

Determined to offer strength in uncertain times.

Annual Report 2008



Determined to be different



Commonwealth Bank of Australia
ACN 123 123 124

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Chairman's Statement

Introduction

The 2008 financial year has been a challenging one for the global financial services sector. The continued fall-out from the ongoing volatility in global credit markets and slowing economic growth have combined to place significant pressure on the financial performance and capital positions of a large number of international banks and financial services organisations.

In this environment, the Commonwealth Bank of Australia ("the Group") has performed well, delivering solid profit growth and another record dividend.

The Group remains in a strong financial position with a continued focus on delivering on its vision of becoming Australia's finest financial services organisation through excelling in customer service.

Results

The Group's statutory net profit after tax for the year ended 30 June 2008 was \$4,791 million - an increase of 7% on the prior year. Cash net profit after tax grew to \$4,733 million, an increase of 5% on the prior year while underlying net profit after tax, which excludes shareholder investment returns, increased 7% to \$4,746 million.

This solid result was achieved in a difficult environment with the Group incurring additional funding costs during the year caused by ongoing volatility in global credit markets. In addition, loan impairment expense increased \$496 million on the prior year driven by increased corporate sector provisioning.

Key financial performance highlights for the year included:

- A record final dividend of 153 cents per share taking the total dividend for the year to 266 cents per share – an increase of 4%;
- Solid growth in Banking income of 8%, with average interest earning assets up 16% to \$386 billion and net interest margin contraction of six basis points;
- Funds management income increased by 23%, reflecting growth in average Funds Under Administration of 18% to \$194 billion and net gains from asset sales;
- Growth in average Inforce Premiums of 18% to \$1,511 million supported by strong sales in both life and general insurance businesses;
- Operating expense growth of 9% reflecting continued investment in the business to support productivity and growth initiatives as well as the effect of inflation on salary and general expenses; and
- Substantially increased corporate loan provisioning levels to ensure sufficient provision coverage is maintained, reflecting market conditions.

Cash earnings per share increased 3% on the prior year to 356.9 cents per share. Return on Equity ("cash basis") remained strong at 20.4%.

The Group's statutory net profit after tax includes the following additional non-cash items:

- Gain on the Visa Initial Public Offering of \$295 million after tax; and
- Amounts have been recognised for investment and restructuring of \$264 million after tax, relating to the cost of implementation of Core Banking Modernisation and other strategic initiatives.

Retail Banking Services maintained its solid performance over the year with cash net profit after tax increasing by 8% to \$1,904 million. This result was driven by strong volume growth in key product lines, sound credit quality, tight expense management and strategic business investment to promote profitable growth and increased efficiency. These factors helped to offset the negative impact of higher funding costs due to the continued volatility in global credit markets.

Premium Business Services delivered double digit income growth of 16% over the prior year, or 17% after adjusting for the impact of the acquisition of IWL in the current year and the gain on sale of the Group's share in Greater Energy Alliance Corporation Pty Ltd ("Loy Yang") in the prior year. This result was underpinned by a solid improvement in customer service scores and strong gains in deposit market share. Again, this strong underlying performance enabled the business to offset the negative impacts of higher funding costs and a slowdown in business credit growth in the second half of the year. Increased strategic investment spend, together with higher loan impairment provisioning, resulted in cash net profit after tax growth of 2%.

Underlying profit after tax for the Wealth Management business increased by 38% on the prior year to \$756 million. This result was largely driven by strong revenue growth in the funds management businesses and gains on asset sales, with second half earnings impacted by a deterioration in trading conditions and weakened investment markets.

Wealth Management Funds under Administration (FUA) increased 10% over the year to \$185 billion, with positive net flows offsetting falls in the value of Australian and global equity portfolios.

Net funds flows for the year were strong at \$28.6 billion, driven by:

- Solid net flows into the First Choice and Avanteos platforms and Global Equity Funds; and
- Short term cash mandates from institutional investors.

Commlnsure Inforce Premiums increased by 22% on the prior year to \$1,250 million reflecting strong sales volumes and continued progress of the Wealth Management cross-sell initiative.

International Financial Services cash net profit after tax for the year was \$589 million - an increase of 23% on the prior year. After excluding the impact of realised gains and losses associated with the hedge of the New Zealand operations and other foreign currency movements, the underlying growth was 17%.

ASB Bank cash net profit after tax for the year was \$428 million. Excluding the impact of realised gains on the hedge of New Zealand operations, profit increased 11% on the prior year. In a slowing economy, this was a good result where aggressive competition continued to place downward pressure on margins.

Risk Management

Over the last several years, risk management activities have deepened at CBA. This could not have come at a better time. The actions of the Board and its Risk Committee helped management guide the Group away from the global excesses affecting many of the world's major banks. The Group has appointed a new Group Executive in charge of risk management, a person with deep international experience. He has been asked to work with the Board, business leaders and the team of risk professionals to increase the value from measuring the Group and its activities on a risk-adjusted basis and then optimising the returns on the risks taken.

The Group is also proud to have these efforts recognised in a different way; the Group has become one of the first banks in the world to be accredited as Basel II compliant in credit and operational risk measurement and capitalisation. It is believed that the Group is one of the first institutions to report full year financial results under Basel II regulatory capital requirements. The way the Group measures and manages market risks inherent in its banking book has also been deemed by APRA as having a high standard, indeed Australia is now the only country to require formal standards of regulatory capital attribution to this important risk.

Dividends and Capital

The Board declared a record final dividend of 153 cents per share, a 3% increase on the prior year's final dividend. The final dividend, which is fully franked, will be paid on 1 October 2008. This will take total dividends for the year to 266 cents per share, up 4% on last year. Over the last three years dividends have grown at an annual compound rate of 11%.

The Group continues to issue new shares to satisfy the requirements of its Dividend Reinvestment Plan (DRP).

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

The Group maintains a strong capital position with the advanced Basel II accreditation resulting in an increase in both the Group's Tier One and Total Capital ratios, primarily driven by the reduction in risk weighted assets.

As a result of Basel II advanced accreditation, the Total Capital ratio increased from 9.82% to 12.08% at 31 December 2007 with the Tier One capital ratio increasing from 7.41% to 8.17%.

As at 30 June 2008 the Tier One and Total Capital ratio were 8.17% and 11.58% respectively.

The Group's capital ratios throughout the period complied with both APRA's minimum capital adequacy requirements (Tier One Capital 4% and Total Capital 8%) and the Board approved target ranges of Tier One Capital from 6.5% to 7% and Total Capital in the 10% to 12% range.

During the year the Group undertook the following initiatives to actively manage its capital:

- Issue of \$1,465 million (\$1,443 million net of issue costs) of Perpetual Exchangeable Resaleable Listed Securities (PERLS IV) in July 2007 which qualify as Non-Innovative Residual Tier One Capital;
- Issue of \$709 million of shares in October 2007 to satisfy the DRP in respect of the final dividend for the full year ended 30 June 2007;
- Issue of \$400 million of shares in April 2008 in order to satisfy the DRP in respect of the interim dividend for the full year ended 30 June 2008. A further \$98 million in shares were purchased on-market as part of the DRP;
- In accordance with APRA guidelines, the estimated issue of \$609 million of shares to satisfy the DRP in respect of the final dividend for the full year ended 30 June 2008. This estimate is based on a 30% participation in the DRP in respect of the final dividend; and
- Issue of the equivalent of \$664 million of Lower Tier Two Capital during the first half of the financial year.

The strength of the Group's capital position continues to be reflected in its long-term credit ratings as illustrated on page 9.

Outlook

The headwinds which the Australian banking industry experienced in the 2008 financial year are expected to dominate the outlook for global banking. Uncertainty and volatility in global credit markets will continue to place upward pressure on funding costs.

While the domestic economy remains resilient, credit growth is expected to moderate to slightly below the average of the past decade as the slowing in the economy impacts both consumers and business.

The outlook is cautious going into the new financial year and the Group will continue with its conservative stance until signs of improvement in economic conditions are evident. The Group's capital position is strong with capital levels well above target ranges. A prudent approach has been taken to the management of credit and market risk and we are well provisioned given the economic outlook.

While it is clearly a time to be cautious, the Group's robust financial position enables it to maintain the momentum behind its five strategic priorities and remains committed to further strengthening core businesses should attractive, "on strategy", investment opportunities arise.

Corporate Governance and Board Performance

It has been another busy and successful year for the Board and I would like to thank my fellow directors for their contribution and dedication.

I would also like to welcome Andrew Mohl who joined the Board as a Non-Executive Director on 1 July 2008. Andrew was Managing Director and Chief Executive Officer of AMP Limited from October 2002 until his retirement at the end of December 2007. He has over 30 years of financial services experience. I am sure his broad business experience and knowledge will complement and enhance the performance of the Board.

Conclusion

While the 2009 financial year is expected to be a difficult one for the financial services sector the Board is optimistic about the Group's prospects. The performance in 2008 demonstrated the resilience of our business model and the Group is well positioned going into the new financial year with a strong management team.

This strength enabled the Board and management to continue to press ahead with the Group's strategic agenda and we made good progress in executing the Group's strategic priorities. Opportunities to further strengthen our business are becoming increasingly evident as the environment becomes more challenging, which presents us with a range of organic growth and acquisition opportunities. However, the Board recognises that the future is uncertain and that in the current environment its first priority is to ensure that the Group continues to maintain its strong financial position.

Finally, I would like to recognise the hard work of all of our people and thank our customers and shareholders for their continuing support for the Commonwealth Bank of Australia.



John Schubert

Chairman

13 August 2008

Chief Executive Officer's Statement

Introduction

The 2008 financial year has been one of the most challenging that the global financial services industry has seen for some time. While the Australian economy continued to perform well, Australian banks and other financial institutions have not been immune from the effects of ongoing volatility in global credit markets and slowing economic conditions. In this environment, banks which are well managed with strong levels of capital and a sophisticated approach to risk management, like the Commonwealth Bank of Australia, have proven resilient.

At a time when many international banks have reported substantial losses and have had to raise significant amounts of new capital and cut dividends, the Group has performed well. The Group reported a 7% rise in statutory net profit after tax to \$4,791 million. A record final dividend of 153 cents per share was declared taking dividends for the year to 266 cents per share - an increase of 4% on last year.

The Group remains in a strong financial position with all its businesses performing well, a favourable funding position and capital ratios above internal target levels. Continued investment in the business has seen further progress made on achieving the Group's vision to be Australia's finest financial services organisation through excelling in customer service.

Operating Environment

The volatility in global credit markets, combined with the slowing of the U.S. economy, has led to an environment of increased uncertainty. As a result, we have seen many previously successful business models come under pressure as domestic interest rates have risen and liquidity has become increasingly constrained. Like many of its peers, the Group sources some funding from the wholesale money markets and while there has been little difficulty meeting long term funding needs, funding costs have increased as market credit spreads have widened.

The Group has endeavoured to balance the needs of both shareholders and customers, and therefore additional funding costs during the financial year have partly been absorbed by the businesses and partly passed on to customers. The tightening of liquidity and widening of credit spreads has also affected the Group's corporate clients, which has led to an increase in the Group's loan impairment expenses from the historically low levels experienced in recent years.

The Group has weathered the recent events well and is appropriately positioned going into the new financial year. The Group believes that the current volatility in global financial markets is likely to continue for some time yet. While the Australian economy is expected to perform reasonably well, credit growth is likely to moderate and credit quality may become more of an issue. In this environment, the Group recognises the need to be prudent, and the importance of maintaining a strong capital base and high levels of liquidity.

Strategic Priorities

The Group is committed to achieving its vision of becoming Australia's finest financial services organisation through excelling in customer service, with our objective to be ranked number one in customer service by June 2010.

This commitment is reflected in the Group's new advertising theme "Determined to be Different" which was unveiled during 2008. Simply put, this theme conveys our determination to be better than we have ever been, by making real progress across each of our five strategic priorities:

- Customer Service;
- Business Banking;

- Technology and Operational Excellence;
- Trust and Team Spirit; and
- Profitable Growth.

Customer service remains the Group's top strategic priority, for which further good progress was made during 2008, including:

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

These initiatives are being noticed by our customers, who are telling us that our service is getting better. Specific measures of our successes in improving customer service include:

- Main Financial Institution (MFI) customer service scores reaching 10 year highs during the year; ⁽¹⁾
- Winning the Money Magazine "Bank of the Year" award;
- 24 of the Group's retail banking products receiving CANNEX 5-star ratings in 2008;
- Business Customer Satisfaction, as measured by TNS Business Finance Monitor, recorded the strongest gains in our peer group in the following three categories: businesses with turnover of less than \$5 million; businesses with turnover between \$5 to \$100 million; and Agribusinesses.
- FirstChoice was rated the number one platform by financial advisers as measured by Investment Trends; and
- ASB Bank again won The Banker's "Bank of the Year Award for New Zealand" and maintained its position as leader of the major domestic banks in recent customer service surveys.

Improving our competitive position in Business Banking remains a strategic priority, with key progress and outcomes during 2008 including:

- Increases to the Business Banking "footprint" by employing more business bankers, adding new business and private banking centres and putting business bankers back into selected retail branches;
- Continued migration of our business customers to CommBiz, our internet based business banking offering which has now been rolled out to over 90% of customers on outdated platforms;
- Acquisition and successful integration of IWL providing strategic entry into the online wholesale broking market;
- Launch of the new CommSec Banking Solutions "Better Together" and iPhone share trading option;
- CommSec won the AFR Smart Investor's "Highest Polling Online Broker 2008" award and Trade Choice Awards "Best Margin Lender 2008";
- Strong business deposit market share gains with total deposits up 143 basis points; and
- High ratings over a wide range of criteria in East & Partners' Institutional Banking Markets Programme – April 2008.

(1) Roy Morgan Research, MFI, 14+, very or fairly satisfied, six month average

Chief Executive Officer's Statement

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

- The announcement of a \$580 million, four year Core Banking Modernisation project which will replace the Group's legacy systems and drive improvements in customer service and productivity through process simplification and the introduction of real time straight through processing;
- Continued efficiency gains in relation to IT costs, with the Group's IT efficiency ratio now standing at 13.7%, which is in line with international best practice;
- Significant improvements in systems stability, security, controls and disaster recovery capabilities;
- Introduction of a number of initiatives designed to improve customer service, increase operational efficiency and provide increased security to the Group and its customers. These include NetBank online statements, simplification of home loan processes, introduction of the Medicare system, Global Markets and CommSec growth initiatives, IWL systems integration, motor insurance underwriting, Wealth Management cross-sell, FirstChoice platform enhancements, Basel II implementation and Anti Money Laundering compliance; and
- Restructuring of relationships with IT providers through the execution of new application sourcing agreements designed to deliver greater contestability, flexibility and enhanced delivery capability across the Group's applications portfolio.

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

- Greater collaboration across the Group and better alignment to the needs of our customers, which is reflected in improvements in customer satisfaction scores, declining customer complaints and increased customer compliments;
- A continued improvement in employee satisfaction scores, with the Group now placed in the top quartile of companies within Gallup's worldwide database;
- ASB Bank received the Gallup "Great Workplace Award 2008";
- Improvements in workplace safety with the Group's Lost Time Injury Frequency Rate falling by a further 31%; and
- Continued support to the community including significant commitments to a range of initiatives such as financial literacy, environmental partnerships and one-off assistance for communities in need of help.

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

Examples of progress during the year include:

- Our Indonesian and Chinese businesses, whilst still a relatively small part of the Group, are all performing well;
- CFS GAM continues to review a wide range of opportunities to grow its global footprint;
- Premium Business Services is seeking to build on its high level of expertise in the Institutional Banking and Global Markets Group by further developing its debt and equity market capabilities and leveraging core competencies into offshore markets; and

- Continued focus on improving Group-wide cross-sell and referral rates, designed to better leverage the significant opportunities in our existing customer base.

Sustainability

The Group is committed to a range of sustainability initiatives which complement our strategic priorities and objectives. Significant progress has been made during the year on an integrated plan to both manage and track progress on these initiatives, which embrace our people and our customers, as well as the communities and the environment in which we operate. A summary of the Group's progress to date, future plans and key sustainability metrics are contained in pages 40 to 42 of this Annual Report.

Conclusion

I am pleased with the financial performance of the Group during the financial year in what has been a challenging period. We have also continued to make good progress in delivering on our five strategic priorities which are key components in achieving our goal of becoming Australia's finest financial services organisation through excelling in customer service.

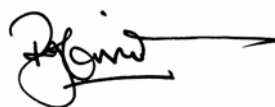
The headwinds which impacted our performance in 2008 have continued into the new financial year. They will present us with both challenges and opportunities. With the outlook for global financial markets uncertain, and economic growth slowing, we need to remain cautious and ensure that we remain well capitalised and funded.

At the same time it is essential that we do not lose sight of our strategic imperatives and balance these short term challenges with the need to continue to invest in creating long term value for our shareholders.

The ability to deliver the strong performance we have seen over the past financial year across the Group would not have been possible without the goodwill and commitment of our people. I am very grateful for the high level of support I have received across the organisation and continue to be enormously impressed with the quality and skills of our people.

It is a great privilege to lead this organisation and I am confident that we can continue to deliver for our people, our customers and our shareholders.

Thank you.



Ralph Norris

Chief Executive Officer

13 August 2008

Highlights

Group Performance Highlights

	Full Year		Half Year	
	30/06/08	30/06/07	30/06/08	31/12/07
Net Profit after Income Tax				
	\$M	\$M	\$M	\$M
Statutory basis	4,791	4,470	2,420	2,371
Cash basis	4,733	4,527	2,348	2,385
Underlying basis	4,746	4,431	2,389	2,357

The Group's net profit after tax ("statutory basis") for the full year ended 30 June 2008 was \$4,791 million, an increase of 7% on the prior year. The final dividend of \$1.53 per share is another record and the total dividend for the year is \$2.66 per share.

Cash earnings per share increased 3% on the prior year to 356.9 cents per share.

The Group's Return on Equity ("cash basis") has remained strong at 20.4%.

The Group's net profit after tax ("cash basis") for the full year ended 30 June 2008 was \$4,733 million, an increase of 5% on the prior year. The Group's net profit after tax ("underlying basis"), which excludes Shareholder investment returns, increased 7% to \$4,746 million.

This solid result was achieved in a difficult environment with the Group incurring additional funding costs during the year due to ongoing volatility in global credit markets. In addition, loan impairment expense increased \$496 million on the prior year due to increased provisioning in the corporate portfolio reflecting a tougher economic climate.

Key financial performance highlights over the year were:

- Growth in Banking income of 8%, following an increase in average interest earning assets of 16% to \$386 billion and net interest margin contraction of ten basis points on an underlying basis (six basis points on a headline basis);
- Funds management income growth of 23%, reflecting average funds under administration growth of 18% to \$194 billion and net gains from asset sales;
- Growth in average inforce premiums of 18% to \$1,511 million supported by sales growth in both life and general insurance businesses;
- Operating expense growth of 9%, reflecting continued investment in the business to support productivity and growth initiatives as well as the effect of inflation on salary and general expenses; and
- Substantially increased corporate loan provisioning levels to ensure sufficient provision coverage is maintained, reflecting market conditions.

The Group's net profit after tax ("statutory basis") includes the following additional non-cash items:

- Gain on the Visa Initial Public Offering of \$295 million after tax; and
- Amounts have been recognised for investment and restructuring of \$264 million after tax, relating to the cost of implementation of Core Banking Modernisation and other strategic initiatives.

The Group's net profit after tax ("underlying basis") for the half year ended 30 June 2008 was \$2,389 million, an increase of 1% on the prior half. The second half was impacted by two fewer days, a significantly higher loan impairment expense and lower returns from investment markets.

Other performance highlights specifically relating to the Group's strategic priorities over the year included:

- Recognised as 2008 "Bank of the Year" by Money Magazine;
- The full suite of rated retail deposit and transaction products receiving a five star rating from CANNEX;
- The launch of the Group's new "Determined to be different" brand marketing campaign;
- Institutional Banking recognised as the industry leader, receiving the highest customer satisfaction rating in the East & Partners survey for the third year running;
- Launched Core Banking Modernisation, a project that will deliver a world class technology platform and enhanced customer service;
- Recognised as Australia's best Mastertrust/Wrap provider in the Wealth Insights 2008 Service Level Survey Reports (Source: ASSIRT/Wealth Insights); and
- People Engagement Workplace survey results which place the Group in the top quartile worldwide (source: Gallup).

Basel II Transition

In December 2007, APRA granted "advanced" Basel II accreditation status to the Group for the measurement of regulatory capital, which was effective from 1 January 2008. The Tier One and Total Capital ratios as at 30 June 2008 as disclosed on page 5 have been calculated in accordance with the Basel II methodology. Further details on the impact of the Basel II transition are in Capital Management, page 30.

Dividends

The total dividend for the year is another record at \$2.66 per share.

The final dividend declared is \$1.53 per share which takes the full year dividend to \$2.66, an increase of 10 cents or 4% on the prior year. The dividend has been determined based on net profit after tax ("cash basis"). On this basis the dividend payout ratio for the year is 75.0%.

The dividend payment is fully franked and will be paid on 1 October 2008 to owners of ordinary shares at the close of business on 22 August 2008 ("record date"). Shares will be quoted ex-dividend on 18 August 2008.

The Group issued \$400 million of shares to satisfy shareholder participation in the Dividend Reinvestment Plan ("DRP") in respect of the interim dividend for the 2008 financial year.

Highlights continued

Group Performance Summary	Full Year Ended			Half Year Ended		
	30/06/08 \$M	30/06/07 \$M	Jun 08 vs Jun 07 %	30/06/08 \$M	31/12/07 \$M	Jun 08 vs Dec 07 %
Net interest income	7,907	7,036	12	4,008	3,899	3
Other banking income	3,312	3,321	-	1,771	1,541	15
Total banking income	11,219	10,357	8	5,779	5,440	6
Funds management income	2,307	1,874	23	1,166	1,141	2
Insurance income	832	817	2	439	393	12
Total operating income	14,358	13,048	10	7,384	6,974	6
Shareholder investment returns	(17)	149	large	(59)	42	large
Total income	14,341	13,197	9	7,325	7,016	4
Operating expenses	7,021	6,427	9	3,643	3,378	8
Loan impairment expense	930	434	large	597	333	79
Net profit before income tax	6,390	6,336	1	3,085	3,305	(7)
Corporate tax expense ⁽¹⁾	1,626	1,782	(9)	721	905	(20)
Minority interests ⁽²⁾	31	27	15	16	15	7
Net profit after income tax ("cash basis")	4,733	4,527	5	2,348	2,385	(2)
Gain on Visa Initial Public Offering	295	-	-	295	-	-
Investment and restructuring	(264)	-	-	(264)	-	-
Defined benefit superannuation plan income/(expense)	9	5	80	13	(4)	large
Treasury shares valuation adjustment	60	(75)	large	73	(13)	large
Hedging and AIFRS volatility	(42)	13	large	(45)	3	large
Net profit after income tax ("statutory basis")	4,791	4,470	7	2,420	2,371	2
Represented by: ⁽³⁾						
Retail Banking Services	1,904	1,766	8	955	949	1
Premium Business Services	1,480	1,445	2	756	724	4
Wealth Management ⁽⁴⁾	740	627	18	351	389	(10)
International Financial Services	589	478	23	293	296	(1)
Other ⁽⁴⁾	20	211	(91)	(7)	27	large
Net profit after income tax ("cash basis")	4,733	4,527	5	2,348	2,385	(2)
Shareholder investment returns after tax	13	(96)	large	41	(28)	large
Net profit after income tax ("underlying basis")	4,746	4,431	7	2,389	2,357	1

(1) For purposes of presentation, Policyholder tax benefit and Policyholder tax expense components of Corporate tax expense are shown on a net basis (full years ended 30 June 2008: \$(115) million, 30 June 2007: \$266 million and half years ended 30 June 2008 \$(151) million, 31 December 2007: \$36 million).

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

(3) During the first half of the current financial year the presentation of the segments of the Group was changed. Prior periods have been restated on a consistent basis.

(4) During the year a change was made to the recognition of intra-segment income between the Wealth Management and Other segments. This resulted in the recognition of an additional \$9 million in after tax profit in the Wealth Management segment in the prior half.

Shareholder Summary	Full Year Ended			Half Year Ended		
	30/06/08	30/06/07	Jun 08 vs Jun 07 %	30/06/08	31/12/07	Jun 08 vs Dec 07 %
Dividend per share – fully franked (cents)	266	256	4	153	113	35
Dividend cover – cash (times)	1.3	1.3	n/a	1.1	1.6	n/a
Earnings per share (cents)						
Statutory – basic	363.0	344.7	5	182.6	180.4	1
Cash basis – basic	356.9	347.1	3	176.2	180.7	(3)
Dividend payout ratio (%)						
Statutory basis	74.1	75.2	(110)bpts	84.6	63.4	large
Cash basis	75.0	74.2	80bpts	87.3	63.0	large
Weighted avg no. of shares – statutory basic (M)	1,307	1,281	2	1,314	1,300	1
Weighted avg no. of shares – cash basic (M) ⁽¹⁾	1,313	1,289	2	1,319	1,306	1
Return on equity – cash (%)	20.4	21.7	(130)bpts	19.9	20.8	(90)bpts

(1) Fully diluted EPS and weighted average number of shares (fully diluted) are disclosed in Note 7, Earnings per share.

Highlights continued

Balance Sheet Summary	As at				
	30/06/08 \$M	31/12/07 \$M	30/06/07 \$M	Jun 08 vs Dec 07 %	Jun 08 vs Jun 07 %
Lending assets ⁽¹⁾	369,597	351,208	319,786	5	16
Total assets ⁽²⁾	487,572	472,664	440,157	3	11
Total liabilities ⁽²⁾	461,435	447,026	415,713	3	11
Shareholders' Equity	26,137	25,638	24,444	2	7
Assets held and Funds Under Administration (FUA)					
On Balance Sheet:					
Banking assets ⁽²⁾	461,944	445,695	412,111	4	12
Insurance Funds Under Administration	17,345	18,940	19,814	(8)	(12)
Other insurance and internal funds management assets	8,283	8,029	8,232	3	1
	487,572	472,664	440,157	3	11
Off Balance Sheet:					
Funds Under Administration	173,960	188,762	157,257	(8)	11
Total assets held and FUA	661,532	661,426	597,414	-	11

(1) Lending assets comprise Loans, advances, and other receivables (gross of provisions for impairment and excluding securitisation and unearned income) and Bank acceptances of customers.

(2) During the year, a review of the accounting treatment of Group Limit Facilities and Mortgage Interest Saver Accounts led to an increase in lending and deposit balances (30 June 2008: \$20 billion, 31 December 2007: \$19 billion, 30 June 2007: \$16 billion).

Highlights continued

Key Performance Indicators	Full Year Ended			Half Year Ended		
	30/06/08	30/06/07	Jun 08 vs Jun 07 %	30/06/08	31/12/07	Jun 08 vs Dec 07 %
Group						
Underlying profit after tax (\$M) ⁽¹⁾	4,746	4,431	7	2,389	2,357	1
Net interest margin (%) ^{(2) (3)}	2.02	2.08	(6)bpts	1.98	2.06	(8)bpts
Average interest earning assets (\$M) ^{(2) (3)}	385,667	332,492	16	400,678	370,819	8
Average interest bearing liabilities (\$M) ^{(2) (3)}	362,249	311,236	16	375,930	348,716	8
Funds management income to average funds under administration (%)	1.19	1.14	5bpts	1.18	1.19	(1)bpts
Average funds under administration (\$M)	194,156	164,404	18	198,801	191,447	4
Insurance income to average inforce premiums (%)	55.1	63.9	(14)	56.8	54.1	5
Average inforce premiums (\$M)	1,511	1,278	18	1,554	1,444	8
Operating expense to total operating income (%)	48.9	49.3	(1)	49.3	48.4	2
Effective corporate tax rate (%)	25.4	28.1	(10)	23.4	27.4	(15)
Retail Banking Services						
Cash net profit after tax (\$M)	1,904	1,766	8	955	949	1
Operating expense to total banking income (%)	45.5	46.6	(2)	45.3	45.8	(1)
Premium Business Services						
Cash net profit after tax (\$M)	1,480	1,445	2	756	724	4
Operating expense to total banking income (%)	45.3	45.7	(1)	47.0	43.4	8
Wealth Management						
Underlying profit after tax (\$M) ⁽¹⁾	756	548	38	384	372	3
Average funds under administration (\$M)	186,696	157,338	19	191,721	183,548	4
Average inforce premiums (\$M)	1,136	938	21	1,172	1,058	11
Funds management income to average funds under administration (%)	1.21	1.16	4	1.20	1.21	(1)
Insurance income to average inforce premiums (%)	51.1	61.1	(16)	52.7	51.3	3
Operating expense to net operating income (%) ⁽⁴⁾	55.0	59.8	(8)	55.7	54.3	3
International Financial Services						
Underlying profit after tax (\$M) ⁽¹⁾	563	461	22	287	276	4
Average funds under administration (\$M)	7,460	7,066	6	7,080	7,899	(10)
Average inforce premiums (\$M)	375	340	10	382	386	(1)
Funds management income to average funds under administration (%)	0.64	0.65	(2)	0.74	0.55	35
Insurance income to average inforce premiums (%)	67.2	71.8	(6)	69.5	61.8	12
Operating expense to net operating income (%) ⁽⁴⁾	51.6	55.0	(6)	49.8	53.6	(7)
Capital Adequacy Ratios – (Basel I) ⁽⁵⁾						
Tier One (%)	-	7.14	-	-	7.41	-
Total (%)	-	9.76	-	-	9.82	-
Adjusted Common Equity (%)	-	4.79	-	-	4.77	-
Capital Adequacy Ratios – (Basel II) ⁽⁵⁾						
Tier One (%)	8.17	-	-	8.17	8.17	-
Total (%)	11.58	-	-	11.58	12.08	(50)bpts
Adjusted Common Equity (%)	6.47	-	-	6.47	6.58	(11)bpts

(1) Cash net profit after tax less Shareholder investment returns after tax.

(2) During the year, a review of the accounting treatment of Group Limit Facilities and Mortgage Interest Saver Accounts led to an increase in lending and deposit balances (30 June 2008: \$20 billion, 31 December 2007: \$19 billion, 30 June 2007: \$16 billion). Prior periods have been restated on a consistent basis.

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

(4) Net operating income represents Total operating income less volume expenses.

(5) June 2008 regulatory capital is calculated in accordance with Basel II rules and methodology which was effective from 1 January 2008. The Basel II ratios make no allowances for interest rate risk in the banking book, as this measure is not effective until 1 July 2008. The December 2007 and June 2007 regulatory capital is reported in accordance with Basel I rules and methodology.

Credit Ratings

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

The Group continues to maintain a strong capital position which is reflected in its credit ratings. Additional information regarding the Group's capital is disclosed in Capital Management, page 30.

Group Performance Analysis

Financial Performance and Business Review

The full year underlying net profit after tax of \$4,746 million for the Group increased 7% on the prior year.

The performance during the year was underpinned by:

- Strong growth in lending balances, with business lending up 22% to \$127 billion and housing lending up 12% to \$216 billion;
- Domestic deposit volume growth of 23% since June 2007 to \$234 billion;
- Underlying net interest margin contraction of 10 basis points since 30 June 2007, a solid result in a difficult environment;
- Average funds under administration growth of 18% to \$194 billion, reflecting positive net funds flows partly offset by falls in Australian and global equity markets;
- Operating expense growth of 9% on the prior year, reflecting continued investment in the Group's businesses as well as the effect of inflation on salary and general expenses;
- Higher funding costs caused by volatility in global credit markets; and
- Increased corporate sector collective and individual provisioning consistent with market conditions.

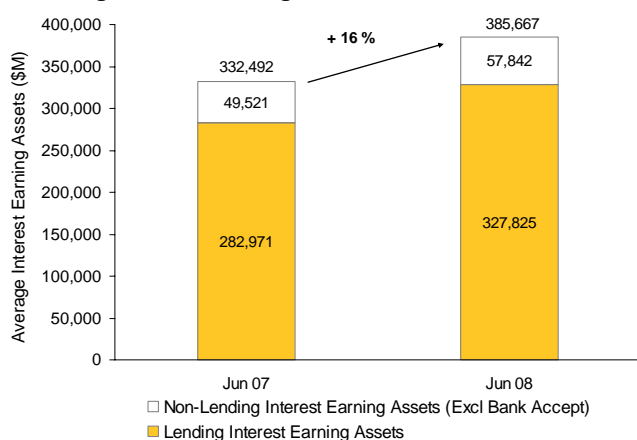
The underlying net profit after tax for the second half of the year increased by 1% on the prior half to \$2,389 million. The second half performance was impacted by two fewer days and a significantly higher corporate loan impairment expense.

Net Interest Income

Net interest income increased by 12% on the prior year to \$7,907 million. Excluding the impact of the reclassification of net swap costs under AIFRS, net interest income growth was 10%. This result was achieved through strong volume growth in average interest earning assets of 16%, partly offset by underlying margin contraction of ten basis points.

During the current half net interest income increased by 3% over the prior half. This represents 6% on an underlying basis after adjusting for the dampening impact of two fewer days and AIFRS net swap cost reclassification. The increase in net interest income was driven by an 8% growth in average interest earning assets partly offset by a seven basis point contraction in underlying margin.

Average Interest Earning Assets ⁽¹⁾



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

Above market home lending growth was the largest contributor to the increase in average interest earning assets. Average

home loan balances excluding the impact of securitisation increased by 15% since 30 June 2007 and 9% since 31 December 2007.

Average balances for business and corporate lending benefited from strong volume growth, particularly in Institutional Banking. This resulted in growth of 18% since 30 June 2007 and 9% since 31 December 2007.

Personal lending average balances grew by 12% since 30 June 2007 and 3% since 31 December 2007. This result continues to be driven by growth in margin lending, which slowed in the second half due to the downturn in investment markets.

Net Interest Margin

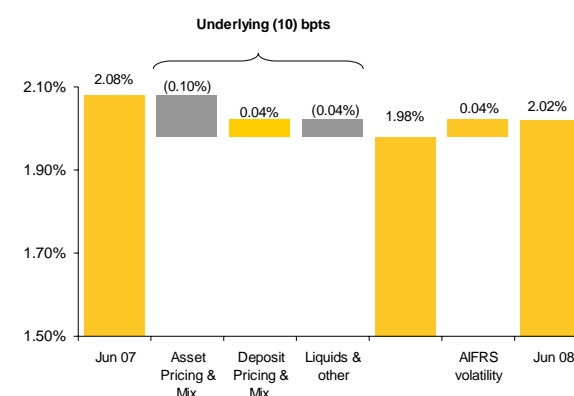
Underlying net interest margin decreased 10 basis points compared to the prior year. This was partly offset by AIFRS hedging volatility which resulted in a four basis point increase, bringing headline margin contraction to six basis points. The key drivers of the underlying margin contraction were:

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

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

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

NIM movement since June 2007 ⁽¹⁾



The net interest margin has been protected from further deterioration due to hedging of short-dated interest rate exposures which led to incremental costs of approximately \$50 million in Other banking income, largely in the first half.

During the second half, net interest margin decreased by eight basis points (seven basis points on an underlying basis) due to similar influences as described above.

Additional information, including the average balances, is set out in Note 4, Average Balances and Related Interest.

(1) Headline net interest margin has been impacted by a change in the accounting treatment of Group Limit Facilities and Mortgage Interest Saver Accounts which led to an increase in lending and deposit balances. Prior periods have been restated on a consistent basis.

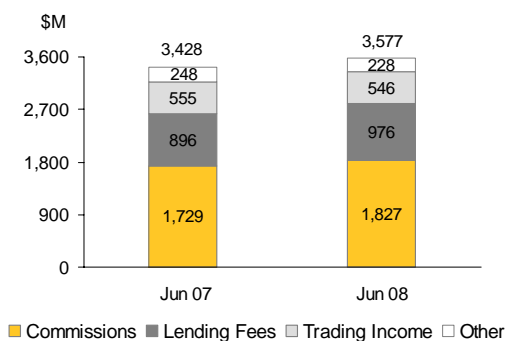
Group Performance Analysis continued

Other Banking Income

	Full Year Ended		Half Year Ended	
	30/06/08	30/06/07	30/06/08	31/12/07
	\$M	\$M	\$M	\$M
Commissions	1,827	1,729	919	908
Lending fees	976	896	507	469
Trading income	546	555	346	200
Other income	228	248	100	128
	3,577	3,428	1,872	1,705
AIFRS reclassification of net swap costs ⁽¹⁾	(265)	(107)	(101)	(164)
Other banking income	3,312	3,321	1,771	1,541

(1) Refer to Note 2, Profit for further details.

Excluding the impact of AIFRS non-trading derivative volatility, Other banking income increased 4% over the year.



Factors impacting Other banking income were:

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

The current half increased 10% on the prior half excluding the impact of AIFRS reclassification. This was the result of a strong increase in trading income in the Global Markets business due to market volatility in the current half providing a good trading environment.

Funds Management Income

	Full Year Ended		Half Year Ended	
	30/06/08	30/06/07	30/06/08	31/12/07
	\$M	\$M	\$M	\$M
CFS GAM	1,068	759	567	501
Colonial First State	909	844	421	488
CommInsure & Other	282	225	152	130
Sovereign & Other	48	46	26	22
Funds management income	2,307	1,874	1,166	1,141

Funds management income increased by 23% on the prior year to \$2,307 million. This growth was driven by an increase in average funds under administration (FUA) of 18% on the prior year to \$194 billion and a \$108 million pre-tax gain on sale of assets.

Funds management income in the current half increased 2% on the prior half to \$1,166 million, reflecting the impact of a \$40 million higher pre-tax gain on the sale of assets and a \$16 billion decline in funds under administration due to the investment market downturn in the second half.

Insurance Income

	Full Year Ended		Half Year Ended	
	30/06/08	30/06/07	30/06/08	31/12/07
	\$M	\$M	\$M	\$M
CommInsure & Other	580	573	307	273
Sovereign & Other	252	244	132	120
Insurance income	832	817	439	393

Insurance income increased by 2% on the prior year to \$832 million. This result is a combination of strong growth in average inforce premiums of 18% offset by adverse claims experience associated with weather events concentrated on the east coast of Australia.

Insurance income in the current half increased 12% on the prior half due to an 8% increase in inforce premiums and the impact of weather events in the first half.

Group Performance Analysis continued

Operating Expenses

Group operating expenses increased by 9% on the prior year to \$7,021 million. Operating expenses were impacted by:

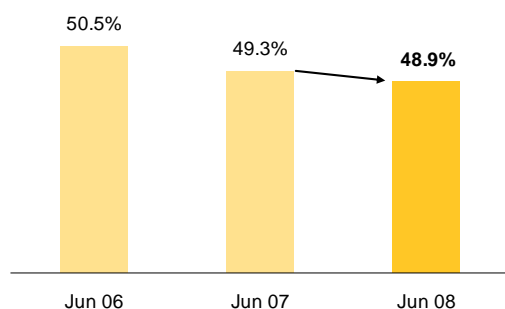
- Average salary increases reflecting the tight domestic labour market together with the effect of inflation on general expenses;
- Continued investment in staff in support of strategic initiatives, with staff numbers rising 5% on the prior year;
- Further investment in strategic growth initiatives, including the Business Banking Growth Strategy;
- Higher occupancy expenses resulting from market rent increases, relocation of the Business Continuity Centre to Sydney Olympic Park and increases in other property costs;
- Continued productivity improvements achieved through process re-engineering and simplification initiatives; and
- Higher volume related expenses resulting from strong growth in funds under administration, the IWL acquisition and an increase in underlying retail equities trading volumes.

During the second half of the year operating expenses increased 8% to \$3,643 million. As previously disclosed, the first half included a one-off GST refund (\$64 million) and the Group has continued to invest in staff and projects to support its strategic priorities.

Group Expense to Income Ratio

The expense to income ratio improved from 49.3% in the prior year to 48.9% in the current year, representing a 1% improvement in productivity. The improvement in productivity is a reflection of solid income growth, disciplined underlying expense management and continued investment in the business.

Productivity



Taxation Expense

The corporate tax charge for the year was \$1,626 million, representing an effective tax rate of 25.4%.

The effective tax rate is lower in the current half primarily due to satisfactory resolution of long outstanding issues with tax authorities.

Reductions in the corporate tax rate in offshore jurisdictions including New Zealand, Hong Kong and the United Kingdom will lead to a lower underlying tax rate than in prior years. The long term underlying effective tax rate is therefore expected to range between 27% and 28%.

Loan Impairment

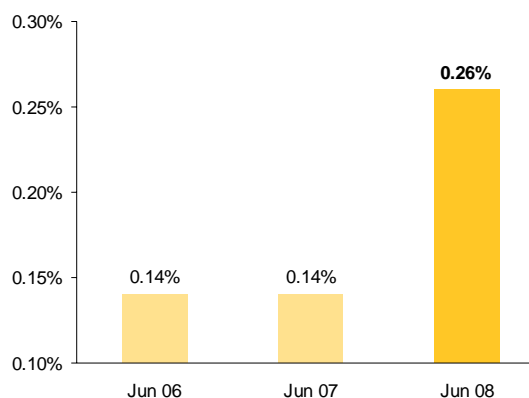
The total charge for loan impairment for the year was \$930 million, which represents 26 basis points of average gross loans and acceptances. This expense is \$496 million higher than the prior year, reflecting increased levels of collective and individual provisioning in the corporate portfolio. The current half loan impairment expense increased by 79% to \$597 million for the same reason.

Gross impaired assets were \$683 million as at 30 June 2008, compared with \$421 million at 30 June 2007.

The Group remains well provisioned, with total provisions for impairment losses as at 30 June 2008 of \$1,745 million. The current level of provisioning reflects:

- The large proportion of high quality, low risk home loans within the consumer portfolio;
- No direct exposure to US sub-prime or non-recourse mortgages;
- No participation in the zero rate credit card balance transfer market;
- Increased collective and individual provisioning in the corporate portfolio consistent with market conditions; and
- No material exposure to Collateralised Debt Obligations ("CDOs").

Loan Impairment Expense to Average Gross Loans and Acceptances ⁽¹⁾



(1) During the current year a review of the netting of certain assets and liabilities led to an increase in both lending and deposit balances (30 June 2008: \$20 billion, 31 December 2007: \$19 billion, 30 June 2007: \$16 billion). Prior periods have been restated on a consistent basis.

Group Performance Analysis continued

Total Group Assets & Liabilities	As at				
	30/06/08 \$M	31/12/07 \$M	30/06/07 \$M	Jun 08 vs Dec 07 %	Jun 08 vs Jun 07 %
Interest earning assets					
Home loans including securitisation	215,743	203,885	192,770	6	12
Less: securitisation	(11,676)	(13,177)	(15,633)	(11)	(25)
Home loans excluding securitisation	204,067	190,708	177,137	7	15
Personal	20,265	20,838	20,074	(3)	1
Business and corporate	126,987	119,857	103,854	6	22
Loans, advances and other receivables ⁽¹⁾	351,319	331,403	301,065	6	17
Provisions for loan impairment	(1,713)	(1,352)	(1,233)	27	39
Net loans, advances and other receivables	349,606	330,051	299,832	6	17
Non-lending interest earning assets	49,385	51,065	49,553	(3)	-
Total interest earning assets	400,704	382,468	350,618	5	14
Other assets ⁽²⁾	86,868	90,196	89,539	(4)	(3)
Total assets ⁽³⁾	487,572	472,664	440,157	3	11
Interest bearing liabilities					
Transaction deposits	59,917	60,210	55,168	-	9
Savings deposits	53,420	54,659	52,408	(2)	2
Investment deposits	98,745	84,328	76,856	17	28
Other demand deposits	44,014	45,889	26,156	(4)	68
Total interest bearing deposits	256,096	245,086	210,588	4	22
Deposits not bearing interest	7,610	8,021	8,480	(5)	(10)
Deposits and other public borrowings	263,706	253,107	219,068	4	20
Debt issues	73,785	65,699	69,753	12	6
Other interest bearing liabilities	44,756	49,597	43,719	(10)	2
Total interest bearing liabilities	374,637	360,382	324,060	4	16
Securitisation debt issues	12,032	13,673	15,737	(12)	(24)
Non-interest bearing liabilities ⁽⁴⁾	74,766	72,971	75,916	2	(2)
Total liabilities ⁽³⁾	461,435	447,026	415,713	3	11
Provisions for loan impairment					
Collective provision	1,346	1,084	1,034	24	30
Individually assessed provisions	367	268	199	37	84
Total provisions for loan impairment	1,713	1,352	1,233	27	39
Other credit provisions ⁽⁵⁾	32	28	23	14	39
Total provisions for impairment losses	1,745	1,380	1,256	26	39

Asset Quality	Full Year Ended			Half Year Ended		
	30/06/08 \$M	30/06/07 \$M	Jun 08 vs Jun 07 %	30/06/08 \$M	31/12/07 \$M	Jun 08 vs Dec 07 %
Gross loans and acceptances (\$M)	383,502	337,339	14	383,502	366,313	5
Risk weighted assets ("RWA") – Basel I (\$M)	-	245,347	n/a	-	272,609	n/a
Risk weighted assets – Basel II (\$M) ⁽⁶⁾	205,501	-	n/a	205,501	198,228	4
Gross impaired assets (\$M)	683	421	62	683	562	22
Net impaired assets (\$M)	316	222	42	316	294	7
Collective provision as a % of RWA – Basel I	-	0.42	n/a	-	0.40	n/a
Collective provision as a % of RWA – Basel II	0.65	-	n/a	0.65	0.55	18
Collective provision as a % of credit risk weighted assets – Basel II	0.72	-	n/a	0.72	0.60	20
Collective provision as a % of gross loans and acceptances	0.35	0.31	13	0.35	0.30	17
Individually assessed provisions for impairment as a % of gross impaired assets ⁽⁷⁾	40.8	23.8	71	40.8	33.6	21
Loan impairment expense as a % of average risk weighted assets annualised – Basel I ⁽⁸⁾	-	0.19	n/a	-	0.26	n/a
Loan impairment expense as a % of average risk weighted assets annualised – Basel II ⁽⁹⁾	0.46	-	-	0.59	-	-
Loan impairment expense as a % of average gross loans and acceptances annualised ⁽⁸⁾	0.26	0.14	86	0.32	0.19	68

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

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

(3) During the current year a review of the netting of certain assets and liabilities led to an increase in both lending and deposit balances (30 June 2008: \$20 billion, 31 December 2007: \$19 billion, 30 June 2007: \$16 billion). Prior periods have been restated on a consistent basis.

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

(5) Included in Other provisions.

(6) Basel II RWA and associated ratios for 31 December 2007 are on a pro-forma basis. RWA for Interest Rate Risk in the Banking Book is excluded from the above tables as it is effective from 1 July 2008 only.

(7) Bulk portfolio provisions of \$88 million at 30 June 2008 (\$79 million at 31 December 2007 and \$99 million at 30 June 2007) to cover unsecured personal loans and credit card lending have been deducted from individually assessed provisions to calculate this ratio. These provisions are deducted due to the exclusion of the related assets from gross impaired assets. The related asset amounts are instead included in the 90 days or more past due disclosure.

(8) Average of opening and closing balances.

(9) This ratio uses a simple average pro-forma Basel II RWA at 31 December 2007 and Basel II RWA at 30 June 2008.

Retail Banking Services

Financial Performance and Business Review

Retail Banking Services has maintained its solid performance over the year ended 30 June 2008 with cash net profit after tax increasing by 8%, despite the impact of increased funding costs from continuing volatility in global credit markets. This has been achieved by strong volume growth in key product lines, sound credit quality, tight expense management and strategic business investment to drive profitable growth and efficiency.

Over the year, the business has made good progress towards the Group's vision to be Australia's finest financial services organisation through excelling in customer service. Highlights included:

- Winning the 'Best Branch Strategy' award at the International Retail Banking Awards in April 2008. The award recognises the success of the new branch network operating model in enabling increased lending capabilities in every branch and providing convenient options for customers through extended trading hours and weekend branch openings in selected locations;
- Further roll-out of the modernised branch design with 70 branches completed or under refurbishment by June 2008;
- Market leading product development with the full suite of rated personal deposit and transaction products receiving a five star rating from CANNEX;
- Enabling more environmentally sustainable banking with the launch of online statements in January 2008, which has already resulted in almost 400,000 customer accounts electing to opt out of receiving paper statements;
- Successful implementation of the Simple Home Loans program which has driven significant improvement in customer service by providing customers with faster access to funds and creating a better home buying experience;
- A new telephony platform implemented for the NetBank Helpdesk, Third Party and General Enquiry contact centres to improve efficiency and service; and
- Needs analysis sales and service training programs continue to be rolled out to staff, with over 7,650 "Masters" being accredited so far.

The success of these initiatives is reflected in:

- Encouraging customer satisfaction levels, only down marginally on June 2007, despite the higher interest rate environment⁽¹⁾ (Source: Roy Morgan Research); and
- Improvement in staff engagement scores as independently measured by the Gallup organisation, with Retail Banking Services now ranking well inside the international top quartile.

Home Loans

Home loan revenue decreased 5% on the prior year and 17% on the prior half. This result was impacted by higher funding costs following continued volatility in global credit markets. Balance growth of 15% on the prior year and 8% on the prior half was underpinned by strong performances in both the branch and broker channels resulting in 15 consecutive months of market share gains. Fee revenue growth was strong, up 20% on the prior year underpinned by package fee income and strong volume growth.

Consumer Finance

Consumer Finance revenue growth was 2% on the prior year (excluding the profit on the sale of shares in MasterCard) and 8% on the prior half. This was achieved despite increased funding costs and highlights the success of the focus on

profitably growing this portfolio in a sustainable manner. Credit card balances have grown steadily, up 5% on June 2007. This growth has been driven by targeted customer campaigns and a focus on cross-sell initiatives and resulted in a significant increase in new accounts opened. Personal loans continued to perform well with steady volume growth and risk based pricing initiatives.

Retail Deposits

Deposit revenue increased 12% on the prior year, driven by a combination of strong volume growth of 18% and focused margin management in a competitive environment.

Despite the highly competitive environment for retail deposits, Retail Banking Services maintained a dominant position and further grew market share by capturing 30% of market balance growth over the year (Source: APRA). The success of products such as NetBank Saver and Business Online Saver and targeted Term Deposits campaigns resulted in a stable market share of 29.1% in June 2008.

Distribution

Commissions received from the distribution of both business banking and wealth management products through the retail distribution network remained in line with prior year. This was a robust performance in a difficult environment and benefited from improved insurance sales capabilities in the branch network and an increased focus on cross-sell activities.

Operating Expenses

Expense growth on the prior year was contained to 2% despite wage inflation pressures in a tight labour market, higher occupancy costs and continued strategic business investment. Sound management of these cost pressures together with the continued realisation of IT savings and productivity gains have contributed to further improvements in the expense to income ratio from 46.6% in the prior year to 45.5%.

Loan Impairment Expense

Loan impairment expense fell by 5% on the prior year to \$331 million, despite average interest earning asset growth of 13% over the same period. This result reflects careful portfolio management and responsible lending practices over a period of intense competition. Loan impairment expense increased in the second half due to portfolio growth and seasonal factors. Despite the uncertain environment, arrears rates across the portfolios have not significantly deteriorated in the current year and in most cases are still running at a lower rate than in prior years.

Market Share Percentage ⁽¹⁾	30/06/08	31/12/07	30/06/07
Home loans	19.3	18.8	18.5
Credit cards ⁽¹⁾	18.2	18.5	18.8
Personal lending (APRA and other households) ⁽²⁾	15.8	16.7	16.4
Household deposits ⁽³⁾	29.1	28.9	29.0
Retail deposits ⁽³⁾	22.3	22.0	21.6

(1) As at 30 May 2008.

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

(3) In accordance with APRA guidelines, these measures include some products relating to both the Retail and Corporate Segment.

Retail Banking Services continued

	Full Year Ended 30 June 2008 ⁽¹⁾				
	Home Loans	Consumer Finance	Retail Deposits	Distribution	Total
	\$M	\$M	\$M	\$M	\$M
Net interest income	1,174	780	2,386	-	4,340
Other banking income	134	347	673	103	1,257
Total banking income	1,308	1,127	3,059	103	5,597
Operating expenses					2,549
Loan impairment expense					331
Net profit before tax					2,717
Corporate tax expense					813
Cash net profit after tax					1,904

	Full Year Ended 30 June 2007 ⁽¹⁾				
	Home Loans	Consumer Finance	Retail Deposits	Distribution	Total
	\$M	\$M	\$M	\$M	\$M
Net interest income	1,268	742	2,071	-	4,081
Other banking income	112	419	656	104	1,291
Total banking income	1,380	1,161	2,727	104	5,372
Operating expenses					2,501
Loan impairment expense					349
Net profit before tax					2,522
Corporate tax expense					756
Cash net profit after tax					1,766

	Half Year Ended 30 June 2008 ⁽¹⁾				
	Home Loans	Consumer Finance	Retail Deposits	Distribution	Total
	\$M	\$M	\$M	\$M	\$M
Net interest income	529	406	1,262	-	2,197
Other banking income	65	180	345	50	640
Total banking income	594	586	1,607	50	2,837
Operating expenses					1,286
Loan impairment expense					190
Net profit before tax					1,361
Corporate tax expense					406
Cash net profit after tax					955

(1) During the current period there has been a re-alignment of internal charges between consumer finance and retail deposits segments. Prior periods have been restated on a consistent basis.

Major Balance Sheet Items (gross of impairment)	As at				
	30/06/08 \$M	31/12/07 \$M	30/06/07 \$M	Jun 08 vs Dec 07 %	Jun 08 vs Jun 07 %
Home loans (including securitisation) ⁽¹⁾	186,942	173,784	162,751	8	15
Consumer finance ⁽²⁾	11,428	11,027	10,810	4	6
Total assets – Retail Banking Services products	198,370	184,811	173,561	7	14
Home loans (net of securitisation)	175,266	160,607	147,118	9	19
Transaction deposits	18,267	19,470	18,980	(6)	(4)
Savings deposits	44,261	44,906	41,782	(1)	6
Investment and other deposits	55,388	44,230	38,779	25	43
Deposits not bearing interest	2,305	2,543	2,599	(9)	(11)
Total liabilities - Retail Banking Services products	120,221	111,149	102,140	8	18

(1) During the year, a review of the accounting treatment of Mortgage Interest Saver Accounts led to an increase in lending and deposit balances (30 June 2008: \$3,234 million, 31 December 2007: \$2,431 million, 30 June 2007: \$2,433 million).

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

Premium Business Services

Financial Performance and Business Review

Premium Business Services delivered income growth of 16% on the prior year, or 17% after adjusting for the impact of the acquisition of IWL in the current year and the gain on sale of the Group's share in the Greater Energy Alliance Corporation Pty Ltd ("Loy Yang") in the prior year. This result was underpinned by a solid improvement in customer service scores and strong gains in deposit market share.

The strong performance was impacted by higher funding costs, increased investment spend (including the cost of integrating the IWL business), a tax refund on the satisfactory resolution of an outstanding issue and additional loan impairment provisioning, resulting in cash net profit after tax growth of 2% on the prior year.

The core businesses of Premium Business Services continued to perform well due to the customer centred strategy implemented in February 2007. The ongoing focus on this strategy enabled the business to build upon the momentum of the first half and post strong income growth across all businesses, despite the challenging environment.

Institutional Banking

Institutional Banking income increased by 14% (19% excluding Loy Yang) on the prior year driven by a significant increase in Financial Markets income, strong balance growth and stable margins. The syndication business recorded strong growth and was joint lead arranger of a \$3.4 billion syndication deal for Singapore Power. Despite strong lending growth over the year, balance growth slowed during the second half as the Group actively managed the debt portfolio to sell-down its exposure to certain sectors of the market.

Private Client Services

Despite weaker financial markets during the second half, Private Client Services income increased by 25% on the prior year. This growth was the result of strong income growth during the first half as well as the impact of the IWL acquisition in November 2007.

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

In June, CommSec successfully launched an integrated cash management solution as part of its trading platform under the theme 'Better Together'. In addition, during the year the business received a number of awards including "Best Feature-Packed Online Broker 2008" and "Best Margin Lender 2008".

Corporate Financial Services

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

Agribusiness

Agribusiness performed strongly during the period with income growth of 20% on the prior year. This was underpinned by significant balance growth resulting from a continued focus on corporate agriculture and large scale family farming enterprises. Market share gains were achieved during the year by providing

customers with tailored commodity and interest rate risk management solutions. 'AgriLine', the purpose built service centre based in Wagga Wagga, has continued to exceed expectations with over 30,000 client calls having been recorded since April 2007.

Local Business Banking

Investment in Local Business Banking, as part of the Group's strategic priority in Business Banking, has enabled the business to maintain the strong turnaround in performance highlighted at the half year. The progressive roll out of Business Bankers across more than 700 branches, the implementation of the new 24 hour, 7 day customer service centre and the implementation of a new business model have resulted in a 65% uplift in lending activity and 12% growth in income over the prior year.

Operating Expenses

Operating expenses of \$1,915 million represent an increase of 15% over the prior year. This reflects expansion of the front line sales force, the opening of new Business Banking Centres, additional Business Bankers in Branches as well as costs associated with the IWL acquisition. In addition, client demand for operating leases through the Structured Asset Finance business has resulted in increased depreciation costs for the Group.

Loan Impairment Expense

Loan impairment expense has increased significantly to \$426 million from the historically low levels of recent years. This was the combined result of additional provisioning related to the changed global economic conditions, increases in individual assessments and balance growth across the portfolio.

Market Share

Business deposit market share of non-financial corporations, as measured by APRA, has increased by 143 basis points since 30 June 2007 to 14.4%.

Business lending market share to non-financial corporations, as measured by APRA, decreased 26 basis points since 30 June 2007 to 12.2% while business lending market share as measured by the RBA has decreased 10 basis points since 30 June 2007 to 12.5%. The reduction in lending market share was driven by a direct strategy to actively manage exposure to certain sectors of the market within the institutional banking business.

Market Share Percentage	30/06/08	31/12/07	30/06/07
Business lending – APRA	12.2	12.5	12.4
Business lending – RBA ⁽¹⁾	12.5	12.8	12.6
Business deposits – APRA	14.4	13.7	13.0
Equities trading (CommSec) ⁽¹⁾	5.9	5.0	4.3

(1) Prior comparative period has been restated.

Premium Business Services continued

Full Year Ended 30 June 2008							
	Institutional Banking	Private Client Services	Corporate Financial Services	Agri business	Local Business Banking	Eliminations	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Net interest income	996	240	516	156	358	-	2,266
Other banking income	886	386	416	97	210	(30)	1,965
Total banking income	1,882	626	932	253	568	(30)	4,231
Operating expenses							1,915
Loan impairment expense							426
Net profit before tax							1,890
Corporate tax expense							410
Cash net profit after tax							1,480

Full Year Ended 30 June 2007 ⁽¹⁾							
	Institutional Banking	Private Client Services	Corporate Financial Services	Agri business	Local Business Banking	Eliminations	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Net interest income	820	189	441	132	328	-	1,910
Other banking income	837	313	377	79	178	(40)	1,744
Total banking income	1,657	502	818	211	506	(40)	3,654
Operating expenses							1,669
Loan impairment expense							75
Net profit before tax							1,910
Corporate tax expense							465
Cash net profit after tax							1,445

Half Year Ended 30 June 2008 ⁽¹⁾							
	Institutional Banking	Private Client Services	Corporate Financial Services	Agri business	Local Business Banking	Eliminations	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Net interest income	511	119	271	85	184	-	1,170
Other banking income	464	192	211	49	120	(8)	1,028
Total banking income	975	311	482	134	304	(8)	2,198
Operating expenses							1,032
Loan impairment expense							251
Net profit before tax							915
Corporate tax expense							159
Cash net profit after tax							756

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

Major Balance Sheet Items (gross of impairment)	As at				
	30/06/08 \$M	31/12/07 \$M	30/06/07 \$M	Jun 08 vs Dec 07 %	Jun 08 vs Jun 07 %
Interest earning lending assets ⁽¹⁾	113,828	110,386	95,519	3	19
Bank acceptances of customers	18,278	19,805	18,721	(8)	(2)
Non-lending interest earning assets	18,705	21,917	25,245	(15)	(26)
Margin loans	7,817	8,721	8,070	(10)	(3)
Other assets ⁽²⁾	14,742	17,306	11,869	(15)	24
Total assets	173,370	178,135	159,424	(3)	9
Transaction deposits ⁽¹⁾	39,791	38,843	34,831	2	14
Other demand deposits	5,602	7,634	4,658	(27)	20
Deposits not bearing interest	3,839	3,785	4,244	1	(10)
Certificates of deposits and other	33,922	29,741	28,522	14	19
Due to other financial institutions	16,659	16,971	13,837	(2)	20
Liabilities at fair value through Income Statement	1,914	2,555	3,965	(25)	(52)
Debt issues	25,438	25,011	37,861	2	(33)
Loan Capital	581	714	344	(19)	69
Other non-interest bearing liabilities ⁽²⁾	38,639	45,349	44,582	(15)	(13)
Total liabilities	166,385	170,603	172,844	(2)	(4)

(1) During the year, a review of the accounting treatment of Group Limit Facilities led to an increase in lending and deposit balances (30 June 2008: \$17,134 million, 31 December 2007: \$16,200 million, 30 June 2007: \$13,253 million).

(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

Cash net profit after tax for the Wealth Management business increased by 18% on the prior year to \$740 million. The result was driven by strong revenue growth in the funds management businesses and gains on asset sales, offset by lower Shareholder investment returns.

Cash net profit after tax in the second half fell 10% to \$351 million impacted by significant falls in investment markets.

Funds Under Administration increased 10% to \$185 billion as at 30 June 2008. The growth in funds under administration was driven by positive net flows offset by significant market falls in Australian and global equities in the second half.

Net funds flows for the year ended 30 June 2008 were \$28.6 billion, driven by:

- Solid net flows into the FirstChoice and Avanteos platforms and Global Equity Funds; and
- Short-term cash mandates from institutional investors.

Investment markets have been volatile, with some negative returns experienced in the second half. Despite this, investment performance has been good relative to the market with 63% of funds outperforming benchmark on a three year basis.

CFS Global Asset Management (CFS GAM)

CFS Global Asset Management provides asset management services to wholesale and institutional investors. Cash net profit after tax was \$409 million, an increase of 59% on the prior year, reflecting revenue growth from the global expansion and diversification of the business. Included in operating income is a pre-tax gain of \$108 million from the sell-down of seed assets.

Funds under Management increased 9% on the prior year to \$153 billion. The growth in funds under management was driven by strong flows into Global Equity Funds and short-term cash mandates from institutional investors.

Key developments include:

- Managed property funds are well positioned in this market environment with quality assets and strong balance sheets;
- Launched over 14 funds during the year. A number of funds have grown out of the GAM Seeding Trust, which is the foundation for many new product development initiatives within the business;
- CFS Property Management has entered into a joint venture partnership with Jones Lang LaSalle for the establishment of Sandalwood Pte Ltd, one of Asia's largest third-party retail property asset management and development businesses;
- First State Investments won "Specialist Group of the Year" at the Investment Week Fund Manager of the Year Awards in the UK and the Global Emerging Markets team earned the top six positions in Professional Adviser magazine's Hot 100 fund manager rankings; and
- The progressive sell-down of the Group's interest in AWG continues, with the remaining 16% holding expected to be sold in the next financial year.

Colonial First State

Colonial First State provides product packaging, administration, distribution and advice to retail customers. Cash net profit after tax was \$206 million, an increase of 45% on the prior year. Underlying profit, which excludes Shareholder investment returns, increased by 10% to \$193 million.

Net revenue benefited from strong inflows, as investors took advantage of superannuation legislation changes in June 2007, and tight expense control also contributed to the result.

FirstChoice flows remained strong in the market with \$4.9 billion in net flows for the year to 30 June 2008. FirstChoice captured 18% of master fund net flows in the year to March 2008.

Key developments include:

- Recognition as Australia's Best Mastertrust/Wrap provider in the Wealth Insights 2008 Service Level Survey Reports and led all other platforms in the categories of service, value for money and planner usage (Source: ASSIRT/Wealth Insights);
- Ranking number one in terms of cash flows in Money Management's 2008 Top 50 Platforms Survey;
- Rated by advisers as the best platform and recorded the highest average satisfaction in the Investment Trends 2007 Planner Technology Report; and
- The addition of eight new investment options following the launch of the Generation Global Sustainability Fund earlier in the year. The new options include Australian and Global infrastructure funds, providing a total of 100 options.

Commlnsure

Commlnsure is a domestic provider of life and general insurance. Cash net profit after tax was \$253 million, a decline of 25% on the prior year, impacted by significant fall in investment markets in the second half and the unrealised mark to market losses of \$37 million from widening credit spreads on the valuation of assets backing the Guaranteed Annuities portfolio. The life insurance business attracted strong new business volumes in both retail and wholesale lines driving a 22% growth in inforce premiums to \$1,250 million and a 12% increase in planned profit margins.

Life experience variations were positive at \$12 million albeit at lower levels than the prior year following a reversion to normal life claims experience on wholesale life following exceptional experience in the prior year.

The general insurance business experienced strong new business growth primarily through cross-sell into the Bank network. General Insurance operating margins were significantly impacted by claims associated with major weather events resulting in a net loss for the year. Key developments include:

- Strong Retail Life sales up 22% on the prior year;
- Commlnsure was awarded the Life Insurance Company of the Year and Annuity provider of the year for 2007 at the Association of Financial Advisers / Plan For Life awards; and
- General Insurance new business sales increased by 102% on the prior year through a significant improvement in cross-sell rates, the launch of a new motor insurance product in the first half of the year, and the deployment of Branch Insurance Representatives into the remaining regions of the Group's retail branch network.

Operating Expenses

Total operating expenses increased by 7% on the prior year to \$1,262 million, driven by:

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

Taxation

The effective corporate tax rate on underlying profit for the full year was 26.7% compared with 30.6% for the prior year.

Wealth Management continued

	Full Year Ended 30 June 2008 ⁽¹⁾					Total \$M
	Colonial				Other \$M	
	CFS GAM \$M	First State \$M	CommInsure \$M			
Funds management income	1,068	909	280	2		2,259
Insurance income	-	-	580	-		580
Total operating income	1,068	909	860	2		2,839
Volume expense	153	215	177	-		545
Net operating income	915	694	683	2		2,294
Operating expenses	369	416	331	146		1,262
Net profit before tax	546	278	352	(144)		1,032
Corporate tax expense	136	85	103	(48)		276
Underlying profit after tax	410	193	249	(96)		756
Shareholder investment returns after tax	(1)	13	4	(32)		(16)
Cash net profit after tax	409	206	253	(128)		740

	Full Year Ended 30 June 2007					Total \$M
	Colonial				Other \$M	
	CFS GAM \$M	First State \$M	CommInsure \$M			
Funds management income	759	844	229	(4)		1,828
Insurance income	-	-	573	-		573
Total operating income	759	844	802	(4)		2,401
Volume expense	98	184	155	-		437
Net operating income	661	660	647	(4)		1,964
Operating expenses	310	407	316	141		1,174
Net profit before tax	351	253	331	(145)		790
Corporate tax expense	108	78	96	(40)		242
Underlying profit after tax	243	175	235	(105)		548
Shareholder investment returns after tax	15	(33)	103	(6)		79
Cash net profit after tax	258	142	338	(111)		627

	Half Year Ended 30 June 2008					Total \$M
	Colonial				Other \$M	
	CFS GAM \$M	First State \$M	CommInsure \$M			
Funds management income	567	421	148	4		1,140
Insurance income	-	-	305	2		307
Total operating income	567	421	453	6		1,447
Volume expense	83	105	91	-		279
Net operating income	484	316	362	6		1,168
Operating expenses	178	205	175	93		651
Net profit before tax	306	111	187	(87)		517
Corporate tax expense	68	35	54	(24)		133
Underlying profit after tax	238	76	133	(63)		384
Shareholder investment returns after tax	3	7	(28)	(15)		(33)
Cash net profit after tax	241	83	105	(78)		351

Sources of Profit from Insurance Activities	Full Year Ended			Half Year Ended		
	30/06/08 \$M	30/06/07 \$M	Jun 08 vs Jun 07 %	30/06/08 \$M	31/12/07 \$M	Jun 08 vs Dec 07 %
The Margin on Services profit from ordinary activities after income tax is represented by:						
Planned profit margins	145	130	12	74	71	4
Experience variations	12	39	(69)	11	1	large
Funds management operating margins	117	55	large	61	56	9
General insurance operating margins	(25)	11	large	(13)	(12)	8
Operating margins	249	235	6	133	116	15
Shareholder investment returns after tax	4	103	(96)	(28)	32	large
Cash net profit after tax	253	338	(25)	105	148	(29)

(1) Additional information has been provided for this segment in line with the historic level of market disclosure.

Wealth Management continued

Funds Under Management (FUM) ⁽¹⁾	Full Year Ended			Half Year Ended		
	30/06/08 \$M	30/06/07 \$M	Jun 08 vs Jun 07 %	30/06/08 \$M	31/12/07 \$M	Jun 08 vs Dec 07 %
Australian equities	23,502	31,199	(25)	23,502	29,618	(21)
Global equities	35,589	33,709	6	35,589	40,945	(13)
Cash and fixed interest	66,729	48,927	36	66,729	66,694	-
Property and alternative investments	27,120	25,850	5	27,120	27,102	-
Total	152,940	139,685	9	152,940	164,359	(7)

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

Funds Under Administration (FUA)	Full Year Ended			Half Year Ended		
	30/06/08 \$M	30/06/07 \$M	Jun 08 vs Jun 07 %	30/06/08 \$M	31/12/07 \$M	Jun 08 vs Dec 07 %
Funds under administration – average	186,696	157,338	19	191,721	183,548	4
Funds under administration – spot	184,970	168,810	10	184,970	199,834	(7)
Funds under management – average	152,328	128,893	18	158,650	152,022	4
Funds under management – spot	152,940	139,685	9	152,940	164,359	(7)
Retail Net funds flows (Australian Retail)	1,888	(1,366)	large	279	1,609	(83)

Market Share

In the latest Plan for Life market share statistics, the Group remained 1st in total Australian retail market share at 14.2% while FirstChoice Platform remained flat at 9.6%. Market share for Individual Life Insurance increased to 13.1% in a growing market and CommInsure continues to maintain the No.1 ranking for Total Life Insurance with 14.3% of the market.

Market Share Percentage	As at		
	30/06/08 %	31/12/07 %	30/06/07 %
Australian Retail Funds – administrator view ⁽¹⁾⁽²⁾	14.2	14.3	14.1
FirstChoice Platform ⁽¹⁾⁽²⁾	9.6	9.6	9.0
Australia (Total Life Insurance Risk) ⁽¹⁾⁽²⁾	14.3	14.1	14.3
Australia (Individual Life Insurance Risk) ⁽¹⁾⁽²⁾	13.1	13.0	12.9

(1) Prior period comparatives have been restated.

(2) As at 31 March 2008.

Annual Inforce Premiums ⁽¹⁾	Full Year Ended 30 June 2008				
	Opening Balance 30/06/07 \$M	Sales/New Balances \$M	Lapses \$M	Other ⁽²⁾ Movements \$M	Closing Balance 30/06/08 \$M
	General insurance	184	113	(39)	21
Retail life	530	156	(81)	-	605
Wholesale life	308	91	(33)	-	366
Total	1,022	360	(153)	21	1,250

Annual Inforce Premiums ⁽¹⁾	Full Year Ended 30 June 2007				
	Opening Balance 30/06/06 \$M	Sales/New Balances \$M	Lapses \$M	Other ⁽²⁾ Movements \$M	Closing Balance 30/06/07 \$M
	General insurance	169	56	(41)	-
Retail life	486	128	(84)	-	530
Wholesale life	199	176	(64)	(3)	308
Total	854	360	(189)	(3)	1,022

Annual Inforce Premiums ⁽¹⁾	Half Year Ended 30 June 2008				
	Opening Balance 31/12/07 \$M	Sales/New Balances \$M	Lapses \$M	Other ⁽²⁾ Movements \$M	Closing Balance 30/06/08 \$M
	General insurance	203	74	(19)	21
Retail life	568	83	(46)	-	605
Wholesale life	323	60	(17)	-	366
Total	1,094	217	(82)	21	1,250

(1) Inforce premium relates to risk business. Savings products are disclosed within Funds Management.

(2) Other movements represent prior year renewals not previously included in comparatives.

Wealth Management continued

Full Year Ended 30 June 2008

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

Full Year Ended 30 June 2007

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

Half Year Ended 30 June 2008

Funds Under Administration	Opening Balance	Inflows	Outflows	Net flows	Investment	Closing Balance
	31/12/07				Income & Other ⁽⁵⁾	
	\$M	\$M	\$M	\$M	\$M	\$M
FirstChoice	42,814	6,613	(5,208)	1,405	(5,512)	38,707
Avanteos	6,278	1,281	(497)	784	(805)	6,257
Cash management	2,947	751	(1,200)	(449)	78	2,576
Legacy products ⁽¹⁾	32,133	1,155	(2,571)	(1,416)	(3,217)	27,500
Retail Products (Plan for Life) ⁽²⁾	84,172	9,800	(9,476)	324	(9,456)	75,040
Other retail ⁽³⁾	1,340	75	(120)	(45)	71	1,366
Australian retail	85,512	9,875	(9,596)	279	(9,385)	76,406
Wholesale	54,746	9,827	(9,776)	51	(2,421)	52,376
Property	18,551	1,575	(690)	885	774	20,210
Other ⁽⁴⁾	3,528	95	(97)	(2)	(278)	3,248
Domestically sourced	162,337	21,372	(20,159)	1,213	(11,310)	152,240
Internationally sourced	37,497	7,610	(5,380)	2,230	(6,997)	32,730
Total Wealth Management	199,834	28,982	(25,539)	3,443	(18,307)	184,970

(1) Includes stand-alone retail and legacy retail products.

(2) Retail products aligned to Plan for Life market release.

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

(4) Includes life company assets sourced from retail investors but not attributable to a funds management product (e.g. premiums from risk products). These amounts do not appear in retail market share data.

(5) Includes foreign exchange gains and losses from translation of international sourced business.

International Financial Services

Financial Performance and Business Review

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

Cash net profit after tax for the year was \$589⁽¹⁾ million, an increase of 23% on the prior year. After removing the impact of realised gains and losses associated with the hedge of the New Zealand operations and other foreign exchange movements the underlying growth was 17%. This strong profit growth was attributable to sustained growth in the Group's New Zealand businesses, complemented by the growing contribution from Asian businesses, particularly the China banking investments.

ASB Bank

ASB Bank cash net profit after tax for the year was \$428 million. Excluding the impact of realised gains on the hedge of New Zealand operations, profit increased 11% on the prior year. This was a very positive result in a challenging market with aggressive competition continuing to place downward pressure on margins and a general slowing in economic activity. The major drivers of growth were:

- Home loan balances increased by 9% over the year, with market share increasing to 23.3%. Business banking market share increased to 8.8% at 30 June 2008, following 17% growth in balances for the year. Rural lending also showed strong growth for the year. Retail deposits grew by 13% to NZD 27.8 billion at 30 June 2008. Market share for retail deposits was also stable at 21.2%;
- Net interest margin declined by six basis points with the impact of competition and the increased costs of wholesale funding partially offset by the higher mix of retail deposits;
- Impairment expenses increased to \$34 million from \$16 million in 2007. Although loan arrears remain within acceptable limits, early indications are that the slowing in the New Zealand economy is starting to impact arrears; and
- ASB continued to focus on service capability, maintaining its position as leader of the major banks based on recent customer service surveys and expanding the branch network with the addition of 10 new branches during the year.

Sovereign Insurance

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

Sovereign's cash net profit after tax for the year was \$96 million, an increase of 3% on the prior year. This result included the impact of a deterioration in the New Zealand dollar exchange rate. The main drivers of this result were:

- Positive claims experience particularly in the Death and Living Assurance/TPD classes;
- Growth in inforce premiums of 11% whilst market share declined marginally to 31.7% at 31 March 2008, from 31.8% at 30 June 2007;
- Market leading growth in new business sales with Sovereign capturing 34.4% of new business sales market share to March 2008 on a rolling 12 month basis; and
- Positive impact on Shareholder investment returns due to the fall in corporate bond rates.

(1) Represents Group Management view for the product segment rather than statutory view.

Other Asia Pacific Business

International Financial Services has grown its presence in the Asia Pacific region during the year with a number of business initiatives:

- Indonesia: Following the completion of the acquisition of Bank Arta Niaga Kencana (ANK) on 26 July 2007 and the legal merger of Bank ANK with PT Bank Commonwealth (PTBC) in December 2007, PTBC has continued to focus on expansion with the addition of eight new branches during the year which now total 51;
- Indonesia: Acquisition of an additional 30% interest held by the Group's joint venture partner in PT Astra Life Insurance business bringing the Group's shareholding to 80%. The business provides unit linked investment, traditional life and disability insurance products through its 51 branches operating in 16 Indonesian cities;
- Vietnam: Following the granting of a licence to operate a branch in Ho Chi Minh City in January 2008, the branch will open in August 2008;
- China: Continued strong growth in profits of the Jinan City Commercial Bank (11% holding) and Bank of Hangzhou (formerly Hangzhou City Commercial Bank - 19.9% holding). The Group also continued to implement its Capability Transfer Program at both Jinan City Commercial Bank and the Bank of Hangzhou; and
- The Fiji business performed strongly in 2008 following the disruptions which arose during the political crisis last year. There are signs of increasing arrears as the economic uncertainty continues.

Operating Expense

Operating expenses for the year increased by 11% to \$825 million. The increase was due to:

- Increases in staff costs associated with branch expansion programs in ASB and PT Bank Commonwealth;
- Acquisitions and start up costs for new operations, including a branch in Vietnam, full year expenses for Bank ANK in Indonesia and the acquisition of PT Commonwealth Life;
- Wage inflation averaging 6% in New Zealand reflecting a combination of competitive labour markets and the introduction of a mandatory employer sponsored savings scheme (Kiwisaver);
- Wage inflation in China and Indonesia in excess of 10% for the year; partly offset by
- Impact of the weaker New Zealand Dollar and Indonesian Rupiah against the Australian Dollar.

Market Share

Housing market share in New Zealand improved over the year to 23.3%.

Retail deposit market share in New Zealand was 21.2%, in line with June 2007.

The market share of inforce premiums at 30 June 2008 was 31.7%, down marginally from June 2007.

Market Share Percentage	30/06/08	31/12/07	30/06/07
NZ lending for housing ⁽¹⁾	23.3	23.1	23.1
NZ retail deposits ⁽¹⁾	21.2	21.3	21.2
NZ retail FUM ⁽¹⁾	16.4	16.1	15.8
NZ annual inforce premium	31.7	31.8	31.8

(1) The prior period comparative has been restated.

International Financial Services continued

	Full Year Ended 30 June 2008 ⁽¹⁾			
	ASB \$M	Sovereign \$M	Other \$M	Total \$M
Net interest income	814	-	101	915
Other banking income	316	-	67	383
Total banking income	1,130	-	168	1,298
Funds management income	-	48	-	48
Insurance income	-	210	42	252
Total operating income	1,130	258	210	1,598
Operating expenses	484	194	147	825
Loan impairment expense	34	-	9	43
Net profit before tax	612	64	54	730
Corporate tax expense	184	(7)	(12)	165
Minority interests	-	-	2	2
Underlying profit after tax	428	71	64	563
Shareholder investment returns after tax	-	25	1	26
Cash net profit after tax	428	96	65	589

	Full Year Ended 30 June 2007			
	ASB \$M	Sovereign \$M	Other \$M	Total \$M
Net interest income	708	-	41	749
Other banking income	266	-	41	307
Total banking income	974	-	82	1,056
Funds management income	-	46	-	46
Insurance income	-	220	24	244
Total operating income	974	266	106	1,346
Operating expenses	456	180	104	740
Loan impairment expense	16	-	4	20
Net profit before tax	502	86	(2)	586
Corporate tax expense	145	10	(30)	125
Underlying profit after tax	357	76	28	461
Shareholder investment returns after tax	-	17	-	17
Cash net profit after tax	357	93	28	478

	Half Year Ended 30 June 2008			
	ASB \$M	Sovereign \$M	Other \$M	Total \$M
Net interest income	414	-	59	473
Other banking income	160	-	40	200
Total banking income	574	-	99	673
Funds management income	-	24	2	26
Insurance income	-	104	28	132
Total operating income	574	128	129	831
Operating expenses	232	97	85	414
Loan impairment expense	28	-	3	31
Net profit before tax	314	31	41	386
Corporate tax expense	102	(5)	1	98
Minority interests	-	-	1	1
Underlying profit after tax	212	36	39	287
Shareholder investment returns after tax	-	17	(11)	6
Cash net profit after tax	212	53	28	293

(1) Additional information has been provided for this segment in line with the historic level of market disclosure.

International Financial Services continued

Major Balance Sheet Items (gross of impairment)	As at				
	30/06/08 \$M	31/12/07 \$M	30/06/07 \$M	Jun 08 vs Dec 07 %	Jun 08 vs Jun 07 %
Home lending	28,347	29,723	28,581	(5)	(1)
Assets at fair value through Income Statement	5,186	7,333	4,921	(29)	5
Other lending assets	12,328	11,088	11,333	11	9
Non-lending interest earning assets	1,654	1,803	3,102	(8)	(47)
Other assets	4,119	4,428	4,654	(7)	(11)
Total assets	51,634	54,375	52,591	(5)	(2)
Debt issues	3,556	2,473	3,970	44	(10)
Deposits ⁽¹⁾	22,810	23,971	23,094	(5)	(1)
Liabilities at fair value through Income Statement	12,592	18,724	12,168	(33)	3
Other liabilities	3,792	4,340	4,569	(13)	(17)
Total liabilities	42,750	49,508	43,801	(14)	(2)

Balance Sheet

Assets					
	30/06/08 \$M	31/12/07 \$M	30/06/07 \$M	Jun 08 vs Dec 07 %	Jun 08 vs Jun 07 %
ASB Bank	46,958	49,434	47,688	(5)	(2)
Other	4,676	4,941	4,903	(5)	(5)
Total assets	51,634	54,375	52,591	(5)	(2)
Liabilities					
ASB Bank	39,231	45,542	39,112	(14)	-
Other	3,519	3,966	4,689	(11)	(25)
Total liabilities	42,750	49,508	43,801	(14)	(2)

(1) International Financial Services exclude deposits held in other overseas countries (30 June 2008: \$7 billion, 31 December 2007: \$8 billion and 30 June 2007: \$5 billion). These deposits are reported within the Premium Business Services segment.

Sources of Profit from Insurance Activities	Full Year Ended			Half Year Ended		
	30/06/08 \$M	30/06/07 \$M	Jun 08 vs Jun 07 %	30/06/08 \$M	31/12/07 \$M	Jun 08 vs Dec 07 %
The Margin on Service profit from ordinary activities after income tax is represented by:						
Planned profit margin	76	75	1	38	38	-
Experience variations	11	18	(39)	10	1	large
Operating margins	87	93	(6)	48	39	23
Shareholder investment returns after tax	41	24	71	9	32	(72)
Cash net profit after tax	128	117	9	57	71	(20)

New Zealand – Funds Under Administration	Full Year Ended			Half Year Ended		
	30/06/08 \$M	30/06/07 \$M	Jun 08 vs Jun 07 %	30/06/08 \$M	31/12/07 \$M	Jun 08 vs Dec 07 %
Opening balance	8,261	5,865	41	7,868	8,261	(5)
Inflows	2,382	2,921	(18)	1,332	1,050	27
Outflows	(2,905)	(1,618)	80	(1,837)	(1,068)	72
Net Flows	(523)	1,303	large	(505)	(18)	large
Investment income and Other	(1,403)	1,093	large	(1,028)	(375)	large
Closing balance	6,335	8,261	(23)	6,335	7,868	(19)

New Zealand – Annual Inforce Premiums	Full Year Ended			Half Year Ended		
	30/06/08 \$M	30/06/07 \$M	Jun 08 vs Jun 07 %	30/06/08 \$M	31/12/07 \$M	Jun 08 vs Dec 07 %
Opening balance	379	302	25	392	379	3
Sales/New Business	54	55	(2)	25	29	(14)
Lapses	(14)	(14)	-	(9)	(5)	80
Other movements	(48)	36	large	(37)	(11)	large
Closing balance	371	379	(2)	371	392	(5)

	Full Year Ended 30 June 2008		
	Corporate Centre	Eliminations/ Unallocated	Total
	\$M	\$M	\$M
Net interest income ⁽¹⁾	302	(181)	121
Other banking income ⁽¹⁾	(12)	(16)	(28)
Total operating income	290	(197)	93
Operating expenses	(75)	-	(75)
Loan impairment expense	-	130	130
Underlying profit before tax	365	(327)	38
Corporate tax expense	110	(144)	(34)
Minority interests	-	29	29
Underlying profit after tax	255	(212)	43
Shareholder investment returns	-	(23)	(23)
Cash net profit after tax	255	(235)	20

	Full Year Ended 30 June 2007		
	Corporate Centre	Eliminations/ Unallocated	Total
	\$M	\$M	\$M
Net interest income ⁽¹⁾	277	(88)	189
Other banking income ⁽¹⁾	99	(13)	86
Total operating income	376	(101)	275
Operating expenses	(94)	-	(94)
Loan impairment expense	-	(10)	(10)
Underlying profit before tax	470	(91)	379
Corporate tax expense	168	(27)	141
Minority interests	-	27	27
Underlying profit after tax	302	(91)	211
Shareholder investment returns	-	-	-
Cash net profit after tax	302	(91)	211

	Half Year Ended 30 June 2008		
	Corporate Centre	Eliminations/ Unallocated	Total
	\$M	\$M	\$M
Net interest income ⁽¹⁾	160	(93)	67
Other banking income ⁽¹⁾	36	(32)	4
Total operating income	196	(125)	71
Operating expenses	(19)	-	(19)
Loan impairment expense	-	125	125
Underlying profit before tax	215	(250)	(35)
Corporate tax expense	64	(121)	(57)
Minority interests	-	15	15
Underlying profit after tax	151	(144)	7
Shareholder investment returns	-	(14)	(14)
Cash net profit after tax	151	(158)	(7)

(1) Excludes the impact of reclassification of net swap costs from Net interest income to Other banking income related to certain economic hedges which do not qualify for AIFRS hedge accounting (30 June 2008: \$265 million, 31 December 2007: \$164 million and 30 June 2007: \$107 million).

Financial Performance

Corporate Centre includes the results of unallocated group support functions such as Investor Relations, Group Strategy, Secretariat and Treasury, together with centralised project spend. Cash net profit after tax has decreased \$47 million on the prior year due largely to the impact of \$100 million of additional funding costs which were absorbed within Treasury income during the first half of the current year.

Corporate Centre cash net profit after tax increased by \$47 million over the prior half due to passing on of additional funding costs from Treasury to the revenue-generating businesses.

Eliminations/Unallocated includes intra-group elimination entries arising on consolidation, centrally raised provisions and other unallocated intra-group revenue and expenses. Cash net profit after tax has decreased \$144 million on the prior year due to a reduction in the interest accrued on intra-group lending balances, a change in the methodology relating to the apportionment of deferred tax assets across the Group, a significant strengthening of the centralised portion of the collective loan impairment provision, the reversal of a prior period tax provision and other unallocated intra-group expenses.

Shareholder Investment Returns

Shareholder Investment Returns	Full Year Ended			Half Year Ended		
	30/06/08 \$M	30/06/07 \$M	Jun 08 vs Jun 07 %	30/06/08 \$M	31/12/07 \$M	Jun 08 vs Dec 07 %
Wealth Management	(19)	129	large	(46)	27	large
International Financial Services	25	20	25	1	24	(96)
Eliminations	(23)	-	-	(14)	(9)	56
Shareholder investment returns before tax	(17)	149	large	(59)	42	large
Corporate tax expense	(4)	53	large	(18)	14	large
Shareholder investment returns after tax	(13)	96	large	(41)	28	large

Shareholder investment returns of \$17 million before tax was impacted by market volatility, primarily in the property sector.

Shareholder Investment Asset Mix (%)	As at 30 June 2008			
	Australia %	New Zealand %	Asia %	Total %
Local equities	1	-	-	-
International equities	-	1	12	1
Property	21	-	32	17
Sub-total	22	1	44	18
Fixed interest	26	55	55	34
Cash	52	44	1	48
Sub-total	78	99	56	82
Total	100	100	100	100

Shareholder Investment Asset Mix (\$M)	As at 30 June 2008			
	Australia \$M	New Zealand \$M	Asia \$M	Total \$M
Local equities	10	1	-	11
International equities	-	4	11	15
Property	310	1	28	339
Sub-total	320	6	39	365
Fixed interest	373	246	49	668
Cash	748	194	1	943
Sub-total	1,121	440	50	1,611
Total	1,441	446	89	1,976

Presentation of Financial Information

Definitions

In this Annual Report, the Group presents its profit from ordinary activities after tax on a "statutory basis", which is calculated in accordance with the Australian equivalents to International Financial Reporting Standards ("AIFRS").

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

The Group also presents its Earnings per share on a statutory basis and on a cash basis. Earnings per share on a statutory basis is affected by the impact of the gain on the Visa Initial Public Offering, Provisions for investment and restructuring, defined benefit superannuation plan income/expense, changes in the treasury shares valuation adjustment, and unrealised gains and losses related to hedging and AIFRS volatility. "Earnings per share (cash basis)" is defined by management as "cash basis" net profit after tax as described above, divided by the weighted average of the Bank's ordinary shares outstanding over the relevant period.

"Underlying net profit after tax" refers to net profit after tax, "cash basis", before shareholder investment returns. "Underlying net profit after tax" is referred to across all businesses. The underlying profit is the result of core operating performance. Management believes it is meaningful to highlight the underlying profit in order to show performance on a comparable basis, in particular excluding the volatility of equity markets.

"Underlying" productivity ratios:

- Exclude Shareholder investment returns from funds management and life insurance income;
- Exclude policyholder tax from the funds management income and life insurance income lines; and
- Exclude the impacts of transition to AIFRS on unwinding structured transactions.

"Underlying" productivity ratios have been presented to provide what management believes to be a more relevant presentation of productivity ratios. Management believes that these adjustments enable comparison of productivity ratios from period to period to be more meaningful as it reflects the Group's core operating performance.

Integrated Risk Management

Risk Management

The Risk Committee of the Board oversees credit, market (traded and non-traded), funding and liquidity, operational and strategic business, business continuity, compliance and security risks assumed by the Group in the course of carrying on its business. Further information of the role and function of the Risk Committee is discussed in the Corporate Governance section of this report.

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

Independent review of the risk management framework is carried out through Group Audit.

Basel II

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

The Group initiated its Basel II project in 2004, implementing the new framework's principles in order to elevate the Group's risk management culture. The Group's approach to Basel II was to obtain advanced accreditation (cost effectively) by using and enhancing existing risk rating tools and data gathering capabilities. In June 2006, the Group commenced calculating its Risk Weighted Assets in accordance with Basel II rules as part of its accreditation application.

On 10 December 2007, the Group was one of the first major banks in Australia to gain approval from the Australian Prudential Regulation Authority (APRA) to use the advanced internal ratings-based (AIRB) approach for credit risk and the advanced measurement approach (AMA) for operational risk for the purposes of assessing risk weighted assets and regulatory capital. These approvals took effect from 1 January 2008.

APRA has requested the Group defer the release of its Pillar 3 disclosures until the last quarter of 2008, when the other major Australian banks release their disclosures, to aid in comparative analysis.

Further detail on the Group's assessment of regulatory capital required under the new Basel II framework is discussed in the section on Capital Management.

Credit Risk

Credit risk is the potential of loss arising from failure of a debtor or counterparty to meet their contractual obligations. 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.

The introduction of the Basel II framework has enabled the Group to manage loan portfolios and improve the ability to price for risk.

Further information on credit risk management is included in Notes 15 and 42 to the Financial Statements.

Market Risk

Market risk is the potential of loss arising from adverse changes in interest rates, foreign exchange prices, commodity and equity prices, credit spreads, and implied volatility levels for all assets and liabilities where options are transacted. Market risk also includes risks associated with funding and liquidity management.

APRA has specifically requested Australian banks implementing the Basel II framework to incorporate regulatory capital for interest rate risk in the banking book in their assessment of total regulatory capital from 1 July 2008. The Group's capital calculation framework has been updated to include an appropriate allowance for IRRBB capital in its 2009 financial year regulatory capital calculation.

The measurement of market risk for traded assets remains unchanged from the original Basel I approach.

Further information on market risk is included in Note 42 to the Financial Statements.

Liquidity and Funding Risk

Balance Sheet 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 42 to the Financial Statements.

Operational and Strategic Business Risk

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

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

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

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

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

- Economic;
- Competitive;
- Social trends; or
- Regulatory

Integrated Risk Management

Strategic business risk is taken into account when defining business strategy and objectives. The Risk Committee receives reports on business plans, major projects and change initiatives (including the Group's current relocation program NOVA and the Core System Modernisation Project). The Risk committee monitors progress and reviews successes compared to plans.

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

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

As a result of the implementation of the Basel II framework the Group developed a sophisticated Operational Risk loss incident database. This has increased awareness of controls and processes which is contributing to lower operational losses, including loan frauds.

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

Business Continuity Management

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

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

A comprehensive BCM program including plan development, testing and education continues to be implemented across all business units.

Compliance Risk Management

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

The Group's Compliance Risk Management Framework (CRMF) is a key element of the Group's integrated risk management framework. The CRMF is consistent with the Australian Standard on Compliance Programs; as such it is designed to meet the Group's obligations under the Corporations Act 2001 and the Bank's Australian Financial Services Licence. The CRMF incorporates a number of components including Group Standards, a Compliance Obligations Register and Guidance Notes that detail specific requirements and accountabilities. These are complemented by business unit compliance frameworks including obligations registers, standards and procedures.

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

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

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

Security Risk

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

The Group's security risk management framework forms part of the operational risk framework and sets out the key roles, responsibilities and processes for security risk management across the Group.

Capital Management

Capital Management

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

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

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

- The insurance and funds management operations; and
- The entities through which securitisation of Bank 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 32 to 36.

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

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

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

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

The Group's capital position is monitored on a continuous basis and reported monthly to the Asset and Liability Committee of the Bank. 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 2007 and 2008 Financial Years were in compliance with both APRA minimum capital adequacy requirements (Tier One Capital 4% and Total Capital 8%) and the Board Approved Target Ranges of Tier One Capital 6.5 to 7% and Total Capital 10 to 12%).

The Total Capital target range was amended in 2008 from a range of 9 to 11% to a range of 10 to 12% in order to align with the Group's strategy to apply for U.S. Financial Holding Company (FHC) status. FHC status requires the Group to maintain minimum Tier One Capital of 6% and Total Capital at 10% at all times.

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

Dividends

Banks may not pay dividends if immediately after payment, they are unable to meet the minimum capital requirements. Banks cannot pay dividends from Retained Profits without APRA's prior approval. Under APRA guidelines, the expected dividend must be deducted from Tier One Capital.

Regulatory Changes

Basel II

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

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

The Basel II framework consists of three pillars:

- Pillar 1 – defines the rules for calculating the minimum regulatory capital requirements for credit, market and operational risk;
- Pillar 2 – addresses the 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.

In June 2006, the Group commenced calculating its RWA in accordance with Basel II rules as part of its accreditation application. On 10 December 2007, the Group became one of the first major banks in Australia to be granted "advanced" Basel II accreditation by APRA.

As a result of receiving advanced Basel II accreditation, the advanced internal ratings based approach (AIRB) for credit risk and the advanced measurement approaches (AMA) for operational risk have been adopted in the calculation of RWA. There is an agreed methodology for measuring market risk for traded assets, which remains unchanged from Basel I.

APRA has specifically requested Australian banks to incorporate regulatory capital for interest rate risk in the banking book in their assessment of total regulatory capital from 1 July 2008. This is not a requirement under Basel II Pillar 1. The Group's capital calculation framework has been updated to include an appropriate allowance for IRRBB capital in its 2009 financial year regulatory capital calculation.

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

Capital Management

Adoption of the methodology prescribed under the advanced approach was effective from 1 January 2008.

Regulatory capital as at 30 June 2008 has been calculated in accordance with the Basel II advanced methodology.

The prudential calculations for the prior financial year are in accordance with the previous Basel I methodology.

APRA made several changes to the definition of capital effective from 1 January 2008. The material changes applicable to the Group include:

- Limits on the amount of Residual (25%) and Innovative Capital (15%) that qualifies as Tier One capital, with any excess transferred to upper Tier Two Capital. APRA has granted the Group \$974 million transitional relief on the innovative capital limits until 1 January 2010;
- Regulatory Expected Loss (pre-tax) using stressed loss given default assumptions associated with the loan portfolio in excess of eligible credit provisions (net of tax) are deducted 50% from both Tier One and Tier Two capital;
- The prudential general reserve for credit losses (mostly comprising the collective provision for impairment losses) is excluded from Upper Tier Two Capital;
- Total Capital deductions revert to 50% Tier One and 50% Tier Two Capital deductions;
- Capital floor based on 90% of the capital required under Basel II, which as at 30 June 2008 has no impact on the Group's capital levels; and
- The loss of AIFRS Transitional Relief from Tier One and Two Capital.

Active Capital Management

The Group maintains a strong capital position with the advanced Basel II accreditation resulting in an increase in both the Group's Tier One and Total Capital ratios, primarily driven by the reduction in risk weighted assets.

As a result of Basel II advanced accreditation, the Total Capital Ratio was restated from 9.82% to 12.08% at 31 December 2007. The Tier One capital ratio was restated from 7.41% to 8.17% at 31 December 2007.

As at 30 June 2008 the Tier One and Total Capital ratio are 8.17% and 11.58% respectively.

RWA are \$206 billion at 30 June 2008. This represents an \$8 billion increase from the restated Basel II 31 December 2007 level of \$198 billion.

Adjusted Common Equity

The Group's Basel II ACE capital ratio as at 30 June 2008 is 6.47% and compares with 6.58% as at 31 December 2007.

Significant Initiatives

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

Tier One Capital

- Issue of \$1,465 million (\$1,443 million net of issue costs) Perpetual Exchangeable Resaleable Listed Securities (PERLS IV) in July 2007 which qualify as Non-Innovative Residual Tier One Capital;
- Issue of \$709 million shares in October 2007 to satisfy the Dividend Reinvestment Plan ("DRP") in respect of the final dividend for 2006/07;
- Issue of \$400 million of shares in April 2008 in order to satisfy the DRP in respect of the interim dividend for 2007/08. A further \$98 million of shares were purchased as part of the DRP; and

- In accordance with APRA guidelines, the estimated issue of \$609 million of shares to satisfy the DRP in respect of the final dividend for 2007/08. This estimate represents a 30% participation in the DRP in respect of the final dividend.

Tier Two Capital

- Issue of the equivalent of \$664 million of Lower Tier Two Capital was raised during the financial year, all of which was raised in the first half of the financial year.

Regulatory Capital Requirements for Other Major ADIs in the Group

ASB Bank Limited

ASB Bank Limited is subject to regulation by the Reserve Bank of New Zealand ("RBNZ"). RBNZ applies a similar methodology to APRA in calculating regulatory capital requirements. At 30 June 2008 ASB Bank Limited had a Tier One ratio of 9.4% and a Total Capital ratio of 11.8%

ASB Bank was in compliance with regulatory capital requirements at all times throughout the current financial year.

In December 2007 ASB Bank Limited received advanced Basel II accreditation from the Reserve Bank of New Zealand.

Regulatory Capital Requirements for Life 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⁾

The Group owns Colonial Mutual Life Assurance Society Limited ("CMLA"), a life insurance company operating in Australia. Life insurance business previously written by Commonwealth Insurance Holdings Limited ("CIHL") was transferred into CMLA effective 30 June 2007.

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

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 life insurance and funds management companies held assets in excess of regulatory capital requirements at 30 June 2008. The Group's Australian and New Zealand life insurance and funds management businesses held \$949 million of assets in excess of regulatory solvency requirements at 30 June 2008 (2007: \$1,168 million).

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

Capital Management

Capital Adequacy

	Group			
	Basel II	Basel II	Basel I	Basel I
	30/06/08	31/12/07	31/12/07	30/06/07
Risk-Weighted Capital Ratios ⁽¹⁾	%	%	%	%
Tier One	8.17	8.17	7.41	7.14
Tier Two	3.41	3.91	3.19	3.41
Less Deductions	-	-	(0.78)	(0.79)
Capital Base	11.58	12.08	9.82	9.76
Adjusted Common Equity ⁽²⁾	6.47	6.58	4.77	4.79

	Group			
	30/06/08	31/12/07	31/12/07	30/06/07
	\$M	\$M	\$M	\$M
Regulatory Capital				
Tier One Capital				
Fundamental Tier One Capital				
Total shareholders' equity ⁽³⁾	26,137	25,638	25,638	24,444
Adjustments to total shareholders' equity:				
Expected dividend ⁽⁴⁾	(2,029)	(1,487)	(1,487)	(1,939)
Estimated reinvestment under Dividend Reinvestment Plan ⁽⁵⁾	609	400	400	485
Treasury shares	264	235	235	255
Cash flow hedge reserve	(341)	(477)	(477)	(440)
General reserve for credit losses (after tax) ⁽⁶⁾	-	-	-	(350)
Employee compensation reserve	39	81	81	51
Asset revaluation reserve	(195)	(181)	(181)	(185)
Available-for-sale investments reserve	41	72	72	35
Foreign currency translation reserve related to non-consolidated subsidiaries	39	(13)	(13)	(8)
Deferred fees	2	54	54	97
Retained earnings ⁽⁷⁾	752	752	752	752
Trust Preferred Securities 2006 ⁽⁸⁾	(939)	(939)	(939)	(939)
Minority Interests ⁽⁹⁾	(505)	(505)	-	-
Other	(67)	(40)	(40)	(34)
Total Fundamental Tier One Capital	23,807	23,590	24,095	22,224
Residual Tier One Capital				
Innovative Tier One Capital				
Irredeemable non-cumulative preference shares ⁽¹⁰⁾	3,396	3,451	3,451	3,474
Minority Interests ⁽⁹⁾	505	505	-	-
Eligible loan capital	209	236	236	245
Total Innovative Capital	4,110	4,192	3,687	3,719
Non-Innovative Residual Tier One Capital ⁽¹¹⁾	1,443	1,443	1,443	-
Less residual capital in excess of prescribed limits transferred to Upper Tier Two Capital ⁽¹²⁾	(1,359)	(1,592)	-	-
Total Residual Tier One Capital	4,194	4,043	5,130	3,719

(1) June 2008 regulatory capital is calculated in accordance with Basel II rules and methodology which was effective from 1 January 2008. The Basel II ratios quoted in the table above do not make allowance for interest rate risk in the banking book, which is not effective until 1 July 2008. The December 2007 and June 2007 regulatory capital is reported in accordance with Basel I rules and methodology.

(2) Adjusted Common Equity ("ACE") is one measure considered by Standard & Poor's in evaluating the Bank's credit rating. The ACE ratio for June 2008 has been calculated using the ACE numerator as a percentage of Basel II RWA with a comparison for December 2007.

(3) Represents total shareholders' equity as disclosed in the Group's Consolidated Balance Sheet.

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

(5) Based on reinvestment experience related to the Bank's Dividend Reinvestment Plan (DRP) as approved by APRA. The DRP in respect of the December 2007 interim dividend was satisfied by the issue of \$400 million of ordinary shares and has been reflected in the December 2007 numbers as detailed in the table above. The shares to be issued under the DRP in respect of the final 2007 dividend were estimated at 25% as approved by APRA, actual take up was 36.6%.

(6) General reserve for credit loss of \$350 million (after tax) transferred to retained earnings December 2007.

(7) Represents the write-down in retained earnings upon adoption of AIFRS within the non-consolidated subsidiaries.

(8) Trust Preferred Securities 2006 issued 15th March 2006 USD 700 million. These instruments qualify as Tier One Innovative Capital of the Bank.

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

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

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

(12) Residual Capital eligible for inclusion as Tier One Capital is subject to an APRA prescribed limit of 25% of Tier One capital with any excess transferred to Upper Tier Two Capital. The Bank was granted transitional relief to 1 January 2010 with respect to the Innovative Capital limit of 15% of Tier One Capital of \$974 million.

Capital Management

Capital Adequacy (continued)

	Basel II 30/06/08 \$M	Basel II 31/12/07 \$M	Basel I 31/12/07 \$M	Group Basel I 30/06/07 \$M
Tier One Capital Deductions – 100%				
Goodwill ⁽¹⁾	(8,010)	(8,030)	(8,030)	(7,632)
Capitalised expenses	(110)	(100)	(100)	(136)
Capitalised computer software costs	(353)	(316)	(316)	(297)
Defined benefit superannuation plan surplus ⁽²⁾	(1,075)	(1,314)	(1,314)	(1,270)
Deferred tax	(38)	(27)	(27)	(37)
	(9,586)	(9,787)	(9,787)	(9,372)
Tier One Capital Deductions – 50% ⁽³⁾				
Equity investments in other companies and trusts ⁽⁴⁾	(561)	(723)	(870)	(700)
Equity investments in non-consolidated subsidiaries (net on intangibles)	(376)	(296)	-	-
Expected impairment loss (before tax) in excess of eligible credit provisions (net of deferred tax) ⁽⁵⁾	(587)	(536)	-	-
Other deductions	(100)	(95)	-	-
	(1,624)	(1,650)	(870)	(700)
Transitional Tier One Capital relief on adoption of AIFRS ⁽⁶⁾	-	-	1,641	1,641
Total Tier One Deductions	(11,210)	(11,437)	(9,016)	(8,431)
Total Tier One Capital	16,791	16,196	20,209	17,512

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

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

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

(6) APRA granted transitional relief for Tier One and Tier Two Capital on adoption of AIFRS, which expired 1 January 2008.

Capital Management

Capital Adequacy (continued)

	Group			
	Basel II 30/06/08 \$M	Basel II 31/12/07 \$M	Basel I 31/12/07 \$M	Basel I 30/06/07 \$M
Regulatory Capital				
Tier Two Capital				
Upper Tier Two Capital				
Residual capital in excess of prescribed limits transferred from Tier One Capital ⁽¹⁾	1,359	1,592	-	-
Collective provision for impairment losses	-	-	1,084	1,034
Other credit provisions	-	-	28	23
Fair value credit adjustments	-	-	22	24
General reserve for credit losses (pre-tax equivalent)	-	-	-	500
Prudential general reserve for credit losses ⁽²⁾	-	-	1,134	1,581
Future income tax benefit related to prudential general reserve for credit losses	-	-	(340)	(474)
Asset revaluation reserve ⁽³⁾	88	81	81	83
Upper Tier Two note and bond issues	196	203	203	191
Other	57	45	45	34
Total Upper Tier Two Capital	1,700	1,921	1,123	1,415
Lower Tier Two Capital				
Lower Tier Two note and bond issues ^{(4) (5)}	6,977	7,532	7,532	6,922
Holding of own Lower Tier Two Capital	(40)	(45)	(45)	(46)
Transitional Tier Two capital relief on adoption of AIFRS ⁽⁶⁾	-	-	74	74
Total Lower Tier Two capital	6,937	7,487	7,561	6,950
Tier Two Capital Deductions				
50% Deductions from Tier Two Capital ⁽⁷⁾	(1,624)	(1,650)	-	-
Total Tier Two Capital	7,013	7,758	8,684	8,365
Total Tier One and Tier Two Capital	23,804	23,954	28,893	25,877
Total Capital Deductions ⁽⁸⁾				
Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier One Capital):	-	-	(592)	(409)
Value of acquired inforce business ⁽⁹⁾	-	-	(1,339)	(1,339)
Other deductions	-	-	(189)	(178)
Total Capital	23,804	23,954	26,773	23,951

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

(2) Prudential General Reserve for Credit Losses is not eligible for inclusion in Upper Tier Two Capital under Basel II.

(3) APRA allows only 45% of the 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) APRA has granted transitional relief for Tier One and Two Capital on adoption of AIFRS, which expired 1 January 2008.

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

(8) Total Capital deductions revert to a 50% Tier One and 50% Tier Two deduction under Basel II regulations.

(9) Value of acquired inforce business transferred to goodwill upon adoption of AIFRS. The deduction as at 30 June 2008 is now reflected in the goodwill deduction in Tier One Capital.

Capital Management

Capital Adequacy (continued)

	Group			
	Basel II 30/06/08	Basel II 31/12/07	Basel I 31/12/07	Basel I 30/06/07
	\$M	\$M	\$M	\$M
Risk Weighted Assets ⁽¹⁾				
Credit Risk				
Sovereign	1,802	1,380		
Banks	5,292	3,780		
Corporate ⁽²⁾	45,635	40,855		
SME Corporate ⁽³⁾	31,478	31,529		
Residential Mortgages ⁽⁴⁾	39,128	34,693		
Qualifying Revolving Retail	6,070	5,587		
SME Retail ⁽⁵⁾	4,318	5,920		
Other Retail	5,274	4,623		
Equity Portfolio	293	204		
Trading book repos and other derivatives ⁽⁶⁾	-	4,851		
Specialised lending subject to the slotting approach ⁽⁷⁾	21,053	22,760		
Securitisation ⁽⁸⁾	3,536	2,554		
Other Assets ⁽⁹⁾	9,229	5,968		
Portfolios subject to Standardised Approach	5,992	7,605		
Impact of regulatory scaling factor ⁽¹⁰⁾	8,340	9,527		
Total Credit Risk	187,440	181,836	268,235	241,224
Market Risk - Traded	4,501	4,374	4,374	4,123
Operational Risk	13,560	12,018		
Total risk weighted assets ⁽¹¹⁾	205,501	198,228	272,609	245,347

(1) Risk Weighted Assets for 30 June 2008 are calculated in accordance with the Group's advanced accreditation under Basel II. Risk Weighted Assets under Basel II are disclosed for 31 December 2007 for the purposes of comparison and align to the "Parallel Run" return provided to APRA at that date. Risk Weighted Assets calculated under Basel I methodology for 31 December 2007 and 30 June 2007 are shown for information purposes.

(2) Corporate includes commercial credit risk where annual revenues exceed \$50 million.

(3) SME Corporate includes small and medium enterprise commercial credit risk where annual revenues are less than \$50 million and exposures are greater than \$1 million.

(4) Residential Mortgages include retail and small and medium enterprise exposures up to \$1 million that are secured by residential mortgage property.

(5) SME Retail includes small and medium enterprise exposures up to \$1 million that are not secured by residential mortgage property.

(6) Trading Book repos and derivatives were separately identified in the calculation of RWA during the Basel II "Parallel Run" period. From, 1 January 2008, these exposures are now reported in asset classes including Sovereign, Banks and Corporate.

(7) Specialised lending subject to the slotting approach includes Income Producing Real Estate and Project Finance.

(8) Securitisation includes Bank-originated securitised exposures and the provision of facilities to customers in relation to securitisation activities.

(9) Other Assets includes Cash, Investments in Related Entities, Fixed Assets and Margin Lending.

(10) Risk Weighted Assets which are calculated in accordance with APRA's approval for advanced accreditation under Basel II, are required to apply a scaling factor of 1.06 to assets that are not subject to specific risk weights. The 31 December 2007 comparative includes scaling impact of \$1,531 million applied to Specialised Lending, Securitisation and Equity Portfolio that was included in the "Parallel Run" calculations of RWA provided to APRA at that date for those credit risk types. This is no longer applicable to these asset classes.

(11) The transitional capital floors prescribed in APRA Prudential Standard APS 150 "Capital Adequacy: Basel II Transition" did not impact on the Group's Risk Weighted Assets as at 30 June 2008 or 31 December 2007. Risk Weighted Assets equivalent for Interest Rate Risk in the Banking Book is not included in this table as it is not effective until 1 July 2008.

Capital Management

Capital Adequacy (continued)

	Basel II 30/06/2008 \$M	Basel II 31/12/2007 \$M	Basel I 31/12/2007 \$M	Group Basel I 30/06/2007 \$M
Adjusted Common Equity ⁽¹⁾				
Total Fundamental Tier One capital				
Deduct:	23,807	23,590	24,095	22,224
Goodwill	(8,010)	(8,030)	(8,030)	(7,632)
Capitalised expenses	(110)	(100)	(100)	(136)
Capitalised computer software costs	(353)	(316)	(316)	(297)
Defined benefit superannuation plan surplus	(1,075)	(1,314)	(1,314)	(1,270)
Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier One Capital) ⁽²⁾	(752)	(592)	(592)	(409)
Other deductions ⁽³⁾	(200)	(189)	(189)	(178)
Minority interest ⁽⁴⁾	(13)	(6)	(511)	(512)
Total Adjusted Common Equity	13,294	13,043	13,043	11,790
Total risk-weighted assets ⁽⁵⁾	205,501	198,228	273,478	246,047

(1) Adjusted Common Equity ("ACE") is one measure considered by Standard & Poor's in evaluating the Bank's credit rating. The ACE ratio for June 2008 has been calculated using the ACE numerator as a percentage of Basel II RWA with a comparison for December 2007.

(2) Investment in non-consolidated subsidiaries of \$752 million comprises \$376 million deduction from both Tier One and Tier Two Capital.

(3) Other deductions of \$200 million comprises \$100 million deduction from both Tier One and Tier Two Capital.

(4) Represents minority interest balance net of preference shares transferred to innovative capital of \$505 million.

(5) In calculating Basel I risk weighted assets in accordance with Standard and Poor's agreed methodology, the equity investment in other companies (December 2007: \$0.9 billion and June 2007: \$0.7 billion) was required to be added to risk weighted assets as this amount is not deducted from ACE Capital.

Description of Business Environment

Australia

Financial Services

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

Banking

The Australian banking sector performed strongly in the 1990s and early this millennium, largely driven by strong growth in lending. More recently, however, there has been some slowing of credit growth and more active management of credit by consumers. Together with an increase in the activities of new entrants, this has led to intensifying competition and to downward pressure on margins. Over the last six months, the volatility in global credit markets has impacted all institutions negatively.

The major banks, which offer a full range of financial products and services through branch networks, call centres, the internet, ATMs and third party intermediaries across Australia, have responded to the increased competition by improving efficiency and by an increased focus on customer service. This has resulted in increased customer satisfaction scores across the industry.

The regional banks, whilst smaller than the majors, mostly now operate across state borders. They have experienced strong growth in targeted product segments (especially mortgages) facilitated by an increased acceptance by customers of third party brokers. At the present time it is unclear how this will develop given the higher funding costs incurred and current uncertainties in financial markets.

Funds Management

Substantial growth continues in funds management, especially within the superannuation (pension funds) segment although the downturn in equity markets will impact returns and probably also inflows. The simplification of superannuation legislation including the removal of taxes on end benefits for over sixties is expected to support continuing growth in superannuation investment and self managed superannuation.

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

Over the last decade, the corporate bond market in Australia has benefited from the growth in funds under management with many of the major Australian corporates now directly accessing capital markets domestically and around the world.

Insurance

Solid growth in the sector is expected to continue given the current levels of underinsurance and beneficial treatment of life insurance inside superannuation. Growing debt levels of households will increase the importance of life insurance and other wealth protection products.

The general insurance market is mature, diversified and highly competitive. Margin pressure and other competitive activity will necessitate targeted growth strategies.

New Zealand

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

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

Long-term trends that impact Financial Services

Long-term trends that impact financial services providers in Australia and New Zealand include: increasing consumer power as a result of electronic delivery channels; industry consolidation; an ageing population impacting retirement savings and the provision of retirement solutions placing pressure on labour supply.

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.

Since July 1998, the main financial services regulators in Australia have comprised five separate agencies: The Reserve Bank of Australia, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Australian Transaction Reports and Analysis Centre and the Australian Competition and Consumer Commission. Each agency has system-wide responsibilities for the different objectives of government oversight of the financial system. A description of these agencies and their general responsibilities and functions is set out below.

Reserve Bank of Australia ("RBA") is responsible for monetary policy, financial system stability and regulation of the payments system.

The 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 to protect consumers, investors and creditors, including the Corporations Act 2001. The Corporations Act 2001 provides for a single licensing regime for sales, advice and dealings in financial products and services, consistent and comparable financial product disclosure and a single authorisation procedure for financial exchanges and clearing and settlement facilities. The current financial services regulatory framework is intended to facilitate innovation and promote business while at the same time ensuring consumer protection and market integrity.

Description of Business Environment

The Australian Transaction Reports and Analysis Centre ("AUSTRAC") has responsibility for overseeing compliance with the Anti-Money Laundering and Counter Terrorism Financing Act (being phased in between December 2006 and December 2008) and the Financial Transaction Reports Act 1998. 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.

Supervisory Arrangements

The Bank is an Authorised Deposit-taking Institution ("ADI") under the Banking Act and is 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 banks by a system of off-site examination. It closely monitors the operations of banks through the collection of regular statistical returns and regular prudential consultations with each bank's management. APRA also conducts a program of specialised on-site visits to assess the adequacy of individual banks' systems for identifying, measuring and controlling risks associated with the conduct of these activities.

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

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

(i) Capital Adequacy

APRA approved the Group's application to use the advanced internal ratings-based approach to credit risk and the advanced measurement approach to operational risk for the purposes of calculating capital requirements under the Basel II Framework in December 2007.

(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 ("RTGS") obligations, AUD Certificates of Deposit/Bills of other banks and AUD overnight interbank loans) and other highly liquid market securities. More detailed comments on the Group's liquidity and funding risks are provided in Note 42 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 Bank's large exposures refer to Note 15 to the Financial Statements.

(iv) Ownership and Control

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

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

(v) Banks' Association With Non-Banks

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

(vi) Fit & Proper and Governance

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

Description of Business Environment

(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.

General insurance companies are subject to prudential standards including capital adequacy, liability valuation, risk management and reinsurance arrangements. Compliance with APRA regulation for general insurance companies is monitored through regular returns, lodgement of an audited annual return, and Auditor certification covering prudential matters.

The financial condition of life insurance companies is monitored through regular financial reporting, lodgement of audited accounts, the preparation of a financial conditions report (prepared by the company's approved actuary) and supervisory inspections.

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

Critical Accounting Policies and Estimates

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

Critical accounting policies and estimates are set out in Note 1 (mm) to the Financial Statements.

Sustainability

Sustainability Initiatives

Sustainability initiatives are an integral part of delivering the Group's strategic priorities and creating value for shareholders.

During the 2008 financial year the Group implemented and further developed a number of initiatives designed to:

- Deliver cost savings through eco-efficiency;
- Create an organisational culture that supports customer service excellence;
- Manage risks and identify new commercial opportunities associated with climate change and carbon trading;
- Build stronger relationships with the community; and
- Create a workplace that attracts and retains the best people.

These activities are part of being a well-managed organisation that delivers long-term shareholder value.

The Group is committed to consistently reporting a comprehensive set of sustainability metrics to Shareholders. Measuring and publicly reporting these indicators is an important part of driving performance improvement, and we are continually working to improve our sustainability data and processes.

More information about the Group's sustainability objectives and achievements can be found at

www.commbank.com.au/sustainability

Environment

Reporting and disclosure

The Group has been measuring and voluntarily disclosing its energy use and greenhouse emissions since 2001, as part of the Greenhouse Challenge Plus program. Participation in this program has driven a range of energy efficiency initiatives across the Group.

The Group is subject to the Federal Government's Energy Efficiency Opportunity Act as its operations exceed the minimum energy consumption threshold set by the Act. The Group currently undertakes energy assessments for its offices and branches. A report on the Group's progress in complying with the Act will be available on the Group's Internet site www.commbank.com.au in December 2008.

The Group is also subject to the National Greenhouse and Energy Reporting Scheme (NGERS). As a result of a long history of voluntary reporting, the Group is well placed to meet the NGERS' mandatory requirements, and is currently revising its data capture and reporting systems to comply with the new legislation.

During 2008 the Group voluntarily reported its greenhouse gas emissions to the Carbon Disclosure Project, an independent not-for-profit organisation that seeks climate-related information from the world's largest companies on behalf of institutional investors.

This was an opportunity to examine more closely the risks and opportunities associated with climate change and to contribute to the international dialogue on disclosure of greenhouse gas emissions.

Managing greenhouse gas emissions

The Group occupies over 750,000 square metres of office and retail space across Australia, and is committed to reducing the environmental impact of these properties.

The Group's gross greenhouse gas emissions have increased since 2004 due to the size of the Group's property portfolio increasing over the period. During the year the Group commenced a major restructuring of its commercial property portfolio, with new premises being opened at Sydney Olympic Park and major refurbishments at Parramatta. Energy use is higher during this transition period as both old and new properties are being run concurrently and fuel use has increased due to growth in the business.

To address greenhouse gas emissions, the Group has an ongoing program of refurbishing and upgrading its retail branch network to deliver significant improvements to lighting and air-conditioning energy efficiency.

The Group is progressively upgrading its office accommodation which includes new modern office premises at Sydney Olympic Park, the Sydney CBD and Parramatta. These new and upgraded premises will accommodate up to 15,000 people. Environmental performance has been a key consideration for these new buildings.

The ongoing nature of the Group's energy efficiency measures is demonstrated by the fact that greenhouse gas emissions fell by 16 percent per square metre of floor space between 2002 and 2007 ⁽¹⁾.

Financial Year	2008 ⁽²⁾	2007	2006	2005	2004
Greenhouse gas emissions					
Total equivalent tonnes of carbon dioxide (CO2-e) ^{(3) (4) (5)}	171,738	163,509	165,935	149,781	159,823
CO2-e emissions per Full Time Equivalent staff (tonnes) ⁽⁶⁾	5.6	5.5	5.6	5.2	n/a
Energy use					
Total (GJ) ⁽⁷⁾	734,386	687,839	675,307	608,661	638,819
Total per FTE (GJ) ⁽⁶⁾	23.87	22.94	22.79	21.28	n/a

(1) This figure varies slightly from that reported in the Group's April 2008 Sustainability Update due to improved accuracy in calculation methodology.

(2) Due to the electricity billing cycle, 18% of 2007-2008 electricity data was estimated to meet publication deadlines. Final data will be provided on the Group's Internet site when available.

(3) Total CO2-e emissions consist of emissions relating to consumption of electricity, gas and transport fuel (gasoline and diesel) for domestic retail and commercial properties and waste (i.e. general waste, which is collected from a number of Group occupied properties).

(4) For all years CO2-e calculations used the Australian Greenhouse Office (AGO) Workbook conversion factors.

(5) CO2-e figures previously reported under Greenhouse Challenge Plus have been restated to reflect full fuel cycle emissions for transport fuels.

(6) Full Time Equivalent (FTE) includes only domestic permanent and contractor employees. Offshore employees are excluded.

(7) Total energy use consists of consumption of electricity, gas and transport fuel (gasoline and diesel). Gas and electricity consumption includes all domestic retail and commercial occupied properties, both owned and leased, excluding residential and properties where electricity is on-sold. Transport fuel includes gasoline and diesel fuel purchased for both Group fleet and novated leased vehicles.

People

Trust and team spirit is one of the Group's key strategic priorities. The Group recognises the importance of attracting, retaining and developing good quality people in achieving its vision of becoming Australia's finest financial services organisation through excelling in customer service.

The Group has recorded a continual improvement in the workplace survey results over the last five years and is now ranked in the top quartile worldwide (source: Gallup).

The Group has put in place many initiatives to address the turnover and absenteeism rates amongst its staff, which have increased during the year, as a result of the tightening labour market. One key initiative is an increased focus on leadership and talent management. In 2008 the Group launched its Leadership Capabilities framework that defines the skills, knowledge and behaviours that leaders need for the Group to achieve its vision and objectives. The Group is supporting the development of these capabilities in its people through the programs offered in its Leadership Curriculum.

Financial Year	2008	2007	2006	2005	2004
Employee satisfaction					
Gallup Survey GrandMean ⁽¹⁾	4.28	4.13	4.15	4.08	3.94
Employee turnover (voluntary) % ⁽²⁾	18.45	14.94	15.94	n/a	n/a
Absenteeism					
Average days per FTE ⁽³⁾	6.5 ⁽⁴⁾	6.2	6.0	n/a	n/a
Safety					
Lost Time Injury Frequency Rate (LTIFR) ⁽⁵⁾	2.5	3.6	4.5	5.8	5.6

(1) The Gallup Survey GrandMean measures employee engagement out of a possible score of 5.

(2) Employee turnover refers to all voluntary exits of domestic permanent employees.

(3) Absenteeism refers to sick leave of domestic, permanent employees only (since January 2005).

(4) 2007-2008 figure is annualised figure as at 31 May 2008.

(5) LTIFR refers to domestic, permanent employees only. Data is correct as of 30 June 2008; however it may be adjusted in future due to post-publication reporting of incidents or acceptance/decline of claims for the reporting period. This measure represents the number of working hours lost per million hours worked.

Diversity

The Group is committed to creating and maintaining a diverse workforce. Through diversity the Group recognises and values the varied perspectives, skills and approaches its people bring to work.

In 2006 the Group established a Diversity Council, chaired by the CEO. The Council has adopted five areas of focus:

- Leveraging the skills and talents of the female workforce to build a leadership pipeline that increases the number of women in senior leadership positions;
- Creating a framework and culture that enables employees to better balance their work and personal circumstances through flexible work arrangements;
- Attracting and retaining mature-age employees;
- Enhancing understanding and acceptance of employees and customers from culturally diverse backgrounds; and
- Improving the work environment and opportunities for current and future employees with disabilities.

Over 20 per cent of employees work part-time with many more taking advantage of other flexible work arrangements such as working from home or adjusting their work hours.

The Group is recognised as an Employer of Choice for Women by the Federal Government's Equal Opportunity for Women in the Workplace Agency, a status it has maintained since the award's inception in 2001. Almost 65 per cent of the domestic workforce is female. The Group holds women's forums where senior female managers can develop career skills and network with one another in an informal environment.

One key diversity initiative is the Group's partnership with the Aboriginal Employment Strategy. In the year to June 2008 the Group provided 60 Year 11 and 12 Indigenous students with valuable experience in the Group's retail banking network. This program is credited towards their Higher School Certificate qualifications and can help them gain permanent employment with the Group.

Safety

The Group is strongly committed to the health, safety and well-being of its people.

This commitment is demonstrated through a range of safety awareness and management activities, which has contributed to a steady improvement in the Group's Lost Time Injury Frequency Rate (LTIFR) over recent years.

Central to the Group's activities is the continued development and improvement of its Occupational Health and Safety (OHS) Management System. A major change during the year was consolidation of most of the Group's OHS and Workers Compensation arrangements from State based jurisdictions to the Federal Comcare scheme. This has allowed the Group to simplify OHS compliance documentation and processes, in order to focus on continuously improving the OHS Management System and performance.

The Group regularly undertakes both internal and external audits of its OHS Management System to measure its performance and ensure that the Group complies with all relevant legislation in the jurisdictions that it operates.

Sustainability

Customers

The Group's Main Financial Institution (MFI) retail customer satisfaction levels reached a 10-year⁽¹⁾ high during the year and business customer satisfaction levels also showed significant improvements. All major banks have experienced a decline in MFI customer satisfaction, as measured by Roy Morgan Research, during the six months to June 2008, reflecting a weakening overall in customer sentiment towards the sector. CBA experienced the smallest such decline of all the major banks over this period.

Colonial First State's FirstChoice product platform achieved the number one ranking for advisers' overall satisfaction in the Wealth Insights MasterTrust survey.

The Group's focus on sales and service is reflected in the achievement of a number of awards, including Money Magazine's Bank of the Year for 2008 and the Group's retail branch strategy being awarded "Best Branch Strategy" at the 2008 International Retail Banking awards.

More information about customer service initiatives is available on page 62.

Customer Satisfaction Rating

	Retail ⁽¹⁾	Business ⁽²⁾	Wealth ⁽³⁾
2008	70.1%	73.9%	7.70
2007	70.5%	60.7%	7.96
2006	64.9%	56.5%	7.51
2005	65.4%	55.5%	7.85
2004	63.2%	54.0%	7.86

(1) Roy Morgan Research MFI Customer Satisfaction is based on Australians aged 14+, Very or Fairly Satisfied, a 6 month moving average. The period reported is for 1 January to 30 June for each year.

(2) TNS Business Finance Monitor. All businesses with annual turnover to \$100 million (excluding agribusinesses). Very or Fairly Satisfied a 12 month moving average. The period reported is for 1 July to 30 June for each year.

(3) Source: Colonial FirstChoice rated by advisors in Wealth Insights Master Trust/Wrap survey.

Responsible investment

As part of the Group's Wealth Management business, Colonial First State Global Asset Management became a signatory to the UN Principles for Responsible Investment (PRI) on 1 March 2007, to better align investment practices with the interests of the Group's institutional investors globally.

Since becoming a signatory, Colonial First State Global Asset Management has established comprehensive internal governance structures to assist with the implementation of the PRI across all investment teams and to drive the continuous improvement of responsible investment practices. Ultimately, the business believes this will lead to the delivery of improved risk-adjusted returns for clients.

This governance structure includes an executive-driven Responsible Investment Steering Committee, with underlying investment committees for listed investments and direct assets. As a result, the risk assessment of environmental, social and governance factors has become a fundamental part of investment processes across all asset classes and regions.

Colonial First State Global Asset Management has also updated its corporate governance policy to include environmental and social engagement factors.

Contributing to the community

The Group has been an active part of Australian communities for almost 100 years. This long-term commitment is reflected in a number of ongoing community partnerships and sponsorship programs in the areas of health, the arts, sport, social welfare and financial literacy. Financial literacy is one of the Group's major areas of focus in the community, reflecting the importance of financial literacy education in ensuring a secure and financially stable Australia.

The Commonwealth Bank Foundation financial literacy program involved over 30,000 teenagers and teachers in 2007 through StartSmart education forums and workshops.

The Group encourages its people to engage with their local communities and participate in volunteering activities including St Vincent de Paul Night Patrol and Midnight Basketball. Staff make regular contributions to the Staff Community Fund and undertake fundraising activities. In 2008 over \$750,000 was raised for the Fund, to support the health and wellbeing of Australian children through the Local Grants Program, the Humour Foundation and Midnight Basketball.

The Group is currently developing the capability to capture and report on all community contributions and staff volunteering hours.

Reconciliation Action Plan

The Group launched its Reconciliation Action Plan on 24 July 2008, in partnership with Reconciliation Australia. The Group recognises that a comprehensive reconciliation program is an important part of its investment in the community. In the Reconciliation Action Plan (RAP), the Group has formalised its commitment to Indigenous Australians and identified how reconciliation can advance the Group's objectives and vision.

The implementation of the RAP will enhance the involvement, inclusion and progression of Indigenous Australians within the Group and build capability in meeting the needs of Indigenous customers and staff. The Group will also investigate ways to support Indigenous Enterprise and the Commonwealth Bank Foundation will continue to provide financial literacy education to both Indigenous adults and young people.

Future Developments

The Group has identified five priority areas for sustainability that it plans to focus on in the coming year:

- Embedding sustainability into business processes, which includes an increased incorporation of environmental and social issues into management and decision making processes;
- Supporting diversity and financial wellbeing in the community by continuing the focus on financial literacy, and an increased focus on educational and employment opportunities for Indigenous Australians as part of the Reconciliation Action Plan;
- Helping customers to meet their sustainability goals by developing products and services to meet their evolving needs;
- Creating greener workplaces by setting a greenhouse gas reduction target, as well as addressing measurement and reporting of water and waste data; and
- Continuing to build a culture of customer service excellence, with a focus on leadership, recruitment and reward to ensure culture is aligned with the Group's goal of being Australia's finest financial services organisation.

Corporate Governance

Introduction

This statement reflects the key aspects of the Commonwealth Bank's corporate governance framework. The Board has consistently placed great importance on the governance of the Group, which it believes is vital to the well-being of the corporation. The Board has adopted a comprehensive framework of Corporate Governance Guidelines which are designed to properly balance performance and conformance and thereby allow the Group to undertake, in an effective manner, the prudent risk-taking activities which are the basis of its business. The Guidelines and the practices of the Group comply with the revised 'Corporate Governance Principles and Recommendations' published in August 2007 by the Australian Securities Exchange (ASX) Limited's Corporate Governance Council.

Charter

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

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

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

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

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

Composition

There are currently 11 Directors of the Bank and details of their experience, qualifications, special responsibilities and attendance at meetings are set out in the Directors' Report.

Membership of the Board and Committees is set out below:

Director	Board Membership	Position Title	Committee Membership			
			Board Performance & Renewal	People & Remuneration	Audit	Risk
J M Schubert	Non-Executive, independent	Chairman	Chairman	Member		
R J Norris	Executive	Chief Executive Officer				Member
J A Anderson	Non-Executive, independent					Member
R J Clairs	Non-Executive, independent			Chairman		
C R Galbraith	Non-Executive, independent		Member		Member	
J S Hemstritch	Non-Executive, independent			Member		Member
S C H Kay	Non-Executive, independent			Member	Member	
F D Ryan	Non-Executive, independent				Chairman	Member
D Turner	Non-Executive, independent		Member			Member
H H Young	Non-Executive, independent				Member	Chairman
A M Mohl ⁽¹⁾	Non-Executive, independent			Member		
W G Kent ⁽²⁾	Non-Executive, independent					
F J Swan ⁽²⁾	Non-Executive, independent					

(1) Mr Mohl was appointed to the Board with effect from 1 July 2008. In accordance with the Bank's constitution and the ASX Listing Rules, he will stand for election at the Annual General meeting to be held on 13 November 2008.

(2) Mr Kent and Mr Swan retired at the Annual General Meeting on 7 November 2007.

Corporate Governance

Constitution

The Constitution of the Bank specifies that:

- The Chief Executive Officer and any other executive Director shall not be eligible to stand for election as Chairman of the Bank;
- The number of Directors shall not be less than nine nor more than 13 (or such lower number as the Board may from time to time determine). The Board has determined that the number of directors shall be 11; and
- At each Annual General Meeting one third of Directors (other than the Chief Executive Officer) shall retire from office and may stand for re-election.

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

Independence

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

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

Each Director may from time to time have personal dealings with the Group. Each Director is involved with other companies or professional firms which may from time to time have dealings with the Group. Details of offices held by Directors with other organisations are set out in the Directors' Report and on the Group's website. Full details of related party dealings are set out in notes to the 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, noting that those dealings are not material under accounting standards;
- That no Director is, or has been associated directly with, a substantial shareholder of the Bank;

- That no Non-Executive Director has ever been employed by the Bank or any of its subsidiaries;
- That no Director is, or has been associated with, a supplier, professional adviser, consultant to or customer of the Group which is material under accounting standards; and
- That no Non-Executive Director personally carries on any role for the Group other than as a Director of the Bank.

The Group does not consider that term of service on the Board is a factor affecting a Director's ability to act in the best interests of the Group. Independence is judged against the ability, integrity and willingness of the Director to act. The Board has established a policy limiting Directors' tenures to ensure that skill sets remain appropriate in a dynamic industry.

Education

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

Review

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

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

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

Selection of Directors

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

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

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

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

Candidates for appointment as Directors are considered by the Board Performance and Renewal Committee, recommended for decision by the Board and, if appointed, stand for election, in accordance with the Constitution, at the next general meeting of shareholders.

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

Policies

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

- The Board will consist of a majority of independent Non-Executive Directors and the membership of the Board Performance and Renewal, People & Remuneration and Audit Committees should consist solely of independent Non-Executive Directors. The Risk Committee should consist of a majority of independent Non-Executive Directors;
- The Chairman will be an independent Non-Executive Director. The Audit Committee will be chaired by an independent Non-Executive Director other than the Board Chairman;

- The Board will meet regularly with an agenda designed to provide adequate information about the affairs of the Group, allow the Board to guide and monitor management and assist in involvement in discussions and decisions on strategy. Matters having strategic implications are given priority on the agenda for regular Board meetings. In addition, ongoing strategy is the major focus of at least two of the Board meetings annually;
- The Board has an agreed policy on the basis on which Directors are entitled to obtain access to Company documents and information and to meet with management; and
- The Group has in place a procedure whereby, after appropriate consultation, Directors are entitled to seek independent professional advice, at the expense of the Group, to assist them to carry out their duties as Directors. The policy of the Group provides that any such advice is generally made available to all Directors.

Ethical Standards

Conflicts of Interest

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

Share Trading

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

The guidelines provide, that in addition to the requirement that Directors not deal in the securities of the Group or any related Company when they have or may be perceived as having relevant unpublished price-sensitive information, Directors are only permitted to deal within certain periods. These periods include between three and 30 days after the announcement of half yearly and final results and from the date of the Annual General Meeting until 14 days after the Annual General Meeting. Further, the guidelines require that Directors not deal on the basis of considerations of a short term nature or to the extent of trading in those securities. Similar restrictions apply to executives of the Group.

In addition, Group policy prohibits:

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

Corporate Governance

Remuneration Arrangements

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

Audit Arrangements

Audit Committee

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

- The Audit Committee consists entirely of independent Non-Executive Directors, all of whom are financially literate and at least one has expertise in financial accounting and reporting. The Chairman of the Risk Committee is also a member of the Audit Committee. The Chairman of the Bank is not permitted to be the Chairman of the Audit Committee;
- At least twice a year the Audit Committee meets the external Auditors and the chief internal audit executive;
- The Audit Committee is responsible for nominating the external Auditor to the Board for appointment by shareholders. The Audit Committee approves the terms of the contract with the external Auditor, agrees the annual audit plan and approves payments to the Auditor;
- The Audit Committee discusses audit issues and receives periodic reports from the external Auditors on the quality of the Group's systems, its accounting processes and its financial results. It also receives a report from the Auditors on any significant matters raised by the Auditors with management;
- All material accounting matters requiring exercise of judgement by management are specifically reviewed by the Audit Committee and reported on by the Committee to the Board; and
- Certified assurances are received by the Audit Committee and the Board that the Auditors meet the independence requirements as recommended by the Corporations Act and the Securities and Exchange Commission ("SEC") of the USA.

In carrying out these functions, the Committee:

- Reviews the Financial Statements and reports of the Group;
- Reviews accounting policies to ensure compliance with current laws, relevant regulations and accounting standards;
- Conducts any investigations relating to financial matters, records, accounts and reports which it considers appropriate; and
- Reviews all material matters requiring exercise of judgment by management and reports those matters to the Board.

The Committee regularly considers, in the absence of management and the external Auditor, the quality of the information received by the Committee and, in considering the Financial Statements, discusses with management and the external Auditor:

- The Financial Statements and their conformity with accounting standards, other mandatory reporting and statutory requirements; and
- The quality of the accounting policies applied and any other significant judgments made.

The external audit partner attends Audit Committee and Board meetings by invitation, which is normally all Audit Committee meetings and the Board meetings when the annual and half yearly accounts are approved and signed.

The Committee, at least twice a year, meets separately with each of the chief internal audit executive and the external Auditor, without management, as part of the process of ensuring independence of the audit functions.

The Audit Committee is responsible for oversight of management in the preparation of the Group's Financial Statements and financial disclosures. The Audit Committee relies on the information provided by management and considers matters raised by the external auditor. The Audit Committee does not have the duty to plan or conduct audits to determine whether the Group's Financial Statements and disclosures are complete and accurate.

Non-Audit Services

The Board has in place an External Auditor Services Policy which requires the Audit Committee (or its delegate) to approve all audit and non-audit services before engaging the Auditors. The policy also prohibits the Auditors from providing certain services to the Group or its affiliates. The objective of this policy is to avoid prejudicing the independence of the Auditors.

The policy is designed to ensure that the Auditors do not:

- Assume the role of management or act as an employee;
- Become an advocate for the Group;
- Audit their own work;
- Create a mutual or conflicting interest between the Auditor and the Group;
- Require an indemnification from the Group to the Auditor;
- Seek contingency fees; nor
- Have a direct financial or business interest or a material indirect financial or business interest in the Group or any of its affiliates, or an employment relationship with the Group or any of its affiliates.

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

- Bookkeeping or other services relating to accounting records or Financial Statements of the Group;
- Financial information systems design and implementation;
- Appraisal or valuation services (other than certain tax only valuation services) and fairness opinions;
- Actuarial services when approved in accordance with independence guidelines;
- Internal audit outsourcing services;
- Management functions, including acting as an employee and secondment arrangements;
- Human resources;
- Broker-dealer, investment adviser or investment banking services;
- Legal services; or
- Expert services for the purpose of advocating the interests of the Group.

In general terms, the permitted services are:

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

Auditor

PricewaterhouseCoopers was appointed as the Auditor of the Bank at the 2007 Annual General Meeting, effective from the beginning of the 2008 financial year.

The audit partner from PricewaterhouseCoopers will attend the 2008 Annual General Meeting of the Bank and will be available to respond to shareholder audit-related questions.

The Group currently requires that the partner managing the audit for the external Auditor be changed after a period of no longer than five years.

The Chief Executive Officer is authorised to appoint and remove the chief internal audit executive only after consultation with the Audit Committee.

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

Corporate Governance

Risk Management

Risk Committee

The Risk Committee oversees credit, market (traded and non-traded), funding and liquidity, operational and strategic business, business continuity, compliance and security risks assumed by the Group in the course of carrying on its business. A primary action is to construct the Group's risk appetite for consideration by the Board in its role of oversight of the Internal Capital Adequacy Assessment Process, which is updated on at least an annual basis.

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

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

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

The Committee oversees risk management of compliance risk through the Group's Compliance Risk Management Framework, which provides for assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness, and the escalation, remediation and reporting of compliance incidents and control weaknesses.

The Committee meets, at least seven times each year and at least annually with the Group Chief Risk Officer, in the absence of other management to allow the Committee to form a view on the independence of the function.

Framework

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

A full description of the functions of the framework and the nature of the risks is set out in the section of the Annual Report entitled Integrated Risk Management and in Notes 15 and 42 to the Financial Statements.

Board Performance and Renewal Committee

The Board Performance and Renewal Committee critically reviews, at least annually, the corporate governance procedures of the Group and the composition and effectiveness of the Commonwealth Bank of Australia Board and the Boards of the major wholly owned subsidiaries. The policy of the Board is that the Committee shall consist solely of independent Non-Executive Directors. The Chief Executive Officer attends the meeting by invitation.

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

Continuous Disclosure

The Corporations Act 2001 and the ASX Listing Rules require that a Company discloses to the market matters which could be expected to have a material effect on the price or value of the Company's securities. The Group's "Guidelines for Communication between the Bank and shareholders" sets out the processes to ensure that shareholders and the market are provided with full and timely information about the Group's activities in compliance with continuous disclosure requirements. Management procedures are in place throughout the Commonwealth Bank Group to ensure that all material matters which may potentially require disclosure are promptly reported to the Chief Executive Officer, through established reporting lines, or as a part of the deliberations of the Group's Executive Committee. Matters reported are assessed and, where required by the Listing Rules, advised to the market. A Disclosure Committee has been formed to provide advice on the requirements for disclosure of information to the market. The Company Secretary is responsible for communications with the ASX and for ensuring that such information is not released to any person until the ASX has confirmed its release to the market.

Ethical Policies

The Group's objective is to create long term value for its shareholders through providing financial services to its customers and producing sustained best-in-industry performance in safety, community, reputation and environmental impact.

The Group's vision is to be Australia's finest financial services organisation through excelling in customer service.

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

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

Statement of Professional Practice

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

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

These standards are regularly communicated to staff. In addition, the Group has established insider trading guidelines for staff to ensure that unpublished price-sensitive information about the Group or any other Company is not used in an illegal manner or so that inside information could be used for personal advantage.

Our People

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

There are various policies and systems in place to enable achievement of these goals, including:

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

Behaviour Issues

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

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

Code of Conduct

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

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

The Board's policies and codes include detailed provisions dealing with:

- The interface between the Board and management to ensure there is effective communications of the Board's views and decisions resulting in motivation and focus towards long term shareholder value behaviours and outcomes;
- Disclosure of relevant personal interests so that potential situations of conflict of interest can be identified and appropriate action undertaken to avoid compromising the independence of the Board; and
- Securities dealings in compliance with the Group's strict guidelines and in accordance with the values of honesty and integrity.

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 2008.

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 has declared an interest.

John M Schubert, Chairman

Dr Schubert has been a member of the Board since 1991 and Chairman since November 2004. He is Chairman of the Board Performance & Renewal Committee and a member of the People & Remuneration Committee. He holds a Bachelor's Degree and PhD in Chemical Engineering and has executive experience in the petroleum, mining and building materials industries. Dr Schubert is the former Managing Director and Chief Executive Officer of Pioneer International Limited and the former Chairman and Managing Director of Esso Australia Ltd.

Chairman: G2 Therapies Limited, Great Barrier Reef Foundation.

Director: BHP Billiton Limited, BHP Billiton Plc and Qantas Airways Limited.

Other Interests: Academy of Technological Science and Engineering (Fellow), Institute of Engineers (Fellow) and Honorary Member & Past President, Business Council of Australia.

Dr Schubert is a resident of New South Wales. Age 65.

Ralph J Norris, DCNZM, Managing Director and Chief Executive Officer

Mr Norris was appointed as Managing Director and Chief Executive Officer with effect from September 2005. Mr Norris had been Chief Executive Officer and Managing Director of Air New Zealand since 2002 and had 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.

Other Interests: New Zealand Institute of Management (Fellow) and New Zealand Computer Society (Fellow).

Mr Norris is a resident of New South Wales. Age 59.

Sir John A Anderson, KBE

Sir John joined the Board on 12 March 2007. He is a member of the Risk Committee. Sir John is a highly respected business and community leader, having held many senior positions in New Zealand finance including Chief Executive 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 Cricket Inc., Capital and Coast District Health Board, New Zealand Venture Investment Fund and New Zealand Meat Industry Taskforce.

Director: International Cricket Council

Other Interests: Institute of Financial Professionals New Zealand (Fellow), Institute of Directors (Fellow), New Zealand Society of Accountants (Fellow), Australian Institute Banking and Finance (Life Member) and Hawkes Bay District Health Board (Commissioner).

Sir John is a resident of Wellington, New Zealand. Age 61.

Reg J Clairs, AO

Mr Clairs has been a member of the Board since 1999 and is Chairman of the People & Remuneration Committee. As the former Chief Executive Officer of Woolworths Limited, he had 33 years experience in retailing, branding and customer service.

Director: David Jones Limited

Other Interests: Australian Institute of Company Directors (Member).

Mr Clairs is a resident of Queensland. Age 70.

Colin R Galbraith, AM

Mr Galbraith has been a member of the Board since 2000 and is a member of the Audit Committee and Board Performance & 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 60.

Jane S Hemstritch

Ms Hemstritch was appointed to the Board effective 9 October 2006 and is a member of the People & Remuneration Committee and Risk Committee.

Ms Hemstritch was Managing Director - Asia Pacific, 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 business portfolio in Asia Pacific. 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 and Tabcorp (subject to regulatory approval).

Other Interests: Institute of Chartered Accountants in Australia (Fellow), Institute of Chartered Accountants in England and Wales (Fellow), Chief Executive Women Inc. (Member) and Council of Governing Members of The Smith Family.

Ms Hemstritch is a resident of Victoria. Age 55.

S Carolyn H Kay

Ms Kay has been a member of the Board since 2003 and is also a member of the People & Remuneration and Audit Committees. She holds Bachelor Degrees in Law and Arts and a Graduate Diploma in Management. She has extensive experience in international finance. She was a senior executive at Morgan Stanley in London and Melbourne for 10 years and prior to that she worked in international banking and finance both as a lawyer and banker in London, New York and Melbourne.

Director: Brambles Industries Limited, Starlight Foundation and Allens Arthur Robinson.

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 46.

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, Clayton Utz, National Australia Day Council and Deputy Chairman for National Library of Australia.

Other Interests: Committee for Melbourne (Counsellor) and Pacific Institute (Patron).

Mr Ryan is a resident of Victoria. Age 65.

David J Turner

Mr Turner was appointed to the Board in August 2006 and is a member of the Audit and Board Performance and Renewal Committees.

Until his retirement on 30 June 2007, Mr Turner was CEO of Brambles. He occupied that role since October 2003. He joined Brambles as Chief Financial Officer in 2001 having previously been Finance Director of GKN plc. Mr Turner has also served as a member of the Board of Whitbread plc and as Chairman of its Audit Committee from 2000 until 2006. He is a Fellow of The Institute of Chartered Accountants in England and Wales and has wide experience in finance, international business and governance.

Chairman: Cobham plc.

Director: Brambles Limited.

Mr Turner is a resident of the United Kingdom. Age 63.

Harrison H Young

Mr Young has been a member of the Board since 2007. He is Chairman of the Risk Committee and a member of the Audit Committee. At the time of appointment to the Board, Mr Young retired as Chairman of Morgan Stanley Australia, a position he had held since 2003. In an investment banking career of more than 30 years, he did business in 20 countries and advised eight foreign governments. From 1997 to 2003 he was a Managing Director and Vice Chairman of Morgan Stanley Asia. Prior to that, he spent two years in Beijing as Chief Executive of China International Capital Corporation.

From 1991 to 1994 he was a senior officer of the Federal Deposit Insurance Corporation in Washington.

Chairman: Asia Society AustralAsia Centre and Howard Florey Institute Foundation.

Board member: Florey Neuroscience Institutes, Financial Services Volunteer Corps and the Asia Society.

Mr Young is a resident of Victoria. Age 63.

Andrew M Mohl

Mr Mohl was appointed to the Board effective 1 July 2008 and is a member of the People & Remuneration Committee.

Mr Mohl was Managing Director and Chief Executive Officer of AMP Limited from October 2002 until his retirement at the end of December 2007. He has over 30 years of financial services experience. Mr Mohl was a former Senior and Chief Economist at ANZ Banking Group and worked at the Reserve Bank of Australia for eight years and was Deputy Head of Research.

Director: AMP Foundation.

Mr Mohl is a resident of New South Wales. Age 52.

Warwick G Kent, AO (retired 7 November 2007)

Mr Kent was a member of the Board from 2000 until his retirement in November 2007. He was a member of the Audit and Risk Committees. He was previously a Director of Colonial Limited, appointed in 1998. He was Managing Director and Chief Executive Officer of BankWest until his retirement in 1997. Prior to joining BankWest, Mr Kent had a long and distinguished career with Westpac Banking Corporation.

Other interests: Walter and Eliza Hall Trust (Trustee), Australian Institute of Company Directors (Fellow), Australian Society of CPAs (Fellow), Finsia (Senior Fellow) and the Chartered Institute of Company Secretaries (Fellow).

Mr Kent is a resident of Western Australia. Age 72.

Frank J Swan (retired 7 November 2007)

Mr Swan was a member of the Board since 1997 and was Chairman of the Risk Committee and a member of the Audit Committee and Board Performance and Renewal Committee. He holds a Bachelor of Science degree and has 23 years senior management experience in the food and beverage industries.

Chairman: Centacare Catholic Family Services.

Other Interests: Institute of Directors (Fellow), Australian Institute of Company Directors (Fellow).

Mr Swan is a resident of Victoria. Age 67.

Directors' Report

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)
J M Schubert	BHP Billiton Limited	01/06/2000	
	BHP Billiton Plc	29/06/2001	
	Qantas Airways Limited	23/10/2000	
R J Norris	Air New Zealand Limited	18/02/2002	30/08/2005
	Fletcher Building Limited	17/04/2001	09/08/2005
R J Clairs	David Jones Limited	22/02/1999	
	Cellnet Group Limited	01/07/2004	20/08/2007
C R Galbraith	OneSteel Limited	25/10/2000	
	GasNet Australia Group	17/12/2001	10/11/2006
S C H Kay	Brambles Industries Limited	01/06/2006	
	Symbion Health Limited	28/09/2001	02/03/2007
F D Ryan	Australian Foundation Investment Company Limited	08/08/2001	
D J Turner	Brambles Limited	21/03/2006	16/11/2007
	Cobham plc	01/12/2007	
W G Kent	West Australian Newspaper Holdings Limited	02/02/1998	01/11/2006
	Coventry Group Limited	01/07/2001	01/11/2006
	Perpetual Trustees Australia Limited (Group)	01/05/1998	31/07/2005
F J Swan	Foster's Group Limited	26/08/1996	31/08/2007
	National Foods Limited	11/03/1997	30/06/2005
	Southcorp Limited	26/05/2005	29/07/2005

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Commonwealth Bank of Australia during the financial year were:

Director	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
J M Schubert	11	11
R J Norris	11	11
J A Anderson	11	11
R J Clairs	11	11
C R Galbraith	11	10
J S Hemstritch	11	10
S C H Kay	11	11
F D Ryan	11	11
D J Turner	11	10
H H Young	11	11
A M Mohl ⁽²⁾	-	-
W G Kent ⁽³⁾	4	4
F J Swan ⁽³⁾	4	4

(1) The number of meetings held during the time the Director was a member of the Board.

(2) Mr Mohl was appointed effective 1 July 2008.

(3) Mr Kent and Mr Swan retired 7 November 2007.

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
J M Schubert	-	-	-	-	7	7
R J Norris	7	7	-	-	-	-
J A Anderson	7	7	-	-	-	-
R J Clairs	-	-	-	-	7	7
C R Galbraith	-	-	7	7	-	-
J S Hemstritch	3	3	-	-	7	7
S C H Kay	-	-	7	7	7	7
F D Ryan	7	7	7	7	-	-
D J Turner	-	-	7	7	-	-
H H Young	7	7	5	5	-	-
A M Mohl ⁽²⁾	-	-	-	-	-	-
W G Kent ⁽³⁾	3	3	2	2	-	-
F J Swan ⁽³⁾	3	3	2	2	-	-

Director	Board Performance & Renewal Committee	
	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
J M Schubert	6	6
C R Galbraith	6	6
D J Turner	4	4
F J Swan ⁽²⁾	2	2

(1) The number of meetings held during the time the Director was a member of the relevant committee.

(2) Mr Mohl was appointed to the Board effective 1 July 2008.

(3) Mr Kent and Mr Swan retired 7 November 2007.

Principal Activities

The Commonwealth Bank 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. The principal activities of the Commonwealth Bank Group during the financial year were:

(i) Retail Banking Services

The Group provides retail banking services within Australia including housing loans, credit cards, personal loans, savings and cheque accounts, and demand and term deposits.

(ii) Premium Business Services

The Group offers commercial products within Australia including business loans, equipment and trade finance, and rural and agribusiness products and provides private banking services to high net worth individuals and direct trading and margin lending through CommSec. This segment also has wholesale banking operations in London, New York, Singapore, Hong Kong and Malta.

(iii) Wealth Management

The Wealth Management segment conducts Australian funds management business comprising wholesale and retail investment, superannuation and retirement funds. Investments are across all major asset classes including Australian and international shares, property, fixed interest and cash. This segment also has funds management businesses in the United Kingdom and Asia.

The Wealth Management segment also provides Australian term insurance, disability insurance, annuities, master trusts, investment products and general insurance.

(iv) International Financial Services

The Group has full service banking operations in New Zealand, Fiji, Indonesia and Vietnam. The Group conducts wholesale operations in New York, London, Hong Kong, Singapore and Malta and is represented in Japan and selected regions of China together with a representative office in India. The Group's International Financial Services segment also conducts Life Insurance operations in New Zealand, where it has the leading market share, as well as Asia and the Pacific, and conducts Funds Management business in New Zealand.

Consolidated Profit

Consolidated net profit after income tax and minority interests for the financial year ended 30 June 2008 was \$4,791 million (2007: \$4,470 million).

The net operating profit for the year ended 30 June 2008 after tax, and before the gain on Visa Initial Public Offering, Provisions for investment and restructuring and asset write-offs, defined benefit superannuation plan income, treasury shares valuation adjustments, hedging and AIFRS volatility and shareholder investment returns was \$4,746 million. This is an increase of \$315 million or 7% over the year ended 30 June 2007.

The principal contributing factors to the profit increase were strong growth in banking income following growth in average lending assets. Funds management and insurance income growth was strongly supported by solid growth in both average Funds Under Administration and average inforce premiums.

There have been no significant changes in the nature of the principal activities of the Group during the financial year.

Directors' Report

Operating expense growth reflected continued investment in the business to support productivity and growth initiatives as well as the effect of inflation on salary and general expenses, the commencement of spend on a number of strategic initiatives and ongoing compliance expenditure, partly offset by the realisation of expense savings.

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 153 cents per share amounting to \$2,029 million. The dividend will be payable on 1 October 2008 to shareholders on the register at 5pm on 22 August 2008. Dividends paid in the year to 30 June 2008 were as follows:

- As declared in the 30 June 2007 Annual Report, a fully franked final dividend of 149 cents per share amounting to \$1,938 million was paid on 5 October 2007. The payment comprised cash disbursements of \$1,229 million with \$709 million being reinvested by participants through the Dividend Reinvestment Plan (DRP); and
- In respect of the year to 30 June 2008, a fully franked interim dividend of 113 cents per share amounting to \$1,487 million was paid on 2 April 2008. The payment comprised direct cash disbursements of \$989 million, with \$498 million being reinvested by participants through the DRP of which \$98 million of shares were provided by an on-market purchase.

Review of Operations

An analysis of operations for the financial year is set out in the Highlights section in pages 6 to 9 and in the sections for Retail Banking Services, Premium Business Services, Wealth Management, International Financial Services and Other on pages 14 to 25. A review of the financial condition of the Group is set out in the Highlights on page 6.

Changes in State of Affairs

During the year, the Group continued to make significant progress in implementing a number of strategic initiatives.

The initiatives are designed to ensure a better service outcome for the Group's customers.

Progress within the major initiatives included the following:

- Further roll-out of the new branch design with 70 new state-of-the-art branches completed or under construction by June 2008;
- Market leading product development with the full suite of rated personal deposit and transaction products receiving a five star rating from CANNEX;
- Opening of eight new Business Banking centres across New South Wales, South Australia and Victoria, adding to the eight centres opened in the prior year;
- Continued investment in Local Business Banking including the progressive roll-out of Business Bankers across more than 700 branches and the implementation of the new 24 hour, 7 days a week, Customer Service Centre; and
- Investment in Branch Insurance representatives across remaining regions of the Group's Retail branch network contributing to solid growth across both life and general new business sales.

There were no significant changes in the state of affairs of the Group during the financial year.

Events Subsequent to Balance Date

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

The Bank expects to issue around \$609 million of shares in respect of the Dividend Reinvestment Plan for the final dividend for the year ended 30 June 2008.

Business Strategies and Future Developments

Accommodation Strategy

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

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

In December 2007 the Group executed a lease for approximately 51,500 square metres at Darling Park, Tower 1.

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 financial years, are referred to in the Chief Executive Officer's Statement on pages 4 to 5. In the opinion of the Directors, disclosure of any further information on likely developments in operations would be unreasonably prejudicial to the interests of the Group.

Environmental Regulation

The Energy Efficiency Opportunities Act 2006 (EEO) which aims to promote energy efficiencies by business, commenced on 1 July 2006.

The Group, including several Colonial First State managed funds, is required to comply with the EEO, and has registered with the Federal Government for this purpose.

As required by the EEO the Group has lodged a five year energy efficiency assessment plan and will report to the Government and publicly by 31 December 2008, and each subsequent year, on assessments carried out under the plan.

The Group does not anticipate any obstacles in complying with the legislation. Considerable energy efficiency work has already been undertaken across the Group during the last five years.

From 1 July 2008 the Group becomes subject to the National Greenhouse and Energy Reporting Scheme (NGERS). As a result of a long history of voluntary reporting, the Group is well placed to meet the NGERS' mandatory requirements, and is currently revising its data capture and reporting systems to comply with the new legislation.

The Group is not subject to any other particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory, but can incur environmental liabilities as a lender. The Group has developed credit policies to ensure this is managed appropriately.

Directors' Shareholdings and options

Particulars of shares held by Directors in the Commonwealth Bank or in a related body corporate are set out in the Remuneration Report within this report.

An Executive Option Plan ("EOP") was approved by shareholders at the Annual General Meeting on 8 October 1996 and its continuation was further approved by shareholders at the Annual General Meeting on 29 October 1998. At the 2000 Annual General Meeting, the EOP was discontinued and shareholders approved the establishment of the Equity Reward Plan ("ERP").

The last grant of options to be made under the ERP was the 2001 grant, with options being granted on 31 October 2001, 31 January 2002 and 15 April 2002.

A total of 3,007,000 options were granted by the Bank to 81 executives in the 2001 grant.

All option grants have now met their specified performance hurdles and are available for exercise by participants.

During the financial year and for the period to the date of this report 125,000 shares were allotted by the Bank consequent to the exercise of options granted under the EOP and ERP. Full details of the Plan are disclosed in Note 33 to the Financial Statements. No options have been allocated since the beginning of the 2002 financial year.

The names of persons who currently hold options in the Plan are entered in the register of option holders kept by the Bank pursuant to Section 170 of the Corporations Act 2001. The register may be inspected free of charge.

No options have previously been granted to the Chief Executive Officer. Refer to the Remuneration Report within this report for further details.

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

Articles 19.1, 19.2 and 19.3 of the Commonwealth Bank of Australia's Constitution provides:

"19. Indemnity

19.1 Persons to whom articles 19.2 and 19.4 apply

Articles 19.2 and 19.4 apply:

(a) to each person who is or has been a Director, secretary or senior manager of the Company; and

(b) to such other officers, employees, former officers or former employees of the Company or of its related bodies corporate as the directors in each case determine,

(each an "Officer" for the purposes of this article).

19.2 Indemnity

The Company must indemnify each Officer on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses ("Liabilities") incurred by the Officer as an officer of the Company or of a related body corporate.

19.3 Extent of indemnity

The indemnity in article 19.2:

(a) is enforceable without the Officer having to first incur any expense or make any payment;

(b) is a continuing obligation and is enforceable by the Officer even though the Officer may have ceased to be an officer of the Company or its related bodies corporate; and

(c) applies to Liabilities incurred both before and after the adoption of this constitution."

An indemnity for employees, who are not directors, secretaries or senior managers, is not expressly restricted in any way by the Corporations Act 2001.

The Directors, as named on pages 50 and 51 of this report, and the Secretaries of the Commonwealth Bank of Australia, being J D Hatton, and C F Collingwood are indemnified under articles 19.1, 19.2 and 19.3 as are all the senior managers of the Commonwealth Bank of Australia.

Deeds of indemnity have been executed by Commonwealth Bank of Australia consistent with the above articles in favour of each Director.

A deed poll has been executed by Commonwealth Bank of Australia consistent with the above articles in favour of each secretary and senior manager of the Bank, each Director, secretary and senior manager of a related body corporate of the Bank (except where in the case of a partly owned subsidiary the person is a nominee of an entity which is not a related body corporate of the Bank unless the Bank's Chief Executive Officer has certified that the indemnity shall apply to that person), and any employee of the Bank or any related body corporate of the Bank who acts as a Director or secretary of a body corporate which is not a related body corporate of the Bank.

Directors' and Officers' Insurance

The Commonwealth Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of those named and referred to above and the directors, secretaries, executive officers and employees of any related bodies corporate as defined in the insurance policy. The insurance grants indemnity against liabilities permitted to be indemnified by the Company 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.

Directors' Report - Remuneration Report

Remuneration Report

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Directors' Report - Remuneration Report

Key Terms

To assist readers a number of 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. Calculated on a total cost basis and includes any Fringe Benefits tax related to Salary Packaging.
Board	The Board of Directors of the Bank.
Committee	The People & Remuneration Committee of the Board.
Earnings Per Share (EPS)	Net profit after tax divided by the weighted average number of ordinary shares outstanding during the year.
Equity Reward (Performance Units) Plan (ERPUP)	The Group's previous cash-based Equity Reward Plan (see below) replicator scheme where grants are delivered in the form of Performance Units.
Equity Reward Plan (ERP)	The Group's previous long term incentive plan.
Executive Committee	A management committee comprising the Chief Executive Officer (CEO), Group Executives and any other executives selected by the CEO.
Fixed Remuneration	Consists of Base Remuneration plus employer contributions to superannuation. For further details please refer to page 59.
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 Share Plan (GLSP)	The Group's current long term incentive plan from 1 July 2007 for the CEO and Group Executives.
Key Management Personnel	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)	The GLSP which grants rights to participating executives that may vest as ordinary shares in the Bank if, and to the extent that, performance hurdles are met over a three year period. For further details please refer to page 60. The ERP and ERPUP which were the Group's previous long term incentive plans.
NPAT	Net profit after tax.
Options	Rights to acquire a Bank share on payment of an exercise price if relevant performance hurdles are met.
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 Bank 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 weighting of each component of remuneration (Fixed Remuneration, STI and LTI) for each employee group.
Reward Shares	Shares in the Bank granted under the Equity Reward Plan and subject to a performance hurdle.
Salary Packaging	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 the financial year. For further details please refer to page 59.
Total Shareholder Return (TSR)	Calculated by combining the reinvestment of dividends and the movement in the Bank's share price, the performance hurdle used to determine vesting of grants made under the ERP and ERPUP.

Directors' Report - Remuneration Report

Introduction

This Remuneration Report sets out the Group's remuneration framework for Key Management Personnel and Other Executives. It demonstrates the links between the performance of the Group and individual's remuneration. It discloses remuneration arrangements, equity holdings, loans and other transactions for Key Management Personnel.

The year ended 30 June 2008 saw some significant and exciting enhancements to the Group's remuneration framework. These enhancements aim to ensure the Group remains competitive in the employment field of the financial services industry and to strengthen the motivation of executives to produce superior performance.

Remuneration Philosophy

The guiding principles of the Group's remuneration philosophy for all Key Management Personnel, Other Executives and employees generally are:

- To motivate employees to produce superior sustainable performance towards achieving the Group's vision;
- To be transparent and simple to understand, administer and communicate;
- To be competitive; and
- To be flexible enough to ensure that the remuneration arrangements for specific roles can reflect the external market.

The Group has enjoyed success over the years in delivering solid shareholder returns. The guiding principles of the remuneration philosophy support this success.

The Group's performance management framework and setting of appropriate Key Performance Indicators (KPIs) supports the Group's remuneration strategy by providing employees with competitive remuneration and valuable rewards for outstanding performance. It has supported the key behaviours which generate shareholder value and are necessary to support achievement of the Group's vision, to be Australia's finest financial services organisation through excelling in customer service.

People & Remuneration Committee

The People & Remuneration Committee of the Board consists entirely of independent Non-Executive Directors.

It is this independence which allows the Committee to ensure that the Group's remuneration framework can reflect the guiding principles of its remuneration philosophy.

The Committee has an active and ongoing role in evaluating any proposed enhancements to the framework, and seeks advice and information from independent sources in order to satisfy itself that the Group's remuneration practices remain competitive.

The Committee oversees all executive remuneration arrangements and currently consists of:

- Mr Clairs (Chairman);
- Ms Hemstritch;
- Ms Kay;
- Mr Mohl (appointed 1 July 2008); and
- Dr Schubert.

The CEO attends Committee meetings by invitation, but does not attend in relation to matters that can affect him.

The Committee's activities are governed by its terms of reference, which are available on the Group's website at www.commbank.com.au/shareholder.

Directors' Report - Remuneration Report

Remuneration for the Year Ended 30 June 2008

The Group provides remuneration for its employees in the following components:

- Fixed Remuneration;
- Short Term Incentive (STI); and
- Long Term Incentive (LTI).

The weighting of each of these components differs for each employee, depending on their role and seniority within the Group. Typically, there is greater weighting on the variable components (STI and LTI) for more senior employees.

Employees below Group Executive level generally do not receive an LTI component.

Remuneration Mix

The relationship of fixed and variable remuneration (potential short term and long term incentives) is approved for each level of executive management by the Committee.

The Group's remuneration structure is designed to motivate employees to achieve superior performance over the short and long term. Incentive plans are at their most effective when employees feel they can directly influence the outcomes to which they are linked. In the 2008 financial year, in response to research supporting STI as the most effective driver of performance, the Group removed LTI and increased the weighting on STI for General Managers and Executive General Managers. In order to ensure alignment with shareholder interests, retention of talent and a continued focus on long term value creation, the Group also introduced compulsory deferral of a third of earned STI into shares, to vest after three years.

For the financial year ended 30 June 2008, the target remuneration mixes that generally applied for individuals in each of the following executive groups were:

Target Remuneration Mix	Fixed	STI	LTI
CEO	28%	55%	17%
Group Executives	30%	60%	10%
Executive General Managers	40%	60%	
General Managers	50%	50%	

Fixed Remuneration

Fixed Remuneration comprises base remuneration, calculated on a total cost basis including the cost of salary packaging and employer contributions to superannuation. (Note that salary packaging arrangements are available to employees on individual contracts and to a limited extent to some other employees.)

The Group sets Fixed Remuneration competitively, facilitated by regular independent benchmarking analysis and advice.

Short Term Incentive (STI)

All permanent employees participate in some form of STI arrangement. Individual STI potentials (as applicable) are set at the beginning of the financial year and payments are determined through the Group's performance management framework.

The Committee, in conjunction with the Board, determines the pool of STI payments available for the performance year with reference to the Group's business performance relative to targets. Those targets that are not disclosed are commercially sensitive.

The assessment of business performance takes into account factors which include financial results and progress against the Group's five strategic priorities of Customer Service, Business Banking, Technology and Operational Excellence, Trust and Team Spirit and Profitable Growth.

For the performance year ended 30 June 2008, STI payments for General Managers and above were determined with reference to the performance of the individual and the business against certain Key Performance Indicators (KPIs).

The weighting of each of these factors is adjusted for each executive group, to ensure the criteria are within the area of control and influence of each executive.

Individual performance for Key Management Personnel and Other Executives is assessed through the Group's performance management system by measuring actual results of KPIs against operating targets and behavioural standards with reference to their area of responsibility. Examples of KPIs can include measures such as profitability, market share, balance growth, costs, margins, customer satisfaction, employee engagement, succession planning and strategic priorities. Business performance is assessed against the factors discussed earlier.

The targets within the Group's performance management framework allow for three levels of stretch targets on each KPI. This means that the ability of the participant to access the STI potential will only occur where there have been outstanding levels of performance. Employees must achieve a minimum of meets expectations on the behaviours and compliance KPIs to trigger any STI payment.

Directors' Report - Remuneration Report

For the performance year ended 30 June 2008, STI deferral applied for the CEO, Group Executives, Executive General Managers and some other executives. STI payments were delivered in two components:

- 2/3 as an immediate cash payment; and
- 1/3 used to acquire shares in the Bank which will be held in trust for three years. After the three year vesting period, the executive will receive the shares and any dividends accrued over that time. These shares will generally be subject to forfeiture in circumstances of dismissal or resignation prior to the conclusion of the vesting period.

Long Term Incentive (LTI)

The Group's LTI arrangements for grants made during the year ended 30 June 2008 are known as the Group Leadership Share Plan ("GLSP"). New grants under the Group's previous LTI plan, the Equity Reward Plan ("ERP"), have ceased.

Group Leadership Share Plan (GLSP)

The objective of the GLSP is to motivate participants to increase profitability and customer satisfaction in order to improve long term shareholder value and achieve the Group's vision.

Participation in the plan is currently limited to the CEO and other Executive Committee members. For allocations made during the year ended 30 June 2008, participants will share in a pool to the value of 2.2% of the growth in the Group's Profit after Capital Charge (PACC), capped at a maximum pool of \$34 million subject to performance against both of the following performance hurdles:

- The Group's cash NPAT growth over the three year period must be above the average of NPAT growth of the peer group; and
- The Group's customer satisfaction ranking relative to the peer group.

The current GLSP grant is measured from 1 July 2007 to 1 July 2010 and may vest depending on performance.

Performance Conditions

The Group's performance relative to the peer group which comprises of ANZ, NAB, St George and Westpac will be tested on the third anniversary of the grant.

The relative cash NPAT performance to peers and its link to growth in PACC have been incorporated into the GLSP to ensure the Group continues to provide above average long term financial performance for all stakeholders.

Cash NPAT performance will be measured over the three year performance period and the hurdle will be measured following the release of the Group's full year profit results for the last financial year of the period. This will then be tested against Cash NPAT results for peer group companies over the same performance period. This is a gateway hurdle – if the Group's Cash NPAT performance over the period is not above the average Cash NPAT performance of the peer group then, subject to Board discretion, nothing will vest under the plan.

The customer satisfaction performance hurdle was chosen as research has shown a direct correlation between high levels of customer satisfaction and high shareholder returns.

Customer satisfaction is of the highest importance to the Group's overall performance and forms the basis of its vision.

Three well established independent external surveys will be used to determine the Group's customer satisfaction performance at the end of the three year performance period.

These surveys have been chosen as they measure customer satisfaction across the operations of the Group as follows:

- Roy Morgan, which measures customer satisfaction across the retail bank base, including CommInsure products sold through retail bank sales channels;
- TNS Business Finance Monitor, which measures business banking customer satisfaction; and
- Wealth Insights Service Level Survey Master Trust/WRAP, which measures wealth management service performance of master trusts/wraps in Australia.

In order to determine the Group's level of achievement against the customer satisfaction performance hurdle, scores are taken for both the Group and the peer group from the three independent external surveys. A ranking is then determined and a vesting scale applied, as follows:

Group Ranking	% of Pool to Vest
1	100
2	75
3	50
4	30
5	0

The Board may exercise discretion to ensure the rewards resulting from the GLSP are reflective of the Group's performance over the three year period.

These performance measures place the Group's profitability and customer service uppermost, and reward participants for driving long term shareholder value. The criteria are based on results which participants can directly influence and which are publicly available.

The plan will provide shares to the participants if and when grants vest. The number of shares to vest will be 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.

Directors' Report - Remuneration Report

Equity Reward Plan (ERP)

New grants under the Group's previous LTI plan, the ERP, have ceased. The last grant from July 2006 is not due to be tested for vesting until 14 July 2009 and this will apply to selected executives in General Manager roles and above who have participated in this plan. Grants are delivered in the form of ordinary shares in the Bank that may vest in the executive in some proportion, to the extent that a performance hurdle is met.

For a limited number of executives, a cash-based ERP replicator plan was operated where grants were delivered in the form of Performance Units. This was known as the Equity Reward (Performance Unit) Plan (ERPUP).

In assessing whether the performance hurdles for each ERP or ERPUP grant have been met, the Group receives independent data from Standard & Poor's which provides both the Bank's TSR growth from the commencement of each grant and that of the peer group (excluding the Bank, as shown in the below table). The Bank's performance against the hurdle is then determined by ranking each company in the peer group against the Bank in order of TSR growth from the commencement of each grant.

A weighting for each company in the peer group is determined by dividing the market capitalisation of the relevant company by the total market capitalisation of the peer group. The Bank's percentile ranking is determined by aggregating the calculated weighting of each company ranked below the Bank.

Relative TSR was previously selected as the performance measure based on its link to shareholder value. However, the current measures of customer satisfaction and the profitability of the Group better align executive's motivation and behaviours with achieving the Group's strategic vision and improving long term shareholder value.

Grants under the ERP and ERPUP were made annually and vesting is subject to the Bank's Total Shareholder Return (TSR) performance relative to the other entities in the peer group over a three to four year period as follows:

Years of Grant	Vesting Scale	Peer Group	
2004 & 2005	<50th percentile = Nil Shares	AMP	Macquarie Bank
	50th – 67th percentile = 50% - 75% of shares	ANZ Group	National Australia Bank
	68th – 75th percentile = 76% - 100% of shares	AXA	QBE insurance
2006	<51st percentile = Nil Shares	Bank of Queensland	St George
	51st – 75th percentile = 50% - 100% of shares	Bendigo Bank*	Suncorp-Metway
		IAG	Westpac Banking Group

* Adelaide Bank was removed from the peer group when it was taken over by Bendigo Bank in November 2007.

Summary of the Group's LTI grants

The table below provides a summary of the LTI grants that were in operation during the year ended 30 June 2008.

Year of Grant	Performance Period	Retesting	Expiry date if unvested	Status as at 30 June 2008
Current LTI - GLSP				
2007	July 2007 to July 2010	None	1 July 2010	Unvested
Previous LTI - ERP				
2004	Sept 2004 to Sept 2007	Every 6 months to Sept 2009	23 Sept 2009	100% vested
2005	July 2005 to July 2008	Every 6 months to July 2010	15 July 2010	63 rd percentile
2006	July 2006 to July 2009	Once only in July 2010	14 July 2010	69 th percentile

Other LTI Style Arrangements

Certain executives in Colonial First State Global Asset Management (CFS GAM) participate in a specific cash-settled LTI style arrangement relating to that business. The purpose of this LTI style arrangement is the retention of key employees with specific and unique skill sets highly valued in the market. The decision of investors to grant an investment mandate to CFS GAM is highly dependent on their confidence in the investment capability and experience of individual fund managers. As such, the loss of these individuals from CFS GAM could put current and future mandates at risk.

During the 2007 financial year this LTI style arrangement was allocated a three year vesting period and between 50% and 100% of the pool may vest depending on performance hurdles relating to the CFS GAM profit growth rate over a period of three years. There were also limits on how much of the vested entitlement employees were eligible to redeem in any one year.

The departure from CFS GAM of a number of key employees participating in the scheme indicated that the arrangements were insufficiently competitive against arrangements offered elsewhere in the market.

For the 2008 financial year the Board agreed to remove the performance hurdles in return for an increase in the vesting period from three to five years to focus the LTI style arrangement more directly on the long term retention of key individuals in an increasingly volatile market.

Directors' Report - Remuneration Report

Group Performance for the Year Ended 30 June 2008

The following table gives an overview of the Group's performance for the year ended 30 June 2008, in the context of the remuneration criteria. Continuing strong results, driven by progress made on our strategic priorities towards achieving the Group's vision, have meant that variable remuneration awarded to executives is at the higher end of their potential.

Details of the remuneration outcomes based on business performance are provided on pages 59 to 61 of this remuneration report.

The Key Performance Indicators are set with particular reference to the Group's five strategic priorities, being:

- Customer Service;
- Business Banking;
- Technology and Operational Excellence;
- Trust and Team Spirit; and
- Profitable Growth.

The following table provides a description of the Group's performance in relation to each strategic priority for the performance year ending 30 June 2008.

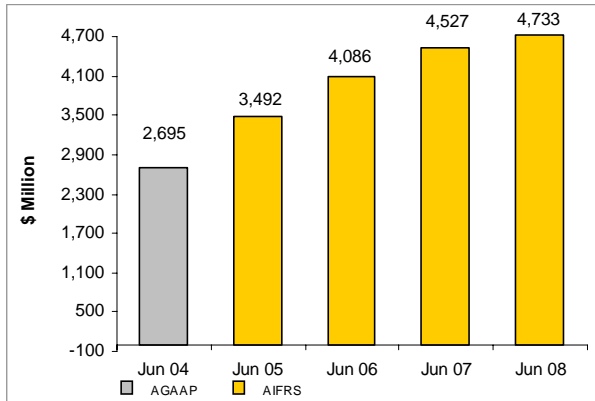
Summary of Group Performance

Strategic Priorities	Commentary
Customer Service	<p>The Group's vision is "to be Australia's finest financial services organisation through excelling in customer service". The Group has made significant progress on this strategic priority including investing in front line staff, the refurbishment and redesign of retail branches, the opening of new business banking centres, the introduction of new and enhanced product offerings and simplified processes and procedures.</p> <p>These and a number of other initiatives have contributed to improvements in a range of customer service measures. The Group's MFI customer satisfaction levels as measured by Roy Morgan⁽¹⁾ reached a 10 year high during the year. The Group was awarded Money Magazine's "Bank of the Year" for 2008 and 24 of the retail bank's products have received CANNEX 5-star ratings. The Group also recorded the strongest gains in Business Customer satisfaction amongst the peer group over the past 12 months (Source: TNS Business Finance Monitor – businesses with annual turnover to \$100 million), FirstChoice was rated the number one platform by financial advisers as measured by Investment Trends and ASB Bank once again won The Banker's "Bank of the Year Award for New Zealand". There have also been significant reductions in customer complaints and increases in customer compliments.</p>
Business Banking	<p>Improving the Group's competitive position in Business Banking remains a key strategic priority, with recent progress including the introduction of business bankers into selected branches, the acquisition and successful integration of IWL providing a strategic entry into the wholesale online broking market, the launch of CommSec banking solutions and the iPhone share trading option, and the continued migration of business customer to CommBiz, our internet-based business banking offering. During the year CommSec won the AFR Smart Investor's "Highest Polling Online Broker 2008" award and Trade Choice Awards "Best Margin Lender 2008". Customer Complaints for Premium Business Services declined significantly and the Group recorded strong above system growth in business deposits during 2008.</p>
Technology & Operational Excellence	<p>Initiatives in this area are designed to deliver greater efficiency across the Group as well as providing competitive leverage through innovative process and systems. Progress during the year included the announcement of a \$580 million, four year Core Banking Modernisation project to replace the Group's legacy systems designed to drive significant improvements in customer service and productivity, further IT efficiency savings and significant improvements in systems stability and resilience. Good progress was also made on a number of initiatives designed to improve customer service, increase operational efficiency and increase security for the Group and its customers. The restructuring of relationships with IT providers was also advanced through the execution of new application sourcing agreements designed to deliver greater contestability, flexibility and delivery capability.</p>
Trust & Team Spirit	<p>A number of key measures indicate the Group is continuing to make good progress on employee engagement, highlighted by the fact the Group is now placed in the top quartile of the Gallup worldwide database. There has also been a significant improvement in Workplace Safety, with the Group's Lost Time Injury Frequency Rate falling by a further 31%. During the year ASB Bank received the Gallup "Great Workplace Award 2008" and the Group continued to demonstrate support to the community through a range of initiatives including financial literacy, environmental partnerships and community assistance.</p>
Profitable Growth	<p>The Group continued to make good progress in seeking out and developing new opportunities for profitable growth and value creation, with highlights including the continued strong performance from our Indonesian and Chinese businesses, CFS GAM's focus on a wide range of opportunities to grow its global footprint, and further strong gains in Group-wide referral rates designed to better leverage the significant opportunities in our existing customer base.</p>

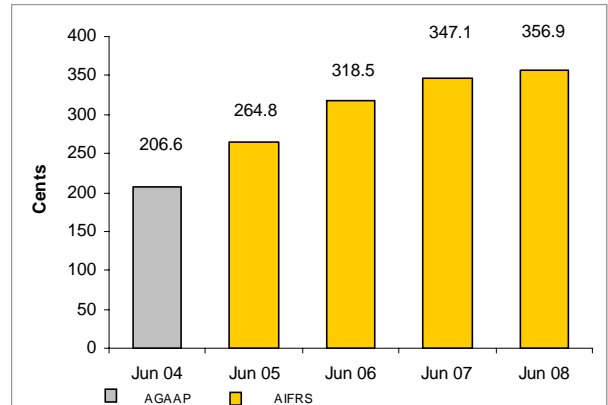
(1) Source: Roy Morgan Research MFI Customer Satisfaction is based on Australians aged 14+, Very or Fairly Satisfied, a 6 month moving average.

Directors' Report - Remuneration Report

Cash NPAT performance 2004 to 2008 (\$M)



Cash EPS performance 2004 to 2008 (cents)

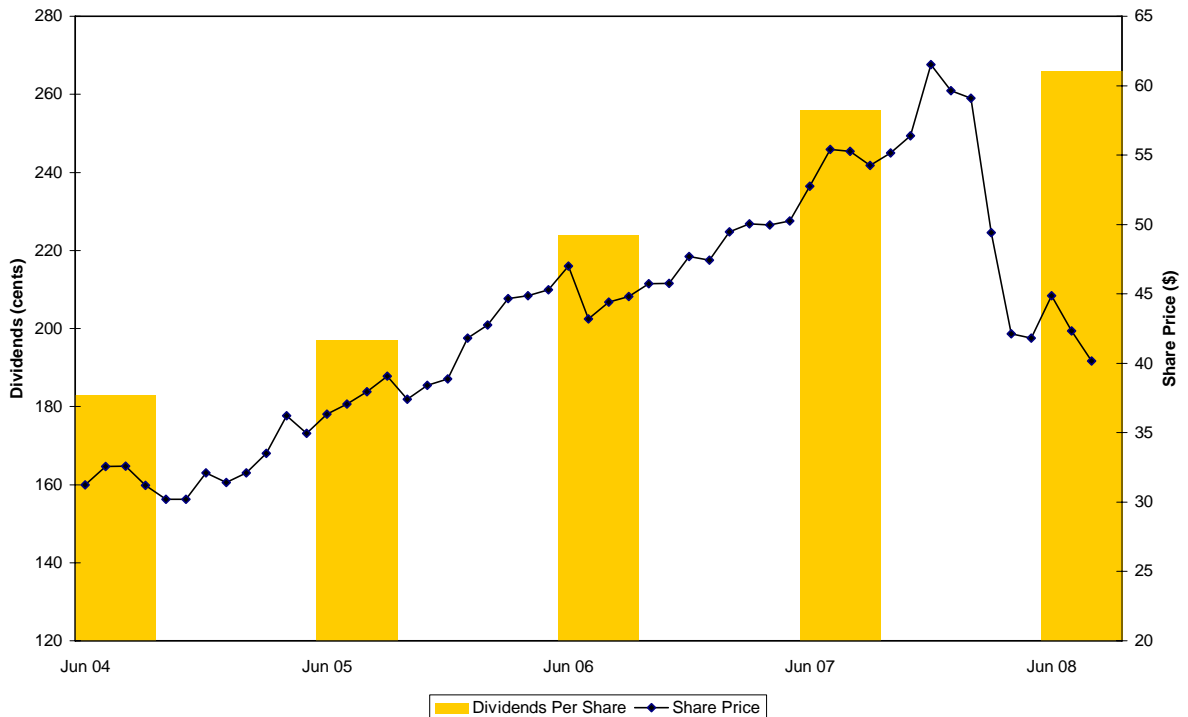


Long Term Performance

The objective of LTI grants during the year ended 30 June 2008 is to improve shareholder value over the long term. Further details on the GLSP performance hurdles are on page 60.

For the ERP, long term performance of the Bank is measured on the Bank's Total Shareholder Return (TSR) relative to its peers.

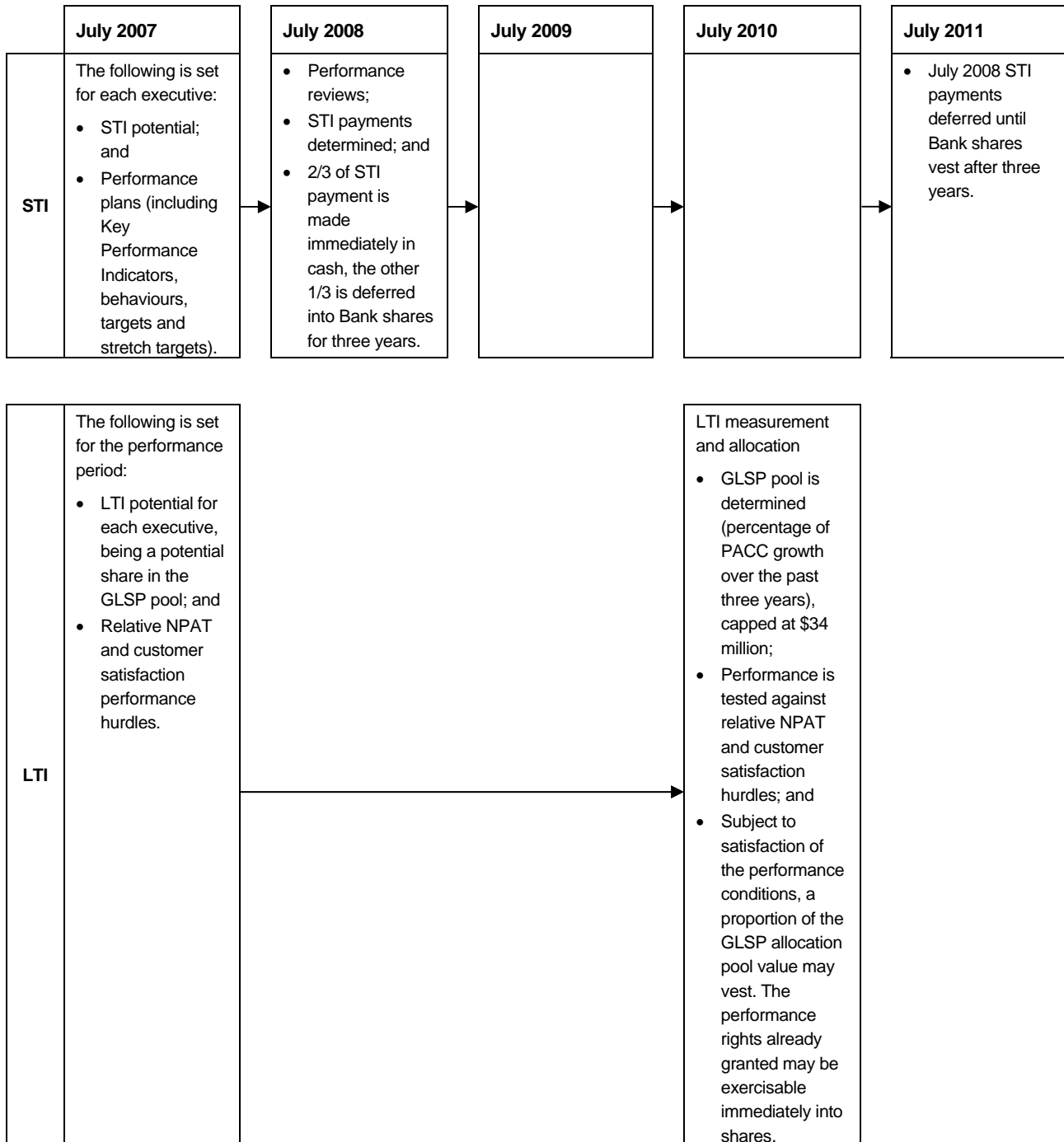
The following graph indicates the Bank's TSR by showing share price and dividend growth over the past 5 years.



Directors' Report - Remuneration Report

Variable Remuneration Life Cycle

This life cycle depicts how the variable remuneration arrangements for the CEO and the other Executive Committee members operate for the year ended 30 June 2008.



Directors' Report - Remuneration Report

Directors' Remuneration

Ralph Norris (Managing Director and CEO)

Summary of Remuneration Arrangements

Mr Norris' remuneration consists of fixed and variable (at risk) components.

Fixed Remuneration

For the year ended 30 June 2008, Mr Norris' Fixed Remuneration was 30% of total remuneration.

Variable Remuneration

Mr Norris' variable remuneration consists of short and long-term incentives. Variable remuneration for the year ended 30 June 2008 was 70% of total remuneration.

For the year ended 30 June 2008, a Short Term Incentive (STI) was delivered in two components; 2/3 made as an immediate cash payment and 1/3 deferred into Bank shares for three years. Performance was measured against Key Performance Indicators. The Board has assessed Mr Norris' performance for the year and has approved a total STI payment of \$2.85 million.

This assessment took into account the following factors:

- Business and financial results;
- The Group's customer service levels;
- Technology and operational excellence;
- The Group's core behaviours; and
- Identifying and developing talent.

Following shareholder approval at the 2007 Annual General Meeting, a Long Term Incentive (LTI) was allocated in November 2007 in the form of Performance Rights under the Group Leadership Share Plan (GLSP). Vesting will occur subject to the satisfaction of the performance conditions - the Group's relative NPAT and customer satisfaction ranking against the peer group at the end of the three year performance period. (Refer to the GLSP on page 60).

Terms and conditions of appointment

The Board determines Mr Norris' remuneration, pursuant to the Constitution, as part of the terms and conditions of his appointment. Those terms and conditions are established in a contract of employment with Mr Norris which was effective from 22 September 2005. Remuneration is subject to review annually by the Board. Mr Norris' remuneration arrangements are detailed on page 68 and follow the same principles as other executives.

Mr Norris' contract provides for no end date, although he may resign at any time by giving six months' notice. The Group may terminate Mr Norris' employment, in cases other than misconduct, on six months' notice. In this case, the Group will pay all Fixed Remuneration relating to the notice period, and any outstanding statutory entitlements. Any unvested STI or LTI amounts will be payable at the discretion of the Board. There is also a provision allowing Mr Norris to terminate the agreement if a material change to his status occurs, and to receive benefits as if the Group had terminated his employment.

On ceasing employment with the Group, Mr Norris is entitled to receive his statutory entitlements of accrued annual and long service leave as well as accrued superannuation benefits. This arrangement is the same for all executives.

Non-Executive Directors

Remuneration Arrangements

Remuneration for Non-Executive Directors consists of base and committee fees within a maximum of \$3,000,000 per annum as approved by shareholders at the Annual General Meeting held on 5 November 2004. The total remuneration for Non-Executive Directors is less than that approval. No component of Non-Executive Director remuneration is contingent upon performance.

On appointment to the Board, Non-Executive Directors enter into a service agreement with the Bank in the form of a letter of appointment. The letter of appointment, a copy of which appears on the Group's website, summarises the Board policies and terms, including remuneration, relevant up to and including the office of Director. All Non-Executive Directors have entered into a form of service agreement.

The policy of the Board is that the aggregate amount of fees should be set at a level which provides the Group with the necessary degree of flexibility to enable it to attract and retain the services of Directors of the highest calibre.

The Board Performance and Renewal Committee annually reviews the fees payable to individual Non-Executive Directors, takes into account relevant factors and, where appropriate, receives external advice on comparable remuneration. The last review was conducted in December 2007 and changes to the level of remuneration were agreed with effect from 1 January 2008.

Non-Executive Directors have 20% of their annual fees applied to the mandatory on-market acquisition of shares in the Bank, under the Non-Executive Director Share Plan. In addition, Non-Executive Directors can voluntarily elect to sacrifice up to a further 80% of their fees for the acquisition of shares, or into superannuation.

The Bank's Non-Executive Directors' fee structure provides for a base fee for all Directors of \$210,000, and a base Chairman's fee of \$695,000. In addition, amounts are payable where Directors are members of, or chair a Committee. Details of the breakdown of each Non-Executive Directors' fees as at 30 June 2008 is provided on page 66. The Bank also contributes to compulsory superannuation on behalf of Non-Executive Directors.

Directors' Report - Remuneration Report

Details of Components of Non-Executive Directors' Fees

	Committee Remuneration	
	Position	Fee ⁽¹⁾ \$
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	40,000
	Member	20,000
Board Performance & Renewal Committee	Chairman	10,000
	Member	10,000

(1) Non-Executive Directors sacrifice 20% of these fees on a mandatory basis under the Non-Executive Directors Share Plan (NEDSP). Fees were adjusted as from 1 January 2008.

Retirement Benefits

Under the Directors' Retirement Allowance Scheme, which was approved by shareholders at the 1997 Annual General Meeting, Directors previously accumulated a retirement benefit on a pro rata basis to a maximum of four years' total emoluments after 12 years' service. No benefit accrued until the Director had served three years on the Board. In 2002, the Board decided to discontinue the Directors' Retirement Allowance Scheme without affecting the entitlements of the existing Non-Executive Directors at the time. Since that year, new Directors have not been entitled to participate in the scheme.

The Board resolved with effect from the 2004 Annual General Meeting to terminate the accrual of further benefits under the Scheme and freeze the entitlements of current members until their respective retirements. This approach has resulted in remuneration arrangements being expressed in a more transparent manner.

The entitlements of the Non-Executive Directors under the Directors' Retirement Allowance Scheme are:

Directors' Retirement Allowance Scheme

Director	Increase in Accrued Benefit in Year \$	Entitlement as at 30 June 2008 \$
J M Schubert	-	636,398
J A Anderson ⁽¹⁾	-	-
R J Clairs	-	202,989
C R Galbraith	-	159,092
J S Hemstritch ⁽¹⁾	-	-
S C H Kay ⁽¹⁾	-	-
F D Ryan	-	168,263
D J Turner ⁽¹⁾	-	-
H H Young ⁽¹⁾	-	-
W G Kent ⁽²⁾	-	-
F J Swan ⁽²⁾	-	-
Total	-	1,166,742

(1) Sir John Anderson, Ms Hemstritch, Ms Kay, Mr Turner and Mr Young were appointed as Directors after the closure of the scheme.

(2) Mr Kent and Mr Swan retired at the 2007 Annual General Meeting on 7 November 2007 and received payments of \$159,092 and \$266,173 respectively, representing their entitlements under the Scheme.

Directors' Report - Remuneration Report

Remuneration of Key Management Personnel and Other Executives

The executives and Directors listed in the tables below include Key Management Personnel (KMP) and Other Executives during the year ended 30 June 2008. The KMP are the CEO, members of the Group's Executive Committee and all members of the Board.

The position and tenure for each of the executives and Directors listed are shown on the following table. The subsequent tables refer to these employees by surname and initials only.

Name	Position	Tenure (if not full year)
Non-Executive Directors		
J M Schubert	Chairman	
J A Anderson	Director	
R J Clairs	Director	
C R Galbraith	Director	
J S Hemstritch	Director	
S C Kay	Director	
F D Ryan	Director	
D J Turner	Director	
H H Young	Director	
W G Kent	Director	Retired on 7 November 2007
F J Swan	Director	Retired on 7 November 2007
Managing Director and CEO		
R J Norris	Managing Director and CEO	
Executives		
B J Chapman	Group Executive, Human Resources and Group Services	
D Cohen	Group General Counsel	Commenced on 16 June 2008
D P Craig	Group Executive, Financial Services	
S I Grimshaw	Group Executive, Premium Business Services	
M R Harte	Group Executive, Enterprise IT & Chief Information Officer	
G L Mackrell	Group Executive, International Finance Services	
R M McEwan	Group Executive, Retail Banking Services	
J K O'Sullivan	Chief Solicitor and General Counsel	Ceased employment on 31 January 2008
G A Petersen	Group Executive, Wealth Management	
A Toevs	Group Chief Risk Officer	Commenced on 23 June 2008
Other Executives		
W Negus	Chief Executive Officer, Colonial First State Global Asset Management (CEO CFS GAM)	Ceased as CEO CFS GAM on 1 June 2008

Directors' Report - Remuneration Report

Individual remuneration details for Directors for the year ended 30 June 2008 are set out below:

Remuneration of Directors

	Short Term Benefits				Post-employment	Share-based Payments			Termination Benefits	Other Long Term Benefits	Total Remuneration
	Cash Fixed ⁽¹⁾	Cash STI payment At Risk	STI Deferred in Shares At Risk	Other Short Term Benefits	Super-annuation Fixed ⁽²⁾	LTI Reward Shares At Risk	Performance Rights	NEDSP Fixed ⁽¹⁾			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
J M Schubert											
2008	551,342	-	-	-	52,570	-	-	137,836	-	-	741,748
2007	505,096	-	-	-	45,459	-	-	126,603	-	-	677,158
J A Anderson											
2008	178,433	-	-	-	17,012	-	-	44,608	-	-	240,053
2007	51,090	-	-	-	4,598	-	-	12,658	-	-	68,346
R J Clairs											
2008	192,482	-	-	-	18,367	-	-	48,121	-	-	258,970
2007	175,277	-	-	-	15,775	-	-	43,937	-	-	234,989
C R Galbraith											
2008	188,471	-	-	-	17,983	-	-	47,118	-	-	253,572
2007	88,260	-	-	-	88,943	-	-	42,427	-	-	219,630
J S Hemstritch											
2008	113,980	-	-	-	90,161	-	-	46,603	-	-	250,744
2007	90,171	-	-	-	36,759	-	-	29,112	-	-	156,042
S C H Kay											
2008	196,493	-	-	-	18,751	-	-	49,123	-	-	264,367
2007	174,553	-	-	-	15,710	-	-	43,748	-	-	234,011
F D Ryan											
2008	218,542	-	-	-	20,848	-	-	54,636	-	-	294,026
2007	92,767	-	-	-	109,467	-	-	48,595	-	-	250,829
D J Turner											
2008	97,731	-	-	-	104,524	-	-	46,159	-	-	248,414
2007	42,214	-	-	-	105,257	-	-	35,918	-	-	183,389
H H Young											
2008	203,803	-	-	-	19,417	-	-	50,951	-	-	274,171
2007	63,518	-	-	-	5,717	-	-	15,879	-	-	85,114
W G Kent ⁽³⁾											
2008	-	-	-	-	78,363	-	-	11,847	159,092	-	249,302
2007	175,901	-	-	-	15,831	-	-	44,088	-	-	235,820
F J Swan ⁽³⁾											
2008	35,834	-	-	-	52,483	-	-	13,359	266,173	-	367,849
2007	187,112	-	-	-	16,840	-	-	46,885	-	-	250,837
Non-Executive Director Total											
2008	1,977,111	-	-	-	490,479	-	-	550,361	425,265	-	3,443,216
2007	1,757,806	-	-	-	465,451	-	-	518,034	-	-	2,741,291
Managing Director and CEO											
R J Norris ⁽⁴⁾											
2008	3,122,450	1,900,000	950,000	-	100,014	1,237,635	1,280,790	-	-	72,031	8,662,920
2007	1,467,450	1,425,000	1,514,063	81,125	792,672	1,237,635	-	-	-	52,040	6,569,985
Director Grand Totals											
2008	5,099,561	1,900,000	950,000	-	590,493	1,237,635	1,280,790	550,361	425,265	72,031	12,106,136
2007	3,225,256	1,425,000	1,514,063	81,125	1,258,123	1,237,635	-	518,034	-	52,040	9,311,276

Group totals in respect of the financial year ended 30 June 2007 do not necessarily equal the sum of amounts disclosed for individuals listed above as there are some different individuals specified as Directors in 2008.

Amounts in the table above reflect remuneration for the time the Director has been in a Key Management Personnel role i.e. pro-rating is applied relative to the date the Director commenced or ceased a Key Management Personnel role.

- (1) For Non-Executive Directors, this includes that portion of base fees and committee fees paid as cash. Non-Executive Directors also salary sacrifice 20% of their fees on a mandatory basis under the Non-Executive Directors Share Plan (NEDSP). Further details on the NEDSP is contained in Note 33 to the Financial Statements.
- (2) Represents company contribution to superannuation and includes any allocations made by way of salary sacrifice by Directors.
- (3) Mr Kent and Mr Swan retired at the 2007 Annual General Meeting on 7 November 2007.
- (4) Cash STI payment represents the amount of cash immediately payable in recognition of performance for the year ended 30 June 2008, with the exception of STI sacrificed to superannuation which is included under 'Superannuation'. STI deferred in shares represents the compulsory deferral of 1/3 of the STI payment for the performance year ended 30 June 2008. This amount is deferred until 1 July 2011. Generally, Mr Norris will need to be an employee of the Bank at the end of the deferral period to receive this portion. The 2007 financial year figure represents STI deferred in cash. The value of LTI Performance Rights under the GLSP and Reward Shares under the ERP has been calculated using a Monte-Carlo simulation method. Details on the assumptions incorporated are set out on page 70 under Reward Shares Valuation Assumptions and Performance Rights Valuation Assumptions.

Directors' Report - Remuneration Report

Individual remuneration details for Executives for the year ended 30 June 2008 are set out below:

Remuneration of Executives

	Short Term Benefits					Post-employment Benefits	Share-based Payments				Total Remuneration
	Cash Fixed ⁽¹⁾	Non Monetary Fixed ⁽²⁾	Cash STI payment At Risk ⁽³⁾	STI Deferred in Shares At Risk ⁽⁴⁾	Other Short Term Benefits ⁽⁵⁾	Super-annuation Fixed ⁽⁶⁾	Performance Rights ⁽⁷⁾	LTI Reward Shares At Risk ⁽⁷⁾	LTI Performance Units At Risk ⁽⁷⁾	Other Long Term Benefits ⁽⁸⁾	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
B J Chapman											
2008	807,709	13,763	666,667	333,333	263,352	49,838	263,692	133,247	110,997	18,703	2,661,301
2007	112,213	9,726	312,164	331,674	144,739	601,128	-	125,259	397,554	16,535	2,050,992
D Cohen⁽⁹⁾											
2008	33,960	564	-	-	-	2,271	263,692	-	-	786	301,273
2007	-	-	-	-	-	-	-	-	-	-	-
D P Craig											
2008	931,854	13,763	1,000,000	500,000	100,000	86,128	301,362	177,673	-	22,094	3,132,874
2007	113,426	8,236	306,647	325,812	-	774,720	-	142,138	-	14,935	1,685,914
S I Grimshaw											
2008	1,406,154	13,507	1,000,000	500,000	-	94,030	376,703	715,296	-	32,560	4,138,250
2007	1,215,608	10,200	556,600	591,388	-	81,288	-	1,713,785	-	28,148	4,197,017
M R Harte											
2008	862,067	13,653	866,667	433,333	73,756	49,352	263,692	111,929	-	19,961	2,694,410
2007	632,568	10,260	296,100	314,606	310,618	42,500	-	111,929	-	14,647	1,733,228
G L Mackrell											
2008	770,205	13,763	633,333	316,667	-	173,753	301,362	534,536	-	20,178	2,763,797
2007	600,724	10,260	415,000	440,938	-	202,503	-	1,270,275	-	18,599	2,958,299
R M McEwan											
2008	924,144	13,653	1,000,000	500,000	101,036	93,838	376,703	-	238,692	22,094	3,270,160
2007	116,999	1,321	47,612	50,588	17,725	8,730	-	-	181,058	2,729	426,762
J K O'Sullivan⁽¹⁰⁾											
2008	486,042	8,160	-	-	-	33,677	-	(78,900)	-	-	448,979
2007	848,665	10,260	332,645	395,935	-	96,800	-	734,820	-	19,651	2,438,776
G A Petersen											
2008	1,022,877	13,763	733,333	366,667	-	50,000	339,033	400,040	-	23,685	2,949,398
2007	442,521	10,260	410,576	436,237	-	476,449	-	607,463	-	19,945	2,403,451
A Toevs⁽¹¹⁾											
2008	1,130,595	-	-	-	61,222	2,186	-	-	-	42,374	1,236,377
2007	-	-	-	-	-	-	-	-	-	-	-
Total Remuneration⁽¹²⁾											
2008	8,375,607	104,589	5,900,000	2,950,000	599,366	635,073	2,486,239	1,993,821	349,689	202,435	23,596,819
2007	5,756,239	92,757	2,677,344	2,887,178	473,082	4,582,851	-	6,150,372	578,612	135,189	27,792,307
Other Executives⁽¹³⁾											
W Negus											
2008	1,022,877	13,763	1,466,666	-	-	50,000	-	212,720	304,157	23,685	3,093,868
2007	1,004,395	10,260	888,000	943,500	-	67,164	-	212,720	1,779,157	23,257	4,928,453
Total Remuneration of Executives											
2008	9,398,484	118,352	7,366,666	2,950,000	599,366	685,073	2,486,239	2,206,541	653,846	226,120	26,690,687
2007	6,760,634	103,017	3,565,344	3,830,678	473,082	4,650,015	-	6,363,092	2,357,769	158,446	32,720,760

Grand totals in respect of the financial year ended 30 June 2007 do not necessarily equal the sum of amounts disclosed for individuals listed above as there are different individuals specified as Executives in 2008.

Amounts in the table above reflect remuneration for the time the Executive has been in a Key Management Personnel role i.e. pro-rating is applied relative to the date the Executive commenced or ceased a Key Management Personnel role.

- 1) Reflects the amounts paid in the year ended 30 June 2008 and is calculated on a total cost basis. Included may be annual leave accruals and salary sacrifice amounts with the exception of salary sacrifice superannuation which is included under 'Superannuation'. For Mr Toevs, this also includes a cash payment upon commencement.
- (2) Represents the cost of car parking (including FBT).
- (3) Cash STI payment represents the amount of cash immediately payable to an Executive in recognition of performance for the year ended 30 June 2008, with the exception of STI sacrificed to superannuation which is included under 'Superannuation'.
- (4) STI deferred in Shares represents the compulsory deferral of 1/3 of STI payments for Executives for performance to the year ended 30 June 2008. These amounts are deferred until 1 July 2011. Generally, the Executive will need to be an employee of the Group at the end of the deferral period to receive this portion. The 2007 financial year figure represents STI deferred in cash.
- (5) All Other Short Term Benefits payable that are not covered above.
- (6) Represents company contribution to superannuation and includes any allocations made by way of salary sacrifice by Executives.

Directors' Report - Remuneration Report

(7) The 'fair value' of LTI performance rights under the GLSP and ERP reward shares has been calculated using a Monte-Carlo simulation method, incorporating the assumptions below:

Reward Share Valuation Assumptions

Purchase Date	Fair Value	Exercise Price	Risk Free Rate	Assumption Term	Dividend Yield	Volatility
22-Sep-04	\$16.72	\$0.00	5.48%	59 mths	Nil	15.0%
5-Nov-04	\$19.72	\$0.00	5.61%	57 mths	Nil	15.0%
23-Nov-05	\$24.51	\$0.00	5.65%	56 mths	Nil	15.0%
3-Nov-06	\$30.62	\$0.00	6.04%	47 mths	Nil	15.0%

Performance Rights Valuation Assumptions

12-Oct-07	\$53.50	\$0.00	7.75%	33 mths	5.94%	15.0%
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- The Reward Shares assessment has been made as at purchase date for each ERP grant based on the expected future TSR performance of the Bank and each member of its peer group. The annualised equivalent of the 'fair value' in respect of the number of shares for each grant has been amortised on a straight line basis over the term of the grant.
- The Performance Rights assessment under the GLSP has been made at grant date based on the expected future NPAT growth (using TSR) and customer satisfaction outcomes of the Group and each member of the peer group. The annualised equivalent of the 'fair value' in respect of the number of performance rights for the grant has been amortised on a straight line basis over the term of the grant.
- For the GLSP, the final allocation pool can only be determined at the end of the performance period. As each participant's allocation is based on the proportion of the pool that may vest, the above assumptions have been used to determine the maximum number of performance rights that may vest. Each participant has been granted their allocated percentage of the pool based on the above valuation assumptions.

(8) All other benefits payable that are not covered above.

For Mr Toevs, this represents equity arrangements offered at commencement.

(9) Mr Cohen commenced in his role on 16 June 2008.

(10) Mr O'Sullivan ceased employment on 31 January 2008

(11) Mr Toevs commenced in his role on 23 June 2008

(12) Termination benefits to the value of \$4,458,683 were included in the total remuneration for Executives for the year ended 30 June 2007. No termination benefits were paid in the year ended 30 June 2008.

(13) Mr Negus, who is not a Key Management Personnel, and Messrs Craig, Grimshaw, McEwan and Petersen are the five executives who received the highest remuneration for the year ended 30 June 2008 as defined in the Section 300A of the Corporations Act 2001.

Termination Arrangements of Key Management Personnel and Other Executives

The Group's executive contracts provide for the following termination arrangements for KMP and Other Executives:

Name	Contract Type	Notice	Severance ⁽¹⁾
B J Chapman	Permanent	4 weeks	Linked to years of service with a maximum of 64 weeks payment after 19 years service (including ASB service)
D Cohen	Permanent	6 months	6 months
D P Craig	Permanent	4 weeks	6 months
S I Grimshaw	Permanent	3 months	12 months
M R Harte	Permanent	4 weeks	6 months
G L Mackrell	Permanent	4 weeks	6 months
R M McEwan	Permanent	3 months	Linked to years of service with a maximum of 64 weeks payment after 19 years service (including ASB service)
J K O'Sullivan ⁽²⁾	Permanent	4 weeks	12 months
G A Petersen	Permanent	4 weeks	6 months
A Toevs	2 year term with the option to extend to a maximum of 3 years	Not Applicable	If terminated in first two years, the greater of \$5,000,000 or remuneration for remainder of term
Other Executives			
W Negus	Fixed Term, expires on 1 June 2009	Not Applicable	None

(1) Severance applies where termination is initiated by the Group, other than for misconduct or unsatisfactory performance.

(2) Mr O'Sullivan ceased employment on 31 January 2008.

Upon ceasing employment with the Group, executives are entitled to receive their statutory entitlements of accrued annual and long service leave, as well as accrued superannuation benefits.

Executives who cease employment with the Group during a given performance year (i.e. 1 July to 30 June) will generally not receive an STI payment for that year except in the circumstances of retrenchment, retirement or death.

Deferred cash or shares from previous STI awards are usually forfeited where the executive resigns or is dismissed. In circumstances of retrenchment, retirement or death any cash will generally be paid and unvested shares will generally vest immediately. LTI grants are generally forfeited where the executive resigns or is dismissed. In circumstances of retrenchment, retirement or death, the executive or their estate may, at Board discretion, retain their full or pro-rata grant of LTI. Vesting of any LTI retained by the executive will still be subject to the performance hurdle relevant to that grant.

Directors' Report - Remuneration Report

STI Allocations to Executives for the Year Ended 30 June 2008

	Portion Paid Paid	Percentage Forfeited %	Portion Deferred ⁽¹⁾	Minimum Total Value ⁽²⁾ \$	Maximum Total Value ⁽³⁾ \$
Directors					
R J Norris	2/3	-	1/3	1,900,000	2,850,000
Executives					
B J Chapman	2/3	-	1/3	666,667	1,000,000
D Cohen ⁽⁴⁾	-	-	-	-	-
D P Craig	2/3	-	1/3	1,000,000	1,500,000
S I Grimshaw	2/3	-	1/3	1,000,000	1,500,000
M R Harte	2/3	-	1/3	866,667	1,300,000
G L Mackrell	2/3	-	1/3	633,333	950,000
R M McEwan	2/3	-	1/3	1,000,000	1,500,000
J K O'Sullivan ⁽⁵⁾	-	100	-	-	-
G A Petersen	2/3	-	1/3	733,333	1,100,000
A Toevs ⁽⁶⁾	-	-	-	-	-
Other Executives					
W Negus	100%	-	-	1,466,666	1,466,666

(1) Used to acquire shares in the Bank that will generally vest on 1 July 2011 subject to not being forfeited due to resignation or misconduct including misrepresentation of performance outcomes. Will generally vest early in circumstances of retrenchment, retirement or death.

(2) For those executives with a minimum total value greater than zero, this reflects the 2/3 component of the STI payment which is immediately payable determined by actual performance over the year ended 30 June 2008. Executives generally do not receive an STI payment unless their individual performance is at least meeting expectations.

(3) Includes value of shares purchased at commencement of vesting period for the deferred portion.

(4) Mr Cohen commenced employment on 16 June 2008.

(5) Mr O'Sullivan ceased employment on 31 January 2008.

(6) Mr Toevs commenced employment on 23 June 2008.

LTI Allocations to Executives for the Year Ended 30 June 2008

	Percentage Paid %	Percentage Forfeited %	Percentage Deferred ⁽¹⁾ %	Current Allocation (Percentage of Pool) ⁽²⁾	Minimum Total Value \$	Maximum Total Value ⁽³⁾ \$000s
Directors						
R J Norris	-	-	100	34	-	11,560
Executives						
B J Chapman	-	-	100	7	-	2,380
D Cohen ⁽⁴⁾	-	-	100	7	-	2,380
D P Craig	-	-	100	8	-	2,720
S I Grimshaw	-	-	100	10	-	3,400
M R Harte	-	-	100	7	-	2,380
G L Mackrell	-	-	100	8	-	2,720
R M McEwan	-	-	100	10	-	3,400
J K O'Sullivan ⁽⁵⁾	-	-	-	-	-	-
G A Petersen	-	-	100	9	-	3,060
A Toevs ⁽⁶⁾	-	-	-	-	-	-
Other Executives						
W Negus ⁽³⁾	-	-	-	-	-	-

(1) Will vest in July 2010 under the GSLP subject to the performance conditions and the performance hurdle being met (see page 60).

(2) Each participant's allocated percentage of the proportion of the pool that may vest (capped at \$34 million). See page 60.

(3) Equals the participant's allocated percentage of the maximum pool that may vest – \$34 million, except for Mr Negus who participates in a cash settled LTI style arrangement that is specific to Colonial First State Global Asset Management (CFS GAM). Allocations under this arrangement vest depending on the CFS GAM net profit before tax growth rate over three years.

(4) Mr Cohen commenced employment on 16 June 2008.

(5) Mr O'Sullivan ceased employment on 31 January 2008.

(6) Mr Toevs commenced employment on 23 June 2008.

Directors' Report - Remuneration Report

Equity Holdings of Key Management Personnel and Other Executives

Shareholdings

All shares were acquired by Directors on normal terms and conditions or through the Non-Executive Directors' Share Plan.

Shares awarded under the Equity Reward Plan and the mandatory component of the Equity Participation Plan are registered in the name of the Trustee of the employee share plan trust. For further details of the Non-Executive Directors' Share Plan, previous Equity Reward Plan, previous Executive Option Plan and Equity Participation Plan refer to Note 33 to the Financial Statements.

Share trading policy

The Group has guidelines restricting the dealings of Directors and certain executives in Bank securities. In particular, they are prohibited from hedging and from using instruments or arrangements for margin borrowing, short selling or stock lending in relation to securities of the Bank or of any other member of the Group.

Directors and executives are reminded of the share trading policy each six months and are required to complete an annual declaration confirming their compliance with the policy.

Details of shareholdings of Key Management Personnel and Other Executives (or close family or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of the aforementioned hold significant voting power) are as follows:

Shares Held by Directors

Name	Class	Balance 1 July 2007	Acquired/Granted as Remuneration ⁽¹⁾	On Exercise of Options	Net Change Other ⁽²⁾	Balance 30 June 2008
Directors						
J M Schubert	Ordinary	24,418	2,890	-	-	27,308
R J Norris	Ordinary	10,000	-	-	-	10,000
	Reward Shares	191,238	-	-	-	191,238
J A Anderson	Ordinary	10,000	773	-	792	11,565
R J Clairs	Ordinary	17,886	1,014	-	-	18,900
C R Galbraith	Ordinary	11,404	992	-	658	13,054
J S Hemstritch	Ordinary	15,565	926	-	-	16,491
S C H Kay	Ordinary	5,901	1,036	-	2,100	9,037
F D Ryan	Ordinary	9,196	1,146	-	5,000	15,342
D J Turner	Ordinary	301	940	-	-	1,241
H H Young	Ordinary	20,000	866	-	1,131	21,997
W G Kent ⁽³⁾	Ordinary	17,070	441	-	1,689	19,200
F J Swan ⁽³⁾	Ordinary	8,181	497	-	-	8,678
Total For Directors	Ordinary	149,922	11,521	-	11,370	172,813
	Reward Shares	191,238	-	-	-	191,238

(1) For Non-Executive Directors, represents shares acquired under NEDSP on 20 August 2007 and 4 March 2008 by mandatory sacrifice of fees. All shares acquired through NEDSP are subject to a 10 year trading restriction (shares will be tradeable earlier if the Director leaves the Board). For Mr Norris this represents Reward Shares granted under the ERP subject to performance hurdles. For the ERP, the first possible date for meeting the performance hurdle is 14 July 2009 with the last possible date for vesting being 14 July 2010. See Note 33 to the Financial Statements for further details on the NEDSP and ERP.

(2) "Net Change Other" incorporates changes resulting from purchases and sales during the year.

(3) Mr Kent and Mr Swan retired at the 2007 Annual General Meeting on 7 November 2007.

Directors' Report - Remuneration Report

Shares Held by Executives

Name	Class ⁽¹⁾	Balance 30 June 2007	Acquired/Granted as Remuneration	On Exercise of Options	Reward Shares Vested ⁽²⁾	Net Change Other ⁽³⁾	Balance 30 June 2008
Executives							
B J Chapman	Ordinary	-	-	-	-	450	450
	Reward Shares	17,046	-	-	-	-	17,046
D Cohen ⁽⁴⁾	Ordinary	-	-	-	-	-	-
	Reward Shares	-	-	-	-	-	-
D P Craig	Ordinary	-	-	-	-	6,000	6,000
	Reward Shares	22,728	-	-	-	-	22,728
S I Grimshaw	Ordinary	29,999	-	-	-	-	29,999
	Reward Shares	105,140	-	-	(37,500)	-	67,640
M R Harte	Ordinary	-	-	-	-	-	-
	Reward Shares	14,318	-	-	-	-	14,318
G L Mackrell	Ordinary	39,808	-	-	-	2,388	42,196
	Reward Shares	80,018	-	-	(28,130)	-	51,888
R M McEwan	Ordinary	-	-	-	-	-	-
	Reward Shares	-	-	-	-	-	-
J K O'Sullivan ⁽⁵⁾	Ordinary	45,767	-	-	-	25,940	71,707
	Reward Shares	69,770	-	-	(25,940)	(43,830)	-
G A Petersen	Ordinary	14,652	-	-	-	(1,287)	13,365
	Reward Shares	64,780	-	-	(19,500)	-	45,280
A Toevs ⁽⁶⁾	Ordinary	-	-	-	-	-	-
	Reward Shares	-	-	-	-	-	-
	Deferred Shares	-	37,784	-	-	-	37,784
Other Executives							
W Negus	Ordinary	3,680	-	-	-	-	3,680
	Reward Shares	40,500	-	-	-	-	40,500
	Ordinary	133,906	-	-	-	33,491	167,397
Total for	Reward Shares	414,300	-	-	(111,070)	(43,830)	259,400
Executives	Deferred Shares	-	37,784	-	-	-	37,784

(1) Reward Shares represents shares granted under the Equity Reward Plan (ERP) and are subject to a performance hurdle. The last possible date for vesting is 14 July 2010. See Note 33 to the Financial Statements for further details on the ERP.

(2) Reward Shares become ordinary shares upon vesting.

(3) "Net Change Other" incorporates changes resulting from purchases, sales and forfeitures during the year.

(4) Mr Cohen commenced employment on 16 June 2008.

(5) Mr O'Sullivan ceased employment on 31 January 2008.

(6) Mr Toevs commenced employment on 23 June 2008.

Directors' Report - Remuneration Report

Total Loans to Key Management Personnel and Other Executives

	Year Ended 30 June	Balance 1 July \$000s	Interest Charged \$000s	Interest Not Charged \$000s	Write-off \$000s	Balance 30 June \$000s	Number in Group at 30 June
Directors							
	2008	3,648	258	-	-	2,795	1
	2007	464	21	-	-	464	1
Executives							
	2008	6,103	781	-	-	12,369	9
	2007	9,178	425	-	-	5,965	6
Total for Key Management Personnel							
	2008	9,751	1,039	-	-	15,164	10
	2007	9,642	446	-	-	6,429	7
Other Executives							
	2008	1,442	68	-	-	1,335	1
	2007	554	35	-	-	443	1
Total							
	2008	11,193	1,107	-	-	16,499	11
	2007	10,196	481	-	-	6,872	8

Details of Individuals with Loans above \$100,000 in the reporting period are as follows:

Individual Loans above \$100,000 to Key Management Personnel and Other Executives

	Balance 1 July 2007 \$000s	Interest Charged \$000s	Interest Not Charged \$000s	Write-off \$000s	Balance 30 June 2008 \$000s	Highest Balance in Period \$000s
Directors						
R J Norris ⁽¹⁾	3,648	258	-	-	2,795	3,181
Executives						
B J Chapman ⁽¹⁾	-	153	-	-	2,679	2,852
D Cohen	936	75	-	-	936	936
D P Craig	-	5	-	-	213	215
S I Grimshaw	-	-	-	-	50	100
M R Harte	-	218	-	-	3,394	3,544
G L Mackrell	647	1	-	-	647	647
R M McEwan ⁽¹⁾	279	39	-	-	460	748
J K O'Sullivan ⁽²⁾	3,599	200	-	-	3,013	3,874
G A Petersen	642	90	-	-	977	2,702
Total for Key Management Personnel						
	9,751	1,039	-	-	15,164	18,799
Other Executives						
W Negus	1,442	68	-	-	1,335	1,845
Total for Other Executives						
	1,442	68	-	-	1,335	1,845
Total for Key Management Personnel & Other Executives						
	11,193	1,107	-	-	16,499	20,644

(1) Balance declared in NZD for Mr Norris, Ms Chapman and Mr McEwan. Exchange rates are taken from Forex as at 30 June 2008 for interest charged, 30 June 2008 balances and highest balance in period. The exchange rate as at 30 June 2007 has been used for the 1 July 2007 balances.

(2) Mr O'Sullivan ceased employment on 31 January 2008.

Directors' Report - Remuneration Report

Terms and Conditions of Loans

All loans to Key Management Personnel and Other Executives (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).

Other Transactions of Key Management Personnel and Other Executives and Related Parties

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed within this report) of Key Management Personnel and Other Executives 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 Other Executives 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 and Other Executives have been trivial or domestic in nature and were in the nature of normal personal banking and deposit transactions.

Transactions other than Financial Instrument Transactions of Banks

All other transactions with Key Management Personnel, Other Executives 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.

Audit

Certain disclosures required by the Corporations Act 2001 and accounting standard AASB124 Related Party Disclosures have been made in this Remuneration Report. The entire Remuneration Report has been audited as required.

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 Services 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.

Non-Audit Services

Amounts paid or payable to PricewaterhouseCoopers for non-audit services provided during the year, as set out in the Annual Report in Note 38 to the Financial Statements are as follows:

	2008 \$'000
Regulatory audits, reviews, attestations and assurances for Group entities – Australia	135
APRA reporting (including the tripartite review)	245
Financial and other audits, reviews, attestations and assurances for Group entities - Australia	26
Financial and other audits, reviews, attestations and assurances for Group entities – Offshore	544
Agreed upon procedures and comfort letters in respect of financing, debt raising and related activities	272
Taxation services	2,011
Controls review and related work	1,680
Other	982
Total	5,895

(1) An additional amount of \$5,877,085 was paid to PricewaterhouseCoopers by way of fees for entities not consolidated into the Financial Statements. Of this amount \$4,527,545 relates to statutory audits.

Audit Services

Amounts paid or payable for audit services to PricewaterhouseCoopers totalled \$14,041,000.

The Bank has in place an External 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 PricewaterhouseCoopers and has concluded that the provision of those services did not compromise the auditor independence requirements of the Corporations Act.

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 PricewaterhouseCoopers during the year was compatible with the general standard of independence imposed by the Corporations Act.

The reasons for the Directors being satisfied that the provision of the non-audit services during the year did not compromise the auditor independence requirements of the Corporations Act are:

- The operation of the External 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 of audit fees.

The above Directors' statements are in accordance with the advice received from the Audit Committee.

Auditor's Declaration of Independence

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

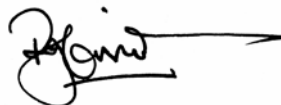
Incorporation of Additional Material

This report incorporates the Chairman's Statement (pages 2 to 3), Highlights (pages 6 to 9), Analysis sections for Retail Banking Services (pages 14 to 15), Premium Business Services (pages 16 to 17), Wealth Management (pages 18 to 21) and International Financial Services (pages 22 to 24) and Shareholding Information (pages 226 to 229) sections of this Annual report.

Signed in accordance with a resolution of the Directors.



J M Schubert
Chairman
13 August 2008



R J Norris
Managing Director and Chief Executive Officer



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Auditor's Independence Declaration

As lead auditor for the audit of Commonwealth Bank of Australia for the year ended 30 June 2008, 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 Commonwealth Bank of Australia and the entities it controlled during the period.

PricewaterhouseCoopers

Rahoul Chowdry
Partner

Sydney
13 August 2008

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Five Year Financial Summary

	2008	2007	2006	AIFRS ⁽¹⁾ 2005	AGAAP ⁽¹⁾ 2004
	\$M	\$M	\$M	\$M	\$M
Income Statement					
Net interest income	7,907	7,036	6,514	6,026	5,410
Other operating income	6,434	6,161	5,613	5,076	5,081
Total operating income	14,341	13,197	12,127	11,102	10,491
Loan Impairment expense	930	434	398	322	276
Operating expenses:					
Comparable business	7,021	6,427	5,994	5,719	5,500
Initiatives including Which new Bank	-	-	-	150	749
Total operating expenses	7,021	6,427	5,994	5,869	6,249
Operating profit before goodwill amortisation, appraisal value uplift and income tax expense	6,390	6,336	5,735	4,911	3,966
Corporate tax expense	(1,626)	(1,782)	(1,618)	(1,409)	(1,262)
Minority interests	(31)	(27)	(31)	(10)	(9)
Net profit after income tax ("cash basis")	4,733	4,527	4,086	3,492	2,695
Defined benefit superannuation plan income/(expense)	9	5	(25)	(53)	-
Treasury shares valuation adjustment	60	(75)	(100)	(39)	-
Hedging and AIFRS volatility	(42)	13	(33)	-	-
Visa Initial Public Offering gain after tax	295	-	-	-	-
Investment and restructuring	(264)	-	-	-	-
Appraisal value uplift	-	-	-	-	201
Goodwill amortisation	-	-	-	-	(324)
Net profit after income tax attributable to Equity holders of the Bank	4,791	4,470	3,928	3,400	2,572
Contributions to profit (after tax)					
Retail Banking Services	1,904	1,766	1,576	n/a	n/a
Premium Business Services	1,480	1,445	1,138	n/a	n/a
Wealth Management	756	548	441	n/a	n/a
International Financial Services	563	461	442	n/a	n/a
Other	43	211	278	n/a	n/a
Net profit after income tax ("underlying basis")	4,746	4,431	3,875	3,420	3,078
Shareholder investment returns	(13)	96	66	177	152
Which new Bank	-	-	-	(105)	(535)
Profit on sale of the Hong Kong Insurance Business	-	-	145	-	-
Net profit after income tax ("cash basis")	4,733	4,527	4,086	3,492	2,695
Defined benefit superannuation plan (expense)/income	9	5	(25)	(53)	-
Treasury shares valuation adjustment	60	(75)	(100)	(39)	-
Hedging and AIFRS volatility	(42)	13	(33)	-	-
Visa Initial Public Offering gain after tax	295	-	-	-	-
Strategic investment initiatives and asset write-offs	(264)	-	-	-	-
Goodwill amortisation	-	-	-	-	(324)
Appraisal value uplift	-	-	-	-	201
Net profit after income tax	4,791	4,470	3,928	3,400	2,572
Balance Sheet					
Loans, advances and other receivables	361,282	315,465	273,525	243,232	189,391
Total assets	487,572	440,157	382,850	351,662	305,995
Deposits and other public borrowings	263,706	219,068	187,576	182,912	163,177
Total liabilities	461,435	415,713	361,507	329,019	281,110
Shareholders' equity	26,137	24,444	21,343	22,643	22,405
Net tangible assets	16,422	15,158	12,087	10,938	17,700
Risk weighted assets	205,501 ⁽²⁾	245,347	216,438	189,559	169,321
Average interest earning assets	385,667	332,492	289,416	260,085	214,187
Average interest bearing liabilities	362,249	311,236	269,718	240,974	197,532
Assets (on Balance Sheet)					
Australia	410,225	360,188	318,578	294,513	252,652
New Zealand	54,312	55,160	43,318	41,383	35,059
Other	23,035	24,809	20,954	15,766	18,284
Total assets	487,572	440,157	382,850	351,662	305,995

(1) The Group adopted AIFRS accounting standards for the reporting period beginning 1 July 2004. As a result the 2008, 2007, 2006 and 2005 results are presented on an AIFRS basis, while the 2004 result is presented on the previous AGAAP basis.

(2) Risk weighted assets for 30 June 2008 are calculated in accordance with the Group's advanced accreditation under Basel II.

Five Year Financial Summary

				AIFRS ⁽¹⁾	AGAAP ⁽¹⁾
	2008	2007	2006	2005	2004
Shareholder Summary					
Dividend per share – fully franked (cents)	266	256	224	197	183
Dividend cover – statutory (times)	1.3	1.3	1.4	1.3	1.1
Dividend cover – cash (times)	1.3	1.3	1.4	1.3	1.1
Dividend cover – underlying (times)	1.3	1.3	1.3	1.3	1.3
Earnings per share (cents)					
Basic					
Statutory	363.0	344.7	308.2	259.6	196.9
Cash basis	356.9	347.1	318.5	264.8	206.6
Underlying basis	357.9	339.6	302.0	259.2	237.1
Fully diluted					
Statutory	348.7	339.7	303.1	255.3	196.8
Cash basis	343.1	342.1	312.9	260.5	206.5
Underlying basis	344.0	335.0	297.1	255.0	237.0
Dividend payout ratio (%)					
Statutory	74.1	75.2	73.3	77.0	93.5
Cash basis	75.0	74.2	70.5	74.9	89.1
Underlying basis	74.8	75.8	74.3	76.5	77.6
Net tangible assets per share (\$)	12.4	11.7	9.4	8.5	12.2
Weighted average number of shares (statutory basic)	1,307	1,281	1,275	1,260	1,256
Weighted average number of shares (statutory fully diluted)	1,424	1,344	1,329	1,316	1,257
Weighted average number of shares (cash basic)	1,313	1,289	1,283	1,269	1,256
Weighted average number of shares (cash fully diluted)	1,430	1,351	1,338	1,325	1,257
Number of Shareholders	741,072	696,118	698,552	704,906	714,901
Share prices for the year (\$)					
Trading high	62.16	56.16	47.41	38.52	33.54
Trading low	37.02	42.98	36.62	28.79	27.00
End (closing price)	40.17	55.25	44.41	37.95	32.58
Performance Ratios (%)					
Return on average Shareholders' equity					
Statutory	19.8	20.7	20.4	18.2	12.5
Cash basis	20.4	21.7	21.5	18.8	12.7
Underlying basis	20.4	21.2	20.4	18.4	14.6
Return on average total assets					
Statutory	1.0	1.1	1.1	1.0	0.9
Cash basis	1.0	1.1	1.1	1.1	0.9
Underlying basis	1.0	1.1	1.1	1.0	1.1
Capital adequacy – Tier One	8.17	7.14	7.56	7.46	7.43
Capital adequacy – Tier Two	3.41	3.41	3.10	3.21	3.93
Capital adequacy – Deductions	-	(0.79)	(1.00)	(0.92)	(1.11)
Capital adequacy – Total	11.58	9.76	9.66	9.75	10.25
Net interest margin	2.02	2.08	2.22	2.29	2.53
Other Information (numbers)					
Full-time equivalent employees	39,621	37,873	36,664	35,313	36,296
Branches/services centres (Australia)	1,009	1,010	1,005	1,006	1,012
Agencies (Australia)	3,814	3,833	3,836	3,864	3,866
ATMs (proprietary)	3,301	3,242	3,191	3,154	3,109
EFTPOS terminals	187,377	171,138	157,350	137,240	126,049
EzyBanking locations	930	907	862	841	815
Productivity					
Total net operating income per full-time (equivalent) employee (\$)	361,955	348,454	330,760	314,388	289,040
Employee expense/Total operating income (%)	25.5	24.5	23.3	24.1	24.3
Total operating expenses/Total operating income (%)	49.0	48.7	49.4	52.9	59.6

(1) The Group adopted AIFRS accounting standards for the reporting period beginning 1 July 2004. As a result the 2008, 2007, 2006 and 2005 results are presented on an AIFRS basis, while the 2004 result is presented on the previous AGAAP basis.

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Financial Statements

Income Statements

For the year ended 30 June 2008

	Note	Group			Bank
		2008 \$M	2007 \$M	2006 \$M	2007 \$M
Interest income	2	29,234	23,862	19,758	20,068
Interest expense	2	21,327	16,826	13,244	14,916
Net interest income		7,907	7,036	6,514	5,152
Other operating income	2	3,559	3,341	3,036	5,522
Net banking operating income ⁽¹⁾		11,466	10,377	9,550	10,674
Funds management income		2,369	1,871	1,589	-
Investment (expense)/revenue		(525)	2,120	2,098	-
Claims and policyholder liability revenue/(expense)		519	(2,020)	(2,064)	-
Net funds management operating income	2	2,363	1,971	1,623	-
Premiums from insurance contracts		1,373	1,117	1,052	-
Investment (expense)/revenue		(27)	858	1,031	-
Claims and policyholder liability expense from insurance contracts		(606)	(932)	(970)	-
Insurance margin on services operating income	2	740	1,043	1,113	-
Total net operating income	2	14,569	13,391	12,286	10,674
Loan impairment expense	2,14,15	930	434	398	390
Operating expenses	2	7,398	6,427	5,994	4,882
Defined benefit superannuation plan income/(expense)	2,43	14	8	(35)	8
Net profit before income tax	2	6,255	6,538	5,859	5,410
Corporate tax expense	5	1,548	1,775	1,569	933
Policyholder tax (benefit)/expense	5	(115)	266	331	-
Net profit after income tax		4,822	4,497	3,959	4,477
Minority interests		(31)	(27)	(31)	-
Net profit attributable to Equity holders of the Bank		4,791	4,470	3,928	4,477

(1) Net Banking operating income of the Bank is greater than the Group due to the receipt of tax exempt intragroup dividends.

	Note	Group		Group
		2008	2007	2006
		Cents per share		
Earnings per share:				
Basic	7	363.0	344.7	308.2
Fully diluted	7	348.7	339.7	303.1
Dividends per share attributable to shareholders of the Bank:				
Ordinary shares	6	266	256	224
Trust preferred securities (TPS) – issued 8 March 2006		6,850	7,821	-

These Financial Statements should be read in conjunction with the accompanying notes.

Financial Statements

Balance Sheets

As at 30 June 2008

		Group			Bank
	Note	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Assets					
Cash and liquid assets	8	7,736	10,108	7,282	7,401
Receivables due from other financial institutions	9	6,984	5,495	6,731	5,772
Assets at fair value through Income Statement:	10				
Trading		21,676	21,469	19,168	20,287
Insurance		20,650	23,519	-	-
Other		3,266	4,073	274	448
Derivative assets	11	18,232	12,743	19,287	13,862
Available-for-sale investments	12	11,488	9,672	27,067	8,468
Loans, advances and other receivables	13	361,282	315,465	309,714	262,967
Bank acceptances of customers		18,278	18,721	18,278	18,721
Shares in and loans to controlled entities	17	-	-	37,472	37,596
Property, plant and equipment	19	1,640	1,436	1,336	1,112
Investment in associates	45	906	836	757	749
Intangible assets	20	8,258	7,835	2,826	2,788
Deferred tax assets	5	76	254	54	25
Other assets	21	6,492	7,157	5,369	6,786
		486,964	438,783	455,615	386,982
Assets held for sale	22	608	1,374	412	21
Total assets		487,572	440,157	456,027	387,003
Liabilities					
Deposits and other public borrowings	23	263,706	219,068	240,871	194,630
Payables due to other financial institutions	24	17,672	14,386	17,625	14,322
Liabilities at fair value through Income Statement	25	15,526	16,396	2,930	5,206
Derivative liabilities	11	19,541	16,680	19,367	16,786
Bank acceptances		18,278	18,721	18,278	18,721
Due to controlled entities		-	-	54,119	45,642
Current tax liabilities	26	768	882	708	800
Deferred tax liabilities	5	266	908	19	91
Other provisions	27	1,174	878	983	734
Insurance policy liabilities	37	18,495	21,613	-	-
Debt issues	28	85,817	88,525	55,778	47,760
Managed funds units on issue	29	1,109	310	-	-
Bills payable and other liabilities	30	7,524	7,346	6,301	6,366
		449,876	405,713	416,979	351,058
Loan capital	31	11,559	10,000	11,620	10,422
Total liabilities		461,435	415,713	428,599	361,480
Net assets		26,137	24,444	27,428	25,523
Shareholders' Equity					
Share capital:					
Ordinary share capital	33	15,727	14,483	15,927	14,691
Other equity instruments	33	939	939	1,895	1,895
Reserves	32	1,206	2,143	2,253	2,622
Retained profits	32	7,747	6,367	7,353	6,315
Shareholders' equity attributable to Equity holders of the Bank		25,619	23,932	27,428	25,523
Minority interests:					
Controlled entities	34	518	512	-	-
Total minority interests		518	512	-	-
Total Shareholders' equity		26,137	24,444	27,428	25,523

These Financial Statements should be read in conjunction with the accompanying notes. Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Financial Statements

Statements of Recognised Income and Expense

For the year ended 30 June 2008

	Note	Group				Bank
		2008 \$M	2007 \$M	2006 \$M	2008 \$M	2007 \$M
Actuarial (losses)/gains from defined benefit superannuation plans	32,43	(240)	414	387	(240)	414
Gains/(losses) on cash flow hedging instruments:						
Recognised in equity	32	422	429	89	426	125
Transferred to Income Statement	32	(573)	120	(58)	(318)	167
Gains/(losses) on available-for-sale investments:						
Recognised in equity	32	262	28	51	240	18
Transferred to Income Statement on disposal	32	(312)	(138)	(33)	(272)	(119)
Transferred to Income Statement on impairment	32	-	-	(3)	-	-
Revaluation of properties	32	20	79	19	19	75
Transfer from Foreign Currency Translation Reserve to Income Statement on disposal	32	-	-	41	-	-
Exchange differences on translation of foreign operations	32	(648)	54	(232)	(103)	(119)
Income tax on items transferred directly to/from equity:						
Foreign Currency Translation Reserve	32	53	(13)	13	1	(1)
Available-for-sale investments revaluation reserve	32	44	10	(6)	7	14
Revaluation of properties	32	(4)	(23)	(4)	(4)	(23)
Cash flow hedge reserve	32	52	(168)	(11)	(27)	(87)
Net (expense)/income recognised directly in equity		(924)	792	253	(271)	464
Profit for the period		4,822	4,497	3,959	4,358	4,477
Total net income recognised for the period		3,898	5,289	4,212	4,087	4,941
Attributable to:						
Equity holders of the Bank		3,867	5,262	4,181	4,087	4,941
Minority interests		31	27	31	-	-
Total net income recognised for the period		3,898	5,289	4,212	4,087	4,941

These Financial Statements should be read in conjunction with the accompanying notes.

Financial Statements

Statements of Cash Flows ⁽¹⁾

For the year ended 30 June 2008

	Note	Group			Bank	
		2008 \$M	2007 \$M	2006 \$M	2008 \$M	2007 \$M
Cash Flows From Operating Activities						
Interest received		29,464	23,123	19,712	25,445	19,471
Interest paid		(20,786)	(16,405)	(12,555)	(19,098)	(14,614)
Other operating income received		5,314	4,627	4,319	3,485	2,826
Expenses paid		(6,882)	(5,699)	(5,813)	(5,385)	(4,364)
Income taxes paid		(1,905)	(1,942)	(1,980)	(1,601)	(1,056)
Net (increase)/decrease in assets at fair value through Income Statement (excluding life insurance)		(990)	(1,715)	(307)	200	(3,206)
Net increase/(decrease) in liabilities at fair value through Income Statement:						
Life insurance:						
Investment income		509	2,296	2,399	-	-
Premiums received ⁽²⁾		2,304	2,431	2,338	-	-
Policy payments ⁽²⁾		(3,789)	(5,346)	(4,938)	-	-
Other liabilities at fair value through Income Statement		810	4,831	1,941	(2,279)	3,373
Cash Flows from operating activities before changes in operating assets and liabilities		4,049	6,201	5,116	767	2,430
Changes in operating assets and liabilities arising from cash flow movements						
Movement in available-for-sale investments:						
Purchases		(35,113)	(22,214)	(28,189)	(48,162)	(21,411)
Proceeds from sale		610	1,480	646	577	1,101
Proceeds at or close to maturity		31,974	21,139	24,831	28,432	20,582
Lodgement of deposits with regulatory authorities		13	(8)	(29)	1	(2)
Net (increase) in loans, advances and other receivables		(51,570)	(37,885)	(31,996)	(47,536)	(35,037)
Net (increase)/decrease in receivables due from other financial institutions not at call		(2,621)	833	(881)	(2,126)	2,089
Net decrease/(increase) in securities purchased under agreements to resell		634	(1,647)	537	311	(1,867)
Life insurance business:						
Purchase of insurance assets at fair value through Income Statement		(8,719)	(8,476)	(8,078)	-	-
Proceeds from sale/maturity of insurance assets at fair value through Income Statement		11,159	8,842	9,398	-	-
Net increase in deposits and other borrowings		49,603	26,361	12,799	48,418	20,914
Net proceeds from issuance of debt securities		(4,816)	7,207	14,109	6,274	(5,254)
Net increase in payables due to other financial institutions not at call		4,486	1,865	2,571	4,584	1,864
Net (decrease)/increase in securities sold under agreements to repurchase		(1,764)	1,943	328	(1,835)	2,013
Changes in operating assets and liabilities arising from cash flow movements		(6,124)	(560)	(3,954)	(11,062)	(15,008)
Net cash (used in)/provided by operating activities	48(a)	(2,075)	5,641	1,162	(10,295)	(12,578)
Cash Flows from Investing Activities						
Payment for acquisition of entities and management rights	48(e)	(241)	(7)	(414)	-	-
Proceeds from disposal of controlled entities	48(c)	2	-	553	-	-
Proceeds from disposal of entities and businesses (net of cash disposals)		-	16	35	-	-
Dividends received		39	3	4	1,667	1,881
Net amounts received from controlled entities		-	-	-	8,864	11,760
Proceeds from sale of property, plant and equipment		14	53	32	10	49
Purchases of property, plant and equipment		(482)	(314)	(385)	(421)	(242)
Payment for acquisitions of investments in associates/joint ventures		-	(6)	(152)	-	(6)
Purchases of intangible assets		(226)	(130)	(90)	(183)	(51)
Sale/(purchases) of assets held for sale		766	(1,091)	-	(391)	-
Net (increase)/decrease in other assets		(24)	(800)	31	1,025	(738)
Net cash (used in)/provided by investing activities		(152)	(2,276)	(386)	10,571	12,653

(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.

These Financial Statements should be read in conjunction with the accompanying notes. Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Financial Statements

Statements of Cash Flows ⁽¹⁾

For the year ended 30 June 2008

	Note	Group				Bank
		2008	2007	2006	2008	2007
		\$M	\$M	\$M	\$M	\$M
Cash Flows from Financing Activities						
On-market share purchase		-	-	(500)	-	-
Proceeds from issue of shares (net of costs)		3	19	49	3	19
Proceeds from issue of other equity instruments (net of costs)		-	-	939	-	-
Dividends paid (excluding Dividend Reinvestment Plan) ⁽²⁾		(2,351)	(2,284)	(2,163)	(2,317)	(2,229)
Net movement in other liabilities		553	219	139	453	1,197
Net (purchase)/sale of treasury shares		(9)	55	(10)	(17)	(55)
Issue of loan capital		2,091	1,969	2,446	1,784	1,865
Redemption of loan capital		(7)	(1,069)	(915)	(7)	(965)
Other		128	(228)	1	34	(20)
Net cash provided by/(used in) financing activities		408	(1,319)	(14)	(67)	(188)
Net (decrease)/increase in cash and cash equivalents		(1,819)	2,046	762	209	(113)
Cash and cash equivalents at beginning of period		4,084	2,038	1,276	128	241
Cash and cash equivalents at end of period ⁽³⁾	48(b)	2,265	4,084	2,038	337	128

(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) Includes \$98 million allocated to participants under the Dividend Reinvestment Plan by an on-market purchase.

(3) 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.

These Financial Statements should be read in conjunction with the accompanying notes

Notes to the Financial Statements

Note 1 Accounting Policies

General Information

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 2008, were approved and authorised for issue by the Board of Directors on 13 August 2008.

The Bank is incorporated and domiciled in Australia. It is a company limited by shares that are publicly traded on the Australian Stock Exchange. The address of its registered office is Level 7, 48 Martin Place, Sydney, NSW 1155, 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. The principal activities of the Group during the financial year were:

(i) Retail Banking Services

The Group provides retail banking services within Australia including housing loans, credit cards, personal loans, savings and cheque accounts, and demand and term deposits.

(ii) Premium Business Services

The Group offers commercial products within Australia including business loans, equipment and trade finance, and rural and agribusiness products and provides private banking services to high net worth individuals and direct trading and margin lending through CommSec. This segment also has wholesale banking operations in London, New York, Singapore, Hong Kong and Malta.

(iii) Wealth Management

The Wealth Management segment conducts Australian funds management business comprising wholesale and retail investment, superannuation and retirement funds. Investments are across all major asset classes including Australian and international shares, property, fixed interest and cash. This segment also has funds management businesses in the United Kingdom and Asia.

The Wealth Management segment also provides Australian term insurance, disability insurance, annuities, master trusts, investment products and general insurance.

(iv) International Financial Services

The Group has full service banking operations in New Zealand, Fiji and Indonesia. The Group also has wholesale banking operations in Indonesia, regions of China and Tokyo. The Group's International Financial Services segment also conducts Life Insurance operations in New Zealand, where it has the leading market share, as well as Asia and the Pacific, and conducts Funds Management business in New Zealand.

There have been no significant changes in the nature of the principal activities of the Group during the financial year.

(a) Bases of accounting

This general purpose Financial Report for the year ended 30 June 2008 has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards ("AIFRS") and the requirements of the Corporations Act 2001.

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

The preparation of the Annual Financial Report conforming with AIFRS requires management to make estimates and assumptions that affect the amounts reported in the Financial Statements and accompanying notes. Further information is included in Note 1 (mm) Critical Accounting Policies and Estimates.

The use of available information and the application of judgement are inherent in the formation of estimates. Actual results could differ from these estimates.

(b) Basis of preparation

The Financial Statements are prepared on the basis of historical cost except that the following assets and liabilities are measured at fair value: derivative financial instruments, assets and liabilities at fair value through Income Statement, available-for-sale investments, insurance policy liabilities, domestic bills discounted which are included in loans, advances and other receivables, investment property which backs liabilities paying a return linked to the fair value or returns from assets including the investment property, owner-occupied property, defined benefit plan assets and liabilities, employee share-based remuneration liabilities and recognised assets and liabilities attributable to the hedged risk in a hedging relationship that qualifies for hedge accounting treatment.

The Financial Report is presented in Australian dollars.

The following comparative information has been restated:

- During the year the Group reassessed the application of AASB 132 Financial Instruments: Presentation, to certain products with legal right of set off, for which interest is calculated and charged on a net basis. While interest continues to be calculated and charged on a net basis, the Group no longer considers that these products meet the requirements for set off in the Balance Sheet, so they are now presented on a gross basis. Prior periods have been restated by increasing: Loans, advances and other receivables and Deposits and other public borrowings as follows - 2007: increased \$15,686 million, 2006: increased \$14,349 million;
- During the year the Group reassessed the application of AASB 139 Financial Instruments: Recognition and Measurement, to certain liabilities previously designated as Liabilities at fair value through Income Statement. These liabilities did not meet the necessary requirements for this designation. Consequently these liabilities have been reclassified to Debt issues. Prior periods have been restated, by decreasing Liabilities at fair value through Income Statement and increasing Debt issues as follows - 2007: \$3,035 million, 2006: \$2,144 million; and
- During the year the Group reassessed the application of AASB 112: Income Taxes, to presentation of deferred income tax balances for the tax-consolidated group and determined that the conditions for set-off have been met. This has had the effect of reducing Deferred tax assets and Deferred tax liabilities as follows - 2007: \$668 million, 2006: \$602 million.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

The following standards, interpretations and amendments have been early adopted during the financial year commencing 1 July 2007:

- AASB Interpretation 13 Customer Loyalty Programmes, was early adopted on 1 July 2007. Upon transition this resulted in a reduction in retained earnings of \$5 million and replacement of the Group's provision for future expenses in relation to its credit card loyalty programmes with an equivalent amount of deferred income. Income in relation to the credit card loyalty program will be recognised in subsequent periods when the loyalty points are redeemed and CBA fulfils its obligation; and
- AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 (February 2007), was early adopted effective 1 July 2007. This has resulted in changes to the presentation of the Group's segment reporting.

The following standards, interpretations and amendments have been applied by the Group during the financial year commencing 1 July 2007:

- AASB 7 Financial Instruments: Disclosures (August 2005) supersedes AASB 130 and the disclosure requirements of AASB 132. This new standard has no impact on the recognition, measurement or presentation of financial instruments, so does not impact the Group's financial position or results. It requires disclosures about the significance of financial instruments to the Group's financial position and result, and the nature and extent of credit, market and liquidity risks arising from financial instruments, including how they are managed;
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) made consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7;
- AASB 2007-4 Amendments to Australian Accounting Standards Arising from ED 151 and Other Amendments (April 2007)[1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038] allows additional choices in the application of AASB 107 Cash Flow Statements and AASB 131 Interests in Joint Ventures, amends the definition of "separate financial statements" in certain standards, removes the commentary from AASB 119 Employee Benefits, that Australia does not have a sufficiently active and liquid market for high quality corporate bonds for the purpose of discounting employee benefit liabilities, and removes many of the additional Australian disclosure requirements in a number of standards, other than those considered particularly relevant in the Australian environment;

- AASB 2007-7 Amendments to Australian Accounting Standard [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128] which follows the issuance of AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments;
- AASB Interpretation 10 Interim Financial Reporting and Impairment addresses the interaction between the requirements of AASB 134 Interim Financial Reporting and the recognition of impairment losses on goodwill in AASB 136 and certain financial assets in AASB 139, and the effect of that interaction on subsequent interim and annual financial reports;
- AASB Interpretation 11 AASB 2 Group and Treasury Share Transactions addresses whether certain types of share-based payment transactions with employees (or other suppliers of good and services) should be accounted for as equity-settled or as cash-settled transactions under AASB 2 and also specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent;
- AASB 2007-1 Amendments to Australian Accounting Standards. This follows the issuance of Interpretation 11; and
- AASB 2008-4 Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities removes the requirement for disclosing entities that are companies from having to make Key Management Personnel (KMP) compensation disclosures in the financial report as well as in the remuneration report. This standard amends AASB 124 to exclude the Group from the application of AASB 124 paragraphs 25.2-25.6 and 25.7.1 and 25.7.2. This has resulted in the removal of the KMP from the financial report.

None of these had a material effect on the financial results or position of the Group.

The following interpretations will be applied from the financial year commencing 1 July 2008:

- AASB Interpretation 4 Determining whether an Arrangement contains a Lease is applicable to annual reporting periods beginning on or after 1 January 2008. The initial application of AASB Interpretation 4 is not expected to materially impact the financial results of the Bank or the Group;
- AASB Interpretation 12 Service Concession Arrangements and AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 are applicable to annual reporting periods beginning on or after 1 January 2008. The initial application of AASB Interpretation 12 is not expected to materially impact the financial results of the Bank or the Group; and
- AASB Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction is applicable to annual reporting periods beginning on or after 1 January 2008. The initial application of AASB Interpretation 14 is not expected to materially impact the financial results of the Bank or the Group.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

The following standards and amendments are available for early adoption at 1 July 2008 and will be applied from the financial year commencing 1 July 2009:

- AASB 2007-6 Amendments to Australian Accounting Standards Arising from AASB 123 (June 2007) and Revised AASB 123 Borrowing Costs (June 2007) which removes the option to expense borrowing costs related to “qualifying assets”. AASB 2007-6 and the revised AASB 123 are applicable for annual reporting periods beginning on or after 1 January 2009. The initial application of AASB 2007-6 is not expected to materially impact the financial results of the Bank or the Group;
- Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127. The initial application of these revised standards is not expected to materially impact the financial results of the Bank or the Group;
- Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 and AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101. The initial application of the revised AASB 101 and the revised AASB 2007-10 is not expected to materially impact the financial results of the Bank or the Group. This standard has no impact on the Bank or the Group’s financial position or results;
- AASB 2008-1 Amendments to Australian Accounting Standards – Share based Payments: Vesting Conditions and Cancellations clarifies that vesting conditions comprise service conditions and performance conditions only and that other features of a share-based payment transaction are not vesting conditions and specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The initial application of AASB 2008-1 is not expected to materially impact the financial results of the Bank or the Group; and
- AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation introduces an exception to the definition of financial liability to classify as equity instruments certain puttable financial instruments and certain instruments that impose on an entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation of the entity. The initial application of AASB 2008-2 is not expected to materially impact the financial results of the Bank or the Group.

Other standards and amendments are unlikely to have a material effect on the Group.

(c) Consolidation

The consolidated Financial Statements include the Financial Statements of the Bank and all entities where it is determined that there is a capacity to control the entity.

Potential voting rights are considered when assessing control. A number of consolidated entities were formed by the Group for the purpose of asset securitisation transactions and structured debt issuance, or to accomplish certain other narrow and well-defined objectives. Such entities may acquire assets directly or indirectly from the Bank or its affiliates.

Additionally, some of these entities are bankruptcy-remote (i.e. their assets are not available to satisfy the claims of creditors of the Group or any other of its subsidiaries). These entities are consolidated in the Group’s Financial Statements when the majority of exposure to risks and benefits from the entity resides with the Group.

All balances and transactions between Group entities, including unrealised gains and losses, have been eliminated on consolidation.

The consolidated Financial Statements also include the Group’s share of the financial results of entities where the Group holds an investment in, and has significant influence over, the financial and operating policies of the entity. This is normally evidenced when the Group owns 20% or more of the voting rights.

Associated companies are defined as those entities over which the Group has significant influence but there is no capacity to control. Investments in associates are carried at cost plus the Group’s share of post-acquisition profit or loss and other reserves. The Group’s share of profit or loss of associates is included in the Group’s Income Statement.

(d) Revenue recognition

Revenue is recognised to the extent it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The principal sources of revenue are interest income and fees and commissions.

Interest income

Interest income is recognised on an accrual basis using the effective interest method. Further information is included in Note 1 (g) Receivables from other financial institutions, Note 1 (i) Assets at fair value through Income Statement, Note 1 (j) Available-for-sale investments, Note 1 (l) Loans, advances and other receivables, and Note 1 (m) Leasing.

Lending fees

Fee income and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to interest income over the expected life of the loan using the effective interest method. Fees received for commitments which are not expected to result in a loan are recognised in the Income Statement over the commitment period.

Loan syndication fees where the Group does not retain a portion of the syndicated loan are recognised in income once the syndication has been completed. Where fees are received on an ongoing basis and represent the recoupment of the costs of maintaining and administering existing loans, these fees are recognised in Income Statement on an accrual basis.

Fees and commissions

When commission charges and fees relate to specific transactions or events, they are recognised in income in the period in which they are earned. However, when they are charged for services provided over a period, they are recognised in the income on an accrual basis.

Other income

Trading income is recognised when earned based on changes in fair value of financial instruments and is recorded from trade date. Further information is included in Notes 1 (e) Foreign currency translations, 1 (i) Assets at fair value through Income Statement, and Note 1 (ff) Derivative financial instruments.

Life insurance business income recognition is explained in Note 1 (hh).

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

(e) Foreign currency translations

The functional and presentation currency of the domestic operations of the Bank has been determined to be Australian Dollars ("AUD") as this currency best reflects the economic substance of the underlying events and circumstances relevant to the Bank. Each entity and overseas branch within the Group has also determined their functional currency based on their own primary economic indicators.

All foreign currency monetary items are revalued at spot rates of exchange prevailing at Balance Sheet date and changes in the spot rate are recorded in the Income Statement. Foreign currency forward, futures, swaps and option positions are revalued at appropriate market rates applying at Balance Sheet date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into AUD at foreign exchange rates ruling at the dates the fair value was determined.

With the exception of the revaluations classified in equity, unrealised foreign currency gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are included in the Income Statement.

The foreign currency assets and liabilities of overseas branches and controlled entities with an overseas functional currency are converted to AUD at Balance Sheet date in accordance with the foreign exchange rates ruling at that date. Profit and loss items for overseas branches and controlled entities are converted to AUD progressively throughout the year at the spot exchange rate at the date of the transaction. All resulting exchange differences are recognised in the Foreign Currency Translation Reserve ("FCTR") as a separate component of equity.

Translation differences arising from translation of opening balances of shareholders' funds of overseas branches and controlled entities at year end exchange rates are reflected in the FCTR. The Group maintains a substantially matched position in assets and liabilities in foreign currencies and the level of net foreign currency exposure does not have a material impact on its financial condition.

(f) Cash and liquid assets

Cash and liquid assets includes 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.

(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 similar to loans, advances and other receivables, refer Note 1 (l). Interest is recognised in the Income Statement using the effective interest method.

(h) Financial instruments

Financial instruments are classified into one of the following categories which determines their measurement basis:

- Assets at fair value through Income Statement (Note 1 (i));

- Available-for-sale investments (Note 1 (j));
- Derivative assets (Note 1 (ff));
- Loans, advances and other receivables (Note 1 (l));
- Liabilities at fair value through Income Statement (Note 1 (x));
- Liabilities at amortised cost;
- Derivative liabilities (Note 1 (ff)); and
- Shareholders' equity (Note 1 (ee)).

Except for restructured facilities referred to in Note 1(l) Loans, advances and other receivables, financial instruments are transacted on a commercial basis to derive an interest yield/cost with terms and conditions having due regard to the nature of the transaction and the risks involved.

The Group has no held to maturity investments.

Offsetting financial instruments

The Group offsets financial assets and liabilities 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.

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 when control is no longer retained, 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 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. This 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 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.

Assets at fair value through Income Statement are classified into three subcategories: Trading, Insurance and Other.

Trading

Trading assets are short and long term public, bank and other debt securities and equities that are acquired and held for trading purposes. Subsequent to initial recognition, fair value is measured using quoted bid prices where available. In a trading portfolio with offsetting risk positions, quoted mid prices, where available, are used to measure the fair value. Non-market quoted assets are valued using valuation techniques based on market conditions and risks existing at Balance Sheet date.

Insurance

Insurance assets are investments that back life insurance contracts and life investment contracts. They are measured at fair value based on quoted bid prices or using appropriate valuation techniques. Refer to Note 1 (hh), Life insurance business for further details.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

Other

Other investments include financial assets which the Group has designated as at fair value through Income Statement at inception to eliminate an accounting mismatch. Subsequent to initial recognition fair value is measured using quoted bid prices where available. 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 market conditions and risks existing at Balance Sheet date.

(j) Available-for-sale investments

Available-for-sale investments are short and long term public, bank and other securities and include bonds, notes, bills of exchange, commercial papers, certificates of deposit, equities and rolling loan originations and syndications.

Available-for-sale investments are initially recognised at fair value including transaction costs, and thereafter at fair value. Equity investments whose fair value cannot be reliably measured are valued at cost. Gains and losses arising from changes in fair value are reported 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 reflected in other operating income when earned.

Available-for-sale investments are tested for impairment in line with Note 1 (n) Provisions for impairment.

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 retained within the Available-for-sale investments or Assets at fair value through Income Statement categories and accounted for accordingly in line with Note 1 (j) and (i) respectively.

Liability accounts are used to record the obligation to repurchase and disclosed as Deposits. Securities held under reverse repurchase agreements are recorded within Cash and liquid assets.

(l) Loans, advances and other receivables

Loans, advances and other receivables are financial assets with fixed and determinable payments that are not quoted in an active market.

They include overdrafts, home loans, credit card and other personal lending, term loans, bill financing, redeemable preference shares, securities and finance leases. Loans, advances and other receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at amortised cost using the effective interest method and are presented net of provisions for impairment. Where loans, advances and other receivables are originated with the intent to be sold immediately or in the short term, they are recorded in Assets at fair value through Income Statement.

Note 1 (d) and Note 1 (n) provide additional information with respect to revenue recognition and impairment respectively.

Non-Performing Facilities

Individual provisions for impairment are recognised to reduce the carrying amount of loans, advances 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 interest rate used for the purpose of measuring the impairment of the asset.

Restructured Facilities

When the original contractual terms of facilities (primarily loans) are modified, the accounts become classified as restructured. Such accounts 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 account 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

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 and classified in the appropriate asset classifications in the Balance Sheet.

Impairment of loans, advances and other receivables

The Group has individually assessed and collective provisions for impairment as explained in Note 1 (n).

(m) Leasing

Leases where the Group transfers substantially all the risks and rewards incident to ownership of an asset to the lessee or a third party are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised.

Income on finance lease transactions is recognised on a basis reflecting a constant periodic return based on the lessor's net investment outstanding in respect of the finance lease.

The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest method. Finance lease receivables are included in Loans, advances and other receivables.

Leases where the Group retains substantially all the risks and rewards incident to ownership of an asset are classified as operating leases.

Operating lease rental revenue and expense is recognised in the Income Statement on a straight-line basis over the lease term. The Group classifies assets leased out under operating leases as property, plant and equipment. These assets are depreciated over their expected useful lives on a basis consistent with similar fixed assets.

(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.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

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 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, advances and other receivables

The Group assesses at each balance date whether there is any objective evidence of impairment.

If there is objective evidence that an impairment loss on loans, advances 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.

The Group has individually assessed provisions and collectively assessed provisions. Individually assessed provisions are made against individually significant financial assets and groups of financial assets with similar credit risk characteristics.

Individually significant provisions are assessed as the difference between an asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

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 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

When a decline in the fair value of an Available-for-sale investment has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the Income Statement through a provision account.

If in a subsequent period the amount of an impairment loss for an available-for-sale debt security decreases and the decrease 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 while the asset is still recognised.

Goodwill and other non-financial assets

Goodwill balances and intangible assets with an indefinite useful life are assessed for impairment at each reporting date or more regularly where an indication of impairment exists. Refer to Note 1 (t) Intangibles for more details on goodwill and intangibles impairment testing. If any such indication exists, 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.

The recoverable amount of an asset or cash generating unit can be the greater of the fair value less cost to sell, or value in use. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

A previously recognised impairment loss (except for goodwill) 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

Provisions for impairment for off-balance sheet items such as a commitment are reported in other provisions. Measurement of provisions is discussed further in Note 1 (aa) Provisions.

The Group recognises impairment provisions in respect of only those advances and credit transactions for which there is objective evidence of impairment at Balance Sheet date.

The amounts required to bring the provisions for impairment to their assessed levels are recognised in the Income Statement.

(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 raised 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

Equity contributions to controlled entities are carried in the Bank's Financial Statements at the lower of cost of acquisition or recoverable amount, and loans to controlled entities are measured at amortised cost using the effective interest method.

These assets are measured at fair value when impaired and a provision is raised as per Note 1 (n) Provisions for impairment.

(q) Investment property

Investment properties are classified as properties held to earn rental income and/or for capital appreciation.

The Group carries investment property which backs liabilities paying a return linked to the fair value or returns from assets including the investment property at fair value based on a valuation performed by professional valuers. Valuations are carried out annually. Fair value movements are recognised in the Income Statement in the period in which they arise.

(r) Assets classified as held for sale

Assets are classified as held for sale when their carrying amounts will be recovered principally through sale within 12 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. Where this is the case the asset's measurement basis is separately outlined.

Assets classified as held for sale are neither amortised nor depreciated unless the nature of the asset requires it.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

(s) Property, plant and equipment

The Group measures its property assets (land and buildings) on a fair value measurement basis using 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, if any. Depreciation is calculated principally on a category basis at rates applicable to each category's useful life using the straight-line method and treated as an operating expense charged to the Income Statement.

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	
Shell	Maximum 30 years
Integral plant and equipment:	
Carpets	10 years
All other (air-conditioning, lifts)	20 years
Non-integral plant and equipment:	
Fixtures and fittings	10 years
Leasehold improvements	
Leasehold improvements	Lesser of unexpired lease term or lives as above
Equipment	
Security surveillance systems	7 years
Furniture	8 years
Office machinery	5 years
EFTPOS machines	3 years

Depreciation rates and methods underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.

Estimates of useful lives are revised when a change in circumstances indicates a reassessment should be performed.

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 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.

Where the Group expects the carrying amount of assets held within property, plant and equipment to be recovered principally through a sale transaction in the short-term rather than through continuing use, these assets are classified as Held for sale.

(t) Intangibles

Goodwill

Goodwill, representing the excess of purchase consideration plus incidental expenses over the fair value of the identifiable net assets at the time of acquisition of an entity, is capitalised and recognised in the Balance Sheet.

Goodwill is reviewed annually for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired. For the purposes of impairment testing, goodwill is allocated to cash-generating units or groups of units. A cash-generating unit is the smallest identifiable group of assets that generate independent cash flows. Goodwill is allocated by the Group to cash generating units or groups of units based on how goodwill is monitored by management.

An impairment loss is recognised for a cash-generating unit if the higher of the recoverable amount or the value in use of the unit/group of units is less than the carrying amount of the unit/group of units.

The recoverable amount of the cash-generating units is calculated as the fair value less costs to sell, measured using readily available market data and assumptions. Impairment losses on goodwill are not subsequently reversed.

Gains and losses on the disposal of an entity are net of the carrying amount of the goodwill relating to the entity.

Computer software costs

Where computer software costs are not integrally related to associated hardware, the Group recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Group controls.

The Group carries capitalised software assets at cost less amortisation and any impairment losses.

These assets are amortised over their estimated useful lives on a straight-line basis which is usually between three and five years.

Estimates of useful lives are revised when a change in circumstances indicates a reassessment should be performed.

Any impairment loss is recognised when incurred.

Software maintenance costs are expensed as incurred.

Other Intangibles

Other intangibles comprise acquired management fee rights and customer lists where they are clearly identifiable, can be reliably measured and where it is probable they will lead to future economic benefits that the Group controls.

Management fee rights have been assessed to have indefinite lives and are carried at cost less any impairment losses.

Customer lists are carried at cost less amortisation, which is generally over a period of ten years.

(u) Other assets

Other assets include all other financial assets and include interest, fees and other unrealised income receivable, and securities sold not delivered. These assets are recorded at the amortised cost.

The net surpluses or deficits that arise within defined benefit superannuation plans are recognised and disclosed separately in Other assets and Bills payable and Other liabilities.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

(v) Deposits from customers

Deposits and other public borrowings includes certificates of deposits, term deposits, savings deposits, cheque and other demand deposits, debentures and other funds raised publicly by borrowing corporations. 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.

Where the Group has hedged deposits with derivative instruments, hedge accounting rules are applied (refer to Note 1 (ff) Derivative financial instruments).

(w) Payables to other financial institutions

Payables to other financial institutions include deposits, vostro balances and settlement account balances due to other banks. They are recognised at fair value including directly attributable transaction costs at inception.

Payables to other financial institutions are subsequently recognised at amortised cost. Interest and yield related fees are recognised using the effective interest method.

Where the Group has designated payables to other financial institutions as Liabilities at fair value through Income Statement, the changes in fair value are reported in the Income Statement (refer Note 1 (x) Liabilities at fair value through Income Statement).

(x) 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. The liabilities are recognised on trade date at fair value and transaction costs are taken directly to the Income Statement. Subsequent changes in fair value are recognised in the Income Statement. For quoted liabilities, quoted offer prices are subsequently used to measure fair value. Quoted mid prices are used to measure liabilities with offsetting risk positions in a portfolio at fair value. For non-market quoted liabilities, subsequent fair values are determined using valuation techniques.

(y) 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 equity, in which case it is recognised in equity.

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 Group elected to be taxed as a single entity under the tax consolidation system with effect from 1 July 2002.

The Bank has formally notified the Australian Taxation Office of its adoption of the tax consolidation regime. In addition to the Group electing to be taxed as a single entity under the tax consolidation regime, the measurement and disclosure of deferred tax assets and liabilities has been performed in accordance with the principles in AASB 112, and on a modified stand alone basis under UIG 1052.

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 (refer below).

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.

(z) 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 staff housing loan benefits, a subsidy to a registered health fund with respect to retired and current employees, and employee incentives under employee share plans and bonus schemes.

The Group engages in share-based remuneration in respect of services received from certain of its 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 Equity 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.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

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. 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.

(aa) 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.

(bb) Debt issues

Debt issues are short and long term debt issues of the Group including commercial papers, notes, term loans and medium term notes. 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. Refer to Note 1 (x) Liabilities at fair value through Income Statement.

Embedded derivatives with economic characteristics and risks that are not wholly related to the economic characteristics and notes of the host instruments are separated from the debt issues. Refer Note 1 (ff) Derivative financial instruments.

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. Refer to Note 1 (ff) Derivative financial instruments.

(cc) Bills payable and other liabilities

Bills payable and other liabilities includes interest, fees, other expenses payable, securities purchased not delivered and any defined benefit superannuation plan deficit.

Any superannuation plan deficit is recorded in line with Note 1 (z) Employee benefits while the remaining liabilities are recorded at amortised cost using the effective interest method.

Where the Group has designated bills payable and other liabilities at fair value through Income Statement, the changes in fair value are reported in the Income Statement (refer to Note 1 (x) Liabilities at fair value through Income Statement).

(dd) Loan capital

Loan capital is debt issued by the Group with terms and conditions, such as being undated or subordinated, which qualify for inclusion as capital under APRA Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs. After initial recognition loan capital debt issues are measured at amortised cost using the effective interest method.

Interest inclusive of premiums, discounts and associated issue expenses is recognised in the Income Statement using the effective interest method over the expected life of the instrument so that they attain their redemption values by maturity date. Any profits or losses arising from redemption prior to expected maturity are recognised in the Income Statement in the period in which they are realised.

(ee) Shareholders' equity

Ordinary share capital is the amount of paid up capital from the issue of ordinary shares.

Treasury Shares are deducted from Ordinary share capital. Gains or losses on the reissue of Treasury Shares are recognised in shareholders' equity within Retained Profits.

The movement between the acquisition and reissue price of Treasury Shares remains within 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 (refer to Note 1 (s) Property, Plant and Equipment) and is available for dividend payments.

The General Reserve for Credit Losses was originally appropriated from Retained Profits to comply with APRA prudential requirements in prior periods and has been returned to Retained Profits.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

(ff) Derivative financial instruments

The Group has a significant volume of derivative financial instruments that include foreign exchange contracts, forward rate agreements, futures, options and interest rate, currency, equity and credit swaps.

Derivative financial instruments are used as part of the Group's trading activities and to hedge certain assets and liabilities. Derivatives that do not meet the hedging criteria are classified as derivatives held for trading, or as other derivatives.

The Group initially recognises derivative financial instruments at the fair value of consideration given or received.

They are subsequently remeasured to fair value based on quoted market prices, or broker or dealer price quotations. Non-market quoted instruments are subsequently valued using valuation techniques based on market conditions and risks existing at Balance Sheet date.

A positive revaluation amount of a contract is reported as an asset and a negative revaluation amount of a contract as a liability.

Changes in fair value of derivatives are recognised in the Income Statement unless designated within a cash flow hedging relationship.

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, whereas 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 derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. Hedge accounting can be applied subject to certain rules for fair value hedges, cash flow hedges and hedges of foreign operations. Cash flow and fair value hedges are the predominant hedges applied by the Group. Swaps are the major financial instruments used in the Group's hedging arrangements.

Fair value hedges

For fair value hedges, the change in fair value of the hedging derivative, and the hedged risk of the hedged item, is recognised immediately in the Income Statement within other operating income. If the fair value hedge relationship is terminated for reasons other than the derecognition of the hedged item, fair value hedge accounting ceases and, in the case of an interest bearing item, the fair value adjustment of the hedged item is amortised to the Income Statement over the remaining term of the original hedge. If the hedged item is derecognised the unamortised fair value adjustment is recognised immediately in the Income Statement.

Cash flow hedges

A fair valuation gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in shareholders' equity within the Cash flow hedge reserve. Amounts in the Cash flow hedge reserve are transferred to the Income Statement when the cash flows on the hedged item are recognised in profit and loss. Gains and losses resulting from cash flow hedge ineffectiveness are recorded immediately in the Income Statement.

A fair valuation gain or loss represents the amount by which changes in the fair value of the expected cash flow of the hedging derivative differ from the fair value of the changes (or expected changes) in the cash flow of the hedged item.

Where the hedged item is derecognised, the cumulative gain or loss is recognised immediately in the Income Statement. If for reasons other than the derecognition of the hedged item, cash flow hedge accounting ceases, the cumulative gains or losses are amortised to the Income Statement over the remaining term of the original hedge.

Net Investment Hedges

Hedges of net investments in overseas subsidiaries are accounted for in a manner similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the Foreign Currency Translation Reserve ("FCTR") and the gain or loss relating to the ineffective portion is immediately recognised in the Income Statement. Gains and losses accumulated in the FCTR are transferred to the Income Statement when the overseas subsidiary is disposed of.

Embedded derivatives

A derivative may be embedded within a host contract. If the host contract is not already measured at fair value with changes in fair value reported in the Income Statement, and where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument at fair value.

(gg) 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.

Note 1 Accounting Policies (continued)

(hh) Life and general insurance business

Life Insurance business

The Group's life insurance business is comprised of insurance contracts and investment contracts as defined by AASB 4.

Insurance contracts are accounted for in accordance with the requirements of AASB 1038. Investment contracts are accounted for as financial instruments with a separate management services element in accordance with AASB 118, 139 and 1038. Details are set out below.

All assets, liabilities, revenues, expenses and equity are recognised irrespective of whether they are designated as relating to policyholders or to shareholders.

All assets backing insurance liabilities are classified as Assets at fair value through Income Statement. They are measured at fair value based on quoted bid prices or using appropriate valuation techniques.

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 through Income Statement.

Returns on all investments controlled by life insurance entities within the Group are recognised as revenues. Investments in the Group's own equity instruments held within the life insurance statutory funds and other funds are treated as Treasury Shares in accordance with Note 1 (ee) Shareholders' equity.

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) 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 policyowners 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 "Margin on Services" 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 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.

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 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 fund units on issue – held by minority unitholders

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 Bank is eliminated but amounts due to external unitholders remain as liabilities in the Group's consolidated Balance Sheet. The share of the net assets of controlled companies attributable to minority unit holders is disclosed separately on the Balance Sheet.

In the Income Statement, the net profit or loss of the controlled entities relating to minority interests is eliminated before arriving at the net profit or loss attributable to Equity holders of the Bank.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

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.

(ii) Asset securitisation

The Group conducts an asset securitisation program through which it packages and sells assets as securities to investors. The Group is entitled to any residual income of the program after all payments due to investors and costs of the program have been met. 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 program by the Group in accordance with APRA Prudential Guidelines.

Derivatives return the risks and rewards of ownership of the securitised assets to the Bank and consequently the Bank cannot derecognise these assets. An imputed liability is recognised inclusive of the derivative and any related fees.

For further details on the treatment of securitisation entities, refer to Note 1 (c) Consolidation.

(jj) Fiduciary activities

The Bank and designated controlled entities 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.

(kk) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in these Financial Statements.

(ll) Roundings

The amounts contained in this Financial Report and the Financial Statements are presented in Australian Dollars and have been rounded to the nearest million dollars unless otherwise stated, under the option available to the company under ASIC Class Order 98/100 (as amended by ASIC Class Order 04/667).

(mm) Critical accounting policies and estimates

These Notes to the Financial Statements contain a summary of the Group's significant accounting policies. Certain of these policies are considered to be more important in the determination of the Group's financial position, since they require management to make difficult, complex or subjective judgements, some of which may relate to matters that are inherently uncertain. These decisions are reviewed by a Committee of the Board.

These policies include judgements as to levels of provisions for impairment for loan balances, actuarial assumptions in determining life insurance policy liabilities and determining whether certain entities should be consolidated. An explanation of these policies and the related judgements and estimates involved is set out below.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

Provisions for impairment

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.

Credit losses arise primarily from loans but also from other credit instruments such as bank acceptances, contingent liabilities, guarantees and other financial instruments and assets acquired through security enforcement.

Individually assessed provisions

Individually assessed provisions are raised where there is objective evidence of impairment and full recovery of principal is considered doubtful.

Individually assessed provisions are made against individual facilities in the credit risk rated managed segment where exposure aggregates to \$250,000 or more, and a loss of \$10,000 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.

Individually assessed provisions (in bulk) are also made against statistically managed segments to cover facilities which are not well secured and past due 180 days or more, against the credit risk rated segment for exposures aggregating to less than \$250,000 and 90 days or more past due, and against credit risks identified in specific segments in the credit risk rated portfolio. These provisions are derived primarily by reference to historical ratios of write-offs to balances in default.

Individually assessed provisions are provided for from the collective provision.

Collective provision

All other loans and advances 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 advances to their estimated recoverable amounts at the Balance Sheet date.

The evaluation process is subject to a series of estimates and judgements.

In the credit 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 retail statistically managed 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 Provisions for Impairment.

Life insurance policyholder liabilities

Life insurance policyholder liabilities are accounted for under AASB 1038: Life Insurance Business. 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 (hh) Life and General Insurance Business, and Note 37 Life Insurance Business details the key actuarial assumptions.

Consolidation of special purpose entities

The Group assesses 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 predominately required in the context of the Group's securitisation program and structured transactions.

Notes to the Financial Statements

Note 2 Profit

Profit before income tax has been determined as follows:

	Group			Bank	
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
Interest Income					
Loans	25,598	20,711	17,304	21,369	16,715
Other financial institutions	474	443	333	423	506
Cash and liquid assets	473	483	287	427	327
Assets at fair value through Income Statement	1,933	1,495	1,149	1,409	1,072
Available-for-sale investments	756	730	685	880	597
Controlled entities	-	-	-	1,077	851
Total interest income	29,234	23,862	19,758	25,585	20,068
Interest Expense					
Deposits	12,393	8,995	7,385	12,168	8,570
Other financial institutions	989	674	475	903	653
Liabilities at fair value through Income Statement ⁽¹⁾	1,129	1,087	947	217	209
Debt issues ⁽¹⁾	6,024	5,506	3,861	4,241	3,409
Controlled entities	-	-	-	1,295	1,400
Loan capital	792	564	576	843	675
Total interest expense	21,327	16,826	13,244	19,667	14,916
Net interest income	7,907	7,036	6,514	5,918	5,152
Other Operating Income					
Loan service fees:					
From financial assets	933	873	783	860	826
Other	43	23	17	43	7
Commission and other fees:					
From financial liabilities	507	501	497	413	412
Other	1,320	1,228	1,138	959	932
Trading income	546	555	505	504	492
Net gain/(loss) on disposal of available-for-sale investments	309	138	36	272	(34)
Net (loss)/gain on other non-trading instruments	(1)	9	-	(36)	7
Net hedging ineffectiveness	(58)	30	(15)	(33)	14
Net (loss)/gain on other financial instruments:					
Fair value through Income Statement	(9)	65	35	(26)	135
Reclassification of net interest on swaps	(265)	(107)	(46)	73	(25)
Non-trading derivatives	37	(98)	(44)	44	(201)
Dividends – Controlled entities	-	-	-	1,636	1,879
Dividends – Other	39	3	4	31	3
Net (loss)/gain on sale of property, plant and equipment	(15)	(15)	4	(14)	(15)
Funds management and investment contract income:					
Fees receivable on trust and other fiduciary activities	1,835	1,449	1,132	-	-
Other	528	522	491	-	-
Insurance contracts income	740	1,043	1,113	-	-
Other	173	136	122	1,060	1,090
Total other operating income	6,662	6,355	5,772	5,786	5,522
Total net operating income	14,569	13,391	12,286	11,704	10,674
Loan Impairment Expense					
Loan impairment expense	930	434	398	902	390
Loan impairment expense (Note 14)	930	434	398	902	390

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Notes to the Financial Statements

Note 2 Profit (continued)

	Group			Bank	
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
Staff Expenses					
Salaries and wages	3,097	2,746	2,419	2,278	2,059
Share based compensation	106	89	39	102	89
Superannuation contributions	14	8	8	(28)	(27)
Provisions for employee entitlements	90	61	66	72	54
Payroll tax	162	139	123	129	114
Fringe benefits tax	32	34	34	28	31
Other staff expenses	160	152	134	108	73
Total staff expenses	3,661	3,229	2,823	2,689	2,393
Occupancy and Equipment Expenses					
Operating lease rentals	403	367	338	345	312
Depreciation:					
Buildings	27	22	22	26	21
Leasehold improvements	63	59	56	52	47
Equipment	84	73	64	54	43
Operating lease assets	20	22	9	11	12
Repairs and maintenance	81	71	73	74	64
Other	89	74	59	54	42
Total occupancy and equipment expenses	767	688	621	616	541
Information Technology Services					
Application, maintenance and development	224	304	364	195	286
Data processing	195	206	227	195	175
Desktop	114	119	137	114	119
Communications	174	168	201	148	165
Amortisation of software assets	88	62	43	76	59
IT equipment depreciation	31	24	13	28	24
Total information technology services	826	883	985	756	828
Other Expenses					
Postage	119	109	118	102	94
Stationery	98	104	98	70	77
Fees and commissions:					
Fees payable on trust and other fiduciary activities	538	402	351	-	3
Other	280	289	285	565	495
Advertising, marketing and loyalty	348	326	307	273	259
Amortisation of other intangible assets (excluding software)	15	8	6	1	-
Non-lending losses	78	97	116	66	91
Other	291	292	284	90	101
Total other expenses	1,767	1,627	1,565	1,167	1,120
Investment and restructuring					
Write-down of leasehold improvements	18	-	-	18	-
Write-down of software assets	77	-	-	65	-
Other provisions	282	-	-	282	-
Total investment and restructuring	377	-	-	365	-
Total operating expenses	7,398	6,427	5,994	5,593	4,882
Defined benefit superannuation plan income/(expense)	14	8	(35)	14	8
Profit before income tax	6,255	6,538	5,859	5,223	5,410
Net hedging ineffectiveness comprises:					
Gain/(Loss) on fair value hedges:					
Hedging instruments	921	285	(2,183)	937	268
Hedged items	(970)	(271)	2,163	(971)	(262)
Cash flow hedge ineffectiveness	(9)	16	5	1	8
Net hedging ineffectiveness	(58)	30	(15)	(33)	14

Notes to the Financial Statements

Note 3 Income from Ordinary Activities

	Group			Bank	
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
Banking					
Interest income	29,234	23,862	19,758	25,585	20,068
Fees and commissions	2,803	2,625	2,435	2,275	2,177
Trading income	546	555	505	504	492
Net gains/(losses) on disposal of available-for-sale investments	309	138	36	272	(34)
Net (losses)/gains on disposal of non-trading instruments	(1)	9	-	(36)	7
Net hedging ineffectiveness	(58)	30	(15)	(33)	14
Net gains/(losses) on other financial instruments:					
Fair value through Income Statement	(9)	65	35	(26)	135
Reclassification of net interest on swaps	(265)	(107)	(46)	73	(25)
Non-trading derivatives	37	(98)	(44)	44	(201)
Dividends	39	3	4	1,667	1,882
Net (losses)/gains on sale of property, plant and equipment	(15)	(15)	4	(14)	(15)
Other income	173	136	122	1,060	1,090
	32,793	27,203	22,794	31,371	25,590
Funds Management, Investment contract and Insurance contract revenue					
Funds management and investment contract income including premiums	2,369	1,871	1,589	-	-
Insurance contract premiums and related income	1,373	1,117	1,052	-	-
Funds management claims and policy holder liability revenue	519	-	-	-	-
Investment income	-	2,978	3,129	-	-
	4,261	5,966	5,770	-	-
Total income	37,054	33,169	28,564	31,371	25,590

Notes to the Financial Statements

Note 4 Average Balances and Related Interest

The following table lists 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 for each of the years ended 30 June 2008, 30 June 2007 and 30 June 2006. Averages used were predominantly daily averages. Interest is accounted for based on product yield, while all trading gains and losses are disclosed as Trading income within Other banking 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 were included in interest earning assets under Loans, Advances and Other receivables.

The official cash rate in Australia increased by 100 basis points during the year while rates in New Zealand increased by a total of 25 basis points.

During the year the Group reassessed the application of AASB 132 Financial Instruments: Presentation. As a result, Mortgage Interest Saver Accounts and business overdraft set off accounts are now presented on a gross basis as savings deposits and other demand deposits, respectively, instead of being netted against loan balances. Prior period average balances have been restated for this change.

Average Interest Earning Assets and Income	2008			2007			2006		
	Average Balance \$M	Interest \$M	Average Rate %	Average Balance \$M	Interest \$M	Average Rate %	Average Balance \$M	Interest \$M	Average Rate %
Cash and liquid assets ⁽¹⁾									
Australia	3,930	238	6.1	5,648	322	5.7	3,581	221	6.2
Overseas	4,101	235	5.7	2,608	161	6.2	1,442	66	4.6
Receivables due from other financial institutions ⁽¹⁾									
Australia	5,403	242	4.5	3,089	170	5.5	3,016	145	4.8
Overseas	3,700	232	6.3	4,581	273	6.0	4,007	188	4.7
Assets at fair value through Income Statement – Trading ⁽¹⁾									
Australia	20,127	1,388	6.9	15,458	1,075	7.0	12,161	725	6.0
Overseas	3,186	245	7.7	2,818	210	7.5	3,388	262	7.7
Assets at fair value through Income Statement – Other ⁽¹⁾									
Australia	383	27	7.0	430	29	6.7	355	22	6.2
Overseas	4,813	273	5.7	3,013	181	6.0	2,707	140	5.2
Available-for-sale investments ⁽¹⁾									
Australia	6,017	402	6.7	4,932	315	6.4	5,010	349	7.0
Overseas	6,182	354	5.7	6,944	415	6.0	6,508	336	5.2
Loans, advances and other receivables ^{(1) (2)}									
Australia	273,124	20,047	7.3	234,022	16,016	6.8	206,704	13,527	6.5
Overseas	54,701	4,463	8.2	48,949	3,686	7.5	40,537	3,012	7.4
Intragroup loans									
Australia	-	-	-	-	-	-	-	-	-
Overseas	8,144	295	3.6	8,199	404	4.9	9,623	338	3.5
Average interest earning assets and interest income including intragroup	393,811	28,441	7.2	340,691	23,257	6.8	299,039	19,331	6.5
Intragroup eliminations	(8,144)	(295)	3.6	(8,199)	(404)	4.9	(9,623)	(338)	3.5
Total average interest earning assets and interest income ⁽³⁾	385,667	28,146	7.3	332,492	22,853	6.9	289,416	18,993	6.6
Securitisation home loan assets	13,427	1,088	8.1	13,344	1,009	7.6	10,887	765	7.0

(1) During the current year, certain balances and associated interest amounts were reclassified to ensure consistent classification of amounts across all of the Group's businesses. Prior years have been restated on a consistent basis.

(2) Comparisons between years are impacted by the re-classification of net swap interest from Net interest Income to Other banking income related to certain economic hedges which do not qualify for AIFRS hedge accounting.

(3) Used for calculating net interest margin.

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

	2008	2007	2006
	Average Balance \$M	Average Balance \$M	Average Balance \$M
Average Non-Interest Earning Assets			
Bank acceptances			
Australia	19,735	18,779	18,014
Overseas	-	-	-
Assets at fair value through Income Statement - Insurance			
Australia	17,896	19,352	20,529
Overseas	2,634	2,680	3,468
Property, plant and equipment			
Australia	1,242	1,075	978
Overseas	192	165	158
Other assets			
Australia	28,182	19,951	20,699
Overseas	8,093	5,675	5,113
Provisions for impairment			
Australia	(1,219)	(1,132)	(1,144)
Overseas	(111)	(96)	(86)
Total average non-interest earning assets	76,644	66,449	67,729
Total average assets	475,738	412,285	368,032
Percentage of total average assets applicable to overseas operations (%)	18.4	18.8	18.3

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

Average Interest Bearing Liabilities and Loan Capital and Interest Expense	2008			2007			2006		
	Average Balance \$M	Interest \$M	Average Rate %	Average Balance \$M	Interest \$M	Average Rate %	Average Balance \$M	Interest \$M	Average Rate %
Time deposits ⁽¹⁾									
Australia	92,297	5,985	6.5	67,186	4,107	6.1	60,725	3,533	5.8
Overseas	21,364	1,353	6.3	18,406	1,018	5.5	15,732	932	5.9
Savings deposits ⁽¹⁾									
Australia	46,472	1,468	3.2	40,930	1,016	2.5	33,765	603	1.8
Overseas	4,759	324	6.8	4,703	313	6.7	3,632	222	6.1
Other demand deposits ⁽¹⁾									
Australia	71,525	2,947	4.1	62,401	2,314	3.7	57,229	1,905	3.3
Overseas	4,501	316	7.0	3,563	227	6.4	3,602	190	5.3
Payables due to other financial institutions ⁽¹⁾									
Australia	5,748	290	5.0	2,628	153	5.8	1,982	119	6.0
Overseas	13,658	699	5.1	9,724	521	5.4	7,649	356	4.7
Liabilities at fair value through Income Statement ⁽¹⁾									
Australia	3,124	197	6.3	3,881	292	7.5	2,038	192	9.4
Overseas	11,893	932	7.8	11,312	795	7.0	10,887	755	6.9
Debt issues ^{(1) (2)}									
Australia	57,440	4,234	7.4	57,403	3,537	6.2	46,315	2,547	5.5
Overseas	16,929	822	4.9	18,835	1,075	5.7	16,982	643	3.8
Loan capital ^{(1) (2)}									
Australia	8,781	566	6.4	8,357	410	4.9	7,936	450	5.7
Overseas	3,758	226	6.0	1,907	154	8.1	1,244	126	10.1
Intragroup borrowings									
Australia	8,144	295	3.6	8,199	404	4.9	9,623	338	3.5
Overseas	-	-	-	-	-	-	-	-	-
Average interest bearing liabilities and loan capital and interest expense including intragroup	370,393	20,654	5.6	319,435	16,336	5.1	279,341	12,911	4.6
Intragroup eliminations	(8,144)	(295)	3.6	(8,199)	(404)	4.9	(9,623)	(338)	3.5
Total average interest bearing liabilities and loan capital and interest expense	362,249	20,359	5.6	311,236	15,932	5.1	269,718	12,573	4.7
Securitisation debt issues	14,005	968	6.9	13,861	894	6.4	11,541	671	5.8

Average Non-Interest Bearing Liabilities	2008	2007	2006
	Average Balance \$M	Average Balance \$M	Average Balance \$M
Deposits not bearing interest			
Australia	6,132	5,896	5,797
Overseas	1,545	1,473	1,170
Liabilities on Bank acceptances			
Australia	19,735	18,779	18,014
Overseas	-	-	-
Insurance policy liabilities			
Australia	19,185	20,100	20,731
Overseas	2,296	2,344	3,040
Other liabilities			
Australia	18,538	8,439	11,476
Overseas	6,647	7,399	4,552
Total average non-interest bearing liabilities	74,078	64,430	64,780
Total average liabilities and loan capital	450,332	389,527	346,039
Shareholders' equity	25,406	22,758	21,993
Total average liabilities, loan capital and Shareholders' equity	475,738	412,285	368,032
Total average liabilities and Loan Capital applicable to overseas operations (%)	19.4	20.5	19.8

(1) During the current year, certain balances and associated interest amounts were reclassified to ensure consistent classification of amounts across all of the Group's businesses. Prior years have been restated on a consistent basis.

(2) Comparisons between years are impacted by the re-classification of net swap interest from Net interest Income to Other banking income related to certain economic hedges which do not qualify for AIFRS hedge accounting.

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

	2008			2007			2006		
	Avg Bal \$M	Income \$M	Yield %	Avg Bal \$M	Income \$M	Yield %	Avg Bal \$M	Income \$M	Yield %
Net Interest Margin									
Total interest earning assets (excluding securitisation)	385,667	28,146	7.30	332,492	22,853	6.87	289,416	18,993	6.56
Total interest bearing liabilities (excluding securitisation)	362,249	20,359	5.62	311,236	15,932	5.12	269,718	12,573	4.66
Net interest income & interest spread (excluding securitisation)		7,787	1.68		6,921	1.75		6,420	1.90
Benefit of free funds			0.34			0.33			0.32
Net interest margin			2.02			2.08			2.22

Geographical analysis of key categories

Year Ended 30 June

	2008			2007			2006		
	Avg Bal \$M	Income \$M	Yield %	Avg Bal \$M	Income \$M	Yield %	Avg Bal \$M	Income \$M	Yield %
Loans, Advances and Other Receivables ⁽¹⁾									
Australia	273,124	20,047	7.34	234,022	16,016	6.84	206,704	13,527	6.54
Overseas	54,701	4,463	8.16	48,949	3,686	7.53	40,537	3,012	7.43
Total	327,825	24,510	7.48	282,971	19,702	6.96	247,241	16,539	6.69
Non-lending Interest Earning Assets ⁽¹⁾									
Australia	35,860	2,297	6.41	29,557	1,911	6.47	24,123	1,462	6.06
Overseas	21,982	1,339	6.09	19,964	1,240	6.21	18,052	992	5.50
Total	57,842	3,636	6.29	49,521	3,151	6.36	42,175	2,454	5.82
Interest Bearing Deposits ⁽¹⁾									
Australia	210,294	10,400	4.95	170,517	7,437	4.36	151,719	6,041	3.98
Overseas ⁽¹⁾	30,624	1,993	6.51	26,672	1,558	5.84	22,966	1,344	5.85
Total	240,918	12,393	5.14	197,189	8,995	4.56	174,685	7,385	4.23
Other Interest Bearing Liabilities ⁽¹⁾									
Australia	75,093	5,287	7.04	72,269	4,392	6.08	58,271	3,308	5.68
Overseas ⁽¹⁾	46,238	2,679	5.79	41,778	2,545	6.09	36,762	1,880	5.11
Total	121,331	7,966	6.57	114,047	6,937	6.08	95,033	5,188	5.46

(1) During the current year, certain balances and associated interest amounts were reclassified to ensure consistent classification of amounts across all of the Group's businesses. Prior years have been restated on a consistent basis.

The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities. Overseas intragroup borrowings have been adjusted into the interest spread and margin calculations to more appropriately reflect the overseas cost of funds. Non-accrual loans were included in interest earning assets under loans, advances and other receivables.

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.

	Year Ended	
	2008 vs 2007 Increase/(Decrease) \$M	2007 vs 2006 Increase/(Decrease) \$M
Change in Net Interest Income		
Due to changes in average volume of interest earning assets and interest bearing liabilities	1,090	926
Due to changes in interest margin	(224)	(425)
Change in net interest income	866	501

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

	June 2008 vs June 2007			June 2007 vs June 2006		
	Volume	Rate	Total	Volume	Rate	Total
Volume and Rate Analysis	\$M	\$M	\$M	\$M	\$M	\$M
Changes in Net Interest Income:						
Interest Earning Assets						
Cash and liquid assets ⁽¹⁾						
Australia	(101)	17	(84)	123	(22)	101
Overseas	89	(15)	74	63	32	95
Receivables due from other financial institutions ⁽¹⁾						
Australia	115	(43)	72	4	21	25
Overseas	(54)	13	(41)	31	54	85
Assets at fair value through Income Statement – Trading ⁽¹⁾						
Australia	323	(10)	313	213	137	350
Overseas	28	7	35	(43)	(9)	(52)
Assets at fair value through Income Statement – Other ⁽¹⁾						
Australia	(3)	1	(2)	5	2	7
Overseas	105	(13)	92	17	24	41
Available-for-sale investments ⁽¹⁾						
Australia	71	16	87	(5)	(29)	(34)
Overseas	(45)	(16)	(61)	24	55	79
Loans, advances and other receivables ^{(1) (2)}						
Australia	2,773	1,258	4,031	1,829	660	2,489
Overseas	451	326	777	629	45	674
Intragroup loans						
Australia	-	-	-	-	-	-
Overseas	(2)	(107)	(109)	(60)	126	66
Changes in interest income including intragroup	3,731	1,453	5,184	2,768	1,158	3,926
Intragroup eliminations	2	107	109	60	(126)	(66)
Changes in interest income	3,768	1,525	5,293	2,894	966	3,860
Securitisation home loan assets	7	72	79	179	65	244
Interest Bearing Liabilities and Loan Capital						
Time deposits ⁽¹⁾						
Australia	1,582	296	1,878	385	189	574
Overseas	175	160	335	153	(67)	86
Savings deposits ⁽¹⁾						
Australia	156	296	452	153	260	413
Overseas	4	7	11	68	23	91
Other demand deposits ⁽²⁾						
Australia	357	276	633	182	227	409
Overseas	63	26	89	(2)	39	37
Payables due to other financial institutions						
Australia	170	(33)	137	38	(4)	34
Overseas	206	(28)	178	104	61	165
Liabilities at fair value through Income Statement ⁽¹⁾						
Australia	(52)	(43)	(95)	156	(56)	100
Overseas	43	94	137	30	10	40
Debt issues ^{(1) (2)}						
Australia	3	694	697	646	344	990
Overseas	(101)	(152)	(253)	88	344	432
Loan capital ^{(1) (2)}						
Australia	24	132	156	22	(62)	(40)
Overseas	130	(58)	72	60	(32)	28
Intragroup borrowings						
Australia	(2)	(107)	(109)	(60)	126	66
Overseas	-	-	-	-	-	-
Changes in interest expense including intragroup	2,724	1,594	4,318	1,952	1,473	3,425
Intragroup eliminations	2	107	109	60	(126)	(66)
Changes in interest expense	2,739	1,688	4,427	2,030	1,329	3,359
Changes in net interest income	1,090	(224)	866	926	(425)	501
Securitisation debt issues	10	64	74	142	81	223

(1) During the current year, certain balances and associated interest amounts were reclassified to ensure consistent classification of amounts across all of the Group's businesses. Prior years have been restated on a consistent basis.

(2) Comparisons between years are impacted by the reclassification of net swap interest from Net interest Income to Other banking income related to certain economic hedges which do not qualify for AIFRS hedge accounting.

Notes to the Financial Statements

Note 4 Average Balances and Related Interest (continued)

Changes in Net Interest Income: Volume and Rate Analysis

The preceding table shows the movement in interest income and expense due to changes in volume and changes in 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 liabilities have been calculated separately (rather than being the sum of the individual categories).

Geographical analysis of key categories	2008 %	2007 %	2006 %
Australia			
Interest spread ⁽¹⁾	1.79	1.93	2.08
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.27	0.23	0.22
Net interest margin ⁽³⁾	2.06	2.16	2.30
Overseas			
Interest spread ⁽¹⁾	1.11	0.92	0.97
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.57	0.68	0.67
Net interest margin ⁽³⁾	1.68	1.60	1.64
Group			
Interest spread ⁽¹⁾	1.68	1.75	1.90
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.34	0.33	0.32
Net interest margin ⁽³⁾	2.02	2.08	2.22

(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 is 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 Expense

	Group			Bank	
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
Profit from ordinary activities before Income Tax					
Retail Banking Services	2,675	2,522	2,252	n/a	n/a
Premium Business Services	1,865	1,905	1,554	n/a	n/a
Wealth Management	986	1,090	798	n/a	n/a
International Financial Services	777	678	839	n/a	n/a
Other	(48)	343	416	n/a	n/a
	6,255	6,538	5,859	5,223	5,410
Prima Facie Income Tax at 30%					
Retail Banking Services	803	757	676	n/a	n/a
Premium Business Services	560	571	466	n/a	n/a
Wealth Management	296	327	239	n/a	n/a
International Financial Services	233	204	252	n/a	n/a
Other	(15)	103	124	n/a	n/a
	1,877	1,962	1,757	1,567	1,623
Tax effect of expenses that are non-deductible/income non-assessable in determining taxable profit:					
Current period					
Taxation offsets and other dividend adjustments	(65)	(55)	(57)	(479)	(556)
Tax adjustment referable to policyholder income	(81)	186	232	-	-
Non-assessable gains	-	-	(43)	-	-
Tax losses recognised	(89)	(24)	(35)	(87)	(20)
Tax losses assumed by the Bank under UIG 1052	-	-	-	(72)	(85)
Difference in overseas and offshore banking unit tax rates	(51)	(43)	(13)	(37)	(36)
Other	(36)	35	44	76	(2)
	(322)	99	128	(599)	(699)
Prior periods					
Other ⁽¹⁾	(122)	(20)	15	(103)	9
Total income tax expense	1,433	2,041	1,900	865	933
Income Tax Attributable to Profit from ordinary activities					
Retail Banking Services	801	756	676	n/a	n/a
Premium Business Services	402	463	422	n/a	n/a
Wealth Management	310	275	143	n/a	n/a
International Financial Services	170	150	160	n/a	n/a
Other	(135)	131	168	n/a	n/a
Corporate tax expense	1,548	1,775	1,569	865	933
Policyholder tax expense	(115)	266	331	-	-
Total income tax expense	1,433	2,041	1,900	865	933
	%	%	%	%	%
Effective Tax Rate					
Total – corporate	24.3	28.3	28.4	16.6	17.2
Retail Banking Services – corporate	29.9	30.0	30.0	n/a	n/a
Premium Business Services – corporate	21.6	24.3	27.2	n/a	n/a
Wealth Management – corporate	27.9	33.3	26.1	n/a	n/a
International Financial Services – corporate	22.1	22.2	21.1	n/a	n/a
	\$M	\$M	\$M	\$M	\$M
Recognised in the Income Statement					
Australia					
Current tax expense	1,522	2,209	1,366	854	1,322
Deferred tax (benefit)/expense	(326)	(390)	382	(22)	(392)
Total Australia	1,196	1,819	1,748	832	930
Overseas					
Current tax expenses	127	141	114	32	3
Deferred tax expense	110	81	38	1	-
Total Overseas	237	222	152	33	3
Total income tax expense	1,433	2,041	1,900	865	933

(1) The 2008 year prior period tax expense has arisen primarily due to the satisfactory resolution of long outstanding tax issues with the tax authorities.

Notes to the Financial Statements

Note 5 Income Tax Expense (continued)

	Group				Bank
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
The significant temporary differences are as follows:					
Deferred tax assets arising from:					
Provision for employee benefits	294	288	261	268	262
Provisions for impairment on loans, advances and other receivables	523	371	350	476	326
Other provisions not tax deductible until expense incurred	192	136	146	175	107
Recognised value of tax losses carried forward	6	8	9	6	8
Financial instruments	162	170	195	113	156
Other	171	316	297	54	118
Total deferred tax assets	1,348	1,289	1,258	1,092	977
Set off of tax ⁽¹⁾	(1,272)	(1,035)	(1,210)	(1,038)	(952)
Net deferred tax assets	76	254	48	54	25
Deferred tax liabilities arising from:					
Property asset revaluations	59	55	29	59	55
Lease financing	287	330	312	105	110
Defined benefit superannuation plan surplus	461	544	368	461	544
Intangible assets	24	10	10	-	-
Financial instruments	437	482	626	378	290
Other	270	522	599	54	44
Total deferred tax liabilities	1,538	1,943	1,944	1,057	1,043
Set off of tax ⁽¹⁾	(1,272)	(1,035)	(1,210)	(1,038)	(952)
Net deferred tax liabilities (Note 26)	266	908	734	19	91
Deferred tax assets opening balance:					
	254	48	651	25	392
Movement in temporary differences during the year:					
Provisions for employee benefits	6	27	-	6	17
Provisions for impairment on loans, advances and other receivables	152	21	(81)	150	(15)
Other provisions not tax deductible until expense incurred	56	(10)	34	68	22
Recognised value of tax losses carried forward	(2)	(1)	9	(2)	(1)
Financial instruments	(8)	(25)	42	(43)	94
Other	(145)	19	164	(64)	(91)
Set off of tax ⁽¹⁾	(237)	175	(771)	(86)	(393)
Deferred tax assets closing balance	76	254	48	54	25
Deferred tax liabilities opening balance:					
	908	734	921	91	640
Movements in temporary differences during the year:					
Property asset revaluations	4	26	-	4	26
Lease financing	(43)	18	16	(5)	(34)
Defined benefit superannuation plan surplus	(83)	176	153	(83)	176
Intangible assets	14	-	(1)	-	-
Financial instruments	(45)	(144)	217	88	(296)
Other	(252)	(77)	199	10	(28)
Set off of tax ⁽¹⁾	(237)	175	(771)	(86)	(393)
Deferred tax liabilities closing balance (Note 26)	266	908	734	19	91

	Group				Bank
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
Deferred tax assets not taken to account					
Tax losses and other temporary differences on revenue account	35	40	30	28	30
Tax losses on capital account	-	130	101	-	85
Closing balance	35	170	131	28	115

(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.

Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Notes to the Financial Statements

Note 5 Income Tax Expense (continued)

Expiration of deferred tax assets not taken to account	Group			Bank	
	2008 \$M	2007 \$M	2006 \$M	2008 \$M	2007 \$M
At Balance Sheet date carry-forward losses expire as follows:					
From one to two years	2	3	2	-	-
From two to four years	4	9	14	2	6
After four years	22	25	30	19	25
Losses and other temporary differences that do not expire under current tax law	7	133	85	7	84
Total	35	170	131	28	115

Potential deferred tax assets of the Group arose from:

- Capital losses arising under the tax consolidations systems; 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:

- The company derives future capital gains and assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised;
- The company continues to comply with the conditions for claiming capital losses and deductions imposed by tax legislation; and
- No changes in tax legislation adversely affect the company 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.

Notes to the Financial Statements

Note 6 Dividends

	Group			Bank	
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
Ordinary Shares					
Interim ordinary dividend (fully franked) (2008: 113 cents, 2007: 107 cents, 2006: 94 cents)					
Interim ordinary dividend paid – cash component only	1,087	862	992	1,087	862
Interim ordinary dividend paid – dividend reinvestment plan	400	518	219	400	518
Total dividends paid	1,487	1,380	1,211	1,487	1,380
Other Equity Instruments					
Dividends paid	48	55	-	-	-
Total dividends provided for, reserved or paid	1,535	1,435	1,211	1,487	1,380
Other provision carried	5	7	6	5	7
Dividends proposed and not recognised as a liability (fully franked) (2008: 153 cents, 2007: 149 cents, 2006: 130 cents) ⁽¹⁾	2,029	1,939	1,668	2,029	1,939
Provision for dividends					
Opening balance	6	6	14	7	6
Provisions made during the year	3,425	3,048	2,646	3,425	3,048
Provisions used during the year	(3,426)	(3,048)	(2,645)	(3,427)	(3,047)
Provisions reversed during the year	-	-	(9)	-	-
Closing balance (Note 27)	5	6	6	5	7

(1) The 2006 final dividend was satisfied by cash disbursements of \$1,368 million and the issue of \$300 million of ordinary shares through the Dividend Reinvestment Plan "DRP". The 2007 final dividend was satisfied by cash disbursements of \$1,229 million and the issue of \$709 million of ordinary shares through the DRP. The 2008 final dividend is expected to be satisfied by cash disbursements of \$1,420 million and the estimated issue of \$609 million of ordinary shares through the DRP.

Dividend Franking Account

After fully franking the final dividend to be paid for the year ended 30 June 2008, the amount of credits available, at the 30% tax rate as at 30 June 2008 to frank dividends for subsequent financial years, is \$495 million (2007: \$559 million). This figure is based on the combined franking accounts of the Bank at 30 June 2008, which have been adjusted for franking credits that will arise from the payment of income tax payable on profits for the year ended 30 June 2008, franking debits that will arise from the payment of dividends proposed for the year 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 2008.

Dividend History

Half Year Ended	Cents Per Share	Date Paid	Half-year	Full Year	Full Year	DRP	DRP
			Payout Ratio ⁽¹⁾	Payout Ratio ⁽¹⁾	Payout Ratio		
			%	%	Cash Basis ⁽²⁾	Price	Participation Rate ⁽³⁾
					%		%
31 December 2005	94	05/04/06	60.6	-	-	43.89	18.1
30 June 2006	130	05/10/06	86.5	73.3	70.5	45.24	18.0
31 December 2006	107	05/04/07	63.8	-	-	50.02	37.6
30 June 2007	149	03/10/07	86.1	75.2	74.2	54.80	36.6
31 December 2007	113	02/04/08	63.4	-	-	39.44	33.5
30 June 2008 ⁽⁴⁾	153	-	-	74.1	75.0	-	-

(1) Dividend Payout Ratio: dividends divided by statutory earnings.

(2) Payout ratio based on net profit after tax before defined benefit superannuation plan expense, treasury shares valuation adjustment, and hedging and AIFRS volatility. Includes the profit on sale of CMG Asia for the financial year ended 30 June 2006.

(3) DRP Participation Rate: the percentage of total issued share capital participating in the Dividend Reinvestment Plan.

(4) Dividend expected to be paid on 1 October 2008.

Notes to the Financial Statements

Note 7 Earnings Per Share

	Group		
	2008	2007	2006
Cents per share			
Earnings per Ordinary Share			
Basic	363.0	344.7	308.2
Fully diluted	348.7	339.7	303.1
	\$M	\$M	\$M
Reconciliation of earnings used in the calculation of earnings per share			
Profit after income tax	4,822	4,497	3,959
Less: Other equity instrument dividends	(48)	(55)	-
Less: Minority interests	(31)	(27)	(31)
Earnings used in calculation of basic earnings per share	4,743	4,415	3,928
Add: Profit impact of assumed conversions			
Loan capital	222	150	100
Earnings used in calculation of fully diluted earnings per share	4,965	4,565	4,028
	Number of Shares		
	2008	2007	2006
	M	M	M
Weighted average number of ordinary shares (net of treasury shares) used in the calculation of basic earnings per share	1,307	1,281	1,275
Effect of dilutive securities – share options and convertible loan capital instruments	118	62	54
Weighted average number of ordinary shares (net of treasury shares) used in the calculation of fully diluted earnings per share ⁽¹⁾	1,424	1,344	1,329

(1) Figures presented in this table have been rounded.

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

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 outstanding during the year (adjusted for the effects of dilutive options and dilutive convertible non-cumulative redeemable loan capital instruments).

Note 8 Cash and Liquid Assets

	Group		Bank	
	2008	2007	2008	2007
\$M				
Australia				
Notes, coins and cash at banks	1,512	1,754	1,298	1,364
Money at short call	1	1	-	-
Securities purchased under agreements to resell	3,227	4,164	3,227	4,164
Bills received and remittances in transit	101	65	84	97
Total Australia	4,841	5,984	4,609	5,625
Overseas				
Notes, coins and cash at banks	964	2,803	46	13
Money at short call	1,207	901	1,034	797
Securities purchased under agreements to resell	724	420	1,593	966
Total Overseas	2,895	4,124	2,673	1,776
Total cash and liquid assets	7,736	10,108	7,282	7,401

Notes to the Financial Statements

Note 9 Receivables Due from Other Financial Institutions

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Australia				
Placements with and loans to other banks and financial institutions	4,880	2,809	4,880	3,283
Total Australia	4,880	2,809	4,880	3,283
Overseas				
Deposits with regulatory authorities ⁽¹⁾	61	83	3	4
Other placements with and loans to other banks and financial institutions	2,043	2,603	1,848	2,485
Total Overseas	2,104	2,686	1,851	2,489
Total receivables from other financial institutions	6,984	5,495	6,731	5,772

(1) Required by law for the Group to operate in certain regions.

Note 10 Assets at Fair Value through Income Statement

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Trading	21,676	21,469	19,168	20,287
Insurance	20,650	23,519	-	-
Other	3,266	4,073	274	448
Total assets at fair value through Income Statement	45,592	49,061	19,442	20,735

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Trading				
Australia				
Market Quoted:				
Australian Public Securities				
Commonwealth and States	565	1,117	565	1,117
Local and semi-government	1,478	2,777	1,478	2,777
Bills of exchange	1,237	4,709	1,237	4,709
Certificates of deposit	11,673	5,484	11,673	5,484
Medium term notes	1,518	3,604	1,518	3,604
Other securities	261	550	261	724
Non-Market Quoted:				
Medium term notes	348	-	348	-
Commercial paper	1,377	770	1,377	770
Total Australia	18,457	19,011	18,457	19,185
Overseas				
Market Quoted:				
Government securities	823	383	453	336
Eurobonds	92	378	92	377
Certificates of deposit	1,425	789	-	-
Medium term notes	571	55	-	-
Floating rate notes	250	365	166	365
Commercial paper	56	86	-	24
Other securities	2	-	-	-
Non-Market Quoted:				
Commercial paper	-	208	-	-
Bills of exchange	-	188	-	-
Other securities	-	6	-	-
Total Overseas	3,219	2,458	711	1,102
Total trading assets	21,676	21,469	19,168	20,287

Notes to the Financial Statements

Note 10 Assets at Fair Value through Income Statement (continued)

	Investments Backing Life Risk Contracts	Investments Backing Life Investment Contracts	Investments Backing Life Risk Contracts	Investments Backing Life Investment Contracts	2007	2007
	2008 \$M	2008 \$M	2008 \$M	2007 \$M	2007 \$M	2007 \$M
Insurance						
Equity Security Investments:						
Direct	523	1,650	2,173	620	2,160	2,780
Indirect	936	4,919	5,855	948	5,332	6,280
Total equity security investments	1,459	6,569	8,028	1,568	7,492	9,060
Debt Security Investments:						
Direct	723	1,400	2,123	882	1,965	2,847
Indirect	2,335	5,361	7,696	2,865	5,569	8,434
Total debt security investments	3,058	6,761	9,819	3,747	7,534	11,281
Property Investments:						
Direct	102	112	214	87	217	304
Indirect	525	804	1,329	357	967	1,324
Total property investments	627	916	1,543	444	1,184	1,628
Other Assets	70	1,190	1,260	76	1,474	1,550
Total life insurance investment assets	5,214	15,436	20,650	5,835	17,684	23,519

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.

Disclosure on Asset Restriction

Investments held in the Australian statutory funds may only be used within the restrictions imposed under the Life Insurance Act 1995.

The main restrictions are that assets in a fund may only be used to meet the liabilities and expenses of the fund, to acquire investments to further the business of the fund, or as distributions when solvency and capital adequacy requirements are met.

Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher levels of capital adequacy requirements are met.

All financial assets within the life statutory funds have been determined to back either life insurance or life investment contracts.

These investment assets held in the statutory funds are not available for use by the Commonwealth Bank's operating businesses.

The Group also holds investments in the Colonial First State Property Trust Group and Colonial Mastertrust Wholesale funds (including Fixed Interest, Australian Shares, International Shares, Property Securities, Capital Stable, Balanced and Diversified Growth funds) through controlled life insurance entities, which have been designated as assets at fair value through Income Statement instead of being accounted for under the equity accounting method.

Instead, these investments are brought to account at fair value at Balance Sheet date in compliance with the requirements of AASB 1038: Life Insurance Business.

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Other ⁽¹⁾				
Fair value structured transactions	1,980	1,363	274	425
Receivables due from financial institutions	318	657	-	-
Term loans	948	1,984	-	-
Other lending	20	69	-	23
Total other assets at fair value through Income Statement	3,266	4,073	274	448

(1) Designated at Fair Value through Income Statement at inception as they are managed by the Group on a fair value basis.

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 is insignificant for the years ended 30 June 2007 and 30 June 2008.

Notes to the Financial Statements

Note 11 Derivative Assets and Liabilities

Derivative contracts

Each derivative is classified as held for "Trading", held for "Hedging", or as "Other" derivatives. Derivatives classified as "Hedging" are derivative transactions entered into in order to manage the risks arising from non-traded assets, liabilities and commitments in Australia and offshore centres. Other derivatives are those held in relation to a portfolio designated at fair value through Income Statement.

Derivatives transacted for hedging purposes

The Group enters into derivative transactions which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or forecast transactions. Forward Foreign Exchange transactions are also designated as hedges of currency translation risk of net investments in foreign operations. The Group also enters into derivative transactions which provide economic hedges for risk exposures but do not meet the accounting requirements for hedge accounting treatment. As stated in Note 1 (ff) Derivative financial instruments, the Group uses Credit Default Swaps (CDSs) and equity swaps as economic hedges to manage credit risk in the asset portfolio and risks associated with both the capital investment in equities and the related yield respectively, but cannot apply hedge accounting to such positions. Gains or losses on these CDSs and equity swaps have therefore been recorded in trading income.

Derivatives designated and accounted for as hedging instruments

The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1 (ff) Derivative financial instruments where terms used in the following sections are explained.

Fair value hedges

The Group's fair value hedges principally consist of interest rate swaps, cross currency swaps and futures. Fair value hedges are used to limit the Group's exposure to changes in the fair value of its fixed-rate interest bearing assets or liabilities that are due to interest rate or foreign exchange volatility.

For the year ended 30 June 2008, the Group recognised a net loss of \$49 million (2007: \$14 million net gain) (reported within other operating income in the Financial Statements), which represents the ineffective portion of fair value hedges.

As at 30 June 2008, the fair value of outstanding derivatives designated as fair value hedges was \$1,381 million (2007: \$463 million) of assets and \$1,674 million (2007: \$2,451 million) of liabilities.

Cash flow hedges

The Group uses interest rate swaps and cross currency swaps to minimise the variability in cash flows of interest-earning assets, interest-bearing liabilities or forecast transactions caused by interest rate or foreign exchange fluctuations. For the year ended 30 June 2008, there has been no material gain or loss associated with ineffective portions of cash flow hedges.

Gains and losses on derivative contracts designated as cash flow hedges are initially recorded in shareholders' equity but are reclassified to current period earnings when the hedged cash flows occur, as explained in Note 1 (ff) Derivative financial instruments. As at 30 June 2008, deferred net gains on derivative instruments designated as cash flow hedges accumulated in shareholders' equity were \$486 million (2007: \$637 million). The amount recognised in shareholders' equity at 30 June 2008 related to cash flows expected to occur within one month to approximately 30 years of the Balance Sheet date, with the main portion expected to occur within five years (refer to Note 32 Detailed Statement of Changes in Equity).

As at 30 June 2008, the fair value of outstanding derivatives designated as cash flow hedges was \$1,169 million (2007: \$1,280 million) of assets and \$711 million (2007: \$415 million) of liabilities. Amounts reclassified from gains/(losses) on cash flow hedging instruments recognised in equity to current period earnings due to discontinuation of hedge accounting were immaterial.

Net Investment Hedges

The Group uses forward foreign exchange transactions to minimise the Group's exposure to currency translation risk of some of its net investments in foreign operations. For the year ended 30 June 2008 there has been no material gain or loss associated with ineffective portions of net investment hedges.

Gains and losses on derivative contracts relating to the effective portion of the hedge are recognised in the Foreign Currency Translation Reserve. Gains and losses accumulated in Foreign Currency Translation Reserve are reclassified in current period earnings when the overseas subsidiary is disposed of as explained in Note 1 (ff) Derivative financial instruments.

Notes to the Financial Statements

Note 11 Derivative Assets and Liabilities (continued)

	2008			Group 2007		
	Face Value \$M	Fair Value Asset \$M	Fair Value Liability \$M	Face Value \$M	Fair Value Asset \$M	Fair Value Liability \$M
Derivative Assets and Liabilities						
Held for trading	1,205,981	15,233	(16,791)	1,115,684	10,666	(13,230)
Held for hedging	155,095	2,550	(2,385)	121,495	1,743	(2,866)
Other derivatives	65,381	449	(365)	58,774	334	(584)
Total derivative assets/(liabilities)	1,426,457	18,232	(19,541)	1,295,953	12,743	(16,680)
Derivatives held for trading						
Exchange rate related contracts:						
Forward contracts	228,440	2,962	(4,367)	287,107	2,312	(4,134)
Swaps	129,152	4,609	(5,183)	130,962	3,715	(4,184)
Options purchased and sold	35,610	544	(473)	57,220	51	(50)
Total exchange rate related contracts	393,202	8,115	(10,023)	475,289	6,078	(8,368)
Interest rate related contracts:						
Forward contracts	22,228	2	(3)	6,956	1	(1)
Swaps	482,920	5,869	(5,795)	433,693	3,915	(4,129)
Futures	238,944	-	(9)	142,487	71	(54)
Options purchased and sold	55,267	256	(350)	46,036	110	(173)
Total interest rate related contracts	799,359	6,127	(6,157)	629,172	4,097	(4,357)
Credit related contracts:						
Swaps	6,958	142	(93)	5,928	18	(17)
Total credit related contracts	6,958	142	(93)	5,928	18	(17)
Equity related contracts:						
Swaps	586	181	(30)	381	-	(44)
Options purchased and sold	2,839	10	(62)	-	-	-
Total equity related contracts	3,425	191	(92)	381	-	(44)
Commodity related contracts:						
Swaps	1,436	523	(295)	2,506	422	(394)
Options purchased and sold	1,601	135	(131)	2,408	51	(50)
Total commodity related contracts	3,037	658	(426)	4,914	473	(444)
Total derivative assets/(liabilities) held for trading	1,205,981	15,233	(16,791)	1,115,684	10,666	(13,230)

Notes to the Financial Statements

Note 11 Derivative Assets and Liabilities (continued)

	2008			Group 2007		
	Face Value	Fair Value Asset	Fair Value Liability	Face Value	Fair Value Asset	Fair Value Liability
	\$M	\$M	\$M	\$M	\$M	\$M
Derivatives designated as fair value hedges						
Exchange rate related contracts:						
Forward contracts	137	1	-	1,285	74	(14)
Swaps	12,800	831	(871)	12,041	300	(772)
Total exchange rate related contracts	12,937	832	(871)	13,326	374	(786)
Interest rate related contracts:						
Swaps	22,156	544	(749)	26,336	83	(1,657)
Total interest rate related contracts	22,156	544	(749)	26,336	83	(1,657)
Equity related contracts:						
Swaps	593	5	(54)	292	6	(8)
Total equity related contracts	593	5	(54)	292	6	(8)
Commodity related contracts:						
Swaps	16	-	-	1	-	-
Total commodity related contracts	16	-	-	1	-	-
Total fair value hedges	35,702	1,381	(1,674)	39,955	463	(2,451)
Derivatives designated as cash flow hedges						
Exchange rate related contracts:						
Swaps	1,261	28	(2)	2,152	369	(40)
Total exchange rate related contracts	1,261	28	(2)	2,152	369	(40)
Interest rate related contracts:						
Swaps	118,132	1,141	(709)	79,388	911	(375)
Total interest rate related contracts	118,132	1,141	(709)	79,388	911	(375)
Total cash flow hedges	119,393	1,169	(711)	81,540	1,280	(415)
Total derivative assets/(liabilities) held for hedging	155,095	2,550	(2,385)	121,495	1,743	(2,866)

Notes to the Financial Statements

Note 11 Derivative Assets and Liabilities (continued)

	2008			Group 2007		
	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	8,356	129	(17)	8,374	77	(212)
Swaps	3,071	49	(48)	7,834	98	(186)
Options purchased and sold	12	-	-	164	2	(2)
Total exchange rate related contracts	11,439	178	(65)	16,372	177	(400)
Interest rate related contracts:						
Forward contracts	11,148	1	(2)	5,673	1	(1)
Swaps	34,329	224	(260)	29,802	155	(170)
Futures	7,032	1	(2)	5,313	1	-
Options purchased and sold	568	1	-	1,445	-	(4)
Total interest rate related contracts	53,077	227	(264)	42,233	157	(175)
Credit related contracts:						
Swaps	818	37	(33)	-	-	-
Total credit related contracts	818	37	(33)	-	-	-
Equity related contracts:						
Futures	9	-	-	-	-	-
Options purchased and sold	37	7	(3)	21	-	-
Total equity related contracts	46	7	(3)	21	-	-
Commodity related contracts:						
Forward contracts	1	-	-	-	-	-
Total commodity related contracts	1	-	-	-	-	-
Identified embedded derivatives	-	-	-	148	-	(9)
Total other derivatives	65,381	449	(365)	58,774	334	(584)
Total recognised derivative assets/(liabilities)	1,426,457	18,232	(19,541)	1,295,953	12,743	(16,680)

Notes to the Financial Statements

Note 11 Derivative Assets and Liabilities (continued)

	2008			Bank 2007		
	Face Value	Fair Value Asset	Fair Value Liability	Face Value	Fair Value Asset	Fair Value Liability
	\$M	\$M	\$M	\$M	\$M	\$M
Derivative Assets and Liabilities						
Held for trading	1,227,719	16,906	(17,189)	1,172,891	12,522	(14,084)
Held for hedging	127,093	2,376	(2,177)	90,878	1,340	(2,683)
Other derivatives	439	5	(1)	400	-	(19)
Total derivative assets/(liabilities)	1,355,251	19,287	(19,367)	1,264,169	13,862	(16,786)
Derivatives held for trading						
Exchange rate related contracts:						
Forward contracts	228,440	2,963	(4,367)	287,107	2,314	(4,134)
Swaps	128,317	4,552	(5,053)	130,632	3,699	(3,958)
Options purchased and sold	35,610	543	(473)	57,220	51	(50)
Derivatives held with controlled entities	16,679	1,605	(392)	39,223	1,736	(867)
Total exchange rate related contracts	409,046	9,663	(10,285)	514,182	7,800	(9,009)
Interest rate related contracts:						
Forward contracts	22,228	2	(3)	6,956	1	(1)
Swaps	484,452	5,911	(5,799)	433,676	3,926	(4,167)
Futures	238,944	-	(9)	142,487	71	(54)
Options purchased and sold	55,290	256	(350)	46,036	110	(173)
Derivatives held with controlled entities	4,210	83	(131)	16,620	46	(115)
Total interest rate related contracts	805,124	6,252	(6,292)	645,775	4,154	(4,510)
Credit related contracts:						
Swaps	6,958	142	(93)	5,928	18	(17)
Derivatives held with controlled entities	-	-	-	173	-	-
Total credit related contracts	6,958	142	(93)	6,101	18	(17)
Equity related contracts:						
Swaps	586	160	(30)	381	-	(44)
Options purchased and sold	2,839	10	(63)	-	-	-
Derivatives held with controlled entities	129	22	-	1,538	77	(60)
Total equity related contracts	3,554	192	(93)	1,919	77	(104)
Commodity related contracts:						
Swaps	1,436	523	(295)	2,506	422	(394)
Options purchased and sold	1,601	134	(131)	2,408	51	(50)
Total commodity related contracts	3,037	657	(426)	4,914	473	(444)
Total derivative assets/(liabilities) held for trading	1,227,719	16,906	(17,189)	1,172,891	12,522	(14,084)

Notes to the Financial Statements

Note 11 Derivative Assets and Liabilities (continued)

	2008			Bank 2007		
	Face Value	Fair Value Asset	Fair Value Liability	Face Value	Fair Value Asset	Fair Value Liability
	\$M	\$M	\$M	\$M	\$M	\$M
Derivatives designated as fair value hedges						
Exchange rate related contracts:						
Forward contracts	16	-	-	13	-	-
Swaps	12,800	831	(871)	11,876	300	(742)
Derivatives held with controlled entities	-	-	-	165	-	(31)
Total exchange rate related contracts	12,816	831	(871)	12,054	300	(773)
Interest rate related contracts:						
Swaps	18,662	510	(725)	23,651	57	(1,615)
Derivatives held with controlled entities	601	16	-	484	-	(11)
Total interest rate related contracts	19,263	526	(725)	24,135	57	(1,626)
Equity related contracts:						
Swaps	593	5	(54)	292	6	(8)
Total equity related contracts	593	5	(54)	292	6	(8)
Commodity related contracts:						
Swaps	16	-	-	1	-	-
Total commodity related contracts	16	-	-	1	-	-
Total fair value hedges	32,688	1,362	(1,650)	36,482	363	(2,407)
Derivatives designated as cash flow hedges						
Exchange rate related contracts:						
Swaps	35	4	-	983	364	-
Derivatives held with controlled entities	570	-	(10)	328	-	(21)
Total exchange rate related contracts	605	4	(10)	1,311	364	(21)
Interest rate related contracts:						
Swaps	93,800	1,010	(517)	53,085	613	(255)
Total interest rate related contracts	93,800	1,010	(517)	53,085	613	(255)
Total cash flow hedges	94,405	1,014	(527)	54,396	977	(276)
Total derivative assets/(liabilities) held for hedging	127,093	2,376	(2,177)	90,878	1,340	(2,683)
Other Derivatives						
Interest rate related contracts:						
Swaps	4	-	(1)	252	-	(10)
Total interest rate related contracts	4	-	(1)	252	-	(10)
Credit related contracts:						
Swaps	435	5	-	-	-	-
Total credit related contracts	435	5	-	-	-	-
Identified embedded derivatives	-	-	-	148	-	(9)
Total other derivatives	439	5	(1)	400	-	(19)
Total recognised derivative assets/(liabilities)	1,355,251	19,287	(19,367)	1,264,169	13,862	(16,786)

Notes to the Financial Statements

Note 12 Available-for-Sale Investments

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Australia				
Market Quoted:				
Australian Public Securities:				
Local and semi-government	2,981	2,376	2,905	2,378
Shares and equity investments	203	41	201	37
Medium term notes	1,873	524	1,873	517
Floating rate notes	399	605	-	-
Mortgage backed securities	-	1,417	-	1,417
Other securities	8	191	-	-
Non-Market Quoted:				
Australian Public Securities:				
Local and semi-government	-	80	-	-
Medium term notes	59	-	784	824
Shares and equity investments	57	54	42	38
Mortgage backed securities	1,419	-	17,074	-
Other securities	192	158	90	91
Total Australia	7,191	5,446	22,969	5,302
Overseas				
Market Quoted:				
Government securities	167	174	53	51
Shares and equity investments	33	-	1	-
Bills of exchange	-	78	-	78
Certificates of deposit	2,031	1,763	2,017	1,741
Eurobonds	1,407	161	1,407	147
Medium term notes	304	365	304	171
Floating rate notes	272	967	272	931
Other securities	87	436	58	50
Non-Market Quoted:				
Government securities	25	36	-	-
Floating rate notes	2	66	-	-
Other securities	-	181	-	-
Total Overseas	4,328	4,227	4,112	3,169
Less: specific provisions for impairment	(31)	(1)	(14)	(3)
Total available-for-sale investments	11,488	9,672	27,067	8,468

Revaluation of Available-for-sale investments resulted in a gain of \$262 million (2007: \$28 million) recognised directly in equity. As a result of sale, derecognition or impairment of Available-for-sale investments, net gains of \$312 million (2007: \$138 million) were removed from equity and reported in profit and loss for the year.

Notes to the Financial Statements

Note 12 Available-for-Sale Investments (continued)

	Group At 30 June 2008			
	Amortised Cost \$M	Gross Unrealised Gains \$M	Gross Unrealised Losses \$M	Fair Value \$M
Australia				
Australian Public Securities:				
Local and semi-government	2,980	78	(77)	2,981
Medium term notes	1,979	1	(48)	1,932
Floating rate notes	399	-	-	399
Mortgage backed securities	1,446	-	(27)	1,419
Other securities and equity investments	402	89	(31)	460
Impairment provisions	(27)	-	-	(27)
Total Australia	7,179	168	(183)	7,164
Overseas				
Government securities	191	1	-	192
Certificates of deposit	2,056	-	(25)	2,031
Eurobonds	1,409	9	(11)	1,407
Medium term notes	305	1	(2)	304
Floating rate notes	280	-	(6)	274
Other securities and equity investments	106	15	(1)	120
Impairment provisions	(4)	-	-	(4)
Total Overseas	4,343	26	(45)	4,324
Total available-for-sale investments	11,522	194	(228)	11,488

Maturity Distribution and Weighted Average Yield

	Group Maturity Period at 30 June 2008											
	0 to 3 months		3 to 12 months		1 to 5 years		5 to 10 years		10 years or more		Non-Maturing	Total
	\$M	%	\$M	%	\$M	%	\$M	%	\$M	%	\$M	\$M
Australia												
Australian Public Securities:												
Local and semi-government	-	-	-	-	2,844	7.65	137	7.37	-	-	-	2,981
Medium term notes	-	-	30	8.23	1,758	7.89	144	7.68	-	-	-	1,932
Floating rate notes	-	-	399	7.64	-	-	-	-	-	-	-	399
Mortgage backed securities	-	-	-	-	-	-	-	-	1,419	7.96	-	1,419
Other securities and equity investments	4	4.80	123	7.00	4	-	7	3.00	-	-	322	460
Impairment provisions	-	-	(21)	-	-	-	-	-	-	-	(6)	(27)
Total Australia	4	-	531	-	4,606	-	288	-	1,419	-	316	7,164
Overseas												
Government securities	61	5.33	19	7.17	112	3.30	-	-	-	-	-	192
Certificates of deposit	1,316	4.18	684	3.82	31	3.30	-	-	-	-	-	2,031
Eurobonds	332	4.03	716	6.36	56	3.05	303	4.00	-	-	-	1,407
Medium term notes	16	3.25	188	7.23	100	5.36	-	-	-	-	-	304
Floating rate notes	12	9.95	59	4.78	201	4.17	2	2.20	-	-	-	274
Other securities and equity investments	-	-	-	-	87	4.83	-	-	-	-	33	120
Impairment provisions	-	-	(1)	-	(3)	-	-	-	-	-	-	(4)
Total Overseas	1,737	-	1,665	-	584	-	305	-	-	-	33	4,324
Total available-for-sale investments	1,741	-	2,196	-	5,190	-	593	-	1,419	-	349	11,488

Additional Disclosure

Proceeds at or close to maturity of Available-for-sale investments in 2008 were \$31,974 million (2007: \$21,139 million).

Proceeds from sale of Available-for-sale investments in 2008 were \$610 million (2007: \$1,480 million).

Notes to the Financial Statements

Note 12 Available-for-Sale Investments (continued)

	Group At 30 June 2007			
	Amortised Cost \$M	Gross Unrealised Gains \$M	Gross Unrealised Losses \$M	Fair Value \$M
Australia				
Australian Public Securities:				
Local and semi-government	2,411	81	(36)	2,456
Medium term notes	535	1	(12)	524
Floating rate notes	605	-	-	605
Mortgage backed securities	1,416	1	-	1,417
Other securities and equity investments	441	4	(1)	444
Impairment provisions	(1)	-	-	(1)
Total Australia	5,407	87	(49)	5,445
Overseas				
Government securities	210	-	-	210
Bills of exchange	78	-	-	78
Certificates of deposit	1,764	-	(1)	1,763
Eurobonds	164	1	(4)	161
Medium term notes	366	-	(1)	365
Floating rate notes	1,033	1	(1)	1,033
Other securities and equity investments	619	-	(2)	617
Total Overseas	4,234	2	(9)	4,227
Total available-for-sale investments	9,641	89	(58)	9,672

Maturity Distribution and Weighted Average Yield

	Group Maturity Period at 30 June 2007											
	0 to 3 months		3 to 12 months		1 to 5 years		5 to 10 years		10 years or more		Non-Maturing	Total
	\$M	%	\$M	%	\$M	%	\$M	%	\$M	%	\$M	\$M
Australia												
Australian Public Securities:												
Local and semi-government	150	6.73	504	6.48	1,603	6.21	199	6.61	-	-	-	2,456
Medium term notes	-	-	-	-	363	6.27	161	5.87	-	-	-	524
Floating rate notes	5	6.86	75	7.11	388	6.69	86	6.65	51	6.74	-	605
Mortgage backed securities	-	-	-	-	-	-	-	-	1,417	6.51	-	1,417
Other securities and equity investments	95	5.83	190	4.68	36	6.00	67	6.33	-	-	56	444
Impairment provisions	-	-	(1)	-	-	-	-	-	-	-	-	(1)
Total Australia	250	-	768	-	2,390	-	513	-	1,468	-	56	5,445
Overseas												
Government securities	138	7.28	12	6.65	60	2.40	-	-	-	-	-	210
Bills of exchange	-	-	78	4.11	-	-	-	-	-	-	-	78
Certificates of deposit	1,536	5.77	215	5.37	12	5.86	-	-	-	-	-	1,763
Eurobonds	26	4.68	93	5.59	42	2.64	-	-	-	-	-	161
Medium term notes	194	4.53	27	5.94	144	4.74	-	-	-	-	-	365
Floating rate notes	81	4.28	617	6.04	316	5.11	8	4.53	11	7.09	-	1,033
Other securities and equity investments	179	4.43	349	6.21	89	4.50	-	-	-	-	-	617
Total Overseas	2,154	-	1,391	-	663	-	8	-	11	-	-	4,227
Total available-for-sale investments	2,404	-	2,159	-	3,053	-	521	-	1,479	-	56	9,672

Notes to the Financial Statements

Note 13 Loans, Advances and Other Receivables

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Australia				
Overdrafts ⁽¹⁾	20,047	16,155	20,085	16,155
Housing loans ⁽¹⁾⁽²⁾	186,926	163,839	184,326	160,501
Credit card outstandings	7,555	7,185	7,555	7,185
Lease financing	4,239	4,532	1,680	1,324
Bills discounted	5,868	3,640	5,868	3,640
Term loans	83,431	68,577	80,664	65,777
Other lending	1,076	1,339	1,076	989
Other securities	13	11	13	11
Total Australia	309,155	265,278	301,267	255,582
Overseas				
Overdrafts	716	1,605	-	34
Housing loans	28,817	28,931	164	94
Credit card outstandings	538	533	-	-
Lease financing	563	531	115	160
Bills discounted	-	33	-	33
Term loans	23,916	20,027	10,587	8,742
Redeemable preference share financing	1,194	1,194	-	-
Other lending	25	183	-	147
Other securities	300	303	-	3
Total Overseas	56,069	53,340	10,866	9,213
Gross loans, advances and other receivables	365,224	318,618	312,133	264,795
Less				
Provisions for impairment (Note 14):				
Collective provision	(1,346)	(1,034)	(1,240)	(907)
Individually assessed provisions against loans and advances	(367)	(199)	(326)	(176)
Unearned income:				
Term loans	(1,047)	(941)	(491)	(515)
Lease financing	(1,182)	(979)	(362)	(230)
	(3,942)	(3,153)	(2,419)	(1,828)
Net loans, advances and other receivables	361,282	315,465	309,714	262,967

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

(2) 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 program after all payments due to investors and costs of the program 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 \$10,684 million (2007: \$13,910 million) and for the Bank were \$10,359 million (2007: \$13,500 million). The carrying value of liabilities associated with non-derecognised assets for the Group were \$9,762 million (2007: \$14,071 million) and for the Bank were \$10,359 million (2007: \$13,500 million).

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Finance Leases				
Minimum lease payments receivable:				
Not later than one year	1,354	1,462	532	388
Later than one year but not later than five years	2,328	2,583	868	883
Later than five years	1,120	1,018	395	213
Lease financing	4,802	5,063	1,795	1,484

Notes to the Financial Statements

Note 13 Loans, Advances and Other Receivables (continued)

Group

	Maturity Period at 30 June 2008			Total \$M
	Maturing 1 Year or Less \$M	Maturing Between 1 & 5 Years \$M	Maturing After 5 Years \$M	
Australia				
Sovereign	84	397	1,087	1,568
Agriculture	417	1,375	755	2,547
Bank and other financial	4,612	3,125	1,180	8,917
Real estate:				
Mortgage	23,535	11,338	152,053	186,926
Construction	735	839	73	1,647
Personal	9,613	8,826	794	19,233
Asset financing	2,329	3,991	1,574	7,894
Other commercial and industrial	45,074	28,878	6,471	80,423
Total Australia	86,399	58,769	163,987	309,155
Overseas				
Sovereign	691	329	210	1,230
Agriculture	2,326	1,148	1,340	4,814
Bank and other financial	3,312	1,344	2,087	6,743
Real estate:				
Mortgage	4,076	4,151	20,590	28,817
Construction	559	14	33	606
Personal	468	40	24	532
Asset financing	67	192	289	548
Other commercial and industrial	7,176	3,805	1,798	12,779
Total Overseas	18,675	11,023	26,371	56,069
Gross loans, advances and other receivables	105,074	69,792	190,358	365,224
Interest Rate Sensitivity of Lending				
Australia	78,501	44,571	107,947	231,019
Overseas	14,042	4,710	5,514	24,266
Total variable interest rates	92,543	49,281	113,461	255,285
Australia	7,898	14,198	56,040	78,136
Overseas	4,633	6,313	20,857	31,803
Total fixed interest rates	12,531	20,511	76,897	109,939
Gross loans, advances and other receivables	105,074	69,792	190,358	365,224

Notes to the Financial Statements

Note 13 Loans, Advances and Other Receivables (continued)

	Group			
	Maturity Period at 30 June 2007			
	Maturing 1 Year or Less \$M	Maturing Between 1 & 5 Years \$M	Maturing After 5 Years \$M	Total \$M
Australia				
Sovereign	289	377	1,111	1,777
Agriculture	709	808	974	2,491
Bank and other financial	4,213	2,016	1,665	7,894
Real estate:				
Mortgage	21,633	11,928	130,278	163,839
Construction	693	602	293	1,588
Personal	9,078	8,689	485	18,252
Asset financing	2,467	4,106	1,254	7,827
Other commercial and industrial	33,598	22,966	5,046	61,610
Total Australia	72,680	51,492	141,106	265,278
Overseas				
Sovereign	858	1,121	1,210	3,189
Agriculture	1,043	1,076	2,032	4,151
Bank and other financial	2,978	2,004	1,961	6,943
Real estate:				
Mortgage	3,868	3,592	21,471	28,931
Construction	395	76	147	618
Personal	624	31	5	660
Asset financing	68	165	274	507
Other commercial and industrial	5,626	2,043	672	8,341
Total Overseas	15,460	10,108	27,772	53,340
Gross loans, advances and other receivables	88,140	61,600	168,878	318,618
Interest Rate Sensitivity of Lending				
Australia	56,770	36,480	98,852	192,102
Overseas	10,022	4,906	4,273	19,201
Total variable interest rates	66,792	41,386	103,125	211,303
Australia	15,910	15,012	42,254	73,176
Overseas	5,438	5,202	23,499	34,139
Total fixed interest rates	21,348	20,214	65,753	107,315
Gross loans, advances and other receivables	88,140	61,600	168,878	318,618

Notes to the Financial Statements

Note 14 Provisions for Impairment

	Group				Bank
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
Provisions for impairment losses					
Collective provisions					
Opening balance	1,034	1,046	1,021	907	938
Total charge against profit and loss for impairment losses	930	434	398	902	390
Net transfer to individually assessed provisions	(625)	(507)	(440)	(574)	(477)
Impairment losses recovered	77	103	127	68	93
Adjustments for exchange rate fluctuations and other items	(22)	9	(7)	(30)	-
	1,394	1,085	1,099	1,273	944
Impairment losses written off	(48)	(51)	(53)	(33)	(37)
Closing balance	1,346	1,034	1,046	1,240	907
Individually assessed provisions					
Opening balance	199	171	191	176	157
Charge against profit and loss for:					
New and increased provisioning	658	523	468	602	490
Less write-back of provisions no longer required	(33)	(16)	(28)	(28)	(13)
Net transfer from collective provision	625	507	440	574	477
Discount unwind to interest income	(9)	(6)	(13)	(9)	(6)
Adjustment for exchange rate fluctuations and other items	7	(5)	(3)	10	(3)
Impairment losses	(455)	(468)	(444)	(425)	(449)
Closing balance	367	199	171	326	176
Total provisions for loan impairment	1,713	1,233	1,217	1,566	1,083
Other credit provisions	32	23	24	32	23
Total provisions for impairment losses	1,745	1,256	1,241	1,598	1,106

	Group				Bank
	2008	2007	2006	2008	2007
	%	%	%	%	%
Coverage Ratios					
Collective provision as a % of gross loans and acceptances	0.35	0.31	0.36	0.38	0.32
Collective provisions as a % of risk weighted assets – Basel I	-	0.42	0.48	-	0.38
Collective provisions as a % of risk weighted assets – Basel II	0.65	-	-	n/a	-
Individually assessed provisions for impairment as a % of gross impaired assets ⁽¹⁾	40.8	23.8	24.5	40.1	20.8
Total provisions for impairment as % of gross impaired assets	255.5	298.3	380.7	269.5	298.9

(1) Portfolio provisions of \$88 million as at 30 June 2008 (2007: \$99 million) to cover unsecured personal loans and credit card lending have been deducted from individually assessed provisions to calculate this ratio. These provisions are deducted due to the exclusion of the related assets from gross impaired assets. The related asset amounts are instead included in the 90 days or more past due disclosure. Refer note 1 (mm).

Notes to the Financial Statements

Note 14 Provisions for Impairment (continued)

	Group			Bank	
	2008 \$M	2007 \$M	2006 \$M	2008 \$M	2007 \$M
Total Loan Impairment Expense	930	434	398	902	390
Comprising:					
Individually assessed provisioning					
New and increased provisioning	658	523	468	602	490
Less provisions no longer required	(33)	(16)	(28)	(28)	(13)
Net individually assessed provisions	625	507	440	574	477
Provided from collective provisioning	(625)	(507)	(440)	(574)	(477)
Charge to profit and loss	-	-	-	-	-
Collective provisioning					
Direct write-offs	48	51	53	33	37
Recoveries of amounts previously written off	(77)	(103)	(127)	(68)	(93)
Movement in collective provision	334	(21)	32	363	(31)
Funding of individually assessed provisions	625	507	440	574	477
Charge to profit and loss	930	434	398	902	390
Total charge to profit and loss for loan impairment expense	930	434	398	902	390

Individually Assessed Provisions for Impairment by Industry Category

	Group			
	2008 \$M	2007 \$M	2006 \$M	2005 \$M
Australia				
Sovereign	-	-	-	-
Agriculture	4	3	4	16
Bank and other financial	27	2	1	1
Real estate:				
Mortgage	34	23	17	3
Construction	1	1	2	7
Personal	97	104	96	63
Asset financing	12	13	11	13
Other commercial and industrial	161	39	35	41
Total Australia	336	185	166	144
Overseas				
Sovereign	-	-	-	-
Agriculture	-	-	-	-
Bank and other financial	4	1	1	1
Real estate:				
Mortgage	7	4	2	11
Construction	8	-	-	-
Personal	2	1	2	1
Asset financing	2	1	-	-
Other commercial and industrial	8	7	-	-
Total Overseas	31	14	5	13
Total individually assessed provisions	367	199	171	157

Notes to the Financial Statements

Note 14 Provisions for Impairment (continued)

Loan Impairments Written Off by Industry Category

	2008	2007	2006	Group 2005
	\$M	\$M	\$M	\$M
Loan Impairments Written Off				
Australia				
Sovereign	-	-	-	-
Agriculture	3	1	8	1
Bank and other financial	5	-	1	3
Real estate:				
Mortgage	23	20	8	8
Construction	1	1	3	3
Personal	364	408	388	280
Asset financing	49	49	42	26
Other commercial and industrial	34	30	36	63
Total Australia	479	509	486	384
Overseas				
Sovereign	-	-	-	-
Agriculture	-	-	-	-
Bank and other financial	4	-	-	-
Real estate:				
Mortgage	1	-	-	6
Construction	1	-	-	-
Personal	13	7	7	-
Asset financing	-	-	-	-
Other commercial and industrial	5	3	4	1
Total Overseas	24	10	11	7
Gross loan impairments written off	503	519	497	391
Loan Impairments Recovered				
Australia	73	99	122	76
Overseas	4	4	5	5
Total loan impairments recovered	77	103	127	81
Net loan impairments written off	426	416	370	310

Notes to the Financial Statements

Note 14 Provisions for Impairment (continued)

Loan Impairments Recovered by Industry Category

	2008	2007	2006	Group 2005
	\$M	\$M	\$M	\$M
Loan Impairments Recovered				
Australia				
Sovereign	-	-	-	-
Agriculture	-	1	1	1
Bank and other financial	-	1	-	3
Real estate:				
Mortgage	1	1	1	1
Construction	1	1	-	-
Personal	61	77	99	59
Asset financing	5	10	5	5
Other commercial and industrial	5	8	16	7
Total Australia	73	99	122	76
Overseas				
Sovereign	-	-	-	-
Agriculture	-	-	-	-
Bank and other financial	-	-	-	-
Real estate:				
Mortgage	-	-	-	-
Construction	-	-	-	-
Personal	3	4	5	4
Asset financing	-	-	-	-
Other commercial and industrial	1	-	-	1
Total Overseas	4	4	5	5
Total loan impairments recovered	77	103	127	81

Notes to the Financial Statements

Note 15 Credit Risk Management

Credit Risk Management is one of the key inputs into the Group's Integrated Risk Management framework. The Group maintains a robust system of controls and processes to optimise the Group's credit risk-taking activities.

Credit risk is the potential of loss arising from failure for 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 and other associated activities. In the insurance business, credit risk arises from investment in bonds and notes, loans, and from reliance on reinsurance.

The Group applies the following elements for effective credit risk practice in its day-to-day business activities:

- Credit Risk Management Principles and Portfolio Standards; and
- Credit Risk Measurement.

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 usually meets every two months, 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 comprised of the following:

- A large credit policy for aggregate exposures to individual, commercial and industrial client groups;
- A system of industry limits and targets for exposures by industry; and
- A system of country limits for 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 floating charge over assets, is generally taken for business credit except for major government, bank and corporate counterparties of externally risk rated and 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 staff 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

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.

These portfolios are managed 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 and Monitoring Unit. Commercial lending up to \$1 million is reviewed as part of the Client Quality Assurance process and overview is provided by the independent Portfolio Quality 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 risk of default and the risk of loss in the event of default combine to determine a CRR grade. 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 (APRA).

CRR 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.

CRR fall within the following categories:

1. '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
2. '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 increases in exposure unless it will protect or improve the Group's position by maximising recovery prospects or to facilitate rehabilitation.

For the purpose of determining an impaired CRR, default is defined as any one of the following:

- 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. 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 Portfolio Quality Assurance unit 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 Portfolio Quality Assurance unit reports its findings to the Board Audit and Risk Committees as appropriate.

Note 15 Credit Risk Management (continued)

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.

(i) Expected Loss

The Expected Loss (EL) is the product of:

- Probability of Default (PD);
- Exposure at Default (EAD); and,
- Loss Given Default (LGD) that would likely be experienced in the event of a write-off.

For Credit Risk Rated facilities, ELs are 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; and
- Carrying costs (effectively the costs of providing a facility that is not generating an interest return) and management expenses (realisation costs).

Various risks 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.

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. In some instances, such as certain types of consumer loans (e.g. credit cards), a client's facilities may not be secured by formal collateral.

Main collateral types include:

- Residential mortgages;
- Charges over other properties (including Commercial and Broad-acre);
- Cash (usually in the form of a charge over a Term Deposit);
- Guarantees by company directors supporting commercial lending;
- A floating charge over a company's assets, including stock and work in progress; and
- A charge over stock or scrip.

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.

For credit risk exposures greater than \$2 million or decided outside of the scorecard approach, 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.

Where tools are available to support a more objective determination of PD, the CRR may be calculated using a formula approved by the Group Chief Risk Officer incorporating numeric representations of PD and LGD. These numeric representations must be identified with the appropriate, internally defined, alphabetic PD and LGD ratings.

(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 note 35, Capital Adequacy, 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 Note 16).

Notes to the Financial Statements

Note 15 Credit Risk Management (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

Group
At 30 June 2008

	Sovereign \$M	Agriculture \$M	Bank & Other Financial \$M	Real Estate Mortgage \$M	Real Estate Construction \$M	Personal \$M	Asset Financing \$M	Other Comm & Indust. \$M	Other \$M	Total \$M
Australia										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	4,841	-	-	-	-	-	-	4,841
Receivables due from other financial institutions	-	-	4,880	-	-	-	-	-	-	4,880
Assets at fair value through Income Statement:										
Trading	2,043	-	12,910	-	-	-	-	3,504	-	18,457
Insurance ⁽¹⁾	4,096	-	3,527	313	24	-	-	10,716	-	18,676
Other	-	-	295	-	-	-	-	-	-	295
Derivative assets	204	15	13,560	-	5	-	-	2,555	-	16,339
Available-for-sale investments	2,981	-	1,419	-	-	-	-	2,764	-	7,164
Loans, advances and other receivables	1,568	2,547	8,917	186,926	1,647	19,233	7,894	80,423	-	309,155
Bank acceptances	8	2,764	485	-	533	-	-	14,488	-	18,278
Other assets ⁽²⁾	20	32	1,018	2,338	21	240	99	1,405	10,647	15,820
Total on balance sheet										
Australia	10,920	5,358	51,852	189,577	2,230	19,473	7,993	115,855	10,647	413,905
Credit risk exposures relating to off balance sheet items:										
Guarantees										2,706
Loan commitments										85,253
Other commitments										10,698
Total Australia										512,562
Overseas										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	2,895	-	-	-	-	-	-	2,895
Receivables due from other financial institutions	-	-	2,104	-	-	-	-	-	-	2,104
Assets at fair value through Income Statement:										
Trading	823	-	1,425	-	-	-	-	971	-	3,219
Insurance ⁽¹⁾	394	-	1,070	-	-	-	-	510	-	1,974
Other	1,069	33	1,204	-	40	29	-	596	-	2,971
Derivative assets	54	19	1,213	-	-	-	-	607	-	1,893
Available-for-sale investments	225	-	2,031	-	-	-	-	2,068	-	4,324
Loans, advances and other receivables	1,230	4,814	6,743	28,817	606	532	548	12,779	-	56,069
Bank acceptances	-	-	-	-	-	-	-	-	-	-
Other assets ⁽²⁾	23	89	125	535	11	10	10	433	924	2,160
Total on balance sheet										
Overseas	3,818	4,955	18,810	29,352	657	571	558	17,964	924	77,609
Credit risk exposures relating to off balance sheet items:										
Guarantees										96
Loan commitments										12,051
Other commitments										275
Total Overseas										90,031
Total gross credit risk										602,593

(1) In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

(2) Other assets predominantly comprises assets which do not give rise to credit exposure, including intangible assets, property, plant and equipment, and defined benefit superannuation plan surplus, which are shown in "Other" for the purpose of reconciling to the Balance Sheet.

Notes to the Financial Statements

Note 15 Credit Risk Management (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

	Group At 30 June 2007									
	Sovereign	Agriculture	Bank & Other Financial	Real Estate Mortgage	Real Estate Construction	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	-	-	5,984	-	-	-	-	-	-	5,984
Receivables due from other financial institutions	-	-	2,809	-	-	-	-	-	-	2,809
Assets at fair value through Income Statement:										
Trading	3,894	-	10,193	-	-	-	-	4,924	-	19,011
Insurance ⁽¹⁾	4,300	-	3,888	374	33	-	-	12,225	-	20,820
Other	-	-	423	-	-	-	-	-	-	423
Derivative assets	170	-	8,494	-	14	-	-	296	-	8,974
Available-for-sale investments	2,456	-	1,417	-	-	-	-	1,572	-	5,445
Loans, advances and other receivables	1,777	2,491	7,894	163,839	1,588	18,252	7,827	61,610	-	265,278
Bank acceptances	11	2,155	441	-	571	-	-	15,543	-	18,721
Other assets ⁽²⁾	28	39	960	2,575	25	287	123	968	10,745	15,750
Total on balance sheet										
Australia	12,636	4,685	42,503	166,788	2,231	18,539	7,950	97,138	10,745	363,215
Credit risk exposures relating to off balance sheet items:										
Guarantees										2,281
Loan commitments										72,167
Other commitments										12,842
Total Australia										450,505
Overseas										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	4,124	-	-	-	-	-	-	4,124
Receivables due from other financial institutions	-	-	2,686	-	-	-	-	-	-	2,686
Assets at fair value through Income Statement:										
Trading	383	-	977	-	-	-	-	1,098	-	2,458
Insurance ⁽¹⁾	487	-	1,641	-	-	-	-	571	-	2,699
Other	244	365	2,369	-	67	-	-	605	-	3,650
Derivative assets	50	-	1,541	-	-	-	-	2,178	-	3,769
Available-for-sale investments	210	-	1,841	-	-	-	-	2,176	-	4,227
Loans, advances and other receivables	3,189	4,151	6,943	28,931	618	660	507	8,341	-	53,340
Bank acceptances	-	-	-	-	-	-	-	-	-	-
Other assets ⁽²⁾	63	82	137	571	12	13	10	1,236	1,018	3,142
Total on balance sheet										
Overseas	4,626	4,598	22,259	29,502	697	673	517	16,205	1,018	80,095
Credit risk exposures relating to off balance sheet items:										
Guarantees										570
Loan commitments										13,264
Other commitments										598
Total Overseas										94,527
Total gross credit risk										545,032

(1) In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

(2) Other assets predominantly comprises assets which do not give rise to credit exposure, including intangible assets, property, plant and equipment, and defined benefit superannuation plan surplus, which are shown in "Other" for the purpose of reconciling to the Balance Sheet.

Notes to the Financial Statements

Note 15 Credit Risk Management (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

Bank
At 30 June 2008

	Sovereign \$M	Agriculture \$M	Bank & Other Financial \$M	Real Estate Mortgage \$M	Real Estate Construction \$M	Personal \$M	Asset Financing \$M	Other Comm & Indust. \$M	Other \$M	Total \$M
Australia										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	4,609	-	-	-	-	-	-	4,609
Receivables due from other financial institutions	-	-	4,880	-	-	-	-	-	-	4,880
Assets at fair value through Income Statement:										
Trading	2,043	-	12,910	-	-	-	-	3,504	-	18,457
Insurance ⁽¹⁾	-	-	-	-	-	-	-	-	-	-
Other	-	-	274	-	-	-	-	-	-	274
Derivative assets	204	15	13,560	-	5	-	-	1,996	-	15,780
Available-for-sale investments	2,905	-	1,419	-	-	-	-	18,635	-	22,959
Loans, advances and other receivables	1,568	2,546	8,917	184,326	1,646	19,183	2,897	80,184	-	301,267
Bank acceptances	8	2,764	485	-	533	-	-	14,488	-	18,278
Other assets ⁽²⁾	16	26	29,173	1,907	17	198	30	1,231	6,159	38,757
Total on balance sheet										
Australia	6,744	5,351	76,227	186,233	2,201	19,381	2,927	120,038	6,159	425,261
Credit risk exposures relating to off balance sheet items:										
Guarantees										3,707
Loan commitments										85,253
Other commitments										10,698
Total Australia										524,919
Overseas										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	2,673	-	-	-	-	-	-	2,673
Receivables due from other financial institutions	-	-	1,851	-	-	-	-	-	-	1,851
Assets at fair value through Income Statement:										
Trading	453	-	-	-	-	-	-	258	-	711
Insurance ⁽¹⁾	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Derivative assets	49	-	679	-	-	-	-	2,779	-	3,507
Available-for-sale investments	54	-	2,017	-	-	-	-	2,037	-	4,108
Loans, advances and other receivables	40	50	5,401	164	245	42	-	4,924	-	10,866
Bank acceptances	-	-	-	-	-	-	-	-	-	-
Other assets ⁽²⁾	1	1	9,297	4	7	1	-	135	23	9,469
Total on balance sheet										
Overseas	597	51	21,918	168	252	43	-	10,133	23	33,185
Credit risk exposures relating to off balance sheet items:										
Guarantees										-
Loan commitments										5,617
Other commitments										108
Total Overseas										38,910
Total gross credit risk										563,829

(1) In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

(2) Other assets predominantly comprises assets which do not give rise to credit exposure, including intangible assets, property, plant and equipment, and defined benefit superannuation plan surplus, which are shown in "Other" for the purpose of reconciling to the Balance Sheet.

Notes to the Financial Statements

Note 15 Credit Risk Management (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

	Bank At 30 June 2007									
	Sovereign	Agriculture	Bank & Other Financial	Real Estate Mortgage	Real Estate Construction	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	-	-	5,625	-	-	-	-	-	-	5,625
Receivables due from other financial institutions	-	-	3,283	-	-	-	-	-	-	3,283
Assets at fair value through Income Statement:										
Trading	3,894	-	10,193	-	-	-	-	5,098	-	19,185
Insurance ⁽¹⁾	-	-	-	-	-	-	-	-	-	-
Other	-	-	424	-	-	-	-	-	-	424
Derivative assets	170	-	8,494	-	14	-	-	2,174	-	10,852
Available-for-sale investments	2,379	-	1,417	-	-	-	-	1,503	-	5,299
Loans, advances and other receivables	1,769	2,487	7,894	160,501	1,587	18,237	4,810	58,297	-	255,582
Bank acceptances	11	2,155	441	-	571	-	-	15,543	-	18,721
Other assets ⁽²⁾	26	36	28,805	2,329	23	265	70	846	6,078	38,478
Total on balance sheet	8,249	4,678	66,576	162,830	2,195	18,502	4,880	83,461	6,078	357,449
Credit risk exposures relating to off balance sheet items:										
Guarantees										4,334
Loan commitments										72,122
Other commitments										12,842
Total Australia										446,747
Overseas										
Credit risk exposures relating to on balance sheet assets:										
Cash and liquid assets	-	-	1,776	-	-	-	-	-	-	1,776
Receivables due from other financial institutions	-	-	2,489	-	-	-	-	-	-	2,489
Assets at fair value through Income Statement:										
Trading	336	-	-	-	-	-	-	766	-	1,102
Insurance ⁽¹⁾	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	24	-	24
Derivative assets	32	-	959	-	-	-	-	2,019	-	3,010
Available-for-sale investments	51	-	1,820	-	-	-	-	1,298	-	3,169
Loans, advances and other receivables	48	-	4,199	94	211	106	-	4,555	-	9,213
Bank acceptances	-	-	-	-	-	-	-	-	-	-
Other assets ⁽²⁾	5	-	10,070	9	21	10	-	451	33	10,599
Total on balance sheet	472	-	21,313	103	232	116	-	9,113	33	31,382
Credit risk exposures relating to off balance sheet items:										
Guarantees										568
Loan commitments										6,160
Other commitments										375
Total Overseas										38,485
Total gross credit risk										485,232

(1) In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

(2) Other assets predominantly comprises assets which do not give rise to credit exposure, including intangible assets, property, plant and equipment, and defined benefit superannuation plan surplus, which are shown in "Other" for the purpose of reconciling to the Balance Sheet.

Notes to the Financial Statements

Note 15 Credit Risk Management (continued)

Credit Portfolio Loans and Advances by Industry

The following table sets out the distribution of the Group's loans, advances and other receivables (excluding bank acceptances) by industry.

Industry	Group	
	2008 \$M	2007 \$M
Australia		
Sovereign	1,568	1,777
Agriculture	2,547	2,491
Bank and other financial	8,917	7,894
Real estate:		
Mortgage	186,926	163,839
Construction	1,647	1,588
Personal	19,233	18,252
Asset financing	7,894	7,827
Other commercial and industrial	80,423	61,610
Total Australia	309,155	265,278
Overseas		
Sovereign	1,230	3,189
Agriculture	4,814	4,151
Bank and other financial	6,743	6,943
Real estate:		
Mortgage	28,817	28,931
Construction	606	618
Personal	532	660
Asset financing	548	507
Other commercial and industrial	12,779	8,341
Total Overseas	56,069	53,340
Gross loans, advances and other receivables	365,224	318,618
Provisions for Loan Impairment and unearned income	(3,942)	(3,153)
Net loans, advances and other receivables	361,282	315,465

Large Exposures

Concentrations of exposure to any debtor or counterparty group are controlled by a large credit exposure policy. All exposures outside the policy are approved by the Board Risk Committee.

The following table shows the aggregated number of the Group's counterparty Corporate and Industrial exposures (including direct and contingent exposures) which individually were greater than 5% of the Group's capital resources (Tier One and Tier Two capital):

	Group		
	2008 Number	2007 Number	2006 Number
5% to less than 10% of Group's capital resources	1	-	-
10% to less than 15% of Group's capital resources	-	-	-

The Group has a good quality and well diversified credit portfolio, with 51.2% of the gross loans and advances in domestic mortgage loans and a further 7.9% in overseas mortgage loans primarily in New Zealand. Overseas loans account for 15.4% of loans and advances at \$56.1 billion.

The Group restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of Balance Sheet assets and liabilities as transactions are usually settled on a gross basis.

However, the credit risk associated with favourable contacts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. As at 30 June 2008, master netting arrangements reduced the credit risk of the Group by approximately \$6.5 billion (2007: \$4.8 billion).

Derivative financial instruments expose the Group to credit risk where there is a positive fair value current. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative. For further information regarding derivatives see Notes 11, 42 and 49.

The Group also nets its credit exposure through the operation of certain consumer and corporate facilities that allow on balance sheet netting for credit management purposes. As at 30 June 2008 these facilities reduced the credit risk of the Group by approximately \$20 billion (2007: \$16 billion).

Notes to the Financial Statements

Note 16 Asset Quality

Impaired Assets

The Group administers its credit exposure to the Credit Risk Rated and Retail segments, as discussed in Note 15, Credit Risk Management.

Credit Risk Rated portfolios are assessed at least at each Balance Sheet date for objective evidence that the financial asset or portfolio of assets is impaired.

Impaired financial assets in the Retail segment are those facilities that are not well secured and past due 180 days or more.

The Group applies APRA's prudential standards in classifying impaired assets into three categories, comprising:

(a) Non-Performing:

- Any credit risk facility against which an individually assessed provision for impairment has been raised;
- Any credit risk facility maintained on a cash basis because of significant deterioration in the financial position of the borrower; and
- Any credit risk facility where loss of principal or interest is anticipated.

(b) Restructured Facilities:

Credit risk facilities on which the original contractual terms have been modified due to financial difficulties of the borrower. Interest on these facilities is taken to profit and loss. Failure to comply fully with the modified terms will result in immediate reclassification to non-performing.

(c) Assets Acquired through Security Enforcement:

- Other Real Estate Owned, comprising real estate where the Group assumed ownership or foreclosed in settlement of a debt;
- Other Assets Acquired through Securities Enforcement, comprising assets other than real estate where the Group has assumed ownership or foreclosed in settlement of a debt; and
- Other real estate owned and other assets acquired through security enforcement are sold through the Group's existing disposal processes. These processes 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 the Credit Risk Rating principles as described in Note 15 Credit Risk Management.

Provisions for Impairment

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. Credit losses arise primarily from loans but also from other credit instruments such as bank acceptances, contingent liabilities, guarantees and other financial instruments and assets acquired through security enforcement.

For further information about the accounting policy for provisions for impairment see Note 1 (n).

Distribution of loans and advances by credit quality	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Gross loans and advances				
Australia				
Neither past due nor impaired	302,156	259,158	294,578	249,725
Past due but not impaired	6,379	5,722	6,096	5,487
Impaired	620	398	593	370
Total Australia	309,155	265,278	301,267	255,582
Overseas				
Neither past due nor impaired	53,440	51,291	10,838	9,206
Past due but not impaired	2,566	2,026	28	7
Impaired	63	23	-	-
Total Overseas	56,069	53,340	10,866	9,213
Total gross loans and advances	365,224	318,618	312,133	264,795

Notes to the Financial Statements

Note 16 Asset Quality (continued)

The segmentation of Loans and Advances for the retail and risk-rated portfolios into investment, pass and weak (including default grades) excluding those past due or impaired, is based on the mapping of Probability of Default (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 risk-rated 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 Loss Given Default (LGD), the impact of any recoveries or the potential benefit of mortgage insurance.

					Group 2008
Loans and Advances which were neither past due nor impaired	Housing Loans \$M	Other Personal \$M	Asset Financing \$M	Commercial Industrial \$M	Total \$M
Credit Grading					
Australia					
Investment	147,377	2,575	-	53,820	203,772
Pass	31,696	13,583	7,500	37,655	90,434
Weak	3,583	2,200	-	2,167	7,950
Total Australia	182,656	18,358	7,500	93,642	302,156
Overseas ⁽¹⁾					
Investment	8,733	56	-	17,066	25,855
Pass	15,736	181	528	8,341	24,786
Weak	2,434	-	-	365	2,799
Total Overseas	26,903	237	528	25,772	53,440
Total loans and advances which were neither past due nor impaired	209,559	18,595	8,028	119,414	355,596

(1) For New Zealand Housing Loans, PDs reflect Reserve Bank of New Zealand requirements resulting in higher PDs on average and lower grading.

					Group 2007
Loans and Advances which were neither past due nor impaired	Housing Loans \$M	Other Personal \$M	Asset Financing \$M	Commercial Industrial \$M	Total \$M
Credit Grading					
Australia					
Investment	135,379	2,545	-	43,444	181,368
Pass	21,163	13,148	7,475	29,727	71,513
Weak	3,754	1,638	-	885	6,277
Total Australia	160,296	17,331	7,475	74,056	259,158
Overseas ⁽¹⁾					
Investment	5,518	76	-	16,223	21,817
Pass	19,701	315	490	6,422	26,928
Weak	2,317	-	1	228	2,546
Total Overseas	27,536	391	491	22,873	51,291
Total loans and advances which were neither past due nor impaired	187,832	17,722	7,966	96,929	310,449

(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 16 Asset Quality (continued)

					Bank 2008
Loans and Advances which were neither past due nor impaired	Housing Loans \$M	Other Personal \$M	Asset Financing \$M	Commercial Industrial \$M	Total \$M
Credit Grading					
Australia					
Investment	142,993	2,539	-	53,668	199,200
Pass	33,419	13,567	2,791	37,569	87,346
Weak	3,666	2,202	-	2,164	8,032
Total Australia	180,078	18,308	2,791	93,401	294,578
Overseas					
Investment	-	-	-	9,058	9,058
Pass	136	42	-	1,535	1,713
Weak	-	-	-	67	67
Total Overseas	136	42	-	10,660	10,838
Total loans and advances which were neither past due nor impaired	180,214	18,350	2,791	104,061	305,416

					Bank 2007
Credit Grading	Housing Loans \$M	Other Personal \$M	Asset Financing \$M	Commercial Industrial \$M	Total \$M
Australia					
Investment	132,622	2,514	-	41,649	176,785
Pass	20,706	13,157	4,707	28,248	66,818
Weak	3,645	1,645	-	832	6,122
Total Australia	156,973	17,316	4,707	70,729	249,725
Overseas					
Investment	-	-	-	7,812	7,812
Pass	87	106	-	1,189	1,382
Weak	-	-	-	12	12
Total Overseas	87	106	-	9,013	9,206
Total loans and advances which were neither past due nor impaired	157,060	17,422	4,707	79,742	258,931

Notes to the Financial Statements

Note 16 Asset Quality (continued)

Group
2008

Loans and Advances which were past due but not impaired ⁽¹⁾	Housing Loans \$M	Other Personal ⁽²⁾ \$M	Asset Financing \$M	Commercial Industrial \$M	Total \$M
Australia					
Past due 1-29 days	2,147	530	219	806	3,702
Past due 30-59 days	822	147	73	113	1,155
Past due 60-89 days	359	74	26	74	533
Past due 90-179 days	455	99	20	50	624
Past due 180 days or more	330	9	1	25	365
Total Australia	4,113	859	339	1,068	6,379
Overseas					
Past due 1-29 days	1,529	216	14	281	2,040
Past due 30-59 days	212	45	4	33	294
Past due 60-89 days	74	16	1	18	109
Past due date 90-179 days	42	10	1	23	76
Past due 180 days or more	19	6	-	22	47
Total Overseas	1,876	293	20	377	2,566
Total loans and advances which were past due but not impaired	5,989	1,152	359	1,445	8,945

(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 16 Asset Quality (continued)

	Group 2007				
Loans and Advances which were past due but not impaired ⁽¹⁾	Housing Loans \$M	Other Personal ⁽²⁾ \$M	Asset Financing \$M	Commercial Industrial \$M	Total \$M
Australia					
Past due 1-29 days	1,824	558	218	789	3,389
Past due 30-59 days	653	137	55	134	979
Past due 60-89 days	293	82	26	86	487
Past due 90-179 days	305	128	16	55	504
Past due 180 days or more	285	13	2	63	363
Total Australia	3,360	918	317	1,127	5,722
Overseas					
Past due 1-29 days	1,099	201	12	282	1,594
Past due 30-59 days	179	39	2	26	246
Past due 60-89 days	55	10	1	17	83
Past due date 90-179 days	40	11	1	20	72
Past due 180 days or more	10	6	-	15	31
Total Overseas	1,383	267	16	360	2,026
Total loans and advances which were past due but not impaired	4,743	1,185	333	1,487	7,748

(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 16 Asset Quality (continued)

Bank
2008

Loans and Advances which were past due but not impaired ⁽¹⁾	Housing Loans \$M	Other Personal ⁽²⁾ \$M	Asset Financing \$M	Commercial Industrial \$M	Total \$M
Australia					
Past due 1-29 days	2,128	530	39	806	3,503
Past due 30-59 days	820	147	16	113	1,096
Past due 60-89 days	358	74	6	74	512
Past due 90-179 days	455	99	10	50	614
Past due 180 days or more	330	9	7	25	371
Total Australia	4,091	859	78	1,068	6,096
Overseas					
Past due 1-29 days	20	-	-	-	20
Past due 30-59 days	6	-	-	-	6
Past due 60-89 days	1	-	-	-	1
Past due 90-179 days	1	-	-	-	1
Past due 180 days or more	-	-	-	-	-
Total Overseas	28	-	-	-	28
Total loans and advances which were past due but not impaired	4,119	859	78	1,068	6,124

(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.

Bank
2007

Loans and Advances which were past due but not impaired ⁽¹⁾	Housing Loans \$M	Other Personal ⁽²⁾ \$M	Asset Financing \$M	Commercial Industrial \$M	Total \$M
Australia					
Past due 1-29 days	1,812	558	47	789	3,206
Past due 30-59 days	651	137	21	134	943
Past due 60-89 days	292	82	12	86	472
Past due 90-179 days	305	128	13	55	501
Past due 180 days or more	286	13	3	63	365
Total Australia	3,346	918	96	1,127	5,487
Overseas					
Past due 1-29 days	7	-	-	-	7
Past due 30-59 days	-	-	-	-	-
Past due 60-89 days	-	-	-	-	-
Past due 90-179 days	-	-	-	-	-
Past due 180 days or more	-	-	-	-	-
Total Overseas	7	-	-	-	7
Total loans and advances which were past due but not impaired	3,353	918	96	1,127	5,494

(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 16 Asset Quality (continued)

Impaired Financial Assets

	2008			2007		2006		Group
	%			%		%		%
Impaired Asset Ratios								
Gross impaired assets as a % of gross loans and acceptances	0.18			0.13			0.11	0.16
Net impaired assets as % of:								
Gross loans and acceptances	0.08			0.07			0.06	0.09
Total Shareholders' equity	1.21			0.91			0.73	0.97

Financial assets individually assessed as impaired

	2008			2007			Group
	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets	2007
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Australia							
Loans and other receivables:							
Housing loans	157	34	123	182	23	159	
Other personal ⁽¹⁾	14	97	(83)	3	104	(101)	
Asset financing	55	12	43	35	13	22	
Other commercial and industrial	394	193	201	178	45	133	
Financial assets individually assessed as impaired-Australia	620	336	284	398	185	213	
Overseas							
Loans and other receivables:							
Housing loans	37	7	30	12	4	8	
Other personal	2	2	-	2	1	1	
Asset financing	1	2	(1)	1	1	-	
Other commercial and industrial	23	20	3	8	8	-	
Financial assets individually assessed as impaired-Overseas	63	31	32	23	14	9	
Total financial assets individually assessed as impaired	683	367	316	421	199	222	

(1) Portfolio provisions of \$88 million at 30 June 2008 (2007: \$99 million) to cover unsecured personal loans and credit card lending are included in the individually assessed provisions. However, the related assets are not included in impaired assets. The related asset amounts are instead included in the 90 days or more past due disclosure. Refer Note 1 (mm).

	2008			2007			Bank
	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets	Gross Impaired Assets	Individually Assessed Provisions	Net Impaired Assets	2007
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Australia							
Loans and other receivables:							
Housing	157	34	123	182	23	159	
Other personal ⁽¹⁾	14	97	(83)	3	104	(101)	
Asset financing	28	3	25	7	4	3	
Other commercial and industrial	394	192	202	178	45	133	
Financial assets individually assessed as impaired-Australia	593	326	267	370	176	194	
Overseas							
Loans and other receivables:							
Housing	-	-	-	-	-	-	
Other personal	-	-	-	-	-	-	
Asset financing	-	-	-	-	-	-	
Other commercial and industrial	-	-	-	-	-	-	
Financial assets individually assessed as impaired-Overseas	-	-	-	-	-	-	
Total financial assets individually assessed as impaired	593	326	267	370	176	194	

(1) Portfolio provisions of \$88 million at 30 June 2008 (2007: \$99 million) to cover unsecured personal loans and credit card lending are included in the individually assessed provisions. However, the related assets are not included in impaired assets. The related asset amounts are instead included in the 90 days or more past due disclosure. Refer Note 1 (mm).

Notes to the Financial Statements

Note 16 Asset Quality (continued)

Impaired Assets by classification

	Group			
	2008	2007	2006	2005
	\$M	\$M	\$M	\$M
Australia				
Non-Performing loans:				
Gross balances	620	398	312	362
Less provisions for impairment	(336)	(185)	(166)	(144)
Net non-performing loans	284	213	146	218
Restructured loans:				
Gross balances	-	-	-	-
Less provisions	-	-	-	-
Net restructured loans	-	-	-	-
Assets Acquired Through Security Enforcement:				
Gross balances	-	-	-	-
Less provisions for impairment	-	-	-	-
Net assets acquired through security enforcement	-	-	-	-
Net Australia impaired assets	284	213	146	218
Overseas				
Non-Performing loans:				
Gross balances	63	23	14	14
Less provisions for impairment	(31)	(14)	(5)	(13)
Net non-performing loans	32	9	9	1
Restructured loans:				
Gross balances	-	-	-	-
Less provisions for impairment	-	-	-	-
Net restructured loans	-	-	-	-
Assets Acquired Through Security Enforcement:				
Gross balances	-	-	-	-
Less provisions for impairment	-	-	-	-
Net assets acquired through security enforcement	-	-	-	-
Net Overseas impaired assets	32	9	9	1
Total net impaired assets	316	222	155	219

	Group					
	Australia	Overseas	Total	Australia	Overseas	Total
	2008	2008	2008	2007	2007	2007
	\$M	\$M	\$M	\$M	\$M	\$M
Non-Performing Loans by Size of Loan						
Less than \$1 million	189	39	228	194	14	208
\$1 million to \$10 million	175	24	199	151	9	160
Greater than \$10 million	256	-	256	53	-	53
Total	620	63	683	398	23	421

Notes to the Financial Statements

Note 16 Asset Quality (continued)

Movement in Impaired Asset Balances

	Group			
	2008	2007	2006	2005
Gross Impaired Assets	\$M	\$M	\$M	\$M
Gross impaired assets – opening balance	421	326	395	363
New and increased	1,104	928	745	769
Balances written off	(470)	(482)	(450)	(350)
Returned to performing or repaid	(372)	(351)	(364)	(387)
Gross impaired assets – closing balance	683	421	326	395

Impaired Assets by Industry and Status

Industry	Total Risk \$M	Impaired Assets \$M	Individually Assessed Provisions \$M	Write-offs \$M	Recoveries \$M	Group 2008
						Net Write-offs \$M
Australia						
Sovereign	1,568	-	-	-	-	-
Agriculture	2,547	15	4	3	-	3
Bank and other financial	8,917	58	27	5	-	5
Real estate:						
Mortgage	186,926	157	34	23	(1)	22
Construction	1,647	11	1	1	(1)	-
Personal	19,233	14	97	364	(61)	303
Asset financing	7,894	55	12	49	(5)	44
Other commercial and industrial	80,423	310	161	34	(5)	29
Total Australia	309,155	620	336	479	(73)	406
Overseas						
Sovereign	1,230	-	-	-	-	-
Agriculture	4,814	1	-	-	-	-
Bank and other financial	6,743	4	4	4	-	4
Real estate:						
Mortgage	28,817	37	7	1	-	1
Construction	606	3	8	1	-	1
Personal	532	2	2	13	(3)	10
Asset financing	548	1	2	-	-	-
Other commercial and industrial	12,779	15	8	5	(1)	4
Total Overseas	56,069	63	31	24	(4)	20
Gross balances	365,224	683	367	503	(77)	426

Notes to the Financial Statements

Note 16 Asset Quality (continued)

Impaired Assets by Industry and Status

Industry	Total Risk \$M	Impaired Assets \$M	Individually Assessed Provisions \$M	Write-offs \$M	Recoveries \$M	Group
						2007
						Net Write-offs \$M
Australia						
Sovereign	1,777	-	-	-	-	-
Agriculture	2,491	5	3	1	(1)	-
Bank and other financial	7,894	2	2	-	(1)	(1)
Real estate:						
Mortgage	163,839	182	23	20	(1)	19
Construction	1,588	8	1	1	(1)	-
Personal	18,252	3	104	408	(77)	331
Asset financing	7,827	35	13	49	(10)	39
Other commercial and industrial	61,610	163	39	30	(8)	22
Total Australia	265,278	398	185	509	(99)	410
Overseas						
Sovereign	3,189	-	-	-	-	-
Agriculture	4,151	-	-	-	-	-
Bank and other financial	6,943	-	1	-	-	-
Real estate:						
Mortgage	28,931	12	4	-	-	-
Construction	618	-	-	-	-	-
Personal	660	2	1	7	(4)	3
Asset financing	507	1	1	-	-	-
Other commercial and industrial	8,341	8	7	3	-	3
Total Overseas	53,340	23	14	10	(4)	6
Gross balances	318,618	421	199	519	(103)	416

Notes to the Financial Statements

Note 17 Shares in and Loans to Controlled Entities

	Bank	
	2008	2007
	\$M	\$M
Shares in controlled entities	23,676	23,311
Loans to controlled entities ⁽¹⁾	13,796	14,285
Total shares in and loans to controlled entities	37,472	37,596

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

A list of the Group's controlled entities is provided in Note 44 Controlled Entities.

Note 18 Investment Property

	Group		Bank	
	2008	2007	2008	2007
	\$M	\$M	\$M	\$M
Investment Property	-	-	-	-

Investment property which backs liabilities paying a return linked directly to the property's fair value is measured at fair value through profit and loss. The fair value is based on valuations performed by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Amounts recognised in profit and loss relating to investment property

	Group	
	2008	2007
	\$M	\$M
Rental income ⁽¹⁾	-	15
Net gains or losses from fair value adjustments ⁽¹⁾	-	23
Direct operating expenses ⁽²⁾	-	(2)
Total	-	36

(1) This income is disclosed as part of Other operating income – Other in Note 2.

(2) This expense is disclosed as part of Other operating income – Other in Note 2.

	Group	
	2008	2007
	\$M	\$M
Investment Property (reconciliation)		
Opening balance	-	258
Net gains or losses from fair value adjustments	-	23
Assets reclassified to Assets held for sale	-	(281)
Closing balance	-	-

Notes to the Financial Statements

Note 19 Property, Plant and Equipment

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Land and Buildings				
Land				
At 30 June 2008 valuation	258	-	232	-
At 30 June 2007 valuation	-	215	-	193
Closing balance	258	215	232	193
Buildings				
At 30 June 2008 valuation	341	-	312	-
At 30 June 2007 valuation	-	361	-	333
Closing balance	341	361	312	333
Total land and buildings	599	576	544	526
Leasehold Improvements				
At cost	941	822	819	691
Provision for depreciation	(475)	(441)	(424)	(387)
Investment and restructuring	(18)	-	(18)	-
Closing balance	448	381	377	304
Equipment				
At cost	936	891	663	606
Provision for depreciation	(578)	(565)	(381)	(366)
Closing balance	358	326	282	240
Assets under Lease				
At cost	290	189	152	51
Provision for depreciation	(55)	(36)	(19)	(9)
Closing balance	235	153	133	42
Total property, plant and equipment ⁽¹⁾	1,640	1,436	1,336	1,112

(1) Assets held for sale are separately disclosed in Note 22.

Land and buildings are carried at fair value based on independent valuations performed in 2008, refer Note 1 (s). Under the cost model these assets would have been recognised at the carrying amount outlined in the table below.

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Carrying Amount of Land and Buildings under the Cost Model:				
Land	117	115	108	109
Buildings	244	245	229	229
Total land and buildings	361	360	337	338

Notes to the Financial Statements

Note 19 Property, Plant and Equipment (continued)

Reconciliation of movements in the carrying amount of Property, Plant and Equipment

Reconciliation	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Land				
Opening balance	215	199	193	182
Acquisitions attributed to business combinations	7	-	-	-
Disposals/transfers to Assets held for sale	-	(9)	-	(9)
Disposals	(2)	(3)	(1)	(3)
Net revaluations	41	26	40	24
Foreign currency translation adjustment	(3)	2	-	(1)
Closing balance	258	215	232	193
Buildings				
Opening balance	361	288	333	263
Acquisitions	35	52	33	51
Acquisitions attributed to business combinations	2	-	-	-
Disposals/transfers to Assets held for sale	-	(11)	-	(11)
Disposals	(7)	(2)	(6)	(1)
Net revaluations	(19)	53	(21)	51
Depreciation	(27)	(22)	(26)	(21)
Foreign currency translation adjustment	(4)	3	(1)	1
Closing balance	341	361	312	333
Leasehold Improvements				
Opening balance	381	316	304	271
Acquisitions	170	122	150	83
Disposals	(6)	(4)	(7)	(3)
Net revaluations	(2)	-	-	-
Depreciation	(63)	(59)	(52)	(47)
Investment and restructuring	(18)	-	(18)	-
Foreign currency translation adjustment	(14)	6	-	-
Closing balance	448	381	377	304
Equipment				
Opening balance	326	289	240	210
Acquisitions	174	139	135	107
Disposals/transfers	(17)	(12)	(11)	(9)
Depreciation	(115)	(97)	(82)	(67)
Foreign currency translation adjustment	(10)	7	-	(1)
Closing balance	358	326	282	240
Assets Under Lease				
Opening balance	153	221	42	100
Acquisitions	103	1	103	1
Disposals/transfers	(1)	(47)	(1)	(47)
Depreciation	(20)	(22)	(11)	(12)
Closing balance	235	153	133	42

Notes to the Financial Statements

Note 20 Intangible Assets

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Intangible Assets				
Goodwill	7,484	7,163	2,522	2,522
Computer software costs	353	297	304	262
Management fee rights	311	311	-	-
Other	110	64	-	4
Total intangible assets	8,258	7,835	2,826	2,788
Goodwill				
Purchased goodwill – Colonial	6,705	6,705	2,229	2,229
Purchased goodwill – other	779	458	293	293
Total goodwill	7,484	7,163	2,522	2,522
Computer Software Costs				
Cost	629	420	560	377
Accumulated amortisation	(199)	(123)	(191)	(115)
Investment and restructuring	(77)	-	(65)	-
Total computer software costs	353	297	304	262
Management Fee Rights ⁽¹⁾				
Cost	311	311	-	-
Total management fee rights	311	311	-	-
Other				
Cost	159	85	-	4
Accumulated amortisation	(49)	(21)	-	-
Total other	110	64	-	4
Goodwill (reconciliation)				
Opening balance	7,163	7,200	2,522	2,522
Additions	323	3	-	-
Disposal	(2)	-	-	-
Impairment	-	(40)	-	-
Closing balance	7,484	7,163	2,522	2,522
Computer Software Costs (reconciliation)				
Opening balance	297	229	262	212
Additions:				
From purchases	90	20	89	19
From internal development	131	110	94	90
Amortisation	(88)	(62)	(76)	(59)
Investment and restructuring write-down	(77)	-	(65)	-
Closing balance	353	297	304	262
Management Fee Rights (reconciliation)				
Opening balance	311	311	-	-
Closing balance	311	311	-	-
Other (reconciliation)				
Opening balance	64	69	4	4
Additions:				
From acquisitions	64	3	-	-
Disposals	(3)	-	(3)	-
Amortisation	(15)	(8)	(1)	-
Closing balance	110	64	-	4

(1) Management fee rights 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.

Notes to the Financial Statements

Note 20 Intangible Assets (continued)

Segment Allocation of Goodwill

Segment	Group	
	2008 \$M	2007 \$M
Retail Banking Services ⁽¹⁾	4,149	4,149
Premium Business Services	297	-
Wealth Management ⁽²⁾	2,358	2,361
International Financial Services	680	653
Total	7,484	7,163

(1) The allocation to Retail Banking Services includes goodwill related to the acquisitions of Colonial, State Bank of Victoria and 25% of ASB Bank.

(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 net selling price less costs to sell, using an earnings multiple applicable to that type of business, or actuarial assessment.

	Group At 30 June 2008						
	Funds			Funds Management (Property)	Australian		New Zealand Life Insurance
	Australian Retail Banking \$M	Australian Premium Business \$M	Management (Excluding Property) \$M		Life Insurance \$M	New Zealand Banking \$M	
Carrying amount of goodwill	4,149	297	2,149	78	131	238	442

Key Assumptions Used in Selling Price less Cost to Sell Calculations

Earnings multiples relating to the Group's Banking (Retail Banking Services, Premium Business Services and International Financial Services) and Australian Life Insurance and Funds 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 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.

Note 21 Other Assets

	Note	Group			Bank
		2008 \$M	2007 \$M	2008 \$M	2007 \$M
Accrued interest receivable		1,904	2,091	2,067	1,893
Defined benefit superannuation plan surplus	43	1,536	1,813	1,536	1,813
Accrued fees/reimbursements receivable		985	832	387	581
Securities sold not delivered		766	1,144	325	632
Intragroup current tax receivable		-	-	419	352
Current tax assets		50	122	-	-
Other		1,251	1,155	635	1,515
Total other assets		6,492	7,157	5,369	6,786

Notes to the Financial Statements

Note 22 Assets Held for Sale

	Group			Bank
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Available-for-sale investments ⁽¹⁾	406	765	262	-
Loans, advances and other receivables ⁽¹⁾	191	306	139	-
Investment property ⁽²⁾	-	281	-	-
Property, plant and equipment	11	22	11	21
Total assets held for sale	608	1,374	412	21

(1) During the year ended 30 June 2007 the Group purchased, through Colonial First State, a 32% stake in AWG plc. The stake was acquired through the purchase of preference shares and Eurobonds that on acquisition were classified as Assets held for sale (\$1.3 billion) based on the Group's intention to dispose of its holding into Australian and European based infrastructure funds within the next 12 months. Since acquisition the Group has sold down (\$1.0 billion) worth of AWG related Eurobonds and preference shares.

During the year ended 30 June 2008 the Group purchased, through Colonial First State, a 50% stake in ENW Ltd. The stake was acquired through the purchase of preference shares and Eurobonds that on acquisition were classified as Assets held for sale (\$616 million) based on the Group's intention to dispose of its holding into Australian and European based infrastructure funds within the next 12 months. Since acquisition the Group has sold down (\$200 million) worth of ENW related Eurobonds and preference shares.

Until sold, the Eurobonds are being measured on the same basis as Loans, advances and other receivables, while the preference shares are being measured on the same basis as Available-for-sale investments.

(2) This investment property is measured in accordance with the Group's policy for investment property backing liabilities that pay a return linked directly to its fair value.

Note 23 Deposits and Other Public Borrowings

	Group			Bank
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Australia				
Certificates of deposit	36,981	20,165	36,981	20,165
Term deposits	71,637	50,888	70,858	49,454
On demand and short term deposits ⁽¹⁾	117,712	109,680	118,270	109,656
Deposits not bearing interest	6,142	6,662	6,194	6,660
Securities sold under agreements to repurchase	1,462	3,323	1,462	3,323
Total Australia	233,934	190,718	233,765	189,258
Overseas				
Certificates of deposit	4,139	903	4,139	903
Term deposits	15,687	16,416	2,679	4,245
On demand and short term deposits	8,351	9,183	159	94
Deposits not bearing interest	1,468	1,818	2	30
Securities sold under agreements to repurchase	127	30	127	100
Total Overseas	29,772	28,350	7,106	5,372
Total deposits and other public borrowings	263,706	219,068	240,871	194,630

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Maturity Distribution of Certificates of Deposit and Time Deposits

	Group				
	At 30 June 2008				
	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⁾	28,656	5,938	733	1,654	36,981
Time deposits	36,704	12,253	21,391	1,289	71,637
Total Australia	65,360	18,191	22,124	2,943	108,618
Overseas					
Certificates of deposit ⁽¹⁾	4,108	-	31	-	4,139
Time deposits	5,816	4,235	4,587	1,049	15,687
Total Overseas	9,924	4,235	4,618	1,049	19,826
Total certificates of deposit and time deposits	75,284	22,426	26,742	3,992	128,444

(1) All certificates of deposit issued by the Bank are for amounts greater than \$100,000.

Notes to the Financial Statements

Note 24 Payables due to Other Financial Institutions

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Australia	4,390	4,208	4,391	4,210
Overseas	13,282	10,178	13,234	10,112
Total payables due to other financial institutions	17,672	14,386	17,625	14,322

Note 25 Liabilities at Fair Value through Income Statement

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Deposits and other borrowings ⁽¹⁾	4,586	6,687	-	-
Debt instruments ⁽¹⁾⁽²⁾	9,047	5,744	1,037	241
Trading liabilities	1,893	3,965	1,893	4,965
Total liabilities at fair value through Income Statement	15,526	16,396	2,930	5,206

(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.

(2) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

The change in fair value due to credit risk for the Group is \$22 million and for the Bank is \$15 million, which has been calculated by determining the changes in credit spread implicit in the fair value of the instruments issued. In 2007 the amount was insignificant as reflected in the Group's and Bank's credit ratings.

The increment on top of the carrying amount that would be contractually required to be paid at maturity to the holders of these financial liabilities for the Group is \$326 million (2007: \$139 million) and for the Bank is \$59 million (2007: \$65 million).

Note 26 Income Tax Liability

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Australia				
Current tax liability	696	866	707	797
Deferred tax liability (Note 5)	-	556	17	90
Total Australia	696	1,422	724	887
Overseas				
Current tax liability	72	16	1	3
Deferred tax liability (Note 5)	266	352	2	1
Total Overseas	338	368	3	4
Total income tax liability	1,034	1,790	727	891

Notes to the Financial Statements

Note 27 Other Provisions

	Note	Group		Bank	
		2008 \$M	2007 \$M	2008 \$M	2007 \$M
Provision for:					
Long service leave		299	281	292	267
Annual leave		205	186	185	163
Other employee entitlements		69	95	66	90
Restructuring costs		284	26	284	26
General insurance claims		117	94	-	-
Self insurance/non-lending losses		64	83	64	82
Dividends	6	5	6	5	7
Other		131	107	87	99
Total other provisions		1,174	878	983	734

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Reconciliation				
Restructuring costs:				
Opening balance	26	37	26	37
Additional provisions	282	15	282	15
Amounts utilised during the year	(24)	(26)	(24)	(26)
Closing balance	284	26	284	26
General insurance claims:				
Opening balance	94	85	-	-
Additional provisions	80	56	-	-
Amounts utilised during the year	(57)	(47)	-	-
Closing balance	117	94	-	-
Self insurance/non-lending losses:				
Opening balance	83	90	82	87
Additional provisions	9	25	10	25
Amounts utilised during the year	(28)	(32)	(28)	(30)
Closing balance	64	83	64	82
Other:				
Opening balance	107	71	99	60
Additional provisions	83	66	37	63
Amounts utilised during the year	(59)	(30)	(49)	(24)
Closing balance	131	107	87	99

Provision Commentary

Restructuring costs

Provisions are for amounts expected to be utilised in the short to medium term.

During the current year the Group has recognised a provision for investment and restructuring of \$282 million relating to the cost of implementation of Core Banking Modernisation and other investment and restructuring. Related asset write-downs of \$95 million, including Computer Software write offs of \$77 million have also been recognised.

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.

Notes to the Financial Statements

Note 28 Debt Issues ⁽¹⁾

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Short term debt issues	35,877	28,607	16,208	10,288
Long term debt issues	49,940	59,918	39,570	37,472
Total debt issues	85,817	88,525	55,778	47,760
Short Term Debt Issues				
AUD Promissory Notes	-	523	-	-
AUD Bank Bills	-	505	-	-
AUD Commercial Paper	1,024	2,828	265	459
USD Commercial Paper	14,116	7,793	1,861	173
EUR Commercial Paper	622	1,581	622	1,581
Other Currency Commercial Paper	416	4	416	4
Long Term Debt Issues with less than one year to maturity	19,699	15,373	13,044	8,071
Total short term debt issues	35,877	28,607	16,208	10,288
Long Term Debt Issues				
USD Medium Term Notes	19,065	30,675	16,101	20,403
AUD Medium Term Notes	9,332	10,918	3,991	3,629
NZD Medium Term Notes	438	161	54	161
JPY Medium Term Notes	6,463	3,062	6,347	3,062
GBP Medium Term Notes	3,482	3,544	3,482	2,477
EUR Medium Term Notes	6,478	6,670	4,913	4,146
Other Currencies Medium Term Notes	3,630	3,839	3,630	2,545
Offshore Loans (all JPY)	152	148	152	148
Eurobonds	900	901	900	901
Total long term debt issues	49,940	59,918	39,570	37,472
Maturity Distribution of Debt Issues				
Less than three months	21,757	10,178	6,664	4,767
Between three months to 12 months	14,120	18,429	9,544	5,521
Between one year and five years	35,234	36,205	26,459	23,546
Greater than five years	14,706	23,713	13,111	13,926
Total debt issues	85,817	88,525	55,778	47,760

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

The Bank's debt issues include a Euro Medium Term Note program under which it may issue notes up to an aggregate amount outstanding of USD 50 billion. The Bank also has a U.S. Medium Term Note program under which it may issue notes up to an aggregate amount outstanding of USD 15 billion. Notes issued under debt programs are both fixed and variable rate. Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework.

Subsequent to 30 June 2008, notable debt issuances of the Bank under these specified programs include:

- USD medium term notes: between one and five years – USD 495 million (AUD 513 million);
- BRL medium term notes: between one and five years – BRL 16 million (AUD 10 million);
- EUR medium term notes: between one and five years – EUR 300 million (AUD 491 million); greater than five years – EUR 50 million (AUD 82 million);

- JPY medium term notes: between one and five years – JPY 14 billion (AUD 137 million); greater than five years – JPY 500 million (AUD 5 million);
- NZD medium term notes: between one and five years – NZD 180 million (AUD 143 million); and
- ZAR medium term notes: between one and five years – ZAR 15 million (AUD 2 million).

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 28 Debt Issues (continued)

Short Term Borrowings

The following table analyses the Group's short term borrowings for the financial years ended 30 June 2008, 2007 and 2006.

	2008	2007	Group 2006
	(AUD Millions, except where indicated)		
USD Commercial Paper			
Outstanding at period end ⁽¹⁾	14,116	7,793	6,861
Maximum amount outstanding at any month end ⁽²⁾	14,693	10,438	13,717
Approximate average amount outstanding ⁽²⁾	11,000	7,953	9,754
Approximate weighted average rate on:			
Average amount outstanding	4.2%	5.3%	4.4%
Outstanding at period end	2.6%	5.3%	5.2%
EUR Commercial Paper			
Outstanding at period end ⁽¹⁾	622	1,581	4,248
Maximum amount outstanding at any month end ⁽²⁾	1,589	1,581	4,441
Approximate average amount outstanding ⁽²⁾	885	940	3,177
Approximate weighted average rate on:			
Average amount outstanding	4.4%	4.2%	4.4%
Outstanding at period end	4.3%	4.7%	5.2%
AUD Commercial Paper			
Outstanding at period end ⁽¹⁾	1,024	3,955	1,592
Maximum amount outstanding at any month end ⁽²⁾	2,588	9,619	2,665
Approximate average amount outstanding ⁽²⁾	1,430	7,413	1,880
Approximate weighted average rate on:			
Average amount outstanding	7.0%	6.3%	6.3%
Outstanding at period end	7.9%	6.4%	6.4%
Other Currency Commercial Paper			
Outstanding at period end ⁽¹⁾	416	-	-
Maximum amount outstanding at any month end ⁽²⁾	1,525	-	-
Approximate average amount outstanding ⁽²⁾	827	-	-
Approximate weighted average rate on:			
Average amount outstanding	4.7%	-	-
Outstanding at period end	7.0%	-	-

(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.

Exchange Rates Utilised (End of day, Sydney time)	Currency	As At	As At
		30 June 2008	30 June 2007
AUD 1.00 =	USD	0.9656	0.8497
	EUR	0.6113	0.6319
	GBP	0.4841	0.4241
	JPY	102.070	104.889
	NZD	1.2631	1.102
	HKD	7.5323	6.6426
	CAD	0.9734	0.8987
	CHF	0.9821	1.0470
	ILS	3.2298	3.6054
	SGD	1.3145	1.3023

Notes to the Financial Statements

Note 28 Debt Issues (continued)

Guarantee Arrangements

Commonwealth Bank of Australia

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. This guarantee has been progressively phased out following the sale of the Commonwealth of Australia's shareholding in the Bank on 19 July 1996.

The transitional arrangements for phasing out the Commonwealth of Australia's guarantee are contained in the Commonwealth Bank Sale Act 1995.

In relation to the Commonwealth of Australia's guarantee of the Bank's liabilities, transitional arrangements provided that:

- All demand deposits and term deposits were guaranteed for a period of three years from 19 July 1996, with term deposits outstanding at the end of that three year period being guaranteed until maturity; and
- All other amounts payable under a contract that was entered into, or under an instrument executed, issued, endorsed or accepted by the Bank at 19 July 1996 will be guaranteed until their maturity.

Accordingly, demand deposits are no longer guaranteed. Term deposits outstanding at 19 July 1999 remain guaranteed until maturity. The run-off of the Government guarantee has no effect on the Bank's access to deposit markets.

Commonwealth Development Bank

On 24 July 1996, the Commonwealth of Australia sold its 8.1% shareholding in the Commonwealth Development Bank of Australia Limited (CDBL) to the Bank for \$12.5 million.

Under the arrangements relating to the purchase by the Bank of the Commonwealth of Australia's shareholding in the CDBL:

- All lending assets as at 30 June 1996 have been quarantined in CDBL, consistent with the charter terms on which they were written;

- The CDBL's liabilities continue to remain guaranteed by the Commonwealth of Australia; and
- CDBL ceased to write new business or incur additional liabilities from 1 July 1996. From that date, new business that would have previously been written by CDBL is being written by the rural arm of the Bank.

The due payment of all monies payable by CDBL to a person other than the Commonwealth of Australia is guaranteed by the Commonwealth of Australia under Section 117 of the Commonwealth Banks Act 1959 (as amended). This guarantee will continue to be provided by the Commonwealth of Australia whilst quarantined assets are held. The value of the liabilities under the guarantee will diminish as quarantined assets reach maturity and are repaid.

State Bank of NSW (also known as Colonial State Bank)

The enabling legislation for the sale of the State Bank of New South Wales Limited (SBNSW), the State Bank (Privatisation) Act 1994 – Section 12 and the State Bank (Corporatisation) Act 1989 – Section 12 (as amended), provides in general terms for a guarantee by the NSW Government in respect of all funding liabilities and off-balance sheet products (other than demand deposits) incurred or issued prior to 31 December 1997 by 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 Commonwealth Bank of Australia became the successor in law to SBNSW pursuant to the Financial Sector Transfer of Business Act 1999. The NSW Government guarantee of the liabilities and products as described above continues unchanged by the succession.

Note 29 Managed Funds Units on Issue

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Managed Funds Units on Issue	1,109	310	-	-

Managed funds units on issue represents the liability to minority interest unit holders in funds which have been consolidated by the Group.

Notes to the Financial Statements

Note 30 Bills Payable and Other Liabilities

	Note	Group			Bank
		2008 \$M	2007 \$M	2008 \$M	2007 \$M
Bills payable		884	978	653	800
Accrued interest payable		2,397	1,949	2,161	1,710
Accrued fees and other items payable		1,426	1,794	773	1,322
Defined benefit superannuation plan deficit	43	65	29	65	29
Securities purchased not delivered		1,018	1,519	533	981
Other liabilities		1,734	1,077	2,116	1,524
Total bills payable and other liabilities		7,524	7,346	6,301	6,366

Note 31 Loan Capital ⁽¹⁾

	Currency Amount (M)	Footnotes	Group			Bank	
			2008 \$M	2007 \$M	2008 \$M	2007 \$M	
Tier One Loan Capital							
Exchangeable	FRN	USD 38	(2)	39	44	39	44
Exchangeable	FRN	USD 64	(3)	66	84	66	84
Undated	FRN	USD 100	(4)	104	118	104	118
Undated	TPS	USD 550	(5)	569	647	569	647
Undated	PERLS II	AUD 750	(6)	749	747	749	747
Undated	PERLS III	AUD 1,166	(7)	1,151	1,147	1,151	1,147
Undated	PERLS IV	AUD 1,465	(8)	1,447	-	1,447	-
Undated	TPS	USD 700	(9)	-	-	718	815
Total Tier One loan capital				4,125	2,787	4,843	3,602
Tier Two Loan Capital							
AUD denominated			(10)	2,098	2,098	2,098	2,098
USD denominated			(11)	2,439	2,770	2,439	2,770
JPY denominated			(12)	732	710	732	710
GBP denominated			(13)	307	350	307	350
NZD denominated			(14)	726	500	277	318
EUR denominated			(14)	490	474	490	474
CAD denominated			(14)	614	333	614	333
Total Tier Two loan capital				7,406	7,235	6,957	7,053
Fair value hedge adjustments				28	(22)	(180)	(233)
Total loan capital				11,559	10,000	11,620	10,422

(1) Effective yield adjustments have been included in the carrying values of the issues. Prior year comparatives have been restated on the same basis.

Notes to the Financial Statements

Note 31 Loan Capital (continued)

⁽²⁾ USD 300 million undated Floating Rate Notes (FRNs) issued 11 July 1988 exchangeable into dated FRNs.

Outstanding notes at 30 June 2008 were:

Undated: USD 37.5 million

⁽³⁾ USD 400 million undated FRNs issued 22 February 1989 exchangeable into dated FRNs.

Outstanding notes at 30 June 2008 were:

Due February 2011: USD 64 million

⁽⁴⁾ USD 100 million undated capital notes issued on 15 October 1986.

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

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

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 (discussed below) 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);
- The Bank does not declare a dividend in respect of its ordinary shares;
- The Bank, if required by the Commonwealth of Australia and subject to the agreement of the APRA, exercises its option to redeem a note issue; or
- In respect of Undated FRNs which have been exchanged to Dated FRNs, the Dated FRNs mature.

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

The relevant events of default differ depending on the relevant Agreement. In summary, they cover events such as failure of the 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.

⁽⁵⁾ TPS 2003

Each trust preferred security represents a beneficial ownership interest in the assets of CBA Capital Trust. 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 the 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.

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 CBA. 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 trust preferred securities for American Depository Shares ("ADS").

No later than 35 business days prior period to June 30, 2015, holders may deliver a notice to CBA requiring it to exchange each trust preferred security for CBA ordinary shares. The Bank may satisfy the obligation to deliver ordinary shares in exchange for the trust preferred securities 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 June 30, 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.

Notes to the Financial Statements

Note 31 Loan Capital (continued)

The Bank's New Zealand branch may redeem the convertible notes for cash: 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 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.

CBA 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 ADSs to CBA Capital Trust by CBA Funding Trust if CBA Funding Trust is obligated to redeem the funding preferred securities for ADSs and to the extent that CBA Funding Trust has ADSs available for that redemption;
- The delivery of ADSs by CBA Capital Trust if CBA Capital Trust is obligated to redeem the trust preferred securities for ADSs and to the extent that CBA Capital Trust has ADSs 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 CBA 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 on 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 ADSs representing CBA 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.

⁽⁶⁾ PERLS II

On 6 January 2004 a wholly owned entity of the Bank, Commonwealth Managed Investments Limited as Responsible Entity of the PERLS II Trust ("CMIL") issued \$750 million of Perpetual Exchangeable Resettable Listed Securities ("PERLS II"). These securities qualify as innovative residual Tier One capital of the Bank. These securities are units in a registered managed investments scheme, perpetual in nature, offering a non-cumulative floating rate distribution payable quarterly. The Distributions paid to PERLS II Holders are sourced from interest paid on the Convertible Notes issued by the Bank (through its New Zealand Branch) to CMIL.

The Distribution Rate is a floating rate calculated as the Bank Bill Swap Rate plus a margin of 0.95% multiplied by (1- Australian corporate tax rate).

The Bank expects Distributions to be fully franked. If CMIL gives notice that a Distribution in any Distribution Period will not be fully franked, PERLS II Holders may elect to exchange their PERLS II on the next Distribution Date.

If any Distribution is not paid in full within 20 Business Days after a Distribution Date, the Bank must not pay any interest, declare or pay any dividend or distribution from the income or capital of the Bank, return any capital or undertake any Buy-backs, redemptions or repurchases in relation to any securities of the Bank that rank equally for interest payments or distributions with, or junior to, any Capital Securities of the Bank that rank equally with PERLS II unless and until either:

- Four consecutive Distributions are paid in full;
- The Bank (with the approval of APRA) and CMIL have paid PERLS II Holders an amount or amounts (in aggregate) equal to their full distribution entitlements for four consecutive Distribution Periods; or
- PERLS II Holders pass a Special Resolution approving the payment, dividend, distribution, capital return, Buy-back, redemption or repurchase.

The first Rollover Date will be 15 March 2009. On this date and each subsequent Rollover Date, the Bank can reset some of the terms of its Convertible Notes including the Margin over BBSW.

PERLS II Holders may request that their PERLS II be exchanged on the Rollover Date. PERLS II Holders who do not request exchange will be deemed to have accepted the new terms offered.

In addition to exchange on a rollover date, PERLS II Holders may request that each PERLS II be exchanged:

- Upon the occurrence of a Change of Control Event; or
- If CMIL gives notice that a Distribution will not be fully franked for any Distribution Period.

On exchange, at the Bank's election, PERLS II Holders will receive for their PERLS II, one or a combination of the following alternatives:

- The number of Ordinary Shares determined as set out below; or
- \$200 cash (subject to APRA approval).

Notes to the Financial Statements

Note 31 Loan Capital (continued)

The Bank, subject to APRA approval, may exchange some or all of the PERLS II, at its election, for Ordinary Shares or \$200 cash for each PERLS II:

- (i) On a Rollover Date;
- (ii) If a Regulatory Event or Tax Event occurs;
- (iii) If the Responsible Entity is removed or retires as responsible entity of the Trust and the Bank has not given its consent to the change of the responsible entity;
- (iv) If PERLS II Holders requisition a meeting to approve an amendment to the Constitution or to remove the Responsible Entity as responsible entity of the Trust and the Bank has not given its consent to such amendment or change of responsible entity;
- (v) If the ability of the Responsible Entity to redeem PERLS II is impaired or removed; or
- (vi) If the aggregate Face Value of PERLS II is less than \$50 million.

PERLS II will automatically exchange for Ordinary Shares if:

- A Default Event occurs; or
- An APRA Event occurs.

PERLS II Holders will be entitled to vote at any meeting of Unitholders of the Trust. PERLS II do not have voting rights at any meeting of the Bank.

⁽⁷⁾ PERLS III

On 6 April 2006 a wholly owned entity of the Bank (Preferred Capital Limited) 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. The shares qualify as innovative residual Tier One capital of the Bank.

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 (One – 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.

⁽⁸⁾ 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, and 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

Notes to the Financial Statements

Note 31 Loan Capital (continued)

- 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 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.

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.

⁽⁹⁾ TPS 2006

On 15 March 2006 a wholly owned entity of the Bank issued USD 700 million (AUD 942 million) of perpetual non-call 10 year trust preferred securities into U.S. Capital Markets.

Each trust preferred security represents a preferred beneficial ownership interest in the assets of CBA Capital Trust II. The trust preferred securities are guaranteed by CBA. The trust preferred securities form part of the Bank's innovative residual Tier One capital.

CBA Capital Trust II is a statutory trust established under Delaware law that exists for the purpose of issuing the trust preferred securities, acquiring and holding the subordinated notes issued by a CBA NZ subsidiary, the subordinated notes guarantee and the CBA preference shares.

Cash distributions on the trust preferred securities are at the fixed rate of 6.024% payable semi-annually to 15 March 2016. Cash distributions on the trust preferred securities will accrue at the rate of LIBOR plus 1.740% per annum payable quarterly in arrears after that date.

Cash distributions on the trust preferred securities will be limited to the interest CBA NZ Subsidiary pays on the subordinated notes, payments in respect of interest on the subordinated notes by CBA NZ Branch as guarantor under the subordinated notes guarantee and, after 15 March 2016, the dividends CBA pays on the CBA preference shares. Payments in respect of cash distributions will be guaranteed on a subordinated basis by CBA, as guarantor, but only to extent CBA Capital Trust II has funds sufficient for the payment.

There are restrictions on CBA NZ Subsidiary's ability to make payments on the subordinated notes, CBA NZ Branch's ability to make payments on the CBA NZ Branch notes and the subordinated notes guarantee and CBA's ability to make payments on the CBA 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 CBA 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 CBA preference shares if CBA redeems or varies the terms of the CBA preference shares. The trust preferred securities are also subject to redemption if any other Assignment Event occurs.

If the CBA preference shares are redeemed for qualifying Tier One securities or the terms thereof are varied, holders will receive one CBA 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 CBA preference shares.

Notes to the Financial Statements

Note 31 Loan Capital (continued)

Trust preferred securities holders have the right to bring a direct action against:

- CBA NZ Subsidiary if CBA NZ 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
- CBA NZ Branch or the Bank if CBA NZ Branch does not perform its obligations under the subordinated notes guarantee or under the CBA NZ 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 CBA 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 CBA 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 CBA preference shares that are part of those units and automatically be transferred to CBA;
- If the Assignment Event is the cash redemption of CBA 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 CBA preference shares and the accrued and unpaid interest on the subordinated notes that were part of the units with those CBA preference shares; and
- If the Assignment Event is not the cash redemption of CBA preference shares, CBA Capital Trust II will deliver to all holders of trust preferred securities in redemption thereof one CBA 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 CBA 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 March 15, 2016 and at the rate of LIBOR plus 1.740% per annum thereafter.

If the Bank is liquidated, holders of CBA preference shares will be entitled to receive an amount equal to a liquidation preference out of surplus assets of USD 1,000 per CBA 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.

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 CBA preference shares if CBA NZ Subsidiary or CBA NZ 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 CBA preference shares on any interest payment date and/or dividend payment date.

On or after 15 March 2016, the Bank may redeem the CBA preference shares for cash, in whole or in part, on any date selected by us 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 CBA preference shares for cash, vary the terms of the CBA preference shares or redeem the CBA preference shares for qualifying Tier One securities, in whole but not in part, on any date selected by the Bank:

- If the CBA 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 CBA 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 CBA preference shares will be entitled to vote together with the holders of our ordinary shares on the basis of one vote for each CBA preference share:

- During a period in which a dividend (or part of a dividend) in respect of the CBA preference shares is in arrears;
- On a proposal to reduce share capital;
- On a proposal that affects rights attached to the CBA 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 CBA 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 CBA preference shares.

CBA NZ Subsidiary may not make payments on the subordinated notes, CBA NZ Branch may not make payments on the subordinated notes guarantee or the CBA NZ Branch notes and CBA may not make payments on the CBA preference shares if an APRA condition exists; if a CBA stopper resolution has been passed and not been rescinded or if CBA NZ Subsidiary, CBA NZ branch or CBA, as the case may be, is prohibited from making such a payment by instruments or other obligations of CBA.

Notes to the Financial Statements

Note 31 Loan Capital (continued)

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 CBA preference shares, then the Bank may not pay any interest; declare or pay any dividends or distributions from the income or capital of CBA, or return any capital or undertake any buy-backs, redemptions or repurchases of existing capital securities or any securities, or instruments of CBA that by their terms rank or are expressed to rank equally with or junior to the CBA NZ Branch notes or the CBA 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 CBA, 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 CBA preference shares on any dividend payment date, CBA 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 CBA 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) CBA NZ Subsidiary or CBA NZ 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, CBA 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) CBA has paid dividends on the CBA 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 CBA 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.

⁽¹⁰⁾ AUD denominated Tier Two Loan Capital issuances

- AUD 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 qualifies the issue as Tier Two capital. The Agreement provides for the Bank to issue either fully paid ordinary shares to the Commonwealth of Australia or (with the consent of the Commonwealth of Australia) rights to all shareholders to subscribe for fully paid ordinary shares up to an amount equal to the outstanding principal value of the note issue plus any interest paid in respect of the notes for the most recent financial year and accrued interest. The issue price will be determined by reference to the prevailing market price for the Bank's shares.

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

- A relevant event of default occurs in respect of the note issue and, where applicable, the Trustee of the notes gives notice of such to the Bank;
- The Bank, if required by the Commonwealth of Australia and subject to the agreement of the APRA, exercises its option to redeem such issue; or
- Any payment made by the Commonwealth of Australia pursuant to its guarantee in respect of the issue will trigger the issue of shares to the Commonwealth of Australia to the value of such payment.

Original issue size was \$300 million; \$25 million matured in December 2004.

- AUD 25 million subordinated FRN, issued April 1999, due April 2029.
- AUD 130 million subordinated notes comprised as follows: AUD 10 million fixed rate notes issued 12 December 1995, matured 12 December 2005. AUD 110 million floating rate notes issued 12 December 1995, matured 12 December 2005. AUD five million fixed rate notes issued 17 December 1996, matured 12 December 2005. AUD five million floating rate notes issued 17 December 1996, matured 12 December 2005.
- AUD 500 million subordinated notes, issued February 2004, due February 2014; split into AUD 300 million fixed rate notes and AUD 200 million floating rate notes.
- AUD 300 million subordinated floating rate notes, issued February 2005, due February 2015.
- AUD 300 million subordinated floating rate notes, issued November 2005, due November 2015.
- AUD 200 million subordinated floating rate notes, issued September 2006, due September 2016.
- AUD 500 million subordinated notes, issued May 2007, due May 2017; split into AUD 150 million fixed rate notes and AUD 350 million floating rate notes.

Notes to the Financial Statements

Note 31 Loan Capital (continued)

⁽¹¹⁾ USD denominated Tier Two Loan Capital issuances

- USD 300 million subordinated notes, issued June 2000, due June 2010.
- USD 400 million subordinated EMTN, issued June 1996, matured July 2006.
- USD 350 million subordinated fixed rate note, issued June 2003, due June 2018.
- USD 500 million subordinated EMTN issued June 2004 (USD 250 million) and August 2004 (USD 250 million), due August 2014.
- USD 100 million subordinated EMTN, issued March 2005, due March 2025. Partial redemption of USD 39.5 million in September 2005.
- USD 200 million subordinated notes, issued June 2006, due July 2016.
- USD 300 million subordinated floating rate notes, issued September 2006, due September 2016.
- USD 650 million subordinated floating rate notes, issued December 2007, due December 2016.

⁽¹²⁾ 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 EMTN, issued May 2004, due May 2034.
- JPY 10 billion subordinated notes, issued November 2005, due November 2015.
- JPY 5 billion subordinated loan, issued March 2006, due March 2018.

⁽¹³⁾ GBP denominated Tier Two Loan Capital issuances

- GBP 200 million subordinated EMTN, issued March 1996, matured December 2007.
- GBP 150 million subordinated EMTN, issued June 2003, due December 2023.

⁽¹⁴⁾ Other currencies Tier Two Loan Capital issuances

- EUR 300 million subordinated EMTN, issued March 2005, due March 2015.
- CAD 300 million subordinated notes, issued November 2005, due November 2015.
- CAD 300 million subordinated notes, issued October 2007, due October 2017.
- NZD 350 million subordinated notes, issued May 2005, due April 2015.
- NZD 183 million subordinated notes issued June 2006, due June 2016.

Notes to the Financial Statements

Note 32 Detailed Statements of Changes in Equity

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Equity Reconciliations				
Ordinary Share Capital				
Opening balance	14,483	13,505	14,691	13,766
Issue of shares	141	-	141	-
Dividend reinvestment plan	1,109	818	1,109	818
Exercise of executive options under employee share ownership schemes	3	19	3	19
(Purchase)/sale and vesting of treasury shares ⁽¹⁾	(9)	141	(17)	88
Closing balance	15,727	14,483	15,927	14,691
Other Equity Instruments				
Opening balance	939	939	1,895	1,895
Closing balance	939	939	1,895	1,895
Retained Profits				
Opening balance	6,367	4,487	6,315	4,472
Loyalty program adjustment	(5)	-	(5)	-
Restated opening balance	6,362	4,487	6,310	4,472
Actuarial (losses)/gains from defined benefit superannuation plans	(240)	414	(240)	414
Realised gains and dividend income on treasury shares held within the Group's life insurance statutory funds ⁽¹⁾	26	45	-	-
Operating profit attributable to Equity holders of the Bank	4,791	4,470	4,358	4,477
Total available for appropriation	10,939	9,416	10,428	9,363
Transfers (to)/from general reserve	(85)	54	-	-
Transfers from general reserve for credit losses	350	-	350	-
Interim dividend – cash component ⁽²⁾	(1,087)	(862)	(1,087)	(862)
Interim dividend – dividend reinvestment plan	(400)	(518)	(400)	(518)
Final dividend – cash component	(1,229)	(1,368)	(1,229)	(1,368)
Final dividend – dividend reinvestment plan	(709)	(300)	(709)	(300)
Other dividends	(32)	(55)	-	-
Closing balance	7,747	6,367	7,353	6,315

(1) Relates to movement in treasury shares held within life insurance statutory funds and the employee share scheme trust.

(2) Includes \$98 million of shares purchased on-market to partly satisfy the Dividend Reinvestment Plan.

Notes to the Financial Statements

Note 32 Detailed Statements of Changes in Equity (continued)

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Reserves				
General Reserve				
Opening balance	1,167	1,221	570	570
Appropriation from/(to) retained profits	85	(54)	-	-
Closing balance	1,252	1,167	570	570
Capital Reserve				
Opening balance	287	285	1,538	1,536
Revaluation surplus on sale of property	6	2	6	2
Closing balance	293	287	1,544	1,538
Asset Revaluation Reserve				
Opening balance	185	131	157	107
Revaluation of properties	20	79	19	75
Transfers on sale of properties	(6)	(2)	(6)	(2)
Tax on revaluation of properties	(4)	(23)	(4)	(23)
Closing balance	195	185	166	157
Foreign Currency Translation Reserve				
Opening balance	(200)	(241)	(126)	(6)
Currency translation adjustments of foreign operations	(555)	54	(103)	(119)
Currency translation on net investment hedge	(93)	-	-	-
Tax on translation adjustments	23	(13)	1	(1)
Tax on net investment hedge movement	30	-	-	-
Closing balance	(795)	(200)	(228)	(126)
Cash Flow Hedge Reserve				
Opening balance	440	59	211	6
Gains and losses on cash flow hedging instruments:				
Recognised in equity	422	429	426	125
Transferred to Income Statement				
Interest income	88	67	86	88
Interest expense	(661)	53	(404)	79
Tax on cash flow hedging instruments	52	(168)	(27)	(87)
Closing balance	341	440	292	211
Employee Compensation Reserve				
Opening balance	(51)	34	(51)	34
Current period movement	12	(85)	12	(85)
Closing balance	(39)	(51)	(39)	(51)
General Reserve for Credit Losses ⁽¹⁾				
Opening balance	350	350	350	350
Transfer to retained profits	(350)	-	(350)	-
Closing balance	-	350	-	350
Available-for-Sale Investments Reserve				
Opening balance	(35)	65	(27)	60
Net gains and losses on revaluation of available-for-sale investments	262	28	240	18
Net gains and losses on available-for-sale investments transferred to Income Statement on disposal	(312)	(138)	(272)	(119)
Tax on available-for-sale investments	44	10	7	14
Closing balance	(41)	(35)	(52)	(27)
Total reserves	1,206	2,143	2,253	2,622
Shareholders' equity attributable to Equity holders of the Bank	25,619	23,932	27,428	25,523
Shareholders' equity attributable to minority interests	518	512	-	-
Total Shareholders' equity	26,137	24,444	27,428	25,523

(1) The Group was previously required to maintain a Prudential General Reserve for Credit Losses ("GRCL"), however, as this is no longer required it has been returned to Retained Profits.

Notes to the Financial Statements

Note 32 Detailed Statements of Changes in Equity (continued)

The following table shows the gross amount of deferred gains/(losses) in relation to cash flow hedges.

Cash Flow Hedges – Deferred Gains/(Losses)

	Exchange Rate Related Contracts		Interest Rate Related Contracts		Group Total	
	2008	2007	2008	2007	2008	2007
	\$M	\$M	\$M	\$M	\$M	\$M
Within 6 months	59	39	43	10	102	49
Within 6 months – 1 year	-	-	30	228	30	228
Within 1 – 2 years	-	-	72	123	72	123
Within 2 – 5 years	-	-	137	199	137	199
After 5 years	1	-	144	38	145	38
Net deferred gains	60	39	426	598	486	637

	Exchange Rate Related Contracts		Interest Rate Related Contracts		Bank Total	
	2008	2007	2008	2007	2008	2007
	\$M	\$M	\$M	\$M	\$M	\$M
Within 6 months	34	(4)	31	2	65	(2)
Within 6 months – 1 year	-	-	16	200	16	200
Within 1 – 2 years	-	-	65	59	65	59
Within 2 – 5 years	-	-	132	22	132	22
After 5 years	(8)	(13)	142	36	134	23
Net deferred gains/(losses)	26	(17)	386	319	412	302

Notes to the Financial Statements

Note 33 Share Capital

	Group		Bank	
	2008	2007	2008	2007
	\$M	\$M	\$M	\$M
Issued and Paid Up Ordinary Capital				
Ordinary Share Capital				
Opening balance (excluding Treasury Shares deduction)	14,738	13,901	14,738	13,901
Dividend reinvestment plan: Final dividend prior year	709	300	709	300
Dividend reinvestment plan: Interim dividend	400	518	400	518
Share Issue – IWL acquisition	141	-	141	-
Exercise of executive options under employee share ownership schemes	3	19	3	19
Closing balance (excluding Treasury Shares deduction)	15,991	14,738	15,991	14,738
Less: Treasury Shares	(264)	(255)	(64)	(47)
Closing balance	15,727	14,483	15,927	14,691

	Shares	Shares	Shares	Shares
Shares on Issue				
Opening balance (excluding Treasury Shares deduction)	1,300,583,376	1,282,904,909	1,300,583,376	1,282,904,909
Dividend reinvestment plan issues:				
2005/2006 Final dividend fully paid ordinary shares at \$45.24	-	6,638,553	-	6,638,553
2006/2007 Interim dividend fully paid ordinary shares at \$50.02	-	10,343,514	-	10,343,514
2006/2007 Final dividend fully paid ordinary shares at \$54.80	12,938,969	-	12,938,969	-
2007/2008 Interim dividend fully paid ordinary shares at \$39.44	10,156,101	-	10,156,101	-
Share Issue – IWL acquisition	2,327,431	-	2,327,431	-
Exercise of executive options under employee share ownership schemes	125,000	696,400	125,000	696,400
Closing balance (excluding Treasury Shares deduction)	1,326,130,877	1,300,583,376	1,326,130,877	1,300,583,376
Less: Treasury Shares	(7,988,013)	(7,611,744)	(1,787,446)	(1,198,015)
Closing balance	1,318,142,864	1,292,971,632	1,324,343,431	1,299,385,361

Terms and Conditions of Ordinary Share Capital

Ordinary shares have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from sale of surplus assets in proportion to the number of and amounts paid up on shares held.

A shareholder has one vote on a show of hands and one vote for each fully paid share on a poll. A shareholder may be present at a general meeting in person or by proxy or attorney, and if a body corporate, it may also authorise a representative.

	Group		Bank	
	2008	2007	2008	2007
	\$M	\$M	\$M	\$M
Other Equity Instruments				
Other equity instruments issued and paid up	939	939	1,895	1,895
	Shares	Shares	Shares	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 33 Share Capital (continued)

Dividends

The Directors have declared a fully franked final dividend of 153 cents per share amounting to \$2,029 million. The dividend will be payable on 1 October 2008 to shareholders on the register at 5pm on 22 August 2008.

The Board determines the dividends per share 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;
- The rate of return on assets;
- 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:

As declared in the 31 December 2007 Profit Announcement, a fully franked interim dividend of 113 cents per share amounting to \$1,487 million was paid on 2 April 2008. The payment comprised cash disbursements of \$989 million with \$498 million being reinvested by participants through the Dividend Reinvestment Plan, of which \$98 million of shares were provided by an on-market purchase.

Dividend Reinvestment Plan

The Bank expects to issue around \$609 million of shares in respect of the Dividend Reinvestment Plan for the final dividend for the 2008 financial year.

Record date

The register closed for determination of dividend entitlement and for participation in the dividend reinvestment plan at 5pm on 22 August 2008 at Link Market Services Limited, Locked Bag A14, Sydney South, 1235.

Ex-dividend Date

The ex-dividend date was 18 August 2008.

Employee Share Plans

The Group had the following employee share plans in place during the year ended 30 June 2008:

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

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

Changes Since 2007

As a result of the Group's long term incentive arrangements in 2007, the ERP has ceased to operate.

To strengthen the alignment between Shareholder interests and executives who previously participated in the ERP, one third of their short term incentive payments will be deferred into Bank shares for three years under the Leadership Incentive Share Plan (LISP). The first deferral commenced on 1 July 2007. The LISP arrangement is governed by the Rules of the EPP.

From 1 July 2007 the CEO and Group Executives received long term incentives under the new Group Leadership Share Plan (GLSP). The GLSP provides participants with the opportunity to share in a pool of performance rights at the end of the three year measurement period subject to satisfaction of performance hurdles.

Employee Share Acquisition Plan ("ESAP")

The ESAP was introduced in 1996 and provides employees with the opportunity to receive up to \$1,000 worth of free shares each year if the Group meets the required performance target. The performance target is growth in annual profit of the greater of 5% or the consumer price index (CPI change) plus 2%. Whenever annual profit growth exceeds CPI change, the Board may use its discretion in determining whether any grant of shares will be made.

Under ESAP, shares granted are restricted for sale for three years or until such time as the participating employee ceases employment with the Group, whichever is earlier. Shares granted under the ESAP receive full dividend entitlements, voting rights and there are no forfeiture or vesting conditions attached to the shares granted.

Effective from 1 July 2002, shares granted under ESAP offers have been expensed through the profit and loss. On 29 August 2007, 455,094 shares were granted to 25,283 eligible employees in respect of the 2007 ESAP grant.

The Issue Price for the offer is equal to the volume weighted average of the prices at which the CBA shares were traded on the ASX during the 5 trading day period up to and including the grant date. For the 2007 grant, this was \$54.78.

The Group has determined to modify the allocation to each eligible employee in respect of the 2008 grant. The grant value will be differentiated based on individual performance ratings for the 2008 financial year for eligible employees. Accordingly, it is estimated that \$12 million worth of shares will be purchased on-market at the prevailing market price.

Notes to the Financial Statements

Note 33 Share Capital (continued)

Equity Participation Plan (“EPP”)

The EPP comprises a voluntary and a mandatory component.

The voluntary component facilitates the voluntary sacrifice of both fixed remuneration and annual short term incentives (STI) to be applied in the acquisition of shares. The sacrifice of one third of STI payments for executives under the Leadership Incentive Plan (“LISP”) forms the mandatory part of the EPP. The LISP was introduced on 1 July 2007.

Under the voluntary component of the EPP, shares purchased are restricted for sale for two years or when a participating employee ceases employment with the Group, whichever is earlier. Shares purchased under the voluntary component of the EPP carry full dividend entitlements, voting rights and there are no forfeiture or vesting conditions attached to the shares.

Under the mandatory component of the EPP, fully paid ordinary shares are purchased and held in trust until such time as the vesting conditions have been met. The vesting condition attached to the shares specifies that participants must generally remain employees of the Group until the vesting date. Shares previously granted under the mandatory component of the EPP remain subject to their vesting conditions.

Each participant in the mandatory component of the EPP for whom shares are held by the Trustee on their behalf has a right to receive dividends. Once the shares vest, dividends which have accrued in the trust during the vesting period are paid to participants.

The participant may also direct the Trustee on how the voting rights attached to the shares are to be exercised during the vesting period. Where participating employees do not satisfy the vesting conditions, shares and dividend rights are forfeited.

Shares acquired under the EPP are expensed. In the current year, \$17 million was expensed to reflect the cost of allocations under the Plan. This current year expense is higher than last year's due to the inclusion of the LISP grant since July 2007.

All shares acquired by employees under the EPP are purchased on-market at the current market price. A total number of 9,008,053 shares have been acquired under the EPP since the plan commenced in 2001.

For a limited number of executives a cash-based LISP replicator scheme is operated by way of grants of Performance Units – the Leadership Incentive (Performance Unit) Plan (“LIPUP”). A Performance Unit is a monetary unit with a value linked to the share price of Commonwealth Bank shares. Performance Units granted under LIPUP are subject to the same vesting conditions as the LISP. On meeting the vesting condition, a cash payment is made to executives, the value of which is determined based on the Group's share price upon vesting plus an accrued dividend value.

A total of \$0.7 million for the LIPUP has been expensed in respect of the year ended 30 June 2008.

Details of purchases under the EPP from 1 July 2007 to 30 June 2008 were as follows:

Allotment Date	Participants	Shares Purchased	Average Purchase Price
20 August 2007	60	8,279	\$52.81
3 September 2007	81	57,488	\$55.19
7 September 2007	298	652,055	\$55.06
4 March 2008	74	19,284	\$39.85

The movement in shares purchased under the mandatory component of the EPP has been as follows:

Details of Movements	July 07 – June 08	July 06 – June 07
Shares held under the Plan at the beginning of year (no.)	63,444	823,084
Shares allocated during year (no.)	652,055	-
Shares vested during year (no.)	(21,148)	(759,640)
Shares forfeited during year (no.)	(80,322)	-
Shares held under the Plan at end of year (no.)	614,029	63,444

Notes to the Financial Statements

Note 33 Share Capital (continued)

Group Leadership Share Plan (GLSP)

Effective 1 July 2007, the GLSP is the Group's long term incentive plan for the CEO and Group Executives.

Under the GLSP, participants will share in a pool that may vest at the end of the three year performance period subject to satisfaction of the performance conditions.

For grants made in 2007/08, participants will share in a pool to the value of 2.2% of the growth in the Group's Net Profit after Capital Charge (PACC), capped at a maximum pool of \$34 million subject to performance against both of the following performance hurdles:

- The Group's NPAT growth over the three year period must be above the average of NPAT growth of the peer group (ANZ, NAB, St George and Westpac); and
- The Group's customer satisfaction relative to the peer group.

The current GLSP grant is measured from 1 July 2007 and may vest depending on performance to 1 July 2010.

In order to determine the Group's level of achievement against the customer satisfaction performance hurdle, scores are taken for both the Group and the peer group from independent external surveys. A ranking is then determined and a vesting scale applied.

If the Bank's NPAT is below the average of the peer group, then nothing will vest regardless of the Bank's customer satisfaction ranking.

The GLSP will provide reward shares to the participants if and when grants vest. The number of reward shares to vest will be 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. As the GLSP commenced on 1 July 2007, no share grants have been made in 2007/08.

A total of \$3.7 million has been expensed in respect of the year ended 30 June 2008.

Further details of the GLSP are available in the Remuneration Report.

Equity Reward Plan (ERP)

The ERP was the Group's previous long term incentive arrangement for executives, which has since been replaced by the GLSP and LISP arrangements. No grants were made under the ERP during the 2008 financial year. The last allocation under the ERP and ERPUP was made in July 2006. These shares are due to be tested for vesting in July 2009. No further grants will be made under the ERP. The Board envisaged that up to a maximum of 500 employees would participate each year in the ERP.

Previous grants under the ERP were in two parts, comprising grants of options, where recipients pay a set exercise price to convert each option to one CBA share once the option has vested, and grants of shares, where no exercise price is payable for participants to receive CBA shares upon vesting. Since 2001/02, no options have been issued under the ERP. From 2002/03, Reward Shares have only been issued under this plan.

The exercise of previously granted options and the vesting of employee legal title to the shares are conditional on the Group achieving a prescribed performance hurdle. The ERP performance hurdle is based on relative Total Shareholder Return (TSR) with the Group's TSR performance being measured against a comparator group of companies. TSR is calculated by combining the reinvestment of dividends and share price movements over the period.

For Reward Shares granted from 2002/03 to 2005/06 inclusive, a tiered vesting scale was applied so that 50% of the allocated shares vest if the Group's TSR return is equal to the 50th percentile, 75% vest at the 67th percentile and 100% when the Group's return is in the top quartile. The minimum vesting period is three years. There are then four retesting opportunities until the maximum five year vesting period concludes. All unvested Reward Shares remaining in the Plan at the end of the vesting period are forfeited. Employees who exit the Group before the grant vests forfeit their allocation.

Where the performance rating is at least at the 50th percentile on the third anniversary of the grant, the shares will vest at a time nominated by the executive, within the trading windows, over the next two years. The vesting percentage will be at least that achieved on the third anniversary of the grant and the executive will be able to delay vesting until a subsequent half yearly window prior to the fifth anniversary of the grant. The vesting percentage will be calculated by reference to the rating at that time.

Where the rating is below the 50th percentile on the third anniversary of grant, the shares can still vest if the rating reaches the 50th percentile prior to the fifth anniversary, but the maximum vesting will be 50%.

For Reward Shares granted in 2006/07 a straight line vesting scale is applied, with 50% vesting at the 51st percentile, through to 100% vesting at the 75th percentile. The minimum vesting period for these grants is three years. Further retesting is restricted to one occasion, 12 months after initial testing, giving a maximum vesting period of four years. All unvested Reward Shares remaining in the Plan at the end of the vesting period are forfeited. Employees who exit the Group before the grant vests forfeit their allocation.

During the vesting period, Reward Shares are held in Trust. Each participant on behalf of whom Reward Shares are held by the Trustee has a right to receive dividends. If the shares vest, dividends are paid in relation to those accrued during the vesting period. The participant may also direct the Trustee on how the voting rights attached to the shares are to be exercised during the vesting period.

Reward Shares acquired under the share component of the ERP are purchased on-market at the current market price. In the current year, a total of \$13 million has been expensed. The current year expense is lower than last year's due the inclusion last year of an additional cost of \$12 million incurred from the modification to the performance hurdle of the Plan in 2005/06. The fair value of shares allocated under the ERP is expensed over three to five years, reflecting the expected vesting period.

For a limited number of executives a cash-based ERP replicator scheme is operated by way of grants of Performance Units – the Equity Reward (Performance Unit) Plan (ERPUP). A Performance Unit is a monetary unit with a value linked to the share price of Commonwealth Bank shares. Performance Unit grants are subject to the same vesting conditions as the ERP. On meeting the vesting condition, a cash payment is made to executives the value of which is determined based on the Group's share price on vesting plus an accrued dividend value.

A total of \$11 million for the ERPUP has been expensed in respect of the year ended 30 June 2008. The current year expense is lower than last year's due to the inclusion of an additional cost last year of \$18.7 million incurred from the modification to the Plan in 2007.

Executive options issued up to September 2001 have not been recorded as an expense by the Group.

Notes to the Financial Statements

Note 33 Share Capital (continued)

Details of movements in ERP options and shares are as follows:

Options – Details of Movements

Year of Grant	July 2007 – June 2008		July 2006 – June 2007	
	2000 ⁽³⁾	2001 ⁽⁴⁾	2000 ⁽³⁾	2001 ⁽⁴⁾
Exercise Price ⁽¹⁾⁽²⁾	\$26.97	\$30.12	\$26.97	\$30.12
Held by participants at the start of the year (no.)	97,500	426,600	137,500	753,500
Granted during year (no.)	-	-	-	-
Exercised during year (no.)	-	(112,500)	(40,000)	(326,900)
Lapsed during year (no.)	-	-	-	-
Outstanding at the end of year (no.)	97,500	314,100	97,500	426,600
Total consideration paid due to exercises to date of report⁽⁵⁾	-	\$3,388,500	\$1,078,800	\$9,846,228

(1) The Exercise Price is the market value at the commencement date. Market value is defined as the weighted average of the prices at which shares were traded on the ASX during the one week period before the commencement date. This is the average exercise price.

(2) The premium adjustment (based on the actual difference between the dividend and bond yields at the date of vesting) was nil.

(3) Performance hurdle was satisfied on 31 March 2004 and options may be exercised up to 13 September 2010.

(4) Performance hurdle was satisfied on 3 October 2004 and options may be exercised up to 3 September 2011.

(5) No amount is unpaid in respect of the shares issued upon exercise of options during the above period.

Reward Shares – Details of Movements

Year of Grant - Total Reward Shares	July 2007 – June 2008				July 2006 – June 2007			
	2004 ⁽⁴⁾	2005 ⁽⁵⁾	2006 ⁽⁶⁾	2002 ⁽²⁾	2003 ⁽³⁾	2004 ⁽⁴⁾	2005 ⁽⁵⁾	2006 ⁽⁶⁾
Held by participants at the start of year (no.)	297,395	411,937	440,854	241,850	348,650	423,685	522,748	-
Allocated during year (no.) ⁽¹⁾	282,645	-	-	-	321,150	-	13,117	505,574
Vested during year (no.)	(540,290)	-	-	(219,500)	(639,300)	-	-	-
Lapsed during year (no.)	(39,750)	(66,363)	(66,090)	(22,350)	(30,500)	(126,290)	(123,928)	(64,720)
Outstanding at the end of year (no.)	-	345,574	374,764	-	-	297,395	411,937	440,854

(1) The total number of shares allocated during the year represents the number of shares allocated and may not represent the total number that may vest at a later date. The Group purchases 50% of the maximum number of shares a participant may receive. Additional shares are purchased if required to fulfil the Group's obligations to vest shares in participants once the performance of the ERP grant is known.

(2) Performance hurdle was satisfied on 2 October 2006 when 50% of the maximum allocation of this grant vested.

(3) Performance hurdle was satisfied on 3 October 2006 when 100% of the maximum allocation of this grant vested.

(4) Performance hurdle was satisfied on 23 September 2007 when 100% of the maximum allocation of this grant vested.

(5) This grant will be tested for vesting on 15 July 2008. If performance is below the 75th percentile, retests will be conducted each six months until 15 July 2010.

(6) This grant will be tested for vesting on 14 July 2009. If performance is below the 75th percentile, one retest will be conducted 12 months later on 15 July 2010.

Non-Executive Directors Share Plan (NEDSP)

The NEDSP provides for the acquisition of shares by Non-Executive Directors through the mandatory sacrifice of 20% of their annual fees (paid on a quarterly basis). Shares purchased are restricted for sale for 10 years or when the Director leaves the Board, whichever is earlier. In addition, Non-Executive Directors can voluntarily elect to sacrifice up to a further 80% of their fees for the acquisition of shares.

Shares are purchased on-market at the current market price and a total of 70,763 shares have been purchased under the NEDSP since the plan commenced in 2001. Since March 2005, shares are acquired under the plan on a six monthly basis.

Shares acquired under the plan receive full dividend entitlements and voting rights and there are no forfeiture or vesting conditions attached to the shares granted under the NEDSP.

For the current year, \$527,811 was expensed through the profit and loss reflecting shares purchased and allocated under the NEDSP.

Grants made under the NEDSP from 1 July 2007 to 30 June 2008

Period	Total Fees Sacrificed	Participants	Shares Purchased	Average Purchase Price
1 January to 30 June 2008	\$279,896	11	5,298	\$52.81
1 July to 31 December 2007	\$247,915	9	6,223	\$39.85

Notes to the Financial Statements

Note 33 Share Capital (continued)

Executive Option Plan (EOP)

This plan was discontinued in 2000/01.

Under the EOP, the Bank granted options to purchase fully paid ordinary shares to those key executives who, being able by virtue of their responsibility, experience and skill to influence the generation of shareholder wealth, were declared by the Board of Directors to be eligible to participate in the Plan. Non-Executive Directors were not eligible to participate in the Plan.

Options cannot be exercised before each respective exercise period and the ability to exercise is conditional on the Group achieving a prescribed performance hurdle. The option plan did not grant rights to the option holders to participate in a share issue of any other body corporate.

The performance hurdle is the same TSR comparator hurdle as outlined above for the Equity Reward Plan (ERP) grants prior to 2002/03.

The EOP was discontinued in 2000/2001 and no options have been granted under the plan since the last grant in September 2000. The performance hurdles for the August 1999 grant and the September 2000 grant were met in 2004.

Under the Group's EOP and ERP an option holder generally has no right to participate in any new issue of securities of the Group or of a related body corporate as a result of holding the option. The only exception is when there is a pro rata issue of shares to the Group's Shareholders by way of a bonus issue involving capitalisation (other than in place of dividends or by way of dividend reinvestment). In this case an option holder is entitled to receive additional shares upon exercise of the options of the number of bonus shares that the option holder would have received if the options had been exercised and shares issued prior to the bonus issue.

Details of movements for in EOP options are as follows:

Options – Details of Movements

Year of Grant	July 2007 – June 2008		July 2006 – June 2007	
	2000 ⁽⁴⁾	1999 ⁽³⁾	2000 ⁽⁴⁾	
Exercise Price ⁽¹⁾⁽²⁾	\$26.97	\$23.84	\$26.97	
Held by participants at the start of year (no.)	36,900	190,600	225,800	
Granted during year (no.)	-	-	-	
Exercised during year (no.)	(12,500)	(165,600)	(163,900)	
Lapsed during year (no.)	-	(25,000)	(25,000)	
Outstanding at the end of year (no.)	24,400	-	36,900	
Total consideration paid due to exercises to date of report⁽⁵⁾	\$337,125	\$3,947,904	\$4,420,383	

(1) The Exercise Price is the market value at the commencement date. Market value is defined as the weighted average of the prices at which shares were traded on the ASX during the one week period before the commencement date. This is the average exercise price.

(2) The premium adjustment (based on the actual difference between the dividend and bond yields at the date of vesting) was nil.

(3) Performance hurdle was satisfied on 28 February 2004 and options may be exercised up to 24 August 2009.

(4) Performance hurdle was satisfied on 31 March 2004 and options may be exercised up to 13 September 2010.

(5) No amount is unpaid in respect of the shares issued upon exercise of options during the above period.

Notes to the Financial Statements

Note 34 Minority Interests

	Group	
	2008	2007
	\$M	\$M
Controlled entities:		
Share capital ⁽¹⁾	518	512
Total minority interests	518	512

(1) Comprises predominantly New Zealand Perpetual Preference Shares - \$505 million. On 10 December 2002, ASB Capital Limited, a New Zealand subsidiary, issued NZD 200 million (AUD 182 million) of perpetual preference shares. Such shares are non-redeemable and carry limited voting rights. Dividends are payable quarterly and are non-cumulative. On 22 December 2004, ASB Capital No.2 Ltd, a New Zealand subsidiary, issued NZD 350 million (AUD 323 million) of perpetual preference shares. Such shares are non-redeemable and carry limited voting rights. Dividends are payable quarterly and are non-cumulative.

Notes to the Financial Statements

Note 35 Capital Adequacy

Regulatory Capital

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 (“The Basel Committee”). These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Bank.

The regulatory capital requirements are measured for the Extended Licence Entity Group (known as “Level One” comprising the Bank and APRA approved subsidiaries) and for the Bank and all of its banking subsidiaries (known as “Level Two” or the “Group”).

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

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

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

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

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

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

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

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

During the 2007 and 2008 financial years the Group complied with APRA’s prescribed minimum capital requirements at all times.

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

The Group’s capital ratios throughout the 2007 and 2008 Financial Years were in compliance with both APRA minimum capital adequacy requirements (Tier One Capital 4% and Total Capital 8%) and the Board approved target ranges of Tier One Capital 6.5 to 7% and Total Capital 10 to 12%).

The Total Capital target range was amended in 2008 from a range of 9 to 11% to a range of 10 to 12% in order to align with the Bank’s strategy to apply for U.S. Financial Holding Company (FHC) status. FHC status requires the Bank to maintain minimum Tier One Capital of 6% and Total Capital at 10% at all times.

Economic Capital

The Group uses an “Economic Capital” model to drive delivery of “shareholder-value-added” (“SVA”) results. Measures are applied to link the cost of the Bank’s physical capital to the profit required from different business segments. This in turn facilitates:

- Pricing of products based on appropriate charges for use of capital; and
- Internal measurement of performance on a risk adjusted basis.

Economic Capital provides an estimate of capital required to cover the financial impact of unlikely events, at a level of confidence consistent with the Board’s target debt rating. As such, the level of Economic Capital and physical capital is aligned to the Board’s overall risk appetite.

The Group calculates Economic Capital in accordance with the following key principles:

- Consistent application to all material risk types and businesses across the Group;
- 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
- Aggregation of Economic Capital by individual risk type.

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. These risk types are defined in the Basel II Capital Framework, and influence the level of capital held by the Bank.

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 these outcomes.

Business Unit segments are required to achieve minimum returns on their allocated risk-based capital equal to a uniform “Cost of Capital” which is set from time to time based on market conditions.

The development of Economic Capital measures and the use of risk adjusted return metrics within Business Unit segments is an evolving area both within the Group and across the industry.

Notes to the Financial Statements

Note 36 Financial Reporting by Segments

Description of segments

The principal activities of the Group are carried out in the business segments shown below. 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, Premium Business Services and International Financial Services) and insurance premium and funds management income (Wealth Management).

	Group Year Ended 30 June 2008					
Business Segment Information	Retail Banking Services	Premium Business Services	Wealth Management	International Financial Services	Other	Total
Income Statement	\$M	\$M	\$M	\$M	\$M	\$M
Interest income	14,651	9,204	-	4,061	1,318	29,234
Insurance premium and related revenue	-	-	994	379	-	1,373
Other income	1,257	1,965	2,840	458	(73)	6,447
Total revenue	15,908	11,169	3,834	4,898	1,245	37,054
Equity accounted earnings	-	-	60	32	-	92
Revenue from external customers	15,896	10,622	3,774	4,773	1,897	36,962
Revenue from other operating segments	12	547	-	93	(652)	-
Interest expense	5,306	6,701	87	3,081	6,152	21,327
Segment result before income tax	2,675	1,865	986	777	(48)	6,255
Income tax expense	(801)	(402)	(186)	(179)	135	(1,433)
Segment result after income tax	1,874	1,463	800	598	87	4,822
Minority interests	-	-	-	(2)	(29)	(31)
Segment result after income tax and minority interests	1,874	1,463	800	596	58	4,791
Less: Non-Cash items ⁽¹⁾	(30)	(17)	60	7	38	58
Net profit after tax ("cash basis") ⁽¹⁾	1,904	1,480	740	589	20	4,733
Non-Cash Expenses						
Intangible asset amortisation	19	53	-	12	19	103
Loan impairment expense	331	426	-	43	130	930
Depreciation	19	45	4	39	118	225
Defined benefit superannuation plan (income)/expense	-	3	-	-	(17)	(14)
Investment & restructuring	41	22	-	14	300	377
Other	28	17	11	6	28	90
Balance Sheet						
Total assets	200,289	173,370	24,318	51,634	37,961	487,572
Acquisition of property, plant & equipment, intangibles and other non-current assets	15	547	8	71	321	962
Investments in associates	-	17	724	165	-	906
Total liabilities	122,332	166,386	20,857	42,750	109,110	461,435

(1) Business segments are managed on the basis of Net profit after income tax ("cash basis") which is defined by management as net profit after tax and minority interested, before the gain on Visa Initial Public Offering, Provisions for investment and restructuring, defined benefit superannuation plan (income)/expense, treasury shares valuation adjustment and unrealised gains and losses related to hedging and AIFRS volatility. Management use "cash basis" performance and it provides the basis for the determination of the Bank's dividends.

Notes to the Financial Statements

Note 36 Financial Reporting by Segments (continued)

Group
Year Ended 30 June 2007

Business Segment Information	Retail Banking Services	Premium Business Services	Wealth Management	International Financial Services	Other	Total
Income Statement	\$M	\$M	\$M	\$M	\$M	\$M
Interest income	12,007	7,230	-	3,425	1,200	23,862
Insurance premium and related revenue	-	-	830	279	8	1,117
Other income	1,291	1,744	4,590	677	(112)	8,190
Total revenue	13,298	8,974	5,420	4,381	1,096	33,169
Equity accounted earnings	-	1	16	36	-	53
Revenue from external customers	13,279	8,650	5,384	4,404	1,399	33,116
Revenue from other operating segments	19	323	20	(59)	(303)	-
Interest expense	3,890	5,200	33	2,617	5,086	16,826
Segment result before income tax	2,522	1,905	1,090	678	343	6,538
Income tax expense	(756)	(463)	(538)	(153)	(131)	(2,041)
Segment result after income tax	1,766	1,442	552	525	212	4,497
Minority interests	-	-	-	-	(27)	(27)
Segment result after income tax and minority interests	1,766	1,442	552	525	185	4,470
Less: Non-Cash items ⁽¹⁾	-	(3)	(75)	47	(26)	(57)
Net profit after tax ("cash basis") ⁽¹⁾	1,766	1,445	627	478	211	4,527
Non-Cash Expenses						
Intangible asset amortisation	14	35	-	8	13	70
Loan impairment expense	349	75	-	20	(10)	434
Depreciation	20	33	4	39	104	200
Defined benefit superannuation plan (income)/expense	-	5	-	-	(13)	(8)
Other	26	14	49	3	9	101
Balance Sheet						
Total assets ⁽²⁾	174,261	159,424	27,553	52,591	26,328	440,157
Acquisition of property, plant & equipment, intangibles and other non-current assets	45	139	6	89	171	450
Investments in associates	-	1	691	143	1	836
Total liabilities ⁽²⁾	103,958	172,754	22,732	43,801	72,468	415,713

(1) Business segments are managed on the basis of Net profit after income tax ("cash basis") which is defined by management as net profit after tax and minority interested, before the gain on Visa Initial Public Offering, Provisions for investment and restructuring, defined benefit superannuation plan income/expense, treasury shares valuation adjustment and unrealised gains and losses related to hedging and AIFRS volatility. Management use "cash basis" performance and it provides the basis for the determination of the Bank's dividends.

(2) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Notes to the Financial Statements

Note 36 Financial Reporting by Segments (continued)

	Group Year Ended 30 June 2006					
Business Segment Information	Retail Banking Services	Premium Business Services	Wealth Management	International Financial Services	Other	Total
Income Statement	\$M	\$M	\$M	\$M	\$M	\$M
Interest income	10,404	5,581	-	2,948	825	19,758
Insurance premium and related revenue	-	-	739	284	29	1,052
Other income	1,189	1,512	4,144	945	(36)	7,754
Total revenue	11,593	7,093	4,883	4,177	818	28,564
Equity accounted earnings	-	2	2	1	2	7
Revenue from external customers	11,599	6,435	4,858	4,190	1,475	28,557
Revenue from other operating segments	(6)	656	23	(14)	(659)	-
Interest expense	2,352	4,625	26	2,192	4,049	13,244
Segment result before income tax	2,252	1,554	798	839	416	5,859
Income tax expense	(676)	(422)	(394)	(241)	(167)	(1,900)
Segment result after income tax	1,576	1,132	404	598	249	3,959
Minority interests	-	-	-	-	(31)	(31)
Segment result after income tax and minority interests	1,576	1,132	404	598	218	3,928
Less: Non-Cash items ⁽¹⁾	-	(6)	(100)	8	(60)	(158)
Net profit after tax ("cash basis") ⁽¹⁾	1,576	1,138	504	590	278	4,086
Non-Cash Expenses						
Intangible asset amortisation	13	12	-	7	17	49
Loan impairment expense	354	68	-	22	(46)	398
Depreciation	13	16	7	33	95	164
Defined benefit superannuation plan expense	-	7	-	-	28	35
Other	24	13	8	4	17	66
Balance Sheet						
Total assets ⁽²⁾	157,302	134,229	27,549	40,926	22,844	382,850
Acquisition of property, plant & equipment, intangibles and other non-current assets	40	227	113	46	186	612
Investments in associates	-	3	72	102	13	190
Total liabilities ⁽²⁾	78,320	151,257	23,605	33,658	74,667	361,507

(1) Business segments are managed on the basis of Net profit after income tax ("cash basis") which is defined by management as net profit after tax and minority interested, before the gain on Visa Initial Public Offering, Provisions for investment and restructuring, defined benefit superannuation plan income/expense, treasury shares valuation adjustment and unrealised gains and losses related to hedging and AIFRS volatility. Management use "cash basis" performance and it provides the basis for the determination of the Bank's dividends.

(2) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

	Group Year Ended 30 June					
Geographical Information	2008		2007		2006	
Financial Performance & position	\$M	%	\$M	%	\$M	%
Revenue						
Australia	29,131	78.6	26,350	79.5	22,802	79.8
New Zealand	4,922	13.3	4,517	13.6	4,021	14.1
Other locations ⁽¹⁾	3,001	8.1	2,302	6.9	1,741	6.1
	37,054	100.0	33,169	100.0	28,564	100.0
Non-Current Assets						
Australia	9,929	87.7	9,260	85.0	8,169	87.8
New Zealand	1,129	10.0	1,133	10.4	771	8.3
Other locations ⁽¹⁾	265	2.3	496	4.6	360	3.9
	11,323	100.0	10,889	100.0	9,300	100.0

(1) Other locations were: United Kingdom, United States of America, Japan, Singapore, Malta, Hong Kong, Grand Cayman, Fiji, Indonesia, China and Vietnam.

The geographical information represents the location in which the transaction was booked.

Notes to the Financial Statements

Note 37 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 (hh). The insurance segment result is prepared on a business segment basis, refer to Note 36.

	Life Insurance Contracts		Life Investment Contracts		Group	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Summarised Income Statement						
Premium and related revenue	1,412	1,182	292	257	1,704	1,439
Outward reinsurance premiums expense	(234)	(207)	-	-	(234)	(207)
Claims expense	(865)	(786)	(1)	-	(866)	(786)
Reinsurance recoveries	173	145	-	-	173	145
Investment revenue (excluding investments in subsidiaries):						
Equity securities	(246)	418	(852)	1,323	(1,098)	1,741
Debt securities	227	147	419	444	646	591
Property	(37)	70	(108)	324	(145)	394
Other	81	52	(102)	294	(21)	346
Increase/(decrease) in contract liabilities	198	(133)	574	(2,111)	772	(2,244)
Operating income	709	888	222	531	931	1,419
Acquisition expenses	190	158	21	22	211	180
Maintenance expenses	240	235	138	197	378	432
Management expenses	14	16	7	8	21	24
Other expense	39	9	53	58	92	67
Net profit before income tax	226	470	3	246	229	716
Income tax (benefit)/expense attributable to operating profit	(13)	174	(48)	205	(61)	379
Net profit after income tax	239	296	51	41	290	337
Sources of Life Insurance Net Profit						
The net profit after income tax is represented by:						
Emergence of planned profit margins	190	178	98	87	288	265
Difference between actual and planned experience	2	41	(57)	(53)	(55)	(12)
Effects of changes to underlying assumptions	3	(5)	-	-	3	(5)
Reversal of previously recognised losses or loss recognition on Groups of related products	-	(2)	-	-	-	(2)
Investment earnings on assets in excess of policyholder liabilities	25	78	10	8	35	86
Other movements	19	6	-	(1)	19	5
Net profit after income tax	239	296	51	41	290	337
Life insurance premiums received and receivable	-	-	-	-	2,664	2,749
Life insurance claims paid and payable	-	-	-	-	3,068	5,306

The disclosure of the components of operating profit after income tax expense 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.

Notes to the Financial Statements

Note 37 Life Insurance Business (continued)

	Life Insurance Contracts		Life Investment Contracts		Group	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Reconciliation of Movements in Policy Liabilities						
Contract policy liabilities						
Gross policy liabilities opening balance	4,801	4,589	16,970	17,784	21,771	22,373
Net (decrease)/increase in contract liabilities reflected in the summarised Income Statement	(198)	142	(574)	2,112	(772)	2,254
Contract contributions recognised in policy liabilities	7	188	1,050	1,291	1,057	1,479
Contract withdrawals recognised in policy liabilities	(131)	(202)	(2,940)	(4,338)	(3,071)	(4,540)
Non-cash movements	(216)	-	10	-	(206)	-
FX translation adjustment	(141)	84	(143)	121	(284)	205
Gross policy liabilities closing balance	4,122	4,801	14,373	16,970	18,495	21,771
Liabilities ceded under reinsurance						
Opening balance	(158)	(148)	-	-	(158)	(148)
Decrease/(increase) in reinsurance assets reflected in the summarised Income Statement	13	(10)	-	-	13	(10)
Closing balance	(145)	(158)	-	-	(145)	(158)
Net policy liabilities at 30 June						
Expected to be realised within 12 months	504	415	2,352	3,182	2,856	3,597
Expected to be realised in more than 12 months	3,473	4,228	12,021	13,788	15,494	18,016
Total net insurance policy liabilities	3,977	4,643	14,373	16,970	18,350	21,613

Notes to the Financial Statements

Note 37 Life Insurance Business (continued)

Sensitivity Analysis

The Group conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables such as interest rate, equity prices, mortality, morbidity and inflation.

The valuations included in the reported results and the Group's best estimate of future performance are calculated using certain assumptions about these variables.

The movement in any key variable will impact the performance and net assets of the Group and as such represents a risk.

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholders' equity.
Interest rate risk	The impact of changes in interest rates on profit and shareholders' equity depends on the relative profiles and matching of assets and liabilities. The Group is exposed to changes in interest rates on fixed interest assets backing shareholders' equity.
Mortality rates	For insurance contracts that pay a death benefit, higher rates of mortality will increase the claims cost and therefore reduce both profit and shareholders' equity. For lifetime annuity contracts, lower mortality rates will increase the duration of annuity payments and therefore reduce both profit and shareholders' equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration of the illness. Higher than expected incidence and duration will increase the claims costs, reducing profit and shareholders' equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration inforce. An increase in discontinuance rates will usually reduce profit and shareholders' equity.
Market Risk	For contracts where benefit payments depend on the value of underlying assets, market risk is borne by policyholders. However, as the Group derives fee income based on the value of the underlying funds, a fall in market value will reduce fees, profit and shareholders' equity. The Group is exposed to market risk on assets backing shareholders' equity.

The table below shows the sensitivity of insurance contract liabilities (gross and net of reinsurance), current year profits and shareholders' equity to changes in assumptions on key variables. The sensitivity of the insurance contract liability to changes in assumptions will be dependent on whether the product is (or remains) in loss recognition after the assumptions change and whether the change is made to an economic assumption. The Group's sensitivity to changes in market risk (including interest rates) is shown in Note 42, Risk Management.

	Gross (before reinsurance)		Net (after reinsurance)		
	Profit/(loss) 2008 \$M	Policy Liabilities 2008 \$M	Profit/(loss) 2008 \$M	Policy Liabilities 2008 \$M	Shareholders' Equity 2008 \$M
Result of change in assumptions ⁽¹⁾					
Mortality and morbidity on lump sum products – 10% increase in total costs	(14.3)	20.4	(8.8)	12.6	(8.8)
Annuitant mortality – 20% increase in rate of future mortality improvement	(9.1)	13.0	(9.1)	13.0	(9.1)
Morbidity on Income Protection – 10% increase in total cost	(9.3)	13.3	(6.7)	9.5	(6.7)
Expenses – 10% increase in maintenance expenses assumption	(0.4)	0.6	(0.4)	0.6	(0.4)

(1) Represents impact of Australia only.

Notes to the Financial Statements

Note 37 Life Insurance Business (continued)

Life Investment Contract Liabilities

Investment contracts include unit linked contracts and term certain annuities. They consist of a financial instrument, which is measured at fair value, and a management services element. For unit linked contracts, the resulting liability to policyholders is closely linked to the performance and the value of the assets (after tax) that support those liabilities. The fair value of such liabilities is the same as the fair value of those assets, after allowing for tax.

Life Insurance Contract Liabilities

Appropriately qualified actuaries have been appointed for each life insurance entity and they have reviewed and satisfied themselves as to the accuracy of the contract liabilities included in this financial report, including compliance with the regulations of the Life Insurance Act (Life Act) 1995 where appropriate. Details are set out in the various statutory returns of these life insurance entities.

Components of Life Insurance Contract Liabilities	Life Insurance Contracts	
	2008 \$M	2007 \$M
Future policy benefits ⁽¹⁾	7,235	6,962
Future bonuses	1,182	1,301
Future expenses	2,472	2,216
Future shareholder profit margins	1,611	1,430
Future shareholder tax on profit margins	284	225
Future charges for acquisition expenses	(581)	(507)
Balance of future premiums	(8,330)	(7,096)
Provisions for bonuses not allocated to participating policyholders	104	112
Total net life insurance contract liabilities	3,977	4,643

(1) Including bonuses credited to policyholders in prior years.

Taxation

Taxation has been allowed for in the determination of policy liabilities in accordance with the relevant legislation applicable in each market.

Actuarial Methods and Assumptions

Insurance contract policy liabilities have been calculated in accordance with AASB 1038 (Life Insurance Contracts) and the Margin on Services ("MoS") methodology as set out in Prudential Standard LPS 1.04 – Valuation of Policy Liabilities ("LPS 1.04") issued by APRA. The principal methods and profit carriers used for particular product groups were as follows:

Product Type	Method	Profit Carrier
Individual		
Conventional	Projection	Bonuses or expected claim payment
Investment account	Projection	Bonuses or funds under management
Lump sum risk	Projection	Premiums/expected claim payment
Income stream risk	Projection	Expected claim payments
Lifetime annuities	Projection	Annuity payments
Group		
Investment account	Projection	Bonuses or funds under management
Lump sum risk	Accumulation/Projection	Expected claim payments
Income stream risk	Accumulation/Projection	Expected claim payments

The "Projection Method" measures the present values of estimated future policy cash flows to calculate policy liabilities. The policy cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments.

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

Notes to the Financial Statements

Note 37 Life Insurance Business (continued)

Actuarial Assumptions

Set out below is a summary of the material assumptions used in the calculation of policy liabilities.

Discount Rates

Discount rates are used to discount future cash flows in the determination of policy liabilities. Where insurance contract benefits are linked to the performance of the underlying assets, the discount rates are based on the expected earnings rate on the assets held (Traditional and Investment Account contracts). For all other insurance contracts, the discount rates are based on risk free rates of return. Allowance is made for taxation where relevant and for the nature and term of the liabilities.

The following table shows the applicable rates for the major classes of business in Australia and New Zealand. The changes relate to changes in long term earnings rates and asset mix.

Class of Business ⁽¹⁾	June 2008	June 2007
	Rate Range %	Rate Range %
Traditional – ordinary business (after tax)	4.52 – 6.74	4.38 – 6.34
Traditional – superannuation business (after tax)	5.48 – 8.24	5.32 – 7.75
Annuity – term and lifetime (exempt from tax)	6.31 – 8.17	6.52 – 7.09
Term insurance – (before tax)	6.44 – 7.25	6.25 – 6.46
Income protection business (before tax)	6.44 – 7.25	6.25 – 6.46
Investment account – ordinary (after tax)	4.79 – 5.35	4.55
Investment account – superannuation (after tax)	5.83 – 6.52	5.53
Investment account – annuities (exempt from tax)	6.79 – 7.53	6.46

(1) For New Zealand, investment earning rates assumed were 3.9% to 5.6% net of tax.

Bonuses

The valuation assumes that the long term supportable bonuses will be paid, which is in line with company bonus philosophy. Favourable investment performance over recent years has led to increases in long term supportable bonus rates.

Maintenance Expenses

The maintenance expenses are based on an internal analysis of experience and are assumed to increase in line with inflation each year and to be sufficient to cover the cost of servicing the business in the coming year after adjusting for one-off expenses.

To be consistent with other legal entities within the Group, from 1 July 2008, Group overheads will no longer be allocated to the life company and accordingly, no allowance for Group overheads is included in the expense assumptions. For participating businesses, expenses continue on the previous charging basis with adjustments for actual experience, and are assumed to increase in line with inflation each year. Maintenance expenses have increased on some products.

Investment Management Expenses

Investment management expense assumptions vary by asset classes and are based on investment fees as set out in Fund Management Agreements. There has been no significant change to overall investment fees.

Inflation

The inflation assumption is consistent with the investment earning assumptions.

Benefit Indexation

The indexation rates are based on an analysis of past experience and estimated long term inflation and vary by business and product type. There have been no significant changes to these assumptions.

Taxation

The taxation basis and rates assumed vary by market and product type. There has been no significant change to the taxation basis.

Voluntary Discontinuance

Discontinuance rates are based on recent company and industry experience and vary by market, product, age and duration inforce. Overall discontinuance rates have been reduced.

Surrender Values

Current surrender value bases are assumed to apply in the future. There have been no significant changes to these bases.

Mortality and Morbidity

Rates vary by sex, age, product type and smoker status. Rates are based on standard mortality tables applicable to each market e.g. IA95-97 in Australia for risk, IM/IF80 for annuities, adjusted for recent Company experience where appropriate.

There has been no significant change to mortality assumptions. Claim termination assumptions on disability income business have been reduced and incidence assumptions on trauma business have been increased to reflect recent experience.

Notes to the Financial Statements

Note 37 Life Insurance Business (continued)

Impact of changes in assumptions

The following table shows that the impacts of changes in assumptions from 30 June 2007 to 30 June 2008 in respect of life insurance contracts:

Assumption change ⁽¹⁾	Changes in future profit margins \$M	Changes in life insurance contract liabilities \$M
Base results (2008 results using 2007 non-economic assumptions)	880	3,040
Mortality and morbidity	(67)	-
Discontinuance rates	95	-
Maintenance expenses	4	(2)
Other assumption changes	(1)	-
Total future profit margins/life insurance contract	911	3,038

(1) Relates to Australian profit assumptions only

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

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

Impact of changes in assumptions

Assumption changes on Australian business increased profit margins by \$31 million (from \$880 million to \$911 million). Changes to future claims assumptions on risk business reduced margins by \$67 million, mainly from: increases to trauma claims assumptions, reductions in disability income claims recovery assumptions and increases to masterfund claims assumptions. Reductions in discontinuance assumptions (mainly on retail risk business) increased future profit margins by \$95 million. Increases to maintenance expense assumptions reduced profit margins but were broadly offset by the impact of removing Group overheads from future expense assumptions.

Notes to the Financial Statements

Note 37 Life Insurance Business (continued)

Risk Management Policies and Procedures

The financial condition and operating results of the Life Insurance Business in the Group are affected by a number of key financial and non-financial risks. The objectives and policies in respect of managing these risks are set out below.

There are two risk types that are considered to be unique to life insurance businesses. These are the risks that the incidence of mortality (death) and morbidity (illness and injury) claims are higher than assumed when pricing life insurance policies, or are greater than the best estimate assumptions used to determine the policy liabilities of the business.

Insurance risk may arise through reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed.

Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, managing claims in accordance with policy wordings, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of the Group's Life Insurance Business is reviewed annually.

Terms and Conditions of Insurance Contracts

The nature of the terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the related cash flows are dependent.

Type of Contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with guaranteed terms (Term Life, Trauma, Disability and Lifetime Annuities)	Guaranteed benefits paid on death, ill health or survival that are fixed and not at the discretion of the issuer.	Benefits, defined by the insurance contracts, are determined by the contract. They are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality Morbidity Discontinuance rates Expenses
Life insurance contracts with discretionary participating benefits (e.g. endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death or maturity. The guaranteed amount is increased throughout the duration of the policy by the addition of regular annual bonuses which, once added, are not removed. Bonuses are also added on some products at maturity.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	Market earnings rates Mortality Discontinuance rates Expenses

Solvency

Australian Life Insurers

Australian life insurers are required to hold prudential reserves in excess of the amount of policy liabilities. These reserves are required to support solvency requirements and provide protection against adverse experience. Prudential Standard LPS 2.04 – "Solvency Standard" prescribes a minimum solvency requirement and the minimum level of assets required to be held in each statutory fund. All controlled Australian insurance entities complied with the solvency requirements of LPS 2.04. Further information is available from the individual statutory returns of subsidiary life insurers.

Overseas Life Insurers

Overseas life insurance subsidiaries were required to hold reserves in excess of policy liabilities in accordance with local Acts and prudential rules. Each of the overseas subsidiaries complied with local requirements. Further information is available from the individual statutory returns of subsidiary life insurers.

Managed Assets and Fiduciary Activities

Arrangements are in place to ensure that asset management and other fiduciary activities of controlled entities are independent of the life insurance funds and other activities of the Group.

Disaggregated Information

Life insurance business is conducted through a number of life insurance entities in Australia and overseas. Under the Australian Life Insurance Act 1995, life insurance business is conducted within one or more separate statutory funds, which are distinguished from each other and from the shareholders' funds. The Financial Statements of Australian life insurers prepared in accordance with AASB 1038 (and which are lodged with the relevant Australian regulators) show all major components of the Financial Statements disaggregated between the various life insurance statutory funds and their shareholder funds and as well as between investment linked business and those relating to non-investment linked businesses.

Notes to the Financial Statements

Note 38 Remuneration of Auditors

	Group		Bank	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
a) Audit services				
PricewaterhouseCoopers Australian firm	9,711	-	7,111	-
Related practice of PricewaterhouseCoopers Australian firm	4,330	-	571	-
Ernst & Young Australian firm	-	10,179	-	8,652
Related practice of Ernst & Young Australian firm	-	2,189	-	1,861
Other Auditors	-	90	-	-
Total remuneration for audit services	14,041	12,458	7,682	10,513
b) Non-audit services				
Audit related services				
PricewaterhouseCoopers Australian firm	3,066	-	2,544	-
Related practice of PricewaterhouseCoopers Australian firm	695	-	28	-
Ernst & Young Australian firm	-	1,750	-	-
Related practice of Ernst & Young Australian firm	-	770	-	16
Total remuneration for audit related services	3,761	2,520	2,572	16
Taxation services				
PricewaterhouseCoopers Australian firm	909	-	909	-
Related practice of PricewaterhouseCoopers Australian firm	1,102	-	440	-
Total remuneration for tax related services	2,011	-	1,349	-
Advisory				
Related practice of PricewaterhouseCoopers Australian firm	123	-	38	-
Ernst & Young Australian firm	-	239	-	-
Related practice of Ernst & Young Australian firm	-	17	-	-
Total remuneration for advisory services	123	256	38	-
Total remuneration for non-audit services	5,895	2,776	3,959	16
Total remuneration for audit and non-audit services	19,936	15,234	11,641	10,529

(1) An additional amount of \$5,877,085 was paid to PricewaterhouseCoopers (2007: \$4,948,000 paid to Ernst & Young) by way of fees for entities not consolidated into the Financial Statements. Of this amount \$4,527,545 (2007: \$4,532,000) relates to statutory audits.

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 fees principally include audit of the Group's U.S. disclosures for U.S. investors, services in relation to regulatory requirements and other services that only the external auditor can provide, as well as investigations and reviews of internal control systems and financial or regulatory information.

All other fees principally include transaction support services related to potential and actual acquisition and disposition transactions and advice regarding implementation of revised compliance and regulatory requirements.

Note 39 Commitments for Capital Expenditure Not Provided for

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Not later than one year	45	34	41	27
Total commitments for capital expenditure not provided for	45	34	41	27

Notes to the Financial Statements

Note 40 Lease Commitments – Property, Plant and Equipment

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Commitments in respect of non-cancellable operating lease agreements due:				
Not later than one year	347	313	314	284
Later than one year but not later than five years	850	778	756	697
Later than five years	419	264	357	236
Total lease commitments – property, plant and equipment	1,616	1,355	1,427	1,217

	Group	
	2008 \$M	2007 \$M
Group's share of lease commitments of associated entities due:		
No later than one year	2	2
Later than one year but not later than five years	3	3
Later than five years	2	3
Total lease commitments – property, plant and equipment	7	8

Lease Arrangements

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

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

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

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

Notes to the Financial Statements

Note 41 Contingent Liabilities, Assets and Commitments

The Group is involved in a range of transactions that give rise to contingent and/or future liabilities which are distinct from transactions and other events that result in the recognition of liabilities. These transactions meet the financing requirements of customers and include endorsed bills of exchange, letters of credit, guarantees and commitments to provide credit. For further details on these items refer Note 1 (gg).

These transactions combine varying levels of credit, interest rate, foreign exchange and liquidity risk. In accordance with Bank policy, exposure to any of these transactions is not carried at a level that would have a material adverse effect on the financial condition of the Bank and its controlled entities.

Details of contingent liabilities and off-balance sheet business are:

	Face Value		Group Credit Equivalent	
	2008	2007	2008	2007
	\$M	\$M	\$M	\$M
Credit risk related instruments ⁽¹⁾				
Guarantees	2,802	2,851	2,802	2,851
Standby letters of credit	142	335	142	335
Bill endorsements	61	84	61	84
Documentary letters of credit	53	87	53	17
Performance related contingents	1,870	2,046	1,870	1,023
Commitments to provide credit	97,304	85,431	83,499	16,888
Other commitments	8,846	10,888	672	960
Total credit risk related instruments	111,078	101,722	89,099	22,158

(1) Differences between 2008 and 2007 credit equivalent amounts relate to adopting Basel II advanced internal ratings based approach for credit risk (previously calculated in accordance with Basel I). See below for more detail.

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

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

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

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

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

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

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

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

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

Under Basel I the credit equivalent exposure from direct credit substitutes (guarantees, standby letters of credit and bill endorsements) is the face value of the transaction, whereas the credit equivalent exposure to documentary letters of credit and performance related contingents is 20% and 50% respectively of the face value. The exposure to commitments to provide credit is calculated by applying given credit conversion factors to the face value to reflect the duration, nature and certainty of the contractual undertaking to provide the facility. The amounts reflected assume that the amounts may be fully advanced. The contractual amount of these instruments is the maximum amount at risk if the customer fails to meet its obligations. The risk is similar to the risk involved in extending loan facilities.

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

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

Contingent Assets

The credit risk related contingent liabilities of \$111,078 million (2007: \$101,722 million) detailed above also represent contingent assets of the Group, which may in the normal course convert to loans and other assets of the Group.

Litigation

Neither the Bank nor any of its controlled entities are engaged in any litigation or claim which is likely to have a materially adverse effect on the business, financial condition or operating results of the Bank or any of its controlled entities. Where some loss is probable and can be reliably estimated an appropriate provision has been made.

Notes to the Financial Statements

Note 41 Contingent Liabilities, Assets and Commitments (continued)

Fiduciary Activities

The Group and its associated entities conduct investment management and other fiduciary activities as responsible entity, trustee, custodian or manager for numerous investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail trusts.

The amounts of funds concerned that are not reported in the Group's Balance Sheet are as follows:

	2008 \$M	2007 \$M
Funds Under Administration		
Australia	133,980	115,954
United Kingdom	20,632	20,036
New Zealand	8,959	11,349
Asia	10,389	9,918
Total	173,960	157,257

Certain entities within the Group act as responsible entity or trustee of virtually all managed investment schemes ("schemes"), wholesale and retail trusts ("trusts") managed by the Group in Australia, the United Kingdom and New Zealand. The above Funds Under Administration do not include on balance sheet investments and policyholder liabilities held in the statutory funds of the life insurance business (refer to Note 10) where an entity within the Group may act as a trustee. Where entities within the Group act as responsible entity of managed investment schemes, obligations may exist under the relevant constitutions whereby upon request from a scheme member, the responsible entity has an obligation to redeem units from the assets of those schemes. Liabilities are incurred by these entities in their capacity as responsible entity or trustee. Rights of Indemnity are held against the schemes and trusts whose assets exceeded their liabilities at 30 June 2008. The Bank does not provide a general guarantee of the performance or obligations of its subsidiaries.

Long Term Contracts

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

In December 2007, the Bank entered into separate agreements with each of Tata Consultancy Services Ltd, HCL Technologies Ltd and IBM Australia Ltd for the provision of application software related services. As part of entering into these contracts, the Bank terminated certain parts of the previous long term agreement with EDS (Australia) Pty Ltd relating to application software services. The remaining parts of the contract with EDS (Australia) Pty Ltd - related to mainframe, midrange, end user technology and cards-related services - continue until 2012.

In November 2007, the Bank signed a lease agreement with DPT Operator Pty Ltd and DPPT Operator Pty Ltd for accommodating 5,000 employees. The lease term for Darling Park Tower 1 at 201 Sussex Street is for a term of 12 years.

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

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

In 2000, the Bank entered into a long term agreement with TCNZ Australia Pty Ltd for the provision of telecommunications services. This agreement is due to expire in February 2009.

Failure to Settle Risk

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

Service Agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Chief Executive Officer and other Group Key Management Personnel at 30 June 2008 was \$13.6 million (2007: \$5.1 million).

Notes to the Financial Statements

Note 41 Contingent Liabilities, Assets and Commitments (continued)

Collateral

The Group has entered into a range of transactions with counterparties which require lodgement of collateral subject to agreed market valuation movement thresholds. Where these thresholds are exceeded, the Group may be required to either pledge assets to, or be entitled to receive pledged assets from, the counterparty to secure these transactions. The assets pledged or received are primarily in the form of cash and bonds.

The Group has the right to sell, repledge, or otherwise use collateral received from the pledgor, including any equity or right of redemption by the pledgor.

	Group		Bank
	2008 \$M	2007 \$M	2007 \$M
Collateral held			
Cash	1,055	379	379
Assets at fair value through Income Statement	2,532	3,649	3,271
Collateral held	3,587	4,028	3,650

No securities have been repledged.

The Group has secured liabilities of \$4,143 million (2007: \$5,516 million). The table below sets out the assets pledged to secure these liabilities.

	Group		Bank
	2008 \$M	2007 \$M	2007 \$M
Assets pledged			
Cash	40	2,069	2,069
Assets at fair value through Income Statement ⁽¹⁾	2,035	3,537	3,525
Assets pledged	2,075	5,606	5,594
Thereof can be repledged or resold by counterparty	1,435	3,525	3,525

(1) These balances include assets sold under repurchase agreements. The liabilities related to these repurchase agreements are disclosed in Note 23 Deposits and Other Public Borrowings.

Notes to the Financial Statements

Note 42 Risk Management

Risk Management

The Risk Committee of the Board oversees credit, market (traded and non-traded), funding and liquidity, operational and strategic business, business continuity, compliance and security risks assumed by the Group in the course of carrying on its business. Further information of the role and function of the Risk Committee is discussed in the Corporate Governance section of this report.

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

Independent review of the risk management framework is carried out through Group Audit.

Basel II

On 10 December 2007, the Group was one of the first major banking groups in Australia to gain approval from the Australian Prudential Regulation Authority (APRA) to use the advanced internal ratings-based approach for credit risk and the advanced measurement approach for operational risk for the purposes of assessing risk weighted assets and regulatory capital. These approvals took effect from 1 January 2008.

APRA gave approval to the Group to use an internal model approach for assessing capital required for interest rate risk in the banking book on 30 June 2008. This approval took effect from 1 July 2008.

The measurement of market risk for traded assets remains unchanged from the original Basel I approach.

Further detail on the Group's assessment of regulatory capital required under the new Basel II framework is discussed in Note 35 Capital Adequacy.

APRA has requested that the Group defer the release of its Basel II Pillar 3 disclosures until the last quarter of 2008, when the other major Australian banks release their disclosures, to aid in comparative analysis.

The following sections describe the components of the Group's integrated risk management framework.

Credit Risk

Credit risk is the potential of loss arising from failure of a debtor or counterparty to meet their contractual obligations. It arises primarily in the Group's banking business from lending activities, the provision of guarantees including letters of credit and commitments to lend, investment in bonds and notes, financial markets transactions and other associated activities. In the insurance business, credit risk arises from investment in bonds and notes, loans, and from reliance on reinsurance.

The Group has clearly defined policies, procedures and standards (approved and governed by the Risk Committee of the Board) for the approval and management of credit risk.

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.

This includes consideration of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD).

Various risks are considered when calculating PD, EAD and LGD. Considerations include the potential for default by a borrower due to economic, management, industry, economic or other risks and include the mitigating benefits of collateral.

The Group provides for credit impairment whenever there is objective evidence that impairment exists and in amounts adequate to cover assessed credit related losses. Credit losses arise primarily from loans but also from other credit instruments such as bank acceptances, contingent liabilities, guarantees and other financial instruments and assets acquired through security enforcement.

Further information on the Group's credit risk management and measurement is included in Note 15, Credit Risk Management.

Notes to the Financial Statements

Note 42 Risk Management (continued)

Traded and Non-traded Market Risk

For the purposes of market risk management, the Group makes a distinction between traded and non-traded market risks. Traded market risks arise from the Group's trading book activities within the PBS, Institutional Banking and Global Markets business.

The predominant non-traded market risk is interest rate risk in the Bank's balance sheet. Other non-traded market risks are liquidity risk, funding risk, structural foreign exchange risk arising from capital investments in offshore operations, non-traded equity price risk, market risk arising from the insurance business, and residual value risk. These risks are considered separately below.

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 measured VaR for traded market risk uses two years of daily market movements. The same approach is used to measure VaR for non-traded risk based on 6 years of daily movements.

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 banking book interest rate risk and insurance business market risk.

Because VaR is not an estimate of the maximum economic loss that the Group could experience from an extreme market event, management uses stress testing to measure the potential for economic loss at significantly higher confidence levels than 97.5%. Management then uses these results in decisions made to manage the economic impact on market risk positions.

The following table provides a summary of VaR, where applicable, for all market risks across the Group.

	Average VaR	Average VaR	Average VaR	Average VaR
	June	Dec	June	Dec
VaR (1-day 97.5% confidence)	2008	2007	2007	2006
	\$M	\$M	\$M	\$M
Total Market Risk	10.85	9.12	7.98	10.33
Traded Market Risk				
Non-Traded Interest Rate Risk	28.50	15.65	17.20	10.38
Structural FX Risk ⁽¹⁾	n/a	n/a	n/a	n/a
Non-Traded Equity Price Risk ⁽¹⁾	n/a	n/a	n/a	n/a
Non-Traded Insurance Market Risk	9.30	8.45	8.44	8.77
Residual Value Risk ⁽¹⁾	n/a	n/a	n/a	n/a
Defined Benefit Superannuation Risk ⁽¹⁾	n/a	n/a	n/a	n/a

(1) Certain types of risk exposure are not suitable for VaR measurement.

Traded Market Risk

The Group trades and distributes financial markets products and provides risk management services to clients on a global basis.

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

- Provide risk management 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. All 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 Income Statement are detailed in Note 10. Trading liabilities at fair value through Income Statement are in Note 25. Note 2 details the income contribution of trading activities to the income of the Group. Traded market risk is managed under a 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 42 Risk Management (continued)

The following table provides a summary of VaR for the trading book of the Group. The VaR for ASB is shown separately; all other data relates to the Bank and is split by risk type.

	Average VaR June 2008 \$M	Average VaR Dec 2007 \$M	Average VaR June 2007 \$M	Average VaR Dec 2006 \$M
Traded Market Risk VaR (1-day 97.5% confidence)				
Risk Type				
Interest rate risk	3.88	3.92	3.61	3.08
Exchange rate risk	1.34	0.99	0.78	0.54
Implied volatility risk	1.04	0.86	0.69	0.57
Equities risk	0.45	0.35	0.15	0.14
Commodities risk	0.92	0.74	0.65	0.71
Credit spread risk ⁽¹⁾	4.65	4.00	4.22	-
Diversification benefit ⁽¹⁾	(5.62)	(4.80)	(4.17)	(1.73)
Total general market risk	6.66	6.06	5.93	3.31
Undiversified risk ⁽¹⁾	3.08	2.33	1.60	6.75
ASB Bank	1.11	0.73	0.45	0.27
Total	10.85	9.12	7.98	10.33

(1) In the half year to 30 June 2007, the Group implemented a new methodology for the measurement of credit spread VaR. The new methodology now captures the diversification benefit between credit spread risk and other risk types. Prior periods' credit spread risk are reported in undiversified risk.

Non-Traded Market Risk

Non-traded market risk activities are governed by the Group market risk framework approved by the Risk Committee of the Board. Implementation of the policy, procedures and limits for the Bank is the responsibility of the Group Executive of the associated Business Unit with senior management oversight by the Group's Asset and Liability Committee. 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 Asset and Liability Committee.

Interest Rate Risk in the Balance Sheet

Interest rate risk in the Bank's Balance Sheet is the risk of adverse changes in expected net interest earnings in current and future years from changes in interest rates on mismatched assets and liabilities in the banking book. The objective is to manage interest rate risk to achieve stable and sustainable net interest earnings in the long term.

The Group measures and manages Balance Sheet interest rate risk in two ways:

(a) Next 12 months' earnings

The risk to net interest earnings over the next 12 months from changes in interest rates is measured on a monthly basis. Risk is measured assuming an instantaneous 100 basis point parallel movement in interest rates across the yield curve. Potential variations in net interest earnings are measured using a simulation model that takes into account the projected change in Balance Sheet asset and liability levels and mix. Assets and liabilities with pricing directly based on market rates are repriced based on the full extent of the rate shock that is applied. Risk on the other assets and liabilities (those priced at the discretion of the Group) are measured by taking into account both the manner in which the products have repriced in the past as well as the expected change in price based on the current competitive market environment.

The figures in the following table represent the potential unfavourable change to the Bank's net interest earnings during the year based on a 100 basis point parallel rate shock (increase) and the expected unfavourable net change in price of assets and liabilities held for purposes other than trading.

Net Interest Earnings At Risk		30/06/08 \$M	31/12/07 \$M	30/06/07 \$M	31/12/06 \$M
Average monthly exposure	AUD	28.1	45.0	67.7	75.4
	NZD	15.6	6.9	4.4	6.7
High monthly exposure	AUD	70.0	57.5	101.3	122.1
	NZD	24.3	12.9	6.1	8.2
Low monthly exposure	AUD	0.4	29.0	44.0	27.6
	NZD	3.9	3.1	1.9	5.0

(b) Economic Value

A 20-day 97.5% VaR measure is used to capture the economic impact of adverse changes in interest rates on all banking book assets and liabilities. This analysis measures the potential change in the net present value of cash flows of assets and liabilities. Cash flows for fixed rate products are included on a contractual basis, after adjustment for forecast prepayment activities. Cash flows for products repriced at the discretion of the Group are based on the expected repricing characteristics of those products.

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) ^{(1) (2)}	Average VaR June 2008 \$M	Average VaR Dec 2007 \$M	Average VaR June 2007 \$M	Average VaR Dec 2006 \$M
AUD Interest rate risk	123.6	65.8	74.2	43.9
NZD Interest rate risk	3.8	4.2	2.7	2.5

(1) ASB data (expressed in NZD) is for the month end date.

(2) VaR is only for entities that have material risk exposure.

Structural Foreign Exchange Risk

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Structural, Balance Sheet, foreign exchange risk is managed in accordance with principles approved by the Risk Committee of the Board. Hedging strategies are based on the source of the funds and the expected life of the investments. The Group principally hedges Balance Sheet foreign exchange risks except for long term investments in offshore branches and subsidiaries. The Group's only significant structural foreign exchange exposure is within ASB.

Non-traded Equity Price Risk

The Group retains non-traded equity price risk through strategic investments and business development activities in divisions including PBS, IFS 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 function. The impact of a 10% change in fair value on the total non-traded equity price risk exposure at 30 June 2008 is \$180 million.

Note 42 Risk Management (continued)

Market Risk in Insurance Businesses

A significant component of the Group's non-traded market risk activities result from the holding of assets related to the insurance business.

All financial assets within the life statutory funds directly support either the Group's life insurance or life investment contracts. The Group retains market risk on contracts with guaranteed liabilities. The Group manages this risk by the monthly monitoring and rebalancing of assets to contract liabilities. A small portion of financial assets held within the insurance business relate to shareholder funds; the majority of these are debt securities for which the interest rate risk is included within the Group's measurement of interest rate risk.

In addition, market risk in the life insurance business arises from mismatches between assets and liabilities. Guaranteed returns are offered on some classes of policy. These liabilities may not be easily hedged through matching assets. Wherever possible, the Group segregates policyholders' funds from Shareholders' funds and sets investment mandates that are appropriate for each.

Market risk arises when market movements reduce funds under administration and resulting fee income on investment-linked policies. Market risk also arises on returns obtained from investing life company Shareholders' capital.

As at 30 June 2008, Shareholders' funds in the life insurance business are invested 78% in income assets (cash and fixed interest) and 22% in growth assets (shares and property) with the asset mix varying from company to company. Policyholder funds are invested to meet the objectives of the policies in force.

The ability to match asset characteristics with policy obligations may be constrained by a number of factors including regulatory constraints, the lack of suitable investments as well as by the nature of the policy liabilities themselves.

A large proportion of policyholders' assets are held for investment linked policies where the policyholder takes the risk of falls in the market value of the assets.

A smaller proportion of policyholders' assets are held to support policies where life companies have guaranteed either the principal invested or the investment return ("guaranteed policies") where investment mandates for these classes of policies emphasise lower volatility assets such as cash and fixed interest.

As at 30 June 2008, if credit spreads were to widen by 50 basis points, the impact on the Australian life insurance business would have been a loss of approximately \$24 million before tax.

Liquidity risk is not a significant issue in life insurance companies. The life insurance companies in the Group hold substantial investments in highly liquid assets such as listed shares, government bonds and bank deposits. Furthermore, processing time for claims and redemptions enables each company to forecast and manage its liquidity needs.

Further information on the insurance business can be found in Note 37, Life Insurance Business.

Residual Value Risk

The Group takes residual value risk on assets such as industrial and mining equipment, rail, aircraft, marine technology, healthcare and other equipment. A residual value guarantee exposes the business to the movement in second hand asset prices. The residual value risk within the Group is controlled through a risk management framework approved by the Risk Committee of the Board. The framework includes asset, geographic and maturity concentration limits and stress testing which is performed by the independent Market Risk Management function.

Notes to the Financial Statements

Note 42 Risk Management (continued)

The following table represents the Group's contractual interest rate sensitivity for repricing mismatches as at 30 June 2008 and corresponding weighted average effective interest rates. The net mismatch represents the net value of assets, liabilities and off-balance sheet instruments that may be repriced in the time periods shown.

All assets and liabilities are shown according to contractual repricing dates. Options are shown in the mismatch report using the delta equivalents of the option face values.

Interest Rate Risk Sensitivity

Repricing Period at 30 June 2008

	Balance Sheet Total \$M	0 to 1 month \$M	1 to 3 months \$M	3 to 6 months \$M	6 to 12 months \$M	1 to 5 years \$M	Over 5 years \$M	Not Interest Bearing \$M	Weighted Average Rate %
Australia									
Assets									
Cash and liquid assets	4,841	4,042	-	-	-	-	-	799	6.74
Receivables due from other financial institutions	4,880	4,097	461	91	-	-	-	231	3.90
Assets at fair value through Income Statement:									
Trading	18,457	18,210	70	-	37	112	28	-	7.81
Insurance	18,676	1,503	1,301	42	465	2,961	2,769	9,635	7.86
Other	295	274	-	-	-	21	-	-	7.98
Derivative assets	16,339	-	-	-	-	-	-	16,339	-
Available-for-sale investments	7,164	2,131	466	412	-	3,584	251	320	8.85
Loans, advances and other receivables	305,475	215,054	14,716	7,660	15,069	50,434	3,801	(1,259)	7.83
Bank acceptances of customers	18,278	-	-	-	-	-	-	18,278	-
Property, plant and equipment	1,449	-	-	-	-	-	-	1,449	-
Investment in associates	906	-	-	-	-	-	-	906	-
Intangible assets	7,618	-	-	-	-	-	-	7,618	-
Deferred tax assets	33	-	-	-	-	-	-	33	-
Other assets	5,402	-	-	-	-	-	-	5,402	-
Assets held for sale	412	-	-	-	-	-	140	272	10.00
Total assets	410,225	245,311	17,014	8,205	15,571	57,112	6,989	60,023	⁽³⁾
Liabilities									
Deposits and other public borrowings	233,934	162,993	38,687	15,268	7,817	3,005	22	6,142	6.81
Payables due to other financial institutions	4,390	4,146	240	-	4	-	-	-	5.33
Liabilities at fair value through Income Statement:									
Derivative liabilities	16,893	-	-	-	-	-	-	16,893	-
Bank acceptances	18,278	-	-	-	-	-	-	18,278	-
Current tax liabilities	696	-	-	-	-	-	-	696	-
Other provisions	1,129	-	-	-	-	-	-	1,129	-
Insurance policy liabilities	16,594	-	-	-	-	-	-	16,594 ⁽¹⁾	-
Debt issues	67,119	22,722	12,559	4,266	5,195	20,969	1,408	-	5.92
Managed funds units on issue	1,109	-	-	-	-	-	-	1,109	-
Bills payable and other liabilities	6,532	-	-	-	-	-	-	6,532	-
	369,589	191,732	51,501	19,552	13,072	24,672	1,687	67,373	
Loan capital	9,085	2,261	3,970	-	300	1,385	1,169	-	5.95
Total liabilities	378,674	193,993	55,471	19,552	13,372	26,057	2,856	67,373	⁽³⁾
Shareholders' equity									
Share capital and other equity	24,542	-	-	-	-	-	-	24,542	-
Minority interests	1	-	-	-	-	-	-	1	-
Total Shareholders' equity	24,543	-	-	-	-	-	-	24,543	
Derivatives	⁽²⁾	(22,559)	(4,501)	7,999	17,976	2,251	(1,166)	-	⁽³⁾
Net mismatch	⁽²⁾	28,759	(42,958)	(3,348)	20,175	33,306	2,967	(31,893)	⁽³⁾
Cumulative mismatch	⁽²⁾	28,759	(14,199)	(17,547)	2,628	35,934	38,901	7,008	⁽³⁾

(1) Technically, the insurance policy liabilities are not interest bearing, but the amount of the liability may change in line with changes in interest rates, particularly with investment linked policies.

(2) No Balance Sheet amount applicable.

(3) No rate applicable.

Notes to the Financial Statements

Note 42 Risk Management (continued)

Interest Rate Risk Sensitivity

Repricing Period at 30 June 2008

	Balance Sheet Total \$M	0 to 1 month \$M	1 to 3 months \$M	3 to 6 months \$M	6 to 12 months \$M	1 to 5 years \$M	Over 5 years \$M	Not Interest Bearing \$M	Weighted Average Rate %
Overseas									
Assets									
Cash and liquid assets	2,895	2,764	40	-	3	-	-	88	4.19
Receivables due from other financial institutions	2,104	1,249	467	216	47	-	-	125	3.55
Assets at fair value through Income Statement:									
Trading	3,219	569	1,676	166	5	667	134	2	7.80
Insurance	1,974	644	12	17	5	25	167	1,104	3.41
Other	2,971	1,079	793	87	291	701	-	20	5.28
Derivative assets	1,893	-	-	-	-	-	-	1,893	-
Available-for-sale investments	4,324	1,061	165	1,269	1,226	567	3	33	4.34
Loans, advances and other receivables	55,807	15,312	7,485	5,655	6,610	19,667	1,165	(87)	8.16
Property, plant and equipment	191	-	-	-	-	-	-	191	-
Intangible assets	640	-	-	-	-	-	-	640	-
Deferred tax assets	43	-	-	-	-	-	-	43	-
Other assets	1,090	-	-	-	-	-	-	1,090	-
Assets held for sale	196	-	-	-	-	-	51	145	10.00
Total assets	77,347	22,678	10,638	7,410	8,187	21,627	1,520	5,287	⁽³⁾
Liabilities									
Deposits and other public borrowings	29,772	16,057	5,713	3,353	2,487	676	18	1,468	5.85
Payables due to other financial institutions	13,282	11,226	1,740	315	1	-	-	-	3.00
Liabilities at fair value through Income Statement	12,611	1,635	4,218	2,768	1,262	2,712	16	-	6.34
Derivative liabilities	2,648	-	-	-	-	-	-	2,648	-
Current tax liabilities	72	-	-	-	-	-	-	72	-
Deferred tax liabilities	266	-	-	-	-	-	-	266	-
Other provisions	45	-	-	-	-	-	-	45	-
Insurance policy liabilities	1,901	-	-	-	-	-	-	1,901 ⁽¹⁾	-
Debt issues	18,698	6,436	9,723	1,031	858	498	152	-	3.69
Bills payable and other liabilities	992	-	-	-	-	-	-	992	-
	80,287	35,354	21,394	7,467	4,608	3,886	186	7,392	
Loan capital	2,474	1,442	-	-	-	455	577	-	7.98
Total liabilities	82,761	36,796	21,394	7,467	4,608	4,341	763	7,392	⁽³⁾
Shareholders' equity									
Share capital and other equity	1,077	-	-	-	-	-	-	1,077	-
Minority interests	517	-	-	-	-	-	-	517	-
Total Shareholders' equity	1,594	-	-	-	-	-	-	1,594	
Derivatives	⁽²⁾	2,662	13,353	(1,604)	(599)	(13,543)	(269)	-	⁽³⁾
Net mismatch	⁽²⁾	(11,456)	2,597	(1,661)	2,980	3,743	488	(3,699)	⁽³⁾
Cumulative mismatch	⁽²⁾	(11,456)	(8,859)	(10,520)	(7,540)	(3,797)	(3,309)	(7,008)	⁽³⁾

(1) Technically, the insurance policy liabilities are not interest bearing, but the amount of the liability may change in line with changes in interest rates, particularly with investment linked policies.

(2) No Balance Sheet amount applicable.

(3) No rate applicable.

Notes to the Financial Statements

Note 42 Risk Management (continued)

Interest Rate Risk Sensitivity ⁽⁴⁾

Repricing Period at 30 June 2007

	Balance Sheet Total \$M	0 to 1 month \$M	1 to 3 months \$M	3 to 6 months \$M	6 to 12 months \$M	1 to 5 years \$M	Over 5 years \$M	Not Interest Bearing \$M	Weighted Average Rate %
Australia									
Assets									
Cash and liquid assets	5,984	5,173	2	-	-	-	-	809	5.44
Receivables due from other financial institutions	2,809	2,375	288	33	-	-	-	113	4.78
Assets at fair value through Income Statement:									
Trading	19,011	18,935	50	-	-	-	-	26	5.64
Insurance	20,820	-	2,801	112	169	3,403	3,492	10,843	6.94
Other	423	401	-	-	-	22	-	-	6.42
Derivative assets	8,974	-	-	-	-	-	-	8,974	-
Available-for-sale investments	5,445	569	392	348	392	2,273	683	788	6.44
Loans, advances and other receivables	262,251	170,149	15,785	6,930	14,298	52,217	3,813	(941)	7.43
Bank acceptances of customers	18,721	-	-	-	-	-	-	18,721	-
Property, plant and equipment	1,229	-	-	-	-	-	-	1,229	-
Investment in associates	836	-	-	-	-	-	-	836	-
Intangible assets	7,254	-	-	-	-	-	-	7,254	-
Deferred tax assets	146	-	-	-	-	-	-	146	-
Other assets	5,982	-	-	-	-	-	-	5,982	-
Assets held for sale	303	-	-	-	-	-	-	303	-
Total assets	360,188	197,602	19,318	7,423	14,859	57,915	7,988	55,083	⁽³⁾
Liabilities									
Deposits and other public borrowings	190,718	131,732	23,700	14,529	11,927	1,644	524	6,662	5.71
Payables due to other financial institutions	4,208	3,681	120	111	296	-	-	-	5.59
Liabilities at fair value through Income Statement	4,133	3,856	-	68	37	150	22	-	6.21
Derivative liabilities	13,140	-	-	-	-	-	-	13,140	-
Bank acceptances	18,721	-	-	-	-	-	-	18,721	-
Current tax liabilities	866	-	-	-	-	-	-	866	-
Deferred tax liabilities	556	-	-	-	-	-	-	556	-
Other provisions	842	-	-	-	-	-	-	842	-
Insurance policy liabilities	19,079	-	-	-	-	-	-	19,079 ⁽¹⁾	-
Debt issues	70,944	11,357	20,771	5,304	6,818	18,503	8,191	-	6.33
Managed funds units on issue	310	-	-	-	-	-	-	310	-
Bills payable and other liabilities	7,295	-	-	-	-	-	-	7,295	-
	330,812	150,626	44,591	20,012	19,078	20,297	8,737	67,471	
Loan capital	9,195	525	3,892	119	-	1,307	3,352	-	5.88
Total liabilities	340,007	151,151	48,483	20,131	19,078	21,604	12,089	67,471	⁽³⁾
Shareholders' equity									
Share capital and other equity	23,536	-	-	-	-	-	-	23,536	-
Minority interests	7	-	-	-	-	-	-	7	-
Total Shareholders' equity	23,543	-	-	-	-	-	-	23,543	
Derivatives	⁽²⁾	13,671	(7,646)	(14,440)	12,238	(3,331)	(492)	-	⁽³⁾
Net mismatch	⁽²⁾	60,122	(36,811)	(27,148)	8,019	32,980	(4,593)	(35,931)	⁽³⁾
Cumulative mismatch	⁽²⁾	60,122	23,311	(3,837)	4,182	37,162	32,569	(3,362)	⁽³⁾

(1) Technically, the insurance policy liabilities are not interest bearing, but the amount of the liability may change in line with changes in interest rates, particularly with investment linked policies.

(2) No Balance Sheet amount applicable.

(3) No rate applicable.

(4) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Notes to the Financial Statements

Note 42 Risk Management (continued)

Interest Rate Risk Sensitivity ⁽⁴⁾

	Repricing Period at 30 June 2007								
	Balance Sheet	0 to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Not Interest Bearing	Weighted Average Rate
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	%
Overseas									
Assets									
Cash and liquid assets	4,124	3,681	358	41	8	-	-	36	6.96
Receivables due from other financial institutions	2,686	734	979	82	-	-	26	865	5.21
Assets at fair value through Income Statement:									
Trading	2,458	390	1,296	153	132	367	120	-	7.58
Insurance	2,699	1,043	1	1	-	26	72	1,556	2.33
Other	3,650	426	2,520	74	333	253	23	21	7.50
Derivative assets	3,769	-	-	-	-	-	-	3,769	-
Available-for-sale investments	4,227	480	2,025	714	580	417	8	3	5.39
Loans, advances and other receivables	53,214	16,674	6,842	3,893	5,348	19,583	967	(93)	7.96
Property, plant and equipment	207	-	-	-	-	-	-	207	-
Investment in associates	-	-	-	-	-	-	-	-	-
Intangible assets	581	-	-	-	-	-	-	581	-
Deferred tax assets	108	-	-	-	-	-	-	108	-
Other assets	1,175	-	-	-	-	-	-	1,175	-
Assets held for sale	1,071	-	-	-	-	-	306	765	10.00
Total assets	79,969	23,428	14,021	4,958	6,401	20,646	1,522	8,993	⁽³⁾
Liabilities									
Deposits and other public borrowings	28,350	16,174	4,126	2,992	2,307	933	-	1,818	6.51
Payables due to other financial institutions	10,178	7,895	1,292	572	419	-	-	-	4.75
Liabilities at fair value through Income Statement	12,263	95	6,262	1,577	1,199	3,120	10	-	5.69
Derivative liabilities	3,540	-	-	-	-	-	-	3,540	-
Current tax liabilities	16	-	-	-	-	-	-	16	-
Deferred tax liabilities	352	-	-	-	-	-	-	352	-
Other provisions	36	-	-	-	-	-	-	36	-
Insurance policy liabilities	2,534	-	-	-	-	-	-	2,534 ⁽¹⁾	-
Debt issues	17,581	872	6,260	1,297	7,872	1,280	-	-	5.30
Bills payable and other liabilities	51	-	-	-	-	-	-	51	-
	74,901	25,036	17,940	6,438	11,797	5,333	10	8,347	
Loan capital	805	-	-	-	-	182	623	-	5.73
Total liabilities	75,706	25,036	17,940	6,438	11,797	5,515	633	8,347	⁽³⁾
Shareholders' equity									
Share capital and other equity	396	-	-	-	-	-	-	396	-
Minority interests	505	-	-	-	-	-	-	505	-
Total Shareholders' equity	901	-	-	-	-	-	-	901	
Derivatives	⁽²⁾	(1,857)	19,777	32	(2,668)	(16,801)	1,517		⁽³⁾
Net mismatch	⁽²⁾	(3,465)	15,858	(1,448)	(8,064)	(1,670)	2,406	(255)	⁽³⁾
Cumulative mismatch	⁽²⁾	(3,465)	12,393	10,945	2,881	1,211	3,617	3,362	⁽³⁾

(1) Technically, the insurance policy liabilities are not interest bearing, but the amount of the liability may change in line with changes in interest rates, particularly with investment linked policies.

(2) No Balance Sheet amount applicable.

(3) No rate applicable.

(4) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Notes to the Financial Statements

Note 42 Risk Management (continued)

Liquidity and Funding Risk

Overview

Balance Sheet liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Group manages liquidity requirements by currency and by geographical location of its operations. Subsidiaries are also included in the Group's liquidity policy framework.

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. The funding requirements are integrated into the Group's liquidity and funding policy with its aim to ensure the Group has a stable diversified funding base without over-reliance on any one market sector.

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 complement the Group's liquidity policies by ensuring 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 during periods of unfavourable market conditions, such as have been experienced since August 2007.

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 Group's retail funding base formed approximately 57% of its total funding requirements as at 30 June 2008.

The Risk Management Framework for Liquidity and Funding

The Group's liquidity and funding policies are approved by the Board and agreed with the Australian Prudential Regulation Authority ("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 CBFC Limited 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 Bank Limited ("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 Reserve Bank of New Zealand.

The Group also has relatively small banking subsidiaries in Indonesia and Fiji that manage their 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 un-drawn lending obligations being drawn by customers, as calculated based on draw down estimates and forecasts; and
- The Group maintains certain levels of liquid assets 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 Reserve Bank of Australia ("RBA") at any time. The second category is AAA and A-1+ rated Australian residential mortgage backed securities that meet certain minimum requirements.

At 30 June 2008 around 98% of the Group's Australian dollar liquid assets qualified for repurchase by the RBA 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.

Notes to the Financial Statements

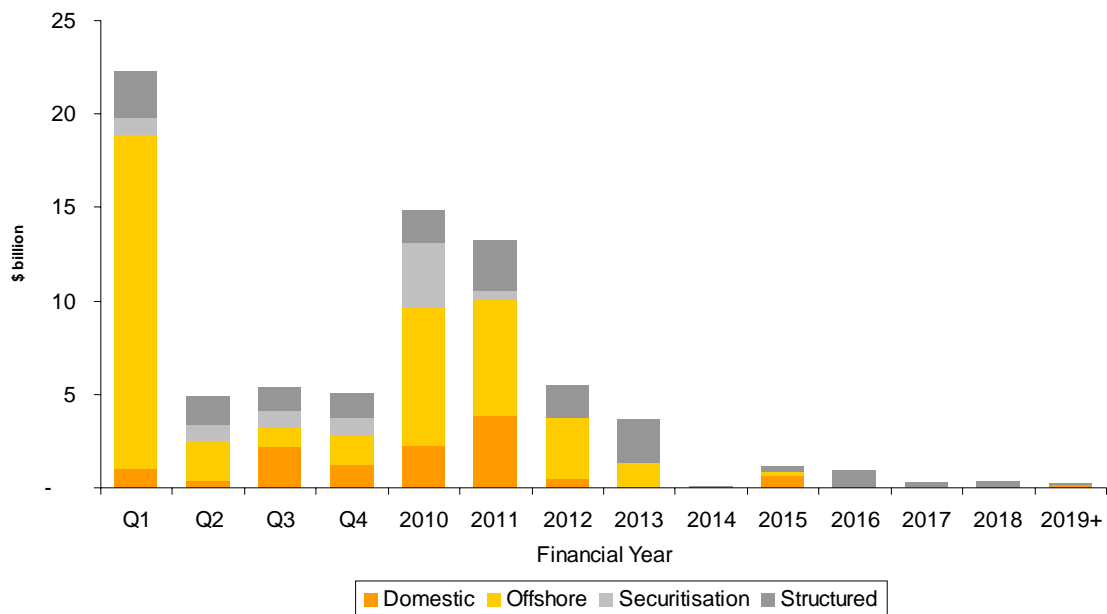
Note 42 Risk Management (continued)

Liquidity and Funding Risk (continued)

The Group's key funding tools include:

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

The chart below illustrates the liquidity profile of the Group's outstanding wholesale debt liabilities at 30 June 2008, broken down by type of debt instrument and maturity.



Recent Market Environment

Although the cost of liquidity and funding has increased significantly since July 2007 due to unfavourable market conditions, the Group's liquidity and funding policies have remained unchanged throughout this period, as they have proven to be effective.

The Group has managed its liquidity to avoid concentrations such as dependence on single sources of funding and has taken advantage of its diversified funding base and significant funding capacity in the global unsecured debt markets.

In October 2007, the RBA expanded the range of eligible securities to include highly rated Australian residential mortgage backed securitisation utilising its own prime mortgages that could provide up to \$12.25 billion of additional funding from the RBA should markets significantly deteriorate.

Details of the Group's regulatory capital position and capital management activities are disclosed in Note 35 Capital Adequacy.

Notes to the Financial Statements

Note 42 Risk Management (continued)

Maturity Analysis of Monetary Liabilities

	Maturity Period At 30 June 2008						Group
	At call	0 to 3	3 to 12	1 to 5	Over 5	Not	Total
	\$M	months	months	years	years	Specified	\$M
Liabilities							
Deposits and other public borrowings ⁽¹⁾	135,763	76,884	50,896	4,537	62	-	268,142
Payables to other financial institutions	1,893	15,436	419	-	-	-	17,748
Liabilities at fair value through Income Statement	-	7,990	4,271	2,834	1,984	-	17,079
Derivative liabilities ⁽²⁾	-	16,909	159	3,746	2,927	-	23,741
Bank acceptances	-	18,041	237	-	-	-	18,278
Insurance policy liabilities	-	-	-	-	-	18,495	18,495
Debt issues and loan capital	-	24,008	16,794	43,924	33,533	-	118,259
Managed funds units on issue	-	-	-	-	-	1,109	1,109
Other monetary liabilities	747	2,170	1,199	506	-	542	5,164
Total monetary liabilities	138,403	161,438	73,975	55,547	38,506	20,146	488,015

(1) Includes substantial "core" 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. Also refer to Interest Rate Risk Sensitivity table.

(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 agreement entered into by the Group allow for net settlement in the event of certain specific circumstances including default of the counter parties.

	Maturity Period At 30 June 2007						Group
	At call	0 to 3	3 to 12	1 to 5	Over 5	Not	Total
	\$M	months	months	years	years	Specified	\$M
Liabilities							
Deposits and other public borrowings ⁽¹⁾	132,180	56,338	30,357	3,622	68	-	222,565
Payables to other financial institutions	2,855	10,049	1,623	-	-	-	14,527
Liabilities at fair value through Income Statement	-	8,436	3,806	3,011	2,191	-	17,444
Derivative liabilities ⁽²⁾	-	14,770	2,012	4,629	2,327	-	23,738
Bank acceptances	-	18,413	308	-	-	-	18,721
Insurance policy liabilities	-	-	-	-	-	21,613	21,613
Debt issues and loan capital	-	11,778	22,365	50,560	39,886	-	124,589
Managed funds units on issue	-	-	-	-	-	310	310
Other monetary liabilities	642	3,774	296	208	-	995	5,915
Total monetary liabilities	135,677	123,558	60,767	62,030	44,472	22,918	449,422

(1) Includes substantial "core" 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. Also refer to Interest Rate Risk Sensitivity table.

(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 agreement entered into by the Group allow for net settlement in the event of certain specific circumstances including default of the counter parties.

Notes to the Financial Statements

Note 42 Risk Management (continued)

Maturity Analysis of Monetary Liabilities

Amounts shown in the tables below are based on contractual undiscounted cash flows for the remaining contractual maturities.

	Maturity Period At 30 June 2008						Bank
	At call	0 to 3	3 to 12	1 to 5	Over 5	Not	Total
	\$M	\$M	\$M	\$M	\$M	Specified	\$M
Liabilities							
Deposits and other public borrowings ⁽¹⁾	126,725	72,993	41,533	3,126	62	-	244,439
Payables to other financial institutions	1,845	15,436	419	-	-	-	17,700
Liabilities at fair value through Income Statement	-	221	176	1,912	1,975	-	4,284
Derivative liabilities ⁽²⁾	-	17,243	150	3,708	2,927	-	24,028
Bank acceptances	-	18,041	237	-	-	-	18,278
Debt issues and loan capital	-	8,718	11,650	33,688	34,224	-	88,280
Due to controlled entities	-	25,981	7,642	23,366	1,508	-	58,497
Other monetary liabilities	48	2,513	1,055	407	-	256	4,279
Total monetary liabilities	128,618	161,146	62,862	66,207	40,696	256	459,785

(1) Includes substantial "core" 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. Also refer to Interest Rate Risk Sensitivity table.

(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 agreement entered into by the Group allow for net settlement in the event of certain specific circumstances including default of the counter parties.

	Maturity Period At 30 June 2007						Bank
	At call	0 to 3	3 to 12	1 to 5	Over 5	Not	Total
	\$M	\$M	\$M	\$M	\$M	Specified	\$M
Liabilities							
Deposits and other public borrowings ⁽¹⁾	121,087	49,256	24,330	2,773	48	-	197,494
Payables to other financial institutions	2,790	10,050	1,623	-	-	-	14,463
Liabilities at fair value through Income Statement	-	1,189	608	2,377	2,179	-	6,353
Derivative liabilities ⁽²⁾	-	14,101	342	2,137	2,327	-	18,907
Bank acceptances	-	18,413	308	-	-	-	18,721
Debt issues and loan capital	-	6,637	8,105	35,416	25,614	-	75,772
Due to controlled entities	-	18,668	9,432	19,292	3,229	-	50,621
Other monetary liabilities	102	3,909	250	163	-	741	5,165
Total monetary liabilities	123,979	122,223	44,998	62,158	33,397	741	387,496

(1) Includes substantial "core" 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. Also refer to Interest Rate Risk Sensitivity table.

(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 agreement entered into by the Group allow for net settlement in the event of certain specific circumstances including default of the counter parties.

Notes to the Financial Statements

Note 43 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 2006
Commonwealth Bank of Australia (UK) Staff Benefits Scheme ("CBA(UK)SBS")	Defined Benefits ⁽¹⁾ and Accumulation	Indexed pension and lump sum	1 July 2005 ⁽²⁾

(1) The defined benefit formulae are generally comprised of final superannuation salary, or final average superannuation salary, and service.

(2) An actuarial assessment of the CBA(UK)SBS at 30 June 2007 is currently in progress.

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 2006, was completed during the year ended 30 June 2007. In line with the actuarial advice contained in the assessment, the Bank does not intend to make contributions to the OSF until further consideration of the next actuarial assessment of the OSF as at 30 June 2009.

An actuarial assessment of the CBA(UK)SBS, as at 1 July 2005, revealed a deficit of GBP 32 million (AUD 66 million at the 30 June 2008 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 (contributions estimated at AUD 3 million per annum at the 30 June 2008 exchange rate) and additional contributions of GBP 3.24 million per annum (AUD 7 million per annum at the 30 June 2008 exchange rate) payable over 14 years to finance the fund deficit. An actuarial assessment of the CBA(UK)SBS at 30 June 2007 is currently in progress.

Notes to the Financial Statements

Note 43 Retirement Benefit Obligations (continued)

Defined Benefit Superannuation Plans

The amounts reported in the Balance Sheet are reconciled as follows:

	OSF		CBA(UK)SBS		Total	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M	2007 \$M	
Present value of funded obligations	(2,892)	(3,094)	(386)	(401)	(3,278)	(3,495)
Fair value of plan assets	4,428	4,907	321	372	4,749	5,279
Total pension assets as at 30 June	1,536	1,813	(65)	(29)	1,471	1,784
Present value of unfunded obligations	-	-	-	-	-	-
Unrecognised past service cost	-	-	-	-	-	-
Unrecognised actuarial gains/(losses)	-	-	-	-	-	-
Asset/(liability) in Balance Sheet as at 30 June	1,536	1,813	(65)	(29)	1,471	1,784
Amounts in the Balance Sheet:						
Liabilities (Note 30)	-	-	(65)	(29)	(65)	(29)
Assets (Note 21)	1,536	1,813	-	-	1,536	1,813
Net asset	1,536	1,813	(65)	(29)	1,471	1,784
The amounts recognised in the Income Statement are as follows:						
Current service cost	(26)	(30)	(3)	(5)	(29)	(35)
Interest cost	(194)	(188)	(20)	(21)	(214)	(209)
Expected return on plan assets	400	368	20	21	420	389
Past service cost	-	-	-	-	-	-
Employer financed benefits within Accumulation Division	(163)	(137)	-	-	(163)	(137)
Gains/(losses) on curtailment and settlements	-	-	-	-	-	-
Actuarial gains/(losses) recognised in Income Statement	-	-	-	-	-	-
Total included in defined benefit superannuation plan expense	17	13	(3)	(5)	14	8
Actual return on plan assets	(120)	650	(1)	19	(121)	669
Changes in the present value of the defined benefit obligation are as follows:						
Opening defined benefit obligation	(3,094)	(3,388)	(401)	(430)	(3,495)	(3,818)
Current service cost	(24)	(27)	(3)	(5)	(27)	(32)
Interest cost	(194)	(188)	(20)	(21)	(214)	(209)
Member contributions	(13)	(13)	-	-	(13)	(13)
Actuarial gains/(losses)	226	290	(26)	22	200	312
(Losses)/gains on curtailments	-	-	-	-	-	-
Liabilities extinguished on settlements	-	-	-	-	-	-
Liabilities assumed in a business combination	-	-	-	-	-	-
Benefits paid	207	232	14	15	221	247
Exchange differences on foreign plans	-	-	50	18	50	18
Closing defined benefit obligation	(2,892)	(3,094)	(386)	(401)	(3,278)	(3,495)
Changes in the fair value of plan assets are as follows:						
Opening fair value of plan assets	4,907	4,616	372	365	5,279	4,981
Expected return	400	368	20	21	420	389
Experience (losses)/gains	(520)	282	(21)	(2)	(541)	280
Assets distributed on settlements	-	-	-	-	-	-
Total contributions	13	13	10	18	23	31
Assets acquired in a business combination	-	-	-	-	-	-
Exchange differences on foreign plans	-	-	(46)	(15)	(46)	(15)
Benefits and expenses paid	(209)	(235)	(14)	(15)	(223)	(250)
Employer financial benefits within Accumulation Division	(163)	(137)	-	-	(163)	(137)
Closing fair value of plan assets	4,428	4,907	321	372	4,749	5,279

Notes to the Financial Statements

Note 43 Retirement Benefit Obligations (continued)

Defined Benefit Superannuation Plans (continued)

	OSF		CBA(UK)SBS			Total
	2008	2007	2008	2007	2008	2007
	\$M	\$M	\$M	\$M	\$M	\$M
Experience (losses)/gains on plan liabilities	134	31	6	(3)	140	28
Experience (losses)/gains on plan assets	(520)	282	(21)	(2)	(541)	280
Gains/(losses) from changes in actuarial assumptions	92	259	(32)	25	60	284
Total net actuarial (losses)/gains	(294)	572	(47)	20	(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 gains recognised in equity from commencement of AIFRS to 30 June 2008 were \$950 million.

Economic Assumptions	OSF		CBA(UK)SBS	
	2008	2007	2008	2007
	%	%	%	%
The above calculations were based on the following economic assumptions:				
Discount rate at 30 June (gross of tax)	6.50	6.30	6.20	5.80
Expected return on plan assets at 30 June	8.75	8.50	6.50	6.30
Expected rate salary increases at 30 June (per annum) ⁽¹⁾	4.50	4.75	4.90	4.30

(1) For the OSF, additional age related allowances were made for the expected salary increases from future promotions. At 30 June 2007 and 30 June 2008, 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.

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 on 10 year Australian 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:

Expected Life Expectancies for Pensioners	OSF		CBA(UK)SBS	
	2008	2007	2008	2007
	Years	Years	Years	Years
Male pensioners currently aged 60	30.4	30.2	26.8	23.2
Male pensioners currently aged 65	25.6	25.4	22.0	18.7
Female pensioners currently aged 60	33.8	33.6	29.7	26.2
Female pensioners currently aged 65	28.7	28.5	24.9	21.6

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 30% were assumed to take pension benefits, increasing to 50% in 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 2008, the benchmark asset allocations and actual asset allocations for the assets backing the defined benefit portion of the OSF are as follows:

Asset Allocations	Benchmark Allocation	Actual Allocation
	%	%
Australian Equities	27.5	27.6
Overseas Equities	21.0	17.4
Real Estate	15.0	18.9
Fixed Interest Securities	25.5	25.8
Cash	5.0	3.2
Other ⁽¹⁾	6.0	7.1

(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 as at 30 June 2008 was \$77 million (2007: \$105 million). Amounts on deposit with the Bank at 30 June 2008 totalled \$26 million (2007: \$23 million). Other financial instruments with the Group at 30 June 2008 totalled \$13 million (2007: nil).

Notes to the Financial Statements

Note 44 Controlled Entities

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
Australia		
(a) Banking		
Commonwealth Bank of Australia		Australia
Controlled Entities:		
CBA Investments Limited		Australia
Luca Limited Partnership		Australia
CBCL Australia Limited		Australia
CBFC Limited		Australia
Collateral Leasing Pty Limited		Australia
Commonwealth Securities Limited		Australia
Homepath Pty Limited		Australia
Sparad (No. 24) Pty Limited		Australia
Colonial Finance Limited		Australia
PERLS III Trust (formally Preferred Capital Limited)		Australia
PERLS II Trust		Australia
Fringe Pty Ltd		Australia
Lily Pty Ltd		Australia
Greenwood Lending Pty Ltd	99.9%	Australia
Series 2001-IG Medallion Trust		Australia
Series 2002-IG Medallion Trust		Australia
Medallion Trust Series 2003-1G		Australia
Medallion Trust Series 2004-1G		Australia
Medallion Trust Series 2005-1G		Australia
Medallion Trust Series 2005-2G		Australia
Hemisphere Lane Pty Ltd		Australia
Medallion Trust Series 2006 1G		Australia
Medallion Trust Series 2007 4P		Australia
Medallion Trust Series 2007 5P		Australia
Medallion Trust Series 2007-1G		Australia
SHIELD Series 50		Australia
GT Operating No.2 Pty Limited		Australia
Crystal Avenue Pty Limited		Australia
GT Funding No6 Ltd Partnership		Australia
GT Operating No4 Pty Ltd		Australia
Securitisation Advisory Services Pty Ltd		Australia
Prime Investment Entity Limited		Australia
MIS Funding No1 Pty Limited		Australia
IVL Limited		Australia
CBFC Leasing Pty Limited		Australia
Share Investments Pty Limited		Australia
Loft No 3 Pty Ltd		Australia
eCommlegal Pty Ltd		Australia
Harboard Beach Pty Ltd		Australia
Copacabana Beach Pty Ltd		Australia
SHIELD Series 21		Australia
Padang Pty Ltd		Australia
M-Land Pty Ltd		Australia
Group Treasury Services NZ Limited		Australia
GT Investments No 3 Pty Ltd		Australia
Medallion Trust Series 2008-1R		Australia

Notes to the Financial Statements

Note 44 Controlled Entities (continued)

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
(b) Insurance and Funds Management		
Commonwealth Insurance Limited		Australia
Colonial Holding Company Limited		Australia
Commonwealth Insurance Holdings Limited		Australia
Commonwealth Managed Investments Limited		Australia
Colonial AFS Services Pty Limited		Australia
Colonial First State Group Limited		Australia
Colonial First State Investments Limited		Australia
Avanteos Pty Limited		Australia
Avanteos Investments Ltd		Australia
Colonial First State Property Limited		Australia
Colonial First State Property Retail Trust		Australia
Jacques Martin Administration and Consulting Pty Limited		Australia
Colonial First State Property Management Pty Ltd		Australia
Commonwealth Financial Planning Limited		Australia
Financial Wisdom Limited		Australia
First State Investment Managers (Asia) Limited		Australia
Colonial First State Asset Management (Australia) Limited		Australia
CFS Managed Property Limited		Australia

Notes to the Financial Statements

Note 44 Controlled Entities (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
CBA Funding (NZ) Limited		New Zealand
ASB Capital No. 2 Limited		New Zealand
ASB Capital Limited		New Zealand
CBA USD Funding Limited		New Zealand
CBA NZ Holding 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		
CBA Asia Limited		Singapore
CTB Australia Limited		Hong Kong
PT Bank Commonwealth	97%	Indonesia
National Bank of Fiji Limited		Fiji
CBA (Delaware) Finance Incorporated		Delaware USA
CBA Capital Trust 1		Delaware USA
CBA Funding Trust 1		Delaware USA
CBA Capital Trust II		Delaware USA
CBA (Europe) Finance Limited		United Kingdom
Pontoon (Funding) PLC		United Kingdom
Burdekin Investments Limited		Cayman Islands
Pavillion and Park Limited		United Kingdom
Newport Limited		Malta
CommInternational Limited		Malta
CommCapital S.a.r.l		Luxembourg
CommBank Europe Limited		Malta
CommBank Management Consulting (Asia) Co Ltd		Hong Kong
CommTrading Limited		Malta
Watermark Limited		Hong Kong
D Compartment ABI Lux Co		Luxembourg
(b) Insurance and Funds Management		
CMG Asia Life Holdings Limited		Bermuda
Colonial Fiji Life Limited		Fiji
Colonial First State (UK) Holdings Limited		United Kingdom
First State (HK) LLC		United States
First State Investment Holdings (Singapore) Ltd		Singapore
First State Investments (Cayman) Limited		Cayman Islands
PT Astra CMG Life	80%	Indonesia
FS Investments (Bermuda) Ltd		Bermuda

Non-operating and minor operating controlled entities and investment vehicles holding policyholder assets are excluded from the above list.

Notes to the Financial Statements

Note 45 Investments in Associated Entities and Joint Ventures

	Group					
	2008 \$M	2007 \$M	Extent of Ownership Interest %	Principal Activities	Country of Incorporation	Balance Date
Acadian Asset Management (Australia) Limited	2	-	50	Investment Management	Australia	30 Jun
CMG CH China Funds Management Limited	1	1	50	Investment Management	Australia	31 Mar
Equion Health (Barts) Limited	1	1	50	Financial Services	United Kingdom	31 Dec
Equigroup Pty Limited	15	-	50	Leasing	Australia	30 Jun
Sandalwood Pte Ltd	1	-	50	Property Management	Singapore	31 Dec
China Life CMG Life Assurance Company Limited	11	11	49	Life Insurance	China	31 Dec
First State Cinda Fund Management Company Limited	13	6	46	Funds Management	China	31 Dec
Healthcare Support (Newcastle) Limited	1	-	40	Financial Services	United Kingdom	31 Dec
International Private Equity Real Estate Fund	5	-	33	Funds Management	Australia	30 Jun
AMTD Group Company Limited	1	1	30	Financial Services	Virgin Islands	31 Dec
452 Capital Pty Limited	44	44	30	Investment Management	Australia	30 Jun
Bank of Hangzhou Co. Ltd. ⁽¹⁾	164	143	19.9	Commercial Banking	China	31 Dec
CFS Retail Property Trust ⁽²⁾	438	437	9.7	Funds Management	Australia	30 Jun
Commonwealth Property Office Fund ⁽³⁾	209	192	9.8	Funds Management	Australia	30 Jun
Total	906	836				

(1) Formerly Hangzhou City Commercial Bank Co. Limited.

(2) The value for CFS Retail Property Trust based on published quoted prices as at 30 June 2008 is \$407 million (2007: \$472 million).

(3) The value for Commonwealth Property Office Fund based on published quoted prices as at 30 June 2008 is \$196 million (2007: \$242 million).

	Group	
	2008 \$M	2007 \$M
Share of Associates' profits/(losses)		
Operating profits/(losses) before income tax	98	70
Income tax expense	(6)	(17)
Operating profits/(losses) after income tax	92	53
Carrying amount of investments in associated entities	906	836

	Group	
	2008 \$M	2007 \$M
Financial Information of Associates		
Assets	25,610	17,936
Liabilities	17,967	13,163
Revenues	2,213	1,753
Expenses	1,436	1,162

	Group	
	2008 \$M	2007 \$M
Financial Information of Joint Ventures		
Assets	359	118
Liabilities	63	85
Revenues	231	53
Expenses	78	57

Note 46 Director and Executive Disclosures

Details of the Directors' and Specified Executives' remuneration, interests in long term incentive plans, shares, options and loans are included in the Remuneration Report of the Directors' Report. 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 Annual Financial Reports. These remuneration disclosures are provided in the Remuneration Report of the Directors' Report on pages 56 to 76 and are designated as audited.

Notes to the Financial Statements

Note 46 Director and Executive Disclosures (continued)

	Group		Bank	
	2008 \$M	2007 \$M	2008 \$M	2007 \$M
Key Management Personnel Compensation				
Short Term Benefits	28	21	28	21
Post-employment Benefits	1	6	1	6
Share-based Payments	9	10	9	10
Termination benefits	1	-	1	-
Long term benefits	-	-	-	-
	39	37	39	37

Note 47 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.

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 for the financial year ended 30 June 2008.

Group	For the Year Ended and as at 30 June 2008			Total \$M
	Associates \$M	Joint		
		Ventures \$M		
Interest and dividend income	86	6		92
Interest expense	3	-		3
Fees and commissions for services provided	87	10		97
Fees and commissions for services received	74	-		74
Loans, advances and equity contributions	111	387		498
Other assets	31	8		39
Deposits	31	-		31
Derivative liabilities	283	-		283
Other liabilities	1	6		7

Bank	For the Year Ended and as at 30 June 2008			Total \$M	
	Subsidiaries \$M	Associates \$M	Joint		
			Ventures \$M		
Interest and dividend income	3,110	76	6	3,192	
Interest expense	2,974	2	-	2,976	
Fees and commissions for services provided	755	5	9	769	
Fees and commissions for services received	333	72	-	405	
Available-for-sale securities	16,380	-	-	16,380	
Loans, advances and equity contributions	37,472	110	380	37,962	
Derivative assets	1,724	-	-	1,724	
Other assets	1,884	-	8	1,892	
Deposits	54,711	31	-	54,742	
Derivative liabilities	528	283	-	811	
Debt issues and loan capital	3,501	-	-	3,501	
Other liabilities	1,221	1	6	1,228	

Notes to the Financial Statements

Note 47 Related Party Disclosures (continued)

Group	For the Year Ended and as at 30 June 2007			Total \$M
	Associates \$M	Joint		
		Ventures \$M		
Interest and dividend income	120	-		120
Interest expense	1	-		1
Fees and commissions for services provided	93	7		100
Fees and commissions for services received	116	-		116
Loans, advances and equity contributions	217	12		229
Other assets	-	-		-
Deposits	18	2		20
Derivative liabilities	-	-		-
Other liabilities	-	-		-

Bank	For the Year Ended and as at 30 June 2007			
	Subsidiaries \$M	Associates \$M	Joint	
			Ventures \$M	Total \$M
Interest and dividend income	2,777	65	-	2,842
Interest expense	2,607	1	-	2,608
Fees and commissions for services provided	764	17	-	781
Fees and commissions for services received	274	5	-	279
Available-for-sale securities	824	-	-	824
Loans, advances and equity contributions	37,512	319	-	37,831
Derivative assets	1,859	-	-	1,859
Other assets	1,483	-	-	1,483
Deposits	48,286	18	-	48,304
Derivative liabilities	837	-	-	837
Debt issues and loan capital	3,336	-	-	3,336
Other liabilities	2,316	-	-	2,316

Details of controlled entities are disclosed in Note 44.

The Bank's aggregate investment in and loans to controlled entities are disclosed in Note 17.

Amounts due to controlled entities are disclosed in the Balance Sheet of the Bank.

Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in Note 2.

All transactions between Group entities are eliminated on consolidation.

Notes to the Financial Statements

Note 47 Related Party Disclosures (continued)

Equity Holdings of Key Management Personnel

Shareholdings

All shares were acquired by Directors on normal terms and conditions or through the Non-Executive Directors' Share Plan.

Shares awarded under the Equity Reward Plan and the mandatory component of the Equity Participation Plan are registered in the name of the Trustee. For further details of the Non-Executive Directors' Share Plan, previous Equity Reward Plan, previous Executive Option Plan and Equity Participation Plan refer to Note 33 Share Capital.

Details of 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 as follows:

Shares held by Directors

Name	Class	Balance 1 July 2007	Acquired/Granted as Remuneration ⁽¹⁾	On Exercise of Options	Net Change Other ⁽²⁾	Balance 30 June 2008
Directors						
J M Schubert	Ordinary	24,418	2,890	-	-	27,308
R J Norris	Ordinary	10,000	-	-	-	10,000
	Reward Shares	191,238	-	-	-	191,238
J A Anderson	Ordinary	10,000	773	-	792	11,565
R J Clairs	Ordinary	17,886	1,014	-	-	18,900
C R Galbraith	Ordinary	11,404	992	-	658	13,054
J S Hemstritch	Ordinary	15,565	926	-	-	16,491
S C H Kay	Ordinary	5,901	1,036	-	2,100	9,037
F D Ryan	Ordinary	9,196	1,146	-	5,000	15,342
D J Turner	Ordinary	301	940	-	-	1,241
H H Young	Ordinary	20,000	866	-	1,131	21,997
W G Kent ⁽³⁾	Ordinary	17,070	441	-	1,689	19,200
F J Swan ⁽³⁾	Ordinary	8,181	497	-	-	8,678
Total For Directors	Ordinary	149,922	11,521	-	11,370	172,813
	Reward Shares	191,238	-	-	-	191,238

(1) For Non-Executive Directors, represents shares acquired under NEDSP on 20 August 2007 and 4 March 2008 by mandatory sacrifice of fees. All shares acquired through NEDSP are subject to a 10 year trading restriction (shares will be tradeable earlier if the Director leaves the Board). For Mr Norris this represents Reward Shares granted under the ERP subject to performance hurdles. For the ERP, the first possible date for meeting the performance hurdle is 14 July 2009 with the last possible date for vesting being 14 July 2010. See Note 33 to the Financial Statements for further details on the NEDSP and ERP.

(2) "Net Change Other" incorporates changes resulting from purchases and sales during the year.

(3) Mr Kent and Mr Swan retired at the 2007 Annual General Meeting on 7 November 2007.

Notes to the Financial Statements

Note 47 Related Party Disclosures (continued)

Shares held by Key Management Personnel

Name	Class ⁽¹⁾	Balance 1 July 2007	Acquired/Granted as Remuneration	On Exercise of Options	Reward Shares Vested ⁽²⁾	Net Change Other ⁽³⁾	Balance 30 June 2008
Executives							
B J Chapman	Ordinary	-	-	-	-	450	450
	Reward Shares	17,046	-	-	-	-	17,046
D Cohen ⁽⁴⁾	Ordinary	-	-	-	-	-	-
	Reward Shares	-	-	-	-	-	-
D P Craig	Ordinary	-	-	-	-	6,000	6,000
	Reward Shares	22,728	-	-	-	-	22,728
S I Grimshaw	Ordinary	29,999	-	-	-	-	29,999
	Reward Shares	105,140	-	-	(37,500)	-	67,640
M R Harte	Ordinary	-	-	-	-	-	-
	Reward Shares	14,318	-	-	-	-	14,318
G L Mackrell	Ordinary	39,808	-	-	-	2,388	42,196
	Reward Shares	80,018	-	-	(28,130)	-	51,888
R M McEwan	Ordinary	-	-	-	-	-	-
	Reward Shares	-	-	-	-	-	-
J K O'Sullivan ⁽⁵⁾	Ordinary	45,767	-	-	-	25,940	71,707
	Reward Shares	69,770	-	-	(25,940)	(43,830)	-
G A Petersen	Ordinary	14,652	-	-	-	(1,287)	13,365
	Reward Shares	64,780	-	-	(19,500)	-	45,280
A Toevs ⁽⁶⁾	Ordinary	-	-	-	-	-	-
	Reward Shares	-	-	-	-	-	-
	Deferred Shares	-	37,784	-	-	-	37,784
Other Executives							
W Negus	Ordinary	3,680	-	-	-	-	3,680
	Reward Shares	40,500	-	-	-	-	40,500
Total for Key Management Personnel	Ordinary	133,906	-	-	-	33,491	167,397
	Reward Shares	414,300	-	-	(111,070)	(43,830)	259,400
	Deferred Shares	-	37,784	-	-	-	37,784

(1) Reward Shares represents shares granted under the Equity Reward Plan (ERP) and are subject to a performance hurdle. The last possible date for vesting is 14 July 2010. See Note 33 to the Financial Statements for further details on the ERP.

(2) Reward Shares become ordinary shares upon vesting.

(3) "Net Change Other" incorporates changes resulting from purchases, sales and forfeitures during the year.

(4) Mr Cohen commenced employment on 16 June 2008.

(5) Mr O'Sullivan ceased employment on 31 January 2008.

(6) Mr Toevs commenced employment on 23 June 2008.

Notes to the Financial Statements

Note 47 Related Party Disclosures (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 hold significant voting power) have been provided on an arms-length commercial basis including the term of the loan, security required and the interest rate (which may be fixed or variable).

Total Loans to Key Management Personnel

	Year Ended 30 June	Balance 1 July \$000s	Interest Charged \$000s	Interest Not Charged \$000s	Write-off \$000s	Balance 30 June \$000s	Number in Group at 30 June
Directors							
	2008	3,648	258	-	-	2,795	1
	2007	464	21	-	-	464	1
Executives							
	2008	6,103	781	-	-	12,369	9
	2007	9,178	425	-	-	5,965	6
Total for Key Management Personnel							
	2008	9,751	1,039	-	-	15,164	10
	2007	9,642	446	-	-	6,429	7
Other Executives							
	2008	1,442	68	-	-	1,335	1
	2007	554	35	-	-	443	1
Total							
	2008	11,193	1,107	-	-	16,499	11
	2007	10,196	481	-	-	6,872	8

Individual Loans above \$100,000 to Key Management Personnel

	Balance 1 July 2007 \$000s	Interest Charged \$000s	Interest Not Charged \$000s	Write-off \$000s	Balance 30 June 2008 \$000s	Highest Balance in Period \$000s
Directors						
R J Norris ⁽¹⁾	3,648	258	-	-	2,795	3,181
Executives						
B J Chapman ⁽¹⁾	-	153	-	-	2,679	2,852
D Cohen	936	75	-	-	936	936
D P Craig	-	5	-	-	213	215
S I Grimshaw	-	-	-	-	50	100
M R Harte	-	218	-	-	3,394	3,544
G L Mackrell	647	1	-	-	647	647
R M McEwan ⁽¹⁾	279	39	-	-	460	748
J K O'Sullivan ⁽²⁾	3,599	200	-	-	3,013	3,874
G A Petersen	642	90	-	-	977	2,702
Total for Key Management Personnel	9,751	1,039	-	-	15,164	18,799
Other Executives						
W Negus	1,442	68	-	-	1,335	1,845
Total for Other Executives	1,442	68	-	-	1,335	1,845
Total for Key Management Personnel & Other Executives	11,193	1,107	-	-	16,499	20,644

(1) Balance declared in NZD for Mr Norris, Ms Chapman and Mr McEwan. Exchange rates are taken from Forex as at 30 June 2008 for interest charged, 30 June 2008 balances and highest balance in period. The exchange rate as at 30 June 2007 has been used for the 1 July 2007 balances.

(2) Mr O'Sullivan ceased employment on 31 January 2008.

Notes to the Financial Statements

Note 48 Notes to the Statements of Cash Flows

Note 48(a) Reconciliation of Net Profit after Income Tax to Net Cash Provided by/(used in) Operating Activities ⁽¹⁾

	Year Ended 30 June				
	Group			Bank	
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
Net profit after income tax	4,822	4,497	3,959	4,358	4,477
Net decrease/(increase) in interest receivable	187	(745)	(99)	(174)	(564)
Increase in interest payable	449	362	784	451	303
Net decrease/(increase) in assets at fair value through Income Statement (excluding life insurance)	196	(7,272)	(53)	1,324	(6,038)
Net (gain)/loss on sale of investments	(1)	-	-	1	-
Net (gain)/loss on sale of controlled entities and associates	-	-	(163)	-	-
Net (increase)/decrease in derivative assets	(5,459)	(3,068)	128	(5,654)	(3,923)
Net loss/(gain) on sale property plant and equipment	15	16	(4)	14	13
Net (gain) on sale of Visa Initial Public Offering	(127)	-	-	(111)	-
Loan impairment expense	930	434	398	902	390
Depreciation and amortisation (including asset write downs)	423	270	213	330	205
(Decrease)/increase in liabilities at fair value through Income Statement (excluding life insurance)	(884)	5,799	1,870	(2,286)	3,016
Increase/(decrease) in derivative liabilities	4,622	5,860	(445)	4,149	5,831
Increase/(decrease) in other provisions	296	57	(92)	250	43
Increase/(decrease) in income taxes payable	29	297	(455)	(111)	364
(Decrease)/increase in deferred income taxes payable	(643)	175	182	(72)	175
Decrease/(increase) in deferred tax assets	178	(272)	184	(97)	(408)
(Increase)/decrease in accrued fees/reimbursements receivable	(153)	(163)	(88)	193	(196)
(Decrease)/increase in accrued fees and other items payable	(575)	386	133	(1,011)	265
Increase/(decrease) in life insurance contract policy liabilities	184	(1,460)	(1,211)	(10)	10
(Decrease)/increase in cash flow hedge reserve	(150)	547	31	106	295
Dividend received from controlled entities	-	-	-	(1,667)	(1,881)
Changes in operating assets and liabilities arising from cash flow movements	(6,124)	(560)	(3,954)	(11,062)	(15,008)
Other	(290)	481	(156)	(118)	53
Net cash (used in)/provided by operating activities	(2,075)	5,641	1,162	(10,295)	(12,578)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Note 48(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.

	Year Ended 30 June				
	Group			Bank	
	2008	2007	2006	2008	2007
	\$M	\$M	\$M	\$M	\$M
Notes, coins and cash at banks	2,476	4,557	1,703	1,344	1,377
Other short term liquid assets	1,309	967	491	1,118	894
Receivables due from other financial institutions – at call ⁽¹⁾	3,357	4,607	4,657	2,672	3,837
Payables due to other financial institutions – at call ⁽¹⁾	(4,877)	(6,047)	(4,813)	(4,797)	(5,980)
Cash and cash equivalents at end of year	2,265	4,084	2,038	337	128

(1) At call includes certain receivables and payables due from and to financial institutions within three months.

Notes to the Financial Statements

Note 48 Notes to the Statements of Cash Flows (continued)

Note 48(c) Disposal of Controlled Entities

	2008 \$M	2007 \$M	2006 \$M
Fair value of net tangible assets disposed			
Cash and liquid assets	-	-	55
Assets at fair value through Income Statement:			
Insurance	-	-	2,297
Other assets	1	-	148
Life Insurance policy liabilities	-	-	(1,996)
Bills payable and other liabilities	-	-	(41)
Profit on sale	1	-	145
Cash consideration received	2	-	608
Less cash and cash equivalents disposed	-	-	(55)
Net cash inflow on disposal	2	-	553

Note 48(d) Non-cash Financing and Investing Activities

Shares issued under the Dividend Reinvestment Plan for 2008 amounted to \$1,109 million (2007: \$818 million).

Note 48(e) Acquisition of Controlled Entities

	Carrying value at acquisition			
	2008 \$M	2008 \$M	2007 \$M	2006 \$M
Fair value of net assets acquired				
Cash and liquid assets	24	24	-	-
Minority interests	-	-	4	126
Goodwill (including discount on acquisition)	50	316	3	7
Other intangible assets	4	64	-	122
Loans, advances and other receivables	241	241	-	-
Investments	112	112	-	-
Other assets	11	11	-	167
Payables due to other financial institutions	(130)	(130)	-	-
Deposits and other public borrowings	(202)	(202)	-	-
Other liabilities	(11)	(30)	-	(8)
Cash consideration paid		406	7	414
Less cash and cash equivalents acquired		(24)	-	-
		382	7	414
Less: Non-cash consideration		(141)	-	-
Net cash outflow on acquisition		241	7	414

	2008	2007	2006
Details of equity instruments issued as part of business combinations			
Number of equity instruments issued	2,327,431	-	-
Fair value of equity issued (\$)	140,952,360	-	-

The above information relates to acquisitions that took place during the financial year and were considered individually immaterial. On 26 July 2007, PT Commonwealth Bank acquired 83% of Arta Niaga Kencana (ANK) Bank in Indonesia. The merger was completed on 31 December 2007 and thereafter the Group owned 97% of the merged entities. On 27 November 2007, the Group completed the 100% acquisition of IWL Limited, an online broking business.

The profit of IWL Limited since acquisition for the year ended 30 June 2008 was \$0.4 million and for the full year was also \$0.4 million. The revenue of IWL Limited for the full year was \$102.1 million. ANK is now accounted for as part of the International Financial Services segment. As a result revenues and profits are unavailable at the individual entity level.

Note 48(f) Financing Facilities

Standby funding lines are considered immaterial.

Notes to the Financial Statements

Note 49 Disclosures about Fair Value of Financial Instruments

49(a) Fair Value of Financial Assets and Financial Liabilities

These amounts represent estimates of the fair values of the Group's financial assets and financial liabilities at Balance Sheet date based on the following valuation methods and assumptions. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted market prices are used to determine fair value where an active market (such as a recognised stock exchange) exists, as it is the best evidence of the fair value of a financial instrument. Quoted market prices are not, however, available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no quoted market price is available, the fair values presented in the following table have been estimated using present value or other valuation techniques based on market conditions existing at Balance Sheet dates. 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 at balance date.

While the fair value amounts are designed to represent estimates at which these instruments could be exchanged in a current transaction between willing parties, many of the Group's financial instruments lack an available trading market as characterised by willing parties engaging in an exchange transaction.

In addition, it is the Bank's intent to hold most of its financial instruments to maturity and therefore it is not probable that the fair values shown would be realised in a current transaction.

The estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments. In addition, the value of long term relationships with depositors (core deposit intangibles) and other customers (credit card intangibles) are not reflected. The value of these items is considered significant.

Because of the wide range of valuation techniques and the numerous estimates that must be made, it may be difficult to make reasonable comparisons of the Bank's fair value information with that of other financial institutions. It is important that the many uncertainties discussed above be considered when using the estimated fair value disclosures and to realise that because of these uncertainties, the aggregate fair value amount should in no way be construed as representative of the underlying value of the Commonwealth Bank of Australia.

	Group 2008		Group 2007	
	Carrying Value \$M	Fair Value \$M	Carrying Value \$M	Fair Value \$M
Assets ⁽¹⁾				
Cash and liquid assets	7,736	7,736	10,108	10,108
Receivables due from other financial institutions	6,984	6,984	5,495	5,495
Assets at fair value through Income Statement:				
Trading	21,676	21,676	21,469	21,469
Insurance	20,650	20,650	23,519	23,519
Other	3,266	3,266	4,073	4,073
Derivative assets	18,232	18,232	12,743	12,743
Available-for-sale investments	11,488	11,488	9,672	9,672
Loans, advances and other receivables	361,282	357,618	315,465	313,694
Bank acceptances of customers	18,278	18,278	18,721	18,721
Other assets	17,296	17,296	17,264	17,264
Liabilities ⁽¹⁾				
Deposits and other public borrowings	263,706	262,832	219,068	218,472
Payables due to other financial institutions	17,672	17,672	14,386	14,386
Liabilities at fair value through Income Statement	15,526	15,526	16,396	16,396
Derivative liabilities	19,541	19,541	16,680	16,680
Bank acceptances	18,278	18,278	18,721	18,721
Insurance policy liabilities	18,495	18,495	21,613	21,613
Debt issues	85,817	84,979	88,525	88,619
Managed fund units on issue	1,109	1,109	310	310
Bills payable and other liabilities	7,524	7,521	7,346	7,346
Loan capital	11,559	11,724	10,000	10,120

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Note 1 (b).

Notes to the Financial Statements

Note 49 Disclosures about Fair Value of Financial Instruments (continued)

49(a) Fair Value of Financial Assets and Financial Liabilities (continued)

The fair value estimates were determined by the following methodologies and assumptions:

Liquid assets and Bank acceptances of customers

The carrying values of cash and liquid assets, receivables from other financial institutions and bank acceptances of customers approximate their fair value as they are short term in nature or are receivable on demand.

Receivables due from other financial institutions also includes statutory deposits with central banks. The fair value is assumed to be equal to the carrying value as the Group is only able to continue as a going concern with the maintenance of these deposits.

Assets at Fair Value through Income Statement

Assets at fair value through Income Statement are carried at fair value determined using quoted market prices or valuation techniques including discounted cash flow models using market observable and non-market observable inputs. Discount rates have been adjusted for changes in customer credit ratings, where appropriate.

Available-for-sale investments

Assets available-for-sale are measured at fair value determined using quoted market prices. For shares in companies, the estimated fair values are estimated based on market price inputs.

Loans, advances and other receivables

The carrying value of loans, advances and other receivables is net of accumulated collective and individually assessed provisions for impairment. Customers 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 variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of fair value. The fair value for fixed rate loans was calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the portfolio plus an add-on of the average credit margin of the existing portfolio, adjusted for changes in customer credit ratings, where appropriate.

The fair value of impaired loans was calculated by discounting estimated future cash flows using the loan's original effective interest rate.

Retirement benefit surplus

The fair value of the retirement benefit surplus is the carrying value at Balance Sheet date determined using a present value calculation based on assumptions that are outlined in Note 43.

All other financial assets

Included in this category are interest and fees receivable, unrealised income, and investments in associates of \$906 million (2007: \$836 million), where the carrying amount is considered to be a reasonable estimate of fair value. Other financial assets are net of goodwill and other intangibles, future income tax benefits and prepayments/unamortised payments, as these do not constitute financial instruments.

Deposits and other public borrowings

The carrying value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, approximate their value as they are short term in nature or are payable on demand. Discounted cash flow models based upon deposit type and related maturity, were used to calculate the fair value of other term deposits.

Short term liabilities

The carrying value of payables to other financial institutions and bank acceptances approximate their fair value as they are short term in nature and reprice frequently.

Debt issues and loan capital

The fair values of debt issues and loan capital were calculated using quoted market price at Balance Sheet date. For those debt issues where quoted market prices were not available, discounted cash flow and option pricing models were used, utilising a yield curve appropriate to the expected remaining maturity of the instrument and adjusted for any change in the Group's applicable credit rating.

Liabilities at Fair Value through Income Statement

Liabilities at Fair Value through Income Statement are carried at fair value determined using quoted market prices, or valuation techniques including discounted cash flow models using market observable inputs. Discount rates have been adjusted for any changes in the Group's applicable credit rating.

Derivative Assets and Liabilities

The fair value of trading and hedging derivative contracts, were obtained from quoted market prices, discounted cash flow models or option pricing models that used market based and non-market based inputs.

The fair value of these instruments is disclosed in Note 11.

Life Insurance Policy Holder Liabilities

Life insurance policyholder liabilities are measured on a net present value basis using assumptions outlined in Note 37. This treatment is in accordance with AASB 1038: Life Insurance Business.

All other financial liabilities

This category includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value. For liabilities that are long term, fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities. Other provisions including provision for dividend, income tax liability and unamortised receipts are not considered financial instruments.

Notes to the Financial Statements

Note 49 Disclosures about Fair Value of Financial Instruments (continued)

49(a) Fair Value of Financial Assets and Financial Liabilities (continued)

Commitments to extend credit, letters of credit, guarantees, warranties and indemnities issued

The fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risk and attract fees in line with market prices for similar arrangements. They are not presently sold or traded. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. The fair value may be represented by the present value of fees expected to be received, less associated costs, however the overall level of fees involved is not material.

49(b) The Impact of Fair Values Calculated Using Non-market Observable Assumptions

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 short term loans and margins on trading securities where pricing is counterparty specific.

These financial instruments comprise a small component of the portfolios they are part of and have short tenor, such that 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 or the Group's result.

Directors' Declaration

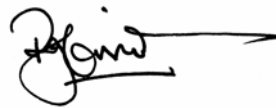
In accordance with a resolution of the Directors of the Commonwealth Bank of Australia the Directors declare that:

- (a) the Financial Statements and notes thereto of the Bank and the Group, and the additional disclosures included in the Directors' Report designated as audited, comply with Accounting Standards and in their opinion are in accordance with the Corporations Act 2001;
- (b) the Financial Statements and notes thereto give a true and fair view of the Bank's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date;
- (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 under Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2008.

Signed in accordance with a resolution of the Directors.



J M Schubert
Chairman
13 August 2008



R J Norris
Managing Director and Chief Executive Officer
13 August 2008

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Independent auditor's report to the members of Commonwealth Bank of Australia

Report on the financial report

We have audited the accompanying financial report of Commonwealth Bank of Australia (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Commonwealth Bank of Australia and the Group. 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 company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

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

Independent auditor's report to the members of Commonwealth Bank of Australia (continued)

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Commonwealth Bank of Australia is in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 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 56 to 75 of the directors' report for the year ended 30 June 2008. The directors of the company 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 Commonwealth Bank of Australia for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Commonwealth Bank of Australia (the company) for the year ended 30 June 2008 included on Commonwealth Bank of Australia web site. The company's directors are responsible for the integrity of the Commonwealth Bank of Australia web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.



PricewaterhouseCoopers



Rahoul Chowdry

Partner

13 August 2008

Shareholding Information

Top 20 Holders of Fully Paid Ordinary Shares as at 8 August 2008

Rank	Name of Holder	Number of Shares	%
1	HSBC Custody Nominees (Australia) Limited	134,930,729	10.17
2	J P Morgan Nominees Australia Limited	102,911,926	7.76
3	National Nominees Pty Limited	92,124,605	6.95
4	Citicorp Nominees Pty Limited	68,172,560	5.14
5	RBC Dexia Investor Services Australia Nominees Pty Limited	31,525,878	2.38
6	ANZ Nominees Limited	29,621,673	2.23
7	Cogent Nominees Pty Limited	18,927,257	1.43
8	Queensland Investment Corporation	13,776,470	1.04
9	AMP Life Limited	9,372,231	0.71
10	Australian Foundation Investments Company Limited	7,975,245	0.60
11	UBS Wealth Management Australia Nominees Pty Ltd	7,725,788	0.58
12	UBS Nominees Pty Limited	6,041,971	0.45
13	Bond Street Custodians Limited	5,791,346	0.44
14	Invia Custodian Pty Limited	2,901,020	0.22
15	Perpetual Trustee Co Limited (Hunter)	2,756,096	0.21
16	Milton Corporation Limited	2,064,293	0.16
17	Merrill Lynch (Australia) Nominees Pty Limited	1,906,386	0.14
18	Suncorp Custodian Services Pty Limited	1,888,611	0.14
19	Australian Reward Investment Alliance	1,882,519	0.14
20	Argo Investments Limited	1,858,306	0.14

The top 20 shareholders hold 544,154,910 shares which is equal to 41.03% 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): 8 August 2008

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1 – 1,000	558,925	75.31	188,676,186	14.23
1,001 – 5,000	161,896	21.81	330,963,180	24.96
5,001 – 10,000	14,925	2.01	102,991,631	7.77
10,001 – 100,000	6,175	0.83	118,233,135	8.91
100,001 and over	269	0.04	585,266,745	44.13
Total	742,190	100.00	1,326,130,877	100.00
Less than marketable parcel of \$500	14,051	1.89	71,035	0.01

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 holder's 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 holder's 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 Resettable Listed Securities II (“PERLS II”) as at 8 August 2008

Rank	Name of Holder	Number of Units	%
1	J P Morgan Nominees Australia Limited	235,086	6.27
2	Citicorp Nominees Pty Limited	210,162	5.60
3	UBS Nominees Pty Limited	140,174	3.74
4	National Nominees Limited	123,085	3.28
5	Questor Financial Services Limited	86,732	2.31
6	UBS Warburg Private Clients Nominees Pty Limited	83,767	2.23
7	HSBC Custody Nominees (Australia) Limited	78,661	2.10
8	RBC Dexia Investor Services Australia Nominees Pty Limited	75,052	2.00
9	Invia Custodian Pty Limited	46,523	1.24
10	ANZ Nominees Limited	32,433	0.87
11	Tenix Pty Limited	26,050	0.69
12	The Australian National University Investment Section	25,000	0.67
13	Gordon Merchant No 2 Pty Limited	24,440	0.65
14	Equitas Nominees Pty Limited	21,925	0.58
15	Tynong Pastoral Co Pty Limited	17,450	0.47
16	Cryton Investments No 9 Pty Limited	17,100	0.46
17	Israelite House of David	15,000	0.40
18	Lutovi Investments Pty Limited	15,000	0.40
19	Bond Street Custodians Limited	14,601	0.39
20	NSF Nominees Pty Limited	12,400	0.33

The top 20 PERLS II unitholders hold 1,300,641 units which is equal to 34.68% of the total units on issue.

Stock Exchange Listing

PERLS II are units in a registered managed investment scheme of which Commonwealth Managed Investments Limited is the responsible entity and are listed on the Australian Securities Exchange under the trade symbol PCBPA, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers.

Range of Units (PERLS II): 8 August 2008

Range	Number of Unitholders	Percentage Unitholders	Number of Units	Percentage Issued Units
1 – 1,000	9,415	96.48	1,660,176	44.27
1,001 – 5,000	286	2.93	597,676	15.94
5,001 – 10,000	32	0.33	236,717	6.31
10,001 – 100,000	23	0.23	757,086	20.19
100,001 and over	3	0.03	498,345	13.29
Total	9,759	100.00	3,750,000	100.00
Less than marketable parcel of \$500	1	-	2	-

Voting Rights

PERLS II 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 Bank's ordinary shares will be as set out on page 226 and the voting rights of the preference shares will be as set out below.

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 Repurchaseable Listed Shares III ("PERLS III") as at 8 August 2008

Rank	Name of Holder	Number of Shares	%
1	AMP Life Limited	191,591	3.29
2	RBC Dexia Investor Services Australia Nominees Pty Limited	175,183	3.00
3	UBS Wealth Management Australia Nominees Pty Limited	166,235	2.85
4	J P Morgan Nominees Australia Limited	156,836	2.69
5	Mr Walter Lawton and Mrs Jan Rynette Lawton	75,482	1.29
6	Citicorp Nominees Pty Limited	71,089	1.22
7	ANZ Executors & Trustee Company Limited	59,246	1.02
8	The Australian National University Investment Section	51,282	0.88
9	Mr John Stuart Walker & Mr Ralph Lane	50,000	0.86
10	Catholic Education Office Diocese of Parramatta	49,750	0.85
11	Questor Financial Services Limited	46,349	0.79
12	Bond Custodians Limited	43,770	0.75
13	Truckmate (Australia) Pty Limited	35,000	0.60
14	Avanteos Investments Limited	31,635	0.54
15	Kerlon Pty Limited	30,000	0.51
16	Mifare Pty Limited	25,000	0.43
17	UCA Cash Management Fund Limited	25,000	0.43
18	Equity Trustees Limited	24,938	0.43
19	Fleischmann Holdings Pty Limited	22,500	0.39
20	Henry Kendall Group Holdings Pty Limited	20,964	0.36

The top 20 PERLS III shareholders hold 1,351,850 shares which is equal to 23.18% 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): 8 August 2008

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1 – 1,000	17,340	96.62	2,903,942	49.79
1,001 – 5,000	523	2.91	1,058,417	18.15
5,001 – 10,000	43	0.24	334,160	5.73
10,001 – 100,000	37	0.21	875,825	15.02
100,001 and over	4	0.02	659,937	11.31
Total	17,947	100.00	5,832,281	100.00
Less than marketable parcel of \$500	21	0.12	41	-

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 pages 226 and 227 respectively for the Bank's ordinary shares and preference shares.

Shareholding Information

Top 20 Holders of Perpetual Exchangeable Resaleable Listed Securities IV ("PERLS IV") as at 8 August 2008

Rank	Name of Holder	Number of Shares	%
1	AMP Life Limited	425,000	5.80
2	J P Morgan Nominees Australia Limited	314,276	4.29
3	Citicorp Nominees Pty Limited	168,984	2.31
4	UBS Wealth Management Australia Nominees Pty Limited	168,912	2.31
5	RBC Dexia Investor Services Australia Nominees Pty Limited	153,285	2.09
6	Goldman Sachs JB Were Capital Markets Limited	150,752	2.06
7	Cogent Nominees Pty Limited	141,049	1.93
8	Suncorp General Insurance Limited	118,000	1.61
9	Suncorp Custodian Services Pty Limited	109,353	1.49
10	National Nominees Limited	106,740	1.46
11	Questor Financial Services Limited	97,729	1.33
12	ANZ Nominees Limited	95,594	1.31
13	GIO General Limited	92,403	1.26
14	Invia Custodian Pty Limited	76,715	1.05
15	UCA Cash Management Fund Limited	68,735	0.94
16	Eastcode Pty Limited	50,000	0.68
17	Avanteos Investments Limited	47,593	0.65
18	Westpearl Pty Limited	40,000	0.55
19	Bond Street Custodians Limited	36,784	0.50
20	The Australian National University Investment Section	30,000	0.41

The top 20 PERLS IV shareholders hold 2,491,904 shares which is equal to 34.02% 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): 8 August 2008

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1 – 1,000	11,941	93.85	2,712,504	37.03
1,001 – 5,000	692	5.44	1,537,821	21.00
5,001 – 10,000	44	0.34	360,673	4.92
10,001 – 100,000	39	0.31	1,221,121	16.67
100,001 and over	8	0.06	1,492,881	20.38
Total	12,724	100.00	7,325,000	100.00
Less than marketable parcel of \$500	1	-	2	-

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.

Further more 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 pages 226 and 227.

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.

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 pages 226 and 227 for the Bank's ordinary shares and preference shares.

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132 221 General Enquiries

For your everyday banking including paying bills using BPAY® our automated service is available 24 hours a day, 7 days a week.

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To report a lost or stolen card 24 hours a day, 7 days a week.

From overseas call **+61 132 221**. Operator assistance is available 24 hours a day, 7 days a week.

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132 224 Home Loans & Investment Home Loans

To apply for a new home loan/investment home loan or to maintain an existing loan. Available from 8am to 10pm, 7 days a week.

131 431 Personal Loan Sales

To apply for a new personal loan.

Available from 8am to 8pm, 7 days a week.

1800 805 605 Customer Relations

If you would like to pay us a compliment or are dissatisfied with any aspect of the service you have received.

Internet Banking

You can apply for a home loan, credit card, personal loan, term deposit or a savings account on the internet by visiting our website at www.commbank.com.au available 24 hours a day, 7 days a week.

Do your everyday banking on our internet banking service **NetBank** at www.commbank.com.au/netbank available 24 hours a day, 7 days a week.

To apply for access to **NetBank**, call **132 828**.

Available 24 hours a day, 7 days a week.

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Customers who are hearing or speech impaired can contact us via the National Relay Service (www.relayservice.com.au) (24 hours a day, 7 days a week).

- Telephone Typewriter (TTY) service users can be connected to any of our telephone numbers via 133 677.
- Speak and Listen (speech-to-speech relay) users can also connect to any of our telephone numbers by calling 1300 555 727.
- Internet relay users can be connected to our telephone numbers via National Relay Service.

131 519 CommSec (Commonwealth Securities)

Available from 8am to 8pm (Sydney Time), Monday to Friday, with after hours assistance available from 8pm to 8am for lost and stolen cards, including weekends.

CommSec provides the information and tools to make smart investment easy, accessible and affordable for all Australians, by phone or Internet at www.commsec.com.au

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Enables you to expand your portfolio by borrowing against your existing shares and managed funds. To find out more simply call 131 709 8am to 5pm (Sydney Time) Monday to Friday or visit www.commsec.com.au.

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1300 245 463 (1300 AGLINE) AgriLine

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Colonial First State

Existing investors can call **131 336** from 8am to 7pm (Sydney Time) Monday to Friday.

New investors without a financial adviser can call **1300 360 645**. Financial advisers can call **131 836**.

Alternatively, visit www.colonialfirststate.com.au

CommBiz

Enables you to perform online business transactional banking from an Internet-connected computer, anywhere in the world, 24 hours a day, 7 days a week on www.commbiz.com.au

1300 362 081 Commonwealth Private Bank

A highly personalised service for clients with significant financial resources and complex financial needs. For a confidential discussion about how Commonwealth Private Bank can help you, call 1300 362 081 between 8am to 5:30pm (Sydney time), Monday to Friday or visit www.commonwealthprivate.com.au

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Unit prices are available 24 hours a day, 7 days a week.

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For all your **life insurance** needs call **131 056** 8am to 8pm (Sydney Time), Monday to Friday.

Alternatively, visit www.comminsure.com.au

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CBA

Annual Report

To request a copy of the Annual Report, please call Link Market Services on 1800 022 440 or email them at

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