

Commonwealth Bank

Commonwealth Bank of Australia
ACN 123 123 124

Secretariat

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J. D. Hatton
Company Secretary

15 December 2005

The Manager
Company Announcements Platform
Australian Stock Exchange



Dear Sir

Attached are documents lodged with the SEC in connection with Banks end of year filing

- Form 20F
- Certifications
- Constitution
- Controlled Entities
- Terms of Appointment - CBA Board
- Terms of Appointment - CEO
- Letter of Consent of Ernst & Young

Yours sincerely

J D Hatton

SECURITIES AND EXCHANGE COMMISSION
FORM 20-F

(Mark one)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2005
OR
- TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 001-02419

Commonwealth Bank of Australia

A.B.N. 48 123 123 124

(Exact name of Registrant as Specified in its Charter)

Commonwealth of Australia
(Jurisdiction of Incorporation or Organization)

48 Martin Place
Sydney, New South Wales 1155
Commonwealth of Australia
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Commonwealth Bank of Australia Ordinary Shares

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report (at June 30, 2005).

Commonwealth Bank of Australia Ordinary Shares: 1,280,276,172 fully paid shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

This report includes the disclosure requirements for both Australia and the United States Securities and Exchange Commission ('SEC')

Commonwealth Bank of Australia
ABN 48 123 123 124

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Form 20-F Cross Reference Index

Form 20-F Cross Reference Index (for purpose of filing with US Securities and Exchange Commission)

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(1) Not required in this annual report.

(2) Item 13 (A) and (B) None.

(3) Item 14 (A) and (B) none, (C) not applicable and (D) no changes.

(4) Not applicable as Item 18 complied with.

Special Note Regarding Forward-Looking Statements

Certain statements under the captions 'Operating and Financial Review and Prospects', 'Disclosure of Quantitative and Qualitative Information about Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments', 'Disclosures about Fair Value of Instruments' and elsewhere in this Report constitute 'forward-looking statements' within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements including economic forecasts and assumptions and business and financial projections involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include demographic changes, changes in competitive conditions in Australia, New Zealand, Asia, the United States or United Kingdom, changes in the regulatory structure of the banking, life insurance and funds management industries in Australia, New Zealand or Asia, changes in political, social, credit and economic

conditions in Australia or New Zealand, legislative proposals for reform of the banking, life insurance and funds management industries in Australia, and various other factors beyond the Group's control. Given these risks, uncertainties and other factors, potential investors are cautioned not to place undue reliance on such forward-looking statements.

Details on significant risk factors applicable to the Group are detailed on pages 17.

Documents on Display

Documents referred to in this report are available for inspection. Please contact the Company Secretary, Level 7, 48 Martin Place, Sydney NSW Australia 1155 for further information. In addition, the Group files reports and other information with the SEC. You can read and copy these reports and other information at the SEC Public Reference Room at 100 F Street, North East, Washington DC 20549 or at the SEC website at www.sec.gov through EDGAR. You can telephone the SEC at 1-800-SEC-0330 for further information on the Public Reference Room.

Financial Information Definitions

Financial Information Definitions

In addition to discussing the Australian GAAP financial information in this annual report, certain "non-GAAP financial measures" (as defined in Regulation G under the US Securities and Exchange Commission (the "SEC")) of the financial performance and results of the Group are included. These non-GAAP financial measures are not calculated in accordance with either Australian GAAP or US GAAP and are described below. This annual report contains reconciliations of these non-GAAP financial measures to our financial results prepared in accordance with Australian GAAP. In this annual report, the Bank presents its profit from ordinary activities after tax on a "statutory basis", which is calculated in accordance with Australian GAAP, and on a "cash basis". "Cash basis" is defined by management as net profit after tax and outside equity interests, before goodwill amortisation and funds management and life insurance appraisal value uplift/(reduction). "Cash basis" net profit after tax represents profit derived from business operating income and operating expenses after tax. The only items excluded from the net profit after tax are goodwill amortisation and appraisal value uplift/(reduction). The goodwill amortisation is an annual accounting charge to profit, with amortisation principally over a 20-year period. The appraisal value reduction or uplift is a movement in the value of the funds management and life insurance businesses which in part is driven by external economic factors and markets, such as world equity markets and interest rates. Management believes "cash basis" is a meaningful measure of the Bank's performance and provides the basis for the determination of the Bank's dividends. Also for the financial years ended 30 June 2005 and 30 June 2004, the Bank has added back the non-recurring 'Which new Bank' costs in considering the amount to be distributed as dividends to shareholders.

The Bank also presents its earnings per share on a statutory basis and on a cash basis. Earnings per share on a statutory basis are affected by the impact of changes in the appraisal value of our funds management and life insurance businesses. "Earnings per share (cash basis)" is defined by management as net profit after tax and outside equity interests, before goodwill amortisation and funds management and life insurance appraisal value uplift/(reduction), net of dividends paid on preference shares and other equity instruments, divided by the weighted average of the Bank's ordinary shares outstanding over the relevant period. This measure shows the "cash basis" net profit after tax, as described above, per share.

The Bank also presents its dividend payout ratio on a statutory and cash basis. The dividend payout ratio is calculated by dividing the dividends paid on ordinary shares by the Net profit after tax ("statutory basis"), net of dividends on preference shares. The dividend payout ratio ("cash basis") is calculated by dividing the dividends paid on ordinary shares by the net profit after tax ("cash basis"), net of dividends on preference shares. Similarly, the Bank presents "Dividend cover – statutory", which is net profit attributable to members of the Bank after preference share dividends divided by dividends on ordinary shares for the financial year, and "Dividend cover – cash", which is net profit attributable to members of the bank ("cash basis") after preference share dividends divided by dividends on ordinary shares for the financial year. These ratios are provided on both a statutory and cash basis since net profit after tax, the primary component of these ratios, is also presented on a statutory and cash basis, for the reasons described above.

"Operating Expenses – Initiatives including Which new Bank" refers to incremental expenses associated with these initiatives. The financial year 2003 numbers refer to the strategic initiatives as outlined in the Bank's annual report for the year ended 30 June 2003. These incremental costs principally relate to restructuring expenses. "Operating expenses – Initiatives including Which new Bank" plus "Other operating expenses" is equal to the Australian GAAP measure "operating expenses". Management believes it is meaningful to highlight these items in an analysis of the Bank's results.

The Bank presents an Adjusted Common Equity ratio (the "ACE ratio"). The ACE ratio is one measure considered by Standard & Poor's in evaluating the Bank's credit rating and is calculated in accordance with Standard & Poor's methodology. The ACE ratio has been provided in response to an increased focus by equity analysts on this measure and to permit comparability by investors with other financial institutions. The ACE ratio is calculated in accordance with the Standard & Poor's methodology. For the Group's calculation of the ACE ratio refer to Note 31 to the financial statements.

Highlights

(Except where otherwise stated, all figures relate to the Financial Year ended 30 June 2005 and comparatives for the profit and loss are to the Financial Year ended 30 June 2004 and 30 June 2003. '\$' and 'A\$' refer to Australian dollars, while 'US\$' refers to US dollars. Reference to 'Group' means all banking, insurance and funds management operations of the Commonwealth Bank Group. Reference to 'Bank' means the banking operations only of the Group.)

Financial Year 2005 vs Financial Year 2004

Financial Performance and Business Review

The Group's net profit after tax ("statutory basis") increased by 55% to \$3,991 million for the year ended 30 June 2005. This result includes an Appraisal Value uplift of \$778 million (\$201 million in 2004), reduction of Which new Bank expenses by \$430 million after tax to \$105 million after tax from \$535 million after tax in 2004 and goodwill amortisation of \$325 million (which is consistent with 2004).

The increase in profit after tax reflected solid income growth and was assisted by good cost control, with:

- Growth in lending assets of 15%, with market share growth across a range of products, while net interest margins declined slightly (8 basis points) over the year;
- Growth in Funds under Administration of 12%, partially offset by a decline in the gross margin by two basis points;
- Insurance revenues benefited from a 8% growth in inforce premiums, despite severe weather storms in February;
- Expenses remained virtually flat for three halves, despite being impacted by higher spend on compliance projects and a stronger NZ dollar; and
- The charge for bad and doubtful debts as a proportion of Risk Weighted Assets remained consistent with the previous year at 17 basis points.

Net profit after tax ("cash basis") increased by 31% to \$3,538 million compared with \$2,695 million in the prior year. Earnings per share ("cash basis") was \$2.68, an increase of 30%, which is at the upper end of the market guidance provided in February.

Total Shareholder Return (TSR) over the two years ended 30 June 2005 was 50.5% (Source: Bloomberg). This is in excess of the 40.6% increase in the ASX Accumulation Financial Index over the same period.

Which new Bank

The Group has continued to meet or exceed its Which new Bank market commitments and critical project milestones. A comprehensive discussion of progress and outcomes is set out on pages 11 and 12.

Financial Condition

The Group's assets increased by \$23 billion to \$329 billion (2004: \$306 billion) over the year.

Total lending assets increased by \$30 billion from \$206 billion to \$236 billion at 30 June 2005 reflecting growth across a range of lending products.

The Group's capital position remained strong throughout the year, sitting comfortably above the Group's target minimum ratios and in compliance with the Group's regulatory requirements. The Tier One capital ratio increased from 7.43% to 7.46% and the Total Capital ratio decreased from 10.25% to 9.75% during the year to 30 June 2005.

During the year, the Group's risk-weighted assets grew from \$169 billion to \$190 billion.

The Group's long term credit ratings remain unchanged.

At 30 June 2005, the Group's credit ratings were:

Credit Rating	Long-term	Short-term
Fitch Ratings	AA	F1+
Moody's Investor Services	Aa3	P-1
Standard & Poor's	AA-	A-1+

(Ratings are not a recommendation to purchase, hold or sell securities, and may be changed, superseded or withdrawn at any time.)

The following significant capital management initiatives were undertaken to actively manage the Group's Tier One capital:

- Issue of NZ\$350 million (A\$323 million) of Perpetual Preference Shares in December 2004;
- Issue of \$200 million of shares in March 2005 to satisfy the Dividend Reinvestment Plan ("DRP") in respect of the interim dividend for the year ended 30 June 2005; and
- In accordance with APRA guidelines, the estimated issue of \$272 million of shares to satisfy the DRP in respect of the final dividend for the year ended 30 June 2005.

As required by APRA, the Group's investment in its life insurance and funds management companies is deducted from regulatory capital to arrive at the Group's Capital Ratios. The Group's life and funds management companies held an estimated \$580 million excess over regulatory capital requirements at 30 June 2005 in aggregate.

The Group has an integrated risk management framework to identify, assess and manage risks in the business. The Group's risk profile is measured by the difference between capital available to absorb loss and risk as assessed by target equity required. This risk framework is described more fully elsewhere in this report.

Dividends

The total dividend for the year was another record at \$1.97 per share, an increase of 14 cents or 8% on the prior year. The dividend payout ratio ("cash basis") for the year was 73.9% consistent with the payout ratio in the prior year, after adjusting for the additional Which new Bank expenses in that year.

The dividend payment for the second half of the year was \$1.12 per share (\$1.04 per share in the previous year). This dividend payment was fully franked and was paid on 23 September 2005 to owners of ordinary shares at the close of business on 19 August 2005 ("record date").

The Group issued \$200 million of shares to satisfy shareholder participation in the DRP for the year ended 30 June 2005. It expects to issue around \$272 million of shares in respect of the DRP for the final dividend for the year ended 30 June 2005.

Highlights (continued)

Financial Year 2004 vs Financial Year 2003

The Group's net profit after tax ("statutory basis") for the year ended 30 June 2004 was \$2,572 million, an increase of 28% on the result of \$2,012 million for the year ended 30 June 2003. The result for the year ended 30 June 2004 included an appraisal value uplift of \$201 million, compared with a reduction in the appraisal value of controlled entities of \$245 million for year ended 30 June 2003. The appraisal value movement is discussed within the "Life Insurance Valuations" section.

Factors contributing to the growth in operating performance for the year ended 30 June 2004 included:

- Continued strong home lending growth domestically and in New Zealand were the major contributors to the growth in lending asset balances for the year ended 30 June 2004, which increased 18% to \$206 billion over the year ended 30 June 2003;
- Improved performance in Funds Management following positive investor sentiment in the market and higher assets under administration;
- Significantly stronger general and life Insurance results for the year ended 30 June 2004;
- A favourable credit environment, with very low levels of corporate and personal defaults for the year ended 30 June 2004;
- Initial benefits arising from the Which new Bank program, offset by
- Some margin compression, in line with the industry, with net interest margin down 14 basis points to 2.53% for the year ended 30 June 2004.

In addition, buoyant domestic and global equity markets led to investment returns on shareholders' funds in Funds Management and Insurance increasing to \$152 million (after tax) for the year ended 30 June 2004 against \$73 million in the prior year.

The net profit after tax ("cash basis") for the year ended 30 June 2004 was \$2,695 million, an increase of 5% over the year ended 30 June 2003. This result was achieved after absorbing \$535 million (after tax) of incremental expenses in relation to the Which new Bank program.

Highlights (continued)

	Full Year Ended		
	30/06/05 \$M	30/06/04 \$M	30/06/03 \$M
Contributions to Profit (after income tax)			
Banking	2,880	2,176	2,234
Funds Management	349	268	216
Insurance	309	251	129
Net Profit after Income Tax ("cash basis")	3,538	2,695	2,579
Appraisal value uplift/(reduction)	778	201	(245)
Goodwill amortisation	(325)	(324)	(322)
Net Profit after Income Tax ("statutory basis")	3,991	2,572	2,012

	Full Year Ended		
	30/06/05	30/06/04	30/06/03
Shareholder Summary			
Dividends per share - fully franked (cents)	197	183	154
Dividend cover - statutory (times) ⁽¹⁾	1.5	1.1	0.9
Dividend cover - cash (times) ⁽²⁾	1.4	1.1	1.3
Earnings per share (cents)			
Statutory - basic	303.1	196.9	157.4
Statutory - fully diluted	303.0	196.8	157.3
Cash basis - basic ⁽³⁾	267.6	206.6	202.6
Cash basis - fully diluted ⁽³⁾	267.5	206.5	202.5
Dividend payout ratio (%)			
Statutory	65.2	93.5	97.7
Cash basis ⁽⁴⁾	73.9	73.9 ⁽⁵⁾	75.9
Weighted average number of shares - basic (number)	1,273	1,256	1,253
Weighted average number of shares - fully diluted (number)	1,274	1,257	1,254

(1) Net profit attributable to members of the bank after preference share dividends divided by dividends on ordinary shares for the financial year.

(2) Net profit attributable to members of the bank ("cash basis") after preference share dividends divided by dividends on ordinary shares for the financial year.

(3) Calculated by excluding appraisal value uplift and goodwill amortisation from earnings used to calculate Earnings per share - statutory and dividing the result by the weighted average number of shares.

(4) Dividends paid on ordinary shares divided by earnings excluding appraisal value uplift and goodwill amortisation, net of dividends on preference shares.

(5) Dividend payout ratio for June 2004 excludes the impact of Which new Bank expenses (\$535 million after tax), as communicated at the commencement of the program.

Important Date for Shareholders

15 February 2006 2005 Interim Results Announcement

Highlights (continued)

	Full Year Ended		
	30/06/05 \$M	30/06/04 \$M	30/06/03 \$M
Net Profit after Income Tax ("statutory basis")	3,991	2,572	2,012
Net Profit after Income Tax ("cash basis")	3,538	2,695	2,579
Net interest income	5,966	5,410	5,026
Other banking income	2,915	2,846	2,627
Funds management income	1,261	1,158	1,115
Insurance income	747	678	598
Total Operating Income	10,889	10,092	9,366
Shareholder investment returns	237	196	91
Policyholder tax benefit/(expense)	228	203	(58)
Total Income	11,354	10,491	9,399
Initiatives including Which new Bank ⁽¹⁾	150	749	239
Other operating expenses	5,697	5,500	5,312
Total Operating Expenses	5,847	6,249	5,551
Charge for bad and doubtful debts	322	276	305
Net Profit Before Income Tax	5,185	3,966	3,543
Policyholder tax expense/(benefits)	228	203	(58)
Corporate tax expense	1,409	1,059	1,016
Outside equity interests	10	9	6
Net Profit after Income Tax ("cash basis")	3,538	2,695	2,579
Appraisal value uplift/(reduction)	778	201	(245)
Goodwill amortisation	(325)	(324)	(322)
Net Profit after Income Tax ("statutory basis")	3,991	2,572	2,012

⁽¹⁾ Results for the Financial Years 2005 and 2004 reflect the Which new Bank program, while results for the Financial Year 2003 includes strategic initiatives undertaken.

Key Performance Indicators	Full Year Ended		
	30/06/05 \$M	30/06/04 \$M	30/06/03 \$M
Banking			
Net interest margin (%)	2.45	2.53	2.67
Average interest earning assets	243,948	214,187	188,270
Average interest bearing liabilities	225,592	197,532	174,737
Funds Management			
Funds under administration	123,064	109,883	98,566
Insurance			
Inforce premiums	1,265	1,167	1,076
Capital Adequacy			
Tier 1 (%)	7.46	7.43	6.96
Total (%)	9.75	10.25	9.73
Adjusted common equity ⁽¹⁾	4.91	4.75	-

⁽¹⁾ Adjusted Common Equity ("ACE") is one measure considered by Standard & Poor's in evaluating the Group's credit rating. The ACE ratio has been calculated in accordance with the Standard & Poor's methodology. As the Bank did not disclose this ratio for the Financial Year 2003, no comparative is published for that year.

Capital Management

The Group believes that it maintains a strong capital position. This is recognised in its credit ratings which again remained unchanged during the year.

Credit Ratings	Long Term	Short Term	Affirmed
Fitch Ratings	AA	F1+	Jun 05
Moody's Investor Services	Aa3	P-1	Jun 05
Standards & Poor's	AA-	A-1+	Jun 05

Ratings are not a recommendation to purchase, hold or sell securities, and may be changed, superseded or withdrawn at any time.

Additional information regarding the Group's capital management initiatives are disclosed in Note 31 to the Financial Statements.

Highlights (continued)

Balance Sheet Summary	30/06/05	30/06/04	30/06/03
	\$M	\$M	\$M
Total assets	329,035	305,995	265,110
Total liabilities	302,975	281,110	242,958
Shareholders' equity	26,060	24,885	22,152
Assets held and Funds under administration			
On Balance Sheet			
Banking assets	292,026	269,066 ⁽¹⁾	229,289 ⁽²⁾
Insurance Funds under administration	22,959	22,952	22,144
Other insurance and internal funds management assets	14,050	13,977 ⁽¹⁾	13,677 ⁽²⁾
	329,035	305,995	265,110
Off Balance Sheet			
Funds under administration	100,105	86,931	76,422
	429,140	392,926	341,532

⁽¹⁾ Comparatives for 30 June 2004 have been restated to reflect a restructure and subsequent realignment in business segments.

⁽²⁾ The comparatives for the Financial Year 2003 have not been restated.

	Full Year Ended		
Productivity and Efficiency⁽¹⁾	30/06/05	30/06/04	30/06/03
			\$M
Banking			
Expense to income (%)	50.2	59.2	54.7
Funds Management			
Expense to average funds under administration (%) ⁽²⁾	0.73	0.80	0.87
Insurance			
Expense to average inforce premiums (%) ⁽²⁾	45.5	47.3	50.4
Total operating income per FTE (\$)	308,357	278,047	261,292
Full time staff equivalent (FTE's) - Australia	27,201	28,814	29,608
Full time staff equivalent (FTE's) - International	7,322	7,060	6,237
Full time staff equivalent (FTE's) – total excluding Which new Bank	34,523	35,874	35,845
Full time staff equivalent (FTE's) - Which new Bank ⁽³⁾	790	422	-
Full time staff equivalent (FTE's)	35,313	36,296	35,845

⁽¹⁾ Productivity changes shown as an annualised percentage change.

⁽²⁾ Ratios for Financial Year 2003 have not been restated for the segment definition changes in Financial Year 2004. The effect of restatement is not material.

⁽³⁾ Full time staff equivalents working on the Which new Bank program

Which new Bank Summary

Background

In September 2003, the Bank launched its Which new Bank customer service vision "To excel in customer service". The service transformation consists of three themes; excellent **customer service** through **engaged people** supported by **simple processes**.

The Bank estimated a spend of \$1,480 million over the three years to 2006. This included \$600 million of normal project spend, and an additional \$620 million in areas such as systems and process simplification, technology and staff training and \$260 million invested in the branch network.

At the time of the launch of Which new Bank the Bank provided the following financial guidance:

- An increase in cash EPS exceeding 10% compound average growth rate (CAGR) over the three years, which has subsequently been revised upwards to exceed 12% CAGR;
- Achieving a 4-6% annual productivity improvement;
- Regaining profitable market share in key business lines; and
- Increasing dividends each year.

Progress in 2005

The Bank continues to make significant progress on its market commitments, with net benefits in 2005 totalling an estimated \$724 million as described in the following table. Market shares in key business lines have improved (home loans, personal lending, funds management) or are showing signs of turn-around (business lending, deposits). Efficiency gains are being recorded in each segment. Dividends have continued to increase throughout the program.

Progress within the major initiatives include the following:

- "CommLeader", the Bank's leadership program which provides a common understanding of our approach to leadership and desired behaviours that underpin the cultural change, has been completed by 300 senior leaders;
- Service and sales training for 27,000 staff members has been completed, thereby equipping staff and managers to provide higher quality needs analysis and improved service to our customers;
- "CommWay", initiatives have achieved turnaround time improvement across many of the Bank's processes. In addition, a significant improvement in response times for home loans and personal loans has been achieved with end-to-end systems and process redesign.
- "CommSee", the new customer management platform, provides our customer service staff with ready access to imaged client documents and authorities, is making it easier to view customer information. More than half of the Bank's branches now have CommSee operating and we are averaging over 90,000 referrals per month and maintaining a conversion rate of around 30%. Although CommSee is still being implemented across the country, the Bank believes that the momentum gained during the second half of the year will position the Bank well to benefit fully from this customer service initiative;
- A further 127 branches have been refurbished this year, bringing the number of branches modernised to help our people provide faster, more efficient service, to 252;
- The new NetBank platform was introduced in April 2005 providing enhanced functionality and greater flexibility for our 2 million on line customers;
- A redesign of Support Functions has led to the implementation of new business models, achieving simplification and efficiency gains and improving customer service as reflected in the internal customer service survey results; and

- The Wealth Management team achieved its June 2005 goal of reducing the number of product systems to seven. This brings the number of systems decommissioned to 10, since the beginning of Which new Bank.

Key metrics

Customer service

Product sales per retail staff member for the June 2005 quarter are 25% higher than at the commencement of Which new Bank in September 2003.

The Bank estimates customer queue times across branches have improved with 85% of branches now serving customers, on average, within two minutes, compared with 41% at the start of the program.

Engaged People

The annual employee workplace (Gallup) survey, measuring employee engagement, showed the Bank increased its percentile rating from 74th in May 2003 to 77th in May 2005. This is against our target of exceeding the global best practice mark at the 75th percentile.

The Bank's recently introduced internal customer service survey, which surveys our support and operations staff for quality of service provided, has risen for the third successive quarter. The latest result show 88% of internal customers agree that they receive excellent service.

The staff engagement survey reaffirmed progress with results improving in the last six months. This includes staff having a clear understanding of the customer service vision, where the Bank is headed and that we have an environment where ideas and knowledge are more freely shared.

Simple processes

CommWay, the Bank's approach to continuous improvement, has completed 41 projects averaging a 49% improvement in turnaround times as well as achieving efficiency gains. Projects were completed across all major operations and support areas. In addition, the Bank believes that the program has built competencies across the Bank, with over 450 business people skilled in applying the tools and methodologies as part of their everyday role.

The Bank believes that customers are being provided with quicker credit decisions for home loans and personal loans. The proportion of conditional approvals able to be provided on-the-spot has increased to 71% for home loans in branches, and 45% for personal loans, compared with 47% and 0% respectively at the start of the program. The Bank believes that this will continue to rise as additional initiatives are fully implemented.

Focus for 2006

The Bank continues to make significant progress in its customer service transformation and remains confident that, with the momentum gained so far, it will meet all the Which new Bank market commitments.

The 2006 financial year will see the completion of all major Which new Bank projects including the deployment of CommSee across Australia. We expect customer service to continue to improve as our people further embrace the service and sales culture, our customer service staff are provided with better tools to serve customers and turnaround times continue to reduce.

Which new Bank Summary (continued)

	Full Year Ended	
	30/06/05	30/06/04
Which New Bank (WnB)	\$M	\$M
Gross spend	601	634
Change in provision for future costs	(97)	208
Investments capitalised	(154)	(112)
Net Which new Bank expenses	350	730
Less: Assumed normal project spend	(200)	(200)
Expensing of previously capitalised software	-	219
Incremental WnB expenses – before tax	150	749
Incremental WnB expenses – after tax	105	535
Which new Bank expenses to date	1,235	634

	Full Year Ended	
	30/06/05	30/06/04
Incremental WnB expense by Segment	\$M	\$M
Banking	112	698
Funds Management	36	37
Insurance	2	14
Incremental WnB expenses – before tax	150	749

	Full Year Ended	
	30/06/05	30/06/04
Which new Bank benefits – total	\$M	\$M
Gross benefits – estimated revenue	340	152
Less: Additional operating expenses	(67)	(60)
Net benefits – Revenue	273	92
Gross benefits - Expenses	451	145
Net benefits pre tax	724	237
Target communicated to market	620	200

The impact on current full year expenses is the net of \$451 million estimated cost benefits, less the impact of additional operating expenses of \$67 million, totalling \$384 million. The ratio of estimated net benefits is: revenue 38% : expenses 62% (2004 was 39% and 61% respectively).

	Full Year Ended	
	30/06/05	30/06/04
Investment capitalised under WnB	\$M	\$M
Branch Refurbishment	58	74
IT systems	96	38
Total amount capitalised	154	112

The balance of capitalised IT systems at 30 June 2005 was \$182 million.

	June 2005 Milestone	Percentage complete*	Target date
Customer	1. Service & Sales Management - remaining staff trained	100%	Jun 05
	2. Branch Refurbishment - refurbish 125	100%	Jun 05
	3. NetBank - new service implemented	100%	Mar 05
	4. CommSee - platform built and deployment commenced	100%	Apr 05
	5. CommSee - 40% customer-facing staff trained	100%	Jun 05
	6. Segment Model - pilot completed	100%	Jun 05
People	7. Performance Culture - performance management system implemented	100%	Dec 04
	8. Performance Culture - new learning curriculum available	100%	Jun 05
Process	9. CommWay - 40 process simplification initiatives completed	100%	Jun 05
	10. Support Function Redesign - implementation of 14 functions completed	100%	Jun 05
	11. Wealth management systems - reduced from 11 to 7	100%	Jun 05
	12. Procurement - 10 key categories renegotiated	100%	Jun 05
	13. IT Efficiency - run-rate savings of \$80m realised	100%	Jun 05

* As at end June 2005

† As at May 2005 WnB progress update

Financial Review

	Year ended 30 June					
	2005	2005	2004	2003	2002	2001
	(A\$ millions, except where indicated)					
Selected Consolidated Income Statement Data	US\$M ⁽³⁾					
Australian GAAP						
Interest income	12,337	16,194	13,287	11,528	10,455	11,900
Interest expense	(7,792)	(10,228)	(7,877)	(6,502)	(5,745)	(7,426)
Net Interest income	4,545	5,966	5,410	5,026	4,710	4,474
Charge for bad and doubtful debts	(245)	(322)	(276)	(305)	(449)	(385)
Non interest income	4,697	6,166	5,282	4,373	4,835	4,824
Operating expenses (incl. Goodwill)	(4,702)	(6,172)	(6,573)	(5,873)	(5,524)	(5,508)
Appraisal value reduction ⁽¹⁾	-	-	-	(245)	-	-
Operating profit before income tax and abnormal items	4,295	5,638	3,843	2,976	3,572	3,405
Income tax expense attributable to						
operating profit before abnormal items	(1,247)	(1,637)	(1,262)	(958)	(916)	(993)
Operating profit after income tax	3,048	4,001	2,581	2,018	2,656	2,412
Outside equity interest	(8)	(10)	(9)	(6)	(1)	(14)
Net income	3,040	3,991	2,572	2,012	2,655	2,398
Dividends declared (\$)	1,092	1,434	1,315	1,066	1,913	1,720
Weighted average number of shares (basic)	970m	1,273m	1,256m	1,253m	1,250m	1,260m
Earnings per share, basic before abnormal items (cents)	231	303.1	196.9	157.4	209.6	189.6
Earnings per share, basic after abnormal items (cents)	231	303.1	196.9	157.4	209.6	189.6
Earnings per share, fully diluted before abnormal items (cents)	231	303.0	196.8	157.3	209.3	189.3
Earnings per share, fully diluted after abnormal items (cents)	231	303.0	196.8	157.3	209.3	189.3
Dividends per share (cents)	150	197	183	154	150	136
Dividends payout ratio (%) ⁽²⁾	50	65.2	93.5	97.7	71.7	71.2
Adjusted for US GAAP						
Operating profit after income tax	2,715	3,564	2,043	3,000	1,682	1,586
Earnings per share after abnormal items (cents) - basic	205.2	269.3	158.3	235.7	131.5	125.2
Earnings per share after abnormal items (cents) - diluted	205.1	269.2	158.2	235.6	131.3	125.0

⁽¹⁾ Appraisal value adjustment relating to life insurance business for Financial Year 2003 was a reduction and has been disclosed as an expense. For Financial Year 2005 (\$778 million), 2004 (\$201 million), 2002 (\$477 million) and 2001 (\$474 million), appraisal value adjustments were uplifts have been included in non interest income.

⁽²⁾ Dividends per share divided by earnings per share.

⁽³⁾ US\$ translated from A\$ at 30 June 2005 (see table below for rate).

⁽⁴⁾ Relates to restructuring costs, net market valuation of funds management businesses and change of valuation bases of Commonwealth Life insurance business

Exchange Rates

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

	Year Ended 30 June				
	2005	2004	2003	2002	2001
	(expressed in US dollars per \$1.00)				
Period End	0.7618	0.6952	0.6713	0.5628	0.5100
Average Rate	0.7534	0.7142	0.5847	0.5236	0.5372

The Noon Buying Rate on 13 December 2005 was US\$0.7545 = \$1.00.

	November	October	September	August	July	June
	(expressed in US dollars per \$1.00)					
High	0.7451	0.7630	0.7731	0.7739	0.7661	0.7792
Low	0.7267	0.7468	0.7537	0.7469	0.7403	0.7498

Financial Review (continued)

	Year ended 30 June					
	2005	2005	2004	2003	2002	2001
	(A\$ millions, except where indicated)					
Consolidated Balance Sheet Data	US\$M ⁽⁵⁾					
(at year end)						
Australian GAAP						
Assets						
Cash and liquid assets	4,354	5,715	6,453	5,575	6,044	3,709
Receivables due from other financial institutions	4,727	6,205	8,369	7,066	7,728	4,622
Trading securities	11,144	14,628	14,896	10,435	8,389	6,909
Investment securities	7,825	10,272	11,447	11,036	10,766	9,705
Loans, advances and other receivables	165,704	217,516	189,391	160,347	147,074	136,059
Bank acceptances of customers	12,788	16,786	15,019	13,197	12,517	12,075
Insurance investment assets	21,206	27,837	28,942	27,835	30,109	31,213
Deposits with regulatory authorities	34	45	38	23	89	61
Property, plant and equipment	1,024	1,344	1,204	821	862	919
Investments in associates	40	52	239	287	313	400
Intangible Assets	3,347	4,394	4,705	5,029	5,391	5,716
Other assets	18,466	24,241	25,292	23,459	20,366	19,023
Total Assets	250,659	329,035	305,995	265,110	249,648	230,411
Liabilities						
Deposits and other public borrowings	128,004	168,029	163,177	140,974	132,800	117,355
Payable due to other financial institutions	6,112	8,023	6,641	7,538	7,864	6,903
Bank acceptances	12,788	16,786	15,019	13,197	12,517	12,075
Provision for dividend	11	14	14	12	1,040	779
Income tax liability	1,181	1,550	811	876	1,276	1,355
Other provisions	671	881	997	819	834	1,007
Insurance policy liabilities	18,812	24,694	24,638	23,861	25,917	27,029
Debt issues	44,657	58,621	44,042	30,629	23,575	24,484
Bills payable and other liabilities	13,778	18,086	19,140	19,027	17,342	13,872
	226,014	296,684	274,479	236,933	223,165	204,859
Loan capital ⁽¹⁾	4,792	6,291	6,631	6,025	5,427	5,704
Total liabilities and loan capital	230,806	302,975	281,110	242,958	228,592	210,563
Net Assets	19,853	26,060	24,885	22,152	21,056	19,848
Total Shareholders' Equity ⁽²⁾	19,853	26,060	24,885	22,152	21,056	19,848
Preference share capital	523	687	687	687	687	687
Other equity instruments	1,198	1,573	737	-	-	-
Total Shareholders' Equity excluding hybrid financial instruments	18,131	23,800	23,461	21,465	20,369	19,161
Adjusted for US GAAP						
Total Assets	249,442	327,438	303,437	264,387	247,563	235,401
Shareholders' equity ⁽³⁾	14,391	18,891	17,504	17,291	16,299	16,236
Consolidated Operating Data						
(number) (at year end)						
Full time staff equivalent ⁽⁴⁾		35,313	36,296	35,845	37,245	37,460
Branches/service centres (Australia)		1,006	1,012	1,014	1,020	1,161
Agencies (Australia)		3,864	3,866	3,893	3,936	3,927

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

⁽²⁾ Including minority interests (see Note 30 to the financial statements for details).

⁽³⁾ Exclusive of minority interests.

⁽⁴⁾ Staff numbers include all permanent full time staff, part time staff equivalents and external contractors employed by third party agencies.

⁽⁵⁾ US\$ translated from A\$ at 30 June 2005 (see table on page 13 for rates).

Financial Review (continued)

	2005	2005	2004	2003	2002	2001
	Year ended 30 June					
	(A\$ millions, except where indicated)					
Consolidated Ratios and Operating Data	US\$M ⁽⁶⁾					
Australian GAAP						
Profitability						
Net Interest Margin (%) ⁽¹⁾		2.45	2.53	2.67	2.76	2.78
Interest Spread (%) ⁽²⁾		2.11	2.22	2.40	2.47	2.32
Return on average shareholders' equity (%) ⁽³⁾		15.67	13.00	10.73	14.67	13.50
Return on average total assets (%) ⁽³⁾		1.26	0.90	0.78	1.11	1.07
Productivity						
Total operating income per full time (equivalent) employee (\$)	234,906	308,357	278,047	262,212	262,856	252,400
Staff expense/total operating income (%) ⁽⁴⁾		23.3	24.3	26.1	26.4	26.7
Total operating expenses excluding goodwill amortisation/total operating income (%) ⁽⁴⁾		51.5	59.6	59.1	57.4	58.6
Ratio of earnings to fixed charges		1.4	1.3	1.3	1.6	1.5
Capital Adequacy (at year end)						
Risk weighted assets	144,406	189,559	169,321	146,808	141,049	138,383
Tier 1 capital	10,773	14,141	12,588	10,213	9,561	9,015
Tier 2 capital	4,637	6,087	6,658	6,177	6,040	5,784
Total capital ⁽⁵⁾	14,077	18,479	17,355	14,276	13,820	12,680
Tier 1 capital/risk weighted assets (%)		7.46	7.43	6.96	6.78	6.51
Tier 2 capital/risk weighted assets (%)		3.21	3.93	4.21	4.28	4.18
Total capital/risk weighted assets (%)		9.75	10.25	9.73	9.80	9.16
Average shareholders' equity/average total assets (%)		8.03	8.24	8.39	8.51	8.06
Adjusted for US GAAP						
Net income as a percentage of year end:						
Total assets		1.09	0.67	1.13	0.68	0.67
Shareholders' equity		18.86	11.67	17.35	10.32	9.77
Dividends as a percentage of net income		40.24	64.37	35.52	116.36	92.21
Shareholders' equity as a percentage of total assets		5.77	5.77	6.54	6.58	6.89
Ratio of earnings to fixed charges		1.3	1.2	1.4	1.4	1.4

⁽¹⁾ Net interest income divided by average interest earning assets for the year.

⁽²⁾ Difference between the average interest rate earned and the average interest rate paid on funds.

⁽³⁾ Calculations based on operating profit after tax and outside equity interests applied to average shareholders' equity and average total assets respectively.

⁽⁴⁾ Total operating income represents net interest income before deducting charges for bad and doubtful debts plus non interest income.

⁽⁵⁾ Represents Tier 1 capital and Tier 2 capital less deductions under statutory guidelines imposed by the Reserve Bank of Australia. Refer note 31 of the financial statements for further details.

⁽⁶⁾ US\$ translated from A\$ at 30 June 2005 (see table on page 13 for rates).

Financial Review (continued)

	Year ended 30 June					
	2005	2005	2004	2003	2002	2001
	(A\$ millions, except where indicated)					
Consolidated Ratios and Operating Data	US\$M ⁽⁷⁾					
Australian GAAP						
Asset Quality Data ⁽¹⁾						
Non accrual loans ⁽²⁾	301	395	363	665	943	647
Total impaired assets ⁽³⁾	286	376	340	639	884	649
Specific provisions for impairment ⁽⁴⁾	120	157	143	205	270	234
General provisions for impairment	1,059	1,390	1,393	1,325	1,356	1,399
Net impaired assets (net of interest reserved)	167	219	197	434	614	415
Total provisions for impairment/average credit risk (%) ⁽⁵⁾		0.5	0.6	0.7	0.8	0.8
Charge for bad and doubtful debts/average credit risk (%) ⁽⁵⁾		0.1	0.1	0.1	0.2	0.2
Gross impaired assets/credit risk (%) ⁽⁶⁾		0.1	0.1	0.3	0.4	0.3
Net impaired assets/total shareholders' equity (%)		0.8	0.8	2.0	2.9	2.1
General provision for impairment/risk weighted assets (%)		0.7	0.8	0.9	1.0	1.0

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

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

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

⁽⁴⁾ Specific provisions for impairment include provisions raised against off balance sheet credit risk.

⁽⁵⁾ Average credit risk is based on gross credit risk less unearned income. Averages are based on current and previous year end balances.

⁽⁶⁾ Gross credit risk less unearned income.

⁽⁷⁾ US\$ translated from A\$ at 30 June 2005 (see table on page 13 for rates).

Summary Cash Flow Data

Further details of the Bank's cash flow are on pages 100 and 204-205.

Summary Cash Flow	Full Year Ended			
	2005 US\$M	2005 \$M	2004 \$M	2003 \$M
Net Cash provided by/(used in) operating activities	3,328	4,369	(2,371)	(2,125)
Net Cash (used in) investing activities	(18,237)	(23,940)	(31,094)	(11,634)
Net Cash provided by Financing Activities	13,453	17,660	34,883	12,689
Net (decrease)/increase in cash and cash equivalents	(1,456)	(1,911)	1,418	(1,070)
Cash and Cash Equivalents at beginning of period	2,168	2,846	1,428	2,498
Cash and Cash Equivalents at end of period	712	935	2,846	1,428

Financial Review (continued)

Segment Performance

Performance summaries for the major segments of the Group (Banking, Funds Management and Insurance) for Financial Years 2003, 2004 and 2005 are detailed in Note 33 to the Financial Statements.

Risk Factors

This section describes the principal risk factors that could materially affect the Group's businesses, its revenues, operating income, net income, net assets, liquidity and capital resources. The factors below should be considered in connection with the special note regarding forward-looking statements on page 4 and the Integrated Risk Management section as detailed on pages 44 to 47. The Integrated Risk Management section provides details on how the Group manages its risks in respect of credit, market, operational, life insurance, and derivatives exposures.

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

As a financial group whose core businesses are banking, insurance and funds management, the performance of the Group is dependent on the state of the Australian and New Zealand economies, customer confidence and prevailing market rates. The results of the Group in recent years have benefited from historically high rates of growth of the Australian and New Zealand economies, low unemployment and historically low rates of inflation. We can give no assurances as to the likely future states of the Australian and New Zealand economies, which can be influenced by many factors outside of our control.

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

We are subject to extensive regulation, which could impact our results

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

The requirement to maintain certain levels of Tier 1 and Tier 2 eligible capital determines the level of lending activity, or, alternatively, requires the issue of additional equity capital or subordinated debt, which are additional sources of funds to the Group. Any change in regulation, including changes to increase the requirements for capital adequacy could have an adverse impact on the Group's results of operations.

In June 2004, the Basel Committee on Banking Supervision ("Basel Committee") issued the Revised Framework for the calculation of capital adequacy for banks, commonly known as Basel II. Further details on Basel II are contained in Capital Adequacy – Regulatory Changes on page 169 to 172 of this report.

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

The Group is subject to the risks typical of banking, insurance and funds management activities, such as interest rate fluctuations, exchange rate variations and capital and equity market volatility. Many of these risks are outside the control of the Group. The results of our banking and insurance operations are affected by our management of interest rate sensitivity. Activity in the securities markets generally also affects our banking, funds management and insurance business. We also offer a number of financial products that expose us to risks associated with fluctuations in interest rates, securities prices or the value of real estate assets. For a description of these specific risks, see Note 39 to the Financial Statements.

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

The Group is subject to liquidity and funding risks, operational risk and life insurance risks. These risks are described in detail under 'Integrated Risk Management' commencing on page 44.

We face intense competition, which could adversely impact our results

The Group faces intense competition in all of its principal areas of operation and geographical markets, principally in Australia and New Zealand. Competition in the banking and funds management markets has, however, had the most significant effect on the Group's results and operations. Further details on the competition faced by the Group are detailed in 'Competition' on pages 59 and 60 of this report.

Banking Analysis

Financial Performance and Business Review

Financial Performance

For Financial Year 2005 net profit after tax ("statutory basis") for the banking business increased by \$703 million or 38% to \$2,577 million. The performance during the year was underpinned by:

- Strong volume growth in home lending, up 15% to \$140 billion and personal lending, up 19% to \$16 billion;
- Relatively stable net interest margin since June 2004 to bring the full year average net interest margin ("NIM") to 2.45%, eight basis points below the average for the prior year;
- Continued market share growth in the key retail lending products;
- Good cost control, with relatively flat costs, and
- Bad debt expense as a proportion of Risk Weighted Assets remaining at 17 basis points.

This result was partially offset by lower growth in business lending and deposits.

For Financial Year 2004, net profit after tax ("statutory basis") declined \$60 million or 3% to \$1,874 million, mainly due to Which new Bank initiatives costs of \$698 million before tax (Financial Year 2003: \$201 million) and \$499 million after tax (Financial Year 2003: \$142 million). Excluding this, the banking operations posted a strong result of \$2,373 million for the year. This result was driven by strong growth in home loan and other personal lending, an improved credit environment and increased volumes. The result was partially offset by the contraction in NIM of 14 basis points due to increased competition in the Australian Market.

Australian Retail

During Financial Year 2005 the Australian retail banking operations performed strongly.

The Bank was able to further improve its market share position in home lending, credit cards and other personal lending through a combination of competitive products, effective marketing and good customer service. Margins increased in all products except home loans, where there was a minor contraction, reflecting growth in third party volumes.

Credit quality remained sound. A decision was taken to increase the risk profile on personal lending unsecured credit, which had a positive impact on lending volume and revenue growth, but with some increase in the bad debt expense.

There has been some loss of retail deposit market share in the high interest rate segment as competitors have aggressively priced in an effort to gain market share. The Bank's strategy remains focused on delivering segmented product offers as the basis for maintaining profitable market share. In June, the Bank introduced its new NetBank Saver account designed to meet the needs of customers in this market segment.

The Bank introduced changes to its mortgage broker business model during the year with a progressive implementation from April 2005. Results to date have been in line with expectations, including a reduction of 5% in the proportion of introductory rate or "honeymoon" business. Separately, development continues on the Bank's new commission-only proprietary home loan channel "Innovators" (launched late 2004), with early results encouraging. The new channel is designed to acquire new home loan customers from external sources, and to complement our existing branch, mobile and broker channels.

During Financial Year 2004, the strong performance of the retail banking operations was driven by continued growth in the residential housing market, improved growth in other personal lending and solid deposit growth. Performance highlights for the year to June included:

- Home lending growth of 20%, underpinned by record sales volumes in both proprietary and broker channels.
- Strong performance in other personal lending, assisted by enhancements to the Personal Loan product and the launch of a new "Platinum" credit card in March 2004.
- Improved arrears levels across the retail lending portfolios, notwithstanding strong volume growth.

- Strong gains in underlying productivity levels, supported by efficiency improvements in operations processing areas and branch operations.
- Continued growth in online channels, with the Bank's NetBank service recognised during the year as the number one Internet Banking site in Australia (source: *Australian NetGuide magazine May 2004*).

Premium, Business, Corporate & Institutional

Premium Business Services provides financial services to a broad client base that incorporates the institutional, corporate and business segments as well as the Bank's high-net worth personal clients.

For Financial Year 2005 the working capital services business had a strong year with continued market share growth and good earnings momentum. The global markets trading business was limited by the low volatility in the Australian dollar and in particular Australian interest rates, leading to some decline in domestic customer activity. The lending business saw intense competition, especially for larger credit.

While business lending market share reduced slightly, the Bank's pricing and credit discipline led to further improvements in credit quality.

The Bank's relationship-based service approach has been successful for a broad range of investment products including primary offerings of equities and debt.

Other performance highlights include:

- Lead roles in a number of new financings, including a \$1 billion bond issue for Goldman Sachs and a \$1.9 billion Syndicated Standby Revolving and Term Loan Facility for Qantas Airways Ltd. This was the largest Australian dollar syndicated debt raising by an Australian corporate in the market last year; and
 - The acquisition of AOT Australia, which the Bank believes will further leverage CommSec's scale into the institutional market. CommSec continues to be the most active broker by number of transactions on the ASX and has the busiest single purpose website in Australia.
- The strong domestic economy and strict credit discipline have led to continued good credit quality in Financial Year 2004. The market has been characterised by a drive to gain market share via aggressive pricing and competitive terms and conditions. Within this competitive environment we have increased market share in some segments whilst maintaining share for the others. Major achievements during the Financial Year 2004 were:
- Growing market share in the business lending market (source: *RBA*) with strong performance in the institutional and corporate segments with market share increasing to 13.8%.
 - Gained traction in the Transaction Banking segments through some major client wins. Market share in both the top 500 and commercial segments continued to increase (source: *East & Partners*) with market shares increasing by 28 basis points to 20.9% and 17 basis points to 24.4% respectively.
 - Strong growth in Asset Finance market share (source: *Australian Equipment Lessors Association*) with market share increasing by 19 basis points to 16.0%.
 - Acted as joint advisor on the acquisition of the Loy Yang A power station. This was a landmark transaction in the energy sector and is the largest secondary market trade sale in the Australian infrastructure sector.

Banking Analysis (continued)

Asia Pacific

Asia Pacific Banking incorporates the Bank's retail and commercial banking operations in New Zealand, Fiji, and Indonesia. ASB Bank in New Zealand represents the majority of the Asia Pacific Banking business.

The New Zealand banking sector has continued to remain buoyant, with some evidence of a slowdown in the home loan market. The impact of the cash rate increases continues to be negative across the market and competition remains intense.

ASB Bank has strengthened its position, further increasing its market share in home lending throughout the year. ASB continued to fund a major portion of its operations from personal and business savings and investments, and total deposits at year end stood at New Zealand \$32.0 billion, up 21%. Personal banking funding was up 12%, business funding up 21% and rural funding up 39%.

During the Financial Year 2005 ASB Bank's performance highlights were:

- Increased after tax operating profit by 21%
- ASB increased its total advances during the year by 21% to stand at New Zealand \$35.0 billion by year end and total assets at year end were up 17%.
- Net interest earnings was up 14% and other income up 8%.
- Operating expense increased 5%; however, ASB's operating expense ratio to total operating income improved to 44.81% from 47.65%.
- Interest rate margin declined 10 basis points as a result of increased competition.
- Intense competition in the mortgage market during the year, resulted in increased lending volumes and market share partially offset by the contraction in net interest margin described above. It also accelerated the move by borrowers from floating mortgage rates to fixed rate lending, particularly two-year term.

ASB Bank was recognised for the third consecutive year as the "Bank of the Year" for New Zealand (Source: *Banker Magazine, UK, 7 September 2005*) reflecting the Bank's strong operational performance and commitment to customer service.

During the Financial Year 2004, ASB Bank achieved strong growth across the loan portfolio, particularly in housing credit.

Performance highlights were:

- Lending growth at well above market rates in the retail, commercial and rural sectors continued throughout the year. Home loan market share increased to 22.2% from 20.6% in June 2003 (Source: *Reserve Bank of NZ*).
 - Leading customer service in the Banking sector. For the sixth consecutive year, ASB was recognised as the top major retail bank in terms of satisfied and very satisfied customers in the Auckland University Bank Customer Satisfaction survey. For the fifth consecutive year, ASB was rated the top business bank on the same criteria.
 - A focus on technology innovation has led to the ASB website being judged the best Finance website for the second consecutive year by Net Guide Web Awards.
 - The continued focus on process efficiencies has delivered an end-to-end credit card approval process which is faster, at a lower cost, and with improved service delivery.
- The banking operations in Indonesia and Fiji continued to achieve strong balance sheet growth.

During the Financial Year 2005, the Bank acquired an 11% interest in Jinan City Commercial Bank, one of the 10 largest city commercial banks in China by assets. Subject to regulatory approval, the Bank will also acquire a 19.9% interest in Hangzhou City Commercial Bank, ranked in the top five city commercial banks by assets.

Banking Analysis (continued)

Key Performance Indicators	Full Year Ended		
	30/06/05 \$M	30/06/04 \$M	30/06/03 \$M
Net interest income	5,966	5,410	5,026
Other operating income	2,915	2,846	2,627
Total Operating Income	8,881	8,256	7,653
Initiatives including Which new Bank ⁽¹⁾	112	698	201
Other operating expenses	4,344	4,191	3,982
Total Operating Expenses	4,456	4,889	4,183
Charge for bad and doubtful debts	322	276	305
Net Profit before Income Tax	4,103	3,091	3,165
Income tax expense	1,220	914	931
Outside equity interests	3	1	-
Net Profit after Income Tax ("cash basis")	2,880	2,176	2,234
Goodwill amortisation	(303)	(302)	(300)
Net Profit after Income Tax ("statutory basis")	2,577	1,874	1,934

Productivity and other measures

Expense to income (%)	50.2	59.2	54.7
Effective corporate tax rate (%)	29.7	29.6	29.4

Balance Sheet

Lending assets (\$m)	235,849	205,945	175,074
Average interest earning assets (\$m)	243,948	214,187	188,270
Average interest bearing liabilities (\$m)	225,592	197,532	174,737

Asset Quality

Risk weighted assets (\$m)	189,559	169,321	146,808
Net impaired assets (\$m)	219	197	434
General provision/Risk weighted assets (%)	0.73	0.82	0.90
Total provisions/Gross impaired assets (net of interest reserved) (%)	411.4	451.8	239.4
Bad debt expense/Risk weighted assets (%)	0.17	0.16	0.21

⁽¹⁾ June 2005 and June 2004 results reflect the Which new Bank program, June 2003 results include strategic initiatives undertaken and the cost of the June 2002 ESAP paid in October 2002.

Total Banking Income

Total banking income comprises income from the Australian Retail; Premium, Business & Corporate and Institutional; Group Treasury and Asia Pacific operations.

	Full Year	
	30/06/2005 \$M	30/06/2004 \$M
Total Banking Income	8,881	8,256
Australian Retail	4,679	4,292
Premium, Business, Corporate and Institutional and Group Treasury	2,877	2,715
Asia Pacific	833	710
Trading income	440	499
Other	52	40
Total Banking Income	8,881	8,256
Net Interest Income	5,966	5,410
Other Banking Income	2,915	2,846
Total Banking Income	8,881	8,256

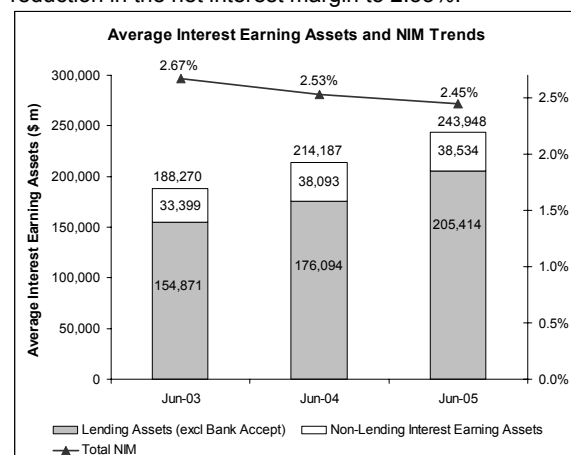
– *Australian Retail Banking Services:* For the 2005 Financial Year total income increased by 9% from the prior year to \$4,679 million, driven largely by higher interest income, with growth in lending assets of 15% while margins remained stable.

– *Premium, Business & Corporate and Institutional and Group Treasury:* Total income was 6% above the prior full year and reflects improved growth in lending assets. *Asia Pacific:* The increase in total income by 17% from the prior year reflects the benefits of continued strong lending growth in ASB Bank combined with a stronger New Zealand Dollar.

Net Interest Income

Net interest income for the 2005 Financial Year increased by 10% to \$5,966 million. The growth was driven by a 14% increase in average interest earning assets, partially offset by an eight basis points contraction in the net interest margin to 2.45%.

Net interest income increased by 8% to \$5,410 million for the Financial Year 2004. This increase was achieved through an increase of 14% in average interest earning assets to \$214 billion, offset by a 14 basis point reduction in the net interest margin to 2.53%.



Banking Analysis (continued)

Volume

Average interest earning assets increased by \$26 billion over the year to \$250 billion, reflecting a \$28 billion increase in average lending assets. Average liquid assets reduced by \$3 billion during the year.

The largest contributor to the increase in average interest earning assets was the continued resilience of home lending in Australia and New Zealand.

Average home loan balances increased by 19% since 30 June 2004 to \$132 billion (19% growth excluding securitisation). This growth was ahead of the market, in both the Australia and New Zealand residential lending sectors.

Personal lending average balances increased \$2 billion (15%) since June 2004, with strong growth across all major products including personal loans, credit cards and margin lending.

Average balances for Business, Corporate and Institutional lending grew 13% over the full year, across a number of lines of business including variable lending, hire purchase and term loans.

The increase in average interest earning assets for the Financial Year 2004 represented an increase of \$21 billion in lending assets and \$5 billion in non-lending interest earning assets. The increase in average interest earning assets contributed \$673 million to growth in net interest income over the Financial Year 2003.

As with the Financial Year 2005, the largest contributor to the increase in average interest earning assets was the strong residential home lending market in Australia and New Zealand, with average loan balances increasing by 20% from 30 June 2003 to \$111.4 billion (net of securitisation) at 30 June 2004, accounting for over 85% of the total increase in average lending assets.

Interest Margin

The average net interest margin for the Financial Year 2005 of 2.45% was eight basis points below the prior year. The NIM has relatively remained stable over the past 12 months.

Factors impacting on the margin relative to the NIM for the Financial Year 2004 included:

- Funding Mix: increased reliance on wholesale funding as a result of the strong growth in home lending outpacing retail deposit growth. The impact was to reduce NIM by five basis points.
- Lending Mix: continued strong growth in home loans partially off-set by the increase in home loan securitisation reduced NIM by 1 basis point.
- Other: competition remained strong across all products resulting in margin contraction reducing NIM by 2 basis points.

The reduction of 14 basis points in the average NIM from 2.67% for the year to 30 June 2003 to 2.53% for the year to 30 June 2004 reduced net interest income by \$289 million. Factors impacting the reduction in NIM for the Financial Year 2004 included:

- Non lending interest earning assets: Non lending interest earning assets increased by \$4.7 billion during the year largely as a result of increased liquidity requirements due to balance sheet growth and increased market making activities in Global Markets. This reduced the NIM by six basis points.
- Funding Mix: The strong growth in home loans outpaced growth in retail deposits, resulting in a higher reliance on wholesale funding. The impact was to reduce NIM by four basis points in the Financial Year 2004.
- Asset Mix: The continued strong growth in home loan balances compared with other lending reduced margins by three basis points in the Financial Year 2004.
- Competition: Represents the net impact of pricing changes on asset and liability products. Spreads on housing loans have tightened, offset by improved

spreads on deposit products. The net impact of competition is a one basis point reduction in the NIM in the Financial Year 2004.

Other Banking Operating Income

During the Financial Year 2005 other banking income increased 2% to \$2,915 million compared with \$2,846 million in the prior year. During the current year higher volume related commission and lending fees income were partially offset by lower trading income.

During the year:

- Commissions and fees increased 6% to \$1,595 million driven by increased volumes and completion of major infrastructure transactions (including Tollways) during the first half of the year. Credit card volume increases were driven by increased activity levels, combined with the launch of the Platinum card during March 2004.
- Lending fees increased 4% to \$753 million with volume increases in bill and overdraft facilities being the primary drivers.
- Trading Income of \$440 million was 12% below the prior year with lower market volatility and difficult trading conditions while lower volumes were recorded across the derivatives and foreign exchange sectors.
- Other Banking Income was relatively flat for the year. Current year income included \$52 million due to the change in tax consolidation legislation for leasing. The 2004 Financial Year included profits from strategic assets sales (Bank of Queensland and Fleet Lease) totalling \$71 million, partially offset by a \$31 million equity accounting loss of an associated entity due to a change in its' accounting policy.

In the Financial Year 2004, other banking operating income increased by 8% to \$2,846 million for the year compared with \$2,627 million for the Financial Year 2003. This includes non-interest income earned on transaction accounts for the Bank's personal, business and corporate customers.

Factors impacting other banking operating income in the Financial Year 2004 were:

- Commissions and fees increased by 8% in the Financial Year 2004 to \$1,503 million driven by increased volumes. CommSec experienced record trading levels during the year resulting in an increase in commissions of 72%. The acquisition and integration of TD Waterhouse effective 1 May 2003 also contributed to this increase. Spending on credit cards by customers increased by 17% during the year though this was partially offset by the impact of RBA interchange regulations. Included in fees and commissions are personal transaction fees, which are less than 5% of the Bank's total income.
- Lending fees increased by 11% in the financial Year 2004 to \$724 million. Growth in retail lending fees was the result of the increased activity in home lending, margin lending and overdraft line fees, which was partly offset by increased mortgage broker volumes and valuation fees. Institutional and Business fees increased, reflecting an improvement in market conditions.
- Trading income was in line with last year at \$499 million.
- Other banking income increased by \$41 million in the Financial Year 2004 to \$120 million. The Financial Year 2004 included the profit on sale of the Fleet Lease business and Bank of Queensland shares partially offset by equity accounted losses of an associate entity principally related to a change in its accounting policy described above.

Banking Analysis (continued)

Other Operating Expenses

Operating expenses within the Banking business increased by 4% to \$4,344 million during the 2005 Financial Year. Operating expenses during the year were impacted by:

- Average increase of 4% in staff expenses reflecting labour market movements and other inflation-related cost increases;
- Volume growth in the New Zealand Banking operations;
- A stronger New Zealand Dollar contributing an additional \$20 million in costs; and
- Increased costs associated with large compliance related projects (e.g. Basel II, International Financial Reporting Standards (IFRS) and Sarbanes Oxley) totalling \$35 million for the year (\$15 million in 2004).

Excluding the impact of the higher New Zealand Dollar and increased compliance project costs, operating expenses increased by 3%.

The Banking expense to income ratio for the Financial Year 2005 improved to 50.2% compared to 59.2% in the Financial Year 2004. This was largely due to the productivity gains for the Which new Bank cost initiatives. It is expected that that productivity gains will continue to accelerate over the remaining year of the Which new Bank program as further cost initiatives are implemented, and the full year benefits realised.

Other operating expenses increased by 5% to \$4,191 million for the Financial Year 2004. The increase was due to:

- Salary increases of 4% awarded under the Enterprise Bargaining Agreement (EBA).
- The full year effect of establishing the Premium Financial Services business which supported the strong growth in other banking operating income.
- Increases in volume related expenses including credit card loyalty.
- Operational (non-lending) losses incurred in retail banking and institutional banking.

These increases were partly offset by initial Which new Bank savings.

The Banking expense to income ratio for Financial Year 2004 was 59.2% compared to 54.7% in Financial Year 2003. This was largely due to Which new Bank expenses. Excluding the effects of these expenses, efficiency continued to improve from 52.0% for the Financial Year 2003 to 50.8% for the Financial Year 2004, a productivity improvement of 2.3%.

Bad and Doubtful Debts

The total charge for bad and doubtful debts for the Financial Year 2005 was \$322 million, which is 17 basis points of Risk Weighted Assets. This level is consistent with the prior year.

Impaired assets were \$395 million at year end up from \$363 million at 30 June 2004.

The Bank believes it is well provisioned, with total provisions for impairment as a percentage of gross impaired assets net of interest reserved of 411% (June 2004: 452%; June 2003: 239%). The general provision as a percentage of risk weighted assets was 0.73% compared with 0.82% as at 30 June 2004 and 0.90% as at 30 June 2003.

The total charge for bad and doubtful debts of \$276 million in the Financial Year 2004 was low compared with \$305 million for the year ended 30 June 2003.

The low interest rates continued to contribute to a good credit environment, with personal and corporate arrears and default levels at low levels.

Taxation Expense

The corporate tax charge for the Financial Year 2005 was \$1,220 million, an effective tax rate of 29.7% compared with 29.6% in the prior year.

The corporate tax charge of \$914 million in Financial Year 2004 was in line with the Financial Year 2003 and reflected the effect of the incremental Which new Bank program expenses. The effective tax rate increased by 20 basis points in the Financial Year 2004 to 29.6%.

Banking Analysis (continued)

Assets & Liabilities

Retail Lending

Home Lending

Home loan balances (net of securitisation) increased by 14% from 30 June 2004 to \$119 billion. Excluding the impact of securitisation, the growth since 30 June 2004 totalled 15%. Home lending market share improved, rising 63 basis points since 30 June 2004 to 19.9% as at 30 June 2005. Market share has improved each month in the year to 30 June 2005.

The Bank's branches continue to perform strongly, with growth ahead of the overall market. This has been supported by further increases in broker originated loans which now account for 21% of the Bank's total Australian book.

Retail Lending

Major Balance Sheet Items (gross of impairment)

Lending assets - Home Lending
Lending assets - Personal Lending

Market Share Percentage

Home Loans
Credit cards

(1) As at May 2004, Source: APRA/ABS

(2) As at May 2004, Source: Reserve Bank of Australia

Personal Lending

Personal lending balances increased by 18% over the full year to \$15.5 billion.

Personal Loans have grown strongly, as the Bank has sought to optimise the relationship between risk and reward. Growth in credit card balances reflected higher activity levels and the launch of a new Platinum card in March 2004. Market share in credit cards has improved 20 basis points since 30 June 2004. Margin Lending balances continued to grow throughout the year, assisted by strong equity markets.

	As at	
	30/06/05 \$M	30/06/04 \$M
Lending assets - Home Lending	119,094	104,883
Lending assets - Personal Lending	15,477	13,160
Home Loans	19.9	19.3 ⁽¹⁾
Credit cards	22.9	22.7 ⁽²⁾

Premium, Business, Corporate and Institutional Lending

Lending Assets

Business, Corporate and Institutional interest earning lending has increased \$5.7 billion or 12% over the year to \$51.6 billion at June 2005. Bank acceptances increased by 12% since 30 June 2004 with Bill facilities continuing to be a valuable source of financing for our customers.

Total lending growth market share (including bank acceptances) decreased slightly over the year to 13.4%. Business credit spreads, particularly for large transactions, contracted further throughout the year, reflecting the higher competitive business environment.

Trading and Investment Securities

Trading and Investment securities decreased by \$1.8 billion over the year to \$22.1 billion at 30 June 2005.

Transaction Services

Transaction market share for medium (commercial) and large corporations continued to grow, increasing 40 basis points and 1.2 % respectively over the past year.

Premium, Business, Corporate and Institutional Lending ⁽¹⁾

Major Balance Sheet Items (gross of impairment)

Interest earning lending assets
Bank acceptances of customers
Cash and other liquid assets
Trading & investment securities

Market Share Percentage

Business Lending
Asset Finance
Transaction Services (Commercial)
Transaction Services (Corporate)

(1) Includes Group Treasury

(2) Source: Australian Equipment Lessors Association as at May 2005. The comparatives have been restated to now also include other Commonwealth Bank of Australia receivables (previously included CBFC business only)

(3) Source: Australian Equipment Lessors Association

(4) Source: East & Partners as at February 2005. Survey respondents included companies with \$20 million to \$340 million turnover.

(5) Source: East & Partners as at May 2004. Survey respondents included companies with \$20 million to \$340 million turnover.

(6) Source: East & Partners as at May 2005. Survey respondents are companies with turnover greater than \$340 million

(7) Source: East & Partners as at May 2004. Survey respondents are companies with turnover greater than \$340 million

	As at	
	30/06/05 \$M	30/06/04 \$M
Interest earning lending assets	51,584	45,899
Bank acceptances of customers	16,786	15,019
Cash and other liquid assets	11,144	13,379
Trading & investment securities	22,057	23,884
Business Lending	13.4	13.8
Asset Finance	16.6 ⁽²⁾	16.8 ⁽³⁾
Transaction Services (Commercial)	24.8 ⁽⁴⁾	24.4 ⁽⁵⁾
Transaction Services (Corporate)	22.1 ⁽⁶⁾	20.9 ⁽⁷⁾

Banking Analysis (continued)

Deposits Australia

	As at	
	30/06/05 \$M	30/06/04 \$M
Transaction Deposits	30,501	28,887
Savings Deposits	34,205	32,914
Investment Deposits	52,286	47,844
Deposits not bearing Interest	5,823	5,407
Sub Total Deposits (excl CD's and other)	122,815	115,052
Certificate of Deposits and other ⁽¹⁾	18,299	24,101
Total Deposits (Australia)	141,114	139,153
Debt issues	51,682	38,542
Market Share Percentage		
Household Deposits ⁽²⁾	29.8	30.7
Retail Deposits ⁽³⁾	22.9	23.6

⁽¹⁾ Other includes securities sold under agreement to repurchase and short sales.

⁽²⁾ Source: APRA

⁽³⁾ Source: RBA

Deposits

In a competitive market, characterised by aggressive pricing, the Bank has grown its total deposits excluding Certificates of Deposit (CD's) by 7% over the year to 30 June 2005, whilst improving product margins. Across the three deposit categories, the strongest growth was in Investment Deposits, which have increased 9% over the past twelve months.

Transaction and Savings Deposits grew by 6% and 4% respectively during the past year. Savings performance reflected heightened competition as a number of competitors looked to compete aggressively on price in an effort to grow market share.

The Bank's strategy remains focussed on delivering segmented product offers as the basis for maintaining profitable market share. As part of this strategy the Bank introduced its new NetBank Saver account in 30 June 2005.

Debt Issues

Debt issues were \$51.7 billion at 30 June 2005, an increase of \$13 billion or 34% from 30 June 2004. The growth of debt issues reflects the wholesale funding requirement following the strong asset growth over the past twelve months. The majority of these issues were from offshore markets, where there was favourable market conditions and attractive funding rates.

Asia Pacific

	As at	
	30/06/05 \$M	30/06/04 \$M
Major Balance Sheet Items (gross of impairment)		
Home Lending	20,765	16,967
Other Lending assets	12,132	10,018
Trading & investment securities	2,843	2,459
Cash and liquid assets	821	1,481
Debt issues	6,939	5,500
Deposits ⁽¹⁾	23,006	19,176
Market Share Percentage		
New Zealand Lending for housing ⁽²⁾	23.0	22.2 ⁽³⁾
New Zealand Retail Deposits ⁽²⁾	19.5	17.5

⁽¹⁾ Asia Pacific Deposits exclude deposits held in other overseas countries (30 June 2005, \$3,909 million).

⁽²⁾ Source: Reserve Bank of NZ.

⁽³⁾ Under the current definition used by the RBNZ, the equivalent prior period market share would be 22.4%.

Lending Assets

Total Asia Pacific home lending remained strong over the past twelve months, increasing by 22% to \$20.8 billion at 30 June 2005. The strong performance reflects ASB Bank's prominence in the Auckland market, continued excellence in customer service and ongoing successful marketing campaigns.

ASB Bank has continued to grow its home lending market share increasing 30 basis points over the past six months to 23.0% by 30 June 2005.

Other lending assets, which comprise personal, rural and business/commercial lending assets, achieved similar growth levels to that of housing, increasing 21% in the twelve months to 30 June 2005.

Deposits

ASB Bank's retail deposits increased 20% over the year. Growth in deposits have been ahead of market with market share increasing to 19.5% at June 2005 up from 17.5% at June 2004.

The ASB Bank net interest margin decreased over the year. This was attributable to the impact of competitive pressures and higher wholesale funding costs.

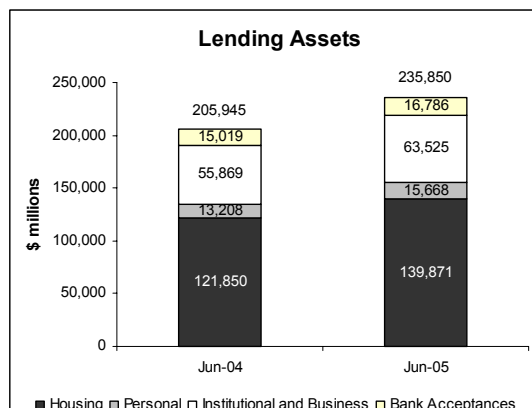
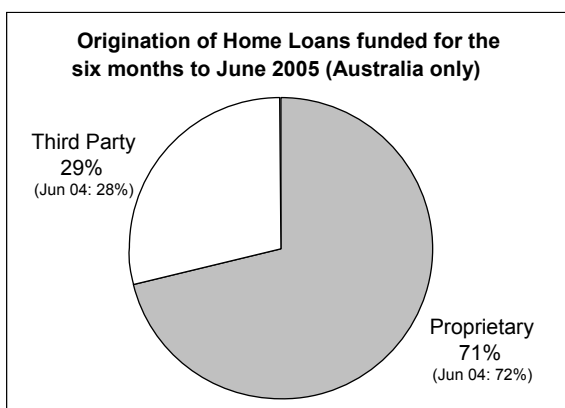
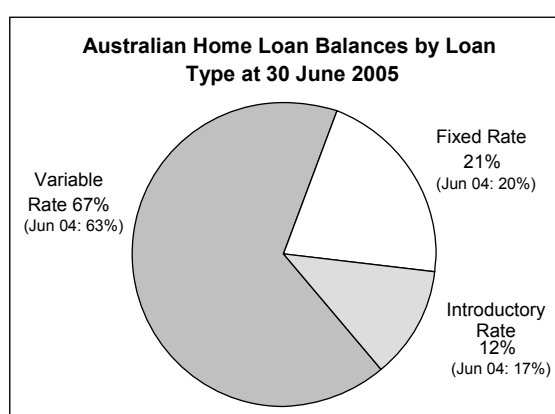
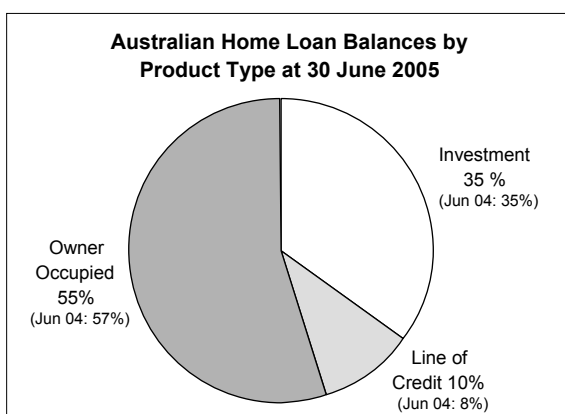
Banking Analysis (continued)

	As at	
	30/06/05 \$M	30/06/04 \$M
Total Banking		
Interest Earning Assets		
Home Loans excl. securitisation	150,677	129,455
Less: Securitisation	(10,818)	(7,605)
Home Loans	139,859	121,850
Personal	15,668	13,208
Business and Corporate	63,536	55,869
Loans, Advances and Other Receivables ⁽¹⁾	219,063	190,927
Cash and other liquid assets ⁽²⁾	10,627	13,704
Trading Securities	14,628	14,896
Investment Securities	10,272	11,447
	35,527	40,047
Total Interest Earning Assets	254,590	230,974
Other Assets ⁽³⁾	74,445	75,021
Total Assets	329,035	305,995
Interest Bearing Liabilities		
Transaction Deposits	34,694	31,104
Savings Deposits	38,461	37,549
Investment Deposits	66,087	59,693
Certificates of Deposit and other	21,809	28,250
Total Interest Bearing Deposits	161,051	156,596
Deposits not bearing interest	6,978	6,581
Deposits and Other Public Borrowings	168,029	163,177
Due to Other Financial Institutions	8,023	6,641
Debt Issues	58,621	44,042
Loan Capital	6,291	6,631
Sub-Total	240,964	220,491
Other Non Interest Bearing Liabilities	62,011	60,619
Total Liabilities	302,975	281,110

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

⁽²⁾ Includes interest earning portion only. Non interest earning portion is included under "other assets".

⁽³⁾ Other assets include Bank acceptances of customers and provision for impairment.



Banking Analysis (continued)

Provisions for Impairment	30/06/05 \$M	30/06/04 \$M
General provisions	1,390	1,393
Specific provisions	157	143
Total Provisions	1,547	1,536
Total provisions for impairment as a % of gross impaired assets net of interest reserved	411.4	451.8
Specific provisions for impairment as a % of gross impaired assets net of interest reserved	41.8	42.1
General provisions as a % of risk weighted assets	0.73	0.82
Bad debt expense as a % of risk weighted assets	0.17	0.16

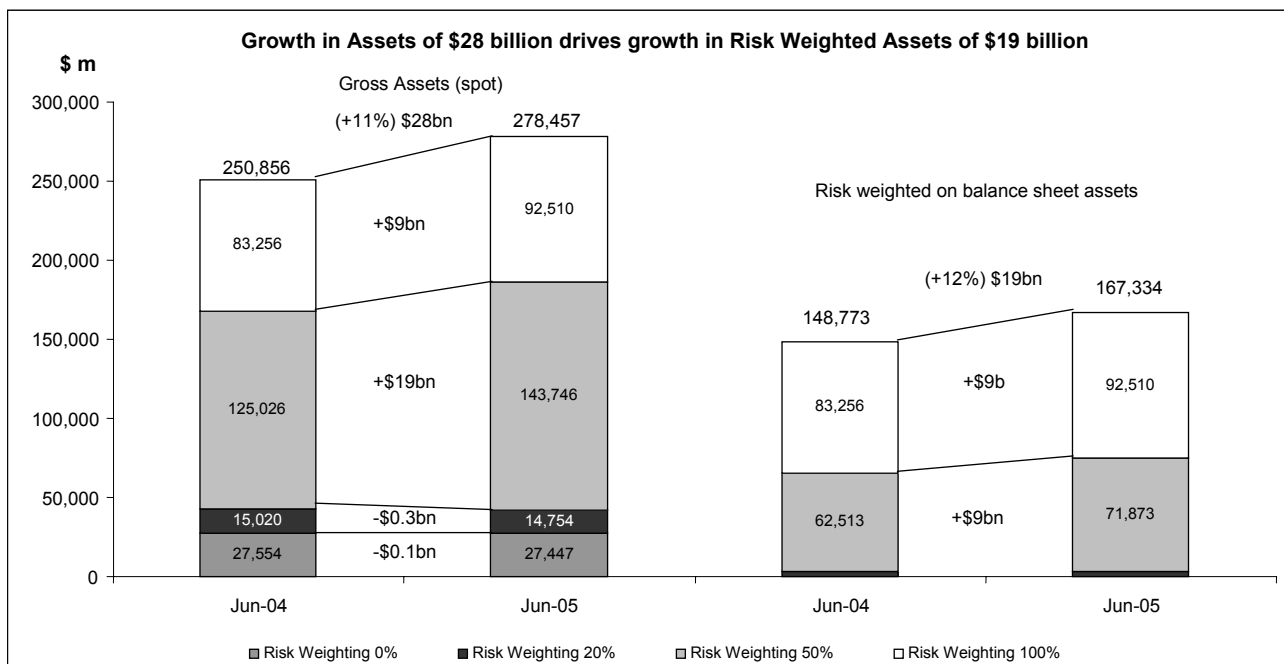
Total provisions for impairment for the Bank at 30 June 2005 were \$1,547 million. This level of provisioning is considered adequate to cover any bad debt write offs from the current lending portfolio having regard to the current outlook.

Specific provisions for impairment increased by 10% to \$157 million at 30 June 2005 as a result of an increase in the level of gross impaired assets over the year from \$363 million to \$395 million.

The general provision for impairment decreased to \$1,390 million at 30 June 2005. The general provision as a percentage of risk weighted assets reduced to 0.73% from

0.82% in the prior year. The general provision as a percentage of risk weighted assets has declined over the last two years reflecting:

- The majority of growth in credit has been in home loans, which have a lower credit risk than other portfolios;
- The continuing strong asset quality in the business lending book; and
- A level of impaired assets which is lower relative to levels achieved over the past decade.



Funds Management Analysis

Financial Performance and Business Review

Performance Highlights

The Financial Year 2005 net profit after tax ("statutory basis") for the funds management business increased to \$633 million compared to \$156 million in the previous year. The performance during the year reflects:

- Appraisal Value uplift of \$301 million, compared to an appraisal value reduction of \$95 million in Financial Year 2004;
- Strong funds under administration growth of 12% to \$123 billion at 30 June; and
- Tight cost control which limited operating expenses growth including commissions to 1%.

Profit was also supported by strong investment markets which increased shareholder investment returns by 27% to \$33 million.

Funds under administration (FUA) ended the Financial Year 2005 at \$123 billion, which is up 12% on Financial Year 2004 levels, assisted by stronger investment markets.

Net profit after tax ("statutory basis") increased during the Financial Year 2004 to \$156 million from a loss of \$93 million in the previous year. This was largely due to the appraisal value reduction which decreased by \$196 million to \$95 million in Financial Year 2004. Excluding the effect of appraisal value reduction, net profit after tax increased by \$53 million. This result was achieved on increased revenues of 4% while in a competitive environment the business focused on tight cost control which resulted in a 4% reduction in non-volume related expenses.

Funds under administration (FUA) ended the Financial Year 2004 at \$110 billion, which is up 11% on Financial Year 2003 levels, assisted by stronger domestic and international investment markets together with good inflows to the FirstChoice product in Australia and wholesale mandates in the United Kingdom.

Business Review - 2005

The operating environment was favourable during the 2005 Financial Year, with revenue growth and fund flows benefiting from strong investment markets. At the same time competition remained intense. While the market environment has been conducive to volume growth, the focus of the business on expense control and margins has ensured this volume growth has translated to a solid profit result.

The year also saw a significant improvement in retail flows and a corresponding increase in retail market share (following several years of declining market share). Retail flows were driven by the FirstChoice product which continues to dominate industry retail flows due to a combination of competitive pricing, excellent service and extensive distribution reach.

Another highlight for the year was investment performance, where 95% (by value) of our domestic funds outperformed the relevant benchmark applicable to the fund, including our flagship Australian Equity funds, which all ranked in first or second quartile (Source: *Intech Survey, Intech Investment Consulting as at 30 June 2005*).

Other key developments within the business during the year included:

- Acquisition of a minority stake in 452 Capital, which is expected to give the Bank access to the rapidly growing boutique (small, specialised) segment of the market;
- Establishment of a new quantitative asset management business (as a joint venture with Acadian Asset Management) (quantitative asset management relies on computer-based models to select stocks and construct portfolios);
- Continuing progress in rationalising legacy systems and products (now down to seven systems from 17 at the start of the program);
- Organisational changes which saw the creation of a discrete asset management business, quite separate from the platform/retail distribution business; and

- Excellent progress in selling funds management products through the Bank network, with productivity of planners up 38% (based on growth in sales generated by network planners).

Business Review - 2004

During the Financial Year 2004 there was a recovery of investment markets and an associated improvement in investor confidence. These conditions resulted in a recovery in flows into the retail funds sector after two years of relatively poor market returns.

The emerging preference of retail investors for platform products resulted in the more traditional retail products being in net outflow for the Financial Year 2004. In the platform sector, the Bank was well positioned with the FirstChoice product increasing its FUA to over \$7 billion. This resulted in the FirstChoice product being the industry leader in platform net flows during the Financial Year 2004 (Source: *Plan for Life: March 2004*).

International net flows were very strong in the Financial Year 2004, particularly in the United Kingdom, with FUA increasing by 32.5% over the year.

During the Financial Year 2004, volume related costs increased in line with increase in revenue. Non-volume related expenses decreased \$26 million due to focus on costs during the Financial Year 2004. This was achieved despite the business continuing to incur significant additional costs in respect of regulatory and compliance matters.

Investment Performance

During the 2005 Financial Year the investment performance of the asset management business continued to improve with 95% of retail domestic funds exceeding relevant benchmark applicable to such funds on a one year basis. This compared with 57% last year.

Importantly, the investment performance of our flagship Australian Equity funds was ahead of internally calculated benchmark on a one year basis with rankings in first and second quartiles in the Financial Year 2005 (Source: *Intech Survey, Intech Investment Consulting as at 30 June 2005*).

The absolute returns of most of the funds were also strong during Financial Year 2004, reflecting the recovery of investment markets. On a relative basis 70% of funds outperformed their relevant benchmark applicable to such funds during the Financial Year 2004. The flagship Australian Equity and Global Equity funds, however, were below the internally calculated benchmarks on a one year, for the Financial Year 2004, comparative performance which negatively impacted fund flows.

Operating Income

Operating income for the 2005 Financial Year increased by 8% to \$1,271 million. Income growth was supported by a 12% increase in funds under administration balances to \$123 billion as at 30 June 2005.

Margins were maintained against a background of increasing competition. The gross revenue margin for the business was 109 basis points, a decrease of two basis points over the Financial Year 2004. The good margin result was due to a combination of the wholesale net flows being skewed towards higher margin products, and the strong investment returns which meant there was little decline in the funds under management on older retail products.

Funds Management Analysis (continued)

Operating income increased by 4% to \$1,172 million for the Financial Year 2004. This was achieved despite the negative impact from the appreciation of the Australian dollar and the reduction of income following the sale of the Group's custody business.

The revenue increase was supported by an 11% increase in FUA balances from \$99 billion in 2003 to \$110 billion. Average funds under administration for the year were \$105.5 billion, which was 6% higher than in the Financial Year 2003. FUA margins were relatively resilient to difficult market conditions, with the income to average FUA ratio decreasing by three basis points to 1.11% over the year.

Operating Expenses

Operating expenses for the Financial Year 2005 of \$812 million increased marginally compared with the Financial Year 2004. Volume expenses, which grew 2% for the year due to stronger sales volumes, accounted for all of the growth in expenses. Other operating expenses were flat year on year, despite the additional cost base of the Symetry business, a small funds management related business which was acquired during the year.

Key drivers of expenses for the period were:

- Significant savings due to WnB initiatives including the rationalisation of the legacy product systems;
- Redesign and rationalisation of back office functions resulting in lower employee numbers, offset by;
- Average salary increases of 4%.

Expenses to average funds under administration for the year were 0.73%, a decline of seven basis points, reflecting good cost management during the year.

Operating expenses for the 2004 Financial Year consisted of two components:

- Ongoing operating costs; and
- Volume related costs which vary in relation to the level of business and revenue.

Operating costs were \$26 million lower in Financial Year 2004 than in the Financial Year 2003, reducing from \$666 million to \$640 million. The reduction was due to:

- The exit from non-core products in the UK business;
- Rationalisation of back office processes;
- Rationalisation of legacy systems; and
- Favourable exchange rate movements.

Volume related expenses were \$8 million, or 5% higher than in the Financial Year 2003 which was in line with revenue growth.

Taxation

The corporate tax charge for the 2005 Financial Year was \$100 million, with an effective tax rate of 21.9% compared with 22.3% for the prior year. The low effective tax rate in this business was due to the impact of transitional tax relief on investment style funds management products within life insurance legal entities and utilisation of prior period tax losses in offshore businesses. This is the last year where transitional relief is granted to life companies and the effective tax rate will be closer to the corporate tax rate in future periods.

The corporate tax charge for the Financial Year 2004 was \$79 million, an effective tax rate of 22% compared with 20% in the Financial Year 2003. As with the Financial Year 2005, the low effective tax rate in this business was largely due to transitional tax relief on investment style funds management products within life insurance legal entities.

Funds Management Analysis (continued)

Profit Summary

Key Performance Indicators	Full Year Ended		
	30/06/05 \$M	30/06/04 \$M	30/06/03 \$M
Funds Management			
Operating income - external	1,261	1,158	1,115
Operating income - internal	10	14	13
Total Operating Income	1,271	1,172	1,128
Shareholder investment returns	33	26	13
Policyholder tax expense/(benefits)	104	149	(62)
Funds Management Income	1,408	1,347	1,079
Other operating expenses	812	806	824
Initiatives including Which new Bank ⁽¹⁾	36	37	38
Total Operating Expenses	848	843	862
Net Profit before Income Tax	560	504	217
Policyholder tax expense/(benefits)	104	149	(62)
Corporate tax expense	100	79	57
Outside equity interests	7	8	6
Net Profit after Income Tax ("cash basis")	349	268	216
Goodwill amortisation	(17)	(17)	(18)
Appraisal value (reduction)/uplift	301	(95)	(291)
Net Profit after Income Tax ("statutory basis")	633	156	(93)

⁽¹⁾ June 2005 and June 2004 results reflect the Which new Bank program, while June 2003 results include strategic initiatives undertaken including the one off cost relating to the sale of the custody business.

Funds Under Administration

Funds under administration - average	116,262	105,458	99,280
Net flows	456	846	(686)

Productivity and Other Measures

Operating income to average funds under administration (%)	1.09	1.11	1.14
Expenses to average funds under administration - actual (%)	0.73	0.80	0.87
Effective corporate tax rate (%)	21.9	22.3	20.4

Funds Management Analysis (continued)

Funds under Administration

FuA (spot balances) increased by 12% over the year to \$123 billion as at 30 June 2005. The growth in FuA was due predominantly to strong investment markets which contributed \$13 billion. Net flows for the year were \$0.5 billion. Overall retail flows were positive \$2.2 billion, a turnaround on the flat net flows in the Financial Year 2004.

Average FuA of \$116.3 billion were 10% higher than the Financial Year 2004.

The key drivers of funds flows were:

- Continuation of market leading flows into FirstChoice capturing in excess of 25% of the market net flows (Source: *Plan for Life, Actuaries and Researches, Australian Retail and Unitised Wholesale Investments Market Share & Dynamics Report dated 31 March 2005*);
- Outflows from the cash management product due to competition from attractively priced retail deposit products;
- Outflows in other retail products which include closed legacy products, which was consistent with the prior year;
- Continuing outflows from GDP Equities Plus funds despite the improved investment performance;
- Loss of lower margin cash and indexed wholesale mandates; and
- Good flows into higher margin equity products in the International business.

Market Share

The Australian retail market share increased from 14.2% at 30 June 2004 to 14.8% at 31 March 2005 (31 December 2004: 14.7%). This was due to a reclassification of \$3.1 billion of wholesale FuA to retail (equivalent to 0.6% of market share), following the launch of FirstChoice Wholesale.

The business has seen a significant turnaround in the net flow position of retail FuA in recent quarters. The most recent Plan for Life survey showed the Bank ranking No. 4 for total retail net flows and No. 3 for retail flows excluding cash trusts.

Market Share Percentage

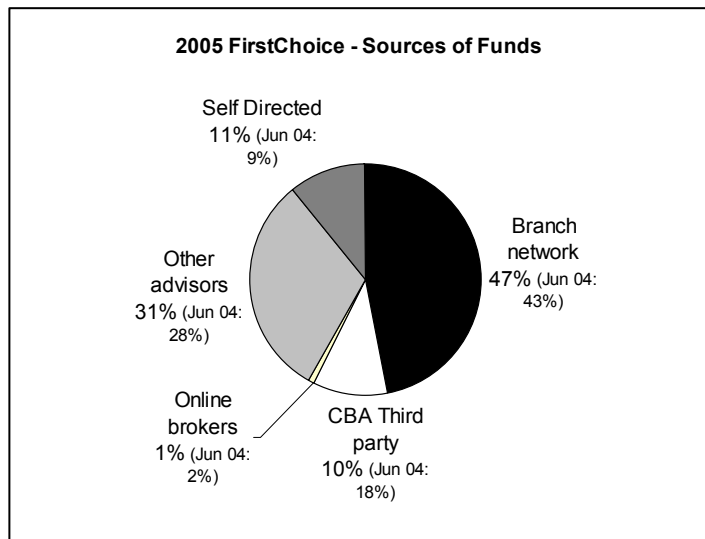
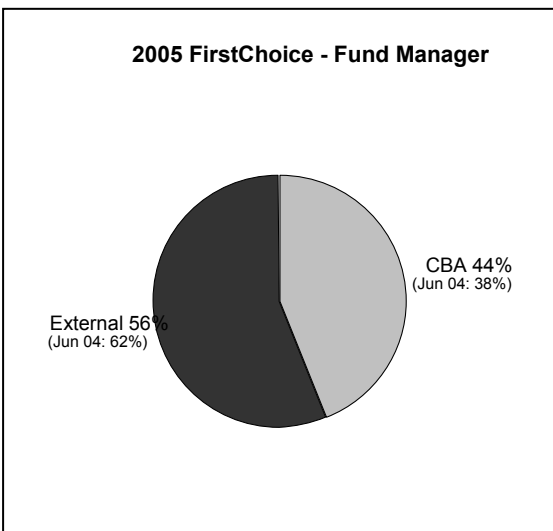
	30/06/05	30/06/04	30/06/03
Australian Retail – administrator view ⁽¹⁾	14.8	14.4 ⁽²⁾	14.5
New Zealand ⁽³⁾	12.7	13.2	14.5
Australian Property ⁽⁴⁾	4.8	5.5	n/a

⁽¹⁾ Source: Plan for Life. The administrator view considers market share from the perspective of the company which administers the product, and also includes branded products distributed by separate entities. Prior period market shares have not been restated to reflect the transfer of \$3.1 billion of funds into FirstChoice Wholesale (a retail product).

⁽²⁾ As at March 2004.

⁽³⁾ Source: Fund Source Research. Prior period market shares have been updated to reflect total FUA rather than retail FUA as previously reported.

⁽⁴⁾ Source: UBS Warburg.



Funds Management Analysis (continued)

Full Year Ended 30 June 2005							
	Opening Balance ⁽¹⁾ 30/06/04	Inflows	Outflows	Investment Income	Acquisitions & Disposals	Fx & other Movements ⁽²⁾	Closing Balance 30/06/05
Funds Under Administration	\$M	\$M	\$M	\$M	\$M	\$M	\$M
FirstChoice & Avanteos ⁽¹⁾	12,075	10,377	(4,265)	1,153	-	(271) ⁽¹⁾	19,069
Cash Management	4,414	2,961	(3,425)	232	-	-	4,182
Other Retail	34,705	4,417	(7,875)	3,951	-	871 ⁽³⁾	36,069
Australian Retail	51,194	17,755	(15,565)	5,336	-	600	59,320
Wholesale ⁽¹⁾	23,955	10,841	(13,350)	3,177	-	271	24,894
Property	12,624	1,207	(1,172)	1,668	-	(871) ⁽³⁾	13,456
Other	3,033	248	(786)	391	-	-	2,886
Domestically Sourced	90,806	30,051	(30,873)	10,572	-	-	100,556
Internationally Sourced	19,077	9,209	(7,931)	2,453	-	(300)	22,508
Total	109,883	39,260	(38,804)	13,025	-	(300)	123,064

Year Ended 30 June 2004							
	Opening Balance 30/06/03	Inflows	Outflows	Investment Income	Acquisitions & Disposals	Fx Movements ⁽²⁾	Closing Balance 30/06/04
Funds Under Administration	\$M	\$M	\$M	\$M	\$M	\$M	\$M
FirstChoice & Avanteos	4,192	5,431	(1,370)	757	-	-	9,010
Cash Management	4,963	3,178	(3,930)	203	-	-	4,414
Other Retail	37,749	4,893	(8,820)	3,916	-	-	37,738
Wholesale	25,485	12,322	(13,453)	2,666	-	-	27,020
Property	11,790	2,023	(2,079)	890	-	-	12,624
Domestically Sourced	84,179	27,847	(29,652)	8,432	-	-	90,806
Internationally Sourced	14,387	7,769	(5,118)	1,592	(255)	702	19,077
Total - Funds Under Administration	98,566	35,616	(34,770)	10,024	(255)⁽⁴⁾	702	109,883

Year Ended 30 June 2003							
	Opening Balance 30/06/02	Inflows	Outflows	Investment Income	Acquisitions & Disposals	Fx Movements ⁽²⁾	Closing Balance 30/06/03
Funds Under Administration	\$M	\$M	\$M	\$M	\$M	\$M	\$M
FirstChoice & Avanteos	568	4,221	(614)	17	-	-	4,192
Cash Management	5,634	1,121	(1,970)	178	-	-	4,963
Other Retail	41,953	11,356	(13,867)	(1,693)	-	-	37,749
Wholesale	29,240	10,126	(13,329)	(552)	-	-	25,485
Property	8,895	963	(183)	(43)	2,158	-	11,790
Domestically Sourced	86,290	27,787	(29,963)	(2,093)	2,158	-	84,179
Internationally Sourced	19,522	4,603	(3,113)	(424)	(5,000)	(1,201)	14,387
Total - Funds Under Administration	105,812	32,390	(33,076)	(2,517)	(2,842)	(1,201)	98,566

(1) During the period a wholesale version of FirstChoice was introduced targeted at retail customers. FUA flows to this product are categorised as retail FUA. To ensure consistency, \$3.1 billion of existing wholesale business was reclassified from Wholesale to FirstChoice in the opening balance of the current year. During the half year ended 30 June 2005, an amount of \$271 million was transferred from FirstChoice to wholesale business.

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

(3) Aligns classification to source of funds rather than product grouping.

(4) As part of the Sale agreement of the Colonial Life UK business to Winterthur, Winterthur remove some of the funds on 30 June 2004.

Insurance Analysis

Financial Performance and Business Review

Performance Highlights

The Bank estimates it is the largest life insurer in the Australian, New Zealand and Fiji markets based on third party market share information. The Insurance business delivered a strong profit result for the Financial Year 2005, with net profit after tax ("statutory basis") increasing by \$239 million to \$781 million. The performance during the year was underpinned by:

- Appraisal value uplift of \$477 million compared to the uplift of \$296 million in The Financial Year 2004
- Operating income growth of 10%
- In force premium growth of 8% to \$1,265 million

The result was also supported by investment markets which increased shareholder investment returns by 20% to \$204 million.

Net profit after tax ("statutory basis") increased \$371 million to \$542 million in Financial Year 2004. This was partly due to the increase in appraisal value uplift from \$46 million in Financial Year 2003 to \$296 million in Financial Year 2004. Excluding the effect of appraisal value uplifts, profit after tax for the Insurance business for the year was up 97% over the prior year. This result was achieved with a 13% increase in operating income due to improved underwriting and favourable claims experience. Non volume related expenses were maintained in Financial Year 2004 at Financial Year 2003 levels driven by improved efficiency.

Business and Financial Review

Australia

The Australian business delivered a good profit result for the year, \$186 million increase or 4% on the Financial Year 2004, achieved through revenue growth, improved underwriting performance, reduced unit costs and favourable Life Insurance claims experience.

Key drivers were:

- Life insurance revenue growth, with life insurance premiums increasing by 5%, despite the loss of a large Group risk mandate;
- Positive claims experience in life insurance products; offset by
- Significant weather related claims in the general insurance portfolio, predominantly attributed to the February Australian Eastern Seaboard storms.

The Bank maintained its number one market share of Australian annual inforce premiums with 13.8% of the life insurance risk market. The Bank's share of retail life sales (new business) was 12.9% for the Financial Year 2005. (Source: *Plan for Life*)

Total operating margin in the Australian business for the year increased by 21% to \$94 million. Improved operating margins in Life Insurance offset the lower contribution from the underwritten General Insurance business. As at 30 June 2005 the Bank believed it had the largest branch based general insurance distribution footprint in Australia.

Stronger Australian operating margins were offset by lower shareholder investment returns.

The profit growth in Financial Year 2004 in the Australian business was primarily due to strong underwriting performance in both the general and life risk insurance categories. This was driven largely by robust claims management, favourable claims experience and improved profitability in the annuities market.

As with the 2005 Financial Year, non volume related management expenses in the Financial Year 2004 were maintained at Financial Year 2003 levels at the same time as providing enhanced customer service levels. This was achieved through significant business process re-engineering delivering enhanced productivity and efficiency in the business.

Key drivers of the Financial Year 2004 result were:

- Premium growth with Life Risk Premiums increased 8%.
- Improved margins in the annuity market as a result of a return to more rational competitive pricing behaviour.
- Robust claims management activity driving enhanced claims expense outcomes despite some large weather related claims in the general insurance segment early in the year.

The group maintained its number one market share of risk premiums with an estimated 14.8% share of the market (Source: *Plan for Life, 30 June 2004*).

The Australian business grew strongly in the Financial Year 2004 (9% increase in inforce premiums) in a difficult market to become Australia's largest writer of Life risk premium with an estimated 15.0% market share (Source: *Plan for Life, 30 June 2004*).

Growth was achieved through product innovation, diversifying distribution and focusing on customer service.

New Zealand

The Bank's life insurance operations in New Zealand trade predominantly under the Sovereign brand.

For the Financial Year 2005 performance continued the strong momentum of previous years. Cash profit was driven by a combination of stronger operating margins, positive claims experience and favourable investment earnings against assumption. Operating margin growth included the benefit of process improvements, particularly underwriting efficiencies, and continued focus on pricing more effectively for risk. Shareholder invested assets are largely placed in fixed interest securities and cash. Benchmark price indices highlighted solid growth and overall bond returns were reflective of the strong economy.

New business sales of risk products were strong, with channel diversification continuing. Sales growth through proprietary distribution outlets was also solid. New business growth was above market leading to an increase in market share. Inforce market share remained steady.

Sovereign has continued to focus on the delivery of operational improvements and the successful execution of service excellence initiatives. The three key achievements during the Financial Year 2005 were:

- Continued strengthening of business volumes across all major business lines;
- Further improvements to operations and systems infrastructure; and
- Positive claims experience.

New business market share increased significantly to 30.4% (March 2005 quarter), up from 28.4% in the previous corresponding period. The business also maintained its market leadership position with 27.5% of the 'in-force' premium market in the Financial Year 2005. (Source: *ISI*).

The market for risk products was subdued during Financial Year 2004. However, Sovereign increased market share in new business from 27% to 28% and maintained its market leadership position with 28.2% of the inforce premium market (source: *ISI Statistics*). The business continued to expand sales in the Financial Year 2004 through aligned channels such as ASB Bank while maintaining the levels of support from traditional independent financial advisers.

During the Financial Year 2005 the business fundamentals were further improved through product repricing, tighter underwriting standards and continued rationalisation of products and systems.

The New Zealand business generated \$55 million profit after tax in the Financial Year 2004. This represented a 20% increase on the Financial Year 2003 result of \$46 million.

Insurance Analysis (continued)

Asia

Asia includes the life insurance and pension administration operations in Hong Kong, and life businesses in China, Vietnam, Indonesia and Fiji. The Hong Kong businesses represent the largest operations in the region.

The 2005 Financial Year profit was supported by an increase in the operating margin for the Financial Year 2005 to \$8 million, an increase from \$3 million for the Financial Year 2004. This primarily reflected positive investment returns, partly offset by a stronger Australian dollar.

Post balance date, the Bank entered into an agreement to sell its Hong Kong based life insurance, pensions administration and financial planning businesses to Sun Life Financial. The transaction completed on 18 October 2005 (refer to "Critical Accounting Policies and Estimates").

During the 2004 Financial Year the Asian business continued to improve. Key initiatives during the year included:

- Improved risk profile of Hong Kong business following amendments to investment mix, product repricing and product mix;
- Significant reductions in expense levels for the Hong Kong operations; and
- Development of new distribution capabilities.

The Asian business produced \$3 million in operating margins for the Financial Year 2004 compared with a loss of \$9 million for the prior year. The favourable result for the current year was driven by:

- Improved investment markets;
- Increased sales across all markets; and
- Expense containment.

The result was impacted by a \$16 million write off of capitalised pre-licence start-up costs in China which was reflected in shareholder investment returns (refer to page 36).

Operating Income

Operating income for the Financial Year 2005 was \$747 million, which is 10% higher than the prior year. This result was mainly attributable to favourable Life Insurance claims experience in all regions, particularly on the Lump Sum and Wholesale life insurance business.

Operating income of \$678 million for Financial Year 2004 was 13% higher than in the prior year. Operating income in the prior year included a write-down of an asset in the Australian annuity fund of \$30 million. Taking this item into account, operating income was up 8% on the prior year. This was mainly attributable to growth in inforce premiums, positive experience on claims and an increase in general insurance income.

Operating Expenses

During the Financial Year 2005 operating expenses of \$551 million were 7% higher than the Financial Year 2004. The underlying expense to average in force premium ratio was 45.3% a drop of 2% on the Financial Year 2004.

The higher expenses primarily related to the New Zealand operations, which was affected by:

- Adverse foreign exchange movements,
- Higher staff expenses driven by wage inflation associated with a tighter labour market; and
- Sales volume growth resulting in an increase in commission costs.

Operating expenses of \$517 million decreased by \$2 million for Financial Year 2004 compared with the Financial Year 2003, due to a drop in volume related costs in the Asian business. Non volume related costs were in line with the prior year, with Enterprise Bargaining Agreement (EBA) related increases in staff costs, and increased compliance and regulatory related costs being offset by savings achieved by tight cost control and from process reengineering in the back-office.

The expense to average inforce premium ratio of 47.3% represented a 6% productivity improvement over the Financial Year 2004.

Corporate Taxation

The effective corporate tax rate for the Financial Year 2005 was 22.4% compared with 20.8% in the prior year. The increase in the effective corporate tax was due to the increased profitability and permanent differences between taxation and accounting treatments (refer to Note 5 to the financial statements). The tax rate was lower than the corporate tax rate due to utilisation of tax losses in the overseas businesses.

The corporate tax charge for the Financial Year 2004 was \$66 million, an effective tax rate of 20.8% compared with 17.8% in the Financial Year 2003. The low effective tax rate in this business was largely due to transitional tax relief on certain products within life insurance legal entities.

The Financial Year 2005 was the last year for transitional tax relief.

Insurance Analysis (continued)

Profit Summary

Summary Financial Performance (excluding appraisal value (reduction)/uplift)	Full Year Ended		
	30/06/05 \$M	30/06/04 \$M	30/06/03 \$M
Insurance			
Life Insurance Operating Income	693	618	551
General Insurance Operating Income	54	60	47
Total Operating Income	747	678	598
Shareholder investment returns	204	170	78
Policyholder tax	124	54	4
Total Insurance Income	1,075	902	680
Operating expenses	551	517	519
Initiatives including Which new Bank	2	14	-
Total operating expenses	553	531	519
Net Profit before Income Tax	522	371	161
Income tax expense attributable to:			
Policyholder	124	54	4
Corporate	89	66	28
Net Profit after Income Tax ("cash basis")	309	251	129
Goodwill amortisation	(5)	(5)	(4)
Appraisal value uplift	477	296	46
Net Profit after Income Tax ("statutory basis")	781	542	171
Productivity and Other Measures			
Expenses to average inforce premiums (actual %)	45.5	47.3	50.4
Effective corporate tax rate (%)	22.4	20.8	17.8

Sources of Profit from Insurance Activities	Full Year Ended		
	30/06/05 \$M	30/06/04 \$M	30/06/03 \$M
The Margin on Services profit from ordinary activities after income tax is represented by:			
Planned profit margins	122	107	104
Experience variations	27	-	(42)
Other	(8)	(8)	(8)
General insurance operating margin	13	19	11
Operating margins	154	118	65
After tax shareholder investment returns	155	133	64
Net profit after Income Tax ("cash basis")	309	251	129

Geographical Analysis of Business Performance

Net Profit after Income Tax ("cash basis")	Full Year Ended											
	Australia			New Zealand			Asia			Total		
	2005 \$M	2004 \$M	2003 \$M	2005 \$M	2004 \$M	2003 \$M	2005 \$M	2004 \$M	2003 \$M	2005 \$M	2004 \$M	2003 \$M
Operating margins	94	78	43	52	37	31	8	3	(9)	154	118	65
Investment earnings on assets in excess of policyholder liabilities	92	101	35	22	18	15	41	14	14	155	133	64
Net Profit after Income Tax	186	179	78	74	55	46	49	17	5	309	251	129

Insurance Analysis (continued)

Inforce Premiums

Full Year Ended 30 June 2005					
	Opening Balance 30/06/04	Sales/New Business	Lapses	Other Movements ⁽²⁾	Closing Balance 30/06/05
Annual Inforce Premiums ⁽¹⁾	\$M	\$M	\$M	\$M	\$M
General Insurance ⁽³⁾	192	62	(39)	-	215
Personal Life	703	164	(89)	7	785
Group Life	272	74	(87)	6	265
Total	1,167	300	(215)	13	1,265
Australia	815	228	(187)	-	856
New Zealand	258	48	(15)	5	296
Asia	94	24	(13)	8	113
Total	1,167	300	(215)	13	1,265

(1) Consists mainly of foreign exchange movements.

Full Year Ended 30 June 2004					
	Opening Balance 30/06/03	Sales/New Business	Lapses	Other Movements ⁽²⁾	Closing Balance 30/06/04
Annual Inforce Premiums	\$M	\$M	\$M	\$M	\$M
General Insurance	196	46	(50)	-	192
Personal Life	626	156	(85)	6	703
Group Life	254	53	(34)	(1)	272
Total	1,076	255	(169)	5	1,167
Australia	771	177	(133)	-	815
New Zealand	221	42	(16)	11	258
Asia	84	36	(20)	(6)	94
Total	1,076	255	(169)	5	1,167

(1) Life Insurance results for both New Zealand and Asia include savings products. Savings products are disclosed within Funds Management for the Australian business. Inforce premium relates to risk business only.

(2) Consists mainly of foreign exchange movements.

(3) General Insurance inforce premiums includes approximately \$40 million of badged premium.

Inforce Premiums

Annual in force premiums grew by 8.4% for the Financial Year 2005 to \$1,265 million. General Insurance and personal insurance premiums increased by 12.0% and 11.7% respectively from 30 June 2004. There was a decrease of 2.6% in the Group Life in force premiums mainly attributable to the loss of a large mandate in the Australian Life Insurance business in the Financial Year 2005.

The Bank's Australian life insurance business maintained its leading position of inforce premiums with 13.8% of market share in total life insurance at 31 March 2005. Sovereign maintained its leading position in New Zealand with a market share of 27.5%.

For the Financial Year 2004, annual inforce premiums increased by 8% to \$1,167 million. General Insurance lapses include \$19 million of rebadged premiums which ceased to be attributable to the CBA business due to a Financial Services Reform Act 2001 ("FSRA") related business restructuring.

The Australian business maintained its leading market share of inforce premiums despite a reduction from an estimated 15.3% at 30 June 2003 to an estimated 14.8% at 31 March 2004 (Source: *Plan for Life*). Sovereign maintained its leading position in New Zealand with a market share of an estimated 28.2%, slightly down from an estimated 28.3% at 30 June 2003 (Source: *ISI Statistics May 2004*).

Market Share Percentage – Annual Inforce Premiums

	30/06/05	30/06/04
Australia (Total Risk) ⁽³⁾	13.8	14.8 ⁽²⁾
Australia (Individual Risk) ⁽³⁾	13.0	12.7 ⁽¹⁾
New Zealand ⁽⁴⁾	27.5	27.5 ⁽¹⁾
Hong Kong ⁽⁵⁾	2.5	2.5 ⁽²⁾

(1) As at May 2004

(2) As at March 2004

(3) Source: Plan for Life

(4) Source: ISI Statistics

(5) Source: Hong Kong Insurance Association

Shareholder Investment Returns

Shareholder Investment Returns	Full Year Ended		
	30/06/05 \$M	30/06/04 \$M	30/06/03 \$M
Funds Management Business	33	26	13
Insurance Business	204	170	78
Shareholder Investment Returns before Tax	237	196	91
Taxation	60	44	18
Shareholder Investment Returns after Tax	177	152	73

Shareholder Investments Asset Mix (%)	As at 30 June 2005			
	Australia %	New Zealand %	Asia %	Total %
Local equities	7	1	5	5
International equities	3	6	8	5
Property	20	5	1	13
Other	-	4	2	1
Growth	30	16	16	24
Fixed interest	24	54	59	37
Cash	46	27	6	33
Other ⁽¹⁾	-	3	19	6
Income	70	84	84	76
Total	100	100	100	100

Shareholder Investments Asset Mix (\$M)	As at 30 June 2005			
	Australia \$M	New Zealand \$M	Asia \$M	Total \$M
Local equities	107	4	30	141
International equities	50	26	50	126
Property	306	19	6	331
Other	-	12	10	22
Growth	463	61	96	620
Fixed interest	370	224	346	940
Cash	684	112	36	832
Other ⁽¹⁾	-	12	109	121
Income	1,054	348	491	1,893
Total	1,517	409	587	2,513

⁽¹⁾ Other mainly includes non revenue generating assets

Domestic and international investment markets rebounded strongly over the Financial Year 2005, with the benchmark S&P/ASX200 price index increasing by 21.1% and the MSCI World index by 8.3%. All other asset classes (fixed interest, property and cash) posted positive returns.

Shareholder investment returns of \$237 million pre tax for the Financial Year 2005 represented an increase of 21% over the prior year. This reflected lower returns in Australia due to lower level of capital held in the business offset by the strong international investment markets.

Capital reduced during the Financial Year 2005 as a result of dividends to the shareholder in excess of profit (\$56 million), foreign exchange movements (\$58 million) and the acquisition of a small entity, Symetry Limited.

For the Financial Year 2004, Domestic and international investment markets rebounded strongly with the benchmark S&P/ASX200 price index increasing by 16.7% and the MSCI World index by 21.8%. All other asset classes (fixed interest, property and cash) posted positive returns.

Life Insurance Valuations

The following table sets out the components of the carrying values of the Bank's life insurance and funds management businesses. These are Directors' valuations, based on appraisal values using a range of economic and business assumptions determined by management, which were reviewed by independent actuaries, Trowbridge Deloitte.

In determining the carrying value, Directors have taken account of certain market based factors which result in the adoption of a more conservative valuation that is

\$450 million lower at 30 June 2005 (\$450 million lower at 30 June 2004) than that determined by Trowbridge Deloitte.

The Bank will be required to report under the Australian equivalent of International Financial Reporting Standards ("AIFRS") for the financial year commencing 1 July 2005. On transition to AIFRS, the Appraisal Value Excess can no longer be recognised in full. Refer to Note 1 (qq) (iv) to the financial statements for further information.

	Funds Management	Life Insurance			Total
		Australia	New Zealand	Asia ⁽¹⁾	
Carrying Value at 30 June 2005	\$M	\$M	\$M	\$M	\$M
Shareholders net tangible assets	500	1,017	409	587	2,513
Value of inforce business	1,859	533	359	-	2,751
Embedded Value	2,359	1,550	768	587	5,264
Value of future new business	3,096	330	350	22	3,798
Carrying Value	5,455	1,880	1,118	609	9,062
Increase/(Decrease) in Carrying Value since 30 June 2004	316	219	140	(15)	660

	Funds Management	Life Insurance			Total
		Australia	New Zealand	Asia ⁽¹⁾	
Analysis of Movement Since 30 June 2004	\$M	\$M	\$M	\$M	\$M
Profits	349	176	71	50	646
Net Capital movements ⁽²⁾	(121)	195	(79)	1	(4)
Dividends paid	(213)	(485)	-	(4)	(702)
Acquisitions ⁽³⁾	(30)	-	-	-	(30)
FX Movements	-	-	2	(60)	(58)
Change in Shareholders NTA	(15)	(114)	(6)	(13)	(148)
Acquired excess	30	-	-	-	30
Net Appraisal value uplift/(reduction)	301	333	146	(2)	778
Increase/(Decrease) to 30 June 2005	316	219	140	(15)	660

⁽¹⁾ The Asian life businesses are not held in a market value environment and are carried at net assets plus any excess representing the difference between appraisal value and net assets at the time of acquisition. This excess, which effectively represents goodwill, is being amortised on a straight line basis over 20 years subject to impairment. Subject to gaining the appropriate regulatory approval, the disposal of the Hong Kong life insurance operations will occur subsequent to 30 June 2005. Refer Note 1 (pp) to the financial statements.

⁽²⁾ Includes capital injections, transfers and movements in intergroup loans.

⁽³⁾ Represents the purchase of Symmetry Limited. The goodwill on acquisition is reclassified as acquired excess, representing the difference between appraisal value and net assets at the time of acquisition.

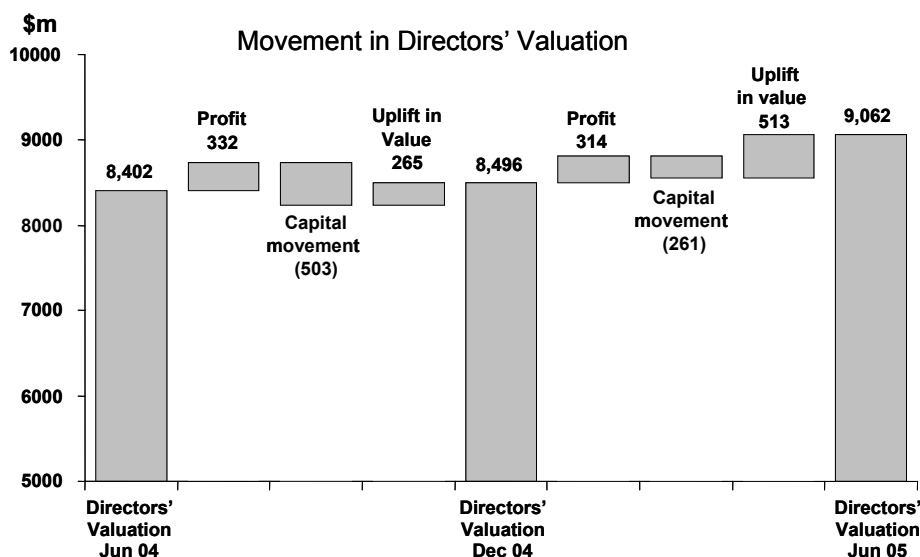
Change in Valuations

The valuations adopted have resulted in a total positive change in value of \$660 million since 30 June 2004. The main components comprised:

- An appraisal value uplift of \$778 million, reflecting growth in Funds under Administration, and improved fund flows while persistency levels and claims ratios improved across each of the insurance businesses.

The uplift also includes the negative impact of continued uncertainty of future returns of investment markets and industry funds flows;

- Decrease due to dividends in excess of profits of \$56 million; and
- A \$62 million decrease in net tangible assets due to net capital and foreign exchange movements.



Group Operating Expenses (continued)

The following table sets out the Group's operating expenses for Financial Years 2005, 2004 and 2003.

	2005	2004	2003
	\$M	\$M	\$M
Staff Expenses			
Salaries and wages	2,274	2,152	2,106
Superannuation contributions	7	8	13
Provisions for employee entitlements	67	41	11
Payroll tax	115	115	107
Fringe benefits tax	32	32	26
Other staff expenses	104	100	120
Comparable business	2,599	2,448	2,383
Initiatives including Which new Bank	50	273	155
Total Staff Expenses (excluding share based compensation)	2,649	2,721	2,538
Share Based Compensation			
Comparable business	44 ⁽¹⁾	105	94
Initiatives including Which new Bank	-	-	25
Total Share Based Compensation	44	105	119
Occupancy and Equipment Expenses			
Operating lease rentals	331	340	354
Depreciation			
Buildings	21	21	24
Leasehold improvements	58	55	51
Equipment	63	50	53
Operating lease fixed assets	8	-	-
Repairs and maintenance	71	68	58
Other	61	47	69
Comparable business	613	581	609
Initiatives including Which new Bank	13	20	3
Total Occupancy and Equipment Expenses	626	601	612
Information Technology Services			
Projects and development	322	281	194
Data processing	248	238	255
Desktop	150	159	178
Communications	204	205	171
Software amortisation	26	11	78
Information technology equipment-depreciation	6	1	1
Comparable business	956	895	877
Initiatives including Which new Bank	52	292	30
Total Information Technology Services	1,008	1,187	907
Other Expenses			
Postage	112	112	109
Stationery	108	114	118
Fees and commissions	628	598	551
Advertising, marketing and loyalty	288	311	259
Other	349	336	312
Comparable business	1,485	1,471	1,349
Initiatives including Which new Bank	35	164	26
Total Other Expenses	1,520	1,635	1,375
Comparable business	5,697	5,500	5,312
Initiatives including Which New Bank	150	749	239
Total Operating Expenses before goodwill amortisation	5,847	6,249	5,551
Appraisal value uplift/(reduction)	778	201	(245)
Goodwill amortisation	(325)	(324)	(322)
Profit from ordinary activities before income tax	5,638	3,843	2,976

⁽¹⁾ Reduction in share based compensation reflects the cessation of the mandatory component of the equity participation plan in February 2005, which is now paid in cash and included within salaries and wages (refer to Note 29 to the financial statements).

Group Operating Expenses (continued)

For the Financial Year 2005 the Group's operating expenses were \$5,847 million, a decrease of \$402 million, or 6%. The decrease was mainly the result a decrease in Which new Bank expenses of \$599 million to \$150 million. Details of the Which new Bank program are on page 11.

The Group's operating expenses were \$6,249 million in Financial Year 2004, an increase of \$698 million or 13%. The key reasons for this were:

- Increase in Initiatives including Which new Bank costs by \$510 million to \$749 million.; and
- Increase in staff costs by \$65 million or 3% due to an increase in level of salaries and wages as provided for in the Enterprise Bargaining Agreement (EBA).

Staff Numbers

The table below details the Group's staff numbers as at 30 June 2005, 2004 and 2003.

Staff Numbers as at 30 June	2005	2004	2003
Australia	27,991	29,236	29,608
New Zealand	4,719	4,630	4,144
Other Overseas	2,603	2,430	2,093
Full time staff equivalent	35,313	36,296	35,845

Full time equivalent staff have been weighted for the lower costs per employee of staff on extended leave, for example, maternity leave, unpaid sick leave or career break.

	Year Ended 30 June		
	2005 \$M	2004 \$M	2003 \$M
Income Tax Expense			
Banking	1,220	914	931
Funds Management - Corporate	100	79	57
Insurance - Corporate	89	66	28
Corporate tax	1,409	1,059	1,016
Policyholder	228	203	(58)
Total Income Tax Expense	1,637	1,262	958
Effective tax rate			
Banking	30%	30%	29%
Funds Management - Corporate	22%	22%	20%
Insurance - Corporate	22%	21%	18%

For the Financial Year 2005 the income tax increased \$375 million or 30% as a result of the increase in profit. The effective tax rates remained relatively flat.

Income tax increased by \$304 million or 32% in Financial Year 2004. The main reason for this is the increase in policyholder tax of \$261 million to \$203 million, as a result of improved investment earnings. Segment tax expense and rates are discussed in the Banking, Funds Management and Insurance analysis sections.

Liquidity and Capital Resources

Capital Adequacy

Commonwealth Bank of Australia ("the Bank") 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 Basel Accord. These requirements define what is acceptable as capital and provide for standard methods of measuring the risks incurred by the Bank. APRA has set minimum ratios that compare the regulatory capital with risk-weighted on and off balance sheet assets. Regulatory capital requirements are measured for the Bank (known as "Level 1") and for the Bank and its banking subsidiaries (known as "Level 2"). The life insurance and funds management businesses are not consolidated for capital adequacy purposes.

Regulatory capital is divided into Tier One and Tier Two capital. Certain deductions are made from the sum of Tier One and Tier Two capital to arrive at the Capital Base. Tier One capital consists of shareholders' equity plus other capital instruments acceptable to APRA, less goodwill and less the intangible element of the investment in life insurance and funds management businesses. Tier Two capital consists of the general provision for credit losses and other hybrid and debt instruments acceptable to APRA. The tangible element of the investment in life insurance and funds management businesses is deducted from the sum of Tier One and Tier Two capital to arrive at the Capital Base.

In accordance with APRA's methodology, measuring risk requires one of a number of risk weights to be applied to each asset on the balance sheet and to off-balance sheet obligations. The risk weights are 100%, 50%, 20% and 0%. It should be noted that the risk weights are not consistent with the loss experience of the Bank and its subsidiaries. In addition, there is an agreed method for measuring market risk for traded assets.

Regulatory Changes

Basel II

In June 2004, the Basel Committee on Banking Supervision ("the Basel Committee") issued the Revised Framework for the calculation of capital adequacy for banks, commonly known as Basel II. The objective of the Basel II Framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks.

The Basel II Framework is based on three "pillars". Pillar 1 covers the capital requirements for banks, Pillar 2 covers the supervisory review process and Pillar 3 relates to market disclosure. There are three approaches to credit risk under the Basel II Framework. These are a standardised and two internal ratings-based ("IRB") approaches. The Standardised Approach is a modified version of the current approach, but with risk weights aligned with the credit ratings of borrowers and counterparties. Under the IRB approaches (Foundation and Advanced), banks such as Commonwealth Bank that use internal models to calculate and allocate the amount of capital required for credit risk, may be able to use components of their own calculations to determine the amount of regulatory capital required for credit risk. Under the Foundation IRB Approach, the regulator will, in most cases, provide the parameters. Under the Advanced IRB Approach, substantially all of the parameters will be those used by the bank in its internal models. The Commonwealth Bank is intending to implement the Advanced IRB approach.

The Basel II Framework introduces a capital requirement for operational risk. As with credit risk, there are multiple approaches. The Bank is intending to implement the Advanced Measurement Approach ("AMA").

The current capital requirements for market risk are not expected to change significantly under the Basel II Framework. The Bank is on track to lodge its Accreditation application for Advanced IRB and AMA approaches with APRA by 30 September 2005. The implementation of Basel II in Australia is expected to take place on 1 January 2008.

International Financial Reporting Standards

The Bank will be required to report under the Australian equivalent of International Financial Reporting Standards ("AIFRS") for the financial year commencing 1 July 2005. APRA has stated that it intends to amend its prudential regulations in response to the implementation of AIFRS and that these changes will take effect on 1 July 2006.

Many of the AIFRS changes will have an affect upon the reporting of the Bank's assets and equity. Currently, accounting definitions for asset and equity measurement are central to the capital adequacy requirements set by prudential regulators. In February 2005 APRA released a discussion paper on its proposed changes to fair value and other issues. However, APRA are yet to clarify the full extent of its proposed changes to regulatory capital requirements. As such, it is currently unclear what impact that these changes will have on the Bank's capital adequacy position.

Refer to Note 1 (qq) to the financial statements for further discussion of AIFRS.

Conglomerate Groups

APRA has advised that a third level of capital adequacy ("Level 3") will be implemented to coincide with Basel II. APRA defines a conglomerate group as a group of companies containing one or more Australian incorporated Authorised Deposit-taking Institutions ("ADIs"). The Bank is an ADI and the Commonwealth Bank Group falls within APRA's definition of a conglomerate group. Each conglomerate group will be required to hold capital that corresponds to the corporate structure of that conglomerate. The calculation will have regard to all group members and the capacity to move surplus capital from one group entity to another.

The regulatory capital requirements for each conglomerate group will be specific to that group.

The proposals indicate that the use of internal capital estimation and allocation models may be permitted. However, APRA has not yet specified their requirements for internal models, nor when they will complete their review of the Bank's models.

Whilst the Bank considers that it is strongly capitalised (as evidenced by its credit ratings), no assurance can be given that our models will meet APRA's requirements or that the Bank meets the Level 3 capital requirements.

Liquidity and Capital Resources (continued)

Active Capital Management

The Bank maintains a strong capital position. The Tier One capital ratio increased from 7.43% to 7.46% and the Total Capital ratio decreased from 10.25% to 9.75% during the year to 30 June 2005. The Bank's credit ratings remained unchanged.

During the year, the Bank's risk-weighted assets grew from \$169 billion to \$190 billion.

The changes in the regulatory capital ratios are attributed to the following movements and significant initiatives undertaken to actively manage the Bank's capital:

Tier One capital

- Issue of NZ\$350 million (AUD\$323 million) of Perpetual Preference Shares in December 2004;
- Issue of \$200 million of shares in March 2005 to satisfy the DRP in respect of the interim dividend for 2004/05; and
- In accordance with APRA guidelines, the estimated issue of \$272 million of shares to satisfy the DRP in respect of the final dividend for 2004/05. Further details of these transactions are provided in Note 29 to the financial statements.
- From 1 July 2004, APRA requires banks to deduct certain capitalised expenses from Tier One capital.

This change in regulatory requirements resulted in a \$107 million decrease in Tier One capital.

Tier Two capital

- Issue of the Australian dollar equivalent of \$1,554 million (Euro Medium Term Notes, Floating Rate Notes and Perpetual Preference Shares) of instruments qualifying for Lower Tier Two capital;
- A redemption of the equivalent of \$1,866 million notes. However, as some of the notes had been amortised in accordance with APRA requirements, the impact was to reduce Tier Two capital in the year to 30 June 2005 by \$1,592 million; and
- Reduction in Tier Two note and bond issues of \$319 million resulting from changes in foreign exchange rates (whilst these notes are hedged, the unhedged value is included in the calculation of regulatory capital in accordance with APRA regulations).

Deductions from Total Capital

The following movements in deductions have occurred during the year:

- Dividends paid to the Bank from the life insurance and funds management businesses in excess of the dividend paid in respect of the after-tax profits of these businesses (refer to Note 34 to the financial statements).

Risk-Weighted Capital Ratios	2005	GROUP
	Actual	2004
	%	Actual
		%
Tier One	7.46	7.43
Tier Two	3.21	3.93
Less deductions	(0.92)	(1.11)
Total	9.75	10.25
Adjusted Common Equity ⁽¹⁾	4.91	4.75

Regulatory Capital	2005	GROUP
	\$M	2004
		\$M
Total Tier One capital	14,141	12,588
Total Tier Two capital	6,087	6,658
Total capital	20,228	19,246
Capital Base	18,479	17,355

⁽¹⁾ Adjusted Common Equity ("ACE") is one measure considered by Standard & Poor's in evaluating the Bank's credit rating. The ACE ratio has been calculated in accordance with the Standard & Poor's methodology.

Share Capital (for further details refer to Note 29 to the financial statements)

Trust Preferred Securities

On 6 August 2003 a wholly owned entity of the Bank issued US\$550 million (\$832 million) of perpetual non-callable trust preferred securities due August 2015 into the US capital markets. These securities offer a non-cumulative fixed rate distribution of 5.805% per annum payable semi-annually. The securities qualify as Tier One capital of the Bank.

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) issued \$750 million of Perpetual Exchangeable Resettable Listed Securities (PERLS II). These securities are units in a registered managed investments scheme, perpetual in nature, offering a non-cumulative floating rate distribution payable quarterly. The securities qualify as Tier One capital of the Bank.

Liquidity and Capital Resources (continued)

Share Buy-back

On 29 March 2004 the Bank announced the successful completion of an off-market share buy-back. A total of 19,360,759 shares were bought back at \$27.50 per share, for a total cost of \$532.4 million. An amount of \$11 per share of the consideration for each share bought back was charged to paid up capital (total \$213.0 million). The balance of \$16.50 per share was deemed to be a fully franked dividend for Australian tax purposes and charged to retained profits (total \$319.4 million).

In accordance with the ATO Class Ruling CR2004/65, the "market value" of the shares bought back for tax purposes was \$30.42 ("Tax Value"). For capital gains tax purposes an Australian resident individual or complying superannuation entity shareholder participating in the buy-back will be deemed to have disposed of each

share bought back for deemed capital proceeds of \$11.00 plus the amount by which the Tax Value exceeds the buy-back price. The Tax Value exceeded the buy-back price by \$2.92 (\$30.42 - \$27.50). Accordingly, for capital gains tax purposes, the deemed disposal price for each share bought back was \$13.92 (\$11.00 + \$2.92).

The Share Buy-back was a result of the Bank's continued focus on active capital management.

Share Purchase Plan

In 2004 the Bank introduced a Share Purchase Plan (SPP). On 25 June 2004 a total of 14,891,250 shares were issued at \$31.36 per share, for a total of \$467 million, in respect of the SPP.

The SPP reflects the Bank's focus on creating flexibility for the future.

Commitments for Capital Expenditure Not Provided for in the Accounts

	GROUP		BANK	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Not later than one year	13	44	13	42
Later than one year but not later than two years	-	2	-	-
Total Commitments for Capital Expenditure Not Provided for in the Accounts	13	46	13	42

Debt Issues (for further details see Note 26)

	GROUP		BANK	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Short term debt issues	26,344	20,401	9,500	6,127
Long term debt issues	32,277	23,641	31,187	18,322
Total Debt Issues	58,621	44,042	40,687	24,449

Short Term Debt Issues

A\$ Promissory Notes	1,214	1,450	-	-
A\$ Bank Bills	624	490	-	-
US Commercial Paper	10,141	9,381	-	-
Euro Commercial Paper	4,976	3,638	3,065	2,498
Long Term Debt Issues with less than one year to maturity	9,389	5,442	6,435	3,629
Total Short Term Debt Issues	26,344	20,401	9,500	6,127

Long Term Debt Issues

US\$ Medium Term Notes	15,358	8,790	15,680	8,146
A\$ Medium Term Notes	4,850	4,453	6,272	2,813
JPY Medium Term Notes	868	734	692	520
GBP Medium Term Notes	4,401	3,837	2,736	1,981
Other Currencies Medium Term Notes	6,596	5,583	5,807	4,822
Offshore Loans (all JPY)	-	40	-	40
Eurobonds	204	204	-	-
Total Long Term Debt Issues	32,277	23,641	31,187	18,322

Maturity Distribution of Debt Issues

Less than 3 months	11,055	6,949	6,006	1,925
3 months to 12 months	15,288	13,452	3,493	4,202
Between 1 and 5 years	22,312	17,542	21,320	12,224
Greater than 5 years	9,966	6,099	9,868	6,098
Total Debt Issues	58,621	44,042	40,687	24,449

Liquidity and Capital Resources (continued)

The following table details the current debt programmes along with programme size and outstandings as at 30 June 2005. Access in a timely and flexible manner to a diverse range of debt markets and investors is provided by the following programmes as at 30 June 2005.

Debt Programmes and Issuing Shelves

Programme/Issue Shelf	Outstanding	Programme/Issuing Shelf Type
Australia		
No Limit	A\$ 1,619 million	Transferable Certificates of Deposit Programme
No Limit	A\$ 25 million	Debt Issuance Programme
No Limit	A\$ 3,200 million	Medium Term Note Programme
Euro Market		
US\$ 7 billion	US\$ 2,514 million ⁽¹⁾	Euro Commercial Paper Programme
US\$ 35 billion	US\$ 26,001 million ⁽¹⁾	Euro Medium Term Note Programme ⁽²⁾
Japan		
JPY 500 billion	JPY 82 billion	Uridashi shelf ⁽³⁾
United States		
US\$ 12 billion	US\$ 6,284 million	Commercial Paper Programme
US\$ 1 billion	US\$ 250 million	Securities Exchange Commission registered shelf

⁽¹⁾ Outstandings are recorded at historic exchanges rates (per programme documentation).

⁽²⁾ ASB Bank Limited is also an issuer under this program.

⁽³⁾ Amounts are also reflected under the \$356 billion Euro Medium Term Note Programme.

An analysis of our borrowings and outstandings from existing debt programmes and issuing shelves including the maturity profile, currency and interest rate structure can be found in Note 26 and 28 to the Financial Statements.

Integrated Risk Management

Risk Management

The integrated risk management framework identifies, assesses, manages and reports risks and risk adjusted returns on a relatively consistent and reliable basis.

Independent review is carried out through the audit role.

The Bank's risk profile is measured by the difference between capital available to absorb loss and risk as assessed by target equity required.

"Target equity" is defined as the potential risk of loss of one year's earnings, measured at a standard consistent with an AA credit rating.

Target equity is derived from underlying exposures to credit, market, operational and insurance risks in the banking and wealth management (insurance and funds management) businesses of the Bank. In the banking business, economic capital is a measure of the potential risk of loss of cash earnings. In the wealth management businesses, target equity is a measure of the potential risk of loss of the fair value of the business. This is then adjusted so as to allow comparison between the banking and wealth management businesses target equity.

The following sections describe the integrated risk management framework components.

Credit Risk

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

Credit risk arises in the 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 funds management business does not generally involve credit risk from a shareholder perspective.

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

The Bank uses a diversified portfolio approach for the management of credit risk (refer to Note 14) comprised of the following:

- A system of industry limits and targets for exposures by industry;
- A process for considering the risk associated with correlations between large exposures;
- A large credit exposure policy for aggregate exposures to individual, commercial and industrial client groups tiered by credit risk rating and loan duration; and
- A system of country limits for geographic exposures. These policies assist in the diversification of the credit portfolio.

The credit portfolio is managed in two distinct segments:

- Statistically Managed Segment
 - Comprises exposures that are generally less than \$250,000 and is dominated by the housing loan portfolio. Other products in this segment are credit cards, personal loans and some leasing businesses. Credit facilities are approved using scoring and check sheet techniques.
- Risk Rated Segment
 - Comprises all other credit exposures. Management is based on the internal credit risk rating system, which makes an assessment of the potential for default for each exposure and the amount of loss if default should occur.

Provision for expected credit loss in the banking business commences when an exposure first arises. The expected loss is re-assessed on a regular basis and provisioning adjusted accordingly.

A centralised exposure management system records all significant credit exposures of the Bank. Customers, industry, geographic and other significant groupings of exposure are regularly monitored.

A centralised portfolio model is used to assess risk and return on an overall portfolio basis and for segments of the portfolio. The model also assists in determining economic equity and general provision requirements, and credit portfolio stress testing.

Off-Balance Sheet Arrangements

The Bank is involved with a number of special purpose entities in the ordinary course of business, primarily to provide funding and financial services to our customers. Refer to "Off-Balance Sheet Arrangements" for further details.

Market Risk

Market risk is the potential for change in the value of on and off balance sheet positions caused by a change in the value, volatility or relationship between market rates and prices.

Market risk arises from the mismatch between assets and liabilities in both the banking and insurance businesses and from controlled trading undertaken in pursuit of profit. The Bank is exposed to diverse financial instruments including interest rates, foreign currencies, equities and commodities and transacts in both physical and derivative instruments.

A discussion and analysis of the Bank's market risk is contained in Note 39 to the Financial Statements. Information on trading securities is further contained in Note 10 to the Financial Statements. Note 2 to the Financial Statements contains financial markets trading income contribution to the Bank.

In the trading book of the banking business, market risk is measured by a Value-at-Risk (VaR) model. This model uses the distribution of historical changes in market prices to assess the potential for future losses. The VaR model takes into account correlations between risks and the potential for movements in one portfolio to offset movements in another. Actual results are backtested to check the validity of the VaR model. In addition, because the VaR model cannot encompass all possible outcomes, tests covering a variety of stress scenarios are regularly performed to simulate the effect of extreme market conditions.

Integrated Risk Management (continued)

The following table provides a summary of VaR by product. This is one element of the total integrated risk model used by the Bank. Refer to Note 39 to the financial statements for further details.

VaR Expressed based on 97.5% confidence	Average VaR During June 2005 Half Year \$M	Average VaR During December 2004 Half Year \$M	Average VaR During June 2004 Half Year \$M	Average VaR During December 2003 Half Year \$M
Group				
Interest rate risk	3.44	3.68	2.88	3.02
Exchange rate risk	0.26	0.58	1.09	1.24
Implied volatility risk	0.49	0.53	0.84	0.92
Equities risk	0.04	0.22	0.70	0.56
Commodities risk	0.18	0.34	0.37	0.33
Prepayment risk	0.38	0.54	0.58	0.36
ASB Bank	0.22	0.26	0.14	0.20
Diversification benefit	(0.98)	(1.64)	(2.49)	(2.51)
	4.03	4.51	4.11	4.12
Credit Spread	4.85	4.67	4.92	-
Total	8.88	9.18	9.03	4.12
VaR Expressed based on 99.0% confidence	Average VaR During June 2005 Half Year \$M	Average VaR During December 2004 Half Year \$M	Average VaR During December 2004 Half Year \$M	Average VaR During June 2004 Half Year \$M
Group				
Interest rate risk	4.78	4.72	3.69	3.99
Exchange rate risk	0.31	0.70	1.28	1.50
Implied volatility risk	0.73	0.70	1.04	1.26
Equities risk	0.05	0.30	0.98	0.70
Commodities risk	0.21	0.41	0.45	0.40
Prepayment risk	0.38	0.54	0.58	0.36
ASB Bank	0.32	0.34	0.19	0.25
Diversification benefit	(1.28)	(2.01)	(3.21)	(3.26)
	5.50	5.70	5.00	5.20
Credit Spread	5.75	5.54	5.84	-
Total	11.25	11.24	10.84	5.20

In the non-traded book of the banking business, a range of techniques have been adopted to measure market risk. These include simulation of the effects of market price changes on assets and liabilities for business activities where there are no direct measures of the effects of market prices on those activities.

Liquidity risk is the risk that assets cannot be liquidated in time to meet maturing obligations. Limits are set to ensure that holdings of liquid assets do not fall below prudent levels. The liquid assets held are assets that are eligible for repurchase by the Reserve Bank of Australia (over and above those required to meet the Real Time Gross Settlement obligations), certificates of deposits and bills of exchange accepted by other banks and overnight interbank loans. More detailed comments on the Bank's liquidity and funding risks are provided in Note 39.

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 capable of being easily hedged through matching assets. Wherever possible, the Bank segregates policyholder's funds from shareholder's funds and sets investment mandates that are appropriate for each.

The investment mandates for assets in policyholder's funds attempt to match asset characteristics with the nature of policy obligations. 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 policyholder's 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 policyholder's 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. The Bank no longer sells guaranteed policies. Inforce business contains guaranteed policies sold in the past and on which the Bank continues to collect premiums.

Liquidity risk is not a significant issue in life insurance companies. The life insurance companies in the Bank 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.

Integrated Risk Management (continued)

Liquidity and Funding

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. Liquidity policies are in place to manage liquidity in a day-to-day sense, and also under crisis assumptions.

Under current APRA Prudential Standards, all Australian banks are required to develop a liquidity management strategy that is appropriate for itself, based on its size and nature of operations. The objectives of the Group's funding and liquidity policies are to:

- Ensure all financial obligations are met when due;
- Provide adequate protection, even under crisis scenarios, at lowest cost; and
- Achieve sustainable, lowest-cost funding within the limitations of funding diversification requirements.

Funding risk

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 policy augments the Group's liquidity policy with its aim to assure the Group has a stable diversified funding base without over-reliance on any one market sector.

Domestically, the Group continues to obtain the majority of its Australian dollar funding from a stable retail deposit base which has a lower interest cost than wholesale funds. The retail funding percentage has remained stable at 60% in June 2005 (June 2004: 60%). The Bank believes that the relative size of its retail base has enabled it to source funds at a lower than average rate of interest than the other major Australian banks. However, some of this benefit is offset by the cost of the Group's extensive retail network and the Group's large share of pensioner deeming accounts.

The cost of funds for Financial Year 2005, calculated as a percentage of interest expense to average interest bearing liabilities, was 4.53% on a group basis compared with the 4.0% on a group basis for Financial Year 2004.

The Group obtains a significant proportion of its funding for the domestic balance sheet from wholesale sources – approximately 42.8% (2004: 39.5%), excluding Bank Acceptances. The cost of funds raised in the wholesale markets is affected by independently assessed credit ratings.

Derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. The Bank enters into derivatives transactions including swaps, forward rate agreements, futures, options and combinations of these instruments. The sale of derivatives to customers as risk management products and their use for trading purposes is integral to the Bank's financial markets activities. Derivatives are also used to manage the Group's own exposure to market risk. The Bank participates in both exchange traded and over the counter ("OTC") derivatives markets.

Exchange Traded Derivatives

Exchange traded derivatives are executed through a registered exchange, for example the Sydney Futures Exchange or the Australian Stock Exchange. The contracts have standardised terms and require lodgement of initial and variation margins in cash or other collateral at the Exchange, which guarantees ultimate settlement.

OTC Traded Derivatives

The Bank buys and sells financial instruments that are traded 'over-the-counter', rather than on recognised exchanges. The terms and conditions of these transactions are negotiated between the parties, although the majority conform to accepted market conventions. Industry standard documentation is used, most commonly in the form of a master agreement supported by individual transaction confirmations. The documentation protects the Bank's interests should the counterparty default, and provides the ability to net outstanding balances in jurisdictions where the relevant law allows.

The Bank's exposure to derivatives is disclosed in Note 39 Market Risk.

Operational and Strategic Business Risk

The Bank's operational and strategic business risk management framework supports the achievement of the Group's financial and business goals.

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

- Inadequate or failed internal processes and methodologies;
- People;
- Systems; 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.

In each of the businesses, management is responsible for the identification, assessment and treatment of these risks. The Bank's operational risk framework and governance structures supports these efforts through a suite of risk mitigating policies, the reporting of internal loss incidents and key risk indicators, expert assessment of risk exposures, and skilled operational risk people employed throughout the Group.

The Bank's operational risk measurement methodology has been enhanced to meet internal needs and position for future Basel II requirements. This methodology combines expert assessment of individual risk exposures with internal loss data to calculate operational risk economic equity.

Target equity for the banking business is calculated by aggregating individual risk measures which are based on expert assessment. For the insurance and funds management businesses target equity is calculated using worst-case scenarios that impact upon business risk factors such as pricing, margins and business volumes.

The Bank continues to benchmark and monitor its insurance risk transfer program for efficiency and effectiveness. This is primarily achieved through a methodology to optimise total shareholder returns in determining the most appropriate blend of insurance risk transfer and economic capital.

Integrated Risk Management (continued)

Business Continuity Management

Business Continuity Management ("BCM") within the Bank involves the development, maintenance and testing of advance action plans to respond to defined risk events. This ensures that business processes continue with minimal adverse impact on customers, staff, products, services and brands.

BCM constitutes an essential component of the Bank's risk management process by providing a controlled response to potential operational risks that could have a significant impact on the Bank'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 has been rolled out across all business units to embed BCM methodologies and capability throughout the Bank.

Insurance Risk

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 is greater than best estimate assumptions used to determine the fair value 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, 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 and those of the industry as a whole are reviewed annually.

Cross Border Outstandings

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

At 30 June 2005, the Bank's cross-border outstandings with the finance and insurance industry within the United States of America, with cross border outstandings of \$3.1 billion, was 1% of the Group's total assets. At 30 June 2004, there were nil cross-border outstandings of individual countries by industry category exceeding 1% of the Group's total assets.

At 30 June 2005, the United States of America, with cross border outstandings totalling \$3.3 billion, was the only country to exceed 0.75% of the Group's total assets. At 30 June 2004, there were two countries with cross border outstandings greater than 0.75% of the Group's total assets – Germany totalling \$2.7 billion and the United States of America totalling \$2.4 billion.

Off-Balance Sheet Arrangements

The Group is a full service financial institution that offers a range of on-balance sheet and off-balance sheet arrangements and commitments to customers in the normal course of business. In addition, the Group has a number of other arrangements that form part of its day to day business operations. Such activities include traditional off balance sheet credit risk related instruments, commitments under capital and operating leases, long term debt issues, provision of liquidity facilities to securitisation programs and other contractual arrangements. These transactions combine varying levels of credit, interest rate, foreign exchange and liquidity risk. In accordance with Group policy, exposure to any of these transactions is not carried at a level that would have a material effect on the financial condition of the Group. The impact on the Statement of Financial Performance from these off balance sheet arrangements is not material. There are no significant differences between Australian and US GAAP arising out of off-balance sheet arrangements.

Consolidated Entities

The Group is involved with a number of special purpose entities in the ordinary course of business, primarily to provide funding and financial services to our customers. Under Australian GAAP these entities are consolidated in the financial statements if they meet the criteria of control. The definition of control depends upon substance rather than form and, accordingly, determination of the existence of control involves management judgment. The Group has no off balance sheet financing entities that it is considered to control under Australian GAAP. Under US GAAP, the criteria for consolidation differ from Australian GAAP. See the section below on Asset Backed-Finance Programs below for further details.

Asset Backed Finance Programs

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

The issuers are not owned or controlled by the Group and have independent directors. Under Australian GAAP the assets and liabilities of the issuers are not consolidated into the Group's Statement of Financial Position. For US GAAP, the issuers are a type of variable interest entity as defined by FASB Interpretation No 46, "Consolidation of Variable Interest Entities". Under the provisions of FIN 46, the variable interest entity is deemed to be controlled by the Group, if the Group has most of the risks and/or benefits. As a result of the application of the standard, a number of entities are consolidated by the Group, resulting in an increase in assets of \$566 million and liabilities of \$566 million for US GAAP. AIFRS requires the consolidation of certain special purpose vehicles that were not consolidated under Australian GAAP. Some, but not all, of these vehicles are required to be consolidated under US GAAP.

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

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

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

Group Arrangements with Issuers

	2005 \$M	2004 \$M	2003 \$M
Management fee paid to the Group	2	3	1
Liquidity facilities utilised by Issuers	-	-	6
Derivatives face value provided to Issuers	51	839	644

Credit Risk Related Instruments

The Group is involved in a range of transactions that give rise to contingent and/or future liabilities. These transactions meet the financing requirements of customers and include endorsed bills of exchange, letters of credit, guarantees and commitments to provide credit. These are transacted on a commercial basis to attract fees in line with market prices for similar arrangements, with terms and conditions having due regard to the nature of the transaction and the risks involved. They are not sold or traded. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. The only material category of commitments is the \$76,162 million of commitments to provide credit, of which \$68,365 million is committed within the next year. The commitment to provide cash under these instruments is managed within the Group's liquidity and funding policies under current APRA Prudential Standards.

The Group has a funding policy that augments its liquidity policy to assure the Group has a stable diversified funding base without over-reliance on any one funding source. The objectives of the liquidity and funding policies are to:

- Ensure all financial obligations are met when due;
- Provide adequate protection, even under crisis scenarios, at lowest cost; and
- Achieve sustainable, lowest-cost funding within the limitations of funding diversification requirements.

Details of contingent liabilities and off balance sheet business are set out in Note 38 Contingent Liabilities, except for Derivatives, which is set out in Note 39 Market Risk. The table on the following page outlines the Group's credit risk related instruments:

Off-Balance Sheet Arrangements

	Face Value		Credit Equivalent	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Credit risk related instruments				
Guarantees	2,438	2,230	2,438	2,230
Standby letters of credit	321	362	321	362
Bill endorsements	276	308	276	308
Documentary letters of credit	185	171	37	34
Performance related contingents	1,095	898	547	449
Commitments to provide credit	76,162	64,651	13,421	12,329
Other commitments	8,279	7,158	942	1,156
Total credit risk related instruments	88,756	75,778	17,982	16,868

Guarantees represent unconditional undertakings by the Bank (or Group entity) to support the obligations of its customers to third parties.

Standby letters of credit are undertakings by the Bank (or Group entity) 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 Bank (or Group entity) 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 Bank (or Group entity) 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 Bank (or Group entity) to provide credit facilities.

Other commitments include the Bank's (or Group entity) obligations under sale and repurchase agreements, outright forward purchases and forward deposits and underwriting facilities.

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 counterparty. 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, the nature and the certainty of the contractual undertaking to provide the facility.

Where the potential loss depends on the performance of a counterparty, the Group utilises the same credit policies and assessment criteria for off balance sheet business as it does for on balance sheet business and if it is deemed necessary, collateral is obtained based on management's credit evaluation of the counterparty. If a probable loss is identified, suitable provisions are raised.

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

	As at 30 June 2005					
	Less than 1 year	1 to 3 year	3 to 5 years	over 5 years	Total	Carrying Value
	\$M	\$M	\$M	\$M	\$M	\$M
Guarantees	2,431	-	-	7	2,438	7.9
Standby letters of Credit	234	17	10	60	321	1.0
Bill endorsements	276	-	-	-	276	0.9
Documentary letters of credit	185	-	-	-	185	0.6
Performance related contingents	1,095	-	-	-	1,095	3.5
Total	4,221	17	10	67	4,315	13.9
	As at 30 June 2004					
	Less than 1 year	1 to 3 year	3 to 5 years	over 5 years	Total	Carrying Value
	\$M	\$M	\$M	\$M	\$M	\$M
Guarantees	2,124	1	-	105	2,230	3.6
Standby letters of Credit	228	75	11	48	362	0.6
Bill endorsements	308	-	-	-	308	0.5
Documentary letters of credit	171	-	-	-	171	0.3
Performance related contingents	897	-	-	1	898	1.4
Total	3,728	76	11	154	3,969	6.4

Off-Balance Sheet Arrangements (continued)

Securitisation of Assets

The Group conducts a Loan Securitisation program through which it packages loans and issues securities to investors. The Group has a policy of funding diversification and assets are securitised to provide greater diversification of the Group's funding sources. The Group is not over-reliant on funding from any one market sector (refer Market Risk – Note 39). In addition, the Group's capital management benefits from reduced risk under APRA Prudential capital adequacy guidelines.

The Group securitises mortgage loans to a special purpose entity (SPE). The SPE is a separate bankruptcy remote entity that operates under master series agreements. The SPE operates through segregated series and the securities issued in different series may have different credit ratings. The primary source of repayment of the securities issued is the cash flow from the pools of assets. Investors in the securities issued have no recourse to the general assets of the Group. Under Australian GAAP these loans are removed from the Group's Statement of Financial Position. For US GAAP the conditions to allow securitised loans to be removed from the Statement of Financial Position include the provision that the transferor does not retain effective control over, or more than a trivial interest in, the transferred assets. The Group meets these requirements of US GAAP and as a result also does not consolidate the SPE under US GAAP.

The outstanding balance of securitised loans at 30 June 2005 was \$10,818 million (2004: \$7,605 million; 2003: \$6,480 million). No credit losses were incurred by the Group in relation to these securitised loans during the Financial Year 2005. The credit risk in respect of these loans is fully covered through mortgage insurance

Interest rate swaps and liquidity facilities are provided at arms length to the program by the Group in accordance with APRA Prudential Guidelines. These liquidity facilities are disclosed within Contingent Liabilities as commitments to provide credit (2005: \$337 million; 2004: \$292 million). Interest rate swaps (2005: \$13,899 million; 2004: \$10,577 million) are disclosed within the Market Risk note. These commitments are very minor in the totality of the Group's business.

For its services to the program, the Group receives fees such as loan servicing and program management fees on an arms length basis. Fee income is recognised in income on an accruals basis in relation to the period in which the costs of providing these services are incurred. The Group is entitled to any residual income of the program after all payments due to investors and costs of the program have been met. The value of securitization fee and residual income is not a material component of the Group's fee income.

Cashflows paid to CBA from the SPE in Financial Years 2005, 2004 and 2003 were:

	2005	2004	2003
	\$M	\$M	\$M
Servicing fee	20	15	17
Management fee	2	2	2
Excess servicing fee	30	36	30
Proceeds from sale of mortgage loans	5,989	3,436	1,664
Interest rate swaps	14	27	35
Total cash receipts	6,055	3,516	1,748

Contractual and Commercial Commitments

Contractual and Commercial Commitments

At the end of Financial Year 2005 the Group had commitments for capital expenditure (see Note 36) and lease commitments (see Note 37). These commitments are minor in the totality of the Group's commitments.

The Group also had various monetary contractual liabilities, such as deposits and other public borrowings,

payables to other financial institutions, bank acceptances, life liabilities, debt issues and loan-capital, and other monetary liabilities. Refer to note 32 to the Financial Statements for the maturity distribution of these monetary contractual liabilities. Details of the Group's contractual obligations are set out in the following table:

	As at 30 June 2005				
	Total	Less than 1 year	1 – 3 years	Payments due by period	
				3 – 5 years	More than 5 years
	\$M	\$M	\$M	\$M	\$M
On balance sheet					
Debt issues	58,621	26,344	13,437	8,874	9,966
Deposits and other borrowing	168,029	163,616	2,982	1,292	139
Loan capital	6,291	392	1,033	1,405	3,461
Total on balance sheet	232,941	190,352	17,452	11,571	13,566
Off balance sheet					
Credit risk related instruments	88,756	74,186	6,386	6,727	1,457
Commitments for Capital Expenditure Not Provided for in the Accounts	13	13	-	-	-
Lease Commitments – Property, Plant and Equipment	1,146	297	386	249	214
Total off balance sheet	89,915	74,496	6,772	6,976	1,671

	As at 30 June 2004				
	Total	Less than 1 year	1 – 3 years	Payments due by period	
				3 – 5 years	More than 5 years
	\$M	\$M	\$M	\$M	\$M
On balance sheet					
Debt issues	44,043	20,401	12,130	5,413	6,099
Deposits and other borrowing	163,177	158,745	2,556	1,038	838
Loan capital	6,631	458	1,073	547	4,553
Total on balance sheet	213,851	179,604	15,759	6,998	11,490
Off balance sheet					
Credit risk related instruments	75,778	62,450	5,313	6,392	1,623
Commitments for Capital Expenditure Not Provided for in the Accounts	46	44	2	-	-
Lease Commitments – Property, Plant and Equipment	1,148	295	268	378	207
Total off balance sheet	76,972	62,789	5,583	6,770	1,830

Leases

Leases entered into by the Group are for the purpose of accommodating the Group's 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 with external professional property resources acting for the Group.

Rental payments are determined in terms of relevant lease requirements – usually reflecting market rentals as described by standard valuation practice.

Long Term Contracts

In 1997, the Bank entered into a ten year contract with EDS (Australia) Pty Ltd, relating to the provision of information technology services.

In 2000, the Bank entered into a five year agreement with TCNZ Australia Pty Ltd (now trading as Gen-i Australia) a subsidiary of Telecom New Zealand for the provision of telecommunications services. During financial Year 2005 the majority of the services under this agreement were extended to August 2008.

Contractual and Commercial Commitments

Failure to Settle Risk

In accordance with the regulations and procedures governing clearing arrangements contained within the Australian Paper Clearing System ("Clearing Stream 1"), the Bulk Electronic Clearing System ("Clearing Stream 2"), the Consumer Electronic Clearing System ("Clearing Stream 3") and the High Value Clearing System ("Clearing Stream 4", only if operating in 'bypass mode') of the Australian Payments Clearing Association Limited, the Bank is subject to a credit risk exposure in the event that another financial institution fails to settle for its payments clearing activities. This credit risk exposure is unquantifiable in advance.

Service Agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Chief Executive Officer and Specified Executives of the

Company and its controlled entities at 30 June 2005 was \$7 million (2004: \$8 million).

Transactions in Own Shares

The Group has in place the following employee share plans:

- Commonwealth Bank Employee Share Acquisition Plan;
- Commonwealth Bank Equity Participation Plan;
- Commonwealth Bank Equity Reward Plan; and
- Commonwealth Bank Non-Executive Directors Share Plan.

The plans provide staff and directors with potential to receive shares or options over shares in the Group. Full details of these plans are set out in Note 29 Share Capital. The impact of these plans have no material impact on the Group's Statement of Financial Performance.

Critical Accounting Policies and Estimates (continued)

Critical Accounting Policies and Estimates

The 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 market valuations of life insurance controlled entities. An explanation of these policies and the related judgements and estimates involved is set out below.

Provisions for Impairment

Provisions for impairment are maintained at an amount adequate to cover anticipated credit related losses.

Credit losses arise primarily from loans but also from other credit instruments such as bank acceptances, contingent liabilities, financial instruments and investments and assets acquired through security enforcement.

Specific Provisions

Specific provisions are maintained where full recovery of principal is considered doubtful.

Specific 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 by management of the realisable (fair) value of collateral taken.

Specific provisions (in bulk) are also made against each statistically managed segment 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 emerging credit risks identified in specific segments in the credit risk rated managed portfolio. These provisions are derived primarily by reference to historical ratios of write-offs to balances in default.

Specific provisions are provided for from the general provision.

All facilities subject to a specific provision for impairment are classified as non-accrual, as set out in Note 15 to the financial statements.

General Provision

The general provision represents management's estimates of non-identifiable probable losses and latent risks inherent in the overall portfolio of loans and other credit transactions.

The evaluation process is subject to a series of estimates and judgements.

In the credit risk rated managed segment, the risk rating system, including the frequency of default and loss given default rates, loss history, and the size, structure and diversity of individual credits are considered. Current developments in portfolios (industry, geographic and term) are reviewed.

In the statistically managed 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 general provision to the level assessed is taken to profit and loss as set out in Note 13 to the financial statements.

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.

All policyholder liabilities are recognised in the Statement of Financial Position and are measured at net present values or, if not materially different, on an accumulation basis after allowing for acquisition expenses. They are calculated in accordance with the principles of Margin on Services ("MoS") profit reporting as set out in Actuarial Standard AS 1.03: Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board.

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(ii) Life Insurance Business, and Note 34 Life Insurance Business details the key actuarial assumptions.

Market Valuation of Life Insurance Controlled Entities

Interests in controlled entities held by the life insurance companies are subject to revaluation each period, such that the investment in the controlled entity is recorded at market value.

On consolidation the investment in controlled entities is eliminated and the excess of market value of controlled entities over their underlying net assets is separately recognised in Other Assets (Note 21) on the balance sheet as 'Excess of Net Market Value over Net Tangible Assets of Life Insurance Controlled Entities'. This amount is assessed periodically as part of the valuation of investments with changes in value taken to profit. This excess does not require amortisation in the financial statements.

Appraisal valuations are used to assist the directors in setting the market value. There are several key economic and business assumptions involved in the appraisal valuations, the selection of which involves actuarial judgement.

Economic assumptions are the long term view on key economic drivers and comprise investment earnings rates, risk discount rates and inflation. The economic assumptions are reviewed as a suite to take account of the correlation between the movements in each factor.

Critical Accounting Policies and Estimates (continued)

Business assumptions relate to the performance of the Group's businesses, both stand alone and relative to the market. These assumptions are only altered when there is a long-term change in views, which is supported by clearly discernible trends. The assumption setting process is similar to that used for Margin on Services policyholder liabilities. The major business assumptions for life businesses are:

- Sales/new business;
- Claims;
- Persistency; and
- Expenses.

The major business assumptions for funds management businesses are:

- Sales/new business;
- Margins/business mix;
- Redemptions; and
- Cost to income ratio.

Details of the key assumptions used in the valuations are set out in Note 34 Life Insurance Business.

On transition to the Australian equivalent of International Financial Reporting Standards ("AIFRS") on 1 July 2005, the asset "Excess of Net Market Value over Net Tangible Assets of Life Insurance Controlled Entities" can no longer be recognised in full. As a result, the Bank will, on adoption of AIFRS, cease to recognise any movement in the appraisal value in the Statement of Financial Performance. The write off of the internally generated component will principally be reflected against General Reserve; and the acquired component will be reclassified as Goodwill.

Provision for Which new Bank costs

On 19 September 2003, the Group launched its Which new Bank customer service vision. This is a three year transformation program and involves the Bank in additional expenditure in the key areas of staff training and skilling, systems and process simplification, and technology. In the year to 30 June 2005 such expenses have totalled \$150 million and principally comprised redundancies and process improvement costs. In the period to 30 June 2004 such expenses have totalled \$749 million and principally comprised of redundancies, expensing of previously capitalised software of \$219 million, process improvements and branch refurbishment.

The Group is required to book a provision for restructuring costs to the extent that it has announced a plan or started implementing a plan, and has no realistic alternative but to proceed with the restructuring.

There is a level of management judgement involved in estimating the planned costs involved and the level of commitment to the plan, such that it is judged that the plan will proceed to completion.

On this basis a provision for 'Which new Bank' costs of \$91 million was outstanding at 30 June 2005, which is included in the expenses referred to above.

The cost estimates for the provision were determined by the businesses concerned taking into account the details of the planned initiatives and their timing. Other provisions for restructuring established in the past have proved to be appropriately estimated at the time. The provision established in June 2000 when the Group acquired the Colonial Limited Group of companies to cover the integration of the Colonial operations into the existing Group is described in Note 1(z) of the Financial Statements for the year ended 30 June 2003. This provision for restructuring was estimated at \$400 million at 30 June 2000. This initial estimate was subsequently revised up to \$545 million in the year ended 30 June 2001. The revision to costs of restructure principally related to additional staff redundancy payments and information technology contract termination costs. The current transformation initiative is a three year program that is estimated to cost \$1,480 million over the 2004 to 2006 period. Minimal additional provisions for 'Which new Bank' costs are expected to be established over the remaining period.

International Financial Reporting Standards

On 1 July 2005 the Bank commenced application of the Australian equivalent of International Financial Reporting Standards ("AIFRS") to the maintenance of all financial records. This is in line with the conversion deadline set out by the Financial Reporting Council of Australia.

Descriptions of the key AIFRS issues are set out in Note 1 (qq) to the Financial Statements.

Significant US GAAP adjustments

For US GAAP reporting purposes a number of adjustments are required (see note 48) to reconcile Australian GAAP reported net profit, shareholders' equity and total assets to US GAAP reported information. The most significant of these are;

- Life insurance – the methodology used for estimating policy holder liabilities, for deferring costs and valuing controlled entities is markedly different under US GAAP compared to Australian GAAP (results in a \$990 million decrease in net income for Financial Year 2005, \$270 decrease in net income for Financial Year 2004 and \$24 million increase for Financial Year 2003.);
- Derivatives – Australian GAAP requires derivative hedges of non trading assets and liabilities to be brought to account on an accruals basis, whereas US GAAP requires the fair value of all derivatives to be on the balance sheet (results an increase of \$263 for the Financial Year 2005 in net income; results in a decrease of \$736 million in net income for Financial Year 2004 and \$636 million increase in net income for Financial Year 2003);
- Pensions – Australian GAAP requires pension expenses for defined benefit pension plans to be accounted for on an incurred basis, whereas US GAAP requires an accrual basis (results in a \$62 million decrease in net income for Financial Year 2005, \$24 million decrease in net income for Financial Year 2004 and \$6 million decrease for Financial Year 2003). For more details in relation to pensions see below.
- Goodwill amortisation - Australian GAAP requires goodwill to be amortised over its useful life up to a maximum of 20 years. Effective 1 July 2002, goodwill is not amortised under US GAAP but is reviewed for impairment every period end. The goodwill amortisation expense reversed was \$325 million for the Financial Year 2005, \$324 million for Financial Year 2004 and \$322 million for Financial Year 2003.
- Loan Impairment Provisions - For the Financial Year 2005 the Group has made a number of changes in the approach used to estimate the loan impairment provision. These changes have been introduced to provide a more consistent approach for calculating the estimate of loan impairment under USGAAP and AIFRS. As such a US GAAP adjustment has been recorded for the Financial Year 2005. This results in an increase in loans advances and other receivables of \$354 million for the Financial Year 2005 and an increase in other provisions of \$25 million.
- Fin 46 Variable Interest Entities: US GAAP requires the consolidation of variable interest entities if the conditions outlined in the FIN 46 are met. For the year ended 30 June 2005, this resulted in an increase in assets of \$566 million, increase in liabilities of \$2,139 million, a decrease in shareholders' equity of \$1,460 million and a decrease in income of \$76 million.

Critical Accounting Policies and Estimates (continued)

Pensions

The Group sponsors a range of superannuation plans for its employees world wide. Details of major defined benefit plans with assets in excess of \$10 million are:

Name of Plan	Type	Form of Benefit
Officers' Superannuation Fund (OSF)	Defined Benefits and Accumulation	Indexed pensions and lump sums
Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA(UK)SBS)	Defined Benefits and Accumulation	Indexed pensions and lump sums

For the above plans, entities of the Group contribute to the respective plans in accordance with the Trust Deeds following the receipt of actuarial advice. Details of the Bank's contributions to these plans and the respective funds actuaries' estimated financial position are set out in Note 40. The Bank expect the financing of these defined benefit plans will affect its cashflows in the Financial Year 2006 in a immaterial manner (ie cash outflows of less than \$15 million).

With the introduction of AIFRS from 1 July 2005, the surpluses and/or deficits that arise within individual defined benefit superannuation plans must be recognised in the statement of financial position. There is a choice of three options for the recognition of actuarial gains and losses related to defined benefit superannuation plans. The three options are direct recognition in Profit of all of actuarial gain or loss, direct recognition in Retained Earnings of all of the actuarial gain or loss or the 'corridor' approach which progressively recognises a certain portion of the gain or loss within Profit over the expected average remaining working lives of employees within the plan. The Bank has selected direct recognition in Retained Earnings as the method of accounting for its defined benefit plans. For US GAAP, the Bank continues to apply the 'corridor' approach in line with the requirements of US accounting standard SFAS 87 'Employers' Accounting for Pensions'.

The surpluses and/or deficits that arise within individual defined benefit superannuation plans do not currently impact the calculation of the Bank's regulatory capital. The Australian Prudential Regulatory Authority (APRA) has released a discussion paper setting out some of its proposed prudential responses to the adoption of AIFRS by APRA regulated institutions (including the impact of the recognition of the surpluses and/or deficits of defined benefit superannuation plans). APRA is consulting with regulated entities, including the Bank, prior to their finalisation of any amendments to the prudential regulations.

On transition to AIFRS, Retained Earnings at 1 July 2004 increased by \$389 million to reflect the net accounting surplus of \$556 million (pre tax) at 1 July 2004. By comparison, the Bank also disclosed an identical net pre-tax accounting surplus at 30 June 2004 in its US GAAP financial statements. Application of the 'corridor' approach (mandated under US GAAP) meant that the Bank's US GAAP balance sheet and shareholder equity included prepaid pension costs of \$1,173 million (pre-tax) of which \$243 million relating to the Colonial acquisition was adjusted against goodwill. Application of the 'corridor' approach meant losses of \$615 million (pre-tax) will be unrecognised.

For the AIFRS comparative financial year ended 30 June 2005, the restatement of the Statement of Financial Performance included an additional non cash expense of \$52 million (after tax) or \$75 million (pre tax). Application of the 'corridor' approach under US GAAP resulted in the recognition of net loss of \$17 million during 2004/2005 and a net periodic pension expense under US GAAP of \$64 million (after tax) or 92 million (pre tax).

At 30 June 2005, the net accounting surplus under AIFRS and US GAAP was \$447 million (after tax) or \$640 million (pre tax). For the year to 30 June 2005, there was an increase of \$110 million to net assets and Retained Earnings which comprised an actuarial gain of \$102 million and other movements totalling \$8 million (principally foreign exchange movements) results in a total increase of \$110 million to net assets and Retained Earnings. Positive factor affecting the actuarial gains/losses was the upturn in investment markets during 2004/2005 whilst negative factors included the decrease in discount rate assumption (discussion below) and adoption of more conservative pensioner mortality assumptions to align with the actuarial practices of the Bank's life insurance business.

By comparison, under the 'corridor approach' (mandated under US GAAP), actuarial gains/losses first impact the value of unrecognised gains/losses. Portion of these amounts may then be recognised through the future Profit in accordance with the 'corridor' approach. The net actuarial gains for 2004/2005 contributed to the reduction in unrecognised net loss at 30 June 2005 to \$448 million (pre tax). The Bank expects this unrecognised net loss to affect its 2005/2006 net periodic expense in an immaterial manner (ie less than \$10 million pre tax).

The key economic assumptions used to calculate the above are:

Assumption	2005	2004
Discount Rate (Gross of tax)	5.10%	6.00%
Compensation increase rate	4.25%	4.25%
Return on assets	7.50%	7.50%

The return on asset assumption 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.

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. As at 30 June 2005, the benchmark asset allocations and actual asset allocations for the assets backing the defined benefit portion of the OSF is as follows:

Asset Sector	Benchmark Asset Allocation	Actual Allocation
Australian Equities	27.5%	30.7%
Overseas Equities	21.0%	21.5%
Real Estate	15.0%	15.4%
Fixed Interest Securities	25.5%	24.1%
Cash	5.0%	4.9%
Other ¹	6.0%	3.4%

- 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 long term expected returns of each asset class are determined following receipt of actuarial advice.

The return on assets assumption for 2004/2005 was 7.50% pa (after tax) and the Bank does not expect this assumption to change for 2005/2006.

An one percentage increase in the return on assets assumption for the OSF will decrease the Bank's net periodic pension expense by \$47 million whilst an one percentage decrease in the return on assets assumption will increase the pension expense in the Financial Year 2005 by \$46 million (pre tax).

Critical Accounting Policies and Estimates (continued)

To align the reporting of the Bank's pension obligations under SFAS 87 "Employers' Accounting for Pensions" with the requirements of AIFRS, effective from 30 June 2004, the discount rate assumption is based on the yield on 10 year Australian government securities. Future discount rate assumptions will vary in line with market movements in the yield on 10 year Australian government securities.

An one percentage increase in the discount rate assumption for the OSF will affect the Bank's staff superannuation AIFRS disclosures as follows:

- decrease the 1 July 2004 liabilities by \$379 million (pre tax)
- increase the 2004/2005 pension expense by \$31 million (pre tax)
- decrease the 30 June 2005 fund liabilities by \$467 million (pre tax)

Correspondingly, an one percentage decrease in the discount rate assumption for the OSF will affect the Bank's AIFRS staff superannuation disclosures as follows:

- increase the 1 July 2004 fund liabilities by \$457 million (pre tax)
- decrease the 2004/2005 pension expense by \$28 million (pre tax)
- increase the 30 June 2005 fund liabilities by \$595 million (pre tax)

Application of the 'corridor' approach under US GAAP meant that an one percentage decrease in the discount rate assumption resulted in the recognition of net loss of \$16 million during Financial Year 2005 and an increase in net periodic pension expense under US GAAP of \$26 million (pre tax).

Events after the end of the Financial Year 2005

Sale of Hong Kong Life Insurance Business

On 7 July 2005 the Bank entered into an agreement to sell its life insurance and financial planning business in Hong Kong to Sun Life Financial.

The transaction was completed on 18 October 2005 with the Bank receiving a consideration of \$608 million. Profit on sale of approximately \$145 million will be recognised in the Financial Year 2006.

Share Buy Back

On 28 October 2005 the Bank announced an on-market buy-back of up to \$500 million of the Bank's ordinary shares and is expected to be completed within 6 months. The Buy-back is being undertaken as part of the Banks' ongoing program of active capital management.

Conversion to Australian International Financial Reporting Standards (AIFRS)

On 1 July 2005 the Bank commenced application of the Australian equivalent of International Financial Reporting Standards (AIFRS) to the maintenance of all financial records. Refer to Note 1 (qq) to the financial statements for details on the changes and impacts.

Purchase of 100% of Gandel Joint Venture Entities

In October 2002, the Gandel Group and the Bank formed funds management and property management joint venture entities – CFSPRPL and GRM - which provided management services to the CFS Gandel Retail Trust (GAN). Under the terms of the joint venture agreement, the Gandel Group had the right to sell to the Bank its interests in CFSPRPL and GRM any time after 3 October 2005. On 6 October 2005, the Gandel Group exercised this right and as a consequence the Bank will acquire the Gandel Group's interest in CFSPRPL and GRM resulting in 100% ownership of each of these entities. The impact of this transaction to the Group's net profit after tax for the Financial Year 2006 is expected to be immaterial.

As part of the joint venture agreement, the Gandel Group and the Bank must together hold a minimum unit holding in GAN of 27% until April 2006, with Gandel Group holding at least 6%. Currently Gandel Group holds around 18% and the Bank 14%. The Bank would be therefore be obliged to top up its holding should Gandel Group sell down.

As part of these obligations around the GAN unit holdings, the Gandel Group has the option to put units in GAN to CBA at market value. There would be no profit and loss impact (DR Assets – GAN Units, CR Cash). Gandel Group has two remaining put options of 57 million units each (totalling 5.6% of GAN), which must be exercised by 3 April 2006.

Remuneration of Auditors

Under the Corporations Act 2001 of Australia certain services performed by the Auditor are considered audit related services. Under SEC rules classify of the services would be audit services. The below table sets out the Remuneration of Auditors disclosure adjusted for SEC definitions:

	Group 2005 \$'000	Group 2004 \$'000
Amounts paid or due and payable for audit services to:		
Ernst & Young	9,166	7,714
Other Auditors	114	134
	<u>9,280</u>	<u>7,848</u>
Amounts paid or due and payable for non-audit services to		
Ernst & Young:		
Audit related services	832	1,113
Taxation services	16	222
All Other services		
Corporate finance services	-	203
Staff assistance services	-	13
Other services	327	569
	<u>1,175</u>	<u>2,120</u>
Total Remuneration of Auditors	<u>10,455</u>	<u>9,968</u>

Fees for audit services includes fees associated with statutory audit services, review of the Group's half year financial statements, audit for the Group's US Form 20-F, services in relations to statutory and regulatory requirements, and other services that only external auditor can provide such as comfort letters on debt issues.

Audit related fees principally include accounting and regulatory consultations, due diligence in connection with acquisitions and disposals, and investigations and verification of internal control systems and financial or regulatory information.

Taxation fees include income tax and GST compliance and related advice, and tax technology and related training.

All other fees principally include transactions support services related to potential and actual acquisition and disposition transactions and advice regarding implementation of revised compliance and regulatory requirement.

Description of Business Environment

Overview

Commonwealth Bank of Australia provides a comprehensive range of banking, financial, life and risk business insurance and funds management services in Australia, New Zealand, throughout Asia and in the United Kingdom. The Bank is Australia's largest bank in terms of housing loans and retail deposits. At 30 June 2005, the Group had total consolidated assets of over \$329 billion and loans outstanding of \$218 billion. The Group's net profit after tax was \$3,991 million for Financial Year 2005.

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

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

The Group is managed within three primary business segments, being banking, funds management and life insurance.

Banking

The Group's banking operations contributed approximately 64% of its total net profit after tax for Financial Year 2005 and represented approximately 89% of the Group's total assets at 30 June 2005. The Group's banking operations consist primarily of the operations of the Bank and ASB Bank.

Funds Management

The Group's funds management operations consist primarily of the Colonial First State Group (acquired as part of the Colonial Limited acquisition in June 2000). The Commonwealth Funds Management business was merged into the Colonial First State Group during the Financial Year 2003. For Financial Year 2005 the funds management operations contributed \$633 million (16% of the Group) in net profit after tax. As at 30 June 2005 the funds management operations held \$123 billion in Funds under Administration.

Insurance

The Group's insurance operations consist primarily of Commonwealth Life Limited, Colonial Mutual Life Assurance (CMLA), ASB Life Limited, Sovereign Group, operations in the Asian region and Commonwealth Insurance Limited. The Asian operations include both 100% owned subsidiaries and joint venture operations. The insurance operations of the Group contributed 20% (\$781 million) of the Group's net profit after tax for Financial Year 2004.

Each of these businesses is described more fully within the preceding Banking, Funds Management and Insurance Business Analysis Sections.

The operations of the core business functions are carried out by four customer-facing business units. They are International Financial Services, Wealth Management, Premium Business Services and Retail Banking Services. Other functions of the Group that support these core business functions include; Finance and Risk Management, Group Strategic Development, Group Technology and Human Resources.

International Financial Services (IFS)

International Financial Services provides banking, insurance and investment product distribution services to corporate, business and retail customers in the Asia Pacific region. The Bank is represented in eleven countries, operating full retail banking branches in New Zealand (ASB Bank), Fiji (Colonial National Bank) and Indonesia (PT Bank Commonwealth).

IFS has recently expended its banking presence in China and India, making two investments in Chinese city commercial banks, Jinan City Commercial Bank and

Hangzhou City Commercial Bank, and establishing a Representative Office in India.

Life insurance and fund management businesses are operated in China, Singapore, Indonesia, Vietnam, Fiji and New Zealand. The Bank also has global market activities in London, New York, Tokyo, Hong Kong, Singapore and Malta.

Wealth Management

Wealth Management brings together the Group's funds management platform, master funds, superannuation, insurance and financial advice business support. This includes Colonial First State, Commonwealth Investment Management, Colonial Insurance, CommInsure and third party support services for brokers, agents and financial advisers under existing brands.

Additionally, Wealth Management operates funds management businesses in Singapore and the United Kingdom.

Wealth Management has distribution strength across the Third Party Independent Financial Advisers channel (IFA), Bank planners and insurance consultants and advisers within our dealership groups.

Premium Business Services (PBS)

PBS provides wealth and relationship management for the Bank's premium clients (personal, business, corporate and institutional). PBS provides customized products and services for clients with more complex financial needs, designs and produces business products for distribution across the Bank, and undertakes financial markets activities in foreign exchange, debt and derivatives.

Australia's leading online broking service, CommSec, is also part of PBS.

Retail Banking Services (RBS)

Retail Banking Services delivers customised service, focusing on meeting the financial needs of retail customers seeking accessible and affordable banking. Our end-to-end business brings together teams in branches, call centres, area offices, third party banking, retail operations and support office.

We believe we are Australia's most accessible bank facilities based on our extensive branch network, online banking and ATM network relative to our competitors, and provide service to customers across a wide range of outlets.

Financial and Risk Management

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

Description of Business Environment (continued)

History and Ownership

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

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

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

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

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

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

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

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

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

The agreement also includes an undertaking from the Bank that it will not seek to extend the maturity profile of its deposit liabilities beyond that required in the normal course of business during the three years following the effective time. The liabilities of the Bank's subsidiary Commonwealth Development Bank Limited will continue to remain guaranteed by the Commonwealth. For full details of all guarantee arrangements refer Note 26 to the Financial Statements.

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

Competition - Australia

Financial services providers in Australia offer a wide range of products and services to retail and business customers, encompassing for the most part banking, funds management and insurance.

The Australian financial services environment has been undergoing significant change over the last decade. The strong growth in lending over that time has been a significant driver of profitability for the sector. More recently however, the expectation is for lower credit growth going forward. This has led to intensifying competition between traditional players in the banking sector, and to ongoing downward pressure on margins.

Traditional competitors comprise the major banks, the five 'regional' banks and smaller domestic players. New entrants have emerged in recent years and include both local operators and global entities.

The four major banks in Australia are Commonwealth Bank of Australia, National Bank of Australia, Westpac Banking Corporation and ANZ Banking Group. Each of the major banks offers a full range of financial products and services through branch networks across Australia. The five 'regional' banks, whilst smaller than the majors, now mostly operate across state borders, or nationally. They have experienced strong growth primarily in mortgage lending, facilitated by the proliferation of non-bank mortgage originators and brokers.

There are thirteen foreign-owned banks operating in Australia through locally incorporated subsidiaries. An additional twenty-four banks conduct operations through a foreign bank branch. Five foreign banks have both a locally incorporated subsidiary and a branch.

Non-bank financial intermediaries, such as building societies and credit unions, compete strongly in the areas of accepting deposits and residential mortgage lending, mainly for owner-occupied housing. These state-based institutions have been making headway in achieving multi-state coverage, partly encouraged by a more accommodating regulatory environment. Over recent years 'community banks' have emerged. Under this model, the local community effectively purchases, from a regional bank, the right to operate a franchise of the bank but within the auspices of the regional bank's banking authority.

In addition to the expectation of margin pressures from traditional players, incumbent banks are facing increased competition from new entrants. These new entrants may be smaller, locally based operations, or may be large global entities. In both cases, they are attacking the segments of the market where margins are typically the widest. The local new entrants have been encroaching on product markets such as retail deposits, housing loans and credit cards, and on distribution markets such as mortgage broking and business banking broking. The global new entrants enjoy the benefits of economies of scale and having some of their operations located in low cost markets. They are entering the deposit, home loan, credit card and business banking markets.

Another longer term development has been the substantial growth in funds under management, especially within the superannuation (pension funds) industry. Future growth will be underpinned by the Australian Government's continued encouragement of long-term saving through superannuation (employers contribute a defined percentage of the employee's salary to a retirement fund on behalf of the employee. The employer then receives taxation concessions for the monies contributed). This growth potential continues to attract new entrants to this market, whether they be international fund managers or boutique competitors.

For the major banks, the expectation of continuing but slower growth in credit, and the recognition of the potentially higher growth in wealth management, has resulted in their expansion into funds management and/or insurance, either through acquisition or through joint venture agreements with third parties.

Description of Business Environment (continued)

The growing size of overall funds under management, when combined with the percentage of funds pre-allocated to fixed-income type investments, provides borrowers with a number of alternative sources of capital to pure bank finance. Indeed 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. The Bank, in competition with numerous domestic and foreign banks, is actively involved as an originator of corporate debt in the capital markets, especially in the Euro-Australian Dollar and Euro-New Zealand Dollar sector, and in the creation of new financing structures including as arranger and underwriter in major infrastructure projects undertaken by the corporate sector.

Changes in the financial needs of consumers, deregulation, and technology developments have also changed the mode of competition. In particular, the development of electronic delivery channels and the reduced reliance on a physical network has facilitated the entry of new competitors from related industries, such as retailers, telecommunication companies and utilities. Technological change has provided opportunities for new entrants with differing combinations of expertise and has enabled the unbundling of the value chain.

Competition - New Zealand

As in Australia, the New Zealand banking system is characterised by strong competition. The Bank's activities in New Zealand are conducted through ASB Group. Banks in New Zealand are free to compete in almost any area of financial activity. As in Australia, there is strong competition with non-bank financial institutions in the areas of funds management and the provision of insurance.

New Zealand banking activities are led by four financial services groups, all owned by Australian-based banks operating through nationwide branch networks.

The Group's major competitors in New Zealand are ANZ and the National Bank of New Zealand (both wholly owned subsidiaries of the ANZ Group), Bank of New Zealand (a wholly-owned subsidiary of National Australia Bank), and Westpac. In addition, there are several financial institutions operating largely in the wholesale banking sector including Deutsche Bank and ABN Amro.

Through its wholly owned subsidiaries, Sovereign Group, ASB Life Limited and ASB Group Investments, ASB Group also competes in the New Zealand insurance and investment market, where Asteron (part of the Promina Group) and AXA are major competitors.

Employees

The Commonwealth Bank Group employs approximately 35,300 employees on a full time equivalent basis.

The Bank's people strategy is to deliver excellence in customer service through 'Engaged people who are empowered, motivated and skilled to deliver'. During the year, the Bank completed a number of activities as part of our people engagement strategy.

- Improvement in the Bank's Occupational Health & Safety systems, to achieve a culture where workplace behaviours ensure the safety and health of all employees, contractors and customers, is a continuing priority.
- The Bank's performance management system provides managers and team members with an opportunity to engage in regular conversations about job performance. The system has been aligned more closely with the Bank's customer service and business objectives. Performance is measured against workplace behaviours as well as business outcomes. The relationship between individual and team performance and recognition and reward has also been strengthened.

- A program of process simplification is underway which draws on the techniques from "Lean Manufacturing" and "Six Sigma". These methods support employee engagement by encouraging staff participation in the improvement of work systems which can reduce cycle times and costs.
- The Bank has continued to use employee equity plans aligned to shareholder interests. One example is the Employee Share Acquisition Plan, which provides staff with a grant of up to \$1,000 worth of free shares if the Bank meets its overall performance targets. In eight of the last nine years, an annual grant of shares has been offered to staff. In respect of the Financial Year 2005 all eligible employees will receive shares to the value of \$1,000.
- The Bank's performance and remuneration systems are reviewed regularly to attempt to ensure good quality people continue to be attracted to the Bank and motivated to excel in customer service.
- Talent management systems have been enhanced. The role of the level above the direct manager has been simplified while executive reviews of talent have been broadened to enrich the assessment of potential high performers.
- The Bank's leadership program has been comprehensively redesigned to support the Bank's People Principles of Clear and Decisive; Empowered and Accountable; Learn and Grow; Trust and Team spirit; Discipline and Excellence; and Challenge and Innovate.
- The annual employee workplace (Gallup) survey, measuring employee engagement, showed the Bank increased its percentile rating from 74th in May 2003 to 77th in May 2005. This is against our target of exceeding the global best practice mark at the 75th percentile.
- As a committed Equal Employment Opportunity (EEO) employer, the Bank has enhanced the quality and accessibility of its EEO resources. It has also introduced a specialist EEO investigations stream into the Fair Treatment Review system. The absence of a difference in responses from male and female staff in the Bank's annual employee workplace (Gallup) survey suggests that the Bank's people engagement strategies are contributing to an inclusive workplace culture.
- The Bank has conducted a twice yearly performance culture survey which measures progress against cultural aspirations which were defined as part of the Which new Bank program.
- The Bank has continued to support its extensive range of flexible working practices – for example, part-time work, job share, career break and twelve weeks paid maternity leave.

2004 Enterprise Bargaining Agreements (EBAs).

A number of the Bank's EBAs expired on 2 April 2004. On 17 February 2004 the Bank outlined its proposal for the new EBAs in an Executive Letter. On 12 March 2004 the Bank received the Finance Sector Unions (FSU's) Log of Claims. Overall, the Bank has sought to have constructive negotiation with a fair and quick outcome to benefit our employees, our customers and shareholders. However, as agreement could not be reached, the Bank advised the FSU on 1 October 2004 that it did not intend to continue the 2004 EBA negotiations. This decision does not impact on current pay and conditions of any staff covered by EBAs as the existing agreements continue to operate until they are replaced.

The EBAs continue to offer, where appropriate, an Australian Workplace Agreement (AWA), or other forms of individual contract as an alternative to the EBA.

Description of Business Environment (continued)

Financial System Regulation

Australia has by international standards a high quality system of financial regulation. Following a comprehensive inquiry into the Australian financial system in 1996/1997 (the 'Wallis Inquiry'), the Australian Government introduced a new framework for regulating the financial system. The previous framework, which applied regulations according to the type of institution being regulated, resulted in similar products being regulated differently. The new functional approach regulates products consistently regardless of the particular type of institutions providing them.

Since July 1998, the new regulatory arrangements have comprised four separate agencies: The Reserve Bank of Australia, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission and the Australian Competition and Consumer Commission. Each of these agencies 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.

Australian Prudential Regulation Authority ("APRA") – has comprehensive powers to regulate prudentially banks and other deposit-taking institutions, insurance companies and superannuation (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.

Australian Securities and Investments Commission ("ASIC") – has responsibility for market conduct, consumer protection and corporate regulation functions across the financial system including for investment, insurance and superannuation products and the providers of these products.

Australian Competition and Consumer Commission ("ACCC") – has responsibility for competition policy and consumer protection across all sectors of the economy.

Consistent with its functional approach to regulation, the Wallis Inquiry proposed a single licensing regime for financial sales, advice and dealings in relation to financial products, consistent and comparable financial product disclosure and a single authorisation procedure for financial exchanges and clearing and settlement facilities. The Financial Services Reform Act 2001 enacting these proposals came into force in March 2004. It is intended to facilitate innovation and promote business while at the same time ensuring adequate levels of consumer protection and market integrity.

The Government passed into law in June 2004 a package of proposals (known as CLERP 9) dealing with audit regulation and corporate disclosure designed to ensure Australia has an effective regulatory and disclosure framework that provides the structures and incentives for a fully informed market.

Supervisory Arrangements

The Bank is an authorised deposit-taking institution under the Banking Act and is subject to prudential regulation by APRA as a bank.

In carrying out its prudential responsibilities, APRA closely monitors the operations of banks to ensure that they operate within the prudential framework it has laid down, and that they follow sound management practices.

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 including:

(i) Capital Adequacy

Under APRA capital adequacy guidelines, Australian banks are required to maintain a ratio of capital (comprising Tier One and Tier Two capital components) to risk weighted assets of at least 8%, of which at least half must be Tier One capital. Regulatory capital requirements are measured for the Bank ("Level 1") and for the Bank together with its banking subsidiaries ("Level 2"). APRA capital requirements are generally consistent with those agreed upon by the Basel Committee on Banking Supervision. APRA has advised that a third level of capital adequacy ("Level 3") for conglomerate groups will be implemented to coincide with Basel 2. For information on the capital position of the Bank, see Note 31 to the Financial Statements, Capital Adequacy.

(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 a stock of high quality liquid assets to meet day to day fluctuations in liquidity. 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, A\$ Certificates of Deposits/Bills of other banks and A\$ overnight interbank loans). More detailed comments on the Group's liquidity and funding risks are provided above and in Note 39 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 (prior to 1 July 2003 the limit was 30%). Exposure to authorised deposit taking institutions ("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 14 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 authorised deposit taking institutions, 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 Australian Competition and Consumer Commission 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.

Description of Business Environment (continued)

(v) Banks' Association With Non-Banks

There are formal guidelines (including maximum exposure limits applicable from 1 July 2003) 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) Supervision of Non-Bank Group Entities

The Australian life insurance company and general insurance company subsidiaries of the group also come within the supervisory purview 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.

General insurance companies are subject to prudential standards covering capital adequacy, liability valuation, risk management and reinsurance arrangements.

The financial condition of life insurance companies is monitored through regular financial reporting, lodgement of audited accounts and supervisory inspections. 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.

(vii) New Zealand Supervision

In New Zealand, our operations are supervised by the Reserve Bank of New Zealand. The framework of supervision includes monitoring financial performance, large exposures, individual country exposures and capital adequacy. Like Australia, the Reserve Bank of New Zealand capital adequacy guidelines are generally in line with the Basel Committee on Banking Regulation and Supervisory Practices.

(viii) United States Supervision

Our New York branch is licensed and supervised as a federal branch by the Office of the Comptroller of the Currency, or the Comptroller. In general, such a branch can exercise the same rights and privileges, and is subject to the same restrictions, as would apply to a US national

bank at the same location. As a foreign bank in the United States, however, our New York branch may not take domestic retail deposits and its deposits are not insured by the Federal Deposit Insurance Corporation.

The Comptroller can examine and supervise the activities of the Bank at its New York branch. Such examination authority may include annual assessments on the operations of the Bank to fund Comptroller's operations. In addition, the Bank is required to maintain certain liquid assets on deposit and pledged to the Comptroller based on the amount of branch assets of the Bank in New York. Furthermore, the Bank is subject to supervisory guidance based on examinations at its New York branch and the examiners' assessment of risk management, operational controls, compliance and asset quality of the Bank's New York branch. The Bank may also be subject to prudential guidance regarding the amount of US deposited funds it may repatriate to Australia for funding of the entirety of the Bank.

Under the International Banking Act of 1978, or IBA, all the operations of the Bank in the United States are also subject to supervision and regulation as a bank holding company by the Board of Governors of the Federal Reserve System, or Federal Reserve. Under the IBA, the Bank may not open any branch, agency or representative office in the United States, or acquire more than 5% of the voting stock of any United States bank or bank holding company, without the prior approval of Federal Reserve. In addition, it would be required to obtain the prior approval of the Federal Reserve to engage in non-banking activities in the United States or to acquire more than 5% of the voting stock of any company that is engaged in non-banking activities in the United States. With certain exceptions, the Federal Reserve can only approve applications involving activities it had previously determined, by regulation or order, are so closely related to banking as to be properly incident thereto.

Legal Proceedings

Neither the Commonwealth Bank nor any of its controlled entities is engaged in any litigation or claim which is likely to have a materially adverse effect on the business, financial condition or operating results of the Group. Where a material loss is probable an appropriate provision has been made.

Chairman's Statement

Set forth below is the Chairman's Statement on the overview of the business as taken from the Bank's Annual Report to shareholders.

I am very pleased to report another strong year of growth for the Bank during 2004/2005, despite increased competition in the financial services sector and expectations throughout the year of slower economic growth. This excellent result was achieved as the Bank continued to progress the Which new Bank program to transform the customer service experience. We are now well established to meet and, in many cases exceed, targets set at the commencement of the program in September 2003, and have laid a strong strategic platform for future growth.

Results

The Bank reported a statutory full year net profit after tax (NPAT) of \$3,991 million for the year ended 30 June 2005, an increase of 55% over the previous year. Cash net profit (NPAT excluding appraisal value uplift and goodwill amortisation) increased 31% to \$3,538 million, which is at the upper end of guidance provided to the market in February 2005. On an underlying basis, which excludes Which new Bank expenses and Shareholder Investment Returns, NPAT rose 13% to \$3,466 million for the full year.

These results were achieved by strong revenue growth in a very competitive market and broadly flat expenses. The Bank is well on track to meet its commitment made at the start of Which new Bank to achieve between 4% and 6% compound annual growth productivity improvements over the three years of the program on a cash basis.

A favourable Banking result was achieved for the year, supported by strong growth in home and personal lending. The net interest margin has been stable for the last three half years, with margin contraction for the full year of eight basis points to 2.45%, well within the Bank's expectations. This was a particularly good outcome, given increased competition across lending and deposit products. Loan asset quality continued to be well managed, in line with the Bank's risk management policies.

The Fund Management business recorded a 28% increase in underlying NPAT reflecting growth in Funds under Administration supported by favourable investment markets. FirstChoice again achieved excellent flows, particularly in the retail segment due to competitive pricing, superior service and extensive distribution. Investment performance also stood out, with 95% of retail domestic funds outperforming the benchmark on a one year basis.

The Bank's Insurance business delivered a strong result for the year in both its Australian and international operations. The Australian insurance business maintained its number one market position in life risk premiums with 13.8% market share. The New Zealand business, operating under the Sovereign brand, improved volumes across all major business lines and experienced a positive claims result for the year.

The Bank's international banking, funds management and insurance businesses continued to grow and develop, providing the Bank with opportunities for expansion in select markets in the future.

Commonwealth Bank acquired interests in two banks in China during the year - an 11% interest in Jinan City Commercial Bank and a 19.9% interest in Hangzhou City Commercial Bank (subject to regulatory approval). PT Bank Commonwealth (PTBC), our Indonesian banking business, has been operating since 1997 and continues to attract new customers. Australian customers of Commonwealth Bank can now access their funds from any of PTBCs 12 ATMs located in Jakarta, Bali, Surabaya and Bandung. This is a valuable service for the growing number of Australians working and travelling throughout Indonesia. The Bank has also established a representative office in Bangalore, India.

These interests are low risk growth options which position us well for future growth in the region's key markets.

Dividends and Capital

The Bank paid another record dividend to Shareholders with the full year dividend payment totalling 197 cents per share, an increase of 14 cents per share on the previous year. This is the 13th year of increases in the full year dividend payment to Shareholders since the Bank was privatised. The full year dividend payout ratio (cash basis) is 73.9%, consistent with the 2003/2004 payout ratio which excluded Which new Bank expenses. This is an outstanding result for Shareholders.

The final dividend payment of \$1.12 per share, fully franked, will be paid to Shareholders on 23 September 2005. The Bank continues to issue new shares to satisfy the requirements of the Dividend Reinvestment Plan, which is capped at 10,000 shares per shareholder.

During the year, dividend payments were also made to the holders of PERLS, PERLS II, Trust Preferred Securities, ASB Capital preference shares and ASB Capital No. 2 preference shares.

The Bank maintained its strong capital position during the year with capital ratios sitting above the Bank's target minimum ratios. Credit ratings remain unchanged and were re-affirmed by the major ratings agencies in June 2005.

Two capital management initiatives undertaken during the year were well received by the market and provide additional capital flexibility for the Bank in the future. These included the issue of NZ\$350 million of Perpetual Preference Shares in December 2004 by ASB Capital No. 2 Limited and an issue of NZ\$350 million of Redeemable Preference Shares by CBA Capital Australia Limited in May 2005.

Which new Bank

The Bank made significant progress with Which new Bank during the year, meeting all critical milestones set for 2004/2005 and many initiatives exceeding expectations. Net benefits for the year totalled \$724 million, well in excess of the \$620 million expected for the year. Considerable progress was made across many initiatives and highlights are detailed in the Chief Executive Officer's Statement on page 5 of the Annual Report.

Which new Bank is a three year program which now has significant momentum. It has been a time of transformational change for the Bank and I am pleased with our progress at a time of enormous change for our people. The Which new Bank program as originally formulated is to conclude during 2006 and the Bank is now working on further initiatives which will ensure that customer service enhancements will continue as more systems and processes are refined and our people remain committed to providing customers with a better service.

Chairman's Statement (continued)

Outlook

From an international perspective, we anticipate continuing respectable economic growth and strong commodity prices. Although domestic growth has slowed, a combination of widespread investment in capacity expansion, and favourable terms of trade together suggest some pick up in growth. Progress of the domestic economy is therefore contingent upon continuing strong terms of trade and the success of business investment.

Australia's fiscal position, credit quality, employment levels and business confidence are strong and provide a positive overall environment for financial services businesses. Robust demand for business credit is helping offset the continuing moderation of demand for housing credit from its record peak. Competition across the banking industry, particularly for deposits, is likely to continue, with margins declining generally in line with experience in recent years.

In February 2005, the Bank increased its expected compound annual growth rate in cash earnings per share for the period 2003 to 2006 from exceeding 10 percent per annum to exceeding 12 percent per annum. Subject to market conditions, the Bank remains committed to at least achieving this goal. For the 2006 fiscal year, the Bank remains confident that the momentum within the business from Which new Bank will ensure that the Bank delivers EPS growth which equals or exceeds the average of its peers. As a consequence, the Bank expects dividend per share to further increase in the 2006 fiscal year subject to the factors considered in its dividend policy.

Corporate Governance

The Bank continues to place great emphasis on its responsibilities for good corporate governance, and always strives to increase shareholder value. Recent increases in demands for compliance with corporate governance requirements have placed pressure on corporate resources and precious management time. While appropriate levels of regulation are needed, I am concerned that the current rate of growth in regulation hinders the ability of business to compete and prosper. The Bank will continue to find the right balance to have excellent corporate governance while striving for innovation and growth to benefit shareholders.

CEO Transition

September 2005 also marks David Murray's retirement after 39 years of service to the Commonwealth Bank, the past 13 years as Chief Executive Officer. David and the Board considered that this was an appropriate time for a new Chief Executive Officer to be appointed, with the Which new Bank program on track for completion during 2006 and sufficient time for the new CEO to develop the Bank's future strategy.

The Bank has undergone enormous change under David's leadership. David took the Bank from a partly privatised company with a market capitalisation of \$6 billion in 1992 to a fully integrated financial services provider with a market capitalisation of around \$50 billion in 2005. Shareholder value has grown over David's 13 year term as CEO with Total Shareholder Returns (including gross dividend payments) of more than 24% per annum (compound annual growth), an outstanding achievement for a public company to attain over an extended period.

Significant milestones occurred under David's leadership, including full privatisation, the integration of State Bank of Victoria and the merger with Colonial Limited in 2000. The introduction and development of CommSec, the Bank's online broker, and NetBank also occurred during David's time as CEO.

The Board, and myself as Chairman, would like to personally thank David for his commitment and contribution to the Bank and for the substantial legacy he leaves. David's commitment to the Commonwealth Bank has been outstanding and his distinguished career serves as a role model, not only to our people, but to all those who have chosen a career in the financial services industry.

Ralph Norris will commence as Chief Executive Officer and Managing Director of the Bank from close of business on 22 September 2005. Ralph joins us from Air New Zealand Limited where he was Managing Director and Chief Executive Officer from February 2002 to August 2005. He has twice been honoured with New Zealand's Executive of the Year - in 1997 while at ASB Bank and in 2004 while at Air New Zealand. From 1991 to 2001 Ralph was Managing Director and Chief Executive Officer of ASB Bank Limited, the Bank's New Zealand banking operation. Ralph oversaw tremendous growth while at ASB, increasing market share, expanding the footprint of the business and growing its profitability. It is in view of these exceptional achievements that the Board has every confidence in Ralph's track record and his ability to lead the Bank beyond Which new Bank.

Corporate Governance

Board of Directors

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 Bank, including the establishment of Committees;
- Oversight of the business and affairs of the Bank by:
 - Establishing, with management, the strategies and financial objectives;
 - Approving major corporate initiatives;
 - Establishing appropriate systems of risk management; and
 - Monitoring the performance of management;
- Communicating with shareholders and the community, results of, and developments in, the operations of the Bank;

- Appointment of the Chief Executive Officer; and
- Approval of the Bank's major HR policies and overseeing the development strategies for senior and high performing executives.

There is in place a comprehensive set of management delegations to allow management to carry on the business of the Bank.

Composition

There are currently 10 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	COMMITTEE MEMBERSHIP			
		Nominations	People & Remuneration	Audit	Risk
J M Schubert	Non-executive, Independent Chairman	Chairman	Member		Member
R J Norris ⁽¹⁾	Executive Chief Executive Officer				Member
D V Murray ⁽¹⁾	Executive Chief Executive Officer				Member
R J Clairs	Non-executive, Independent		Chairman		Member
A B Daniels	Non-executive, Independent		Member		Member
C R Galbraith	Non-executive, Independent	Member		Member	Member
S C H Kay	Non-executive, Independent		Member		Member
W G Kent	Non-executive, Independent			Member	Member
F D Ryan	Non-executive, Independent			Chairman	Member
F J Swan	Non-executive, Independent	Member			Chairman
B K Ward	Non-executive, Independent			Member	Member

⁽¹⁾ Mr R J Norris became Chief Executive Officer and Director on 22 September 2005 replacing Mr D V Murray who retired on 22 September 2005.

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 9 nor more than 13 (or such lower number as the Board may from time to time determine). The Board determined that upon the retirement of Mr Ralph and Mr Adler at the 2004 Annual General Meeting, the number of directors shall be 10; 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, with a phasing in provision for existing Directors, 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).

Corporate Governance (continued)

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 Bank, Directors are required to be meticulous in their disclosure of any material contract or relationship in accordance with the Corporations Act 2001 of Australia 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 Bank's policies.

Each Director may from time to time have personal dealings with the Bank. Each Director is involved with other companies or professional firms which may from time to time have dealings with the Bank. Details of offices held by Directors with other organisations are set out in the Directors' Report and on the Bank's website. Full details of related party dealings are set out in notes to the Company's accounts 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 Bank which is material under accounting standards; and
- That no non-executive Director personally carries on any role for the Bank otherwise than as a Director of the Bank.

The Bank 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 Bank. 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 programme upon appointment and in a refresher programme 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 Bank'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 includes an assessment of the performance of 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.

The Chairman meets at least annually with members of the senior executive team to discuss with them the Board's performance and level of involvement from their perspective.

Selection of Directors

The Nominations Committee has developed a set of criteria for director appointments which have been adopted by the Board. The criteria set the objective of the Board as being as effective, and preferably more effective than the best boards in the comparable peer group. These criteria, which are reviewed annually, ensure that any new appointee is able to contribute to the ongoing effectiveness of the Board, have the ability to exercise sound business judgment, to think strategically and have demonstrated leadership experience, high levels of professional skill and appropriate personal qualities.

The Committee regularly reviews the skill base and experience of existing Directors to enable identification of attributes required in new Directors.

An executive search firm is engaged to identify potential candidates based on the identified criteria.

Candidates for appointment as Directors are considered by the Nominations 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 Bank 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 Bank'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 Nominations, 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 generally meet regularly with an agenda designed to provide adequate information about the affairs of the Bank, 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 Bank has in place a procedure whereby, after appropriate consultation, Directors are entitled to seek independent professional advice, at the expense of the Bank, to assist them to carry out their duties as Directors. The policy of the Bank provides

Corporate Governance (continued)

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, 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 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 Bank 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 Bank 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 Bank.

In addition, Bank policy prohibits:

- For Directors and executives who report to the Chief Executive Officer, any hedging of publicly disclosed shareholding positions; and
- For executives, any trading (including hedging) in positions prior to vesting of shares or options.

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 have familiarity with financial management and at least one has expertise in financial accounting and reporting. 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 and also separately with the external Auditors independently of management;
- 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 and receives assurances from the external auditors on the quality of the Bank'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 meetings of the Audit Committee by invitation and attends the Board meetings when the annual and half yearly accounts are approved and signed.

The Board has determined that Fergus Ryan is an "audit committee financial expert" within the meaning of that term as described in the SEC rules. Although the Board has determined that this individual has the requisite attributes defined under the rules of the SEC, his responsibilities are the same as those of the other Audit Committee members. He is not an auditor, does not perform "field work" and is not a full time employee. The SEC has determined that an audit committee member who is designated as an audit committee financial expert will not be deemed to be an "expert" for any purpose as a result of being identified as an audit committee financial expert.

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

Non-Audit Services

The Board has in place an Independent Auditor Services Policy which only permits the Independent Auditor to carry out audit services which are required by statute and related services which are an extension of, or an adjunct to, those audit services. All other non-audit services are prohibited unless the Audit Committee determines otherwise in any particular case. The objective of this policy is to avoid prejudicing the independence of the Auditors.

The policy also ensures that the Auditors do not:

- Assume the role of management or act as an employee;
- Become an advocate for the Bank;
- Audit their own work;
- Create a mutual or conflicting interest between the Auditor and the Bank;
- Require an indemnification from the Bank to the Auditor;

Corporate Governance (continued)

- Seek contingency fees; nor
 - Have a direct financial or business interest or a material indirect financial or business interest in the Bank or any of its affiliates, or an employment relationship with the Bank or any of its affiliates. Under the policy, the Auditor shall not provide the following services:
 - Bookkeeping or services relating to accounting records or financial statements of the Bank;
 - Financial information systems design and implementation;
 - Appraisal or valuation services and fairness opinions;
 - Actuarial services;
 - Internal audit outsourcing services;
 - Management functions, including acting as an employee;
 - Human resources;
 - Broker-dealer, investment adviser or investment banking services;
 - Legal services; or
 - Expert services unrelated to the audit.
- In general terms, the permitted services are:
- Audit services to the Bank or an affiliate;
 - Related services connected with the lodgement of statements or documents with the ASX, ASIC, APRA, SEC 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 Bank's financing or related activities; and
 - Other services pre-approved by the Audit Committee.

Auditor

Ernst & Young was appointed as the Auditor of the Bank at the 1996 Annual General Meeting and continues in that office.

The audit partner from Ernst & Young attends the Annual General Meetings of the Bank and is available to respond to shareholder audit related questions.

The Bank currently requires that the partner managing the audit for the external auditor be changed within a period of five years.

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

The U.S. Securities and Exchange Commission ("SEC") has requested that the Bank produce documents and information relating to all services provided by the Bank's external auditors, Ernst & Young, since July 1, 2000, that may impact on the independence of the external auditors under U.S. rules. The Bank understands that the SEC has made similar requests to certain other Australian companies registered with the SEC and their accounting firms.

The Bank has produced the documents and information requested, which include information regarding a number of engagements in each fiscal year involving the "secondment" of Ernst & Young personnel to entities in the Commonwealth Bank Group, including the internal audit department, and non-management assistance in relation to portions of the financial statements. The Bank anticipates that a small number of its employees will testify in the coming months about certain of these arrangements.

In addition, Ernst & Young has reported to the Bank's Audit Committee and to the SEC that, during the past three fiscal years, certain Ernst & Young professionals maintained deposit accounts or had other financial relationships with the Commonwealth Bank Group that are prohibited by the SEC's auditor independence rules. Ernst & Young has advised that the deposit accounts and other financial relationships were generally small in size and that they have been terminated or rectified. Ernst & Young has also reported to the Bank's Audit Committee regarding (i) certain small non-consolidated trusts managed by a subsidiary of the Bank in Fiji, where three Ernst & Young

partners in Fiji owned a company that was appointed as trustee of the trusts prior to the Bank's acquisition of the manager, and (ii) certain non-operating indirect subsidiaries of the Bank in the United Kingdom, where the Ernst & Young firm in Edinburgh was appointed as liquidator of those subsidiaries. Those activities may also be impermissible under the SEC rules.

If the SEC determines that the above matters or any other services provided by Ernst & Young to the Commonwealth Bank Group did not comply with applicable rules, the SEC may impose or negotiate a broad range of possible sanctions. Examples of sanctions imposed on audit firms or other companies for breaches of the SEC's rules have included fines, the entry of cease-and-desist orders or injunctions, or a requirement to engage a different accounting firm to perform procedures and report on aspects of the relevant accounts or financial statements that may have been impacted by auditor independence concerns. Although the Bank cannot predict the nature of any future action by the SEC, based on information currently available to the Bank, the Bank does not believe the outcome of the SEC's ongoing inquiry will have a material adverse financial effect on the Commonwealth Bank Group.

Risk Management

Risk Committee

The Risk Committee oversees credit, market, and operational risks assumed by the Bank in the course of carrying on its business.

The Committee 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. In addition, the Committee reviews the Group's credit portfolios and recommendations by management for provisioning for bad and doubtful debts.

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. The Committee reviews progress in implementing management procedures and identifying new areas of exposure relating to market, funding and liquidity risk.

In addition, the Committee ratifies 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.

Framework

The Bank 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 14 and 39 to the Financial Statements.

Nominations Committee

The Nominations Committee of the Board critically reviews, at least annually, the corporate governance procedures of the Bank 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.

Corporate Governance (continued)

Continuous Disclosure

The Corporations Act 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 Bank'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 Bank'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 Bank's Executive Committee. Matters reported are assessed and, where required by the Listing Rules, advised 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

Values Statement

The Bank demands the highest standards of honesty and loyalty from all its people and strong governance within the Bank.

Our values statement – "trust, honesty and integrity" – reflects this standard.

Statement of Professional Practice

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

These standards are regularly communicated to staff. In addition, the Bank has established insider trading guidelines for staff to ensure that unpublished price sensitive information about the Bank or any other company is not used in an illegal manner.

Our People

The Bank 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 Bank is strongly committed to maintaining an ethical workplace, complying with legal and ethical responsibilities. Policy requires staff to report fraud, corrupt conduct, mal-administration or serious and substantial waste by others. A system has been established which

allows staff to remain anonymous, if they wish, for reporting of these matters.

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

Governance Philosophy

The Board has consistently placed great importance on the governance of the Bank, which it believes is vital to the well-being of the corporation. The Bank has adopted a comprehensive framework of Corporate Governance Guidelines which are designed to properly balance performance and conformance and thereby allow the Bank 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 Bank comply with all the current best practice recommendations set by the ASX Corporate Governance Council.

US Sarbanes-Oxley Act

On 30 July 2002, a broad US financial reporting and corporate governance reform law, called the Sarbanes-Oxley Act of 2002 ("SOX Act"), was enacted. A number of provisions of this Act apply to the Group because it has certain securities registered with the SEC under the Securities Exchange Act of 1934 ("Exchange Act").

Under the Exchange Act, the Bank files periodic reports with the SEC, including an annual report on Form 20-F. Pursuant to the requirements of the SOX Act, the SEC has adopted rules requiring that the Group's Chief Executive Officer and Chief Financial Officer personally provide certain certifications with respect to the disclosure contained in the annual report on Form 20-F.

Evaluation of disclosure controls and procedures

Our Chief Executive Officer and Chief Financial Officer, with the assistance of other members of the Group's management, have evaluated the effectiveness of the Group's disclosure controls and procedures as of 30 June 2005. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have each concluded that the Group's disclosure controls and procedures are effective.

Changes in internal control over financial reporting

No changes in our internal controls over financial reporting occurred during the year ended 30 June 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Material changes in our internal controls over financial reporting will occur from 1 July 2005 with the transition to International Financial Reporting Standards, refer to Note 1 (qq) to the Financial Statements.

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 1985-1994, 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.

Directors' Details

Set forth below is the Directors' Report, as taken from the Bank's Annual Report to shareholders.

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 2005.

The names of the Directors holding office during the financial year and until the date of this report 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 Nominations Committee and a member of the Risk and People & Remuneration Committees. He holds a Bachelor's Degree and PhD in Chemical Engineering and has 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.

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 AGSM Advisory Board (Member).

Dr Schubert is a resident of New South Wales. Age 62.

Ralph J Norris, Managing Director and Chief Executive Officer (effective 22 September 2005)

Mr Norris' appointment as Managing Director and Chief Executive Officer was announced on 14 June 2005 with effect from 22 September 2005. Mr Norris has been Chief Executive Officer and Managing Director of Air New Zealand since February 2002 and has been a Director of that company since August 1998. He retired from that Board in August 2005 to take up his position with the Bank.

Prior to his appointment at Air New Zealand, Mr Norris had a 30 year career in banking. He was Chief Executive Officer of ASB Bank Limited from March 1991 until September 2001 and Head of International Financial Services from August 1999 until 2001.

In August 2005, Mr Norris retired from the Board of Fletcher Building Limited where he had been a Director since 2001.

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

Mr Norris is a resident of New South Wales. Age 56.

Reg J Clairs, AO

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

Director: David Jones Limited and The Cellnet Group.

Deputy Chairman: National Australia Day Council.

Other Interests: Institute of Company Directors (Member).

Mr Clairs is a resident of Queensland. Age 67.

A B (Tony) Daniels, OAM

Mr Daniels has been a member of the Board since March 2000 and is a member of the People & Remuneration and Risk Committees. He has extensive experience in manufacturing and distribution, being Managing Director of Tubemakers of Australia for eight years to December 1995, during a long career with that company. He has also worked with government in superannuation, competition policy and export facilitation.

Director: Australian Gas Light Company and O'Connell St Associates.

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

Mr Daniels is a resident of New South Wales. Age 70.

Colin R Galbraith, AM

Mr Galbraith has been a member of the Board since June 2000 and is a member of the Nominations, Audit and Risk Committees. He was previously a Director of Colonial Limited, appointed 1996. He is a partner of Allens Arthur Robison, Lawyers.

Chairman: BHP Billiton Community Trust.

Director: GasNet Australia (Group) and OneSteel Limited.

Other Interests: Council of Legal Education in Victoria (Honorary Secretary), CARE Australia (Director) and Royal Melbourne Hospital Neuroscience Foundation (Trustee).

Mr Galbraith is a resident of Victoria. Age 57.

S Carolyn H Kay

Ms Kay has been a member of the Board since March 2003 and is also a member of the People & Remuneration and Risk 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: Mayne Group Limited and Deputy Chair Victorian Funds Management Corporation.

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

Ms Kay is resident in New South Wales. Age 43.

Warwick G Kent, AO

Mr Kent has been a member of the Board since June 2000 and is a member of the Audit and Risk Committees. He was previously a Director of Colonial Limited, appointed 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.

Chairman: Coventry Group Limited and West Australian Newspapers Holdings Limited.

Director: Perpetual Trustees Australia Limited Group (Retired 31 July 2005), and Hoyts Corporation Pty Ltd.

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

Mr Kent is a resident of Western Australia. Age 69.

Directors' Details (continued)

Fergus D Ryan

Mr Ryan has been a member of the Board since March 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 August 1999 after thirty three years with that firm including five years as Managing Partner Australasia. Until November 2002, he was Strategic Investment Co-ordinator and Major Projects Facilitator for the Commonwealth Government.

Member: Prime Minister's Community Business Partnership and Council of the National Library of Australia.

Director: Australian Foundation Investment Company Limited and Clayton Utz.

Other Interests: Committee for Melbourne (Patron), Pacific Institute (Counsellor) and Special Committee for Mature Age Workers (Chairman).

Mr Ryan is a resident of Victoria. Age 62.

Frank J Swan

Mr Swan has been a member of the Board since July 1997 and is Chairman of the Risk Committee and a member of the Nominations Committee. He holds a Bachelor of Science degree and has twenty three years senior management experience in the food and beverage industries.

Chairman: Foster's Group Limited and Centacare Catholic Family Services.

Director: National Foods Limited.

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

Mr Swan is a resident of Victoria. Age 64.

Barbara K Ward

Ms Ward has been a member of the Board since 1994 and is a member of the Audit and Risk Committees. She holds a Bachelor of Economics and Master of Political Economy and has experience in policy development and public administration as a senior ministerial adviser and experience in the transport and aviation industries, most recently as Chief Executive of Ansett Worldwide Aviation Services.

Chairperson: Country Energy.

Director: Lion Nathan Limited, Record Investments Limited, Multiplex Limited and Multiplex Funds Management Limited.

Other Interests: Sydney Opera House Trust (Trustee), Australia Day Council of New South Wales (Member) and Australian Institute of Company Directors (Member).

Ms Ward is a resident of New South Wales. Age 51.

David V Murray, Retired 22 September 2005

Managing Director and Chief Executive Officer

Mr Murray has been a member of the Board and Chief Executive Officer since June 1992. He is a member of the Risk Committee. He holds a Bachelor of Business, Master of Business Administration, an honorary PhD from Macquarie University and has thirty-eight years experience in banking.

Chairman: Business/Industry/Higher Education Collaboration Council.

Director: Tara Anglican School for Girls Foundation Limited.

Other Interests: International Monetary Conference (Member), Asian Bankers' Association (Member), Australian Bankers' Association (Member), Asia Pacific Bankers' Club (Member), Business Council of Australia (Member), and the Financial Sector Advisory Council (Member).

Mr Murray is a resident of New South Wales. Age 56.

N R (Ross) Adler, AO, Retired 5 November 2004

Mr Adler had been a member of the Board since 1990 and was a member of the Audit and Risk Committees. He holds a Bachelor of Commerce and a Master of Business Administration. He has experience in various commercial enterprises, more recently in the oil and gas and chemical trading industries. He is the former Managing Director and Chief Executive Officer of Santos Limited.

Chairman: Austrade and Amtrade International Pty Ltd.

Director: Australian Institute of Commercialisation Ltd and AWL Enterprises Pty Ltd.

Other Interests: Adelaide Festival (Chairman), University of Adelaide (Council Member and Chairman of the Finance Committee) and Executive Member of the Australian Japan Business Co-operation Committee.

Mr Adler is a resident of South Australia. Age 59.

John T Ralph, AC, Retired 5 November 2004

Mr Ralph had been a member of the Board since 1985 and Chairman since 1999. He was also Chairman of the Risk, People & Remuneration and Nominations Committees. He is a Fellow of the Australian Society of Certified Practising Accountants and has had over fifty years experience in the mining and finance industries.

Deputy Chairman: Telstra Corporation Limited.

Other Interests: Melbourne Business School (Board of Management), Australian Foundation for Science (Chairman), Australian Farm Institute (Chairman), Australian Institute of Company Directors (Fellow), Australian Institute of Management (Fellow), Australian Academy of Science (Fellow), Australian Academy of Technological Science and Engineering (Fellow), Scouts Australia Victorian Branch (President) and St Vincent's Institute Foundation (Patron).

Mr Ralph is a resident of Victoria. Age 72.

Directors' Details (continued)

Other Directorships

The Directors held directorships on other 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 Limited	23/10/2000	
	Worley Group Limited	28/11/2002	28/02/2005
R J Norris	Air New Zealand Limited	27/08/1998	31/08/2005
	Fletcher Building Limited	18/04/2001	9/08/2005
R J Clairs	David Jones Limited	22/02/1999	
	Cellnet Group Limited	01/07/2004	
A B Daniels	The Australian Gas Light Company	04/08/1999	
	Orica Limited	01/03/1995	17/12/2003
C R Galbraith	Onesteel Limited	25/10/2000	
	GasNet Australia Group	17/12/2001	
S C H Kay	Mayne Group Limited	28/09/2001	
	Ansell Limited	19/05/2000	01/11/2002
W G Kent	West Australian Newspapers Holdings Limited	02/02/1998	
	Coventry Group Limited	01/07/2001	
	Perpetual Trustees Australia Limited (Group)	01/05/1998	31/07/2005
F D Ryan	Australian Foundation Investment Company Limited	08/08/2001	
F J Swan	Foster's Group Limited	25/10/1999	
	National Foods Limited	11/03/1997	30/06/2005
	Southcorp Limited	26/05/2005	29/07/2005
B K Ward	Lion Nathan Limited	20/02/2003	
	Multiplex Group	26/10/2003	
	Record Investments Limited	29/04/2005	
J T Ralph	Telstra Corporation Limited	14/10/1996	
	BHP Billiton Plc	01/11/1997	04/11/2002

Directors' Details (continued)

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	DIRECTORS' MEETINGS	
	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
J M Schubert	13	13
D V Murray	13	12
R J Clairs	13	13
A B Daniels	13	13
C R Galbraith	13	12
S C H Kay	13	13
W G Kent	13	13
F D Ryan	13	13
F J Swan	13	12
B K Ward	13	13
N R Adler	4	4
J T Ralph	4	4

(1) The number of meetings held during the time the Director held office during the year.

DIRECTOR	COMMITTEE MEETINGS					
	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	6	6	2	2	7	7
D V Murray	6	6				
R J Clairs	6	6			8	6
A B Daniels	6	5			8	8
C R Galbraith	6	6	4	4		
S C H Kay	6	6			5	5
W G Kent	6	6	4	4		
F D Ryan	6	6	6	6		
F J Swan	6	4				
B K Ward	6	6	6	6		
N R Adler	2	2	2	2		
J T Ralph	2	2			3	3

DIRECTOR	NOMINATIONS COMMITTEE	
	No. of Meetings Held ⁽¹⁾	No. of Meetings Attended
J M Schubert	2	2
C R Galbraith	2	2
F J Swan	2	2

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

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) Banking

The Group provides a full range of retail banking services including housing loans, credit cards, personal loans, savings and cheque accounts, and demand and term deposits. The Group has leading domestic market shares in home loans, personal loans, retail deposits and discount stockbroking, and is one of Australia's largest issuers of credit cards. The Group also offers a full range of commercial products including business loans, equipment and trade finance, and rural and agribusiness products. For our corporate and institutional clients, we offer a broad range of structured finance, equities and advisory solutions, financial markets and equity markets solutions, transactions banking, and merchant acquiring.

The Group also has full service banking operations in New Zealand and Fiji. The Group has wholesale banking operations in London, New York, Hong Kong, Singapore and Tokyo.

(ii) Funds Management

The Group is Australia's largest funds manager and largest retail funds manager in terms of its total value of Funds under Administration. The Group's funds management business is managed as part of the Wealth Management division. This business manages a wide range of 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.

The Group also has funds management businesses in New Zealand, UK and Asia.

(iii) Insurance

The Group provides term insurance, disability insurance, annuities, master trusts, investment products and household general insurance.

The Group is Australia's largest insurer based on life insurance assets held, and is Australia's largest manager

Directors' Details (continued)

in retail superannuation, allocated pensions and annuities by funds under management.

Life insurance operations are also conducted in New Zealand, where the Group has the leading market share, and throughout Asia and the Pacific.

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

Consolidated Profit

Consolidated operating profit after tax and outside equity interests for the financial year ended 30 June 2005 was \$3,991 million (2004: \$2,542 million).

The net operating profit for the year ended 30 June 2005 after tax, and before goodwill amortisation, appraisal value uplift, shareholder investment returns and costs related to initiatives including Which new Bank was \$3,466 million. This is an increase of \$388 million or 13% over the year ended 30 June 2004.

In September 2003, the Group launched its Which new Bank customer service vision. This is a three year transformation program with an estimated spend of \$1,480 million over the period. This includes \$600 million of normal project spend, and an additional \$620 million in areas of staff training, systems and process simplification and technology, and \$260 million invested in the branch network.

The Bank has continued to meet all of its Which new Bank commitments and critical project milestones, with net benefits in 2005 totalling \$724 million. Market shares in key business lines have improved (home loans, personal lending, funds management) or are showing signs of turn-around (business-lending, deposits). Efficiency gains are being recorded in each segment.

The principal contributing factors to the profit increase were a growth in net interest income reflecting growth across a range of lending products, combined with an increase in commissions. Underlying expenses increased by only 4%, despite higher spend on compliance and the impact of a stronger NZ dollar. Funds management and insurance income rose which reflects buoyant equity markets for most of the year, growth in Funds under Administration and growth in inforce premiums. Additionally appraisal values of the life insurance and funds management businesses increased by \$778 million reflecting the growth in Funds under Administration and improved equity markets.

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 112 cents per share amounting to \$1,434 million. The dividend will be payable on 23 September 2005 to shareholders on the register at 5pm on 19 August 2005. Dividends paid since the end of the previous financial year:

- As declared in last year's report, a fully franked final dividend of 104 cents per share amounting to \$1,315 million was paid on 24 September 2004. The payment comprised cash disbursements of \$1,069 million with \$246 million being reinvested by participants through the Dividend Reinvestment Plan;
- In respect of the current year, a fully franked interim dividend of 85 cents per share amounting to \$1,083 million was paid on 31 March 2005. The payment comprised cash disbursements of \$883 million with \$200 million being reinvested by participants through the Dividend Reinvestment Plan; and
- Additionally, quarterly dividends totalling \$39 million for the year were paid on the PERLS; \$34 million on the PERLS II; \$42 million on the Trust Preferred Securities; \$9 million on the ASB Capital preference shares; and \$7 million on the ASB Capital No.2 preference shares.

Review of Operations

An analysis of operations for the financial year is set out in the Highlights on page 6 and business review sections for Banking, Funds Management and Insurance on pages 12, 20 and 24 respectively. A review of the financial condition of the Bank is set out in the Highlights on page 6.

Changes in State of Affairs

During the year, the Bank continued to make significant progress in implementing a number of strategic initiatives under the Which new Bank program launched in September 2003.

The program is designed to ensure a better service outcome for the Bank's customers.

Progress within the major initiatives included the following:

- "Commsee," the new banking customer management platform, as well as providing frontline staff with ready access to imaged client documents and authorities, is making it easier to share customer information. More than half the branches now have CommSee operating and are averaging over 90,000 referrals per month.
- "CommWay" initiatives have led to turnaround time improvements and a significant reduction in home loan and personal loan approval times, through the implementation of end-to-end systems and process improvements.
- A further 127 branches have been refurbished this year, bringing the total number of branches modernised to help provide faster, more efficient service to 253.
- The new NetBank platform was introduced in April 2005 providing enhanced functionality and greater flexibility for 2 million online customers.
- The Wealth Management team achieved its goal of reducing the number of product systems to seven, bringing the total number of product systems decommissioned to 10 since the beginning of Which new Bank.

The Chairman of Commonwealth Bank of Australia, Dr. John Schubert, announced on 14 June 2005 that the Board had appointed Mr. Ralph Norris to take over the role of Managing Director and Chief Executive Officer on the retirement of Mr. David Murray. Mr. Murray will retire from the Bank on 22 September 2005. Mr. Norris is currently Managing Director and Chief Executive Officer of Air New Zealand Limited.

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

Events Subsequent to Balance Date

On 7 July 2005 the Bank entered into an agreement to sell its life insurance and financial planning business in Hong Kong for approximately \$600 million to Sun Life Financial. The business consisted of CMG Asia Limited, CommServe Financial Limited and Financial Solutions Limited, with a combined carrying value of \$527 million under current Australian GAAP. The carrying value will be different under AIFRS, principally due to differences in discount rates used in the actuarial valuation of policyholder liabilities and differences in treatment of historic foreign exchange losses under AIFRS. The impact of conversion to AIFRS is included in Note 1 (qq) to the Financial Statements.

The transaction, targeted for completion within three months, and together with the determination of the final profit is subject to conditions precedent.

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

Directors' Details (continued)

Business Strategies and Future Developments

Business strategies, prospects and future developments, which may affect the operations of the Group in subsequent financial years, are referred to in the Chairman's Statement on page 63, Highlights on page 6 and Which new Bank Summary on page 11. 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 Bank and its controlled entities are not subject to any 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 Bank has developed credit policies to ensure this is managed appropriately.

Directors' Shareholdings

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

Options

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. During the financial year, the performance hurdle for the 2001 ERP grant was met. All option grants have now met their specified performance hurdles. During the financial year and for the period to the date of this report 2,741,600 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 29 to the financial statements. No options have been allocated since the beginning of the 2001/2002 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.

For details of the options previously granted to the Chief Executive Officer, being a director, refer to the Remuneration Report within this report.

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 70 and 71 of this report, and the Secretaries of the Commonwealth Bank of Australia, being J D Hatton, H J Broekhuijse (resigned 12 July 2005) and C F Collingwood (appointed 12 July 2005) are indemnified under article 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 article 19.1, 19.2 and 19.3 above in favour of each Director.

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' Details – Remuneration Details

Introduction

This report details the Bank's remuneration policy for Directors and Executives (including senior managers and company secretaries) and the links between the performance of the Bank and individual remuneration outcomes. Remuneration arrangements, including details of equity holdings, loans and other transactions for Directors and Specified Executives of the Bank, are also disclosed. In compiling this report the Bank has met the disclosure requirements of accounting standard AASB 1046, as well as those prescribed by the Corporations Act 2001.

People & Remuneration Committee

The Bank's remuneration arrangements are overseen by the People & Remuneration Committee of the Board, which currently consists of Mr R J Clairs (Chairman), Dr J M Schubert, Mr A B Daniels and Ms S C H Kay. Prior to Mr J T Ralph's retirement on 5 November 2004, the Committee consisted of Messrs Ralph (Chairman), Daniels and Clairs. The Committee's activities are governed by its terms of reference which is available on the Bank's website at <http://shareholders.commbank.com.au>.

The Committee considers changes in remuneration policy likely to have a material impact on the Bank and is informed of leadership performance, legislative compliance on employment issues, industrial agreements and incentive plans operating across the Bank.

The Committee also considers senior appointments and remuneration arrangements for senior management. The remuneration arrangements for the Chief Executive Officer (CEO) and Group Executives (senior direct reports to the CEO) are approved by the full Board.

The policy of the Board is that the Committee shall consist entirely of independent Non-Executive Directors. The CEO attends Committee meetings by invitation but does not attend in relation to matters that can affect him.

Remuneration Policy

The Bank's remuneration systems complement and reinforce its performance culture, and leadership and talent management systems. The remuneration systems aim to:

- Attract and retain high calibre employees;
- Align individual and Bank goals; and
- Ensure total remuneration is competitive by market standards.

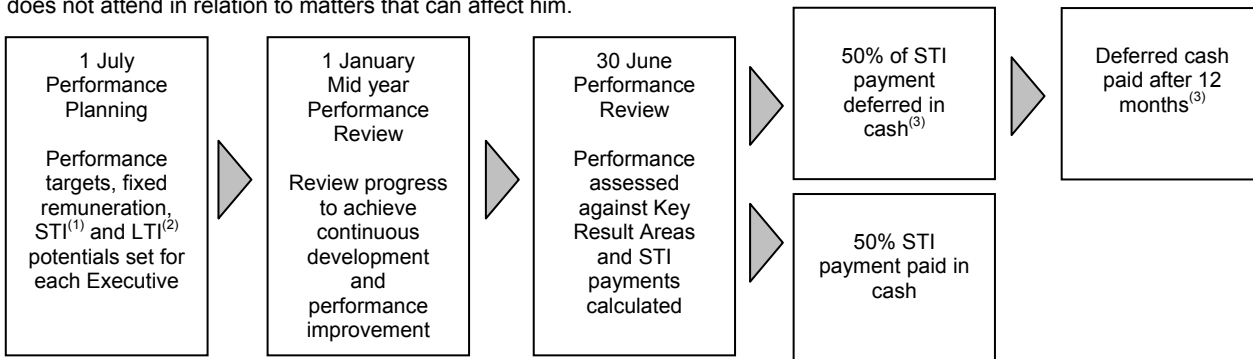
For Executives, this also aims to reward with an appropriate mix of remuneration according to their level in the organisation, with a significant weighting towards both short term and long term variable ('at risk') pay linked to performance. This focus aims to:

- Reward Executives for Bankwide, business unit and individual performance against targets set by reference to appropriate benchmarks and against behavioural standards;
- Align the interests of Executives with those of shareholders; and
- Link Executive reward with the strategic goals and sustainable performance of the Bank.

In determining appropriate levels of Executive remuneration, the People & Remuneration Committee engages an external consultant to provide independent advice. This ensures that the remuneration of Executives is set competitively compared to market. It also helps the Committee understand movements and trends in Executive remuneration that should be factored into considerations regarding the remuneration of Executives.

Remuneration and terms and conditions of employment are specified in an individual contract of employment with each Executive, which is signed by the Executive and the Bank.

The following diagram illustrates the annual cycle of the Bank's remuneration arrangements for senior executives.



(1) STI refers to Short Term Incentive.

(2) LTI refers to Long Term Incentive. LTI grant allocations are made by September each year. After three years the grant is measured against the performance hurdle to assess what portion of the grant, if any, will vest at that time. Refer to page 77 for further detail.

(3) STI deferral applies generally to the CEO and to executives who, in a reporting sense, are no more than two levels removed from the CEO. Payment is subject to forfeiture on resignation or misconduct including misrepresentation of performance outcomes.

Remuneration Structure

Remuneration of the Bank's Executives consists of three key elements:

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

The 'mix' of these components for each Executive varies according to their role, as outlined below.

Fixed Remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation.

Fixed remuneration is competitively set so that the Bank can attract, motivate and retain high calibre local and international Executive staff.

Fixed remuneration is reviewed annually by the People & Remuneration Committee through a process that considers relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Variable ('At Risk') Remuneration

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

The Bank's remuneration structure is designed to motivate employees for short and long term performance. This mix between short term and long term variable components maintains a focus on the sustainable short term performance of the Bank, whilst ensuring a clear line of sight in positioning the Bank for its longer term success.

Directors' Details – Remuneration Details continued

The current target mix of remuneration components for Executives is illustrated in the following table.

Current target potential remuneration mix for Executives

	Fixed Component (Base Remuneration and Superannuation) %	STI Component %	LTI Component %
CEO	25	25	50
Group Executives	30	30	40

Where market practice requires, the structure for some specialist (high revenue-generating) roles differs from that which applies generally to Executive management. For such specialists, a greater proportion of the variable component of remuneration may be in short term rather than long term incentives but the overall mix of remuneration is still heavily weighted towards 'at risk' pay.

Short Term Incentive (STI) Arrangements

Employees at all levels of the Bank participate in the Bank's STI arrangements.

Actual STI payments for Executives depend on the extent to which operating targets and behaviour standards set at the beginning of the financial year are met.

Depending on the Executive's level within the organisation, any actual STI payments received are based on a combination of Bankwide, business unit and individual performance.

On an annual basis, after consideration of performance against Key Result Areas, the Board approves an overall performance rating for the Bank and each business unit. The Executive's manager assesses individual performance based on the Bank's Performance Feedback and Review system.

Executives receive a limited (if any) performance payment if their individual performance is not 'meeting expectations'. Such situations would be under active performance management.

The aggregate of annual STI payments available for Executives across the Bank is subject to the approval of the People & Remuneration Committee. In the case of the CEO and Group Executives, individual payments are subject to the approval of the Board.

For payments made in recognition of performance for the year ended 30 June 2005, where STI deferral applies, the STI payments are delivered in two components -

- 50 percent made as immediate cash payment; and
- 50 percent in cash deferred for one year. Generally, the Executive will need to be an employee of the Bank at the end of the deferral period to receive this portion.

This represents a simplification from previous years where the deferral was made in shares, half of which vested after one year, and the remainder vested after two years.

Long Term Incentive (LTI) Arrangements

Under the Bank's Equity Reward Plan (ERP), LTI grants to Executives are delivered in the form of ordinary shares in the Bank that vest in the Executive if and to the extent that a performance hurdle is met.

LTI grants are made to Executives who are able to directly influence the generation of shareholder wealth and thus the Bank's performance against the relevant hurdle. Participation is thus restricted to Executives who, in a reporting sense, are no more than three levels removed from the CEO.

The quantum of grants made to each Executive depends on their level within the organisation and has regard to the desired mix between fixed remuneration, short term and long term incentive as well as the performance and potential of the individual Executive.

No value will accrue to the Executive unless the Bank's Total Shareholder Return (TSR) (which is calculated by combining the reinvestment of dividends and the movement in the Bank's share price) at least meets the 50th percentile of a peer comparator group of companies over a three to five year period. The percentage of shares vesting in the Executive rises with increased performance. To receive the full value of the LTI grant, the Bank's performance must be in the top quartile of the peer group. The table below provides a summary of the ERP grants from previous years that were in operation during the year ended 30 June 2005.

Directors' Details – Remuneration Details continued

Summary of performance hurdles for Employee Reward Plan (ERP) grants

	2001 Grant	2002 Grant	2003 Grant	2004 Grant
Performance measurement				
From	3 Sept 2001	2 Sept 2002	1 Sept 2003	23 Aug 2004
To	4 Sept 2004	3 Sept 2005	2 Sept 2006	24 Aug 2007
Additional vesting opportunities	Every month from Oct 2004 until Sept 2006	Every six months from 3 Sept 2005 until 2 Sept 2007	Every six months from 2 Sept 2006 until 1 Sept 2008	Every six months from 24 Aug 2007 until 23 Aug 2009
Expiry Date if Exercisable	3 Sept 2006	2 Sept 2007	1 Sept 2008	23 Aug 2009
Status as at 30 June 2005	Vested on 3 Oct 04	30 th percentile	68 th percentile	74 th percentile
Vesting Scale	< Weighted Average of Peers = 0% > Weighted Average of Peers = 100%	< 50 th percentile = NIL shares 50 th – 67 th percentile = 50% - 75% of shares 68 th – 75 th percentile = 76% - 100% of shares		
Performance Hurdle	TSR vs Peer Group. If the performance hurdle is not reached after three years, the options ⁽¹⁾ may nevertheless be exercisable or the shares vest, where the hurdle is subsequently reached within five years from the grant date.	TSR vs Peer Group. Where the rating is at least at the 50 th percentile on the third anniversary of the grant, the shares will vest at a time nominated by the Executive, within the half yearly windows, over the next two years. The vesting percentage will be the higher of the rating determined at the third anniversary of the grant and the rating determined at the half yearly measurement point at which the Executive nominates that the shares will vest. Where the rating is below the 50 th percentile on the third anniversary of grant, the shares can still vest if the rating reaches the 50 th percentile at one of the half yearly measurement points prior to the fifth anniversary, but the maximum vesting will be 50%.		

⁽¹⁾ The Bank has not granted options to any Executives since 2001. More information can be found in Note 29 (Share Capital) to the Financial Statements.

The use of a relative TSR based hurdle ensures an alignment between comparative shareholder return and reward for Executives.

In assessing whether the performance hurdles for each grant have been met, the Bank receives independent data from Standard & Poors which provides both the Bank's TSR growth from the commencement of each grant and that of the peer group (excluding the Bank). The Bank's performance against the hurdle is then determined as follows –

- For grants prior to 2002, the TSR of each company in the peer group is weighted by market capitalisation to form an index against which the Bank's TSR is compared.
- For grants made from 2002 onwards, each company in the peer group and the Bank is ranked 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.

The peer group chosen for comparison reflects the Bank's current business mix and currently⁽¹⁾ consists of:

Adelaide Bank	Macquarie Bank
AMP	National Australia Bank
Australia & New Zealand Banking Group	QBE Insurance
AXA	St George
Bank of Queensland	Suncorp-Metway
Bendigo Bank	Westpac Banking Group
IAG	

⁽⁷⁾ GIO and BankWest were included prior to 19 January 2000 and 26 August 2003 respectively.

Further details of the ERP may be found in Note 29 (Share Capital) to the Financial Statements.

Directors' Details – Remuneration Details continued

Bank Performance

Short Term Performance – 2004/2005

The Bank's Short Term Incentive framework is underpinned by a performance management system through which all staff are assessed on outcomes and

behaviours. Staff have Key Result Areas in Customer Service, People Engagement, and Business Outcomes. Below is a description of the Bank's performance in each of these areas.

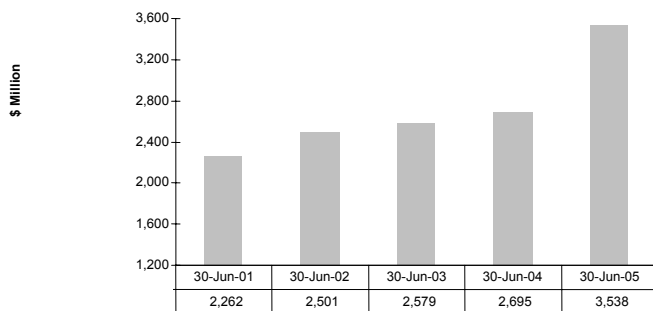
Summary of Bank performance

Key Result Area	Commentary
Customer Service	<p>The Bank's vision is 'to excel in customer service'. There have been substantial service improvements driven from the Which new Bank service transformation program.</p> <p>This result is supported by enhanced customer satisfaction readings, significant customer turnaround time improvements, the implementation of CommSee (in progress and on schedule), an upgraded NetBank, service & sales management training and more branch refurbishments.</p> <p>The progress in customer service reflects that the Which new Bank program is on schedule. It is expected that the impact during 2005/2006 of service initiatives already completed and being implemented will add further to the Bank's competitiveness, customer satisfaction levels and ultimately the Bank's market share in profitable areas.</p>
People Engagement	<p>There have been substantial people engagement improvements driven from the Which new Bank program.</p> <p>This result is supported by enhanced employee satisfaction readings, key culture change measures, a continuing safety improvement focus and the implementation of enhanced leadership, performance management and talent management frameworks.</p> <p>This progress is reflective of the Bank's commitment to its people and the success of the Which new Bank program assisting in the achievement of the vision through engaged people.</p>
Business Outcomes	<p>The Bank exceeded its net profit after tax (NPAT) targets for the year ended 30 June 2005. Cash NPAT and underlying NPAT increased by 31% and 13% respectively compared with the previous year.</p> <p>As part of this, the Which new Bank program has exceeded targets with net benefits in 2005 of \$724 million.</p> <p>There were strong results in retail banking, funds management and insurance, tempered by moderate results in institutional and business banking.</p> <p>These results are supported by market share improvements in most products, productivity gains and return on equity increases.</p> <p>The Bank has improved market share in home lending (from 19.3% to 19.9%) and retail funds under administration (from 14.4% to 14.8%) in the past 12 months. The Bank has shown strong lending growth in the retail bank and stable net interest margins since 30 June 2004. It has achieved increases in average interest earning assets and home lending balances of 13.9% and 18.5% respectively.</p>

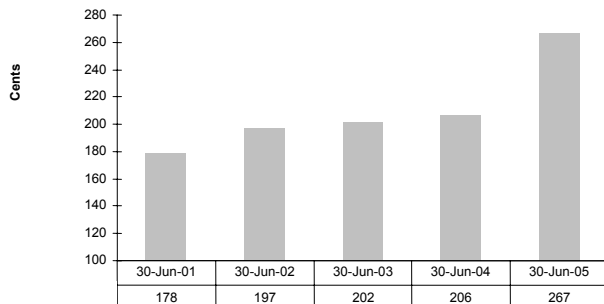
Directors' Details – Remuneration Details continued

The following graphs illustrate the Bank's NPAT and earnings per share (EPS) performance on a cash basis over the last five years.

Cash NPAT performance 2001 to 2005



Cash EPS performance 2001 to 2005



Longer Term Performance

Long term performance is measured on the Bank's Total Shareholder Return (TSR) relative to its peers. TSR is calculated by combining the reinvestment of dividends and the movement in the Bank's share price.

2001 LTI Grant Performance

The performance hurdle for the 2001 grant was reached in October 2004 with the Bank having outperformed the peer group TSR index by 7.8% over the performance period.

2002, 2003, 2004 LTI Grant Performance

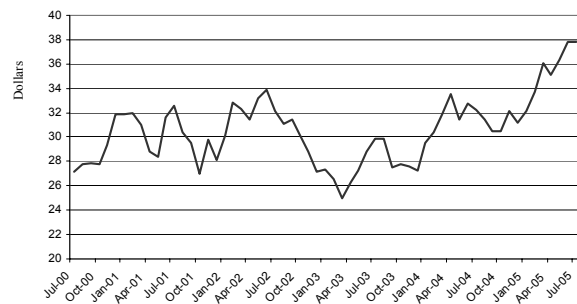
The Bank's performance must reach at least the 50th percentile for 50% of the shares granted to vest. All of the shares granted will only vest if the Bank's performance reaches the 75th percentile.

As at 30 June 2005, the Bank's performance was tracking under the 50th percentile for the 2002 grant and over the 50th percentile for the 2003 and 2004 grants.

Share Price

The Bank's share price has trended upward over the last five years, with a steeper incline since the introduction of the Which new Bank program in September 2003. Which new Bank has improved the Bank's long term sustainable competitive positioning by enhancing customer service, people engagement and productivity.

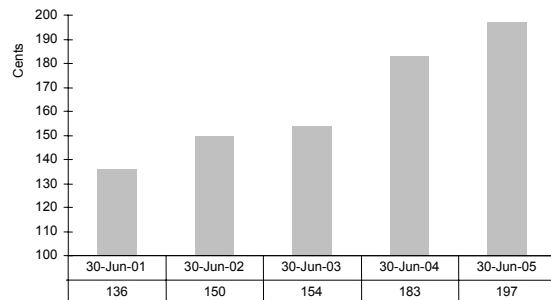
Share Price



Dividends per Share

The Bank's dividend per share has increased each year over the last five years, with more significant increases since the introduction of the Which new Bank program.

Dividends per Share



Directors' Details – Remuneration Details continued

Directors' Remuneration

Mr David V Murray (Managing Director and CEO)

Summary of Remuneration Arrangements

Mr Murray's remuneration consists of fixed and variable (at risk) components. For the year ended 30 June 2005, fixed remuneration, which comprises base remuneration (calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation, was 35% of total remuneration.

The variable (at risk) remuneration consists of short and long-term incentives.

Short Term Incentives (STIs) are delivered in two components: 50% made as an immediate cash payment and 50% in deferred cash. Performance is measured against Key Result Areas, with payment subject to the approval of the Board. The Board has assessed Mr Murray's performance for the year and has approved a STI payment of \$1,520,000.

Long Term Incentives (LTIs) are delivered in the form of Reward Shares under the Bank's Equity Reward Plan, and no value will accrue unless the Bank's Total Shareholder Return (TSR) at least meets the 50th percentile of the comparator group of companies. The Bank obtained shareholder approval for all LTI grants for Mr Murray.

The total variable remuneration for the year ended 30 June 2005 was 65% of total remuneration.

The Board determines Mr Murray's 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 Murray which was effective from 2 July 2001 for a term of 5 years with remuneration subject to review annually by the Board.

As announced on 22 December 2004, Mr Murray's remuneration arrangements were altered during the year. As a result of an independent review of Executive remuneration, the Board changed the mix of Mr Murray's remuneration by increasing the proportion of his remuneration that is performance-based.

Mr Murray's deferred STI arrangements changed with 50% of the STI payment being deferred in cash for one year. This is consistent with changes made that apply to executives who, in a reporting sense, are no more than two levels removed from the CEO.

Mr Murray's remuneration arrangements are detailed on page 84 (Remuneration of Directors) and follow the same principles as other Executives except in relation to the Bank seeking shareholder approval of LTI grants.

At the 2004 Annual General Meeting (AGM), the Board sought and was granted the approval of shareholders (under ASX Listing Rule 10.14) for a maximum of 250,000 shares to be allocated to Mr Murray under the Equity Reward Plan in two tranches prior to the 2006 AGM. As communicated on 22 December 2004, 125,000 shares were granted to Mr Murray in 2004.

Retirement of Mr Murray

Mr Murray's contract provides for a notice period of not less than six months and a pro-rata payment of the average of the previous three years' short term incentive payments. His arrangements also provide for him to exercise all vested options and obtain vested shares as described below.

On exit from the Bank, Mr Murray 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 Bank Executives.

As announced on 15 July 2005, Mr Murray will retire from the Bank on 22 September 2005 after 39 years service, 13 of which have been as Managing Director and CEO.

Upon his departure, Mr Murray will receive payments of approximately \$17.5 million. This comprises the components set out below.

Mr Murray's payments on leaving the Bank

	Approximate Value (\$M)
Statutory Benefits	
Superannuation Benefit	11.8
Accrued Statutory Annual and Long Service Leave	2.3
Contractual Entitlements	2.4
Deferred STI Payments	1.0
Total	17.5

The Deferred STI Payments component is the total value of the deferred portions of payments determined in recognition of performance over the 2003/2004 and 2004/2005 financial years.

Depending on achievement of prescribed performance hurdles, Mr Murray may also be entitled to receive LTI shares granted under the Equity Reward Plan during 2002, 2003 and 2004, totalling 268,000 shares over the next four years. He may receive all, some or none of these shares, depending on the performance of each grant over the relevant periods.

The actual value of this benefit to Mr Murray is therefore contingent upon the number of shares he receives and the share price at the time (further details of the Bank's LTI arrangements are at page 77). Applying the accounting principles adopted in the Bank's audited financial disclosures, which assumes 50% of the shares are received, the value of these shares at the time of the announcement of Mr Murray's retirement date was approximately \$5.2 million.

Appointment of Mr Norris

The Bank has appointed Mr Ralph Norris as Managing Director and CEO effective 22 September 2005. Prior to taking up appointment as Managing Director and CEO, Mr Norris will spend a period in hand over with Mr Murray to ensure a smooth transition.

Mr Norris' remuneration will be structured in a similar manner to Mr Murray's and will be reviewed by the Board on an annual basis.

Initially, fixed remuneration (including employer contributions to superannuation) will be \$1.9 million per annum. The variable component consists of both STI and LTI.

The STI arrangements provide the opportunity to earn up to \$1.9 million per annum, subject to performance against Key Result Areas as set by the Board. As was the case with Mr Murray's arrangements, 50% of the STI is delivered as an immediate cash payment with the remaining 50% deferred in cash for one year.

Subject to shareholder approval, the LTI component provides for Mr Norris to receive a grant of shares under the Bank's Equity Reward Plan (ERP). No value will accrue to Mr Norris under the ERP unless the Bank's Total Shareholder Return (TSR) at least meets the 50th percentile of a peer comparator group of companies over

Directors' Details – Remuneration Details continued

a three to five year period. The initial LTI allocation is to the approximate value of \$3.8 million.

Mr Norris' contract provides for no end date, although he may resign at any time by giving six months notice. The Bank may terminate Mr Norris' employment, in cases other than misconduct, on twelve months notice in his first year of service and six months notice thereafter. In the latter case the Bank will pay all fixed remuneration 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 Bank had terminated his employment.

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. 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 Bank's website, summarises the Board policies and terms, including remuneration, relevant to the office of Director. All current 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 Bank with the necessary degree of flexibility to enable it to attract and retain the services of directors of the highest calibre.

The Nominations Committee annually reviews the fees payable to individual Non-Executive Directors and takes into account relevant factors and, where appropriate, receives external advice on comparable remuneration. The last review was undertaken in December 2004, at which time components of the

Directors' fees were increased to the current levels to reflect the increasing commitments and responsibilities on Directors in meeting the statutory and regulatory requirements of their office. Those increases also took account of the termination of the Directors' Retirement Allowance Scheme.

Non-Executive Directors have 20% of their annual fees applied to the mandatory on-market acquisition of shares in the Bank. They can also voluntarily participate in a plan to have up to an additional 50% of their annual fees applied to the on-market acquisition of shares in the Bank.

The Bank's Non-Executive Directors' fee structure provides for a base fee for all Bank Directors of \$160,000, and a base Chairman's fee of \$560,000. In addition, amounts are payable where Directors are members of, or chair a Committee. Details of the breakdown of each Non-Executive Director's fees is provided on page 83. The Bank also contributes to compulsory superannuation on behalf of Non-Executive Directors.

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 twelve 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 then existing Non-Executive Directors. After that time, new Directors have not been entitled to participate in the scheme.

The Board resolved with effect from the 2004 Annual General Meeting to terminate 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 only increment in the value of Directors' retirement benefit entitlements shown in the tables on pages 83 and 84 for this year reflects the period up until 5 November 2004, being the date of the Annual General Meeting.

Directors' Details – Remuneration Details continued

Details of components of Non-Executive Director fees⁽¹⁾

Director	Committee Remuneration				Total \$
	Board Remuneration \$	People and Remuneration \$	Audit \$	Risk \$	
J M Schubert	560,000	20,000		20,000	600,000
R J Clairs	160,000	35,000		20,000	215,000
A B Daniels	160,000	20,000		20,000	200,000
C R Galbraith	160,000		25,000	20,000	205,000
S C H Kay	160,000	20,000		20,000	200,000
W G Kent	160,000		25,000	20,000	205,000
F D Ryan	160,000		45,000	20,000	225,000
F J Swan	160,000			35,000	195,000
B K Ward	160,000		25,000	20,000	205,000
Total	1,840,000	95,000	120,000	195,000	2,250,000

⁽¹⁾ Non-Executive Directors sacrifice 20% of these fees on a mandatory basis under the Non-Executive Directors Share Plan (NEDSP).

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

Directors' Retirement Allowance Scheme

Non-Executive Directors	Increase in Accrued Benefit in Year \$	Entitlement as at 30 June 2005 \$
J M Schubert	12,157	636,398
R J Clairs	18,201	202,989
A B Daniels	15,159	160,618
C R Galbraith	8,542	159,092
S C H Kay ⁽¹⁾	-	-
W G Kent	8,542	159,092
F D Ryan	12,723	168,263
F J Swan	8,087	266,173
B K Ward	17,225	370,180
N R Adler ⁽²⁾	12,152	-
J T Ralph ⁽²⁾	7,481	-

⁽¹⁾ Ms Kay was appointed a Director after the closure of the scheme.

⁽²⁾ Messrs Adler and Ralph both retired on 5 November 2004. On retirement, they were paid their accrued entitlements under the Scheme, being \$431,211 for Mr Adler and \$1,203,960 for Mr Ralph.

Directors' Details – Remuneration Details continued

Individual Remuneration Details for Directors

Individual remuneration details for Directors are set out below.

Remuneration of Directors

Year ended 30 June	Primary Benefits			Post Employment Benefits			Equity Benefits			Other Benefits	Total Remuneration
	Cash ⁽¹⁾	Cash STI Payment	STI Deferred in Cash	Super-annuation ⁽²⁾	Retirement Allowance ⁽³⁾	STI Deferred in Shares	LTI Options	LTI Reward Shares	NEDSP ⁽¹⁾	Termination Benefits	
	Fixed (\$)	At Risk (\$)	At Risk (\$)	Fixed (\$)	Fixed (\$)	At Risk (\$)	At Risk (\$)	At Risk (\$)	Fixed (\$)	(\$)	
J M Schubert Chairman											
2005	342,987	-	-	30,869	12,157	-	-	-	85,747	-	471,760
2004	130,545	-	-	11,749	46,981	-	-	-	32,636	-	221,911
D V Murray ⁽⁴⁾ Managing Director and CEO (see notes to the "Remuneration of Specified Executives" table for details of individual items)											
2005	1,757,500	760,000	760,000	142,500	-	431,250	81,284	1,563,504	-	-	5,496,038
2004	1,680,000	450,000	-	136,080	-	365,000	431,666	1,363,362	-	-	4,426,108
R J Clairs											
2005	139,075	-	-	12,517	18,201	-	-	-	34,769	-	204,562
2004	86,424	-	-	7,778	38,988	-	-	-	21,606	-	154,796
A B Daniels											
2005	131,831	-	-	11,865	15,159	-	-	-	32,958	-	191,813
2004	86,424	-	-	7,778	41,663	-	-	-	21,606	-	157,471
C R Galbraith											
2005	130,220	-	-	11,720	8,542	-	-	-	32,555	-	183,037
2004	89,460	-	-	8,051	46,418	-	-	-	22,365	-	166,294
S C H Kay											
2005	165,976	-	-	14,938	-	-	-	-	41,494	-	222,408
2004	97,482	-	-	8,773	-	-	-	-	24,370	-	130,625
W G Kent											
2005	130,220	-	-	11,720	8,542	-	-	-	32,555	-	183,037
2004	89,460	-	-	8,051	46,418	-	-	-	22,365	-	166,294
F D Ryan											
2005	145,398	-	-	13,086	12,723	-	-	-	36,350	-	207,557
2004	90,435	-	-	8,139	46,466	-	-	-	22,609	-	167,649
F J Swan											
2005	124,478	-	-	11,203	8,087	-	-	-	31,119	-	174,887
2004	89,460	-	-	8,051	44,429	-	-	-	22,365	-	164,305
B K Ward											
2005	135,831	-	-	12,225	17,225	-	-	-	33,958	-	199,239
2004	90,435	-	-	8,139	51,566	-	-	-	22,609	-	172,749
N R Adler ⁽⁵⁾											
2005	36,333	-	-	2,196	-	-	-	-	9,083	431,211	478,823
2004	90,435	-	-	8,318	23,717	-	-	-	22,609	-	145,079
J T Ralph ⁽⁵⁾⁽⁶⁾											
2005	88,881	-	-	-	-	-	-	-	22,220	1,203,960	1,315,061
2004	245,887	-	-	-	36,479	-	-	-	61,472	-	343,838
Total Remuneration for Directors											
2005	3,328,730	760,000	760,000	274,839	100,636	431,250	81,284	1,563,504	392,808	1,635,171	9,328,222
2004	2,866,447	450,000	-	220,907	423,125	365,000	431,666	1,363,362	296,612	-	6,417,119

(1) For Non-Executive Directors, this includes that portion of base fees and committee fees paid as cash. Non-Executive Directors also sacrifice 20% of their fees on a mandatory basis under the Non-Executive Directors Share Plan (NEDSP). Further detail on the NEDSP is contained in Note 29 (Share Capital) to the Financial Statements.

(2) The Bank is not currently contributing to its staff superannuation fund (the Officers' Superannuation Fund) as the fund is currently in surplus. A notional cost of contribution has been determined on an individual basis for those Non-Executive Directors who are members of that fund. Some Directors have superannuation contributions made to other funds.

(3) For Non-Executive Directors this represents the increase in their accrued benefit in the year under the Director's Retirement Allowance Scheme which was approved by shareholders at the 1997 Annual General Meeting. See page 82 regarding discontinuance of the Scheme.

(4) Refer to page 81 for details of Mr Murray's termination payments.

(5) Messrs Adler and Ralph both retired on 5 November 2004.

(6) Mr Ralph turned 71 during the year ended 30 June 2004. The Bank's compulsory superannuation obligations generally cease after a person attains age 70.

Directors' Details – Remuneration Details continued

⁽⁷⁾ The value of LTIs disclosed above was calculated as follows –

The 'fair value' of options has been calculated using the Black-Scholes valuation model that incorporates the assumptions below –

Option valuation assumptions

Commencement Date	Fair Value	Exercise Price	Risk Free Rate	Assumptions		
				Term	Dividend Yield	Volatility
24 Aug 1999	\$3.14	\$23.84	5.82%	37 mths	4.82%	20.0%
24 Aug 1999 (CEOs Options)	\$3.48	\$23.84	5.82%	49 mths	4.82%	20.0%
13 Sept 2000	\$3.47	\$26.97	6.00%	37 mths	4.41%	17.9%
3 Sept 2001	\$4.01	\$30.12	5.24%	37 mths	4.61%	20.8%

The 'fair value' of shares is the Bank's closing share price at the Commencement Date for each grant, i.e., \$27.64 for shares granted on 13 September 2000, \$29.50 for shares granted on 3 September 2001, \$31.42 for shares granted on 2 September 2002, \$27.48 for shares granted on 1 September 2003 and \$29.69 for shares granted on 23 August 2004.

As required under AASB 1046 the Bank has estimated the number of options and shares expected to vest in relation to each grant. The assessment has been made as at 30 June 2005 based on the Bank's performance against the relative hurdle. In respect of options and shares granted in 1999, 2000 and 2001, 100% of the number granted has vested. For shares granted in 2002, 2003 and 2004, the Bank currently anticipates that 50% of the number granted will vest.

The annualised equivalent of the 'fair value' in respect of the number of options and shares for each grant that have or are expected to vest, has been amortised on a straight line basis over the period from the Commencement Date until the first possible vesting date – a period of 37 months (49 months in respect of options granted to Mr Murray on 24 August 1999).

⁽⁸⁾ Represents any severance payments made on termination of employment (excluding any payment in lieu of notice).

⁽⁹⁾ All Other Benefits payable that are not covered above, including any payment made in lieu of notice on termination of employment and other contractual payments.

⁽¹⁰⁾ Group totals in respect of the financial year ended 30 June 2004 do not necessarily equal the sum of amounts disclosed for individuals specified in 2005 as there are differences to the individuals specified in 2004.

Termination Arrangements

The Bank's Executive contracts generally provide for severance payments of up to six months in cases where termination of employment is initiated by the Bank, other than for misconduct or unsatisfactory performance. Exceptions to these arrangements apply to Messrs Grimshaw, Cupper and O'Sullivan whose contracts allow for a twelve months severance payment where termination is initiated by the Bank. There is also a four week notice period for either party to terminate the agreement.

The contracts for Specified Executives do not have a fixed term.

Upon exit from the Bank, Executives are entitled to receive their statutory entitlements of accrued annual and long service leave, as well as accrued superannuation benefits.

Executives who leave the Bank during a given performance year (i.e. 1 July to 30 June) will generally not receive a STI payment for that year except in the circumstances of retrenchment, retirement or death. In those circumstances, a pro-rated payment may be made based on the length of service during the performance year.

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 a pro-rated grant of long term incentives. Vesting of any long term incentives retained by the Executive will still be subject to the performance hurdle relevant to that grant.

Directors' Details – Remuneration Details continued

STI Allocations to Directors and Specified Executives for the Year Ended 30 June 2005

	Percentage Paid ⁽¹⁾	Percentage Forfeited	Percentage Deferred ⁽²⁾	Minimum Total Value (\$)	Maximum Total Value (\$)
D V Murray	50%	-	50%	760,000	1,520,000
M A Cameron	50%	-	50%	327,250	654,500
L G Cupper	50%	-	50%	292,500	585,000
S I Grimshaw	50%	-	50%	425,000	850,000
H D Harley	50%	-	50%	357,500	715,000
M A Katz	50%	-	50%	382,500	765,000
R V McKinnon	50%	-	50%	240,000	480,000
G L Mackrell	50%	-	50%	315,000	630,000
J K O'Sullivan	50%	-	50%	295,000	590,000
G A Petersen	50%	-	50%	217,500	435,000

⁽¹⁾ Will be paid on 1 September 2005.

⁽²⁾ Will vest on 1 July 2006 and be paid in July 2006, subject to not being forfeited due to resignation or misconduct including misrepresentation of performance outcomes. Will generally vest and be immediately payable in circumstances of retrenchment, retirement or death. See page 81 for treatment on Mr Murray's retirement consistent with this policy.

LTI Allocations to Directors and Specified Executives (under 2004 ERP Grant) in the Year Ended 30 June 2005

	Percentage Paid ⁽¹⁾	Percentage Forfeited	Percentage Deferred ⁽¹⁾	Number of Reward Shares Allocated	Minimum Total Value (\$)	Maximum Total Value ⁽²⁾ (\$)
D V Murray	-	-	100%	125,000	-	3,711,250
M A Cameron	-	-	100%	28,130	-	835,179
L G Cupper	-	-	100%	25,000	-	742,250
S I Grimshaw	-	-	100%	37,500	-	1,113,375
H D Harley	-	-	100%	35,000	-	1,039,150
M A Katz	-	-	100%	43,130	-	1,280,529
R V McKinnon	-	-	100%	18,750	-	556,687
G L Mackrell	-	-	100%	28,130	-	835,179
J K O'Sullivan	-	-	100%	25,940	-	770,158
G A Petersen	-	-	100%	19,500	-	578,955

⁽¹⁾ Will vest in 2007/2008, 2008/2009 or 2009/2010 subject to the service conditions and performance hurdle being met (see page 78). In circumstances of retrenchment, retirement or death, the Executive or their Estate may, at Board discretion, retain a pro-rated grant of long term incentives. See page 81 for treatment on Mr Murray's retirement consistent with this policy.

⁽²⁾ This equals the "Number of Reward Shares Allocated" multiplied by the Bank's closing share price at the Commencement Date of the grant (23 August 2004), which was \$29.69.

Directors' Details – Remuneration Details continued

Equity Holdings of Directors and Specified Executives

Option Holdings of Directors and Specified Executives

Mr Murray is the only Director holding options in the Bank and he exercised 1,000,000 options during the year ended 30 June 2005. The Bank's Non-Executive Directors do not hold any options.

Option holdings of Directors and Specified Executives

Name	Balance 1 July 2004	Options Exercised	Balance 30 June 2005	Vested and Exercisable at 30 June 2005 ⁽¹⁾	
				Number	Exercise Price (\$)
Directors					
D V Murray	1,250,000	(1,000,000)	250,000	250,000	30.12
Total for Directors	1,250,000	(1,000,000)	250,000	250,000	30.12
Specified Executives					
L G Cupper	150,000	(75,000)	75,000	75,000	30.12
S I Grimshaw	100,000	-	100,000	100,000	30.12
H D Harley	87,500	-	87,500	50,000	30.12
				37,500	26.97
M A Katz	250,000	-	250,000	125,000	30.12
				125,000	26.97
R V McKinnon	62,500	(25,000)	37,500	37,500	30.12
G L Mackrell	232,500	(232,500)	-	-	-
Total for Specified Executives	882,500	(332,500)	550,000	387,500	30.12
				162,500	26.97

⁽¹⁾ For most Executives, 'Vested and Exercisable' options represents those granted on 3 September 2001 with an exercise price of \$30.12. Messrs Harley and Katz also hold vested but unexercised options granted on 13 September 2000 that have an exercise price of \$26.97.

Shareholdings of Directors and Specified Executives

Shareholdings of Directors

All shares were acquired by Directors on normal terms and conditions or through the Non-Executive Directors' Share Plan (or in the case of Mr Murray the Equity Reward Plan, the previous Executive Option Plan or the Equity Participation Plan). Mr Murray exercised 1,000,000 options during the year, leaving his total holdings of options at 250,000 under the Equity Reward Plan. (No further options will be granted under the Equity Reward Plan. The Executive Option Plan was discontinued in 2000).

Mr Murray was also awarded rights to 125,000 shares under the Equity Reward Plan and 15,078 shares under the Equity Participation Plan during the year. He has a total holding of 325,000 shares under the Equity Reward Plan and 21,866 shares under the Equity Participation Plan.

Shares awarded under the Equity Reward Plan and Equity Participation Plan are registered in the name of the Trustee. The transfer of legal title to Mr Murray is subject

to vesting conditions, and, in the case of the Equity Reward Plan, is conditional on the Bank achieving a prescribed performance hurdle over a minimum three year period. For further details of the Non-Executive Directors' Share Plan, Equity Reward Plan, previous Executive Option Plan and Equity Participation Plan refer to Note 29 (Share Capital) to the Financial Statements.

In addition, Mr Ralph holds an investment of \$101,754 with Commonwealth Property Securities Fund and an investment of \$619,753 in Colonial First State Diversified Hedge Fund. Both holdings are held beneficially. Dr Schubert holds an investment of \$738,636 in Colonial First State Wholesale Diversified Fund.

Mr Daniels beneficially holds an investment of \$53,058 in Colonial First State Global Health and Biotech Fund. A related party of Mr Daniels holds an investment of \$307,591 in Colonial First State Future Leaders Fund and \$292,712 in Colonial First State Imputation Fund.

Details of shareholdings of Directors and Specified Executives (or relatives or entities controlled or significantly influenced by them) are as follows:

Shareholdings of Directors

Name	Class	Balance 1 July 2004	Acquired/Granted as Remuneration ⁽¹⁾	On Exercise of Options	Net Change Other ⁽²⁾	Balance 30 June 2005
Directors						

Directors' Details – Remuneration Details continued

J M Schubert	Ordinary	16,268	1,658	-	582	18,508
D V Murray	Ordinary	280,833	-	1,000,000	(957,195)	323,638
	Deferred STI	19,427	15,078	-	(12,639)	21,866
	Reward Shares	242,000	125,000	-	(42,000)	325,000
R J Clairs	Ordinary	12,631	726	-	-	13,357
A B Daniels	Ordinary	16,392	695	-	582	17,669
C R Galbraith	Ordinary	7,689	672	-	463	8,824
S C H Kay	Ordinary	2,980	689	-	-	3,669
W G Kent	Ordinary	14,522	672	-	92	15,286
F D Ryan	Ordinary	6,671	759	-	-	7,430
F J Swan	Ordinary	4,996	645	-	304	5,945
B K Ward ⁽³⁾	Ordinary	4,914	719	-	133	5,766
N R Adler	Ordinary	9,490	203	-	97	9,790
J T Ralph	Ordinary	23,861	496	-	345	24,702
Total For Directors	Ordinary	401,247	7,934	1,000,000	(954,597)	454,584
	Deferred STI	19,427	15,078	-	(12,639)	21,866
	Reward Shares	242,000	125,000	-	(42,000)	325,000

⁽¹⁾ For Non-Executive Directors, represents shares acquired under NEDSP on 30 September 2004, 30 December 2004 and 22 April 2005 by mandatory sacrifice of fees. All shares are subject to a 10 year trading restriction (shares will be tradeable earlier if the Director leaves the Board). See Note 29 (Share Capital) to the Financial Statements for further details on the NEDSP. For Mr Murray, this represents:

- Deferred STI – acquired under the mandatory component of the Bank's Equity Participation Plan (EPP). Shares were purchased on 31 October 2004 in two equal tranches, vesting on 1 July 2005 and 1 July 2006 respectively. See Note 29 (Share Capital) to the Financial Statements for further details on the EPP.
- Reward Shares – granted under the Equity Reward Plan (ERP) on and subject to a performance hurdle. The first possible date for meeting the performance hurdle is 23 August 2007 with the last possible date for vesting being 23 August 2009. See Note 29 (Share Capital) to the Financial Statements for further details on the ERP.

⁽²⁾ 'Net change other' incorporates changes resulting from purchases and sales during the year by Directors and, for Mr Murray, vesting of deferred STI shares (which became Ordinary shares).

⁽³⁾ Ms Ward continued to hold 250 PERLS II securities at 30 June 2005.

Directors' Details – Remuneration Details continued

Shareholdings of Specified Executives

Name	Class	Balance 30 June 2004	Acquired/Granted as Remuneration ⁽¹⁾	On Exercise of Options	Net Change Other ⁽²⁾	Balance 30 June 2005
Specified Executives						
M A Cameron	Ordinary	-	-	-	-	-
	Deferred STI	4,797	5,696	-	(2,399)	8,094
	Reward Shares	32,300	28,130	-	-	60,430
L G Cupper	Ordinary	27,206	-	75,000	(57,666)	44,540
	Deferred STI	8,409	6,534	-	(5,558)	9,385
	Reward Shares	70,000	25,000	-	(11,000)	84,000
S I Grimshaw	Ordinary	256	-	-	16,109	16,365
	Deferred STI	9,503	9,382	-	(4,752)	14,133
	Reward Shares	90,300	37,500	-	(14,000)	113,800
H D Harley	Ordinary	13,711	-	-	12,141	25,852
	Deferred STI	6,816	7,707	-	(4,282)	10,241
	Reward Shares	57,700	35,000	-	(7,000)	85,700
M A Katz ⁽³⁾	Ordinary	407,386	-	-	(103,638)	303,748
	Deferred STI	12,706	9,717	-	(8,362)	14,061
	Reward Shares	114,000	43,130	-	(18,000)	139,130
R V McKinnon	Ordinary	9,292	-	25,000	9,699	43,991
	Deferred STI	6,507	4,775	-	(4,199)	7,083
	Reward Shares	45,500	18,750	-	(5,500)	58,750
G L Mackrell	Ordinary	21,088	-	232,500	(226,269)	27,319
	Deferred STI	8,619	6,785	-	(5,270)	10,134
	Reward Shares	66,100	28,130	-	(11,000)	83,230
J K O'Sullivan	Ordinary	5,565	-	-	-	5,565
	Deferred STI	-	6,702	-	-	6,702
	Reward Shares	33,500	25,940	-	-	59,440
G A Petersen	Ordinary	2,756	-	-	5,816	8,572
	Deferred STI	4,086	3,701	-	(2,610)	5,177
	Reward Shares	19,000	19,500	-	(3,000)	35,500
Total for Specified Executives	Ordinary	487,260	-	332,500	(343,808)	475,952
	Deferred STI	61,443	60,999	-	(37,432)	85,010
	Reward Shares	528,400	261,080	-	(69,500)	719,980

⁽¹⁾ Represents:

- Deferred STI - acquired under the mandatory component of the Bank's Equity Participation Plan (EPP). Shares were purchased on 31 October 2004 in two equal tranches, vesting on 1 July 2005 and 1 July 2006 respectively. See Note 29 (Share Capital) to the Financial Statements for further details on the EPP.
- Reward Shares - granted under the Equity Reward Plan (ERP) and are subject to a performance hurdle. The first possible date for meeting the performance hurdle is 23 August 2007 with the last possible date for vesting being 23 August 2009. See Note 29 (Share Capital) to the Financial Statements for further details on the ERP.

⁽²⁾ 'Net change other' incorporates changes resulting from purchases and sales during the year by Executives and vesting of Deferred STI and Reward Shares (which became Ordinary shares).

⁽³⁾ Mr Katz continued to hold 250 PERLS II securities at 30 June 2005.

Directors' Details – Remuneration Details continued

Shares and Options Vested and Exercised During the Year

Name	Deferred STI Vested	Reward Shares Vested	Shares Granted on Exercise of Options			
			Number	Exercise Price (\$)	Value in Excess of Exercise Price ⁽¹⁾ (\$)	Total Value of Options Exercised ⁽²⁾ (\$)
Directors						
D V Murray	12,639	42,000	1,000,000	23.84	6.61	6,610,000
Total Directors	12,639	42,000	1,000,000	NA	NA	6,610,000
Specified Executives						
M A Cameron	2,399	-	-	-	-	-
L G Cupper	5,558	11,000	75,000	26.97	8.92	669,000
S I Grimshaw	4,752	14,000	-	-	-	-
H D Harley	4,282	7,000	-	-	-	-
M A Katz	8,362	18,000	-	-	-	-
R V McKinnon	4,199	5,500	25,000	26.97	4.28	107,000
G L Mackrell	5,270	11,000	100,000	23.84	7.61	761,000
			57,500	26.97	4.85	278,875
			75,000	30.12	5.77	432,750
G A Petersen	2,610	3,000	-	-	-	-
Total Specified Executives	37,432	69,500	332,500	NA	NA	2,248,625

(1) "Value in Excess of Exercise Price" represents the difference between the exercise price and closing market value of CBA shares on date of exercise.

(2) "Total Value of Options Exercised" represents the number of options exercised multiplied by the "Value in Excess of Exercise Price". No options were granted or lapsed during the year. Accordingly, this value represents the total value of options that were granted, lapsed and exercised during the year.

Loans to Directors and Specified Executives

ASIC Class Order

Australian banks, parent entities of Australian banks and controlled entities of Australian banks have been exempted, subject to certain conditions, under an ASIC Class Order No. 98/110 (as amended by ASIC Class Order No. 04/665), from making disclosures of any loan made, guaranteed or secured by a bank to related parties (other than for Directors, Specified Executives and entities controlled or significantly influenced by them) and financial instrument transactions (other than shares and share options) of a bank where a Director, or a specified Executive, of the relevant entity is not a party and where the loan or financial instrument transaction is lawfully made and occurs in the ordinary course of banking business and either on an arm's length basis or with the approval of a general meeting of the relevant entity and its ultimate parent entity (if any). The exemption does not cover transactions that relate to the supply of goods and services to a bank, other than financial assets or services.

The Class Order does not apply to a loan or financial instrument transaction which any Director, or a Specified Executive, of the relevant entity should reasonably be aware that if not disclosed would have the potential to adversely affect the decisions made by users of the financial statements about the allocation of scarce resources.

A condition of the Class Order is that the Bank must lodge a statutory declaration, signed by two Directors, with the Australian Securities and Investments Commission accompanying the annual report. The declaration provides confirmation that the Bank has systems of internal control and procedures to provide assurance that any financial instrument transactions of a bank, which are not entered into on an arm's length basis, are drawn to the attention of the Directors so that they may be disclosed.

Directors' Details – Remuneration Details continued

Individual Loans to Directors and Specified Executives

Total loans to Directors and Specified 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						
2005	2	-	-	-	3	1
2004	36	3	-	-	22	2
Specified Executives						
2005	8,706	523	-	-	8,803	6
2004	4,633	377	-	-	8,829	6
Total Directors and Specified Executives						
2005	8,708	523	-	-	8,806	7
2004	4,669	380	-	-	8,851	8

Details of individuals with loans above \$100,000 in the reporting period are as follows:

Individual loans above \$100,000 to Specified Executives

	Balance 1 July 2004 \$000s	Interest Charged \$000s	Interest Not Charged \$000s	Write-off \$000s	Balance 30 June 2005 \$000s	Highest Balance in Period \$000s
Directors						
Not Applicable						
Specified Executives						
S I Grimshaw	1,543	90	-	-	1,485	1,543
H D Harley	335	24	-	-	332	338
	202	11	-	-	-	202
	272	10	-	-	-	343
	185	10	-	-	-	185
	250	13	-	-	243	252
	321	26	-	-	347	347
M A Katz	175	12	-	-	175	175
	175	8	-	-	175	175
	-	14	-	-	500	500
G L Mackrell	58	2	-	-	-	190
	295	12	-	-	-	296
	-	<1	-	-	1,080	1,080
	146	4	-	-	-	147
J K O'Sullivan	1,500	97	-	-	1,500	1,500
	200	13	-	-	392	395
	861	53	-	-	696	861
	258	15	-	-	208	268
G A Petersen	900	40	-	-	400	900
	800	52	-	-	800	800

Directors' Details – Remuneration Details continued

Terms and Conditions of Loans

All loans to Directors and Specified Executives (or related entities controlled or significantly influenced by them) 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).

Other Transactions of Directors, Specified Executives and Other Related Parties

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed above) of Directors and Specified Executives with the Bank and other banks that are controlled entities occur in the ordinary course of business of the banks on an arm's length basis.

Under the Australian Securities and Investments Commission Class Order referred to above, disclosure of financial instrument transactions regularly made by a bank is limited to disclosure of such transactions with a Director, Specified Executive and entities controlled or significantly influenced by them.

All such financial instrument transactions that have occurred between the banks and their Directors and Specified Executives have been trivial or domestic and were in the nature of normal personal banking and deposit transactions.

Transactions other than Financial Instrument Transactions of Banks

All other transactions with Directors, Specified 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 bank.

The interests of Mr Ralph, Dr Schubert and Mr Daniels in investment funds managed by Colonial First State are detailed above. Additionally, Mr Galbraith is a partner in the law firm, Allens Arthur Robinson, which acted for the Bank in the provision of legal services during the financial year. The fees for these services amounted to \$2,290,323.

All other such transactions that have occurred with Directors, Specified Executives and their related entities and other related parties have been trivial or domestic and were principally in the nature of lodgement or withdrawal of deposit, unit funds and superannuation monies.

Audit

Certain disclosures required by AASB 1046 have been made in this Remuneration Report. Pages 81 to 91 of this report have been audited as required.

Director's Details (continued)

Non-Audit Services

Amounts paid or payable to Ernst & Young for non-audit services provided during the year, as set out in the Annual Report in Note 35 to the Financial Statements are as follows:

	\$'000
Regulatory audits, reviews, attestations and assurances for Group entities – Australia	1,245
Regulatory audits, reviews, attestations and assurances for Group entities – Off-shore	204
Financial and other audits, reviews, attestations and assurances for Group entities - Australia	145
Financial and other audits, reviews, attestations and assurances for Group entities – Off-shore	8
Assurance services relating to Sarbanes-Oxley legislation compliance	417
Agreed upon procedures and comfort letters in respect of financing, debt raising and related activities	58
Due diligence and transactional services	220
Taxation services	10
Other	113
Total	<u>2,420⁽¹⁾</u>

⁽¹⁾ An additional amount of \$3,305,000 was paid to Ernst & Young by way of fees paid for Non-Audit Services provided to entities not consolidated into the Financial Statements. These relate predominately to audits, reviews, attestations and assurances for managed investment schemes and superannuation funds.

Amounts paid or payable for audit services to Ernst & Young totalled \$7,921,000 and to other auditors totalled \$114,000.

The Bank has in place an Independent Auditor Services Policy, details of which are set out in the Corporate Governance section of this Annual Report, to assist in ensuring the independence of the Bank's external auditor.

The Audit Committee has considered the provision, during the year, of non-audit services by Ernst & Young 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 Ernst & Young 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 Independent Auditor Services Policy during the year to restrict the nature of non-audit services engagements, to prohibit certain services and to require Audit Committee pre-approval for all such engagements; and
- The relative quantum of fees paid for non-audit services compared to the quantum of audit fees.

The above Directors' statements are in accordance with the advice received from the Audit Committee.

Roundings

The amounts contained in this report and the financial statements 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).

Incorporation of Additional Material

This report incorporates the Chairman's Statement, Highlights, Which new Bank Summary, Business Review, Corporate Governance and Shareholding Information sections of this Annual Report.

Five Year Financial Summary (Australian GAAP)

	2005 \$M	2004 \$M	2003 \$M	2002 \$M	2001 \$M
Financial Performance					
Net interest income	5,966	5,410	5,026	4,710	4,474
Other operating income	5,388	5,081	4,373	4,358	4,350
Total operating income	11,354	10,491	9,399	9,068	8,824
Charge for bad and doubtful debts	322	276	305	449	385
Operating expenses:					
Comparable business	5,697	5,500	5,312	5,201	5,170
Which new Bank	150	749	239	-	-
	5,847	6,249	5,551	5,201	5,170
Operating profit before goodwill amortisation, appraisal value uplift and income tax expense	5,185	3,966	3,543	3,418	3,269
Income tax expense	(1,637)	(1,262)	(958)	(916)	(993)
Outside equity interests	(10)	(9)	(6)	(1)	(14)
Net profit after tax ("cash basis")	3,538	2,695	2,579	2,501	2,262
Appraisal value uplift/(reduction)	778	201	(245)	477	474
Goodwill amortisation	(325)	(324)	(322)	(323)	(338)
Operating profit after income tax attributable to members of the Bank	3,991	2,572	2,012	2,655	2,398
Contributions to profit (after tax)					
Banking	2,959	2,675	2,376	2,067	1,793
Funds management	351	274	233	368	323
Insurance	156	129	65	33	20
Profit on operations ("underlying basis") ⁽¹⁾	3,466	3,078	2,674	2,468	2,136
Shareholder investment returns	177	152	73	33	126
Which new Bank	(105)	(535)	(168)	-	-
Profit on operations ("cash basis")	3,538	2,695	2,579	2,501	2,262
Goodwill amortisation	(325)	(324)	(322)	(323)	(338)
Appraisal value uplift/(reduction)	778	201	(245)	477	474
Operating profit after income tax	3,991	2,572	2,012	2,655	2,398
Financial Position					
Loans, advances and other receivables	217,516	189,391	160,347	147,074	136,059
Total assets	329,035	305,995	265,110	249,648	230,411
Deposits and other public borrowings	168,029	163,177	140,974	132,800	117,355
Total liabilities	302,975	281,110	242,958	228,592	210,563
Shareholders' equity	24,271	22,405	20,024	19,030	18,393
Net tangible assets	19,877	17,700	14,995	13,639	12,677
Risk weighted assets	189,559	169,321	146,808	141,049	138,383
Average interest earning assets	243,948	214,187	188,270	170,634	160,607
Average interest bearing liabilities	225,592	197,532	174,737	157,105	145,978
Assets (on balance sheet)					
Australia	271,596	252,652	221,248	208,673	196,918
New Zealand	41,650	35,059	27,567	24,579	20,208
Other	15,789	18,284	16,295	16,396	13,285
Total Assets	329,035	305,995	265,110	249,648	230,411

(2) "Underlying basis" excludes shareholder investment returns, initiatives including Which new Bank, goodwill amortisation and appraisal value uplift/(reduction)

Five Year Financial Summary (continued)

	2005	2004	2003	2002	2001
Shareholder Summary					
Dividends per share (cents) - fully franked	197	183	154	150	136
Dividend cover (times) - statutory	1.5	1.1	0.9	1.4	1.4
Dividend cover (times) - cash	1.4	1.1	1.3	1.3	1.3
Dividend cover (times) - underlying	1.3	1.3	1.4	1.3	1.2
Earnings per share (cents)					
Basic					
Statutory	303.1	196.9	157.4	209.6	189.6
Cash basis ⁽¹⁾	267.6	206.6	202.6	197.3	178.8
Underlying basis ⁽²⁾	261.9	237.1	210.2	194.6	168.8
Fully Diluted					
Statutory	303.0	196.8	157.3	209.3	189.3
Cash basis ⁽¹⁾	267.5	206.5	202.5	197.0	178.6
Underlying basis ⁽²⁾	261.8	237.0	210.0	194.3	168.5
Dividend payout ratio (%) ⁽³⁾					
Statutory	65.2	93.5	97.7	71.7	71.2
Cash basis ⁽¹⁾	73.9	89.1	75.9	76.2	75.5
Underlying basis ⁽²⁾	75.5	77.6	73.3	77.2	80.2
Net tangible assets per share (\$)	13.8	12.2	11.4	10.3	9.6
Weighted average number of shares (basic) (M)	1,273	1,256	1,253	1,250	1,260
Weighted average number of shares (fully diluted) (M)	1,274	1,257	1,254	1,252	1,262
Number of shareholders	704,906	714,901	746,073	722,612	709,647
Share prices for the year (\$)					
Trading high	38.52	33.54	32.75	34.94	34.15
Trading low	28.79	27.00	23.05	24.75	26.18
End (closing price)	37.95	32.58	29.55	32.93	34.15
Performance Ratios (%)					
Return on average shareholders' equity ^{(4) (5) (8)}					
Statutory	18.3	12.5	10.5	14.7	13.5
Cash basis ⁽¹⁾	16.0	12.7	13.1	12.9	12.1
Underlying basis ⁽²⁾	15.6	14.6	13.6	12.8	11.3
Return on average total assets ⁽⁴⁾					
Statutory	1.3	0.9	0.8	1.1	1.1
Cash basis ⁽¹⁾	1.1	0.9	1.0	1.0	1.0
Underlying basis ⁽²⁾	1.1	1.1	1.0	1.0	1.0
Capital adequacy - Tier 1	7.46	7.43	6.96	6.78	6.51
Capital adequacy - Tier 2	3.21	3.93	4.21	4.28	4.18
Deductions	(0.92)	(1.11)	(1.44)	(1.26)	(1.53)
Capital adequacy - Total	9.75	10.25	9.73	9.80	9.16
Net interest margin	2.45	2.53	2.67	2.76	2.78
Other Information (numbers)					
Full time staff equivalent ⁽⁶⁾	35,313	36,296	35,845	37,245	37,460
Branches/service centres (Australia)	1,006	1,012	1,014	1,020	1,066
Agencies (Australia)	3,864	3,866	3,893	3,936	3,928
ATMs (Proprietary)	3,154	3,109	3,116	3,049	2,931
EFTPOS terminals	137,240	126,049	129,959	126,613	122,074
EzyBanking	841	815	760	730	659
Productivity					
Total Operating Income per full-time (equivalent) employee (\$)	308,357	278,047	262,212	243,469	235,558
Staff Expense/Total Operating Income (%)	23.3	24.3	26.4	26.4	26.7
Total Operating Expenses ⁽⁷⁾ /Total Operating Income (%)	51.5	59.6	59.1	57.4	58.6

⁽¹⁾ "Cash basis" for the purpose of these financial statements is defined as net profit after tax and before, goodwill amortisation and life insurance and funds management appraisal value uplift.

⁽²⁾ "Underlying earnings" for the purpose of these financial statements is defined as net profit after tax and before shareholder investment returns, initiatives including Which new Bank, goodwill amortisation and life insurance and funds management appraisal value uplift.

⁽³⁾ Dividends paid divided by earnings less preference dividends.

⁽⁴⁾ Calculations based on operating profit after tax and outside equity interests applied to average shareholders' equity/average total assets.

⁽⁵⁾ 2005, 2004 and 2003 shareholders' equity includes retained earnings before provision for final dividend of \$1,434 million, \$1,315 million and \$1,066 million respectively. Prior periods' return on average shareholders' equity – cash basis and underlying basis have been restated to exclude the provision for final dividend.

⁽⁶⁾ Staff numbers include all permanent full time staff, part time staff equivalents and external contractors employed by third party agencies.

⁽⁷⁾ Total Operating Expenses excluding goodwill amortisation and charge for bad and doubtful debts.

⁽⁸⁾ Prior period numbers have been restated to include preference share dividends as a deduction from operating profit.

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Statements of Financial Performance

for the year ended 30 June 2005

	Note	2005 \$M	2004 \$M	GROUP 2003 \$M	2005 \$M	BANK 2004 \$M
Interest income	2	16,194	13,287	11,528	13,404	11,053
Interest expense	2	10,228	7,877	6,502	8,601	6,649
Net interest income		5,966	5,410	5,026	4,803	4,404
Other income:						
Revenue from sale of assets		595	943	128	474	1,398
Written down value of assets sold		(604)	(874)	(106)	(439)	(1,823)
Other		2,924	2,777	2,605	3,988	3,737
Net banking operating income		8,881	8,256	7,653	8,826	7,716
Funds management income including premiums	3	1,261	1,175	1,149	-	-
Investment revenue	3	2,008	1,967	8	-	-
Claims and policyholder liability expense		(1,871)	(1,809)	(91)	-	-
Net funds management operating income		1,398	1,333	1,066	-	-
Insurance premiums and related revenue	3	1,132	1,012	1,131	-	-
Insurance investment revenue	3	1,186	840	620	-	-
Claims and policyholder liability expense		(1,243)	(950)	(1,071)	-	-
Insurance margin on services operating income		1,075	902	680	-	-
Total net operating income before appraisal value uplift/(reduction)		11,354	10,491	9,399	8,826	7,716
Charge for bad and doubtful debts	2,13	322	276	305	292	263
Operating expenses:						
Comparable business	2	5,697	5,500	5,312	4,357	4,226
Which new Bank ⁽¹⁾	2	150	749	239	150	725
		5,847	6,249	5,551	4,507	4,951
Appraisal value uplift/(reduction)	34	778	201	(245)	-	-
Goodwill amortisation		(325)	(324)	(322)	(186)	(186)
Profit from ordinary activities before income tax		5,638	3,843	2,976	3,841	2,316
Income tax expense	5	1,637	1,262	958	920	669
Profit from ordinary activities after income tax		4,001	2,581	2,018	2,921	1,647
Outside equity interests in net profit		(10)	(9)	(6)	-	-
Net profit attributable to members of the Bank		3,991	2,572	2,012	2,921	1,647
Foreign currency translation adjustment		(141)	(8)	(129)	(2)	10
Revaluation of properties		33	54	3	33	43
Total valuation adjustments		(108)	46	(126)	31	53
Total changes in equity other than those resulting from transactions with owners as owners		3,883	2,618	1,886	2,952	1,700
Cents per share						
Earnings per share based on net profit distributable to members of the Bank						
Basic	7	303.1	196.9	157.4		
Fully Diluted	7	303.0	196.8	157.3		
Dividends per share attributable to shareholders of the Bank:						
Ordinary shares	6	197	183	154		
Preference shares (issued 6 April 2001)	6	1,115	1,065	1,019		
Other equity instruments (issued 6 August 2003)		7,795	7,306	-		
Other equity instruments (issued 6 January 2004)		908	402	-		
		\$M	\$M	\$M		
Net Profit after Income Tax comprises:						
Net Profit after income tax ("underlying basis")		3,466	3,078	2,674		
Shareholders investment returns		177	152	73		
Which new Bank ⁽¹⁾		(105)	(535)	(168)		
Net Profit after Income Tax ("cash basis")		3,538	2,695	2,579		
Appraisal value uplift/(reduction)		778	201	(245)		
Goodwill amortisation		(325)	(324)	(322)		
Net Profit after Income Tax ("statutory basis")		3,991	2,572	2,012		

(3) June 2005 and 2004 results reflects the Which new Bank program, while prior year includes other strategic initiatives undertaken.

Statements of Financial Position

as at 30 June 2005

	Note	2005 \$M	GROUP 2004 \$M	2005 \$M	BANK 2004 \$M
Assets					
Cash and liquid assets	8	5,715	6,453	5,574	6,485
Receivables due from other financial institutions	9	6,205	8,369	6,133	7,068
Trading securities	10	14,628	14,896	12,432	12,877
Investment securities	11	10,272	11,447	6,922	6,626
Loans, advances and other receivables	12	217,516	189,391	174,140	154,139
Bank acceptances of customers		16,786	15,019	16,917	15,160
Life insurance investment assets	16	27,837	28,942	-	-
Deposits with regulatory authorities	17	45	38	1	4
Shares in and loans to controlled entities	18	-	-	29,161	23,677
Property, plant and equipment	19	1,344	1,204	796	722
Investment in associates	42	52	239	12	220
Intangible assets	20	4,394	4,705	2,336	2,522
Other assets	21	24,241	25,292	17,200	18,849
Total Assets		329,035	305,995	271,624	248,349
Liabilities					
Deposits and other public borrowings	22	168,029	163,177	143,858	142,469
Payables due to other financial institutions	23	8,023	6,641	7,969	6,611
Bank acceptances		16,786	15,019	16,917	15,160
Due to controlled entities		-	-	16,652	14,176
Provision for dividend	6	14	14	14	13
Income tax liability	24	1,550	811	1,421	690
Other provisions	25	881	997	709	819
Life insurance policyholder liabilities	34	24,694	24,638	-	-
Debt issues	26	58,621	44,042	40,687	24,449
Bills payable and other liabilities	27	18,086	19,140	16,658	17,888
		296,684	274,479	244,885	222,275
Loan Capital	28	6,291	6,631	7,010	7,338
Total Liabilities		302,975	281,110	251,895	229,613
Net Assets		26,060	24,885	19,729	18,736
Shareholders' Equity					
Share capital:					
Ordinary share capital	29	13,871	13,359	13,871	13,359
Preference share capital	29	687	687	687	687
Other equity instruments	29	1,573	1,573	737	737
Reserves		4,624	3,946	2,179	2,148
Retained profits		3,516	2,840	2,255	1,805
Shareholders' equity attributable to members of the Bank		24,271	22,405	19,729	18,736
Outside equity interests:					
Controlled entities	30	631	304	-	-
Life insurance statutory funds and other funds	30	1,158	2,176	-	-
Total outside equity interests		1,789	2,480	-	-
Total Shareholders' Equity		26,060	24,885	19,729	18,736

Statements of Changes in Shareholders' Equity

for the year ended 30 June 2005

	Note	2005 \$M	2004 \$M	GROUP 2003 \$M	2005 \$M	BANK 2004 \$M
Ordinary Share Capital						
Opening balance	29	13,359	12,678	12,665	13,359	12,678
Buy back		-	(213)	-	-	(213)
Buy back for dividend reinvestment plan		-	-	(361)	-	-
Dividend reinvestment plan		446	389	361	446	389
Employee share ownership schemes		66	38	13	66	38
Share purchase plan		-	467	-	-	467
Closing balance		13,871	13,359	12,678	13,871	13,359
Preference Share Capital						
Opening balance	29	687	687	687	687	687
Closing balance		687	687	687	687	687
Other Equity Instruments						
Opening balance	29	1,573	-	-	737	-
Issue of instruments		-	1,573	-	-	737
Closing balance		1,573	1,573	-	737	737
Retained profits						
Opening balance		2,840	2,809	1,452	1,805	2,591
Reversal of provision for final dividend at 30 June 2002 (on adoption of AASB 1044)		-	-	1,027	-	-
Share buy back		-	(319)	-	-	(319)
Transfers from reserves		-	142	250	-	-
Operating profit attributable to members of Bank		3,991	2,572	2,012	2,921	1,647
Total available for appropriation		6,831	5,204	4,741	4,726	3,919
Transfers to reserves		(786)	(201)	-	-	-
Interim dividend - cash component		(883)	(808)	(699)	(883)	(808)
Interim dividend - dividend reinvestment plan		(200)	(188)	(166)	(200)	(188)
Payment of final dividend - cash component		(1,069)	(865)	(832)	(1,069)	(865)
Payment of final dividend - dividend reinvestment plan		(246)	(201)	(195)	(246)	(201)
Other dividends		(131)	(101)	(40)	(73)	(52)
Closing balance		3,516	2,840	2,809	2,255	1,805
Reserves						
General Reserve						
Opening balance		3,810	3,751	3,998	570	570
Appropriation from profits		786	201	-	-	-
Transfer to retained profits		-	(142)	(247)	-	-
Closing balance		4,596	3,810	3,751	570	570
Capital Reserve						
Opening balance		280	289	289	1,531	1,531
Reversal of revaluation surplus / (deficit) on sale of property		2	(9)	-	2	-
Closing balance		282	280	289	1,533	1,531
Asset Revaluation Reserve						
Opening balance		61	7	4	43	-
Revaluation of investments and properties		33	45	3	33	43
Transfers on sale of properties		(2)	9	-	(2)	-
Closing balance		92	61	7	74	43
Foreign Currency Translation Reserve						
Opening balance		(205)	(197)	(65)	4	(6)
Currency translation adjustments		(141)	(8)	(129)	(2)	10
Transfer to retained profits		-	-	(3)	-	-
Closing balance		(346)	(205)	(197)	2	4
Total Reserves						
		4,624	3,946	3,850	2,179	2,148
Shareholder's Equity Attributable to Members of the Bank						
		24,271	22,405	20,024	19,729	18,736

Statements of Cash Flows

for the year ended 30 June 2005

		GROUP			BANK	
	Note	2005	2004	2003	2005	2004
		\$M	\$M	\$M	\$M	\$M
Cash Flows From Operating Activities						
Interest received		16,205	13,101	11,452	13,148	11,045
Dividends received		3	6	4	988	798
Interest paid		(10,198)	(7,543)	(6,455)	(8,515)	(6,351)
Other operating income received		4,649	3,410	3,135	3,615	2,375
Expenses paid		(5,714)	(5,529)	(5,438)	(4,475)	(4,459)
Income taxes paid		(985)	(1,366)	(1,258)	(619)	(886)
Net decrease/(increase) in trading securities		318	(4,324)	(2,484)	505	(4,672)
Life insurance:						
Investment income		1,572	841	644	-	-
Premiums received ⁽¹⁾		3,183	3,562	4,130	-	-
Policy payments ⁽¹⁾		(4,664)	(4,529)	(5,855)	-	-
Net Cash provided by / (used in) operating activities	46 (c)	4,369	(2,371)	(2,125)	4,647	(2,150)
Cash Flows from Investing Activities						
Payments for shares in controlled entities, other companies and management rights		(82)	-	(173)	(24)	-
Proceeds from disposal of controlled entities	46 (f)	-	63	33	-	885
Proceeds from disposal of entities and businesses		173	-	-	178	-
Redemption of capital from controlled entities		-	-	-	306	-
Disposal of shares in other companies		-	114	-	-	114
Net movement in investment securities:						
Purchases		(22,608)	(25,587)	(18,055)	(20,254)	(15,157)
Proceeds from sale		392	697	23	275	390
Proceeds at or close to maturity		22,799	24,407	17,719	19,344	14,904
(Lodgement)/withdrawal of deposits with regulatory authorities		(7)	(15)	66	3	(2)
Net increase in loans, advances and other receivables		(28,447)	(29,328)	(13,577)	(20,293)	(22,873)
Net amounts paid to controlled entities		-	-	-	(3,325)	1,412
Proceeds from sale of property, plant and equipment		30	69	72	30	7
Purchase of property, plant and equipment		(286)	(536)	(143)	(164)	(175)
Net decrease/(increase) in receivables due from other financial institutions not at call		933	292	513	441	(344)
Net decrease/(increase) in securities purchased under agreements to resell		991	(1,023)	50	988	(1,039)
Net decrease/(increase) in other assets		1,056	(1,461)	301	758	(1,537)
Life insurance:						
Purchases of investment securities		(14,165)	(20,286)	(13,091)	-	-
Proceeds from sale/maturity of investment securities		15,281	21,500	14,628	-	-
Net Cash (used in) Investing Activities		(23,940)	(31,094)	(11,634)	(21,737)	(23,415)
Cash Flows from Financing Activities						
Buy back of shares		-	(532)	-	-	(532)
Proceeds from issue of shares (net of costs)		66	505	13	66	505
Proceeds from issue of preference shares to outside equity interests		323	-	182	-	-
Proceeds from issue of other equity instruments (net of costs)		-	1,573	-	-	737
Net increase in deposits and other borrowings		6,332	21,997	5,129	2,807	19,254
Net movement in debt issues		14,579	13,413	7,054	16,238	7,765
Dividends paid (excluding DRP)		(2,083)	(1,774)	(1,933)	(2,024)	(1,726)
Net movements in other liabilities		(330)	(242)	(926)	(292)	113
Net increase/(decrease) in payables due to other financial institutions not at call		449	(929)	(796)	449	(909)
Net increase/(decrease) in securities sold under agreements to repurchase		(1,480)	206	3,046	(1,418)	269
Issue of loan capital		1,233	985	901	1,554	1,784
Redemptions of loan capital		(1,392)	(317)	-	(1,621)	(317)
Other		(37)	(2)	19	6	(16)
Net Cash provided by Financing Activities		17,660	34,883	12,689	15,765	26,927
Net (decrease)/increase in Cash and Cash Equivalents		(1,911)	1,418	(1,070)	(1,325)	1,362
Cash and Cash Equivalents at beginning of period		2,846	1,428	2,498	1,639	277
Cash and Cash Equivalents at end of period	46(a)	935	2,846	1,428	314	1,639

⁽¹⁾ These were gross premiums and policy payments before splitting between policyholder liabilities and revenue and expense.

It should be noted that the Group does not use this accounting Statement of Cash Flows in the internal management of its liquidity positions.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies

(a) Bases of accounting

In this financial report Commonwealth Bank of Australia is referred to as the 'Bank' or 'Company', and the 'Group' or the 'Consolidated Entity' consists of the Bank and its controlled entities. The financial report is a general purpose financial report which complies with the requirements of the Banking Act, Corporations Act 2001, applicable Accounting Standards and other mandatory reporting requirements so far as the requirements are considered appropriate to a banking corporation.

The accounting policies applied are consistent with those of the previous year.

The Statements of Cash Flows has been prepared in accordance with the International Accounting Standard IAS 7: Cash Flow Statements.

The preparation of the financial report in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates although it is not anticipated that such differences would be material.

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

(b) Historical cost

The financial statements of the Bank and the consolidated financial statements have been prepared in accordance with the historical cost convention and, except for AASB 1038: Life Insurance Business requirements and where indicated, do not reflect current valuations of non monetary assets. Domestic bills discounted which are included in loans, advances and other receivables and held by the Company and securities and derivatives held for trading purposes have been marked to market. The carrying amounts of all non current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date.

If the carrying amount of a non current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts for particular classes of assets the relevant cash flows have not been discounted to their present value unless otherwise stated.

(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 as defined in AASB 1024: Consolidated Accounts. All balances and transactions between Group entities have been eliminated on consolidation.

(d) Investments in associated companies

Associated companies are defined as those entities over which the Group has significant influence but there is no capacity to control. Details of material associated companies are shown in Note 42 to the Financial Statements.

Investments in associates are carried at cost plus the Group's share of post-acquisition profit or loss. The Group's share of profit or loss of associates is included in the profit from ordinary activities.

(e) Foreign currency translations

All foreign currency monetary assets and liabilities are revalued at spot rates of exchange prevailing at balance date. Foreign currency forward, futures, swaps and option positions are valued at the appropriate market rates applying at balance date. Unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are included in the results.

The foreign currency assets and liabilities of overseas branches and overseas controlled entities are converted to Australian currency at 30 June 2005 in accordance with the current rate method. Profit and loss items for overseas branches and overseas controlled entities are converted to Australian dollars progressively throughout the year at the spot exchange rate at the date of the transaction.

Translation differences arising from conversion of opening balances of shareholders' funds of overseas controlled entities at year end exchange rates are excluded from profit and loss and reflected in a Foreign Currency Translation Reserve. 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 effect on its financial condition.

(f) Roundings

The amounts contained in this report and the financial statements 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).

(g) Financial instruments

The Group is a full service financial institution that offers an extensive range of on balance sheet and off balance sheet financial instruments.

For each class of financial instrument listed below, except for restructured facilities referred to in Note 1(m), 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.

(h) Cash and liquid assets

Cash and liquid assets includes cash at branches, cash at bankers and money at short call.

They are brought to account at the face value or the gross value of the outstanding balance where appropriate.

Interest is taken to profit when earned.

(i) Receivables due from other financial institutions

Receivables from other financial institutions includes loans, nostro balances and settlement account balances due from other banks. They are brought to account at the gross value of the outstanding balance. Interest is taken to profit when earned.

(j) Trading securities

Trading securities are short and long term public, bank and other debt securities and equities that are acquired and held for trading purposes. They are brought to account at net fair value based on quoted market prices, broker or dealer price quotations. Realised gains and losses on disposal and unrealised fair value adjustments are reflected in 'Other Income'. Interest on trading securities is reported in net interest earnings. Trading securities are recorded on a trade date basis.

(k) Investment securities

Investment securities are securities purchased with the intent of being held to maturity.

Investment securities are short and long term public, bank and other securities and include bonds, bills of exchange, commercial paper, certificates of deposit and equities. These securities are recorded at cost or amortised cost. Premiums and discounts are amortised through profit and loss each year from the date of purchase so that securities attain their redemption values by maturity date. Interest is reflected in profit when earned. Dividends on equities are brought to account in profit on declaration date. Any profits or losses arising from disposal prior to maturity are taken to profit in the period in which they are realised. The cost of securities sold is calculated on a specific identification basis. Unrealised losses related to permanent diminution in the value of investment securities

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

are recognised in profit and the recorded values of those securities adjusted accordingly.

Investment securities are recorded on a trade date basis. The relationship between book and net fair values of investment securities is shown in Note 11.

(l) Repurchase agreements

Securities sold under agreements to repurchase are retained within the investment or trading portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase and are disclosed as deposits and other public borrowings. Securities held under reverse repurchase agreements are recorded as liquid assets.

(m) Loans, advances and other receivables

Loans, advances and other receivables include overdrafts, home, credit card and other personal lending, term loans, leasing, bill financing, redeemable preference shares and leverage leases. They are carried at the recoverable amount represented by the gross value of the outstanding balance adjusted for provisions for bad and doubtful debts, interest reserved and unearned tax remissions on leveraged leases. Interest and yield related fees are reflected in profit when earned. Yield related fees received in advance are deferred, included as part of the carrying value of the loan and amortised to profit as 'Interest Income' over the term of the loan. Note 1(n) provides additional information with respect to leasing and leveraged leasing.

Non Accrual Facilities

Non accrual facilities (primarily loans) are recorded on a cash basis for recognition of income. Upon classification as non accrual, all interest charged in the current financial period is reversed from profit and reserved if it has not been received in cash.

If necessary, a specific provision for impairment is recognised so that the carrying amount of the facility does not exceed the expected future cash flows. In subsequent periods, interest in arrears/due on non accrual facilities is taken to profit and loss when a cash payment is received/realised and the amount is not designated as a principal payment. Non accrual facilities are restored to an accrual basis when all principal and interest payments are current and full collection is probable.

Restructured Facilities

When facilities (primarily loans) have the original contractual terms modified, the accounts become classified as restructured. Such accounts will have interest accrued to profit as long as the facility is performing on the modified basis 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 accrual classification. Facilities are generally kept as non accrual until they are returned to a performing basis.

Assets Acquired Through Securities Enforcement ("AATSE")

Assets acquired in satisfaction of facilities in default (primarily loans) are recorded at net market value at the date of acquisition. Any difference between the carrying amount of the facility and the net market value of the assets acquired is represented as a specific provision for diminution of value or written off. AATSE are further classified as Other Real Estate Owned ("OREO") or Other Assets Acquired Through Security Enforcement ("OAATSE"). Such assets are classified in the appropriate asset classifications in the balance sheet.

Bad Debts

Bad debts are written off in the period in which they are recognised. Bad debts previously specifically provided for are written off against the related specific provisions, while bad debts not provided for are written off through the general provision. Any subsequent cash recovery is credited to the general provision.

(n) Leasing and leveraged leasing

Finance leases are accounted for using the finance method and are included in loans, advances and other receivables. Income, determined on an actuarial basis, is taken to account over the term of the lease in relation to the outstanding investment balance.

The finance method also applies to leveraged leases but with income being brought to account at the rate which yields a constant rate of return on the outstanding investment balance over the life of the transaction so as to reflect the underlying assets, liabilities, revenue and expenses that flow from the arrangements. Where a change occurs in the estimated lease cash flows or available tax benefits at any stage during the term of the lease, the total lease profit is recalculated for the entire lease term and apportioned over the remaining lease term.

In accordance with amendments to AASB 1008: Leases, all leveraged leases with a lease term beginning from 1 July 1999 are accounted for as finance leases with income brought to account progressively over the lease term.

Leveraged lease receivables are recorded under loans, advances and other receivables at amounts that reflect the equity participation in the lease. The debt provider in the transaction has no recourse other than to the unremitted lease rentals and the equipment under lease.

Operating lease rental revenue and expense is recognised in the profit in equal periodic amounts over the effective lease term.

(o) Provisions for impairment

Provisions for credit losses are maintained at an amount adequate to cover anticipated credit related losses. Credit losses arise primarily from loans but also from other credit instruments such as bank acceptances, contingent liabilities, financial instruments and investments and assets acquired through security enforcement.

Specific provisions are established where full recovery of principal is considered doubtful. Specific 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. A specific provision is also established against each statistically managed portfolio in the statistically managed segment to cover facilities which are not well secured and past due 180 days or more, against the credit risk rated managed segment for exposures aggregating to less than \$250,000 and 90 days past due or more, and against emerging credit risks identified in specific segments in the credit risk rated managed portfolio. These provisions are funded primarily by reference to historical ratios of write offs to balances in default.

General provisions for bad and doubtful debts are maintained to cover non identified probable losses and latent risks inherent in the overall portfolio of advances and other credit transactions. The provisions are determined having regard to the general risk profile of the credit portfolio, historical loss experience, economic conditions and a range of other criteria.

The amounts required to bring the provisions for impairment to their assessed levels are charged to profit. The balance of provisions for impairment and movements therein are set out in Note 13.

All facilities subject to a specific provision are classified as non accrual and interest is only taken to profit when received in cash.

(p) Bank acceptances of customers

The exposure arising from the acceptance of bills of exchange that are sold into the market is brought to account 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 taken to profit when earned.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(q) Deposits with regulatory authorities

In several countries in which the Group operates, the law requires that the Group lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. The amount of the deposit and the interest rate receivable are calculated in accordance with the requirements of the local central bank. Interest is taken to profit when earned.

(r) Shares in and loans to controlled entities

These investments are recorded at the lower of cost or recoverable amount.

(s) Property, plant and equipment

At year end, independent market valuations, reflecting current use, were obtained for all individual property holdings (other than leasehold improvements). Directors adopt a valuation based on this independent advice. Adjustments arising from revaluation are reflected in Asset Revaluation Reserve, except to the extent the adjustment reverses a revaluation previously recognised in profit and loss. The potential effect of any capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount.

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

Equipment and assets held for lease is shown at cost less depreciation calculated principally on a category basis at rates applicable to each category's useful life. Depreciation is calculated using the straight line method. It is treated as an operating expense and charged to profit. The amounts charged for the year are shown in Note 2. Profit or loss on sale of property is treated as operating income or expense. Realised amounts in Asset Revaluation Reserve are transferred to Capital Reserve.

Investment property carried at lower of cost and recoverable amount is not depreciated in accordance with the depreciation guidance in AASB1021: Depreciation.

The useful lives of major depreciable assets 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	Lesser of unexpired lease term or lives as above
Equipment	
- Security surveillance systems	10 years
- Furniture	8 years
- Office machinery	5 years
- EFTPOS machines	3 years

The Bank has outsourced the majority of its information processing and does not own any material amounts of computer or communications equipment.

(t) 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 brought to account in the balance sheet.

The goodwill so determined is amortised on a straight line basis over the period of expected benefit but not exceeding 20 years. Purchased goodwill resulting from the acquisition of the Colonial Group in June 2000, the merger with the State Bank of Victoria in 1991 and from the acquisition of the 25% minority interest in ASB Group in

New Zealand in August 2000 is each being amortised over 20 years. The periods of goodwill amortisation are subject to review annually by the Directors.

(u) Other assets

Other assets include all other financial assets and includes interest, fees, market revaluation of trading derivatives and other unrealised income receivable and securities sold not delivered. These assets are recorded at the cash value to be realised when settled.

Capitalisation of Computer Software Costs

In accordance with the American Institute of Certified Public Accountants Statement of Position 98-1 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use', the Group capitalises computer software costs. The criteria for capitalised computer software costs is that only computer software projects costing \$10 million or more are capitalised and capitalisation is limited to those investments that will deliver identifiable and sustainable customer value and an increase in returns, in a significant line of business. The Group carries net unamortised capitalised computer software costs of \$182 million as at 30 June 2005 (2004:\$107 million).

Such costs are amortised over the assessed useful life of the projects. An amortisation period of 2½ years is adopted for most software developments. Software maintenance costs continue to be expensed as incurred.

(v) Deposits and other public borrowings

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 brought to account at the gross value of the outstanding balance. Interest is charged to profit when incurred.

(w) Payables due to other financial institutions

Payables due to other financial institutions includes deposits, vostro balances and settlement account balances due to other banks. They are brought to account at the gross value of the outstanding balance. Interest is charged to profit when incurred.

(x) Income taxes

The Group has adopted the liability method of tax effect accounting. The tax effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes is disclosed as a future income tax benefit or a provision for deferred income tax. Amounts are offset where the tax payable and realisable benefit are expected to occur in the same financial period. The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of being utilised (Notes 5 and 21).

The Commonwealth Bank of Australia has elected to be taxed as a single entity under the tax consolidation system with effect from 1 July 2002.

(y) Provisions for employee entitlements

The provision for long service leave is subject to actuarial review and is maintained at a level that accords with actuarial advice.

The provision for annual leave represents the outstanding liability as at balance date. Actual payments made during the year are included in Salaries and Wages.

The provision for other employee entitlements represents liabilities for staff housing loan benefits, a subsidy to a registered health fund with respect to retired employees and current employees, and employee incentives under employee share plans and bonus schemes.

The level of these provisions has been determined in accordance with the requirements of AASB 1028: Accounting for Employee Entitlements.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

(z) Provisions for restructuring

Provisions for restructuring are brought to account where there is a detailed formal plan for restructure and a demonstrated commitment to that plan.

Provision for 'Which new Bank' costs

On 19 September 2003, the Group launched its Which new Bank customer service vision. This is a three year transformation program and results in the Bank incurring additional expenditure in the key areas of staff training and skilling, systems and process simplification, and technology. In the year to 30 June 2005 such expenses have totalled \$150 million and principally comprised redundancies and process improvement costs. In the period to 30 June 2004 such expenses have totalled \$749 million and principally comprise redundancies, expensing of previously capitalised software of \$219 million, process improvements and branch refurbishment. The outstanding provision for 'Which new Bank' costs at 30 June 2005 is \$91 million.

(aa) 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 paper, notes, term loans and medium term notes which are recorded at cost or amortised cost. Premiums, discounts and associated issue expenses are amortised through profit and loss each year from the date of issue so that securities attain their redemption values by maturity date.

Interest is charged against profit as incurred. Any profits or losses arising from redemption prior to maturity are taken to profit in the period in which they are realised.

Further details of the Group's debt issues are shown in Note 26.

(cc) Bills payable and other liabilities

Bills payable and other liabilities includes all other financial liabilities and includes interest, fees, market revaluation of trading derivatives and other unrealised expenses payable and securities purchased not delivered.

These liabilities are recorded at the cash value to be realised when settled.

(dd) Loan capital

Loan capital is debt issued by the Group with terms and conditions, such as being undated or subordinated, which qualify the debt issue for inclusion as capital under APRA guidelines. Loan capital debt issues are recorded at cost or amortised cost.

Premiums, discounts and associated issue expenses are amortised through profit each year from the date of issue so that securities attain their redemption values by maturity date. Interest is reflected in profit as incurred. Any profits or losses arising from redemption prior to maturity are taken to profit in the period in which they are realised.

Further details of the Group's loan capital debt issues are shown in Note 28.

(ee) Shareholders' equity

Ordinary share capital is the amount of paid up capital from the issue of ordinary shares.

Preference Share Capital and Other Equity Instruments is the amount of paid up capital from the issue of preference shares and other equity instruments respectively.

General reserve is derived from revenue profits and is available for dividend except for undistributable profits in respect of the Group's life insurance businesses of \$3,750 million, including the appraisal value uplift (2004: \$2,964 million and 2003: \$2,905 million).

Capital reserve is derived from capital profits and is available for dividend.

Further details of share capital, outside equity interests and reserves are shown in Notes 29, 30 and Statements of Changes in Shareholders' Equity.

(ff) Derivative financial instruments

The Group enters into 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.

Derivative financial instruments held or issued for trading purposes

Traded derivative financial instruments are recorded at net fair value based on quoted market prices, broker or dealer price quotations. 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 net fair value are reflected in profit immediately as they occur.

Derivative financial instruments held or issued for purposes other than trading

The principal objective in holding or issuing derivative financial instruments for purposes other than trading is to manage balance sheet interest rate, exchange rate and credit risk associated with certain assets and liabilities such as loans, investment securities, deposits and debt issues. To be effective as hedges, the derivatives are identified and allocated against the underlying hedged item or class of items and generally modify the interest rate, exchange rate or credit characteristics of the hedged asset or liability. Such derivative financial instruments are purchased with the intent of being held to maturity. Derivatives that are designated and effective as hedges are accounted for on the same basis as the instruments they are hedging.

Swaps

Interest rate swap receipts and payments are accrued to profit as interest of the hedged item or class of items being hedged over the term for which the swap is effective as a hedge of that designated item. Premiums or discounts to market interest rates that are received or made in advance are deferred and amortised to profit over the term for which the swap is effective as a hedge of the underlying hedged item or class of items.

Similarly with cross currency swaps, interest rate receipts and payments are brought to account on the same basis outlined in the previous paragraph. In addition, the initial principal flows are reported net and revalued to market at the current market exchange rate. Revaluation gains and losses are taken to profit against revaluation losses and gains of the underlying hedged item or class of items.

Credit default swaps are utilised to manage credit risk in the asset portfolio. Premiums are accrued to profit and loss as interest of the hedged item or class of items being hedged over the term for which the instrument is effective as a hedge. Any principal cash flow on default is brought to account on the same basis as the designated item being hedged.

Equity swaps are utilised to manage the risk associated with both the capital investment in equities and the related yield. These swaps enable the income stream to be reflected in profit and loss when earned. Any capital

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

gain or loss at maturity of the swap is brought to account on the same basis as the underlying equity being hedged.

Forward rate agreements and futures

Realised gains and losses on forward rate agreements and futures contracts are deferred and included as part of the carrying value of the hedged item or class of items being hedged. The cash flow is amortised to profit as interest of the hedged item or class of items being hedged over the term for which the instrument is effective as a hedge.

Options

Where options are utilised in the management of balance sheet risk, premiums on options and any realised gains and losses on exercise are deferred and included as part of the carrying value of the hedged item or class of items being hedged. The cash flows are amortised to profit as interest of the hedged item or class of items being hedged over the term for which the instrument is effective as a hedge.

Early termination

Where a derivative instrument hedge is terminated prior to its 'maturity date', realised gains and losses are deferred and included as part of the carrying value of the hedged item or class of items being hedged.

The cash flows are amortised to profit as interest of the hedged item or class of items being hedged over the period for which the hedge would have been effective. Where the underlying hedged item or class of items being hedged ceases to exist, the derivative instrument hedge is terminated and realised and unamortised gains or losses taken to profit and loss.

Further information on derivative financial instruments is shown in Note 39.

(gg) Commitments to extend credit, letters of credit, guarantees, warranties and indemnities issued

These financial instruments generally relate to credit risk and attract fees in line with market prices for similar arrangements. They are not sold or traded. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. They are recorded as contingent liabilities at their face value. Further information is shown in Note 38.

(hh) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The principal sources of revenue are interest income and fees and commissions.

Interest income

Interest income is reflected in profit when earned on an accrual basis. Further information is included in Notes 1(k) Investment securities, 1(m) Loans, advances and other receivables and 1(n) Leasing and leveraged leasing.

Lending fees

Material non refundable front end loan fees that are yield related and do not represent cost recovery, are taken to profit over the period of the loan. Associated costs incurred in these lending transactions are deferred and netted against yield related loan fees. Where non refundable front end loan fees are received that represent cost recovery or charges for services not directly related to the yield on a loan, they are taken to income in the period in which they are received. Where fees are received on an ongoing basis and represent the recoupment of the costs of maintaining and administering existing loans, these fees are taken to income on an accrual basis.

Commission and other fees

When commission charges and fees relate to specific transactions or events, they are recognised as income in the period in which they are received. However, when they are charged for services provided over a period, they are taken to income on an accrual basis.

Other income

Trading income is brought to account when earned based on changes in net fair value of financial instruments and recorded from trade date. Further information is included in Notes 1(e) Foreign currency translations, 1(j) Trading securities and 1(ff) Derivative financial instruments. Life insurance business income recognition is explained in Note 1(ii) below.

(ii) Life Insurance Business

The Group's life insurance business is accounted for in accordance with the requirements of Accounting Standard AASB 1038: Life Insurance Business, which is summarised below:

- (i) All assets, liabilities, revenues, expenses and equity are included in the financial report irrespective of whether they are designated as relating to policyholders or to shareholders.
- (ii) All assets are measured at net market values.
- (iii) All liabilities are measured at net present values. Policy liabilities are calculated in accordance with the principles of Margin on Services (MoS) profit reporting as set out in Actuarial Standard AS 1.03: Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board. Other Liabilities are measured at net present value at reporting date.
- (iv) Any life insurers within the Group that are parent entities recognise and disclose any excess or deficiency of the net market values of interests in subsidiaries over the net assets of those subsidiaries as an item in the financial report of the life insurer economic entity.
- (v) 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.
- (vi) Returns on all investments controlled by a life insurer entity in the Group are recognised as revenues.
- (vii) Participating benefits vested in relation to the financial year, other than transfers from unvested policyholder benefits liabilities, are recognised as expenses.
- (viii) Reinsurance contracts entered into are recognised on a gross basis.

The Group conducts life insurance business through Commonwealth Insurance Holdings Limited (CIHL), Colonial Mutual Life Assurance Society Limited (CMLA) in Australia, Sovereign Assurance Company Limited in New Zealand, and several subsidiaries and joint ventures throughout Asia. CIHL is the top tier life insurance company within the life insurance corporate structure and values its interests at market in its controlled entities at each reporting date.

Accounting policies and disclosures specific to life insurance business are required under AASB 1038. These are provided in this note and Notes 16, 21 and 34.

Premiums and Claims

- (i) Investment linked business
Premiums received, which are in the nature of investment deposits, have the fee portion of the premium recognised as revenue and the deposit portion recognised as an increase in policy liabilities. Premiums with no due date are recognised on a cash received basis. Fees earned by the Shareholder for managing the funds invested are recognised as revenue. Claims under investment linked businesses represent withdrawals of investment deposits and are recognised as a reduction in policy liabilities.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

- (ii) Non-investment linked business
Premiums received for providing services and bearing risks are recognised as revenue. Premiums with a regular due date are recognised as revenue on an accruals basis. Non-investment linked claims are recognised as an expense when a liability has been established

Market Value Accounting

All assets are valued at net market value ("NMV") and all liabilities at net present value at balance date. Consistent with the principles of market value accounting, movements in the net market value of assets and net present value of liabilities during the period are immediately recognised in profit.

Life Insurance Investment Assets

Investments are measured at net market values at balance date. Listed securities are valued at the price ruling at balance date. Where no quoted market exists, the Directors adopt various methods determined by internal and external valuers. In these cases the values are deemed equivalent to net market value. Details of particular methods adopted are as follows:

- Valuation of the investment in the life insurance controlled entities is based on the appraisal value. The appraisal value comprises the present value of future profits from in force business, the estimated value of profits from future business and the shareholders interest in the net worth of the life insurance Statutory and Shareholder Funds.
- Non life insurance controlled entities are valued using a discounted cash flow method applied to anticipated future income streams, allowing for assumptions about future sales growth, redemptions, expenses, investment returns and fee margins. This method allows the values so calculated to be expressed in the form of appraisal values, consistent with those calculated for the life insurance controlled entities. Valuation of the investment in the non life insurance controlled entities is then based on these calculated appraisal values as at reporting date.
- Properties are valued annually by qualified independent valuers.

Excess of Net Market Value over Net Assets of Controlled Entities

Interests in controlled entities held by the life insurance companies are subject to revaluation each period, such that the investment in the controlled entity is recorded at market value.

On consolidation the investment in controlled entities is eliminated and the excess of market value of controlled entities over their underlying net assets is separately recognised in Other Assets (Note 21) on the balance sheet as 'Excess of Net Market Value over Net Tangible Assets of Life Insurance Controlled Entities'. This amount is assessed periodically as part of the valuation of investments with changes in value taken to profit. This excess does not require amortisation in the financial statements.

Life Insurance Policy Liabilities and Margin on Services Profit

Policy liabilities are calculated in accordance with the principles of Margin on Services ("MoS") profit reporting as set out in Actuarial Standard AS 1.03: Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board. 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 annuity payments are used to determine profit recognition.

Profit

Life insurance business operating under this profit recognition methodology can be analysed as follows:

- (i) Emergence of planned profit margins:
In setting premium rates, life insurers will include planned margins of revenues over expenses. When the life insurer has performed the services necessary to establish a valid claim to those margins and has received the revenues relating to those services, the planned margins are recognised in profit. Where actual experience replicates planned margin assumptions, the planned profit margin will be released over the life of the policy.
- (ii) Difference between actual and planned experience:
Experience profits/(losses) are realised where actual experience differs from the expected performance used to determine planned margins. Circumstances giving rise to experience profits/(losses) include experience variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in force business in a year are lower than those allowed for in the planned margin.
- (iii) Loss recognition on groups of related products or reversals of previously recognised losses:
Where future expenses for a group of related products exceeds future revenues, the anticipated loss is recognised immediately. If unprofitable business becomes profitable, previously recognised losses are reversed immediately.
- (iv) Investment earnings on assets in excess of policy liabilities: Investment assets are held in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of profit will vary from year to year.

Participating Policies

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 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.

Policy Acquisition Costs

Policy acquisition costs include the fixed and variable costs of acquiring new business. These costs are effectively deferred through the determination of policy liabilities at the balance date to the extent that they are deemed recoverable from premium or policy charges. Deferred acquisition costs are effectively amortised over the life of the policy.

(jj) Loan Securitisation

The Group conducts a loan securitisation program through which it packages and sells loans as securities to investors. For its services to the program, the Group receives fees such as loan servicing, program management and trustee fees on an arms length basis. Fee income is recognised in income on an accruals basis in relation to the period in which the costs of providing these services are incurred.

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

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.

Due to the significant uncertainties inherent in estimating the underlying loan repayment rates and interest margins, future cash flows cannot be reliably measured. Therefore, no asset/liability or gain/loss on sale of the loans has been recognised. The residual income is

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

recognised in Other Income when receivable. Interest rate swaps are recognised in income on an accruals basis.

(kk) 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. Further details are shown in Note 38.

The assets and liabilities of these Trusts and Funds are not included in the consolidated financial statements as the Bank does not have direct or indirect control of the Trusts and Funds as defined by AASB 1024. Commissions and fees earned in respect of the activities are included in the profit of the Group and the designated controlled entity.

(ll) Superannuation plans

The Group sponsors a range of superannuation plans for its employees. The assets and liabilities of these plans are not included in the consolidated financial statements.

The superannuation contributions expense principally represents the annual funding, determined after having regard to actuarial advice, to provide for future obligations of defined benefit plans. Contributions to all superannuation plans are made in accordance with the rules of the plans.

(mm) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in these financial statements.

(nn) Definitions

'Overseas' represents amounts booked in branches and controlled entities outside Australia.

'Borrowing Corporation' as defined by Section 9 of the Corporations Act 2001 is CBFC Limited, Colonial Finance Limited and their controlled entities.

'Net Fair Value' represents the fair or market value adjusted for transaction costs.

'Cash Basis' is defined as net profit after tax and outside equity interest before goodwill amortisation and funds management and life insurance appraisal value uplift/(reduction).

'Underlying Basis' is defined as net profit after tax ("cash basis") excluding Which new Bank initiatives, shareholder investment returns and the cost of the June 2002 Employee Share Acquisition Plan ("ESAP") paid in October 2002.

(oo) Policy changes (2004)

Software Capitalisation

The criteria for information technology software capitalisation was amended effective 1 July 2003, such that only computer software projects costing \$10 million or more are capitalised and capitalisation is limited to those investments that will deliver identifiable and sustainable customer value and an increase in returns, in a significant line of business.

This change resulted in the expensing of \$219 million of previously capitalised software at 1 July 2003.

(pp) Subsequent Events

Sale of Hong Kong Business

On 7 July 2005 the Bank entered into an agreement to sell its life insurance and financial planning business in Hong Kong for approximately \$600 million to Sun Life Financial. The business consisted of CMG Asia Limited, CommServe Financial Limited and Financial Solutions Limited, with a combined carrying value of \$527 million under current Australian GAAP. The carrying value will be different under AIFRS, principally due to differences in discount rates used in the actuarial valuation of policyholder liabilities and differences in treatment of

historic foreign exchange losses under AIFRS. The impact of conversion to AIFRS is included in Note 1 (qq).

The transaction, targeted for completion within three months, and together with the determination of the final profit is subject to conditions precedent.

(qq) International Financial Reporting Standards (IFRS)

Transition Management

On 1 July 2005 the Bank commenced application of the Australian equivalent of International Financial Reporting Standards ("AIFRS") to the maintenance of all financial records. This is in line with the conversion deadline set out by the Financial Reporting Council of Australia.

The Bank completed its review of the AIFRS and their impact during the planning stage of the project. Conversion issues were then identified and methodologies designed to resolve those issues.

Implementation of these changes was completed during the financial year ended 30 June 2005, including the maintenance of a shadow set of AIFRS-compliant financial records for that year.

Although all AIFRSs are applied by the Bank from 1 July 2005 some standards are not applicable to the comparative financial year (the financial year beginning 1 July 2004). As such, on release of AIFRS-compliant financial statements for the financial year beginning 1 July 2005, the financial results for the comparative financial year will only be restated to a limited extent. Descriptions of the key AIFRS issues are set out below and segregated between those issues which have an effective impact from 1 July 2004 and those which have an effective impact from 1 July 2005. Where the financial impact of conversion can be reasonably estimated, and where it is material, details are provided below, both within the narrative disclosures and in summary tabular form. It should be noted that the Bank cannot reliably estimate the prospective financial impact beyond 1 July 2005 of AIFRS issues, as the eventual impact of these issues depend upon uncertain future events and transactions.

All amounts set out below are audited estimates based upon prevailing world-wide accounting interpretations and existing financial instrument valuation methodologies. To the extent that those interpretations or valuation methodologies change, the amounts quoted below may be subject to alteration prior to the release of the Bank's AIFRS-compliant financial statements for the financial year ending 30 June 2006. All amounts are stated on an 'after-tax' basis.

Key Accounting Issues

Whilst the implementation of AIFRS has no impact on the Bank's cash flows, underlying economic strength, nor risk management practices, the following key areas of difference between current accounting practice and the treatment under AIFRS have been identified:

Issues with effective impact from 1 July 2004

(i) Employee Benefits – Defined Benefit Superannuation Plans

With the introduction of AIFRS, the surpluses and/or deficits that arise within individual defined benefit superannuation plans must be recognised in the statement of financial position. There is a choice of three options for the recognition of actuarial gains and losses related to defined benefit superannuation plans within Profit or Retained Earnings. The options available include direct recognition in Profit of all of the actuarial gain or loss, direct recognition in Retained Earnings of all of the actuarial gain or loss, or the 'corridor' approach which progressively recognises a certain portion of the gain or loss within Profit over the expected average remaining working lives of employees within the plan. Under each of these options, the net surpluses or deficits of the defined benefit superannuation plans must be recognised within

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

the Statement of Financial Position. The Bank has selected direct recognition in Retained Earnings as the method of accounting for the defined benefit superannuation plans from 1 July 2004.

The Bank currently sponsors two defined benefit plans. Actuarial valuations of these plans are carried out periodically, and a large surplus currently exists on a net basis. On transition to AIFRS, the comparative period beginning 1 July 2004 has recorded an opening Retained Earnings adjustment reflecting the value of this surplus. It should be noted that the value of the net surplus for financial reporting purposes does not reflect the actuarial valuation used when assessing funding requirements of the plans. The actuarial valuation is higher than the value used for financial reporting purposes principally due to the use of prescribed discount rates in the latter. This opening adjustment to Retained Earnings as at 1 July 2004 is a net increase of \$389 million. This is comprised of both an increase in Retained Earnings of \$443 million due to the recognition of the defined benefit plan currently in surplus, and a decrease in Retained Earnings of \$54 million due to the recognition of the defined benefit plan currently in deficit.

For the AIFRS comparative financial year ended 30 June 2005, the restatement of the statement of financial performance includes an additional, non-cash, expense item of \$52 million, reflecting the accrual accounting charge to profit and loss associated with accounting for defined benefit plans.

For the AIFRS comparative financial year ended 30 June 2005 there was an actuarial gain of \$102 million and other movements totalling \$8 million (principally foreign exchange movements) resulting in a total increase of \$110 million to net assets and Retained Earnings. The total movement of \$110 million comprised a \$108 million increase in respect of the defined benefit plan currently in surplus, and a \$2 million increase in respect of the defined benefit plan currently in deficit. The balance of the net accounting surplus remaining as at 1 July 2005 is \$447 million after tax, being a plan surplus of \$502 million less a plan deficit of \$55 million. The above adjustments are summarised in the table below;

	Group \$M
1 July 2004 net plan surplus	389
Accounting expense	(52)
Net actuarial gains and other movements - to Retained Earnings	110
30 June 2005 net plan surplus	447

(ii) Employee Benefits – Employee Share Schemes

The Bank currently accrues all share based compensation on a cost basis and amortises it to expense over the vesting period where there are performance hurdles to be met. Shares in the Bank are purchased by a Trust when the shares are granted and held until they vest to the employee.

Under AIFRS the fair value of the share based compensation is calculated at grant date and amortised to expense over the vesting period, subject to service and performance conditions being met. Transitional arrangements are in place under AIFRS such that only those shares granted after 7 November 2002 and vesting after 1 January 2005 are accounted for in this manner. Shares in the Bank held by the Trust have been consolidated, reclassified as 'Treasury Shares' and accounted for as a deduction from Share Capital.

The opening adjustment as at 1 July 2004 includes a decrease of \$126 million in Share Capital being the recognition of Treasury Shares at cost, an increase of \$47 million in Equity Compensation Reserve reflecting the cumulative expense amortisation related to the purchase of Treasury Shares, and an increase of \$141 million in Retained Earnings, comprising an adjustment to recognise the unamortised expense of \$79 million together with the

reversal of the accrued payable previously recorded under Australian GAAP of \$62 million.

For the AIFRS comparative financial year ended 30 June 2005, there is an additional expense of \$30 million being the difference in the amortisation expense for the year between Australian GAAP and AIFRS (which includes a one-off increase in expense of \$32 million due to the discontinuance of the mandatory component of the Equity Participation Plan and the resulting recognition of cash incentives on an accruals basis). Within Shareholders Equity there has been a decrease in Share Capital of \$6 million being the net movement in Treasury Shares for the year reflecting both purchases and vesting of shares, and a net decrease in Equity Compensation Reserve of \$24 million reflecting both the vesting of Treasury Shares in the half year period prior to 1 January 2005 transition date and the amortisation during the year.

The only share based compensation which remains after 1 July 2005 is in relation to the Long Term Incentive program.

The Bank does not expect that the application of AIFRS to share based compensation from 1 July 2005 will have a material impact on net profit relative to current Australian GAAP.

(iii) Consolidation of Special Purpose Vehicles

AIFRS requires the consolidation of certain special purpose vehicles that are not consolidated under the current accounting standards.

Vehicles related to the securitisation of Bank assets, and certain other customer asset securitisation vehicles, will be consolidated under AIFRS. This has resulted in a gross up of the assets and liabilities recorded within the statement of financial position of \$8,795 million as at 1 July 2004. A small number of special purpose vehicles in respect of structured transactions will also be consolidated, but this only results in reclassification between categories of assets within the statement of financial position.

During the comparative AIFRS financial year ended 30 June 2005 there was a net increase in the carrying value of the assets and liabilities held by the securitisation vehicles of \$3,435 million. This reflects the net impact of repayment and securitisation of new assets during the year. As these adjustments simply involve a grossing up of assets and liabilities on the Bank's balance sheet, with no material impact on shareholders' equity, they do not form part of the tabular presentation of summary financial impacts below.

There is no net profit impact arising from the consolidation of these vehicles.

(iv) Accounting for Life Insurance and Funds Management Business

Appraisal Value Accounting

On transition to AIFRS, the asset representing the excess of the net market value over net assets of the Bank's life insurance controlled entities can no longer be recognised in full. As a result, the Bank will on the adoption of AIFRS, cease to recognise any movement in this asset in the statement of financial performance. The write off of the internally generated component will principally be reflected against the General Reserve and the acquired component will be reclassified as Goodwill within the statement of financial position and subject to an annual impairment test. The opening adjustments as at 1 July 2004 was a decrease to General Reserve of \$2,836 million, being the reversal of internally generated appraisal value increases of \$3,123 million less a \$287 million transfer of historic writedowns of acquired goodwill to Retained Earnings. There is also a reversal of the asset representing the excess of the net market value over the net assets of the Bank's life insurance controlled entities of \$5,852 million and a net increase in goodwill of \$2,729 million. During the AIFRS comparative financial year ended 30 June 2005, a further uplift in the appraisal value of \$778 million was recognised under Australian GAAP. This

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

amount has been reversed in the AIFRS comparative statement of financial performance.

Treasury Shares

Under current Australian GAAP direct investments in Commonwealth Bank shares by the Bank's life insurance statutory funds are recognised in the statement of financial position at net market value. On transition to AIFRS these assets will be reclassified as 'Treasury Shares' and accounted for as a deduction from Share Capital. These adjustments only occur at the consolidated Group level, and do not affect the financial statements of the underlying life insurance entities. The opening adjustment as at 1 July 2004 was a decrease of \$300 million in Insurance Investment Assets; a decrease in Deferred Income Tax Liability of \$9 million; a decrease of \$245 million in Share Capital, being the cost of the investments; and a decrease of \$46 million in Retained Earnings, being the reversal of the cumulative opening market value appreciation. During the AIFRS comparative financial year ended 30 June 2005, all realised and unrealised gains and dividend income on these shares of \$39 million was recognised under current Australian GAAP. This amount has been reversed in the AIFRS comparative statement of financial performance, although an amount of \$19 million representing realised gains and dividend income earned during the year has been transferred directly to Retained Earnings. As at 1 July 2005 a net decrease in Share Capital of \$8 million has been recorded under AIFRS, being the net movement in the cost of Treasury Shares held during the AIFRS comparative financial year ended 30 June 2005. As the calculation of life insurance policyholder liabilities continues to include the fair values of policyholders' interest in these Treasury Shares, the removal of movements in Treasury Share assets attributable to policyholders result in a mismatch within the consolidated financial statements.

Income and Expense Recognition

Initial entry fee income on investment style products issued by entities other than life insurers is currently immediately recognised as income in the statement of financial performance. The application of AIFRS to such investment contracts is currently being considered internationally with one possible interpretation requiring the deferral of all upfront fees over the life of the underlying investment contract. The Bank's approach under AIFRS is to recognise upfront fees immediately as income where the Bank has provided financial advice. However, assuming the entire amount of this fee income was deferred, the adjustment to opening Retained Earnings as at 1 July 2004 would be a decrease of \$69 million, and statutory profit for the year ended 30 June 2005 would be decreased by \$9 million. Given the uncertainty around the eventual accounting interpretation this adjustment has been omitted from the tables below.

(v) Accounting for Goodwill

On transition to AIFRS Goodwill is no longer amortised but continues to be subject to an annual assessment for impairment to ensure that the carrying value of Goodwill is not greater than the recoverable amount. As a result, the statement of financial performance will no longer include an expense item reflecting the annual Goodwill amortisation. No impairment adjustment to opening Retained Earnings arises as at 1 July 2004 in respect of this issue. During the AIFRS comparative financial year ended 30 June 2005, goodwill amortisation of \$325 million was recognised under Australian GAAP. This amount has been reversed in the AIFRS comparative statement of financial performance, net of amortisation totalling \$4 million in respect of separately identifiable intangible assets.

(vi) Foreign Currency Translation Reserve

On transition to AIFRS, an option exists to deem any amounts recorded within Foreign Currency Translation

Reserve ('FCTR') as zero. The Bank has adopted this transition option, resulting in a reduction of Retained Earnings of \$205 million from FCTR as at 1 July 2004.

(vii) Taxation

A "balance sheet" approach to tax-effect accounting is followed under AIFRS replacing the current "statement of financial performance" approach. This approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. As at 1 July 2004 this change in approach did not result in any material adjustment to Shareholders' Equity.

Issues with effective impact from 1 July 2005

(viii) Derivative Financial Instruments including Hedge Accounting and Embedded Derivatives

Under AIFRS all derivative financial instruments, including embedded derivatives and those used for balance sheet hedging purposes, are to be recognised on-balance sheet and measured at fair value. These amounts in particular, are audited estimates based upon prevailing world-wide accounting interpretations and existing financial instrument valuation methodologies. To the extent that those interpretations or valuation methodologies change, the amounts quoted below may be subject to alteration prior to the release of the Bank's AIFRS-compliant financial statements for the financial year ending 30 June 2006.

Hedge accounting can be applied, subject to certain rules, for fair value hedges, cash flow hedges, and hedges of investments in foreign operations. Cash flow hedges are the predominant form of hedging applied by the Bank. Embedded derivatives relate to certain structured transactions and potential changes in the future ownership structures of certain entities within the Bank.

It is expected that these new rules on accounting for hedge instruments and embedded derivatives will introduce significant volatility within equity reserves, and the potential for some volatility within the statement of financial performance.

As at 1 July 2005, the Bank recognised the following two amounts within Shareholders' Equity in relation to the hedge accounting and embedded derivatives, being:

- an adjustment to Retained Earnings of \$313 million to reflect both the initial recognition of embedded derivatives and non-hedged derivatives at fair value, and also the cumulative cash flow and fair value hedge ineffectiveness inherent within the entire 1 July 2005 hedge accounting portfolio; and
- the recognition of a Cash Flow Hedge Reserve of \$40 million representing the cumulative hedge effectiveness of all 1 July 2005 cash flow hedge relationships.

(ix) Provisions for Loan Impairment

In line with market practice, the Bank's current general provisioning for impairment covers non-identifiable probable losses and latent risks inherent in the overall portfolio of loans, advances and other credit transactions. Under AIFRS the Bank will at each reporting date first assess whether any objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The Bank uses judgement to estimate the amount of any impairment loss.

As a result of this change, there may be a reduction in the amount of the Bank's general/collective provisioning for impairment. Due to current uncertainty around AIFRS accounting interpretations and the development of Australian industry practice in this area, a loan impairment provision in accordance with AIFRS cannot be reliably estimated.

The practice of recording specific provisions for loan impairment will continue under AIFRS, however, such provisions – termed provisions for individually significant

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

impaired loans - must be based on the discounted values of estimated future cash flows. The discount unwinds during the period between the initial recognition of the provision and the eventual recovery of the written down amount, resulting in the recording of interest in the statement of financial performance, within interest income. At 1 July 2005 there was no material change in the specific/individually significant impaired loan provision.

(x) Classification of Hybrid Financial Instruments

The Bank currently has on issue three types of hybrid financial instruments: Preferred Exchangeable Resettable Listed Shares ("PERLS"); Perpetual Exchangeable Resettable Listed Securities ("PERLS II") and Trust Preferred Securities ("TPS"). These instruments are currently classified as equity instruments.

Under AIFRS these instruments were reclassified as debt within the statement of financial position on 1 July 2005. Those instruments denominated in a foreign currency were re-translated at exchange rates prevailing on 30 June 2005, rather than the exchange rate prevailing at the date of issue. This resulted in a decrease to Shareholders' Equity of \$2,159 million. This adjustment is comprised of a decrease in Preference Share Capital and Other Equity Instruments of \$2,260 million; an increase in Retained Earnings of \$22 million; and an increase in the Foreign Currency Translation Reserve of \$79 million.

From 1 July 2005 onwards, distributions to the holders of these hybrid financial instruments will be treated as interest expense in the statement of financial performance.

(xi) Revenue and Expense Recognition

Under AIFRS, the Bank has changed the timing of the recognition of certain revenue and expense items. Any fee income integral to the yield of an originated financial instrument, net of any direct incremental costs, must be capitalised and deferred over the expected life of the instrument. This is not expected to have a material impact on net profit within the statement of financial performance, however, some re-classifications of revenue between fee income and interest income will occur.

As at 1 July 2005, a decrease in Retained Earnings of \$61 million has been recognised, reflecting the deferral of previously recognised revenue and expense items. This adjustment comprises a net deferral of expense in relation to the retail banking portfolios and a, larger, net deferral of income in relation to the corporate banking portfolios.

(xii) Accounting for Life Insurance Business

Measurement differences

Under AIFRS, measurement differences arise within the insurance products and investment-style products of the life insurance and funds management businesses. Specifically, the actuarial calculation of policyholder liabilities is affected by a change in the discount rates applied for some contracts, and certain acquisition costs related to investment-style products which were deferred under current Australian GAAP can no longer be deferred under AIFRS. On transition to AIFRS, this will have the effect of increasing the amount of Insurance Policyholder Liabilities and decreasing Retained Earnings by a total of \$248 million.

Income and Expense Recognition

A similar issue in respect of initial entry fee income on investment style products as described in section (iv) above for entities other than life insurers, will apply to life insurance entities from 1 July 2005. The Bank's approach under AIFRS is to recognise upfront fees immediately where the Bank has provided financial advice. Where initial entry fee income has been deferred under AIFRS, this has resulted in a decrease to Retained Earnings of \$75 million on 1 July 2005. However, assuming the entire amount of this fee income was deferred, as at 1 July 2005, this would result in a further reduction to Retained Earnings of \$17 million. Given the uncertainty around the eventual accounting interpretation this adjustment has been omitted from the tables below.

Outside Equity interests

On transition to AIFRS, the outside equity interests in controlled unit trusts of the life companies no longer qualify as equity. As a result, the Bank has, on adoption of AIFRS, reclassified outside equity interests in life insurance statutory funds and other funds to liabilities. As at 1 July 2005, this will result in a reduction to Total Shareholders' Equity of \$1,158 million.

(xiii) Financial Instruments Classification for Banking Business

Certain of the Bank's financial assets currently carried at amortised cost will be reclassified as Available-for-sale investments (measured at fair value with unrealised gains and losses carried in a reserve) and financial assets held at fair value with changes in value recognised in profit and loss.

On transition to AIFRS, the reclassification of financial instruments, principally being investment securities, as Available-for-sale investments resulted in an increase in Total Assets and an Available-for-sale Asset Revaluation Reserve of \$68 million. Additionally, those financial instruments designated as fair value through profit and loss resulted in a decrease in Total Assets and Retained Earnings of \$3 million.

Regulatory Capital Treatment

Several of the above accounting issues affect the assets and equity items currently included in the calculation of the Bank's regulatory capital and some of the regulated subsidiaries. Currently, accounting definitions for asset and equity measurement are central to the capital adequacy requirements set by prudential regulators. The Australian Prudential Regulation Authority ("APRA") has released a discussion paper setting out some of its proposed prudential responses to the adoption of AIFRS by APRA regulated institutions.

However, there are a number of specific AIFRS related changes where it is unclear whether the Bank's current capital measurement methodologies will be maintained. APRA is consulting with regulated entities, including the Bank, prior to their finalisation of any amendments to the prudential regulations.

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

Summary of Financial Impacts

A summary of the material after-tax financial impacts of conversion to AIFRS is set out in the following three tables:

Table 1 represents the reconciliation of Australian GAAP Shareholders' Equity to AIFRS Shareholders' Equity as at 1 July 2004, for those standards with an effective date of 1 July 2004.

Table 2 sets out the expected adjustments to the result for the year ended 30 June 2005, for those standards with an effective impact from 1 July 2004.

Table 3 sets out the additional adjustments to Shareholders Equity as at 1 July 2005 for those standards with an effective date of 1 July 2005, which deal with Financial Instruments and Insurance.

References are provided within the tables to the detailed narrative disclosures in the section above.

Table 1: Shareholders' Equity Reconciliation as at 1 July 2004

Shareholders' Equity Reconciliation	Reference	Consolidated Group TOTAL SHAREHOLDERS' EQUITY \$M
Australian GAAP Total as at 1 July 2004		24,885
AIFRS 1 July 2004 After Tax Adjustments to Shareholders' Equity		
Retained Earnings Impacts:		
Initial recognition of defined benefit superannuation plan in surplus	(i)	443
Initial recognition of defined benefit superannuation plan in deficit	(i)	(54)
Net adjustment in respect of share based payment compensation	(ii)	141
Reversal of market value appreciation on treasury shares held within the Bank's life insurance statutory funds	(iv)	(46)
Transfer of historic write-downs of acquired goodwill within the appraisal value of the life insurance and funds management businesses	(iv)	(287)
Transfer from Foreign Currency Translation Reserve	(vi)	(205)
Change in the revenue recognition pattern for 'net of tax' leveraged leases		17
Share Capital Impacts:		
Initial recognition of treasury shares held within employee share scheme trust	(ii)	(126)
Initial recognition of treasury shares held within the Bank's life insurance statutory funds	(iv)	(245)
General Reserve:		
Net write down of internally generated appraisal value of the life insurance and funds management businesses	(iv)	(2,836)
Other Reserves:		
Transfer from the Foreign Currency Translation Reserve to Retained Earnings	(vi)	205
Increase in Asset Revaluation Reserve following change in valuation methodology for owner-occupied property		32
Initial recognition of Equity Compensation Reserve	(ii)	47
AIFRS restated Shareholders' Equity as at 1 July 2004		21,971

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

Table 2: Restatement of After Tax Profit & Loss for year ended 30 June 2005

	Reference	Group \$M	Group \$M	Bank \$M	Bank \$M
Australian GAAP Statutory Profit After Tax for year ended 30 June 2005			3,991		2,921
Recognition of non-cash pension expense related to defined benefit superannuation plans	(i)	(52)		(52)	
Recognition of amortisation expense related to treasury shares held within the employee share scheme trust	(ii)	(30)		(31)	
Reversal of realised and unrealised gains and dividend income accrued on treasury shares held within the Bank's life insurance statutory funds	(iv)	(39)		-	
Reversal of goodwill expense net of separately identifiable intangible asset amortisation	(v)	321		186	
Change in the revenue recognition pattern for 'net of tax' leveraged leases		(9)		(9)	
Total AIFRS after tax adjustment to distributable earnings for the year ended 30 June 2005		191		94	
Reversal of internally generated appraisal value uplift in the life insurance and funds management businesses	(iv)	(778)		-	
Total AIFRS after tax adjustment to Statutory Profit for the year ended 30 June 2005			(587)		94
Restated AIFRS after tax Statutory Profit for the year ended 30 June 2005			3,404		3,015

Notes to the financial statements

NOTE 1 Summary of Significant Accounting Policies continued

Table 3: Shareholders' Equity Reconciliation as at 1 July 2005

Shareholders' Equity Reconciliation	Reference	Consolidated Group TOTAL SHAREHOLDERS' EQUITY \$M
AIFRS restated Shareholders' Equity as at 1 July 2004		21,971
Australian GAAP after tax Statutory Profit for the year ended 30 June 2005		3,991
Total AIFRS after tax adjustment to Statutory Profit for the year ended 30 June 2005 per Table 2		(587)
Other current Australian GAAP Reserve Movements for the year ended 30 June 2005		(2,816) ⁽¹⁾
<u>IFRS 1 July 2005 After Tax Adjustments to Shareholders' Equity</u>		
Retained Earnings Impacts:		
Actuarial and other movements within the defined benefit superannuation plan in surplus	(i)	108
Actuarial and other movements within the defined benefit superannuation plan in deficit	(i)	2
Net movement in the calculation of life insurance policyholder liabilities due to actuarial methodology changes and the write off of deferred acquisition cost asset on products reclassified from insurance contracts to investment contracts	(xii)	(248)
Adjustment in respect of realised gains and dividend income on treasury shares held within the Bank's life insurance statutory funds	(iv)	19
Deferral of initial entry fee income earned by life insurance entities	(xii)	(75)
Adjustment to fair value calculation for assets held by life insurance business		(14)
Adjustment in respect of derivative financial instruments on initial application of hedge accounting and recognition of embedded derivatives	(viii)	(313)
Deferral of previously recognised net income and expenses within banking business	(xi)	(61)
Foreign exchange adjustment on the reclassification of hybrid financial instruments from equity to liabilities	(x)	22
Adjustment to fair value calculation for trading assets within the banking portfolios and for other financial instruments designated as fair value through profit and loss	(xiii)	(3)
Share Capital Impacts:		
Net movement in treasury shares held within employee share scheme trust	(ii)	(6)
Net movement in treasury shares held within the Bank's life insurance statutory funds	(iv)	(8)
Other Reserves and Capital Movements:		
Asset Revaluation Reserve adjustment for change in valuation methodology for owner-occupied property		(4)
Reclassification of outside equity interest in the life insurance statutory funds and other funds as liabilities	(xii)	(1,158)
Initial recognition of Cash Flow Hedge Reserve on initial application of hedge accounting	(viii)	40
Reclassification of hybrid financial instruments from equity to liabilities	(x)	(2,260)
Foreign currency translation reserve adjustment due to reclassification of hybrid financial instruments from equity to liabilities at exchange rates at 30 June 2005	(x)	79
Reclassification and revaluation of Australian GAAP investment securities at cost to available-for-sale financial assets at fair value	(xiii)	68
Net movement in Equity Compensation Reserve	(ii)	(24)
AIFRS Restated Shareholders' Equity as at 1 July 2005		18,723

⁽¹⁾ Represents movements in Shareholders' Equity other than profit for the year:

	\$M
Change in Ordinary Shareholders' Equity	512
Change in Reserves	678
Change in Outside Equity Interests:	
Controlled entities	327
Insurance statutory funds	(1,018)
Change in Retained Earnings	676
Less: Net profit after tax ("statutory basis")	(3,991)
Net adjustment	(2,816)

Notes to the financial statements

NOTE 2 Operating Profit

Profit from ordinary activities before income tax has been determined as follows:

	GROUP			BANK	
	2005	2004	2003	2005	2004
	\$M	\$M	\$M	\$M	\$M
Interest Income					
Loans	14,244	11,675	10,126	11,428	9,504
Other financial institutions	229	182	191	136	90
Cash and liquid assets	198	198	150	221	214
Trading securities	785	600	454	647	486
Investment securities	723	607	566	242	229
Dividends on redeemable preference shares	15	25	41	3	3
Controlled entities	-	-	-	727	527
Total Interest Income	16,194	13,287	11,528	13,404	11,053
Interest Expense					
Deposits	7,063	5,949	4,732	5,543	4,833
Other financial institutions	257	160	198	255	159
Debt issues	2,557	1,505	1,352	1,944	1,081
Controlled entities	-	-	-	496	282
Loan capital	351	263	220	363	294
Total Interest Expense	10,228	7,877	6,502	8,601	6,649
Net Interest Income	5,966	5,410	5,026	4,803	4,404
Other Operating Income					
Lending fees	753	724	652	730	702
Commission and other fees	1,595	1,503	1,394	1,310	1,256
Trading income					
Foreign exchange earnings	167	228	200	137	203
Trading securities	193	165	190	164	128
Other financial instruments (incl derivatives)	80	106	112	80	106
Dividends - controlled entities	-	-	-	988	794
- other	3	6	4	-	4
Net (loss) gain on investments and loans	(13)	80	(9)	(39)	(416)
Net profit (loss) on sale of property, plant and equipment	4	(11)	22	4	(10)
Funds management income	1,398	1,333	1,066	-	-
Insurance income	1,075	902	680	-	-
Other ⁽¹⁾	133	45	62	649	545
Total Other Operating Income	5,388	5,081	4,373	4,023	3,312
Total Net Operating Income before appraisal value uplift/(reduction)	11,354	10,491	9,399	8,826	7,716
Charge for Bad and Doubtful Debts (Note 13)					
General provisions	322	276	305	292	263
Total Charge for Bad and Doubtful Debts	322	276	305	292	263

⁽¹⁾ Includes an equity accounted loss of \$32 million for the year ended 30 June 2004. Principally relates to a change in revenue recognition accounting policy by the associate entity.

Notes to the financial statements

Note 2 Operating Profit continued

	2005	2004	GROUP 2003	2005	BANK 2004
	\$M	\$M	\$M	\$M	\$M
Staff Expenses					
Salaries and wages	2,274	2,152	2,106	1,758	1,683
Superannuation contributions	7	8	13	(18)	(14)
Provisions for employee entitlements	67	41	11	59	34
Payroll tax	115	115	107	101	101
Fringe benefits tax	32	32	26	28	28
Other staff expenses	104	100	120	29	46
Comparable business	2,599	2,448	2,383	1,957	1,878
Initiatives including Which new Bank	50	273	155	50	267
Total Staff Expenses (excluding share based compensation)	2,649	2,721	2,538	2,007	2,145
Share Based Compensation					
Comparable business	44 ⁽¹⁾	105	94	44	104
Initiatives including Which new Bank	-	-	25	-	-
Total Share Based Compensation	44	105	119	44	104
Occupancy and Equipment Expenses					
Operating lease rentals	331	340	354	266	280
Depreciation					
Buildings	21	21	24	20	18
Leasehold improvements	58	55	51	46	45
Equipment	63	50	53	29	22
Operating lease fixed assets	8	-	-	-	-
Repairs and maintenance	71	68	58	64	61
Other	61	47	69	40	28
Comparable business	613	581	609	465	454
Initiatives including Which new Bank	13	20	3	13	20
Total Occupancy and Equipment Expenses	626	601	612	478	474
Information Technology Services					
Projects and development	322	281	194	298	247
Data processing	248	238	255	221	214
Desktop	150	159	178	148	157
Communications	204	205	171	174	178
Software amortisation	26	11	78	18	2
Information technology equipment-depreciation	6	1	1	6	1
Comparable business	956	895	877	865	799
Initiatives including Which new Bank	52	292	30	52	274
Total Information Technology Services	1,008	1,187	907	917	1,073
Other Expenses					
Postage	112	112	109	98	98
Stationery	108	114	118	79	88
Fees and commissions	628	598	551	402	369
Advertising, marketing and loyalty	288	311	259	234	260
Other	349	336	312	213	176
Comparable business	1,485	1,471	1,349	1,026	991
Initiatives including Which new Bank	35	164	26	35	164
Total Other Expenses	1,520	1,635	1,375	1,061	1,155
Comparable business	5,697	5,500	5,312	4,357	4,226
Initiatives including Which New Bank	150	749	239	150	725
Total Operating Expenses before goodwill amortisation	5,847	6,249	5,551	4,507	4,951
Appraisal value uplift/(reduction)	778	201	(245)	-	-
Goodwill amortisation	(325)	(324)	(322)	(186)	(186)
Profit from ordinary activities before income tax	5,638	3,843	2,976	3,841	2,316

⁽²⁾ Reduction in share based compensation reflects the cessation of the mandatory component of the equity participation plan in February 2005, which is now paid in cash and included within salaries and wages (refer to Note 29).

Notes to the financial statements

NOTE 3 Revenue from Ordinary Activities

	GROUP			BANK	
	2005	2004	2003	2005	2004
	\$M	\$M	\$M	\$M	\$M
Banking					
Interest income	16,194	13,287	11,528	13,404	11,053
Fees and commissions	2,348	2,227	2,046	2,040	1,958
Trading income	440	499	502	380	437
Dividends	3	6	4	988	798
Proceeds from sale of property, plant and equipment	30	69	72	26	9
Proceeds from sale of investments and loans	565	874	56	448	1,398
Other income	133	45	53	580	535
	19,713	17,007	14,261	17,866	16,188
Funds Management and Insurance					
Funds management income including premiums	1,261	1,175	1,149	-	-
Insurance premium and related income	1,132	1,012	1,131	-	-
Investment income	3,194	2,807	628	-	-
	5,587	4,994	2,908	-	-
Appraisal value uplift ⁽¹⁾					
	778	201	-	-	-
Total revenue from ordinary activities	26,078	22,202	17,169	17,866	16,188

There were no sources of revenue from non-operating activities.

⁽¹⁾ Appraisal value reduction of \$245 million for year ended 30 June 2003.

Notes to the financial statements

NOTE 4 Average Balances and Related Interest

The 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 rates for each of the years ending 30 June 2003, 30 June 2004 and 30 June 2005. Averages used are predominantly daily averages.

The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities. Overseas intragroup borrowings have been adjusted in the interest spread and margin calculations to more appropriately reflect the overseas cost of funds. Non-accrual loans are included in Interest Earning Assets under loans, advances and other receivables.

Full Year Ended	2005			2004			2003		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
Average Interest Earning Asset and Income									
Cash and liquid assets									
Australia	3,716	178	4.8	4,027	181	4.5	3,293	133	4.0
Overseas	1,077	20	1.9	868	17	2.0	813	17	2.1
Receivables due from other financial institutions									
Australia	2,228	61	2.7	3,382	32	0.9	2,446	37	1.5
Overseas	3,748	168	4.5	3,776	150	4.0	3,734	154	4.1
Deposits with regulatory authorities									
Australia	-	-	-	-	-	-	-	-	-
Overseas	43	-	-	62	-	-	56	-	-
Trading securities									
Australia	11,532	603	5.2	9,682	444	4.6	7,360	326	4.4
Overseas	3,850	182	4.7	3,445	156	4.5	3,395	128	3.8
Investment securities									
Australia	3,802	296	7.8	4,411	298	6.8	4,240	261	6.2
Overseas	8,538	427	5.0	8,440	310	3.7	8,062	305	3.8
Loans, advances and other receivables									
Australia	171,231	11,832	6.9	149,487	9,927	6.6	131,746	8,538	6.5
Overseas	34,183	2,427	7.1	26,607	1,772	6.7	23,125	1,629	7.0
Other interest earning assets	-	-	-	-	-	-	-	-	-
Intragroup loans									
Australia	-	-	-	-	-	-	-	-	-
Overseas	5,793	92	1.6	4,102	17	0.4	3,604	31	0.9
Average interest earning assets and interest income including intragroup	249,741	16,286	6.5	218,289	13,304	6.1	191,874	11,559	6.0
Intragroup eliminations	(5,793)	(92)	1.6	(4,102)	(17)	0.4	(3,604)	(31)	0.9
Total average interest earning assets and interest income	243,948	16,194	6.6	214,187	13,287	6.2	188,270	11,528	6.1

Notes to the financial statements

NOTE 4 Average Balances and Related Interest continued

Full Year Ended	2005	2004	2003
	Average Balance	Average Balance	Average Balance
Average Non-interest Earning Assets	\$M	\$M	\$M
Bank acceptances			
Australia	16,263	13,877	13,144
Overseas	-	1	53
Life insurance investment assets			
Australia	23,263	24,430	26,333
Overseas	4,542	4,120	4,070
Property, plant and equipment			
Australia	1,108	792	627
Overseas	144	161	197
Other assets			
Australia	26,150	29,452	24,046
Overseas	3,303	2,264	3,303
Provisions for impairment			
Australia	(1,430)	(1,411)	(1,497)
Overseas	(142)	(150)	(150)
Total average non-interest earning assets	73,201	73,536	70,126
Total Average Assets	317,149	287,723	258,396
Percentage of total average assets applicable to overseas operations	20.5%	18.7%	19.5%

Notes to the financial statements

NOTE 4 Average Balances and Related Interest continued

Average Liabilities and Interest Expense

Full Year Ended	2005			2004			2003		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%

Average Interest Bearing Liabilities and Loan Capital and Interest Expense

Average Liabilities and Interest Expense

Time deposits									
Australia	61,821	3,183	5.1	57,186	2,683	4.7	45,674	1,956	4.3
Overseas	17,716	1,356	7.7	15,963	1,062	6.7	14,255	876	6.1
Savings deposits									
Australia	31,304	586	1.9	31,178	514	1.6	32,780	492	1.5
Overseas	2,927	119	4.1	3,028	105	3.5	2,788	100	3.6
Other demand deposits									
Australia	41,235	1,653	4.0	39,044	1,499	3.8	34,043	1,230	3.6
Overseas	4,859	166	3.4	3,432	86	2.5	2,906	78	2.7
Payables due to other financial institutions									
Australia	1,707	50	2.9	1,916	35	1.8	1,752	34	1.9
Overseas	6,292	207	3.3	5,042	125	2.5	6,712	164	2.4
Debt issues									
Australia	34,853	2,095	6.0	21,885	1,292	5.9	17,651	1,047	5.9
Overseas	16,540	462	2.8	12,855	213	1.7	10,738	305	2.8
Loan capital									
Australia	5,566	321	5.8	5,793	255	4.4	5,234	212	4.1
Overseas	772	30	3.9	210	8	3.8	204	8	3.9
Other interest bearing liabilities	-	-	-	-	-	-	-	-	-
Intragroup borrowings									
Australia	5,793	92	1.6	4,102	17	0.4	3,604	31	0.9
Overseas	-	-	-	-	-	-	-	-	-
Average interest bearing liabilities and loan capital and interest expense including intragroup	231,385	10,320	4.5	201,634	7,894	3.9	178,341	6,533	3.7
Intragroup eliminations	(5,793)	(92)	1.6	(4,102)	(17)	0.4	(3,604)	(31)	0.9
Total average interest bearing liabilities and loan capital and interest expense	225,592	10,228	4.5	197,532	7,877	4.0	174,737	6,502	3.7

Non-Interest Bearing Liabilities

Deposits not bearing interest									
Australia	5,512			5,112			4,784		
Overseas	1,121			1,059			871		
Liability on bank acceptances									
Australia	16,263			13,877			13,146		
Overseas	-			1			53		
Life insurance policy liabilities									
Australia	20,732			20,658			20,828		
Overseas	3,900			3,548			3,596		
Other liabilities									
Australia	14,630			20,655			16,034		
Overseas	3,927			3,131			2,739		
Total average non-interest bearing liabilities	66,085			68,041			62,051		
Total average liabilities and loan capital	291,677			265,573			236,788		
Shareholders' equity	25,472			22,150			21,608		
Total average liabilities, loan capital and shareholders' equity	317,149			287,723			258,396		
Percentage of total average liabilities applicable to overseas operations	19.9%			18.2%			18.9%		

Notes to the financial statements

NOTE 4 Average Balances and Related Interest continued

Changes in Net Interest Income: Volume and Rate Analysis	30/06/05 vs 30/06/04 Changes due to			30/06/04 vs 30/06/03 Changes due to		
	Volume \$M	Rate \$M	Total \$M	Volume \$M	Rate \$M	Total \$M
Interest Earning Assets						
Cash and liquid assets						
Australia	(14)	11	(3)	31	17	48
Overseas	4	(1)	3	1	(1)	-
Receivables due from other financial institutions						
Australia	(21)	50	29	12	(17)	(5)
Overseas	(1)	19	18	2	(6)	(4)
Trading securities						
Australia	91	68	159	105	13	118
Overseas	19	7	26	2	26	28
Investment securities						
Australia	(44)	42	(2)	11	26	37
Overseas	4	113	117	14	(9)	5
Loans, advances and other receivables						
Australia	1,473	432	1,905	1,164	225	1,389
Overseas	521	134	655	239	(96)	143
Other interest earning assets						
Intragroup loans						
Australia	-	-	-	-	-	-
Overseas	17	58	75	3	(17)	(14)
Change in interest income including intragroup						
Intragroup eliminations						
Change in interest income	1,911	996	2,907	1,597	162	1,759
Interest Bearing Liabilities and Loan Capital						
Time deposits						
Australia	228	272	500	517	210	727
Overseas	125	169	294	109	77	186
Savings deposits						
Australia	2	70	72	(25)	47	22
Overseas	(4)	18	14	8	(3)	5
Other demand deposits						
Australia	86	68	154	186	83	269
Overseas	42	38	80	14	(6)	8
Payables due to other financial institutions						
Australia	(5)	20	15	3	(2)	1
Overseas	36	46	82	(41)	2	(39)
Debt issues						
Australia	773	30	803	251	(6)	245
Overseas	82	167	249	48	(140)	(92)
Loan capital						
Australia	(12)	78	66	24	19	43
Overseas	22	-	22	-	-	-
Other interest bearing liabilities						
Intragroup borrowings						
Australia	17	58	75	3	(17)	(14)
Overseas	-	-	-	-	-	-
Change in interest expense including intragroup						
Intragroup eliminations						
Change in interest expense	1,196	1,155	2,351	879	496	1,375
Change in net interest income	740	(184)	556	673	(289)	384

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 period 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).

	2005 \$M	2004 \$M	GROUP 2003 \$M
Net interest income	5,966	5,410	5,026
Average interest earning assets	243,948	214,187	188,270

Interest Margins and Spreads

Interest spread represents the difference between the average interest rate earned and the average interest rate paid on funds.

Interest margin represents net interest income as a percentage of average interest earning assets. The calculations for Australia and Overseas include intragroup cross border loans/borrowings and associated interest.

	2005 %	2004 %	2003 %
Australia			
Interest Spread ⁽¹⁾	2.36	2.46	2.68
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.23	0.22	0.20
Australia Interest Margin ⁽³⁾	2.59	2.68	2.88
Overseas			
Interest Spread ⁽¹⁾	1.03	1.18	1.22
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.68	0.56	0.49
Overseas Interest Margin ⁽³⁾	1.71	1.74	1.71
Group			
Interest Spread ⁽¹⁾	2.11	2.22	2.40
Benefit of net free liabilities, provisions and equity ⁽²⁾	0.34	0.31	0.27
Group Interest Margin ⁽³⁾	2.45	2.53	2.67

⁽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

Income tax expense shown in the financial statements differs from the prima facie tax charge calculated at current taxation rates on operating profit.

	GROUP			BANK		
	2005	2004	2003	2005	2004	
	\$M	\$M	\$M	\$M	\$M	
Operating profit from ordinary activities before income tax						
Banking	4,103	3,091	3,165	4,028	2,502	
Funds Management	560	504	217	-	-	
Insurance	522	371	161	-	-	
Appraisal value uplift/(reduction)	778	201	(245)	-	-	
Goodwill amortisation	(325)	(324)	(322)	(186)	(186)	
	5,638	3,843	2,976	3,842	2,316	
Prima facie income tax at 30%						
Banking	1,231	927	950	1,208	751	
Funds Management	168	151	65	-	-	
Insurance	157	111	48	-	-	
Appraisal value uplift/(reduction)	233	60	(73)	-	-	
Goodwill amortisation	(98)	(97)	(97)	(56)	(56)	
	1,691	1,152	893	1,152	695	
Add (or deduct) permanent differences expressed on a tax effect basis:						
Current Period						
Specific provisions for offshore bad and doubtful debts not tax effected	4	3	13	-	(2)	
Taxation offsets (net of accruals)	(48)	(47)	(36)	(309)	(224)	
Tax adjustment referable to policy holder income	160	142	(41)	-	-	
Non assessable income - life insurance surplus	(30)	(30)	(18)	-	-	
Change in excess of net market value over net assets of life insurance controlled entities	(233)	(60)	73	-	-	
Non deductible goodwill amortisation	98	97	97	56	56	
Non deductible intergroup losses	-	-	-	-	136	
Tax losses recognised	(9)	-	(18)	(2)	1	
Other	4	17	(5)	23	5	
	(54)	122	65	(232)	(28)	
Prior Periods						
Other	-	(12)	-	-	2	
Total income tax expense	1,637	1,262	958	920	669	
Income tax attributable to operating profit						
Banking	1,220	914	931	920	669	
Funds management	100	79	57	-	-	
Insurance	89	66	28	-	-	
Corporate tax	1,409	1,059	1,016	920	669	
Policyholder tax	228	203	(58)	-	-	
Total Income Tax expense	1,637	1,262	958	920	669	
Income tax expense comprises:						
Current taxation provision	1,611	1,128	917	1,068	639	
Deferred income (benefit)/tax provision	139	138	(24)	(30)	(32)	
Future income tax benefit	(125)	(24)	45	(121)	57	
Notional tax expense - leveraged leases	8	23	22	2	5	
Other	4	(3)	(2)	1	-	
Total Income Tax Expense	1,637	1,262	958	920	669	
The components of income tax expense consist of the following:						
Current	Australia	1,438	977	853	1,059	633
	Overseas	175	156	112	9	12
		1,613	1,133	965	1,068	645
Deferred	Australia	(5)	99	(1)	(148)	20
	Overseas	29	30	(6)	-	4
		24	129	(7)	(148)	24

Notes to the financial statements

NOTE 5 Income Tax Expense continued

	GROUP			BANK	
	2005	2004	2003	2005	2004
	\$M	\$M	\$M	\$M	\$M
The significant temporary differences are as follows:					
Deferred income tax assets arising from:					
Provisions not tax deductible until expense incurred	442	369	353	399	274
Other	208	195	172	178	149
Future income tax benefits (Note 21)	650	564	525	577	423
Intergroup deferred tax receivable (Note 21)	-	-	-	549	317
Deferred income tax liabilities arising from:					
Leveraged leasing	193	232	302	193	232
Lease financing	103	100	96	99	100
Other	421	52	16	365	-
Total deferred income tax liabilities (Note 24)	717	384	414	657	332
Intergroup deferred tax payable (Note 27)	-	-	-	60	153
Future income tax benefits attributable to tax losses carried forward as an asset	3	5	36	-	-
Future income tax benefits not taken to account					
Valuation allowance					
Opening balance	170	142	168	94	62
Prior year adjustments	(33)	(6)	(34)	(33)	(3)
Benefits now taken to account	(9)	(6)	(18)	(2)	(5)
Benefits arising during the year not recognised	31	40	26	20	40
Closing balance (Note 21)	159	170	142	79	94

Tax Consolidation

Legislation has been enacted to allow Australian resident entities to elect to consolidate and be treated as a single entity for Australian tax purposes. The Commonwealth Bank of Australia has elected to be taxed as a single entity with effect from 1 July 2002.

New Zealand Subsidiaries

Certain subsidiaries of the Bank in New Zealand are being audited by the Inland Revenue Department as part of the normal Inland Revenue Department procedures, with a particular focus on structured finance transactions. No tax assessments have been issued.

Notes to the financial statements

NOTE 6 Dividends

	2005 \$M	2004 \$M	GROUP 2003 \$M	2005 \$M	BANK 2004 \$M
Ordinary Shares					
Interim ordinary dividend (fully franked) (2005: 85 cents, 2004: 79 cents, 2003: 69 cents)					
Interim ordinary dividend paid - cash component only	883	808	699	883	808
Interim ordinary dividend paid - dividend reinvestment plan	200	188	166	200	188
Preference Shares					
Preference dividends paid (fully franked) (2005: 1,115 cents, 2004: 1,065 cents, 2003: 1,019 cents)	29	28	28	29	28
Provision for preference dividend	10	9	8	10	9
Other Equity Instruments					
Dividends paid	76	55	-	34	15
Other dividends – ASB preference shares	16	8	4	-	-
Total Dividends Provided or Paid	1,214	1,096	905	1,156	1,048
Other provision carried	4	5	4	4	4
Dividends proposed and not recognised as a liability (fully franked) (2005: 112 cents, 2004: 104 cents, 2003: 85 cents)	1,434	1,315	1,066	1,434	1,315

Dividend Franking Account

After fully franking the final dividend to be paid for the year ended 30 June 2005 the amount of credits available as at 30 June 2005 to frank dividends for subsequent financial years is \$194 million (2004: \$75 million). This figure is based on the combined franking accounts of the Bank at 30 June 2005, 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 2005,

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. Dividend payments on or after 1 July 2005 will be franked at the 30% tax rate. These calculations have been based on the taxation law as at 30 June 2005.

Dividend History

Half Year Ended	Cents Per Share	Half-year Payout Ratio ⁽¹⁾	Full Year Payout Ratio ⁽¹⁾	Full Year Payout Ratio Cash Basis ⁽²⁾	DRP Price \$	DRP Participation Rate ⁽³⁾
31 December 2002	69	143.2%	-	-	24.75	19.2%
30 June 2003	85	77.7%	97.7%	75.9%	28.03	18.9%
31 December 2003	79	82.7%	-	-	31.61	18.8%
30 June 2004	104	103.8%	93.5%	73.9% ⁽⁴⁾	30.14	18.7%
31 December 2004	85	71.8%	-	-	35.90	18.6%
30 June 2005	112	69.5%	65.2%	73.9%		

⁽¹⁾ Dividend Payout Ratio: dividends divided by earnings.

⁽²⁾ Payout ratio based on net profit after tax before goodwill amortisation and appraisal value uplift/(reduction).

⁽³⁾ DRP Participation Rate: the percentage of total issued share capital participating in the Dividend Reinvestment Plan.

⁽⁴⁾ Adjusted for Which new Bank costs.

Notes to the financial statements

NOTE 7 Earnings Per Share

	GROUP		
	2005	2004	2003
	c	c	c
Earnings Per Ordinary Share			
- Basic	303.1	196.9	157.4
- Fully diluted	303.0	196.8	157.3
	\$M	\$M	\$M
Reconciliation of earnings used in the calculation of earnings per share			
Profit from ordinary activities after income tax	4,001	2,581	2,018
Less: Preference share dividends	(39)	(37)	(36)
Less: Other equity instrument dividends	(76)	(55)	-
Less: Other dividends – ASB preference shares	(16)	(8)	(4)
Less: Outside equity interests	(10)	(9)	(6)
Earnings used in calculation of earnings per share	3,860	2,472	1,972
	Number of Shares		
	2005	2004	2003
	M	M	M
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,273	1,256	1,253
Effect of dilutive securities - share options	1	1	1
Weighted average number of ordinary shares used in the calculation of fully diluted earnings per share	1,274	1,257	1,254
Underlying Earnings Per Ordinary Share	c	c	c
- Basic	261.9	237.1	210.2
- Fully diluted	261.8	237.0	210.2

NOTE 8 Cash and Liquid Assets

	GROUP		BANK	
	2005	2004	2005	2004
	\$M	\$M	\$M	\$M
Australia				
Notes, coins and cash at bankers	1,491	1,488	1,312	1,423
Money at short call	3	3	-	-
Securities purchased under agreements to resell	2,598	4,091	2,598	4,091
Bills receivable and remittances in transit	372	158	371	156
Total Australia	4,464	5,740	4,281	5,670
Overseas				
Notes, coins and cash at bankers	68	60	5	-
Money at short call	307	261	45	77
Securities purchased under agreements to resell	876	374	1,243	738
Bills receivable and remittances in transit	-	18	-	-
Total Overseas	1,251	713	1,293	815
Total Cash and Liquid Assets	5,715	6,453	5,574	6,485

NOTE 9 Receivables from Other Financial Institutions

	GROUP		BANK	
	2005	2004	2005	2004
	\$M	\$M	\$M	\$M
Australia	3,691	4,914	4,161	4,910
Overseas	2,514	3,455	1,972	2,158
Total Receivables from Other Financial Institutions	6,205	8,369	6,133	7,068

Notes to the financial statements

NOTE 10 Trading Securities

	GROUP		BANK	
	2005	2004	2005	2004
	\$M	\$M	\$M	\$M
Australia				
Listed:				
Australian Public Securities				
Commonwealth and States	283	621	283	621
Local and semi-government	505	1,114	505	1,114
Bills of exchange	1,346	1,576	1,346	1,576
Certificates of deposit	5,977	5,088	5,977	5,088
Medium term notes	1,949	1,410	1,949	1,410
Other securities	196	273	181	267
Unlisted:				
Commercial paper	767	885	878	889
Medium term notes	-	268	-	268
Other securities	-	75	-	-
Total Australia	11,023	11,310	11,119	11,233
Overseas				
Listed:				
Government securities	358	826	248	284
Eurobonds	502	524	502	524
Bills of exchange	1,559	772	-	-
Floating rate notes	563	836	563	836
Commercial paper	367	403	-	-
Unlisted:				
Commercial paper	6	17	-	-
Other securities	250	208	-	-
Total Overseas	3,605	3,586	1,313	1,644
Total Trading Securities	14,628	14,896	12,432	12,877

Notes to the financial statements

NOTE 11 Investment Securities

	2005	2004	GROUP 2003	2005	BANK 2004
	\$M	\$M	\$M	\$M	\$M
Australia					
Listed:					
Australian Public Securities					
Commonwealth and States	2,201	2,209	1,915	2,201	2,209
Bills of exchange	-	30	-	-	-
Other securities and equity investments	343	444	439	336	433
Unlisted:					
Australian Public Securities					
Local and semi-government	80	80	80	-	-
Medium term notes	220	448	942	220	58
Mortgage backed securities	1,055	-	-	1,055	-
Other securities and equity investments	672	611	965	71	69
Total Australia	4,571	3,822	4,341	3,883	2,769
Overseas					
Listed:					
Government securities					
Treasury notes	79	758	484	63	715
Certificates of deposit	-	-	5	-	-
Eurobonds	1,376	1,242	1,357	1,341	1,228
Medium term notes	636	792	993	600	655
Floating rate notes	378	425	239	122	142
Other securities	619	732	324	177	121
Unlisted:	165	377	1,392	76	279
Government securities					
Eurobonds	224	137	98	-	-
Medium term notes	477	155	230	76	155
Floating rate notes	254	1,200	583	221	189
Preference shares	452	709	900	286	273
Other securities and equity investments	744	744	-	-	-
Total Overseas	297	354	90	77	100
Total Investment Securities	5,701	7,625	6,695	3,039	3,857
	10,272	11,447	11,036	6,922	6,626

Notes to the financial statements

Note 11 Investment Securities continued

	2005 \$M	GROUP Market Value at 30 June	
		2004 \$M	2003 \$M
Australia			
Australian Public Securities			
Commonwealth and States	2,334	2,328	2,118
Bills of exchange	-	30	-
Medium term notes	224	449	935
Mortgage backed securities	1,055	-	-
Other securities and equity investments	1,079	1,034	1,400
Total Australia	4,692	3,841	4,453
Overseas			
Government securities	306	897	593
Treasury notes	-	-	5
Certificates of deposit	1,376	1,223	1,357
Eurobonds	1,133	983	1,260
Medium term notes	637	1,622	816
Floating rate notes	1,075	1,442	1,215
Preference shares	744	744	-
Other securities and equity investments	470	738	1,488
Total Overseas	5,741	7,649	6,734
Total Investment Securities	10,433	11,490	11,187
Net Unrealised Surplus	161	43	151

Gross Unrealised Gains and Losses of Group

The following table sets out the gross unrealised gains and losses of the Group's investment securities.

	At 30 June 2005				At 30 June 2004			
	Amortised Cost \$M	Gross Gains \$M	Unrealised Losses \$M	Fair Value \$M	Amortised Cost \$M	Gross Gains \$M	Unrealised Losses \$M	Fair Value \$M
Australia								
Australian Public Securities								
Commonwealth and States	2,281	54	1	2,334	2,289	46	7	2,328
Bills of exchange	-	-	-	-	30	-	-	30
Medium term notes	220	4	-	224	448	1	-	449
Mortgage backed securities	1,055	-	-	1,055	-	-	-	-
Other securities and equity investments ⁽¹⁾	1,015	64	-	1,079	1,055	11	32	1,034
Total Australia	4,571	122	1	4,692	3,822	58	39	3,841
Overseas								
Government securities	303	3	-	306	895	3	1	897
Certificates of deposit	1,376	-	-	1,376	1,242	-	19	1,223
Eurobonds	1,113	21	1	1,133	947	36	-	983
Medium term notes	632	6	1	637	1,625	-	3	1,622
Floating rate notes	1,071	4	-	1,075	1,441	1	-	1,442
Preference shares	744	-	-	744	744	-	-	744
Other securities and equity investments	462	8	-	470	731	7	-	738
Total Overseas	5,701	42	2	5,741	7,625	47	23	7,649
Total Investment Securities	10,272	164	3	10,433	11,447	105	62	11,490

Investment securities are carried at cost or amortised cost and are purchased with the intent of being held to maturity. The investment portfolio is managed in the context of the full balance sheet of the Group.

⁽¹⁾ Equity derivatives are in place to hedge equity market risk in respect of structured equity products for customers. There are \$42 million of net deferred losses on these contracts (2004: \$31 million net deferred gains) which offset the above unrealised gains and these are disclosed within Note 39. At the end of the financial year there were no net deferred gains or losses included in the amortised cost value.

Notes to the financial statements

NOTE 11 Investment Securities continued

Maturity Distribution and Average Yield

The following table analyses the maturities and weighted average yields of the Group's holdings of investment securities.

	Group Maturity Period at 30 June 2005								Total \$M
	1 to 12 months		1 to 5 years		5 to 10 years		10 years or more		
	\$M	%	\$M	%	\$M	%	\$M	%	
Australia									
Australian Public Securities									
Commonwealth and States									
	253	5.23	1,418	6.01	544	5.47	66	6.14	2,281
Medium term notes	3	8.00	202	6.23	15	8.00	-	-	220
Mortgage backed	-	-	-	-	-	-	1,055	5.36	1,055
Other securities, commercial paper and equity investments	325	5.68	683	5.78	-	-	7	3.64	1,015
Total Australia	581		2,303		559		1,128		4,571
Overseas									
Government securities	175	7.02	69	7.59	59	1.40	-	-	303
Certificates of deposit	1,338	3.68	38	3.14	-	-	-	-	1,376
Eurobonds	209	3.26	849	5.06	55	5.20	-	-	1,113
Medium term notes	111	6.20	521	3.10	-	-	-	-	632
Floating rate notes	124	2.23	881	6.23	38	3.68	28	1.72	1,071
Preference shares	-	-	-	-	744	6.33	-	-	744
Other securities, commercial paper and equity investments	109	7.27	353	3.97	-	-	-	-	462
Total Overseas	2,066		2,711		896		28		5,701
Total Investment Securities	2,647		5,014		1,455		1,156		10,272
Maturities at Fair Value	2,692		5,066		1,497		1,178		10,433

Additional Disclosure

Proceeds at or close to maturity of investment securities were \$22,799 million (2004: \$24,407 million; 2003: \$17,719 million).

Proceeds from sale of investment securities were \$392 million (2004: \$697 million; 2003: \$23 million).

Realised capital gains were \$9 million and realised capital losses were \$1 million (2004: realised capital gains \$6 million and realised capital losses \$4 million; 2003: realised capital gains \$7 million and realised capital losses \$5 million).

Notes to the financial statements

NOTE 12 Loans, Advances and Other Receivables

	GROUP		BANK	
	2005	2004	2005	2004
	\$M	\$M	\$M	\$M
Australia				
Overdrafts	2,564	2,423	2,564	2,423
Housing loans	119,094	104,883	115,667	101,717
Credit card outstandings	6,682	5,890	6,682	5,890
Lease financing	4,313	3,843	1,348	1,279
Bills discounted	3,399	3,454	3,399	3,454
Term loans	46,451	39,708	41,447	36,943
Redeemable preference share financing	9	37	9	37
Equity participation in leveraged leases	742	1,120	376	433
Other lending	390	420	750	587
Total Australia	183,644	161,778	172,242	152,763
Overseas				
Overdrafts	2,660	2,481	-	-
Housing loans	20,765	16,967	54	46
Credit card outstandings	406	358	-	-
Lease financing	195	175	127	81
Term loans	12,804	10,314	3,686	3,222
Redeemable preference share financing	-	262	-	-
Other lending	192	60	-	-
Total Overseas	37,022	30,617	3,867	3,349
Gross Loans, Advances and Other Receivables	220,666	192,395	176,109	156,112
Less				
Provisions for impairment (Note 13)				
General provision	(1,390)	(1,393)	(1,218)	(1,242)
Specific provision against loans and advances	(157)	(143)	(134)	(121)
Unearned income				
Term loans	(889)	(758)	(426)	(412)
Lease financing	(589)	(541)	(154)	(151)
Leveraged leases	(84)	(111)	(18)	(21)
Interest reserved	(19)	(23)	(19)	(23)
Unearned tax remissions on leveraged leases	(22)	(35)	-	(3)
	(3,150)	(3,004)	(1,969)	(1,973)
Net Loans, Advances and Other Receivables	217,516	189,391	174,140	154,139
Lease receivables, net of unearned income (included above)				
Current	1,179	1,072	542	592
Non current	2,740	2,405	779	617
	3,919	3,477	1,321	1,209

Leasing Arrangements

Retail Banking Services provides vehicle and equipment lease finance to a broad range of industries including transport, service, earthmoving, construction, manufacturing and mining. Most lease finance arrangements are for terms of between three and five years and rentals are generally payable monthly in

advance. Premium Business Services provides leasing services and hire purchase to corporate clients for a range of equipment. They also arrange off-balance sheet finance for large scale long life plant and equipment across different tax jurisdictions.

Notes to the financial statements

NOTE 12 Loans, Advances and Other Receivables continued

	2005	GROUP	2005	BANK
	\$M	2004	\$M	2004
		\$M		\$M
Finance Leases				
Minimum lease payments receivable:				
No later than one year	1,417	1,189	595	640
Later than one year but not later than five years	2,379	1,861	836	570
Later than five years	712	968	44	150
Lease financing	<u>4,508</u>	<u>4,018</u>	<u>1,475</u>	<u>1,360</u>
Leverage Leases				
Minimum lease payments receivable:				
No later than one year	185	421	227	217
Later than one year but not later than five years	505	546	133	97
Later than five years	52	153	16	119
Equity Participation in Leverage Leasing	<u>742</u>	<u>1,120</u>	<u>376</u>	<u>433</u>

Notes to the financial statements

NOTE 12 Loans, Advances and Other Receivables continued

Maturity Distribution of Loans

The following table sets forth the contractual maturity distribution of the Group's loans, advances and other receivables (excluding bank acceptances) at 30 June 2005.

	GROUP			
	Maturity Period at 30 June 2005			
	Maturing One Year or Less \$M	Maturing Between One & Five Years \$M	Maturing After Five Years \$M	Total \$M
Australia				
Government and public authorities	871	679	1,450	3,000
Agriculture, forestry and fishing	1,120	937	1,156	3,213
Financial, investment and insurance	3,688	1,664	530	5,882
Real estate				
Mortgage ⁽¹⁾	15,588	16,201	87,306	119,095
Construction ⁽²⁾	637	777	280	1,694
Personal	5,606	8,286	612	14,504
Lease financing	1,505	2,796	754	5,055
Other commercial and industrial	18,825	7,725	4,651	31,201
Total Australia	47,840	39,065	96,739	183,644
Overseas				
Government and public authorities	96	82	38	216
Agriculture, forestry and fishing	698	1,404	1,270	3,372
Financial, investment and insurance	2,263	2,295	2,469	7,027
Real estate				
Mortgage ⁽¹⁾	1,987	7,131	11,647	20,765
Construction ⁽²⁾	91	91	89	271
Personal	399	151	2	552
Lease financing	97	88	10	195
Other commercial and industrial	3,218	885	521	4,624
Total Overseas	8,849	12,127	16,046	37,022
Gross Loans, Advances and Other Receivables	56,689	51,192	112,785	220,666
Interest Rate Sensitivity of Lending				
Australia	29,003	23,794	65,425	118,222
Overseas	3,321	3,368	3,722	10,411
Total Variable Interest Rates	32,324	27,162	69,147	128,633
Australia	18,837	15,271	31,314	65,422
Overseas	5,528	8,759	12,324	26,611
Total Fixed Interest Rates	24,365	24,030	43,638	92,033
Gross Loans, Advances and Other Receivables	56,689	51,192	112,785	220,666

⁽¹⁾ Principally owner occupied housing. While most of these loans would have a contractual term of 20 years or more, the actual average term of the portfolio is less than five years.

⁽²⁾ Financing real estate and land development projects.

Notes to the financial statements

NOTE 13 Provisions For Impairment

	2005	2004	2003	2002	GROUP 2001	2005	BANK 2004
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
General Provisions							
Opening balance	1,393	1,325	1,356	1,399	1,358	1,242	1,152
Charge against profit	322	276	305	449	385	292	263
Acquired provisions, including fair value adjustments	-	-	-	-	51	-	-
Transfer to specific provisions	(352)	(202)	(350)	(495)	(411)	(326)	(189)
Bad debts recovered	81	79	74	56	88	60	66
Adjustments for exchange rate fluctuations and other items	2	2	(9)	1	(29)	(1)	19
	1,446	1,480	1,376	1,410	1,442	1,267	1,311
Bad debts written off	(56)	(87)	(51)	(54)	(43)	(49)	(69)
Closing balance	1,390	1,393	1,325	1,356	1,399	1,218	1,242
Specific Provisions							
Opening balance	143	205	270	234	432	121	157
Charge against profit	-	-	-	-	-	-	-
Acquired provisions, including fair value adjustments	-	-	-	-	6	-	-
Transfer from general provision for New and increased provisioning	408	264	416	546	495	378	243
Less write-back of provisions no longer required	(56)	(62)	(66)	(51)	(84)	(52)	(54)
Net transfer	352	202	350	495	411	326	189
Adjustments for exchange rate fluctuations and other items	(3)	3	(11)	(11)	(17)	-	2
	492	410	609	718	832	447	348
Bad debts written off	(335)	(267)	(404)	(448)	(598)	(313)	(227)
Closing balance	157	143	205	270	234	134	121
Total Provisions for Impairment	1,547	1,536	1,530	1,626	1,633	1,352	1,363
Specific provisions for impairment comprise the following segments:							
Provisions against loans and advances	157	143	205	270	233	134	121
Provisions for diminution	-	-	-	-	1	-	-
Total	157	143	205	270	234	134	121
	%	%	%	%	%	%	%
Provision Ratios							
Specific provisions for impairment as % of gross impaired assets net of interest reserved	41.76	42.06	32.08	30.54	36.06	37.81	36.00
Total provisions for impairment as % of gross impaired assets net of interest reserved	411.44	451.76	239.44	183.94	251.62	381.49	403.55
General provisions as % of risk weighted assets	0.73	0.82	0.90	0.96	1.01	0.68	0.79
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Charge to profit and loss for bad and doubtful debts comprises:							
General provisions	322	276	305	449	385	292	263
Specific provisions	-	-	-	-	-	-	-
Total Charge for Bad and Doubtful Debts	322	276	305	449	385	292	263
Ratio of net charge-offs during the period to average gross loans, advances and other receivables outstanding during the period	0.16%	0.16%	0.19%	0.31%	0.28%	0.18%	0.18%

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

	GROUP		BANK	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Total charge for bad and doubtful debts	322	276	292	263
The charge is required for:				
Specific Provisioning				
New and increased provisioning	408	264	378	243
Less provisions no longer required	(56)	(62)	(52)	(54)
Net specific provisioning	352	202	326	189
Provided from general provision	(352)	(202)	(326)	(189)
Charge to profit and loss	-	-	-	-
General Provisioning				
Direct write-offs	56	87	49	69
Recoveries of amounts previously written off	(81)	(79)	(60)	(66)
Movement in general provision	(5)	66	(23)	71
Funding of specific provisions	352	202	326	189
Charge to profit and loss	322	276	292	263
Total Charge for Bad and Doubtful Debts	322	276	292	263

Specific Provisions for Impairment by Industry Category

The following table sets forth the Group's specific provisions for impairment by industry category as at 30 June 2001, 2002, 2003, 2004 and 2005.

	2005 \$M	2004 \$M	2003 \$M	2002 \$M	GROUP
					At 30 June 2001 \$M
Australia					
Government and public authorities	-	-	-	-	-
Agriculture, forestry and fishing	16	2	3	10	8
Financial, investment and insurance	1	1	2	26	24
Real estate					
Mortgage ⁽¹⁾	3	6	6	6	4
Construction ⁽²⁾	7	4	-	4	6
Personal	63	38	36	35	28
Lease financing	5	3	4	6	7
Other commercial and industrial	49	74	112	134	77
Total Australia	144	128	163	221	154
Overseas					
Government and public authorities	-	-	10	11	15
Agriculture, forestry and fishing	-	-	1	-	-
Financial, investment and insurance	1	-	-	12	4
Real estate					
Mortgage ⁽¹⁾	11	6	7	3	7
Construction ⁽²⁾	-	-	-	-	-
Personal	1	8	4	3	3
Lease financing	-	-	-	-	-
Other commercial and industrial	-	1	20	20	51
Total Overseas	13	15	42	49	80
Total Specific Provisions	157	143	205	270	234

⁽¹⁾ Principally owner occupied housing.

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

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

Bad Debts Written Off by Industry Category

The following table sets forth the Group's bad debts written-off and bad debts recovered for financial years ended 30 June 2001, 2002, 2003, 2004 and 2005.

	GROUP				
	Year Ended 30 June				
	2005	2004	2003	2002	2001
	\$M	\$M	\$M	\$M	\$M
Bad Debts Written Off					
Australia					
Government and public authorities	-	-	-	-	-
Agriculture, forestry and fishing	1	2	4	6	10
Financial, investment and insurance	4	6	26	6	1
Real estate					
Mortgage ⁽¹⁾	8	5	8	11	10
Construction ⁽²⁾	4	1	-	4	14
Personal	280	228	209	177	142
Lease financing	4	8	11	18	16
Other commercial and industrial	83	75	171	178	301
Total Australia	384	325	429	400	494
Overseas					
Government and public authorities	-	6	-	1	-
Agriculture, forestry and fishing	-	-	-	-	-
Financial, investment and insurance	-	1	16	58	6
Real estate					
Mortgage ⁽¹⁾	6	1	2	2	1
Construction ⁽²⁾	-	-	-	-	-
Personal	-	7	7	6	38
Lease financing	-	-	-	-	-
Other commercial and industrial	1	14	1	35	102
Total Overseas	7	29	26	102	147
Gross Bad Debts Written Off	391	354	455	502	641
Bad Debts Recovered					
Australia	76	73	57	49	59
Overseas	5	6	17	7	29
Bad Debts Recovered	81	79	74	56	88
Net Bad Debts Written Off	310	275	381	446	553

⁽¹⁾ Principally owner occupied housing.

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

Notes to the financial statements

NOTE 13 Provisions For Impairment continued

Bad Debts Recovered by Industry Category

The following table sets forth the Group's bad debts recovered by industry category for financial years ended 30 June 2001, 2002, 2003, 2004 and 2005.

	GROUP				
	2005	2004	2003	Year Ended 30 June	
	\$M	\$M	\$M	2002	2001
				\$M	\$M
Bad Debts Recovered					
Australia					
Government and public authorities	-	-	-	-	-
Agriculture, forestry and fishing	2	5	1	1	-
Financial, investment and insurance	3	1	4	-	9
Real estate					
Mortgage ⁽¹⁾	1	1	-	1	1
Construction ⁽²⁾	1	-	-	-	1
Personal	60	50	38	30	30
Lease financing	1	3	2	-	1
Other commercial and industrial	8	13	12	17	17
Total Australia	76	73	57	49	59
Overseas					
Government and public authorities	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-
Financial, investment and insurance	-	1	1	1	-
Real estate					
Mortgage ⁽¹⁾	-	-	-	-	-
Construction ⁽²⁾	-	-	-	3	1
Personal	4	4	4	-	3
Lease financing	-	-	-	-	-
Other commercial and industrial	1	1	12	3	25
Total Overseas	5	6	17	7	29
Bad Debts Recovered	81	79	74	56	88

⁽¹⁾ Principally owner occupied housing.

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

Notes to the financial statements

NOTE 14 Credit Risk Management

The Group has clearly defined credit policies for the approval and management of credit risk. Credit underwriting standards, which incorporate income/repayment capacity, acceptable terms and security and loan documentation tests exist for all major lending areas.

The Group relies, in the first instance, on the assessed integrity and ability of the debtor or counterparty to meet its contracted financial obligations for repayment. Collateral security, in the form of real property or a floating charge is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance is generally secured against real estate while short term revolving consumer credit is generally unsecured.

The credit risk portfolio is divided into two segments, statistically managed and credit risk rated.

Statistically managed exposures generally comprise facilities of less than \$250,000 for housing loan, credit card, personal loan and some leasing products. These exposures are generally not individually reviewed unless arrears occur. The portfolios are reviewed by the business unit with an overview by the Portfolio Quality Assurance unit.

Facilities in the statistically managed segment become classified for remedial management by centralised units based on arrears status. Impaired assets in this segment are those 'classified' facilities that are not well secured and past due 180 days or more. Most of these facilities are written off immediately on becoming past due 180 days or more.

Credit risk rated exposures generally comprise business and corporate exposures, including bank and government exposures. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default and the risk of loss in the event of default. Credit risk rated exposures are generally required to be reviewed annually, unless they are small transactions that are managed on a behavioural basis after their initial rating at origination. The risk rated segment is subject to inspection by the Portfolio Quality Assurance unit, which is independent of the business units and which reports quarterly on its findings to the Board Risk Committee.

Risk rated portfolios are reviewed on a risk prioritised basis, usually within a period of eighteen months, by the Portfolio Quality Assurance unit. High risk portfolios are reviewed more frequently. Credit processes, including compliance with policy and underwriting standards, and application of risk ratings, are examined, and reported where cases of non-compliance are observed.

Facilities in the credit risk rated segment become classified for remedial management by centralised units based on assessment in the risk rating system. These facilities are generally those classified as troublesome (which equate to the APRA classifications of special mention and substandard) and impaired assets. Impaired assets in this segment are those facilities where a specific provision for impairment has been raised, the facility is maintained on a cash basis, a loss of principal or interest is anticipated, facilities have been restructured or other assets have been accepted in satisfaction of an outstanding debt. Loans are generally classified as non-accrual when receivership, insolvency or bankruptcy occurs. Provisions for impairment are raised for an amount equal to the difference between the exposure and the estimated amount ultimately recoverable from the borrower.

A centralised exposure management system records all significant credit risks borne by the Group.

The Risk Committee of the Board operates under a charter of the Board in terms of which the Committee oversees the Group's credit management policies and practices. The Committee usually meets every two months, and more often if required.

The Group uses a portfolio approach to the management of its credit risk. A key element is a well diversified portfolio. The Group uses various portfolio management tools, including a centralised portfolio model that assesses risk and return on an overall portfolio and segmented basis, to assist in diversifying the credit portfolio. The Group is involved in credit derivative transactions, has purchased various assets in the market, and has carried out various asset securitisations and a Collateralised Loan Obligation issue.

Notes to the financial statements

NOTE 14 Credit Risk Management continued

Total Gross Credit Risk By Industry

The following table sets out the Group's total gross credit risk by industry as at 30 June 2001, 2002, 2003, 2004 and 2005. The industry profile of the loans, advances and other receivables content for the five financial years to 30 June 2005 is shown on page 143.

Industry	2005	2004	2003	2002	GROUP
	\$M	\$M	\$M	\$M	At 30 June 2001
Australia					
Government and public authorities	7,122	5,672	5,810	5,955	6,012
Agriculture, forestry and fishing	5,029	5,616	5,100	5,480	6,308
Financial, investment and insurance	38,704	26,301	19,867	20,926	22,490
Real estate					
Mortgage ⁽¹⁾	124,095	110,209	91,956	85,032	73,800
Construction ⁽²⁾	2,211	3,619 ⁽⁴⁾	2,722	3,837	4,547
Personal	14,970	13,839 ⁽⁴⁾	12,327	11,718	10,979
Lease financing	5,055	4,963	5,264	5,425	6,628
Other commercial and industrial	54,273	56,537 ⁽⁴⁾	51,469	43,531	42,893
Total Australia	251,459	226,756	194,515	181,904	173,657
Overseas					
Government and public authorities	1,385	2,307	1,709	1,390	385
Agriculture, forestry and fishing	3,392	3,277	2,278	1,863	1,564
Financial, investment and insurance	18,295	22,098	14,828	14,192	11,897
Real estate					
Mortgage ⁽¹⁾	21,747	17,722	13,428	10,735	8,085
Construction ⁽²⁾	346	258 ⁽⁴⁾	210	185	198
Personal	581	420	1,391	343	449
Lease financing	195	175	197	256	146
Other commercial and industrial	10,667	5,894 ⁽⁴⁾	9,080	10,173	10,359
Total Overseas	56,608	52,151	43,121	39,137	33,083
Total Gross Credit Risk	308,067	278,907	237,636	221,041	206,740
Less Unearned Income	(1,562)	(1,410)	(1,310)	(1,219)	(1,343)
Total Credit Risk	306,505	277,497	236,326	219,822	205,397
Charge for Bad and Doubtful Debts	322	276	305	449	385
Loss Rate ⁽³⁾	0.11%	0.10%	0.13%	0.20%	0.19%

(i) Principally owner occupied housing.

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

(iii) The loss rate is the charge as a percentage of the credit risk.

(iv) Certain of these loans have been reclassified consistent with prior years.

The Group has a good quality and well diversified credit portfolio in Australia, with 47.6% of the exposure in mortgage loans and a further 18.6% in finance, investment and insurance (primarily banks). 18.5% of exposure is overseas, of which 38.4% is in mortgage loans. Overall, over 65% of individually risk rated exposures in the commercial portfolio (including government and finance) are of investment grade or equivalent quality.

Notes to the financial statements

NOTE 14 Credit Risk Management continued

The following table sets out the Group's credit risk by industry and asset class at 30 June 2005.

Industry	Trading Securities \$M	Investment Securities \$M	Loans Advances and Other Receivables \$M	Bank Acceptances of Customers \$M	Contingent Liabilities \$M	Derivatives \$M	Total \$M
Australia							
Government and public authorities	788	2,278	3,000	10	819	227	7,122
Agriculture, forestry and fishing	-	-	3,213	1,741	40	35	5,029
Financial, investment and insurance	7,324	837	5,882	1,167	4,563	15,240	35,013
Real estate							
Mortgage ⁽¹⁾	-	-	119,095	-	5,000	-	124,095
Construction ⁽²⁾	-	-	1,694	274	216	27	2,211
Personal	-	-	14,504	380	84	2	14,970
Lease financing	-	-	5,055	-	-	-	5,055
Other commercial and industrial	2,911	1,456	31,201	13,214	3,341	2,150	54,273
Total Australia	11,023	4,571	183,644	16,786	14,063	17,681	247,768
Overseas							
Government and public authorities	558	303	216	-	259	49	1,385
Agriculture, forestry and fishing	-	-	3,372	-	13	7	3,392
Financial, investment and insurance	1,798	2,122	7,027	-	1,512	3,277	15,736
Real estate							
Mortgage ⁽¹⁾	-	-	20,765	-	982	-	21,747
Construction ⁽²⁾	-	-	271	-	69	6	346
Personal	-	-	552	-	27	2	581
Lease financing	-	-	195	-	-	-	195
Other commercial and industrial	1,249	3,276	4,624	-	1,057	461	10,667
Total Overseas	3,605	5,701	37,022	-	3,919	3,802	54,049
Gross Balances	14,628	10,272	220,666	16,786	17,982	21,483	301,817
Other Risk Concentrations							
Receivables due from other financial institutions							6,205
Deposits with regulatory authorities							45
Total Gross Credit Risk							308,067

⁽¹⁾ Principally owner occupied housing.

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

Risk concentrations for contingent liabilities and derivatives are based on the credit equivalent balance in Note 38, Contingent Liabilities and Assets and Note 39, Market Risk respectively.

Notes to the financial statements

NOTE 14 Credit Risk Management continued

The following table sets out the Group's credit risk by industry and asset class as at 30 June 2004.

Industry	Trading Securities \$M	Investment Securities \$M	Loans Advances and Other Receivables \$M	Bank Acceptances of Customers \$M	Contingent Liabilities \$M	Derivatives \$M	Total \$M
Australia							
Government and public authorities	1,735	2,289	1,132	11	437	68	5,672
Agriculture, forestry and fishing	-	-	3,925	1,517	65	109	5,616
Financial, investment and insurance	6,664	-	3,693	684	1,186	9,160	21,387
Real estate							-
Mortgage ⁽¹⁾	-	-	104,883	-	5,326	-	110,209
Construction ⁽²⁾	-	-	2,626	302	642	49	3,619
Personal	-	-	13,389	333	116	1	13,839
Lease financing	-	-	4,963	-	-	-	4,963
Other commercial and industrial	2,911	1,533	27,167	12,172	5,956	6,798	56,537
Total Australia	11,310	3,822	161,778	15,019	13,728	16,185	221,842
Overseas							
Government and public authorities	1,050	902	182	-	98	37	2,269
Agriculture, forestry and fishing	-	-	3,277	-	-	-	3,277
Financial, investment and insurance	2,058	5,592	5,857	-	1,733	3,403	18,643
Real estate							-
Mortgage ⁽¹⁾	-	-	16,967	-	755	-	17,722
Construction ⁽²⁾	-	-	257	-	1	-	258
Personal	-	-	415	-	2	3	420
Lease financing	-	-	175	-	-	-	175
Other commercial and industrial	478	1,131	3,487	-	551	247	5,894
Total Overseas	3,586	7,625	30,617	-	3,140	3,690	48,658
Gross Balances	14,896	11,447	192,395	15,019	16,868	19,875	270,500
Other Risk Concentrations							
Receivables due from other financial institutions							8,369
Deposits with regulatory authorities							38
Total Gross Credit Risk							278,907

⁽¹⁾ Principally owner occupied housing.

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

Risk concentrations for contingent liabilities and derivatives are based on the credit equivalent balance in Note 38, Contingent Liabilities and Assets and Note 39, Market Risk respectively.

Notes to the financial statements

NOTE 14 Credit Risk Management continued

Impaired Assets by Industry and Status

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

Industry	Total Risk \$M	Impaired Assets \$M	Provisions for Impairment \$M	Write-offs \$M	Recoveries \$M	Net Write-offs \$M
Australia						
Government and public authorities	7,122	-	-	-	-	-
Agriculture, forestry and fishing	5,029	76	16	1	(2)	(1)
Financial, investment and insurance	35,013	6	1	4	(3)	1
Real estate						
Mortgage ⁽¹⁾	124,095	-	3	8	(1)	7
Construction ⁽²⁾	2,211	2	7	4	(1)	3
Personal	14,970	46	63	280	(60)	220
Lease financing	5,055	8	5	4	(1)	3
Other commercial and industrial	54,273	243	49	83	(8)	75
Total Australia	247,768	381	144	384	(76)	308
Overseas						
Government and public authorities	1,385	-	-	-	-	-
Agriculture, forestry and fishing	3,392	1	-	-	-	-
Financial, investment and insurance	15,736	-	1	-	-	-
Real estate						
Mortgage ⁽¹⁾	21,747	7	11	6	-	6
Construction ⁽²⁾	346	-	-	-	-	-
Personal	581	4	1	-	(4)	(4)
Lease financing	195	-	-	-	-	-
Other commercial and industrial	10,667	2	-	1	(1)	-
Total Overseas	54,049	14	13	7	(5)	2
Gross Balances	301,817	391	157	391	(81)	310
Receivables due from other financial institutions	6,205					
Deposits with regulatory authorities	45					
Total Gross Credit Risk	308,067					

⁽¹⁾ Principally owner occupied housing.

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

Notes to the financial statements

NOTE 14 Credit Risk Management continued

The following table sets out the Group's impaired asset position by industry and status as at 30 June 2004.

Industry	Total Risk \$M	Impaired Assets \$M	Provisions for Impairment \$M	Write-offs \$M	Recoveries \$M	Net Write-offs \$M
Australia						
Government and public authorities	5,672	-	-	-	-	-
Agriculture, forestry and fishing	5,616	19	2	2	(5)	(3)
Financial, investment and insurance	21,387	6	1	6	(1)	5
Real estate						
Mortgage ⁽¹⁾	110,209	-	6	5	(1)	4
Construction ⁽²⁾	3,619	15	4	1	-	1
Personal	13,839	6	38	228	(50)	178
Lease financing	4,963	5	3	8	(3)	5
Other commercial and industrial	56,537	294	74	75	(13)	62
Total Australia	221,842	345	128	325	(73)	252
Overseas						
Government and public authorities	2,269	-	-	6	-	6
Agriculture, forestry and fishing	3,277	-	-	-	-	-
Financial, investment and insurance	18,643	5	-	1	(1)	-
Real estate						
Mortgage ⁽¹⁾	17,722	11	6	1	-	1
Construction ⁽²⁾	258	-	-	-	-	-
Personal	420	1	8	7	(4)	3
Lease financing	175	-	-	-	-	-
Other commercial and industrial	5,894	1	1	14	(1)	13
Total Overseas	48,658	18	15	29	(6)	23
Gross Balances	270,500	363	143	354	(79)	275
Receivables due from other financial institutions	8,369					
Deposits with regulatory authorities	38					
Total Gross Credit Risk	278,907					

Large Exposures

Concentration of exposure to any debtor or counterparty group is controlled by a large credit exposure policy. All exposures outside the policy are approved by the Board Risk Committee.

The following table shows the aggregate number of the Bank's counterparty Corporate and Industrial exposures (including direct and contingent exposure) which individually were greater than 5% of the Group's capital resources (Tier One and Tier Two capital):

	2005 Number	2004 Number	2003 Number	2002 Number	2001 Number
10% to less than 15% of Group's capital resources	-	-	-	-	-
5% to less than 10% of Group's capital resources	1	1	-	1	2

Notes to the financial statements

NOTE 14 Credit Risk Management continued

Credit Portfolio Receivables by Industry

The following table sets out the distribution of the Group's loans, advances and other receivables (excluding bank acceptances) by industry at 30 June 2001, 2002, 2003, 2004 and 2005.

Industry	2005	2004	2003	2002	At 30 June
	\$M	\$M	\$M	\$M	2001
					\$M
Australia					
Government and public authorities	3,000	1,132	1,505	2,466	1,655
Agriculture, forestry and fishing	3,213	3,925	3,677	3,893	4,734
Financial, investment and insurance	5,882	3,693	2,024	1,435	4,670
Real estate					
Mortgage ⁽¹⁾	119,095	104,883	87,592	75,394	65,466
Construction ^{(2), (3)}	1,694	2,626	1,701	2,182	2,548
Personal ⁽³⁾	14,504	13,389	11,972	11,488	10,576
Lease financing	5,055	4,963	5,264	5,425	6,628
Other commercial and industrial	31,201	27,167	26,449	26,866	25,782
Total Australia	183,644	161,778	140,184	129,149	122,059
Overseas					
Government and public authorities	216	182	222	204	165
Agriculture, forestry and fishing	3,372	3,277	2,278	1,863	1,258
Financial, investment and insurance	7,027	5,857	3,210	3,035	2,824
Real estate					
Mortgage ⁽¹⁾	20,765	16,967	12,611	10,444	8,045
Construction ⁽²⁾	271	257	209	185	177
Personal	552	415	1,391	337	440
Lease financing	195	175	197	256	146
Other commercial and industrial	4,624	3,487	2,959	4,573	4,081
Total Overseas	37,022	30,617	23,077	20,897	17,136
Gross Loans, Advances and Other Receivables	220,666	192,395	163,261	150,046	139,195
Provisions for bad and doubtful debts, unearned income, interest reserved and unearned tax remissions on leverage leases	(3,150)	(3,004)	(2,914)	(2,972)	(3,136)
Net Loans, Advances and Other Receivables	217,516	189,391	160,347	147,074	136,059

⁽¹⁾ Principally owner occupied housing.

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

⁽³⁾ Certain of these loans for the 2004 year have been reclassified consistent with prior years.

Notes to the financial statements

NOTE 15 Asset Quality

Impaired Assets

The Group follows the Australian disclosure requirements for impaired assets contained in AASB 1032: Specific Disclosures by Financial Institutions.

There are three classifications of impaired assets:

(a) Non accruals, comprising:

Any credit risk facility against which a specific 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.

All interest charged in the relevant financial period that has not been received in cash is reversed from profit and loss when facilities become classified as non accrual. Interest on these facilities is then only taken to profit if received in cash.

(b) Restructured Facilities, comprising:

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 accrual.

(c) Assets Acquired Through Security Enforcement (AATSE), comprising:

Other Real Estate Owned (OREO), comprising real estate where the Group has assumed ownership or foreclosed in settlement of a debt; and

Other Assets Acquired Through Security Enforcement (OAATSE), comprising assets other than real estate where the Group has assumed ownership or foreclosed in settlement of a debt.

	2005	2004	GROUP 2003
	%	%	%
Impaired Asset Ratios			
Gross impaired assets net of interest reserved as % of risk weighted assets	0.20	0.20	0.44
Net impaired assets as % of:			
Risk weighted assets	0.12	0.12	0.30
Total shareholders' equity	0.82	0.79	1.96

Colonial State Bank

Indemnified Loan Book

Pursuant to the Sale Agreement between Colonial and the New South Wales Government, Colonial State Bank's loan book as at 31 December 1994 and any further loan losses (including interest) arising are indemnified by the NSW Government. This indemnity is to the extent of 90% of the losses after an initial \$60 million (which was provided for by Colonial State Bank as at 31 December 1994). All loans (other than impaired loans) were covered for a period of three years from

31 December 1994 and for the duration of the loan in the case of impaired loans so classified as at 31 December 1997. The sale agreement also allows for loans to be withdrawn from the indemnity provided the withdrawal is approved by Colonial State Bank and the NSW Government and the due processes are followed.

Pursuant to the sale agreement, the costs of funding and managing non-performing loans that are covered by the loan indemnities are reimbursed by the NSW Government on a quarterly basis.

Notes to the financial statements

NOTE 15 Asset Quality continued

Impaired Assets

The following table sets forth the Group's impaired assets as at 30 June 2001, 2002, 2003, 2004 and 2005.

	2005	2004	2003	2002	GROUP At 30 June 2001
	\$M	\$M	\$M	\$M	\$M
Australia					
Non-accrual loans:					
Gross balances	381	345	545	732	518
Less interest reserved	(19)	(23)	(25)	(54)	(63)
Gross balance (net of interest reserved)	362	322	520	678	455
Less provisions for impairment	(144)	(128)	(163)	(221)	(154)
Net Non-Accrual Loans	218	194	357	457	301
Restructured loans:					
Gross balances	-	-	-	-	1
Less interest reserved	-	-	-	-	-
Gross balance (net of interest reserved)	-	-	-	-	1
Less specific provisions	-	-	-	-	-
Net Restructured Loans	-	-	-	-	1
Assets Acquired Through Security Enforcement (AATSE):					
Gross balances	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-
Net AATSE	-	-	-	-	-
Net Australian Impaired Assets	218	194	357	457	302
Overseas					
Non-accrual loans:					
Gross balances	14	18	120	211	197
Less interest reserved	-	-	(1)	(5)	(5)
Gross balance (net of interest reserved)	14	18	119	206	192
Less provisions for impairment	(13)	(15)	(42)	(49)	(79)
Net Non-Accrual Loans	1	3	77	157	113
Restructured loans:					
Gross balances	-	-	-	-	-
Less interest reserved	-	-	-	-	-
Gross balance (net of interest reserved)	-	-	-	-	-
Less specific provisions	-	-	-	-	-
Net Restructured Loans	-	-	-	-	-
Asset Acquired Through Security Enforcement (AATSE)					
Less provisions for impairment	-	-	-	-	(1)
Net AATSE	-	-	-	-	-
Net overseas impaired assets	1	3	77	157	113
Total Net Impaired Assets	219	197	434	614	415

Notes to the financial statements

NOTE 15 Asset Quality continued

Movement in Impaired Asset Balances

The following table provides an analysis of the movement in the gross impaired asset balances for financial years 2001, 2002, 2003, 2004 and 2005.

Gross Impaired Assets	2005	2004	2003	GROUP	
				Year Ended 30 June	2001
	\$M	\$M	\$M	\$M	\$M
Gross impaired assets at period beginning	363	665	943	717	1,135
New and increased	769	532	617	1,069	707
Balances written off	(350)	(278)	(456)	(481)	(666)
Returned to performing or repaid	(387)	(556)	(439)	(362)	(459)
Gross Impaired Assets at Period End	395	363	665	943	717

Loans Accruing But Past Due 90 Days or More	2005	2004	2003	GROUP	
				At 30 June	2001
	\$M	\$M	\$M	\$M	\$M
Accruing loans past due 90 days or more					
Housing loans	183	168	157	176	218
Other loans	119	78	91	73	90
Total	302	246	248	249	308

Net Interest Foregone on Impaired Assets	2005	2004	2003	GROUP	
				Year Ended 30 June	2001
	\$M	\$M	\$M	\$M	\$M
Interest income forgone					
Australia non accrual facilities	13	10	15	21	8
Overseas non accrual facilities	-	-	3	7	8
Total	13	10	18	28	16

Interest Taken to Profit on Impaired Assets	2005	2004	2003	GROUP	
				Year Ended 30 June	2001
	\$M	\$M	\$M	\$M	\$M
Australia					
Non accrual facilities	9	11	26	27	37
Restructured facilities	-	-	-	-	-
Overseas					
Non accrual facilities	-	3	4	3	14
OREO	-	-	-	-	-
Total Interest Taken to Profit	9	14	30	30	51

Notes to the financial statements

NOTE 15 Asset Quality continued

Impaired Assets

	Australia 2005 \$M	Overseas 2005 \$M	GROUP Total 2005 \$M	Australia 2004 \$M	Overseas 2004 \$M	GROUP Total 2004 \$M
Non Accrual Loans						
With provisions	235	14	249	193	13	206
Without provisions	146	-	146	152	5	157
Gross Balances	381	14	395	345	18	363
Less interest reserved	(19)	-	(19)	(23)	-	(23)
Net Balances	362	14	376	322	18	340
Less provisions for impairment	(144)	(13)	(157)	(128)	(15)	(143)
Net Non Accrual Loans	218	1	219	194	3	197
Restructured Loans						
Gross balances	-	-	-	-	-	-
Less interest reserved	-	-	-	-	-	-
Net balances	-	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-	-
Net Restructured Loans	-	-	-	-	-	-
Other Real Estate Owned (OREO)						
Gross balances	-	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-	-
Net OREO	-	-	-	-	-	-
Other Assets Acquired Through Security Enforcement (OAATSE)						
Gross balances	-	-	-	-	-	-
Less provisions for impairment	-	-	-	-	-	-
Net OAATSE	-	-	-	-	-	-
Total Impaired Assets						
Gross balances	381	14	395	345	18	363
Less interest reserved	(19)	-	(19)	(23)	-	(23)
Net balances	362	14	376	322	18	340
Less provisions for impairment	(144)	(13)	(157)	(128)	(15)	(143)
Net Impaired Assets	218	1	219	194	3	197
Non Accrual Loans by Size of Loan						
Less than \$1 million	119	13	132	108	13	121
\$1 million to \$10 million	116	1	117	114	5	119
Greater than \$10 million	146	-	146	123	-	123
Total	381	14	395	345	18	363
Accruing Loans 90 days past due or more ⁽¹⁾	267	35	302	224	22	246

⁽¹⁾ These are loans that are well secured and not classified as impaired assets but which are in arrears 90 days or more. Interest on these loans continues to be taken to profit.

Notes to the financial statements

NOTE 15 Asset Quality continued

Selected Regional Exposures

Asia

Over 66% of total exposures relate to financial institutions. Exposures to Indonesia, Thailand and Korea represent approximately 16% of the Group's Asian credit risk.

The Group's credit risk exposure to Asian countries as at 30 June 2005 is set out below. The exposures exclude Group equity investments.

Asian Exposures

Country	Finance \$M	Corporate/ Multinational \$M	CUSTOMER TYPE			APL/NZPL \$M	2005 Total Exposure ⁽²⁾ \$M	GROUP 2004 Total Exposure \$M
			Government \$M	Project Finance ⁽¹⁾ \$M				
China	335	6	-	-	-	341	177	
Hong Kong	492	984	-	-	217	1,693	1,492	
	827	990	-	-	217	2,034	1,669	
Japan	710	78	30	-	6	824	546	
Malaysia	65	67	49	-	1	182	380	
Singapore	584	127	9	-	33	753	880	
Philippines	328	2	-	-	-	330	641	
Taiwan	621	1	-	-	-	622	314	
Other	6	35	-	-	-	41	3	
	2,314	310	88	-	40	2,652	2,764	
Indonesia	23	5	23	23	6	80	246	
South Korea	359	102	112	-	-	573	985	
Thailand	229	26	1	-	-	256	220	
	611	133	136	23	6	909	1,451	
Total	3,752	1,433	224	23	263	5,695	5,884	

Other Regional Exposures

Region	Finance \$M	Corporate/ Multinational \$M	CUSTOMER TYPE			APL/NZPL \$M	2005 Total Exposure ⁽²⁾ \$M	GROUP 2004 Total Exposure \$M
			Government \$M	Project Finance ⁽¹⁾ \$M				
Eastern Europe	1	1	-	-	-	2	1	
Latin America	-	-	-	-	-	-	-	
Middle East	398	8	-	-	-	406	73	

(1) Project Finance - Long term lending for large scale projects (such as mining and infrastructure) where repayment is primarily reliant on the cash flow from the project.

(2) Total Exposure - The maximum of the limit or balance utilised for committed facilities, whichever is highest, and the balance utilised for uncommitted facilities. For derivative facilities, balances are reported on a 'mark to market' plus potential exposure basis.

Notes to the financial statements

NOTE 16 Insurance Investment Assets

	2005 \$M	GROUP 2004 \$M
Equity Security Investments		
Direct	3,144	4,433
Indirect	6,467	8,025
	<u>9,611</u>	<u>12,458</u>
Debt Security Investments		
Direct	3,918	3,518
Indirect	8,116	7,710
	<u>12,034</u>	<u>11,228</u>
Property Investments		
Direct	3	80
Indirect	2,442	2,330
	<u>2,445</u>	<u>2,410</u>
Other Assets	<u>3,747</u>	<u>2,846</u>
Total Life Insurance Investment Assets	<u>27,837</u>	<u>28,942</u>

Direct investments refer to investments that are directly with 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 can only be used within the restrictions imposed under the Life Insurance Act 1995.

The main restrictions are that assets in a fund can only be used to meet the liabilities and expense 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 level of capital adequacy requirements are met.

These investment assets held in the statutory funds are not available for use by the Commonwealth Bank's operating businesses.

NOTE 17 Deposits with Regulatory Authorities

	2005 \$M	GROUP 2004 \$M	2005 \$M	BANK 2004 \$M
Central Banks Overseas	45	38	1	4
Total Deposits with Regulatory Authorities	<u>45</u>	<u>38</u>	<u>1</u>	<u>4</u>

NOTE 18 Shares in and Loans to Controlled Entities

	2005 \$M	GROUP 2004 \$M	2005 \$M	BANK 2004 \$M
Shares in controlled entities	-	-	17,634	12,156
Loans to controlled entities	-	-	11,527	11,521
Total Shares in and Loans to Controlled Entities	<u>-</u>	<u>-</u>	<u>29,161</u>	<u>23,677</u>

Notes to the financial statements

NOTE 19 Property, Plant and Equipment

	GROUP		BANK	
	2005	2004	2005	2004
	\$M	\$M	\$M	\$M
(a) Land and Buildings				
Land				
At 30 June 2005 valuation	170	-	155	-
At 30 June 2004 valuation	-	160	-	148
Closing balance	170	160	155	148
Buildings				
At 30 June 2005 valuation	262	-	243	-
At 30 June 2004 valuation	-	253	-	231
Closing balance	262	253	243	231
Total Land and Buildings	432	413	398	379
These valuations were established by the Directors and are lower than valuations prepared by independent valuers. This valuation process is conducted on an annual basis.				
(b) Leasehold Improvements				
At cost	702	657	582	545
Provision for depreciation	(409)	(376)	(337)	(310)
Closing balance	293	281	245	235
(c) Equipment				
At cost	723	639	406	333
Provision for depreciation	(486)	(448)	(253)	(225)
Closing balance	237	191	153	108
(d) Assets Under Lease				
At cost	138	67	-	-
Provision for depreciation	(8)	-	-	-
Closing balance	130	67	-	-
(e) Investment Property ⁽¹⁾				
At cost	252	252	-	-
Total Property, Plant and Equipment	1,344	1,204	796	722

⁽¹⁾ This investment represents a 50% interest in a long term freehold lease over property.

Notes to the financial statements

NOTE 19 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Reconciliation	2005	GROUP	2005	BANK
	\$M	2004	\$M	2004
		\$M	\$M	\$M
Reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the 2005 and 2004 financial years.				
Land				
Opening balance	160	141	148	129
Disposals	(6)	(8)	(6)	(3)
Net revaluations	16	27	13	22
Closing balance	170	160	155	148
Buildings				
Opening balance	253	302	231	233
Acquisitions	22	2	22	-
Disposals	(9)	(57)	(10)	(5)
Revaluation	17	27	20	21
Depreciation	(21)	(21)	(20)	(18)
Closing balance	262	253	243	231
Leasehold Improvements				
Opening balance	281	228	235	175
Acquisitions	78	119	62	117
Disposals	(8)	(11)	(6)	(12)
Depreciation	(58)	(55)	(46)	(45)
Closing balance	293	281	245	235
Equipment				
Opening balance	191	150	108	71
Acquisitions	115	96	80	58
Disposals	-	(4)	-	-
Depreciation	(69)	(51)	(35)	(21)
Closing balance	237	191	153	108
Assets Under Lease				
Opening balance	67	-	-	-
Acquisitions	71	67	-	-
Depreciation	(8)	-	-	-
Closing balance	130	67	-	-
Investment Property				
Opening balance	252	-	-	-
Acquisitions	-	252	-	-
Closing balance	252	252	-	-

Notes to the financial statements

NOTE 20 Intangible Assets

	GROUP		BANK	
	2005	2004	2005	2004
	\$M	\$M	\$M	\$M
Purchased goodwill - Colonial	5,591	5,591	2,671	2,671
Purchased goodwill - Other	1,169	1,155	835	835
Realisation of life insurance synergy benefits	(332)	(332)	-	-
Accumulated amortisation	(2,034)	(1,709)	(1,170)	(984)
Total Intangibles	4,394	4,705	2,336	2,522

Segment Allocation of Goodwill

In recognition of the disclosure requirements of US SFAS 141: Business Combinations and the Australian Accounting Standard AASB 138: Intangible Assets (effective 1 July 2004), the Group's carrying amount of goodwill is disclosed for each segment of business.

Segment	2005	2004
	\$M	\$M
Banking ⁽¹⁾	4,090	4,379
Funds Management ⁽²⁾	236	253
Insurance ⁽²⁾	68	73
Total	4,394	4,705

⁽¹⁾ The allocation to banking includes goodwill related to the acquisitions of Colonial, State Bank of Victoria and 25% of ASB Bank.

⁽²⁾ The allocation to funds management and insurance principally relates to the goodwill on acquisition of Colonial.

Additional to the Colonial goodwill acquired, \$2,548 million in excess of net market value over net assets of life insurance controlled entities was booked at acquisition of the Colonial funds management and life insurance businesses in June 2000.

Notes to the financial statements

NOTE 21 Other Assets

	GROUP		BANK	
	2005	2004	2005	2004
	\$M	\$M	\$M	\$M
Accrued interest receivable	1,197	1,208	1,503	1,247
Shares in other companies	267	223	133	80
Accrued fees/reimbursements receivable	641	600	507	602
Securities sold not delivered	907	1,540	625	1,347
Future income tax benefits	650	564	577	423
Excess of net market value over net assets of life insurance controlled entities	6,549	5,741	-	-
Excess related to outside equity interests ⁽¹⁾	111	111	-	-
Unrealised gains on trading derivatives (Note 39)	12,144	12,827	12,043	12,798
Intergroup current tax receivable	-	-	55	104
Intergroup deferred tax receivable	-	-	549	317
Other	1,775	2,478	1,208	1,931
Total Other Assets	24,241	25,292	17,200	18,849

1. ⁽¹⁾ This is an outside equity interest in a funds management business acquired during 2003, and is not included in the revaluation in Note 34 Life Insurance Business.

2.

Potential future income tax benefits of the Company arising from:

- Capital losses arising under the tax consolidations system; and
- Tax losses and timing differences in offshore centres, have not been recognised as assets because recovery is not virtually certain.

These benefits could amount to:

- \$44 million (2004: \$34 million) in capital losses; and
- \$115 million (2004: \$136 million) in offshore centres.

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 the deductions for the losses.

Excess of net market value over net assets of controlled entities of the life insurance businesses:

	GROUP		
	At 30 June 2005		
	Market Value	Net Assets	Excess of Market Value Over Net Assets
	\$M	\$M	\$M
Commonwealth and Colonial entities	7,944	2,104	5,840
ASB entities	1,118	409	709
	9,062	2,513	6,549

	GROUP		
	At 30 June 2004		
	Market Value	Net Assets	Excess of Market Value Over Net Assets
	\$M	\$M	\$M
Commonwealth and Colonial entities	7,424	2,246	5,178
ASB entities	978	415	563
	8,402	2,661	5,741

Notes to the financial statements

NOTE 22 Deposits and Other Public Borrowings

	2005	GROUP 2004	2005	BANK 2004
	\$M	\$M	\$M	\$M
Australia				
Certificates of deposit	16,041	20,516	16,041	20,516
Term deposits	41,582	38,530	39,993	36,714
On demand and short term deposits	75,410	71,115	75,806	71,289
Deposits not bearing interest	5,823	5,407	5,853	5,431
Securities sold under agreements to repurchase and short sales	2,258	3,585	2,258	3,648
Total Australia	<u>141,114</u>	<u>139,153</u>	<u>139,951</u>	<u>137,598</u>
Overseas				
Certificates of deposit	3,105	3,716	386	1,906
Term deposits	13,617	11,724	2,998	2,448
On demand and short term deposits	8,633	6,852	113	73
Deposits not bearing interest	1,155	1,174	5	11
Securities sold under agreements to repurchase and short sales	405	558	405	433
Total Overseas	<u>26,915</u>	<u>24,024</u>	<u>3,907</u>	<u>4,871</u>
Total Deposits and Other Public Borrowings	<u>168,029</u>	<u>163,177</u>	<u>143,858</u>	<u>142,469</u>

Maturity Distribution of Certificates of Deposit and Time Deposits

The following table sets forth the maturity distribution of the Group's certificates of deposit and time deposits as at 30 June 2005.

	GROUP At 30 June 2005				
	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⁾	7,912	5,078	1,427	1,624	16,041
Time deposits	20,075	14,527	4,665	2,315	41,582
Total Australia	<u>27,987</u>	<u>19,605</u>	<u>6,092</u>	<u>3,939</u>	<u>57,623</u>
Overseas					
Certificates of deposit ⁽¹⁾	2,355	373	321	56	3,105
Time deposits	9,632	2,795	772	418	13,617
Total Overseas	<u>11,987</u>	<u>3,168</u>	<u>1,093</u>	<u>474</u>	<u>16,722</u>
Total Certificates of Deposit and Time Deposits	<u>39,974</u>	<u>22,773</u>	<u>7,185</u>	<u>4,413</u>	<u>74,345</u>

3. ⁽¹⁾ All certificates of deposit issued by the Bank are for amounts greater than \$100,000.

Notes to the financial statements

NOTE 23 Payables to Other Financial Institutions

	2005	GROUP 2004	2005	BANK 2004
	\$M	\$M	\$M	\$M
Australia	2,708	2,383	2,712	2,383
Overseas	5,315	4,258	5,257	4,228
Total Payables to Other Financial Institutions	8,023	6,641	7,969	6,611

NOTE 24 Income Tax Liability

	2005	GROUP 2004	2005	BANK 2004
	\$M	\$M	\$M	\$M
Australia				
Provision for income tax	808	402	757	352
Provision for deferred income tax	657	355	657	332
Total Australia	1,465	757	1,414	684
Overseas				
Provision for income tax	25	25	7	6
Provision for deferred income tax	60	29	-	-
Total Overseas	85	54	7	6
Total Income Tax Liability	1,550	811	1,421	690

Notes to the financial statements

NOTE 25 Other Provisions

	2005	GROUP 2004	2005	BANK 2004
	\$M	\$M	\$M	\$M
Provision for:				
Long service leave	296	300	285	293
Annual leave	146	130	126	112
Other employee entitlements	82	98	82	98
Which new Bank costs	91	208	91	208
Restructuring costs	18	-	18	-
General insurance claims	100	79	-	-
Self insurance/non lending losses	66	60	66	59
Other	82	122	41	49
Total Other Provisions	881	997	709	819

	2005	GROUP 2004	2005	BANK 2004
	\$M	\$M	\$M	\$M
Which new Bank costs:				
Opening balance	208	-	208	-
Additional provision	-	208	-	208
Transfers	(20)	-	(20)	-
Amounts utilised during the year	(97)	-	(97)	-
Closing balance	91	208	91	208

Restructuring costs:				
Opening balance	-	30	-	29
Additional provision	22	-	22	-
Amounts utilised during the year	(4)	(30)	(4)	(29)
Closing balance	18	-	18	-

General insurance claims:				
Opening balance	79	66	-	-
Additional provision	61	44	-	-
Amounts utilised during the year	(40)	(31)	-	-
Closing balance	100	79	-	-

Self insurance/non lending losses:				
Opening balance	60	56	59	55
Additional provision	34	13	34	13
Amounts utilised during the year	(28)	(9)	(27)	(9)
Closing balance	66	60	66	59

Other:				
Opening balance	122	107	49	63
Additional provision	29	70	24	6
Amounts utilised during the year	(69)	(54)	(32)	(20)
Foreign exchange translation adjustment	-	(1)	-	-
Closing balance	82	122	41	49

Notes to the financial statements

NOTE 26 Debt Issues

	GROUP		BANK	
	2005	2004	2005	2004
	\$M	\$M	\$M	\$M
Short term debt issues	26,344	20,401	9,500	6,127
Long term debt issues	32,277	23,641	31,187	18,322
Total Debt Issues	58,621	44,042	40,687	24,449
Short Term Debt Issues				
AUD Promissory Notes	1,214	1,450	-	-
AUD Bank Bills	624	490	-	-
US Commercial Paper	10,141	9,381	-	-
Euro Commercial Paper	4,976	3,638	3,065	2,498
Long Term Debt Issues with less than one year to maturity	9,389	5,442	6,435	3,629
Total Short Term Debt Issues	26,344	20,401	9,500	6,127
Long Term Debt Issues				
USD Medium Term Notes	15,358	8,790	15,680	8,146
AUD Medium Term Notes	4,850	4,453	6,272	2,813
JPY Medium Term Notes	868	734	692	520
GBP Medium Term Notes	4,401	3,837	2,736	1,981
Other Currencies Medium Term Notes	6,596	5,583	5,807	4,822
Offshore Loans (all JPY)	-	40	-	40
Eurobonds	204	204	-	-
Total Long Term Debt Issues	32,277	23,641	31,187	18,322
Maturity Distribution of Debt Issues				
Less than 3 months	11,055	6,949	6,006	1,925
3 months to 12 months	15,288	13,452	3,493	4,202
Between 1 and 5 years	22,312	17,542	21,320	12,224
Greater than 5 years	9,966	6,099	9,868	6,098
Total Debt Issues	58,621	44,042	40,687	24,449

The Bank has a Euro Medium Term Note programme under which it may issue notes ("EMTNs") up to an aggregate amount of USD35 billion. Notes issued under the programme are both fixed and variable rates. Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework.

Subsequent to 30 June 2005, the Bank has issued:

- USD medium term notes: between 1 and 5 years – USD100 million (AUD130.80 million); Greater than 5 years – USD143.44 million (AUD187.62 million);
- USD extendible notes: between 1 and 5 years – USD2,100 million (AUD2,746.78 million);
- JPY medium term notes: between 1 and 5 years – JPY4 billion (AUD47.49 million); Greater than 5 years – JPY6 billion (AUD71.23 million);

- CHF medium term notes: between 1 and 5 years – CHF300 million (AUD306.67 million);
- CAD medium term notes: between 1 and 5 years – CAD25 million (AUD26.6 million); and
- HKD medium term notes: between 1 and 5 years – HKD400 million (AUD67.33 million); Greater than 5 years – HKD207 million (AUD34.9 million).

Where any debt issue is booked in an offshore branch or subsidiary, the amounts have first been converted into the base 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, swap or other hedge arrangements have been entered into.

Notes to the financial statements

NOTE 26 Debt Issues continued

Short Term Borrowings

The following table analyses the Group's short term borrowings for the financial years ended 30 June 2003, 2004 and 2005.

	GROUP		
	Year Ended 30 June		
	2005	2004	2003
	(AUD Millions, except where indicated)		
US Commercial Paper			
Outstanding at period end ⁽¹⁾	10,141	9,381	6,163
Maximum amount outstanding at any month end ⁽²⁾	10,178	11,983	8,973
Approximate average amount outstanding ⁽²⁾	9,839	8,161	5,890
Approximate weighted average rate on:			
Average amount outstanding	1.2%	1.1%	1.4%
Outstanding at period end	1.5%	1.2%	1.2%
Euro Commercial Paper			
Outstanding at period end ⁽¹⁾	4,976	3,638	5,738
Maximum amount outstanding at any month end ⁽²⁾	6,146	6,402	5,990
Approximate average amount outstanding ⁽²⁾	3,800	4,798	3,132
Approximate weighted average rate on:			
Average amount outstanding	2.2%	1.0%	1.3%
Outstanding at period end	2.8%	1.2%	1.1%
Bill Reliquification ⁽³⁾			
Maximum amount outstanding at any month end ⁽²⁾	-	-	250
Approximate average amount outstanding ⁽²⁾	-	-	23
Approximate weighted average rate on:			
Average amount outstanding	-	-	4.9%
Other Commercial Paper			
Outstanding at period end ⁽¹⁾	1,838	1,940	2,420
Maximum amount outstanding at any month end ⁽²⁾	2,110	3,216	3,066
Approximate average amount outstanding ⁽²⁾	1,790	2,675	2,476
Approximate weighted average rate on:			
Average amount outstanding	5.8%	5.2%	3.7%
Outstanding at period end	5.7%	5.6%	3.9%

⁽¹⁾ The amount outstanding at period end is reported on a book value basis (amortised cost).

⁽²⁾ The maximum and average amounts over the period are reported on a face value basis because the book values of these amounts are not available. Any difference between face value and book value would not be material given the short term nature of the borrowings.

⁽³⁾ Commercial bills sold under non recourse arrangements.

Exchange Rates Utilised

As at		30 June 2005	30 June 2004
AUD 1.00 =	USD	0.7643	0.6894
	GBP	0.4223	0.3823
	JPY	84.165	74.914
	NZD	1.090	1.097
	HKD	5.940	5.378
	DEM	1.235	1.116
	CHF	0.978	0.8720
	IDR	7,425	6,487
	THB	31.531	28.229
	FJD	1.301	1.239
	PHP	42.946	38.731
	EUR	0.6316	0.5706

Notes to the financial statements

NOTE 26 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 Bank's 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 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; 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 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 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 (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 Transfers of Business Act 1999. The NSW Government guarantee of the liabilities and products as described above continues unchanged by the succession.

Note 27 Bills Payable and Other Liabilities

	GROUP		BANK	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Bills payable	928	980	863	950
Accrued interest payable	1,355	1,325	1,226	1,140
Accrued fees and other items payable	1,255	1,151	860	829
Securities purchased not delivered	1,065	1,649	796	1,458
Unrealised losses on trading derivatives (Note 39)	11,914	12,188	11,854	12,156
Intergroup deferred tax payable	-	-	60	153
Other liabilities	1,569	1,847	999	1,202
Total Bills Payable and Other Liabilities	18,086	19,140	16,658	17,888

Notes to the financial statements

NOTE 28 Loan Capital

	Currency	Amount (M)	Footnotes	GROUP			BANK		
				2005 \$M	2004 \$M	2003 \$M	2005 \$M	2004 \$M	2003 \$M
Tier 1 Capital									
Exchangeable	FRN	USD38	(1)	49	55	59	49	55	59
Exchangeable	FRN	USD95	(2)	124	138	142	124	138	142
Undated	FRN	USD100	(3)	131	145	150	131	145	150
Undated	TPS	USD550	(4)	-	-	-	719	799	-
				304	338	351	1,023	1,137	351
Tier 2 Capital									
Extendible	FRN	AUD25	(5)	-	25	25	-	25	25
Extendible	FRN	AUD275	(5)	275	275	275	275	275	275
Subordinated	MTN	AUD185	(6)	-	-	185	-	-	185
Subordinated	FRN	AUD115	(6)	-	-	115	-	-	115
Subordinated	FRN	AUD25	(7)	25	25	25	25	25	25
Subordinated	MTN	AUD200	(8)	-	200	199	-	200	199
Subordinated	FRN	AUD50	(8)	-	50	50	-	50	50
Subordinated	Notes	USD300	(9)	549	549	549	549	549	549
Subordinated	FRN	USD450	(9)	-	650	672	-	650	672
Subordinated	EMTN	JPY20,000	(10)	216	240	248	216	240	248
Subordinated	EMTN	USD200	(11)	-	313	313	-	313	313
Subordinated	EMTN	USD75	(12)	-	115	115	-	115	115
Subordinated	EMTN	USD100	(13)	-	152	152	-	152	152
Subordinated	EMTN	USD400	(14)	501	501	501	501	501	501
Subordinated	EMTN	GBP200	(15)	408	408	408	408	408	408
Subordinated	EMTN	JPY30,000	(16)	387	429	444	387	429	444
Subordinated	Loan	NZD100	(17)	-	92	88	-	-	-
Subordinated	FRN	AUD210	(18)	-	210	210	-	210	210
Subordinated	FRN	AUD38	(19)	-	38	38	-	38	38
Subordinated	Notes	AUD130	(20)	130	130	130	130	130	130
Subordinated	Other	AUD21	(21)	-	21	35	-	21	35
Subordinated	Notes	USD350	(22)	536	512	524	536	512	524
Subordinated	EMTN	GBP150	(23)	373	373	373	373	373	373
Subordinated	MTN	AUD300	(24)	300	300	-	300	300	-
Subordinated	FRN	AUD200	(24)	200	200	-	200	200	-
Subordinated	EMTN	JPY10,000	(25)	127	127	-	127	127	-
Subordinated	EMTN	USD500	(26)	711	358	-	711	358	-
Subordinated	FRN	AUD300	(27)	300	-	-	300	-	-
Subordinated	EMTN	EUR300	(28)	501	-	-	501	-	-
Subordinated	EMTN	USD100	(29)	126	-	-	126	-	-
Subordinated	Notes	NZD350	(30)	322	-	-	322	-	-
				5,987	6,293	5,674	5,987	6,201	5,586
Total Loan Capital				6,291	6,631	6,025	7,010	7,338	5,937

Where a foreign currency hedge is in place to utilise a loan capital issue in a currency other than that of its original issue, the AUD equivalent value is shown net of the hedge.

(1) USD 300 million undated Floating Rate Notes ("FRNs") issued 11 July 1988 exchangeable into dated FRNs.

Outstanding notes at 30 June 2005 were:
 Due July 2006 : USD32.5 million
 Undated : USD5 million

(2) USD 400 million undated FRNs issued 22 February 1989 exchangeable into dated FRNs.

Outstanding notes at 30 June 2005 were:
 Due February 2006 : USD24 million
 Due February 2008 : USD7 million
 Undated : USD64 million

(3) 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.

Notes to the financial statements

NOTE 28 Loan Capital continued

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.

(4) USD550 million convertible notes issued August 2003.

(5) AUD275 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. For capital adequacy purposes Tier Two debt based capital is reduced each year by 20% of the original amount during the last 5 years to maturity.

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.

(6) AUD300 million subordinated notes, issued February 1999; due February 2009, split into AUD185 million fixed rate notes and AUD115 million floating rate notes. Called and redeemed February 2004.

(7) AUD25 million subordinated FRN, issued April 1999, due April 2029.

(8) AUD250 million subordinated notes, issued November 1999, due November 2009; split into AUD200 million fixed rate notes and AUD50 million floating rate notes. Called and redeemed November 2004.

(9) USD750 million subordinated notes, issued June 2000, due June 2010; split into USD300 million fixed rate notes and USD450 million floating rate notes. The floating rate notes were called and redeemed in June 2005.

(10) JPY20 billion perpetual subordinated EMTN, issued February 1999.

(11) USD200 million subordinated EMTN, issued November 1999, due November 2009. Called and redeemed November 2004.

(12) USD75 million subordinated EMTN, issued January 2000, due January 2010. Called and redeemed January 2005.

(13) USD100 million subordinated EMTN, issued January 2000, due January 2010. Called and redeemed January 2005.

(14) USD400 million subordinated EMTN issued June 1996 due July 2006.

(15) GBP200 million subordinated EMTN issued March 1996 due December 2006.

(16) JPY30 billion subordinated EMTN issued October 1995 due October 2015.

(17) NZD100 million subordinated loan matures 15 December 2009. Called and repaid December 2004.

(18) AUD210 million Euro FRN issued September 1996, matured September 2004.

(19) AUD38 million FRN issued December 1997, matured December 2004.

(20) AUD130 million subordinated notes comprised as follows: AUD10 million fixed rate notes issued 12 December 1995, maturing 12 December 2005. AUD110 million floating rate notes issued 12 December 1995, maturing 12 December 2005. AUD5 million fixed rate notes issued 17 December 1996, maturing 12 December 2005. AUD5 million floating rate notes issued 17 December 1996, maturing 12 December 2005.

(21) Comprises 8 subordinated notes and FRN issues. The face value amounts are less than \$10 million each and are all in Australian Dollars. The maturities range from August 2009 to October 2009. All called and redeemed between August 2004 and October 2004.

(22) USD350 million subordinated fixed rate note, issued June 2003, due June 2018.

(23) GBP150 million subordinated EMTN, issued June 2003, due December 2023.

(24) AUD500 million subordinated notes, issued February 2004, due February 2014; split into AUD300 million fixed rate notes and AUD200 million floating rate notes.

(25) JPY10 billion subordinated EMTN, issued May 2004, due May 2034.

(26) USD500 million subordinated EMTN issued in June 2004 (USD250 million) and August 2004 (USD250 million), due August 2014.

(27) AUD300 million subordinated floating rate notes, issued February 2005, due February 2015.

(28) EUR300 million subordinated EMTN issued March 2005, due March 2015.

(29) USD100 million subordinated EMTN issued March 2005, due March 2025.

(30) NZD350 million subordinated notes issued May 2005, due April 2015.

Notes to the financial statements

NOTE 29 Share Capital

	2005 \$M	BANK 2004 \$M
Issued and Paid Up Ordinary Capital		
Ordinary Share Capital		
Opening balance	13,359	12,678
Dividend Reinvestment Plan: Final Dividend prior year	246	201
Dividend Reinvestment Plan: Interim Dividend	200	188
Share buy back	-	(213)
Share purchase plan	-	467
Exercise of Executive Options	67	38
Issue costs	(1)	-
Closing balance	<u>13,871</u>	<u>13,359</u>
Shares on Issue		
	Number	Number
Opening balance	<u>1,264,006,062</u>	1,253,581,363
Dividend reinvestment plan issues:		
2003/2004 Final Dividend fully paid ordinary shares at \$30.14	8,172,546	-
2004/2005 Interim Dividend fully paid ordinary shares at \$35.90	5,581,364	-
2002/2003 Final Dividend fully paid ordinary shares at \$28.03	-	7,165,289
2003/2004 Interim Dividend fully paid ordinary shares at \$31.61	-	5,916,319
Share buy back	-	(19,360,759)
Share purchase plan shares issued at \$31.36	-	14,891,250
Exercise under Executive Option Plan	2,516,200	1,812,600
Closing balance	<u>1,280,276,172</u>	<u>1,264,006,062</u>

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.

Preference Share Capital

	2005 \$M	BANK 2004 \$M
PERLS		
PERLS Capital issued and paid up	<u>687</u>	<u>687</u>
	Number	Number
	<u>3,500,000</u>	<u>3,500,000</u>

Commonwealth Bank PERLS ("PERLS") are perpetual preference shares that offer a quarterly, floating rate dividend. PERLS represent a less expensive form of equity funding than ordinary shares and increase the diversity and flexibility of the Bank's capital base.

A holder of PERLS on the relevant record date is entitled to receive on each relevant dividend payment date, if determined by the Directors to be payable, a dividend. If a dividend is not paid the Bank will not be permitted to pay

dividends on any of its ordinary shares until four consecutive dividends are paid on the PERLS. Holders of Commonwealth Bank PERLS will rank ahead of holders of ordinary shares in a winding up to the extent of the issue price of the Commonwealth Bank PERLS. PERLS are listed and traded on the Australian Stock Exchange.

Holders of PERLS are entitled to vote at a general meeting of the issuer in limited circumstances.

	GROUP		BANK	
	2005	2004	2005	2004
Other Equity Instruments	\$M	\$M	\$M	\$M
Other equity instruments issued and paid up	1,573	1,573	737	737
	Number	Number	Number	Number
	<u>4,300,000</u>	<u>4,300,000</u>	<u>550,000</u>	<u>550,000</u>

Notes to the financial statements

NOTE 29 Share Capital continued

Issue of other equity instruments

Trust Preferred Securities

On 6 August 2003 a wholly owned entity of the Bank issued USD550 million (AUD832 million) of perpetual non call 12 year trust preferred securities into the US Capital Markets. These securities offer a non-cumulative fixed rate distribution of 5.805% per annum payable semi-annually. The securities qualify as Tier One capital of the Bank.

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) issued \$750 million of Perpetual Exchangeable Resettable Listed Securities (PERLS II). These securities are units in a registered managed investments scheme, perpetual in nature, offering a non-cumulative floating rate distribution payable quarterly. The securities qualify as Tier One capital of the Bank.

Share Buy-back

On 29 March 2004 the Bank announced the successful completion of an off-market share buy-back. A total of 19,360,759 shares were bought back at \$27.50 per share, for a total cost of \$532.4 million. An amount of \$11 per share of the consideration for each share bought back was charged to paid up capital (total \$213.0 million). The balance of \$16.50 per share was deemed to be a fully franked dividend for tax purposes and charged to retained profits (total \$319.4 million).

In accordance with the ATO Class Ruling CR2004/65, the "market value" of the shares bought back for tax purposes was \$30.42 ("Tax Value"). For capital gains tax purposes an Australian resident individual or complying superannuation entity shareholder participating in the buy-back will be deemed to have disposed of each share bought back for deemed capital proceeds of \$11.00 plus the amount by which the Tax Value exceeds the buy-back price. The Tax Value exceeded the buy-back price by \$2.92 (\$30.42 - \$27.50). Accordingly, for capital gains tax purposes, the deemed disposal price for each share sold into the buy-back was \$13.92 (\$11.00 + \$2.92).

Share Purchase Plan

In 2004 the Bank introduced a Share Purchase Plan (SPP). On 25 June 2004 a total of 14,891,250 shares were issued at \$31.36 per share, for a total of \$467 million, in respect of the SPP.

Dividends

The Directors have declared a fully franked (at 30%) final dividend of 112 cents per share amounting to \$1,434 million. The dividend will be payable on 23 September 2005 to shareholders on the register at 5pm on 19 August 2005. Dividends paid by the end of the previous financial year:

- As declared in last year's report, a fully franked final dividend of 104 cents per share amounting to \$1,315 million was paid on 24 September 2004. The payment comprised cash disbursements of \$1,069 million with \$246 million being reinvested by participants through the Dividend Reinvestment Plan;
- In respect of the current year, a fully franked interim dividend of 85 cents per share amounting to \$1,083 million was paid on 31 March 2005. The payment comprised cash disbursements of \$883 million with \$200 million being reinvested by participants through the Dividend Reinvestment Plan; and

- Additionally, quarterly dividends totalling \$39 million for the year were paid on the PERLS; \$34 million on the PERLS II; \$42 million on the Trust Preferred Securities; \$9 million on the ASB Capital preference shares; and \$7 million on the ASB Capital No.2 preference shares.

Dividend Reinvestment Plan

The Bank expects to issue around \$272 million of shares in respect of the Dividend Reinvestment Plan for the final dividend for 2004/05.

The Dividend Reinvestment Plan continues to be capped at 10,000 shares per shareholder.

Record Date

The register closes for determination of dividend entitlement and for participation in the dividend reinvestment plan at 5:00pm on 19 August 2005 at ASX Perpetual Registrars Limited, Locked Bag A14, Sydney South, 1235.

Ex Dividend Date

The ex dividend date is 15 August 2005.

Employee Share Plans

The Bank has in place the following employee share plans:

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

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

Employee Share Acquisition Plan ("ESAP")

The ESAP was introduced in 1996 and provides employees with up to \$1,000 worth of free shares per annum subject to a performance target being met. 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. In the current year, 699,918 shares were granted to eligible employees in respect of the 2004 grant.

The Bank has determined to allocate each eligible employee shares up to a value of \$1,000 in respect of the 2005 grant. As a result, an amount of \$27 million has been accrued in respect of the year ended 30 June 2005. The shares will be purchased on-market at the then market price.

Notes to the financial statements

NOTE 29 Share Capital continued

From 1 July 2000 to 30 June 2002, details of issues under ESAP were:

Issue Date	Bonus Ordinary Shares Issued ⁽¹⁾	No. of Participants	Shares issued to Each Participant	Issue Price ⁽²⁾
13 Oct 2000	872,620	24,932	35	\$27.78
20 Dec 2000	805	23	35	\$27.78
31 Oct 2001	893,554	26,281	34	\$28.95
3 Dec 2001	3,876	114	34	\$28.95
31 Jan 2002	1,938	57	34	\$28.95

From 1 July 2002, details of shares purchased under ESAP were:

Purchase Date	Ordinary Shares Purchased	No. of Participants	Shares allocated to Each Participant	Allocation Price ⁽³⁾
31 Oct 2002	830,874	25,178	33	\$29.71
22 Jan 2003	1,584	48	33	\$29.71
31 Oct 2003	683,617	23,573	29	\$27.53
29 Oct 2004	699,918	22,578	31	\$31.52

(1) For Offers in 2000 and 2001 both new and existing Shareholders were granted Bonus Ordinary Shares issued from the Share Capital Account.

(2) The Issue Price x Shares issued to each Participant effectively represents about \$1,000 of free shares.

(3) The Allocation Price for the offer is equal to the market value which is determined by calculating the weighted average of the prices at which the shares were traded on the ASX during the five trading day period up to and including the grant date. The Allocation Price x Shares issued to each participant effectively represents about \$1,000 of free shares for the 2002 and 2004 Offers and \$800 of free shares for the 2003 Offer.

Equity Participation Plan ("EPP")

The EPP facilitates the voluntary sacrifice of both fixed remuneration and annual short term incentives (STI) to be applied in the acquisition of shares. The plan previously also facilitated the mandatory sacrifice of 50% of STI payments for some employees. However the mandatory component of EPP ceased for the year ending 30 June 2005 and was replaced with a separate cash STI

deferral arrangement for eligible employees. Shares previously granted under the mandatory component of the EPP remain subject to their vesting conditions.

All shares acquired by employees under this plan are purchased on-market at the current market price. A total number of 7,952,277 shares have been acquired under the EPP since the plan commenced in 2001.

Details of purchases under the EPP from 1 July 2004 to 30 June 2005 were as follows:

Allotment Date	Participants	Shares Purchased	Average Purchase Price
24 Sept 2004	1,449	1,858,984	\$29.85
30 Sept 2004	756	259,890	\$30.05
30 Dec 2004	80	12,274	\$32.11
22 Apr 2005	57	8,704	\$35.97

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 Bank, 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 were purchased and held in trust until such time as the vesting conditions were met. The vesting condition attached to the shares specifies that participants must remain employees of the Bank until the

The movement in shares purchased under the mandatory component of the EPP has been as follows:

Details of Movements	July 04 – June 05	July 03 - June 04
Shares held under the Plan at the beginning of year	2,790,353	2,497,184
Shares allocated during year	2,067,281	2,121,075
Shares vested during year	(2,016,790)	(1,715,807)
Shares forfeited during year	(224,073)	(112,099)
Shares held under the Plan at end of year	2,616,771	2,790,353

Shares acquired under both the voluntary and mandatory components of the EPP have been expensed through the profit and loss. In the current year, \$2.5 million was expensed through the profit and loss

vesting date (generally a period of one and two years after the STI award period).

Each participant of 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 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.

to reflect the cost of allocations under the plan. The expense through the profit and loss for the current year is lower than previous years due to the discontinuation of the mandatory component of the EPP.

Notes to the financial statements

NOTE 29 Share Capital continued

Equity Reward Plan ("ERP")

The Board has 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 and grants of shares. Since 2001/2002, no options have been issued under the ERP. From 2002/2003, Reward Shares only have been issued under this plan.

The exercise of previously granted options and the vesting of employee legal title to the shares is conditional on the Bank achieving a prescribed performance hurdle. The ERP performance hurdle is based on relative Total Shareholder Return ("TSR") with the Bank's TSR performance being measured against a comparator group of companies.

The prescribed performance hurdle for options and Reward Shares issued prior to 2002/2003 which has now been met was:

- The Bank's TSR (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed the index of TSR achieved by the comparator group of companies. The comparator group (previously companies represented in the ASX 'Banks and Finance Accumulation Index' excluding the Bank) was widened in 2001/2002 to better reflect the Bank's business mix; and
- If the performance hurdle is not reached within that three years the options may nevertheless be exercisable or the shares vest, only where the hurdle is subsequently reached within five years from the grant date.

For Reward Shares granted from 2002/2003 onwards, a tiered vesting scale was introduced so that 50% of the allocated shares vest if the Bank's TSR is equal to the 50th percentile return, 75% vest at the 67th percentile and 100% when the Bank's return is in the top quartile.

Where the 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 half yearly windows, over the next two years. The vesting percentage will be the higher of the rating determined at the third year anniversary of the grant and the rating determined at the half yearly measurement point at which the executive nominates that the shares will vest.

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 at one of the half yearly measurement points prior to the fifth anniversary, but the maximum vesting will be 50%.

Reward Shares acquired under the share component of the ERP are purchased on-market at the current market price. The cost of shares acquired is expensed through the profit and loss over a three year period, reflecting the minimum vesting period. In the current year, \$12 million has been expensed through the profit and loss.

Executive options issued up to September 2001 have not been recorded as an expense by the Group.

Details of options issued and shares acquired under ERP as well as movements in the options and shares are as follows:

Options

Year of Grant	Commencement Date	Issue Date	Options Issued	Options Outstanding ⁽¹⁾	Participants	Exercise Price	Exercise Period
2000	13 Sep 2000	7 Feb 01	577,500	247,500	16	\$26.97 ⁽²⁾	14 Sep 2003 to 13 Sep 2010 ⁽³⁾
	13 Sep 2000	31 Oct 01	12,500	-	1	\$26.97 ⁽²⁾	14 Sep 2003 to 13 Sep 2010 ⁽³⁾
2001	3 Sep 2001	31 Oct 01	2,882,000	1,689,100	61	\$30.12 ⁽²⁾	4 Sep 2004 to 3 Sep 2011 ⁽⁴⁾
	3 Sep 2001	31 Jan 02	12,500	12,500	1	\$30.12 ⁽²⁾	4 Sep 2004 to 3 Sep 2011 ⁽⁴⁾
	3 Sep 2001	15 Apr 02	100,000	100,000	1	\$30.12 ⁽²⁾	4 Sep 2004 to 3 Sep 2011 ⁽⁴⁾

⁽¹⁾ Options outstanding as at the date of the report.

⁽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.

Options - Details of Movements

Year of Grant	July 2003 - June 2004		July 2004 - June 2005	
	2000	2001	2000	2001
Total options:				
Held by participants at the start of year	427,500	2,336,400	402,500	2,235,200
Granted during year	-	-	-	-
Exercised during year	-	-	155,000	403,900
Lapsed during year	-	101,200	-	29,700
Outstanding at the end of year	427,500	2,235,200	247,500	1,801,600
Granted from 30 June to the date of report	-	-	-	-
Exercised from 30 June to date of report	25,000	-	-	50,000
Lapsed from 30 June to the date of report	-	-	-	-
Outstanding as at the date of report	402,500	2,235,200	247,500	1,751,600

Notes to the financial statements

NOTE 29 Share Capital continued

Reward Shares

Year of Grant	Purchase Date	Shares Purchased	Shares Allocated	Participants	Vesting Period	Average Purchase Price
2000	20 Feb 2001	361,100	361,100	61	14 Sept 2003 to 13 Sept 2005 ⁽⁵⁾	\$29.72
	31 Oct 2001	2,000	2,000	1	14 Sept 2003 to 13 Sept 2005 ⁽⁵⁾	\$29.25
2001	31 Oct 2001	652,100	661,500 ⁽¹⁾	241	4 Sept 2004 to 3 Sept 2006 ⁽⁶⁾	\$29.25
2002	22 Nov 2002	357,500	545,500 ⁽²⁾	195	3 Sept 2005 to 2 Sept 2007 ⁽⁷⁾	\$28.26
2003	12 Nov 2003	285,531	595,600 ⁽³⁾	255	2 Sept 2006 to 1 Sept 2008 ⁽⁷⁾	\$28.33
2004	11 Nov 2004	225,934	522,290 ⁽⁴⁾	259	23 Aug 2007 to 23 Aug 2009 ⁽⁷⁾	\$29.87

⁽¹⁾ In October 2001, 11,400 Reward Shares were re-allocated to participants receiving the 2001 grant as a result of reward shares forfeited from previous ERP grant.

⁽²⁾ In November 2002, 188,000 shares were re-allocated to participants receiving the 2002 grant as a result of shares forfeited from previous grants. The total number of Reward Shares allocated in 2002 represents fifty percent of the maximum entitlement that participants may receive. It is intended that Reward Shares required to meet obligations under ERP will be acquired by the trust on-market during the term of the grant and (if required) shortly after the time of vesting.

⁽³⁾ In November 2003, 310,069 shares were re-allocated to participants receiving the 2003 grant as a result of shares forfeited from previous grants. The total number of Reward Shares allocated in 2003 represents fifty percent of the

maximum entitlement that participants may receive – refer to footnote 2 above for further information.

⁽⁴⁾ In November 2004, 296,356 shares were re-allocated to participants receiving the 2004 grant as a result of shares forfeited from previous grants. The total number of Reward Shares allocated in 2004 represents fifty percent of the maximum entitlement that participants may receive – refer to footnote 2 above for further information.

⁽⁵⁾ Performance hurdle was satisfied on 31 March 2004 and as a result 195,700 shares vested to participants of the 2000 grant.

⁽⁶⁾ Performance hurdle was satisfied on 3 October 2004 and as a result 423,500 shares vested to participants of the 2001 grant.

⁽⁷⁾ Performance hurdle must be satisfied within the vesting period, otherwise shares will be forfeited.

Reward Shares - Details of Movements

Year of Grant	July 03 - June 04				July 04 - June 05			
	2000	2001	2002	2003	2001	2002	2003	2004
Total reward shares:								
Held by participants at the start of year	217,100	518,500	515,300	-	437,000	445,825	557,500	-
Granted during year	-	-	-	597,100	-	-	-	597,975
Vested during year	195,700	-	-	-	423,500	-	-	-
Lapsed during year	21,400	59,000	43,225	10,725	13,500	68,975	94,650	53,075
Outstanding at the end of year	-	459,500	472,075	586,375	-	376,850	462,850	544,900
Lapsed from 30 June to date of report	-	22,500	26,250	28,875	-	11,400	8,950	8,750
Outstanding as at the date of report	-	437,000	445,825	557,500	-	365,450	453,900	536,150

Executive Option Plan ("EOP")

As previously notified to Shareholders, this plan was discontinued in 2000/2001.

Under the EOP, the Bank granted options to purchase 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 Bank 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 grants prior to 2002/2003.

The last grant under EOP was made in September 2000. The performance hurdles for the August 1999 grant and the September 2000 grant were met in 2004.

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. Once 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.

For a limited number of executives including overseas based staff and those approved by the Chief Executive Officer and ratified by the Board, a cash based 'share replicator' ERP scheme is operated by way of grants of performance units. The performance unit grants are subject to the same vesting conditions as the Reward Share component of the ERP. On meeting the vesting condition, a cash payment is made to executives whereby the value is determined based on the current share price on vesting plus an accrued dividend value. An amount of \$3.1 million has been expensed through the profit and loss in respect of the year ended 30 June 2005 to reflect future payments which may be required under the 'share replicator' plan.

Notes to the financial statements

NOTE 29 Share Capital continued

Details of issues made under EOP as well as movements for 2003/2004 and 2004/2005 are as follows:

Executive Option Plan ("EOP")

Commencement Date	Issue Date	Options Issued	Options Outstanding	Participants	Exercise Price ⁽¹⁾	Exercise Period
3 Nov 1997	11 Dec 1997	2,875,000	-	27	\$15.53 ⁽²⁾	4 Nov 00 to 3 Nov 02
25 Aug 1998	30 Sep 1998	3,275,000	-	32	\$19.58 ⁽²⁾	26 Aug 01 to 25 Aug 03
24 Aug 1999	24 Sep 1999	3,855,000	450,000	38	\$23.84 ⁽²⁾	25 Aug 02 to 24 Aug 09 ⁽³⁾
13 Sep 2000	13 Oct 2000	2,002,500	637,300	50	\$26.97 ⁽²⁾	14 Sep 03 to 13 Sep 10 ⁽⁴⁾

⁽¹⁾ 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.

⁽²⁾ Premium adjustment (based on the actual difference between the dividend and bond yields at the date of vesting) was nil.

⁽³⁾ Performance hurdle for the 1999 grant was satisfied on 28 February 2004 and options may be exercised up to 24 August 2009.

⁽⁴⁾ Performance hurdle for the 2000 grant was satisfied on 31 March 2004 and options may be exercised up to 13 September 2010.

Details of Movements

Year of Grant	1 July 2003 to 30 June 2004 ⁽¹⁾			1 July 2004 to 30 June 2005 ⁽¹⁾	
	1998	1999	2000	1999	2000
Total options -					
Held by participants at the start of year	312,500	3,221,000	1,336,200	1,875,000	1,144,600
Exercised during year	312,500	1,271,000	129,100	1,425,000	507,300
Lapsed during year	-	25,000	12,500	-	-
Outstanding at the end of year	-	1,925,000	1,194,600	450,000	637,300
Exercised from 30 June to date of report	-	50,000	50,000	-	75,400
Lapsed from 30 June to date of report	-	-	-	-	-
Outstanding as at the date of report	-	1,875,000	1,144,600	450,000	561,900

⁽¹⁾ The EOP was discontinued in 2000/2001 and no options have been granted under the plan during the last four reporting periods.

Summary of shares issued during the period 1 July 2004 to the date of the report as a result of options being exercised are:

Option Issue Date	Shares Issued	Price paid per Share	Total Consideration Paid
24 Sep 1999	1,475,000	\$23.84	\$35,164,000
13 Oct 2000	632,700	\$26.97	\$17,063,919
7 Feb 2001	180,000	\$26.97	\$4,854,600
3 Sep 2001	453,900	\$30.12	\$13,671,468

No amount is unpaid in respect of the shares issued upon exercise of the options during the above period.

Under the Bank's EOP and ERP an option holder generally has no right to participate in any new issue of securities of the Bank or of a related body corporate as a result of holding the option except that if there is a pro rata issue of shares to the Bank's Shareholders by way of

bonus issue involving capitalisation (other than in place of dividends or by way of dividend reinvestment) an option holder is entitled to receive additional shares upon exercise of the options being 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.

Notes to the financial statements

NOTE 29 Share Capital continued

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. 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 50% of their annual fees for the acquisition of shares.

Shares acquired under the plan receive full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares granted under the NEDSP.

Shares are purchased on-market at the current market price and a total of 41,943 shares have been purchased under the NEDSP since the plan commenced in 2001. Since March 2005, shares are now acquired under the plan on a six monthly basis.

Details of grants under the NEDSP from 1 July 2004 to 30 June 2005 were as follows:

Quarter Ending	Total Fees Sacrificed	Participants	Shares Purchased	Average Purchase Price
30 Sep 2004	\$74,406	11	2,475	\$30.05
31 Dec 2004	\$76,218	9	2,373	\$32.11
31 Mar 2005	\$110,958	9	3,086	\$35.97

The trading restrictions on shares were lifted for two Non-Executive Directors as they ceased to be Non-Executive Directors during the period 1 July 2004 to the date of this report.

For the current year, \$262,000 was expensed through the profit and loss reflecting shares purchased and allocated under the NEDSP.

NOTE 30 Outside Equity Interests

	2005 \$M	GROUP 2004 \$M
Controlled Entities:		
Share Capital ⁽¹⁾	623	300
Retained profits and reserves	8	4
Life Insurance Statutory funds	1,158	2,176
Total Outside Equity Interests	1,789	2,480

⁽¹⁾ ASB Perpetual Preference Shares - \$505 million.

On 10 December 2002, ASB Capital Limited, a New Zealand subsidiary, issued NZD200 million (AUD182 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 NZD350 million (AUD323 million) of perpetual preference shares. Such shares are non-redeemable and carry limited voting rights. Dividends are payable quarterly and are non-cumulative.

Gandel Listed Property Trusts - \$111 million.

In July 2002 Colonial First State Property Retail Pty Ltd was incorporated and in August 2002, the Colonial First State Property Retail Trust ("CFSPRT") was established. Both of these entities are owned 60% by the CBA Group and 40% by outside equity interests. On 30 September 2002, unit holders of the Colonial First State Property Trust Group ("CFT"), the Commonwealth Property Office Fund ("CPA") and the Gandel Retail Trust ("GAN") approved a proposal which saw CPA acquire the industrial/office assets of CFT and GAN acquire the retail assets of CFT. GAN changed its name to the CFS Gandel Retail Trust and CFSPRT became the delegated manager of this trust along with the retail component of a wholesale property trust.

Notes to the financial statements

NOTE 31 Capital Adequacy

Commonwealth Bank of Australia ("the Bank") 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 Basel Accord. These requirements define what is acceptable as capital and provide for standard methods of measuring the risks incurred by the Bank. APRA has set minimum ratios that compare the regulatory capital with risk-weighted on and off balance sheet assets. Regulatory capital requirements are measured for the Bank (known as "Level 1") and for the Bank and its banking subsidiaries (known as "Level 2"). The life insurance and funds management businesses are not consolidated for capital adequacy purposes.

Regulatory capital is divided into Tier One and Tier Two capital. Certain deductions are made from the sum of Tier One and Tier Two capital to arrive at the Capital Base. Tier One capital consists of shareholders' equity plus other capital instruments acceptable to APRA, less goodwill and less the intangible element of the investment in life insurance and funds management businesses. Tier Two capital consists of the general provision for credit losses and other hybrid and debt instruments acceptable to APRA. The tangible element of the investment in life insurance and funds management businesses is deducted from the sum of Tier One and Tier Two capital to arrive at the Capital Base.

In accordance with APRA's methodology, measuring risk requires one of a number of risk weights to be applied to each asset on the balance sheet and to off-balance sheet obligations. The risk weights are 100%, 50%, 20% and 0%. It should be noted that the risk weights are not consistent with the loss experience of the Bank and its subsidiaries. In addition, there is an agreed method for measuring market risk for traded assets.

The regulatory capital ratios of the Bank are shown on page 169. An analysis of the movement in the capital ratios is shown on page 170.

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 earnings without APRA's prior approval. Under APRA guidelines, the expected dividend must be deducted from Tier One capital.

Regulatory Capital Requirements for Other ADIs in the Group

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 2005 ASB Bank Limited Group had a Tier One ratio of 9.7% and a Total Capital ratio of 10.3%.

Regulatory Capital Requirements for Life Insurance and Funds Management Business

The Group's life insurance businesses in Australia are regulated by APRA. The Life Insurance Act 1995 includes a framework for the calculation of the regulatory capital requirements for life insurance companies. There are two tiers to the regulatory capital requirements – 'solvency' and 'capital adequacy'. The capital adequacy test is always equal to or greater than the solvency test. At 30 June 2005, for Australian life insurance companies, the estimated excess over capital adequacy within life insurance statutory funds amounted to \$102 million in aggregate.

The Group owns two life insurance companies in Australia: Commonwealth Insurance Holdings Limited ("CIHL"), and The Colonial Mutual Life Assurance Society Limited ("CMLA").

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 Prudential Reserving Guidance Note of the New Zealand Society of Actuaries.

The life insurance business in Hong Kong is regulated by the Insurance Authority of Hong Kong. The minimum regulatory requirement comprises a solvency test as defined in local regulations and ordinances.

Fund managers in Australia are subject to responsible entity regulation by the Australian Securities and Investment Commission ("ASIC"). The regulatory capital requirements vary for responsible entities depending on the type of Australian Financial Services 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 total Group's life and funds management companies held an estimated \$580 million excess over regulatory capital requirements at 30 June 2005 in aggregate.

Regulatory Changes

Basel II

In June 2004, the Basel Committee on Banking Supervision ("the Basel Committee") issued the Revised Framework for the calculation of capital adequacy for banks, commonly known as Basel II. The objective of the Basel II Framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks.

The Basel II Framework is based on three "pillars". Pillar 1 covers the capital requirements for banks, Pillar 2 covers the supervisory review process and Pillar 3 relates to market disclosure. There are three approaches to credit risk under the Basel II Framework. These are Standardised and two internal ratings-based ("IRB") approaches. The Standardised Approach is a modified version of the current approach, but with risk weights aligned with the credit ratings of borrowers and counterparties. Under the IRB approaches (Foundation and Advanced), banks such as Commonwealth Bank that use internal models to calculate and allocate the amount of capital required for credit risk, may be able to use components of their own calculations to determine the amount of regulatory capital required for credit risk. Under the Foundation IRB Approach, the regulator will, in most cases, provide the parameters. Under the Advanced IRB Approach, substantially all of the parameters will be those used by the bank in its internal models. The Commonwealth Bank is intending to implement the Advanced IRB approach.

The Basel II Framework introduces a capital requirement for operational risk. As with credit risk, there are multiple approaches. The Bank is intending to implement the Advanced Measurement Approach ("AMA").

The current capital requirements for market risk are not expected to change significantly under the Basel II Framework. The Bank is on track to lodge its Accreditation application for Advanced IRB and AMA approaches with APRA by 30 September 2005. The implementation of Basel II in Australia is expected to take place on 1 January 2008.

Notes to the financial statements

NOTE 31 Capital Adequacy continued International Financial Reporting Standards

The Bank will be required to report under the Australian equivalent of International Financial Reporting Standards ("AIFRS") for the financial year commencing 1 July 2005. APRA has stated that it intends to amend its prudential regulations in response to the implementation of AIFRS and that these changes will take effect on 1 July 2006.

Many of the AIFRS changes will have an affect upon the reporting of the Bank's assets and equity. Currently, accounting definitions for asset and equity measurement are central to the capital adequacy requirements set by prudential regulators. In February 2005 APRA released a discussion paper on its proposed changes to fair value and other issues. However, APRA are yet to clarify the full extent of its proposed changes to regulatory capital requirements. As such, it is currently unclear what impact that these changes will have on the Bank's capital adequacy position.

Refer to Note 1 (qq) for further discussion of AIFRS.

Conglomerate Groups

APRA has advised that a third level of capital adequacy ("Level 3") will be implemented to coincide with Basel II. APRA defines a conglomerate group as a group of companies containing one or more Australian incorporated Authorised Deposit-taking Institutions ("ADIs"). The Bank is an ADI and the Commonwealth Bank Group falls within APRA's definition of a conglomerate group. Each conglomerate group will be required to hold capital that corresponds to the corporate structure of that conglomerate. The calculation will have regard to all group members and the capacity to move surplus capital from one group entity to another.

The regulatory capital requirements for each conglomerate group will be specific to that group.

The proposals indicate that the use of internal capital estimation and allocation models may be permitted. However, APRA has not yet specified their requirements for internal models, nor when they will complete their review of the Bank's models.

Whilst the Bank considers that it is strongly capitalised (as evidenced by its credit ratings), no assurance can be given that our models will meet APRA's requirements or that the Bank meets the Level 3 capital requirements.

Active Capital Management

The Bank maintains a strong capital position. The Tier One capital ratio increased from 7.43% to 7.46% and the Total Capital ratio decreased from 10.25% to 9.75% during the year to 30 June 2005. The Bank's credit ratings remained unchanged.

During the year, the Bank's risk-weighted assets grew from \$169 billion to \$190 billion.

The changes in the regulatory capital ratios are attributed to the following movements and significant initiatives undertaken to actively manage the Bank's capital:

Tier One capital

- Issue of NZ\$350 million (AUD\$323 million) of Perpetual Preference Shares in December 2004;
- Issue of \$200 million of shares in March 2005 to satisfy the DRP in respect of the interim dividend for 2004/05; and
- In accordance with APRA guidelines, the estimated issue of \$272 million of shares to satisfy the DRP in respect of the final dividend for 2004/05. Further details of these transactions are provided in Note 29.
- From 1 July 2004, APRA requires banks to deduct certain capitalised expenses from Tier One capital. This change in regulatory requirements resulted in a \$107 million decrease in Tier One capital.

Tier Two capital

- Issue of the equivalent of AUD\$1,554 million Lower Tier Two capital;
- Call of the equivalent of AUD\$1,866 million notes. However, as some of the notes had been amortised in accordance with APRA requirements, the impact was to reduce Tier Two capital in the year to 30 June 2005 by AUD\$1,592 million; and
- Reduction in Tier Two note and bond issues of AUD\$319 million resulting from changes in foreign exchange rates (whilst these notes are hedged, the unhedged value is included in the calculation of regulatory capital in accordance with APRA regulations).

Deductions from Total Capital

The following movements in deductions have occurred during the year:

- Dividends paid to the Bank from the life insurance and funds management businesses in excess of the dividend paid in respect of the after-tax profits of these businesses (refer to Note 34 to the financial statements).

Notes to the financial statements

NOTE 31 Capital Adequacy continued

Risk-Weighted Capital Ratios	2005	GROUP
	Actual	2004
	%	Actual
		%
Tier One	7.46	7.43
Tier Two	3.21	3.93
Less deductions	(0.92)	(1.11)
Total	9.75	10.25
Adjusted Common Equity ⁽¹⁾	4.91	4.75
Regulatory Capital	2005	GROUP
	\$M	2004
		\$M
Tier One capital		
Shareholders' equity	26,060	24,885
Eligible loan capital	304	338
Estimated reinvestment under Dividend Reinvestment Plan ⁽²⁾	272	250
Foreign currency translation reserve related to non-consolidated subsidiaries	211	179
Deduct:		
Asset revaluation reserve	(92)	(61)
Goodwill	(4,394)	(4,705)
Expected dividend	(1,434)	(1,315)
Intangible component of investment in non-consolidated subsidiaries ⁽³⁾	(5,397)	(4,674)
Outside equity interest in entities controlled by non-consolidated subsidiaries	(111)	(114)
Outside equity interest in insurance statutory funds and other funds	(1,158)	(2,176)
Capitalised expenses ⁽⁴⁾	(107)	-
Other	(13)	(19)
Total Tier One capital	14,141	12,588
Tier Two capital		
Asset revaluation reserve	92	61
General provision for bad and doubtful debts ⁽⁵⁾	1,389	1,390
FITB related to general provision	(414)	(398)
Upper Tier Two note and bond issues	237	267
Lower Tier Two note and bond issues ⁽⁶⁾⁽⁷⁾	4,783	5,338
Total Tier Two capital	6,087	6,658
Total capital	20,228	19,246
Deduct:		
Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier One capital) ⁽³⁾	(1,721)	(1,886)
Other deductions	(28)	(5)
Capital Base	18,479	17,355

(1) Adjusted Common Equity ("ACE") is one measure considered by Standard & Poor's in evaluating the Bank's credit rating. The ACE ratio has been calculated in accordance with the Standard & Poor's methodology.

(2) Based on reinvestment experience related to the Bank's Dividend Reinvestment Plan.

(3) Refer to Note 34 for a reconciliation of the components of the carrying value of the life insurance and funds management business to the value of investments in non-consolidated subsidiaries.

(4) Effective 1 July 2004, APRA requires banks to deduct certain capitalised expenses from Tier One capital.

(5) Excludes general provision for bad and doubtful debts in non-consolidated subsidiaries.

(6) APRA requires these Lower Tier Two note and bond issues to be included as if they were un-hedged.

(7) 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.

Notes to the financial statements

NOTE 31 Capital Adequacy continued

	GROUP	
	2005	2004
	\$M	\$M
Adjusted Common Equity⁽¹⁾		
Tier One capital	14,141	12,588
Deduct:		
Eligible loan capital	(304)	(338)
Preference share capital	(687)	(687)
Other equity instruments	(1,573)	(1,573)
Outside equity interest (net of outside equity interest component deducted from Tier One capital)	(520)	(190)
Investment in non-consolidated subsidiaries (net of intangible component deducted from Tier One capital) ⁽²⁾	(1,721)	(1,886)
Other deductions	(28)	(5)
Other	-	139
Total Adjusted Common Equity	9,308	8,048

(1) Adjusted Common Equity ("ACE") is one measure considered by Standard & Poor's in evaluating the Bank's credit rating. The ACE ratio has been calculated in accordance with the Standard & Poor's methodology.

(2) Refer to Note 34 for a reconciliation of the components of the carrying value of the life insurance and funds management business to the value of investments in non-consolidated subsidiaries.

	Face Value		Risk Weights	GROUP Risk-Weighted Balance	
	2005	2004		2005	2004
	\$M	\$M	%	\$M	\$M
Risk-Weighted Assets					
On Balance Sheet Assets					
Cash, claims on Reserve Bank, short term claims on Australian Commonwealth and State Government and Territories, and other zero-weighted assets	27,447	27,554	0%	-	-
Claims on OECD banks and local governments	14,754	15,020	20%	2,951	3,004
Advances secured by residential property ⁽¹⁾	143,746	125,026	50%	71,873	62,513
All other assets	92,510	83,256	100%	92,510	83,256
Total On Balance Sheet Assets - Credit Risk⁽²⁾⁽³⁾	278,457	250,856		167,334	148,773

	Face Value		Credit Equivalent		GROUP Risk-Weighted Balance	
	2005	2004	2005	2004	2005	2004
	\$M	\$M	\$M	\$M	\$M	\$M
Off-Balance Sheet Exposures						
Direct credit substitutes	3,308	3,293	3,308	3,293	2,622	2,836
Trade and performance related items	1,280	1,069	584	483	540	453
Commitments	76,581	65,097	13,839	12,745	10,328	9,238
Foreign exchange, interest rate and other market related transactions	885,700	769,742	20,814	20,069	5,881	5,614
Total Off Balance Sheet Exposures - Credit Risk⁽⁴⁾	966,869	839,201	38,545	36,590	19,371	18,141
Total Risk-Weighted Assets - Credit Risk					186,705	166,914
Risk-Weighted Assets - Market Risk					2,854	2,407
Total Risk-Weighted Assets					189,559	169,321

(1) For loans secured by residential property approved after 5 September 1994, a risk weight of 100% applied where the loan to valuation ratio is in excess of 80%. Effective from 28 August 1998, a risk weight of 50% applies to these loans if they are totally insured by an acceptable lender's mortgage insurer. Loans that are risk-weighted at 100% are reported under 'All other assets'.

(2) The difference between Total On Balance Sheet Assets and the Group's balance sheet reflects the alternative treatment of some assets and provisions as prescribed in APRA's capital adequacy guidelines; principally goodwill, general provision for bad and doubtful debts, and investments in life insurance and fund management business.

(3) Total On Balance Sheet Assets exclude debt and equity securities in the trading book and all on balance sheet positions in commodities, as they are included in the calculation of notional market risk-weighted assets.

(4) Off Balance Sheet Exposures secured by residential property account for \$6.2 billion of off balance sheet credit equivalent assets (\$3.1 billion of off balance sheet risk-weighted assets).

Notes to the financial statements

NOTE 32 Maturity Analysis of Monetary Assets and Liabilities

The maturity distribution of monetary assets and liabilities is based on contractual terms. The majority of the longer term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Therefore this information is not relied upon by the Bank in the management of its interest rate risk in Note 39.

	GROUP							
	Maturity Period At 30 June 2005							
	At Call	Overdrafts	0 to 3	3 to 12	1 to 5	Over	Not	Total
	\$M	\$M	months	months	years	5 years	specified	\$M
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Assets								
Cash and liquid assets	916	-	4,799	-	-	-	-	5,715
Receivables due from other financial institutions	378	-	5,039	416	51	321	-	6,205
Trading securities ⁽¹⁾	-	-	14,628	-	-	-	-	14,628
Investment securities	-	-	1,390	1,256	5,003	2,623	-	10,272
Loans, advances and other receivables ⁽²⁾	4,837	5,225	21,044	28,195	49,434	110,171	(1,390)	217,516
Bank acceptances of customers	-	-	16,387	399	-	-	-	16,786
Life assets ⁽³⁾	181	-	4,181	483	3,516	3,170	16,306	27,837
Other monetary assets	1	-	15,505	20	1	17	115	15,659
Total monetary assets	6,313	5,225	82,973	30,769	58,005	116,302	15,031	314,618
Liabilities								
Deposits and other public borrowings ⁽³⁾	93,684	-	39,974	29,958	4,274	139	-	168,029
Payables due to other financial institutions	809	-	6,054	1,160	-	-	-	8,023
Bank acceptances	-	-	16,387	399	-	-	-	16,786
Life liabilities	-	-	-	-	-	-	24,694	24,694
Debt issues and loan capital	-	-	11,071	15,664	24,750	13,427	-	64,912
Other monetary liabilities	8	-	17,421	30	9	7	174	17,649
Total monetary liabilities	94,501	-	90,907	47,211	29,033	13,573	24,868	300,093

⁽¹⁾ Trading securities are purchased without the intention to hold until maturity and are categorised as maturing within 3 months.

⁽²⁾ \$116 billion of this figure represents owner occupied housing loans. While most of these loans would have a contractual term of 20 years or more, and are analysed accordingly, the actual average term of the portfolio has historically been less than 5 years.

⁽³⁾ Includes substantial 'core' deposits that are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to the Interest Rate Risk Sensitivity table in Note 39.

Notes to the financial statements

NOTE 32 Maturity Analysis of Monetary Assets and Liabilities continued

	GROUP Maturity Period At 30 June 2004							
	At Call	Overdrafts	0 to 3	3 to 12	1 to 5	Over	Not	Total
	\$M	\$M	months	Months	years	5 years	specified	\$M
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Assets								
Cash and liquid assets	888	-	5,565	-	-	-	-	6,453
Receivables due from other financial institutions	774	-	7,126	80	70	319	-	8,369
Trading securities ⁽¹⁾	-	-	14,896	-	-	-	-	14,896
Investment securities	-	-	1,952	1,646	5,145	2,704	-	11,447
Loans, advances and other receivables ⁽²⁾	2,646	4,904	27,597	19,883	39,957	95,797	(1,393)	189,391
Bank acceptances of customers	-	-	8,643	6,376	-	-	-	15,019
Life assets ⁽³⁾	51	-	2,948	554	3,924	3,466	17,999	28,942
Other monetary assets	390	-	17,963	5	-	-	174	18,532
Total Monetary Assets	4,749	4,904	86,690	28,544	49,096	102,286	16,780	293,049
Liabilities								
Deposits and other public borrowings ⁽³⁾	88,691	-	48,863	21,191	3,594	838	-	163,177
Payables due to other financial institutions	536	-	4,564	1,529	12	-	-	6,641
Bank acceptances	-	-	8,643	6,376	-	-	-	15,019
Life liabilities	-	-	-	-	-	-	24,638	24,638
Debt issues and loan capital	-	-	7,160	13,699	19,162	10,249	403	50,673
Other monetary liabilities	9	-	17,996	918	32	8	196	19,159
Total Monetary Liabilities	89,236	-	87,226	43,713	22,800	11,095	25,237	279,307

⁽¹⁾ Trading securities are purchased without the intention to hold until maturity and are categorised as maturing within three months.

⁽²⁾ \$102 billion of this figure represents owner occupied housing loans. While most of these loans would have a contractual term of 20 years or more, and are analysed accordingly, the actual average term of the portfolio has historically been less than 5 years.

⁽³⁾ Includes substantial 'core' deposits that are contractually at call customer savings and cheque accounts. History demonstrates such accounts provide a stable source of long term funding for the Bank. Also refer to Interest Rate Risk Sensitivity table in Note 39.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments

Primary Segment Business Segments Financial Performance	GROUP Year Ended 30 June 2005			Total \$M
	Banking \$M	Funds Management \$M	Insurance \$M	
Interest income	16,194	-	-	16,194
Premium and related revenue	-	-	1,132	1,132
Other income	3,519	3,269	1,186	7,974
Appraisal value uplift	-	301	477	778
Total Revenue	19,713	3,570	2,795	26,078
Interest expense	10,228	-	-	10,228
Segment result before tax, goodwill amortisation and appraisal value uplift	4,103	560	522	5,185
Income tax expense	(1,220)	(204)	(213)	(1,637)
Segment result after tax and before goodwill amortisation and appraisal value uplift	2,883	356	309	3,548
Outside equity interest	(3)	(7)	-	(10)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	2,880	349	309	3,538
Goodwill amortisation	(303)	(17)	(5)	(325)
Appraisal value uplift	-	301	477	778
Net profit attributable to Shareholders of the Bank	2,577	633	781	3,991
Non-Cash Expenses				
Goodwill amortisation	303	17	5	325
Charge for bad and doubtful debts	322	-	-	322
Depreciation	135	8	13	156
Other	84	27	-	111
Financial Position				
Total Assets	292,026	19,306	17,703	329,035
Acquisition of Property, Plant & Equipment, Intangibles and other Non-Current Assets	303	8	39	350
Associate Investments	19	1	32	52
Total Liabilities	275,751	16,844	10,380	302,975

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

Primary Segment Business Segments Financial Performance	GROUP Year Ended 30 June 2004			Total \$M
	Banking \$M	Funds Management \$M	Insurance \$M	
Interest income	13,287	-	-	13,287
Premium and related revenue	-	-	1,012	1,012
Other income	3,720	3,142	840	7,702
Appraisal value (reduction)/uplift	-	(95)	296	201
Total Revenue	17,007	3,047	2,148	22,202
Interest expense	7,877	-	-	7,877
Segment result before tax, goodwill amortisation and appraisal value uplift	3,091	504	371	3,966
Income tax expense	(914)	(228)	(120)	(1,262)
Segment result after income tax and before goodwill amortisation and appraisal value uplift	2,177	276	251	2,704
Outside equity interest	(1)	(8)	-	(9)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	2,176	268	251	2,695
Goodwill amortisation	(302)	(17)	(5)	(324)
Appraisal value (reduction)/uplift	-	(95)	296	201
Net profit attributable to Shareholders of the Bank	1,874	156	542	2,572
Non-Cash Expenses				
Goodwill amortisation	302	17	5	324
Charge for bad and doubtful debts	276	-	-	276
Depreciation	110	8	9	127
Which new Bank initiatives	427	-	-	427
Other	30	50	14	94
Financial Position				
Total Assets	269,066 ⁽¹⁾	19,878	17,051 ⁽¹⁾	305,995
Acquisition of Property, Plant & Equipment, Intangibles and other Non-current Assets	518	6	9	533
Associate Investments	194	1	44	239
Total Liabilities	254,284	17,439	9,387	281,110

⁽¹⁾ Restated to reflect a restructure and subsequent realignment in business segments.

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

Primary Segment Business Segments Financial Performance	GROUP Year Ended 30 June 2003			Total \$M
	Banking \$M	Funds Management \$M	Insurance \$M	
Interest income	11,528	-	-	11,528
Premium and related revenue	-	-	1,131	1,131
Other income	2,733	1,157	620	4,510
Total Revenue	14,261	1,157	1,751	17,169
Interest expense	6,502	-	-	6,502
Segment result before tax, goodwill amortisation and appraisal value uplift	3,165	217	161	3,543
Income tax expense	(931)	5	(32)	(958)
Segment result after income tax and before goodwill amortisation and appraisal value uplift	2,234	222	129	2,585
Outside equity interest	-	(6)	-	(6)
Segment result after tax and outside equity interest before goodwill amortisation and appraisal value uplift	2,234	216	129	2,579
Goodwill amortisation	(300)	(18)	(4)	(322)
Appraisal value uplift/(reduction)	-	(291)	46	(245)
Net profit attributable to Shareholders of the Bank	1,934	(93)	171	2,012
Non-Cash Expenses				
Goodwill amortisation	300	18	4	322
Charge for bad and doubtful debts	305	-	-	305
Depreciation	109	8	11	128
Appraisal value reduction/(uplift)	-	291	(46)	245
Other	112	1	-	113
Financial Position				
Total Assets	229,289	19,622	16,199	265,110
Acquisition of Property, Plant & Equipment, Intangibles and other Non-current Assets	98	16	6	120
Associate Investments	214	12	61	287
Total Liabilities	216,939	17,044	8,975	242,958

Notes to the financial statements

NOTE 33 Financial Reporting by Segments continued

Secondary Segment	2005 \$M	%	2004 \$M	%	2003 \$M	%
Geographical Segments						
Revenue						
Australia	20,790	79.7	17,911	80.7	14,008	81.6
New Zealand	3,507	13.5	2,728	12.3	2,025	11.8
Other Countries ⁽¹⁾	1,781	6.8	1,563	7.0	1,136	6.6
	26,078	100.0	22,202	100.0	17,169	100.0
Net profit attributable to shareholders of the Bank						
Australia	3,223	80.7	2,091	81.3	1,659	82.4
New Zealand	509	12.8	309	12.0	265	13.2
Other Countries ⁽¹⁾	259	6.5	172	6.7	88	4.4
	3,991	100.0	2,572	100.0	2,012	100.0
Assets						
Australia	271,596	82.5	252,652	82.6	221,248	83.5
New Zealand	41,650	12.7	35,059	11.4	27,567	10.4
Other Countries ⁽¹⁾	15,789	4.8	18,284	6.0	16,295	6.1
	329,035	100.0	305,995	100.0	265,110	100.0
Acquisition of Property, Plant & Equipment, Intangibles and other Non-current Assets						
Australia	303	86.6	495	92.9	98	81.7
New Zealand	37	10.6	29	5.4	6	5.0
Other Countries ⁽¹⁾	10	2.8	9	1.7	16	13.3
	350	100.0	533	100.0	120	100.0

⁽¹⁾ Other Countries are:
United Kingdom, United States of America, Japan, Singapore, Hong Kong, Grand Cayman, Malta, Fiji, Indonesia, China and Vietnam.

The geographical segments represent the location in which the transaction was booked.

Notes to the financial statements

NOTE 34 Life Insurance Business

The following information, in accordance with AASB 1038: Life Insurance Business, 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 calculation. Also refer to Notes 1(ii) and 21. The insurance segment result is prepared on a business segment basis, refer to Note 33.

Summarised Statement of Financial Performance	2005	GROUP
	\$M	2004 \$M
Premium and related revenue	1,500	1,362
Outward reinsurance premiums expense	(231)	(194)
Claims expense	(422)	(501)
Reinsurance recoveries	122	139
Investment revenue (excluding investments in subsidiaries)		
Equity securities	1,635	1,582
Debt securities	795	558
Property	353	238
Other	411	399
Life insurance policy liabilities expense	(2,686)	(1,972)
Margin on services operating income	1,477	1,611
Change in excess of net market values over net assets of life insurance controlled entities	778	201
Life Insurance operating income	2,255	1,812
Administration expense	(787)	(790) ⁽¹⁾
Operating profit before income tax	1,468	1,022
Income tax attributable to operating profit	(314)	(300)
Operating profit after income tax	1,154	722
Outside equity interest in operating profit after income tax	(5)	(8)
Net profit after income tax	1,149	714

Sources of life insurance operating profit

The Margin on Services operating profit after income tax is represented by:

Emergence of planned profit margins	206	186
Difference between actual and planned experience	(2)	6
Movement in excess of net market value over net assets of controlled entities	778	201
Reversal of previously recognised losses or loss recognition on groups of related products	-	10
Investment earnings on assets in excess of policyholder liabilities	167	311
Operating profit after income tax	1,149	714
Life insurance premiums received and receivable	3,112	3,688
Life insurance claims paid and payable	4,632	4,356

⁽¹⁾ In 2004 volume expenses were netted against margin on services operating income. For 2005 these expenses have been shown gross and the comparatives restated for consistency.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

Carrying Values of Life Insurance and Funds Management Business

The following table sets out the components of the carrying values of the Bank's life insurance and funds management businesses, together with the key actuarial assumptions that have been used. These are Directors' valuations based on appraisal values using a range of economic and business assumptions determined by management which were reviewed by independent actuaries Trowbridge Deloitte.

Analysis of Movement since 30 June 2004	Funds Management \$M	Life Insurance			Total \$M
		Australia \$M	New Zealand \$M	Asia ⁽¹⁾ \$M	
Profits	349	176	71	50	646
Net capital movements ⁽²⁾	(121)	195	(79)	1	(4)
Dividends paid	(213)	(485)	-	(4)	(702)
Acquisitions ⁽³⁾	(30)	-	-	-	(30)
Foreign exchange movements	-	-	2	(60)	(58)
Change in Shareholders net tangible assets	(15)	(114)	(6)	(13)	(148)
Acquired excess ⁽³⁾	30	-	-	-	30
Net appraisal value uplift/(reduction)	301	333	146	(2)	778
Increase/(Decrease) to 30 June 2005	316	219	140	(15)	660
Shareholders' Net Tangible Assets					
30 June 2004 balance	515	1,131	415	600	2,661
Profits	349	176	71	50	646
Net capital movements ⁽²⁾	(121)	195	(79)	1	(4)
Dividends paid	(213)	(485)	-	(4)	(702)
Acquisitions ⁽³⁾	(30)	-	-	-	(30)
Foreign exchange movements	-	-	2	(60)	(58)
30 June 2005 balance	500	1,017	409	587	2,513
Value In Force Business					
30 June 2004 balance	1,850	295	286	-	2,431
Uplift	9	238	73	-	320
30 June 2005 balance	1,859	533	359	-	2,751
Value Future New Business					
30 June 2004 balance	2,774	235	277	24	3,310
Acquisitions ⁽³⁾	30	-	-	-	30
Uplift/(reduction)	292	95	73	(2)	458
30 June 2005 balance	3,096	330	350	22	3,798

⁽¹⁾ The Asian life businesses are not held in the market value environment and are carried at net assets plus any excess representing the difference between appraisal value and net assets at the time of acquisition. This excess which effectively represents goodwill is being amortised on a straight line basis over 20 years, subject to impairment. Subject to regulatory approval, the disposal of the Hong Kong life insurance operations will occur subsequent to 30 June 2005. Refer to Note 1 (pp) to the Financial Statements for further information.

⁽²⁾ Includes capital injections, transfers and movements in intergroup loans.

⁽³⁾ Represents the purchase of Symmetry Limited. The goodwill on acquisition is reclassified as acquired excess, representing the difference between appraisal value and net assets at the time of acquisition.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

	Life Insurance				Total \$M
	Funds Management \$M	Australia \$M	New Zealand \$M	Asia ⁽¹⁾ \$M	
Carrying Value at 30 June 2005					
Shareholders' net tangible assets	500	1,017	409	587	2,513
Value in force business	1,859	533	359	-	2,751
Embedded value	2,359	1,550	768	587	5,264
Value future new business	3,096	330	350	22	3,798
Carrying Value	5,455	1,880	1,118	609	9,062

⁽¹⁾ The Asian life businesses are not held in the market value environment and are carried at net assets plus any excess representing the difference between appraisal value and net assets at the time of acquisition. This excess which effectively represents goodwill is being amortised on a straight line basis over 20 years, subject to impairment. Subject to regulatory approval, the disposal of the Hong Kong life insurance operations will occur subsequent to 30 June 2005. Refer to Note 1 (pp) to the Financial Statements for further information.

Change in Valuations

The valuations adopted have resulted in a total positive change in value of \$660 million since 30 June 2004. The main components comprised:

- An appraisal value uplift of \$778 million, reflecting growth in Funds under Administration and improved fund flows, while persistency levels and claims ratios improved across each of the insurance businesses. The uplift also includes the negative impact of continued uncertainty of investment markets and industry funds flows;
- Decrease due to dividends in excess of profits of \$56 million; and
- A \$62 million decrease in net tangible assets due to net capital and foreign exchange movements.

The following table reconciles the carrying values of the life insurance and funds management businesses to the value of investments in non-consolidated subsidiaries as shown in the capital adequacy calculation in Note 31.

Reconciliation of the Components of the Carrying Value to the Value of Investments in Non-Consolidated Subsidiaries

	2005 \$M	2004 \$M
Intangible component of investment in non-consolidated subsidiaries deducted from Tier One capital comprises:		
Value future new business	3,798	3,310
Value of self-generated in force business	1,599	1,279
Other ⁽¹⁾	-	85
	5,397	4,674
Investment in non-consolidated subsidiaries deducted from Total Capital comprises:		
Shareholders' net tangible assets in life and funds management businesses	2,513	2,661
Capital in other non-consolidated subsidiaries	348	351
Value of acquired in force business	1,152	1,152
Less non-recourse debt	(2,292)	(2,278)
	1,721	1,886

⁽¹⁾ Relates to revised APRT Prudential Standards effective 1 July 2003.

Key Assumptions Used in Appraisal Values

The following key assumptions have been used in determining the appraisal values. Other actuarial assumptions used in the valuation are described in the section Actuarial Methods and Assumptions.

As at 30 June 2005	New Business Multiplier	Risk Discount Rate %	Value of Franking Credits %
Life insurance entities			
Australia	8	10.1	70
New Zealand	9	9.8	-
Asia			
- Hong Kong ⁽¹⁾	n/a	n/a	-
- Other	various	various	-
Funds management entities			
Australia	n/a	11.7	70

⁽¹⁾ Refer Note 1 (pp) for comments relating to the sale of the Hong Kong life insurance entities.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

As at 30 June 2004	New Business Multiplier	Risk Discount Rate %	Value of Franking Credits %
Life insurance entities			
Australia	8	10.9	70
New Zealand	9	10.3	-
Asia			
- Hong Kong	8	12	-
- Other	various	various	-
Funds management entities			
Australia	n/a	12.5	70

The movement in the risk discount rate is based on the change in the underlying risk free rate using a capital asset pricing model framework. This framework utilises the local 10-year government bond yield as the proxy for the risk free rate.

The movement in risk discount rates have been accompanied by broadly equivalent movements in assumed future investment returns on the Australian funds management business.

The assumptions for future new business are set after considering current levels of new business and the expected growth in business. A review of current experience has resulted in an increase in the future sales volume assumption for Australian funds management and life insurance businesses.

Policy Liabilities

Appropriately qualified actuaries have been appointed in respect of each life insurance business and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this financial report, including compliance with the regulations of the Life Insurance Act (Life Act) 1995 where appropriate. Details were set out in the various statutory returns of these life insurance businesses.

Components of Policy Liabilities	2005 \$M	2004 \$M
Future policy benefits ⁽¹⁾	27,790	27,779
Future bonuses	1,385	1,346
Future expenses	1,829	1,762
Future profit margins	1,795	1,472
Future charges for acquisition expenses	(540)	(527)
Balance of future premiums	(7,660)	(7,266)
Provisions for bonuses not allocated to participating policyholders	95	72
Total Policy Liabilities	24,694	24,638

⁽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 territory.

Actuarial Methods and Assumptions

Policy liabilities have been calculated in accordance with the Margin on Services (MoS) methodology as set out in Actuarial Standard 1.03 – Valuation Standard ('AS1.03') issued by the Life Insurance Actuarial Standards Board ('LIASB'). 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 payments
Investment account	Projection	Bonuses or funds under management
Investment linked	Accumulation	Not applicable
Lump sum risk	Projection	Premiums/expected claim payments
Income stream risk	Projection	Expected claim payments
Immediate annuities	Projection	Annuity payments
Group		
Investment account	Projection	Bonuses or funds under management
Investment linked	Accumulation	Not applicable
Lump sum risk	Accumulation	Not applicable
Income stream risk	Projection	Expected claim payments

Notes to the financial statements

NOTE 34 Life Insurance Business continued

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.

The 'Accumulation Method' for investment linked measures the accumulation of amounts invested by policyholders plus investment earnings less fees specified in the policy to calculate policy liabilities. Deferred acquisition costs were offset against this liability.

Bonuses were 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 capital growth bonuses (payable on the termination of the policy).

Actuarial Assumptions

Set out below is a summary of the material assumptions used in the calculation of policy liabilities. These assumptions were also used in the determination of appraisal values.

Discount Rates

These were the rates used to discount further cash flows to determine their net present value in the policy liabilities. The discount rates were determined with reference to the expected earnings rate of the assets that support the policy liabilities adjusted for taxation where relevant. 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	Discount Rates	
	June 2005 Rate Range %	June 2004 Rate Range %
Traditional – ordinary business (after tax)	5.52 – 6.26	6.11 – 6.86
Traditional – superannuation business (after tax)	6.74 – 7.67	7.46 – 8.40
Annuity business (after tax)	4.37 – 6.49	6.17 – 6.98
Term insurance – ordinary business (after tax)	3.58 – 4.36	3.45 – 4.15
Term insurance – superannuation business (after tax)	3.58 – 3.85	3.45 – 4.15
Disability business (before tax)	5.11 – 5.70	5.93
Investment linked – ordinary business (after tax)	4.98 – 6.10	5.61 – 6.04
Investment linked – superannuation business (after tax)	6.50 – 6.71	7.37 – 7.42
Investment linked – exempt (after tax)	7.38 – 7.61	8.41 – 8.80
Investment account – ordinary business (after tax)	3.74	4.32
Investment account – superannuation business (after tax)	4.55	5.25
Investment account – exempt (after tax)	5.31	6.13

Bonuses

The valuation assumes that the long-term supportable bonuses will be paid, which is in line with company bonus philosophy. There have been no significant changes to these assumptions.

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. For participating business, expenses continue on the previous charging basis with adjustments for actual experience, and are assumed to increase in line with inflation each year.

Investment Management Expenses

Investment management expense assumptions now vary by asset classes and are based on the recently negotiated 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 were 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 territory and product type.

Voluntary Discontinuance

Discontinuance rates were based on recent company and industry experience and vary by territory, product, age and duration inforce. The experience has been broadly in line with assumptions. There have been no significant changes to these assumptions.

Surrender Values

Current surrender value bases were assumed to apply in the future. There have been no significant changes to these assumptions.

Unit Price Growth

Unit prices are assumed to grow in line with assumed investment earnings assumptions, net of asset charges as per current company practice. There have been no significant changes to these assumptions.

Mortality and Morbidity

Rates vary by sex, age, product type and smoker status. Rates were based on standard mortality tables applicable to each territory e.g. IA95-97 in Australia for risk, IM/IF80 for annuities, adjusted for recent company and industry experience where appropriate. Mortality and morbidity assumptions have been reduced on some products.

Notes to the financial statements

NOTE 34 Life Insurance Business continued

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 capital adequacy requirements and provide protection against adverse experience. Actuarial Standard AS2.03 - 'Solvency Standard' ('AS2.03') prescribes a minimum capital requirement and the minimum level of assets required to be held in each insurance fund. All controlled Australian insurance entities complied with the solvency requirements of AS2.03. 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 were in place to ensure that asset management and other fiduciary activities of controlled entities were independent of the life insurance funds and other activities of the Bank.

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, that 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 will be lodged with the relevant Australian regulators) show all major components of the financial statements disaggregated between the various insurance statutory funds and their shareholder funds.

Notes to the financial statements

NOTE 35 Remuneration of Auditors

	GROUP		BANK	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Amounts paid or due and payable for audit services to:				
Ernst & Young	7,921	6,969	4,084	2,664
Other Auditors	114	134	-	-
	8,035	7,103	4,084	2,664
Amounts paid or due and payable for non-audit services to				
Ernst & Young:				
Audit related services	2,077	1,858	1,664	1,022
Taxation services	16	222	8	136
All other services				
Corporate finance services	-	203	-	203
Staff assistance services	-	13	-	13
Other services	327	569	11	284
	2,420⁽¹⁾	2,865	1,683	1,658
Total Remuneration of Auditors	10,455	9,968	5,767	4,322

4. ⁽¹⁾ An additional amount of \$3,305,000 was paid to Ernst & Young by way of fees paid for Non-Audit Services provided to entities not consolidated into the Financial Statements. These relate predominately to audits, reviews, attestations and assurances for managed investment schemes and superannuation funds.

The Audit Committee has considered the non-audit services provided by Ernst & Young and is satisfied that the services and the level of fees are compatible with maintaining auditors' independence.

Audit related fees principally include audit of the Group's US Forms 20-F and 6k, 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.

Taxation fees include income tax and GST compliance and related advice, and tax technology and related training.

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 36 Commitments for Capital Expenditure Not Provided for in the Accounts

	GROUP		BANK	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Not later than one year	13	44	13	42
Later than one year but not later than two years	-	2	-	-
Total Commitments for Capital Expenditure Not Provided for in the Accounts	13	46	13	42

NOTE 37 Lease Commitments - Property, Plant and Equipment

	GROUP		BANK	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Commitments in respect of non cancellable operating lease agreements due:				
Not later than one year	297	295	263	241
Later than one year but not later than five years	635	646	540	522
Later than five years	214	207	165	150
Total Lease Commitments - Property, Plant and Equipment	1,146	1,148	968	913
Group's share of lease commitments of associated entities:				
Not later than one year	-	12	-	-
Later than one year but not later than five years	-	16	-	-
Total Lease Commitments - Property, Plant and Equipment	-	28	-	-

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.

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 38 Contingent Liabilities and Assets

The Group is involved in a range of transactions that give rise to contingent and/or future liabilities. These transactions meet the financing requirements of customers and include endorsed bills of exchange, letters of credit, guarantees and commitments to provide credit.

These 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 (excluding Derivatives – Note 39) are:

	Face Value		GROUP Credit Equivalent	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Credit risk related instruments				
Guarantees	2,438	2,230	2,438	2,230
Standby letters of credit	321	362	321	362
Bill endorsements	276	308	276	308
Documentary letters of credit	185	171	37	34
Performance related contingents	1,095	898	547	449
Commitments to provide credit	76,162	64,651	13,421	12,329
Other commitments	8,279	7,158	942	1,156
Total credit risk related instruments	88,756	75,778	17,982	16,868

Guarantees represent unconditional undertakings by the Bank (or Group entity) to support the obligations of its customers to third parties.

Standby letters of credit are undertakings by the Bank (or Group entity) 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 Bank (or Group entity) 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 Bank (or Group entity) 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 Bank (or Group entity) to provide credit facilities.

Other commitments include the Bank's (or Group entity) obligations under sale and repurchase agreements, outright forward purchases and forward deposits and underwriting facilities.

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 counterparty.

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, the nature and the certainty of the contractual undertaking to provide the facility.

Where the potential loss depends on the performance of a counterparty, the Group utilises the same credit policies and assessment criteria for off balance sheet business as it does for on balance sheet business and if it is deemed necessary, collateral is obtained based on management's credit evaluation of the counterparty. If a probable loss is identified, suitable provisions are raised.

Contingent Assets

The credit risk related contingent liabilities of \$88,756 million (2004: \$75,778 million) detailed above also represent contingent assets of the Group. Such commitments to provide credit may in the normal course convert to loans and other assets of the Group.

Litigation

Neither the Commonwealth Bank nor any of its controlled entities is 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 Commonwealth Bank or any of its controlled entities. Where some loss is probable an appropriate provision has been made.

Notes to the financial statements

NOTE 38 Contingent Liabilities and Assets continued

Fiduciary Activities

The Group and its associated entities conduct investment management and other fiduciary activities as responsible entity, trustee, 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:

	2005 \$M	2004 \$M
Funds under administration		
Australia	77,208	67,393
United Kingdom	11,914	10,721
New Zealand	8,579	7,614
Asia	2,404	1,203
	100,105	86,931

Certain entities within the Group act as responsible entity or trustee of virtually all managed schemes ("schemes"), wholesale and retail trusts ("trusts") managed by the Group in Australia, 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 16) where an entity within the Group may act as a trustee. 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 2005. Where entities within the Group act as manager of unit trusts, obligations exist under the relevant Trust Deeds, whereby upon request from a unit holder, the manager has an obligation to repurchase units from the trust or to arrange for the relevant trustee to redeem units from the assets of those trusts. It is considered unlikely that these entities will need to repurchase units from their own funds.

The Commonwealth Bank of Australia does not guarantee the performance or obligations of its subsidiaries.

Long Term Contracts

In 1997, the Bank entered into a ten year contract with EDS (Australia) Pty Ltd, relating to the provision of information technology services.

In 2000, the Bank entered into a five year agreement with TCNZ Australia Pty Ltd for the provision of telecommunications services. During 2004/05 the majority of the services under this agreement were extended to August 2008.

Failure to Settle Risk

In accordance with the regulations and procedures governing clearing arrangements contained within the Australian Paper Clearing System ("Clearing 1"), the Bulk Electronic Clearing System ("Clearing 2"), the Consumer Electronic Clearing System ("Clearing 3") and the High Value Clearing System ("Clearing Stream 4", only if operating in 'bypass mode') of the Australian Payments Clearing Association Limited, the Bank is subject to a credit risk exposure in the event that another financial institution fails to settle for its payments clearing activities. This credit risk exposure is unquantifiable in advance.

Service Agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Chief Executive Officer and Specified Executives of the Company and its controlled entities at 30 June 2005 was \$7 million (2004: \$8 million).

Notes to the financial statements

NOTE 39 Market Risk

The Bank in its daily operations is exposed to a number of market risks. Market risk relates to the risk that market rates and prices will change and that this will have an adverse affect on the profitability and/or net worth of the Bank, e.g. an adverse interest rate movement. Market risk also includes operational risks of market access for funding and liquidity.

Under the authority of the Board of Directors, the Risk Committee of the Board ensures the risk tolerance of the Group is consistent with the business strategy and that all the market risk exposure is managed within their mandated tolerance. Regular market risk reports are tabled before the Risk Committee of the Board.

Within the Group, market risk is greatest in the management of the balance sheets of the banking and insurance businesses. Market risk also arises in the course of its intermediation activities in financial services and in financial markets trading.

Market Risk in Balance Sheet Management

The Risk Committee of the Board approves the Bank's balance sheet market risk policies and limits. Implementation of the policy is through the Asset and Liability Committee, which is chaired by the Chief Executive Officer, and with operational management delegated to the Group Executives of the associated business units.

For bank balance sheets, market risk includes liquidity risk, funding risk, interest rate risk and foreign exchange risk. On life and general insurance balance sheets, market risk is part of the principal means by which long term liabilities are managed. In this sense and in contrast to banking, market risk is structural for these businesses.

Liquidity risk

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 all its operations. Liquidity policy

and management strategies are in place to manage liquidity in a day-to-day sense, and also under crisis scenarios.

APRA Prudential Standards require each bank to develop a liquidity management strategy that is appropriate for itself, based on its size and nature of operations. The objectives of the Group's liquidity policies are to:

- Ensure all financial obligations are met when due;
- Provide adequate protection, even under crisis scenarios, at lowest cost; and
- Achieve sustainable, lowest-cost funding within the limitations of funding diversification requirements.

Funding risk

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 policy augments the liquidity policy with its aim to assure the Group has a stable diversified funding base without over-reliance on any one market sector.

Domestically, the Group continues to obtain the majority of its AUD funding from a stable retail deposit base, which has a lower interest cost than wholesale funds. The relative size of the Group's retail base has enabled it to source funds at a lower than average rate of interest than the other major Australian banks. Funding diversification is particularly important in offshore markets where the absence of any 'natural' offshore funding base means the Group is principally reliant on money market and capital market sources for funding. The Group has imposed internal prudential constraints on the relative mix of offshore sources of funds.

The following table outlines the range of financial instruments used by the Group to raise deposits and borrowings, both within Australia and overseas. Funds are raised from well-diversified sources and there are no material concentrations in these categories.

Market Risk	2005	GROUP
	\$M	2004 \$M
Australia		
Cheque accounts	27,455	24,699
Savings accounts	31,947	31,067
Term deposits	41,582	38,530
Cash management accounts	21,831	20,756
Debt issues	40,240	27,688
Bank acceptances	16,786	15,019
Certificates of deposit	16,041	20,516
Life insurance policy liabilities	20,636	20,834
Loan capital	6,291	6,539
Securities sold under agreements to repurchase and short sales	2,258	3,585
Other	2,708	2,383
Total Australia	227,775	211,616
Overseas		
Deposits and interbank	32,230	28,282
Commercial paper	12,266	8,776
Life Insurance policy liabilities	4,058	3,804
Other debt issues	6,115	7,578
Loan capital	-	92
Total Overseas	54,669	48,532
Total Funding Sources	282,444	260,148
Provisions and other liabilities	20,531	20,962
Total Liabilities	302,975	281,110

Notes to the financial statements

NOTE 39 Market Risk continued

Interest rate risk (Banking)

Interest rate risk in the Banking balance sheet arises from the potential for a change in interest rates to have an adverse affect on the net interest earnings, in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Bank's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net interest earnings in the long term.

The Bank measures and manages balance sheet interest rate risk from two perspectives:

(a) Next 12 months earnings

The risk to the net interest earnings over the next 12 months for a change in interest rates is measured on a monthly basis. Risk is measured assuming an immediate 1% parallel movement in interest rates across the whole yield curve as well as other interest rate scenarios with variations in size and timing of interest rate movements. 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 Bank) is measured by taking into account both the manner 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 table represent the potential change to net interest earnings during the year (expressed as a percentage of expected net interest earnings in the next 12 months) based on a 1% parallel rate shock and the expected change in price of assets and liabilities held for purposes other than trading.

(expressed as a percentage of expected next 12 months' earnings)	2005 %	2004 %
Average monthly exposure	1.1	0.9
High month exposure	1.5	1.3
Low month exposure	0.5	0.5

(b) Economic value

Some of the Bank's assets and liabilities have interest rate risk that is not fully captured within a measure of risk to the next 12 months earnings. To measure this longer-term sensitivity, the Bank utilises an economic value-at-risk ("VaR") analysis. 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 Bank are based on the expected repricing characteristics of those products.

The total cash flows are revalued under a range of possible interest rate scenarios using the VaR methodology. The interest rate scenarios are based on actual interest rate movements that have occurred over one year and five year historical observation periods. The measured VaR exposure is an estimate to a 97.5% confidence level (one-tail) of the potential loss that could occur if the balance sheet positions were to be held unchanged for a one month holding period. For example, VaR exposure of \$1 million means that in 97.5 cases out of 100, the expected net present value will not decrease by more than \$1 million given the historical movement in interest rates.

The figures in the following table represent the net present value of the expected change in future earnings in all future periods for the remaining term of all existing assets and liabilities held for purposes other than trading.

	2005 \$M	2004 \$M
Exposure as at 30 June	7	19
Average monthly exposure	24	40
High month exposure	78	92
Low month exposure	5	19

Notes to the financial statements

NOTE 39 Market Risk continued

The following table represents the Bank's contractual interest rate sensitivity for repricing mismatches as at 30 June 2005 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

	Balance Sheet Total \$M	Repricing Period at 30 June 2005							Not Interest Bearing \$M	Weighted Average Rate %
		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			
Australia										
Assets										
Cash and liquid assets	4,464	3,181	-	-	-	-	-	-	1,283	4.95
Receivables due from other financial institutions	3,691	2,946	559	86	-	-	-	-	100	3.61
Trading securities	11,023	11,012	-	-	-	-	-	-	11	4.77
Investment securities	4,571	1,152	121	289	147	2,240	620	-	2	6.01
Loans, advances and other receivables	180,641	113,110	11,792	8,633	13,169	33,107	2,097	-	(1,267)	7.25
Bank acceptances of customers	16,786	-	-	-	-	-	-	-	16,786	-
Life insurance investment assets	23,124	3,145	896	77	364	2,505	2,156	-	13,981	4.67
Property, plant and equipment	1,190	-	-	-	-	-	-	-	1,190	-
Intangible assets	3,987	-	-	-	-	-	-	-	3,987	-
Other assets	22,421	-	-	-	-	-	-	-	22,421	-
Total Assets	271,898	134,546	13,368	9,085	13,680	37,852	4,873	58,494		5.65
Liabilities										
Deposits and other public borrowings	141,114	93,701	21,222	12,435	4,479	3,288	136	-	5,853	4.27
Payables due to other financial institutions	2,708	2,086	544	56	9	13	-	-	-	3.45
Bank acceptances	16,786	-	-	-	-	-	-	-	16,786	-
Provision for dividend	14	-	-	-	-	-	-	-	14	-
Income tax liability	1,465	-	-	-	-	-	-	-	1,465	-
Other provisions	840	-	-	-	-	-	-	-	840	-
Life insurance policy liabilities	20,636	-	-	-	-	-	-	-	20,636 ⁽¹⁾	-
Debt issues	40,240	6,751	18,299	2,385	1,458	10,847	500	-	-	5.80
Bills payable and other liabilities	17,311	-	-	-	-	-	-	-	17,311	-
Loan capital	6,291	608	2,202	146	-	1,939	1,396	-	-	7.13
Total Liabilities	247,405	103,146	42,267	15,022	5,946	16,087	2,032	62,905		3.60
Shareholders' Equity										
Share capital	18,846	-	-	-	-	-	-	-	18,846	-
Outside equity interests	1,270	-	-	-	-	-	-	-	1,270	-
Total Shareholders' Equity	20,116	-	-	-	-	-	-	-	20,116	
Off Balance Sheet Items										
Swaps	⁽²⁾	3,296	(17,956)	4,543	3,322	6,726	69	-	-	⁽³⁾
Options	⁽²⁾	-	84	(15)	-	(69)	-	-	-	⁽³⁾
Futures	⁽²⁾	-	3,420	3,196	(3,890)	(2,208)	(518)	-	-	⁽³⁾
Net Mismatch	⁽²⁾	34,696	(43,351)	1,787	7,166	26,214	2,392	(24,527)		⁽³⁾
Cumulative Mismatch	⁽²⁾	34,696	(8,655)	(6,868)	298	26,512	28,904	4,377		⁽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. This is particularly so with investment linked policies.

⁽²⁾ No balance sheet amount applicable.

⁽³⁾ No rate applicable.

Notes to the financial statements

NOTE 39 Market Risk continued

The following table represents the Bank's contractual interest rate sensitivity for repricing mismatches as at 30 June 2004 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

	Balance Sheet Total \$M	Repricing Period at 30 June 2004							Not Interest Bearing \$M	Weighted Average Rate %
		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			
Australia										
Assets										
Cash and liquid assets	5,740	4,802	-	-	4	-	-	934	3.27	
Receivables due from other financial institutions	4,914	3,657	1,076	78	2	-	-	101	2.88	
Trading securities	11,310	11,310	-	-	-	-	-	-	3.53	
Investment securities	3,822	81	180	792	17	1,966	782	4	6.09	
Loans, advances and other receivables	158,915	96,547	10,283	8,776	14,148	28,444	1,989	(1,272)	6.89	
Bank acceptances of customers	15,019	-	-	-	-	-	-	15,019	-	
Insurance investment assets	24,673	761	2,090	203	247	2,934	2,514	15,924	4.62	
Deposits with regulatory authorities	-	-	-	-	-	-	-	-	-	
Property, plant and equipment	1,053	-	-	-	-	-	-	1,053	-	
Intangible assets	4,270	-	-	-	-	-	-	4,270	-	
Other assets	23,236	-	-	-	-	-	-	23,236	-	
Total Assets	252,952	117,158	13,629	9,849	14,418	33,344	5,285	59,269	5.16	
Liabilities										
Deposits and other public borrowings	139,153	90,121	20,032	14,160	3,418	3,133	826	7,463	3.89	
Payables due to other financial institutions	2,383	2,147	58	153	4	20	-	1	1.19	
Bank acceptances	15,019	-	-	-	-	-	-	15,019	-	
Provision for dividend	14	-	-	-	-	-	-	14	-	
Income tax liability	757	-	-	-	-	-	-	757	-	
Other provisions	954	-	-	-	-	-	-	954	-	
Insurance policy liabilities	20,834	-	-	-	-	-	-	20,834 ⁽¹⁾	-	
Debt issues	27,688	1,428	2,258	1,834	2,022	14,370	5,776	-	5.27	
Bills payable and other liabilities	15,802	-	-	-	-	-	-	15,802	-	
Loan capital	6,539	331	221	613	999	1,825	2,550	-	4.57	
Total Liabilities	229,143	94,027	22,569	16,760	6,443	19,348	9,152	60,844	3.14	
Shareholders' Equity										
Share capital	21,079	-	-	-	-	-	-	21,079	-	
Outside equity interests	2,288	-	-	-	-	-	-	2,288	-	
Total Shareholders' Equity	23,367	-	-	-	-	-	-	23,367	-	
Off Balance Sheet Items										
Swaps	⁽²⁾	(10,161)	(12,663)	8,173	954	8,150	5,547	-	⁽³⁾	
Options	⁽²⁾	(426)	-	176	-	75	175	-	⁽³⁾	
FRAs	⁽²⁾	-	-	-	-	-	-	-	⁽³⁾	
Futures	⁽²⁾	-	5,171	(10,311)	6,264	(902)	(222)	-	⁽³⁾	
Net Mismatch	⁽²⁾	12,544	(16,432)	(8,873)	15,193	21,319	1,633	(24,942)	⁽³⁾	
Cumulative Mismatch	⁽²⁾	12,544	(3,888)	(12,761)	2,432	23,751	25,384	442	⁽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. This is particularly so with investment linked policies.

⁽²⁾ No balance sheet amount applicable.

⁽³⁾ No rate applicable.

Notes to the financial statements

NOTE 39 Market Risk continued

	Balance Sheet Total \$M	Repricing Period at 30 June 2005							
		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	1,251	1,094	82	-	1	-	-	74	2.77
Receivables due from other financial institutions	2,514	1,017	1,143	351	-	-	-	3	3.60
Trading securities	3,605	291	2,335	152	97	492	233	5	5.81
Investment securities	5,701	500	3,406	573	151	713	357	1	4.37
Loans, advances and other receivables	36,875	11,633	3,633	3,027	6,449	12,158	98	(123)	7.49
Life insurance investment assets	4,713	1,005	64	9	25	433	831	2,346	2.32
Deposits with regulatory authorities	45	-	-	-	-	-	-	45	-
Property, plant and equipment	154	-	-	-	-	-	-	154	-
Intangible assets	407	-	-	-	-	-	-	407	-
Other assets	1,872	-	-	-	-	-	-	1,872	-
Total Assets	57,137	15,540	10,663	4,112	6,723	13,796	1,519	4,784	6.04
Liabilities									
Deposits and other public borrowings	26,915	16,866	4,995	3,220	1,102	542	186	4	5.44
Payables due to other financial institutions	5,315	3,538	670	870	237	-	-	-	4.23
Income tax liability	85	-	-	-	-	-	-	85	-
Other provisions	41	-	-	-	-	-	-	41	-
Life insurance policy liabilities	4,058	-	-	-	-	-	-	4,058 ⁽¹⁾	-
Debt issues	18,381	3,378	4,059	9,389	387	1,122	46	-	2.28
Bills payable and other liabilities	774	-	-	-	-	-	-	774	-
Total Liabilities	55,569	23,782	9,724	13,479	1,726	1,664	232	4,962	3.80
Shareholders' Equity									
Share capital	5,425	-	-	-	-	-	-	5,425	-
Outside equity interests	519	-	-	-	-	-	-	519	-
Total Shareholders' Equity	5,944	-	-	-	-	-	-	5,944	-
Off Balance Sheet Items									
Swaps	⁽²⁾	3,942	9,056	(1,039)	(3,254)	(8,832)	87	39	⁽³⁾
FRAs	⁽²⁾	(459)	463	(551)	547	-	-	-	⁽³⁾
Futures	⁽²⁾	-	1,167	(592)	(575)	-	-	-	⁽³⁾
Net Mismatch	⁽²⁾	(4,759)	11,625	(11,549)	1,715	3,300	1,374	(6,083)	⁽³⁾
Cumulative Mismatch	⁽²⁾	(4,759)	6,866	(4,683)	(2,968)	332	1,706	(4,377)	⁽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. This is particularly so with investment linked policies.

⁽²⁾ No balance sheet amount applicable.

⁽³⁾ No rate applicable.

As noted above the cumulative mismatch reflects contractual repricing periods. The balance sheet is managed based on assessments of expected pricing behaviour having regard to historical trends and competitive positioning.

The Group has a significant portfolio of loans with fixed interest rates maturing in the one to five years repricing period. Funding is principally raised from retail deposits with at call variable interest rates. The interest rate risk exposure is managed in accordance with the principles outlined above in this note.

Notes to the financial statements

NOTE 39 Market Risk continued

	Repricing Period at 30 June 2004								Weighted Average Rate %
	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	
Australia									
Assets									
Cash and liquid assets	5,740	4,802	-	-	4	-	-	934	3.27
Receivables due from other financial institutions	4,914	3,657	1,076	78	2	-	-	101	2.88
Trading securities	11,310	11,310	-	-	-	-	-	-	3.53
Investment securities	3,822	81	180	792	17	1,966	782	4	6.09
Loans, advances and other receivables	158,915	96,547	10,283	8,776	14,148	28,444	1,989	(1,272)	6.89
Bank acceptances of customers	15,019	-	-	-	-	-	-	15,019	-
Life insurance investment assets	24,673	761	2,090	203	247	2,934	2,514	15,924	4.62
Property, plant and equipment	1,053	-	-	-	-	-	-	1,053	-
Goodwill	4,270	-	-	-	-	-	-	4,270	-
Other assets	23,236	-	-	-	-	-	-	23,236	-
Total Assets	252,952	117,158	13,629	9,849	14,418	33,344	5,285	59,269	5.16
Liabilities									
Deposits and other public borrowings	139,153	90,121	20,032	14,160	3,418	3,133	826	7,463	3.89
Payables due to other financial institutions	2,383	2,147	58	153	4	20	-	1	1.19
Bank acceptances	15,019	-	-	-	-	-	-	15,019	-
Provision for dividend	14	-	-	-	-	-	-	14	-
Income tax liability	757	-	-	-	-	-	-	757	-
Other provisions	954	-	-	-	-	-	-	954	-
Life insurance policy liabilities	20,834	-	-	-	-	-	-	20,834 ⁽¹⁾	-
Debt issues	27,688	1,428	2,258	1,834	2,022	14,370	5,776	-	5.27
Bills payable and other liabilities	15,802	-	-	-	-	-	-	15,802	-
Loan capital	6,539	331	221	613	999	1,825	2,550	-	4.57
Total Liabilities	229,143	94,027	22,569	16,760	6,443	19,348	9,152	60,844	3.14
Shareholders' Equity									
Share capital	21,079	-	-	-	-	-	-	21,079	
Outside equity interests	2,288	-	-	-	-	-	-	2,288	
Total Shareholders' Equity	23,367	-	-	-	-	-	-	23,367	
Off Balance Sheet Items									
Swaps	⁽²⁾	(10,161)	(12,663)	8,173	954	8,150	5,547	-	⁽³⁾
Options	⁽²⁾	(426)	-	176	-	75	175	-	⁽³⁾
Futures	⁽²⁾	-	5,171	(10,311)	6,264	(902)	(222)	-	⁽³⁾
Net Mismatch	⁽²⁾	12,544	(16,432)	(8,873)	15,193	21,319	1,633	(24,942)	⁽³⁾
Cumulative Mismatch	⁽²⁾	12,544	(3,888)	(12,761)	2,432	23,751	25,384	442	⁽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. This is particularly so with investment linked policies.

⁽²⁾ No balance sheet amount applicable.

⁽³⁾ No rate applicable.

Notes to the financial statements

NOTE 39 Market Risk continued

	Balance Sheet Total \$M	Repricing Period at 30 June 2004						Not Interest Bearing \$M	Weighted Average Rate %
		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		
Overseas									
Assets									
Cash and liquid assets	713	493	116	-	30	-	-	74	2.23
Receivables due from other financial institutions	3,455	2,005	1,423	15	-	-	-	12	3.20
Trading securities	3,586	2,021	1,237	221	60	25	22	-	4.29
Investment securities	7,625	827	2,193	622	374	1,843	1,766	-	4.00
Loans, advances and other receivables	30,476	10,868	2,671	2,616	4,233	9,509	700	(121)	6.87
Life insurance investment assets	4,269	67	54	32	71	990	955	2,100	2.11
Deposits with regulatory authorities	38	-	-	-	-	-	-	38	-
Property, plant and equipment	151	-	-	-	-	-	-	151	-
Goodwill	435	-	-	-	-	-	-	435	-
Other assets	2,295	-	-	-	-	-	-	2,295	-
Total Assets	53,043	16,281	7,694	3,506	4,768	12,367	3,443	4,984	5.22
Liabilities									
Deposits and other public borrowings	24,024	14,697	4,636	2,605	1,095	515	14	462	4.22
Payables due to other financial institutions	4,258	2,844	928	485	1	-	-	-	2.80
Income tax liability	54	-	-	-	-	-	-	54	-
Other provisions	43	-	-	-	-	-	-	43	-
Life insurance policy liabilities	3,804	-	-	-	-	-	-	3,804 ⁽¹⁾	-
Debt issues	16,354	2,919	2,411	8,504	328	1,664	481	47	1.72
Bills payable and other liabilities	3,338	-	-	-	-	-	-	3,338	-
Loan capital	92	-	-	92	-	-	-	-	8.22
Total Liabilities	51,967	20,460	7,975	11,686	1,424	2,179	495	7,748	2.74
Shareholders' Equity									
Share capital	1,326	-	-	-	-	-	-	1,326	-
Outside equity interests	192	-	-	-	-	-	-	192	-
Total Shareholders' Equity	1,518	-	-	-	-	-	-	1,518	-
Off Balance Sheet Items									
Options	⁽²⁾	3,273	5,205	(186)	(2,073)	(6,381)	115	47	⁽³⁾
Swaps	⁽²⁾	-	-	(61)	61	-	-	-	⁽³⁾
FRAs	⁽²⁾	(820)	(137)	547	410	-	-	-	⁽³⁾
Futures	⁽²⁾	-	218	(185)	526	(559)	-	-	⁽³⁾
Net Mismatch	⁽²⁾	(1,726)	5,005	(8,065)	2,268	3,248	3,063	(4,235)	⁽³⁾
Cumulative Mismatch	⁽²⁾	(1,726)	3,279	(4,786)	(2,518)	730	3,793	(442)	⁽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. This is particularly so with investment linked policies.

⁽²⁾ No balance sheet amount applicable.

⁽³⁾ No rate applicable.

Notes to the financial statements

NOTE 39 Market Risk continued

As at 30 June

	Exchange Rate		Interest Rate		2005	Total 2004
	Related Contracts		Related Contracts			
	2005	2004	2005	2004		
	\$M	\$M	\$M	\$M	\$M	\$M
Within 6 months	(8)	99	(51)	(34)	(59)	65
Within 6 months - 1 year	(7)	4	17	(13)	10	(9)
Within 1 - 2 years	29	(21)	(20)	16	9	(5)
Within 2 - 5 years	34	59	(208)	(190)	(174)	(131)
After 5 years	65	7	(87)	(698)	(22)	(691)
Net deferred gain/(loss)	113	148	(349)	(919)	(236)	(771)

Foreign exchange risk

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. The Bank hedges all balance sheet foreign exchange risks except for long term investments in offshore subsidiaries.

Net deferred gains and losses

Net deferred unrealised gains and losses arising from derivative hedging contracts entered into in order to manage risk arising from assets, liabilities, commitments of anticipated future transactions, together with the expected term of deferral are shown above.

Net deferred gains and losses are only in respect of derivatives and must be considered in the context of the total interest rate and foreign exchange rate risk of the balance sheet. The deferred gains and losses on both derivatives and on balance sheet assets and liabilities are included in the economic VaR measure outline above.

Additionally, there is \$42 million of net deferred losses on derivatives (2004: \$31 million net deferred gains) used to hedge equity risk on investments disclosed within Note 11.

Market Risk in the provision of Financial Services

Market risk in the life insurance business arises from mismatches between asset returns and guaranteed liability returns on some policy changes (which may not be capable of being hedged through matching assets), adverse movements in market prices affecting fee income on investment-linked policies and from returns obtained from investing the shareholders capital held in each life company. As at 30 June 2005, shareholders' funds in the life insurance business are invested 75% in income assets (cash and fixed interest) and 25% in growth assets (shares and property) with the asset mix varying from company to company. Policyholder funds are invested to meet policyholders' reasonable expectations without putting the shareholder at undue risk.

The Bank provides operating leases to customers on equipment such as motor vehicles, computers and industrial equipment. Residual value risk is the risk that the amount recouped by selling the equipment at lease expiry will be less than the residual value of the lease. In managing this risk the Bank utilises industry experts to ensure that the residual value of equipment is prudently estimated at the start of the lease and the Bank realises the maximum value of the equipment at lease expiry.

Market Risk in Financial Markets Trading

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 Bank'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 and capital market instruments, including a broad range of securities and derivatives.

In foreign exchange, the Group is a participant in all major currencies and is a major participant in the Australian dollar market, providing services for central banks, institutional, corporate and retail customers. Positions are also taken in the interest rate, debt, equity and commodity markets based on views of future market movements. Trading securities are further detailed in Note 10 to the financial statements.

Income is earned from spreads achieved through market making and from taking outright market risk. All trading positions are valued daily and taken to profit and loss on a mark to market basis. Trading profits also take account of interest, dividends and funding costs relating to trading activities. Market liquidity risk is controlled by focusing trading activity in highly liquid markets.

Note 2 to the financial statements details Financial Markets Trading Income contribution to the income of the Group. In addition, this contribution provides important diversification benefits to the Group.

Derivative Contracts

The table on the next page details the Group's outstanding derivative contracts as at the end of the year.

Each derivative type is split between those held for 'Trading' purposes and those for 'Other than Trading' purposes. Derivatives classified as 'Other than Trading' are transactions entered into in order to manage the risks arising from non-traded assets, liabilities and commitments in Australia and offshore centres.

The 'Face Value' is the notional or contractual amount of the derivatives. This amount is not necessarily exchanged and predominantly acts as a reference value upon which interest payments and net settlements can be calculated and on which revaluation is based.

The 'Credit Equivalent' is calculated using a standard APRA formula and is disclosed for each product class. This amount is a measure of the on balance sheet loan equivalent of the derivative contracts, which includes a specified percentage of the face value of each contract plus the market value of all contracts with an unrealised gain at balance date. The Credit Equivalent does not take into account any benefits of netting exposures to individual counterparties.

The accounting policy for derivative financial instruments is set out in Note 1(ff).

Notes to the financial statements

NOTE 39 Market Risk continued

	Face Value		GROUP Credit Equivalent	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Derivatives				
Exchange rate related contracts				
Forwards				
Trading	164,491	151,595	3,542	3,083
Other than trading	31,776	30,983	786	1,504
Total Forwards	196,267	182,578	4,328	4,587
Swaps				
Trading ⁽¹⁾	85,978	61,688	7,439	5,242
Other than trading	46,969	38,671	2,165	2,855
Total Swaps	132,947	100,359	9,604	8,097
Futures				
Trading	25	1	-	-
Other than trading	-	-	-	-
Total Futures	25	1	-	-
Options purchased and sold				
Trading	21,523	64,930	304	856
Other than trading	141	126	5	2
Total Options Purchased and Sold	21,664	65,056	309	858
Total Exchange Rate Related Contracts	350,903	347,994	14,241	13,542
Interest rate related contracts				
Forwards				
Trading	25,312	28,311	6	13
Other than trading	120	500	2	11
Total Forwards	25,432	28,811	8	24
Swaps				
Trading ⁽¹⁾	273,456	139,297	3,185	2,276
Other than trading	146,799	201,510	2,843	3,033
Total Swaps	420,255	340,807	6,028	5,309
Futures				
Trading	44,362	38,525	-	67
Other than trading	14,558	17,251	249	-
Total Futures	58,920	55,776	249	67
Options purchased and sold				
Trading	26,659	15,100	185	110
Other than trading	4,098	4,683	43	15
Total Options Purchased and Sold	30,757	19,783	228	125
Total Interest Rate Related Contracts	535,364	445,177	6,513	5,525
Credit risk related contracts				
Swaps				
Trading	3,002	2,870	250	348
Other than trading	3,972	3,490	290	393
Total Swaps	6,974	6,360	540	741
Total Credit Risk Related Contracts	6,974	6,360	540	741
Equity risk related contracts				
Swaps				
Other than trading	276	340	44	33
Futures				
Other than trading	115	-	115	-
Options purchased and sold				
Trading	395	313	27	33
Other than trading	29	25	3	1
Total Options Purchased and Sold	424	338	30	34
Total Equity Risk Related Contracts	815	678	189	67
Total Derivatives Exposures	894,056	800,209	21,483	19,875

⁽¹⁾ Derivative book restructured to meet AIFRS hedging guidelines.

7.

The Bank has also entered swaps to hedge property values and income related to investment property risk. Each of these has a face value of \$252 million and a total credit equivalent of \$5 million (2004: each has a face value of \$252 million and a credit equivalent of \$1 million.)

Notes to the financial statements

NOTE 39 Market Risk continued

The fair or market value of trading derivative contracts, disaggregated into gross unrealised gains and gross unrealised losses, are shown below. In line with the Group's accounting policy, these unrealised gains and losses are recognised immediately in profit and loss, and together with net realised gains on trading derivatives and realised and unrealised gains and losses on trading securities are reported within trading income under foreign exchange earnings, trading securities or other financial instruments (refer to Note 2). In aggregate, derivatives trading was profitable for the Group during the year.

	Fair Value		Average Fair Value	
	2005 \$M	2004 \$M	2005 \$M	2004 \$M
Exchange rate related contracts				
Forward contracts:				
Gross unrealised gains	1,532	2,417	2,147	2,673
Gross unrealised losses	(1,686)	(2,742)	(2,306)	(2,975)
	(154)	(325)	(159)	(302)
Swaps:				
Gross unrealised gains	6,602	5,718	6,409	5,370
Gross unrealised losses	(6,177)	(4,335)	(5,382)	(4,145)
	425	1,383	1,027	1,225
Futures:				
Gross unrealised gains	1	-	1	1
Gross unrealised losses	-	(3)	(1)	(3)
	1	(3)	-	(2)
Options purchased and sold:				
Gross unrealised gains	146	482	262	822
Gross unrealised losses	(191)	(634)	(351)	(1,167)
	(45)	(152)	(89)	(345)
Net Unrealised Gains on Exchange Rate Related Contracts	228	903	779	576
Interest rate related contracts				
Forward contracts:				
Gross unrealised gains	2	4	6	6
Gross unrealised losses	(2)	(4)	(5)	(5)
	-	-	1	1
Swaps:				
Gross unrealised gains	3,727	4,084	3,538	4,833
Gross unrealised losses	(3,761)	(4,362)	(3,792)	(5,209)
	(34)	(278)	(254)	(376)
Futures:				
Gross unrealised gains	10	24	14	41
Gross unrealised losses	(28)	(25)	(15)	(50)
	(18)	(1)	(1)	(9)
Options purchased and sold:				
Gross unrealised gains	108	66	74	155
Gross unrealised losses	(50)	(57)	(48)	(123)
	58	9	26	32
Net Unrealised Losses on Interest Rate Related Contracts	6	(270)	(228)	(352)
Credit related trading derivative contracts				
Swaps:				
Gross unrealised gains	4	17	7	16
Gross unrealised losses	(8)	(11)	(12)	(13)
Net Unrealised Gains on Credit Related Contracts	(4)	6	(5)	3
Equity related contracts				
Options purchased and sold:				
Gross unrealised gains	13	15	13	12
Gross unrealised losses	(13)	(15)	(13)	(12)
Net Unrealised Gains on Equity Related Contracts	-	-	-	-
Net Unrealised Gains on Trading Derivative Contracts	230	639	546	227

Notes to the financial statements

NOTE 39 Market Risk continued

In accordance with the accounting policy set out in Note 1(ff) the above trading derivative contract revaluations have been presented on a gross basis on the balance sheet.

	Fair Value	
	2005	2004
	\$M	\$M
8.		
Unrealised gains on trading derivatives (Note 21)	12,144	12,827
Unrealised losses on trading derivatives (Note 27)	11,914	12,188
Net unrealised gains on trading derivatives	230	639

Note 40 Superannuation Commitments

The Group sponsors a range of superannuation plans for its employees world wide. Details of major defined benefit plans with assets in excess of \$10 million are:

Name of Plan	Type	Form of Benefit	Date of Last Actuarial Review of the Fund
Officers' Superannuation Fund ("OSF")	Defined Benefits and Accumulation	Indexed pensions and lump sums	30 June 2003
Commonwealth Bank of Australia (UK) Staff Benefits Scheme ("CBA(UK)SBS")	Defined Benefits and Accumulation	Indexed pensions and lump sums	1 August 2003

Financial Details of Defined Benefits Plans

	OSF ⁽¹⁾	CBA (UK) ⁽²⁾ SBS	Total
	\$M	\$M	\$M
Net Market Value of Assets ⁽³⁾	5,761	311	6,072
Present Value of Accrued Benefits ⁽⁴⁾	4,073	384	4,457
Difference between Net Market of Assets And Present Value of Accrued Benefits	1,688	(73)	1,615
Difference as a percentage of plan assets	29%	23%	27%
Value of Vested Benefits ⁽⁴⁾	4,073	284	4,357

⁽¹⁾ The values for the OSF are the fund actuary's estimates as at 31 March 2005 (which are unaudited).

⁽²⁾ The values for the CBA(UK)SBS are the fund actuary's estimates as at 31 March 2005 (which are unaudited).

⁽³⁾ These values have been extracted from the latest available fund financial statements (which are unaudited).

⁽⁴⁾ The Present Value of Accrued Benefits and Value of Vested Benefits for the OSF have been calculated in accordance with the Australian Accounting Standards AAS 25 Financial Reporting for Superannuation Plans. For CBA(UK)SBS, the Present Value of Accrued Benefits and Value of Vested Benefits have been calculated in accordance with relevant UK actuarial standards and practices.

Contributions

For the plans listed in the above table, entities of the Group contribute to the respective plans 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 2003 was completed during the year ended 30 June 2004. In line with the actuarial advice contained in the assessment, the Bank does not intend to make contributions to the OSF until after consideration of the next actuarial assessment of the OSF as at 30 June 2006.

An actuarial assessment of the CBA(UK)SBS at 1 August 2003 revealed a deficit of GBP30 million (AUD72 million at 30 June 2005 exchange rate). Following from this assessment, the Bank agreed to contribute the recommended contributions to finance future accruals of defined benefits (dollar contributions estimated at AUD5 million per annum at 30 June 2005 exchange rate) and to make additional contributions of GBP3 million per annum (AUD7 million per annum at 30 June 2005 exchange rate) payable over 15 years to finance the fund deficit. An actuarial assessment of the CBA(UK)SBS at 1 July 2005 is currently in progress.

Notes to the financial statements

NOTE 41 Controlled Entities

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
AUSTRALIA		
(a) Banking		
Commonwealth Bank of Australia		Australia
Controlled Entities:		
Commonwealth Development Bank of Australia Limited		Australia
CBA Investments Limited		Australia
CBA Specialised Financing Limited		Australia
Share Investments Pty Limited		Australia
CBA Investments (No.2) Pty Limited		Australia
CBA International Finance Pty Limited		Australia
CBCL Australia Limited		Australia
CBFC Limited		Australia
Collateral Leasing Pty Limited		Australia
Commonwealth Securities Limited		Australia
Homepath Pty Limited		Australia
Chullora Equity Investments (No.2) Pty Limited		Australia
Chullora Equity Investments (No.3) Pty Limited		Australia
Commonwealth Investments Pty Limited		Australia
Commonwealth Property Limited		Australia
Infravest (No.1) Limited		Australia
Retail Investor Pty Limited		Australia
Sparad (No.24) Pty Limited		Australia
Colonial Employee Share Plan Limited		Australia
Colonial Finance Limited		Australia
Colonial Financial Services Pty Limited		Australia
CST Securitisation Management Limited		Australia
Emerald Holding Company Limited		Australia
TD Waterhouse Holdings (Aust) Pty Limited		Australia
Preferred Capital Limited		Australia
Newport Limited		Australia
Padang Pty Ltd		Australia
M Land Pty Ltd		Australia
PERLS II Trust		Australia
GT Funding No.1 Pty Ltd		Australia
GT Operating No.1 Pty Ltd		Australia
Watermark Limited		Australia
Emerald Limited		Australia
Loft No.1 Pty Ltd		Australia
Loft No.2 Pty Ltd		Australia
Fringe Pty Ltd		Australia
Reliance Achiever Pty Ltd		Australia
Reliance Achiever Partnership		Australia
Lily Pty Ltd		Australia
Pavillion Limited		Australia
Leaseway Transportation Pty Limited		Australia
Medallion 2003-2G		Australia
Broadcasting Infrastructure Asset Partnership		Australia
Greenwood Lending Pty Ltd		Australia

Notes to the financial statements

NOTE 41 Controlled Entities

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
(b) Insurance and Funds Management		
Commonwealth Insurance Limited		Australia
Commonwealth Custodial Services Limited		Australia
Commonwealth Insurance Holdings Limited		Australia
Commonwealth Life Limited		Australia
CLL Investments Limited		Australia
CIF (Hazelwood) Pty Limited		Australia
Commonwealth Investment Services Limited Group		
Commonwealth Investment Services Limited		Australia
Commonwealth Managed Investments Limited		Australia
CISL (Hazelwood) Pty Limited		Australia
Commonwealth Funds Management Limited Group		
Commonwealth Funds Management Limited		Australia
CFM (ADF) Limited		Australia
CFML Nominees Pty Limited		Australia
CMG Asia Pty Limited		Australia
CMG First State Investment Managers (Asia) Limited		Australia
Colonial AFS Services Pty Limited		Australia
Colonial Financial Corporation Limited		Australia
Colonial First State Group Limited		Australia
Colonial First State Investments Limited		Australia
Avanteos Pty Limited		Australia
Colonial First State Property Limited		Australia
Colonial First State Property Retail Pty Limited	60	Australia
Colonial First State Property Retail Trust	60	Australia
Colonial First Statutory Funds Management Limited		Australia
CFS Managed Property Limited		Australia
Colonial Holding Company Pty Limited		Australia
Colonial Holding Company (No.2) Pty Limited		Australia
Colonial Financial Management Limited		Australia
Colonial International Holdings Pty Limited		Australia
Colonial Investments Holding Pty Limited		Australia
Colonial Investment Services Limited		Australia
Colonial LGA Holdings Limited		Australia
The Colonial Mutual Life Assurance Society Limited		Australia
Colonial Portfolio Services Limited		Australia
Colonial Services Pty Limited		Australia
Jacques Martin Pty Limited		Australia
PIF Managed Property Pty Limited		Australia
Colonial Protection Insurance Pty Ltd		Australia
NEW ZEALAND		
(a) Banking		
ASB Group Limited		New Zealand
ASB Holdings Limited		New Zealand
ASB Bank Limited		New Zealand
ASB Finance Limited		New Zealand
ASB Management Services Limited		New Zealand
ASB Properties Limited		New Zealand
ASB Superannuation Nominees Limited		New Zealand
CBA Funding (NZ) Limited		New Zealand
ASB Capital No.2		New Zealand
(b) Insurance and Funds Management		
ASB Group Limited		New Zealand
ASB Life Limited		New Zealand
Sovereign Limited		New Zealand
Colonial First State Investment Managers (NZ) Limited		New Zealand
Colonial First State Investments (NZ) Limited		New Zealand
ASB Group (Life) Limited		New Zealand
Kiwi Income Properties Limited		New Zealand
Kiwi Property Management Limited		New Zealand
Sovereign Life NZ Limited		New Zealand
Sovereign Services Corporation New Zealand Limited		New Zealand

Notes to the financial statements

NOTE 41 Controlled Entities continued

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
OTHER OVERSEAS		
(a) Banking		
CBA Asia Limited		Singapore
CBA (Europe) Finance Limited		United Kingdom
CBA (Delaware) Finance Incorporated		USA
CTB Australia Limited		Hong Kong
Senator House Investments (UK) Limited ⁽¹⁾		United Kingdom
Commonwealth Securities (Japan) Pty Limited		Japan
National Bank of Fiji Limited	51	Fiji
PT Bank Commonwealth		Indonesia
CBA Capital Holdings Inc		USA
CBA Capital Trust 1		USA
CBA Funding Trust 1		USA
Seahorse Investments UK Ltd		United Kingdom
CommInternational Limited		Malta
CommFinance Limited		Malta
Pontoon		United Kingdom
Quay (Funding) PLC		United Kingdom
Burdekin Investments		Cayman Islands
(b) Insurance and Funds Management		
CMG Asia Life Holdings Limited		Bermuda
CMG Asia Limited		Bermuda
CMG Asia Pensions and Retirements Limited		Hong Kong
CMG First State Investments (Hong Kong) Limited		Hong Kong
CMG First State Singapore Limited		Singapore
Colonial Fiji Life Limited		Fiji
Colonial First State International Assets Limited		United Kingdom
Colonial First State Investments (Fiji) Limited		Fiji
Colonial First State Investment Managers (UK) Limited		United Kingdom
Colonial Healthcare (Fiji) Limited		Fiji
Colonial Services (Fiji) Limited		Fiji
Colonial First State UK Holdings Limited		United Kingdom
Stewart Ivory Holdings Limited		United Kingdom
Waterloo & Victoria Limited		Cayman Islands
First State (HK) LLC		United States
FS Invest Hldgs (Singapore) Ltd		Singapore

Non-operating and minor operating controlled entities and investment vehicles holding policyholder assets are excluded from the above list.

⁽¹⁾ Wholly owned subsidiary of Newport Limited

Notes to the financial statements

NOTE 42 Investments in Associated Entities and Joint Ventures

	GROUP		Extent of Ownership Interest %	Principal Activities	Balance Date
	2005 \$M	2004 \$M			
EDS (Australia) Pty Limited ⁽¹⁾	-	193	35	Information Technology Services	31 December
PT Astra CMG Life	10	12	50	Life insurance - Indonesia	31 December
Allday Enterprises Ltd	1	1	30	Financial Services	31 December
China Life CMG Life Assurance Company Limited ⁽²⁾	10	20	49	Life insurance - China	31 December
Bao Minh CMG Life Insurance Company	12	12	50	Life insurance - Vietnam	31 December
CMG CH China Funds Management Limited	1	1	50	Investment Management	31 March
BAC Airports Pty Ltd	18	-	33	Airport Services	30 June
Total	52	239			

⁽¹⁾ Investment sold in May 2005.

⁽²⁾ Equity accounted loss of \$10 million principally relates to a write-off of capitalised start up costs.

The Group also holds investments in the Colonial First State Property Trust Group and Colonial Mastertrust Wholesale equity funds (including the Fixed Interest, Australian Share, International Share, Property Securities, Capital Stable, Balanced and Diversified Growth funds) through controlled life insurance entities, which are not accounted for under the equity accounting method.

Instead, the market values for these investments are calculated at balance date and are brought to account at this value in compliance with the requirements of AASB 1038: Life Insurance Business. These investments are classified as property or equity investments and are not material components of these asset categories.

	2005 \$M	GROUP 2004 \$M
Share of associates' profits/(losses) after notional goodwill amortisation		
Operating profits/(losses) before income tax	7	(44)
Income tax benefit	(2)	12
Operating profits/(losses) after income tax	5	(32)
Carrying amount of investments in associated entities		
Opening balance	239	287
New investments	20	-
Disposals/transfers	(203)	-
Writedown value of investments	(10)	(16)
Share of associates' profits/(losses)	5	(32)
Closing Balance	52	239

NOTE 43 Standby Arrangements and Unused Credit Facilities

(of controlled entities that are borrowing corporations)

	Available 2005 \$M	Unused 2005 \$M	Available 2004 \$M	GROUP Unused 2004 \$M
Financing arrangements accessible				
Bank overdraft	70	51	70	58

Notes to the financial statements

NOTE 44 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.

NOTE 45 Related Party Disclosures

Ultimate Parent

Commonwealth Bank of Australia is the ultimate Australian parent company in the Group.

Controlled Entities

Transactions with related parties in the Group are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally arise out of the provision of banking services, the acceptance of funds on deposit, the granting of loans and other associated financial activities.

Support services are provided by the Bank such as provision of premises and/or equipment, availability of transfer payment and accounting facilities through data processing etc, and are transfer charged to the respective user entity at commercial rates.

Refer to Note 41 for details of controlled entities.

The Bank's aggregate investment in and loans to controlled entities are disclosed in Note 18.

Amounts due to controlled entities are disclosed in the statement of financial position 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.

Other Related Entities

An amount of \$492 million (2004: \$548 million) was incurred by the Group in transactions and services provided by other related entities.

Notes to the financial statements

NOTE 46 Statements of Cash Flow

For the purposes of the Statements of Cash Flows, cash includes cash at bankers, money at short call, at call deposits with other financial institutions and settlement account balances with other banks.

	GROUP			BANK	
	2005 \$M	2004 \$M	2003 \$M	2005 \$M	2004 \$M
Note (a) Reconciliation of Cash					
Notes, coins and cash at bankers	1,559	1,548	1,492	1,318	1,421
Other short term liquid assets	682	440	641	415	233
Receivables due from other financial institutions - at call	2,893	4,124	2,528	2,737	3,230
Payables due to other financial institutions - at call	(4,199)	(3,266)	(3,233)	(4,156)	(3,245)
Cash and Cash Equivalents at end of year	935	2,846	1,428	314	1,639

Note (b) Cash Flows Presented on a Net Basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- Customer deposits to and withdrawals from deposit;
- Accounts, borrowings and repayments on loans, advances and other receivables;
- Sales and purchases of trading securities; and
- Proceeds from and repayment of short term debt issues.

Note (c) Reconciliation of Operating Profit After Income Tax to Net Cash Provided by Operating Activities	GROUP			BANK	
	2005 \$M	2004 \$M	2003 \$M	2005 \$M	2004 \$M
Net profit after income tax	4,001	2,581	2,018	2,921	1,647
Decrease/(increase) in interest receivable	11	(186)	(78)	(256)	(8)
Increase/(decrease) in interest payable	30	334	62	86	298
Net decrease /(increase) in trading securities	318	(4,324)	(2,484)	505	(4,672)
Net (gain)/loss on sale of investment securities	(8)	(2)	9	(4)	(2)
(Gain)/loss on sale of property, plant and equipment	(4)	11	(22)	(4)	10
Net loss/(gain) on sale of controlled entities and associates	13	(43)	-	35	453
Charge for bad and doubtful debts	322	276	305	292	263
Depreciation and amortisation	475	450	450	281	271
(Decrease)/increase in other provisions	(116)	185	(15)	(110)	143
Increase/(decrease) in income taxes payable	406	(36)	(234)	406	(7)
(Decrease)/increase in deferred income taxes payable	332	(29)	(166)	232	323
(Increase)/decrease in future income tax benefits	(86)	(39)	100	(337)	(532)
(Increase)/decrease in accrued fees/reimbursements receivable	(41)	(107)	(94)	94	(334)
(Decrease)/increase in accrued fees and other items payable	104	412	6	31	262
Amortisation of premium on investment securities	(4)	12	6	(4)	11
Unrealised loss/(gain) on revaluation of trading securities	408	(260)	(269)	454	(264)
Change in excess of net market value over net assets of life insurance controlled entities	(778)	(201)	245	-	-
Change in policy liabilities	56	777	(2,056)	-	-
Revaluation of life insurance assets	(665)	(1,430)	164	-	-
Gain on sale of life insurance assets	(592)	(456)	(154)	-	-
Other	187	(296)	82	25	(12)
Net Cash provided by/(used in) Operating Activities	4,369	(2,371)	(2,125)	4,647	(2,150)

Notes to the financial statements

NOTE 46 Statements of Cash Flows continued

Note (d) Non Cash Financing and Investing Activities

Shares issued under the Dividend Reinvestment Plan for 2005 were \$446 million (2004: \$389 million).

Note (e) Acquisition of Controlled Entities

	2005 \$M	2004 \$M	2003 \$M
Consideration			
Cash paid on acquisitions	44	-	71
Pre-acquisition dividend received	-	-	2
	<u>44</u>		<u>73</u>
Fair value of net tangible assets acquired			
Cash & liquid assets	4	-	29
Other assets	4	-	29
Other provisions	(2)	-	(8)
Bills payable and other liabilities	(6)	-	(33)
	<u>-</u>	<u>-</u>	<u>17</u>
Excess market value over net assets of life insurance subsidiary	30	-	26
Goodwill	14	-	30
	<u>44</u>	<u>-</u>	<u>73</u>
Outflow/(inflows) of cash on acquisitions			
Cash payments	44	-	71
Less cash and cash equivalents acquired	(4)	-	(29)
	<u>40</u>	<u>-</u>	<u>42</u>

Note (f) Disposal of Controlled Entities

	2005 \$M	2004 \$M	2003 \$M
Disposal proceeds			
Cash receipt on disposal	-	63	33
	<u>-</u>	<u>63</u>	<u>33</u>
Fair value of net tangible assets disposed			
Net book value of assets disposed	-	20	65
Profit/(loss) on sale	-	43	(32)
	<u>-</u>	<u>63</u>	<u>33</u>
Inflow of cash from disposal			
Cash proceeds	-	63	33
	<u>-</u>	<u>63</u>	<u>33</u>

Note (g) Financing Facilities

Standby funding lines are immaterial.

Notes to the financial statements

NOTE 47 Disclosures about Fair Value of Financial Instruments

These amounts represent estimates of net fair values at a point in time. Significant estimates regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments and other factors were used for the purposes of this disclosure. These estimates are subjective in nature and involve matters of judgment. Therefore, they cannot be determined with precision. Changes in the assumptions could have a material impact on the amounts estimated.

While the estimated net 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 net fair values shown would be realised in a current transaction.

The estimated net 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 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 net fair value information with that of other financial institutions. It is important that the many uncertainties discussed above be considered when using the estimated net fair value disclosures and to realise that because of these uncertainties, the aggregate net fair value amount should in no way be construed as representative of the underlying value of the Commonwealth Bank of Australia.

	Carrying Value \$M	2005 Net Fair Value \$M	Carrying Value \$M	2004 Net Fair Value \$M
Assets				
Cash and liquid assets	5,715	5,715	6,453	6,453
Receivables due from other financial institutions	6,205	6,205	8,369	8,369
Trading securities	14,628	14,628	14,896	14,896
Investment securities	10,272	10,433	11,447	11,490
Loans, advances and other receivables	217,516	218,037	189,391	188,954
Bank acceptances of customers	16,786	16,786	15,019	15,019
Life insurance investment assets	27,837	27,837	28,942	28,942
Deposit accounts with regulatory authorities	45	45	38	38
Other assets	23,452	23,470	24,721	24,721
Liabilities				
Deposits and other public borrowings	168,029	168,565	163,177	163,645
Payables due to other financial institutions	8,023	8,023	6,641	6,641
Bank acceptances	16,786	16,786	15,019	15,019
Life insurance policy liabilities	24,694	24,694	24,638	24,638
Debt issues	58,621	57,655	44,042	43,651
Bills payable and other liabilities	18,086	18,083	19,140	19,148
Loan capital	6,291	6,113	6,631	6,740
Asset and liability hedges - unrealised gains/(losses) (Refer to Note 39)	-	(277)	-	(740)

The net 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 due from other financial institutions and bank acceptances of customers approximate their net fair value as they are short term in nature or are receivable on demand.

Securities

Trading securities are carried at net market/net fair value and investment securities have their net fair value determined based on quoted market prices, broker or dealer price quotations.

Loans, advances and other receivables

The carrying value of loans, advances and other receivables is net of general and specific provisions for doubtful debts and interest/fees reserved.

For variable rate loans, excluding impaired loans, the carrying amount is a reasonable estimate of net fair value. The net 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, where appropriate.

Notes to the financial statements

NOTE 47 Disclosures about Fair Value of Financial Instruments continued

The net fair value of impaired loans was calculated by discounting expected cash flows using a rate that includes a premium for the uncertainty of the flows.

For shares in companies, the estimated net fair values are based on quoted market prices.

Life Insurance Investment Assets & Policy Liabilities

Life insurance investment assets are carried at net fair value. Life insurance policy liabilities are measured on a net present value basis. This treatment is in accordance with accounting standard AASB 1038: Life Insurance Business.

Statutory deposits with central banks

In several other countries in which the Group operates, the law requires that the Group lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. The net 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.

All other financial assets

Included in this category are fees receivable, unrealised income, investments in associates of \$52 million (2004: \$239 million), and excess of net market value over net assets of life insurance controlled entities of \$6,549 million (2004: \$5,741 million), where the carrying amount is considered to be a reasonable estimate of net fair value.

Other financial assets are net of goodwill, future income tax benefits and prepayments/unamortised payments, as these do not constitute a financial instrument.

Deposits and other public borrowings

The net fair value of non interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, is the carrying value as at 30 June. Discounted cash flow models based upon deposit type and its related maturity, were used to calculate the net fair value of other term deposits.

Short term liabilities

The carrying value of payables due to other financial institutions and bank acceptances approximate their net fair value as they are short term in nature and repriced frequently.

Debt issues and loan capital

The net fair values of debt issues and loan capital were calculated based on quoted market prices as at 30 June.

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.

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, net 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.

Asset and liability hedges

Net fair value of asset and liability hedges is based on quoted market prices, broker or dealer price quotations, discounted cashflow models or option pricing models as appropriate.

Commitments to extend credit, letters of credit, guarantees, warranties and indemnities issued

The net 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 net fair value may be represented by the present value of fees expected to be received, less associated costs. The overall level of fees involved is not material.

Other off-balance sheet financial instruments

The net fair value of trading and investment derivative contracts (foreign exchange contracts, currency swaps, exchange rate futures, currency options, forward rate agreements, interest rate swaps, interest rate futures, interest rate options), were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

The fair value of these instruments is disclosed in Note 39.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles

The consolidated financial statements of the Group are prepared in accordance with Australian GAAP refer Note 1), which differ in some respects from Generally Accepted Accounting Principles in the US GAAP.

The following are significant adjustments between net profit, shareholders' equity and consolidated balance sheets disclosed in these financial statements and which would be reported in accordance with US GAAP.

Consolidated Statements of Profit and Loss	Footnote	2005 \$M	2004 \$M	2003 \$M
Net profit reported under Australian GAAP	(c)	3,991	2,572	2,012
Pension expense adjustment *	(i)	(62)	(24)	(6)
Life insurance market valuation of controlled entities	(k)	(778)	(201)	245
Reversal of goodwill amortisation	(l)	325	324	322
Amortisation of identifiable intangible assets *	(bb)	(17)	(17)	(13)
Movement in value of business acquired *	(m)	(102)	(161)	(202)
Movement in policyholder liabilities	(r)	(17)	174	42
Movement in deferred tax relating to policyholder liabilities	(a)	(28)	(36)	(12)
Reversal of unrealised gains and depreciation on life insurance property investments *	(o)	(30)	35	(20)
Movement in deferred acquisition costs *	(s)	(36)	(31)	(29)
Marked to market of derivative instruments (under SFAS 133) *	(w)	263	(736)	636
Reversal/(utilisation) of redundancy provision*	(d)	(50)	102	-
Deconsolidation of variable interest entities	(z)	(76)	(55)	-
Reversal of realised/unrealised gain on treasury shares held by Life Insurance Statutory funds	(t)	(39)	(45)**	17**
Movement in Loan Impairment Provision *	(u)	230	-	-
Reversal of software write-off and software amortisation*	(aa)	(10)	97	-
Net income according to US GAAP		3,564	2,043	3,000
Other Comprehensive Income				
Foreign currency translation reserve *	(q), (z)	(45)	19**	(92)
Pension plan *	(q)	3	(44)	68
Unrealised holding gains on available for sale securities *	(f)	25	(57)	59
Reclassification adjustment for gains included in net income	(f)	-	-	(1)
Marked to market of derivative instruments (under SFAS 133) *	(w)	(1)	-	-
	(q)	24	(57)	58
Total other comprehensive income (loss)		(18)	(82)	34
Total comprehensive income according to US GAAP		3,546	1,961	3,034
Basic earnings per share on net income according to US GAAP (cents)		269	158	236
Fully diluted earnings per share on net income according to US GAAP (cents)		269	158	236
Shareholders' Equity				
Shareholders' equity reported under Australian GAAP, excluding outside equity interests		24,271	22,405	20,024
Tax effect of foreign currency translation reserve	(a)	104	62	60
Unrealised net gain on available for sale securities *	(f)	77	52	109
Prepaid pension cost	(i)	844	930	970
Tax effect of prepaid pension cost	(i)	(246)	(270)	(282)
Life insurance market valuation of controlled entities	(k)	(3,282)	(2,504)	(2,303)
Amortisation of identifiable intangible assets	(l)	(72)	(55)	(38)
Goodwill amortisation to 30 June 2002	(l)	(78)	(78)	(78)
Reversal of goodwill amortisation	(l)	971	646	322
Movement in value of business acquired *	(m)	(747)	(645)	(484)
Movement in deferred acquisition costs *	(s)	(298)	(262)	(231)
Equity issued for Colonial acquisition	(bb)	(1,026)	(1,026)	(1,026)
Reversal of unrealised gain and accumulated depreciation on life insurance property investments *	(o)	(91)	(61)	(96)
Movement in policyholder liabilities	(r)	353	370	196
Movement in deferred tax relating to policyholder liabilities	(r)	(104)	(76)	(40)
Marked to market of derivative instruments (under SFAS 133) *	(w)	(286)	(549)	187
Movement in Loan Impairment Provisioning *	(u)	230	-	-
Reversal of redundancy provision	(d)	52	102	-
Deconsolidation of variable interest entities	(z)	(1,460)	(1,537)**	-
Reversal of software write-off and software amortisation	(aa)	87	97	-
Reversal of asset revaluation reserve	(n)	(92)	(61)	-
Reclassification of Treasury shares	(t)	(316)	(291)**	(264)**
Shareholders' equity according to US GAAP		18,891	17,249	17,026
Outside Equity Interests (OEI)				
OEI disclosed within shareholders' equity under AGAAP		1,158	2,176	1,824
OEI disclosed within liabilities under US GAAP		1,158	2,176	1,824

* Reconciliation items which are net of tax. The effective tax rate is 30%.

** These adjustments include prior period restatements. Refer to relevant paragraph for further information.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

Consolidated Balance Sheets	Footnote	2005	2004	2003
		\$M	\$M	\$M
Total assets reported under Australian GAAP		329,035	305,995	265,110
Deferred tax assets related to differences in life insurance policyholder liabilities	(a)	56	84	115
Unrealised net gain(loss) on available for sale securities	(f)	110	74	155
Prepaid pension cost	(i)	1,088	1,173	1,213
Excess of net market value over net assets of life insurance controlled entities	(k)	(6,519)	(5,741)	(5,540)
Goodwill, net of amortisation	(l)	1,457	1,132	808
Value of business acquired, net of amortisation	(m)	1,645	1,764	2,005
Life insurance policy deferred acquisition costs, net of amortisation	(s)	863	803	750
Other identifiable intangible assets recognised, net of amortisation	(l)	88	105	122
Unrealised gain and accumulated depreciation on life insurance property investments	(o)	(91)	(61)	(96)
Marked to market of derivative instruments (under SFAS 133)	(w)	(926)	(2,501)	(481)
Reclassification between reinsurance receivable and policyholder liabilities		17	1	(19)
Consolidation of variable interest entity	(z)	566	531	245
Adjustment to loan impairment provision	(u)	354	-	-
Adjustment to treasury shares	(t)	(338)	(300)*	(272)*
Reversal of asset revaluation reserve	(n)	(92)	(61)	-
Reversal of software write-off and software amortisation	(aa)	124	139	-
Total assets according to US GAAP		327,438	303,137	264,387

* These adjustments include prior period restatements. Refer to relevant paragraph for further information.

(a) Income Tax

Deferred Income Tax Assets and Liabilities

Australian GAAP follows the liability method of tax-effect accounting. The tax-effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes is disclosed as a future income tax benefit (FITB) or a provision for deferred income tax. Amounts are offset where the tax payable and the realisable benefit are expected to occur in the same period. Permanent differences are differences between taxable income and pre-tax accounting profit where the related income or expense items will never be included in either taxable income or pre-tax accounting profit.

The Group has applied SFAS 109: Accounting for Income Taxes in the preparation of its US GAAP information.

The differences between the effect of applying the provisions of SFAS 109 and the accounting policy adopted in the Australian Financial Statements are as follows:

- Under Australian GAAP the criterion for recognition of timing differences is assurance beyond any reasonable doubt and for tax losses 'virtual certainty'. The recognition criterion under US GAAP is that the tax benefit is probable.
- Australian GAAP requires that an announcement of the Government's intention to change the rate of company income tax in advance of periods in which the change will occur is adequate evidence for the deferred tax balances to be restated. This treatment is not permitted under SFAS 109: Accounting for Income Taxes which requires that the deferred tax liabilities and assets be adjusted in the Financial Year in which a change in the tax rate is enacted.

Policyholder Liabilities

From 1 July 2000, the basis for taxation of income on most life insurance products changed from 'Income minus Expenditure' to 'Profit' (which includes movements in policyholder liabilities). As tax deductible policyholder liabilities under Australian tax legislation are lower than US GAAP policyholder liabilities, a deferred tax asset to recognise this timing difference is created. Financial Year 2005 \$56 million (2004 \$84 million; 2003 \$115 million).

Foreign Currency Translation Reserve

For US GAAP purposes, the tax effect of the foreign currency translation reserve is booked as a deferred tax asset. For Financial Year 2005, this represented a \$99 million increase to shareholders' equity (2004:\$62 million; 2003: \$60 million).

Investment Securities

Income from tax exempt securities does not exceed \$500,000.

Tax related to unrealised gains/losses on investment securities sales is \$35 million (2004: \$22 million; 2003: \$47 million).

(b) Pension Plans

In accordance with Australian GAAP, contributions to company sponsored defined benefit pension plans are expensed as incurred. Other than by way of a note to the financial statements, any surplus or deficit is not reflected in the consolidated accounts.

US GAAP pension expense, for defined benefit pension plans, is determined using defined methodology that is based on concepts of accrual accounting. This methodology, which requires several types of actuarial measurements, results in net amounts of expense and the related plan surplus or deficiency being recorded in the financial statements of the sponsor systematically over the working lives of the employees covered by the plan. As a result US GAAP reconciliation adjustments are required. The disclosure requirements of SFAS 87: Employers Accounting for Pensions and SFAS 132: Employers Disclosures about Pensions and Other Postretirement Benefits have been included at footnote (i) within this note.

The Group adopted SFAS 87 later than the effective date specified in the accounting standard. To introduce the information required under SFAS 87 as from the effective date was not feasible. Accordingly an allocation of the pension obligation/asset has been taken directly to equity based on the number of years elapsed between the effective date and the date of adoption by the Group. The adoption date for the purposes of the US GAAP reconciliation information is 1 July 1994 and the remaining amortisation period at the adoption date was ten years.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

(c) Employee Share Compensation

In August 2002 the Bank announced that shares are purchased to cover the Employee Share Acquisition Plan (ESAP) and the full cost is included as an expense against profits for Australian GAAP reporting. Under US GAAP, an accrual for the probable grant of shares under ESAP is required. There is \$27 million accrued in Financial Year 2005 under Australian GAAP per Note 29.

In the current year, for the Equity Reward Plan (ERP), incentives were allocated in the form of Reward Shares only and resulted in an expense for the year of \$12 million.

Other share based compensation expense incurred and charged against profit for the year was \$2.5 million.

This expense is a reduction from previous years due to the discontinuation of the mandatory component of the Equity Participation Plan (EPP).

Under US GAAP, the fair value of the options issued under the Executive Option Plan and Equity Reward Plan are included as part of employee compensation and charged to profit and loss. Options have not been issued by the Bank since 1 July 2002.

The following table outlines movements in executive options in the year ending 30 June 2005 (with a comparison to movements in the years ending 30 June 2004 and 30 June 2003) and shows the number of options outstanding at date of issue.

Movement in Executive Options during the year	2005	Weighted Average Exercise Price	2004	Weighted Average Exercise Price	2003	Weighted Average Exercise Price*
Options Outstanding at the start of the year	5,782,300	\$27.15	7,708,600	\$26.25	9,749,800	\$25.91
Options Granted during the year	-	-	-	-	-	-
Options Forfeited during the year	29,700	\$30.12	213,700	\$25.50	1,381,200	\$27.07
Options Exercised during the year	2,616,200	\$25.72	1,712,600	\$23.30	660,000	\$19.58
Options Outstanding at the end of the year	3,136,400	\$28.53	5,782,300	\$27.15	7,708,600	\$26.25

* The exercise price for options granted since 1997 will be/have been adjusted by the premium formula (based on the actual difference between the dividend and bond yields at the date of vesting).

Outstanding Options at 30 June 2005	Number	Exercise Price	Expiry Date
September 1999 Options	450,000	\$23.84	24 Aug 2009
September 2000 Options	884,800	\$26.97	13 Sept 2010
October 2001 Options	1,801,600	\$30.12	3 Sept 2011

The weighted average exercise price for options outstanding at 30 June 2005 was \$28.53. The weighted average remaining contractual life of these options is 5 years and 6 months.

The other disclosure requirements of SFAS 123: Accounting for Stock-Based Compensation in respect of the employee share plans are included in Note 29.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

(d) Provisions

The criteria for recognition of provisions for redundancies are stricter under US GAAP than under Australian GAAP. FASB 146 Accounting for Costs Associated with Exit or Disposal Activities only allows the recognition of a provision for redundancies where the redundancies are not made within the minimum legal notification period, from the balance date, on a pro-rata basis over the future service period of terminating employees.

The provision for restructuring costs at 30 June 2005 was \$18 million (2004: nil; 2003: \$30 million) and Which new Bank provisions were \$91 million (2004: \$208 million; 2003: nil) (refer Note 25).

For the Financial Year 2005, included in Which new Bank provisions are provisions for redundancies of \$74 million (2004: \$146 million).

For the Financial Year 2004 \$146 million was reversed from provisions. During the Financial Year 2005 \$72 million (\$50 million after tax) of the provision was utilized and recorded as expense for US GAAP. As a result, under US GAAP, an amount of \$74 million for the Financial Year 2005 would be reversed from provisions.

The accounting policy adopted by the Group for restructuring provisions is detailed in Note 1 (z).

(e) Life Insurance Controlled Entities

For US GAAP all debt and equity security assets have been categorised as Trading Securities. All related investments are brought to account at market values.

(f) Available For-Sale Securities under US GAAP

Under Australian GAAP, only two categories of securities prevail, namely Investment and Trading

Securities. Investment securities are purchased by the Bank with the intent to 'hold to maturity'.

Trading securities are purchased and held for the short term, primarily with the intention of making profits from anticipated movements in market rates.

All Investment Securities have been reclassified as Available-for-Sale securities for the purposes of US GAAP disclosure. Any capital gain or loss realised on sale is taken to profit and loss at that time. The cost of available-for-sale securities sold is calculated on a specific identification basis.

Under US GAAP, these securities are revalued to market and the difference between carrying value and market value is taken to comprehensive income and shareholders' equity.

For Financial Year 2005 the adjustment to other Comprehensive Income and shareholders' equity is \$77 million (net of taxation) (2004: \$52 million; 2003: \$109 million). This adjustment represents the unrealised gain on investment securities net of derivatives of \$110 million less taxation of \$33 million.

The disclosure requirements of SFAS 115: Accounting for Certain Investments in Debt and Equity Securities in respect of available-for-sale securities have been included within Note 11.

(g) Net Profit

Under US GAAP the concept of 'operating profit' is not recognised. Net profit under Australian GAAP is operating profit after tax and after deducting outside equity interests.

In performing the US GAAP profit reconciliation, the net profit reported using Australian GAAP is after deducting goodwill amortisation and including life insurance market valuation movement in controlled entities. Refer paragraph (k) for further details.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

(h) Consolidated Balance Sheet

The following reconciliations are of significant adjustments to Australian GAAP balance sheet categories disclosed in these accounts and which would be reported in accordance with US GAAP:

Assets	Footnote	2005 \$M	2004 \$M	2003 \$M
Loans, advances and other receivables under Australian GAAP		217,516	189,391	160,347
Adjustments to impairment provisions	(u)	354	-	-
Marked to market revaluation of derivative instruments (under SFAS133)	(w)	(8)	8	(13)
According to US GAAP		217,862	189,399	160,334
Available for sale securities under Australian GAAP		-	-	-
Reclassification from investment securities	(f)	10,272	11,447	11,036
Restatement of available for sale securities to fair value	(f)	110	74	155
Consolidation of variable interest entity	(z)	566	531	245
According to US GAAP		10,948	12,052	11,436
Receivables due from other financial institutions under Australian GAAP		6,205	8,369	7,066
Deconsolidation of variable interest entities	(y)	(400)	-	-
According to US GAAP		5,805	8,369	7,066
Investment securities under Australian GAAP		10,272	11,447	11,036
Reclassification to available for sale securities	(f)	(10,272)	(11,447)	(11,036)
According to US GAAP		-	-	-
Trading securities under Australian GAAP		14,628	14,896	10,435
Reclassification from life insurance investment assets		26,690	10,697**	9,912**
According to US GAAP		41,318	25,593	20,619
Insurance investment assets under Australian GAAP		27,837	28,942	27,835
Reclassification to trading securities		(26,690)	(10,697)**	(9,912)**
Reclassification to real estate investment assets	(o)	(403)	(292)	(383)
Unrealised gains and depreciation adjustment	(o)	(93)	(83)	(96)
Reclassification of Treasury shares	(t)	(338)	(300)*	(272)*
Reclassification of separate account business to other assets	(r)	-	(17,570)	(17,172)
Reclassification of Mortgage Loans to other assets	(r)	(313)	-	-
According to US GAAP		-	-	-
Real estate investments under Australian GAAP		-	-	-
Reclassification from life insurance investment assets	(o)	373	292	383
According to US GAAP		373	292	383
Property, plant and equipment under Australian GAAP		1,344	1,204	821
Reversal of asset revaluation reserve	(n)	(92)	(61)	-
According to US GAAP		1,252	1,143	821
Intangible Assets under Australia GAAP		4,394	4,705	5,029
Identifiable intangible asset amortisation	(l)	(79)	(62)	(45)
Goodwill amortisation to 30 June 2002	(l)	(78)	(78)	(78)
Reversal of goodwill amortisation	(l)	971	646	322
Adjustment to equity issued on Colonial acquisition	(bb)	(1,026)	(1,026)	(1,026)
Adjustment to policyholder liability differences	(bb)	593	593	593
Reclassification to Value of Business Acquired	(l)	(2,786)	(2,786)	(2,786)
Deferred tax liability on value of business acquired	(l)	1,256	1,256	1,256
Pension fund surplus acquired	(i)	(243)	(243)	(243)
Deferred tax assets on differences in life insurance policyholder liabilities	(a)	(158)	(158)	(158)
Deferred tax liability on pension fund surplus acquired	(i)	82	82	82
Reclassification of excess of net market value of net tangible assets of life insurance controlled entities at acquisition from other assets to goodwill	(l)	2,905	2,905	2,905
According to US GAAP		5,831	5,834	5,851
Value of Business Acquired, under Australian GAAP		-	-	-
Reclassification from Goodwill	(l)	2,786	2,786	2,786
Value of Business Acquired amortisation (net of imputed interest)	(m)	(1,146)	(1,022)	(781)
According to US GAAP		1,640	1,764	2,005

* These adjustments include prior period restatements. Refer to relevant paragraph for further information.

** Restatement resulting from Treasury Shares (refer to paragraph (t))

Notes to the financial statements

Assets (continued)	Footnote	2005 \$M	2004 \$M	2003 \$M
Other assets under Australian GAAP		24,241	25,292	23,459
Deferred tax assets on differences in life insurance policyholder liabilities	(a)	56	84	115
Life insurance market valuation of controlled entities	(k)	(3,614)	(2,836)	(2,635)
Reclassification of excess of net market value of net tangible assets of life insurance controlled entities at acquisition from other assets to goodwill	(l)	(2,905)	(2,905)	(2,905)
Prepaid pension cost	(i)	1,088	1,173	1,213
Reclassification from life insurance investment assets to separate account business	(r)	-	17,570	17,172
Reclassification of Mortgage Loans from insurance investment assets	(r)	313	-	-
Life insurance policy deferred acquisition costs, net of amortisation	(s)	863	803	750
Reclassification between reinsurance receivable and policyholder liabilities		17	1	19
Marked to market revaluation of derivative instruments (under SFAS 133)	(w)	(918)	(2,509)	(468)
Deconsolidation of variable interest entities	(z)	400	-	-
Reversal of software write-off and software amortisation	(aa)	124	139	-
Other		30	21	-
According to US GAAP		19,695	36,833	36,720
Liabilities				
Deposits and other public borrowings under Australian GAAP		168,029	163,177	140,974
Marked to market revaluation of derivative instruments (SFAS 133)	(w)	4	9	10
According to US GAAP		168,033	163,186	140,984
Income tax liability under Australian GAAP		1,550	811	876
Tax effect of foreign currency translation reserve	(a)	(104)	(62)	(60)
Deferred tax liability on unrealised gain on available for sale securities	(f)	33	22	47
Reclassification from life insurance policyholder liabilities	(r)	225	195	197
Deferred tax liability on pension income	(i)	326	352	364
Reclassification of Treasury shares	(t)	21	9*	8*
Adjustment to loan impairment provision	(u)	99	-	-
Deferred tax liability on value of business acquired	(m)	863	885	959
Tax effect of other amortisation		-	27	30
Deferred tax assets on marked to market revaluation of derivative instruments (SFAS 133)	(w)	13	(235)	81
Reversal of software write-off and software amortisation	(aa)	38	42	-
Reversal of redundancy provision	(d)	22	44	-
Tax effect of deconsolidation of variable interest entity	(z)	23	11	-
According to US GAAP		3,109	2,101	2,494
Other Provisions under Australian GAAP		881	997	819
Reversal of redundancy provision	(d)	(74)	(146)	-
Other	(u)	25	-	-
According to US GAAP		832	851	819
Bills payable and other liabilities under Australian GAAP		18,086	19,140	19,027
Reclassification from life insurance policyholder liabilities to separate account business	(r)	-	16,762	16,497
Marked to market revaluation of derivative instruments (FAS 133)	(w)	(567)	(1,760)	(954)
According to US GAAP		17,519	34,142	34,570
Insurance policyholder liabilities under Australian GAAP		24,694	24,638	23,861
Adjustment to policyholder liability differences in acquisition	(r)	593	593	593
Reclassification to income tax liability	(r)	(225)	(195)	(197)
Reclassification to Other Assets of life insurance policy deferred acquisition costs	(s)	935	871	785
Reclassification of separate account business to other liabilities	(r)	-	(16,762)	(16,497)
Reclassification between reinsurance receivable and policyholder liabilities		17	1	19
Movement in policyholder liabilities		(161)	(235)	(62)
According to US GAAP		25,853	8,911	8,502
Debt issues under Australian GAAP		58,621	44,042	30,629
Marked to market revaluation of derivative instruments (SFAS 133)	(w)	(65)	9	77
Consolidation of variable interest entity	(z)	566	531	245
According to US GAAP		59,122	44,582	30,951
Loan Capital under Australian GAAP		6,291	6,631	6,025
Marked to market revaluation of derivative instruments (SFAS 133)	(w)	-	25	118
Deconsolidation of variable interest entity	(z)	1,460*	1,537*	-
According to US GAAP		7,751	8,193	6,143

* These adjustments include prior period restatements. Refer to relevant paragraph for further information.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

i) Details of Pension Expense and Reconciliation of Funded Status of Pension Plans

The Group sponsors a range of superannuation (pension) plans for its employees world-wide.

The Group's accounting policy for superannuation expense, under Australian GAAP reporting, is set out in Note 1(II) of the financial statements. The superannuation expense principally represents the annual funding, determined after having regard to actuarial advice, to provide for future obligations of defined benefit plans. Other details (including the Group's funding policy) of the Bank's major superannuation plans are set out in Note 40 of the financial statements. All amounts are expressed in Australian Dollars.

For US GAAP purposes, the Bank adopted the disclosure requirement of SFAS 87 "Employers' Accounting for Pensions" for the major defined benefit fund, the Officers' Superannuation Fund (OSF), commencing 1 July 1994. For the financial year ending 30 June 1999, the Bank revised its disclosures in accordance with SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits".

On 31 July 2003, the Colonial UK Staff Pension Scheme (CUKSPS) and Stewart Ivory & Company Limited Retirement Benefits Scheme (SI&CRBS) ceased to operate and each plan's assets, liabilities, member contributions and benefit arrangements are transferred to the Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA(UK)SBS). Prior to 30 June 2003, the Bank had only included the values of CUKSPS in its US GAAP reconciliation and the other UK pension funds (CBA(UK)SBS and SI&CRBS) were deemed to be immaterial for US GAAP reconciliation purposes. In view of the merger of the CUKSPS and SI&CRBS with the CBA(UK)SBS, the Bank has reduced the "Prepayment of pension costs" for the deficits of the CBA(UK)SBS and SI&CRBS as at 30 June 2003. Commencing with the 2003/2004 financial year, the Bank will include the merged fund in its US GAAP reconciliation.

On 3 October 2003, the CGSSS ceased to operate and the plan's assets, liabilities, member contributions and benefit arrangements transferred to the OSF.

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 long term rate of return subject to net returns over rolling five year periods exceeding the growth in Average Weekly Ordinary Time Earnings (AWOTE) 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 2005, the benchmark asset allocations and actual asset allocations for the assets backing the defined benefit portion of the OSF is as follows:

Asset Sector	Benchmark Asset Allocation	Actual Allocation
Australian Equities	27.5%	30.7%
Overseas Equities	21.0%	21.5%
Real Estate	15.0%	15.4%
Fixed Interest Securities	25.5%	24.1%
Cash	5.0%	4.9%
Other ⁽¹⁾	6.0%	3.4%

⁽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 2005 was \$91 million (2004: \$76 million, 2003: \$112 million). Amounts on deposit with the Bank at 30 June 2005 totalled \$13 million (2004: \$24 million, 2003: \$113 million). Other security holdings with the Group at 30 June 2005 \$56 million (2004: \$83 million, 2003: \$12 million). The comparative values included the values of holdings by the CGSSS.

The Group provides insurance cover to OSF in respect of its death, total and permanent disablement and temporary disablement benefits. As at 30 June 2005, the amounts of cover were \$5,036 million of lump sum death and total and permanent disablement benefits (2004: \$4,663 million, 2003: \$591 million) and \$61 million per annum of temporary disablement benefits (2004: \$68 million per annum, 2003: \$85 million per annum).

The following table displays the elements of the net pension expense and the change in benefit obligations and fair value of assets for each Financial Year as well as the funded status as at 30 June 2003, 30 June 2004 and 30 June 2005 for the Group's major superannuation (pension) plans.

Notes to the financial statements

	2005	2004	2003
	A\$M	A\$M	A\$M
Service cost	(53)	(56)	(52)
Interest cost	(217)	(226)	(222)
Expected return on assets	316	307	308
Amortisation of transitional obligation assets	-	52	52
Recognised net gain (loss)	(17)	(6)	-
Employer financed benefits within Accumulation Division	(121)	(111)	(97)
Net periodic pension (cost) income	(92)	(40)	(11)
Expensed employer contribution	(4)	(5)	(3)
	(88)	(35)	(8)
Less tax effect	26	11	2
Pension Expense Adjustment - see US GAAP Reconciliation	(62)	(24)	(6)
Change in benefit obligation:			
Benefit obligation at beginning of year	3,902	3,656	3,298
Service Cost	49	56	52
Member Contributions	14	17	19
Interest Cost	217	226	222
Merger of CUKSPS and SI&CRBS with the CBA(UK)SBS	-	-	126
Actuarial (Gains) Loss	177	265	345
Benefits Paid	(320)	(340)	(386)
Foreign Currency Exchange Rate Movements	(38)	22	(20)
Benefit obligation at end of year	4,001	3,902	3,656
Change in fair value of assets			
Fair value of assets at beginning of year	(4,460)	(4,328)	(4,730)
Actual return on assets	(638)	(544)	22
Merger of CUKSPS and SI&CRBS with the CBA(UK)SBS	-	-	(101)
Total contributions	(18)	(22)	(22)
Benefits and Expenses Paid	324	340	386
Employer financed benefits within Accumulation Division	121	111	97
Foreign Currency Exchange Rate Movements	30	(17)	20
Fair value of assets at end of year	(4,641)	(4,460)	(4,328)
Funded status at measurement date:	(640)	(558)	(672)
Assets not recognised:			
transitional obligation assets	-	-	52
unrecognised net gains (loss)	(448)	(615)	(593)
Net Amount Recognised	(1,088)	(1,173)	(1,213)
Comprising of:			
Prepaid Pension Cost	(1,088)	(1,173)	(1,213)
Additional minimum liability	59	56	81
Accumulated Other Comprehensive (Income) Loss	(59)	(56)	(81)
Net Amount Recognised	(1,088)	(1,173)	(1,213)

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

The transitional obligation asset was fully recognised on 30 June 2004. Commencing from the 2004/2005 financial year, the net periodic pension cost no longer includes the amortisation of the transitional obligation assets.

The accumulated benefit obligations for all defined benefit superannuation (pension) plans as at 30 June 2005 was \$3,658 million (30 June 2004: \$3,556 million, 30 June 2003: \$3,259 million).

As at 30 June 2005, the projected benefit obligations and accumulated benefit obligations of the CBA(UK)SBS exceeded the fair value of plan assets. Comparative information are as follows:

	2005	2004	2003
	A\$M	A\$M	A\$M
Projected benefit obligation	408	397	387
Accumulated benefit obligation	404	392	383
Fair value of plan assets	326	320	296

The assumptions used to calculate the above are:

Assumption	2005	2004	2003
Discount Rate (Gross of tax)	5.10%	6.00%	6.00%
Compensation increase rate	4.25%	4.25%	4.25%
Return on assets	7.50%	7.50%	6.75%

The return on asset assumption 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.

Up to and including the financial year ending 30 June 2003, the discount rate is based on yield of 10 year AA rated securities as at the measurement date (10 years is the longest available fixed interest securities with a deep market). To align the reporting of the Bank's pension obligations under SFAS 87 "Employers' Accounting for Pensions" with the requirement of Australian Accounting Standard AASB 119 "Employee Benefits", effective from 30 June 2004, the discount rate assumption is based on the yield on 10 year Australian government securities.

Further, to align the reporting of the Bank's pension obligations under SFAS 87 "Employers' Accounting for Pensions" with the requirement of Australian Accounting Standard AASB 119 "Employee Benefits", effective from 30 June 2004, the Bank's pension obligations also include an adjustment for future taxes on the Bank's Australian superannuation (pensions) plans.

Details of the Bank's funding policy and contributions in respect of its major superannuation (pension) plans are set out in Note 40.

The expected future benefit payments of the Bank's major superannuation (pension) plans are as follows:

Financial Year Ending	A\$M
30 June 2006	234
30 June 2007	233
30 June 2008	234
30 June 2009	234
30 June 2010	240
1 July 2010 to 30 June 2015	1,195

The above expected benefit payments are calculated by the respective fund actuaries using assumptions of future total service, the rate of exits from the fund and future salary growth. Actual benefit payments will depend on actual service period, actual rate of exits from the fund and actual salary growth.

Additionally, a deferred tax liability has been taken up for US GAAP reconciliation purposes in respect of the above Net Amount Recognised.

(j) Employee Benefits – Post Retirement Benefits Other Than Pensions

Australian GAAP Compliance

Effective 1 July 1994 the Bank adopted the Australian Accounting Standard AASB 1028: "Accounting for Employee Entitlements" with respect to the liabilities arising from its post retirement benefits other than pensions. AASB 1028 specifies that employee post retirement benefit liabilities are calculated as the present value of the estimated future cash flows due to the services of employees provided up to the reporting date.

The adequacy of the full provision for employee post retirement benefits liabilities in the financial statements is determined in accordance with the requirements of AASB 1028 after considering that employee post retirement benefits carry limited risks and after obtaining actuarial advice.

US GAAP Compliance

There are no US GAAP adjustments or further disclosures under SFAS 106 "Employers' Accounting for Post Retirement Benefits Other than Pensions" and SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits".

(k) Life Insurance Market Valuation of Controlled Entities

As set out in Note 1 (ii) under the requirements of AASB 1038: Life Insurance Business for controlled entities of life insurance, companies are required to be valued at net market value. AASB 1038 requires the differences between the net market value of the controlled entities and the underlying net assets to be recognised as the 'excess of net market value over net assets of life insurance controlled entities ('the excess') in the consolidated financial report.

This method of accounting is not permitted under US GAAP, resulting in a decrease of net income by \$778 million (2004: \$201 million reduction; 2003: \$245 million increase), reduction of shareholders equity by \$3,282 million (2004: \$2,504 million; 2003: \$2,303 million) and a reduction of other assets by \$3,614 million (2004: \$2,836 million; 2003: \$2,635 million).

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

(l) Intangible Assets

Colonial Limited was acquired on 13 June 2000 (refer Note 20 and 48(bb) for further details). Differences exist between the method of calculation of the cost of acquisition under Australian and US GAAP. Refer Note 48(bb) for further details. Under Australian GAAP goodwill on acquisition was determined by the difference between the cost of acquisition and the fair value of net assets acquired, including the excess of net market value over net assets of life insurance controlled entities.

Under US GAAP goodwill on acquisition is determined as the difference between the cost of acquisition and the fair value of net tangible and intangible assets acquired. Also the excess of net market value over net assets of life insurance controlled entities is accounted for as goodwill. Goodwill is amortised over a 20 year period on a straight line basis for Australian GAAP. Goodwill amortisation for US GAAP ceased from 1 July 2002. Instead, the carrying value of goodwill is subject to review for impairment every period end. For the Financial Year 2005, no adjustment for impairment was considered necessary.

Identifiable intangible assets acquired include Value of Business Acquired (\$2,786 million) less associated deferred tax liability (\$1,256 million), the Colonial State Bank Core Deposits (\$149 million), TD Waterhouse customer list (\$30 million), and AOT (\$14 million). The Core Deposits are being amortised on a straight line basis over 8 years and the customer list over 10 years.

Upon acquisition of the Gandel listed property trusts in Financial Year 2003, an asset was brought to account being "excess" market value over net assets of life insurance subsidiary of \$224 million which under US GAAP is accounted for as goodwill. Upon acquisition of Sovereign Limited in 1998 an asset was brought to account being 'excess' market value over net assets of life insurance subsidiary of \$155 million which under US GAAP is accounted for as goodwill.

The Group's carrying amount of goodwill under US GAAP at 30 June 2005 is disclosed for each reportable segment:

Segment	2005 \$M	2004 \$M
Banking	4,361	4,361
Funds management	1,288	1,258
Insurance	218	218
	<u>5,867</u>	<u>5,837</u>

(m) Value of Business Acquired ('VOBA')

Under Australian GAAP for non-life insurance holding companies, the difference between the purchase price on acquisition and the net assets acquired represents goodwill. No separately identified intangible asset is recognised for the Value of Business Acquired ('VOBA').

However, for life insurance companies, investments in subsidiaries are valued at net market value as described in Note 1 (ii). No amortisation is required on the excess of this net market value over the net assets of the underlying controlled entities.

For US GAAP, prior to the assignment of the excess of purchase price over net assets acquired to goodwill, the identifiable intangible asset VOBA is recognised in the acquired entity. VOBA represents the estimated fair value of the acquired life insurance business in force and represents the portion of acquisition cost that was allocated to the value of future cash flows from insurance contracts existing at the date of acquisition. Such value is the present value of the actuarially determined projected net cash flows from the acquired insurance contracts.

VOBA is amortised over the lives of the acquired business in force in a manner consistent with amortisation of deferred policy costs for life insurance contracts and in a manner expected for funds management contracts (see Note 48 (s)). An analysis of the Colonial VOBA asset (net of tax) is presented below:

	2005 \$M	2004 \$M
Opening Balance, 1 July	879	1,040
Imputed interest	213	215
Amortisation	(337)	(450)
Movement in deferred tax liability on value of business acquired	22	74
Closing Net Balance, 30 June	<u>777</u>	<u>879</u>

The net movement in VOBA for the year to 30 June 2005 is \$102 million. For all Australian life business the imputed rates of interest are related to the underlying investment earnings rate and range from 7.2% to 15.8% dependent upon the nature of the business. Given that imputed interest rates are dependent upon actual investment performance they are expected to be volatile. The imputed interest rates for all other business range from 6.1% to 8.5%.

The amortisation rate for the investment-linked life business also depends upon actual investment performance and is therefore expected to be volatile.

The VOBA balance is estimated to be run-off at a rate ranging from 7.7% to 15.0% per year.

Recoverability Test

The amount of VOBA written-off in the period was determined by comparing the carrying value of VOBA at 30 June 2005 after allowing for imputed interest and amortisation, to an end of period recoverable amount valuation.

(n) Property and Other Non-Current Asset Revaluations

Each year a review of non-current assets is performed to assess the recoverable amount of non-current assets. The 'recoverable amount test' is in accordance with the Australian accounting standard which requires future cash flows associated with non-current assets to be discounted at a rate which reflects the risk involved. With respect to the determination of the fair value of non-current assets and the recognition of losses from impairments, the requirements under Australian accounting standards and the requirements of SFAS 144: Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of are essentially the same.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

Australian GAAP allows non-current assets including property, plant and equipment to be revalued upwards direct to an asset revaluation reserve. Assets with a carrying amount greater than their recoverable amount may be revalued to their recoverable amount. Impairments to asset values, where there is an amount in the revaluation reserve relating to the relevant asset class, are taken to reduce the revaluation reserve. Impairments to asset values otherwise must be recorded in the profit and loss. Any subsequent upward reversing revaluations to the same asset class are recorded as revenue in the profit and loss. With the exception of land, all revalued assets are depreciated over their assessed useful lives.

Upward revaluations of property, plant and equipment are not allowed under US GAAP, except as part of accounting for business combinations under the Purchase Method. US GAAP requires impairments of non-current assets to be recorded in the profit and loss account. Once such impairments have been recorded, subsequent recoveries to the income statement are not allowed.

A discounted cash flow methodology was used in arriving at the valuation at which the Group's property is carried. An asset revaluation adjustment to increase Asset revaluation reserve by \$31 million was recorded in 2005, \$54 million in 2004 and \$3 million in 2003. At 30 June 2005, the asset revaluation reserve shows a balance of \$92 million (2004: \$61 million; 2003: \$7 million). This asset revaluation reserve was reversed for US GAAP for the Financial Year 2005 and 2004. No adjustment has been made for prior years as the amounts were not material. No adjustment has been made for the decrease

in depreciation as a result of the reversal of asset revaluation reserve as it would not be material in the income statement.

(o) Properties Held by Insurance Companies

Under Australian GAAP, properties held by insurance companies are held in the statement of financial position at net market value, that is market value less expected cost of disposal. Investment properties are valued annually by an independent valuer with changes in the value taken directly to investment income in the profit and loss statement. No depreciation is charged on investment properties. The insurance companies do not hold property other than as an investment.

Under US GAAP, such property is recorded at historical cost in the balance sheet and depreciated over its useful life – except for land which is not depreciated. Properties backing separate account business are recorded at market value.

For Financial Year 2005, the restatement under US GAAP results is a \$30 million decrease in Net Income, and \$93 million reduction in shareholders equity including the tax effect.

(p) Impairment of Assets

For discussion on Loan Impairment refer to (u).

(q) Comprehensive Income

SFAS 130: Reporting Comprehensive Income requires the classification of items of other comprehensive income by their nature and the display of other comprehensive income separately from retained earnings and shareholders equity.

Accumulated Other Comprehensive Income Balances

	2005 \$M	2004 \$M	2003 \$M
Foreign currency translation reserve			
Balance at beginning of Financial Year	(118)	(137)	(45)
Foreign currency translation adjustment net of tax expense	(45)	19*	(92)
Balance at end of Financial Year	<u>(163)</u>	<u>(118)*</u>	<u>(137)</u>
Available for Sale securities			
Balance at beginning of Financial Year	52	109	51
Change in fair value of available for sale securities	25	(57)	58
Balance at end of Financial Year	<u>77</u>	<u>52</u>	<u>109</u>
FAS 133			
Balance at beginning of Financial Year	-	-	-
Change in value of cash flow hedges	(1)	-	-
Balance at end of Financial Year	<u>(1)</u>	<u>-</u>	<u>-</u>
Pension Plans			
Balance at beginning of Financial Year	56	100	32
Adjustment to net assets in UK Pension Plan - net of tax expense	3	(44)	68
Balance at end of Financial Year	<u>59</u>	<u>56</u>	<u>100</u>
Total Other Comprehensive Income	<u>(28)</u>	<u>(10)</u>	<u>72</u>

* These adjustments include prior period restatements. Refer to paragraph (z) for further information.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

(r) Life Insurance

Australian GAAP establishes standards and principles applicable to Australian life insurance companies, including a methodology for calculating policy liabilities known as Margin On Services ('MoS').

Under MoS, Policy Liabilities are based on best estimate assumptions which are reviewed at each valuation date. Policy Liabilities are made up of two components, the Best Estimate Liabilities and Future Profit Margins.

Best Estimate Liabilities represent the present value of future payments to policyholders and related expenses less the present value of future gross premiums.

Future Profit Margins represent the present value of estimated profits. The profit margins are determined from outset of the contract and updated with changes in best estimate assumptions. The profit margins are expressed as a percentage of "profit carriers", where profit carriers are indicative of the underlying nature of the services provided to policyholders. Profit margins are recognised in earnings based on the profit margin percentage and the amount of the specific profit carrier (e.g. claims paid, premiums, policy charges etc.)

If during the process of valuing the policy liabilities, it is found that future profits are negative (i.e. the policy is in a loss position), then:

- (i) the profit margin is set to zero; and
- (ii) all future losses are recognised immediately.

If expectations change in the future, it is possible to reverse capitalised losses and re-establish profit margins. This is explained in more detail in Note 1 (ii).

US GAAP applies two standards (a third, SFAS 120, is not relevant) to policies written by the Group's life insurance companies:

- (i) SFAS 60: Accounting and Reporting by Insurance Enterprises applies to products such as traditional whole of life, certain endowment contracts, life contingent annuity contracts, term insurance, disability income protection and group life.

Under SFAS 60, policy liabilities, which represent the present value of future benefits to be paid to or on behalf of policy owners and related expenses less the present value of future net premiums, shall be estimated using methods that include assumptions, such as estimates of expected investment yields, mortality, morbidity, terminations and expenses, applicable at the time the insurance contracts are made.

These assumptions are 'locked-in' at inception for all future valuations – except in specific circumstances such as loss recognition.

The assumptions used for SFAS 60 are based on a best estimate of expected long-term experience together with provisions for adverse deviation ('PADs').

The policyholder liability and the amount of deferred acquisition costs are regularly tested using best estimate assumptions to assess recoverability which could result in the writedown of deferred acquisition costs or an increase in the policyholder liabilities.

- (ii) SFAS 97: Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realised Gains and Losses from the Sale of Investments covers investment contracts and universal life policies, such as unit-linked and investment account policies.

Under SFAS 97, the liability is set equal to:

- (a) the account balance that accrues to the benefit of the policyholder at the date of the financial statements; and
- (b) any unearned revenue liability;

Assumptions are generally updated at each valuation and do not include any PADs.

The company operates investment-linked business which was classified as separate account business in the financial years up to and including 2004. Such accounts represent assets and liabilities that are maintained by the company for purposes of funding superannuation (pension) funds and other investment type activities. The accounts represent policyholder directed funds that are separately administered. The assets and the liabilities of each account are clearly identifiable and distinguishable from other assets and liabilities of the company. The policyholder generally assumes the investment risk and investment income accrue directly to the policyholders and, therefore, are not included in the company's statement of financial performance. The company receives a fee for investment management, certain administrative expenses, and mortality and expense risks assumed. Fee revenue from these products is recognised when due.

Prior to 1 July 2004, investments in separate accounts supporting unit-linked contracts were reported at market value and reclassified from insurance investment assets to other assets under US GAAP (2005: nil; 2004 \$17,570 million). Separate account liabilities represent the policyholders' claim to the related assets and are carried at the policyholder's account balance. Insurance investment assets and policyholder liabilities are reported as summary totals in the statement of financial position. Such totals are disclosed in Notes 16 and 34 to the financial statements.

For the Financial Year 2005, the investment-linked business did not meet the revised criteria for separate account treatment, as outlined in SOP 03-1. Accordingly there is no reclassification of separate account business in the Financial Year 2005, and mortgage loans have been remeasured from market value to amortised cost and reclassified as other assets.

For Financial Year 2005 the US GAAP adjustment resulted in an decrease (net of taxation) of \$45 million in Net Income (2004: increase of \$138 million; 2003: increase of \$30 million).

(s) Deferred Acquisition Costs ('DAC') – Expenses of Acquiring Life Insurance, Investment and Related Contracts

Under Australian GAAP, acquisition costs relate to the fixed and variable costs incurred in acquiring specific insurance policies, and include commissions and similar distribution costs and costs of accepting, issuing and initially recording policies.

Under Australian GAAP, acquisition costs are:

- (i) deferrable; and
- (ii) systematically amortised as part of the calculation of the policy liability

This is recognised as reductions in the Australian GAAP policyholder liabilities rather than as explicit assets. Movements in the DAC assets are not reported separately in the statement of financial performance; rather, they are reported as a component of the movement in policyholder liabilities under Australian GAAP.

The definition of acquisition costs is wider under Australian GAAP than under US GAAP. Under US GAAP only those costs that vary with, and are primarily related to, the production of new and renewal business (acquisition costs), are capitalised.

Under US GAAP, these DAC assets are amortised to expense in proportion to different measures, depending on the type of policy.

For policies accounted for under SFAS 60, these costs are amortised in proportion to premium revenue recognised. Amortisation assumptions relating to DAC assets for SFAS 60 policyholder liabilities, are 'locked-in' for all future valuations – except in specific circumstances such as loss recognition.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

For policies accounted for under SFAS 97 these costs are amortised at a rate based on the present value of estimated gross profits expected to be realised over the life of the contracts. The DAC asset and related amortisation is updated at every reporting date, based upon the gross profits recognised and expectations of future gross profits. DAC assets are written off to the extent it is determined that future income is insufficient to cover future expenses (including the amortisation of the existing DAC).

Under US GAAP, amortisation of the DAC assets are reported separately from changes in policyholder liabilities in the statement of financial performance.

DAC is reported as an asset in the statement of financial position rather than offset against policyholder liabilities under US GAAP. However, no DAC was recorded upon the initial purchase of Colonial Limited.

The net adjustment of DAC to Net Income is comprised of:

	2005	2004
	\$M	\$M
Difference in deferral of new business acquisition expenses	(86)	(72)
Difference in amortisation of acquisition expenses	35	32
Tax effect of differences in acquisition expense treatment	15	9
	<u>(36)</u>	<u>(31)</u>

Movement in DAC balance during Financial Years 2005 and 2004:

	2005	2004
	\$M	\$M
Opening Balance, 1 July	803	750
Acquisition costs for the year	135	134
Amortisation of DAC/Imputed interest	(76)	(81)
Net movement	59	53
Closing Balance, 30 June	<u>862</u>	<u>803</u>

(t) Life Insurance Treasury Shares

Under Australian GAAP, direct investments in Commonwealth Bank shares by the Bank's life insurance statutory funds are recognized as assets in the statement of financial position at market value. Under US GAAP, these assets are reclassified as "Treasury Shares" and accounted for as a deduction from Share Capital. Any gains or losses recognized are reversed from the profit and loss.

For the Financial Year 2005 the US GAAP adjustment resulted in a \$316 million decrease in net assets and shareholders' equity (2004: \$291 million; 2003: \$264 million) and a reduction in profit of \$39 million (2004: \$45 million; 2003: increase \$ 17 million).

Under previous Australian GAAP, direct investments in Commonwealth Bank shares by the Bank's life insurance statutory funds are recognised on-balance sheet at net market value. On transition to AIFRS, these investments were identified, classified as 'Treasury Shares' and accounted for as a deduction from Share Capital. This treatment is also required under U.S. GAAP, however no reconciliation adjustment has previously been provided. The current period reconciliation includes adjustment for these Treasury Shares. The prior periods have also been restated to correct this error.

(u) Loan Impairment Provision

SFAS 114: Accounting by Creditors for Impairment of a Loan as amended by SFAS 118: Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures, requires the value of an impaired loan to be measured as the present value of future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

For the Financial Year 2005 the Group has made a number of changes in the approach used to estimate the loan impairment provision. These changes have been introduced to provide a more consistent approach for calculating the estimate of loan impairment under AIFRS effective 1 July 2005, and also for US GAAP as of 30 June 2005. As such a US GAAP adjustment has been recorded for the Financial Year 2005. This results in a net decrease in the loan impairment provision of \$354 million, including a reclassification of \$25 million to other provisions, for the Financial Year 2005.

(v) Securitisation of Assets

During the Financial Years 2003, 2004 and 2005, the Group securitised mortgage loans to a special purpose entity (SPE). Under Australian GAAP these loans are removed from the Statement of Financial Position. For US GAAP the conditions to allow securitised loans to be removed from the Statement of Financial Position include the provision that the transferor does not retain effective control over, or more than a trivial interest in, the transferred assets.

The Group meets the requirements of US GAAP not to consolidate the SPE. Note 1 (jj), Loan Securitisation, outlines the accounting treatment of the Qualifying Special Purpose Entities ("QSPE"), both for Australia and US GAAP reporting as required by SFAS 140. In Financial Year 2005 loans totalling \$5,989 million were securitised (2004: \$3,436 million, 2003: \$1,664 million).

The outstanding balance of securitised loans at 30 June 2005 was \$10,818 million (2004: \$7,605 million, 2003: \$6,480). No credit losses were incurred by the Group in relation to these securitised loans during the Financial Year 2004. The credit risk in respect of these loans is fully covered through mortgage insurance.

Cashflows paid to CBA from the QSPE were:

	2005	2004	2003
	\$M	\$M	\$M
Servicing fee	20	15	17
Management fee	2	2	2
Excess servicing fee	30	36	30
Proceeds from sale of mortgage loans	5,989	3,436	1,664
Interest rate swaps	14	27	35
Total cash receipts	<u>6,055</u>	<u>3,516</u>	<u>1,748</u>

(w) Derivative Instruments and Hedging Activities

SFAS 133: Accounting for Derivative Instruments and Hedging Activities was issued in June 1998 and subsequently, amended by SFAS 138 and SFAS 149. The statements require all derivatives to be recorded on the balance sheet at their fair value. The treatment of the change in the fair value of derivatives is recorded in Net Income or Other Comprehensive Income depending on the classification of the derivative transaction. Note 39, Market Risk outlines the Group's market risk policy specifying the purpose of derivative activity and the risks being hedged. Note 1 (ff), Summary of Significant Accounting Policies, outlines the accounting recognition of derivatives under Australian GAAP.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

Under US GAAP, derivative hedges of debt issues and available for sale securities of the Group, that are highly effective, qualify for hedge accounting and have been classified as fair value hedges. The change in the fair value of the derivative hedge offsets the change in the fair value of the debt issue or available for sale security being hedged. The gain or loss on the derivative and the offsetting loss or gain in the fair value of the debt issue or available for sale security being hedged, are recognised immediately in Net Income in the same accounting period for US GAAP purposes. The change in fair value of the derivative hedge is recognised as an asset or liability in Other Assets or Other Liabilities respectively. The change in the fair value of the debt issue or available for sale security being hedged is recognised as part of the carrying value of debt issues or available for sale securities. The risk characteristics of debt issues and available for sale securities are mirrored under the hedge, and effectiveness is evaluated on a retrospective and prospective basis. The ineffective portions of fair value hedges are included in the \$417 million balance disclosed under Note 48 – mark to market of derivative adjustments.

Certain of the Group's derivative instruments that are classified as hedges under Australian GAAP do not meet the required specific hedge criteria set out in SFAS 133 and have been measured at their fair value for US GAAP purposes. Changes in fair value of these derivatives have been recognised in Net Income, and as assets or liabilities in Other Assets or Other Liabilities respectively.

The Group also has certain cash flow hedges that qualify for US GAAP accounting. A valuation gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in Other Comprehensive Income within the cash flow hedge reserve. Amounts from the cash flow hedge reserve are transferred to the profit and loss 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 in the profit and loss. This represents the amount by which changes in the cash flow of the hedging derivative differ from changes (or expected changes) in the cash flow of the hedged item.

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 remaining term of the original hedge. Where the hedged item is derecognised, the cumulative gain or loss is recognised immediately in the profit and loss.

The Group also holds embedded derivatives which relate to MTNs and potential changes in the future ownership structures or certain entities within the Group.

All other derivatives of the Group are held for trading purposes and are recorded at their fair value with changes in their fair value recognised immediately in Net Income.

SFAS 133, 138 and 149 have been fully applied for the relevant Financial Years. The financial impact of the statements increased Net Income after tax by \$263 million (2004: decrease of \$736, 2003: increase of \$638 million), primarily due to the increase in global rates during the period and decreased other comprehensive income by \$1 million (2004: nil; 2003: nil). Balance sheet derivatives and underlying assets and liabilities decreased by \$918 million (2004: \$2,501 million; 2003: \$481 million) and \$615 million (2004: \$1,952 million; 2003: \$668 million) respectively.

(x) Collateral on Transfer of Assets

The Group conducts collateral arrangements with counterparties covering a range of specified transactions. Collateral arrangements are activated upon predetermined thresholds being exceeded. A range of specified assets may be received or provided as collateral.

As at 30 June 2005 securities with a fair value of \$730 million were received as collateral (2004: \$809). In addition, securities to the value of \$534 million were provided as collateral as at 30 June 2005 (2004: \$779 million).

(y) Credit Risk Related Instruments

The Group is involved in a range of transactions that give rise to contingent and/or future liabilities. These have been disclosed in Note 38 of the accounts as off balance sheet items. Under US GAAP, FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others, effective 1 January 2003, requires that the fair value of these liabilities be recognised in the financial statements. Under Australian GAAP, there is no requirement to recognise these liabilities in the financial statements. However, the Bank's policy is to recognise the fair value of these liabilities (2005: \$13.9 million; 2004: \$6.4 million) and as such, no adjustment is required.

The aging of guarantees and standby letters of credit is presented below:

	Guarantees \$M	Standby Letters of Credit \$M
Less than 1 year	2,431	234
1-3 years	-	17
3-5 years	-	10
Over 5 years	7	59
Total	<u>2,438</u>	<u>321</u>

Collateral received to support these guarantees and standby letters of credit are adequate.

(z) Variable Interest Entities

During the Financial Year 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). The interpretation created the Variable Interest Entity (VIE) concept and defined a VIE to include an entity which has an insufficient amount of equity for the entity to carry on its principal operations, without additional subordinated financial support from other parties. Where the entity is a VIE, the Interpretation's variable interests consolidation model must be applied. A VIE would be consolidated where the parent is expected to absorb a majority of the VIE's expected losses and vice versa, deconsolidated where another entity absorbs majority of the expected losses.

For the Financial Year 2003, only VIEs created post 31 January 2003 were required to be assessed under FIN 46. From Financial Year 2004, all VIEs in existence at the end of the financial year had to be assessed. In December 2003, the FASB issued a revision to FIN 46 ("FIN 46R") to address various technical corrections and implementation issues that have arisen since the issuance of FIN 46. As a result of the application of FIN 46R, as at 30 June 2005, the consolidation of VIEs resulted in assets increasing by \$566 million (2004: \$531 million) and liabilities increasing by \$566 million (2004: \$531 million) and the deconsolidation of 3 VIEs resulted in total liabilities increasing by \$1,483 million (2004: \$1,548 million; 2003: Nil), shareholders' equity decreasing by \$1,483 million (2004: \$1,548 million; 2003: Nil) and the net impact on income is a decrease of \$76 million (2004: \$55 million; 2003: Nil).

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

The Group transacts with Variable Interest Entities (VIEs) in the following manner as part of its financing and intermediation activities:

- Asset backed finance programs – The Group utilises VIEs such as special purpose entities under master series agreements to assist customers' financing needs through providing customer access to the capital markets. Certain of these programs are deemed to be controlled by the Group and are consolidated within the Group. Details of these arrangements are outlined on this page.
- Securitisation of assets – The Group conducts a Loan Securitisation program through which it packages loans and issues securities to investors through a special purpose entity. The entity meets the requirements for classification as a QSPE under US GAAP, which is not considered a VIE and is not consolidated within the Group. Details of these arrangements are outlined on page 220.
- Financing and investment activities – The Group utilises VIEs and may transact with VIEs as part of its financing and investment activities. All transactions involving VIEs are conducted on an arms length basis and may involve financing the VIE, transacting derivatives, or acquiring third party assets. Certain VIEs are deemed to be controlled by the Group and have been consolidated into the Group. These VIEs involve structured investment transactions and are primarily single purpose entities where the Group carries the underlying exposure to the risks in the VIE. As the Group carries the exposure to these VIEs on balance sheet, the consolidation of these VIEs into the Group does not impact the Statement of Financial Performance or Statement of Financial Position of the Group.
- During the Financial Year 2004, the Group issued Trust Preferred Securities via special purpose entities. These entities are deemed to be VIEs and not controlled by the Group. These VIEs have been deconsolidated and have resulted in \$832m of equity being reclassified to debt issues. Dividends paid on the trust preferred securities have been reclassified as interest expense. The Bank's Trust Preferred Securities ("TPS"), issued on 6 August 2003, are denominated in U.S. dollars. On reclassification of the TPS from equity to debt, the foreign currency translation reserve must also be adjusted to reflect the foreign currency translation differences arising each period between the Australian dollar and the U.S. dollar. These foreign currency translation movements in respect of the TPS did not form part of the previous year's adjustments. The current period reconciliation includes adjustment for the foreign currency translation movements. The prior period has also been restated to correct this error (2004: \$25 million decrease in liabilities, increase in shareholders equity and increase in other comprehensive income).
- During the Financial Year 2004, the Group also issued Perpetual Exchangeable Resettable Listed Securities ("PERLS II") via a special purpose entity. This entity is deemed to be a VIE and not controlled by the Group and has been deconsolidated. The effects are described in further detail below.

Asset Backed Finance Programs

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

The issuers are not owned or controlled by the Group and have independent directors. Under Australian GAAP the assets and liabilities of the issuers are not consolidated into the Group's Statement of Financial Position. For US GAAP, the issuers are a type of variable interest entity as defined by FASB Interpretation No 46, "Consolidation of Variable Interest Entities". Under the provisions of FIN 46, the variable interest entity is deemed to be controlled by the Group, if the Group has most of the risks and/or benefits. As a result of the application of the standard, a number of entities are consolidated by the Group, resulting in an increase in assets of \$566 million and liabilities of \$566 million for US GAAP.

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

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

In certain instances the Group provides deal specific credit enhancements as an arms length financial arrangement for the issuers in the form of liquidity facilities and derivatives.

Notes to the financial statements

NOTE 48 Differences between Australian and United States Accounting Principles continued

Convertible Notes

On 6 January 2004 a wholly owned entity of the Bank (Commonwealth Managed Investments Limited as Responsible Entity of the PERLS II Trust) issued \$750 million of Perpetual Exchangeable Resettable Listed Securities ("PERLS II"). These securities are units in a registered managed investments scheme, perpetual in nature, offering a non-cumulative floating rate distribution payable quarterly. The Securities qualify as Tier One capital of the Bank.

The PERLS II Trust is deemed to be a VIE under US GAAP, FIN46(R), Consolidation of Variable Interest Entities and not controlled by the Group. The trust has been deconsolidated from the Bank.

The assets of the trust are Convertible Notes issued by the New Zealand branch of the Commonwealth Bank. The Convertible Notes have a conversion date 40 years after the date of issue at which time a conversion event occurs, or earlier in certain scenarios, into CBA Preference Shares or Alternative Securities being perpetual non-cumulative securities issued by the Commonwealth Bank that rank equally with Preference Shares and are equivalent to Preference Shares in terms of entitlement to income and the return of capital. The Convertible Notes automatically convert into ordinary shares only if a regulatory event or an Event of Default occurs. Furthermore the Bank may elect to convert into ordinary shares if the manager of the Trust is removed without the Bank's approval. Subject to regulatory approval the Bank must redeem the Convertible Notes for cash where the Bank has acquired the PERLS II and required the trust manager to redeem them. The holders of the Convertible Notes are entitled to a non-cumulative floating rate distribution payable quarterly.

Under US GAAP, APB 14 and FAS 84 take a view of the legal form of the Convertible Note as debt as it has conversion options at other than a fixed conversion ratio. For US GAAP purposes, the Convertible Note is classified as loan capital.

Deconsolidation of the trust has resulted in \$741m of equity being reclassified into loan capital. Dividends paid on the PERL II securities have been reclassified as interest expense.

(aa) Software Amortisation

For Australian GAAP purposes, the criteria for information technology software capitalisation has been amended as from 1 July 2003, such that only computer software projects costing \$10 million or more are being capitalised and capitalisation is limited to those investments that will deliver identifiable and sustainable customer value and an increase in returns, in a significant line of business. This change has been applied retrospectively and has resulted in the expensing of \$219 million in the Financial Year 2004 of previously capitalised software. For US GAAP purposes, this change cannot be retrospectively applied and has been reversed. The related software amortisation charge for the Financial Year 2005 would have been \$80 million.

The reversal of the current year expensed software increased assets and income by \$65 million. For the Financial Year 2004 we assessed the impact if we had capitalised software according to our previous policy, which was in accordance with US GAAP, and concluded that the impact was not material. Hence no adjustment was made in this regard. The combined impact of amortising the prior year software and capitalizing the current year software is a decrease in profit after tax \$10 million.

(bb) Colonial Acquisition

Purchase GAAP accounting has been applied in the acquisition of Colonial

	2001
	\$M
Cost of acquisition under Australian GAAP (Note 1A)	9,120
Less 351,409,450 new Commonwealth Bank shares @ \$26.39 ⁽¹⁾	(9,274)
Add 351,409,450 shares @ \$23.47 ⁽²⁾	8,248
Revised cost of acquisition under US GAAP	<u>8,094</u>
Fair Value of net tangible assets acquired:	
Net tangible assets under Australian GAAP	910
Pension fund surplus	243
Differences in life insurance policyholder liabilities	(559)
Differences in deferred taxes	76
Net tangible assets under US GAAP	<u>670</u>
Intangible Assets on acquisition under US GAAP	<u>7,424</u>
Intangible assets acquired on Colonial Acquisition:	
Identifiable intangible assets ⁽³⁾	1,917
Goodwill (unidentifiable intangible assets) ⁽⁴⁾	<u>5,507</u>
	<u>7,424</u>

⁽¹⁾ Price calculated under Australian GAAP based on the weighted average share price on the acquisition date, 13 June 2000.

⁽²⁾ Under US GAAP price calculated as weighted average closing price for the two days either side of the announcement date (10 March 2000). Non trading days were excluded from the calculation. Value of equity issued for Colonial acquisition under US GAAP accounting is reduced by \$1,026 million.

⁽³⁾ Includes Colonial State Bank Core Deposits (\$149 million) which is to be amortised on a straightline basis over 8 years and Value of Business Acquired (VOBA) net of associated deferred tax liability \$1,530 million (refer Note 48 (m) for amortisation details). The carrying value of the core deposits at 30 June 2005 is \$55 million, net of amortisation.

⁽⁴⁾ Goodwill on acquisition under US GAAP includes the excess of net market value over net assets of life insurance controlled entities.

Notes to the financial statements

(cc) Newly Issued Statements of the Financial Accounting Standards Board

FAS 123R Share Based Payments

In December 2004, FASB issued FAS123R "Share Based Payments" which requires entities to recognise compensation expense for issuance of employee share based payments in the income statement at their fair value. The Bank is currently evaluating the impact of the standard for the adoption for period beginning 1 July 2005.

FAS 154 Accounting Changes and Error Correction

The statement requires retrospective application to prior periods' financial statements of a voluntary change in accounting principles unless it is impracticable. The Standard is effective from 1 July 2006.

(dd) Newly Issued Australian Standards

International Accounting Standards

The Financial Reporting Council has announced a decision to support the adoption by Australia of International Accounting Standards (IAS) by 1 January 2005. The Bank will be required to adopt these standards for the financial year commencing 1 July 2005. Further details are contained in Note 1(qq) to the financial statements.

Report of independent registered public accounting firm

The board of directors and shareholders of Commonwealth Bank of Australia

We have audited the accompanying consolidated statements of financial position of Commonwealth Bank of Australia (the "Bank") and its controlled entities (the "Group") as of June 30, 2005 and 2004, and the related consolidated statements of financial performance, shareholders' equity, and cash flows for each of the two (Bank) or three (Group) years in the period ended June 30, 2005. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and auditing standards generally accepted in Australia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform the audit of the Group's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commonwealth Bank of Australia and the Group at June 30, 2005 and 2004 and, the consolidated results of their operations and cash flows for each of the two or three years, respectively, in the period ended June 30, 2005, in conformity with accounting principles generally accepted in Australia.

Accounting principles generally accepted in Australia vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in Note 48 to the consolidated financial statements.

/s/ Ernst & Young

/s/ S J Ferguson

Ernst & Young
Sydney
Date: 14 December 2005

S J Ferguson
Partner

Shareholding Information

Top 20 Holders of Fully Paid Ordinary Shares as at 30 November 2005

Rank	Name of Holder	Number of Shares	%
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	120,833,243	9.38
2	NATIONAL NOMINEES LIMITED	104,488,712	8.11
3	WESTPAC CUSTODIAN NOMINEES LTD	87,684,237	6.80
4	CITICORP NOMINEES PTY LIMITED	66,452,383	5.16
5	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LTD	30,134,354	2.34
6	ANZ NOMINEES LIMITED	28,577,491	2.22
7	COGENT NOMINEES PTY LIMITED	22,122,631	1.72
8	QUEENSLAND INVESTMENT CORPORATION	13,763,197	1.07
9	AMP LIFE LIMITED	12,329,367	0.96
10	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	8,095,245	0.63
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,421,982	0.58
12	INVIA CUSTODIAN PTY LIMITED	6,312,546	0.49
13	BOND STREET CUSTODIANS LIMITED	6,127,591	0.48
14	WESTPAC FINANCIAL SERVICES LTD	5,090,940	0.40
15	SUNCORP CUSTODIAN SERVICES PTY LTD	4,116,339	0.32
16	GOVERNMENT SUPERANNUATION OFFICE	4,110,726	0.32
17	UBS PRIVATE CLIENTS AUSTRALIA NOMINEES PTY LTD	3,934,675	0.31
18	VICTORIAN WORKCOVER AUTHORITY	3,273,502	0.25
19	CSS BOARD & PSS BOARD	3,189,682	0.25
20	IAG NOMINEES PTY LIMITED	2,869,438	0.22

The 20 largest shareholders hold 540,928,281 shares which is equal to 41.98% of the total shares on issue.

Stock Exchange Listing

The shares of the Commonwealth Bank of Australia are listed on the Australian Stock 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 buyback of its shares.

Range of Shares (Fully Paid Ordinary Shares and Employee Shares): 30 November 2005

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	529,277	75.27	182,732,870	14.18
1,001-5,000	153,981	21.90	312,142,250	24.22
5,001-10,000	13,852	1.97	95,053,959	7.38
10,001-100,000	5,764	0.82	110,437,297	8.57
100,001 and over	252	0.04	588,221,353	45.65
Total	703,126	100.00	1,288,587,729	100.00
Less than marketable parcel of \$500	11,992		57,143	

Voting Rights

Under the Bank's Constitution, each person who is a voting member 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 member, on a show of hands the person is entitled to one vote even though he or she represents more than one member.

If a member is present in person and votes on a resolution, any proxy or attorney of that member is not entitled to vote.

If more than one official representative or attorney is present for a member:

- none of them is entitled to vote on a show of hands; and
- on a poll only one official representative may exercise the member'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 member's voting rights, not exceeding in aggregate 100%.

If a member appoints two proxies and both are present at the meeting:

- if the appointment does not specify the proportion or number of the member's votes each proxy may exercise, then on a poll each proxy may exercise one half of the member'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 Preferred Exchangeable Resettable Listed Shares (PERLS) as at 30 November 2005

Rank	Name of Holder	Number of Shares	%
1	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	61,599	1.76
2	UBS NOMINEES PTY LTD	59,893	1.71
3	UBS PRIVATE CLIENTS AUSTRALIA NOMINEES PTY LTD	42,444	1.21
4	BOND STREET CUSTODIANS LIMITED	41,860	1.20
5	INVIA CUSTODIAN PTY LIMITED	35,437	1.01
6	ANZ EXECUTORS & TRUSTEE COMPANY LIMITED	34,871	1.00
7	THE AUSTRALIAN NATIONAL UNIVERSITY	33,532	0.96
8	NATIONAL NOMINEES LIMITED	33,527	0.96
9	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	27,950	0.80
10	BOXALL MARINE PTY LTD	25,000	0.71
11	QUESTOR FINANCIAL SERVICES LIMITED	23,912	0.68
12	LIVINGSTONE INVESTMENTS (NSW) PTY LIMITED	15,500	0.44
13	MS THELMA JOAN MARTIN-WEBER	12,500	0.36
14	BT PORTFOLIO SERVICES LIMITED (WA)	11,303	0.32
15	ALBERT INVESTMENTS PTY LIMITED	10,000	0.29
16	FELDEN PTY LTD	10,000	0.29
17	GOLDMAN SACHS JBWERE CAPITAL MARKETS LTD	10,000	0.29
18	MARBEAR HOLDINGS PTY LIMITED	10,000	0.29
19	MRS FAY CLEO MARTIN-WEBER	10,000	0.29
20	SWINBURNE UNIVERSITY OF TECHNOLOGY	10,000	0.29
21	PERPETUAL TRUSTEE CO LTD	8,418	0.24
22	E G SUPERANNUATION PTY LTD	7,500	0.21
23	MR STEPHEN JOHNSON	7,500	0.21
24	MRS JENNIFER JANE ROBINSON	7,500	0.21
25	MR JOHN RODNEY ROBINSON	7,500	0.21
26	LISANI PTY LIMITED	6,250	0.18
27	MARGEN BIGGS PTY LIMITED	6,250	0.18
28	AVANTEOS INVESTMENTS LIMITED	5,846	0.17
29	BRENCORP NO 11 PTY LIMITED	5,513	0.16

The twenty largest PERLS shareholders hold 581,605 shares which is equal to 16.62% of the total shares on issue. Twenty-nine PERLS shareholders are disclosed in the above table due to a number of shareholders having the same number of PERLS shares.

Stock Exchange Listing

Commonwealth Bank PERLS are listed on the Australian Stock Exchange under the trade symbol CBAPA, 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 (pref).

Range of Shares (PERLS): 30 November 2005

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	20,821	98.41	2,398,258	68.52
1,001-5,000	305	1.44	606,723	17.34
5,001-10,000	19	0.09	143,052	4.09
10,001-100,000	12	0.06	351,967	10.05
100,001 and over	-	-	-	-
Total	21,157	100	3,500,000	100.00
Less than marketable parcel of \$500	5	-	7	-

Voting Rights

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.

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 Commonwealth Bank PERLS;

- 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 Commonwealth Bank PERLS as those conferred on ordinary shareholders in respect of each ordinary share.

At a general meeting of the Bank, holders 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 Commonwealth Bank PERLS

Shareholding Information

Top 20 Holders of Perpetual Exchangeable Resettable Listed Securities II ("PERLS II") as at 30 November 2005

Rank	Name of Holder	Number of Shares	%
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	435,800	11.62
2	NATIONAL NOMINEES LIMITED	228,973	6.11
3	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	134,231	3.58
4	UBS WARBURG PRIVATE CLIENTS NOMINEES PTY LTD	91,814	2.45
5	BOND STREET CUSTODIANS LIMITED	69,791	1.86
6	CITICORP NOMINEES PTY LIMITED	65,015	1.73
7	WESTPAC CUSTODIAN NOMINEES LIMITED	63,185	1.68
8	INVIA CUSTODIAN PTY LIMITED	56,693	1.51
9	QUESTOR FINANCIAL SERVICES LIMITED	52,759	1.41
10	UBS NOMINEES PTY LTD	29,520	0.79
11	ANZ EXECUTORS AND TRUSTEE COMPANY LIMITED	27,760	0.74
12	PERPETUAL TRUSTEE COMPANY LIMITED	26,530	0.71
13	CRYTON INVESTMENTS NO 9 PTY LTD	25,000	0.67
14	GORDON MERCHANT NO 2 PTY LTD	24,440	0.65
15	J NEAVE INVESTMENTS PTY LIMITED	24,012	0.64
16	CLYCUT PTY LTD	21,892	0.58
17	ANZ NOMINEES LIMITED	20,613	0.55
18	TYNONG PASTORAL CO PTY LTD	19,950	0.53
19	COGENT NOMINEES PTY LIMITED	19,192	0.51
20	ISRAELITE HOUSE OF DAVID	15,000	0.40
21	LUTOVI INVESTMENTS PTY LIMITED	15,000	0.40

The twenty-one largest PERLS II shareholders hold 1,467,170 shares which is equal to 39.12% of the total shares on issue. Twenty-one PERLS II shareholders are disclosed in the above table due to two shareholders having the same number of PERLS II shares.

Stock Exchange Listing

Commonwealth Bank PERLS II are listed on the Australian Stock Exchange under the trade symbol PCBPA, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers.

Range of Shares (PERLS II): 30 November 2005

Range	Number of Shareholders	Percentage Shareholders	Number of Shares	Percentage Issued Capital
1-1,000	8,877	96.14	1,456,990	38.85
1,001-5,000	295	3.2	658,808	17.57
5,001-10,000	33	0.36	255,830	6.82
10,001-100,000	26	0.28	713,599	19.03
100,001 and over	2	0.02	664,773	17.73
Total	9,233	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 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 PERLS preference shares.

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.

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 respectively for the Bank's ordinary shares and PERLS preference shares

Shareholding Information

The Offer and Listing

The Bank's Ordinary Shares are listed on the ASX. Trading of the Ordinary Shares on the ASX commenced on 9 September 1991.

The table below sets forth, for the financial periods indicated, high and low closing prices and average daily trading volumes for the Ordinary Shares as reported by the ASX.

Period	High Closing Price	Low Closing Price	Average Daily Trading Volume (Number of Shares)
Ordinary Shares			
1998	19.49	14.70	1,726,916
1999	28.69	18.50	1,731,082
2000	27.95	22.54	2,136,170
2001	34.15	26.25	2,892,307
2002	34.76	25.14	3,566,592
2003	32.36	23.20	3,995,429
2004			
First Quarter	30.16	27.48	3,644,533
Second Quarter	29.45	27.14	2,723,437
Third Quarter	33.30	29.28	3,906,628
Fourth Quarter	33.51	30.80	3,096,567
2005			
First Quarter	32.85	28.87	3,779,385
Second Quarter	32.19	30.20	2,905,462
Third Quarter	37.09	32.06	3,866,186
Fourth Quarter	38.38	35.09	2,955,691
June	38.38	37.55	3,303,509
July	39.18	37.63	2,888,872
August	39.48	36.75	4,992,767
September	38.75	37.35	3,304,869
October	38.88	37.00	3,128,997
November	42.00	39.25	3,095,721

On 30 November 2005, the last sale price of the Ordinary Shares as reported on the ASX was \$41.80 per Share. The Bank's total market capitalisation was \$53,862.64 million as at that date.

The Bank maintains a restricted Rule 144A American Depositary Receipt ('ADR') program in the United States evidencing American Depositary Shares ('ADSs'), representing ordinary shares, for which The Bank of New York acts as depositary bank. The ratio of Ordinary Shares per 'ADS' is 3:1. Since ADSs are not publicly listed or traded it is not possible to provide accurate market price information with respect to the ADSs.

On 30 November 2005, there were 710 shareholders with declared addresses in the United States holding 513,634 Ordinary Shares and 1 holder (a nominee company) of ADRs within the United States holding 349,646 ADRs representing 1,048,938 ordinary shares. In addition, there are a number of United States shareholders who hold beneficial ownership in Ordinary Shares through nominee companies located outside the United States.

Shareholding Information

Directors and Senior Management

The business of the Bank is managed by a Board of Directors presently consisting of 10 Directors who, except for the Chief Executive Officer, are elected on a rotating basis. At each annual general meeting of the Bank's shareholders, one-third of the Directors, excluding the Chief Executive Officer, retire and are eligible for re-election. The Board of Directors oversees the Bank's operation both directly and through its committees.

The members of the Board of Directors and executives who are members of the Senior Executive Committee as at 30 June 2005 are as follows:

Board of Directors			
Name	Age	Position	Director Since
J M Schubert ⁽¹⁾	62	Chairman	1991
R J Norris ⁽²⁾	56	Chief Executive Officer	2005
R J Clairs, AO	67	Director	1999
A B Daniels OAM	70	Director	2000
C R Galbraith, AM	57	Director	2000
W G Kent, AO	69	Director	2000
F D Ryan	62	Director	2000
F J Swan	64	Director	1997
B K Ward	51	Director	1994
S C Kay	44	Director	2003
D V Murray ⁽³⁾	56	Chief Executive Officer	1992
J T Ralph, AC ⁽⁴⁾	72	Chairman	1985
N R Adler, AO ⁽⁴⁾	60	Director	1990

⁽¹⁾ Appointed 5 November 2004

⁽²⁾ Commenced 22 September 2005

⁽³⁾ Retired 22 September 2005

⁽⁴⁾ Retired 5 November 2004

Senior Management

The Senior Management of the Bank detailed below are the Group Executives of each of the Bank's divisions.

Michael Cameron

Chief Financial Officer

Mr Cameron is the Group Executive for Financial and Risk Management which includes Finance, Treasury, Risk Management and Credit, Investor Relations, Security and Audit. Mr Cameron joined the Group in November 2002.

Prior to his appointment to his current role on 1 April 2003, Mr Cameron was the Deputy Chief Financial Officer.

Previously Mr Cameron was Chief Operating Officer, Wealth Management Division, National Australia Bank. Prior to this he was employed for over ten years with Lend Lease and MLC and has also worked at Barclays Bank and TNT Australia. He is a Fellow of the Australian Institute of Chartered Accountants, a Fellow of CPA Australia, and a Fellow of the Australian Institute of Company Directors.

Mr Cameron holds a Bachelor of Business Degree. Age 45.

Les Cupper

Group Executive, People Services

Les Cupper joined the Commonwealth Bank in 1996. He heads People Services responsible for the Bank's human resource policies and systems.

Prior to joining the Bank, Mr Cupper held a number of senior human resource and line management roles with CRA Ltd for 12 years.

Previous to these roles, Mr Cupper held academic appointments in universities in Australia, the UK and USA. He has an Honours degree in Economics and Politics and a Masters in Economics (Industrial Law) and Graduate Diploma in Education from Monash University. Age 56.

Stuart Grimshaw

Group Executive, Wealth Management

Mr Grimshaw joined the Group in February 2002 as Group Executive, Financial & Risk Management and has been Group Executive, Wealth Management since April 2003.

Prior to joining the Group Mr Grimshaw was formally Chief Executive Officer, Great Britain for the National Australia Bank and responsible for National's Yorkshire and Clydesdale Banks. He joined National in 1991 where he held senior credit, relationship, commercial and corporate banking roles, including an 18 month secondment to Morgan Stanley International Inc, New York. He commenced his career in banking and finance as a graduate trainee with ANZ Banking Group in 1983.

He has a Bachelor of Commerce & Administration from Victoria University (N.Z.) and a Masters of Business Administration from Melbourne University. He also completed the PMD Course at Harvard University. Age 44.

Hugh Harley

Group Executive, Retail Banking Services

Mr Harley joined the Bank in 1987 as an economist following completion of university studies. Subsequently he worked in a wide range of senior roles in Business Banking, Group Human Resources and Australian Financial Services where he was General Manager, Personal & Business Customers. In February 2002 he was appointed Executive General Manager, Retail Sales and Service which involved leadership of the Bank's national branch network and direct service operations. In October 2002 he was appointed Group Executive, Retail Banking Services. He is Chairman of the Commonwealth Bank Staff Community Fund.

Mr Harley holds a Bachelor of Economics (honours) and a Bachelor of Laws (honours) from the University of Sydney and a Master of Philosophy in Economics from Cambridge University (UK). Age 43.

Shareholding Information

Michael Katz

Group Executive, Premium Banking Services

Michael Katz assumed responsibility for the management of Premium Business Services within the Commonwealth Bank Group in May 2004. This business is focused on providing a premium service to the Bank's non retail client base. It includes the private client business and CommSec equities business. Prior to this role, Mr Katz was the Group Executive responsible for Premium Financial Services business which was created in early 2002. Before this role he was Head of Institutional Banking for eight years from 1993 to 2001. Prior to joining the Bank Mr Katz held positions with Morgan Stanley, Citicorp in Geneva, Switzerland and worked as a faculty associate at the International Management Institute in Geneva.

He holds a B.Com (Hons) from the University of New South Wales. Age 53.

Garry Mackrell

Group Executive, International Financial Services

Mr Mackrell joined the Group in 1973. Prior to this appointment he held senior positions within the Group including Head of the Office of the CEO and Group Planning and Development, Chief Manager Treasury Management, Deputy Regional Manager, Americas and Head of Financial Markets Distribution, Institutional Banking. Mr Mackrell was appointed to the Head of International Financial Services in September 2001.

Mr Mackrell has a Bachelor of Science, a Bachelor of Economics (Hons) and a Master of Commerce degree. Age 56.

Bob McKinnon

Group Executive, Technology Services

Bob McKinnon joined the Commonwealth Bank in 2000 as General Manager, Group Technology. He was appointed Chief Information Officer in 2002. Prior to joining the Bank Mr McKinnon was the Managing Director and Chief Executive of State Street Australia Limited. During his career, he has also held a variety of senior roles within the Lend Lease Group.

Mr McKinnon holds a Bachelor of Commerce with merit from the University of NSW and is a member of the Institute of Chartered Accountants in Australia. Age 52.

John O'Sullivan

General Counsel

John O'Sullivan was appointed General Counsel of the Commonwealth Bank Group in October 2003.

Prior to joining the Bank, Mr O'Sullivan had been a partner of the national law firm Freehills since 1983. Whilst with Freehills, Mr O'Sullivan acted for the Bank in its acquisition of State Bank of Victoria and Colonial Group, as well as on the three stages of the Bank's privatisation. He also led the legal team for the Commonwealth of Australia on Telstra 1, Telstra 2 and the sale of Sydney Airport, among other notable transactions.

He holds a Bachelor of Arts and a Bachelor of Laws from the University of Sydney and a Master of Laws from London University. Age 51.

Grahame Petersen

Group Executive, Group Strategic Development

Grahame Petersen was appointed Group Executive, Group Strategic Development in June 2004. This division is responsible for the Bank's strategic development, mergers and acquisitions and the implementation of the Which new Bank program.

Mr Petersen has 25 years experience in the finance industry, commencing as a graduate with the Rural Bank of NSW in 1980 and subsequently working with the State Bank of NSW and Colonial Limited.

He has held senior management roles in business banking, corporate banking, business recovery, retail banking and funds management.

His experience includes service and sales management, marketing, product management, strategy and change management. Age 46.

Loans to Senior Management

Loans are made to the Senior Management in the ordinary course of business of the Group and on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

The Bank believes that its loans to Senior Management do not involve more than normal risk of collectibility or present other unfavourable features.

Compensation

The aggregate compensation paid by the Bank during Financial Year 2005 to all directors and senior executive officers as a group (21 persons) was \$27.2 million.

Australian executive officers are members of the Officers' Superannuation Fund (OSF) or the former Colonial Group Staff Superannuation Scheme (CGSSS). The OSF and CGSSS provide both defined benefit and accumulation style superannuation benefits. The CGSSS ceased to operate on 3 October 2003 with the plan's assets, liabilities, member contributions and benefit arrangements transferred to the OSF.

Executive officers who joined the Group on or after 1 July 1993 are provided with accumulation style superannuation benefits except for those executive officers who joined the Group between 1 July 1993 and 30 June 1997 and who were members of the former CGSSS. The Group provides salary sacrifice superannuation benefits for selected employees, including executive officers. Salary sacrifice superannuation benefits accrued during Financial Year 2005 in respect of executive officers have been included in the above aggregate compensation.

With the exception of contributions relating to salary sacrifice benefits the Group ceased contributions to the OSF from 8 July 1994. Further, the Group ceased contributions to the OSF relating to salary sacrifice benefits from 1 July 1997. Under Australian legislation for Financial Year 2005, the Group was required to provide minimum superannuation benefits for non-executive directors under age 70 equal to 9% of their cash remuneration. Benefits funded by the Group during Financial Year 2005 to meet this requirement amounted to \$132,339.

The Group also provides defined benefits to non-executive directors in connection with their departure from office after three years of service in accordance with an arrangement approved by shareholders. This retirement allowance has now been closed to new appointees.

The Bank's executive officers, (including the Chief Executive Officer), may be eligible to participate in the Equity Reward Plan (ERP) and the Equity Participation Plan (EPP). Executives who participate in the ERP or EPP are excluded from participating in the Employee Share Acquisition Plan (ESAP). Refer Employee Share Plans – Note 29 to the Financial Statements.

The Bank's Constitution provides that the directors who are not also executive officers shall be paid an ordinary remuneration which may not in aggregate exceed the maximum aggregate amount fixed by the Bank in

Shareholding Information

general meeting from time to time. At the annual general meeting of the Bank held in November 2004 the shareholders set a maximum amount of \$3,000,000 per year, to be divisible among the non-executive directors as the directors may determine.

Currency of Presentation and Certain Definitions

The Bank publishes its consolidated financial statements in Australian dollars. In this Annual Report, unless otherwise stated or the context otherwise requires, references to 'US\$' or 'US dollars' are to United States dollars and references to '\$' or 'A\$' are to Australian dollars. This Annual Report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of US\$ 0.7618 = \$1.00, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York on 30 June 2005.

Exchange Rates

For each of the Commonwealth Bank's Financial Years, the high, low, average and year end Noon Buying Rates, see 'Selected Financial and Operating Data' on page 13.

Fluctuations in the exchange rate between the Australian dollar and the US dollar may affect the Bank's earnings, the book value of its assets and its shareholders' equity as expressed in US dollars, and consequently may affect the market price for the Shares. In addition, fluctuations in the exchange rate between the Australian dollar and the US dollar will affect the US dollar equivalent of the Australian dollar price of the Bank's Ordinary Shares on the ASX and, as a result, are likely to affect the market price of the Shares. Such fluctuations will also affect the conversion into US dollars of cash dividends, if any, paid in Australian dollars.

Certain Definitions

The Bank's Financial Year ends on 30 June. As used throughout this Annual Report, the Financial Year ended 30 June 2005 is referred to as Financial Year 2005, and other Financial Years are referred to in a corresponding manner.

'Financial Statements' means the Group's audited consolidated Statement of Financial Position as of 30 June 2004 and 2005 and consolidated statements of financial performance, cash flows and changes in shareholders' equity for each of the three years in the period ended 30 June 2005, together with accompanying notes, which are included elsewhere in this Annual Report.

'ACCC' means Australian Competition and Consumer Commission.

'APRA' means the Australian Prudential Regulation Authority.

'ASB Bank' means the ASB Bank Limited, incorporated in New Zealand.

'ASX' means the Australian Stock Exchange Limited.

'Australian GAAP' means Australian generally accepted accounting principles.

'Bank', 'CBA' or 'Company' means the Commonwealth Bank of Australia (A.B.N. 48 123 123 124), a banking corporation incorporated in Australia.

'Banking Act' means the Australian Banking Act 1959, as amended.

'CDBL' means the Commonwealth Development Bank of Australia Limited.

'Commonwealth' means the Commonwealth of Australia and its Territories.

'EFTPOS' means Electronic Funds Transfer at Point of Sale.

'Group' or 'Consolidated Entity' means the Commonwealth Bank of Australia and its controlled entities.

'Ordinary Shares' or 'Shares' means the ordinary shares of the Bank.

'Reserve Bank' or 'RBA' means the Reserve Bank of Australia.

'US GAAP' means United States generally accepted accounting principles.

Certain discrepancies between totals and sums of components in tables contained herein exist due to rounding.

Exchange Controls Affecting Security Holders

Generally, at the present time, remittances of any dividends, interest or other payments by the Bank to non-resident holders of the Bank's securities in the United States are not restricted by Australian exchange controls.

Australian foreign exchange controls are implemented from time to time against proscribed countries, entities and persons. Certain transactions relating to supporters of the former government of the Federal Republic of Yugoslavia and ministers/ senior officials of the Government of Zimbabwe are currently prohibited without the specific, prior approval of the Reserve Bank of Australia.

Additionally, the Department of Foreign Affairs and Trade has responsibility for the administration of restrictions relating to the following

- Terrorists and their sponsors

In terms of Part 4 of the *Charter of the United Nations Act 1945*, and the *Charter of the United Nations (Terrorism and Dealings with Assets) Regulations 2002*, anybody holding financial or other assets of persons or entities listed as terrorists by the Minister for Foreign Affairs in the Commonwealth Gazette is prohibited from using or dealing with those assets. It is also a criminal offence to make assets available to such persons or entities.

- The former Iraqi regime

The *Iraq (Reconstruction and Repeal of Sanctions) Regulations 2003* impose a freeze on the financial resources of the previous Government of Iraq, Saddam Hussein, other senior officials of his regime, and their immediate families, and provide for such resources to be transferred to Iraq and used in that country's reconstruction and rehabilitation.

Taxation

This section describes the material Australian and United States federal income tax consequences of owning Ordinary Shares. It applies to you only if you hold your Ordinary Shares as capital assets for tax purposes. For purposes of this discussion, a 'US Holder' is any beneficial owner holding Ordinary Shares as a capital asset that is (i) a citizen or resident of the United States, (ii) a corporation created or organised in the United States or under the law of the United States or any State, (iii) an estate whose income is subject to United States federal income tax regardless of its source or (iv) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States

Shareholding Information

persons are authorised to control all substantial decisions of the trust.

The taxation discussion set forth below does not purport to be a complete technical analysis or listing of all potential Australian or United States tax effects.

This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a tax-exempt organisation,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of the voting stock of the Commonwealth Bank of Australia,
- a person that holds Ordinary Shares as part of a straddle or a hedging or conversion transaction, or
- a US Holder (as defined above) whose functional currency is not the U.S. dollar.

Prospective investors are urged to consult their own tax advisors regarding the United States and Australian tax consequences of owning and disposing of Ordinary Shares.

Australian Taxation

Except as otherwise noted, the statements of Australian tax laws set out below are based on the laws in force as at the date of this Annual Report, and are subject to any changes in Australian law, and any double taxation convention between the United States and Australia occurring after that date.

Under Australian law non-residents may be subject to withholding tax in respect of dividends received from shares in Australian companies depending upon the extent to which dividends are 'franked'. Also, in limited circumstances (as discussed below) such non-resident shareholders may be subject to Australian income tax in respect of gains made on disposal of shares in Australian companies.

The Australia/United States double tax agreement (the 'Treaty') was entered into on 6 August 1982 and represents a convention between the Government of Australia and the Government of the United States of America for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. The agreement applies to residents of one or both of Australia and the United States of America. A Protocol amending the Treaty has been negotiated and ratified by both countries. The changes took effect progressively from 1 July 2003. Among other things, the Protocol reduces withholding taxes. For the purposes of this summary, references to the "Old Treaty" are references to the Treaty before the Protocol took effect, and references to the "New Treaty" are references to the Treaty as amended by the Protocol.

Under Australia's dividend imputation system dividends are 'franked' dividends to the extent that they are paid out of income on which Australian income tax has been paid. Where an Australian resident individual shareholder receives a franked dividend, the shareholder receives an imputation credit that can be offset against the Australian income tax payable by the shareholder. Any excess imputation credit is refundable. The amount of the imputation credit is dependent upon the extent to which the dividend is franked. The extent to which a dividend is franked typically depends upon a company's available franking credits at the time of payment of the

dividend. Accordingly, a dividend paid to a shareholder may be wholly or partly franked or wholly unfranked. Dividends paid to non-resident shareholders are exempt from dividend withholding tax to the extent the dividend is franked. Under the Old Treaty the unfranked portion of the dividend was subject to 15% dividend withholding tax. Under the New Treaty the unfranked portion of the dividend is still generally subject to 15% dividend withholding tax. However, under the New Treaty the withholding tax on the unfranked portion of dividends paid after 30 June 2003 by an Australian resident company to a beneficially entitled company resident in the US who has at least a 10% voting interest in the paying company is limited to 5%.

Subject to two exceptions, a non-resident disposing of shares in Australian public companies will be free from tax in Australia. The exceptions are as follows:

- Shares held as part of a trade or business conducted through a permanent establishment in Australia. In such a case any profit on disposal would be assessable to ordinary income tax. Losses would constitute allowable deductions.
- Shares held in public companies where such shares represent (or in the past five years have represented) a holding of 10% or more in the issued share capital of the company. In such a case capital gains tax would apply, but not otherwise.

Capital gains tax in Australia is payable on gains over the period in which the shares have been held, i.e. the difference between the disposal price and the original cost. For individual shareholders, in respect of assets acquired before 11:45am AEST 21 September 1999 and held for at least 12 months prior to sale, there is an election to pay tax at normal rates on the net capital gain with indexation frozen at 30 September 1999 or pay tax at normal rates on 50 per cent of the actual net capital gain without indexation (the 'CGT discount'). If an individual makes a net capital gain on an asset which was acquired after 11:45am AEST 21 September 1999 and held for 12 months, then only the CGT discount method applies.

A corporation will pay tax on the total gain without indexation or discount. Normal rates of income tax apply to gains so calculated. Capital losses are available as deductions, but only as an offset against other capital gains.

United States Taxation

This section is based on the Internal Revenue Code of 1986, as amended (the 'Code'), its legislative history, existing and proposed regulations and published rulings and court decisions, all as currently in effect, as well as the United States-Australian Tax Treaty. These laws are subject to change, possibly on a retroactive basis.

Taxation of Dividends

Under the United States federal income tax laws, if you are a US holder, the gross amount of any dividend paid by the Commonwealth Bank of Australia out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a non-corporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2009 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the Ordinary Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the Ordinary Shares generally will be qualified dividend income.

Shareholding Information

You must include any Australian tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a US Holder will be the U.S. dollar value of the Australian dollar payments made, determined at the spot Australian dollar/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the Ordinary Shares and thereafter as capital gain.

Subject to certain limitations, the Australian tax withheld in accordance with the Treaty and paid over to Australia will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007, generally will be "passive" or "financial services" income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be "passive" or "general" income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

If you are a US Holder and you sell or otherwise dispose of your Ordinary Shares, you will recognize a capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your Ordinary Shares. The capital gain of a non-corporate US Holder that is recognized in taxable years beginning before January 1, 2009 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC Considerations

Commonwealth Bank of Australia does not believe that it will be treated as a passive foreign investment company (a 'PFIC') for United States federal income tax purposes, and this discussion so assumes, but this is a factual determination that is made annually and thus may be subject to change. If the Commonwealth Bank of Australia were to be treated as a PFIC, a US holder of Ordinary Shares would be subject to certain adverse tax consequences.

Additional Information

Item 10 – Additional Information

Share Capital

Constitution

The Company's corporate organisation and conduct is governed by its Constitution (the Constitution), which was last amended on 5 November 2004.

1 Company Objects and Purposes

The Company is registered as a public company limited by shares under the Australian Corporations Act 2001 (the Corporations Act) with Australian Business Number 48 123 123 124.

The current Constitution was last amended by shareholders at the annual general meeting held on 5 November 2004. The Constitution does not specify the objects and purposes of the Company. Pursuant to section 124 of the Corporations Act, the Company has the legal capacity and powers of an individual person, as well as all the powers of a body corporate.

2 Directors Powers and Qualifications

- (a) Unless permitted by the Corporations Act, no director is permitted to vote or be counted in the quorum as a director in respect of any contract or arrangement in which the director has a material personal interest (article 11.8(g)). Subject to the ASX Listing Rules, this prohibition does not apply if the directors pass a resolution stating they are satisfied that the interest should not disqualify the director from considering or voting on the matter (article 11.8(h)). If a quorum of directors is not available to consider such a resolution then, subject to the Corporations Act, the prohibition can be relaxed or suspended by an ordinary resolution passed in a general meeting (section 195(4)).
- (b) Subject to the ASX Listing Rules, the non-executive directors' remuneration is paid by way of fees in such proportion and manner as the directors determine, provided that the aggregate remuneration paid to non-executive directors must not exceed the amount approved from time to time in a general meeting. The directors may approve payment of special remuneration where a director, other than the managing director or an executive director, performs extra services or makes any special exertions for any business or purposes of the Company. In addition, the directors may also be paid an allowance for travelling and other expenses properly incurred by them in attending and returning from meetings or otherwise in connection with the exercise of their powers and the discharge of their duties or the business of the Company (article 11.6).
- (c) The directors may, from time to time, at their discretion, exercise all the powers of the Company to borrow or raise money or charge any property or business of the Company and to issue debentures or give any other security for a debt, liability or obligation of the Company or of any other person (article 12.1(b)). Subject to the Corporations Act, this article could be changed by a special resolution, that is, a resolution passed by at least 75% of the votes cast by shareholders entitled to vote on the resolution (section 136).
- (d) The Constitution does not contain any age limit requirement for the retirement of directors. Similarly, the Corporations Act does not contain any such requirement. The policy of the board of directors of the Company is that a director cannot stand for re-election after attaining the age of 70.

- (e) A director does not need to own shares in the Company as a qualification for office (article 11.3(b)).

3 Rights, Preferences and Restrictions Attaching to Each Class of Shares

The Company has two classes of shares – ordinary shares and preference shares.

- (a)
 - (i) The rights attached to ordinary shares include the right to dividends in the event that the directors declare a dividend or determine that a dividend is payable, and fix the amount and the time for payment (article 16.1(a)). All dividends declared or payable but unclaimed may be invested by the directors as they think fit for the benefit of the Company until claimed or until required to be dealt with in accordance with any law relating to unclaimed moneys (article 16.5(f)).
 - (ii) Subject to the Constitution, the ordinary shareholders have the right to vote in person, by representative, attorney or proxy in a general meeting. On a show of hands each shareholder (regardless of the number of shares held) has one vote. On a poll, each shareholder has one vote for each fully paid ordinary share held. In respect of partly paid shares, the shareholder has a vote equivalent to the proportion which the amount paid up on the shares has to the total issue price of the shares at the date the poll is taken. For the purpose of determining voting entitlements at a general meeting, shares will be taken to be held by those persons recorded in the register of members at the time and the date determined by the directors under regulation 7.11.37 of the Australian Corporations Regulations 2001. One third of current directors (other than the managing director) must retire at each annual general meeting and may be re-elected by ordinary resolution and in accordance with the Constitution (articles 11.1(c) and 11.2(b)).
- (b) The rights attached to the Company's preference shares are referred to in a prospectus dated 26 February 2001 for the issue of 3.5 million preference shares at an issue price of AUD200 each, payable in full on application. Preference shareholders are entitled to a dividend to be paid in priority to dividends on ordinary shares. In certain limited circumstances, dividends may not be payable. The preference shares are perpetual and exchangeable into ordinary shares in certain circumstances. They are resettable on certain dates. The Company may not issue shares ranking in priority to these shares without prior approval of the holders of preference shares. There is no right to vote at general meetings except in limited circumstances specified in the terms and conditions as set out in the prospectus. The Trust Preferred Securities issued on 6 August 2003, as described on page 227, are exchangeable in certain circumstances for preference shares of the Company that will rank equally with the preference shares described above.
- (c) Dividends are only payable out of the profits of the Company (Corporations Act section 254T).

Additional Information

- (d) In the event of a winding up, ordinary shares rank equally in the division of any surplus. The preference shares rank in priority to ordinary shares for payment of dividends and for a return of capital on a winding up of the Company. If the Company is wound up the liquidator may, with the sanction of a special resolution, divide among the members in kind the whole or any part of the property of the Company and may determine how the division is to be carried out between the members or different classes of members (article 20).
- (e) Shareholders cannot redeem ordinary shares. Preference shares may be redeemable by the Company in accordance with the terms of issue determined by the directors (article 3.2.6).
- (f) The directors may issue preference shares with such rights to dividends as set out in article 3.2.3 and as specified in the terms of issue, including a right to cumulative or non-cumulative dividends, and in either case with no additional dividend rights or with additional dividend rights in certain circumstances, or the directors may issue preference shares with no right to dividends.
- (g) The holders of fully paid ordinary shares have no further liability to the Company in respect of those shares. Subject to the terms of issue, the holders of partly paid shares are liable to the Company once a call is made for the payment of the unpaid amount (article 4.1).
- (h) There is no provision in the Constitution which discriminates against an existing or prospective shareholder as a result of such shareholder owning a substantial number of shares.

4 Alteration of rights of shareholders

The rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be varied with the consent in writing of the holders of three - quarters of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class (article 2.4(a)).

5 Meetings

The directors or any director to the extent permitted by the Corporations Act may whenever they think fit convene a general meeting (article 9.1(a)). The rights of members to requisition or to convene a general meeting of the Company are as set out in the Corporations Act (article 9.1(b)).

Subject to the Constitution, the Corporations Act and the ASX Listing Rules, notices of general meetings convened by the directors may be given in a manner determined by the directors (article 17).

At least 28 days' notice must be given of a general meeting (section 249HA of the Corporations Act).

Subject to the Constitution, all shareholders may attend general meetings in person, or be represented by the attendance of a representative, attorney or proxy (who need not be a shareholder of the Company in their own right).

A quorum for a general meeting is 5 voting members personally present (article 10.3).

If a general meeting is convened upon the requisition of members and a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be dissolved. If the meeting is convened in any other way and a quorum is not present within half an hour, the meeting shall stand adjourned to such day as the directors determine and, if no determination is made, to the same day in the next week at the same time and place and if at the adjourned meeting a quorum is not present within half an hour from the time appointed, the voting members present shall constitute a quorum (article 10.4).

6 Limitations on the Right to Own Securities

- (a) The Constitution does not impose limitations on the right to own securities except those provisions relating to minimum holdings (known as unmarketable parcels). The Constitution also provides that the directors may decline to register any transfer of shares where this is permitted by the ASX Listing Rules (article 7.3(a)). Relevantly, the ASX Listing Rules allow the company to decline to register a transfer if the transfer may breach an Australian law and the ASX has agreed in writing to the non-registration. The directors might also exercise their discretion to refuse to allot shares to a person where the allotment may breach an Australian law. Relevant Australian legislation which impacts on the right to own securities is described below.

- (b) Unmarketable Parcel Rationalisation Scheme

The Constitution contains a scheme whereby the Company can sell the shares of members who hold less than a marketable parcel of shares in the Company as determined by the ASX Listing Rules. The scheme sets out notice requirements that the Company must comply with prior to selling any shares (article 5.4).

- (c) Legislation

The Australian Financial Sector (Shareholdings) Act 1998 restricts ownership by people (together with their associates) of an Australian bank to 15% of the total voting shares outstanding. A shareholder may apply to the Australian Treasurer to extend its ownership beyond 15%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 15% is in the national interest.

Section 50 of the Australian Trade Practices Act 1974 prohibits an acquisition of shares that would have the effect, or be likely to have the effect, of substantially lessening competition in a substantial market for goods or services, unless the acquisition is authorised by the Australian Competition and Consumer Commission.

The rights of non-resident or foreign shareholders to hold the Company's securities are subject to the Australian Foreign Acquisitions and Takeovers Act 1975. The Treasurer of the Australian Federal Government has the power to prohibit the acquisition of a controlling interest in an Australian company by a foreign person or foreign persons, if the Treasurer is of the opinion that the acquisition would be contrary to the national interest. For this purpose, a shareholding of 15% or more held by a single foreign person (including associates) or 40% or more held by 2 or more foreign persons (including associates) is deemed to constitute a controlling interest.

7 Takeover Limitations

Not applicable.

8 Disclosure of Share Ownership

The Constitution does not prescribe an ownership threshold above which shareholders must disclose their holding to the Company. However, Part 6C.1 of the Corporations Act imposes disclosure requirements on persons who (together with their associates) acquire or cease to hold a substantial holding (5% or more of the total number of votes attached to voting shares) or change their substantial holding in the Company. The disclosure must be given to the Company and the ASX within the prescribed time.

The Company may at any time direct a member within 2 business days of receiving the direction to provide the Company with the name and address of every person who has a relevant interest in any of the shares held by the member, including full details of that interest and of

Additional Information

the circumstances that gave rise to that interest. On receiving particulars of a person holding an interest in any shares of the Company (other than as registered holder), the Company may direct that person to provide the Company with full details of that person's interest and of the circumstances that gave rise to that interest (Corporations Act Part 6C.2).

9 Changes in Share Capital

The Company may reduce its share capital (article 2.2) or buy back shares in accordance with the Australian Corporations Act.

Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorised, in the City of Sydney, Commonwealth of Australia.

COMMONWEALTH BANK OF AUSTRALIA (Registrant)

By _____ /s/ Michael Cameron

Name: Michael Cameron

Title: Chief Financial Officer

Date: 14 December 2005

Exhibits

Item 19 Index to Exhibits

1. Constitution as amended as of 5 November 2004.
- 4.1 Employment Agreement between Commonwealth Bank of Australia and Stuart Ian Grimshaw, dated as of 1 February 2002¹.
- 4.2 Employment Agreement between Commonwealth Bank of Australia and Peter Leith Polson, dated as of 1 January 2002².
- 4.3 Employment Agreement between Commonwealth Bank of Australia and John O'Sullivan, dated as of 28 April 2003.³
- 4.4 Employment Agreement between Commonwealth Bank of Australia and Grahame Petersen, dated as of 22 June 2004.⁴
- 4.5 Employment Agreement between Commonwealth Bank of Australia and Hugh Harley, dated as of 13 September 1999, amended 16 October 2002⁵.
- 4.6 Employment Agreement between Commonwealth Bank of Australia and Michael Cameron, dated as of 6 November 2002 and amended 18 March 2003 and 4 November 2003.⁶
- 4.7 Employment Agreement between Commonwealth Bank of Australia and Ralph Norris, dated as of 14 June 2005.
- 4.8 Terms of appointment as a non-executive director between Commonwealth Bank of Australia and John M Schubert, dated as of 14 July 2005.
- 4.9 Terms of appointment as a non-executive director between Commonwealth Bank of Australia and Reg J Clairs, dated as of 14 July 2005.
- 4.10 Terms of appointment as a non-executive director between Commonwealth Bank of Australia and AB (Tony) Daniels, dated as of 14 July 2005.
- 4.11 Terms of appointment as a non-executive director between Commonwealth Bank of Australia and Colin R Galbraith, dated as of 14 July 2005.
- 4.12 Terms of appointment as a non-executive director between Commonwealth Bank of Australia and S Carolyn Kay, dated as of 14 July 2005.
- 4.13 Terms of appointment as a non-executive director between Commonwealth Bank of Australia and Warwick G Kent, dated as of 14 July 2005.
- 4.14 Terms of appointment as a non-executive director between Commonwealth Bank of Australia and Fergus D Ryan, dated as of 14 July 2005.
- 4.15 Terms of appointment as a non-executive director between Commonwealth Bank of Australia and Frank J Swan, dated as of 14 July 2005.
- 4.16 Terms of appointment as a non-executive director between Commonwealth Bank of Australia and Barbara K Ward, dated as of 14 July 2005.
- 4.17 Equity Reward Plan Rules, Exercise and Vesting Conditions, Taxation Information Sheet – Options and Taxation Information Sheet – Shares⁷.
8. List of controlled entities.
11. Code of Ethics for Senior Financial Officers.⁸
12. Chief Executive Officer and Chief Financial Officer certifications.
13. Chief Executive Officer and Chief Financial Officer certifications.
14. Consent of Ernst & Young.

Copies of any instrument relating to long-term debt of the Commonwealth Bank of Australia that is not being attached as an exhibit to this Annual Report on Form 20-F and which does not exceed 10% of the total combined assets of the Commonwealth Bank of Australia will be furnished to the SEC upon request.

¹ Incorporated by reference to Exhibit 4.2 to the Annual Report on Form 20-F for the registrant's fiscal year ended 30 June 2002 (File No. 0-29152) filed on 18 October 2002.

² Incorporated by reference to Exhibit 4.3 to the Annual Report on Form 20-F for the registrant's fiscal year ended 30 June 2002 (File No. 0-29152) filed on 18 October 2002.

³ Incorporated by reference to Exhibit 4.3 to the Annual Report on Form 20-F for the registrant's fiscal year ended 30 June 2004 (file No.0-29152) filed on 1 December 2004.

⁴ Incorporated by reference to Exhibit 4.4 to the Annual Report on Form 20-F for the registrant's fiscal year ended 30 June 2004 (file No.0-29152) filed on 1 December 2004.

⁵ Incorporated by reference to Exhibit 4.5 to the Annual Report on Form 20-F for the registrant's fiscal year ended 30 June 2004 (file No.0-29152) filed on 1 December 2004.

⁶ Incorporated by reference to Exhibit 4.6 to the Annual Report on Form 20-F for the registrant's fiscal year ended 30 June 2004 (file No.0-29152) filed on 1 December 2004.

⁷ Incorporated by reference to Exhibit 4.1 to the Annual Report on Form 20-F for the registrant's fiscal year ended 30 June 2002 (File No. 0-219152) filed on 18 October 2002.

⁸ Incorporated by reference to Exhibit 11 to the Annual Report on Form 20-F for the registrant's fiscal year ended 30 June 2004 (file No.0-29152) filed on 1 December 2004.

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CONSTITUTION

OF

COMMONWEALTH BANK OF AUSTRALIA

A.C.N. 123 123 124

**Incorporating amendments up to and including all amendments
passed at the Annual General Meeting on 5 November 2004**

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Corporations Act
Company Limited by Shares
CONSTITUTION
OF
COMMONWEALTH BANK OF AUSTRALIA

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this constitution, unless the contrary intention appears:

"article" means a provision of this constitution as amended or added to from time to time;

"ASTC settlement rules" means the operating rules of ASX Settlement and Transfer Corporation Pty Ltd and, to the extent that they are applicable, the operating rules of the Australian Stock Exchange Limited and the operating rules of the Australian Clearing House Pty Limited;

"auditor" means the auditor or auditors for the time being of the company;

"the board" or "the directors" means the whole or any number of the directors for the time being or any number of them assembled at a duly convened meeting of directors (not being less than a quorum);

"business day" means a day on which the Exchange is open;

"capital" or "share capital" means the share capital for the time being of the company;

"company" means Commonwealth Bank of Australia;

"constitution" means this constitution as amended or added to from time to time and a reference to the memorandum and articles of association of the company as in existence prior to the commencement of the Company Law Review Act 1997 shall be taken to be a reference to this constitution;

"the Corporations Act" means the Corporations Act 2001 (Cth);

"director" means a director for the time being of the company;

"Exchange" means Australian Stock Exchange Limited or such other body corporate that is declared by the directors to be the Company's primary stock exchange for the purposes of this definition;

"executive director" means a director who is appointed to that office pursuant to article 11.5(a);

"listing rules" means the official listing rules of the Exchange as amended and in force from time to time;

"managing director" means a person appointed as managing director pursuant to article 11.5(a) and includes an acting managing director;

"marketable parcel" means, in respect of any shares, that number of shares which would be a marketable parcel as defined in the listing rules;

"member" means a person entered in the register as a shareholder of the company;

"month" means calendar month;

"official list" means the official list of the Exchange;

"official representative" means a representative appointed by a body corporate under article 10.2(b) or otherwise appointed under the Corporations Act;

"paid up" includes credited as paid up;

"proper ASTC transfer" has the meaning given to that term in the Corporations Regulations 2001;

"record time" means:

- (a) in the case of a meeting for which the caller of the meeting has decided, under the Corporations Act, that shares are to be taken to be held by the persons who held them at a specified time before the meeting, that time; and
- (b) in any other case, 10pm eastern standard time on the last preceding trading day (as that term is defined in the listing rules) or 48 hours before the meeting (whichever is later);

"register" means the register of members to be kept pursuant to the Corporations Act and where appropriate includes:

- (a) a sub-register conducted by or for the company under the Corporations Act; and
- (b) a branch register;

"registered address" means the address of a member in the register or such other address as the member may from time to time in writing notify to the company as the member's address for the service of notices;

"registered office" means the registered office for the time being of the company;

"related body corporate" means any body corporate which by virtue of section 50 of the Corporations Act would be deemed to be related to the company;

"restricted securities" has the meaning given to that expression in the listing rules;

"seal" means the common seal or the certificate seal of the company;

"secretary" means a person or persons appointed by the directors pursuant to article 14.1 to perform the duties of secretary of the company and includes an acting secretary;

"share" means a share in the capital of the company;

"voting member" means, in reference to a meeting of the company, any person who is or was the registered holder of a voting share at the record time, except as provided in article 10.13;

"voting share" means any issued share in the capital of the company that confers a right to vote, not being a right to vote that is exercisable only in limited circumstances as described in the definition of "voting share" in section 9 of the Corporations Act.

1.2 Interpretation

In this constitution, unless a contrary intention appears:

- (a)
 - (i) headings are inserted for convenience only and do not affect the construction of this constitution;
 - (ii) words importing any gender include the other genders, words importing persons include bodies corporate, bodies politic, partnerships, joint ventures, associations, boards, groups or other bodies (whether or not the body is incorporated), words importing the singular include the plural and vice versa, and where a word or phrase is given a particular meaning, other parts of speech and grammatical forms of that word or phrase have corresponding meanings;
 - (iii) a reference to a person includes that person's successors and legal representatives;
 - (iv) a reference to a statute or regulation (or to a provision of a statute or regulation) means the statute, regulation or provision as modified or amended and in operation for the time being, or any statute, regulation or provision enacted in lieu thereof and includes any by law, order, regulation, rule or other statutory instrument for the time being in force under the statute, regulation or provision;
 - (v) a reference to the listing rules or the ASTC settlement rules includes any variation, consolidation or replacement of those rules and is to be taken to be subject to any applicable waiver or exemption;
 - (vi) a word or expression in this constitution that deals with a matter dealt with by a provision of the Corporations Act has the same meaning as in that provision.
 - (vii) subject to article 1.2(a)(vi), an expression in an article that is used in the Corporations Act, has the same meaning in this constitution as in the Corporations Act.
- (b) a reference in this constitution to a partly paid share is a reference to a share on which there is an amount unpaid;
- (c) a reference in this constitution to an amount unpaid on a share includes a reference to any amount of the issue price which is unpaid;
- (d) a reference in this constitution to a call or an amount called on a share includes a reference to a sum that, by the terms of issue of a share, becomes payable on issue or at a fixed date;
- (e) a reference in this constitution to a member for the purposes of a meeting of members for which the caller of the meeting has determined a record time is a reference to a registered holder of shares as at the relevant record time;
- (f) a reference in this constitution to a member present at a general meeting is a reference to a member present in person or by proxy, attorney or official representative; and
- (g) a reference in this constitution to a person holding or occupying a particular office or position is a reference to any person who occupies or performs the duties of that office or position.

1.3 Replaceable rules

The provisions of the Corporations Act relating to a company's internal management which are described as replaceable rules do not apply to the company except insofar as they are repeated in this constitution.

1.4 Exercising powers

(a) The company may, in any way the Corporations Act permits:

- (i) exercise any power;
- (ii) take any action; or
- (iii) engage in any conduct or procedure,

which, under the Corporations Act a company limited by shares may exercise, take or engage in.

- (b) Where this constitution provides that a person “may” do a particular act or thing, the act or thing may be done at the person’s discretion.
- (c) Where this constitution confers a power to do a particular act or thing, the power is, unless the contrary intention appears, to be taken as including a power exercisable in the same way and subject to the same conditions (if any) to repeal, rescind, revoke, amend or vary that act or thing.
- (d) Where this constitution confers a power to do a particular act or thing, unless the contrary intention appears, the power may be exercised from time to time.
- (e) Where this constitution confers a power to do a particular act or thing concerning particular matters, the power is, unless the contrary intention appears, to be taken to include a power to do that act or thing as to only some of those matters or as to a particular class of those matters, and to make different provision concerning different matters or different classes of matters.
- (f) Where this constitution confers a power to make appointments to an office or position (except the power to appoint a director under article 11.4(a)), the power is, unless the contrary intention appears, to be taken to include a power:
 - (i) to appoint a person to act in the office or position until a person is appointed to the office or position;
 - (ii) to remove or suspend any person appointed (without prejudice to any rights or obligations under any contract between the person and the company); and
 - (iii) to appoint another person temporarily in the place of any person removed or suspended or in the place of any sick or absent holder of the office or position.
- (g) Where this constitution gives power to a person to delegate a function or power:
 - (i) the delegation may be concurrent with, or (except in the case of a delegation by the directors) to the exclusion of, the performance or exercise of that function or power by the person;
 - (ii) the delegation may be either general or limited in any way provided in the terms of delegation;
 - (iii) the delegation need not be to a specified person but may be to any person holding, occupying or performing the duties of a specified office or position;
 - (iv) the delegation may include the power to delegate; and
 - (v) where performing or exercising that function or power depends on that person’s opinion, belief or state of mind about a matter, that function or power may be

performed or exercised by the delegate on the delegate's opinion, belief or state of mind about that matter.

1.5 Currency

- (a) The directors may determine that any amount payable to the holder of a share, whether in relation to dividends, repayment of capital, participation in surplus property of the company or otherwise, will be paid in the currency of a country other than Australia where appropriate.
- (b) The directors may determine or provide for the determination of the applicable exchange rate, fix a time before the payment date as the time at which the applicable exchange rate will be determined for that purpose and determine the method of payment.
- (c) The directors may settle any difficulty arising in regard to any payment made in a currency other than Australian currency as they consider expedient.

2. SHARE CAPITAL AND VARIATION OF RIGHTS

2.1 Company's power to convert shares into larger or smaller number

Subject to the Corporations Act and, if applicable, to article 2.4, the company may convert all or any of its shares into a larger or smaller number of shares or reclassify shares from one class to another by resolution passed at a general meeting.

2.2 Reduction of capital

- (a) The company may reduce its share capital in any manner permitted by the Corporations Act.
- (b) Where the company reduces its share capital in accordance with the Corporations Act, it may do so by way of payment of cash, distribution of specific assets (including shares or other securities of another corporation), or in any other manner permitted by law.
- (c) Where the company reduces its share capital by way of distribution of specific assets, article 16.10 applies.

2.3 Alteration of share capital

Subject to the Corporations Act, the directors may do anything required to give effect to any resolution altering the company's share capital, including, where a member becomes entitled to a fraction of a share on a consolidation:

- (a) making cash payments in lieu of the fractional entitlement;
- (b) determining that fractions may be disregarded in order to adjust the rights of all parties;
- (c) appointing a trustee to deal with any fractions on behalf of members; and
- (d) rounding up each fractional entitlement to the nearest whole share.

2.4 Variation of rights

- (a) If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the company is being wound up, be varied with the consent in writing of the holders of three-quarters of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class.

- (b) The provisions of this constitution relating to general meetings (including article 10.2) apply so far as they are capable of application and mutatis mutandis to every such separate meeting except that a poll may be demanded:
- (i) by the chairman of the meeting;
 - (ii) by not less than 10 holders of shares of the class present in person or by official representative, proxy or attorney;
 - (iii) by a holder or holders of shares of the class present in person or by official representative, proxy or attorney and representing not less than 10 percent (10%) of the total voting rights of all the holders of shares of the class; or
 - (iv) by a holder or holders of shares of the class present in person or by official representative, proxy or attorney, being shares on which an aggregate sum has been paid up equal to not less than 10 percent (10%) of the total sum paid up on all the shares of the class.
- (c) The rights conferred upon the holders of the shares of any class shall, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed not to be varied by the creation or issue of further shares ranking equally with the first-mentioned shares.

3. ISSUES OF SHARES

3.1 Directors to issue shares

- (a) Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares but subject to the Corporations Act, shares in the company shall be under the control of the directors who may allot, issue or grant rights or options in respect of, or otherwise dispose of, shares to such persons, for such price, upon such conditions, at such times and with such preferred, deferred or other special rights or restrictions, whether with regard to dividends, voting, return of capital or otherwise as the directors determine.
- (b) The directors may issue shares paid up in full on allotment or partly paid in such amounts as the directors think fit.
- (c) The directors shall have the right to settle the manner in which fractions of a share, however arising, are to be dealt with.

3.2 Preference shares

3.2.1

Subject to the Corporations Act, the directors may issue preference shares:

- (a) which are, or at the option of the company are to be, liable to be redeemed by the company on such terms and conditions and in such manner as the directors determine before the issue thereof; and
- (b) whether the shares are redeemable or non-redeemable, with any of the rights set out in this article 3.2 and with such other rights, not inconsistent with this article, as are conferred by the terms of issue of the preference shares.

3.2.2 Terms of issue

Prior to the allotment of any preference shares the directors shall determine with respect to such shares the following matters or the manner in which such matters shall be determined:

- (a) where the preference shares are redeemable,
 - (i) the amount payable on redemption;
 - (ii) the redemption date;
 - (iii) the time, place and manner of redemption; and
 - (iv) the conditions for exercise of the rights of redemption by the holder or by the company;
- (b) in any case,
 - (i) the rate or amount of dividends (including any additional dividends) at any time or from time to time, the basis (if any) upon which the amount of a dividend will be increased to take account of tax or other fiscal impost and the basis (if any) upon which the amount of any dividend otherwise payable in respect of the shares reduces by reference to other amounts paid to the holder of the shares;
 - (ii) the times or circumstances for payment of dividends on the shares;
 - (iii) the periods in respect of which the dividends are payable;
 - (iv) the funds out of which the dividends are to be payable;
 - (v) the premium (if any) payable;
 - (vi) the currency in which dividends or capital or both are to be paid;
 - (vii) whether or not the issue of further shares ranking equally with the preference shares in any or in any stated respect is permitted;
 - (viii) (viii) whether the preference shares are convertible into shares of another class and, if so, in what circumstances;
 - (ix) if required under article 3.2.7(b)(ii), the market value, or the mechanism for determining the market value, of an ordinary share at the date of allotment of the preference share;
 - (x) if the preference share has the rights set out in article 3.2.3(d), any right of the holder of the preference share on redemption or in a winding up to payment of an amount equal to a dividend of the type described in article 3.2.4(d);
 - (xi) if the preference share has the rights set out in article 3.2.6(b)(iii), the sum or the mechanism for determining the sum to which the holder of the preference share has the right to payment in a winding up;
 - (xii) if applicable, any reference rate for the purposes of article 3.2.8; and
 - (xiii) such other matters as the directors may determine.

3.2.3 Dividend rights

The directors may issue preference shares with such rights to dividends as set out below:

- (a) a right to cumulative dividends with or without any further right to participate in profits available for dividends;
- (b) a right to non-cumulative dividends with or without any further right to participate in profits available for dividends;
- (c) a right to non-cumulative dividends and a right to additional preference shares in accordance with article 3.2.5 but with no further right to participate in profits available for dividends;
- (d) a right to non-cumulative dividends and, to the extent (if any) specified in the terms of issue, to additional dividends in connection with the conversion of a preference share into an ordinary share and to additional dividends in circumstances where a dividend contemplated by the terms of issue has not been paid in full on the preference shares and:
 - (i) a dividend has been, or is sought to be, declared or paid on shares ranking *pari passu* with or junior to the preference shares or a sum is, or is sought to be, set aside for the payment thereof; or
 - (ii) shares in the company have been, or are sought to be, repurchased, redeemed or beneficially acquired by the company, or a sum is, or is sought to be, set aside or a sinking fund is, or is sought to be, established for such a purpose,
 but with no further right to participate in profits available for dividends; or
- (e) no right to dividends.

The terms of issue of preference shares may provide that to the extent that an amount is paid to a holder of preference shares other than by way of dividend paid by the company, the amount of any dividend otherwise payable to the holder in respect of the preference shares reduces in a manner specified in the terms of issue.

3.2.4 Entitlements and priority as to payment of dividends

The holders of preference shares will rank for payment of dividends to which they are entitled in accordance with the provisions set out below:

- (a) Holders of preference shares shall rank equally for payment of dividends and in priority to all holders of other classes of shares.
- (b) Where the holder of a preference share has a right to cumulative dividends, the holder shall have the right on redemption or in a winding up to payment of an amount equal to all arrears of or accrued dividends down to the date of redemption or of commencement of the winding up (as the case may be), whether earned or declared or not, with the same priority in relation to other shares or other classes of preference shares determined pursuant to article 3.2.4(a).
- (c) Where the holder of a preference share has a right to non-cumulative dividends under article 3.2.3(b) or 3.2.3(c) the holder shall have the right on redemption or in a winding up to payment of an amount equal to the dividend entitlement for any dividend date which has then most recently occurred (and which has not been paid by the company) prior to the date of redemption or of commencement of the winding up (as the case may be), only if a dividend has been declared by the directors, and with the same priority in relation to other shares or other classes of preference shares as determined pursuant to article 3.2.4(a).

- (d) The holder of a preference share which has the right to a non-cumulative dividend set out in article 3.2.3(d) shall have, to the extent (if any) determined by the directors prior to allotment of the preference share, the right on redemption or in a winding up to payment of an amount equal to any dividend (whether earned or declared or not) which, pursuant to the terms of issue of the preference share, the company was required to pay to the holder or, if there had been sufficient distributable profits, would have been required to pay to the holder, prior to redemption or the commencement of the winding up (as the case may be), with the same priority in relation to other shares or other classes of preference shares as determined pursuant to article 3.2.4(a). Except to the extent provided pursuant to this article 3.2.4(d), the holder of such preference share shall not have a right on redemption or in a winding up to payment of an amount equal to or in respect of arrears of, or accrued but unpaid, dividends.

3.2.5 Right to additional preference shares

- (a) If:
- (i) a preference share is issued with the rights set out in article 3.2.3(c); and
 - (ii) all or any part of a dividend otherwise payable to the holders of those preference shares on a particular dividend date has become not payable because, under the terms of issue applicable to those shares a dividend is not payable or is payable only in part, either:
 - (b) where in the opinion of the directors the distributable profits of the company are insufficient to permit the payment in full of the dividend on those preference shares on that dividend date and also the payment in full of dividends stated to be payable on that dividend date on other preference shares ranking *pari passu* therewith; or
 - (c) where in the opinion of the directors the payment of the whole or part of the dividend otherwise payable on that dividend date would constitute or cause a breach of the capital adequacy requirements for banks then applicable to the company or any of its subsidiaries; and
 - (i) at the relevant dividend date the amount (if any) standing to the credit of the company's profit or loss account and the amount of the reserves of the company available for the purpose are in aggregate sufficient to be applied and capable of being applied in paying up in full at such price determined by the directors in the terms of issue additional preference shares of that class on the basis provided below;
 - (ii) then on the relevant dividend date the directors shall, subject to any applicable law and to the listing rules, allot and issue credited as fully paid to each holder of those preference shares such additional nominal amount of preference shares of that class (rounded to the nearest whole number of preference shares) as equals the cash amount of the dividend which would have been payable to the holder but for the operation of the terms described in paragraph 3.2.5(a)(ii) above multiplied by a factor determined by the directors in the terms of issue of the preference shares.

3.2.6 Repayment of capital and priority as to payment

- (a) Subject to this constitution, where any preference shares are or may be redeemable by the company, such preference shares shall be redeemed by the company in accordance with the terms of issue determined by the directors pursuant to article 3.2.2.
- (b) The company may issue preference shares with any of the rights with respect to payment of capital in a winding up set out below:
- (i) a right to payment in cash of the capital paid thereon;

- (ii) a right to payment in the applicable currency for those preference shares (as specified in the terms of issue pursuant to article 3.2.2(b)(vi)) of an amount equal to the amount in that applicable currency received by the company as the subscription moneys for those preference shares;
 - (iii) a right in respect of a preference share to payment in cash of a sum fixed by the directors prior to allotment or capable of determination pursuant to a mechanism adopted by the directors prior to allotment but no further or other right to participate in the assets of the company or a return of capital. (Without limitation, the mechanism adopted by the directors may provide for payment in Australian currency of an amount equal to a sum denominated in a currency other than Australian currency calculated by applying a reference rate (as specified by the directors in the terms of issue) on the date of payment of the purchase of the relevant foreign currency with Australian currency plus an amount estimated by the liquidator in his discretion to be equal to the charges and expenses likely to be incurred in purchasing the relevant foreign currency with Australian currency).
- (c) Holders of preference shares shall rank equally for the payment of the amount payable on redemption of the preference shares and in a winding up of the company.
 - (d) Holders of preference shares shall have the right in a winding up of the company to payment, in priority to all holders of other classes of shares, of the amount payable on redemption of the preference shares and of dividends and any other amount to which the holder is entitled in accordance with the provisions of this constitution but shall not participate in any further or other distribution of profits or assets of the company.

3.2.7 Voting rights

- (a) The holder of a preference share shall have the right to vote in the following circumstances:
 - (i) during a period during which a dividend (or part of a dividend) in respect of the preference share is in arrears;
 - (ii) on a proposal to reduce the company's share capital;
 - (iii) on a proposal that affects rights attached to the preference share;
 - (iv) on a resolution to approve the terms of a buy-back agreement;
 - (v) on a proposal to wind up the company;
 - (vi) on a proposal for the disposal of the whole of the company's property, business and undertaking; and
 - (vii) during the winding up of the company.
- (b) Notwithstanding any other provision of this constitution, the holder of a preference share:
 - (i) on a show of hands shall be entitled to exercise one vote when entitled to vote under any of the circumstances set out in paragraph 3.2.7(a) of this article; and
 - (ii) on a poll shall be entitled to one vote for each fully paid preference share or if the directors so determine in the terms of issue, the number of votes per preference share which equals the sum subscribed for the preference share divided by the market value of an ordinary share (as determined by the directors or pursuant to a mechanism adopted by the directors) on the date of allotment of the preference (rounded to the nearest number of votes). If a preference share is not fully paid, the holder shall be entitled to a fraction of a vote for each party paid preference share

equivalent to the proportion which the amount paid is of the total amount paid and payable.

3.2.8 Payments denominated in foreign currency

Where any sum is payable by the company to the holder of a preference share in a currency other than Australian dollars, and such sum is not paid when due or the company has commenced winding up, the holder may elect by notice in writing to the company to require instead payment of an amount in Australian dollars equal to that foreign currency amount calculated by applying the relevant reference rate (being such rate applicable in such market and at such time as determined by the directors prior to allotment of those preference shares) on the date of payment for the sale of the relevant currency for Australian dollars.

3.2.9 Conversion

A preference share which, in accordance with its terms of issue may be converted into an ordinary share shall, at the time of conversion and without any further act, have (subject to the terms of issue of the preference share in relation to entitlement to ordinary dividends paid after conversion) the same rights as a fully paid ordinary share and rank pari passu with other fully paid ordinary shares then on issue.

3.2.10 Variation of rights

- (a) Where the company proposes to issue preference shares or to convert issued shares into preference shares:
 - (i) If those preference shares are to rank in priority to preference shares already issued, unless that is expressly permitted by the conditions of issue of the preference shares already issued, the issue or conversion shall be deemed to be a variation of the rights attached to the preference shares already issued and article 2.4(a) and 2.4(b) shall apply; and
 - (ii) if those preference shares are to rank equally with preference shares already issued, article 2.4(c) shall apply.
- (b) If the most recent dividend entitlement as set out in the terms of issue of any preference shares has been paid or provided for in full, the consent of any holders of preference shares, or any class of preference shares shall not be required for the reduction, redemption or buy back of share capital of the company ranking as regards dividends and as to rights on winding up equally with or after the preference shares or class of preference shares, except where such consent is required by the Corporations Act or by this constitution.

3.2.11 Additional rights of preference shares

Holders of preference shares shall be entitled to the same rights as a holder of ordinary shares of the company in relation to receiving notices, reports and financial statements, and attending and being heard at all general meetings of the company.

3.2.12 Listing rules

Notwithstanding this article 3.2, the company may not issue preference shares which confer upon the holders rights which are inconsistent with those specified in the listing rules, except to the extent of any express written waiver of the listing rules by the Exchange.

3.3 Recognition of equitable and other claims

- (a) Except as otherwise required by law or provided by this constitution, the company is entitled to treat the registered holder of a share as the absolute owner of that share and is not:
- (i) compelled in any way to recognise a person as holding a share upon any trust, even if the company has notice of that trust; or
 - (ii) compelled in any way to recognise, or be bound by, any equitable, contingent, future or partial claim to or interest in a share on the part of any other person except an absolute right to ownership in the registered holder, even if the company has notice of that claim or interest.
- (b) Shares held by a trustee, may, with the consent of the directors, be marked in the register in such a way as to identify them as being held subject to the relevant trust, but nothing in this article 3.3(b) limits the operation of article 3.3(a).

3.4 Joint holders of shares

- (a) Where several persons are jointly entitled to any share:
- (i) in the absence of any express direction from them to the contrary, the company shall enter their names as members in the register in the order in which their names appear on the application for shares or the instrument or other evidence of transfer or the notice of death or bankruptcy given to the company to establish their entitlement to the share;
 - (ii) it shall be a sufficient discharge of any of the company's obligations to them if the company discharges that obligation in relation to the firstnamed holder of the share in the register;
 - (iii) if the company is required by the Corporations Act or the listing rules to issue a share certificate for that share, the company is not required to issue more than one certificate;
 - (iv) they shall be jointly and severally liable to pay all calls, interest and other amounts in respect of the share, and
 - (v) except where persons are jointly entitled to a share because of the death or bankruptcy of a member in accordance with article 8, or where required by the listing rules or the ASTC settlement rules, the company may, but is not required to, register more than 3 persons as joint holders of the share,

provided that nothing in this article 3.4(a) shall prevent the company from differentiating between the joint holders of any share in any respect as provided for in this constitution.

4. CALLS ON SHARES

4.1 Calls

Subject to the terms of issue upon which any shares may be issued, the directors may from time to time make calls as they shall think fit upon the members in respect of all or any of the moneys unpaid on their shares, which is not by the terms of issue of those shares made payable at fixed times. At least 21 days' notice, specifying the time and place for payment and the person (if any be appointed) to whom such call shall be paid, shall be given of each call and each member shall pay the amount of every call so made to the company or person (if any) appointed for the purpose

and at the times and places appointed by the directors. The directors may require a call to be paid by instalments or may revoke a call.

4.2 Interest on calls

If a sum called in respect of a share is not paid on or before the day appointed for payment of the sum, the registered holder of the share in respect of which the call has been made must pay any expenses incurred by the company in relation to the non-payment or late payment and must pay interest on the sum at the rate of 15 percent (15%) per annum (or such other rate as the directors may determine) which interest accrues daily from the day appointed for the payment thereof to the time of actual payment and may be capitalised monthly or at such other intervals as the directors think fit. The directors may however waive payment of interest due under this article wholly or in part.

4.3 Sums due on allotment are calls

If by the terms or conditions of allotment or issue of a share any amount is payable in respect of the share on allotment or at a specified time, every such amount shall be payable by the member in respect of such shares as if it were a call duly made by the directors, and of which due notice had been given, and all provisions of this constitution as to payment of calls and of interest and expenses, forfeiture of shares for non-payment of calls and otherwise shall apply to such amounts not paid and the shares in respect of which they are payable.

4.4 Power to differentiate

The directors may, on the allotment or issue of shares, and subject to their terms of allotment or issue, differentiate between the holders as to the amount of calls to be paid and the times of payment.

4.5 Payment of calls in advance

The directors may accept from a member the whole or a part of the amount unpaid on a share although no part of that amount has been called. The directors may authorise payment by the company of interest upon the whole or any part of an amount accepted under this article 4.5 until the amount becomes payable, at such rate as may be agreed upon between the member paying the sum in advance and the directors. The directors may repay to any member all or any of the amount accepted under this article 4.5 and as from the date of such repayment interest (if any) shall cease to be payable in respect of the amount so paid.

4.6 Proof of liability

On the trial or hearing of any action for recovery of any sum due in respect of any call it shall be sufficient to prove that:

- (a) the name of the person sued is entered in the register as the holder or one of the holders of the shares in respect of which such debt accrued;
- (b) the resolution making the call is duly recorded in the minute book; and
- (c) notice of such call was duly given to the member sued in pursuance of this constitution,

and it shall not be necessary to prove the appointment or qualification of the directors who made such call nor any other matter whatsoever. Proof of the matters aforesaid shall be conclusive evidence of the debt. If the action relates to a sum of the kind described in article 4.3, proof of the terms of the allotment shall be deemed to be satisfaction of paragraphs 4.6(b) and 4.6(c) above.

5. FORFEITURE, LIEN AND DIVESTMENT

5.1 Forfeiture of shares

- (a) If a member fails to pay any call or any instalment of a call on the day appointed for payment thereof, the directors may, at any time while it remains unpaid, serve a notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest that has accrued and all expenses that may have been incurred by the company by reason of non-payment or late payment of the call or instalment.
- (b) That notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) by which and a place at which the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time appointed the shares in respect of which the call was made will be liable to be forfeited.
- (c) If the requirements of a notice served under article 5.1(a) are not complied with the directors may by resolution forfeit any share in respect of which the notice has been given at any time after the day named in the notice and before the payment required by the notice has been made.
- (d) Any share so forfeited shall be deemed to be the property of the company and the directors may sell or re-allot the share on such terms and in such manner as they think fit and in the case of re-allotment with or without any money paid on the share by the former holder being credited as paid up.
- (e) The directors may before a forfeited share has been sold or re-allotted annul the forfeiture upon such terms and conditions as they may approve.
- (f) In the event that any forfeited shares are sold within 12 months of the date of forfeiture any residue after the satisfaction of the unpaid calls, instalments, premiums and accrued interest and expenses shall be paid to the member in whose name such share or shares stood immediately prior to the forfeiture.
- (g) A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall remain liable to pay and must immediately pay to the company all moneys which at the date of forfeiture were presently payable to the company in respect of the shares.
- (h) On the forfeiture of any share the directors shall cause a note of such forfeiture and the date thereof to be entered in the register and shall cause notice of such forfeiture and the date thereof to be given to the member in whose name it stood immediately prior to the forfeiture and shall upon the disposal of any forfeited share cause a note of the manner and date of such disposal to be similarly entered.
- (i) An entry in the minute book of the company that a share in the company has been duly forfeited on a date stated in the minute shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share. The company may if necessary execute or effect a transfer of the share in favour of the person to whom the share is sold or disposed of and may receive the consideration therefor.
- (j) In the case of re-allotment the person to whom the share shall have been re-allotted and in the case of sale or other disposition the person or persons to whom the share shall be sold or disposed of, shall be entered upon the register as the holder of the share and shall not be bound to see to the application of the purchase moneys nor shall the new member's title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, re-allotment sale or other disposal of the share.

5.2 Surrender of shares

The directors may accept from any member a surrender of a share which is liable to forfeiture or any part thereof upon such terms as may be agreed upon between such member and the company.

5.3 Lien on shares

- (a) The company has a first and paramount lien upon each share registered in the name of each member whether solely or jointly with others, for all unpaid calls, instalments and premiums due and payable in respect of such share and for such amounts as the company is required to pay (and has paid) under any statute in respect of the shares of a deceased member or other member and no equitable interest in any share shall be created except upon the footing and condition that article 3.3 is to have full effect.
- (b) The company's lien on a share extends to all dividends declared or payable in respect of the share and to the proceeds of its sale.
- (c) The registration of a transfer of shares on which the company has any lien, unless notice to the contrary shall first be given to the transferee, shall operate as a waiver of the lien so far as it relates to sums owing by the transferor or any predecessor in title.
- (d) Subject to the ASTC settlement rules, the company may sell, in such manner as the directors think fit, any share on which the company has a lien, but no sale shall be made unless a sum in respect of which the lien exists is presently payable nor until the expiration of 14 days after a notice in writing, stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share.
- (e) The proceeds of any sale shall be received by the company and applied first in payment of all costs and expenses of such sale or any attempted sale, and next in payment of such part of the amount in respect of which the lien exists as is presently payable, and the residue shall (subject to a like lien for sums not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares as at the date of the sale.
- (f) To give effect to any such sale the directors may execute or effect a transfer of the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares comprised in any such transfer and thereupon shall be the holder of such shares discharged from all calls due prior to such purchase. The purchaser shall not be bound to see to the application of the purchase money, nor shall the purchaser's title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale. The remedy of any person aggrieved by such sale shall be against the company exclusively and in damages only.

5.4 Divestment of Shares

5.4.1 Procedure when a holding is less than a marketable parcel

- (a) If a member holds less than a marketable parcel of shares, the company may divest the member of those shares in accordance with the provisions of this article 5.4.1 except in the circumstance where article 5.4.2 is applicable.
- (b) The company may send at any time a notice in writing to a member who holds less than a marketable parcel of shares stating that the company intends to sell or arrange the sale of the member's shares unless by the date specified in the notice being a date not earlier than six weeks after the date of service of the notice ("the specified date"):

- (i) the shareholding of the member increases to at least a marketable parcel and the member has notified the company in writing of the increase;
 - (ii) the relevant shares are sold by the member; or
 - (iii) the member gives to the company a written notice that the member wishes to retain the relevant shares.
- (c) Subject to article 5.4.4(g), the company may not give more than one divestment notice under this article 5.4.1 to a particular member in any 12 months period.
- (d) If the member complies with any one of paragraphs 5.4.1(b)(i), 5.4.1(b)(ii) or 5.4.1(b)(iii) above by the specified date, the company may not sell the shares the subject of the notice. If the member does not comply with any of these requirements by the specified date, the company may sell or arrange the sale of the shares within the period of fourteen days from the specified date without further notice.
- (e) If shares are sold under this article, the company must:
- (i) within a reasonable time after completion of the sale, inform the former member of the sale and total sale proceeds received by the company; and
 - (ii) within thirty days after completion of the sale, cause the proceeds of sale to be sent to the former member (or, in the case of joint holders, to the holder whose name appeared first in the register in respect of the joint holding) provided that in the case where the company issues certificates for shares, any certificate for the shares the subject of the transfer has been received by the company (or the company is satisfied that the certificate has been lost or destroyed or that its production is not essential). Payment may be made in any manner and by any means as determined by the company and is at the risk of the former member.
- (f) The company shall bear the costs and expenses of sale (including brokerage and stamp duty) of the transferor of shares sold under this article 5.4.1 (but is not liable for any tax on income or capital gains of the former member).

5.4.2 Divestment of newly created holdings of shares of less than a marketable parcel

- (a) In the circumstance where a new holding of shares is created after the date on which this article 5.4.2 comes into effect by the transfer of a parcel of shares that was less than a marketable parcel at the time a proper ASTC transfer was initiated or a paper-based instrument of transfer was lodged for registration, the company may divest the member of those shares in accordance with the provisions of this article 5.4.2.
- (b) The company may send a notice in writing to such member ("the divestment notice") stating that the company intends to sell or arrange the sale of the member's shares unless by the date specified in the divestment notice being a date not earlier than fourteen days after the date of service of the notice ("the divestment date"):
- (i) the shareholding of the member increases to at least a marketable parcel and the member has notified the company in writing of the increase; or
 - (ii) the relevant shares are sold by the member.
- (c) If the requirements of the divestment notice are not complied with by the member by the divestment date, the company may sell or arrange the sale of the shares held by such member which are specified in such notice within the period of fourteen days from the divestment date without further notice.

- (d) The proceeds of such sale shall be received by the company and applied first in payment of all costs and expenses of such sale (including brokerage and stamp duty) and the residue (together with any dividends which may have been withheld pursuant to paragraph 5.4.2(e) of this article) shall then be paid to the former member. The company shall not be liable for any tax on income or capital gains of the former member. Any payment may be made in any manner and by any means as determined by the company and is at the risk of the former member.
- (e) All dividend and voting rights attaching to shares which are the subject of a divestment notice under this article 5.4.2 shall be suspended if the requirements of the notice are not complied with by the divestment date and shall continue to be suspended until the disposal of the shares by the company except that such dividend and voting rights shall not be suspended if, as at the divestment date, the relevant holding has for any reason ceased to be a holding of less than a marketable parcel. If the company withholds payment of any dividends during a suspension of dividend rights, it shall pay those dividends to the former member following completion of the sale.

5.4.3 Sale procedure

- (a) Any shares to be sold pursuant to article 5.4.1 or article 5.4.2 may be sold on-market on the Exchange at the price, on the terms, in the manner and at the time determined by the company, and for the purposes of a sale pursuant to this article, the member:
 - (i) appoints the company as the member's agent for sale;
 - (ii) authorises the company to instruct a stockbroker (which may be a related body corporate of the company) to effect the sale;
 - (iii) authorises the company to initiate a holding adjustment to move the shares from a CHESS holding to an issuer-sponsored holding maintained by the company;
 - (iv) appoints the company as the member's attorney in the member's name and on the member's behalf to effect a transfer of the shares or take any other steps as it may consider appropriate to transfer the shares so sold.
- (b) The company may register a transfer of shares whether or not any certificate for the shares has been delivered to the company.
- (c) If the shares of two or more members to whom this article applies are sold to one purchaser, the transfer may be effected by one transfer.

5.4.4 General provisions

For the purposes of this article 5.4:

- (a) Any divestment notice sent by the company under article 5.4.1 or article 5.4.2 shall comply with any requirements of the listing rules and the ASTC settlement rules.
- (b) A certificate signed by the secretary stating that shares sold under this article have been properly sold discharges the purchaser of those shares from all liability in respect of the purchase of those shares.
- (c) When a purchaser of shares is registered as the holder of the shares, the purchaser:
 - (i) is not bound to see to the regularity of the actions and proceedings of the company under this article or to the application of the proceeds of sale; and
 - (ii) has title to the shares which is not affected by any irregularity or invalidity in the actions and proceedings of the company.

- (d) Any remedy of any member to whom this article applies in respect of the sale of the member's shares is limited to a right of action in damages against the company to the exclusion of any other right, remedy or relief against any other person.
- (e) The member shall not be entitled to make any claim against the company for any costs or expenses occurred in connection with the disposal of any shares by the member under the provisions of this article.
- (f) All money payable to former members under this article which is unclaimed for one year after payment may be invested or otherwise made use of by the company for the benefit of the company until claimed or otherwise disposed of according to law. No money payable under this article by the company to former members bears interest as against the company.
- (g) On the day on which there is announced a Takeover (as defined in the listing rules) the power of sale under this article lapses until the close of offers under the Takeover. On the close of offers under the Takeover the company may invoke the procedures set out in this article and in the case of article 5.4.1, notwithstanding article 5.4.1(c).

6. INDEMNITY FOR TAXATION

If any law of any country, state or place imposes any liability upon the company to make any payment:

- (a) in respect of shares held solely or jointly by a member;
- (b) in respect of a transfer or transmission of shares by a member;
- (c) in respect of dividends, bonuses or other money due or payable or which may become due and payable in respect of the shares of a member; or
- (d) otherwise for or on account of or in respect of the shares of a member, whether as a consequence of:
 - (e) the death of that member;
 - (f) the non-payment of any duty, penalty, tax or other imposition by that member or the legal personal representative of that member; or
 - (g) any other act or thing,

then, in addition to any right or remedy that law may confer on the company:

- (h) the member or, if the member is dead, the member's legal personal representative must:
 - (i) fully indemnify the company against that liability;
 - (ii) reimburse the company for any payment made under or as a consequence of that law immediately on demand by the company; and
 - (iii) pay interest from the date the company makes a payment under or as a consequence of that law until the date the company is reimbursed for that payment under article 6(h)(ii), at a rate determined by article 4.2;
- (i) the company has a lien upon all dividends in respect of the shares held solely or jointly by that member or that member's legal personal representative for all money that the company is required to pay (and has paid) under this article 6; and
- (j) the company may recover as a debt due from that member or from that member's legal personal representative any money payable to the company under this article 6.

7. TRANSFER OF SHARES

7.1 Instrument of transfer

- (a) Subject to this constitution, a member may transfer all or any of that member's shares by a proper ASTC transfer, an instrument in writing in registrable form or, subject to the Corporations Act, the listing rules and ASTC settlement rules, by electronic means or any other means that the directors approve.
- (b) A transfer referred to in article 7.1(a) shall be executed by or on behalf of the transferor (but need not be executed by the transferee) or may be executed, effected or validated otherwise in accordance with the Corporations Act, the listing rules and the ASTC settlement rules and if required by law to be stamped it shall be stamped.

7.2 Registration procedure

- (a) Except in the case of a proper ASTC transfer, the instrument or other evidence of transfer must be delivered or lodged for registration at the registered office or such other place as the directors may from time to time determine, accompanied by any certificate of the shares to which it relates and such other information as the directors properly require to show the right of the transferor to make the transfer, and thereupon the company shall, subject to the powers vested in the directors by this constitution, register the transferee as a shareholder.
- (b) Subject to the ASTC settlement rules, a transferor of shares remains the holder of the shares transferred until the transfer is registered and the name of the transferee is entered in the register in respect of the shares and a transfer of shares shall not pass the right to any dividends declared on those shares until registration.
- (c) Except where this constitution, the Corporations Act or the listing rules contemplate that a fee or levy may or will be charged, the company shall register all transfers, elections or renunciations, issue certificates and transmission receipts and mark or note transfer forms without charge.
- (d) On registration of a transfer of shares, the company shall cancel the old certificate (if any) and, if so required by the Corporations Act or the listing rules, issue new certificates in the name of the transferee for the shares transferred and in the name of the transferor for the balance of shares retained (if any).

7.3 Directors may decline to register

- (a) The directors may decline to register, or prevent registration of, a transfer of shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act or the listing rules where:
 - (i) the transfer is not in registrable form;
 - (ii) the company has a lien on any of the shares transferred;
 - (iii) registration of the transfer may breach a law of Australia;
 - (iv) the transfer is paper-based and registration of the transfer will create a new holding which, at the time the transfer is lodged, is less than a marketable parcel;
 - (v) the transfer is not permitted under the terms of an employee share plan; or
 - (vi) the company is otherwise permitted or required to do so under the listing rules or, except for a proper ASTC transfer, under the terms of issue of the shares.

- (b) If in the exercise of their rights under this article 7.3, the directors decline to register, or prevent registration of, a transfer of any shares they shall give written notice in accordance with the listing rules of the refusal to the transferee and the broker delivering or lodging the transfer. Failure to give that notice will not invalidate the decision of the directors to decline to register the transfer.
- (c) The directors may delegate their authority under this rule 7.3 to any person.

7.4 Suspension and closure of the register

Except in the case of proper ASTC transfers, the directors may close the register in accordance with the listing rules.

7.5 Company to retain instrument of transfer

- (a) The company shall retain every instrument or other record of transfer which is registered for such period as the directors determine.
- (b) Where the directors refuse registration of a transfer the instrument of transfer (if any) shall be returned to the person who deposited it if demand is made within 12 months of the giving of notice of refusal to register unless there has been an allegation of fraud concerning the transfer or the transaction to which it relates.

7.6 Automated security transfer systems

- (a) The company may participate in any computerised or electronic system established or recognised by law or by the listing rules or the ASTC settlement rules for the purpose of facilitating dealings in shares.
- (b) Where the company participates in any such system, then notwithstanding any other provision of this constitution relating to the transfer of shares and the issue of certificates for shares:
 - (i) shares may be transferred and the transfers registered in a manner permitted or recognised by law or the listing rules or the ASTC settlement rules; and
 - (ii) the directors may decide not to issue certificates for shares or may decide to cancel such certificates without issuing any replacement certificates wherever such a practice is not contrary to applicable law or the requirements of the listing rules or the ASTC settlement rules.
- (c) The directors may, to the extent the law permits, waive any of the requirements of this article 7 and prescribe alternative requirements instead, whether to give effect to article 7.6(a) or for another purpose.

8. TRANSMISSION OF SHARES

8.1 Transmission of shares on death of holder

In the case of the death of a member, the survivor or survivors of a deceased member who was a joint holder, and the legal personal representatives of a deceased member who was a sole holder, shall be the only persons recognised by the company as having any title to the member's interest in the shares, but this article does not release the estate of a deceased member or joint holder from any liability in respect of a share that had been held by the deceased solely or jointly held with other persons.

8.2 Right of registration on death or bankruptcy

- (a) Subject to the Bankruptcy Act 1966, a person becoming entitled to a share in consequence of the death or bankruptcy of a member may, upon such information being produced as is properly required by the directors, elect either to be registered as holder of the share or to nominate some other person to be registered as the transferee of the share.
- (b) A person becoming so entitled who elects to be registered shall deliver or send to the company a notice in writing signed by that person advising of the election.
- (c) A person who elects to have another person registered shall execute or effect a transfer of the share to that other person.
- (d) All the limitations, restrictions and provisions of this constitution relating to the right to transfer, and the registration of transfers of, shares are applicable to any such notice or transfer as if the death or bankruptcy of the member had not occurred and the notice or transfer were a transfer signed by that member.

8.3 Effect of transmission

- (a) Where a member dies or becomes bankrupt, the member's legal personal representative or the trustee of the member's estate, as the case may be, is, upon the production of such information as is properly required by the directors, entitled to the same dividends and other advantages, and to the same rights (whether in relation to meetings of the company, or to voting or otherwise), as the registered holder would have been entitled to if he or she had not died or become bankrupt.
- (b) Where two or more persons are jointly entitled to any share in consequence of the death of the registered holder they shall, for the purpose of this constitution, be deemed to be joint holders of the share and article 3.4 will apply to them.
- (c) The directors may register a transfer of shares signed by a member before the member's death or bankruptcy even though the company has notice of the member's death or bankruptcy.

9. GENERAL MEETINGS

9.1 Calling general meetings

- (a) The directors, or any director to the extent permitted by the Corporations Act from time to time, may whenever they think fit convene a general meeting.
- (b) The rights of members to requisition or to convene a general meeting of the company shall be as set out in the Corporations Act.

9.2 Postponement or cancellation of general meeting

The directors may by notice to the Exchange change the venue for, postpone or cancel a general meeting as they think fit except where the change, postponement or cancellation would be contrary to the Corporations Act. Subject to the Corporations Act, the directors may give notice of postponement or cancellation as they think fit but any failure to give notice of postponement or cancellation does not invalidate the postponement or cancellation or any resolution passed at a postponed meeting.

9.3 Persons entitled to notice of general meeting

- (a) Notice of every general meeting shall be given in a manner authorised by article 17 and in accordance with the Corporations Act and the listing rules to:

- (i) every member;
 - (ii) every director;
 - (iii) the secretary (unless the secretary despatches the notice);
 - (iv) the auditor; and
 - (v) the Exchange.
- (b) No other person is entitled to receive notices of general meetings, except a person entitled to receive notice by law or pursuant to any other obligation of the company.

9.4 Notice of general meeting

- (a) The content of a notice of a general meeting called by the directors is to be decided by the directors, but it must state the general nature of the business to be conducted at the meeting and any such other matters as may be required by the Corporations Act, the listing rules or this constitution from time to time.
- (b) A general meeting shall be convened by notice in writing of not less than the period prescribed by the Corporations Act or may be convened by shorter notice in the circumstances permitted by the Corporations Act.
- (c) Unless the Corporations Act provides otherwise:
 - (i) no business may be transacted at a general meeting unless the general nature of the business is stated in the notice calling the meeting; and
 - (ii) except with the approval of the directors or the chairman, no person may move any amendment to a proposed resolution the terms of which are set out in the notice calling the meeting or to a document which relates to such a resolution and a copy of which has been made available to members to inspect or obtain.
- (d) A person may waive notice of any general meeting by written notice to the company.
- (e) The non-receipt of notice of a general meeting or of a proxy form by, or the accidental or erroneous omission to give notice of a general meeting or a proxy form to, a person entitled to receive notice of a general meeting does not invalidate any resolution passed at the general meeting.
- (f) A person's attendance at a general meeting waives any objection that person may have to:
 - (i) a failure to give notice, or the giving of a defective notice, of the meeting unless the person at the beginning of the meeting objects to the holding of the meeting; and
 - (ii) the consideration of a particular matter at the meeting which is not within the business referred to in the notice of the meeting, unless the person objects to the consideration of the matter when it is presented.

10. PROCEEDINGS AT GENERAL MEETINGS

10.1 Admission to general meetings

- (a) The chairman of a general meeting may take any action he or she considers appropriate for the safety of persons attending the meeting and the orderly conduct of the meeting and may refuse admission to, or require to leave and remain out of, the meeting any person:
 - (i) in possession of a pictorial-recording or sound-recording device;

- (ii) in possession of a placard or banner;
- (iii) in possession of an article considered by the chairman to be dangerous, offensive or liable to cause disruption;
- (iv) who refuses to produce or permit examination of any article, or the contents of any article, in the person's possession;
- (v) who behaves or threatens to behave in a dangerous, offensive or disruptive way; or
- (vi) who is not entitled to receive notice of the meeting.

The chairman may delegate the powers conferred by this rule to any person he or she thinks fit.

- (b) A person, whether a member or not, requested by the directors or the chairman to attend a general meeting is entitled to be present and, at the request of the chairman, to speak at the meeting.
- (c) If the chairman of a general meeting considers that there is not enough room for the members who wish to attend the meeting, he or she may arrange for any person whom he or she considers cannot be seated in the main meeting room to observe or attend the general meeting in a separate room. Even if the members present in the separate room are not able to participate in the conduct of the meeting, the meeting will nevertheless be treated as validly held in the main room.
- (d) If a separate meeting place is linked to the main place of a general meeting by an instantaneous audio-visual communication device which, by itself or in conjunction with other arrangements:
 - (i) gives the general body of members in the separate meeting place a reasonable opportunity to participate in proceedings in the main place;
 - (ii) enables the chairman to be aware of proceedings in the other place; and
 - (iii) enables the members in the separate meeting place to vote on a show of hands or on a poll,

a member present at the separate meeting place is taken to be present at the general meeting and entitled to exercise all rights as if he or she was present at the main place.

- (e) If the communication device encounters a technical difficulty, whether before or during the meeting, which results in the matters required by sub-article 10.1(d)(i),(ii) or (iii) at the separate meeting place not being satisfied, the meeting may still be held or continue in the main place (and any other place which is linked under article 10.1(d)(i)) and transact business, even if the members in the separate meeting place are unable to participate. No member may object to the meeting being held or continuing. However, if the effect of this article 10.1(e) has not been referred to in the notice calling the meeting, the business the meeting may conduct is limited to adjourning the meeting.

10.2 Representation of member

- (a) A member may be represented by a proxy or attorney.
- (b) A member which is a body corporate may authorise such person as it thinks fit to act as its official representative either at a particular general meeting or at all general meetings of the company or of any class of members. An authorising member may also designate an alternate official representative who may act in the absence of the official representative but

only one representative may exercise the authorising member's powers at any one time. If an authorising member appoints its official representative by reference to a position held, the authority must identify that position.

- (c) An official representative is, in accordance with his or her authority and until it is revoked by the authorising member, entitled to exercise the same powers on behalf of the authorising member as the member could exercise if it were a natural person.
- (d) Unless the instrument or resolution appointing a proxy, attorney or official representative provides differently, the proxy, attorney or representative has the same rights to speak, demand a poll, join in demanding a poll or act generally at the meeting as the member would have had if the member was present.
- (e) Unless otherwise provided in the appointment of a proxy, attorney or official representative, an appointment will be taken to confer authority:
 - (i) even though the instrument may refer to specific resolutions and may direct the proxy, attorney or official representative how to vote on those resolutions:
 - (A) to vote on any amendment moved to the proposed resolutions and on any motion that the proposed resolutions not be put or any similar motion;
 - (B) to vote on any procedural motion, including any motion to elect the chairman, to vacate the chair or to adjourn the meeting; and
 - (C) to act generally at the meeting; and
 - (ii) even though the instrument may refer to a specific meeting to be held at a specified time or venue, where the meeting is rescheduled or adjourned to another time or changed to another venue, to attend and vote at the re-scheduled or adjourned meeting or at the new venue.
- (f) A reference to a voting member in the succeeding provisions of this article 10 includes a proxy, attorney or official representative.

10.3 Quorum

No business shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Five voting members of the company present shall constitute a quorum for a meeting.

10.4 Failure to achieve quorum

- (a) Where a general meeting is convened upon the requisition of members and a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be dissolved.
- (b) Where a general meeting is convened in any other way and a quorum is not present within half an hour from the time appointed for the meeting:
 - (i) the meeting shall stand adjourned to such day, and at such time and place, as the directors determine or, if no determination is made by them, to the same day in the next week at the same time and place; and
 - (ii) if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the voting members present shall constitute a quorum.

10.5 Appointment and powers of chairman of general meeting

- (a) While a person holds office as chairman of directors, that person shall preside as chairman at general meetings. During any absence or vacancy in that office, the person (if any) who holds office as deputy chairman of directors shall preside as chairman at general meetings.
- (b) Where a general meeting is held and:
- (i) there is no chairman entitled to preside under article 10.5(a); or
 - (ii) the chairman so entitled is not present within 15 minutes after the time appointed for the holding of the meeting or is unable or unwilling to act,
- the directors present shall elect one of their number to be chairman of the meeting, or, if no director shall be present or if all directors present decline to take the chair, the voting members present shall elect one of their number to be chairman of the meeting.
- (c) A chairman of a general meeting may, for any item of business or discrete point of the meeting, vacate the chair in favour of another person nominated by him or her.
- (d) (i) The general conduct of each general meeting of the company and the procedures to be adopted at the meeting are as determined at, during or prior to the meeting by the chairman.
- (ii) Nothing contained in this constitution is to be taken as limiting the powers conferred on the chairman by law.
- (e) The chairman may at any time the chairman considers it necessary or desirable for the proper and orderly conduct of the meeting:
- (i) impose a limit on the time that a person may speak on each motion or other item of business and terminate debate or discussion on any business, question, motion or resolution being considered by the meeting and require the business, question, motion or resolution to be put to a vote of the members present; and
 - (ii) adopt any procedures for casting or recording votes at the meeting whether on a show of hands or on a poll, including the appointment of scrutineers.
- (f) A decision by a chairman under articles 10.5(d) or 10.5(e) is final.
- (g) The chairman may postpone the meeting before it has started, whether or not a quorum is present, if, at the time and place appointed for the meeting, he or she considers that:
- (i) there is not enough room for the number of members who wish to attend the meeting; or
 - (ii) a postponement is necessary in light of the behaviour of persons present or for any other reason so that the business of the meeting can be properly carried out.
- (h) A postponement under article 10.5(g) will be to another time, which may be on the same day as the meeting, and may be to another place (and the new time and place will be taken to be the time and place for the meeting as if specified in the notice which called the meeting originally).

10.6 Adjournment of general meeting

- (a) The chairman may at any time during the course of the meeting:
 - (i) adjourn the meeting or any business, motion, question or resolution being considered or remaining to be considered by the meeting either to a later time at the same meeting or to an adjourned meeting; and
 - (ii) for the purpose of allowing any poll to be taken or determined, suspend the proceedings of the meeting for such period or periods as he or she decides without effecting an adjournment. No business may be transacted and no discussion may take place during any suspension of proceedings unless the chairman otherwise allows.
- (b) The chairman's rights under articles 10.5(g) and 10.6(a) are exclusive and, unless the chairman requires otherwise, no vote may be taken or demanded by the members present concerning any postponement, adjournment or suspension of proceedings.
- (c) Only unfinished business may be transacted at a meeting resumed after an adjournment.
- (d) When a meeting is postponed or adjourned for 30 days or more, notice of the postponed or adjourned meeting shall be given as in the case of an original meeting.
- (e) Except as provided by article 10.6(d), where a meeting is postponed or adjourned under article 10.5(g) or 10.6(a), notice of the postponed or adjourned meeting must be given to the Exchange, but need not be given to any other person.
- (f) Where a meeting is postponed or adjourned under article 10.5(g) or 10.6(a), the directors may, by notice to the Exchange, postpone, cancel or change the place of the postponed or adjourned meeting.
- (g) Any voting members may attend a postponed or adjourned meeting.

10.7 Voting at general meeting

- (a) Except where a resolution requires a special majority, questions arising at a general meeting must be decided by a majority of votes cast by the voting members present at the meeting. A decision made in this way is for all purposes a decision of the members.
- (b) At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:
 - (i) by the chairman of the meeting;
 - (ii) by at least 5 voting members present who are entitled to vote on the resolution; or
 - (iii) by a voting member or voting members present with at least 5% of the votes that may be cast on the resolution on a poll.
- (c) Unless a poll is so demanded, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the company, is conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

10.8 Poll

- (a) If a poll is duly demanded, it shall be taken in such manner and either at once or after an interval or adjournment or otherwise as the chairman of the meeting directs, and the result of the poll shall be the resolution of the meeting at which the poll was demanded.
- (b) A poll cannot be demanded at a general meeting on the election of a chairman of the meeting or, unless the chairman requires otherwise in accordance with article 10.6(b), on a question concerning any postponement, adjournment or suspension of proceedings.
- (c) The demand for a poll may be withdrawn.
- (d) The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.
- (e) If a poll is taken the chairman shall appoint tellers to count the votes.
- (f) In the case of any dispute as to the admission or rejection of a vote, the chairman shall determine the same and such determination made in good faith shall be final and conclusive.

10.9 Equality of votes

In the case of equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded, is entitled to a casting vote in addition to any votes to which he or she may be entitled as a voting member.

10.10 Entitlement to vote

- (a) Subject to any rights or restrictions for the time being attached to any class or classes of shares and subject to this article 10.10:
 - (i) on a show of hands every person present who is a voting member has one vote; and
 - (ii) on a poll, every person present who is a voting member shall have one vote for each voting share that the voting member holds or represents (as the case may be).
- (b) The appointment of a proxy or attorney is not revoked by the appointor attending and taking part in the general meeting, but if the appointor votes on a resolution, the proxy or attorney is not entitled to vote, and must not vote, as the appointor's proxy or attorney on the resolution.
- (c) If a person present at a general meeting represents personally or by proxy, attorney or official representative more than one member, on a show of hands the person is entitled to one vote only even though he or she represents more than one member.
- (d) If more than one official representative or attorney for a member is present at any meeting of the company then no such official representative or attorney shall be entitled to vote on a show of hands and on a poll only one official representative may exercise the member's voting rights and the vote of each attorney shall be of no effect unless each such person is appointed to represent a specified proportion of the member's voting rights, not exceeding in the aggregate 100 percent (100%) of those rights.
- (e) If a member appoints two proxies and both are present at any meeting of the company:
 - (i) if the appointment does not specify the proportion or the number of the member's votes each proxy may exercise, then each proxy may exercise one half of the member's votes;
 - (ii) on a show of hands, neither proxy may vote; and

- (iii) on a poll, each proxy may only exercise votes in respect of those shares or voting rights the proxy represents.
- (f) A voting member holding or representing a partly paid voting share has on a poll that fraction of a vote for each such voting share as equals the fraction generated by dividing the total amount paid on the voting share by the issue price of the voting share. An amount paid in advance of a call is disregarded for this purpose.
- (g) A member is not entitled to vote on a resolution if, under the Corporations Act or the listing rules, the notice which called the meeting was required to specify that:
 - (i) the member must not vote or must abstain from voting on the resolution; or
 - (ii) a vote on the resolution by the member must be disregarded for any purposes.

If the member or a person acting as proxy, attorney or representative of the member does tender a vote on that resolution, their vote must not be counted.
- (h) Where authority is given to a proxy, attorney or official representative concerning a meeting to be held on or before a specified date or at a specified place and that meeting is postponed to a later date or the meeting place is changed, the authority is taken to include authority to act at the re-scheduled meeting unless the member granting the authority gives the company notice to the contrary under article 10.16(a).

10.11 Joint shareholders' vote

In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, official representative or attorney, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register, but the other or others of the joint holders are entitled to be present at general meetings.

10.12 Votes of certain members

- (a) A parent or guardian of a voting member who is a minor may vote instead of the minor at any general meeting upon such evidence being produced of the relationship or of the appointment of the guardian as the directors may require and any vote so tendered by a parent or guardian of a voting member who is a minor must be accepted to the exclusion of the vote of the minor.
- (b) If a member is of unsound mind or is a person whose person or estate is liable to be dealt with in any way under the law relating to mental health, the committee or trustee or such other person as properly has the management of the member's estate may exercise any rights of the member in relation to a general meeting as if the committee, trustee or other person were the member.
- (c) A person entitled to a share because of the death or bankruptcy of a member may vote at a general meeting in respect of that share in the same way as if that person were the registered holder of the share if, at least 48 hours before the meeting (or such shorter time as the directors determine), the directors:
 - (i) admitted that person's right to vote at that meeting in respect of the share; or
 - (ii) were satisfied of that person's right to be registered as the holder of, or to transfer, the share.

Any vote duly tendered by that person must be accepted and the vote of the registered holder of those shares must not be counted.

- (d) The directors may delegate their power under article 10.12(c) to any person.

10.13 No entitlement

A member is not entitled to vote at a general meeting unless all calls and other amounts presently payable in respect of the member's shares have been paid.

10.14 Objection to voting qualification

- (a) A voting member may object to the qualification of a voter but only at the meeting or adjourned meeting at which the vote objected to is given or tendered. The objection must be raised before or immediately after the result of the vote is declared.
- (b) Any such objection shall be referred to the chairman of the meeting, whose decision is final.
- (c) A vote not disallowed pursuant to such an objection is valid for all purposes, even if it would not otherwise have been valid.
- (d) The chairman may decide any difficulty or dispute which may arise as to the number of votes which may be cast by or on behalf of any member and the decision of the chairman is final.

10.15 Appointment of proxy

- (a) An instrument appointing a proxy is valid if it is in accordance with the Corporations Act or in any form approved by the directors. An appointment of a proxy may be a standing appointment.
- (b) A proxy need not be a member.
- (c) An instrument appointing a proxy may specify the manner in which the proxy is to vote in respect of a particular resolution and where an instrument of proxy so provides, the proxy is not entitled to vote on the resolution except as specified in the instrument.
- (d) An instrument appointing a proxy shall be in such form as the directors determine from time to time in accordance with the requirements of the Corporations Act and the listing rules.
- (e) A proxy form issued by the company must allow for the insertion of the name of the person to be primarily appointed as proxy and may provide that, in circumstances and on conditions specified in the form that are not inconsistent with this constitution, the chairman of the relevant meeting (or another person specified in the form) is appointed as proxy.

10.16 Deposit of proxy and other instruments

- (a) An instrument appointing a proxy, attorney or official representative shall not be treated as valid unless:
- (i) the instrument, and the power of attorney or other authority (if any) under which the instrument is signed or a certified copy of that power or authority is or are deposited, not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, or, in the case of a poll, not less than 48 hours before the time appointed for the taking of the poll, at the registered office or at such other place as is specified for that purpose in the notice convening the meeting; and
- (ii) the instrument, the power of attorney or other authority is or are given by a member who would be a voting member at that meeting or poll.

An instrument, power or authority will be treated as being validly received by the company if it is received at a facsimile number at the company's registered office or at a place, facsimile number or electronic address specified for the purpose in the notice of meeting, or if the notice of meeting specifies other electronic means by which a member may give the document, when the document given by those means is received by the company as prescribed by the relevant regulations.

- (b) In the case of a body corporate appointed as a member's proxy in accordance with the Corporations Act, the instrument appointing a representative to exercise the powers that the body corporate may exercise as the member's proxy is not valid unless it is also deposited in accordance with article 10.16(a)(i).
- (c) Article 10.14 shall apply to any objection as to the use or legibility of a facsimile transmission copy.
- (d) The secretary may waive or reduce either of the periods referred to in article 10.16(a) or 10.16(b) in respect of any meeting or any member.

10.17 Electronic transmission of proxy instruments

For the purposes of articles 10.15(a) and 10.16(a), a proxy instrument received at an electronic address specified in the notice of meeting for the receipt of proxy instruments or otherwise received by the company in accordance with the Corporations Act will be taken to have been signed or authenticated if the appointment of the proxy:

- (a) includes or is accompanied by a personal identification code allocated by the company to the member making the appointment;
- (b) has been authorised by the member in another manner approved by the directors and specified in or with the notice of meeting; or
- (c) is otherwise signed or authenticated in accordance with the Corporations Act.

10.18 Validity of vote in certain circumstances

- (a) A vote given in accordance with the terms of an instrument of proxy or of a power of attorney is valid notwithstanding the previous death or unsoundness of mind of the principal, the revocation of the instrument (or the authority under which the instrument was executed) or of the power, or the transfer of the share in respect of which the instrument or power is given, if no notice in writing of the death, unsoundness of mind, revocation or transfer has been received by the company at its registered office before the commencement of the meeting or adjourned meeting at which the instrument is used or the power is exercised.
- (b) The chairman of a meeting may:
 - (i) permit a person claiming to be an official representative to exercise the powers of an official representative, even if the person is unable to establish to the chairman's satisfaction that he or she has been validly appointed; or
 - (ii) permit the person to exercise those powers on the condition that, if required by the company, he or she produce evidence of the appointment within the time set by the chairman.
- (c) The chairman of a meeting may require a person acting as a proxy, attorney or official representative to establish to the chairman's satisfaction that the person is the person duly appointed to act. If the person fails to satisfy the requirement, the chairman may exclude the person from attending or voting at the meeting.

- (d) The chairman may delegate his or her powers under paragraph 10.18(b) and 10.18(c) to any person.

10.19 Director entitled to attend and speak

A director shall be entitled to attend all general meetings and all separate general meetings of the holders of any class of shares in the capital of the company and shall be entitled to speak at those meetings.

11. THE DIRECTORS

11.1 Number and appointment of directors

- (a) 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) including:
- (i) the managing director; and
 - (ii) not more than three executive directors.

The directors must not determine a maximum which is less than the number of directors in office at the time the determination takes effect.

- (b) The company may by ordinary resolution alter the maximum or minimum number of directors, and subject to the listing rules may also determine in what rotation the increased or reduced number of directors is to vacate office.
- (c) Subject to article 11.1(d) and 11.1(e), at each annual general meeting one-third of the directors for the time being (apart from the directors referred to in articles 11.1(a)(i) and 11.4(b)) shall retire from office.
- (d) If the number of the directors referred to in article 11.1(c) is not three or a multiple of three, then the number nearest to but not exceeding one-third shall retire.
- (e) No director who is not the managing director may hold office without re-election beyond the third annual general meeting following the meeting at which the director was last elected or re-elected.
- (f) If there is more than one managing director, only one of them, nominated by the directors, is entitled not to be subject to vacation of office under article 11.4(b) or retirement under article 11.1(c).
- (g) Subject to article 11.1(e), the directors to retire under article 11.1(c) at any annual general meeting are those directors who wish to retire and not offer themselves for re-election and, so far as is necessary to obtain the number required, those who have been longest in office since their last election or appointment, but as between directors who were last elected or appointed on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.
- (h) The directors to retire under article 11.1(c) (both as to number and identity) is decided having regard to the composition of the board of directors at the date of the notice calling the AGM. A director is not required to retire and is not relieved from retiring because of a change in the number or identity of the directors after the date of the notice but before the meeting closes or because of a change of intention of a director to retire and not offer themselves for re-election at the meeting.

11.2 Election of directors

- (a) A retiring director shall be eligible for re-election and shall act as a director throughout the meeting (including any adjournment thereof) at which he or she retires. The re-election of the director or the election of another person to that office (as the case may be) takes effect at the conclusion of the meeting at which the retirement and re-election or election occur.
- (b) The company may, at the annual general meeting at which a director retires under article 11.1(c), 11.1(e), or 11.4(b), by ordinary resolution and in accordance with this constitution fill the vacated office by electing a person to that office.
- (c) A person is eligible for election to the office of a director at a general meeting only if:
 - (i) the person is in office as a director immediately before that meeting;
 - (ii) the person has been nominated by the directors for election at that meeting;
 - (iii) where the person is a member, he or she has:
 - (A) at least 35 business days (or such longer period as may be permitted under the listing rules); or
 - (B) in the case of a general meeting the directors have been duly requested by members under the Corporations Act to call, at least 30 business days (or such longer period as may be permitted under the listing rules),

but, in each case, no more than 90 business days before the meeting, given the company a notice signed by him or her stating the member's desire to be a candidate for election at that meeting; or
 - (iv) where the person is not a member, a member intending to nominate the person for election at that meeting has:
 - (A) at least 35 business days (or such longer period as may be permitted under the listing rules); or
 - (B) in the case of a general meeting the directors have been duly requested by members under the Corporations Act to call, at least 30 business days (or such longer period as may be permitted under the listing rules),

but, in each case, no more than 90 business days before the meeting, given the company a notice signed by the member stating the member's intention to nominate the person for election, and a notice signed by the person stating his or her consent to the nomination.

11.3 Qualification of directors

- (a) A director must be a natural person.
- (b) A director shall not be required to hold any share qualification.
- (c) The auditor may not be appointed as a director and a director may not be appointed as the auditor.

11.4 Casual vacancy

- (a) The directors may at any time appoint any person (other than a person disqualified under the Corporations Act or article 11.3) to be a director, either to fill a casual vacancy or as an addition to the existing directors, but so that the total number of directors does not at any time exceed the maximum number specified pursuant to article 11.1.

- (b) Any director so appointed (other than the managing director) holds office only until the conclusion of the next annual general meeting and is eligible for re-election at that annual general meeting but shall not be taken into account in determining the directors who are to retire by rotation at that meeting.

11.5 Appointment of managing director and executive directors

- (a) The directors may from time to time appoint one of their number to the office of managing director and no more than three full time employees of the company or a related body corporate as executive directors for such period and on such terms as they think fit.
- (b) A managing director or other executive director may be referred to as the chief executive officer or by any title the directors decide on, and where the directors decided on such a title, reference in this constitution to a managing director or executive director shall include a reference to such other title.
- (c) Unless the directors decide differently, the office of a managing director or executive director employed by the company or by a subsidiary of the company automatically becomes vacant if the managing director or executive director ceases to be so employed. Without prejudice to the foregoing, the managing director and each executive director shall be subject to the same provisions as to resignation and removal as the other directors of the company.
- (d) The appointment of a managing director or an executive director automatically terminates if he or she ceases for any reason to be a director.
- (e) Nothing in this article 11.5 deprives a person removed from office of compensation or damages payable to such person in respect of the termination of the person's appointment as managing director or executive director or of any appointment terminating therewith.

11.6 Remuneration of directors

- (a) Each non-executive director is entitled to such remuneration from the company for his or her services as a director as the directors decide but the total amount provided to all non-executive directors for their services as directors must not exceed in aggregate in any financial year the amount fixed by the company in general meeting. For the purposes of this constitution the amount fixed by the company as remuneration for non-executive directors, will not include any amount paid or applied by the company or a related body corporate under articles 11.6(e), 11.6(f), 11.6(g), 11.6(h), 11.6(i), 11.6(j), or 19.
- (b) Remuneration under article 11.6(a) may be provided in such manner that the directors decide, including by way of non cash benefit, such as a contribution to a superannuation fund.
- (c) All directors' fees shall be deemed to accrue from day to day.
- (d) The remuneration of a director (who is not a managing director or an executive director) must not include a commission on, or a percentage of, profits or operating revenue.
- (e) Where a director (other than the managing director or an executive director) is called upon to perform extra services or to make any special exertions in going or residing abroad or otherwise for any business or purposes of the company, the directors may arrange with that director for a special remuneration by payment of a stated sum of money determined by the directors and that remuneration may be either in addition to or in substitution for his or her share in the remuneration provided for in article 11.6(a).
- (f) The company may pay or apply an amount in respect of superannuation contributions for each director to the extent necessary for the avoidance or minimisation of any penalty, charge, tax or other impost on the company under any applicable legislation which imposes

a penalty, charge, tax or other impost on employers if a minimum level of superannuation contributions is not paid for an employee (within the meaning of the legislation).

- (g) The directors may also be paid an allowance for travelling and other expenses properly incurred by them in attending and returning from meetings of the directors or any committee of the directors or general meetings of the company or otherwise in connection with the exercise of their powers and the discharge of their duties or the business of the company.
- (h) If a director is also an officer of the company or of a related body corporate in a capacity other than director, any remuneration that director may receive for acting as that officer may be either in addition to or instead of that director's remuneration under article 11.6(a) or 11.7.
- (i) The company may pay a retirement benefit to a director pursuant to, or in connection with, the terms and conditions of the Non-Executive Directors' Retirement Allowance Scheme approved by members at the 1997 Annual General Meeting of the company.
- (j) The company may pay the premium in respect of any contract of insurance which insures a person who is or has been a director (including the managing director or an executive director) against a liability incurred by the person as a director, except in circumstances prohibited by the Corporations Act.

11.7 Remuneration of managing director and executive directors

The remuneration of the managing director and any executive director shall from time to time be fixed by the directors and may be by way of salary, commission, participation in profits or other benefits or by all or any of these modes but shall not be by way of a commission on, or a percentage of, revenue, turnover, asset levels or asset growth.

11.8 Director's interest

- (a) The directors may make regulations requiring the disclosure of interests that a director, and any person deemed by the directors to be related to or associated with the director, may have in any matter concerning the company or a related body corporate. Any regulations made under this constitution bind all directors.
- (b) No act, transaction, agreement, instrument, resolution or other thing is invalid or voidable only because a person fails to comply with any regulation made under article 11.8(a).
- (c) Subject to the Corporations Act, no director shall be disqualified by his or her office from holding any office or place of profit (other than that of auditor) under the company and any director may be or become a director of or otherwise hold office or a place of profit in any other body corporate in which the company may be interested as shareholder or otherwise.
- (d) Subject to the Corporations Act, any director may contract or make any arrangement with the company whether as vendor, purchaser, broker, solicitor or accountant or other professional person or otherwise. Any contract or arrangement entered or to be entered into by or on behalf of the company in which any director shall be in any way interested shall not be avoided for that reason.
- (e) Any director:
 - (i) holding any office or place of profit under the company;
 - (ii) being a director of or otherwise holding office or a place of profit in any other body corporate in which the company may be interested as shareholder or otherwise; or
 - (iii) contracting or arranging with the company as set out in article 11.8(d),

shall not by reason only of any of those facts or any interest resulting from them or the fiduciary relationship thereby established be liable to account to the company for any remuneration or other benefits so accruing.

- (f) Each director must disclose to the board any material contract in which he or she is interested (including a contract of the type referred to in article 11.8(d)), and must provide the board with the names of the parties to the contract, particulars of the contract, and the director's interest in the contract. The secretary shall record any such disclosure in the minutes of the relevant meeting. A director's failure to make disclosure under this article does not render void or voidable a contract in which he or she has an interest.
- (g) Unless permitted by the Corporations Act, a director who has a material personal interest (other than an interest which he or she has as a member in common with the other members) in a matter that is to be considered at a meeting of directors:
 - (i) must not vote on the matter or be present while the matter is being considered at the meeting; and
 - (ii) shall not be counted in a quorum in relation to that matter.
- (h) Subject to the listing rules, article 11.8(g) does not apply if the directors have at any time passed a resolution that:
 - (i) specifies the director, the interest and the matter; and
 - (ii) states that the directors voting for the resolution are satisfied that the interest should not disqualify the director from considering or voting on the matter.
- (i) Notwithstanding article 13.2(a), the quorum for consideration at a meeting of directors of a matter in which one or more directors have a material personal interest is two directors who are entitled to vote on any motion that may be moved at the meeting in relation to that matter.
- (j) The directors may exercise the voting rights given by shares in any corporation held or owned by the company in any way the directors decide. This includes voting for any resolution appointing a director as a director or other officer of that corporation or voting for the payment of remuneration to the directors or other officers of that corporation. A director may, if the law permits, vote for the exercise of those voting rights even though he or she is, or may be about to be appointed, a director or other officer of that other corporation and, in that capacity, may be interested in the exercise of those voting rights.
- (k) Subject to the Corporations Act, a director, or a director's firm, may act in a professional capacity (other than as auditor) for the company and he or she or the firm shall be entitled to remuneration for professional services as if he or she were not a director.
- (l) A director may, notwithstanding his or her interest, and whether or not he or she is entitled to vote or does vote, participate in the execution of any instrument by or on behalf of the company and whether by signing or sealing the same or otherwise.

11.9 Vacation of office of director

In addition to the circumstances in which the office of a director becomes vacant by virtue of the Corporations Act or this constitution, the office of a director becomes vacant if the director:

- (a) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental health;
- (b) resigns his or her office by notice in writing to the company;

- (c) is absent without the consent of the directors from meetings of the directors held during a period of 6 months unless the directors resolve that his or her office shall not be vacated;
- (d) becomes an insolvent under administration;
- (e) is directly or indirectly interested in any contract or proposed contract with the company and fails to declare the nature of his or her interest, and the directors resolve that his or her office shall be vacated;
- (f) becomes prohibited from being a director pursuant to the Corporations Act or an order made pursuant to the Corporations Act; or
- (g) being the managing director or an executive director, is dismissed or removed from that office under this constitution.

12. POWERS AND DUTIES OF DIRECTORS

12.1 Directors to manage company

- (a) The business of the company shall be managed by or under the direction of the directors, who may exercise all such powers of the company as are not, by the Corporations Act or this constitution, required to be exercised by the company in general meeting.
- (b) Without limiting the generality of article 12.1(a), the directors may exercise all the powers of the company to borrow or raise money, to charge any property or business of the company or any of its uncalled capital and to issue debentures or give any other security for a debt, liability or obligation of the company or of any other person.
- (c) The company in general meeting may not invalidate any prior act of the directors which would otherwise have been valid.
- (d) Debentures or other securities may be issued on the terms and at prices decided by the directors, including bearing interest or not, with rights to subscribe for, or exchange into, shares or other securities in the company or a related body corporate or with special privileges as to redemption, participating in share issues, attending and voting at general meetings and appointing directors.
- (e) The directors may decide how cheques, promissory notes, banker's drafts, bills of exchange or other negotiable instruments must be signed, drawn, accepted, endorsed or otherwise executed, as applicable, by or on behalf of the company.
- (f) Nothing in articles 12.1, 12.2 or 12.3 limits the general nature of article 12.1(a).

12.2 Powers of managing director and executive directors

- (a) The directors may, upon such terms and conditions and with such restrictions as they think fit, confer upon the managing director any of the powers exercisable by them.
- (b) Any powers so conferred may be concurrent with, or to the exclusion of, the powers of the directors.
- (c) The directors may at any time withdraw or vary any of the powers so conferred on the managing director.
- (d) The managing director may, either generally or as otherwise provided by the instrument of delegation, by instrument in writing, delegate to an executive director or other officer of the company any of the powers and functions exercisable by the managing director, other than this power of delegation.
- (e) A power or function so delegated, when exercised by the delegate, shall be deemed to have been exercised or performed by the managing director.

- (f) A delegation does not prevent exercise of a power or function by the managing director.

12.3 Appointment of attorney

- (a) The directors may, by power of attorney, appoint any person or persons to be the attorney or attorneys of the company for such purposes, with such powers, authorities and discretions (being powers, authorities and discretions vested in or exercisable by the directors), for such period and subject to such conditions as they think fit.
- (b) Any such power of attorney may contain such provisions for the protection and convenience of persons dealing with the attorney as the directors think fit and may also authorise the attorney to delegate all or any of the powers, authorities and discretions vested in him or her.

13. PROCEEDINGS OF DIRECTORS

13.1 Directors' meetings

- (a) The directors may meet together for the dispatch of business and adjourn and otherwise regulate their meetings as they think fit.
- (b) A director may at any time, and the secretary shall on the requisition of a director, convene a meeting of the directors. Notice of every directors' meeting and of every adjourned meeting shall be given to every director and to the secretary.
- (c) Without limiting the discretion of the directors to regulate their meetings under article 13.1(c), the directors may, if they think fit, confer by radio, telephone, closed circuit television or other electronic means of audio or audio-visual communication and a resolution passed by such a conference shall (provided that the directors in attendance can hear and be heard by each other and, notwithstanding that the directors are not present together in one place at the time of the conference) be deemed to have been passed at a meeting of the directors held on the day on which and at the time at which the conference was held (being the time in the Australian Capital Territory if the directors in attendance are in different time zones). The provisions of this constitution relating to proceedings of directors apply so far as they are capable of application and mutatis mutandis to such conferences.
- (d) A director taking part in a meeting by telephone or other electronic means is to be taken to be present in person at the meeting.
- (e) If, before or during the meeting, any technical difficulty occurs whereby one or more directors cease to participate, the chairman may adjourn the meeting until the difficulty is remedied or may, where a quorum of directors remains present, continue with the meeting.

13.2 Quorum for directors' meeting

- (a) At a meeting of directors, no business shall be transacted unless a quorum is present. The number of directors whose presence is necessary to constitute a quorum is one half of the total number of directors for the time being in office (rounded upwards if not a whole number) or three, whichever is greater.
- (b) In the event of a vacancy or vacancies in the office of a director or directors, the remaining directors may act; but if the number of remaining directors is not sufficient to constitute a quorum at a meeting of directors, they may act only in an emergency or for the purpose of increasing the number of directors to a number sufficient to constitute such a quorum or of convening a general meeting of the company.

13.3 Chairman and deputy chairman of directors

- (a) The majority of all the directors in office shall elect one of their number as chairman of directors and determine the period for which he or she is to hold office. The managing director and executive directors for the time being shall not be eligible to be elected as chairman. A chairman of directors may be removed by a majority of all the directors for the time being in office. The chairman of directors shall act as chairman at meetings of directors.
- (b) The directors may elect one of their number as deputy chairman to act as chairman if the chairman of directors is absent or unwilling or unable to act as chairman or if there is a vacancy in the office of chairman of directors. The provisions of article 13.3(a) as to eligibility for appointment, duration of appointment and removal apply also to the position of deputy chairman.
- (c) Where at a meeting of directors, the chairman or deputy chairman is not present within 10 minutes after the time appointed for the holding of the meeting or is unable or unwilling to act, the directors present shall elect one of their number to be chairman of the meeting.

13.4 Questions decided by majority

- (a) Subject to this constitution, questions arising at a meeting of directors shall be decided by a majority of votes of directors present and voting and any such decision shall for all purposes be deemed a decision of the directors.
- (b) In the event of there being an equality of votes, the chairman of the meeting, in addition to his or her deliberative vote, shall have a casting vote.

13.5 Directors' committees

- (a) The directors may delegate any of their powers to a committee or committees consisting of at least two of their number and such other persons as they think fit.
- (b) A committee to which the powers have been so delegated shall exercise the powers delegated in accordance with any directions of the directors and a power so exercised shall be deemed to have been exercised by the directors.
- (c) The members of such a committee may elect one of their number as chairman of their meetings.
- (d) Where such a meeting is held and:
 - (i) a chairman has not been elected as provided by article 13.5(c); or
 - (ii) the chairman is not present within 10 minutes after the time appointed for the holding of the meeting or is unable or unwilling to act,

the members of the committee present may elect one of their number to be chairman of the meeting.

- (e) A committee may meet and adjourn as it thinks proper.
- (f) The chairman of any meeting of a committee shall arrange for minutes of the meeting to be taken and kept.
- (g) Questions arising at a meeting of a committee shall be determined by a majority of votes of the members of the committee present and voting.
- (h) In the event of there being an equality of votes, the chairman, in addition to his or her deliberative vote, shall have a casting vote.

- (i) Articles 13.1(c), 13.1(d) and 13.1(e) shall apply to meetings of directors' committees as if all members of the committee were directors.
- (j) The presence of one half of the members of the committee (rounded upwards if not a whole number), of whom one must be a director, is necessary to constitute a quorum. No business may be transacted unless a quorum is present.
- (k) The provisions of article 13.7 relating to a written resolution by directors apply so far as they are capable of application and with such changes as are necessary to directors' committees as if all the members of a committee were directors.
- (l) Membership of a committee of directors may, if the directors so resolve, be treated as an extra service or special exertion performed by the directors for the purposes of article 11.6(e).

13.6 Delegation to a director

- (a) The directors may delegate any of their powers to one director.
- (b) A director to whom any powers have been so delegated must exercise the powers delegated in accordance with any directions of the directors.
- (c) The acceptance of a delegation of powers by a director may, if the directors so resolve, be treated as an extra service or special exertion performed by the delegate for the purposes of article 11.6(e).

13.7 Written resolution by directors

- (a) If all the directors have signed, or consented to, a document containing a statement that they are in favour of a resolution of the directors in terms set out in the document, a resolution in those terms shall be deemed to have been passed at a meeting of the directors held on the day and at the time at which the document was last signed or consented to by a director and, where a document is so signed or consented to, the document shall be deemed to constitute a minute of that meeting and shall be recorded by the secretary in the minute book.
- (b) For the purposes of article 13.7(a), two or more separate documents containing statements in identical terms each of which is signed by one or more directors shall together be deemed to constitute one document containing a statement in those terms signed by those directors on the respective days on which they signed the separate documents.
- (c) A reference in article 13.7(a) to all the directors does not include a reference to:
 - (i) a director who, at a meeting of directors, would not be entitled to vote on the resolution;
 - (ii) a director who disqualifies himself or herself from considering the resolution in question; and
 - (iii) any director on leave of absence approved by the directors.
- (d) For the purposes of article 13.7(a) and 13.7(b):
 - (i) a statement sent electronically by a director to an agreed electronic address that he or she is in favour of a specified resolution shall be taken to be a document containing that statement and duly signed by the director. Such document shall be taken to have been signed by the director at the time of its receipt at the agreed electronic address; and

- (ii) a director may consent to a resolution by telephoning the secretary or the chairman and signifying assent to the resolution and clearly identifying its terms.

13.8 Validity of acts of directors

All acts done by any meeting of the directors or of a committee of directors or by any person acting as a director are, notwithstanding that it is afterwards discovered that there was some defect in the appointment of a person to be a director or a member of the committee, or to act as a director, or that a person so appointed was disqualified, or that proper notice had not been given, as valid as if the person had been duly appointed and was qualified to be a director or to be a member of the committee or proper notice had been given, as the case may be.

14. SECRETARY

14.1 Appointment and removal of secretary

There shall be at least one secretary of the company who shall be appointed by the directors for such term, at such remuneration and upon such conditions as they think fit. The directors shall have power to suspend or remove a secretary.

14.2 Powers and duties of secretary

- (a) The secretary shall keep minutes of the proceedings at all general meetings and all directors' meetings of the company.
- (b) The directors may vest in a secretary such other powers, duties and authorities as they may from time to time determine and the secretary shall exercise all such powers, duties and authorities subject at all times to the control of the directors.

15. COMMON SEAL AND CERTIFICATE SEAL

15.1 Custody of seals

The directors shall provide for the safe custody of the seals.

15.2 Use of common seal

Without limiting the ways in which the company can execute documents in accordance with the Corporations Act, if the company has a common seal the directors may determine whatever procedures they consider appropriate for the use of the seal and until the directors determine otherwise the common seal shall only be used by the authority of the directors or of a committee of directors authorised by the directors in that behalf and every instrument to which the common seal is affixed shall be signed by two people being:

- (a) two directors;
- (b) a director and a secretary;
- (c) a director and a person authorised by the board for the purpose (an "authorised person");
- (d) a secretary and an authorised person; or
- (e) two authorised persons.

15.3 Use of certificate seal

- (a) The company may have a duplicate seal known as the certificate seal which shall be a facsimile of the common seal of the company and a document issued under such certificate seal shall be deemed to be sealed with the common seal.
- (b) The certificate seal may be affixed to any document by mechanical means unless the directors determine otherwise. Any document to which the certificate seal is affixed may show facsimile signatures of persons entitled to witness the affixing of the common seal.
- (c) The only documents on which the certificate seal may be used shall be share or stock unit certificates, debentures or certificates of debenture stock, secured or unsecured notes, option certificates and any other documents evidencing any options or rights to take up any shares in or debenture stock or debentures or notes of the company.

15.4 Seal register

- (a) The company must, for so long as it has a seal, keep a seal register and, on affixing the seal to any document (except a certificate for securities of the company), must enter in the register particulars of the document, giving in each case a short description of the document.
- (b) Failure to comply with paragraph (a) does not invalidate any document to which the seal is properly affixed.

16. DIVIDENDS AND RESERVES

16.1 Dividends

- (a) The directors may by resolution either:
 - (i) declare a dividend and may fix the amount, the time for and method of payment of any dividend; or
 - (ii) determine a dividend is payable and may fix the amount, the time for and method of payment of any dividend.
- (b) The directors may pay such interim dividends as in their judgement and subject to law the position of the company justifies.
- (c) The declaration of a dividend or a resolution to pay a dividend does not require confirmation at a general meeting.

16.2 Amend resolution to pay dividend

The directors may rescind a decision to pay a dividend under article 16.1(a)(ii) or article 16.1(b) if they decide, before the payment date, that the company's financial position no longer justifies the payment.

16.3 Reserves and profits carried forward

- (a) The directors may, before declaring any dividend or resolving to pay any dividend, set aside out of the profits of the company such sums as they think proper as reserves, to be applied, at the discretion of the directors, for any purpose for which the profits of the company may be properly applied.
- (b) Pending any such application, the reserves may, at the discretion of the directors, be used in the business of the company or be invested in such investments as the directors think fit.

- (c) The directors may carry forward so much of the profits remaining as they consider ought not to be distributed as dividends without transferring those profits to a reserve.

16.4 Calculation and apportionment of dividends

- (a) Subject to the rights of persons (if any) entitled to shares with special rights as to dividend all shares shall carry equal dividend entitlements except:
 - (i) to the extent that those entitlements may be defined or restricted by the terms on which the shares are issued by the directors; or
 - (ii) in the case of a partly paid share - a partly paid share confers an entitlement only to the proportion of the dividend which the amount paid on the share is to the issue price of the share. For the purposes of this article 16.4(a)(ii), unless the directors decide otherwise, an amount paid on a share in advance of a call is to be taken as not having been paid until it becomes payable.
- (b) If any share is issued on terms providing that it will rank for dividend as from a particular date, that share ranks for dividend accordingly.
- (c) Subject to the ASTC settlement rules, the directors may fix a record date for a dividend, with or without suspending the registration of transfers from that date under article 7.4.

16.5 Payment of dividends

- (a) The directors may deduct from any dividend payable to a member all sums of money (if any) presently payable by him or her to the company in relation to shares.
- (b) The directors may decide the manner and means of the payment of any dividend or other amount in respect of a share. Without limiting any other method of payment the company may adopt, any dividend, interest or other money payable in cash in respect of shares may be paid by such electronic or other means approved by the directors directly to an account nominated in writing by the holder or joint holders or by cheque sent through the post directed:
 - (i) to the registered address of the holder or, in the case of joint holders, to the registered address of the joint holder first named in the register; or
 - (ii) to such other address as the holder or joint holders in writing directs or direct.

Any payment made under article 16.5(b) is made at the member's risk.

- (c) Any one of two or more joint holders may give effectual receipts for any dividends, interest or other money payable in respect of the shares held by them as joint holders.
- (d) Interest is not payable by the company in respect of any dividend.
- (e) If the directors decide to make a payment by electronic or other means approved by the directors under article 16.5(b) and an account is not nominated by the holder or joint holders, the company may hold the amount payable in a separate account of the company until the holder or joint holders nominate an account, without any obligation to pay interest, and the amount so held is to be treated as having been paid to the holder or joint holder at the time it is credited to that account.
- (f) All dividends declared or payable but unclaimed may be invested by the directors as they think fit for the benefit of the company until claimed or until required to be dealt with in accordance with any law relating to unclaimed moneys.

16.6 Distribution of specific assets

- (a) When declaring a dividend or resolving to pay a dividend, the directors may:
- (i) direct payment of the dividend wholly or partly by the distribution of specific assets, including paid-up shares or other securities of the company or of another body corporate, either generally or to specific members; and
 - (ii) unless prevented by the listing rules, direct payment of the dividend to particular members wholly or partly out of any particular fund or reserve or out of profits derived from any particular source, and to the other members wholly or partly out of any other particular fund or reserve or out of profits derived from any other particular source.
- (b) Where a difficulty arises in regard to such a distribution, the directors may settle the matter as they consider expedient and fix the value for distribution of the specific assets or any part of those assets and may determine that cash payments will be made to any members on the basis of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as the directors consider expedient.

16.7 Share investment plan

The directors may:

- (a) establish a share investment plan on terms they decide, under which:
- (i) the whole or any part of any dividend or interest due to members or holders of any convertible securities of the company who participate in the plan on their shares or any class of shares or any convertible securities; or
 - (ii) any other amount payable to members,
- may be applied in subscribing for or purchasing securities of the company or of a related body corporate; and
- (b) amend, suspend or terminate a share investment plan.

16.8 Dividend selection plans

The directors may:

- (a) implement a dividend selection plan on terms they decide, under which participants may choose:
- (i) to receive a dividend from the company paid wholly or partly out of any particular fund or reserve or out of profits derived from any particular source; or
 - (ii) to forego a dividend from the company in place of some other form of distribution from the company or another body corporate or a trust; and
- (b) amend, suspend or terminate a dividend selection plan.

16.9 Capitalisation of reserves and profits

- (a) Subject to the listing rules, any rights or restrictions attached to any shares or class of shares and any special resolution of the company, the directors may resolve to capitalise any sum, being the whole or a part of the amount for the time being standing to the credit of any reserve account or the profit and loss account or otherwise available for distribution to members, and resolve that that sum be applied for the benefit of members in the

proportions to which those members would have been entitled in a distribution of that sum by way of dividend.

- (b) A sum may be applied for the benefit of members under article 16.9(a):
- (i) in paying up any amounts unpaid on shares or other securities held by members;
 - (ii) in paying up in full unissued shares, debentures or other securities to be issued to members as fully paid; or
 - (iii) partly as mentioned in paragraph 16.9(b)(i) and partly as mentioned in paragraph 16.9(b)(ii).

The members entitled to share in the distribution must accept that application in full satisfaction of their interest in the capitalised amount.

- (c) Articles 16.4(a), 16.4(c) and 16.5(d) apply, so far as they can and with any necessary changes, to capitalising an amount under this article 16.9 as if references in those articles to:
- (i) a dividend were references to capitalising an amount; and
 - (ii) a record date were references to the date the directors resolve to capitalise the amount under article 16.9.

16.10 Ancillary powers

- (a) The directors shall do all things necessary to give effect to a resolution referred to in articles 16.6(a)(i), 16.7, 16.8, 16.9(a) or 2.2(b) and in particular, to the extent necessary to adjust the rights of the members among themselves, may:
- (i) settle as they think expedient any difficulty that arises in making the distribution or capitalisation and, in particular:
 - (A) issue fractional certificates or make cash payments in cases where shares, debentures or other securities become issuable in fractions; and
 - (B) decide that amounts or fractions of less than a particular value decided by the directors may be disregarded in order to adjust the rights of all parties.
 - (ii) fix the value for distribution of any specific assets;
 - (iii) pay cash or issue shares or other securities to any member in order to adjust the rights of all parties;
 - (iv) vest any of those specific asset, cash, shares or other securities in a trustee on trust for the persons entitled to the dividend or capitalised amount; and
 - (v) authorise any person to make, on behalf of all the members entitled to any further shares, debentures or other securities as a result of the distribution or capitalisation, an agreement with the company or another body corporate providing for the issue to them, credited as fully paid up, of any such further shares, debentures or other securities or for the payment up by the company on their behalf of the amounts or any part of the amounts remaining unpaid on their existing shares or other securities by the application of their respective proportions of the sum resolved to be capitalised. Any agreement made under an authority referred to in article 16.10(a)(v) is effective and binding on all the members concerned.

- (b) If the company distributes to members (either generally or to specific members) securities in the company or in another body corporate or trust (whether as a dividend or otherwise and whether or not for value), each of those members shall be deemed to have appointed the company secretary as his or her agent to do anything needed to give effect to that distribution, including agreeing to become a members of that other body corporate.

17. NOTICES

17.1 Giving of notices

- (a) Without limiting any other way in which notice may be given to a member under this constitution, the Corporations Act or the listing rules, a notice may be given to any member or to any other person entitled to notice:
- (i) personally; or
 - (ii) by sending it by post to the member's registered address or the alternative address (if any) nominated by the member;
 - (iii) by sending it to the electronic address (if any) nominated by the member;
 - (iv) by notifying the member of the notice's availability by an electronic means nominated by the member for that purpose;
 - (v) in such other manner permitted by the Corporations Act as the directors may determine in their discretion.

In the case of overseas members or other persons, documents, if sent by post, shall be forwarded by air.

- (b) Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, prepaying, and posting a letter containing the notice, and to have been effected, in the case of a notice of a meeting, on the day after the date of its posting and, in any other case, at the time at which the letter would be delivered in the ordinary course of post. A notice of meeting sent by facsimile or other electronic means, or given to a member by notifying the member of its availability by an electronic means nominated by the member for that purpose, is taken to be given on the business day after it is sent or the member is notified that the notice of meeting is available.
- (c) A notice may be given by the company to the joint holders of a share by giving the notice to the joint holder first named in the register in respect of the share.
- (d) A notice may be given by the company to a person entitled to a share in consequence of the death, bankruptcy or unsoundness of mind of a member by serving it on him or her personally or by sending it to him or her by post addressed to him or her by name, or by the title of representative of the deceased or assignee of the bankrupt or committee or trustee of the member of unsound mind, or by any like description, at the address (if any) supplied for the purpose by the person or, if such an address has not been supplied, at the address to which the notice might have been sent if the death, bankruptcy or unsoundness of mind had not occurred.
- (e) Every person who by operation of law, transfer or other means becomes entitled to any share shall be bound by every notice given in accordance with this article to the person from whom he or she derives his or her title prior to registration of his or her title in the register.
- (f) A signature to any notice given by the company to a member under this article may be printed, affixed or produced by some mechanical, electronic or other means.

- (g) Where a member does not have a registered address or where the company believes that member is not known at the member's registered address, all notices are taken to be:
- (i) given to the member if the notice is exhibited in the company's registered office for a period of 48 hours; and
 - (ii) served at the commencement of that period,
- unless and until the member informs the company of the member's address.

17.2 Other communications and documents

Article 17.1 applies, so far as it can and with any necessary changes to sending any communication or document.

17.3 Written notices

A reference in this constitution to a written notice includes a notice given by fax or other electronic means or made available for access by electronic means.

17.4 Deemed service

If a member has elected to not receive, or due to an accidental or erroneous omission or circumstances beyond the company's control does not receive, a notice, document or other communication from the company, the member will nevertheless, be deemed to have received, and to be aware of the information contained in, the notice, document or other communication.

18. INSPECTION OF RECORDS

18.1 Inspection by members

- (a) Except as otherwise required by the Corporations Act, the directors shall determine whether and to what extent, and at what times and places and under what conditions, the accounting records and other documents of the company or any of them will be open to the inspection of members other than directors, and a member other than a director does not have the right to inspect any document of the company except as provided by law or authorised by the directors or by the company in general meeting.
- (b) The company may enter into contracts with its directors or former directors agreeing to provide continuing access for a specified period after the director ceases to be a director to board papers, books, records and documents of the company which relate to the period during which the director or former director was a director on such terms and conditions as the directors think fit and which are not inconsistent with this article 18.
- (c) The company may procure that its subsidiaries provide similar access to board papers, books, records or documents as that set out in articles 18.1(a) and 18.1(b)
- (d) This article 18 does not limit any right the directors or former directors otherwise have.

18.2 Members not entitled to discovery

No member shall be entitled to require discovery of or any information respecting any detail of the company's trading, or any matter which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the company if, in the opinion of the directors, it would be contrary to the interests of the members to communicate such information.

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.

19.4 Insurance

The company may, to the extent permitted by law:

- (a) purchase and maintain insurance; or
- (b) pay or agree to pay a premium for insurance,

for each Officer against any Liability incurred by the Officer as an officer of the company or of a related body corporate including, but not limited to, a liability for negligence or for reasonable costs and expenses incurred in defending proceedings, whether civil or criminal and whatever their outcome.

19.5 Savings

Nothing in article 19.2 or 19.4:

- (a) affects any other right or remedy that a person to whom those articles apply may have in respect of any Liability referred to in those articles;
- (b) limits the capacity of the company to indemnify or provide or pay for insurance for any person to whom those articles do not apply; or
- (c) limits or diminishes the terms of any indemnity conferred or agreement to indemnify entered into prior to the adoption of this constitution.

19.6 Deed

The company may enter into a deed with any Officer or a deed poll to give effect to the rights conferred by or under this article 19 or the exercise of a discretion under this article 19 on such terms as the directors think fit which are not inconsistent with this article 19.

20. WINDING UP

- (a) If the company is wound up, the liquidator may, with the sanction of a special resolution, divide among the members in kind the whole or any part of the property of the company and may for that purpose set such value as he or she considers fair upon any property to be so divided and may determine how the division is to be carried out as between the members or different classes of members.
- (b) The liquidator may, with the sanction of a special resolution, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no member is compelled to accept any shares or other securities in respect of which there is any liability.

21. RESTRICTED SECURITIES

Notwithstanding any other provision of this constitution but subject to the ASTC settlement rules, at all times while the company is admitted to the official list:

- (a) the company shall refuse to acknowledge, deal with, accept or register any sale, assignment or transfer of restricted securities which is or might be in breach of the listing rules or any escrow agreement entered into by the company under the listing rules in relation to the restricted securities;
- (b) in the event of a breach of any escrow agreement entered into by the company under the listing rules in relation to shares which are classified under the listing rules or by the Exchange as restricted securities, the member holding the shares in question shall cease to be entitled to any dividends and to any voting rights in respect of those shares for so long as the breach subsists; and
- (c) on a winding up of the company, the holders of shares which are classified under the listing rules or by the Exchange as restricted securities and which are subject to escrow restrictions at the commencement of the winding up shall rank on a return of capital behind all other shares in the company.

Executive service agreement

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This executive service agreement

is made on *14th June 2005* between the following parties:

- 1 Commonwealth Bank of Australia**
ABN 48 123 123 124
of Level 7, 48 Martin Place, Sydney, New South Wales, 2000
(the **Bank**); and
- 2 Ralph James Norris**
of c/o Level 7, 48 Martin Place, Sydney, New South Wales, 2000
(the **Executive**).

Recitals

The Bank has agreed to appoint the Executive as a director of the Bank and to the position of Managing Director and Chief Executive Officer and the Executive has agreed to accept the appointment as a director and an employee of the Bank on the terms of this agreement.

The parties agree

in consideration of, among other things, the mutual promises contained in this agreement:

1 Appointment

1.1 Appointment

- (a) Subject to the terms of this agreement and the Constitution, the Bank agrees to employ the Executive in the position of Managing Director and Chief Executive Officer and to appoint the Executive as a director of the Bank for the purposes of the Corporations Act. The Executive accepts these appointments.
- (b) The Executive undertakes to faithfully and diligently perform the duties of the Managing Director and Chief Executive Officer pursuant to the Constitution and in accordance with the delegated authorities given to the Executive from time to time.

1.2 Material change of status

- (a) Subject to the provisions of this agreement, if the Executive's duties are (other than on a temporary basis), without the Executive's consent, materially and adversely altered or varied substantially, resulting in either case in:
 - (1) the Executive's status or responsibilities being materially diminished; or
 - (2) the Executive no longer being regarded as the most senior and responsible executive of the Bank,

the Executive may, on the occurrence of such event, forward to the Board a notice setting out his grievances in this regard giving the Board twenty one (21) days to remedy the situation.

- (b) In the event the Board refuses, fails or neglects to remedy the situation or does not deal with this matter within the time specified in clause 1.2(a), the Executive may resign on or after the expiration of the twenty one (21) days without notice as required by clause 6.1.
- (c) If the Executive resigns under clause 1.2(b), he will be entitled to the benefit of clause 6 as if the Executive had been terminated by the Bank in accordance with clause 6.2.
- (d) Clauses 1.2(a)-(c) do not apply in circumstances where action is taken by the Board as a result of disciplinary proceedings in respect of the Executive or as otherwise provided in this agreement.

2 Term

The Executive's employment with the Bank will commence on the Commencement Date and continue until terminated in accordance with this agreement.

3 Executive's duties

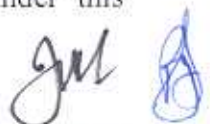
3.1 General duties

The Executive must:

- (a) devote the whole of the Executive's time, attention and skill during normal business hours, and at other times as reasonably necessary, to the duties of office;
- (b) faithfully and diligently perform the duties and exercise the powers:
 - (1) consistent with the position of Managing Director and Chief Executive Officer; and
 - (2) assigned to the Executive by the Board or on its behalf, whether for the Bank or a Group Company;
- (c) promote the interests and prosperity and enhance the reputation of the Bank and any Group Company; and
- (d) conduct himself in accordance with the commercial and ethical standards commensurate with the position of Managing Director and Chief Executive Officer of a publicly listed company.

3.2 Bank policies

- (a) The Executive must comply with any Bank policies and procedures (as amended from time to time) which have application to the performance of his duties, or to his employment by the Bank generally, under this agreement.



- (b) Bank policies and procedures referred to in clause 3.2(a) do not form part of this agreement unless otherwise specified.

3.3 Duty to report

The Executive must:

- (a) report directly to the Board or as directed by the Board or on its behalf;
- (b) provide prompt and full information to the Board regarding the conduct of the business of the Bank by the Executive;
- (c) comply with lawful directions given to the Executive by the Board or on its behalf; and
- (d) report to the Chairman of the Board as requested, and discuss with him any aspect of the Bank's business or performance as required from time to time by the Chairman.

4 Remuneration

4.1 Fixed Remuneration

During the period from the Commencement Date until the Termination Date, the Bank must pay the Executive the Fixed Remuneration (Base Remuneration plus Superannuation), determined under this clause 4, or as otherwise agreed between the parties in writing.

4.2 Base Remuneration

- (a) Base Remuneration is calculated on a total cost basis and includes the cost of any benefits (e.g. leased motor vehicle) plus any fringe benefit tax charges related to employee benefits.
- (b) The initial Base Remuneration payable to the Executive shall be one million nine hundred thousand dollars (\$1,900,000) per annum payable in equal instalments in accordance with the Bank's policies and is inclusive of all director fees for the Group but does not include any payroll tax or workers compensation paid by the Bank in respect of the Executive's employment.

4.3 Superannuation

The Bank shall make superannuation contributions to a fund (that complies with relevant legislation). Initially this will be nine percent (9%) of eighty percent (80%) of Base Remuneration from time to time. The amount of contributions as at the date of this agreement is one hundred and thirty six thousand eight hundred dollars (\$136,800) per annum.

4.4 Base Remuneration review

- (a) Base Remuneration will be reviewed by the Board in accordance with Bank policies with effect from 1 July of each year of this agreement, commencing on or about 1 July 2006 and as a result of this review the Base Remuneration may be increased by the Bank.

- (b) Base Remuneration for the period after a review in clause 4.4(a) is the amount per annum determined by the Board.

4.5 Short Term Incentive

- (a) The Executive will be eligible to a discretionary Short Term Incentive as determined by the Board from time to time (STI). The initial STI potential will be one million nine hundred thousand dollars (\$1,900,000).
- (b) In exercising its discretion pursuant to clause 4.5(a), the Board will take into account the Executive's performance in relation to key performance indicators established annually in consultation with the Executive. The decision of the Board as to whether, and the extent to which, key performance indicators have been met by the Executive is final and conclusive.

4.6 Long Term Incentive

- (a) The Executive will be entitled to participate in a Long Term Incentive in cash or in the Bank's Equity Reward Plan (LTI):
- (1) as determined by or varied (including in respect of the form of any benefit provided to the Executive) at the discretion of the Board from time to time; and
 - (2) subject to:
 - (A) any key performance indicators determined by the Board;
 - (B) any approval required by the Bank's shareholders; and
 - (C) any necessary Regulatory Consent.
- (b) The initial LTI will, subject to clause 4.6(a)(2), be an allocation of the Bank's shares to the value of three million eight hundred thousand dollars (\$3,800,000). The number of shares will be calculated on the basis of the weighted average price of the Bank's shares over the five (5) trading days prior to the Commencement Date.

4.7 Packaging

The Bank may from time to time issue guidelines under which the Executive may elect to receive part of the Base Remuneration and STI, by way of benefits in amounts or of a kind, other than those specified in this agreement, which can be lawfully provided by the Bank. The Executive may elect to receive such benefits, provided that:

- (a) the election is consistent with the guidelines issued by the Bank from time to time; and
- (b) the costs of the election to the Bank (including any liability for fringe benefits tax) does not result in the total payments and benefits being paid or provided to the Executive exceeding the amount of the Base Remuneration and/or STI if relevant and payable.



4.8 Expenses

- (a) The Bank will reimburse the Executive for any reasonable out-of-pocket expenses incurred by the Executive on Bank business.
- (b) The Bank will require evidence of expenses incurred by the Executive in accordance with the Bank's policies from time to time.

5 Other terms of employment

- (a) The Executive must comply with the terms of employment set out in the Schedules to this agreement.
- (b) The Schedules to this agreement form part of this agreement.

6 Termination

6.1 Resignation by the Executive

- (a) The Executive may terminate this agreement at any time by giving six (6) Months' notice in writing to the Board.
- (b) The Bank will pay all Fixed Remuneration and any statutory entitlements owing to the Executive to the Termination Date and any STI or LTI not vested will be determined at the complete discretion of the Board.

6.2 Termination on notice

- (a) Notwithstanding any other provision of this agreement, the Bank may terminate this agreement for any reason whatsoever at any time by giving written notice to the Executive.
- (b) If termination of the Executive's employment occurs within twelve (12) months of the Commencement Date the Executive shall receive twelve (12) months notice.
- (c) If termination occurs at any time other than that referred to in 6.2(b), the Executive shall receive six (6) months notice.
- (d) If the Bank terminates this agreement pursuant to this clause 6.2, the Bank will pay all Fixed Remuneration and any statutory entitlements owing to the Executive to the Termination Date and any STI or LTI not vested will be determined at the complete discretion of the Board.

6.3 Immediate termination

- (a) The Bank may terminate this agreement immediately if the Executive:
 - (1) commits any act which in the reasonable opinion of the Board detrimentally affects the Bank or any Group Company including, but not limited to, an act of material dishonesty, fraud, wilful disobedience, serious misconduct, wilful negligence, incompetence in the performance of his duties or breach of duty;



- (2) is charged with any serious criminal offence which is likely to affect adversely the Bank or any Group Company's reputation;
 - (3) wilfully, persistently or materially fails to perform or observe any lawful direction or instruction by the Board or in any other respect fails to perform or observe the terms or provisions of this agreement and does not remedy that failure to the satisfaction of the Board within seven (7) days of receiving notice from the Bank specifying the failure;
 - (4) commits any act of bankruptcy or compounds with creditors; or
 - (5) fails to comply with a material provision of the policies or procedures of the Bank as amended from time to time and does not remedy that failure to the satisfaction of the Board within seven (7) days of receiving notice from the Bank specifying the failure.
- (b) If the Bank terminates this agreement pursuant to clause 6.3(a), the Executive will be paid Fixed Remuneration and any statutory entitlements to the Termination Date.
- (c) The Executive will not be entitled to receive any STI or LTI and for the avoidance of doubt, any shares and options (or equivalent benefits) granted to the Executive as LTI that have not vested (or, if in cash, has not been paid) at the Termination Date will be forfeited.

6.4 Termination because of illness

- (a) If the Executive:
- (1) becomes incapacitated by illness or accident or is of unsound mind or becomes liable to be dealt with under any law relating to mental health for an accumulated period of three (3) Months in any twelve (12) Month period; or
 - (2) is advised by an independent medical officer that the Executive's health has deteriorated to a degree that it is advisable for the Executive to leave the Bank,

the Bank may terminate this agreement by giving six (6) Months' written notice to the Executive.

- (b) If the Bank terminates this agreement pursuant to clause 6.4(a), the Bank will pay all Fixed Remuneration and any statutory entitlements owing to the Executive to the Termination Date and any STI or LTI not vested will be determined at the complete discretion of the Board.

6.5 Death of the Executive

If this agreement is terminated as a result of the death of the Executive the Bank will pay to the Executive all Fixed Remuneration and any statutory entitlements to the date of death and any STI or LTI not vested will be at the complete discretion of the Board.

6.6 General

- (a) During any notice period referred to in this clause 6:



- (1) the Bank may require that the Executive not attend the office, not undertake any work, or undertake only limited work during part or all of this period;
 - (2) the Bank will continue to pay the Fixed Remuneration;
 - (3) the Executive must continue to comply with his obligations under this agreement.
- (b) If this agreement is terminated and notice is required to be given under this clause 6, the Bank may at its option, in lieu of part or all of the notice period, pay the Executive an amount equal to a proportion of the Total Fixed Remuneration at the time at which notice is given which corresponds to the unexpired notice period.
- (c) The provision of the payments and benefits under this clause 6 is contingent on the Executive complying with his obligations under this agreement.

6.7 Resignation as director

- (a) If on termination of this agreement the Executive is a director or other officer of the Bank or of any Group Company the Executive must resign as director or other officer of that company forthwith.
- (b) The Executive irrevocably appoints the Company Secretary, or any other employee of the Bank nominated by the Company Secretary, as attorney to sign the Executive's resignation on behalf of the Executive if the Executive refuses or fails to resign from any directorships or other appointments within the Group on termination of this agreement.

6.8 No compensation

If this agreement is terminated by the Bank under this clause 6, the Executive acknowledges he has no further claim against the Group for any further compensation whatsoever for loss of office in respect of the termination.

6.9 Obligations on termination

On termination of this agreement, the Executive must return to the Bank all tangible property of the Bank or any Group Company including, but not limited to, all books, documents, computers, papers, materials, credit cards, cars and keys held by the Executive or under the Executive's control.

7 Governing law and jurisdiction

- (a) This agreement is governed by the laws of New South Wales.
- (b) The parties irrevocably submit to the exclusive jurisdiction of the courts of New South Wales.
- (c) Each of the parties irrevocably waives any objection to the venue of any legal process on the basis that the process has been brought in an inconvenient forum.



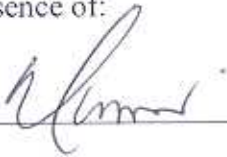
8 Entire agreement

- (a) This agreement embodies the entire agreement between the parties and supersedes all communications, negotiations, arrangements and agreements, whether oral or written, between the parties with respect to the subject matter of this agreement.
- (b) No agreement or understanding varying or extending this agreement will be legally binding upon either party unless in writing and signed by both parties.

Executed as an agreement:

Signed by
Ralph James Norris
in the presence of:

Witness



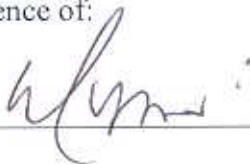
LESLIE GORDON CUPPER

Name (please print)



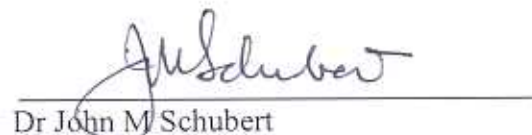
Signed for
Commonwealth Bank of Australia
by the Chairman of the Board of Directors
in the presence of:

Witness



LESLIE GORDON CUPPER.

Name (please print)



Dr John M Schubert

Schedule 1 – Definitions and interpretation

1 Definitions

In this agreement:

- (a) **Board** means the board of directors of the Bank;
- (b) **Commencement Date** means the commencement date nominated by the Bank in consultation with the Executive;
- (c) **Confidential Information** means any information in respect of the Group or the Group's businesses (including, but not limited to, any idea, concept, process or know-how) which is not in the public domain (other than as a result of a breach of the Bank's confidence) which:
 - (1) has already come or comes to the Executive's notice in the course of the Executive's employment; or
 - (2) is generated by the Executive in the course of performing the Executive's obligations;
- (d) **Constitution** means the constitution of the Bank as amended from time to time;
- (e) **Corporations Act** means the *Corporations Act 2001 (Cth)*;
- (f) **Covenant Area** means:
 - (1) any geographical area in which the Group has operations; or failing that
 - (2) the Commonwealth of Australia; or failing that
 - (3) New South Wales;
- (g) **Covenant Period** means during the Executive's employment pursuant to this agreement and:
 - (1) twelve (12) Months; or failing that
 - (2) six (6) Months,after the Termination Date;
- (h) **Entity** means an individual, company, partnership, joint venture (whether corporate or incorporate) or any other body (whether corporate or incorporate);
- (i) **Group** means the Bank and any Group Company;
- (j) **Group Company** means a "related body corporate" of the Bank as that expression is defined in the Corporations Act;
- (k) **Month** means calendar month;
- (l) **Prescribed Position** means:



- (1) a position as employee, director, secretary, company officer, agent, contractor, consultant or adviser of any Entity;
 - (2) a partner, shareholder or member of any Entity; and
 - (3) acting as any of the persons referred to in paragraphs (1) and (2).
- (m) **Regulatory Consent** means the consent of any entity or governmental body that has statutory or other powers over corporations including without limitation the Australian Stock Exchange and the Australian Securities and Investments Commission;
- (n) **Termination Date** means the date when the Executive ceases to be employed by the Bank.

2 Interpretation

In this agreement, headings are for convenience only and do not affect the interpretation of this agreement and, unless the context otherwise requires:

- (a) a reference to termination of this agreement includes a reference to termination of the Executive's contract of employment;
- (b) words importing the singular include the plural and vice versa;
- (c) words importing a gender include any gender;
- (d) other parts of speech and grammatical forms of a word or phrase defined in this agreement have a corresponding meaning;
- (e) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (f) a reference to any thing (including, but not limited to, any right) includes a part of that thing but nothing in this clause 2(f) implies that performance of part of an obligation constitutes performance of the obligation;
- (g) a reference to a party to a document includes that party's successors and permitted assigns;
- (h) a reference to a statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations, ordinances or by-laws amending, consolidating or replacing it, whether passed by the same or another government agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws issued under that statute; and
- (i) a reference to a document or agreement includes all amendments or supplements to, or replacements or novations of, that document or agreement.



Schedule 2 – Protection of the Bank's interests

1 Restricted areas and restricted activities

Except with the written permission of the Board, the Executive must not (whether directly or indirectly and in any position including a Prescribed Position), during the Covenant Period and within the Covenant Area:

- (a) carry on or otherwise be concerned with or interested in any business in competition with the business of the Group;
- (b) obtain or apply for regulatory licences, permits or privileges that would permit the Executive to carry on or otherwise be concerned with or interested in any business in competition with the business of the Group;
- (c) solicit or persuade any customer or client who has dealt with the Group during the Executive's employment or is in the process of negotiating with the Group at the Termination Date in relation to any business carried on by the Group at the Termination Date, to cease doing business with the Group or reduce the amount of business which the person would normally do with the Group;
- (d) accept from a person referred to in clause 1(c) any business of the kind ordinarily forming part of the business of the Group;
- (e) induce or attempt to induce any director, manager or employee of the Group to terminate his or her employment with the Group, whether or not that person would commit a breach of that person's contract of employment;
- (f) employ any person who during the last two (2) years of the Executive's employment has been a director, manager, or employee of the Group who is or may be likely to be in possession of any confidential information or trade secrets relating to:
 - (1) the business of the Group; or
 - (2) the customers of the Group; or
- (g) disparage or otherwise make any statements that may or may be likely to injure the commercial reputation of any of the Bank or the Group to any person or persons whatsoever.

2 Restraints reasonable

- (a) The Executive and the Bank consider the restraints contained in this schedule to be reasonable and intend the restraints to operate to the maximum extent.
- (b) If these restraints:
 - (1) are void as unreasonable for the protection of the interests of the Group; and



- (2) would be valid if part of the wording was deleted or the period or area was reduced,

the restraints will apply with the modifications necessary to make them effective.

3 Restraints independent

The restraints contained in this schedule are separate, distinct and several, so that the unenforceability of any restraint does not affect the enforceability of the other restraints.

4 Acknowledgments by Executive

The Executive acknowledges that:

- (a) the Executive will obtain Confidential Information concerning the business and finances of the Group including trade secrets and industrial processes;
- (b) disclosure of Confidential Information could materially harm the Group;
- (c) the restrictive covenants contained in this clause are reasonable and necessary for the protection of the goodwill of the Group;
- (d) the remedy of damages may be inadequate to protect the interests of the Group and the Bank is entitled to seek and obtain injunctive relief, or any other remedy, in any Court;
- (e) in view of the importance of the restraints contained in this clause for the protection of the proprietary interests of the Group, this clause will survive the termination of the Executive's employment with the Bank in all circumstances; and
- (f) consideration for the restrictive covenants contained in this clause is included in the benefits provided to the Executive pursuant to this agreement.

5 Survival of obligations

The Executive's obligations under this Schedule survive the termination of this agreement.



Schedule 3 – Confidentiality, Intellectual Property and Moral Rights

1 Confidentiality

1.1 Executive's obligations

The Executive must:

- (a) keep any Confidential Information secret and confidential, except to the extent that the Executive is required by law to disclose it;
- (b) take all reasonable and necessary precautions to maintain the secrecy and prevent the disclosure of any Confidential Information;
- (c) refrain from using or attempting to use Confidential Information in any manner which will or may cause or be calculated to cause injury or loss to the Group or its clients; and
- (d) not, except in the ordinary and proper course of employment with the Bank, disclose Confidential Information to any third party without the prior written consent of the Board.

1.2 Separate restrictions

The restrictions in clause 1.1 of this Schedule will be regarded as separate, distinct and severable so that the unenforceability of any restriction shall in no way affect the enforceability of any other restriction.

1.3 Acknowledgments of Executive

The Executive acknowledges and agrees that:

- (a) the Executive will become possessed of Confidential Information;
- (b) disclosure of such Confidential Information may diminish the value of the information and could materially harm the Group;
- (c) the restrictions in clause 1.1 of this Schedule are reasonable in all the circumstances and necessary to protect the goodwill of the Group; and
- (d) the remedy of damages may be inadequate to protect the interests of the Group and the Group is entitled to seek and obtain injunctive relief, or any other relief.

1.4 Survival of obligations

The Executive's obligations under this Schedule survive the termination of this agreement.



2 Ownership of Intellectual Property

2.1 Ownership

Subject to any express written agreement to the contrary, all Intellectual Property created by the Executive in the course of the Executive's employment with the Bank automatically vests in the Bank.

2.2 Assistance

The Executive must do all things necessary or desirable to vest in the Bank ownership of any Intellectual Property created by the Executive in the course of the Executive's employment with the Bank, including executing any documents which are reasonably required by the Bank to give effect to clause 2.1 of this Schedule.

2.3 Executive must disclose inventions

The Executive must disclose to the Bank any discovery, invention, secret process, system or improvement made or discovered by the Executive during the course of the Executive's employment with the Bank in connection with or in any way affecting or relating to the Bank's business or capable of being used or adapted for use by the Bank or in connection with its business.

2.4 Survival of obligations

The Executive's obligations under this clause 2 of this Schedule survive the termination of this agreement.

2.5 Intellectual Property

In clause 2 of this Schedule, **Intellectual Property** means all present and future rights to intellectual property including any inventions and improvements, trade marks (whether registered or common law trade marks), designs, copyright, any corresponding property rights under the laws of any jurisdiction and any rights in respect of an invention, discovery, trade secret, secret process, know-how, information, process, data or formula.

3 Moral Rights – Executive's consent

3.1 Consent

The Executive consents to all or any acts or omissions by or on behalf of the Bank (whether occurring before or after this consent is given) which infringe or may infringe any of the Executive's moral rights under Part IX of the *Copyright Act 1968* (Cth) in relation to any Works made by the Executive in the course of the Executive's employment with the Bank.

3.2 Extent of consent

The Executive's consent under clause 3.1 of this Schedule is irrevocable and extends to:



- (c) the Bank's licensees and successors in title in respect of the Works; and
- (d) any person authorised by the Bank or its licensees or successors in title to do acts comprised in the copyright for the Works.

3.3 **Genuine consent**

The Executive acknowledges that the consent in clause 3.1 of this Schedule is a genuine consent given under Part IX of the *Copyright Act 1968* (Cth) and has not been induced by duress or any false or misleading statement.

3.4 **Definitions**

In this Schedule 3:

- (a) **Moral Rights** means the right of attribution of authorship, the right not to have authorship falsely attributed and the right of integrity of authorship, as defined in the *Copyright Act 1968* (Cth);
- (b) **Works** means any literary, dramatic, musical or artistic works made by the Executive as defined in the *Copyright Act 1968* (Cth).



Schedule 4 – General Conditions

1 Approvals


- (a) This agreement is subject to all required Board and shareholder approvals and any necessary Regulatory Consent.
- (b) Notwithstanding any provision of this agreement, the Bank is not required to pay or provide, or procure the payment of provision, of any monies or benefits to the Executive which do not comply with the provisions of Part 2D.2, Division 2 of the Corporations Act without the need to obtain shareholder approval. Any such payments or benefits to be provided to the Executive must be reduced to ensure compliance with this clause and Part 2D.2, Division 2 of the Corporations Act. In the event of overpayment to the Executive, the Executive must, on receiving written notice from the Company Secretary of the Bank (or his/her or her nominee) immediately repay any monies or benefits specified in such notice.

2 Amounts owed to the Group

- (a) Subject to applicable laws, any outstanding advances or other payments due to the Group by the Executive will be deducted before payment of any amounts under clause 6 are made to the Executive.
- (b) If the amounts owed by the Executive to the Group at the Termination Date exceed amounts payable to the Executive under clause 6, the Executive agrees to repay such amounts to the Bank within fourteen (14) days of the Termination Date.

3 Notices

- (a) Any notice or other communication including, but not limited to, any request, demand, consent or approval, to or by a party to this agreement:
 - (1) must be in legible writing and in English addressed as shown at the commencement of this agreement, or as specified to the sender by any party by notice;
 - (2) where the sender is a company, must be signed by an officer or under the common seal of the sender;
 - (3) is regarded as being given by the sender and received by the addressee:
 - (A) if by delivery in person, when delivered to the addressee;
 - (B) if by post, 3 Business Days from and including the date of postage; or
 - (C) if by facsimile transmission, whether or not legibly received, when received by the addressee,



but if the delivery or receipt is on a day which is not a Business Day or is after 4.00 pm (addressee's time) it is regarded as received at 9.00 am on the following Business Day; and

- (4) can be relied on by the addressee and the addressee is not liable to any other person for any consequences of that reliance if the addressee believes it to be genuine, correct and authorised by the sender.
- (b) A facsimile transmission is regarded as legible unless the addressee telephones the sender within 2 hours after transmission is received or regarded as received under clause 3(a)(3) and informs the sender that it is not legible.
- (c) In this clause 3, a reference to an addressee includes a reference to an addressee's officers, agents or employees or any person reasonably believed by the sender to be an officer, agent or employee of the addressee.

4 Prohibition, enforceability and severance


- (a) Any provision of, or the application of any provision of, this agreement which is prohibited in any jurisdiction is, in that jurisdiction, ineffective only to the extent of that prohibition.
- (b) Any provision of, or the application of any provision of, this agreement which is void, illegal or unenforceable in any jurisdiction does not affect the validity, legality or enforceability of that provision in any other jurisdiction or of the remaining provisions in that or any other jurisdiction.
- (c) If a clause is void, illegal or unenforceable, it may be severed without affecting the enforceability of the other provisions in this agreement.

5 Waiver

- (a) The failure of either party at any time to require performance by the other party of any provision of this agreement does not affect the party's right to require the performance at any time.
- (b) The waiver by either party of a breach of any provision may not be held to be a waiver of any later breach of the provision or a waiver of the provision itself.

6 Legal advice

The Executive represents that he has taken, or had the opportunity of taking, legal advice in relation to the nature, effect and extent of this agreement.



14 July 2005

Mr J M Schubert
96/3 Macquarie Street
SYDNEY NSW 2000

Dear John

Terms of appointment as non-executive director

I am writing to confirm the terms of your appointment as a non-executive director and Chairman of the Commonwealth Bank of Australia (**Bank**).

Disclosure of interests and other relevant information

As you are aware, the Board has adopted guidelines to assess the independence of directors of the Bank. You have previously indicated that you regard yourself as an independent director within the framework of those guidelines. If your independent status as a director is lost or if any other circumstance arises which may affect your independent status, you must immediately disclose this to the Board.

As the Bank is a regulated financial services provider it is important that all directors satisfy any "fit and proper" standards that may be required by the Australian Prudential Regulation Authority (**APRA**) from time to time. If there are any developments which may be relevant to your satisfaction of APRA's standards from time to time, you will be expected to advise the Chairman as soon as possible and if necessary, step down.

Remuneration and expenses

I confirm that as Chairman, you are currently paid a standard annual fee of \$560,000 which is exclusive of statutory superannuation. In addition, an amount is payable for committee membership as set out in the paragraph below entitled "Board committees". This fee is paid on the last day of the last month of each quarter. The payment of director remuneration is governed by rules 11.6 to 11.7 of the Bank's constitution. Your fees are payable directly into the bank account that you have previously nominated. The amount of the cash payment you receive is dependent on the extent of your participation in the Non-Executive Directors' Share Plan (**NEDSP**) as discussed below. The Bank's contributions for your statutory superannuation are paid into the superannuation fund previously nominated by you.

You are entitled to be paid travelling and other expenses you properly incur concerning the Bank's affairs, including attending and returning from general meetings of the Bank or meetings of the Board or Board committees. It is the usual practice for the Bank to provide transport and accommodation for Directors in respect of Bank related business. Flight booking and limousine transport may be arranged by telephoning the Board Clerk on (02) 9378 3548.

If you prefer to arrange your own transport please forward any invoices to the Board Clerk requesting reimbursement of costs.

As you are aware, you are required to acquire shares in the Bank through the mandatory application of 20% of your annual director's fees, including committee fees, under the NEDSP. In addition, you may elect to apply up to a further 50% of fees as shares under the NEDSP. Shares acquired under the NEDSP are purchased on-market at the prevailing market price and attract full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares acquired under the NEDSP. You are, however, restricted from selling shares allocated to you under the NEDSP, representing the mandatory 20% of fees, until the earlier of 10 years after acquisition or the cessation of your position as a director of the Bank. You will nominate the holding restriction to apply to the additional shares acquired under the NEDSP. This must be at least 2 years and may be up to 10 years, unless you cease to be a director earlier. Further details regarding the operation of the NEDSP are contained in the plan documentation, a copy of which has previously been provided to you.

Term of appointment and vacation of office

As you would be aware, you are subject to retirement by rotation under rule 11.1 of the Bank's constitution.

The Board has established a policy that directors retire after a period of service of 12 years (except where succession planning for the Chairman and appointment of the Chairman require an extended term).

As you know, 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 to assess the quality and effectiveness of information made available to directors. It is important that individual directors participate in such reviews. Every two years, or when determined appropriate by the Board, the annual review process is facilitated by an external consultant, with an internal review conducted in the intervening years. The annual review includes an assessment of the performance of each director.

The results of the annual review and performance assessment are also used by the Board to determine its endorsement of the directors to stand for re-election at the next annual general meeting. The notice of AGM or other material provided to shareholders may include a recommendation as to your re-election, based on the Board's determination.

The Bank may also implement a process for annually assessing each non-executive director's fitness and propriety for the position of director in accordance with any requirements of APRA from time to time.

If you intend to resign as director, please give me as much notice of your intention to resign or to not seek re-election as is possible in the circumstances so that the Board can revise the plan for succession of skills and experience on the Board. In addition to the matters prescribed by the Corporations Act, I confirm that your office as a director of the Bank becomes vacant in the circumstances referred to in rule 11.9 of the Bank's constitution.

Board meetings

As you are aware, there are normally 6 full board meetings per year held on the second Tuesday of February, April, June, August, October and December. In addition, a two day strategy discussion is held in March and education sessions and business visits are arranged for the months when no meeting is held. Committee meetings are held on the Monday before each Board meeting. You have been provided with a timetable confirming the dates of the Board meetings scheduled for 2005 and 2006.

Board committees

I confirm that you are Chairman of the Nominations Committee and a member of the Risk and People and Remuneration Committees. You are paid additional committee fees which are currently \$20,000 per year for your role as a member of the Risk Committee and \$20,000 per year for your role as a member of the People and Remuneration Committee.

Time commitment envisaged

Your duties as a non-executive Chairman of the Bank and of the Nominations Committee and as a member of the People and Remuneration Committees involve a commitment of a significant number of hours each month. You are expected to devote sufficient preparation time ahead of each board and committee meeting and to attend such ad hoc meetings as may be necessary and convenient.

Please consult with me before you accept any additional commitments which might conflict with, or impact on, the time you are able to devote to your role as a non-executive Chairman of the Bank.

Indemnity, insurance and access to Bank documents

The Bank's current D&O insurance policy was extended to you from the date of your appointment. The Deed of Indemnity you entered into with the Bank expands your rights, provided under section 198F of the Corporations Act, to inspect and make copies of the Bank's books.

Charters and policies

The Board has adopted the following charters and policies:

- Board charter;
- Board Corporate Governance Guidelines;
- The Bank's Constitution;
- Securities trading guidelines;
- Guidelines for communication between the Bank and shareholders;
- Taking of independent professional advice by directors;
- Code of ethics entitled "Statement of Professional Practice";
- External Auditor Services Policy;
- Equal Employment Opportunity Policy; and
- Occupational Health and Safety Systems.

From time to time, the Bank may adopt new policies in accordance with applicable prudential and governance requirements.

Notification of interests to ASX

You will no doubt be aware that the Bank is required, under the ASX Listing Rules, to provide information in relation to a director's interests and transactions in the Bank's securities to ASX. The Bank must do this no more than 5 business days after a director's appointment and, subsequently, no more than 5 days after there is a change to a notifiable interest of a director. The Company Secretary will lodge Appendix 3Y returns on your behalf when there is a change in your interests, so that the Bank can comply with its obligations. You have previously entered

into a Letter Agreement with the Bank setting out the formal arrangements necessary to enable the Bank to notify the ASX of your interest.

In addition, you will be required to provide to the Bank, from time to time, such information as is necessary to enable the Bank to comply with its reporting and regulatory requirements. The Company Secretary has previously notified the Australian Securities & Investments Commission and the London Companies House of your details in accordance with the relevant requirements and will notify those bodies of any relevant changes. The Company Secretary will notify APRA of such personal information relating to non-executive directors as is required by that body from time to time.

Continuing education arrangements

I confirm that you will be invited to participate in a refresher program regarding your role and duties as a director and details of the Bank’s operations on a regular basis.

As you would be aware, the Board has also established a program of continuing education to ensure that members are kept up to date with developments in the industry both locally and at an international level. The continuing education program includes sessions with local and international experts in the particular fields relevant to the Bank’s operations.

Please feel free to contact me on (03) 9842 2005 the Company Secretary on (02) 9378 3546 if you have any queries in relation to the above.

Could you please sign the acknowledgement and return a copy of this letter to the company secretary.

Yours sincerely

/s/ Frank J Swan

Frank J Swan

Acknowledgment

I, John Schubert accept the terms of appointment set out in this letter.

/s/ John Schubert

27/07/05

Signature

Date

14 July 2005

Mr R J Clairs
40 Ritchie Road
Pallara QLD 4110

Dear Reg

Terms of appointment as non-executive director

I am writing to confirm the terms of your appointment as a non-executive director of the Commonwealth Bank of Australia (**Bank**).

Disclosure of interests and other relevant information

As you are aware, the Board has adopted guidelines to assess the independence of directors of the Bank. You have previously indicated that you regard yourself as an independent director within the framework of those guidelines. If your independent status as a director is lost or if any other circumstance arises which may affect your independent status, you must immediately disclose this to the Board.

As the Bank is a regulated financial services provider it is important that all directors satisfy any "fit and proper" standards that may be required by the Australian Prudential Regulation Authority (**APRA**) from time to time. If there are any developments which may be relevant to your satisfaction of APRA's standards from time to time, you will be expected to advise the Chairman as soon as possible and if necessary, step down.

Remuneration and expenses

I confirm that each non-executive director is currently paid a standard annual fee of \$160,000 which is exclusive of statutory superannuation. In addition, an amount is payable for committee membership as set out in the paragraph below entitled "Board committees". This fee is paid on the last day of the last month of each quarter. The payment of director remuneration is governed by rules 11.6 to 11.7 of the Bank's constitution. Your fees are payable directly into the bank account that you have previously nominated. The amount of the cash payment you receive is dependent on the extent of your participation in the Non-Executive Directors' Share Plan (**NEDSP**) as discussed below. The Bank's contributions for your statutory superannuation are paid into the superannuation fund previously nominated by you.

You are entitled to be paid travelling and other expenses you properly incur concerning the Bank's affairs, including attending and returning from general meetings of the Bank or meetings of the Board or Board committees. It is the usual practice for the Bank to provide transport and accommodation for Directors in respect of Bank related business. Flight booking and limousine transport may be arranged by telephoning the Board Clerk on (02) 9378 3548.

If you prefer to arrange your own transport please forward any invoices to the Board Clerk requesting reimbursement of costs.

As you are aware, you are required to acquire shares in the Bank through the mandatory application of 20% of your annual director's fees, including committee fees, under the NEDSP. In addition, you may elect to apply up to a further 50% of fees as shares under the NEDSP. Shares acquired under the NEDSP are purchased on-market at the prevailing market price and attract full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares acquired under the NEDSP. You are, however, restricted from selling shares allocated to you under the NEDSP, representing the mandatory 20% of fees, until the earlier of 10 years after acquisition or the cessation of your position as a director of the Bank. You will nominate the holding restriction to apply to the additional shares acquired under the NEDSP. This must be at least 2 years and may be up to 10 years, unless you cease to be a director earlier. Further details regarding the operation of the NEDSP are contained in the plan documentation, a copy of which has previously been provided to you.

Term of appointment and vacation of office

As you would be aware, you are subject to retirement by rotation under rule 11.1 of the Bank's constitution.

The Board has established a policy that directors retire after a period of service of 12 years (except where succession planning for the Chairman and appointment of the Chairman require an extended term).

As you know, 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 to assess the quality and effectiveness of information made available to directors. It is important that individual directors participate in such reviews. Every two years, or when determined appropriate by the Board, the annual review process is facilitated by an external consultant, with an internal review conducted in the intervening years. The annual review includes an assessment of the performance of each director.

The results of the annual review and performance assessment are also used by the Board to determine its endorsement of the directors to stand for re-election at the next annual general meeting. The notice of AGM or other material provided to shareholders may include a recommendation as to your re-election, based on the Board's determination.

The Bank may also implement a process for annually assessing each non-executive director's fitness and propriety for the position of director in accordance with any requirements of APRA from time to time.

If you intend to resign as director, please give me as much notice of your intention to resign or to not seek re-election as is possible in the circumstances so that the Board can revise the plan for succession of skills and experience on the Board. In addition to the matters prescribed by the Corporations Act, I confirm that your office as a director of the Bank becomes vacant in the circumstances referred to in rule 11.9 of the Bank's constitution.

Board meetings

As you are aware, there are normally 6 full board meetings per year held on the second Tuesday of February, April, June, August, October and December. In addition, a two day strategy discussion is held in March and education sessions and business visits are arranged for the months when no meeting is held. Committee meetings are held on the Monday before each Board meeting. You have been provided with a timetable confirming the dates of the Board meetings scheduled for 2005 and 2006.

Board committees

I confirm that you are a member of the Risk Committee and chairman of the People & Remuneration Committee. You are paid additional committee fees which are currently \$20,000 per year for your role as a member of the Risk Committee and \$35,000 per year for your role as chairman of the People & Remuneration Committee.

Time commitment envisaged

Your duties as a non-executive director of the Bank and as a member of the Risk Committee and chairman of the People & Remuneration Committee involve a commitment of a significant number of hours each month. You are expected to devote sufficient preparation time ahead of each board and committee meeting and to attend such ad hoc meetings as may be necessary and convenient.

Please consult with me before you accept any additional commitments which might conflict with, or impact on, the time you are able to devote to your role as a non-executive director of the Bank.

Indemnity, insurance and access to Bank documents

The Bank's current D&O insurance policy was extended to you from the date of your appointment. The Deed of Indemnity you entered into with the Bank expands your rights, provided under section 198F of the Corporations Act, to inspect and make copies of the Bank's books.

Charters and policies

The Board has adopted the following charters and policies:

- Board charter;
- Board Corporate Governance Guidelines;
- The Bank's Constitution;
- Securities trading guidelines;
- Guidelines for communication between the Bank and shareholders;
- Taking of independent professional advice by directors;
- Code of ethics entitled "Statement of Professional Practice";
- External Auditor Services Policy;
- Equal Employment Opportunity Policy; and
- Occupational Health and Safety Systems.

From time to time, the Bank may adopt new policies in accordance with applicable prudential and governance requirements.

Notification of interests to ASX

You will no doubt be aware that the Bank is required, under the ASX Listing Rules, to provide information in relation to a director's interests and transactions in the Bank's securities to ASX. The Bank must do this no more than 5 business days after a director's appointment and, subsequently, no more than 5 days after there is a change to a notifiable interest of a director. The Company Secretary will lodge Appendix 3Y returns on your behalf when there is a change in your interests, so that the Bank can comply with its obligations. You have previously entered

into a Letter Agreement with the Bank setting out the formal arrangements necessary to enable the Bank to notify the ASX of your interest.

In addition, you will be required to provide to the Bank, from time to time, such information as is necessary to enable the Bank to comply with its reporting and regulatory requirements. The Company Secretary has previously notified the Australian Securities & Investments Commission and the London Companies House of your details in accordance with the relevant requirements and will notify those bodies of any relevant changes. The Company Secretary will notify APRA of such personal information relating to non-executive directors as is required by that body from time to time.

Continuing education arrangements

I confirm that you will be invited to participate in a refresher program regarding your role and duties as a director and details of the Bank's operations on a regular basis.

As you would be aware, the Board has also established a program of continuing education to ensure that members are kept up to date with developments in the industry both locally and at an international level. The continuing education program includes sessions with local and international experts in the particular fields relevant to the Bank's operations.

Please feel free to contact me on (02) 9252 0011 or the Company Secretary on (02) 9378 3546 if you have any queries in relation to the above.

Could you please sign the acknowledgement and return a copy of this letter to the company secretary.

Yours sincerely

/s/ John Schubert

John M Schubert

Acknowledgment

I, Reg Clairs accept the terms of appointment set out in this letter.

/s/ Reg Clairs

08/08/05

Signature

Date

14 July 2005

Mr A B Daniels
49/93 Elizabeth Bay Road
Elizabeth Bay NSW 2011

Dear Tony

Terms of appointment as non-executive director

I am writing to confirm the terms of your appointment as a non-executive director of the Commonwealth Bank of Australia (**Bank**).

Disclosure of interests and other relevant information

As you are aware, the Board has adopted guidelines to assess the independence of directors of the Bank. You have previously indicated that you regard yourself as an independent director within the framework of those guidelines. If your independent status as a director is lost or if any other circumstance arises which may affect your independent status, you must immediately disclose this to the Board.

As the Bank is a regulated financial services provider it is important that all directors satisfy any "fit and proper" standards that may be required by the Australian Prudential Regulation Authority (**APRA**) from time to time. If there are any developments which may be relevant to your satisfaction of APRA's standards from time to time, you will be expected to advise the Chairman as soon as possible and if necessary, step down.

Remuneration and expenses

I confirm that each non-executive director is currently paid a standard annual fee of \$160,000 which is exclusive of statutory superannuation. In addition, an amount is payable for committee membership as set out in the paragraph below entitled "Board committees". This fee is paid on the last day of the last month of each quarter. The payment of director remuneration is governed by rules 11.6 to 11.7 of the Bank's constitution. Your fees are payable directly into the bank account that you have previously nominated. The amount of the cash payment you receive is dependent on the extent of your participation in the Non-Executive Directors' Share Plan (**NEDSP**) as discussed below. The Bank's contributions for your statutory superannuation are paid into the superannuation fund previously nominated by you.

You are entitled to be paid travelling and other expenses you properly incur concerning the Bank's affairs, including attending and returning from general meetings of the Bank or meetings of the Board or Board committees. It is the usual practice for the Bank to provide transport and accommodation for Directors in respect of Bank related business. Flight booking and limousine transport may be arranged by telephoning the Board Clerk on (02) 9378 3548.

If you prefer to arrange your own transport please forward any invoices to the Board Clerk requesting reimbursement of costs.

As you are aware, you are required to acquire shares in the Bank through the mandatory application of 20% of your annual director's fees, including committee fees, under the NEDSP. In addition, you may elect to apply up to a further 50% of fees as shares under the NEDSP. Shares acquired under the NEDSP are purchased on-market at the prevailing market price and attract full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares acquired under the NEDSP. You are, however, restricted from selling shares allocated to you under the NEDSP, representing the mandatory 20% of fees, until the earlier of 10 years after acquisition or the cessation of your position as a director of the Bank. You will nominate the holding restriction to apply to the additional shares acquired under the NEDSP. This must be at least 2 years and may be up to 10 years, unless you cease to be a director earlier. Further details regarding the operation of the NEDSP are contained in the plan documentation, a copy of which has previously been provided to you.

Term of appointment and vacation of office

As you would be aware, you are subject to retirement by rotation under rule 11.1 of the Bank's constitution.

The Board has established a policy that directors retire after a period of service of 12 years (except where succession planning for the Chairman and appointment of the Chairman require an extended term).

As you know, 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 to assess the quality and effectiveness of information made available to directors. It is important that individual directors participate in such reviews. Every two years, or when determined appropriate by the Board, the annual review process is facilitated by an external consultant, with an internal review conducted in the intervening years. The annual review includes an assessment of the performance of each director.

The results of the annual review and performance assessment are also used by the Board to determine its endorsement of the directors to stand for re-election at the next annual general meeting. The notice of AGM or other material provided to shareholders may include a recommendation as to your re-election, based on the Board's determination.

The Bank may also implement a process for annually assessing each non-executive director's fitness and propriety for the position of director in accordance with any requirements of APRA from time to time.

If you intend to resign as director, please give me as much notice of your intention to resign or to not seek re-election as is possible in the circumstances so that the Board can revise the plan for succession of skills and experience on the Board. In addition to the matters prescribed by the Corporations Act, I confirm that your office as a director of the Bank becomes vacant in the circumstances referred to in rule 11.9 of the Bank's constitution.

Board meetings

As you are aware, there are normally 6 full board meetings per year held on the second Tuesday of February, April, June, August, October and December. In addition, a two day strategy discussion is held in March and education sessions and business visits are arranged for the months when no meeting is held. Committee meetings are held on the Monday before each Board meeting. You have been provided with a timetable confirming the dates of the Board meetings scheduled for 2005 and 2006.

Board committees

I confirm that you are a member of the Risk Committee and a member of the People & Remuneration Committee. You are paid additional committee fees which are currently \$20,000 per year for your role as a member of the Risk Committee and \$20,000 per year for your role as a member of the People & Remuneration Committee.

Time commitment envisaged

Your duties as a non-executive director of the Bank and as a member of the Risk and People & Remuneration Committees involve a commitment of a significant number of hours each month. You are expected to devote sufficient preparation time ahead of each board and committee meeting and to attend such ad hoc meetings as may be necessary and convenient.

Please consult with me before you accept any additional commitments which might conflict with, or impact on, the time you are able to devote to your role as a non-executive director of the Bank.

Indemnity, insurance and access to Bank documents

The Bank's current D&O insurance policy was extended to you from the date of your appointment. The Deed of Indemnity you entered into with the Bank expands your rights, provided under section 198F of the Corporations Act, to inspect and make copies of the Bank's books.

Charters and policies

The Board has adopted the following charters and policies:

- Board charter;
- Board Corporate Governance Guidelines;
- The Bank's Constitution;
- Securities trading guidelines;
- Guidelines for communication between the Bank and shareholders;
- Taking of independent professional advice by directors;
- Code of ethics entitled "Statement of Professional Practice";
- External Auditor Services Policy;
- Equal Employment Opportunity Policy; and
- Occupational Health and Safety Systems.

From time to time, the Bank may adopt new policies in accordance with applicable prudential and governance requirements.

Notification of interests to ASX

You will no doubt be aware that the Bank is required, under the ASX Listing Rules, to provide information in relation to a director's interests and transactions in the Bank's securities to ASX. The Bank must do this no more than 5 business days after a director's appointment and, subsequently, no more than 5 days after there is a change to a notifiable interest of a director. The Company Secretary will lodge Appendix 3Y returns on your behalf when there is a change in your interests, so that the Bank can comply with its obligations. You have previously entered into a Letter Agreement with the Bank setting out the formal arrangements necessary to enable the Bank to notify the ASX of your interest.

In addition, you will be required to provide to the Bank, from time to time, such information as is necessary to enable the Bank to comply with its reporting and regulatory requirements. The Company Secretary has previously notified the Australian Securities & Investments Commission and the London Companies House of your details in accordance with the relevant requirements and will notify those bodies of any relevant changes. The Company Secretary will notify APRA of such personal information relating to non-executive directors as is required by that body from time to time.

Continuing education arrangements

I confirm that you will be invited to participate in a refresher program regarding your role and duties as a director and details of the Bank's operations on a regular basis.

As you would be aware, the Board has also established a program of continuing education to ensure that members are kept up to date with developments in the industry both locally and at an international level. The continuing education program includes sessions with local and international experts in the particular fields relevant to the Bank's operations.

Please feel free to contact me on (02) 9252 0011 or the Company Secretary on (02) 9378 3546 if you have any queries in relation to the above.

Could you please sign the acknowledgement and return a copy of this letter to the company secretary.

Yours sincerely

/s/ John Schubert

John M Schubert

Acknowledgment

I, Tony Daniels accept the terms of appointment set out in this letter.

/s/ Tony Daniels

22/07/05

Signature

Date

14 July 2005

Mr C R Galbraith
266 Danks Street
Middle Park VIC 3206

Dear Colin

Terms of appointment as non-executive director

I am writing to confirm the terms of your appointment as a non-executive director of the Commonwealth Bank of Australia (**Bank**).

Disclosure of interests and other relevant information

As you are aware, the Board has adopted guidelines to assess the independence of directors of the Bank. You have previously indicated that you regard yourself as an independent director within the framework of those guidelines. If your independent status as a director is lost or if any other circumstance arises which may affect your independent status, you must immediately disclose this to the Board.

As the Bank is a regulated financial services provider it is important that all directors satisfy any "fit and proper" standards that may be required by the Australian Prudential Regulation Authority (**APRA**) from time to time. If there are any developments which may be relevant to your satisfaction of APRA's standards from time to time, you will be expected to advise the Chairman as soon as possible and if necessary, step down.

Remuneration and expenses

I confirm that each non-executive director is currently paid a standard annual fee of \$160,000 which is exclusive of statutory superannuation. In addition, an amount is payable for committee membership as set out in the paragraph below entitled "Board committees". This fee is paid on the last day of the last month of each quarter. The payment of director remuneration is governed by rules 11.6 to 11.7 of the Bank's constitution. Your fees are payable directly into the bank account that you have previously nominated. The amount of the cash payment you receive is dependent on the extent of your participation in the Non-Executive Directors' Share Plan (**NEDSP**) as discussed below. The Bank's contributions for your statutory superannuation are paid into the superannuation fund previously nominated by you.

You are entitled to be paid travelling and other expenses you properly incur concerning the Bank's affairs, including attending and returning from general meetings of the Bank or meetings of the Board or Board committees. It is the usual practice for the Bank to provide transport and accommodation for Directors in respect of Bank related business. Flight booking and limousine transport may be arranged by telephoning the Board Clerk on (02) 9378 3548.

If you prefer to arrange your own transport please forward any invoices to the Board Clerk requesting reimbursement of costs.

As you are aware, you are required to acquire shares in the Bank through the mandatory application of 20% of your annual director's fees, including committee fees, under the NEDSP. In addition, you may elect to apply up to a further 50% of fees as shares under the NEDSP. Shares acquired under the NEDSP are purchased on-market at the prevailing market price and attract full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares acquired under the NEDSP. You are, however, restricted from selling shares allocated to you under the NEDSP, representing the mandatory 20% of fees, until the earlier of 10 years after acquisition or the cessation of your position as a director of the Bank. You will nominate the holding restriction to apply to the additional shares acquired under the NEDSP. This must be at least 2 years and may be up to 10 years, unless you cease to be a director earlier. Further details regarding the operation of the NEDSP are contained in the plan documentation, a copy of which has previously been provided to you.

Term of appointment and vacation of office

As you would be aware, you are subject to retirement by rotation under rule 11.1 of the Bank's constitution.

The Board has established a policy that directors retire after a period of service of 12 years (except where succession planning for the Chairman and appointment of the Chairman require an extended term).

As you know, 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 to assess the quality and effectiveness of information made available to directors. It is important that individual directors participate in such reviews. Every two years, or when determined appropriate by the Board, the annual review process is facilitated by an external consultant, with an internal review conducted in the intervening years. The annual review includes an assessment of the performance of each director.

The results of the annual review and performance assessment are also used by the Board to determine its endorsement of the directors to stand for re-election at the next annual general meeting. The notice of AGM or other material provided to shareholders may include a recommendation as to your re-election, based on the Board's determination.

The Bank may also implement a process for annually assessing each non-executive director's fitness and propriety for the position of director in accordance with any requirements of APRA from time to time.

If you intend to resign as director, please give me as much notice of your intention to resign or to not seek re-election as is possible in the circumstances so that the Board can revise the plan for succession of skills and experience on the Board. In addition to the matters prescribed by the Corporations Act, I confirm that your office as a director of the Bank becomes vacant in the circumstances referred to in rule 11.9 of the Bank's constitution.

Board meetings

As you are aware, there are normally 6 full board meetings per year held on the second Tuesday of February, April, June, August, October and December. In addition, a two day strategy discussion is held in March and education sessions and business visits are arranged for the months when no meeting is held. Committee meetings are held on the Monday before each Board meeting. You have been provided with a timetable confirming the dates of the Board meetings scheduled for 2005 and 2006.

Board committees

I confirm that you are a member of the Risk, Audit and Nominations Committees. You are paid additional committee fees which are currently \$20,000 per year for your role as a member of the Risk Committee and \$25,000 per year for your role as a member of the Audit Committee.

Time commitment envisaged

Your duties as a non-executive director of the Bank and as a member of the Risk, Audit and Nominations Committees involve a commitment of a significant number of hours each month. You are expected to devote sufficient preparation time ahead of each board and committee meeting and to attend such ad hoc meetings as may be necessary and convenient.

Please consult with me before you accept any additional commitments which might conflict with, or impact on, the time you are able to devote to your role as a non-executive director of the Bank.

Indemnity, insurance and access to Bank documents

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In addition, you will be required to provide to the Bank, from time to time, such information as is necessary to enable the Bank to comply with its reporting and regulatory requirements. The Company Secretary has previously notified the Australian Securities & Investments Commission and the London Companies House of your details in accordance with the relevant requirements and will notify those bodies of any relevant changes. The Company Secretary will notify APRA of such personal information relating to non-executive directors as is required by that body from time to time.

Continuing education arrangements

I confirm that you will be invited to participate in a refresher program regarding your role and duties as a director and details of the Bank's operations on a regular basis.

As you would be aware, the Board has also established a program of continuing education to ensure that members are kept up to date with developments in the industry both locally and at an international level. The continuing education program includes sessions with local and international experts in the particular fields relevant to the Bank's operations.

Please feel free to contact me on (02) 9252 0011 or the Company Secretary on (02) 9378 3546 if you have any queries in relation to the above.

Could you please sign the acknowledgement and return a copy of this letter to the company secretary.

Yours sincerely

/s/ John Schubert

John M Schubert

Acknowledgment

I, Colin Galbraith accept the terms of appointment set out in this letter.

/s/ Colin Galbraith

06/08/05

Signature

Date

14 July 2005

Ms S C Kay
PO Box 29
Double Bay NSW 1360

Dear Carolyn

Terms of appointment as non-executive director

I am writing to confirm the terms of your appointment as a non-executive director of the Commonwealth Bank of Australia (**Bank**).

Disclosure of interests and other relevant information

As you are aware, the Board has adopted guidelines to assess the independence of directors of the Bank. You have previously indicated that you regard yourself as an independent director within the framework of those guidelines. If your independent status as a director is lost or if any other circumstance arises which may affect your independent status, you must immediately disclose this to the Board.

As the Bank is a regulated financial services provider it is important that all directors satisfy any "fit and proper" standards that may be required by the Australian Prudential Regulation Authority (**APRA**) from time to time. If there are any developments which may be relevant to your satisfaction of APRA's standards from time to time, you will be expected to advise the Chairman as soon as possible and if necessary, step down.

Remuneration and expenses

I confirm that each non-executive director is currently paid a standard annual fee of \$160,000 which is exclusive of statutory superannuation. In addition, an amount is payable for committee membership as set out in the paragraph below entitled "Board committees". This fee is paid on the last day of the last month of each quarter. The payment of director remuneration is governed by rules 11.6 to 11.7 of the Bank's constitution. Your fees are payable directly into the bank account that you have previously nominated. The amount of the cash payment you receive is dependent on the extent of your participation in the Non-Executive Directors' Share Plan (**NEDSP**) as discussed below. The Bank's contributions for your statutory superannuation are paid into the superannuation fund previously nominated by you.

You are entitled to be paid travelling and other expenses you properly incur concerning the Bank's affairs, including attending and returning from general meetings of the Bank or meetings of the Board or Board committees. It is the usual practice for the Bank to provide transport and accommodation for Directors in respect of Bank related business. Flight booking and limousine transport may be arranged by telephoning the Board Clerk on (02) 9378 3548.

If you prefer to arrange your own transport please forward any invoices to the Board Clerk requesting reimbursement of costs.

As you are aware, you are required to acquire shares in the Bank through the mandatory application of 20% of your annual director's fees, including committee fees, under the NEDSP. In addition, you may elect to apply up to a further 50% of fees as shares under the NEDSP. Shares acquired under the NEDSP are purchased on-market at the prevailing market price and attract full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares acquired under the NEDSP. You are, however, restricted from selling shares allocated to you under the NEDSP, representing the mandatory 20% of fees, until the earlier of 10 years after acquisition or the cessation of your position as a director of the Bank. You will nominate the holding restriction to apply to the additional shares acquired under the NEDSP. This must be at least 2 years and may be up to 10 years, unless you cease to be a director earlier. Further details regarding the operation of the NEDSP are contained in the plan documentation, a copy of which has previously been provided to you.

Term of appointment and vacation of office

As you would be aware, you are subject to retirement by rotation under rule 11.1 of the Bank's constitution.

The Board has established a policy that directors retire after a period of service of 12 years (except where succession planning for the Chairman and appointment of the Chairman require an extended term).

As you know, 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 to assess the quality and effectiveness of information made available to directors. It is important that individual directors participate in such reviews. Every two years, or when determined appropriate by the Board, the annual review process is facilitated by an external consultant, with an internal review conducted in the intervening years. The annual review includes an assessment of the performance of each director.

The results of the annual review and performance assessment are also used by the Board to determine its endorsement of the directors to stand for re-election at the next annual general meeting. The notice of AGM or other material provided to shareholders may include a recommendation as to your re-election, based on the Board's determination.

The Bank may also implement a process for annually assessing each non-executive director's fitness and propriety for the position of director in accordance with any requirements of APRA from time to time.

If you intend to resign as director, please give me as much notice of your intention to resign or to not seek re-election as is possible in the circumstances so that the Board can revise the plan for succession of skills and experience on the Board. In addition to the matters prescribed by the Corporations Act, I confirm that your office as a director of the Bank becomes vacant in the circumstances referred to in rule 11.9 of the Bank's constitution.

Board meetings

As you are aware, there are normally 6 full board meetings per year held on the second Tuesday of February, April, June, August, October and December. In addition, a two day strategy discussion is held in March and education sessions and business visits are arranged for the months when no meeting is held. Committee meetings are held on the Monday before each Board meeting. You have been provided with a timetable confirming the dates of the Board meetings scheduled for 2005 and 2006.

Board committees

I confirm that you are a member of the Risk Committee and a member of the People & Remuneration Committee. You are paid additional committee fees which are currently \$20,000 per year for your role as a member of the Risk Committee and \$20,000 per year for your role as a member of the People & Remuneration Committee.

Time commitment envisaged

Your duties as a non-executive director of the Bank and as a member of the Risk and People & Remuneration Committees involve a commitment of a significant number of hours each month. You are expected to devote sufficient preparation time ahead of each board and committee meeting and to attend such ad hoc meetings as may be necessary and convenient.

Please consult with me before you accept any additional commitments which might conflict with, or impact on, the time you are able to devote to your role as a non-executive director of the Bank.

Indemnity, insurance and access to Bank documents

The Bank's current D&O insurance policy was extended to you from the date of your appointment. The Deed of Indemnity you entered into with the Bank expands your rights, provided under section 198F of the Corporations Act, to inspect and make copies of the Bank's books.

Charters and policies

The Board has adopted the following charters and policies:

- Board charter;
- Board Corporate Governance Guidelines;
- The Bank's Constitution;
- Securities trading guidelines;
- Guidelines for communication between the Bank and shareholders;
- Taking of independent professional advice by directors;
- Code of ethics entitled "Statement of Professional Practice";
- External Auditor Services Policy;
- Equal Employment Opportunity Policy; and
- Occupational Health and Safety Systems.

From time to time, the Bank may adopt new policies in accordance with applicable prudential and governance requirements.

Notification of interests to ASX

You will no doubt be aware that the Bank is required, under the ASX Listing Rules, to provide information in relation to a director's interests and transactions in the Bank's securities to ASX. The Bank must do this no more than 5 business days after a director's appointment and, subsequently, no more than 5 days after there is a change to a notifiable interest of a director. The Company Secretary will lodge Appendix 3Y returns on your behalf when there is a change in your interests, so that the Bank can comply with its obligations. You have previously entered into a Letter Agreement with the Bank setting out the formal arrangements necessary to enable the Bank to notify the ASX of your interest.

In addition, you will be required to provide to the Bank, from time to time, such information as is necessary to enable the Bank to comply with its reporting and regulatory requirements. The Company Secretary has previously notified the Australian Securities & Investments Commission and the London Companies House of your details in accordance with the relevant requirements and will notify those bodies of any relevant changes. The Company Secretary will notify APRA of such personal information relating to non-executive directors as is required by that body from time to time.

Continuing education arrangements

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Please feel free to contact me on (02) 9252 0011 or the Company Secretary on (02) 9378 3546 if you have any queries in relation to the above.

Could you please sign the acknowledgement and return a copy of this letter to the company secretary.

Yours sincerely

/s/ John Schubert

John M Schubert

Acknowledgment

I, Carolyn Kay accept the terms of appointment set out in this letter.

/s/ Carolyn Kay

9/08/05

Signature

Date

14 July 2005

Mr W G Kent
PO Box 3182
Broadway WA 6009

Dear Warwick

Terms of appointment as non-executive director

I am writing to confirm the terms of your appointment as a non-executive director of the Commonwealth Bank of Australia (**Bank**).

Disclosure of interests and other relevant information

As you are aware, the Board has adopted guidelines to assess the independence of directors of the Bank. You have previously indicated that you regard yourself as an independent director within the framework of those guidelines. If your independent status as a director is lost or if any other circumstance arises which may affect your independent status, you must immediately disclose this to the Board.

As the Bank is a regulated financial services provider it is important that all directors satisfy any "fit and proper" standards that may be required by the Australian Prudential Regulation Authority (**APRA**) from time to time. If there are any developments which may be relevant to your satisfaction of APRA's standards from time to time, you will be expected to advise the Chairman as soon as possible and if necessary, step down.

Remuneration and expenses

I confirm that each non-executive director is currently paid a standard annual fee of \$160,000 which is exclusive of statutory superannuation. In addition, an amount is payable for committee membership as set out in the paragraph below entitled "Board committees". This fee is paid on the last day of the last month of each quarter. The payment of director remuneration is governed by rules 11.6 to 11.7 of the Bank's constitution. Your fees are payable directly into the bank account that you have previously nominated. The amount of the cash payment you receive is dependent on the extent of your participation in the Non-Executive Directors' Share Plan (**NEDSP**) as discussed below. The Bank's contributions for your statutory superannuation are paid into the superannuation fund previously nominated by you.

You are entitled to be paid travelling and other expenses you properly incur concerning the Bank's affairs, including attending and returning from general meetings of the Bank or meetings of the Board or Board committees. It is the usual practice for the Bank to provide transport and accommodation for Directors in respect of Bank related business. Flight booking and limousine transport may be arranged by telephoning the Board Clerk on (02) 9378 3548.

If you prefer to arrange your own transport please forward any invoices to the Board Clerk requesting reimbursement of costs.

As you are aware, you are required to acquire shares in the Bank through the mandatory application of 20% of your annual director's fees, including committee fees, under the NEDSP. In addition, you may elect to apply up to a further 50% of fees as shares under the NEDSP. Shares acquired under the NEDSP are purchased on-market at the prevailing market price and attract full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares acquired under the NEDSP. You are, however, restricted from selling shares allocated to you under the NEDSP, representing the mandatory 20% of fees, until the earlier of 10 years after acquisition or the cessation of your position as a director of the Bank. You will nominate the holding restriction to apply to the additional shares acquired under the NEDSP. This must be at least 2 years and may be up to 10 years, unless you cease to be a director earlier. Further details regarding the operation of the NEDSP are contained in the plan documentation, a copy of which has previously been provided to you.

Term of appointment and vacation of office

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The Board has established a policy that directors retire after a period of service of 12 years (except where succession planning for the Chairman and appointment of the Chairman require an extended term).

As you know, 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 to assess the quality and effectiveness of information made available to directors. It is important that individual directors participate in such reviews. Every two years, or when determined appropriate by the Board, the annual review process is facilitated by an external consultant, with an internal review conducted in the intervening years. The annual review includes an assessment of the performance of each director.

The results of the annual review and performance assessment are also used by the Board to determine its endorsement of the directors to stand for re-election at the next annual general meeting. The notice of AGM or other material provided to shareholders may include a recommendation as to your re-election, based on the Board's determination.

The Bank may also implement a process for annually assessing each non-executive director's fitness and propriety for the position of director in accordance with any requirements of APRA from time to time.

If you intend to resign as director, please give me as much notice of your intention to resign or to not seek re-election as is possible in the circumstances so that the Board can revise the plan for succession of skills and experience on the Board. In addition to the matters prescribed by the Corporations Act, I confirm that your office as a director of the Bank becomes vacant in the circumstances referred to in rule 11.9 of the Bank's constitution.

Board meetings

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Board committees

I confirm that you are a member of the Risk Committee and a member of the Audit Committee. You are paid additional committee fees which are currently \$20,000 per year for your role as a member of the Risk Committee and \$25,000 per year for your role as a member of the Audit Committee.

Time commitment envisaged

Your duties as a non-executive director of the Bank and as a member of the Risk and the Audit Committees involve a commitment of a significant number of hours each month. You are expected to devote sufficient preparation time ahead of each board and committee meeting and to attend such ad hoc meetings as may be necessary and convenient.

Please consult with me before you accept any additional commitments which might conflict with, or impact on, the time you are able to devote to your role as a non-executive director of the Bank.

Indemnity, insurance and access to Bank documents

The Bank's current D&O insurance policy was extended to you from the date of your appointment. The Deed of Indemnity you entered into with the Bank expands your rights, provided under section 198F of the Corporations Act, to inspect and make copies of the Bank's books.

Charters and policies

The Board has adopted the following charters and policies:

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Notification of interests to ASX

You will no doubt be aware that the Bank is required, under the ASX Listing Rules, to provide information in relation to a director's interests and transactions in the Bank's securities to ASX. The Bank must do this no more than 5 business days after a director's appointment and, subsequently, no more than 5 days after there is a change to a notifiable interest of a director. The Company Secretary will lodge Appendix 3Y returns on your behalf when there is a change in your interests, so that the Bank can comply with its obligations. You have previously entered into a Letter Agreement with the Bank setting out the formal arrangements necessary to enable the Bank to notify the ASX of your interest.

In addition, you will be required to provide to the Bank, from time to time, such information as is necessary to enable the Bank to comply with its reporting and regulatory requirements. The Company Secretary has previously notified the Australian Securities & Investments Commission and the London Companies House of your details in accordance with the relevant requirements and will notify those bodies of any relevant changes. The Company Secretary will notify APRA of such personal information relating to non-executive directors as is required by that body from time to time.

Continuing education arrangements

I confirm that you will be invited to participate in a refresher program regarding your role and duties as a director and details of the Bank's operations on a regular basis.

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Please feel free to contact me on (02) 9252 0011 or the Company Secretary on (02) 9378 3546 if you have any queries in relation to the above.

Could you please sign the acknowledgement and return a copy of this letter to the company secretary.

Yours sincerely

/s/ John Schubert

John M Schubert

Acknowledgment

I, Warwick Kent accept the terms of appointment set out in this letter.

/s/ Warwick Kent

22/07/05

Signature

Date

14 July 2005

Mr F D Ryan
6 Caprice Court
Templestowe VIC 3106

Dear Fergus

Terms of appointment as non-executive director

I am writing to confirm the terms of your appointment as a non-executive director of the Commonwealth Bank of Australia (**Bank**).

Disclosure of interests and other relevant information

As you are aware, the Board has adopted guidelines to assess the independence of directors of the Bank. You have previously indicated that you regard yourself as an independent director within the framework of those guidelines. If your independent status as a director is lost or if any other circumstance arises which may affect your independent status, you must immediately disclose this to the Board.

As the Bank is a regulated financial services provider it is important that all directors satisfy any “fit and proper” standards that may be required by the Australian Prudential Regulation Authority (**APRA**) from time to time. If there are any developments which may be relevant to your satisfaction of APRA’s standards from time to time, you will be expected to advise the Chairman as soon as possible and if necessary, step down.

Remuneration and expenses

I confirm that each non-executive director is currently paid a standard annual fee of \$160,000 which is exclusive of statutory superannuation. In addition, an amount is payable for committee membership as set out in the paragraph below entitled “Board committees”. This fee is paid on the last day of the last month of each quarter. The payment of director remuneration is governed by rules 11.6 to 11.7 of the Bank’s constitution. Your fees are payable directly into the bank account that you have previously nominated. The amount of the cash payment you receive is dependent on the extent of your participation in the Non-Executive Directors’ Share Plan (**NEDSP**) as discussed below. The Bank’s contributions for your statutory superannuation are paid into the superannuation fund previously nominated by you.

You are entitled to be paid travelling and other expenses you properly incur concerning the Bank’s affairs, including attending and returning from general meetings of the Bank or meetings of the Board or Board committees. It is the usual practice for the Bank to provide transport and accommodation for Directors in respect of Bank related business. Flight booking and limousine transport may be arranged by telephoning the Board Clerk on (02) 9378 3548.

If you prefer to arrange your own transport please forward any invoices to the Board Clerk requesting reimbursement of costs.

As you are aware, you are required to acquire shares in the Bank through the mandatory application of 20% of your annual director's fees, including committee fees, under the NEDSP. In addition, you may elect to apply up to a further 50% of fees as shares under the NEDSP. Shares acquired under the NEDSP are purchased on-market at the prevailing market price and attract full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares acquired under the NEDSP. You are, however, restricted from selling shares allocated to you under the NEDSP, representing the mandatory 20% of fees, until the earlier of 10 years after acquisition or the cessation of your position as a director of the Bank. You will nominate the holding restriction to apply to the additional shares acquired under the NEDSP. This must be at least 2 years and may be up to 10 years, unless you cease to be a director earlier. Further details regarding the operation of the NEDSP are contained in the plan documentation, a copy of which has previously been provided to you.

Term of appointment and vacation of office

As you would be aware, you are subject to retirement by rotation under rule 11.1 of the Bank's constitution.

The Board has established a policy that directors retire after a period of service of 12 years (except where succession planning for the Chairman and appointment of the Chairman require an extended term).

As you know, 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 to assess the quality and effectiveness of information made available to directors. It is important that individual directors participate in such reviews. Every two years, or when determined appropriate by the Board, the annual review process is facilitated by an external consultant, with an internal review conducted in the intervening years. The annual review includes an assessment of the performance of each director.

The results of the annual review and performance assessment are also used by the Board to determine its endorsement of the directors to stand for re-election at the next annual general meeting. The notice of AGM or other material provided to shareholders may include a recommendation as to your re-election, based on the Board's determination.

The Bank may also implement a process for annually assessing each non-executive director's fitness and propriety for the position of director in accordance with any requirements of APRA from time to time.

If you intend to resign as director, please give me as much notice of your intention to resign or to not seek re-election as is possible in the circumstances so that the Board can revise the plan for succession of skills and experience on the Board. In addition to the matters prescribed by the Corporations Act, I confirm that your office as a director of the Bank becomes vacant in the circumstances referred to in rule 11.9 of the Bank's constitution.

Board meetings

As you are aware, there are normally 6 full board meetings per year held on the second Tuesday of February, April, June, August, October and December. In addition, a two day strategy discussion is held in March and education sessions and business visits are arranged for the months when no meeting is held. Committee meetings are held on the Monday before each Board meeting. You have been provided with a timetable confirming the dates of the Board meetings scheduled for 2005 and 2006.

Board committees

I confirm that you are a member of the Risk Committee and chairman of the Audit Committee. You are paid additional committee fees which are currently \$20,000 per year for your role as a member of the Risk Committee and \$45,000 per year for your role as chairman of the Audit Committee.

Time commitment envisaged

Your duties as a non-executive director of the Bank and as a member of the Risk Committee and chairman of the Audit Committee involves a commitment of a significant number of hours each month. You are expected to devote sufficient preparation time ahead of each board and committee meeting and to attend such ad hoc meetings as may be necessary and convenient.

Please consult with me before you accept any additional commitments which might conflict with, or impact on, the time you are able to devote to your role as a non-executive director of the Bank.

Indemnity, insurance and access to Bank documents

The Bank's current D&O insurance policy was extended to you from the date of your appointment. The Deed of Indemnity you entered into with the Bank expands your rights, provided under section 198F of the Corporations Act, to inspect and make copies of the Bank's books.

Charters and policies

The Board has adopted the following charters and policies:

- Board charter;
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From time to time, the Bank may adopt new policies in accordance with applicable prudential and governance requirements.

Notification of interests to ASX

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In addition, you will be required to provide to the Bank, from time to time, such information as is necessary to enable the Bank to comply with its reporting and regulatory requirements. The Company Secretary has previously notified the Australian Securities & Investments Commission and the London Companies House of your details in accordance with the relevant requirements and will notify those bodies of any relevant changes. The Company Secretary will notify APRA of such personal information relating to non-executive directors as is required by that body from time to time.

Continuing education arrangements

I confirm that you will be invited to participate in a refresher program regarding your role and duties as a director and details of the Bank's operations on a regular basis.

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Please feel free to contact me on (02) 9252 0011 or the Company Secretary on (02) 9378 3546 if you have any queries in relation to the above.

Could you please sign the acknowledgement and return a copy of this letter to the company secretary.

Yours sincerely

/s/ John Schubert

John M Schubert

Acknowledgment

I, Fergus Ryan accept the terms of appointment set out in this letter.

/s/ Fergus Ryan

25/07/05

Signature

Date

14 July 2005

Mr F J Swan
58-60 Old Warrandyte Road
Donvale VIC 3111

Dear Frank

Terms of appointment as non-executive director

I am writing to confirm the terms of your appointment as a non-executive director of the Commonwealth Bank of Australia (**Bank**).

Disclosure of interests and other relevant information

As you are aware, the Board has adopted guidelines to assess the independence of directors of the Bank. You have previously indicated that you regard yourself as an independent director within the framework of those guidelines. If your independent status as a director is lost or if any other circumstance arises which may affect your independent status, you must immediately disclose this to the Board.

As the Bank is a regulated financial services provider it is important that all directors satisfy any "fit and proper" standards that may be required by the Australian Prudential Regulation Authority (**APRA**) from time to time. If there are any developments which may be relevant to your satisfaction of APRA's standards from time to time, you will be expected to advise the Chairman as soon as possible and if necessary, step down.

Remuneration and expenses

I confirm that each non-executive director is currently paid a standard annual fee of \$160,000 which is exclusive of statutory superannuation. In addition, an amount is payable for committee membership as set out in the paragraph below entitled "Board committees". This fee is paid on the last day of the last month of each quarter. The payment of director remuneration is governed by rules 11.6 to 11.7 of the Bank's constitution. Your fees are payable directly into the bank account that you have previously nominated. The amount of the cash payment you receive is dependent on the extent of your participation in the Non-Executive Directors' Share Plan (**NEDSP**) as discussed below. The Bank's contributions for your statutory superannuation are paid into the superannuation fund previously nominated by you.

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If you prefer to arrange your own transport please forward any invoices to the Board Clerk requesting reimbursement of costs.

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The results of the annual review and performance assessment are also used by the Board to determine its endorsement of the directors to stand for re-election at the next annual general meeting. The notice of AGM or other material provided to shareholders may include a recommendation as to your re-election, based on the Board's determination.

The Bank may also implement a process for annually assessing each non-executive director's fitness and propriety for the position of director in accordance with any requirements of APRA from time to time.

If you intend to resign as director, please give me as much notice of your intention to resign or to not seek re-election as is possible in the circumstances so that the Board can revise the plan for succession of skills and experience on the Board. In addition to the matters prescribed by the Corporations Act, I confirm that your office as a director of the Bank becomes vacant in the circumstances referred to in rule 11.9 of the Bank's constitution.

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Board committees

I confirm that you are chairman of the Risk Committee and a member of the Nominations Committee. You are paid additional committee fees which are currently \$35,000 per year for your role as chairman of the Risk Committee.

Time commitment envisaged

Your duties as a non-executive director of the Bank and as chairman of the Risk Committee and a member of the Nominations Committee involves a commitment of a significant number of hours each month. You are expected to devote sufficient preparation time ahead of each board and committee meeting and to attend such ad hoc meetings as may be necessary and convenient.

Please consult with me before you accept any additional commitments which might conflict with, or impact on, the time you are able to devote to your role as a non-executive director of the Bank.

Indemnity, insurance and access to Bank documents

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From time to time, the Bank may adopt new policies in accordance with applicable prudential and governance requirements.

Notification of interests to ASX

You will no doubt be aware that the Bank is required, under the ASX Listing Rules, to provide information in relation to a director's interests and transactions in the Bank's securities to ASX. The Bank must do this no more than 5 business days after a director's appointment and, subsequently, no more than 5 days after there is a change to a notifiable interest of a director. The Company Secretary will lodge Appendix 3Y returns on your behalf when there is a change in your interests, so that the Bank can comply with its obligations. You have previously entered into a Letter Agreement with the Bank setting out the formal arrangements necessary to enable the Bank to notify the ASX of your interest.

In addition, you will be required to provide to the Bank, from time to time, such information as is necessary to enable the Bank to comply with its reporting and regulatory requirements. The Company Secretary has previously notified the Australian Securities & Investments Commission and the London Companies House of your details in accordance with the relevant requirements and will notify those bodies of any relevant changes. The Company Secretary will notify APRA of such personal information relating to non-executive directors as is required by that body from time to time.

Continuing education arrangements

I confirm that you will be invited to participate in a refresher program regarding your role and duties as a director and details of the Bank's operations on a regular basis.

As you would be aware, the Board has also established a program of continuing education to ensure that members are kept up to date with developments in the industry both locally and at an international level. The continuing education program includes sessions with local and international experts in the particular fields relevant to the Bank's operations.

Please feel free to contact me on (02) 9252 0011 or the Company Secretary on (02) 9378 3546 if you have any queries in relation to the above.

Could you please sign the acknowledgement and return a copy of this letter to the company secretary.

Yours sincerely

/s/ John Schubert

John M Schubert

Acknowledgment

I, Frank Swan accept the terms of appointment set out in this letter.

/s/ Frank Swan

24/07/05

Signature

Date

14 July 2005

Ms B K Ward
57 York Road
Queens Park NSW 2022

Dear Barbara

Terms of appointment as non-executive director

I am writing to confirm the terms of your appointment as a non-executive director of the Commonwealth Bank of Australia (**Bank**).

Disclosure of interests and other relevant information

As you are aware, the Board has adopted guidelines to assess the independence of directors of the Bank. You have previously indicated that you regard yourself as an independent director within the framework of those guidelines. If your independent status as a director is lost or if any other circumstance arises which may affect your independent status, you must immediately disclose this to the Board.

As the Bank is a regulated financial services provider it is important that all directors satisfy any “fit and proper” standards that may be required by the Australian Prudential Regulation Authority (**APRA**) from time to time. If there are any developments which may be relevant to your satisfaction of APRA’s standards from time to time, you will be expected to advise the Chairman as soon as possible and if necessary, step down.

Remuneration and expenses

I confirm that each non-executive director is currently paid a standard annual fee of \$160,000 which is exclusive of statutory superannuation. In addition, an amount is payable for committee membership as set out in the paragraph below entitled “Board committees”. This fee is paid on the last day of the last month of each quarter. The payment of director remuneration is governed by rules 11.6 to 11.7 of the Bank’s constitution. Your fees are payable directly into the bank account that you have previously nominated. The amount of the cash payment you receive is dependent on the extent of your participation in the Non-Executive Directors’ Share Plan (**NEDSP**) as discussed below. The Bank’s contributions for your statutory superannuation are paid into the superannuation fund previously nominated by you.

You are entitled to be paid travelling and other expenses you properly incur concerning the Bank’s affairs, including attending and returning from general meetings of the Bank or meetings of the Board or Board committees. It is the usual practice for the Bank to provide transport and accommodation for Directors in respect of Bank related business. Flight booking and limousine transport may be arranged by telephoning the Board Clerk on (02) 9378 3548.

If you prefer to arrange your own transport please forward any invoices to the Board Clerk requesting reimbursement of costs.

As you are aware, you are required to acquire shares in the Bank through the mandatory application of 20% of your annual director's fees, including committee fees, under the NEDSP. In addition, you may elect to apply up to a further 50% of fees as shares under the NEDSP. Shares acquired under the NEDSP are purchased on-market at the prevailing market price and attract full dividend entitlements and voting rights. There are no forfeiture or vesting conditions attached to shares acquired under the NEDSP. You are, however, restricted from selling shares allocated to you under the NEDSP, representing the mandatory 20% of fees, until the earlier of 10 years after acquisition or the cessation of your position as a director of the Bank. You will nominate the holding restriction to apply to the additional shares acquired under the NEDSP. This must be at least 2 years and may be up to 10 years, unless you cease to be a director earlier. Further details regarding the operation of the NEDSP are contained in the plan documentation, a copy of which has previously been provided to you.

Term of appointment and vacation of office

As you would be aware, you are subject to retirement by rotation under rule 11.1 of the Bank's constitution.

The Board has established a policy that directors retire after a period of service of 12 years (except where succession planning for the Chairman and appointment of the Chairman require an extended term).

As you know, 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 to assess the quality and effectiveness of information made available to directors. It is important that individual directors participate in such reviews. Every two years, or when determined appropriate by the Board, the annual review process is facilitated by an external consultant, with an internal review conducted in the intervening years. The annual review includes an assessment of the performance of each director.

The results of the annual review and performance assessment are also used by the Board to determine its endorsement of the directors to stand for re-election at the next annual general meeting. The notice of AGM or other material provided to shareholders may include a recommendation as to your re-election, based on the Board's determination.

The Bank may also implement a process for annually assessing each non-executive director's fitness and propriety for the position of director in accordance with any requirements of APRA from time to time.

If you intend to resign as director, please give me as much notice of your intention to resign or to not seek re-election as is possible in the circumstances so that the Board can revise the plan for succession of skills and experience on the Board. In addition to the matters prescribed by the Corporations Act, I confirm that your office as a director of the Bank becomes vacant in the circumstances referred to in rule 11.9 of the Bank's constitution.

Board meetings

As you are aware, there are normally 6 full board meetings per year held on the second Tuesday of February, April, June, August, October and December. In addition, a two day strategy discussion is held in March and education sessions and business visits are arranged for the months when no meeting is held. Committee meetings are held on the Monday before each Board meeting. You have been provided with a timetable confirming the dates of the Board meetings scheduled for 2005 and 2006.

Board committees

I confirm that you are a member of the Risk Committee and a member of the Audit Committee. You are paid additional committee fees which are currently \$20,000 per year for your role as a member of the Risk Committee and \$25,000 per year for your role as a member of the Audit Committee.

Time commitment envisaged

Your duties as a non-executive director of the Bank and as a member of the Risk and Audit Committees involve a commitment of a significant number of hours each month. You are expected to devote sufficient preparation time ahead of each board and committee meeting and to attend such ad hoc meetings as may be necessary and convenient.

Please consult with me before you accept any additional commitments which might conflict with, or impact on, the time you are able to devote to your role as a non-executive director of the Bank.

Indemnity, insurance and access to Bank documents

The Bank's current D&O insurance policy was extended to you from the date of your appointment. The Deed of Indemnity you entered into with the Bank expands your rights, provided under section 198F of the Corporations Act, to inspect and make copies of the Bank's books.

Charters and policies

The Board has adopted the following charters and policies:

- Board charter;
- Board Corporate Governance Guidelines;
- The Bank's Constitution;
- Securities trading guidelines;
- Guidelines for communication between the Bank and shareholders;
- Taking of independent professional advice by directors;
- Code of ethics entitled "Statement of Professional Practice";
- External Auditor Services Policy;
- Equal Employment Opportunity Policy; and
- Occupational Health and Safety Systems.

From time to time, the Bank may adopt new policies in accordance with applicable prudential and governance requirements.

Notification of interests to ASX

You will no doubt be aware that the Bank is required, under the ASX Listing Rules, to provide information in relation to a director's interests and transactions in the Bank's securities to ASX. The Bank must do this no more than 5 business days after a director's appointment and, subsequently, no more than 5 days after there is a change to a notifiable interest of a director. The Company Secretary will lodge Appendix 3Y returns on your behalf when there is a change in your interests, so that the Bank can comply with its obligations. You have previously entered into a Letter Agreement with the Bank setting out the formal arrangements necessary to enable the Bank to notify the ASX of your interest.

In addition, you will be required to provide to the Bank, from time to time, such information as is necessary to enable the Bank to comply with its reporting and regulatory requirements. The Company Secretary has previously notified the Australian Securities & Investments Commission and the London Companies House of your details in accordance with the relevant requirements and will notify those bodies of any relevant changes. The Company Secretary will notify APRA of such personal information relating to non-executive directors as is required by that body from time to time.

Continuing education arrangements

I confirm that you will be invited to participate in a refresher program regarding your role and duties as a director and details of the Bank's operations on a regular basis.

As you would be aware, the Board has also established a program of continuing education to ensure that members are kept up to date with developments in the industry both locally and at an international level. The continuing education program includes sessions with local and international experts in the particular fields relevant to the Bank's operations.

Please feel free to contact me on (02) 9252 0011 or the Company Secretary on (02) 9378 3546 if you have any queries in relation to the above.

Could you please sign the acknowledgement and return a copy of this letter to the company secretary.

Yours sincerely

/s/ John Schubert

John M Schubert

Acknowledgment

I, Barbara Ward accept the terms of appointment set out in this letter.

/s/ Barbara Ward

29/07/05

Signature

Date

Exhibit 8

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
AUSTRALIA		
(a) Banking		
Commonwealth Bank of Australia		Australia
Controlled Entities:		
Commonwealth Development Bank of Australia Limited		Australia
CBA Investments Limited		Australia
CBA Specialised Financing Limited		Australia
Share Investments Pty Limited		Australia
CBA Investments (No.2) Pty Limited		Australia
CBA International Finance Pty Limited		Australia
CBCL Australia Limited		Australia
CBFC Limited		Australia
Collateral Leasing Pty Limited		Australia
Commonwealth Securities Limited		Australia
Homepath Pty Limited		Australia
Chullora Equity Investments (No.2) Pty Limited		Australia
Chullora Equity Investments (No.3) Pty Limited		Australia
Commonwealth Investments Pty Limited		Australia
Commonwealth Property Limited		Australia
Infravest (No.1) Limited		Australia
Retail Investor Pty Limited		Australia
Sparad (No.24) Pty Limited		Australia
Colonial Employee Share Plan Limited		Australia
Colonial Finance Limited		Australia
Colonial Financial Services Pty Limited		Australia
CST Securitisation Management Limited		Australia
Emerald Holding Company Limited		Australia
TD Waterhouse Holdings (Aust) Pty Limited		Australia
Preferred Capital Limited		Australia
Newport Limited		Australia
Padang Pty Ltd		Australia
M Land Pty Ltd		Australia
PERLS II Trust		Australia
GT Funding No.1 Pty Ltd		Australia
GT Operating No.1 Pty Ltd		Australia
Watermark Limited		Australia
Emerald Limited		Australia
Loft No.1 Pty Ltd		Australia
Loft No.2 Pty Ltd		Australia
Fringe Pty Ltd		Australia
Reliance Achiever Pty Ltd		Australia
Reliance Achiever Partnership		Australia
Lily Pty Ltd		Australia
Pavillion Limited		Australia
Leaseway Transportation Pty Limited		Australia
Medallion 2003-2G		Australia
Broadcasting Infrastructure Asset Partnership		Australia
Greenwood Lending Pty Ltd		Australia

Exhibit 8

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
(b) Insurance and Funds Management		
Commonwealth Insurance Limited		Australia
Commonwealth Custodial Services Limited		Australia
Commonwealth Insurance Holdings Limited		Australia
Commonwealth Life Limited		Australia
CLL Investments Limited		Australia
CIF (Hazelwood) Pty Limited		Australia
Commonwealth Investment Services Limited Group		
Commonwealth Investment Services Limited		Australia
Commonwealth Managed Investments Limited		Australia
CISL (Hazelwood) Pty Limited		Australia
Commonwealth Funds Management Limited Group		
Commonwealth Funds Management Limited		Australia
CFM (ADF) Limited		Australia
CFML Nominees Pty Limited		Australia
CMG Asia Pty Limited		Australia
CMG First State Investment Managers (Asia) Limited		Australia
Colonial AFS Services Pty Limited		Australia
Colonial Financial Corporation Limited		Australia
Colonial First State Group Limited		Australia
Colonial First State Investments Limited		Australia
Avanteos Pty Limited		Australia
Colonial First State Property Limited		Australia
Colonial First State Property Retail Pty Limited	60	Australia
Colonial First State Property Retail Trust	60	Australia
Colonial First Statutory Funds Management Limited		Australia
CFS Managed Property Limited		Australia
Colonial Holding Company Pty Limited		Australia
Colonial Holding Company (No.2) Pty Limited		Australia
Colonial Financial Management Limited		Australia
Colonial International Holdings Pty Limited		Australia
Colonial Investments Holding Pty Limited		Australia
Colonial Investment Services Limited		Australia
Colonial LGA Holdings Limited		Australia
The Colonial Mutual Life Assurance Society Limited		Australia
Colonial Portfolio Services Limited		Australia
Colonial Services Pty Limited		Australia
Jacques Martin Pty Limited		Australia
PIF Managed Property Pty Limited		Australia
Colonial Protection Insurance Pty Ltd		Australia
NEW ZEALAND		
(a) Banking		
ASB Group Limited		New Zealand
ASB Holdings Limited		New Zealand
ASB Bank Limited		New Zealand
ASB Finance Limited		New Zealand
ASB Management Services Limited		New Zealand
ASB Properties Limited		New Zealand
ASB Superannuation Nominees Limited		New Zealand
CBA Funding (NZ) Limited		New Zealand
ASB Capital No.2		New Zealand
(b) Insurance and Funds Management		
ASB Group Limited		New Zealand
ASB Life Limited		New Zealand
Sovereign Limited		New Zealand
Colonial First State Investment Managers (NZ) Limited		New Zealand
Colonial First State Investments (NZ) Limited		New Zealand
ASB Group (Life) Limited		New Zealand
Kiwi Income Properties Limited		New Zealand
Kiwi Property Management Limited		New Zealand
Sovereign Life NZ Limited		New Zealand
Sovereign Services Corporation New Zealand Limited		New Zealand

Exhibit 8

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
OTHER OVERSEAS		
(a) Banking		
CBA Asia Limited		Singapore
CBA (Europe) Finance Limited		United Kingdom
CBA (Delaware) Finance Incorporated		USA
CTB Australia Limited		Hong Kong
Senator House Investments (UK) Limited ⁽¹⁾		United Kingdom
Commonwealth Securities (Japan) Pty Limited		Japan
National Bank of Fiji Limited	51	Fiji
PT Bank Commonwealth		Indonesia
CBA Capital Holdings Inc		USA
CBA Capital Trust 1		USA
CBA Funding Trust 1		USA
Seahorse Investments UK Ltd		United Kingdom
CommInternational Limited		Malta
CommFinance Limited		Malta
Pontoon		United Kingdom
Quay (Funding) PLC		United Kingdom
Burdekin Investments		Cayman Islands
(b) Insurance and Funds Management		
CMG Asia Life Holdings Limited		Bermuda
CMG Asia Limited		Bermuda
CMG Asia Pensions and Retirements Limited		Hong Kong
CMG First State Investments (Hong Kong) Limited		Hong Kong
CMG First State Singapore Limited		Singapore
Colonial Fiji Life Limited		Fiji
Colonial First State International Assets Limited		United Kingdom
Colonial First State Investments (Fiji) Limited		Fiji
Colonial First State Investment Managers (UK) Limited		United Kingdom
Colonial Healthcare (Fiji) Limited		Fiji
Colonial Services (Fiji) Limited		Fiji
Colonial First State UK Holdings Limited		United Kingdom
Stewart Ivory Holdings Limited		United Kingdom
Waterloo & Victoria Limited		Cayman Islands
First State (HK) LLC		United States
FS Invest Hldgs (Singapore) Ltd		Singapore

Non-operating and minor operating controlled entities and investment vehicles holding policyholder assets are excluded from the above list.

⁽¹⁾ Wholly owned subsidiary of Newport Limited

Exhibit 12

Chief Executive Officer Certification

I, Ralph J. Norris, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Commonwealth Bank of Australia;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [Omitted pursuant to the guidance of SEC Release No. 33-8238 (June 5, 2003)]
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - a. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: 14 December 2005

/s/ Ralph Norris

Name: Ralph J. Norris
Title: Managing Director and Chief Executive Officer

Exhibit 12

Chief Financial Officer Certification

I, Michael Cameron, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 20-F of Commonwealth Bank of Australia;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [Omitted pursuant to the guidance of SEC Release No. 33-8238 (June 5, 2003)]
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: 14 December 2005

/s/ Michael Cameron

Name: Michael Cameron
Title: Chief Financial Officer

Exhibit 13

Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Commonwealth Bank of Australia Limited, an Australian corporation (the "Company"), hereby certifies that:

The Annual Report on Form 20-F for the year ended June 30, 2005 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: 14 December 2005

/s/ Ralph Norris

Name: Ralph J. Norris
Title: Managing Director and Chief Executive Officer

Exhibit 13

Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Commonwealth Bank of Australia Limited, an Australian corporation (the "Company"), hereby certifies that:

The Annual Report on Form 20-F for the year ended June 30, 2005 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: 14 December 2005

/s/ Michael Cameron

Name: Michael Cameron
Title: Chief Financial Officer

Mr Michael Cameron
Chief Financial Officer
Commonwealth Bank of Australia
Level 8, 48 Martin Place
SYDNEY NSW 2000

Dear Michael

US Form 20-F Filing – 30 June 2005

We have completed our audit of the company and consolidated financial statements in US Form 20-F for year ended 30 June 2005. Our audit procedures were undertaken in accordance with Australian Generally Accepted Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States) in order to provide reasonable assurance that the US Form 20-F is free of material misstatement.

Broadly our procedures were designed to address:

- the completeness and accuracy in Form 20-F of Note 48, “Differences between the Australian and United States Accounting Principles”;
- additional or amended disclosures made in the Form 20-F compared to the Australian Annual Report; and
- any events occurring subsequent to the signing of the Australian Annual Report (10 August 2005) requiring disclosure in Form 20-F.

Based on the additional audit procedures undertaken as summarised above, subject to the board approval of the Form 20-F, we intend to sign an unqualified audit report on the US Form 20-F filing for the year ended 30 June 2005.

Yours sincerely



S J Ferguson
Partner
Date : 14 December 2005