried for long service leave are supported by an independent actuarial report. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows.

The deferral of these benefits involves the exercise of management judgements about the ultimate outcomes of the transactions. Payments which are expected to be incurred later than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

Taxation

Provisions for taxation require significant judgement with respect to outcomes that are uncertain. For such uncertainties, the Group has estimated its tax provisions based on its expected outcomes.

Superannuation Obligations

The Group currently sponsors two defined benefit plans as described in Note 1(y) and Note 42. For each of these plans, actuarial valuations of the plan's obligations and the fair value measurements of the plan's assets are performed semi-annually in accordance with the requirements of AASB 119 'Employee Benefits'.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of the difference between plan assets and obligations, and the superannuation cost charged to the Income

Notes to the Financial Statements

Note 2 Profit

Profit before income tax has been determined as follows:

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Interest Income					
Loans and bills discounted	34,192	29,849	28,438	26,319	22,382
Other financial institutions	92	141	434	87	115
Cash and liquid assets	291	192	510	235	150
Assets at fair value through Income Statement	877	793	1,236	749	616
Available-for-sale investments	1,852	1,240	901	3,987	3,102
Controlled entities	-	-	-	1,568	1,389
Total interest income ⁽¹⁾	37,304	32,215	31,519	32,945	27,754
Interest Expense					
Deposits ⁽³⁾	17,347	13,830	14,216	16,914	13,329
Other financial institutions	222	164	509	184	145
Liabilities at fair value through Income Statement ⁽³⁾	590	764	1,021	218	130
Debt issues	5,891	4,920	4,767	4,920	4,002
Controlled entities	-	-	-	263	360
Loan capital	647	615	705	664	637
Total interest expense ⁽²⁾	24,697	20,293	21,218	23,163	18,603
Net interest income	12,607	11,922	10,301	9,782	9,151
Other Operating Income					
Lending fees	1,467	1,435	1,396	1,333	1,250
Commissions	1,946	2,006	2,027	1,426	1,413
Trading income	717	597	741	639	588
Net gain/(loss) on disposal of available-for-sale investments	24	27	(12)	24	14
Net loss on other non-fair valued financial instruments	(4)	(52)	(9)	(11)	(15)
Net hedging ineffectiveness	4	(62)	(18)	14	(60)
Net (loss)/gain on other fair valued financial instruments:					
Fair value through Income Statement ⁽⁴⁾	(2)	8	(66)	2	(13)
Reclassification of net interest on swaps ⁽⁵⁾	(498)	(259)	(275)	(382)	(148)
Non-trading derivatives ⁽⁶⁾	(301)	217	(187)	(348)	147
Dividends - Controlled entities	-	-	-	2,155	1,641
Dividends - Other	5	5	14	36	7
Net loss on sale of property, plant and equipment	(6)	(4)	(11)	(6)	(4)
Funds management and investment contract income:					
Fees receivable on trust and other fiduciary activities	1,662	1,493	1,291	-	-
Other	380	435	199	-	-
Insurance contracts income	1,118	1,230	769	-	-
Other ⁽⁷⁾	278	290	314	735	440
Total other operating income	6,790	7,366	6,173	5,617	5,260
Total net operating income	19,397	19,288	16,474	15,399	14,411
Gain on acquisition of controlled entities	-	-	983	-	-
Impairment expense					
Loan impairment expense	1,280	2,379	2,683	1,080	1,193
Available-for-sale debt securities impairment expense	-	-	365	-	-
Total impairment expense (Note 14)	1,280	2,379	3,048	1,080	1,193

(1) Total interest income for financial assets that are not at fair value through profit or loss is \$36,427 million (2010: \$31,422 million, 2009: \$30,283 million) for the Group and \$32,196 million (2010: \$27,138 million) for the Bank.

(2) Total interest expense for financial liabilities that are not at fair value through profit or loss is \$24,107 million (2010: \$19,669 million, 2009: \$20,197 million) for the Group and \$22,945 million (2010 \$18,473 million) for the Bank.

(3) Certain comparative information has been restated to conform to presentation in the current period.

(4) The net gain on financial assets and liabilities designated at fair value was \$102 million (2010: \$140 million) for the Group and \$77 million (2010: \$31 million) for the Bank.

(5) Relates to certain economic hedges which do not qualify for IFRS hedge accounting.

(6) Non-trading derivatives are held for risk management purposes.

(7) The Group result in 2011 includes \$10 million loss on disposal of controlled entities, refer to note 46 for further details.

Notes to the Financial Statements

Note 2 Profit (continued)

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Staff Expenses					
Salaries and wages	4,081	3,845	3,405	2,761	2,536
Share-based compensation	156	130	125	96	82
Superannuation - defined contribution plans	48	48	44	(33)	(27)
Superannuation - defined benefit plan	137	103	14	137	103
Provisions for employee entitlements	88	58	88	54	39
Payroll tax	213	202	188	153	140
Fringe benefits tax	38	40	36	30	31
Other staff expenses	110	157	94	77	106
Total staff expenses	4,871	4,583	3,994	3,275	3,010
Occupancy and Equipment Expenses					
Operating lease rentals	532	527	488	406	392
Depreciation:					
Buildings	35	30	29	27	26
Leasehold improvements	103	98	85	81	75
Equipment	82	90	89	54	57
Operating lease assets	42	45	37	19	24
Repairs and maintenance	87	84	80	65	67
Other	112	103	102	71	63
Total occupancy and equipment expenses	993	977	910	723	704
Information Technology Services					
Application, maintenance and development	235	209	167	151	135
Data processing	267	227	202	266	225
Desktop	120	141	141	114	131
Communications	221	199	179	188	160
Amortisation of software assets	183	178	122	143	134
IT equipment depreciation	78	75	62	63	57
Total information technology services	1,104	1,029	873	925	842
Other Expenses					
Postage	112	115	121	89	88
Stationery	84	97	100	62	74
Fees and commissions:					
Fees payable on trust and other fiduciary activities	537	497	453	-	-
Other	318	367	359	490	584
Advertising, marketing and loyalty	457	398	475	320	285
Amortisation of intangible assets (excluding software and merger related amortisation)	15	27	17	-	-
Non-lending losses	83	103	86	65	78
Other	317	408	391	149	237
Total other expenses	1,923	2,012	2,002	1,175	1,346
Total expenses	8,891	8,601	7,779	6,098	5,902
Investment and restructuring					
Integration expenses	94	40	112	15	15
Merger related amortisation ⁽¹⁾	75	75	37	-	-
One-off expenses	-	-	32	-	-
Total investment and restructuring	169	115	181	15	15
Total operating expenses	9,060	8,716	7,960	6,113	5,917
Profit before income tax	9,057	8,193	6,449	8,206	7,301
Net hedging ineffectiveness comprises:					
Gain/(Loss) on fair value hedges:					
Hedging instruments	(417)	771	543	(391)	738
Hedged items	427	(838)	(569)	410	(810)
Cash flow hedge ineffectiveness	(6)	5	8	(5)	12
Net hedging ineffectiveness	4	(62)	(18)	14	(60)

(1) Merger related amortisation relates to Bankwest core deposits and customer lists.

Notes to the Financial Statements

Note 3 Income from Ordinary Activities

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Banking					
Interest income	37,304	32,215	31,519	32,945	27,754
Fees and commissions	3,413	3,441	3,423	2,759	2,663
Trading income	717	597	741	639	588
Net gain/(loss) on disposal of available-for-sale investments recognised in Income Statement	24	27	(12)	24	14
Net loss on other non-fair valued financial instruments	(4)	(52)	(9)	(11)	(15)
Net hedging ineffectiveness	4	(62)	(18)	14	(60)
Net (loss)/gain on other fair valued financial instruments:					
Fair value through Income Statement	(2)	8	(66)	2	(13)
Reclassification of net interest on swaps ⁽¹⁾	(498)	(259)	(275)	(382)	(148)
Non-trading derivatives	(301)	217	(187)	(348)	147
Dividends	5	5	14	2,191	1,648
Net loss on sale of property, plant and equipment	(6)	(4)	(11)	(6)	(4)
Other	278	290	314	735	440
	40,934	36,423	35,433	38,562	33,014
Funds Management, Investment Contract and Insurance					
Contract Revenue					
Funds management and investment contract income including premiums	1,996	1,906	1,618	-	-
Insurance contract premiums and related income	1,884	1,794	1,651	-	-
Funds management claims and policyholder liability revenue	-	-	731	-	-
Investment income	1,401	1,662	-	-	-
	5,281	5,362	4,000	-	-
Total income	46,215	41,785	39,433	38,562	33,014

(1) Relates to certain economic hedges which do not qualify for IFRS hedge accounting.

Notes to the Financial Statements

Note 4 Average Balances and Related Interest

The following tables list the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rate. Averages used were predominantly daily averages. Interest is accounted for based on product yield. Trading gains and losses are disclosed as Trading income within Other operating income.

Where assets or liabilities are hedged, the amounts are shown net of the hedge, however individual items not separately hedged may be affected by movements in exchange rates.

The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities.

Non-accrual loans are included in interest earning assets under Loans, bills discounted and other receivables.

The official cash rate in Australia increased by 25 basis points during the year while rates in New Zealand decreased by 25 basis points.

	2011			2010			Group 2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
Interest earning assets									
Cash and liquid assets									
Australia	4,583	194	4.2	3,674	146	4.0	8,353	324	3.9
Overseas	7,522	97	1.3	7,644	46	0.6	6,683	186	2.8
Receivables due from other financial institutions									
Australia	6,324	50	0.8	7,253	63	0.9	9,205	227	2.5
Overseas	8,113	42	0.5	6,645	78	1.2	7,238	207	2.9
Assets at fair value through Income Statement - Trading									
Australia	15,028	711	4.7	15,587	585	3.8	17,614	922	5.2
Overseas	5,186	138	2.7	5,944	175	2.9	4,378	231	5.3
Assets at fair value through Income Statement - Other									
Australia	-	-	-	117	12	10.3	799	3	0.4
Overseas	1,442	28	1.9	1,157	21	1.8	2,507	80	3.2
Available-for-sale investments									
Australia	33,362	1,776	5.3	23,360	1,166	5.0	10,553	628	6.0
Overseas	5,601	76	1.4	5,485	74	1.3	7,831	273	3.5
Loans, bills discounted and other receivables									
Australia ^{(1) (3)}	436,988	30,493	7.0	419,667	25,872	6.2	344,534	23,098	6.7
Overseas ⁽³⁾	52,220	3,151	6.0	57,202	3,470	6.1	61,553	4,584	7.4
Intragroup assets									
Australia	2,506	22	0.9	-	-	-	-	-	-
Overseas	-	-	-	12,343	20	0.2	12,023	158	1.3
Total interest earning assets and interest income including intragroup	578,875	36,778	6.4	566,078	31,728	5.6	493,271	30,921	6.3
Intragroup eliminations	(2,506)	(22)	0.9	(12,343)	(20)	0.2	(12,023)	(158)	1.3
Total interest earning assets and interest income ⁽²⁾	576,369	36,756	6.4	553,735	31,708	5.7	481,248	30,763	6.4
Securitisation home loan assets	9,705	574	5.9	10,967	534	4.9	12,279	742	6.0

(1) Excludes amortisation of acquisition related fair value adjustments made to fixed interest financial instruments.

(2) Used for calculating net interest margin.

(3) Certain comparative information has been restated to conform to presentation in the current period.

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

	2011	2010	Group 2009
	Average Balance	Average Balance	Average Balance
	\$M	\$M	\$M
Non-interest earning assets			
Bank acceptances			
Australia	11,332	12,559	16,983
Overseas	-	-	-
Assets at fair value through Income Statement - Insurance			
Australia	13,656	15,512	17,370
Overseas	2,069	2,166	2,316
Property, plant and equipment			
Australia	1,854	1,933	1,744
Overseas	181	191	199
Other assets			
Australia	41,661	42,444	48,487
Overseas	8,782	6,152	9,393
Provisions for impairment			
Australia	(5,205)	(4,904)	(2,492)
Overseas	(299)	(338)	(299)
Total non-interest earning assets	74,031	75,715	93,701
Total assets	660,105	640,417	587,228
Percentage of total assets applicable to overseas operations (%)	13.8	14.4	17.3

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

	2011			2010			Group 2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest bearing liabilities	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
Time deposits									
Australia ⁽¹⁾⁽²⁾	185,243	10,984	5.9	168,832	8,673	5.1	133,580	8,398	6.3
Overseas ⁽²⁾	32,708	1,121	3.4	32,455	1,255	3.9	30,160	1,625	5.4
Savings deposits									
Australia ⁽¹⁾⁽²⁾	76,644	2,482	3.2	72,396	1,797	2.5	69,758	1,574	2.3
Overseas ⁽²⁾	6,772	205	3.0	7,215	204	2.8	7,117	342	4.8
Other demand deposits									
Australia ⁽¹⁾⁽²⁾	82,040	2,477	3.0	82,867	1,953	2.4	74,952	2,256	3.0
Overseas ⁽²⁾	2,462	79	3.2	2,799	87	3.1	3,451	160	4.6
Payables due to other financial institutions									
Australia	3,912	136	3.5	5,296	110	2.1	4,974	160	3.2
Overseas	10,763	86	0.8	9,448	54	0.6	13,871	349	2.5
Liabilities at fair value through Income Statement									
Australia ⁽²⁾	4,526	215	4.8	3,580	150	4.2	3,831	159	4.2
Overseas ⁽²⁾	8,729	375	4.3	12,494	614	4.9	13,595	862	6.3
Debt issues									
Australia	107,136	5,316	5.0	91,223	4,291	4.7	65,109	3,624	5.6
Overseas	5,534	25	0.5	18,678	105	0.6	20,763	417	2.0
Loan capital									
Australia	7,130	382	5.4	9,370	367	3.9	9,455	507	5.4
Overseas	5,244	272	5.2	4,685	255	5.4	3,642	202	5.5
Intragroup borrowings									
Australia	-	-	-	12,343	20	0.2	12,023	158	1.3
Overseas	2,506	22	0.9	-	-	-	-	-	-
Interest bearing liabilities and interest expense including intragroup	541,349	24,177	4.5	533,681	19,935	3.7	466,281	20,793	4.5
Intragroup eliminations	(2,506)	(22)	0.9	(12,343)	(20)	0.2	(12,023)	(158)	1.3
Total interest bearing liabilities and interest expense	538,843	24,155	4.5	521,338	19,915	3.8	454,258	20,635	4.6
Securitisation debt issues	8,920	517	5.8	9,927	459	4.6	12,042	684	5.7

(1) Excludes amortisation of acquisition related fair value adjustments made to fixed interest financial instruments.

(2) Certain comparative information has been restated to conform to presentation in the current period.

	2011	2010	Group 2009
	Average Balance	Average Balance	Average Balance
Non-interest bearing liabilities	\$M	\$M	\$M
Deposits not bearing interest			
Australia	6,989	6,638	5,940
Overseas	1,535	1,458	1,438
Liabilities on Bank acceptances			
Australia	11,332	12,559	16,983
Overseas	-	-	-
Insurance policy liabilities			
Australia	13,114	14,432	16,510
Overseas	1,361	1,548	1,766
Other liabilities			
Australia	33,517	32,914	42,939
Overseas	8,425	6,069	6,163
Total non-interest bearing liabilities	76,273	75,618	91,739
Total liabilities	624,036	606,883	558,039
Shareholders' equity	36,069	33,534	29,189
Total liabilities and Shareholders' equity	660,105	640,417	587,228
Total liabilities applicable to overseas operations (%)	13.4	16.0	18.3

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

	2011			Group 2010		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%
Net interest margin						
Total interest earning assets excluding securitisation	576,369	36,756	6.38	553,735	31,708	5.73
Total interest bearing liabilities excluding securitisation	538,843	24,155	4.48	521,338	19,915	3.82
Net interest income and interest spread (excluding securitisation)		12,601	1.90		11,793	1.91
Benefit of free funds			0.29			0.22
Net interest margin			2.19			2.13

	2011			Group 2010		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%
Geographical analysis of key categories						
Loans, bills discounted and other receivables						
Australia ⁽¹⁾	436,988	30,493	6.98	419,667	25,872	6.16
Overseas ⁽¹⁾	52,220	3,151	6.03	57,202	3,470	6.07
Total	489,208	33,644	6.88	476,869	29,342	6.15
Other interest earning assets						
Australia	59,297	2,731	4.61	49,991	1,972	3.94
Overseas	27,864	381	1.37	26,875	394	1.47
Total	87,161	3,112	3.57	76,866	2,366	3.08
Total interest bearing deposits						
Australia ⁽¹⁾	343,927	15,943	4.64	324,095	12,423	3.83
Overseas ⁽¹⁾	41,942	1,405	3.35	42,469	1,546	3.64
Total	385,869	17,348	4.50	366,564	13,969	3.81
Other interest bearing liabilities						
Australia ⁽¹⁾	122,704	6,049	4.93	109,469	4,918	4.49
Overseas ⁽¹⁾	30,270	758	2.50	45,305	1,028	2.27
Total	152,974	6,807	4.45	154,774	5,946	3.84

(1) Certain comparative information has been restated to conform to presentation in the current period.

Overseas intra-group borrowings have been adjusted into the interest spread and margin calculations to more appropriately reflect the overseas cost of funds.

In calculating net interest margin, assets, liabilities, interest income and interest expense related to securitisation vehicles have been excluded. This has been done to more accurately reflect the Group's underlying net margin.

Changes in Net Interest Income: Volume and Rate Analysis

The following tables show the movement in interest income and expense due to changes in volume and interest rates. Volume variances reflect the change in interest from the prior year due to movement in the average balance. Rate variance reflects the change in interest from the prior year due to changes in interest rates.

Volume and rate variance for total interest earning assets and interest bearing liabilities have been calculated separately (rather than being the sum of the individual categories).

	Group	
	June 2011 vs June 2010	June 2010 vs June 2009
	\$M	\$M
Change in net interest income		
Due to changes in average volume of interest earning assets	488	1,535
Due to changes in interest margin	320	130
Change in net interest income	808	1,665

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

Changes in net interest income:	June 2011 vs June 2010			June 2010 vs June 2009		
	Volume	Rate	Total	Volume	Rate	Total
Volume and rate analysis	\$M	\$M	\$M	\$M	\$M	\$M
Interest Earning Assets						
Cash and liquid assets						
Australia	37	11	48	(183)	5	(178)
Overseas	(1)	52	51	16	(156)	(140)
Receivables due from other financial institutions						
Australia	(8)	(5)	(13)	(33)	(131)	(164)
Overseas	12	(48)	(36)	(12)	(117)	(129)
Assets at fair value through Income Statement - Trading						
Australia	(24)	150	126	(92)	(245)	(337)
Overseas	(21)	(16)	(37)	64	(120)	(56)
Assets at fair value through Income Statement - Other						
Australia	(6)	(6)	(12)	(37)	46	9
Overseas	5	2	7	(34)	(25)	(59)
Available-for-sale investments						
Australia	516	94	610	701	(163)	538
Overseas	2	-	2	(57)	(142)	(199)
Loans, bills discounted and other receivables						
Australia ⁽¹⁾	1,138	3,483	4,621	4,834	(2,060)	2,774
Overseas ⁽¹⁾	(301)	(18)	(319)	(294)	(820)	(1,114)
Intragroup loans						
Australia	11	11	22	-	-	-
Overseas	(10)	(10)	(20)	3	(141)	(138)
Changes in interest income including intragroup	765	4,285	5,050	4,323	(3,516)	807
Intragroup eliminations	(1)	(1)	(2)	(3)	141	138
Changes in interest income	1,370	3,678	5,048	4,392	(3,447)	945
Securitisation home loan assets	(69)	109	40	(72)	(136)	(208)
Interest Bearing Liabilities and Loan Capital						
Time deposits						
Australia ⁽¹⁾	908	1,403	2,311	2,014	(1,739)	275
Overseas ⁽¹⁾	9	(143)	(134)	106	(476)	(370)
Savings deposits						
Australia ⁽¹⁾	121	564	685	63	160	223
Overseas ⁽¹⁾	(13)	14	1	4	(142)	(138)
Other demand deposits						
Australia ⁽¹⁾	(22)	546	524	212	(515)	(303)
Overseas ⁽¹⁾	(11)	3	(8)	(25)	(48)	(73)
Payables due to other financial institutions						
Australia	(38)	64	26	8	(58)	(50)
Overseas	9	23	32	(68)	(227)	(295)
Liabilities at fair value through Income Statement						
Australia ⁽¹⁾	42	23	65	(4)	(5)	(9)
Overseas ⁽¹⁾	(173)	(66)	(239)	(68)	(180)	(248)
Debt issues						
Australia	769	256	1,025	1,341	(674)	667
Overseas	(67)	(13)	(80)	(27)	(285)	(312)
Loan capital						
Australia	(104)	119	15	(4)	(136)	(140)
Overseas	30	(13)	17	57	(4)	53
Intragroup borrowings						
Australia	(10)	(10)	(20)	3	(141)	(138)
Overseas	11	11	22	-	-	-
Changes in interest expense including intragroup	314	3,928	4,242	2,762	(3,620)	(858)
Intragroup eliminations	(1)	(1)	(2)	(3)	141	138
Changes in interest expense	727	3,513	4,240	2,804	(3,524)	(720)
Changes in net interest income	488	320	808	1,535	130	1,665
Securitisation debt issues	(54)	112	58	(109)	(116)	(225)

(1) Certain comparative information has been restated to conform to presentation in the current period.

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

	2011	2010	Group 2009
Geographical analysis of key categories	%	%	%
Australia			
Interest spread ⁽¹⁾	1.95	2.04	1.93
Benefit of interest-free liabilities, provisions and equity ⁽²⁾	0.30	0.19	0.21
Net interest margin ⁽³⁾	2.25	2.23	2.14
Overseas			
Interest spread ⁽¹⁾	1.50	1.09	1.32
Benefit of interest-free liabilities, provisions and equity ⁽²⁾	0.25	0.27	0.40
Net interest margin ⁽³⁾	1.75	1.36	1.72
Group			
Interest spread ⁽¹⁾	1.90	1.91	1.84
Benefit of interest-free liabilities, provisions and equity ⁽²⁾	0.29	0.22	0.26
Net interest margin ⁽³⁾	2.19	2.13	2.10

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

(2) A portion of the Group's interest earning assets are funded by net interest free liabilities and Shareholders' equity. The benefit to the Group of these interest free funds is the amount it would cost to replace them at the average cost of funds.

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

Notes to the Financial Statements

Note 5 Income Tax

The income tax expense for the year is determined from the profit before income tax as follows:

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Profit before Income Tax	9,057	8,193	6,449	8,206	7,301
Prima facie income tax at 30%	2,717	2,458	1,935	2,462	2,190
Effect of amounts which are non-deductible/ (assessable) in calculating taxable income:					
Taxation offsets and other dividend adjustments	(7)	(18)	(59)	(646)	(493)
Tax adjustment on policyholder income	116	91	(115)	-	-
Bankwest - Gain on acquisition	-	-	76	-	-
Tax losses not previously brought to account	(6)	(4)	-	(2)	-
Tax losses assumed by the Bank under UIG 1052	-	-	-	(29)	(31)
Offshore tax rate differential	(55)	(66)	(55)	(6)	(11)
Offshore banking unit	(17)	(32)	(56)	(17)	(32)
Investment allowance	(2)	(57)	(28)	-	(31)
Effect of changes in tax rates ⁽¹⁾	3	(12)	-	1	-
Income tax under/(over) provided in previous years ⁽²⁾	(71)	164	5	(47)	(22)
Other	(31)	(11)	(7)	10	116
Total income tax expense	2,647	2,513	1,696	1,726	1,686
Corporate tax expense	2,481	2,383	1,860	1,726	1,686
Policyholder tax expense/(benefit)	166	130	(164)	-	-
Total income tax expense	2,647	2,513	1,696	1,726	1,686

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Income tax expense attributable to profit from ordinary activities					
Australia					
Current tax expense	2,246	1,903	2,265	1,684	1,363
Deferred tax expense/(benefit)	59	150	(886)	5	275
Total Australia	2,305	2,053	1,379	1,689	1,638
Overseas					
Current tax expense	336	435	201	40	34
Deferred tax expense/(benefit)	6	25	116	(3)	14
Total overseas	342	460	317	37	48
Total income tax expense	2,647	2,513	1,696	1,726	1,686

	Group			Bank	
	2011	2010	2009	2011	2010
	%	%	%	%	%
Effective Tax Rate					
Total – corporate ⁽²⁾	27.9	29.6	28.1	21.0	23.1
Retail Banking Services – corporate ⁽⁴⁾	29.7	30.1	29.7	n/a	n/a
Business and Private Banking – corporate ⁽⁴⁾	28.6	28.8	28.1	n/a	n/a
Institutional Banking and Markets – corporate ⁽⁴⁾	23.7	22.4	large	n/a	n/a
Wealth Management – corporate	28.1	28.0	30.1	n/a	n/a
New Zealand – corporate ^{(1) (2)}	24.0	56.9	23.8	n/a	n/a
Bankwest – corporate ⁽³⁾	34.7	22.5	35.4	n/a	n/a

(1) The New Zealand corporate tax rate was reduced from 30% to 28% for tax years starting on or after 1 April 2011. This charge is effective for the Group from 1 July 2011.

(2) The year ended 30 June 2010 includes the impact of the tax on New Zealand structured finance transactions of \$171 million.

(3) Comparative effective tax rates have been adjusted for the allocation of capital charges from the Corporate Centre to Bankwest.

(4) Comparative effective tax rates have been adjusted for the impact of business resegmentation.

Notes to the Financial Statements

Note 5 Income Tax (continued)

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Deferred tax asset balances comprise temporary differences attributable to:					
Amounts recognised in the Income Statement:					
Provision for employee benefits	375	364	338	322	313
Provisions for impairment on loans, bills discounted and other receivables	1,387	1,476	1,336	823	813
Other provisions not tax deductible until expense incurred	202	193	243	87	109
Recognised value of tax losses carried forward	1	3	6	1	3
Financial instruments	15	259	424	12	202
Other	183	291	422	130	195
Total amount recognised in the Income Statement	2,163	2,586	2,769	1,375	1,635
Amounts recognised directly in equity:					
Foreign currency translation reserve	-	3	3	-	-
Cash flow hedge reserve	224	212	255	216	186
Employee compensation reserve	11	12	3	11	12
Available-for-sale investments reserve	4	3	9	2	29
Total amount recognised directly in equity	239	230	270	229	227
Total deferred tax assets (before set off)	2,402	2,816	3,039	1,604	1,862
Set off of tax ⁽¹⁾	(1,102)	(1,546)	(1,386)	(492)	(620)
Net deferred tax assets	1,300	1,270	1,653	1,112	1,242
Deferred tax liability balances comprise temporary differences attributable to:					
Amounts recognised in the Income Statement:					
Impact of TOFA adoption	30	-	-	30	-
Lease financing	370	347	299	167	144
Defined benefit superannuation plan surplus	(93)	(51)	(33)	(93)	(51)
Intangible assets	134	145	176	-	-
Financial instruments	77	639	567	15	238
Other	572	371	273	85	50
Total amount recognised in the Income Statement	1,090	1,451	1,282	204	381
Amounts recognised directly in equity:					
Revaluation of properties	70	73	63	55	57
Foreign currency translation reserve	14	-	-	-	-
Cash flow hedge reserve	21	55	36	6	7
Defined benefit superannuation plan surplus	116	135	171	116	135
Available-for-sale investments reserve	92	53	2	111	40
Total amount recognised directly in equity	313	316	272	288	239
Total deferred tax liabilities (before set off)	1,403	1,767	1,554	492	620
Set off of tax ⁽¹⁾	(1,102)	(1,546)	(1,386)	(492)	(620)
Net deferred tax liabilities (Note 22)	301	221	168	-	-
Deferred tax assets opening balance:	1,270	1,653	76	1,242	1,628
Movement in temporary differences during the year:					
Provisions for employee benefits	11	26	44	9	18
Provisions for impairment on loans, bills discounted and other receivables	(89)	140	813	10	(76)
Other provisions not tax deductible until expense incurred	9	(50)	51	(22)	(30)
Recognised value of tax losses carried forward	(2)	(3)	-	(2)	(2)
Financial instruments	(234)	(214)	529	(187)	(71)
Other	(109)	(122)	254	(66)	12
Set off of tax ⁽¹⁾	444	(160)	(114)	128	(237)
Deferred tax assets closing balance	1,300	1,270	1,653	1,112	1,242
Deferred tax liabilities opening balance:	221	168	266	-	40
Movement in temporary differences during the year:					
Impact of TOFA adoption	30	-	-	30	-
Property asset revaluations	(3)	10	4	(2)	6
Lease financing	23	48	12	23	32
Defined benefit superannuation plan surplus	(61)	(54)	(323)	(61)	(54)
Intangible assets	(11)	(31)	152	-	-
Financial instruments	(543)	142	168	(153)	203
Other	201	98	3	35	10
Set off of tax ⁽¹⁾	444	(160)	(114)	128	(237)
Deferred tax liabilities closing balance (Note 22)	301	221	168	-	-

(1) Deferred tax assets and liabilities are set off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

Notes to the Financial Statements

Note 5 Income Tax (continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Deferred tax assets not taken to account					
Tax losses and other temporary differences on revenue account	101	110	100	85	99
Tax losses on capital account	40	14	-	17	-
Total	141	124	100	102	99

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Expiration of deferred tax assets not taken to account					
At Balance Sheet date carry-forward losses expired as follows:					
From one to two years	-	-	-	-	-
From two to four years	18	2	1	2	2
After four years	83	108	99	83	97
Losses that do not expire under current tax legislation	40	14	-	17	-
Total	141	124	100	102	99

Potential deferred tax assets of the Group arose from:

- Capital losses arising under the tax consolidation system; and
- Tax losses and temporary differences in offshore centres.

These deferred assets have not been recognised because it is not considered probable that future taxable profit will be available against which they can be realised.

These potential tax benefits will only be obtained if:

- Future capital gains and assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised is derived;
- Compliance with the conditions for claiming capital losses and deductions imposed by tax legislation is continued; and
- No changes in tax legislation adversely affect the Group in realising the benefit from deductions for the losses.

Tax Consolidation

Tax consolidation legislation has been enacted to allow Australian resident entities to elect to consolidate and be treated as single entities for Australian tax purposes. The Commonwealth Bank of Australia elected to be taxed as a single entity with effect from 1 July 2002.

The Bank has recognised a tax consolidation contribution to the wholly-owned tax consolidated entity of \$84 million (2010: \$84 million).

The Bank is the head entity of the tax consolidated group and has entered into tax funding and tax sharing agreements with its eligible Australian resident subsidiaries. The terms and conditions of these agreements are set out in note 1(x). The amount receivable by the Bank under the tax funding agreement was \$280 million as at 30 June 2011 (2010: \$439 million receivable). This balance is included in 'Other assets' in the Bank's separate Balance Sheet.

Taxation of Financial Arrangements (TOFA)

The new tax regime for financial instruments TOFA began to apply to the Tax Consolidated Group from 1 July 2010. The regime allows a closer alignment of the tax and accounting recognition and measurement of financial arrangements and their related flows. Following adoption, deferred tax balances from financial arrangements progressively reverse over a four year period.

Notes to the Financial Statements

Note 6 Dividends

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Ordinary Shares					
Interim ordinary dividend (fully franked) (2011: 132 cents; 2010: 120 cents, 2009: 113 cents)					
Interim ordinary dividend paid - cash component only	1,532	1,067	1,257	1,532	1,067
Interim ordinary dividend paid - dividend reinvestment plan	513	774	405	513	774
Total dividend paid	2,045	1,841	1,662	2,045	1,841
Other Equity Instruments					
Dividend paid	42	47	57	-	-
Total dividend provided for, reserved or paid	2,087	1,888	1,719	2,045	1,841
Other provision carried	37	29	18	37	29
Dividend proposed and not recognised as a liability (fully franked) (2011: 188 cents, 2010: 170 cents, 2009: 115 cents) ⁽¹⁾	2,930	2,633	1,747	2,930	2,633
Provision for dividends					
Opening balance	29	18	5	29	18
Provision made during the year	4,678	3,588	3,691	4,678	3,588
Provision used during the year	(4,670)	(3,577)	(3,678)	(4,670)	(3,577)
Closing balance (Note 23)	37	29	18	37	29

(1) The 2011 final dividend will be satisfied by cash disbursements and the issue of ordinary shares through the Dividend Reinvestment Plan (DRP). The 2010 final dividend was satisfied by cash disbursements of \$2,633 million including the on market purchase and transfer of \$679 million of shares to participating shareholders under the DRP. The 2009 final dividend was satisfied by cash disbursements of \$1,058 million and the issue of \$685 million of ordinary shares through the DRP.

Dividend Franking Account

After fully franking the final dividend to be paid for the year, the amount of credits available, at the 30% tax rate as at 30 June 2011 to frank dividends for subsequent financial years, is \$510 million (2010: \$446 million). This figure is based on the franking accounts of the Bank at 30 June 2011, adjusted for franking credits that will arise from the payment of income tax payable on profits for the year, franking debits that will arise from the payment of dividends proposed, and franking credits that the Bank may be prevented from distributing in subsequent financial periods.

The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. These calculations have been based on the taxation law as at 30 June 2011.

Dividend History

Half year ended	Cents Per		Half-year	Full Year	DRP	DRP
	Share	Date Paid	Payout Ratio ⁽¹⁾	Payout Ratio ⁽¹⁾	Price	Participation Rate ⁽²⁾
			%	%	\$	%
31 December 2008	113	23/03/2009	65.3	-	28.45	24.4
30 June 2009	115	01/10/2009	82.4	73.1	44.48	39.4
31 December 2009	120	01/04/2010	63.7	-	53.56	42.0
30 June 2010	170	01/10/2010	96.6	79.7	51.75	25.8
31 December 2010	132	01/04/2011	67.5	-	52.92	25.1
30 June 2011 ⁽³⁾	188	-	88.2	78.3	-	-

(1) Dividend Payout Ratio: dividends divided by statutory earnings.

(2) DRP Participation Rate: the percentage of total issued share capital participating in the DRP.

(3) Dividend expected to be paid on 6 October 2011.

Notes to the Financial Statements

Note 7 Earnings Per Share

	Group		
	2011	2010	2009
Earnings per ordinary share	Cents per share		
Basic	411.2	367.9	328.5
Fully diluted	395.1	354.2	313.4

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares on issue during the year, excluding the number of ordinary shares purchased and held as treasury shares.

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the Bank (after deducting interest on the convertible redeemable loan capital instruments) by the weighted average number of ordinary shares issued during the year (adjusted for the effects of dilutive options and dilutive convertible non-cumulative redeemable loan capital instruments).

	Group		
	2011	2010	2009
Reconciliation of earnings used in calculation of earnings per share	\$M	\$M	\$M
Profit after income tax	6,410	5,680	4,753
Less: Other equity instrument dividends	(42)	(47)	(57)
Less: Non-controlling interests	(16)	(16)	(30)
Earnings used in calculation of basic earnings per share	6,352	5,617	4,666
Add: Profit impact of assumed conversions of loan capital	235	190	187
Earnings used in calculation of fully diluted earnings per share	6,587	5,807	4,853

	Number of Shares		
	2011	2010	2009
	M	M	M
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,545	1,527	1,420
Effect of dilutive securities - executive share plans and convertible loan capital instruments	123	113	128
Weighted average number of ordinary shares used in the calculation of fully diluted earnings per share	1,668	1,640	1,548

Note 8 Cash and Liquid Assets

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Australia				
Notes, coins and cash at banks	1,894	3,090	1,604	2,737
Money at short call	-	1	-	-
Securities purchased under agreements to resell	4,116	3,141	4,117	3,175
Bills received and remittances in transit	183	111	10	74
Total Australia	6,193	6,343	5,731	5,986
Overseas				
Notes, coins and cash at banks	3,530	2,195	2,499	1,290
Money at short call	1,105	1,019	967	905
Securities purchased under agreements to resell	2,400	540	1,782	530
Bills received and remittances in transit	13	22	-	-
Total overseas	7,048	3,776	5,248	2,725
Total cash and liquid assets	13,241	10,119	10,979	8,711

Notes to the Financial Statements

Note 9 Receivables Due from Other Financial Institutions

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Australia				
Placements with and loans to other financial institutions	5,203	5,355	5,204	5,337
Total Australia	5,203	5,355	5,204	5,337
Overseas				
Deposits with regulatory authorities ⁽¹⁾	116	44	16	3
Other placements with and loans to other financial institutions	5,074	4,673	4,903	4,426
Total overseas	5,190	4,717	4,919	4,429
Total receivables from other financial institutions	10,393	10,072	10,123	9,766

(1) Required by law for the Group to operate in certain regions.

The majority of the above amounts are expected to be recovered within twelve months of the Balance Sheet date.

Note 10 Assets at Fair Value through Income Statement

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Trading	20,469	22,851	17,765	18,775
Insurance	14,998	15,940	-	-
Other financial assets designated at fair value	824	654	300	-
Total assets at fair value through Income Statement ⁽¹⁾	36,291	39,445	18,065	18,775

(1) In addition to the assets above, the Group also measures bills discounted that are intended to be sold into the market at fair value. These are classified within Loans, bills discounted and other receivables (refer to Note 13).

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Trading				
Australia				
Market quoted:				
Australian public securities				
Commonwealth and State Government	8,160	6,078	8,160	6,078
Local and semi-government	3,264	2,990	3,264	2,990
Bills of exchange	521	579	521	579
Certificates of deposit	149	4,352	149	4,352
Medium term notes	1,955	1,273	1,955	1,273
Equity investments and other securities	1,100	422	1,095	418
Non-market quoted:				
Commercial paper	-	321	-	321
Other securities	80	45	79	44
Total Australia	15,229	16,060	15,223	16,055
Overseas				
Market quoted:				
Government securities	2,424	3,354	1,475	1,792
Eurobonds	352	247	352	247
Certificates of deposit	1,201	1,473	-	-
Floating rate notes	532	339	532	339
Commercial paper	127	335	127	335
Other securities	4	4	-	-
Non-market quoted:				
Government securities	73	66	-	-
Corporate bonds	406	910	-	-
Floating rate notes	31	43	-	-
Commercial paper	84	12	50	-
Other securities	6	8	6	7
Total overseas	5,240	6,791	2,542	2,720
Total trading assets	20,469	22,851	17,765	18,775

The above amounts are expected to be recovered within twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 10 Assets at Fair Value through Income Statement (continued)

	Investments Backing Life Risk		Total	Investments Backing Life Risk		Total
	Contracts	Investment Contracts		Contracts	Investment Contracts	
	2011	2011		2010	2010	
	\$M	\$M	\$M	\$M	\$M	\$M
Insurance						
Equity Security Investments:						
Direct	405	781	1,186	315	660	975
Indirect	629	3,403	4,032	618	3,508	4,126
Total equity security investments	1,034	4,184	5,218	933	4,168	5,101
Debt Security Investments:						
Direct	688	630	1,318	824	571	1,395
Indirect	2,011	4,496	6,507	1,979	5,100	7,079
Total debt security investments	2,699	5,126	7,825	2,803	5,671	8,474
Property Investments:						
Direct	16	88	104	15	60	75
Indirect	293	536	829	366	868	1,234
Total property investments	309	624	933	381	928	1,309
Other Assets	138	884	1,022	175	881	1,056
Total life insurance investment assets	4,180	10,818	14,998	4,292	11,648	15,940

Of the above amounts, \$1,876 million is expected to be recovered within twelve months of the Balance Sheet date (2010: \$2,102 million).

Direct investments refer to positions held directly in the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

Investments held in the Australian statutory funds may only be used within the restrictions imposed under the Life Insurance Act 1995. Refer to note 1(ff) for further details.

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Other ⁽¹⁾				
Government securities	300	-	300	-
Fair value structured transactions	-	100	-	-
Receivables due from financial institutions	465	447	-	-
Term loans	59	107	-	-
Total other assets at fair value through Income Statement	824	654	300	-

(1) Designated at Fair Value through Income Statement at inception as they are managed by the Group on a fair value basis or to eliminate an accounting mismatch.

Of the above amounts \$524 million is expected to be recovered within twelve months of the Balance Sheet date by the Group (2010: \$654 million). All amounts are expected to be recovered after twelve months of the Balance Sheet date by the Bank.

The change in fair value of loans and receivables designated at Fair Value through Income Statement due to changes in credit risk for the Group resulted in a gain of \$1 million for the year (2010: \$4 million), and was insignificant for the Bank for the year ending 30 June 2011. The cumulative net loss attributable to changes in credit risk for loans and receivables designated at fair value since initial recognition for the Group is \$nil (2010: \$1 million), and was insignificant for the Bank for the year ending 30 June 2011. These values have been calculated by determining the changes in credit spread implicit in the fair value of the instrument.

The maximum exposure to credit risk of loans and receivables designated at Fair Value through Income Statement is equal to the carrying value.

Notes to the Financial Statements

Note 11 Derivative Financial Instruments

Derivative Contracts

Derivatives are classified as "Held for Trading", "Held for Hedging", or "Other". Held for Trading derivatives are contracts entered into in order to meet customers' needs, or to undertake market making and positioning activities. Held for Hedging derivatives are instruments held for risk management purposes which meet the criteria for hedge accounting. Derivatives entered into as economic hedges that do not qualify for hedge accounting are classified as Other.

Derivatives Transacted for Hedging Purposes

There are three types of allowable hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. For details on the accounting treatment of each type of hedging relationship refer to Note 1 (dd).

Fair Value Hedges

Fair value hedges are used by the Group to manage exposure to changes in the fair value of an asset, liability or unrecognised firm commitment. Changes in fair values can arise from fluctuations in interest or foreign exchange rates. The Group principally uses interest rate swaps, cross currency swaps and futures to protect against such fluctuations.

All gains and losses associated with the ineffective portion of fair value hedge relationships are recognised immediately as 'Other operating income' in the Income Statement. Ineffectiveness recognised in the Income Statement in the current year amounted to a \$10 million net gain for the Group (2010: \$67 million net loss) and \$19 million net gain for the Bank (2010: \$72 million net loss).

Cash Flow Hedges

Cash flow hedges are used by the Group to manage exposure to volatility in future cash flows which may result from fluctuations in interest or exchange rates on financial assets, liabilities or highly probable forecast transactions. The Group principally uses interest rate and cross currency swaps to protect against such fluctuations. Ineffectiveness recognised in the Income Statement in the current year amounted to a \$6 million loss for the Group (2010: \$5 million gain) and \$5 million loss for the Bank (2010: \$12 million gain).

Amounts accumulated in Other Comprehensive Income in respect of cash flow hedges are recycled to the Income Statement when the forecast transaction occurs. Underlying cash flows from cash flow hedges are expected to occur in the following periods:

	Exchange Rate		Interest Rate		Group	
	Related Contracts		Related Contracts		Total	
	2011	2010	2011	2010	2011	2010
	\$M	\$M	\$M	\$M	\$M	\$M
6 months	(13)	(43)	(13)	(85)	(26)	(128)
6 months - 1 year	(6)	-	(92)	(65)	(98)	(65)
1 - 2 years	(12)	-	(189)	(198)	(201)	(198)
2 - 5 years	(156)	9	191	(158)	35	(149)
After 5 years	(229)	8	(43)	(44)	(272)	(36)
Net deferred (losses)/gains	(416)	(26)	(146)	(550)	(562)	(576)

	Exchange Rate		Interest Rate		Bank	
	Related Contracts		Related Contracts		Total	
	2011	2010	2011	2010	2011	2010
	\$M	\$M	\$M	\$M	\$M	\$M
6 months	-	-	(1)	(105)	(1)	(105)
6 months - 1 year	(6)	-	(36)	(19)	(42)	(19)
1 - 2 years	(12)	-	(139)	(85)	(151)	(85)
2 - 5 years	(154)	9	127	(163)	(27)	(154)
After 5 years	(238)	(1)	(84)	(87)	(322)	(88)
Net deferred (losses)/gains	(410)	8	(133)	(459)	(543)	(451)

Net Investment Hedges

The Group uses foreign exchange forward transactions to minimise its exposure to the currency translation risk of certain net investments in foreign operations.

In the current and prior year, there have been no material gains or losses as a result of ineffective net investment hedges.

Notes to the Financial Statements

Note 11 Derivative Financial Instruments (continued)

The notional (face) and fair value of derivative financial instruments are set out in the following tables:

Derivative assets and liabilities	2011			Group 2010		
	Face Value	Fair Value Asset	Fair Value Liability	Face Value	Fair Value Asset	Fair Value Liability
	\$M	\$M	\$M	\$M	\$M	\$M
Held for trading	2,491,015	27,315	(25,337)	2,319,176	23,091	(20,695)
Held for hedging	379,464	2,858	(8,194)	294,529	4,260	(3,865)
Other derivatives	13,841	144	(445)	29,997	338	(324)
Total derivative assets/(liabilities)	2,884,320	30,317	(33,976)	2,643,702	27,689	(24,884)

Derivatives held for trading	2011			Group 2010		
	Face Value	Fair Value Asset	Fair Value Liability	Face Value	Fair Value Asset	Fair Value Liability
	\$M	\$M	\$M	\$M	\$M	\$M
Exchange rate related contracts:						
Forward contracts	898,879	5,178	(6,423)	1,076,395	5,611	(4,471)
Swaps	435,868	12,818	(10,386)	377,637	6,882	(6,344)
Futures	4,310	1	-	1,282	1	-
Options purchased and sold	33,308	684	(966)	4,215	509	(513)
Total exchange rate related contracts	1,372,365	18,681	(17,775)	1,459,529	13,003	(11,328)
Interest rate related contracts:						
Forward contracts	67,367	7	(6)	60,710	7	(8)
Swaps	876,728	7,985	(7,051)	709,749	9,377	(8,823)
Futures	99,877	2	(2)	51,394	1	(2)
Options purchased and sold	58,742	350	(301)	24,302	416	(284)
Total interest rate related contracts	1,102,714	8,344	(7,360)	846,155	9,801	(9,117)
Credit related contracts:						
Swaps	8,176	47	(49)	10,317	110	(99)
Total credit related contracts	8,176	47	(49)	10,317	110	(99)
Equity related contracts:						
Swaps	274	-	-	83	-	-
Options purchased and sold	914	15	(55)	244	7	(49)
Total equity related contracts	1,188	15	(55)	327	7	(49)
Commodity related contracts:						
Swaps	4,224	200	(74)	1,649	167	(99)
Futures	1,018	1	-	-	-	-
Options purchased and sold	1,330	27	(24)	1,199	3	(3)
Total commodity related contracts	6,572	228	(98)	2,848	170	(102)
Total derivative assets/(liabilities) held for trading	2,491,015	27,315	(25,337)	2,319,176	23,091	(20,695)

Derivative assets and liabilities held for trading are expected to be recovered or due to be settled within twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 11 Derivative Financial Instruments (continued)

	2011			Group 2010		
	Face Value	Fair Value Asset	Fair Value Liability	Face Value	Fair Value Asset	Fair Value Liability
	\$M	\$M	\$M	\$M	\$M	\$M
Derivatives held for hedging						
Fair value hedges						
Exchange rate related contracts:						
Forward contracts	19	1	-	19	-	(1)
Swaps	36,765	1,338	(3,874)	30,493	2,013	(1,605)
Total exchange rate related contracts	36,784	1,339	(3,874)	30,512	2,013	(1,606)
Interest rate related contracts:						
Swaps	28,624	458	(552)	33,933	1,041	(456)
Futures	1,784	-	(5)	2,600	-	(21)
Total interest rate related contracts	30,408	458	(557)	36,533	1,041	(477)
Equity related contracts:						
Swaps	457	53	(8)	635	32	(32)
Total equity related contracts	457	53	(8)	635	32	(32)
Total fair value hedges	67,649	1,850	(4,439)	67,680	3,086	(2,115)
Cash flow hedges						
Exchange rate related contracts:						
Swaps	24,986	116	(2,691)	19,267	70	(180)
Total exchange rate related contracts	24,986	116	(2,691)	19,267	70	(180)
Interest rate related contracts:						
Swaps	286,801	892	(1,060)	207,553	1,104	(1,567)
Total interest rate related contracts	286,801	892	(1,060)	207,553	1,104	(1,567)
Total cash flow hedges	311,787	1,008	(3,751)	226,820	1,174	(1,747)
Net investment hedges						
Exchange rate related contracts:						
Forward contracts	28	-	(4)	29	-	(3)
Total exchange rate related contracts	28	-	(4)	29	-	(3)
Total net investment hedges	28	-	(4)	29	-	(3)
Total derivative assets/(liabilities) held for hedging	379,464	2,858	(8,194)	294,529	4,260	(3,865)

The majority of derivative assets and liabilities held for hedging are expected to be recovered or due to be settled after twelve months of the Balance Sheet date.

	2011			Group 2010		
	Face Value	Fair Value Asset	Fair Value Liability	Face Value	Fair Value Asset	Fair Value Liability
	\$M	\$M	\$M	\$M	\$M	\$M
Other derivatives						
Exchange rate related contracts:						
Forward contracts	644	5	(45)	5,707	84	(63)
Swaps	4,559	63	(317)	3,337	130	(74)
Total exchange rate related contracts	5,203	68	(362)	9,044	214	(137)
Interest rate related contracts:						
Forward contracts	77	-	-	4,222	-	-
Swaps	8,201	59	(71)	15,195	108	(159)
Futures	-	-	-	1,108	-	(3)
Options purchased and sold	5	-	(5)	6	1	(5)
Total interest rate related contracts	8,283	59	(76)	20,531	109	(167)
Identified embedded derivatives	355	17	(7)	422	15	(20)
Total other derivatives	13,841	144	(445)	29,997	338	(324)

The majority of other derivative assets and liabilities are expected to be recovered or due to be settled after twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 11 Derivative Financial Instruments (continued)

	2011			Bank 2010		
	Face Value	Fair Value	Fair Value	Face Value	Fair Value	Fair Value
	\$M	Asset \$M	Liability \$M	\$M	Asset \$M	Liability \$M
Derivative assets and liabilities						
Held for trading	2,671,461	28,036	(24,928)	2,499,704	23,300	(20,195)
Held for hedging	350,377	2,687	(7,864)	278,367	4,054	(3,456)
Other derivatives	442	8	(25)	493	9	(38)
Total derivative assets/(liabilities)	3,022,280	30,731	(32,817)	2,778,564	27,363	(23,689)

	2011			Bank 2010		
	Face Value	Fair Value	Fair Value	Face Value	Fair Value	Fair Value
	\$M	Asset \$M	Liability \$M	\$M	Asset \$M	Liability \$M
Derivatives held for trading						
Exchange rate related contracts:						
Forward contracts	896,291	5,154	(6,402)	1,073,995	5,596	(4,448)
Swaps	434,185	12,756	(10,135)	375,656	6,836	(6,178)
Futures	4,310	1	-	1,282	1	-
Options purchased and sold	33,257	684	(966)	4,184	508	(512)
Derivatives held with controlled entities	137,187	1,405	(482)	169,602	895	(389)
Total exchange rate related contracts	1,505,230	20,000	(17,985)	1,624,719	13,836	(11,527)
Interest rate related contracts:						
Forward contracts	66,634	6	(6)	60,345	7	(8)
Swaps	856,631	7,181	(6,194)	664,946	8,472	(7,826)
Futures	98,861	1	-	46,932	-	-
Options purchased and sold	58,419	349	(298)	24,084	414	(283)
Derivatives held with controlled entities	69,672	210	(244)	65,030	284	(301)
Total interest rate related contracts	1,150,217	7,747	(6,742)	861,337	9,177	(8,418)
Credit related contracts:						
Swaps	8,121	46	(49)	10,317	110	(99)
Total credit related contracts	8,121	46	(49)	10,317	110	(99)
Equity related contracts:						
Swaps	274	-	-	83	-	-
Options purchased and sold	914	15	(55)	244	7	(49)
Total equity related contracts	1,188	15	(55)	327	7	(49)
Commodity related contracts:						
Swaps	4,224	200	(74)	1,649	167	(99)
Futures	1,018	1	-	-	-	-
Options purchased and sold	1,324	27	(22)	1,189	3	(3)
Derivatives held with controlled entities	139	-	(1)	166	-	-
Total commodity related contracts	6,705	228	(97)	3,004	170	(102)
Total derivative assets/(liabilities) held for trading	2,671,461	28,036	(24,928)	2,499,704	23,300	(20,195)

Derivative assets and liabilities held for trading are expected to be recovered or due to be settled within twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 11 Derivative Financial Instruments (continued)

	2011			Bank 2010		
	Face Value	Fair Value Asset	Fair Value Liability	Face Value	Fair Value Asset	Fair Value Liability
	\$M	\$M	\$M	\$M	\$M	\$M
Derivatives held for hedging						
Fair value hedges						
Exchange rate related contracts:						
Forward contracts	19	1	-	19	-	(1)
Swaps	36,765	1,338	(3,874)	30,493	2,013	(1,605)
Total exchange rate related contracts	36,784	1,339	(3,874)	30,512	2,013	(1,606)
Interest rate related contracts:						
Swaps	23,378	246	(486)	30,061	828	(405)
Futures	1,784	-	(5)	2,600	-	(21)
Derivatives held with controlled entities	280	71	-	667	93	-
Total interest rate related contracts	25,442	317	(491)	33,328	921	(426)
Equity related contracts:						
Swaps	457	53	(8)	635	32	(32)
Total equity related contracts	457	53	(8)	635	32	(32)
Total fair value hedges	62,683	1,709	(4,373)	64,475	2,966	(2,064)
Cash flow hedges						
Exchange rate related contracts:						
Swaps	24,327	105	(2,680)	18,835	70	(160)
Derivatives held with controlled entities	2,512	123	(9)	2,638	22	(7)
Total exchange rate related contracts	26,839	228	(2,689)	21,473	92	(167)
Interest rate related contracts:						
Swaps	259,864	739	(802)	190,558	979	(1,224)
Derivatives held with controlled entities	991	11	-	1,861	17	(1)
Total interest rate related contracts	260,855	750	(802)	192,419	996	(1,225)
Total cash flow hedges	287,694	978	(3,491)	213,892	1,088	(1,392)
Total derivative assets/(liabilities) held for hedging	350,377	2,687	(7,864)	278,367	4,054	(3,456)

The majority of derivative assets and liabilities held for hedging are expected to be recovered or due to be settled after twelve months of the Balance Sheet date.

	2011			Bank 2010		
	Face Value	Fair Value Asset	Fair Value Liability	Face Value	Fair Value Asset	Fair Value Liability
	\$M	\$M	\$M	\$M	\$M	\$M
Other derivatives						
Interest rate related contracts:						
Swaps	94	1	(13)	72	-	(11)
Options purchased and sold	5	-	(5)	6	1	(5)
Derivatives held with controlled entities	2	2	-	6	4	(2)
Total interest rate related contracts	101	3	(18)	84	5	(18)
Identified embedded derivatives	341	5	(7)	409	4	(20)
Total other derivatives	442	8	(25)	493	9	(38)

The majority of other derivative assets and liabilities are expected to be recovered or due to be settled after twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 12 Available-for-Sale Investments

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Australia				
Market quoted:				
Australian public securities:				
Local and semi-government	14,768	12,503	13,376	12,153
Shares and equity investments	418	283	354	222
Certificates of deposit	4,640	2,595	4,466	-
Eurobonds	1,707	1,843	601	-
Medium term notes	10,029	8,228	10,029	8,228
Floating rate notes	4,535	1,235	-	-
Other securities	207	205	4	4
Non-market quoted:				
Australian public securities:				
Local and semi-government	83	84	-	-
Medium term notes	132	54	784	872
Shares and equity investments	15	166	5	156
Mortgage backed securities ⁽¹⁾	2,139	1,066	41,318	39,973
Other securities	3	2	-	-
Total Australia	38,676	28,264	70,937	61,608
Overseas				
Market quoted:				
Government securities	5,288	1,259	4,005	863
Shares and equity investments	23	26	-	-
Certificates of deposit	692	879	690	875
Eurobonds	16	2,368	16	2,369
Medium term notes	1	-	1	-
Floating rate notes	-	85	-	64
Other securities	120	34	-	-
Non-market quoted:				
Government securities	19	-	-	-
Corporate bonds	208	-	-	-
Other securities	128	-	50	-
Total overseas	6,495	4,651	4,762	4,171
Total available-for-sale investments	45,171	32,915	75,699	65,779

(1) Included within Mortgage backed securities of the Bank are \$37,105 million (2010: \$37,105 million) of residential mortgage backed securities held within securitisation vehicles for potential repurchase by the Reserve Bank of Australia.

The following amounts are expected to be recovered within twelve months of the Balance Sheet date: for Group \$12,499 million (2010: \$10,317 million); for Bank \$9,132 million (2010: \$5,408 million).

Revaluation of Available-for-sale investments resulted in a gain of \$124 million (2010: \$327 million) for the Group and a gain of \$264 million (2010: \$160 million) for the Bank recognised directly in equity. As a result of sale, derecognition or impairment during the year of Available-for-sale investments the following amounts were removed from equity and reported in Income Statement for the year; Group: \$24 million net gain (2010: \$22 million), Bank \$24 million net gain (2010: \$16 million).

Proceeds received from settlement at or close to maturity of Available-for-sale investments for the Group were \$45,417 million (2010: \$44,201 million) and for the Bank were \$34,718 million (2010: \$26,635 million).

Proceeds from sale of Available-for-sale investments for the Group were \$4,440 million (2010: \$4,107 million) and for the Bank were \$3,919 million (2010: \$4,095 million).

Notes to the Financial Statements

Note 12 Available-for-Sale Investments (continued)

	Group			
	As at 30 June 2011			
	Amortised Cost \$M	Gross Unrealised Gains \$M	Gross Unrealised Losses \$M	Fair Value \$M
Australia				
Australian Public Securities:				
Local and semi-government	14,582	286	(17)	14,851
Certificates of deposit	4,640	-	-	4,640
Eurobonds	1,695	15	(3)	1,707
Medium term notes	10,126	62	(27)	10,161
Floating rate notes	4,511	55	(29)	4,537
Mortgage backed securities	2,148	1	(10)	2,139
Other securities and equity investments	546	103	(8)	641
Total Australia	38,248	522	(94)	38,676
Overseas				
Government securities	5,301	24	(18)	5,307
Certificates of deposit	692	-	-	692
Corporate bonds	222	2	-	224
Floating rate notes	77	1	-	78
Other securities and equity investments	181	13	-	194
Total overseas	6,473	40	(18)	6,495
Total available-for-sale investments	44,721	562	(112)	45,171

Maturity Distribution and Weighted Average Yield

	Group											
	Maturity Period at 30 June 2011											
	0 to 3 months		3 to 12 months		1 to 5 years		5 to 10 years		10 or more years		Non-Maturing	Total
	\$M	%	\$M	%	\$M	%	\$M	%	\$M	%	\$M	\$M
Australia												
Australian Public Securities:												
Local and semi-government	-	-	202	5.05	7,294	5.62	6,123	6.05	1,232	6.07	-	14,851
Certificates of deposit	2,746	5.03	1,894	5.09	-	-	-	-	-	-	-	4,640
Eurobonds	120	5.33	248	5.36	1,339	5.93	-	-	-	-	-	1,707
Medium term notes	80	5.56	839	5.46	9,037	5.54	205	7.47	-	-	-	10,161
Floating rate notes	363	5.06	1,181	5.44	2,993	5.35	-	-	-	-	-	4,537
Mortgage backed securities	-	-	-	-	-	-	-	-	2,139	5.33	-	2,139
Other securities and equity investments	199	4.78	-	-	10	0.01	-	-	-	-	432	641
Total Australia	3,508	-	4,364	-	20,673	-	6,328	-	3,371	-	432	38,676
Overseas												
Government securities	2,188	0.59	1,664	1.56	968	2.67	487	4.36	-	-	-	5,307
Certificates of deposit	520	0.30	172	0.30	-	-	-	-	-	-	-	692
Corporate bonds	-	-	-	-	224	6.39	-	-	-	-	-	224
Floating rate notes	-	-	-	-	78	3.95	-	-	-	-	-	78
Other securities and equity investments	60	4.13	25	0.06	86	0.12	-	-	-	-	23	194
Total overseas	2,768	-	1,861	-	1,356	-	487	-	-	-	23	6,495
Total available-for-sale investments	6,276	-	6,225	-	22,029	-	6,815	-	3,371	-	455	45,171

Notes to the Financial Statements

Note 12 Available-for-Sale Investments (continued)

	Group			
	As at 30 June 2010			
	Amortised	Gross	Gross	Fair
	Cost	Unrealised	Unrealised	Value
\$M	\$M	Losses	\$M	
Australia				
Australian Public Securities:				
Local and semi-government	12,363	245	(21)	12,587
Certificates of deposit	2,596	-	(1)	2,595
Eurobonds	1,826	17	-	1,843
Medium term notes	8,261	61	(40)	8,282
Floating rate notes	1,218	17	-	1,235
Mortgage backed securities	1,081	4	(19)	1,066
Other securities and equity investments	542	114	-	656
Total Australia	27,887	458	(81)	28,264
Overseas				
Government securities	1,258	1	-	1,259
Certificates of deposit	879	-	-	879
Eurobonds	2,355	17	(4)	2,368
Floating rate notes	86	-	(1)	85
Other securities and equity investments	52	8	-	60
Total overseas	4,630	26	(5)	4,651
Total available-for-sale investments	32,517	484	(86)	32,915

Maturity Distribution and Weighted Average Yield

	Group											
	Maturity Period at 30 June 2010											
	0 to 3 months		3 to 12 months		1 to 5 years		5 to 10 years		10 or more years		Non-	Total
	\$M	%	\$M	%	\$M	%	\$M	%	\$M	%	Maturing	
Australia												
Australian Public Securities:												
Local and semi-government	150	4.55	215	5.82	6,155	5.64	4,975	6.03	1,092	5.84	-	12,587
Certificates of deposit	2,241	4.73	354	4.94	-	-	-	-	-	-	-	2,595
Eurobonds	361	4.79	952	5.04	530	5.73	-	-	-	-	-	1,843
Medium term notes	379	5.47	1,212	4.86	6,389	5.27	302	6.95	-	-	-	8,282
Floating rate notes	-	-	275	3.95	960	4.05	-	-	-	-	-	1,235
Mortgage backed securities	-	-	-	-	-	-	-	-	1,066	5.21	-	1,066
Other securities and equity investments	2	3.27	197	4.91	8	0.01	-	-	-	-	449	656
Total Australia	3,133	-	3,205	-	14,042	-	5,277	-	2,158	-	449	28,264
Overseas												
Government securities	452	1.97	683	1.64	124	5.07	-	-	-	-	-	1,259
Certificates of deposit	785	0.40	94	0.67	-	-	-	-	-	-	-	879
Eurobonds	136	3.63	1,762	0.41	23	5.50	447	4.00	-	-	-	2,368
Floating rate notes	-	-	64	2.10	21	1.16	-	-	-	-	-	85
Other securities and equity investments	-	-	-	-	36	4.68	-	-	-	-	24	60
Total overseas	1,373	-	2,603	-	204	-	447	-	-	-	24	4,651
Total available-for-sale investments	4,506	-	5,808	-	14,246	-	5,724	-	2,158	-	473	32,915

Notes to the Financial Statements

Note 13 Loans, Bills Discounted and Other Receivables

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Australia				
Overdrafts	21,930	19,924	20,892	18,767
Home loans ⁽¹⁾	306,250	292,140	259,685	249,134
Credit card outstandings	10,798	10,200	9,495	8,881
Lease financing	4,404	4,657	2,633	2,194
Bills discounted ⁽²⁾	14,820	14,379	14,820	14,379
Term loans	96,097	101,794	75,509	77,105
Other lending	1,310	1,288	777	748
Other securities	4	564	-	562
Total Australia	455,613	444,946	383,811	371,770
Overseas				
Overdrafts	629	652	-	-
Home loans	29,591	31,433	374	392
Credit card outstandings	572	589	-	-
Lease financing	468	570	100	68
Term loans	20,468	23,052	8,119	9,383
Other lending	-	27	-	25
Total overseas	51,728	56,323	8,593	9,868
Gross loans, bills discounted and other receivables	507,341	501,269	392,404	381,638
Less				
Provisions for Loan Impairment (Note 14):				
Collective provision	(3,022)	(3,436)	(1,905)	(1,964)
Individually assessed provisions	(2,125)	(1,992)	(1,081)	(978)
Unearned income:				
Term loans	(1,153)	(1,213)	(1,088)	(1,106)
Lease financing	(984)	(1,169)	(442)	(395)
	(7,284)	(7,810)	(4,516)	(4,443)
Net loans, bills discounted and other receivables	500,057	493,459	387,888	377,195

(1) The Group has entered into securitisation transactions on residential mortgage loans that do not qualify for derecognition. The Group is entitled to any residual income of the securitisation programme after all payments due to investors and costs of the programme have been met, to this extent the Group retains credit and liquidity risk. In addition, derivatives return the interest rate and foreign currency risk to the Group. The carrying value of assets that did not qualify for derecognition for the Group were \$11,296 million (2010: \$9,696 million) and for the Bank were \$7,691 million (2010: \$5,963 million). The carrying value of liabilities associated with non-derecognised assets for the Group were \$10,231 million (2010: \$8,772 million) and for the Bank were \$7,507 million (2010: \$6,117 million).

(2) The Group measures bills discounted intended to be sold into the market at fair value and includes these within loans, bills discounted and other receivables to reflect the nature of the lending arrangement.

The following amounts, based on behavioural terms and current market conditions, are expected to be recovered within twelve months of the Balance Sheet date for Group \$180,038 million (2010: \$173,459 million) and for Bank \$128,375 million (2010: \$118,520 million).

Notes to the Financial Statements

Note 13 Loans, Bills Discounted and Other Receivables (continued)

Finance Lease Receivables

The Group and the Bank provide finance leases to a broad range of clients to support financing needs in acquiring movable assets such as trains, aircraft, ships and major production and manufacturing equipment.

Finance lease receivables are included within loans, bills discounted and other receivables to customers.

	Group		Bank	
	2011	2010	2011	2010
Finance Leases	\$M	\$M	\$M	\$M
Minimum lease payments receivable:				
Not later than one year	1,389	1,360	830	637
Later than one year but not later than five years	2,516	2,803	1,574	1,357
Later than five years	967	1,064	329	268
Total finance leases	4,872	5,227	2,733	2,262

	2011			2010		
	Gross investment in finance lease receivable	Unearned income	Present value of minimum lease payment receivable	Gross investment in finance lease receivable	Unearned income	Present value of minimum lease payment receivable
	\$M	\$M	\$M	\$M	\$M	\$M
Not later than one year	1,389	(259)	1,130	1,360	(298)	1,062
One year to five years	2,516	(541)	1,975	2,803	(688)	2,115
Over five years	967	(184)	783	1,064	(183)	881
	4,872	(984)	3,888	5,227	(1,169)	4,058

	2011			2010		
	Gross investment in finance lease receivable	Unearned income	Present value of minimum lease payment receivable	Gross investment in finance lease receivable	Unearned income	Present value of minimum lease payment receivable
	\$M	\$M	\$M	\$M	\$M	\$M
Not later than one year	830	(120)	710	637	(104)	533
One year to five years	1,574	(244)	1,330	1,357	(247)	1,110
Over five years	329	(78)	251	268	(44)	224
	2,733	(442)	2,291	2,262	(395)	1,867

Notes to the Financial Statements

Note 13 Loans, Bills Discounted and Other Receivables (continued)

Industry	Group			
	Maturity Period at 30 June 2011			
	Maturing 1 Year or Less	Maturing Between 1 & 5 Years	Maturing After 5 Years	Total
	\$M	\$M	\$M	\$M
Australia				
Sovereign	2,015	80	117	2,212
Agriculture	3,009	1,087	1,182	5,278
Bank and other financial	7,870	1,142	974	9,986
Home loans	6,057	17,490	282,703	306,250
Construction	1,547	722	608	2,877
Personal	4,332	10,955	2,122	17,409
Asset financing	3,004	5,134	190	8,328
Other commercial and industrial	62,815	28,692	11,766	103,273
Total Australia	90,649	65,302	299,662	455,613
Overseas				
Sovereign	2,636	1,470	497	4,603
Agriculture	1,944	1,255	1,721	4,920
Bank and other financial	2,619	1,790	2,579	6,988
Home loans	7,630	4,283	17,678	29,591
Construction	166	72	84	322
Personal	540	13	6	559
Asset financing	258	659	339	1,256
Other commercial and industrial	1,261	1,978	250	3,489
Total overseas	17,054	11,520	23,154	51,728
Gross loans, bills discounted and other receivables	107,703	76,822	322,816	507,341
Interest rate				
Australia	76,178	48,445	262,556	387,179
Overseas	12,426	8,576	14,585	35,587
Total variable interest rates	88,604	57,021	277,141	422,766
Australia	14,471	16,857	37,106	68,434
Overseas	4,628	2,944	8,569	16,141
Total fixed interest rates	19,099	19,801	45,675	84,575
Gross loans, bills discounted and other receivables	107,703	76,822	322,816	507,341

Notes to the Financial Statements

Note 13 Loans, Bills Discounted and Other Receivables (continued)

Industry	Group			
	Maturity Period at 30 June 2010			
	Maturing 1 Year or Less	Maturing Between 1 & 5 Years	Maturing After 5 Years	Total
	\$M	\$M	\$M	\$M
Australia				
Sovereign	96	557	918	1,571
Agriculture	2,564	1,225	1,369	5,158
Bank and other financial	6,796	1,635	790	9,221
Home loans	7,522	18,291	266,327	292,140
Construction	1,591	1,204	643	3,438
Personal	3,750	10,161	2,068	15,979
Asset financing	3,057	5,315	249	8,621
Other commercial and industrial	58,699	35,493	14,626	108,818
Total Australia	84,075	73,881	286,990	444,946
Overseas				
Sovereign	822	240	151	1,213
Agriculture	2,194	1,444	1,812	5,450
Bank and other financial	1,997	2,027	2,320	6,344
Home loans	6,621	4,695	20,117	31,433
Construction	226	121	125	472
Personal	688	127	7	822
Asset financing	205	384	179	768
Other commercial and industrial	3,320	5,049	1,452	9,821
Total overseas	16,073	14,087	26,163	56,323
Gross loans, bills discounted and other receivables	100,148	87,968	313,153	501,269
Interest rate				
Australia	68,950	49,268	244,487	362,705
Overseas	9,121	9,051	10,831	29,003
Total variable interest rates	78,071	58,319	255,318	391,708
Australia	15,125	24,613	42,503	82,241
Overseas	6,952	5,036	15,332	27,320
Total fixed interest rates	22,077	29,649	57,835	109,561
Gross loans, bills discounted and other receivables	100,148	87,968	313,153	501,269

Notes to the Financial Statements

Note 14 Provisions for Impairment

	Group			Bank	
	2011	2010	2009	2011	2010
Provisions for impairment losses	\$M	\$M	\$M	\$M	\$M
Collective provision					
Opening balance	3,461	3,225	1,466	1,989	2,090
Acquisitions	-	-	250	-	-
Net collective provision funding	45	901	1,176	305	460
Impairment losses written off	(646)	(734)	(472)	(529)	(617)
Impairment losses recovered	206	77	73	176	58
Fair value and other	(23)	(8)	732	(15)	(2)
Closing balance	3,043	3,461	3,225	1,926	1,989
Individually assessed provisions					
Opening balance	1,992	1,729	279	978	1,020
Acquisitions	-	-	380	-	-
Net new and increased individual provisioning	1,602	1,862	1,686	996	1,003
Write-back of provisions no longer required	(367)	(384)	(179)	(221)	(270)
Discount unwind to interest income	(147)	(169)	(45)	(72)	(86)
Fair value and other	374	293	279	153	161
Impairment losses written off	(1,329)	(1,339)	(671)	(753)	(850)
Closing balance	2,125	1,992	1,729	1,081	978
Total provisions for impairment losses	5,168	5,453	4,954	3,007	2,967
Less: Off balance sheet provisions	(21)	(25)	(30)	(21)	(25)
Total provisions for loan impairment	5,147	5,428	4,924	2,986	2,942

	Group			Bank	
	2011	2010	2009	2011	2010
Provision ratios	%	%	%	%	%
Collective provision as a % of gross loans and acceptances	0.59	0.67	0.66	0.48	0.51
Collective provision as a % of risk weighted assets - Basel II	1.08	1.19	1.12	n/a ⁽¹⁾	n/a ⁽¹⁾
Total provision as a % of credit risk weighted assets - Basel II	2.09	2.12	1.92	n/a ⁽¹⁾	n/a ⁽¹⁾
Individually assessed provisions for impairment as a % of gross impaired assets	40.12	38.19	41.07	35.89	36.04
Total provisions for impairment losses as a % of gross loans and acceptances	1.00	1.06	1.01	0.75	0.75

(1) Basel II ratios are not calculated for the Bank legal entity as this is not a regulated structure for capital reporting purposes. For further details refer to Note 31.

Notes to the Financial Statements

Note 14 Provisions for Impairment (continued)

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Loan impairment expense					
Net collective provision funding	45	901	1,176	305	460
Net new and increased individual provisioning	1,602	1,862	1,686	996	1,003
Write-back of individually assessed provisions	(367)	(384)	(179)	(221)	(270)
Total loan impairment expense	1,280	2,379	2,683	1,080	1,193
Available-for-sale debt securities impairment expense	-	-	365	-	-
Total impairment expense	1,280	2,379	3,048	1,080	1,193

Individually assessed provisions by industry classification	Group				
	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Australia					
Sovereign	-	-	-	-	-
Agriculture	87	75	77	4	3
Bank and other financial	254	254	483	27	2
Home loans	202	150	82	34	23
Construction	133	132	104	1	1
Personal	11	21	23	9	5
Asset financing	37	15	31	12	13
Other commercial and industrial	1,307	1,268	760	161	39
Total Australia	2,031	1,915	1,560	248	86
Overseas					
Sovereign	-	-	-	-	-
Agriculture	11	15	9	-	-
Bank and other financial	1	1	68	4	1
Home loans	25	12	10	7	4
Construction	-	-	-	8	-
Personal	-	-	-	2	1
Asset financing	-	-	-	2	1
Other commercial and industrial	57	49	82	8	7
Total overseas	94	77	169	31	14
Total individually assessed provisions	2,125	1,992	1,729	279	100

Notes to the Financial Statements

Note 14 Provisions for Impairment (continued)

	Group				
	2011	2010	2009	2008	2007
Loans written off by industry classification	\$M	\$M	\$M	\$M	\$M
Australia					
Sovereign	-	-	-	-	-
Agriculture	10	10	2	3	1
Bank and other financial	107	383	110	5	-
Home loans	84	95	36	23	20
Construction	89	72	4	1	1
Personal	567	651	496	364	408
Asset financing	26	72	58	49	49
Other commercial and industrial	989	604	255	34	30
Total Australia	1,872	1,887	961	479	509
Overseas					
Sovereign	-	-	-	-	-
Agriculture	17	7	-	-	-
Bank and other financial	1	50	86	4	-
Home loans	26	25	18	1	-
Construction	1	-	4	1	-
Personal	22	18	14	13	7
Asset financing	-	-	-	-	-
Other commercial and industrial	36	86	60	5	3
Total overseas	103	186	182	24	10
Gross loans written off	1,975	2,073	1,143	503	519
Recovery of amounts previously written off					
Australia	199	70	70	73	99
Overseas	7	7	3	4	4
Total amounts recovered	206	77	73	77	103
Net loans written off	1,769	1,996	1,070	426	416

	Group				
	2011	2010	2009	2008	2007
Loans recovered by industry classification	\$M	\$M	\$M	\$M	\$M
Australia					
Sovereign	-	-	-	-	-
Agriculture	-	-	1	-	1
Bank and other financial	3	-	1	-	1
Home loans	43	3	1	1	1
Construction	-	-	-	1	1
Personal	134	59	52	61	77
Asset financing	2	3	5	5	10
Other commercial and industrial	17	5	10	5	8
Total Australia	199	70	70	73	99
Overseas					
Sovereign	-	-	-	-	-
Agriculture	-	-	-	-	-
Bank and other financial	-	-	-	-	-
Home loans	-	-	-	-	-
Construction	-	-	-	-	-
Personal	7	6	3	3	4
Asset financing	-	-	-	-	-
Other commercial and industrial	-	1	-	1	-
Total overseas	7	7	3	4	4
Total loans recovered	206	77	73	77	103

Notes to the Financial Statements

Note 15 Property, Plant and Equipment

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Land				
At 30 June 2011 valuation	269	-	191	-
At 30 June 2010 valuation	-	275	-	193
Closing balance	269	275	191	193
Buildings				
At 30 June 2011 valuation	388	-	309	-
At 30 June 2010 valuation	-	429	-	336
Closing balance	388	429	309	336
Total land and buildings	657	704	500	529
Leasehold Improvements				
At cost	1,276	1,167	1,019	948
Provision for depreciation	(662)	(600)	(518)	(483)
Closing balance	614	567	501	465
Equipment				
At cost	1,385	1,380	911	839
Provision for depreciation	(1,028)	(990)	(667)	(574)
Closing balance	357	390	244	265
Assets Under Lease				
At cost	884	817	332	297
Provision for depreciation	(146)	(127)	(51)	(50)
Closing balance	738	690	281	247
Total property, plant and equipment	2,366	2,351	1,526	1,506

The majority of the above amounts have expected useful lives longer than twelve months after the Balance Sheet date.

There are no significant items of property, plant and equipment that are currently under construction.

Land and buildings are carried at fair value based on independent valuations performed during the year, refer Note 1(r).

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Carrying value at cost				
Land	128	134	67	69
Buildings	325	332	253	253
Total land and buildings at cost	453	466	320	322

Notes to the Financial Statements

Note 15 Property, Plant and Equipment (continued)

Reconciliation of the carrying amounts of Property, Plant and Equipment is set out below:

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Land				
Carrying amount at the beginning of the year	275	277	193	198
Transfers to assets held for sale	(4)	(8)	(4)	(8)
Net disposals / transfers	(3)	(4)	(1)	(1)
Net revaluations	3	9	3	4
Foreign currency translation adjustment	(2)	1	-	-
Carrying amount at the end of the year	269	275	191	193
Buildings				
Carrying amount at the beginning of the year	429	395	336	318
Additions	1	45	1	34
Transfers to assets held for sale	(1)	(24)	(1)	(24)
Net disposals / transfers	(5)	(5)	(4)	(3)
Net revaluations	2	47	4	37
Depreciation	(35)	(30)	(27)	(26)
Foreign currency translation adjustment	(3)	1	-	-
Carrying amount at the end of the year	388	429	309	336
Leasehold Improvements				
Carrying amount at the beginning of the year	567	596	465	485
Additions	138	78	125	57
Net disposals / transfers	21	(8)	(7)	(2)
Net revaluations	(3)	(2)	-	-
Depreciation	(103)	(98)	(81)	(75)
Foreign currency translation adjustment	(6)	1	(1)	-
Carrying amount at the end of the year	614	567	501	465
Equipment				
Carrying amount at the beginning of the year	390	427	265	271
Additions	161	147	98	115
Net disposals / transfers	(30)	(19)	(2)	(7)
Depreciation	(160)	(165)	(117)	(114)
Foreign currency translation adjustment	(4)	-	-	-
Carrying amount at the end of the year	357	390	244	265
Assets Under Lease				
Carrying amount at the beginning of the year	690	777	247	300
Additions	143	22	53	22
Net disposals / transfers	-	(51)	-	(51)
Depreciation	(42)	(45)	(19)	(24)
Foreign currency translation adjustment	(53)	(13)	-	-
Carrying amount at the end of the year	738	690	281	247

Notes to the Financial Statements

Note 16 Intangible Assets

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Intangible Assets				
Goodwill	7,399	7,473	2,522	2,522
Computer software costs	1,297	950	1,204	860
Core deposits ⁽¹⁾	317	388	-	-
Management fee rights ⁽²⁾	311	311	-	-
Brand name ⁽³⁾	186	186	-	-
Other ⁽⁴⁾	93	112	-	-
Total intangible assets	9,603	9,420	3,726	3,382
Goodwill				
Purchased goodwill	7,399	7,473	2,522	2,522
Total goodwill	7,399	7,473	2,522	2,522
Computer Software Costs				
Cost	1,895	1,551	1,563	1,241
Accumulated amortisation	(598)	(562)	(359)	(342)
Accumulated impairment	-	(39)	-	(39)
Total computer software costs	1,297	950	1,204	860
Core Deposits ⁽¹⁾				
Cost	495	495	-	-
Accumulated amortisation	(178)	(107)	-	-
Total core deposits	317	388	-	-
Management Fee Rights ⁽²⁾				
Cost	311	311	-	-
Total management fee rights	311	311	-	-
Brand Name ⁽³⁾				
Cost	186	186	-	-
Total brand name	186	186	-	-
Other ⁽⁴⁾				
Cost	203	203	-	-
Accumulated amortisation	(110)	(91)	-	-
Total other	93	112	-	-
Goodwill				
Opening balance	7,473	7,473	2,522	2,522
Foreign currency translation adjustments	(74)	-	-	-
Total goodwill	7,399	7,473	2,522	2,522
Computer Software Costs				
Opening balance	950	673	860	579
Additions:				
From acquisitions	48	28	26	3
From internal development ⁽⁵⁾	482	427	461	412
Amortisation	(183)	(178)	(143)	(134)
Total computer software costs	1,297	950	1,204	860

(1) Core deposits represents the value of the Bankwest deposit base compared to the avoided cost of alternative funding sources such as securitisation and wholesale funding. This asset was acquired on 19 December 2008 with a useful life of seven years based on the weighted average attrition rates of the Bankwest deposit portfolio.

(2) Management fee rights associated with the Wealth Management CGU have an indefinite useful life under the contractual terms of the management agreements and are subject to an annual valuation for impairment testing purposes. No impairment was required as a result of this valuation.

(3) Brand names represent the value of royalty costs foregone by the Group through acquiring the Bankwest brand name. The royalty costs that would have been incurred by an entity using the Bankwest brand name are based on an annual percentage of income generated by Bankwest. This asset has an indefinite useful life, as there is no foreseeable limit to the period over which the brand name is expected to generate cash flows. The asset is not subject to amortisation, but is subjected to annual impairment testing. No impairment was required as a result of this test.

(4) Other includes the value of credit card relationships acquired from Bankwest. This value represents future net income generated from the relationships that existed at Balance Sheet date. The assets have a useful life of ten years based on the attrition rates of the Bankwest credit cardholders.

(5) Due primarily to the Core Banking Modernisation project.

Notes to the Financial Statements

Note 16 Intangible Assets (continued)

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Core Deposits				
Opening balance	388	460	-	-
Amortisation	(71)	(72)	-	-
Total core deposits	317	388	-	-
Other				
Opening balance	112	142	-	-
Amortisation	(19)	(30)	-	-
Total other	93	112	-	-

Goodwill allocation to the following cash generating units:

	Group	
	2011	2010
	\$M	\$M
Retail Banking Services ⁽¹⁾	4,149	4,149
Business and Private Banking	297	297
Wealth Management ⁽²⁾	2,287	2,358
New Zealand	666	669
Total	7,399	7,473

(1) The allocation to Retail Banking Services includes goodwill related to the acquisitions of Colonial and State Bank of Victoria.

(2) The allocation to Wealth Management principally relates to the goodwill on acquisition of Colonial.

Impairment Tests for Goodwill and Intangible Assets with Indefinite Lives

To assess whether goodwill is impaired, the carrying amount of a cash generating unit is compared to the recoverable amount, determined based on fair value less cost to sell, using an earnings multiple applicable to that type of business, or actuarial assessments that were consistent with externally sourced information.

Key Assumptions Used in Fair Value Less Cost to Sell Calculations

Earnings multiples relating to the Group's Banking (Retail Banking Services, Business and Private Banking and New Zealand) and Wealth Management cash-generating units are sourced from publicly available data associated with valuations performed on recent businesses displaying similar characteristics to those cash-generating units, and are applied to current earnings.

The New Zealand Life Insurance component of the New Zealand cash-generating unit is valued via an actuarial assessment.

The key assumptions used when completing the actuarial assessment include new business multiples, discount rates, investment market returns, mortality, morbidity, persistency and expense inflation. These have been determined by reference to historical company and industry experience and publicly available data.

Notes to the Financial Statements

Note 17 Other Assets

	Note	Group		Bank	
		2011 \$M	2010 \$M	2011 \$M	2010 \$M
Accrued interest receivable		2,354	2,130	2,395	2,109
Defined benefit superannuation plan surplus	42	76	316	76	316
Accrued fees/reimbursements receivable		900	899	250	287
Securities sold not delivered		2,063	1,682	1,266	863
Intragroup current tax receivable		-	-	281	439
Current tax assets		105	64	-	-
Prepayments		344	356	277	285
Other		839	1,035	372	407
Total other assets		6,681	6,482	4,917	4,706

Other than the defined benefit superannuation plan surplus, the above amounts are expected to be recovered within twelve months of the Balance Sheet date.

Note 18 Assets Held for Sale

	Group		Bank	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Available-for-sale investments ⁽¹⁾	29	40	29	40
Land and Buildings	4	9	4	9
Total assets held for sale⁽²⁾	33	49	33	49

(1) The remaining balance relates to FS Media Works Fund I, LP.

(2) Impairments were recognised on Assets held for sale of \$10 million during the year ended 30 June 2011 (30 June 2010: \$11 million). These impairments are included in Funds management and investment contract income - other for the Group and net gain/(loss) on other non-fair valued financial instruments for the Bank.

Note 19 Deposits and Other Public Borrowings

	Group		Bank	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Australia				
Certificates of deposit	45,544	40,891	46,522	41,695
Term deposits	137,192	122,712	113,124	97,750
On demand and short term deposits	169,190	158,874	151,317	143,402
Deposits not bearing interest	7,630	7,236	7,628	6,848
Securities sold under agreements to repurchase	3,696	5,440	3,696	5,528
Total Australia	363,252	335,153	322,287	295,223
Overseas				
Certificates of deposit	4,700	7,849	4,345	7,442
Term deposits	22,304	20,119	6,020	4,299
On demand and short term deposits	8,866	9,664	115	640
Deposits not bearing interest	1,658	1,558	92	5
Securities sold under agreements to repurchase	367	320	105	235
Total overseas	37,895	39,510	10,677	12,621
Total deposits and other public borrowings	401,147	374,663	332,964	307,844

The majority of the amounts are due to be settled within twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 19 Deposits and Other Public Borrowings (continued)

Maturity Distribution of Certificates of Deposit and Term Deposits

	Group At 30 June 2011				
	Maturing Three Months or Less \$M	Maturing Between Three & Six Months \$M	Maturing Between Six & Twelve Months \$M	Maturing after Twelve Months \$M	Total \$M
Australia					
Certificates of deposit ⁽¹⁾	30,153	5,329	1,423	8,639	45,544
Term deposits	77,771	22,190	31,598	5,633	137,192
Total Australia	107,924	27,519	33,021	14,272	182,736
Overseas					
Certificates of deposit ⁽¹⁾	3,349	1,072	223	56	4,700
Term deposits	13,967	4,001	2,692	1,644	22,304
Total overseas	17,316	5,073	2,915	1,700	27,004
Total certificates of deposits and term deposits	125,240	32,592	35,936	15,972	209,740

(1) All certificates of deposit issued by the Group are for amounts greater than \$100,000.

Note 20 Payables due to Other Financial Institutions

	Group		Bank	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Australia	5,967	4,285	5,868	4,265
Overseas	9,932	8,323	9,818	8,157
Total payables due to other financial institutions	15,899	12,608	15,686	12,422

The majority of the above amounts are due to be settled within twelve months of the Balance Sheet date.

Note 21 Liabilities at Fair Value through Income Statement

	Group		Bank	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Deposits and other borrowings ⁽¹⁾	3,028	3,551	-	-
Debt instruments ⁽¹⁾	3,232	7,838	469	660
Trading liabilities	4,231	3,953	4,231	3,953
Total liabilities at fair value through Income Statement	10,491	15,342	4,700	4,613

(1) Designated at fair value through Income Statement at inception as they are managed by the Group on a fair value basis. Designating these liabilities at fair value through Income Statement has also eliminated an accounting mismatch created by measuring assets and liabilities on a different basis.

Of the above amounts, trading liabilities are due to be settled within twelve months of the Balance Sheet date for the Group and the Bank. The majority of the other amounts are due to be settled within twelve months of the Balance Sheet date for the Group and after twelve months of the Balance Sheet date for the Bank.

The change in fair value for those liabilities designated as fair value through Income Statement due to credit risk for the Group is a \$6 million loss (2010: \$27 million gain) and for the Bank is a \$5 million loss (2010: \$29 million gain), which has been calculated by determining the changes in credit spreads implicit in the fair value of the instruments issued. The cumulative change in fair value due to changes in credit risk for the Group is a \$16 million gain (2010: \$18 million) and for the Bank is a \$15 million gain (2010: \$15 million).

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through Income Statement for the Group is \$10,463 million (2010: \$15,293 million) and for the Bank is \$4,678 million (2010: \$4,595 million).

Notes to the Financial Statements

Note 22 Tax Liabilities

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Australia				
Current tax liability	1,108	1,004	1,118	1,000
Total Australia	1,108	1,004	1,118	1,000
Overseas				
Current tax liability	114	52	15	16
Deferred tax liability (Note 5)	301	221	-	-
Total overseas	415	273	15	16
Total tax liabilities	1,523	1,277	1,133	1,016

Note 23 Other Provisions

	Note	Group		Bank	
		2011	2010	2011	2010
		\$M	\$M	\$M	\$M
Long service leave		396	355	362	318
Annual leave		255	241	209	200
Other employee entitlements		65	68	65	67
Restructuring costs		121	96	56	73
General insurance claims		193	191	-	-
Self insurance/non-lending losses		49	57	45	53
Dividends	6	37	29	37	29
Other		161	160	183	194
Total other provisions		1,277	1,197	957	934

Provisions due to be settled within twelve months of the Balance Sheet date for the Group were \$989 million (2010: \$908 million) and for the Bank were \$685 million (2010: \$660 million).

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Reconciliation				
Restructuring costs:				
Opening balance	96	182	73	148
Additional provisions	61	10	6	1
Amounts utilised during the year	(36)	(94)	(23)	(75)
Release of provision	-	(2)	-	(1)
Closing balance	121	96	56	73
General insurance claims:				
Opening balance	191	185	-	-
Additional provisions	96	114	-	-
Amounts utilised during the year	(94)	(109)	-	-
Transfer of provision	-	1	-	-
Closing balance	193	191	-	-
Self insurance/non-lending losses:				
Opening balance	57	56	53	54
Additional provisions	11	11	11	9
Amounts utilised during the year	(10)	(5)	(10)	(5)
Release of provision	(9)	(5)	(9)	(5)
Closing balance	49	57	45	53
Other:				
Opening balance	160	149	194	112
Additional provisions	134	176	48	145
Acquisitions	-	1	-	1
Amounts utilised during the year	(120)	(116)	(39)	(16)
Release of provision	(13)	(50)	(20)	(48)
Closing balance	161	160	183	194

Notes to the Financial Statements

Note 23 Other Provisions (continued)

Provision Commentary

Restructuring Costs

Provisions are recognised for restructuring activities when a detailed plan has been developed and a valid expectation that the plan will be carried out is held by those affected by it. The majority of the provision is expected to be used within 12 months of the Balance Sheet date.

General Insurance Claims

This provision is to cover future claims on general insurance contracts that have been incurred but not reported.

Self Insurance and Non-Lending Losses

This provision covers certain non-transferred insurance risk and non-lending losses. The self insurance provision is reassessed annually in consultation with actuarial advice.

Note 24 Debt Issues

	Group		Bank	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Short term debt issues	51,463	49,757	39,246	39,644
Long term debt issues	67,189	80,453	55,139	67,395
Total debt issues	118,652	130,210	94,385	107,039
Short Term Debt Issues				
AUD commercial paper	123	494	52	312
USD commercial paper	28,937	20,423	25,925	19,839
EUR commercial paper	2,005	1,981	1,077	36
GBP commercial paper	4,913	4,980	882	139
Other currency commercial paper	143	88	99	23
Long term debt issues with less than one year to maturity	15,342	21,791	11,211	19,295
Total short term debt issues	51,463	49,757	39,246	39,644
Long Term Debt Issues				
USD medium term notes	31,389	41,074	29,727	38,577
AUD medium term notes	9,507	9,796	2,678	2,820
NZD medium term notes	2,384	1,112	542	320
JPY medium term notes	8,265	8,808	8,207	8,550
GBP medium term notes	1,707	1,558	1,362	1,152
EUR medium term notes	7,973	11,044	7,009	9,077
Other currencies medium term notes	5,922	6,971	5,572	6,809
Offshore loans (all JPY)	42	90	42	90
Total long term debt issues	67,189	80,453	55,139	67,395
Maturity Distribution of Debt Issues ⁽¹⁾				
Less than three months	27,721	27,939	20,993	19,840
Between three and twelve months	23,742	21,818	18,253	19,804
Between one and five years	48,259	61,741	38,991	49,831
Greater than five years	18,930	18,712	16,148	17,564
Total debt issues	118,652	130,210	94,385	107,039

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

The Bank's debt issues include a Euro Medium Term Note programme under which it may issue notes up to an aggregate amount outstanding of USD 70 billion. The Bank also has a U.S. Medium Term Note programme under which it may issue notes up to an aggregate amount outstanding of USD 50 billion. Notes issued under debt programmes are both fixed and variable rate. Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework.

Where any debt issue is booked in an offshore branch or subsidiary, the amounts have first been converted into the functional currency of the branch at a branch defined exchange rate, before being converted into the AUD equivalent.

Where proceeds have been employed in currencies other than that of the ultimate repayment liability, swaps or other risk management arrangements have been entered into.

Notes to the Financial Statements

Note 24 Debt Issues (continued)

	Group		
	2011	2010	2009
	\$M (except where indicated)		
Short term borrowings			
USD Commercial Paper			
Outstanding at period end ⁽¹⁾	28,937	20,423	20,419
Maximum amount outstanding at any month end ⁽²⁾	29,023	23,319	23,428
Average amount outstanding ⁽²⁾	22,362	20,707	15,995
Weighted average interest rate on:			
Average amount outstanding	0.4%	0.3%	1.6%
Outstanding at period end	0.3%	0.5%	0.4%
EUR Commercial Paper			
Outstanding at period end ⁽¹⁾	2,005	1,981	566
Maximum amount outstanding at any month end ⁽²⁾	3,001	2,930	692
Average amount outstanding ⁽²⁾	1,498	1,751	536
Weighted average interest rate on:			
Average amount outstanding	0.8%	0.5%	0.7%
Outstanding at period end	1.2%	0.4%	0.6%
AUD Commercial Paper			
Outstanding at period end ⁽¹⁾	123	494	258
Maximum amount outstanding at any month end ⁽²⁾	424	658	1,059
Average amount outstanding ⁽²⁾	178	446	395
Weighted average interest rate on:			
Average amount outstanding	4.9%	4.0%	6.7%
Outstanding at period end	5.6%	4.7%	3.2%
GBP Commercial Paper			
Outstanding at period end ⁽¹⁾	4,913	4,980	609
Maximum amount outstanding at any month end ⁽²⁾	5,588	5,208	1,257
Average amount outstanding ⁽²⁾	3,776	3,110	907
Weighted average interest rate on:			
Average amount outstanding	0.8%	0.6%	0.8%
Outstanding at period end	0.9%	0.7%	0.7%
Other Currency Commercial Paper			
Outstanding at period end ⁽¹⁾	143	88	-
Maximum amount outstanding at any month end ⁽²⁾	247	253	-
Average amount outstanding ⁽²⁾	91	136	-
Weighted average interest rate on:			
Average amount outstanding	0.3%	0.6%	-
Outstanding at period end	0.8%	1.3%	-

(1) The amount outstanding at period end is measured at amortised cost.

(2) The maximum and average amounts over the period are reported on a face value basis because the carrying values of these amounts are not available. Any differences between face value and carrying value would not be material given the short term nature of the borrowings.

		As At	As At
		30 June	30 June
Exchange rates utilised (End of day, Sydney time)	Currency	2011	2010
AUD 1.00 =	USD	1.0740	0.8559
	EUR	0.7410	0.6996
	GBP	0.6677	0.5686
	JPY	86.3984	75.9067
	NZD	1.2944	1.2318

Notes to the Financial Statements

Note 24 Debt Issues (continued)

Guarantee Arrangements

Commonwealth Bank of Australia

Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding (Guarantee Scheme)

The Bank issued debt under its programmes which has the benefit of a guarantee by the Australian Government announced on 12 October 2008 and formally commenced on 28 November 2008. On 7 February 2010 it was announced that the Guarantee Scheme would close to new liabilities from 31 March 2010.

The arrangements were provided in a Deed of Guarantee dated 20 November 2008, Scheme Rules and in additional documentation for offers to residents of the United States and other jurisdictions.

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

Existing guaranteed debt issued by the Bank remains guaranteed until maturity.

Separate arrangements apply for accounts with the Bank for deposit balances per depositor totalling up to and including \$1 million (until 12 October 2011) under the Financial Claim Scheme (FCS). Such deposits are guaranteed without charge. The Australian Government is in the process of reviewing the FCS, issuing a consultation paper in May 2011 detailing potential changes to the FCS which include lowering the \$1 million cap. The operation of the current FCS is expected to be reviewed during the next financial year.

Guarantee under the Commonwealth Bank Sale Act

Historically, the due payment of all monies payable by the Bank was guaranteed by the Commonwealth of Australia under section 117 of the Commonwealth Banks Act 1959 (as amended) at 30 June 1996. With the sale of the Commonwealth's shareholding in the Bank this guarantee has been progressively phased out under transitional arrangements found in the Commonwealth Bank Sale Act 1995.

Demand deposits are no longer guaranteed by the Commonwealth under this guarantee. However, term deposits outstanding at 19 July 1999 and debt issues payable by the Bank under a contract entered into prior to 19 July 1996 and outstanding at 19 July 1999 remain guaranteed until maturity.

State Bank of NSW (also known as Colonial State Bank)

New South Wales legislation provides, in general terms, for a guarantee by the NSW Government of all funding liabilities and off-balance sheet products (other than demand deposits) incurred or issued prior to 31 December 1997 by the State Bank of New South Wales (SBNSW) until maturity and a guarantee for demand deposits accepted by SBNSW up to 31 December 1997. Other obligations incurred before 31 December 1994 are also guaranteed to their maturity. On 4 June 2001 the Commonwealth Bank of Australia became the successor in law to SBNSW pursuant to the Financial Sector (Transfers of Business) Act 1999. The NSW Government guarantee of the liabilities and products as described above continues unchanged by the succession.

Note 25 Bills Payable and Other Liabilities

	Note	Group		Bank	
		2011 \$M	2010 \$M	2011 \$M	2010 \$M
Bills payable		867	805	733	691
Accrued interest payable		3,709	3,233	2,917	2,452
Accrued fees and other items payable		1,807	1,906	1,172	1,301
Defined benefit superannuation plan deficit	42	83	82	83	82
Securities purchased not delivered		2,600	1,754	1,813	918
Other		1,586	2,245	2,630	5,289
Total bills payable and other liabilities		10,652	10,025	9,348	10,733

Other than the defined benefit superannuation plan deficit, the above amounts are expected to be settled within twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 26 Loan Capital

	Currency		Footnotes	Group		Bank	
				2011	2010	2011	2010
				Amount (M)	\$M	\$M	\$M
Tier One Loan Capital							
Exchangeable	FRN	USD 38	(1)	35	44	35	44
Exchangeable	FRN	USD 64	(2)	-	75	-	75
Undated	FRN	USD 100	(3)	93	117	93	117
Undated	TPS	USD 550	(4)	512	642	512	642
Undated	PERLS III	AUD 1,166	(5)	1,156	1,154	1,156	1,154
Undated	PERLS IV	AUD 1,465	(6)	1,458	1,456	1,458	1,456
Undated	PERLS V	AUD 2,000	(7)	1,978	1,963	1,971	1,953
Undated	TPS	USD 700	(8)	-	-	647	813
Total Tier One loan capital				5,232	5,451	5,872	6,254
Tier Two Loan Capital							
AUD demoninated			(9)	1,499	1,799	1,499	1,799
USD demoninated			(10)	1,396	1,819	1,396	1,819
JPY denominated			(11)	843	1,103	750	985
GBP denominated			(12)	224	262	224	262
NZD denominated			(13)	556	747	270	284
EUR denominated			(13)	1,343	1,422	1,343	1,422
CAD denominated			(13)	288	666	288	666
Total Tier Two loan capital				6,149	7,818	5,770	7,237
Fair value hedge adjustments				180	244	166	84
Total loan capital				11,561	13,513	11,808	13,575

(1) USD 300 million undated Floating Rate Notes (FRNs) issued 11 July 1988 exchangeable into dated FRNs.

Outstanding notes at 30 June 2011 were undated USD 38 million.

(2) USD 400 million undated FRNs issued 22 February 1989 exchangeable into dated FRNs.

All of the outstanding notes (USD 64 million) were redeemed in February 2011.

(3) USD 100 million undated capital notes issued on 15 October 1986.

The Bank has entered into agreements with the Commonwealth of Australia relating to each of the above issues (the "Agreements") which provide that, if certain events occur, the Bank may issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth of Australia) a renounceable rights issue for fully paid ordinary shares to all shareholders, at the prevailing market price for the Bank's shares, up to an amount equal to the outstanding principal value of the relevant note issue or issues plus any accrued interest which is declared due and payable. The capital so raised must be used to pay the amounts due and payable.

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

- A relevant event of default occurs in respect of a note issue and the Trustee of the relevant notes gives notice to the Bank that the notes are immediately due and payable;
- The most recent audited annual Financial Statements of the Group show a loss (as defined in the Agreements); or
- The Bank does not declare a dividend in respect of its ordinary shares

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

In relation to Dated FRNs which have matured to date, the Bank and the Commonwealth agreed to amend the relevant Agreement to reflect that the Commonwealth of Australia was not called upon to subscribe for fully paid ordinary shares up to an amount equal to the principal value of the maturing FRNs.

(4) TPS 2003

On 6 August 2003 a wholly owned entity of the Bank (CBA Capital Trust) issued USD 550 million of perpetual trust preferred securities which can be redeemed after the first 12 years. The securities were issued into the US capital markets and are subject to Delaware and New York law.

Each trust preferred security represents a beneficial ownership interest in the assets of CBA Capital Trust, a statutory trust established under Delaware law. The sole assets of CBA Capital Trust are the funding preferred securities issued by CBA Funding Trust, which represent preferred beneficial ownership interests in the assets of CBA Funding Trust, and a limited CBA guarantee. The securities qualify as innovative residual Tier One capital of the Bank.

CBA Funding Trust applied all of the proceeds from the sale of the funding preferred securities to purchase convertible notes from the Bank's New Zealand branch.

The trust preferred securities provide for a semi-annual cash distribution in arrears at the annual rate of 5.805%. The distributions on the trust preferred securities are non-cumulative. CBA Capital Trust's ability to pay distributions on the trust preferred securities is ultimately dependent upon the ability of CBA to make interest payments on the convertible notes.

Notes to the Financial Statements

Note 26 Loan Capital (continued)

The Bank's New Zealand branch will make interest payments on the convertible notes only if and when declared by the Board of Directors of the Bank. The Board of Directors is not permitted, unless approved by APRA, to declare interest.

If interest is not paid on the convertible notes on an interest payment date, holders will not receive a distribution on the trust preferred securities and, unless at the time of the non-payment the Bank is prevented by applicable law from issuing the CBA preference shares, convertible notes will automatically convert into CBA preference shares, which will result in mandatory redemption of the trust preferred securities for American Depository Shares (ADS). Automatic conversion into CBA preference shares will also occur on the occurrence of certain other events, including a number of events specified by APRA.

No later than 35 business days prior to 30 June 2015, holders may deliver a notice to the Bank requiring it to exchange each trust preferred security for ordinary shares. The Bank may satisfy the obligation to deliver ordinary shares by either delivering the applicable number of ordinary shares or by arranging for the sale of the trust preferred securities at par and delivering the proceeds to the holder. Subject to the approval of APRA, holders may exchange trust preferred securities for the Bank's ordinary shares earlier than 30 June 2015 if, prior to that date, a takeover bid or scheme of arrangement in relation to a takeover has occurred.

If CBA Capital Trust is liquidated, dissolved or wound up and its assets are distributed, for each trust preferred security owned, the holder is entitled to receive the stated liquidation amount of U.S. \$1,000, plus the accrued but unpaid distribution for the then current distribution period. Holders may not receive the full amount payable on liquidation if CBA Capital Trust does not have enough funds.

The trustees of CBA Capital Trust can elect to dissolve CBA Capital Trust and distribute the funding preferred securities if at any time certain changes in tax law or other tax-related events or the specified changes in U.S. Investment Company law occur.

Neither the trust preferred securities nor the funding preferred securities can be redeemed at the option of their holders. Other than in connection with an acceleration of the principal of the convertible notes upon the occurrence of an event of default, neither the trust preferred securities nor the funding preferred securities are repayable in cash unless the Bank's New Zealand branch, at its sole option, redeems the convertible notes.

The Bank's New Zealand branch may redeem the convertible notes for cash: (a) before 30 June 2015, in whole, but not in part, and only if the specified changes in tax law or other tax-related events, the specified changes in U.S. investment Company law and, changes in the "Tier One" regulatory capital treatment of the convertible notes, or certain corporate transactions involving a takeover bid or a scheme of arrangement in relation to a takeover described in this offering memorandum occur; and (b) at any time on or after 30 June 2015. The Bank's New Zealand branch must first obtain the approval of APRA to redeem the convertible notes for cash.

The Bank guarantees:

- Semi-annual distributions on the funding preferred securities by CBA Funding Trust to CBA Capital Trust to the extent CBA Funding Trust has funds available for distribution;

- Semi-annual distributions on the trust preferred securities by CBA Capital Trust to the extent CBA Capital Trust has funds available for distribution;
- The redemption amount due to CBA Capital Trust if CBA Funding Trust is obligated to redeem the funding preferred securities for cash and to the extent CBA Funding Trust has funds available for payment;
- The redemption amount due if CBA Capital Trust is obligated to redeem the trust preferred securities for cash and to the extent CBA Capital Trust has funds available for payment;
- The delivery of ADS to CBA Capital Trust by CBA Funding Trust if CBA Funding Trust is obligated to redeem the funding preferred securities for ADS and to the extent that CBA Funding Trust has ADS available for that redemption;
- The delivery of ADS by CBA Capital Trust if CBA Capital Trust is obligated to redeem the trust preferred securities for ADS and to the extent that CBA Capital Trust has ADS available for that redemption;
- The delivery of funding preferred securities by CBA Capital Trust upon dissolution of CBA Capital Trust as a result of a tax event or an event giving rise to a more than insubstantial risk that CBA Capital Trust is or will be considered an Investment Company which is required to be registered under the Investment Company Act;
- The payment of the liquidation amount of the funding preferred securities if CBA Funding Trust is liquidated, to the extent that CBA Funding Trust has funds available after payment of its creditors; and
- The liquidation amount of the trust preferred securities if CBA Capital Trust is liquidated, to the extent that CBA Capital Trust has funds available after payment of its creditors.

The Bank's guarantee does not cover the non-payment of distributions on the funding preferred securities to the extent that CBA Funding Trust does not have sufficient funds available to pay distributions on the funding preferred securities.

Trust preferred securities have limited voting rights.

Trust preferred securities have the right to bring a direct action against the Bank if:

- The Bank's New Zealand branch does not pay interest or the redemption price of the convertible notes to CBA Funding Trust in accordance with their terms;
- The Bank's New Zealand branch does not deliver ADS representing preference shares to CBA Funding Trust in accordance with the terms of the convertible notes;
- The Bank does not perform its obligations under its guarantees with respect to the trust preferred securities and the funding preferred securities; or
- The Bank does not deliver cash or ordinary shares on 30 June 2015.

⁽⁵⁾ PERLS III

On 6 April 2006 a wholly owned entity of the Bank (Preferred Capital Limited "PCL") issued \$1,166 million of Perpetual Exchangeable Repurchaseable Listed Shares (PERLS III). PERLS III are preference shares in a special purpose Company, (the ordinary shares of which are held by the Bank), perpetual in nature, offering a non-cumulative floating rate distribution payable quarterly. PERLS III were issued into the Australian capital markets and are subject to Australian law. They qualify as innovative residual Tier One capital of the Bank.

Notes to the Financial Statements

Note 26 Loan Capital (continued)

The Dividends paid to PERLS III Holders will be primarily sourced from interest paid on the Convertible Notes issued by CBA NZ to PCL. The payment of interest on the underlying Convertible Notes and Dividends on PERLS III are not guaranteed and are subject to a number of conditions including the availability of profits and the Board (of the Bank in relation to Convertible Note interest, or of PCL in relation to PERLS III Dividends) resolving to make the payment.

The Dividend Rate is a floating rate calculated for each Dividend Period as the sum of the Margin per annum plus the Market Rate per annum multiplied by (1 – Tax Rate). The Initial Margin is 1.05% over Bank Bill Swap Rate and the Step-up Margin, effective from the “Step-up Date” on 6 April 2016, is the Initial Margin plus 1.00% per annum.

If each PERLS III Holder is not paid a dividend in full within 20 Business Days of the Dividend Payment Date, the Bank is prevented from paying any interest, dividends or distributions, or undertaking certain other transactions, in relation to any securities of the Bank that rank for interest payments or distributions equally with, or junior to, the Convertible Notes or Bank PERLS III Preference Shares. This Dividend Stopper applies until an amount in aggregate equal to the full dividend on PERLS III for four consecutive dividend periods has been paid to PERLS III Holders.

PERLS III will automatically exchange for Bank PERLS III Preference Shares:

- On a failure by PCL to pay a Dividend;
- At any time at the Bank’s discretion; or
- 10 Business Days before the Conversion Date.

Subject to APRA approval, PCL may elect to exchange PERLS III for the Conversion Number of Bank Ordinary Shares or \$200 cash for each PERLS III:

- On the Step-up Date or any Dividend Payment Date after the Step-up Date; or
- If a Regulatory Event or Tax Event occurs.

PERLS III will automatically exchange for Bank Ordinary Shares if:

- An APRA Event occurs;
- A Default Event occurs; or
- A Change of Control Event occurs.

PERLS III will be automatically exchanged for Bank PERLS III Preference Shares no later than 10 Business Days prior to 6 April 2046 (if they have not been exchanged before that date).

Holders are not entitled to request exchange or redemption of PERLS III or Bank PERLS III Preference Shares.

Holders of PERLS III are entitled to vote at a general meeting of PCL on certain issues. PERLS III holders have no rights at any meeting of the Bank.

⁽⁶⁾ PERLS IV

On 12 July 2007 the Bank issued \$1,465 million of Perpetual Exchangeable Resalable Listed Securities (PERLS IV). PERLS IV are stapled securities comprising an unsecured subordinated note issued by the Bank’s New York branch and a convertible preference share issued by the Bank. These securities are perpetual in nature, offer a non-cumulative floating distribution rate payable quarterly. PERLS IV were issued into the Australian capital markets and are subject to Australian law. They qualify as non-innovative residual Tier One capital of the Bank.

The payment of interest on the underlying convertible notes and dividends on PERLS IV are not guaranteed and are subject to a number of conditions including the availability of profits and the ability of the Board to stop payments.

The distribution rate is a floating rate calculated for each distribution period as the sum of the Bank Bill Swap Rate plus 1.05% per annum, multiplied by (1 – Tax Rate).

Distributions paid to holders will be interest on notes until an Assignment Event, and dividends on preference shares after the Assignment Event. Upon an Assignment Event, the notes are de-stapled from the preference shares and are assigned to the Bank and investors continue to hold preference shares.

If distributions on PERLS IV are not paid in full within 20 business days of the payment date, an Assignment Event will occur and the Bank is prevented from paying any interest, dividends or distributions in relation to any securities of the Bank that rank equally with or junior to the preference shares. This “dividend stopper” applies until:

- A Special Resolution of Holders authorising the payment, capital return, buy-back, redemption or repurchase is approved, and APRA does not otherwise object;
- An Optional Dividend of an amount in aggregate equal to the unpaid amount for the preceding four consecutive Distribution Periods has been paid to Holders;
- Four consecutive Dividends scheduled to be payable on PERLS IV thereafter have been paid in full; or
- All PERLS IV have been exchanged.

PERLS IV are expected to be exchanged for cash or converted into ordinary shares of the Bank on 31 October 2012. However, exchange may not occur if certain conditions are not met. On 31 October 2012;

- The Bank may arrange a resale by requiring all Holders to sell their PERLS IV to a third party for \$200 (the face value);
- If the Bank does not arrange a resale, an Assignment Event will occur and PERLS IV will convert into a variable number of ordinary shares of the Bank subject to some conditions relating to the ordinary share price at the time;
- If these conversion conditions are not satisfied on that date, then the conversion date moves to the next distribution payment date on which they are satisfied; and
- In certain circumstances, where the conversion conditions are not satisfied, the Bank may (subject to APRA’s prior approval) elect to repurchase all PERLS IV for \$200 each.

The Bank may, subject to APRA’s prior approval, elect to exchange all PERLS IV for cash and/or ordinary shares if any of the following occurs:

- Tax Event;
- Regulatory Event; and
- Non-Operating Holding Company (NOHC) Event.

The Bank’s ability to convert PERLS IV on the occurrence of any of these events is subject to the same conversion conditions as mentioned above.

If a change of control event occurs, Holders will receive cash for all of their PERLS IV (subject to APRA’s approval).

Holders are not entitled to request exchange or redemption of PERLS IV.

Notes to the Financial Statements

Note 26 Loan Capital (continued)

Holders of PERLS IV have no right to vote at any meeting of the Bank except in the following specific circumstances:

- during a period during which a Dividend (or part of a Dividend) in respect of the Preference Shares is in arrears;
- on a proposal to reduce the Bank's share capital;
- on a proposal that affects rights attached to Preference Shares;
- on a resolution to approve the terms of a buy-back agreement;
- on a proposal to wind up the Bank;
- on a proposal for the disposal of the whole of the Bank's property, business and undertaking; and
- during the winding-up of the Bank.

⁽⁷⁾ PERLS V

On 14 October 2009 the Bank issued \$2,000 million of Perpetual Exchangeable Resalable Listed Securities (PERLS V). PERLS V are stapled securities comprising an unsecured subordinated note issued by the Bank's New Zealand branch and a convertible preference share issued by the Bank. These securities are perpetual in nature, offer a non-cumulative floating distribution rate payable quarterly. PERLS V were issued into the Australian capital markets and are subject to Australian law. They qualify as non-innovative residual Tier One capital of the Bank.

The payment of interest on the underlying convertible notes and dividends on PERLS V are not guaranteed and are subject to a number of conditions including the availability of profits and the ability of the Board to stop payments.

The distribution rate is a floating rate calculated for each distribution period as the sum of the Bank Bill Swap Rate plus 3.40% per annum, multiplied by (1 – Tax Rate).

Distributions paid to holders will be interest on notes until an Assignment Event, and dividends on preference shares after the Assignment Event. Upon an Assignment Event, the notes are de-stapled from the preference shares and are assigned to the Bank and investors continue to hold preference shares.

If distributions on PERLS V are not paid in full within 20 business days of the payment date, an Assignment Event will occur and the Bank is prevented from paying any interest, dividends or distributions in relation to any securities of the Bank that rank equally with or junior to the preference shares. This "dividend stopper" applies until:

- A Special Resolution of Holders authorising the payment, capital return, buy-back, redemption or repurchase is approved, and APRA does not otherwise object;
- An Optional Dividend of an amount in aggregate equal to the unpaid amount for the preceding four consecutive Distribution Periods has been paid to Holders;
- Four consecutive Dividends scheduled to be payable on PERLS V thereafter have been paid in full; or
- All PERLS V have been exchanged.

PERLS V are expected to be exchanged for cash or converted into ordinary shares of the Bank on 31 October 2014. However, exchange may not occur if certain conditions are not met. On 31 October 2014:

- The Bank may arrange a resale by requiring all Holders to sell their PERLS V to a third party for \$200 (the face value);
- If the Bank does not arrange a resale, an Assignment Event will occur and PERLS V will convert into a variable number of ordinary shares of the Bank subject to some conditions relating to the ordinary share price at the time;

- In certain circumstances, where the conversion conditions are not satisfied, the Bank may (subject to APRA's prior approval) elect to repurchase all PERLS V for \$200 each; or
- If PERLS V are not exchanged on this date, the same possible outcomes will apply to each subsequent distribution payment date until exchange occurs.

The Bank may, subject to APRA's prior approval, elect to exchange all PERLS V for cash and/or ordinary shares if any of the following occurs:

- Tax Event;
- Regulatory Event; and
- Non-Operating Holding Company (NOHC) Event.

The Bank's ability to convert PERLS V on the occurrence of any of these events is subject to the same conversion conditions as mentioned above.

If an Acquisition Event occurs, Holders will receive cash or ordinary shares for all of their PERLS V (subject to APRA's approval).

Holders are not entitled to request exchange or redemption of PERLS V.

Holders of PERLS V have no right to vote at any meeting of the Bank except in the following specific circumstances:

- during a period during which a Dividend (or part of a Dividend) in respect of the Preference Shares is in arrears;
- on a proposal to reduce the Bank's share capital;
- on a proposal that affects rights attached to Preference Shares;
- on a resolution to approve the terms of a buy-back agreement;
- on a proposal to wind up the Bank;
- on a proposal for the disposal of the whole of the Bank's property, business and undertaking; and
- during the winding-up of the Bank.

⁽⁸⁾ TPS 2006

On 15 March 2006 a wholly owned entity of the Bank (CBA Capital Trust II) issued USD 700 million (\$942 million) of perpetual trust preferred securities which can be redeemed after the first 10 years. The securities were issued into the US capital markets and are subject to Delaware and New York law.

Each trust preferred security represents a preferred beneficial ownership interest in the assets of CBA Capital Trust II, a statutory trust established under Delaware law. The sole assets of the CBA Capital Trust II are USD subordinated notes issued by a New Zealand subsidiary of the Bank, preference shares issued by the Bank, and a limited guarantee by the Bank's New Zealand branch. Each subordinated note held by CBA Capital Trust II forms a unit with a Bank preference share held by CBA Capital Trust II. The trust preferred securities form part of the Bank's innovative residual Tier One capital.

The Bank's New Zealand subsidiary applied the proceeds of its subordinated note issue to CBA Capital Trust II to purchase USD notes from the Bank's New Zealand branch.

Cash distributions on the trust preferred securities are at the fixed rate of 6.024% are payable semi-annually to 15 March 2016. After that date, cash distributions on the trust preferred securities will accrue at the rate of LIBOR plus 1.740% per annum payable quarterly in arrears.

Note 26 Loan Capital (continued)

Cash distributions on the trust preferred securities will be limited to the interest the Bank's New Zealand subsidiary pays on the subordinated notes, payments in respect of interest on the subordinated notes by the Bank's New Zealand branch as guarantor under the subordinated notes guarantee and, after 15 March 2016, the dividends the Bank pays on the Bank preference shares. Payments in respect of cash distributions will be guaranteed on a subordinated basis by the Bank, as guarantor, but only to the extent CBA Capital Trust II has funds sufficient for the payment.

There are restrictions on the Bank's New Zealand subsidiary's ability to make payments on the subordinated notes, the Bank's New Zealand branch's ability to make payments on the Bank's New Zealand branch notes and the subordinated notes guarantee and the Bank's ability to make payments on the Bank preference shares. Distributions on the trust preferred securities are not cumulative.

Failure to pay in full a distribution within 21 business days will result in the distribution to holders of one Bank preference share for each trust preferred security held in redemption of the trust preferred securities.

If CBA Capital Trust II is liquidated, dissolved or wound up and its assets are distributed, for each trust preferred security, holders are entitled to receive the stated liquidation amount of USD 1,000, plus the accrued but unpaid distribution for the then current distribution payment period, after it has paid liabilities it owes to its creditors.

The trust preferred securities are subject to redemption for cash, qualifying Tier One securities or Bank preference shares if the Bank redeems or varies the terms of the Bank preference shares. The trust preferred securities are also subject to redemption if any other Assignment Event occurs.

If the Bank preference shares are redeemed for qualifying Tier One securities or the terms thereof are varied, holders will receive one Bank preference share or USD 1,000 liquidation amount or similar amount of qualifying Tier One securities for each trust preferred security held.

Holders of trust preferred securities generally will not have any voting rights except in limited circumstances.

The holders of a majority in liquidation amount of the trust preferred securities, acting together as a single class, however, have the right to direct the time, method and place of conducting any proceeding for any remedy available to the property trustee of CBA Capital Trust II or direct the exercise of any trust or power conferred upon the property trustee of CBA Capital Trust II, as holder of the subordinated notes and the Bank preference shares.

Trust preferred securities holders have the right to bring a direct action against:

- The Bank's New Zealand subsidiary if the Bank's New Zealand subsidiary does not pay when due, interest on the subordinated notes or certain other amounts payable under the subordinated notes to CBA Capital Trust II in accordance with their terms;
- The Bank if it does not perform its obligations under the trust guarantee; and
- The Bank's New Zealand branch or the Bank if the Bank's New Zealand branch does not perform its obligations under the subordinated notes guarantee or under the Bank's New Zealand branch notes.

The Bank will guarantee the trust preferred securities:

- Cash distributions on the trust preferred securities by CBA Capital Trust II to holders of trust preferred securities on distribution payment dates, to the extent CBA Capital Trust II has funds available for distribution;
- The cash redemption amount due to holders of trust preferred securities if CBA Capital Trust II is obligated to redeem the trust preferred securities for cash, to the extent CBA Capital Trust II has funds available for distribution;
- The delivery of Bank preference shares or qualifying Tier One securities to holders of trust preferred securities if CBA Capital Trust II is obligated to redeem the trust preferred securities for Bank preference shares or qualifying Tier One securities, to the extent CBA Capital Trust II has or is entitled to receive such securities available for distribution; and
- The payment of the liquidation amount of the trust preferred securities if CBA Capital Trust II is liquidated, to the extent that CBA Capital Trust II has funds available for distribution.

The trust guarantee does not cover the failure to pay distributions or make other payments or distributions on the trust preferred securities to the extent that CBA Capital Trust II does not have sufficient funds available to pay distributions or make other payments or deliveries on the trust preferred securities.

Upon the occurrence of an Assignment Event, with respect to the subordinated notes comprising a part of the units CBA Capital Trust II holds to which such Assignment Event applies:

- The subordinated notes will detach from the Bank's preference shares that are part of those units and automatically be transferred to CBA;
- If the Assignment Event is the cash redemption of the Bank preference shares, upon receipt, CBA Capital Trust II will pay to the holders of the trust preferred securities called for redemption the cash redemption price for those Bank preference shares and the accrued and unpaid interest on the subordinated notes that were part of the units with those Bank preference shares; and
- If the Assignment Event is not the cash redemption of Bank preference shares, CBA Capital Trust II will deliver to all holders of trust preferred securities in redemption thereof one Bank preference share for each USD 1,000 liquidation preference of trust preferred securities to be redeemed or, if qualifying Tier One securities are delivered, USD 1,000 liquidation amount or similar amount of qualifying Tier One securities for each USD 1,000 liquidation amount of trust preferred securities to be redeemed, and the Bank preference shares or qualifying Tier One securities will accrue non-cumulative dividends or similar amounts at the rate of 6.024% per annum to but excluding 15 March 2016 and at the rate of LIBOR plus 1.740% per annum thereafter.

If the Bank is liquidated, holders of Bank preference shares will be entitled to receive an amount equal to a liquidation preference out of surplus assets of USD 1,000 per Bank preference share plus accrued and unpaid dividends for the then current dividend payment period plus any other dividends or other amounts to which the holder is entitled under the Constitution.

Notes to the Financial Statements

Note 26 Loan Capital (continued)

Subject to APRA's prior approval, prior to the occurrence of an Assignment Event that applies to all of the subordinated notes, the Bank may pay an optional dividend on the Bank preference shares if the Bank's New Zealand subsidiary or the Bank's New Zealand branch, as guarantor, has failed to pay in full interest on the subordinated notes or the Bank has failed to pay in full dividends on the Bank preference shares on any interest payment date and/or dividend payment date.

On or after 15 March 2016, the Bank may redeem the Bank preference shares for cash, in whole or in part, on any date selected by the Bank at a redemption price equal to USD 1,000 per share plus any accrued and unpaid dividends for the then current dividend payment period, if any.

Prior to 15 March 2016, the Bank may redeem the Bank preference shares for cash, vary the terms of the preference shares or redeem the preference shares for qualifying Tier One securities, in whole but not in part, on any date selected by the Bank:

- If the Bank preference shares are held by CBA Capital Trust II, upon the occurrence of a trust preferred securities tax event, an adverse tax event, an investment Company event or a regulatory event; or
- If the Bank preference shares are not held by CBA Capital Trust II, upon the occurrence of a preference share withholding tax event, an adverse tax event or a regulatory event.

Holders of Bank preference shares will be entitled to vote together with the holders of CBA ordinary shares on the basis of one vote for each Bank preference share:

- During a period in which a dividend (or part of a dividend) in respect of the Bank preference shares is in arrears;
- On a proposal to reduce share capital;
- On a proposal that affects rights attached to the Bank preference shares;
- On a resolution to approve the terms of a Buy-back agreement;
- On a proposal for the disposal of the whole of the Group's property, business and undertaking; and
- On a proposal to wind up and during the winding up of the Group.

The rights attached to the Bank preference shares may not be changed except with any required regulatory approvals and with the consent in writing of the holders of at least 75% of the Bank preference shares.

The Bank's New Zealand subsidiary may not make payments on the subordinated notes, the Bank's New Zealand branch may not make payments on the subordinated notes guarantee or the Bank's New Zealand branch notes, and the Bank may not make payments on the Bank preference shares if an APRA condition exists; if the Bank's stopper resolution has been passed and not been rescinded or if the Bank's New Zealand subsidiary, the Bank's New Zealand branch or the Bank, as the case may be, is prohibited from making such a payment by instruments or other obligations of the Bank.

If distributions, interest or dividends are not paid in full on a payment date; the redemption price is not paid or securities are not delivered in full on a redemption date for the trust preferred securities or the Bank preference shares, then the Bank may not pay any interest; declare or pay any dividends or distributions from the income or capital of the Bank, or return any capital or undertake any buy-backs, redemptions or repurchases of existing capital securities or any securities, or instruments of the Bank that by their terms rank or are expressed to rank equally with or junior to the Bank's New Zealand branch notes or the Bank preference shares for payment of interest, dividends or similar amounts unless and until:

- In the case of any non-payment of distributions on the trust preferred securities on any distribution payment date, on or within 21 business days after any distribution payment date, CBA Capital Trust II or the Bank, as guarantor, has paid in full to the holders of the trust preferred securities any distributions owing in respect of that distribution payment date through the date of actual payment in full;
- In the case of any non-payment of a dividend on the Bank preference shares on any dividend payment date, the Bank has paid (a) that dividend in full on or within 21 business days after that dividend payment date, (b) an optional dividend equal to the unpaid amount of scheduled dividends for the 12 consecutive calendar months prior to the payment of such dividend or (c) dividends on the Bank preference shares in full on each dividend payment date during a 12 consecutive month period;
- In the case of any non-payment of interest on the subordinated notes on any interest payment date, (a) on or within 21 business days after any interest payment date, (i) the Bank's New Zealand subsidiary or the Bank's New Zealand branch, as guarantor, has paid in full to the holders of the subordinated notes any interest and other amounts owing in respect of that interest payment date (excluding defaulted note interest) through the date of actual payment in full or (ii) with the prior approval of APRA, the Bank has paid in full to holders of the subordinated notes an assignment prevention optional dividend in an amount equal to such interest and any other amounts, or (b) the Bank has paid dividends on the Bank preference shares in full on each dividend payment date during a 12 consecutive month period; and
- In the case of any non-payment of the redemption price or non-delivery of the securities payable or deliverable with respect to Bank preference shares or the trust preferred securities, such redemption price or securities have been paid or delivered in full, as applicable; then there are restrictions on the Bank paying any interest on equal ranking or junior securities.

Note 26 Loan Capital (continued)

⁽⁹⁾ AUD denominated Tier Two Loan Capital issuances

- \$275 million extendible floating rate note issued December 1989, due December 2014.

The Bank has entered into a separate agreement with the Commonwealth of Australia relating to the above issue (the "Agreement") which provides that, if certain events occur, the Bank may issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth of Australia) a renounceable rights issue for fully paid ordinary shares to all shareholders, at the prevailing market price for the Bank's shares, up to an amount equal to the outstanding principal value of the note issue plus any accrued interest declared due and payable. The capital so raised must be used to pay the amounts due and payable. Events that will trigger the issue of shares include a failure to pay interest due within 7 business days of the due date.

Other outstanding notes at 30 June 2011 were:

- \$25 million subordinated FRN, issued April 1999, due April 2029;
- \$200 million subordinated floating rate notes, issued September 2006, due September 2016;
- \$500 million subordinated notes, issued May 2007, due May 2017; split into \$150 million fixed rate notes and \$350 million floating rate notes; and
- \$500 million subordinated floating rate notes, issued September 2008, due September 2018.

⁽¹⁰⁾ USD denominated Tier Two Loan Capital issuances

- USD 350 million subordinated fixed rate note, issued June 2003, due June 2018;
- USD 200 million subordinated notes, issued June 2006, due July 2016;
- USD 300 million subordinated floating rate notes, issued September 2006, due September 2016; and
- USD 650 million subordinated floating rate notes, issued December 2006, due December 2016.

⁽¹¹⁾ JPY denominated Tier Two Loan Capital issuances

- JPY 20 billion perpetual subordinated EMTN, issued February 1999;
- JPY 30 billion subordinated EMTN, issued October 1995 due October 2015;
- JPY 10 billion subordinated notes, issued November 2005, due November 2035;
- JPY 5 billion subordinated loan, issued March 2006, due March 2018; and
- JPY 9 billion perpetual subordinated notes, issued May 1996.

⁽¹²⁾ GBP denominated Tier Two Loan Capital issuances

GBP 150 million subordinated EMTN, issued June 2003, due December 2023.

⁽¹³⁾ Other currencies Tier Two Loan Capital issuances

- EUR 1,000 million subordinated notes, issued August 2009, due August 2019;
- CAD 300 million subordinated notes, issued October 2007, due October 2017;
- NZD 350 million subordinated notes, issued May 2005, due April 2015.
- On 18 May 2005 a wholly owned entity of the Bank (CBA Capital Australia Limited) issued NZD 350 million redeemable preference shares. Each redeemable preference share is a fixed term obligation of CBA Capital Australia Limited paying quarterly cumulative dividends until maturity. The redeemable preference shares:
 - are not guaranteed by the Bank;
 - were issued into the New Zealand capital markets;
 - are subject to New Zealand and New South Wales law; and
 - form part of the Bank's Lower Tier Two capital.
- CBA Capital Australia applied all of the proceeds from the sale of the redeemable preference shares to invest in redeemable preference shares issued by CBA Capital Australia (No 2) Pty Ltd, which in turn invested the proceeds in NZD subordinated notes issued by the Bank's New Zealand branch.
- The Dividend Rate is calculated for each Dividend Period as the sum of the Margin per annum plus the Market Rate per annum multiplied by (1 – Tax Rate). The Margin is 0.75% per annum. The Market Rate is the New Zealand 1 year swap rate. CBA Capital Australia's ability to pay dividends is ultimately dependent upon the ability of the Bank's New Zealand branch to make payments on the NZD subordinated notes, and subject to the directors discretion not to pay or to defer the payment.
- The redeemable preference shares are to be redeemed or repurchased by CBA Capital Australia on 15 April 2015. Subject to APRA approval and the requisite notice, CBA Capital Australia is also entitled to redeem or repurchase the redeemable preference shares earlier on each 15 April until maturity, or if a regulatory or tax event occurs.
- NZD 370 million subordinated notes, issued November 2007, due November 2017.

Notes to the Financial Statements

Note 27 Shareholders' Equity

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Ordinary Share Capital ⁽¹⁾				
Opening balance	23,081	21,642	23,379	21,825
Dividend reinvestment plan (net of issue costs) ⁽³⁾	511	1,457	511	1,457
Exercise of executive options under employee share ownership schemes	6	2	6	2
Sale/(purchase) and vesting of treasury shares ⁽²⁾	4	(20)	-	95
Closing balance	23,602	23,081	23,896	23,379
Other Equity Instruments ⁽¹⁾				
Opening balance	939	939	1,895	1,895
Closing balance	939	939	1,895	1,895
Retained Profits				
Opening balance	9,938	7,825	7,880	6,009
Actuarial losses from defined benefit superannuation plans	(89)	(64)	(89)	(64)
Realised gains and dividend income on treasury shares ⁽¹⁾	20	30	-	-
Operating profit attributable to Equity holders of the Bank	6,394	5,664	6,480	5,615
Total available for appropriation	16,263	13,455	14,271	11,560
Transfers from/(to) general reserve	270	197	-	-
Transfers from employee compensation reserve	-	(93)	-	(93)
Interim dividend - cash component	(1,532)	(1,067)	(1,532)	(1,067)
Interim dividend - dividend reinvestment plan ⁽³⁾	(513)	(774)	(513)	(774)
Final dividend - cash component	(2,633)	(1,058)	(2,633)	(1,058)
Final dividend - dividend reinvestment plan ⁽⁴⁾	-	(688)	-	(688)
Other dividends	(29)	(34)	-	-
Closing balance	11,826	9,938	9,593	7,880

(1) Refer Note 28.

(2) Relates to movement in treasury shares held within life insurance statutory funds and the employee share scheme trust.

(3) The declared dividend includes an amount attributable to the DRP of \$513 million (Interim 2010/2011), with \$511 million issued in ordinary shares due to rounding under the plan rules. The rounding amount will be included in the next DRP allocations.

(4) The DRP in respect of the 2010 final dividend was satisfied in full by an on market purchase and transfer of shares to participating shareholders.

Notes to the Financial Statements

Note 27 Shareholders' Equity (continued)

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Reserves				
General Reserve				
Opening balance	1,248	1,445	570	570
Appropriation (to)/from retained profits	(270)	(197)	-	-
Closing balance	978	1,248	570	570
Capital Reserve				
Opening balance	319	299	1,567	1,550
Revaluation surplus on sale of property	9	20	9	17
Closing balance	328	319	1,576	1,567
Asset Revaluation Reserve				
Opening balance	194	173	163	148
Revaluation of properties	6	50	9	39
Transfers on sale of properties	(9)	(20)	(9)	(17)
Tax on revaluation of properties	-	(9)	-	(7)
Closing balance	191	194	163	163
Foreign Currency Translation Reserve				
Opening balance	(553)	(533)	(136)	(70)
Currency translation adjustments of foreign operations	(559)	(41)	(216)	(63)
Currency translation on net investment hedge	13	(4)	12	(4)
Transfer to Income Statement on disposal of foreign operations	-	26	-	-
Tax on translation adjustments	16	(2)	10	-
Tax on net investment hedge movement	-	1	-	1
Closing balance	(1,083)	(553)	(330)	(136)
Cash Flow Hedge Reserve				
Opening balance	(417)	(813)	(312)	(460)
Gains and losses on cash flow hedging instruments:				
Recognised in equity	(754)	(239)	(748)	11
Transferred to Income Statement				
Interest income	(41)	(864)	24	(683)
Interest expense	810	1,692	626	891
Tax on cash flow hedging instruments	-	(193)	23	(71)
Closing balance	(402)	(417)	(387)	(312)
Employee Compensation Reserve				
Opening balance	125	-	125	-
Current period movement	10	125	10	125
Closing balance	135	125	135	125
Available-for-Sale Investments Reserve				
Opening balance	173	(55)	70	(41)
Net gains and losses on revaluation of available-for-sale investments	124	327	264	160
Net gains and losses on available-for-sale investments transferred to Income Statement on disposal	(24)	(24)	(24)	(16)
Net gains and losses on available-for-sale investments transferred to Income Statement for impairment	-	2	-	-
Tax on available-for-sale investments	(28)	(77)	(73)	(33)
Closing balance	245	173	237	70
Total reserves	392	1,089	1,964	2,047
Shareholders' equity attributable to Equity holders of the Bank	36,759	35,047	37,348	35,201
Shareholders' equity attributable to non-controlling interests	528	523	-	-
Total shareholders' equity	37,287	35,570	37,348	35,201

Notes to the Financial Statements

Note 28 Share Capital

	Group			Bank
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Issued and paid up ordinary capital				
Ordinary Share Capital				
Opening balance (excluding Treasury Shares deduction)	23,379	21,920	23,379	21,920
Dividend reinvestment plan: Final dividend prior year ⁽¹⁾	-	685	-	685
Dividend reinvestment plan: Interim dividend ⁽²⁾	511	772	511	772
Exercise of executive options under employee share ownership	6	2	6	2
Closing balance (excluding Treasury Shares deduction)	23,896	23,379	23,896	23,379
Less: Treasury Shares ⁽³⁾	(294)	(298)	-	-
Closing balance	23,602	23,081	23,896	23,379

(1) The DRP in respect of the 2010 final dividend was satisfied in full by an on market purchase and transfer of shares to participating shareholders.

(2) The declared dividend includes an amount attributable to the DRP of \$513 million (interim 2010/2011), with \$511 million issued in ordinary shares due to rounding under the plan rules. The rounding amounts will be included in the next DRP allocations.

(3) Relates to treasury shares held within life insurance statutory funds and the employee share scheme trust.

	Group			Bank
	2011	2010	2011	2010
	Shares	Shares	Shares	Shares
Number of shares on issue				
Opening balance (excluding Treasury Shares deduction)	1,548,737,374	1,518,801,069	1,548,737,374	1,518,801,069
Dividend reinvestment plan issues:				
2008/2009 Final dividend fully paid ordinary shares \$44.48	-	15,412,513	-	15,412,513
2009/2010 Interim dividend fully paid ordinary shares \$53.56	-	14,421,452	-	14,421,452
2009/2010 Final dividend fully paid ordinary shares \$51.75 ⁽¹⁾	-	-	-	-
2010/2011 Interim dividend fully paid ordinary shares \$52.92	9,682,670	-	9,682,670	-
Exercise of executive options under employee share ownership schemes	217,200	102,340	217,200	102,340
Closing balance (excluding Treasury Shares deduction)	1,558,637,244	1,548,737,374	1,558,637,244	1,548,737,374
Less: Treasury Shares	(6,363,549)	(6,647,087)	-	-
Closing balance	1,552,273,695	1,542,090,287	1,558,637,244	1,548,737,374

(1) The DRP in respect of the 2010 final dividend was satisfied in full by an on market purchase and transfer of shares to participating shareholders.

Ordinary Share Capital

Ordinary shares have no par value and the company does not have a limited amount of share capital.

Ordinary shares entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of fully paid ordinary shares held.

On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

	Group			Bank
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Other equity instruments				
Issued and paid up	939	939	1,895	1,895
	Shares	Shares	Shares	Shares
Number of shares	700,000	700,000	1,400,000	1,400,000

Trust Preferred Securities 2006

On 15 March 2006 the Bank issued USD 700 million (\$947 million) of trust preferred securities into the U.S. capital markets. These securities offer a non-cumulative fixed rate of distribution of 6.024% per annum payable semi-annually.

These securities qualify as Tier One Capital of the Bank. A related instrument was issued by the Bank to a subsidiary for \$956 million and eliminates on consolidation.

Notes to the Financial Statements

Note 28 Share Capital (continued)

Dividends

The Directors have declared a fully franked final dividend of 188 cents per share amounting to \$2,930 million. The dividend will be payable on 6 October 2011 to shareholders on the register at 5pm EST on 19 August 2011.

The Board determines the dividends based on net profit after tax ("cash basis") per share, having regard to a range of factors including:

- Current and expected rates of business growth and the mix of business;
- Capital needs to support economic, regulatory and credit ratings requirements;
- Investments and/or divestments to support business development;
- Competitors comparison and market expectation; and
- Earnings per share growth.

Dividends paid since the end of the previous financial year

- A fully franked final dividend of 170 cent per share amounting to \$2,633 million was paid on 1 October 2010. This was satisfied by cash disbursements of \$2,633 million including the on market purchase and transfer of \$679 million of shares to participating shareholders under the DRP; and
- A fully franked interim dividend of 132 cents per share amounting to \$2,045 million was paid on 1 April 2011. The payment comprised cash disbursements of \$1,532 million with \$513 million being reinvested by participants through the DRP.

Dividend Reinvestment Plan

The Bank expects to issue around \$733 million of shares in respect of the DRP for the final dividend for the year ended 30 June 2011.

Record date

The register closes for determination of dividend entitlement and for participation in the DRP at 5pm EST on 19 August 2011 at Link Market Services Limited, Locked Bag A14, Sydney South, 1235.

Ex-dividend Date

The ex-dividend date is 15 August 2011.

Note 29 Share Based Payments

The Group operates a number of cash and equity settled share plans as detailed below.

Overview of changes for 2011

The Group introduced two new plans during the year:

- The Employee Share Plan (ESP), used for the mandatory deferral of a portion of senior employees' short term incentives (STI), sign-on incentive and retention awards; and
- The Employee Salary Sacrifice Share Plan (ESSSP), used for voluntary employee equity participation.

These replaced similar previous plans which have been closed to new offers and grandfathered. Awards were made for the first time under the ESP and ESSSP during the 2011 financial year.

Employee Share Acquisition Plan

Under the Employee Share Acquisition Plan (ESAP), eligible employees have the opportunity to receive up to \$1,000 worth of shares each year (at no cost to them) if the Group meets the required performance hurdles.

To be eligible for an award each employee must achieve a minimum level of performance and service. The value of the shares an individual receives is determined by the Group's performance against a hurdle. The performance hurdle is growth in annual profit of the greater of 5% or the consumer price index (CPI) change plus 2%, and is subject to Board discretion.

The number of shares a participant receives is calculated by dividing the award amount by the average price paid for Bank shares purchased during the purchase period preceding the grant date. Shares granted are restricted from sale until the earlier of three years or until such time as the participant ceases employment with the Group. Participants receive full dividend entitlements and voting rights attached to those shares. The Group achieved the performance target for 2010 resulting in \$1,000 worth of shares being awarded to each eligible employee.

The September 2009 award represents a partial grant of approximately \$600 worth of shares to each employee.

The following table provides details of shares granted under the ESAP during the current and previous financial years ended 30 June.

Period	Allocation date	Participants	Number of shares allocated by participant	Total number of shares allocated	Issue price \$	Total fair value \$
2011	21 Sep 2010	26,023	19	494,437	51.75	25,587,115
2010	11 Sep 2009	24,559	13	319,267	46.79	14,938,502

It is estimated that approximately \$26.0 million of ordinary shares will be purchased on-market at the prevailing market price for the 2011 grant.

Notes to the Financial Statements

Note 29 Share Based Payments (continued)

International Employee Share Acquisition Plan

A limited number of employees receive cash-based versions of ESAP under the International Employee Share Acquisition Plan (IESAP). Like the ESAP, eligible employees can receive an award up to \$1,000 determined by the Group's performance against a hurdle. The performance hurdle is growth in annual profit of the greater of 5% or the CPI change plus 2%, and is subject to Board discretion. To be eligible for an award each employee must achieve a minimum level of performance and service. Under IESAP participants receive grants of performance units, which are monetary units with a value linked to the Bank's share price. IESAP performance units vest if the participant remains employed by the Group until the vesting date.

On meeting the vesting conditions, a cash payment is made to the participant, the value of which is determined based on the Bank's share price upon vesting.

A total of \$0.1 million has been expensed during the year (2010: \$0.1 million) in respect of this plan

Employee Share Plan

The Employee Share Plan (ESP) replaced the Equity Participation Plan (EPP) for awards made from 1 July 2010 and facilitates mandatory short term incentive (STI) deferral, sign-on incentives and retention awards.

Under the ESP, shares awarded generally vest if the participant remains in employment of the Group until the vesting date. The Group purchases fully paid ordinary shares and holds these in trust until such time as the vesting conditions are met. ESP shares receive full dividend and voting rights. Participants may direct the Trustee on how the voting rights are to be exercised during the vesting period. Dividends accrue in the trust and are paid to participants upon vesting of the shares. Where a participant does not satisfy the vesting conditions, shares and dividend rights are forfeited.

The following table provides details of outstanding awards of shares under the ESP.

Period	Outstanding	Granted	Vested	Forfeited	Outstanding
	1 July				30 June
2011	-	803,400	(17,679)	(13,453)	772,268

The weighted average fair value at grant date of shares awarded during the year was \$52.64 (2010: \$nil). A total of \$16.2 million has been expensed during the year (2010: \$nil) in respect of this plan.

Employee Share (Performance Unit) Plan

A limited number of employees receive awards under a cash-based version of ESP through the Employee Share (Performance Unit) Plan (ESPUP). The ESPUP replaced the Equity Participation (Performance Unit) Plan for awards made from 1 July 2010 and facilitates mandatory STI deferral, sign-on incentives and retention awards. Under ESPUP participants receive grants of performance units, which are monetary units with a value linked to the Bank's share price. Performance units vest if the participant remains employed by the Group until the vesting date.

On meeting the vesting conditions, a cash payment is made to the participant, the value of which is determined based on the Bank's share price upon vesting plus an accrued dividend value.

The following table provides details of outstanding awards of performance units granted under the ESPUP.

Period	Outstanding	Granted	Vested	Forfeited	Outstanding
	1 July				30 June
2011	-	101,548	(4,116)	(1,789)	95,643

The weighted average fair value at grant date of performance units issued during the year was \$51.72 (2010: \$nil). A total of \$1.0 million has been expensed during the year (2010: \$nil) in respect of this plan.

Group Employee Rights Plan

The Group Employee Rights Plan (GERP) facilitates the mandatory deferral of STI payments for executives of selected subsidiary companies. Under the GERP, participants receive a right to a share which is subject to vesting conditions. The following table provides details of rights granted under GERP during the current and previous financial years ended 30 June.

Allocation period	Outstanding	Granted	Vested	Forfeited	Outstanding
	1 July				30 June
July 2009 - June 2010	11,542	-	(1,521)	-	10,021
July 2010 - June 2011	-	21,946	(878)	-	21,068
2011	11,542	21,946	(2,399)	-	31,089
2010	-	12,112	(570)	-	11,542

The weighted average fair value at grant date of rights issued during the year was \$52.62 (2010: \$52.38). A total of \$0.6 million has been expensed during the year (2010: \$0.2 million) in respect of this plan.

Notes to the Financial Statements

Note 29 Share Based Payments (continued)

Employee Salary Sacrifice Share Plan

Under the Employee Salary Sacrifice Share Plan (ESSSP) Australian-based employees can elect to receive between \$2,000 and \$5,000 of their fixed remuneration and/or annual STI as Bank shares. The ESSSP replaced the voluntary component of the Equity Participation Plan (EPP) from 1 July 2010. Shares are purchased on-market at the current market price and are restricted from sale for a minimum of two years and a maximum of seven years or earlier, if the employee ceases employment with the Group. Shares receive full dividend entitlements and voting rights.

The following table provides details of shares granted under the ESSSP.

Period	Participants	Number of shares purchased	Average share price \$	Total purchase consideration \$
2011	132	8,114	51.98	421,766

Equity Participation Plan

The Equity Participation Plan (EPP), which comprised a voluntary and a mandatory component, was replaced in 2010 by two new plans, the Employee Share Plan and Employee Salary Sacrifice Share Plan. The EPP is now closed to new offers.

The voluntary component allowed for the voluntary sacrifice of both fixed remuneration and annual STI. Under this plan shares were purchased on-market at the current market price and restricted for sale for two years or until such time as the employee ceases employment with the Group.

No new awards were made under the voluntary component of the EPP in 2011. The following table provides details of shares granted under the voluntary component of the EPP in the prior year.

Period	Participants	Number of shares purchased	Average share price \$	Total purchase consideration \$
2010	93	8,267	49.49	409,134

The mandatory component comprises the partial deferral of executives STI payments, together with sign-on and retention awards. Under the mandatory component, shares only vest to participants if they remain in employment of the Group until the vesting date. The Group purchased fully paid ordinary shares and holds these in trust until such time as the vesting conditions are met. Shares receive full dividend and voting rights. Participants may direct the Trustee on how the voting rights are to be exercised during the vesting period. Dividends accrue in the trust and are paid to participants upon vesting of the shares. Where a participant does not satisfy the vesting conditions, shares and dividend rights are forfeited.

The following table provides details of outstanding awards of shares under the mandatory component of EPP.

Allocation period	Outstanding		Vested & Released	Forfeited	Outstanding 30 June
	1 July	Granted			
July 2001- June 2002	30,471	-	(4,797)	-	25,674
July 2002- June 2003	37,659	-	(10,658)	-	27,001
July 2003- June 2004	46,388	-	(11,036)	-	35,352
July 2004- June 2005 ⁽¹⁾	41,745	-	(11,831)	-	29,914
July 2007- June 2008	417,368	-	(383,568)	(421)	33,379
July 2008- June 2009	756,440	-	(143,610)	(14,961)	597,869
July 2009- June 2010	799,541	-	(73,714)	(28,710)	697,117
Total 2011	2,129,612	-	(639,214)	(44,092)	1,446,306
Total 2010	1,621,283	842,885	(246,859)	(87,697)	2,129,612

(1) No awards were allocated from July 2005 to June 2007

The weighted average fair value at grant date of shares awarded during 2010 was \$52.63. A total of \$23.6 million has been expensed during the year (2010: \$35.7 million).

Notes to the Financial Statements

Note 29 Share Based Payments (continued)

Equity Participation (Performance Unit) Plan

A limited number of employees received cash-based versions of EPP through the Equity Participation (Performance Unit) Plan (EPPUP). The EPPUP was replaced by the ESPUP in 2010. The EPPUP is now closed to new offers.

Under the EPPUP, participants received grants of performance units, which are monetary units with a value linked to the Bank's share price. The EPPUP performance units vest if the participant remains employed by the Group until the vesting date. On meeting the vesting conditions, a cash payment is made to the participant, the value of which is determined based on the Bank's share price upon vesting plus an accrued dividend value.

The following table provides details of outstanding awards of performance units under the EPPUP:

Allocation period	Outstanding			Forfeited	Outstanding	
	1 July	Granted	Vested		30 June	
July 2007- June 2008	20,684	-	(19,249)	(1,435)	-	
July 2008- June 2009	28,191	-	(8,530)	(4,071)	15,590	
July 2009 - June 2010	56,875	-	(10,782)	(2,710)	43,383	
Total 2011	105,750	-	(38,561)	(8,216)	58,973	
Total 2010	52,127	57,276	(3,653)	-	105,750	

The average fair value at grant date of performance units issued during 2010 was \$52.38. A total of \$1.2 million (2010: \$1.5 million) has been expensed during the year.

Group Leadership Reward Plan

The Group Leadership Reward Plan (GLRP) is the Group's long term incentive plan for the CEO and Group Executives. The GLRP aims to motivate the efforts of participants to support customer satisfaction and shareholder returns in order to improve long term value and achieve the Group's vision.

Under the GLRP, participants are awarded a maximum number of Reward Rights that may vest at the end of a performance period of up to four years subject to the satisfaction of performance hurdles. Each Reward Right that vests entitles the participant to receive one ordinary Bank share. The Board has discretion to apply a cash equivalent.

Vesting is subject to the satisfaction of certain performance hurdles as follows.

For the award made during the 2010 financial year (FY10 award):

- 50% of the award assessed against Customer Satisfaction compared to a set peer group; and
- 50% of the award assessed against Total Shareholder Return (TSR) compared to a set peer group.

For the award made during the 2011 financial year (FY11 award):

- 25% of the award assessed against Customer Satisfaction compared to a set peer group; and
- 75% of the award assessed against TSR compared to a set peer group.

The Customer Satisfaction peer group consists of the ANZ, NAB, St. George (FY10 award only) and Westpac (for the Group's retail and business banking lines) and other key competitors.

The TSR peer group for both the FY10 and FY11 awards comprises the 20 largest companies listed on the ASX (by market capitalisation) at the beginning of each respective performance period, excluding resources companies and CBA.

Customer satisfaction is determined by the Board with reference to independent external surveys, and TSR is measured independently.

The Board applies a scale when determining the portion of each award to vest at the end of the performance period as follows:

- For the FY10 award, the portion of the award assessed against Customer Satisfaction that will vest is: 100% if CBA is ranked 1st, 75% if CBA is ranked 2nd, and 50% if CBA is ranked 3rd, with no vesting below this level.
- For the FY11 award, the portion of the award assessed against Customer Satisfaction that will vest is: 100% if CBA is ranked 1st across three surveys, 75% if CBA is ranked 1st across two surveys, and 50% if CBA is ranked 2nd across the three surveys. The Board will exercise discretion where CBA's Customer Satisfaction has improved over the performance period, but in a different combination. Where the Board determines that our overall performance is worse at the end of the performance period than at the beginning, none of this portion will vest.

For the portion of the FY10 and FY11 awards assessed against TSR performance, full vesting applies where CBA is ranked in the top quartile of the peer group at the end of the performance period, 50% will vest if CBA is ranked at the median, with vesting on a sliding scale between the median and 75th percentile. No Reward Rights in this part of the award will vest if the Group's TSR is ranked below the median of the peer group. The total number of Reward Rights that vest will be the aggregate of rights that vest against the Customer Satisfaction and the TSR hurdles at the end of the performance period.

For the introductory year (2009), the awards under the GLRP were split into two tranches, with 50% allocated as a transitional three year performance period and 50% allocated with a four year performance period. This transitional award reflects the move from the Group's previous long term incentives arrangements that measured performance over a three year period. The transitional award is subject to the same performance hurdles as the four year award.

Notes to the Financial Statements

Note 29 Share Based Payments (continued)

The following table provides details of outstanding awards of performance rights under the GLRP.

Performance period start date	Performance test date	Outstanding 1 July	Granted	Vested	Forfeited	Outstanding 30 June
1 July 2009	30 June 2012	370,297	-	-	-	370,297
1 July 2009	30 June 2013	523,919	-	-	-	523,919
1 July 2010	30 June 2014	-	388,412	-	-	388,412
Total 2011		894,216	388,412	-	-	1,282,628
Total 2010		-	894,216	-	-	894,216

The weighted average fair value at the grant date of all Reward Rights issued during the year was \$41.41 per right (2010: \$44.12). The fair value of TSR hurdled Reward Rights granted during the period has been independently calculated at grant date using a Monte-Carlo pricing model. The assumptions included in the valuation of the FY11 award includes a risk free interest rate of 5.45%, a nil dividend yield on the Bank's ordinary shares and a volatility in the Bank share price of 30.0%. The fair value for customer satisfaction hurdled Reward Rights granted during the period is the closing price of Bank shares on the grant date.

A total of \$11.9 million has been expensed in the current year (2010: \$8.0 million) for GLRP.

Group Leadership Share Plan

The Group Leadership Share Plan (GLSP) was the Group's previous long term incentive plan for the CEO and Group Executives for 2008 and 2009, after which it was replaced by the GLRP. Under the GLSP, participants share a pool that vests at the end of a three year performance period subject to satisfaction of performance conditions. The pool for the 2008 financial year award (FY08 award) was 2.2% of the growth in the Group's Profit after Capital Charge (PACC), capped at a maximum pool of \$34 million. The pool for 2009 financial year award (FY09 award) was 3.5% of the growth in the Group's PACC, capped at a maximum pool of \$36.1 million.

Vesting for each award was subject to the following performance hurdles:

- NPAT growth over the three year performance period being above the average NPAT growth of ANZ, NAB, and Westpac; and
- Customer satisfaction ranking relative to ANZ, NAB, St George and Westpac.

Independent external surveys are used to determine the Group's level of achievement against the customer satisfaction performance hurdle. A ranking is determined by the Board and a vesting scale applied.

The FY08 award reached the end of its performance period on 1 July 2010 and the Board determined that 50% of the FY08 award maximum pool would vest.

Bank shares were provided to participants in relation to the vested awards. The number of shares is determined by the value of the pool that vests at the end of the performance period and the share price at the end of the relevant performance period.

A total of \$6.6 million has been expensed in the current year (2010: \$13.2 million) for GLSP.

Equity Reward Plan

The Equity Reward Plan (ERP) was the Group's long term incentive plan for executives until it was closed to new offers in July 2006. Under the ERP executives could receive awards of shares or options.

The final ERP award reached the end of its performance period during the 2010 financial year. Vested awards may remain in the ERP for up to 10 years from the date they are granted, and are subject to holding locks during that period.

The following table provides details of outstanding awards of shares under the ERP.

Allocation period	Outstanding 1 July	Granted	Released	Forfeited	Outstanding 30 June
July 2001 - June 2002	5,500	-	-	-	5,500
July 2002 - June 2003	1,650	-	-	-	1,650
July 2003 - June 2004	16,750	-	-	-	16,750
July 2004 - June 2005	15,700	-	(2,200)	-	13,500
July 2005 - June 2006	145,858	-	(113,078)	-	32,780
July 2006 - June 2007	142,210	-	(2,800)	-	139,410
Total 2011	327,668	-	(118,078)	-	209,590
Total 2010	935,290	-	(607,622)	-	327,668

No amount has been expensed in the current year (2010: \$6.8 million) for ERP.

Notes to the Financial Statements

Note 29 Share Based Payments (continued)

Details of movements in ERP options are as follows:

Year of grant	Latest exercise date	Exercise price \$	Outstanding 1 July	Granted	Exercised	Lapsed	Outstanding and exercisable 30 June
2000	13 Sep 2010	26.97	65,000	-	(65,000)	-	-
2001	3 Sep 2011	30.12	224,100	-	(138,000)	-	86,100
Total 2011			289,100	-	(203,000)	-	86,100
Weighted average exercise price (\$)			29.41	-	29.11	-	30.12
Total 2010			381,600	-	(92,500)	-	289,100
Weighted average exercise price (\$)			29.42	-	29.44	-	29.41

The weighted average remaining contractual life of outstanding options at 30 June 2011 was 64 days (2010: 349 days).

Non-Executive Directors Share Plan

The Non-Executive Directors Share Plan (NEDSP) facilitates the Non-Executive Directors':

- acquisition of shares using 20% of their post-tax fees, and
- further voluntary fee sacrifice of between \$2,000 and \$5,000 p.a. on a pre-tax basis.

Shares acquired using after tax fees are restricted for sale for ten years or until such time as the Non-Executive Director retires from the Board if earlier. Shares acquired voluntarily are restricted from sale for a minimum of two years and a maximum of seven years, or earlier if the Non-Executive Director retires from the Board.

Shares are purchased on-market at the prevailing market price at that time, and rank equally for dividends with other Bank ordinary shares.

For the current year, \$0.3 million (2010: \$0.3 million) was expensed reflecting shares purchased and allocated under the NEDSP.

Period	Total fees applied \$	Participants	Number of shares purchased	Average purchase price \$
2011	289,606	9	5,404	53.59
2010	290,326	10	5,982	48.53

Executive Option Plan

This plan was discontinued in 2001 with the last grant being made in September 2000.

Under the Executive Option Plan (EOP), the Group granted options to purchase fully paid ordinary shares to key executives. The options granted were a right to acquire a share in the future provided all conditions were met, with an exercise price based on the weighted average share price during a one week period prior to grant date. Options vested only if the performance hurdles were met. The performance hurdles for the September 2000 grant were met in 2004.

The participant could exercise their entitlement in whole or part to receive fully paid up ordinary shares. The exercise price is payable at the time. Options lapse if not exercised prior to the end of their term. The remaining vested options under the EOP were exercised in August 2010.

Details of movements in EOP options during the period were as follows:

Year of grant	Latest exercise date	Exercise price \$	Outstanding 1 July	Granted	Exercised	Lapsed	Outstanding and exercisable 30 June
2000	13 Sep 2010	26.97	14,200	-	(14,200)	-	-
Total 2011			14,200	-	(14,200)	-	-
Weighted average exercise price (\$)			26.97	-	26.97	-	-
Total 2010			24,400	-	(10,200)	-	14,200
Weighted average exercise price (\$)			26.97	-	26.97	-	26.97

The weighted average remaining contractual life of outstanding options at 30 June 2011 was nil (2010: 74 days).

Notes to the Financial Statements

Note 30 Non-Controlling Interests

	Group	
	2011	2010
	\$M	\$M
Share capital	528	523
Total non-controlling interests	528	523

The share capital above comprises predominantly New Zealand Perpetual Preference Shares (PPS) - \$505 million. On 10 December 2002, ASB Capital Limited, a New Zealand subsidiary, issued NZD 200 million (\$182 million) of PPS. The PPS were issued into the New Zealand capital markets and are subject to New Zealand law. Such shares are non-redeemable and carry limited voting rights. Dividends are payable quarterly based on the New Zealand one year swap rate plus a margin of 1.3% and are non-cumulative. The payment of dividends are subject to a number of conditions including the satisfaction of solvency tests and the ability of the Board to cancel payments.

On 22 December 2004, ASB Capital No.2 Ltd, a New Zealand subsidiary, issued NZD 350 million (\$323 million) of PPS. The PPS were issued into the New Zealand capital markets and are subject to New Zealand law. Such shares are non-redeemable and carry limited voting rights. Dividends are payable quarterly on the New Zealand one year swap rate plus a margin of 1.0% and are non-cumulative. The payment of dividends are subject to a number of conditions including the satisfaction of solvency tests and the ability of the Board to cancel payments.

ASB Capital Limited and ASB Capital No. 2 Limited have advanced proceeds from the above public issues to ASB Funding Limited, a New Zealand subsidiary. ASB Funding Limited in turn invested the proceeds in perpetual preference shares issued by ASB (ASB PPS), also a New Zealand subsidiary. In relation to ASB Capital No.2 Limited, if an APRA Event occurs, the loan to ASB Funding Limited will be repaid and ASB Capital No. 2 Limited will become the holder of the corresponding ASB PPS.

The PPS may be purchased by a Commonwealth Bank subsidiary exercising a buy-out right five years or more after issue, or on the occurrence of regulatory or tax events.

Notes to the Financial Statements

Note 31 Capital Adequacy

Capital Management

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

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

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

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

Regulatory capital is divided into Tier One and Tier Two Capital. Tier One Capital primarily consists of Shareholders' Equity plus other capital instruments acceptable to APRA, less goodwill and other prescribed deductions. Tier Two Capital is comprised primarily of hybrid and debt instruments acceptable to APRA less any prescribed deductions. Total Capital is the aggregate of Tier One and Tier Two Capital. A detailed breakdown of the components of capital is detailed on pages 45 to 51.

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

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

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

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

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

The Group's capital ratios throughout the 2010 and 2011 financial years were in compliance with both APRA minimum capital adequacy requirements and the Board Approved minimums.

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

Economic Capital

Economic Capital provides an estimate of capital required to cover the financial impact of unlikely events. The methodology used to calculate Economic Capital is consistent across all material risk types and businesses within the Group and involves:

- Measurement of potential financial impacts over a time period reflecting elimination of the risk under assumed adverse conditions;
- Use of a confidence level aligned with the Group's target debt rating and risk appetite; and
- Aggregation of Economic Capital by individual risk type allowing for diversification benefits.

Economic Capital provides a tool for evaluating which of the Group's products and businesses provide the best return relative to the credit, market, operational, strategic business, insurance and other risks taken in achieving that return.

The Group uses Economic Capital to drive delivery of "shareholder-value-added" (SVA) results. SVA is maximised through the use of two measures of risk-adjusted performance – known as Profit After Capital Charge (PACC) and Return on Target Equity (ROTE) – which are used internally to measure business performance. These measures of profit and return reflect the amount of Economic Capital used in achieving outcomes, and facilitate:

- Pricing of products based on appropriate charges for use of capital; and
- Internal measurement of performance on a risk adjusted basis.

Business Unit segments are required to achieve minimum returns on their allocated Economic Capital equal to a uniform "Cost of Capital" which is set from time to time based on market conditions.

Note 32 Financial Reporting by Segments

The principal activities of the Group are carried out in the below business segments. These segments are based on the types of products and services provided to customers.

The primary sources of revenue are interest and fee income (Retail Banking Services, Institutional Banking and Markets, Business and Private Banking, Bankwest, New Zealand and Other Divisions) and insurance premium and funds management income (Wealth Management, New Zealand and Asia).

Revenues and expenses occurring between segments are subject to transfer pricing arrangements. All intra-group profits are eliminated on consolidation.

Business segments are managed on the basis of net profit after income tax ("cash basis"). Management use "cash basis" to assess performance and it provides the basis for the determination of the Bank's dividends.

(i) Retail Banking Services

Retail Banking Services includes both the origination of home loan, consumer finance and retail deposit products and the sales and servicing of all Retail bank customers. In addition, commission is received for the distribution of business and wealth management products through the retail distribution network.

(ii) Business and Private Banking

Business and Private Banking provides specialised banking services to relationship managed business and Agribusiness customers, private banking to high net worth individuals and margin lending and trading through CommSec. In addition, commission is received for the distribution of retail banking products through the Business and Private Banking network.

(iii) Institutional Banking and Markets

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

(iv) Wealth Management

Wealth Management includes the Global Asset Management (including operations in Asia), Platform Administration and Life and General Insurance businesses of the Australian operations.

(v) New Zealand

New Zealand includes the Banking, Funds Management and Insurance businesses operating in New Zealand (excluding the international business of Institutional Banking and Markets).

(vi) Bankwest

Bankwest is a full service bank active in all domestic market segments, with lending diversified between the business, rural, housing and personal markets, including a full range of deposit products. Bankwest also provides specialist services in international banking and project finance.

(vii) Other

The following parts of the business are included in Other:

- International Financial Services Asia incorporates the Asian retail and SME banking operations (Indonesia, China, Vietnam and India), investments in Chinese and Vietnamese retail banks, the joint venture Chinese life insurance business and the life insurance operations in Indonesia. It does not include the Business and Private Banking, Institutional Banking and Markets and Colonial First State Global Asset Management business in Asia.
- Corporate Centre includes the results of unallocated Group support functions such as Investor Relations, Group Strategy, Secretariat and Treasury; and
- Group wide eliminations/unallocated includes intra-group elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.

Notes to the Financial Statements

Note 32 Financial Reporting by Segments (continued)

	Retail Banking Services	Business and Private Banking	Institutional Banking and Markets	Wealth Management	New Zealand	Bankwest	Other ⁽¹⁾	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Net interest income	6,209	1,687	1,293	-	840	1,420	1,209	12,658
Other banking income	1,299	1,365	1,174	-	286	220	(361)	3,983
Total banking income	7,508	3,052	2,467	-	1,126	1,640	848	16,641
Funds management income	-	-	-	1,975	40	-	26	2,041
Insurance income	-	-	-	625	211	-	20	856
Total operating income	7,508	3,052	2,467	2,600	1,377	1,640	894	19,538
Investment experience ⁽²⁾	-	-	-	83	1	-	37	121
Total income	7,508	3,052	2,467	2,683	1,378	1,640	931	19,659
Operating expenses ⁽³⁾	(2,903)	(1,335)	(828)	(1,801)	(704)	(869)	(451)	(8,891)
Loan impairment expense	(558)	(261)	(324)	-	(54)	(109)	26	(1,280)
Net profit before income tax	4,047	1,456	1,315	882	620	662	506	9,488
Corporate tax expense	(1,202)	(417)	(311)	(240)	(150)	(199)	(118)	(2,637)
Non-controlling interests	-	-	-	-	-	-	(16)	(16)
Net profit after tax ("cash basis")⁽⁴⁾	2,845	1,039	1,004	642	470	463	372	6,835
Hedging and IFRS volatility	-	-	-	-	(16)	(33)	(216)	(265)
Bankwest non-cash items	-	-	-	-	-	(137)	(10)	(147)
Other non-cash items	-	-	-	(34)	-	-	5	(29)
Net profit after tax ("statutory basis")	2,845	1,039	1,004	608	454	293	151	6,394
Additional information								
Intangible asset amortisation	(29)	(58)	(11)	(3)	(26)	(88)	(58)	(273)
Depreciation	(10)	(23)	(43)	(4)	(24)	(36)	(200)	(340)
Balance Sheet								
Total assets	274,773	82,928	97,138	20,672	50,491	76,828	65,069	667,899
Acquisition of property plant and equipment, intangibles and other non-current assets	7	15	138	4	46	45	236	491
Investment in associates	71	33	12	765	-	-	831	1,712
Total liabilities	168,418	113,288	63,631	19,921	46,493	71,555	147,306	630,612

(1) Includes the impact of reclassification of net swap costs within net interest income related to certain economic hedges which do not qualify for hedge accounting of \$498 million.

(2) Investment experience is presented on pre-tax basis.

(3) Operating expenses include volume related expenses.

(4) Business segments are measured on a net profit after income tax ("cash basis") which is defined by management as net profit after tax and non-controlling interests before Bankwest significant items, the tax on New Zealand structured finance transactions, the gain/loss on disposal of controlled entities/investments, treasury shares valuation adjustment and unrealised gains and losses related to hedging and IFRS volatility. Management use "cash basis" to assess performance and it provides the basis for the determination of the Bank's dividends.

Notes to the Financial Statements

Note 32 Financial Reporting by Segments (continued)

	Retail Banking Services ⁽¹⁾ \$M	Business and Private Banking ⁽¹⁾ \$M	Institutional Banking and Markets ⁽¹⁾ \$M	Wealth Management \$M	New Zealand \$M	Bankwest ⁽²⁾ \$M	Other ⁽¹⁾⁽²⁾⁽³⁾ \$M	Total \$M
Net interest income	5,696	1,643	1,334	-	716	1,336	1,143	11,868
Other banking income	1,342	1,239	1,257	-	278	233	(237)	4,112
Total banking income	7,038	2,882	2,591	-	994	1,569	906	15,980
Funds management income	-	-	-	1,824	46	-	28	1,898
Insurance income	-	-	-	684	213	-	48	945
Total operating income	7,038	2,882	2,591	2,508	1,253	1,569	982	18,823
Investment experience ⁽⁴⁾	-	-	-	183	1	-	52	236
Total income	7,038	2,882	2,591	2,691	1,254	1,569	1,034	19,059
Operating expenses ⁽⁵⁾	(2,779)	(1,295)	(830)	(1,706)	(667)	(880)	(444)	(8,601)
Loan impairment expense	(736)	(326)	(249)	-	(100)	(754)	90	(2,075)
Net profit before income tax	3,523	1,261	1,512	985	487	(65)	680	8,383
Corporate tax expense	(1,062)	(363)	(339)	(267)	(99)	20	(156)	(2,266)
Non-controlling interests	-	-	-	-	-	-	(16)	(16)
Net profit after tax ("cash basis")⁽⁶⁾	2,461	898	1,173	718	388	(45)	508	6,101
Hedging and IFRS volatility	-	-	-	-	(26)	(66)	109	17
Bankwest non-cash items	-	-	-	-	-	(203)	(13)	(216)
Tax on NZ structured finance transactions	-	-	-	-	(171)	-	-	(171)
Other non-cash items	-	-	-	(44)	7	-	(30)	(67)
Net profit after tax ("statutory basis")	2,461	898	1,173	674	198	(314)	574	5,664
Additional information								
Intangible asset amortisation	(25)	(71)	(10)	(5)	(27)	(91)	(51)	(280)
Depreciation	(10)	(24)	(46)	(4)	(29)	(34)	(191)	(338)
Balance Sheet								
Total assets	263,639	78,801	94,495	21,689	53,433	74,684	59,589	646,330
Acquisition of property plant and equipment, intangibles and other non-current assets	16	14	39	4	22	43	182	320
Investment in associates	76	26	2	783	-	-	603	1,490
Total liabilities	155,334	103,298	58,898	19,349	49,591	69,868	154,422	610,760

(1) Results have been restated for the impact of business resegmentation.

(2) Net interest income has been restated following the allocation of capital costs to Bankwest which are previously held centrally in Other.

(3) Includes the impact of reclassification of net swap costs within net interest income related to certain economic hedges which do not qualify for hedge accounting of \$259 million.

(4) Investment experience is presented on a pre-tax basis.

(5) Operating expenses include volume related expenses.

(6) Business segments are measured on a net profit after income tax ("cash basis") which is defined by management as net profit after tax and non-controlling interests before Bankwest significant items, the tax on New Zealand structured finance transactions, the gain/loss on disposal of controlled entities/investments, treasury shares valuation adjustment and unrealised gains and losses related to hedging and IFRS volatility. Management use "cash basis" to assess performance and it provides the basis for the determination of the Bank's dividends.

Notes to the Financial Statements

Note 32 Financial Reporting by Segments (continued)

Geographical Information	Group Year Ended 30 June					
	2011		2010		2009	
Financial Performance & Position	\$M	%	\$M	%	\$M	%
Revenue						
Australia	40,733	88.1	35,906	85.9	32,498	82.4
New Zealand	3,832	8.3	4,208	10.1	4,904	12.4
Other locations ⁽¹⁾	1,650	3.6	1,671	4.0	2,031	5.2
Total revenue	46,215	100.0	41,785	100.0	39,433	100.0
Non-Current Assets						
Australia	12,706	92.9	12,654	90.5	11,909	89.8
New Zealand	852	6.2	1,009	7.2	1,005	7.6
Other locations ⁽¹⁾	123	0.9	315	2.3	343	2.6
Total non-current assets	13,681	100.0	13,978	100.0	13,257	100.0

(1) Other locations include: United Kingdom, United States, Japan, Singapore, Malta, Hong Kong, Indonesia, China and Vietnam.

The geographical segment represents the location in which the transaction was recognised.

Note 33 Life Insurance Business

The following information is provided to disclose the statutory life insurance business transactions contained in the Group Financial Statements and the underlying methods and assumptions used in their calculations.

All financial assets within the life statutory funds have been determined to support either life insurance or life investment contracts. Also refer to Note 1 (ff). The insurance segment result is prepared on a business segment basis.

Summarised income statement	Life Insurance Contracts		Life Investment Contracts		Group	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Premium income and related revenue	1,669	1,622	263	313	1,932	1,935
Outward reinsurance premiums expense	(221)	(256)	-	(3)	(221)	(259)
Claims expense	(1,086)	(1,118)	(37)	(214)	(1,123)	(1,332)
Reinsurance recoveries	222	243	-	-	222	243
Investment revenue (excluding investments in subsidiaries):						
Equity securities	126	118	494	594	620	712
Debt securities	202	233	383	530	585	763
Property	53	46	133	106	186	152
Other	45	101	69	30	114	131
(Increase)/decrease in contract liabilities	3	54	(980)	(939)	(977)	(885)
Operating income	1,013	1,043	325	417	1,338	1,460
Acquisition expenses	(246)	(215)	(10)	(9)	(256)	(224)
Maintenance expenses	(295)	(269)	(82)	(88)	(377)	(357)
Management expenses	(19)	(9)	(22)	(22)	(41)	(31)
Other expense	-	(28)	-	(32)	-	(60)
Net profit before income tax	453	522	211	266	664	788
Income tax expense attributable to operating profit	(158)	(151)	(114)	(118)	(272)	(269)
Net profit after income tax	295	371	97	148	392	519

Notes to the Financial Statements

Note 33 Life Insurance Business (continued)

	Life Insurance Contracts		Life Investment Contracts		Group	
	2011	2010	2011	2010	2011	2010
Sources of life insurance net profit	\$M	\$M	\$M	\$M	\$M	\$M
The net profit after income tax is represented by:						
Emergence of planned profit margins	227	209	73	84	300	293
Difference between actual and planned experience	(18)	26	21	60	3	86
Effects of changes to underlying assumptions	2	13	-	-	2	13
Reversal of previously recognised losses or loss recognition on groups of related products	(1)	(3)	-	-	(1)	(3)
Investment earnings on assets in excess of policyholder liabilities	84	103	3	5	87	108
Other movements	1	23	-	(1)	1	22
Net profit after income tax	295	371	97	148	392	519
Life insurance premiums received and receivable	1,933	1,624	697	961	2,630	2,585
Life insurance claims paid and payable	1,469	1,197	2,128	2,950	3,597	4,147

The disclosure of the components of Net profit after income tax are required to be separated between policyholders' and shareholders' interests. As policyholder profits are an expense of the Group and not attributable to shareholders, no such disclosure is required.

	Life Insurance Contracts		Life Investment Contracts		Group	
	2011	2010	2011	2010	2011	2010
Reconciliation of movements in policy liabilities	\$M	\$M	\$M	\$M	\$M	\$M
Contract policy liabilities						
Gross policy liabilities opening balance	3,181	3,728	11,411	12,328	14,592	16,056
Movement in policy liabilities reflected in the Income Statement	(23)	(86)	980	939	957	853
Contract contributions recognised in policy liabilities	262	2	436	656	698	658
Contract withdrawals recognised in policy liabilities	(242)	(281)	(2,231)	(2,536)	(2,473)	(2,817)
Non-cash movements	(18)	(181)	-	(1)	(18)	(182)
FX translation adjustment	(23)	(1)	(81)	25	(104)	24
Gross policy liabilities closing balance	3,137	3,181	10,515	11,411	13,652	14,592
Liabilities ceded under reinsurance						
Opening balance	(189)	(219)	-	-	(189)	(219)
Acquisition of controlled entities	3	-	-	-	3	-
Increase in reinsurance assets	22	30	-	-	22	30
Closing balance	(164)	(189)	-	-	(164)	(189)
Net policy liabilities						
Expected to be realised within 12 months	511	408	1,768	1,696	2,279	2,104
Expected to be realised in more than 12 months	2,462	2,584	8,747	9,715	11,209	12,299
Total net insurance policy liabilities	2,973	2,992	10,515	11,411	13,488	14,403

Notes to the Financial Statements

Note 34 Remuneration of Auditors

During the financial year, the auditor of the Group and the Bank, PricewaterhouseCoopers, and its related practices earned the following remuneration excluding goods and service tax:

	Group		Bank	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
a) Audit and audit related services				
Audit services				
PricewaterhouseCoopers Australian firm	14,444	13,807	9,182	8,160
Related practices of PricewaterhouseCoopers Australian firm	3,405	3,847	526	605
Total remuneration for audit services	17,849	17,654	9,708	8,765
Audit related services				
PricewaterhouseCoopers Australian firm	4,346	4,019	3,968	3,439
Related practices of PricewaterhouseCoopers Australian firm	247	248	100	59
Total remuneration for audit related services	4,593	4,267	4,068	3,498
Total remuneration for audit and audit related services	22,442	21,921	13,776	12,263
b) Non-audit services				
Taxation services				
PricewaterhouseCoopers Australian firm	1,420	1,535	1,270	1,520
Related practices of PricewaterhouseCoopers Australian firm	1,631	807	588	276
Total remuneration for tax related services	3,051	2,342	1,858	1,796
Other Services				
PricewaterhouseCoopers Australian firm	3,602	1,645	3,517	1,524
Related practices of PricewaterhouseCoopers Australian firm	6	21	2	7
Total remuneration for other services	3,608	1,666	3,519	1,531
Total remuneration for non-audit services ⁽¹⁾	6,659	4,008	5,377	3,327
Total remuneration for audit and non-audit services ⁽²⁾	29,101	25,929	19,153	15,590

(1) The comparative total remuneration for non-audit services has been restated to remove audit related services.

(2) An additional amount of \$9,738,612 (2010: \$7,867,223) was paid to PricewaterhouseCoopers by way of fees for entities not consolidated into the Financial Statements. Of this amount \$8,025,284 (2010: \$6,794,440) relates to audit and audit-related services.

The Audit Committee has considered the non-audit services provided by PricewaterhouseCoopers and is satisfied that the services and the level of fees are compatible with maintaining auditors' independence. All such services were approved by the Audit Committee in accordance with pre-approved policies and procedures.

Audit related services principally includes assurance and attestation reviews of the Group's foreign disclosures for overseas investors, services in relation to regulatory requirements, acquisition accounting advice as well as reviews of internal control systems and financial or regulatory information.

Taxation services included assistance and training in relation to tax legislation and developments and other services primarily consisted of project assistance and risk compliance support.

Note 35 Lease Commitments

	Group		Bank	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Lease Commitments - Property, Plant and Equipment				
Due within one year	485	478	405	359
Due after one year but not later than five years	1,356	1,295	1,116	924
Due after five years	1,288	1,003	791	494
Total lease commitments - property, plant and equipment	3,129	2,776	2,312	1,777

Lease Arrangements

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

Lease rentals are determined in accordance with market conditions when leases are entered into or on rental review dates. Further details on the Groups significant operating leases are included in Note 36.

The total expected future sublease payments to be received is \$38 million as at 30 June 2011.

Notes to the Financial Statements

Note 36 Contingent Liabilities, Contingent Assets and Commitments

Details of contingent liabilities and off-balance sheet business are given below. The face (contract) value represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations.

	Face Value		Group Credit Equivalent	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Credit risk related instruments				
Guarantees ⁽¹⁾	4,462	3,658	4,462	3,364
Standby letters of credit ⁽²⁾	931	817	931	809
Bill endorsements ⁽³⁾	28	57	28	57
Documentary letters of credit ⁽⁴⁾	50	71	46	70
Performance related contingents ⁽⁵⁾	1,996	1,240	1,910	1,208
Commitments to provide credit ⁽⁶⁾	128,007	109,420	112,689	89,920
Other commitments ⁽⁷⁾	660	478	465	266
Total credit risk related instruments	136,134	115,741	120,531	95,694

	Face Value		Bank Credit Equivalent	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Credit risk related instruments				
Guarantees ⁽¹⁾	3,719	2,874	3,719	2,581
Standby letters of credit ⁽²⁾	766	637	766	630
Bill endorsements ⁽³⁾	28	57	28	57
Documentary letters of credit ⁽⁴⁾	26	46	26	46
Performance related contingents ⁽⁵⁾	1,893	1,233	1,859	1,204
Commitments to provide credit ⁽⁶⁾	111,682	93,881	105,391	83,272
Other commitments ⁽⁷⁾	80	39	80	39
Total credit risk related instruments	118,194	98,767	111,869	87,829

(1) Guarantees are unconditional undertakings given to support the obligations of a customer to third parties.

(2) Standby letters of credit are undertakings to pay, against presentation of documents, an obligation in the event of a default by a customer.

(3) Bills of exchange endorsed by the Group and Bank which represent liabilities in the event of default by the acceptor and the drawer of the bill.

(4) Documentary letters of credit are undertakings by the Group and Bank to pay or accept drafts drawn by an overseas supplier of goods against presentation of documents in the event of payment default by a customer.

(5) Performance related contingents are undertakings that oblige the Group and Bank to pay third parties should a customer fail to fulfil a contractual non-monetary obligation.

(6) Commitments to provide credit include all obligations on the part of the Group and Bank to provide credit facilities. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

(7) Other commitments include underwriting facilities and commitments with certain drawdowns.

Contingent Credit Liabilities

The Group is party to a range of financial instruments that give rise to contingent and/or future liabilities. These transactions are a consequence of the Group's normal course of business to meet the financing needs of its customers and in managing its own risk. These financial instruments include guarantees, letters of credit, bill endorsements and other commitments to provide credit. The face (contract) value represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations.

As the Group and Bank will only be required to meet these obligations in the event of default, the cash requirements of these instruments are expected to be considerably less than their face values.

These transactions combine varying levels of credit, interest rate, foreign exchange and liquidity risk. In accordance with Bank policy, exposures to any of these transactions (net of collateral) are not carried at a level that would have a material adverse effect on the financial condition of the Bank and its controlled entities.

Commitments to provide credit include both fixed and variable facilities. Fixed rate or fixed spread commitments extended to customers that allow net settlement of the change in the value of the commitment are written options and are recorded at fair value. Other commitments include the Group's obligations under sale and repurchase agreements, outright forward purchases, forward deposits and underwriting facilities. Other commitments also include obligations not otherwise disclosed above to extend credit, which are irrevocable because they cannot be withdrawn at the discretion of the Bank without the risk of incurring significant penalty or expense. In addition, commitments to purchase or sell loans are included in other commitments.

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

Notes to the Financial Statements

Note 36 Contingent Liabilities, Contingent Assets and Commitments (continued)

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

As the potential loss depends on counterparty performance, the Group utilises the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Group takes collateral where it is considered necessary to support off-balance sheet financial instruments with credit risk. If an event has occurred that gives rise to a present obligation and it is probable a loss will eventuate, then provisions are raised.

Contingent Assets

The credit commitments shown in the table on page 183 also constitute contingent assets. These commitments would be classified as loans and other assets in the balance sheet on the occurrence of the contingent event.

Litigation

The Group is not engaged in any litigation or claim which is likely to have a materially adverse effect on the business, financial condition or operating results of the Group. Where some loss is probable and can be reliably estimated an appropriate provision has been made. In December 2010 ASIC commenced proceedings against the Bank in relation to Storm Financial, a Queensland-based financial planning firm that collapsed, and went into liquidation in March 2009. Currently, ASIC is not seeking that the Bank pay compensation to any person as part of these proceedings. Class action proceedings against the Bank in relation to Storm Financial also continued. At present the size of the class action remains undefined and damages sought have not been quantified. The Group has established a resolution scheme for clients of Storm Financial who borrowed money from the Group. The resolution scheme has substantially completed the process of considering individual claims on a case by case basis. The Group believes that appropriate provisions are held to cover the outcomes and costs of the scheme. The Bank is also currently working through recovering losses associated with Storm Financial, and recognises these recoveries once they meet the recognition criteria.

Long Term Contracts

On 26 September 1997, the Bank entered the Information Technology and Telecommunications Services Agreement with EDS (Australia) Pty Ltd (now HP Enterprise Services Australia Pty Ltd). This agreement covers the provision of enterprise processing services and end user computing services until 30 June 2012 and for card services until 1 May 2017.

In 2009, the Bank entered into an Agreement for Lease with Lend Lease Development and Australian Prime Property Fund for Commonwealth Bank Place, a new building in the Sydney CBD comprising over 50,000m² of commercial accommodation located above a retail podium. It will accommodate over 6,000 of the Group's employees by early 2012.

In December 2007, the Bank entered into separate agreements with each of Tata Consultancy Services Ltd, HCL Technologies Ltd and IBM Australia Ltd for the provision of application software related services. The term of the agreements expire in December 2012.

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

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

In April 2009, the Group entered into an Agreement to Lease for 12 years (with options to extend) on completion of Raine Square, a new 21 level office tower in Perth that will provide almost 40,000m² of office accommodation above three levels of retail space. Once complete, it will accommodate over 3,500 of the Group's Perth based employees. Bankwest has also exercised an extension option on existing premises from November 2009.

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

Failure to Settle Risk

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

Capital Commitments

The Group is committed for capital expenditure, under contract of \$13 million as at 30 June 2011 (2010: \$19 million). The Bank is committed for \$13 million (2010: \$17 million). These commitments are expected to be extinguished within 12 months.

Services Agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Chief Executive Officer and other Group Key Management Personnel at 30 June 2011 was \$4.2 million (2010: \$6.5 million).

Notes to the Financial Statements

Note 36 Contingent Liabilities, Contingent Assets and Commitments (continued)

Collateral accepted as security for assets

The Group takes collateral where it is considered necessary to support both on and off-balance sheet financial instruments. The Group evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, is based on management's credit evaluation of the counterparty. The Group has the right to sell, repledge, or otherwise use collateral received. No collateral has been repledged or sold. At Balance Sheet date, the carrying value of collateral accepted is as follows:

	Group				Bank	
	2011		2010		2011	2010
	\$M	\$M	\$M	\$M	\$M	\$M
Cash	1,491	2,411	1,463	2,388		
Assets at fair value through Income Statement	4,114	2,913	4,115	2,913		
Available-for-sale investments	2,400	540	1,781	530		
Collateral held	8,005	5,864	7,359	5,831		

Assets pledged

As part of standard terms of transactions with other banks, the Group has provided collateral to secure liabilities. At Balance Sheet date, the carrying value of assets pledged as collateral to secure liabilities is as follows:

	Group				Bank	
	2011		2010		2011	2010
	\$M	\$M	\$M	\$M	\$M	\$M
Cash	4,024	2,433	3,762	2,085		
Assets at fair value through Income Statement ⁽¹⁾	8,270	7,891	4,857	5,117		
Available-for-sale investments ^{(1) (2)}	-	235	-	235		
Assets pledged	12,294	10,559	8,619	7,437		
Of which can be repledged or resold by counterparty	4,063	5,182	3,801	5,100		

(1) These balances include assets sold under repurchase agreements. The liabilities related to these repurchase agreements are disclosed in Note 19.

(2) This line includes retail mortgage backed securities issued by consolidated special purpose entities and purchased by the Bank for repurchase with the RBA. Further details are included in Note 12.

Assets Sold Under Repurchase Agreement

Securities sold under agreement to repurchase are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Group, and the counterparty liability is included separately on the balance sheet when cash consideration is received. At Balance Sheet date, the carrying amounts of such securities and their related liabilities are as follows:

	Group								Bank	
	Carrying Amount		Related Liability		Carrying Amount		Related Liability		2011	2010
	2011	2010	2011	2010	2011	2010	2011	2010		
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M		
Assets at fair value through Income Statement	4,063	4,947	4,063	4,899	3,801	4,865	3,801	4,815		
Available-for-sale investments	-	235	-	235	-	235	-	235		
Total	4,063	5,182	4,063	5,134	3,801	5,100	3,801	5,050		

Note 37 Fiduciary Activities

Certain controlled entities within the Group conduct investment management and other fiduciary activities as responsible entity, trustee, custodian or manager for investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail trusts. Where the Group incurs liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable fund or trust. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Group will be required to settle the liabilities, the liabilities are not included in the financial statements.

The aggregate value of funds as at 30 June, managed for each fiduciary activity but not reported in the Group's Balance Sheet are as follows:

	Group	
	2011	2010
	\$M	\$M
Funds under administration	183,128	172,784
Funds under management	151,788	144,298

Notes to the Financial Statements

Note 38 Financial Risk Management

Risk Management

The Group is a major financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. Financial instruments are fundamental to the Group's business and managing financial risks, especially credit risk, is a fundamental part of its business activity.

Governance

Risk governance originates at Board level, and cascades through to the CEO and businesses via Group policies, delegated authorities and regular reviews of outcomes. This ensures Board level oversight and is based on a clear segregation of duties between those who originate and those who approve risk exposures. Independent review of the risk management framework is carried out by Group Audit and Assurance.

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

The main financial risks affecting the Group are discussed in Notes 39 (Credit Risk), 40 (Market Risk), and 41 (Liquidity and Funding Risk).

Risk Management Framework

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

Accountability for risk management is structured by a "Three Lines of Defence" model as follows:

- Line 1 – Business Management – Risk is best managed at the place it occurs, therefore business managers are responsible for managing the risks for their business. This includes implementing approaches to proactively manage their risk within risk appetite levels, and using risk management outcomes ("the costs of risk") and considerations as part of their day-to-day business making processes;
- Line 2 – Risk Management – Group, Business Unit and Divisional Risk Management units provide risk management expertise and oversight for Business Management risk-taking activities. Risk Management develop specialist policies and procedures for risk management and ensure they are embedded and in use as part of the day-to-day management of the business. Risk Management also establishes and maintains aligned and integrated risk management frameworks and monitors compliance with the frameworks, policies and procedures; and
- Line 3 – Group Audit and Assurance – Group Audit and Assurance provide independent assurance to key stakeholders regarding the adequacy and effectiveness of the Group's system of internal controls, risk management procedures and governance processes. It is responsible for reviewing risk management frameworks and Business Unit practices for risk management and internal controls.

This framework requires each business to manage the outcome of its risk-taking activities and benefit from the resulting risk adjusted returns.

Note 39 Credit Risk

Credit risk is the potential for loss arising from failure of a debtor or counterparty to meet their contractual obligations. It arises primarily from lending activities, the provision of guarantees including letters of credit and commitments to lend, investments in bonds and notes, financial markets transactions, securitisations and other associated activities. In the insurance business, credit risk arises from investment in bonds and notes, loans, and from reliance on reinsurance.

Credit Risk Management Principles and Portfolio Standards

The Risk Committee of the Board operates under a Charter by which it oversees the Group's credit risk management policies and portfolio standards. These are designed to achieve portfolio outcomes that are consistent with the Group's risk/return expectations. The Committee meets at least quarterly, and more often if required.

The Group has clearly defined credit policies for the approval and management of credit risk. Formal credit standards apply to all credit risks, with specific portfolio standards applying to all major lending areas. These incorporate income/repayment capacity, acceptable terms and security and loan documentation tests.

The Group uses a Risk Committee approved diversified portfolio approach for the management of credit risk concentrations comprised of the following:

- A large credit exposures policy, which sets limits for aggregate exposures to individual, commercial and industrial client groups;
- An industry concentrations policy that defines a system of limits for exposures by industry; and
- A system of country limits for managing geographic exposures.

The Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security, in the form of real estate or a charge over income or assets, is generally taken for business credit except for major government, bank and corporate counterparties that are externally risk-rated and of strong financial standing. Longer term consumer finance (e.g. housing loans) is generally secured against real estate while short term revolving consumer credit is generally not secured by formal collateral.

While the Group applies policies, standards and procedures in governing the credit process, the management of credit risk also relies on the application of judgement and the exercise of good faith and due care of relevant people within their delegated authority.

A centralised exposure management system is used to record all significant credit risks borne by the Group. The credit risk portfolio has two major segments:

(i) Retail Managed

This segment has sub-segments covering housing loan, credit card, personal loan facilities, some leasing products and most secured commercial lending up to \$1 million.

Auto-decisioning for the approval of credit risk exposures is used for eligible business and consumer applications. Auto-decisioning uses a scorecard approach whereby the performance of historical applications is supplemented by information from a credit reference bureau and/or from the Group's existing knowledge of a customer's behaviour.

Note 39 Credit Risk (continued)

Where the loan application does not meet scorecard Auto-decisioning requirements then these may be referred to manual decisioning.

After loan origination, these portfolios are managed using behavioural scoring systems and on a delinquency band approach (e.g. actions taken when loan payments are greater than 30 days past due differ from actions when payments are greater than 60 days past due) and are reviewed by the relevant business credit support unit. Commercial lending up to \$1 million is reviewed as part of the Group's quality assurance process and overview is provided by the independent Credit Portfolio Assurance unit. Facilities in the Retail segment become classified for remedial management by centralised units based on delinquency band.

(ii) Credit Risk-Rated

This segment comprises commercial exposures, including bank and government exposures. Each exposure with commercial content exceeding \$50,000 is assigned an internal Credit Risk Rating (CRR). The CRR is normally assessed by reference to a matrix where the probability of default (PD) and the amount of loss given default (LGD) combine to determine a CRR grade commensurate with expected loss (EL).

For credit risk exposures greater than \$1 million or decided outside of the scorecard approach, either a PD calculator or expert judgement is used.

Expert judgement is used where the complexity of the transaction and/or the debtor is such that it is inappropriate to rely completely on a statistical model. Ratings by Moody's or Standard and Poor's may be used as inputs into the expert judgement assessment.

The CRR is designed to:

- Aid in assessing changes to the client quality of the Group's credit portfolio;
- Influence decisions on approval, management and pricing of individual credit facilities; and
- Provide the basis for reporting details of the Group's credit portfolio to the Australian Prudential Regulatory Authority.

Credit risk-rated exposures are generally reviewed on an individual basis, at least annually, although small transactions may be managed on a behavioural basis after their initial rating at origination.

Credit risk-rated exposures fall within the following categories:

- "Pass" – Internal CRR of 1-6, or if not individually credit risk-rated, less than 30 days past due. These credit facilities qualify for approval of new or increased exposure on normal commercial terms; and
- "Troublesome or Impaired Assets (TIAs)" - Internal CRR of 7-9 or, if not individually credit risk-rated, 30 days or more past due. These credit facilities are not eligible for new or increased exposure unless it will protect or improve the Group's position by maximising recovery prospects or to facilitate rehabilitation. Where a client is in default but the facility is well secured then the facility may be classed as troublesome but not impaired. Where a client's facility is not well secured and a loss is expected, then a facility is impaired. Facilities that have been restructured are also classified as a sub-set of impaired.

Default is usually consistent with one or more of the following criteria:

- A contractual payment is overdue by 90 days or more;
- An approved overdraft limit has been exceeded for 90 days or more;
- A credit officer becomes aware that the client will not be able to meet future repayments or service alternative acceptable repayment arrangements e.g. the client has been declared bankrupt;
- A credit officer has determined that full recovery of both principal and interest is unlikely without recourse by the Bank to actions such as realising available security. This may be the case even if all the terms of the client's credit facilities are currently being met; and
- A credit obligation is sold at a material credit related economic loss.

The Credit Portfolio Assurance unit, part of Group Audit and Assurance, reviews credit portfolios and receives reports covering business unit compliance with policies, portfolio standards, application of credit risk ratings and other key practices and policies on a regular basis. The Credit Portfolio Assurance unit reports its findings to the Board Audit and Risk Committees as appropriate.

Credit Risk Measurement

The measurement of credit risk uses analytical tools to calculate both (i) expected and (ii) unexpected loss probabilities for the credit portfolio. The use of analytical tools is governed by a Credit Rating Governance Committee that reviews and endorses the use of the tools prior to their implementation to ensure they are sufficiently predictive of risk.

(i) Expected Loss

Expected loss is the product of:

- Probability of default (PD);
- Exposure at default (EAD); and
- Loss given default (LGD).

For credit risk-rated facilities, EL is allocated within CRR bands. All ratings are reviewed at least annually or as specified by the Group Chief Risk Officer.

The PD, expressed as a percentage, is the estimate of the probability that a client will default within the next twelve months. It reflects a client's ability to generate sufficient cash flows into the future to meet the terms of all its credit obligations with the Group. When assessing a client's PD, all relevant and material information is considered. The same PD is applied to all credit facilities provided to a client.

EAD, expressed as a percentage of the facility limit, is the proportion of a facility that may be outstanding in the event of default. For committed facilities such as fully drawn loans and advances this will generally be the higher of the limit or outstanding balance. For uncommitted facilities this will generally be the outstanding balance only.

LGD, expressed as a percentage, is the estimated proportion of a facility likely to be lost in the event of default. LGD is impacted by:

- Type and level of any collateral held;
- Liquidity and volatility of collateral;
- Carrying costs (effectively the costs of providing a facility that is not generating an interest return); and
- Realisation costs (costs of internal workout specialists).

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Various factors are considered when calculating PD, EAD and LGD. Considerations include the potential for default by a borrower due to economic, management, industry and other risks and the mitigating benefits of any collateral.

(ii) Unexpected Loss

In addition to expected loss, a more stressed loss amount is calculated. This unexpected loss estimate directly affects the calculation of regulatory and internal economic capital requirements (refer to Capital Management section and Note 31, for information relating to regulatory and economic capital).

In addition to the credit risk management processes used to manage exposures to credit risk in the credit portfolio, the internal ratings process also assists management in assessing impairment and provisioning of financial assets (refer to Note 14).

Credit Risk Mitigation, Collateral and Other Credit Enhancements

Where it is considered appropriate, the Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken to mitigate credit risk, including valuation parameters, review frequency and independence of valuation.

The general nature of collateral that may be taken by financial asset classes are summarised below.

Cash and Liquid Assets

With the exception of securities purchased under agreements to resell which are approximately 100% collateralised by highly liquid debt securities, collateral is usually not sought on these balances as exposures are generally considered low risk.

Due from other financial institutions

Collateral is usually not sought on these balances as exposures are generally considered to be of low risk.

Derivative financial assets

Collateralisation arrangements for derivative financial instruments are governed by the International Swaps & Derivatives Association (ISDA) Master Agreement and Credit Support Annex and the Global Master Repurchase Agreement. The ISDA Master Agreement is a close out netting agreement. Other collateral may be sought where prudent, depending on transaction characteristics and credit-worthiness of the counterparty.

Trading assets

These assets are carried at fair value which accounts for the credit risk. Collateral is not generally sought from the issuer or counterparty.

Other financial assets designated at fair value

These assets are carried at fair value which accounts for the credit risk. Credit derivatives have not been used to mitigate the exposure to credit risk. Collateral may be taken on loans and advances and debt securities may include collateralisation terms.

Available for sale securities

Collateral is not generally sought on these securities. However, collateralisation may be implicit in the asset structure.

Loans for consumer purposes

The Group's main collateral types may include: residential mortgages, mortgages over other properties (including commercial and broad acre), or cash (usually in the form of a charge over a deposit). In some instances (for example, credit cards), a client's facilities may not be secured by formal collateral.

Loans for business purposes

The Group's main collateral types may include: residential mortgages, mortgages over other properties (including commercial and broad acre), cash (usually in the form of a charge over a deposit), guarantees by company directors supporting commercial lending, a charge over a company's assets (including debtors, stock and work in progress), or a charge over stock or scrip. In some instances a client's facilities may not be secured by formal collateral.

Life insurance assets

These assets are carried at fair value which accounts for the credit risk. Collateral is not generally sought or provided on these types of assets other than a fixed charge over properties backing Australian mortgage investments.

Due from subsidiaries

Collateral is not generally taken on these balances.

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

The below tables detail the concentration of credit exposure assets by significant geographical locations and counterparty types. Disclosures do not take into account collateral held and other credit enhancements.

										Group 2011
	Sovereign	Agri- culture	Bank & Other Financial	Home Loans	Constr- uction	Personal	Asset Financing	Other Comm & Indust.	Other	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Australia										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	6,193	-	-	-	-	-	-	6,193
Receivables due from other financial institutions	-	-	5,203	-	-	-	-	-	-	5,203
Assets at fair value through Income Statement:										
Trading	11,129	-	670	-	-	-	-	3,430	-	15,229
Insurance ⁽¹⁾	844	-	8,802	1,069	109	-	-	2,559	-	13,383
Other	-	-	-	-	-	-	-	-	-	-
Derivative assets	143	33	23,055	-	43	-	-	3,669	-	26,943
Available-for-sale investments	14,851	-	6,779	-	-	-	-	17,046	-	38,676
Loans, bills discounted and other receivables ⁽²⁾	2,212	5,278	9,986	306,250	2,877	17,409	8,328	103,273	-	455,613
Bank acceptances	4	3,071	213	-	528	-	-	6,918	-	10,734
Other assets ⁽³⁾	83	43	5,171	945	46	7	18	371	13,443	20,127
Total on balance sheet										
Australia	29,266	8,425	66,072	308,264	3,603	17,416	8,346	137,266	13,443	592,101
Credit risk exposures relating to off balance sheet assets:										
Guarantees	90	29	166	14	550	-	-	3,478	-	4,327
Loan commitments	3,259	967	3,489	54,015	2,897	17,907	-	30,139	-	112,673
Other commitments	41	20	116	259	909	-	-	2,018	-	3,363
Total Australia	32,656	9,441	69,843	362,552	7,959	35,323	8,346	172,901	13,443	712,464
Overseas										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	7,048	-	-	-	-	-	-	7,048
Receivables due from other financial institutions	-	-	5,190	-	-	-	-	-	-	5,190
Assets at fair value through Income Statement:										
Trading	1,961	-	1,201	-	-	-	-	2,078	-	5,240
Insurance ⁽¹⁾	-	-	1,615	-	-	-	-	-	-	1,615
Other	299	5	496	-	-	3	-	21	-	824
Derivative assets	222	-	2,502	-	-	-	-	650	-	3,374
Available-for-sale investments	4,793	-	692	-	-	-	-	1,010	-	6,495
Loans, bills discounted and other receivables ⁽²⁾	4,603	4,920	6,988	29,591	322	559	1,256	3,489	-	51,728
Bank acceptances	-	-	-	-	-	-	-	-	-	-
Other assets ⁽³⁾	23	-	247	1	1	-	-	62	1,234	1,568
Total on balance sheet overseas	11,901	4,925	25,979	29,592	323	562	1,256	7,310	1,234	83,082
Credit risk exposures relating to off balance sheet assets:										
Guarantees	-	-	3	-	13	-	-	119	-	135
Loan commitments	4,341	367	289	3,370	154	1,164	-	5,649	-	15,334
Other commitments	31	1	-	-	2	-	-	268	-	302
Total overseas	16,273	5,293	26,271	32,962	492	1,726	1,256	13,346	1,234	98,853
Total gross credit risk	48,929	14,734	96,114	395,514	8,451	37,049	9,602	186,247	14,677	811,317

(1) In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

(2) Loans, bills discounted and other receivables is presented gross of provisions for impairment and unearned income on lease receivables in line with Note 13.

(3) Other assets predominantly comprises assets which do not give rise to credit exposure, including intangible assets, property, plant and equipment, and defined benefit superannuation plan surplus, which are shown in "Other" for the purpose of reconciling to the Balance Sheet.

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

	Group									
	At 30 June 2010									
	Sovereign	Agri- culture	Bank & Other Financial	Home Loans	Constr- uction	Personal	Asset Financing	Other Comm & Indust.	Other	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Australia										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	6,343	-	-	-	-	-	-	6,343
Receivables due from other financial institutions	-	-	5,355	-	-	-	-	-	-	5,355
Assets at fair value through Income Statement:										
Trading	8,618	-	4,931	-	-	-	-	2,511	-	16,060
Insurance ⁽¹⁾	1,478	-	9,148	1,393	101	-	-	2,157	-	14,277
Other	-	-	-	-	-	-	-	-	-	-
Derivative assets	163	35	19,269	-	24	-	-	3,188	-	22,679
Available-for-sale investments	12,588	-	3,661	-	-	-	-	12,015	-	28,264
Loans, bills discounted and other receivables ⁽²⁾	1,571	5,158	9,221	292,140	3,438	15,979	8,621	108,818	-	444,946
Bank acceptances	5	3,090	263	-	529	-	-	7,682	-	11,569
Other assets ⁽³⁾	5	39	5,442	4	40	14	13	378	13,630	19,565
Total on balance sheet	24,428	8,322	63,633	293,537	4,132	15,993	8,634	136,749	13,630	569,058
Australia										
Credit risk exposures relating to off balance sheet assets:										
Guarantees	73	16	236	24	370	-	-	2,791	-	3,510
Loan commitments	1,187	992	3,575	51,995	1,441	17,206	-	22,008	-	98,404
Other commitments	25	26	168	11	357	-	-	1,713	-	2,300
Total Australia	25,713	9,356	67,612	345,567	6,300	33,199	8,634	163,261	13,630	673,272
Overseas										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	3,776	-	-	-	-	-	-	3,776
Receivables due from other financial institutions	-	-	4,717	-	-	-	-	-	-	4,717
Assets at fair value through Income Statement:										
Trading	2,900	-	1,473	-	-	-	-	2,418	-	6,791
Insurance ⁽¹⁾	-	-	1,663	-	-	-	-	-	-	1,663
Other	-	6	584	-	-	3	-	61	-	654
Derivative assets	388	-	3,814	-	-	-	-	808	-	5,010
Available-for-sale investments	674	-	879	-	-	-	-	3,098	-	4,651
Loans, bills discounted and other receivables ⁽²⁾	1,213	5,450	6,344	31,433	472	822	768	9,821	-	56,323
Bank acceptances	-	-	-	-	-	-	-	-	-	-
Other assets ⁽³⁾	12	-	95	1	-	-	-	67	1,322	1,497
Total on balance sheet overseas	5,187	5,456	23,345	31,434	472	825	768	16,273	1,322	85,082
Credit risk exposures relating to off balance sheet assets:										
Guarantees	15	-	2	-	38	-	-	93	-	148
Loan commitments	247	469	233	3,366	116	1,109	-	5,476	-	11,016
Other commitments	45	-	-	164	1	-	-	153	-	363
Total overseas	5,494	5,925	23,580	34,964	627	1,934	768	21,995	1,322	96,609
Total gross credit risk	31,207	15,281	91,192	380,531	6,927	35,133	9,402	185,256	14,952	769,881

(1) In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

(2) Loans, bills discounted and other receivables is presented gross of provisions for impairment and unearned income on lease receivables in line with Note 13.

(3) Other assets predominantly comprises assets which do not give rise to credit risk exposure, including intangible assets, property, plant and equipment, and defined benefit superannuation plan surplus, which are shown in "Other" for the purpose of reconciling to the Balance Sheet.

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Large Exposures

Concentrations of exposure to any debtor or counterparty group are controlled by a large credit exposure policy, which defines a graduated limit framework that restricts credit limits based on the internally assessed risk of the client. All exposures outside the policy require approval by the Executive Risk Committee and are reported to the Board Risk Committee.

The following table shows the aggregated number of the Group's Corporate and Industrial counterparty exposures (including direct and contingent exposures) which individually were greater than 5% of the Group's capital resources (Tier One and Tier Two capital):

	Group	
	2011	2010
	Number	Number
5% to less than 10% of the Group's capital resources	-	-
10% to less than 15% of the Group's capital resources	-	-

The Group has a good quality and well diversified credit portfolio, with 60% of the gross loans and other receivables in domestic mortgage loans and a further 6% in overseas mortgage loans primarily in New Zealand. Overseas loans account for 10% of loans and advances.

The Group restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements are primarily used to manage the risk of derivative transactions and off-balance sheet exposures. Balance Sheet assets and liabilities are usually settled on a gross basis.

The credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The offsets obtained by applying master netting arrangements reduced the credit risk of the Group by approximately \$10.2 billion as at 30 June 2011 (2010: \$9.9 billion).

Derivative financial instruments expose the Group to credit risk where there is a positive current fair value. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative. For further information regarding derivatives see Note 11.

The Group also nets its credit exposure through the operation of certain consumer and corporate facilities that allow on balance sheet netting for credit management purposes. On balance sheet netting reduced the credit risk of the Group by approximately \$19 billion as at 30 June 2011 (2010: \$16 billion).

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Distribution of Financial Assets by Credit Classification

When doubt arises as to the collectability of a credit facility, the financial instrument is classified and reported as individually impaired. Provisions for impairment are raised where there is objective evidence of impairment and for an amount adequate to cover assessed credit related losses. The Group regularly reviews its financial assets and monitors adherence to contractual terms. Credit risk-rated portfolios are assessed, at least at each Balance Sheet date, to determine whether the financial asset or portfolio of assets is impaired.

The distribution of performing assets, past due assets, impaired assets and individually assessed provisions for impairment by type of financial instrument at 30 June was:

Distribution of Financial Instruments by Credit Quality

							Group 2011
	Neither past due nor impaired	Past due but not impaired	Impaired non- performing	Restructured	Gross	Individually assessed provisions	Net
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash and liquid assets	13,241	-	-	-	13,241	-	13,241
Receivables due from other financial institutions	10,393	-	-	-	10,393	-	10,393
Assets at fair value through Income Statement:							
Trading	20,469	-	-	-	20,469	-	20,469
Insurance	14,998	-	-	-	14,998	-	14,998
Other	824	-	-	-	824	-	824
Derivative assets	30,248	-	69	-	30,317	-	30,317
Available-for-sale investments	45,171	-	-	-	45,171	-	45,171
Loans, bills discounted and other receivables:							
Australia	439,056	12,060	4,459	38	455,613	(2,031)	453,582
Overseas	48,808	2,267	464	189	51,728	(94)	51,634
Bank acceptances	10,734	-	-	-	10,734	-	10,734
Credit related commitments	136,056	-	78	-	136,134	-	136,134
	769,998	14,327	5,070	227	789,622	(2,125)	787,497

							Bank 2011
	Neither past due nor impaired	Past due but not impaired	Impaired non- performing	Restructured	Gross	Individually assessed provisions	Net
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Cash and liquid assets	10,979	-	-	-	10,979	-	10,979
Receivables due from other financial institutions	10,123	-	-	-	10,123	-	10,123
Assets at fair value through Income Statement:							
Trading	17,765	-	-	-	17,765	-	17,765
Insurance	-	-	-	-	-	-	-
Other	300	-	-	-	300	-	300
Derivative assets	30,663	-	68	-	30,731	-	30,731
Available-for-sale investments	75,699	-	-	-	75,699	-	75,699
Loans, bills discounted and other receivables:							
Australia	371,573	9,519	2,681	38	383,811	(1,050)	382,761
Overseas	8,410	9	171	3	8,593	(31)	8,562
Bank acceptances	10,734	-	-	-	10,734	-	10,734
Shares in and loans to controlled entities	47,357	-	-	-	47,357	-	47,357
Credit related commitments	118,143	-	51	-	118,194	-	118,194
	701,746	9,528	2,971	41	714,286	(1,081)	713,205

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Distribution of Financial Instruments by Credit Quality

							Group 2010
	Neither past due nor impaired \$M	Past due but not impaired \$M	Impaired non- performing \$M	Restructured \$M	Gross \$M	Individually assessed provisions \$M	Net \$M
Cash and liquid assets	10,119	-	-	-	10,119	-	10,119
Receivables due from other financial institutions	10,072	-	-	-	10,072	-	10,072
Assets at fair value through Income Statement:							
Trading	22,851	-	-	-	22,851	-	22,851
Insurance	15,940	-	-	-	15,940	-	15,940
Other	654	-	-	-	654	-	654
Derivative assets	27,603	-	86	-	27,689	-	27,689
Available-for-sale investments	32,914	-	1	-	32,915	-	32,915
Loans, bills discounted and other receivables:							
Australia	428,464	11,861	4,543	78	444,946	(1,915)	443,031
Overseas	53,320	2,513	321	169	56,323	(77)	56,246
Bank acceptances	11,569	-	-	-	11,569	-	11,569
Credit related commitments	115,723	-	18	-	115,741	-	115,741
	729,229	14,374	4,969	247	748,819	(1,992)	746,827

							Bank 2010
	Neither past due nor impaired \$M	Past due but not impaired \$M	Impaired non- performing \$M	Restructured \$M	Gross \$M	Individually assessed provisions \$M	Net \$M
Cash and liquid assets	8,711	-	-	-	8,711	-	8,711
Receivables due from other financial institutions	9,766	-	-	-	9,766	-	9,766
Assets at fair value through Income Statement:							
Trading	18,775	-	-	-	18,775	-	18,775
Insurance	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Derivative assets	27,278	-	85	-	27,363	-	27,363
Available-for-sale investments	65,778	-	1	-	65,779	-	65,779
Loans, bills discounted and other receivables:							
Australia	359,891	9,346	2,455	78	371,770	(950)	370,820
Overseas	9,786	5	39	38	9,868	(28)	9,840
Bank acceptances	11,569	-	-	-	11,569	-	11,569
Shares in and loans to controlled entities	49,809	-	-	-	49,809	-	49,809
Credit related commitments	98,749	-	18	-	98,767	-	98,767
	660,112	9,351	2,598	116	672,177	(978)	671,199

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Financial Assets Individually Assessed as Impaired

	2011			Group 2010		
	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets
	\$M	\$M	\$M	\$M	\$M	\$M
Australia						
Home loans	734	(202)	532	671	(150)	521
Other personal	10	(11)	(1)	15	(21)	(6)
Asset financing	85	(37)	48	81	(15)	66
Other commercial and industrial	3,811	(1,781)	2,030	3,959	(1,729)	2,230
Financial assets individually assessed as impaired - Australia	4,640	(2,031)	2,609	4,726	(1,915)	2,811
Overseas						
Home loans	177	(25)	152	165	(12)	153
Personal	1	-	1	4	-	4
Asset financing	-	-	-	-	-	-
Other commercial and industrial	479	(69)	410	321	(65)	256
Financial assets individually assessed as impaired - overseas	657	(94)	563	490	(77)	413
Total financial assets individually assessed as impaired	5,297	(2,125)	3,172	5,216	(1,992)	3,224

	2011			Bank 2010		
	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets
	\$M	\$M	\$M	\$M	\$M	\$M
Australia						
Home loans	639	(157)	482	559	(107)	452
Other personal	7	(9)	(2)	11	(18)	(7)
Asset financing	54	(34)	20	47	(6)	41
Other commercial and industrial	2,135	(850)	1,285	2,020	(819)	1,201
Financial assets individually assessed as impaired - Australia	2,835	(1,050)	1,785	2,637	(950)	1,687
Overseas						
Home loans	-	-	-	14	-	14
Personal	-	-	-	-	-	-
Asset financing	-	-	-	-	-	-
Other commercial and industrial	177	(31)	146	63	(28)	35
Financial assets individually assessed as impaired - overseas	177	(31)	146	77	(28)	49
Total financial assets individually assessed as impaired	3,012	(1,081)	1,931	2,714	(978)	1,736

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Distribution of Loans, Bills Discounted and Other Receivables by Impairment Status

The table below segregates the loans, bills discounted and other receivables into neither past due nor impaired, past due but not impaired and impaired. An asset is considered to be past due when any payment under the contractual terms has been missed. The amount included as past due is the entire contractual balance, rather than the overdue portion.

The split in the tables below does not reflect the basis by which the Group manages credit risk.

	Group		Bank	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Distribution of loans by credit quality				
Gross loans				
Australia				
Neither past due nor impaired	439,056	428,464	371,573	359,891
Past due but not impaired	12,060	11,861	9,519	9,346
Impaired	4,497	4,621	2,719	2,533
Total Australia	455,613	444,946	383,811	371,770
Overseas				
Neither past due nor impaired	48,808	53,320	8,410	9,786
Past due but not impaired	2,267	2,513	9	5
Impaired	653	490	174	77
Total overseas	51,728	56,323	8,593	9,868
Total gross loans	507,341	501,269	392,404	381,638

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Credit Quality of Loans, Bills Discounted and Other Receivables Neither Past Due nor Impaired

For the analysis below, financial assets that are neither past due nor impaired have been segmented into investment, pass and weak classifications. This segmentation of loans in retail and risk-rated portfolios is based on the mapping of a customer's internally assessed PD to Standard and Poor's ratings, reflecting a client's ability to meet their credit obligations. In particular, retail PD pools have been aligned to the Group's PD grades which are consistent with rating agency views of credit quality segmentation.

Investment grade is representative of lower assessed default probabilities with other classifications reflecting progressively higher default risk. No consideration is given to LGD, the impact of any recoveries or the potential benefit of mortgage insurance.

Loans which were neither past due nor impaired

Credit grading					Group 2011
	Home	Other		Total	
	Loans	Personal	Asset Financing		Commercial and Industrial
	\$M	\$M	\$M	\$M	\$M
Australia					
Investment	193,991	2,991	499	70,012	267,493
Pass	90,989	11,539	7,462	42,826	152,816
Weak	11,730	1,798	155	5,064	18,747
Total Australia	296,710	16,328	8,116	117,902	439,056
Overseas ⁽¹⁾					
Investment	3,266	63	282	13,546	17,157
Pass	23,914	268	911	5,728	30,821
Weak	428	11	15	376	830
Total overseas	27,608	342	1,208	19,650	48,808
Total loans which were neither past due nor impaired	324,318	16,670	9,324	137,552	487,864

Credit grading					Group 2010
	Home	Other		Total	
	Loans	Personal	Asset Financing		Commercial and Industrial
	\$M	\$M	\$M	\$M	\$M
Australia					
Investment	179,505	2,211	592	63,390	245,698
Pass	96,543	10,081	7,541	51,279	165,444
Weak	7,312	2,440	241	7,329	17,322
Total Australia	283,360	14,732	8,374	121,998	428,464
Overseas ⁽¹⁾					
Investment	23,194	86	386	12,692	36,358
Pass	4,821	488	345	8,847	14,501
Weak	1,272	-	-	1,189	2,461
Total overseas	29,287	574	731	22,728	53,320
Total loans which were neither past due nor impaired	312,647	15,306	9,105	144,726	481,784

(1) For New Zealand Housing Loans, PDs reflect Reserve Bank of New Zealand requirements resulting in higher PDs on average and lower grading.

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Loans which were neither past due nor impaired

					Bank 2011
	Home		Asset	Other	
	Loans	Personal	Financing	Commercial	Total
Credit grading	\$M	\$M	\$M	\$M	\$M
Australia					
Investment	160,399	2,611	385	67,222	230,617
Pass	80,944	10,608	6,811	28,536	126,899
Weak	10,272	1,479	143	2,163	14,057
Total Australia	251,615	14,698	7,339	97,921	371,573
Overseas					
Investment	-	-	282	7,008	7,290
Pass	365	19	62	672	1,118
Weak	-	-	2	-	2
Total overseas	365	19	346	7,680	8,410
Total loans which were neither past due nor impaired	251,980	14,717	7,685	105,601	379,983

					Bank 2010
	Home		Asset	Other	
	Loans	Personal	Financing	Commercial	Total
Credit grading	\$M	\$M	\$M	\$M	\$M
Australia					
Investment	151,753	1,967	407	60,975	215,102
Pass	83,687	9,098	6,377	35,162	134,324
Weak	5,994	2,092	201	2,178	10,465
Total Australia	241,434	13,157	6,985	98,315	359,891
Overseas					
Investment	-	-	372	7,280	7,652
Pass	348	141	34	1,514	2,037
Weak	25	-	-	72	97
Total overseas	373	141	406	8,866	9,786
Total loans which were neither past due nor impaired	241,807	13,298	7,391	107,181	369,677

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Age Analysis of Loans, Bills Discounted and Other Receivables That Are Past Due But Not Impaired

For the purposes of this analysis an asset is considered to be past due when any payment under the contractual terms has been missed.

Loans may be classed as Performing (that is, not impaired) even though contractual payments are past due where: (i) the Group has not ascertained a doubt as to whether full amounts due will be received in a timely manner; (ii) if facilities are well secured; or (iii) where matured facilities are in the process of renegotiation and remain otherwise performing.

It has not been practicable to determine the fair value of collateral held against these assets.

					Group 2011
	Home Loans	Personal ⁽²⁾	Asset Financing	Other Commercial and Industrial	Total
Loans which were past due but not impaired ⁽¹⁾	\$M	\$M	\$M	\$M	\$M
Australia					
Past due 1 - 29 days	3,309	586	50	1,276	5,221
Past due 30 - 59 days	1,708	171	21	218	2,118
Past due 60 - 89 days	951	110	16	152	1,229
Past due 90 - 179 days	1,373	191	23	177	1,764
Past due 180 days or more	1,473	23	17	215	1,728
Total Australia	8,814	1,081	127	2,038	12,060
Overseas					
Past due 1 - 29 days	1,266	163	37	143	1,609
Past due 30 - 59 days	244	22	8	8	282
Past due 60 - 89 days	94	11	2	3	110
Past due 90 - 179 days	121	13	2	16	152
Past due 180 days or more	80	5	-	29	114
Total overseas	1,805	214	49	199	2,267
Total loans which were past due but not impaired	10,619	1,295	176	2,237	14,327

					Group 2010
	Home Loans	Personal ⁽²⁾	Asset Financing	Other Commercial and Industrial	Total
Loans which were past due but not impaired ⁽¹⁾	\$M	\$M	\$M	\$M	\$M
Australia					
Past due 1 - 29 days	3,454	708	94	1,404	5,660
Past due 30 - 59 days	1,634	188	36	232	2,090
Past due 60 - 89 days	772	111	18	172	1,073
Past due 90 - 179 days	1,152	189	12	206	1,559
Past due 180 days or more	1,265	33	12	169	1,479
Total Australia	8,277	1,229	172	2,183	11,861
Overseas					
Past due 1 - 29 days	1,360	187	24	169	1,740
Past due 30 - 59 days	247	26	7	17	297
Past due 60 - 89 days	123	10	2	29	164
Past due 90 - 179 days	132	13	3	20	168
Past due 180 days or more	118	10	1	15	144
Total overseas	1,980	246	37	250	2,513
Total loans which were past due but not impaired	10,257	1,475	209	2,433	14,374

(1) Collateral held against past due Home Loans receivables comprises residential and other real estate with an estimated fair value of at least the amounts shown. Personal receivables are generally unsecured. It has not been practicable to determine the fair value of collateral held against past due Asset Financing and Other Commercial and Industrial receivables.

(2) Personal loans, credit cards and other personal financing balances are generally unsecured and written off at 180 days past due unless agreements have been made with the debtor.

Notes to the Financial Statements

Note 39 Credit Risk (continued)

					Bank 2011
	Home		Asset	Other	
	Loans	Personal ⁽²⁾	Financing	and Industrial	Total
Loans which were past due but not impaired ⁽¹⁾	\$M	\$M	\$M	\$M	\$M
Australia					
Past due 1 - 29 days	2,668	510	36	621	3,835
Past due 30 - 59 days	1,449	149	16	132	1,746
Past due 60 - 89 days	796	99	13	84	992
Past due 90 - 179 days	1,195	172	19	93	1,479
Past due 180 days or more	1,324	23	16	104	1,467
Total Australia	7,432	953	100	1,034	9,519
Overseas					
Past due 1 - 29 days	7	-	-	-	7
Past due 30 - 59 days	1	-	-	-	1
Past due 60 - 89 days	-	-	-	-	-
Past due 90 - 179 days	1	-	-	-	1
Past due 180 days or more	-	-	-	-	-
Total overseas	9	-	-	-	9
Total loans which were past due but not impaired	7,441	953	100	1,034	9,528

					Bank 2010
	Home		Asset	Other	
	Loans	Personal ⁽²⁾	Financing	and Industrial	Total
Loans which were past due but not impaired ⁽¹⁾	\$M	\$M	\$M	\$M	\$M
Australia					
Past due 1 - 29 days	2,945	623	51	597	4,216
Past due 30 - 59 days	1,433	166	20	154	1,773
Past due 60 - 89 days	648	99	12	70	829
Past due 90 - 179 days	978	172	3	118	1,271
Past due 180 days or more	1,141	33	10	73	1,257
Total Australia	7,145	1,093	96	1,012	9,346
Overseas					
Past due 1 - 29 days	4	-	-	-	4
Past due 30 - 59 days	1	-	-	-	1
Past due 60 - 89 days	-	-	-	-	-
Past due 90 - 179 days	-	-	-	-	-
Past due 180 days or more	-	-	-	-	-
Total overseas	5	-	-	-	5
Total loans which were past due but not impaired	7,150	1,093	96	1,012	9,351

(1) Collateral held against past due Housing Loans receivables comprises residential and other real estate with an estimated fair value of at least the amounts shown. Other personal receivables are generally unsecured. It has not been practicable to determine the fair value of collateral held against past due Asset Financing and Other Commercial/ Industrial receivables.

(2) Personal loans, credit cards and other personal financing balances are generally unsecured and written off at 180 days past due unless agreements have been made with the debtor.

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Impaired Assets by Classification

Assets in credit risk-rated portfolios are assessed for objective evidence that the financial asset or portfolio of assets is impaired. Impaired assets in the retail segment are those facilities that are not well secured and are past due 180 days or more.

Impaired assets are split into the following categories according to APRA's prudential standards:

- Non-Performing Facilities;
- Restructured Facilities; and
- Assets Acquired Through Security Enforcement.

Non-performing facilities are facilities against which an individually assessed provision for impairment has been raised and facilities where loss of principal or interest is anticipated.

Restructured facilities are facilities where the original contractual terms have been modified due to financial difficulties of the borrower. Interest on these facilities is taken to the Income Statement. Failure to comply fully with the modified terms will result in immediate reclassification to non-performing.

Assets acquired through security enforcement include:

- Other Real Estate Owned, comprising real estate where the Group assumed ownership or foreclosed in settlement of a debt; and
- Other Assets Acquired Through Securities Enforcement, comprising assets other than real estate where the Group assumed ownership or foreclosed in settlement of a debt.

Assets acquired through security enforcement are sold through the Group's existing disposal processes. These are generally expected to take no longer than six months.

The Group does not manage credit risk based solely on arrears categorisation, but also uses credit risk rating principles as described earlier in this note.

	Group				
	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Australia					
Non-Performing assets:					
Gross balances	4,602	4,648	3,514	620	398
Less provisions for impairment	(2,031)	(1,915)	(1,560)	(248)	(86)
Net non-performing assets	2,571	2,733	1,954	372	312
Restructured assets:					
Gross balances	38	78	119	-	-
Less provisions for impairment	-	-	-	-	-
Net restructured assets	38	78	119	-	-
Assets Acquired Through Security Enforcement:					
Gross balances	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-
Net assets acquired through security enforcement	-	-	-	-	-
Net Australia impaired assets	2,609	2,811	2,073	372	312
Overseas					
Non-Performing assets:					
Gross balances	468	321	407	63	23
Less provisions for impairment	(94)	(77)	(169)	(31)	(14)
Net non-performing assets	374	244	238	32	9
Restructured assets:					
Gross balances	189	169	170	-	-
Less provisions for impairment	-	-	-	-	-
Net restructured assets	189	169	170	-	-
Assets Acquired Through Security Enforcement:					
Gross balances	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-
Net assets acquired through security enforcement	-	-	-	-	-
Net overseas impaired assets	563	413	408	32	9
Total net impaired assets	3,172	3,224	2,481	404	321

Notes to the Financial Statements

Note 39 Credit Risk (continued)

				Group		
	Australia	Overseas	Total	Australia	Overseas	Total
	2011	2011	2011	2010	2010	2010
Impaired assets by size	\$M	\$M	\$M	\$M	\$M	\$M
Less than \$1 million	747	41	788	692	40	732
\$1 million to \$10 million	1,415	129	1,544	1,425	148	1,573
Greater than \$10 million	2,478	487	2,965	2,609	302	2,911
Total	4,640	657	5,297	4,726	490	5,216

	Group				
	2011	2010	2009	2008	2007
Movement in gross impaired assets	\$M	\$M	\$M	\$M	\$M
Gross impaired assets - opening balance	5,216	4,210	683	421	326
Acquisitions	-	-	770	-	-
New and increased	4,619	5,455	4,374	1,104	928
Balances written off	(1,798)	(1,904)	(1,056)	(470)	(482)
Returned to performing or repaid	(2,740)	(2,545)	(561)	(372)	(351)
Gross impaired assets - closing balance	5,297	5,216	4,210	683	421

Notes to the Financial Statements

Note 39 Credit Risk (continued)

Impaired Loans by Industry and Status

Industry	Group						
	2011						
	Loans	Gross Impaired Loans	Individually Assessed Provisions	Net Impaired Loans	Write-offs	Recoveries	Net Write-offs
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Australia							
Sovereign	2,212	-	-	-	-	-	-
Agriculture	5,278	191	(87)	104	10	-	10
Bank and other financial	9,986	387	(254)	133	107	(3)	104
Home loans	306,250	734	(202)	532	84	(43)	41
Construction	2,877	233	(133)	100	89	-	89
Personal	17,409	10	(11)	(1)	567	(134)	433
Asset Financing	8,328	85	(37)	48	26	(2)	24
Other commercial and industrial	103,273	2,857	(1,307)	1,550	989	(17)	972
Total Australia	455,613	4,497	(2,031)	2,466	1,872	(199)	1,673
Overseas							
Sovereign	4,603	-	-	-	-	-	-
Agriculture	4,920	123	(11)	112	17	-	17
Bank and other financial	6,988	59	(1)	58	1	-	1
Home loans	29,591	177	(25)	152	26	-	26
Construction	322	-	-	-	1	-	1
Personal	559	1	-	1	22	(7)	15
Asset Financing	1,256	-	-	-	-	-	-
Other commercial and industrial	3,489	293	(57)	236	36	-	36
Total overseas	51,728	653	(94)	559	103	(7)	96
Gross balances	507,341	5,150	(2,125)	3,025	1,975	(206)	1,769

Industry	Group						
	2010						
	Loans	Gross Impaired Loans	Individually Assessed Provisions	Net Impaired Loans	Write-offs	Recoveries	Net Write-offs
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Australia							
Sovereign	1,571	-	-	-	-	-	-
Agriculture	5,158	222	(75)	147	10	-	10
Bank and other financial	9,221	414	(254)	160	383	-	383
Home Loans	292,140	671	(150)	521	95	(3)	92
Construction	3,438	271	(132)	139	72	-	72
Personal	15,979	15	(21)	(6)	651	(59)	592
Asset Financing	8,621	81	(15)	66	72	(3)	69
Other commercial and industrial	108,818	2,947	(1,268)	1,679	604	(5)	599
Total Australia	444,946	4,621	(1,915)	2,706	1,887	(70)	1,817
Overseas							
Sovereign	1,213	-	-	-	-	-	-
Agriculture	5,450	193	(15)	178	7	-	7
Bank and other financial	6,344	4	(1)	3	50	-	50
Home Loans	31,433	165	(12)	153	25	-	25
Construction	472	-	-	-	-	-	-
Personal	822	4	-	4	18	(6)	12
Asset Financing	768	-	-	-	-	-	-
Other commercial and industrial	9,821	124	(49)	75	86	(1)	85
Total overseas	56,323	490	(77)	413	186	(7)	179
Gross balances	501,269	5,111	(1,992)	3,119	2,073	(77)	1,996

Note 40 Market Risk

Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates, foreign exchange rates, commodity and equity prices, credit spreads, lease residual values, and implied volatility levels. Market risk also includes risks associated with funding and liquidity management.

For the purposes of market risk management, the Group makes a distinction between Traded and Non-Traded Market Risks. Traded Market Risks principally arise from the Group's trading book activities within the Institutional Banking and Markets business, ASB and Bankwest.

The predominant Non-Traded Market Risk is Interest Rate Risk in the Banking Book (IRRBB). Other Non-Traded Market Risks are liquidity risk, funding risk, structural foreign exchange risk arising from capital investments in offshore operations, Non-Traded Equity Risk, market risk arising from the insurance business and lease residual value risk.

The Group's assessment of regulatory capital required under the new Basel II framework is discussed in Note 31. Liquidity and funding risks are discussed in Note 41.

Market Risk Measurement

The Group uses Value-at-Risk (VaR) as one of the measures of Traded and Non-Traded Market Risk. VaR measures potential loss using historically observed market volatility and correlation between different markets. The VaR measured for Traded Market Risk uses two years of daily market movements. The VaR measure for Non-Traded Banking Book Market Risk is based on six years of daily market movement history.

VaR is modelled at a 97.5% confidence level over a 1 day holding period for trading book positions and over a 20 day holding period for IRRBB, insurance business market risk and Non-Traded Equity Risk.

The stress events considered for Traded Market Risk are extreme but plausible market movements, and have been back-tested against moves seen during 2008 and 2009 at the height of the GFC. The results are reported to the Risk Committee and the Group ALCO on a regular basis. Stress tests also include a range of forward looking macro scenario stresses.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, management also uses stress testing to measure the potential for economic loss at significantly higher confidence levels than 97.5%. Management then uses the results in decisions made to manage the economic impact of market risk positions.

The following table provides a summary of VaR, across the Group, for those market risk types where it is appropriate to use this measure.

	Average ⁽²⁾ June	As at June	Average ⁽²⁾ June	As at June
Total Market Risk	2011	2011	2010	2010
VaR (1 day 97.5% confidence)	\$M	\$M	\$M	\$M
Traded Market Risk	12.0	10.2	12.2	13.7
Non-Traded Interest Rate Risk ⁽¹⁾	28.3	32.6	22.0	40.8
Non-Traded Equity Risk ⁽¹⁾	23.0	15.0	34.8	31.5
Non-Traded Insurance Market Risk ⁽¹⁾	10.3	9.6	7.1	8.5

(1) The risk on these exposures has been represented in this table using a 1 day holding period. In practice however, these 'non-traded' exposures are managed to a longer expected holding period.

(2) Average VaR calculated for each twelve month period.

Traded Market Risk

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

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

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

The Group maintains access to markets by quoting bid and offer prices with other market makers and carries an inventory of treasury, capital market and risk management instruments, including a broad range of securities and derivatives.

The Group is a participant in all major markets across foreign exchange and interest rate products, debt, equity and commodities products as required to provide treasury, capital markets and risk management services to institutional, corporate, middle market and retail customers.

Income is earned from spreads achieved through market making and from taking market risk. Trading positions are valued at fair value and taken to profit and loss on a mark-to-market basis. Market liquidity risk is controlled by concentrating trading activity in highly liquid markets.

Trading assets at fair value through the Income Statement are in Note 10. Trading liabilities at fair value through the Income Statement are in Note 21. Note 2 details the income contribution of trading activities to the income of the Group.

The Group measures and manages Traded Market Risk through a combination of VaR and stress test limits, together with other key controls including permitted instruments, sensitivity limits and term restrictions. Thus Traded Market Risk is managed under a clearly defined risk appetite within the market risk policy and limit structure approved by the Risk Committee of the Board. Risk is monitored by an independent Market Risk Management function.

Notes to the Financial Statements

Note 40 Market Risk (continued)

The following table provides a summary of VaR for the trading book of the Group. The VaR for ASB and Bankwest is shown separately; all other data relates to the Group and is split by risk type.

Traded Market Risk VaR (1 day 97.5% confidence)	Average ⁽¹⁾	As at	Average ⁽¹⁾	As at
	June 2011	June 2011	June 2010	June 2010
	\$M	\$M	\$M	\$M
Interest rate risk	5.5	2.8	4.3	5.6
Exchange rate risk	1.9	1.7	1.6	3.1
Implied volatility risk	2.0	1.0	1.5	1.9
Equities risk	1.3	1.9	1.6	1.5
Commodities risk	1.2	1.3	0.8	0.7
Credit spread risk	3.3	2.8	4.3	3.6
Diversification benefit	(8.1)	(6.9)	(7.3)	(8.3)
Total general market risk	7.1	4.6	6.8	8.1
Undiversified risk	3.3	4.3	3.6	3.6
ASB Bank	1.5	1.2	1.6	1.9
Bankwest	0.1	0.1	0.2	0.1
Total	12.0	10.2	12.2	13.7

(1) Average VaR calculated for each twelve month period.

Non-Traded Market Risk

Non-traded market risk activities are governed by the Group market risk framework approved by the Risk Committee. The Group market risk framework governs all the activities performed in relation to Non-Traded Market Risk. Implementation of the policy, procedures and limits for the Group is the responsibility of the Group Executive undertaking activities with Non-Traded Market Risk. The Group's Risk division performs risk measurement and monitoring activities of Non-Traded Market Risk. Ownership and management responsibility for CBA domestic operations are assumed by Group Treasury. Management actions conventionally include hedging activities using a range of policy approved derivative instruments. Independent management of the Non-Traded Market Risk activities of offshore banking subsidiaries is delegated to the CEO of each entity, with oversight by the local ALCO. Senior management oversight is provided by the Group's ALCO.

Interest Rate Risk in the Banking Book

Interest rate risk is the current and prospective impact to the Group's financial condition due to adverse changes in interest rates to which the Group's Balance Sheet is exposed. Maturity transformation activities of the Group result in mismatched assets and liabilities positions which direct that the propensity, timing and quantum of interest rate movements have undesired outcomes over both the short term and long term. The Group's objective is to manage interest rate risk to achieve stable and sustainable net interest income in the long term.

The Group measures and manages the impact of interest rate risk in two ways:

(a) Next 12 months' earnings

Interest rate risk from an earnings perspective is the impact based on changes to the net interest income over the next 12 months.

The risk to net interest income over the next 12 months from changes in interest rates is measured on a monthly basis. Earnings risk is measured through sensitivity analysis, which applies an instantaneous 100 basis point parallel shock (increase) in interest rates across the yield curve.

The prospective change to the net interest income is measured by using an Asset/Liability Management simulation model which incorporates both existing and anticipated new business in its assessment. The change in the balance sheet product mix, growth, funding and pricing strategies is incorporated. Assets and liabilities that reprice directly from observable market rates are measured based on the full extent of the rate shock that is applied.

Products that are priced based on Group administered or discretionary interest rates and that are impacted by customer behaviour are measured by taking into consideration the historic repricing strategy of the Bank and repricing behaviours of customers. In addition to considering how the products have repriced in the past the expected change in price based on both the current and anticipated competitive market forces are also considered in the sensitivity analyses.

The figures in the following table represent the potential unfavourable change to the Group's net interest earnings during the year based on a 100 basis point parallel rate shock (decrease).

Net Interest Earnings at Risk		June 2011	June 2010
		\$M	\$M
Average monthly exposure	AUD	162.9	186.6
	NZD	9.3	5.6
High monthly exposure	AUD	241.2	299.9
	NZD	26.1	12.6
Low monthly exposure	AUD	74.3	72.1
	NZD	1.1	1.5
As at balance date	AUD	175.6	162.9
	NZD	26.1	12.6

(b) Economic Value

Interest rate risk from the economic value perspective is based on a 20 day 97.5% VaR measure.

Measuring the change in the economic value of equity is an assessment of the long term impact to the earnings potential of the Group present valued to the current date. The Group assesses the potential change in its economic value of equity through the application of the VaR methodology. A 20 day 97.5% VaR measure is used to capture the net economic value impact over the long term or total life of all balance sheet assets and liabilities to adverse changes in interest rates. The impact of customer prepayments on the contractual cash flows for fixed rate products is included in the calculation. Cash flows for discretionary priced products are behaviourally adjusted and repriced at the resultant profile.

The figures in the following table represent the net present value of the expected change in the Group's future earnings in all future periods for the remaining term of all existing assets and liabilities.

Non-Traded Interest Rate VaR (20 day 97.5% confidence) ⁽²⁾	Average ⁽¹⁾	Average ⁽¹⁾
	June 2011	June 2010
	\$M	\$M
AUD Interest rate risk	126.7	74.4
NZD Interest rate risk ⁽³⁾	1.7	2.5

(1) Average VaR calculated for each twelve month period.

(2) VaR is only for entities that have material risk exposure.

(3) ASB data (expressed in NZD) is for the month-end date.

Note 40 Market Risk (continued)

Non-Traded Equity Risk

The Group retains Non-Traded Equity Risk through strategic investments and business development activities in divisions including IB&M, and Wealth Management. This activity is subject to governance arrangements approved by the Risk Committee of the Board, and is monitored on a centralised basis within the Market Risk Management (MRM) function. An indicative VaR measure is as follows:

	As at June 2011 \$M	As at June 2010 \$M
Non-Traded Equity VaR (20 day 97.5% confidence)		
VaR	67.0	140.0

Market Risk in Insurance Businesses

Modest in the broader Group context, a significant component of Non-Traded Market Risk activities result from the holding of assets related to the Life Insurance businesses. There are two main sources of market risk in these businesses: (i) market risk arising from guarantees made to policyholders; and (ii) market risk arising from the investment of Shareholders' capital.

A second order market risk also arises for the Group from assets held for investment linked policies. On this type of contract the policyholder takes the risk of falls in the market value of the assets. However, falls in market value also impact funds under management and reduce the fee income collected for this class of business.

Guarantees (to Policyholders)

All financial assets within the Life Insurance Statutory Funds directly support either the Group's life insurance or life investment contracts. Market risk arises for the Group on contracts where the liabilities to policyholders are guaranteed by the Group. The Group manages this risk by the monthly monitoring and rebalancing of assets to contract liabilities. However, for some contracts the ability to match asset characteristics with policy obligations is constrained by a number of factors including regulatory requirements or the lack of investments that substantially align cash flows with the cash payments to be made to policyholders.

Shareholders' Capital

A portion of financial assets held within the Insurance business, both within the Statutory Funds and in the Shareholder Funds of the Life Insurance company represents shareholder (Group) capital. Market risk also arises for the Group on the investment of this capital. Shareholders' funds in the Australian Life Insurance businesses are invested 81% in income assets (cash and fixed interest) and 19% in growth assets (shares and property) as at 30 June 2011.

A 20 day 97.5% VaR measure is used to capture the Non-Traded Market Risk exposures.

	Average ⁽¹⁾ June 2011 \$M	Average ⁽¹⁾ June 2010 \$M
Non-Traded VaR in Australian Life Insurance Business (20 day 97.5% confidence)		
Shareholder funds ⁽²⁾	27.3	25.3
Guarantees (to Policyholders) ⁽³⁾	43.7	23.6

(1) Average VaR calculated for each twelve month period.

(2) VaR in relation to the investment of shareholder funds.

(3) VaR in relation to product portfolios where the Group has a guaranteed liability to policyholders.

Further information on the Life Insurance Business can be found in Note 33.

Structural Foreign Exchange Risk

Structural Foreign Exchange Risk is the risk that movements in foreign exchange rates may have an adverse effect on the Group's Australian dollar earnings and economic value when the Group's foreign currency denominated earnings and capital are translated into Australian dollars. The Group's only material exposure to this risk arises from its New Zealand banking and insurance subsidiaries. This risk is managed in accordance with the following Risk Committee of the Board approved principles:

- Permanently deployed capital in a foreign jurisdiction is not hedged; and
- Forecast earnings from the Group's New Zealand banking and insurance subsidiaries are hedged.

The management of structural foreign exchange risk is regularly reported to the Group's ALCO.

Lease Residual Value Risk

The Group takes Lease Residual Value Risk on assets such as industrial, mining, rail, aircraft, marine technology, healthcare and other equipment. A lease residual value guarantee exposes the business to the movement in second-hand asset prices. The Lease Residual Value Risk within the Group is controlled through a risk management framework approved by the Risk Committee of the Board. Supporting this framework is an internal Market Risk Standard document which has a risk limit framework which includes asset, geographic and maturity concentration limits and stress testing which is performed by the MRM function.

Officer Superannuation Fund

The Officers Superannuation Fund (OSF) is the staff superannuation fund for the Group's Australian employees and former employees. Wealth Risk Management and Human Resources manage the risks of the OSF on behalf of the Group. Regular reporting is provided to senior management via the CBA Asset and Liability Committee and the Board Risk Committee on the status of the surplus, risk sensitivities and risk management options. For further information on the OSF, refer to Note 42.

Notes to the Financial Statements

Note 41 Liquidity and Funding Risk

Overview

The Group's liquidity and funding policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to borrow funds on an unsecured basis, or has sufficient quality assets to borrow against on a secured basis, or has sufficient quality liquid assets to sell to raise immediate funds without adversely affecting the Group's net asset value.

The Group's funding policies and risk management framework are designed to complement the Group's liquidity policies by providing for an optimal liability structure to finance the Group's businesses. The long-term stability and security of the Group's funding is also designed to protect its liquidity position in the event of a crisis specific to the Group.

The Group's liquidity policies are designed to ensure it maintains sufficient cash balances and liquid asset holdings to meet its obligations to customers, in both ordinary market conditions and during periods of extreme stress. These policies are intended to protect the value of the Group's operations across its Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, Wealth Management, Bankwest, and Asian businesses, during periods of unfavourable market conditions.

The Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, jurisdiction, currency and concentration, on a cost effective basis. This objective applies to the Group's wholesale and retail funding activities.

The Risk Management Framework for Liquidity and Funding

The Group's liquidity and funding policies are approved by the Board and agreed with APRA. The Group has an Asset and Liability Committee whose charter includes reviewing the management of assets and liabilities, reviewing liquidity and funding policies and strategies, as well as regularly monitoring compliance with those policies across the Group. The Group Treasury division manages the Group's liquidity and funding positions in accordance with the Group's liquidity policy, including monitoring and satisfying the liquidity needs of the Group and its subsidiaries.

Larger domestic subsidiaries, such as Bankwest and subsidiaries within the Colonial Group, also apply their own liquidity and funding methods to address their specific needs. The Group's New Zealand banking subsidiary ASB, manages its own domestic liquidity and funding needs in accordance with its own liquidity policies and the policies of the Group. ASB's liquidity policy is also overseen by the RBNZ. The Group also has a relatively small banking subsidiary in Indonesia that manages its own liquidity and funding on a similar basis.

The Group's Financial Services and Risk Management divisions provide prudential oversight of the Group's liquidity and funding risk and manage the Group's relationship with prudential regulators.

Liquidity and Funding Policies and Management

The Group's liquidity and funding policies provide that:

- Balance sheet assets that cannot be liquidated quickly are funded with deposits or term borrowings that meet minimum maturity requirements with appropriate liquidity buffers;
- Short and long term wholesale funding limits are established and reviewed regularly based on surveys and analysis of market capacity;
- A minimum level of assets are retained in highly liquid form;
- The level of liquid assets: complies with crisis scenario assumptions related to "worst case" wholesale and retail market conditions; is adequate to meet known funding obligations over certain timeframes; and are allocated across Australian dollar and foreign currency denominated securities in accordance with specific calculations;
- Certain levels of liquid assets are held to provide for the risk of the Group's committed but undrawn lending obligations being drawn by customers, as calculated based on draw down estimates and forecasts;
- The Group maintains certain levels of liquid asset categories within its liquid assets portfolio. The first category includes negotiable certificates of deposit of Australian banks, bank bills, Commonwealth of Australia Government and Australian state and semi-government bonds and supra-national bonds eligible for repurchase by the RBA at any time. The second category is AAA and A-1+ rated Australian residential mortgage backed securities that meet certain minimum requirements; and
- Offshore branches and subsidiaries adhere to liquidity policies and hold appropriate foreign currency liquid assets as required. All securities are eligible for repurchase by the relevant local central bank at any time.

The Group's key liquidity tools include:

- A liquidity management model similar to a "cash flow ladder" or "maturity gap analysis", that allows forecasting of liquidity needs on a daily basis;
- An additional liquidity management model that implements the agreed prudential liquidity policies. This model is calibrated with a series of "worst case" liquidity crisis scenarios, incorporating both systemic and "name" crisis assumptions, such that the Group will have sufficient liquid assets available to ensure it meets all of its obligations as and when they fall due;
- The RBA's repurchase agreement facilities provide the Group with the ability to borrow funds on a secured basis, even when normal funding markets are unavailable; and
- The Group's various short term funding programmes are supplemented by the Interbank Deposit Agreement between the four major Australian banks. This agreement is similar to a standby liquidity facility that allows the Group to access funding in various crisis circumstances.

Note 41 Liquidity and Funding Risk (continued)

The Group's key funding tools include:

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

At 30 June 2011 virtually all of the Group's Australian dollar liquid assets qualified for repurchase by the RBA at any time.

Recent Market Environment

The incremental cost of wholesale funding has been generally stable over the last financial year but remains high. The Group has managed its debt portfolio to avoid concentrations such as dependence on single sources of funding, by type or by investor, and has continued to maintain a diversified funding base and significant funding capacity in the domestic and global unsecured and secured debt markets.

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

Details of the Group's regulatory capital position and capital management activities are disclosed in Note 31.

Notes to the Financial Statements

Note 41 Liquidity and Funding Risk (continued)

Maturity Analysis of Monetary Liabilities

Amounts shown in the tables below are based on contractual undiscounted cash flows for the remaining contractual maturities.

	Group						Total \$M
	Maturity Period as at 30 June 2011						
	At Call \$M	0 to 3 months \$M	3 to 12 months \$M	1 to 5 years \$M	Over 5 years \$M	Not Specified \$M	
Monetary liabilities							
Deposits and other public borrowings ⁽¹⁾	190,378	128,159	70,577	16,821	525	-	406,460
Payables due to other financial institutions	2,650	13,038	241	1	-	-	15,930
Liabilities at fair value through Income Statement	-	5,498	1,032	3,044	1,023	-	10,597
Derivative liabilities ^{(2) (3)}	-	34,984	5,014	11,030	1,549	-	52,577
Bank acceptances	-	10,632	102	-	-	-	10,734
Insurance policy liabilities	-	-	-	-	-	13,652	13,652
Debt issues and loan capital	-	28,841	27,688	63,446	35,695	-	155,670
Managed funds units on issue	-	-	-	-	-	1,048	1,048
Other monetary liabilities	95	4,617	1,997	371	-	284	7,364
Total monetary liabilities	193,123	225,769	106,651	94,713	38,792	14,984	674,032
Guarantees ⁽⁴⁾	-	4,462	-	-	-	-	4,462
Loan commitments ⁽⁴⁾	-	128,007	-	-	-	-	128,007
Other commitments ⁽⁴⁾	-	3,665	-	-	-	-	3,665
Total off balance sheet items	-	136,134	-	-	-	-	136,134
Total monetary liabilities and off balance sheet items	193,123	361,903	106,651	94,713	38,792	14,984	810,166

(1) Includes deposits that are contractually at call customer savings and cheque accounts. Historical experience is that such accounts provide a stable source of long term funding for the Group.

(2) Gross payable amounts on cross currency swaps have been reported in derivative liabilities. The Group has corresponding receivables on these cross currency swaps that have not been reported, in accordance with the requirements of AASB 7 'Financial Instruments: Disclosures'. The terms of the cross currency swap agreements entered into by the Group allow for net settlement in the event of certain specific circumstances including default of the counterparties.

(3) All trading derivatives are included in the 0 to 3 months maturity band.

(4) All off balance sheet items are included in the 0 to 3 month maturity band to reflect their earliest possible maturity.

	Group						Total \$M
	Maturity Period as at 30 June 2010						
	At Call \$M	0 to 3 months \$M	3 to 12 months \$M	1 to 5 years \$M	Over 5 years \$M	Not Specified \$M	
Monetary liabilities							
Deposits and other public borrowings ⁽¹⁾	180,302	123,073	58,414	17,420	384	-	379,593
Payables due to other financial institutions	3,618	7,571	1,376	68	-	-	12,633
Liabilities at fair value through Income Statement	-	6,528	4,671	3,212	1,644	-	16,055
Derivative liabilities ^{(2) (3)}	-	25,906	536	2,426	3,733	-	32,601
Bank acceptances	-	11,360	209	-	-	-	11,569
Insurance policy liabilities	-	-	-	-	-	14,592	14,592
Debt issues and loan capital	-	29,071	25,561	75,895	36,089	-	166,616
Managed funds units on issue	-	-	-	-	-	880	880
Other monetary liabilities	157	3,938	2,229	345	-	405	7,074
Total monetary liabilities	184,077	207,447	92,996	99,366	41,850	15,877	641,613
Guarantees ⁽⁴⁾	-	3,658	-	-	-	-	3,658
Loan commitments ⁽⁴⁾	-	109,420	-	-	-	-	109,420
Other commitments ⁽⁴⁾	-	2,663	-	-	-	-	2,663
Total off balance sheet items	-	115,741	-	-	-	-	115,741
Total monetary liabilities and off balance sheet items	184,077	323,188	92,996	99,366	41,850	15,877	757,354

(1) Includes deposits that are contractually at call customer savings and cheque accounts. Historical experience is that such accounts provide a stable source of long term funding for the Group.

(2) Gross payable amounts on cross currency swaps have been reported in derivative liabilities. The Group has corresponding receivables on these cross currency swaps that have not been reported, in accordance with the requirements of AASB 7 Financial Instruments Disclosures. The terms of the cross currency swap agreements entered into by the Group allow for net settlement in the event of certain specific circumstances including default of the counterparties.

(3) All trading derivatives are included in the 0 to 3 months maturity band.

(4) All off balance sheet items are included in the 0 to 3 month maturity band to reflect their earliest possible maturity.

Notes to the Financial Statements

Note 41 Liquidity and Funding Risk (continued)

Amounts shown in the tables below are based on contractual undiscounted cash flows for the remaining contractual maturities.

	Bank						Total
	Maturity Period as at 30 June 2011						
	At Call	0 to 3	3 to 12	1 to 5	Over 5	Not	
\$M	months	months	years	years	Specified	\$M	
Monetary liabilities							
Deposits and other public borrowings ⁽¹⁾	161,863	103,335	56,774	15,042	543	-	337,557
Payables due to other financial institutions	2,453	13,021	241	1	-	-	15,716
Liabilities at fair value through Income Statement	-	280	353	2,922	1,416	-	4,971
Derivative liabilities ^{(2) (3)}	-	32,822	2,174	10,331	1,388	-	46,715
Bank acceptances	-	10,632	102	-	-	-	10,734
Debt issues and loan capital	-	21,890	21,517	51,364	32,350	-	127,121
Due to controlled entities	2,938	2,834	2,034	6,156	38,392	-	52,354
Other monetary liabilities	62	3,531	3,401	71	-	2	7,067
Total monetary liabilities	167,316	188,345	86,596	85,887	74,089	2	602,235
Guarantees ⁽⁴⁾	-	3,719	-	-	-	-	3,719
Loan commitments ⁽⁴⁾	-	111,682	-	-	-	-	111,682
Other commitments ⁽⁴⁾	-	2,793	-	-	-	-	2,793
Total off balance sheet items	-	118,194	-	-	-	-	118,194
Total monetary liabilities and off balance sheet items	167,316	306,539	86,596	85,887	74,089	2	720,429

(1) Includes deposits that are contractually at call customer savings and cheque accounts. Historical experience is that such accounts provide a stable source of long term funding for the Bank.

(2) Gross payable amounts on cross currency swaps have been reported in derivative liabilities. The Bank has corresponding receivables on these cross currency swaps that have not been reported, in accordance with the requirements of AASB 7 Financial Instruments Disclosures. The terms of the cross currency swap agreements entered into by the Bank allow for net settlement in the event of certain specific circumstances including default of the counterparties.

(3) All trading derivatives are included in the 0 to 3 months maturity band.

(4) All off balance sheet items are included in the 0 to 3 month maturity band to reflect their earliest possible maturity.

	Bank						Total
	Maturity Period as at 30 June 2010						
	At Call	0 to 3	3 to 12	1 to 5	Over 5	Not	
\$M	months	months	years	years	Specified	\$M	
Monetary liabilities							
Deposits and other public borrowings ⁽¹⁾	153,635	96,454	45,622	16,074	376	-	312,161
Payables due to other financial institutions	3,448	7,555	1,376	68	-	-	12,447
Liabilities at fair value through Income Statement	-	163	732	2,808	1,797	-	5,500
Derivative liabilities ^{(2) (3)}	-	23,689	297	544	3,733	-	28,263
Bank acceptances	-	11,360	209	-	-	-	11,569
Debt issues and loan capital	-	20,655	22,736	61,535	34,947	-	139,873
Due to controlled entities	3,558	4,979	1,624	5,205	37,045	-	52,411
Other monetary liabilities	-	2,497	3,923	2,180	-	227	8,827
Total monetary liabilities	160,641	167,352	76,519	88,414	77,898	227	571,051
Guarantees ⁽⁴⁾	-	2,874	-	-	-	-	2,874
Loan commitments ⁽⁴⁾	-	93,881	-	-	-	-	93,881
Other commitments ⁽⁴⁾	-	2,012	-	-	-	-	2,012
Total off balance sheet items	-	98,767	-	-	-	-	98,767
Total monetary liabilities and off balance sheet items	160,641	266,119	76,519	88,414	77,898	227	669,818

(1) Includes deposits that are contractually at call customer savings and cheque accounts. Historical experience is that such accounts provide a stable source of long term funding for the Bank.

(2) Gross payable amounts on cross currency swaps have been reported in derivative liabilities. The Bank has corresponding receivables on these cross currency swaps that have not been reported, in accordance with the requirements of AASB 7 'Financial Instruments Disclosures'. The terms of the cross currency swap agreements entered into by the Bank allow for net settlement in the event of certain specific circumstances including default of the counterparties.

(3) All trading derivatives are included in the 0 to 3 months maturity band.

(4) All off balance sheet items are included in the 0 to 3 month maturity band to reflect their earliest possible maturity.

Notes to the Financial Statements

Note 42 Retirement Benefit Obligations

Name of Plan	Type	Form of Benefit	Date of Last Actuarial Assessment of the Fund
Officers' Superannuation Fund (OSF)	Defined Benefits ⁽¹⁾ and Accumulation	Indexed pension and lump sum	30 June 2009
Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA (UK) SBS)	Defined Benefits ⁽¹⁾ and Accumulation	Indexed pension and lump sum	30 June 2010

(1) The defined benefit formulae are generally comprised of final superannuation salary, or final average superannuation salary, and service.

Contributions

Entities of the Group contribute to the plans listed in the above table in accordance with the Trust Deeds following the receipt of actuarial advice.

With the exception of contributions corresponding to salary sacrifice benefits, the Bank ceased contributions to the OSF from 8 July 1994. Further, the Bank ceased contributions to the OSF relating to salary sacrifice benefits from 1 July 1997.

An actuarial assessment of the OSF, as at 30 June 2009, was completed during the year ended 30 June 2010. The Bank will continue to monitor the need to make contributions to the OSF including the advice provided in the next actuarial assessment of the OSF as at 30 June 2012.

An actuarial assessment of the CBA(UK)SBS, as at 30 June 2010 confirmed a deficit of GBP 68 million (\$102 million at the 30 June 2011 exchange rate). Following from this assessment, the Bank agreed to contribute at the fund actuary's recommended contribution rates. These rates included amounts to finance future accruals of defined benefits estimated at \$3 million per annum (at the 30 June 2011 exchange rate) and additional contributions of GBP 15 million per annum (\$22 million per annum at the 30 June 2011 exchange rate) payable over 5 years to finance the fund deficit.

Notes to the Financial Statements

Note 42 Retirement Benefit Obligations (continued)

Defined Benefit Superannuation Plans

The amounts reported in the Balance Sheet are reconciled as follows:

	OSF		CBA(UK)SBS		Total	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Present value of funded obligations	(3,493)	(3,332)	(356)	(377)	(3,849)	(3,709)
Fair value of plan assets	3,569	3,648	273	295	3,842	3,943
Total pension assets as at 30 June	76	316	(83)	(82)	(7)	234
Amounts in the Balance Sheet:						
Liabilities (Note 25)	-	-	(83)	(82)	(83)	(82)
Assets (Note 17)	76	316	-	-	76	316
Net assets/(liabilities)	76	316	(83)	(82)	(7)	234
The amounts recognised in the Income Statement are as follows:						
Current service cost	(53)	(43)	(2)	(3)	(55)	(46)
Interest cost	(158)	(160)	(13)	(20)	(171)	(180)
Expected return on plan assets	262	276	17	15	279	291
Employer financed benefits within accumulation division	(190)	(168)	-	-	(190)	(168)
Total included in defined benefit superannuation plan expense	(139)	(95)	2	(8)	(137)	(103)
Actual return on plan assets	338	391	30	33	368	424
Changes in the present value of the defined benefit obligation are as follows:						
Opening defined benefit obligation	(3,332)	(3,118)	(377)	(394)	(3,709)	(3,512)
Current service cost	(46)	(36)	(2)	(3)	(48)	(39)
Interest cost	(158)	(160)	(13)	(20)	(171)	(180)
Member contributions	(10)	(10)	-	-	(10)	(10)
Actuarial (losses)/gains	(177)	(199)	(31)	(25)	(208)	(224)
Benefits paid	230	191	12	13	242	204
Exchange differences on foreign plans	-	-	55	52	55	52
Closing defined benefits obligation	(3,493)	(3,332)	(356)	(377)	(3,849)	(3,709)
Changes in the fair value of plan assets are as follows:						
Opening fair value of plan assets	3,648	3,613	295	308	3,943	3,921
Expected return	262	276	17	15	279	291
Experience gains	76	115	13	18	89	133
Total contributions	10	10	7	9	17	19
Exchange differences on foreign plans	-	-	(47)	(42)	(47)	(42)
Benefits and expenses paid	(237)	(198)	(12)	(13)	(249)	(211)
Employer financed benefits within accumulation division	(190)	(168)	-	-	(190)	(168)
Closing fair value of plan assets	3,569	3,648	273	295	3,842	3,943

Notes to the Financial Statements

Note 42 Retirement Benefit Obligations (continued)

	OSF				
	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Present value of funded obligations	(3,493)	(3,332)	(3,118)	(2,892)	(3,094)
Fair value of plan assets	3,569	3,648	3,613	4,428	4,907
Total assets	76	316	495	1,536	1,813
Experience adjustments on plan liabilities	(6)	77	(120)	134	31
Experience adjustments on plan assets	76	115	(829)	(520)	282
(Losses)/gains from changes in actuarial assumptions	(171)	(276)	(84)	92	259
Total net actuarial (losses)/gains	(101)	(84)	(1,033)	(294)	572

	CBA(UK)SBS				
	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Present value of funded obligations	(356)	(377)	(394)	(386)	(401)
Fair value of plan assets	273	295	308	321	372
Total liabilities	(83)	(82)	(86)	(65)	(29)
Experience adjustments on plan liabilities	(14)	19	2	6	(3)
Experience adjustments on plan assets	13	18	(26)	(21)	(2)
(Losses)/Gains from changes in actuarial assumptions	(17)	(44)	-	(32)	25
Total net actuarial (losses)/gains	(18)	(7)	(24)	(47)	20

	Total				
	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Present value of funded obligations	(3,849)	(3,709)	(3,512)	(3,278)	(3,495)
Fair value of plan assets	3,842	3,943	3,921	4,749	5,279
Total (liabilities)/assets	(7)	234	409	1,471	1,784
Experience adjustments on plan liabilities	(20)	96	(118)	140	28
Experience adjustments on plan assets	89	133	(855)	(541)	280
(Losses)/gains from changes in actuarial assumptions	(188)	(320)	(84)	60	284
Total net actuarial (losses)/gains	(119)	(91)	(1,057)	(341)	592

Actuarial gains and losses represent experience adjustments on plan assets and liabilities as well as adjustments arising from changes in actuarial assumptions. Total net actuarial losses recognised in equity from the date of adoption of IFRS to 30 June 2011 were \$317 million.

	OSF		CBA(UK)SBS	
	2011	2010	2011	2010
	%	%	%	%
Economic assumptions				
The above calculations were based on the following assumptions:				
Discount rate at 30 June (gross of tax)	5.20	5.10	5.40	5.30
Expected return on plan assets at 30 June	7.70	7.60	5.60	5.70
Expected rate salary increases at 30 June (per annum) ⁽¹⁾	4.40	4.10	4.80	4.40

(1) For the OSF, additional age related allowances were made for the expected salary increases from future promotions. At 30 June 2010 and 30 June 2011, these assumptions were broadly between 1.6% and 2.6% per annum for full-time employees and 1.0% per annum for part time employees.

Notes to the Financial Statements

Note 42 Retirement Benefit Obligations (continued)

The return on asset assumption for the OSF is determined as the weighted average of the long term expected returns of each asset class where the weighting is the benchmark asset allocations of the assets backing the defined benefit risks. The long term expected returns of each asset class are determined following receipt of actuarial advice. The discount rate (gross of tax) assumption for the OSF is based on the yield of 10 year Australian Commonwealth Government securities.

In addition to financial assumptions, the mortality assumptions for pensioners can materially impact the defined benefit obligations. These assumptions are age related and allowances are made for future improvement in mortality. The expected life expectancies for pensioners are set out below:

	OSF		CBA(UK)SBS	
	2011	2010	2011	2010
Expected life expectancies for pensioners	Years	Years	Years	Years
Male pensioners currently aged 60	29.0	28.9	28.9	27.9
Male pensioners currently aged 65	24.2	24.1	24.1	23.1
Female pensioners currently aged 60	34.2	34.0	31.5	30.6
Female pensioners currently aged 65	29.0	28.9	26.5	25.6

Further, the proportion of the retiring members of the main OSF defined benefit division electing to take pensions instead of lump sums may materially impact the defined benefit obligations.

Of these retiring members 34% were assumed to take pension benefits, increasing to 50% by 2020.

Australian and UK legislation requires that superannuation (pension) benefits be provided through trusts. These trusts (including their investments) are managed by trustees who are legally independent of the employer. The investment objective of the OSF (the Bank's major superannuation (pension) plan) is "to maximise the long term rate of return subject to net returns over rolling five year periods exceeding the growth in Average Weekly Ordinary Time Earnings 80% of the time".

To meet this investment objective, the OSF Trustee invests a large part of the OSF's assets in growth assets, such as shares and property. These assets have historically earned higher rates of return than other assets, but they also carry higher risks, especially in the short term. To manage these risks, the Trustee has adopted a strategy of spreading the OSF's investments over a number of asset classes and investment managers.

As at 30 June 2011, the actual asset allocations for the assets backing the defined benefit portion of the OSF are as follows:

Asset allocations	Actual Allocation
	%
Australian equities	25.1
Overseas equities	12.0
Real estate	13.0
Fixed interest securities	30.7
Cash	7.0
Other ⁽¹⁾	12.2

(1) These are assets which are not included in the traditional asset classes of equities, fixed interest securities, real estate and cash. They include infrastructure investments as well as high yield and emerging market debt.

The value of the OSF's equity holding in the Group was \$102 million as at 30 June 2011 (2010: \$96 million). Amounts on deposit with the Bank were \$30 million as at 30 June 2011 (2010: \$23 million). Other financial instruments with the Group were \$63 million as at 30 June 2011 (2010: \$73 million).

Notes to the Financial Statements

Note 43 Investments in Associated Entities and Joint Ventures

	2011		2010		Principal Activities	Country of Incorporation	Balance Date
	\$M	\$M	Ownership Interest %	Ownership Interest %			
Acadian Asset Management (Australia) Limited	2	2	50	50	Investment Management	Australia	30-Jun
Aegis Correctional Partnership Trust	1	-	50	50	Investment Vehicle	Australia	30-Jun
AMTD Group Company Limited	-	1	-	30	Financial Services	Virgin Islands	31-Dec
Aspire Schools (Qld) Holdings Limited	6	2	50	50	Investment Vehicle	Australia	30-Jun
Aussie Home Loans Pty Limited	71	76	33	33	Mortgage Broking	Australia	30-Jun
Bank of Hangzhou Co. Ltd.	458	398	20	20	Commercial Banking	China	31-Dec
BoCommLife Insurance Company Limited	27	28	38	38	Life Insurance	China	31-Dec
Cardlink Services Limited	20	11	25	44	Transaction Services	Australia	30-Jun
CFS Retail Property Trust ⁽¹⁾⁽³⁾	439	439	8	9	Funds Management	Australia	30-Jun
Commonwealth Property Office Fund ⁽²⁾⁽³⁾	139	139	6	7	Funds Management	Australia	30-Jun
Equigroup Pty Limited	15	16	50	50	Leasing	Australia	30-Jun
First State Cinda Fund Management Company Limited	15	15	46	46	Funds Management	China	31-Dec
First State European Diversified Investment Fund	139	145	30	39	Funds Management	Luxembourg	30-Jun
International Private Equity Real Estate Fund	3	3	33	33	Funds Management	Australia	30-Jun
Pinnacle Education SA Holding Company Pty Ltd ⁽⁴⁾	6	-	50	50	Investment Vehicle	Australia	30-Jun
Qilu Bank Co., Ltd.	213	204	20	20	Commercial Banking	China	31-Dec
Vietnam International Bank	158	-	15	-	Financial Services	Vietnam	31-Dec
452 Capital Pty Limited	-	11	30	30	Investment Management	Australia	30-Jun
Total	1,712	1,490					

(1) The value for CFS Retail Property Trust based on published quoted prices was \$400 million as at 30 June 2011 (2010: \$416 million).

(2) The value for Commonwealth Property Office Fund based on published quoted prices was \$133 million as at 30 June 2011 (2010: \$132 million).

(3) The consolidated entity has significant influence due to its relationship as Responsible Entity.

(4) Formerly known as CIPL SA Schools Pty Limited

	Group	
	2011	2010
Share of Associates' and Joint Ventures profits/(losses)	\$M	\$M
Operating profits/(losses) before income tax	164	141
Income tax expense	(23)	(7)
Operating profits/(losses) after income tax	141	134
Carrying amount of investments in associated entities and joint ventures	1,712	1,490

	Group	
	2011	2010
Group's share of lease commitments of Associates and of Joint Ventures due	\$M	\$M
Not later than one year	6	5
Later than one year but not later than five years	13	11
Later than five years	11	7
Total lease commitments - property, plant and equipment	30	23

	Group	
	2011	2010
Financial information of Associates and Joint Ventures	\$M	\$M
Current assets	30,466	23,581
Non-current assets	36,420	35,744
Current Liabilities	46,086	38,796
Non-current Liabilities	8,213	5,229
Revenues	3,722	2,228
Expenses	1,936	1,199

Notes to the Financial Statements

Note 44 Key Management Personnel

The company has applied the exemption under AASB 124 Related Party Disclosures which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their Financial Statements. These remuneration disclosures are provided in the Remuneration Report of the Directors' Report on pages 72 to 91 and have been audited.

	Group		Bank	
	2011	2010	2011	2010
Key management personnel compensation	\$'000	\$'000	\$'000	\$'000
Short term benefits	32,494	33,173	32,494	33,173
Post-employment benefits	752	1,584	752	1,584
Share-based payments	9,931	26,787	9,931	26,787
Long term benefits	463	1,020	463	1,020
Total	43,640	62,564	43,640	62,564

Equity Holdings of Key Management Personnel

Shareholdings

Details of the shareholdings of Key Management Personnel (or close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of the aforementioned hold significant voting power) are set out below. For details of Director and Executive equity plans refer to Note 29.

Shares held by directors

All shares were acquired by Directors on normal terms and conditions or through the Non-Executive Director's Share Plan.

Directors	Class	Balance	Shares	Net Change	Balance
		1 July 2010	Acquired ⁽¹⁾	Other ⁽²⁾	30 June 2011
David Turner	Ordinary	9,600	1,398	-	10,998
John Anderson	Ordinary	15,238	497	738	16,473
Colin Galbraith	Ordinary	15,895	540	-	16,435
Jane Hemstritch	Ordinary	21,888	570	3,000	25,458
Launa Inman ⁽³⁾	Ordinary	1,298	-	-	1,298
Carolyn Kay	Ordinary	11,501	570	-	12,071
Brian Long ⁽³⁾	Ordinary	10,544	157	-	10,701
Andrew Mohl	Ordinary	9,818	532	-	10,350
Fergus Ryan	Ordinary	17,976	570	-	18,546
Harrison Young	Ordinary	25,876	570	-	26,446

(1) Non-Executive Directors receive 20% of their total annual fees as Commonwealth Bank shares. These shares are subject to a 10 year trading restriction (the shares will be released earlier if the director leaves the Board).

(2) "Net Change Other" incorporates changes resulting from purchases and sales during the year.

(3) Launa Inman joined the Group on 16 March 2011. Brian Long commenced with the Group on 1 September 2010.

Notes to the Financial Statements

Note 44 Key Management Personnel (continued)

Shares held by the CEO and Group Executives

		Balance	Acquired/ Granted as	On	Reward/ Deferred	Net Change	Balance
Class ⁽¹⁾	1 July 2010	Remuneration	Exercise of	Shares	other ⁽³⁾	30 June 2011	
			Options	Vested ⁽²⁾			
Managing Director and CEO							
Ralph Norris	Ordinary	201,623	-	-	-	42,056	243,679
	Reward Shares/Rights	204,626	85,976	-	-	-	290,602
	Deferred Shares	39,167	-	-	-	-	39,167
Group Executives							
Simon Blair	Ordinary	-	-	-	-	-	-
	Reward Shares/Rights	30,190	22,046	-	-	-	52,236
	Deferred Shares	-	-	-	-	-	-
Barbara Chapman	Ordinary	-	-	-	-	-	-
	Reward Shares/Rights	58,844	24,250	-	-	-	83,094
	Deferred Shares	13,666	-	-	-	-	13,666
David Cohen	Ordinary	13,781	-	-	-	24,100	37,881
	Reward Shares/Rights	57,113	23,837	-	-	-	80,950
	Deferred Shares	7,597	-	-	-	-	7,597
David Craig	Ordinary	35,113	-	-	-	27,543	62,656
	Reward Shares/Rights	72,690	37,202	-	-	-	109,892
	Deferred Shares	19,548	-	-	-	-	19,548
Michael Harte	Ordinary	14,318	-	-	-	24,100	38,418
	Reward Shares/Rights	65,767	28,935	-	-	-	94,702
	Deferred Shares	17,955	-	-	-	-	17,955
Ross McEwan	Ordinary	-	-	-	-	9,429	9,429
	Reward Shares/Rights	83,074	34,446	-	-	-	117,520
	Deferred Shares	20,814	-	-	-	-	20,814
Ian Narev	Ordinary	1,137	-	-	-	6,610	7,747
	Reward Shares/Rights	58,844	24,801	-	-	-	83,645
	Deferred Shares	18,284	-	-	(6,610)	-	11,674
Grahame Petersen	Ordinary	48,271	-	-	-	2,829	51,100
	Reward Shares/Rights	76,151	31,690	-	-	-	107,841
	Deferred Shares	15,096	-	-	-	-	15,096
Ian Saines	Ordinary	14,919	-	-	-	(13,991)	928
	Reward Shares/Rights	89,997	36,650	-	-	-	126,647
	Deferred Shares	34,193	-	-	(12,653)	-	21,540
Alden Toevs	Ordinary	9,000	-	-	-	37,784	46,784
	Reward Shares/Rights	96,920	38,579	-	-	-	135,499
	Deferred Shares	47,914	-	-	(37,784)	-	10,130

(1) Reward Shares/Rights represent shares granted under the Group Leadership Reward Plan (GLRP) which are subject to performance hurdles. Deferred Shares represent the deferred portion of STI received as shares restricted for three years.

(2) Reward shares/rights and Deferred shares become ordinary shares upon vesting.

(3) "Net Change Other" incorporates changes resulting from purchases, sales and forfeitures during the year.

Notes to the Financial Statements

Note 44 Key Management Personnel (continued)

Loans to Key Management Personnel

All loans to Key Management Personnel (or close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of the aforementioned held significant voting power) have been provided on an arm's length commercial basis including the term of the loan, security required and the interest rate (which may be fixed or variable).

		Opening Balance \$000s	Interest Charged \$000s	Closing Balance \$000s	Number in Group
Directors	2011	5	-	5	1
	2010	-	-	-	-
CEO & Group Executives	2011	9,324	538	7,153	11
	2010	9,999	579	9,324	11
Total	2011	9,329	538	7,158	12
	2010	9,999	579	9,324	11

Loans to Key Management Personnel Exceeding \$100,000 in Aggregate

	Balance 1 July 2010 \$000s	Interest Charged \$000s	Interest Not Charged \$000s	Write-off \$000s	Balance 30 June 2011 \$000s	Highest Balance in Period \$000s ⁽²⁾
Managing Director & CEO						
Ralph Norris ⁽¹⁾	1,839	36	-	-	28	1,830
Group Executives						
Simon Blair ⁽¹⁾	1,082	58	-	-	668	1,082
Barbara Chapman ⁽¹⁾	1,869	102	-	-	1,493	2,192
David Cohen	602	38	-	-	596	604
Michael Harte	2,989	209	-	-	3,302	3,519
Ross McEwan ⁽¹⁾	220	33	-	-	573	1,797
Ian Narev ⁽¹⁾	381	17	-	-	181	385
Ian Saines	310	45	-	-	310	2,990
Total	9,292	538	-	-	7,151	14,399

(1) Some loans for Mr Norris, Mr Blair, Ms Chapman, Mr McEwan and Mr Narev are held in New Zealand Dollars and converted to Australian Dollars for the purpose of this disclosure. The exchange rate at 30 June 2010 has been used for the opening balances, and the exchange rate at 30 June 2011 has been used for calculating interest charged, closing balances and highest balance in period. The highest balance in period for Mr Norris is lower than the opening balance due to the fluctuation in exchange rates during the year.

(2) Represents the highest balance of loans outstanding at any period during the year ended 30 June 2011.

Other Transactions of Key Management Personnel

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed within this report) of Key Management Personnel occur in the ordinary course of business on an arm's length basis.

Disclosure of financial instrument transactions regularly made as part of normal banking operations is limited to disclosure of such transactions with Key Management Personnel and entities controlled or significantly influenced by them.

All such financial instrument transactions that have occurred between entities within the Group and their Key Management Personnel have been trivial or domestic in nature and were in the nature of normal personal banking and deposit transactions.

Other Transactions

All other transactions with Key Management Personnel and their related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services by entities not controlled by the Group.

Notes to the Financial Statements

Note 45 Related Party Disclosures

The Group is controlled by the Commonwealth Bank of Australia, the ultimate parent, which is incorporated in Australia.

A number of banking transactions are entered into with related parties in the normal course of business on an arms length basis.

These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned. The table below indicates the values of such transactions.

	Group		
	For the Year Ended and as at 30 June 2011		
	Associates	Joint Ventures	Total
	\$000s	\$000s	\$000s
Interest and dividend income	92,022	-	92,022
Interest expense	1,756	-	1,756
Fee and commission income for services provided ⁽¹⁾	76,555	31	76,586
Fee and commission expense for services received	32,088	63	32,151
Loans, bills discounted and equity contributions	1,259,031	-	1,259,031
Derivative assets	65,577	-	65,577
Other assets	39,400	179	39,579
Deposits	18,623	-	18,623
Derivative liabilities	6,338	-	6,338
Other liabilities	1,609	-	1,609

	Group		
	For the Year Ended and as at 30 June 2010		
	Associates	Joint Ventures	Total
	\$000s	\$000s	\$000s
Interest and dividend income	58,169	1,000	59,169
Interest expense	333	2,037	2,370
Fee and commission income for services provided ⁽¹⁾	57,121	2,884	60,005
Fee and commission expense for services received	104,508	10,118	114,626
Loans, bills discounted and equity contributions	424,621	12,620	437,241
Derivative assets	12,400	6,684	19,084
Other assets	39,367	8,383	47,750
Deposits	18,709	-	18,709
Derivative liabilities	25,818	-	25,818
Other liabilities	22,698	-	22,698

(1) Not included above are management services provided for nil consideration to associated Group and Bank companies to the value of \$4,352,000 (2010: \$7,520,000).

Notes to the Financial Statements

Note 45 Related Party Disclosures (continued)

	Bank			
	For the Year Ended and as at 30 June 2011			
	Subsidiaries	Associates	Joint Ventures	Total
	\$000s	\$000s	\$000s	\$000s
Interest and dividend income	6,313,371	87,767	-	6,401,138
Interest expense	3,365,381	1,756	-	3,367,137
Fee and commission income for services provided ⁽¹⁾	686,572	2,199	31	688,802
Fee and commission expense for services received	333,983	32,193	63	366,239
Available-for-sale securities	39,757,623	-	-	39,757,623
Loans, bills discounted and equity contributions	47,550,178	1,223,218	-	48,773,396
Derivative assets	297,665	65,577	-	363,242
Other assets	962,751	-	179	962,930
Deposits	53,860,369	18,623	-	53,878,992
Derivative liabilities	434,337	6,338	-	440,675
Debt issues and loan capital	2,595,843	-	-	2,595,843
Other liabilities	1,763,744	54	-	1,763,798

	Bank			
	For the Year Ended and as at 30 June 2010			
	Subsidiaries	Associates	Joint Ventures	Total
	\$000s	\$000s	\$000s	\$000s
Interest and dividend income	5,165,042	55,678	-	5,220,720
Interest expense	2,916,015	-	-	2,916,015
Fee and commission income for services provided ⁽¹⁾	599,921	2,650	119	602,690
Fee and commission expense for services received	601,000	94,230	218	695,448
Available-for-sale securities	39,821,783	-	-	39,821,783
Loans, bills discounted and equity contributions	49,901,264	412,000	-	50,313,264
Derivative assets	193,959	12,400	-	206,359
Other assets	1,075,058	-	-	1,075,058
Deposits	53,873,671	8,900	-	53,882,571
Derivative liabilities	408,512	25,818	-	434,330
Debt issues and loan capital	2,916,825	-	-	2,916,825
Other liabilities	3,838,430	22,698	-	3,861,128

(1) Not included above are management services provided for nil consideration to associated Group and Bank companies to the value of \$4,352,000 (2010: \$7,520,000).

The Bank's aggregate investments in, and loans to controlled entities are disclosed in Note 49. Amounts due to controlled entities are disclosed in the Balance Sheet of the Bank.

The Bank provides letters of comfort to other entities within the Group on standard terms. Guarantees include a \$5 million bank guarantee provided to Colonial First State Investments Limited and a \$25 million guarantee to AFS license holders in respect of excess insurance claims.

The Bank is the head entity of the tax consolidated group and has entered into tax funding and tax sharing agreements with its eligible Australian resident subsidiaries. The terms and conditions of these agreements are set out in note 1(x). The amount receivable by the Bank under the tax funding agreement with the tax consolidated entities is \$281 million as at 30 June 2011 (2010: \$439 million receivable). This balance is included in 'Other assets' in the Bank's separate balance sheet.

All transactions between Group entities are eliminated on consolidation.

Notes to the Financial Statements

Note 46 Notes to the Statements of Cash Flows

(a) Reconciliation of Net Profit after Income Tax to Net Cash provided by/(used in) Operating Activities

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Net profit after income tax	6,410	5,680	4,753	6,480	5,615
(Increase)/decrease in interest receivable	(224)	(551)	301	(287)	(559)
Increase/(decrease) in interest payable	476	889	(54)	465	878
Net decrease in assets at fair value through Income Statement (excluding life insurance)	2,697	3,301	690	1,202	2,383
Net (gain)/loss on sale of controlled entities and associates	(7)	32	-	(6)	(2)
Net gain on sale of investments	(1)	(4)	(1)	(1)	(4)
Net increase in derivative assets	(4,224)	(1,331)	(8,358)	(4,735)	(1,827)
Net loss on sale of property, plant and equipment	6	4	11	6	4
Equity accounting profit	(141)	(116)	(141)	-	-
Gain on acquisition of controlled entities	-	-	(983)	-	-
Impairment expense	1,280	2,379	3,048	1,080	1,193
Depreciation and amortisation (including asset write downs)	613	618	519	387	373
(Decrease)/increase in liabilities at fair value through Income Statement (excluding life insurance)	(4,851)	(1,254)	661	87	1,128
Increase/(decrease) in derivative liabilities	4,643	(9,804)	13,361	4,733	(6,126)
Increase in other provisions	80	46	60	23	104
Increase/(decrease) in income taxes payable	105	(150)	521	117	80
Increase/(decrease) in deferred tax liabilities	80	53	(355)	(1)	7
(Increase)/decrease in deferred tax assets	(30)	383	(967)	131	1
(Increase)/decrease in accrued fees/reimbursements receivable	(1)	44	41	37	(73)
(Decrease)/Increase in accrued fees and other items payable	(99)	302	178	(128)	524
Increase/(decrease) in life insurance contract policy liabilities	835	853	(1,025)	-	-
Increase/(decrease) in cash flow hedge reserve	15	589	(1,651)	(98)	219
(Decrease)/Increase in fair value on hedged items	(427)	838	569	(410)	810
Dividend received from controlled entities	-	-	-	(2,210)	(1,648)
Changes in operating assets and liabilities arising from cash flow movements	10,590	(29,592)	(19,788)	7,597	(24,299)
Other	(158)	122	100	34	355
Net cash provided by/(used in) operating activities	17,667	(26,669)	(8,510)	14,503	(20,864)

(b) Reconciliation of Cash

For the purposes of the Statements of Cash Flows, cash includes cash, money at short call, at call deposits with other financial institutions and settlement account balances with other banks.

	Group			Bank	
	2011	2010	2009	2011	2010
	\$M	\$M	\$M	\$M	\$M
Notes, coins and cash at banks	5,424	5,285	3,755	4,103	4,027
Other short term liquid assets	1,301	1,153	3,128	977	979
Receivables due from other financial institutions – at call ⁽¹⁾	7,261	5,012	1,889	6,664	4,386
Payables due to other financial institutions – at call ⁽¹⁾	(6,058)	(6,533)	(6,586)	(5,853)	(6,346)
Cash and cash equivalents at end of year	7,928	4,917	2,186	5,891	3,046

(1) At call includes certain receivables and payables due from and to financial institutions within three months.

Notes to the Financial Statements

Note 46 Notes to the Statements of Cash Flows (continued)

(c) Disposal of Controlled Entities – Fair Value of asset disposal

The Group disposed of certain St Andrew operations effective 1 July 2010. During the year ended 30 June 2010, the Group disposed of its banking and insurance operations in Fiji.

	Group		
	2011	2010	2009
	\$M	\$M	\$M
Net Assets	60	77	-
(Loss)/gain on sale (excluding realised foreign exchange losses and other related costs)	(10)	1	-
Cash consideration received	50	78	-
Less cash and cash equivalents disposed	(31)	(89)	-
Net cash inflow/(outflow) on disposal	19	(11)	-

(d) Non-cash Financing and Investing Activities

	Group		
	2011	2010	2009
	\$M	\$M	\$M
Shares issued under the Dividend Reinvestment Plan⁽¹⁾	511	1,457	1,099

(1) The dividend reinvestment plan in respect of the final dividend for 2009/10 was satisfied in full by an on market purchase and transfer of \$679 million of shares to participating shareholders.

Notes to the Financial Statements

Note 47 Disclosures about Fair Values of Financial Instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. AASB7 'Financial Instruments: Disclosures' requires the disclosure of the fair value of those financial instruments not already carried at fair value in the balance sheet.

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(a) Comparison of Fair Values and Carrying Values

The following tables summarise the carrying and fair values of financial assets and liabilities presented on the Group and the Bank's balance sheets. The disclosure does not cover assets or liabilities that are not considered to be financial instruments from an accounting perspective.

	2011		Group 2010	
	Carrying Value \$M	Fair Value \$M	Carrying Value \$M	Fair Value \$M
Assets				
Cash and liquid assets	13,241	13,241	10,119	10,119
Receivables due from other financial institutions	10,393	10,393	10,072	10,072
Assets at fair value through Income Statement:				
Trading	20,469	20,469	22,851	22,851
Insurance	14,998	14,998	15,940	15,940
Other	824	824	654	654
Derivative assets	30,317	30,317	27,689	27,689
Available-for-sale investments	45,171	45,171	32,915	32,915
Loans, bills discounted and other receivables	500,057	500,544	493,459	492,951
Bank acceptances of customers	10,734	10,734	11,569	11,569
Other assets	7,059	7,059	6,240	6,240
Liabilities				
Deposits and other public borrowings	401,147	401,979	374,663	374,508
Payables due to other financial institutions	15,899	15,899	12,608	12,608
Liabilities at fair value through Income Statement	10,491	10,491	15,342	15,342
Derivative liabilities	33,976	33,976	24,884	24,884
Bank acceptances	10,734	10,734	11,569	11,569
Insurance policy liabilities	13,652	13,652	14,592	14,592
Debt issues	118,652	120,752	130,210	127,874
Managed funds units on issue	1,048	1,048	880	880
Bills payable and other liabilities	8,983	8,983	7,698	7,698
Loan capital	11,561	12,105	13,513	13,036

Notes to the Financial Statements

Note 47 Disclosures about Fair Values of Financial Instruments (continued)

	2011		Bank 2010	
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
	\$M	\$M	\$M	\$M
Assets				
Cash and liquid assets	10,979	10,979	8,711	8,711
Receivables due from other financial institutions	10,123	10,123	9,766	9,766
Assets at fair value through Income Statement:				
Trading	17,765	17,765	18,775	18,775
Other	300	300	-	-
Derivative assets	30,731	30,731	27,363	27,363
Available-for-sale investments	75,699	75,699	65,779	65,779
Loans, bills discounted and other receivables	387,888	388,187	377,195	376,679
Bank acceptances of customers	10,734	10,734	11,569	11,569
Loans to controlled entities	28,454	28,988	31,055	30,892
Other assets	5,283	5,283	4,492	4,492
Liabilities				
Deposits and other public borrowings	332,964	333,465	307,844	307,511
Payables due to other financial institutions	15,686	15,686	12,422	12,422
Liabilities at fair value through Income Statement	4,700	4,700	4,613	4,613
Derivative liabilities	32,817	32,817	23,689	23,689
Bank acceptances	10,734	10,734	11,569	11,569
Due to controlled entities	52,353	52,353	52,411	52,411
Debt issues	94,385	97,080	107,039	104,352
Bills payable and other liabilities	6,635	6,635	5,362	5,362
Loan capital	11,808	12,007	13,575	13,044

The fair values disclosed above represent estimates at which these instruments could be exchanged in a current transaction between willing parties. However, many of the instruments lack an available trading market and it is the intention to hold to maturity. Thus it is possible that realised amounts may differ to amounts disclosed above.

Due to the wide range of valuation techniques and the numerous estimates that must be made, it may be difficult to make a reasonable comparison of the fair value information disclosed here, against that disclosed by other financial institutions.

For financial instruments not carried at fair value, an estimate of fair value has been derived as follows:

Loans, Bills Discounted and Other Receivables

The carrying value of loans, bills discounted and other receivables is net of accumulated collective and individually assessed provisions for impairment. Customer credit worthiness is regularly reviewed in line with the Group's credit policies and where necessary, pricing is adjusted in accordance with individual credit contracts.

For the majority of variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of fair value. For Institutional variable rate loans the fair value is calculated using discounted cash flow models with a discount rate reflecting market rates offered on similar loans to customers with similar credit worthiness. The fair value of impaired loans is calculated by discounting estimated future cash flows using the loan's original effective interest rate.

The fair value of fixed rate loans is calculated using discounted cash flow models using a discount rate reflecting market rates offered for loans of similar remaining maturities and credit worthiness of the borrower.

Deposits and Other Public Borrowings

Fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, approximate their carrying value as they are short term in nature or payable on demand.

Fair value of term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.

Debt Issues and Loan Capital

The fair values are calculated using quoted market prices, where available. Where quoted market prices are not available, discounted cash flow and option pricing models are used. The discount rate applied reflects the terms of the instrument, the timing of the cash flows and is adjusted for any change in the Group's applicable credit rating.

Other Financial Assets and Liabilities

For all other financial assets and liabilities fair value approximates carrying value due to their short term nature, frequent repricing or high credit rating.

Notes to the Financial Statements

Note 47 Disclosures about Fair Values of Financial Instruments (continued)

(b) Valuation Methodology

A significant number of financial instruments are carried on balance sheet at fair value.

The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where no quoted market price for an instrument is available, the fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in a limited number of instances, rely on inputs which are reasonable assumptions based on market conditions.

The tables below categorise financial assets and liabilities that are recognised and measured at fair value, and the valuation methodology according to the following hierarchy.

Valuation Inputs

Quoted Prices in Active Markets – Level 1

Financial instruments, the valuation of which are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation Technique Using Observable Inputs – Level 2

Financial instruments that have been valued using inputs other than quoted prices as described for level 1 but which are observable for the asset or liability, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.

Valuation Technique Using Significant Unobservable Inputs – Level 3

Financial instruments, the valuation of which incorporates a significant input for the asset or liability that is not based on observable market data (unobservable input). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historic transactions and economic models, where available. These inputs may include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility.

	Fair Value as at 30 June 2011				Fair Value as at 30 June 2010				Group
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Assets									
Assets at fair value through Income Statement:									
Trading	15,720	4,686	63	20,469	17,995	4,775	81	22,851	
Insurance	5,008	9,990	-	14,998	4,526	11,414	-	15,940	
Other	299	525	-	824	-	654	-	654	
Derivative assets	36	30,240	41	30,317	137	27,538	14	27,689	
Available-for-sale investments ⁽¹⁾	37,131	8,039	1	45,171	28,008	4,752	1	32,761	
Total assets carried at fair value	58,194	53,480	105	111,779	50,666	49,133	96	99,895	
Liabilities									
Liabilities at fair value through Income Statement	4,096	6,395	-	10,491	3,821	11,521	-	15,342	
Derivative liabilities	4	33,964	8	33,976	69	24,808	7	24,884	
Life investment contracts	-	10,515	-	10,515	-	11,411	-	11,411	
Total liabilities carried at fair value	4,100	50,874	8	54,982	3,890	47,740	7	51,637	

(1) The Group holds investments in unlisted equity instruments with a carrying value of \$nil as at 30 June 2011 (2010: \$154 million).

Notes to the Financial Statements

Note 47 Disclosures about Fair Values of Financial Instruments (continued)

(b) Valuation Methodology (continued)

	Fair Value as at 30 June 2011				Fair Value as at 30 June 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Assets								
Assets at fair value through Income Statement:								
Trading	14,763	2,996	6	17,765	16,423	2,344	8	18,775
Other	299	1	-	300	-	-	-	-
Derivative assets	42	30,660	29	30,731	239	27,123	1	27,363
Available-for-sale investments ⁽¹⁾	29,457	46,241	1	75,699	19,780	45,849	1	65,630
Total assets carried at fair value	44,561	79,898	36	124,495	36,442	75,316	10	111,768
Liabilities								
Liabilities at fair value through Income Statement								
Derivative liabilities	4,116	584	-	4,700	3,821	792	-	4,613
Derivative liabilities	3	32,806	8	32,817	69	23,613	7	23,689
Total liabilities carried at fair value	4,119	33,390	8	37,517	3,890	24,405	7	28,302

(1) The Bank no longer holds unlisted equity investments (2010: \$149 million).

Level 3 movement analysis for the year ended 30 June 2011

There have been transfers between Level 1 and Level 2 of the hierarchy due to the increased or decreased observability of the valuation inputs used to price the instruments and the liquidity of the market.

There were no transfers into and out of Level 3. The Group's exposure to financial instruments measured at fair value based in full or in part on non-market observable inputs is restricted to a small number of financial instruments which comprise an insignificant component of the portfolios to which they belong. As such the purchases, sales, as well as any change in the assumptions used to value the instruments to a reasonably possible alternative do not have a material effect on the portfolio balance of the Group's or the Bank's results. The movement in Level 3 financial instruments recognised in the Group Income Statement was \$11 million for the year ended 30 June 2011 (2010: \$3 million) and for the Bank was \$13 million (2010: \$2 million).

Notes to the Financial Statements

Note 48 Securitisation

The Group enters into transactions in the normal course of business by which it transfers financial assets directly to third parties or to special purpose entities (SPEs). These transfers may give rise to the full or partial derecognition of those financial assets:

- Full derecognition occurs when the contractual right to receive cash flows from the financial assets is transferred, or the right is retained but an obligation is assumed to pass on the cash flows from the asset, which transfers substantially all the risks and rewards of ownership; and
- Partial derecognition occurs when financial assets are sold or transferred in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of continuing involvement.

The table below provides a breakdown of the assets held by securitisation vehicles and exposures the Bank has to securitisation vehicles that the Group has established.

	Group	
	2011	2010
Assets held within Group SPEs	\$M	\$M
Residential mortgages - Group originated mortgages backing securities held for potential repurchase with central banks	44,349	45,673
Residential mortgages - Group originated	11,296	9,696
Other	204	175
Total securitisation assets of SPEs	55,849	55,544

					Group	
	Funded		Unfunded⁽²⁾		Total	
	2011	2010	2011	2010	2011	2010
Exposure to securitisation SPEs	\$M	\$M	\$M	\$M	\$M	\$M
Residential mortgage backed securities held for potential repurchase with central banks	43,662	45,169	-	-	43,662	45,169
Other residential mortgage backed securities	2,125	3,567	-	-	2,125	3,567
Other derivatives ⁽¹⁾	1,478	1,011	-	37	1,478	1,048
Liquidity support facilities	163	916	809	787	972	1,703
Other facilities	898	98	63	62	961	160
Total	48,326	50,761	872	886	49,198	51,647

(1) Derivatives are measured on the basis of Potential Credit Exposure (PCE), a credit risk measurement of maximum risk over the term of the transaction, or current fair value where PCE is not accessible.

(2) Unfunded amounts apply to financial arrangements the Group holds with securitisation SPE's that the SPE is yet to fully draw down upon.

Note 49 Controlled Entities

(a) Shares in and Loans to controlled entities

	Bank	
	2011	2010
	\$M	\$M
Shares in controlled entities	18,903	18,754
Loans to controlled entities	28,454	31,055
Total shares in and loans to controlled entities	47,357	49,809

The above amounts are not expected to be recovered within twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 49 Controlled Entities (continued)

(b) Principal subsidiaries

The material subsidiaries of the Bank, based on contribution to the consolidated entity's profit, size of investment or nature of activity are:

Entity name	Entity name
Australia	
(a) Banking	
Commonwealth Bank of Australia	IWL Limited
Bank of Western Australia Limited	IWL Broking Solutions Limited
BWA Group Services Pty Limited	JDV Limited
Swan Trust Series 2007-1E	Australian Investment Exchange Limited
Swan Trust Series 2006-1E	Collateral Leasing Pty Limited
Swan Trust Series 2008-1D	CBFC Leasing Pty Limited
Swan Trust Series 2010 -1P	CBFC Limited
Swan Trust Series 2010 -2P	CBCL Australia Limited
Medallion Trust Series 2003-1G	Securitisation Advisory Services Pty Limited
Medallion Trust Series 2004-1G	Homepath Pty Limited
Medallion Trust Series 2005-1G	Tankstream Rail (BY-3) Pty Limited
Medallion Trust Series 2005-2G	Tankstream Rail (BY-4) Pty Limited
Medallion Trust Series 2006-1G	CBA International Finance Pty Limited
Medallion Trust Series 2007-1G	GT Operating No.2 Pty Limited
Medallion Trust Series 2008-1R	GT Operating No.4 Pty Limited
Medallion Trust Series 2011-1	Colonial Finance Limited
SHIELD Series 50	VH-VZH Pty Limited
MIS Funding No.1 Pty Limited	VH-VZG Pty Limited
Christmas Break Pty Limited	VH-VZF Pty Limited
CBA USD Investments Partnership	SAFE No1 Pty Limited
GT Operating No.5 Limited Partnership	CBA AIR Pty Limited
GT Funding No.6 Limited Partnership	Reliance Achiever Partnership
PERLS III Trust	Tankstream Rail (SW-3) Pty Limited
Commonwealth Investments Pty Limited	Tankstream Rail (SW-4) Pty Limited
Commonwealth Securities Limited	Tankstream Rail (BY-2) Pty Limited
(b) Insurance and Funds Management	
Colonial Holding Company Limited	Colonial First State Capital Management Pty Limited
Commonwealth Insurance Holdings Limited	First State Investment Managers (Asia) Limited
Commonwealth Insurance Limited	Capital 121 Pty Limited
Jacques Martin Pty Limited	Commonwealth Financial Planning Limited
Jacques Martin Administration and Consulting Pty Limited	Financial Wisdom Limited
Colonial First State Group Limited	Whittaker Macnaught Pty Limited
CFS Managed Property Limited	Avanteos Pty Limited
Colonial First State Asset Management (Australia) Limited	Avanteos Investments Limited
Commonwealth Managed Investments Limited	Colonial First State Investments Limited
Colonial First State Property Limited	St Andrew's Australia Pty Limited
Colonial First State Property Retail Trust	Commonwealth International Holdings Pty Limited
Colonial First State Property Management Limited	The Colonial Mutual Life Assurance Society Limited

All the above subsidiaries are 100% owned and incorporated in Australia.

Notes to the Financial Statements

Note 49 Controlled Entities (continued)

(b) Principal Subsidiaries (continued)

Entity name	Extent of Beneficial Interest if not 100%	Incorporated in
New Zealand		
(a) Banking		
ASB Holdings Limited		New Zealand
ASB Bank Limited		New Zealand
ASB Funding Limited		New Zealand
CBA Funding (NZ) Limited		New Zealand
ASB Capital Limited		New Zealand
ASB Capital No.2 Limited		New Zealand
CBA NZ Holding Limited		New Zealand
CBA USD Funding Limited		New Zealand
Medallion NZ Series Trust 2009-1R		New Zealand
CBA Real Estate Funding (NZ) Limited		New Zealand
ASB Group Investments Limited		New Zealand
ASB Securities Limited		New Zealand
AEGIS Limited		New Zealand
(b) Insurance and Funds Management		
ASB Group (Life) Limited		New Zealand
Sovereign Group Limited		New Zealand
Sovereign Limited		New Zealand
Colonial First State Investments (NZ) Limited		New Zealand
Kiwi Income Properties Limited		New Zealand
Kiwi Property Management Limited		New Zealand
Other Overseas		
(a) Banking		
CommBank Management Consulting (Asia) Co Limited		Hong Kong
CBA Funding Trust I		Delaware USA
CBA Capital Trust I		Delaware USA
CBA Capital Trust II		Delaware USA
PT. Bank Commonwealth	97%	Indonesia
CBA (Europe) Finance Limited		United Kingdom
Burdekin Investments Limited		Cayman Islands
CTB Australia Limited		Hong Kong
CBA Asia Limited		Singapore
Newport Limited		Malta
CommBank Europe Limited		Malta
CommTrading Limited		Malta
CommInternational Limited		Malta
CommCapital S.a.r.l		Luxembourg
(b) Insurance and Funds Management		
First State Investments (Bermuda) Limited		Bermuda
First State (Hong Kong) LLC		United States
First State Investment Holdings (Singapore) Limited		Singapore
First State Investments (UK Holdings) Limited		United Kingdom
PT Commonwealth Life	80%	Indonesia

Non-operating and minor operating controlled entities and investment vehicles holding policyholder assets are excluded from the above list.

(c) Disposal of Controlled Entities

During the year, the Group disposed of certain St Andrew's operations effective 1 July 2010. For further details refer to Note 46 (c).

(d) Acquisition of Controlled Entities

There were no acquisitions of controlled entities during the current year.

Notes to the Financial Statements

Note 50 Subsequent Events

On 22 July 2011, the Board announced the appointment of Ian Narev to the role of Chief Executive Officer of the Bank upon the retirement of Ralph Norris at the end of November 2011.

The Bank expects to issue approximately \$733 million of ordinary shares in respect of the DRP for the final dividend for the year ended 30 June 2011.

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

Directors' Declaration

In accordance with a resolution of the Directors of the Commonwealth Bank of Australia (Bank), the Directors declare that:

(a) the financial statements for the financial year ended 30 June 2011 in relation to the Bank and the consolidated entity (Group) (together the Financial Statements), and the notes to the Financial Statements, are in accordance with the Corporations Act 2001, including:

(i) s 296 (which requires the financial report, including the Financial Statements and the notes to the Financial Statements, to comply with the accounting standards); and

(ii) s 297 (which requires the Financial Statements, and the notes to the Financial Statements, to give a true and fair view of the financial position and performance of the Group and the Bank);

(b) in compliance with the accounting standards, the notes to the Financial Statements include an explicit and unreserved statement of compliance with international financial reporting standards (see Note 1(a));

(c) in the opinion of the Directors, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable; and

(d) the Directors have been given the declarations required by s 295A in respect of the financial year ended 30 June 2011.

Signed in accordance with a resolution of the Directors.



DJ Turner
Chairman
10 August 2011



RJ Norris
Managing Director and Chief Executive Officer
10 August 2011



Independent auditor's report to the members of the Commonwealth Bank of Australia

Report on the financial report

We have audited the accompanying financial report of the Commonwealth Bank of Australia, which comprises the balance sheet as at 30 June 2011, the income statement, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both the Commonwealth Bank of Australia and the Group (the consolidated entity). The consolidated entity comprises the Commonwealth Bank of Australia and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Commonwealth Bank of Australia are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Independent auditor's report to the members of the Commonwealth Bank of Australia (continued)

Auditor's opinion

In our opinion:

- (a) the financial report of the Commonwealth Bank of Australia is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Commonwealth Bank of Australia and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 72 to 91 of the directors' report for the year ended 30 June 2011. The directors of the Commonwealth Bank of Australia are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of the Commonwealth Bank of Australia for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Rahoul Chowdry

Rahoul Chowdry
Partner

Sydney
10 August 2011

Shareholding Information

Top 20 Holders of Fully Paid Ordinary Shares as at 5 August 2011

Rank	Name of Holder	Number of Shares	%
1	HSBC Custody Nominees (Australia) Limited	199,701,465	12.81
2	J P Morgan Nominees Australia Limited	166,016,623	10.65
3	National Nominees Limited	131,816,588	8.46
4	Citicorp Nominees Pty Limited	67,836,352	4.35
5	RBC Dexia Investor Services Australia Nominees Pty Limited	29,371,985	1.88
6	Cogent Nominees Pty Limited	26,269,181	1.69
7	AMP Life Limited	12,899,928	0.83
8	Australian Foundation Investment Company Limited	8,507,900	0.55
9	UBS Wealth Management Australia Nominees Pty Limited	7,839,679	0.50
10	Queensland Investment Corporation	5,846,258	0.38
11	Bond Street Custodians Limited	4,555,964	0.29
12	Australian Reward Investment Alliance	3,619,024	0.23
13	Milton Corporation Limited	3,013,225	0.19
14	Argo Investments Limited	2,707,895	0.17
15	Invia Custodian Pty Limited	2,664,692	0.17
16	Perpetual Trustee Co Ltd (Hunter)	2,453,418	0.16
17	UBS Nominees Pty Ltd	2,368,939	0.15
18	Questor Financial Services Limited	2,027,444	0.13
19	Suncorp Custodian Services Pty Ltd	1,969,648	0.13
20	ANZ Executors & Trustee Company Limited	1,413,823	0.09

The top 20 shareholders hold 682,900,031 shares which is equal to 43.81% of the total shares on issue.

Stock Exchange Listing

The shares of the Commonwealth Bank of Australia are listed on the Australian Securities Exchange under the trade symbol CBA, with Sydney being the home exchange.

Details of trading activity are published in most daily newspapers, generally under the abbreviation of CBA or C'wealth Bank. The Bank does not have a current on-market buy-back of its shares.

Range of Shares (Fully Paid Ordinary Shares and Employee Shares): 5 August 2011

Range	Number of Shareholders	Percentage of Shareholders	Number of Shares	Percentage of Issued Capital
1 – 1,000	587,741	73.88	196,677,335	12.62
1,001 – 5,000	182,880	22.99	378,342,371	24.27
5,001 – 10,000	17,337	2.18	118,918,682	7.63
10,001 – 100,000	7,372	0.92	139,589,651	8.96
100,001 and over	231	0.03	725,139,205	46.52
Total	795,561	100.00	1,558,667,244	100.00
Less than marketable parcel of \$500	15,873	2.00	75,042	0.00

Voting Rights

Under the Bank's Constitution, each person who is a voting Equity holder and who is present at a general meeting of the Bank in person or by proxy, attorney or official representative is entitled:

- On a show of hands – to one vote; and
- On a poll – to one vote for each share held or represented.

If a person present at a general meeting represents personally or by proxy, attorney or official representative more than one Equity holder, on a show of hands the person is entitled to one vote even though he or she represents more than one Equity holder.

If an Equity holder is present in person and votes on a resolution, any proxy or attorney of that Equity holder is not entitled to vote.

If more than one official representative or attorney is present for an Equity holder:

- None of them is entitled to vote on a show of hands; and
- On a poll only one official representative may exercise the Equity holders voting rights and the vote of each attorney shall be of no effect unless each is appointed to represent a specified proportion of the Equity holders voting rights, not exceeding in aggregate 100%.

If an Equity holder appoints two proxies and both are present at the meeting:

- If the appointment does not specify the proportion or number of the Equity holder's votes each proxy may exercise, then on a poll each proxy may exercise one half of the Equity holder's votes;
- Neither proxy shall be entitled to vote on a show of hands; and
- On a poll each proxy may only exercise votes in respect of those shares or voting rights the proxy represents.

Shareholding Information

Top 20 Holders of Perpetual Exchangeable Repurchaseable Listed Shares III (“PERLS III”) as at 5 August 2011

Rank	Name of Holder	Number of Shares	%
1	RBC Dexia Investor Services Australia Nominees Pty Limited	181,173	3.11
2	J P Morgan Nominees Australia Limited	172,801	2.96
3	AMP Life Limited	155,309	2.66
4	UBS Wealth Management Australia Nominees Pty Ltd	138,662	2.38
5	Mr Walter Lawton and Mrs Jan Rynette Lawton	70,000	1.20
6	National Nominees Limited	64,621	1.11
7	Citicorp Nominees Pty Limited	63,694	1.09
8	Perpetual Trustee Company Limited	61,803	1.06
9	ANZ Executors & Trustee Company Limited	53,075	0.91
10	The Australian National University Investment Section	51,282	0.88
11	Mr John Stuart Walker + Mr Ralph Lane	50,000	0.86
12	Catholic Education Office Diocese of Parramatta	49,750	0.85
13	Truckmate (Australia) Pty Limited	35,000	0.60
14	M F Custodians Ltd	34,726	0.60
15	Questor Financial Services Limited	30,414	0.52
16	Kerlon Pty Ltd	30,000	0.51
17	UCA Cash Management Fund Limited	25,996	0.45
18	Cogent Nominees Pty Limited	25,354	0.43
19	Mifare Pty Limited	25,000	0.43
20	HSBC Custody Nominees (Australia) Limited	24,394	0.42

The top 20 PERLS III shareholders hold 1,343,054 shares which is equal to 23.03% of the total shares on issue.

Stock Exchange Listing

PERLS III are preference shares issued by Preferred Capital Limited (a wholly-owned subsidiary of the Bank) and are listed on the Australian Securities Exchange under the trade symbol PCAPA, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers.

Range of Shares (PERLS III): 5 August 2011

Range	Number of Shareholders	Percentage of Shareholders	Number of Shares	Percentage of Issued Capital
1 – 1,000	17,916	96.73	3,022,072	51.81
1,001 – 5,000	531	2.87	1,037,917	17.80
5,001 – 10,000	39	0.21	301,098	5.16
10,001 – 100,000	31	0.17	875,360	15.01
100,001 and over	4	0.02	595,834	10.22
Total	18,521	100.00	5,832,281	100.00
Less than marketable parcel of \$500	21	0.11	40	0.00

Voting Rights

PERLS III do not confer any voting rights in the Bank but if they are exchanged for or convert into ordinary shares or preference shares of the Bank in accordance with their terms of issue, the voting rights of the ordinary or preference shares (as the case may be) will be as set out on page 233 for the Bank’s ordinary shares.

The holders will not be entitled to vote at a general meeting of the Bank except in the following circumstances:

- If at the time of the meeting, a dividend has been declared but has not been paid in full by the relevant payment date;
- On a proposal to reduce the Bank’s share capital;
- On a resolution to approve the terms of a buy-back agreement;
- On a proposal that affects rights attached to the preference shares;
- On a proposal to wind up the Bank;
- On a proposal for the disposal of the whole of the Bank’s property, business and undertaking;
- During the winding up of the Bank; or
- As otherwise required under the Listing Rules from time to time, in which case the holders will have the same rights as to manner of attendance and as to voting in respect of each preference share as those conferred on ordinary shareholders in respect of each ordinary share.

At a general meeting of the Bank, holders of preference shares are entitled:

- On a show of hands, to exercise one vote when entitled to vote in respect of the matters listed above; and
- On a poll, to one vote for each preference share.

The holders will be entitled to receive notice of any general meeting of the Bank and a copy of every circular or other like document sent out by the Bank to ordinary shareholders and to attend any general meeting of the Bank.

Shareholding Information

Top 20 Holders of Perpetual Exchangeable Resaleable Listed Securities IV ("PERLS IV") as at 5 August 2011

Rank	Name of Holder	Number of Shares	%
1	J P Morgan Nominees Australia Limited	303,841	4.15
2	AMP Life Limited	236,578	3.23
3	UBS Wealth Management Australia Nominees Pty Limited	154,502	2.11
4	RBC Dexia Investor Services Australia Nominees Pty Limited	153,024	2.09
5	Citicorp Nominees Pty Limited	149,498	2.04
6	Questor Financial Services Limited	120,144	1.64
7	HSBC Custody Nominees (Australia) Limited	82,435	1.13
8	Avanteos Investments Limited	75,229	1.03
9	UCA Cash Management Fund Limited	71,567	0.98
10	Invia Custodian Pty Limited	66,686	0.91
11	National Nominees Limited	54,250	0.74
12	Eastcote Pty Ltd	50,000	0.68
13	Cogent Nominees Pty Limited	35,268	0.48
14	The Australian National University Investment Section	31,082	0.42
15	Australian Executor Trustees Limited	29,496	0.40
16	Perpetual Trustee Co Ltd (Hunter)	28,584	0.39
17	Bond Street Custodians Limited	26,416	0.36
18	Catholic Education Office Diocese of Parramatta	25,000	0.34
19	Bournda Downs Pty Limited	24,500	0.33
20	Mutual Trust Pty Ltd	18,891	0.26

The top 20 PERLS IV shareholders hold 1,736,991 shares which is equal to 23.71% of the total shares on issue.

Stock Exchange Listing

PERLS IV are stapled securities issued by The Commonwealth Bank of Australia and are listed on the Australian Securities Exchange under the trade symbol CBAPB, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers.

Range of Shares (PERLS IV): 5 August 2011

Range	Number of Shareholders	Percentage of Shareholders	Number of Shares	Percentage of Issued Capital
1 – 1,000	16,579	95.12	3,553,657	48.52
1,001 – 5,000	759	4.35	1,568,561	21.41
5,001 – 10,000	49	0.28	377,961	5.16
10,001 – 100,000	38	0.22	941,313	12.85
100,001 and over	5	0.03	883,508	12.06
Total	17,430	100.00	7,325,000	100.00
Less than marketable parcel of \$500	1	0.01	2	0.00

Voting Rights

PERLS IV confer voting rights in the Bank in the following limited circumstances:

- When dividend payments on the preference shares are in arrears;
- On proposals to reduce the Bank's Share Capital;
- On a proposal that affects rights attached to preference shares;
- On a resolution to approve the terms of a buy-back agreement;
- On a proposal to wind up the Bank;
- On a proposal for the disposal of the whole of the Bank's property, business and undertaking; and
- During the winding-up of the Bank.

Furthermore if PERLS IV convert into ordinary shares of the Bank in accordance with their terms of issue, the voting rights of the ordinary shares will be as set out on page 233.

At a general meeting of the Bank, holders of PERLS IV are entitled:

- On a show of hands, to exercise one vote when entitled to vote on the matters listed above; and
- On a poll, to exercise one vote for each preference share.

The holders will be entitled to the same rights as the holders of the Bank's ordinary shares in relation to receiving notices, reports and financial statements and attending and being heard at all general meetings of the Bank.

Shareholding Information

Top 20 Holders of Perpetual Exchangeable Resaleable Listed Securities V ("PERLS V") as at 5 August 2011

Rank	Name of Holder	Number of Shares	%
1	RBC Dexia Investor Services Australia Nominees Pty Limited	283,507	2.84
2	UBS Wealth Management Australia	217,922	2.18
3	HSBC Custody Nominees (Australia) Limited	172,942	1.73
4	J P Morgan Nominees Australia Limited	142,864	1.43
5	Questor Financial Services Limited	120,237	1.20
6	Invia Custodian Pty Limited	59,054	0.59
7	Australian Executor Trustees Limited	58,599	0.59
8	Netwealth Investments Limited	55,705	0.56
9	Avanteos Investments Limited	53,670	0.54
10	National Nominees Limited	50,113	0.50
11	Dimbulu Pty Ltd	50,000	0.50
12	Scenic Tours Pty Ltd	46,540	0.47
13	Perpetual Trustee Co Ltd (Hunter)	46,082	0.46
14	ABN AMRO Clearing Sydney Nominees Pty Ltd	44,753	0.45
15	Bond Street Custodians Limited	39,965	0.40
16	UBS Nominees Pty Ltd	38,836	0.39
17	W Mitchell Investments Pty Ltd	37,500	0.38
18	JMB Pty Ltd	33,925	0.34
19	Citicorp Nominees Pty Limited	32,624	0.33
20	Peters (Meat) Export Pty Ltd	29,050	0.29

The top 20 PERLS V shareholders hold 1,613,888 shares which is equal to 16.14% of the total shares on issue.

Stock Exchange Listing

PERLS V are stapled securities issued by The Commonwealth Bank of Australia and are listed on the Australian Securities Exchange under the trade symbol CBAPA, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers.

Range of Shares (PERLS V): 5 August 2011

Range	Number of Shareholders	Percentage of Shareholders	Number of Shares	Percentage of Issued Capital
1 – 1,000	31,992	96.52	5,466,586	54.67
1,001 – 5,000	1,038	3.13	2,067,412	20.67
5,001 – 10,000	59	0.18	452,441	4.53
10,001 – 100,000	50	0.15	1,218,386	12.18
100,001 and over	5	0.02	795,175	7.95
Total	33,144	100.00	10,000,000	100.00
Less than marketable parcel of \$500	3	0.01	3	0.00

Voting Rights

PERLS V confer voting rights in the Bank in the following limited circumstances:

- When dividend payments on the preference shares are in arrears;
- On proposals to reduce the Bank's Share Capital;
- On a proposal that affects rights attached to preference shares;
- On a resolution to approve the terms of a buy-back agreement;
- On a proposal to wind up the Bank;
- On a proposal for the disposal of the whole of the Bank's property, business and undertaking; and
- During the winding-up of the Bank.

Furthermore if PERLS V convert into ordinary shares of the Bank in accordance with their terms of issue, the voting rights of the ordinary shares will be as set out on page 233.

At a general meeting of the Bank, holders of PERLS V are entitled:

- On a show of hands, to exercise one vote when entitled to vote on the matters listed above; and
- On a poll, to exercise one vote for each preference share.

The holders will be entitled to the same rights as the holders of the Bank's ordinary shares in relation to receiving notices, reports and financial statements and attending and being heard at all general meetings of the Bank.

Trust Preferred Securities

550,000 Trust Preferred Securities were issued on 6 August 2003. Cede & Co is registered as the sole holder of these securities.

700,000 Trust Preferred Securities were issued on 15 March 2006. Cede & Co is registered as the sole holder of these securities.

The Trust Preferred Securities do not confer any voting rights in the Bank but if they are exchanged for or convert into ordinary shares or preference shares of the Bank in accordance with their terms of issue, the voting rights of the ordinary or preference shares (as the case may be) will be as set out on page 233 for the Bank's ordinary shares and page 234 for the preference shares.

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Australian Securities Exchange Listing

CBA

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