



Annual Report

2014

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Chairman's Statement

Introduction

For over 100 years the Commonwealth Bank of Australia has been an essential part of the growth of Australia. At various stages of our history our role has ranged from being the country's Central Bank to issuing the currency, organising war loans and providing regular banking services to Australian servicemen around the world. For generations of Australians we have been their first bank through our involvement in school banking.

Throughout that time our guiding principle has been and continues to be to secure and enhance the financial wellbeing of people, businesses and communities.

We are proud that we are regarded as safe, strong and community minded by our customers, a good place to work by our 52,000 people and a good place to invest by our shareholders.

While in 2014 the Group again achieved an excellent financial result, maintained leadership in customer satisfaction and increased the dividend, these achievements were marred by the flaws in our financial advice business, which occurred between 2008 and 2011. This was followed by a highly publicised Senate Committee Report in July this year which was critical of these flaws.

At last year's Annual General Meeting, after closure of the enforceable undertaking from ASIC in October, I apologised to all of our shareholders for these unacceptable events. As you know, we work hard to be not only the best performing, but also the most trusted Bank everywhere we operate.

Good ethical behaviour and a sound ethical culture are central to these objectives.

We believe we acted decisively when the problem was uncovered. We began extensive remediation of all the processes within our advice business and since then we have listened to the views of a variety of stakeholders. As a result, and in addition to ongoing reviews within the Division, we have moved to a broad ranging program. We have taken steps to ensure that any customers of the financial advice business who believe the Group gave them poor advice between the years 2003 and 2012 have a clear way to have their concerns addressed including appropriate redress.

As you can see we have widened the period covered and I believe that we have a fair and objective process of dealing with any complaints raised. Together with an independent review structure, we trust that those of our customers affected will also see this as a fair way to deal with the issue. You can read more in the section in this statement entitled Commonwealth Financial Planning.

I should also make mention of the Financial System Inquiry, a draft report of which was issued in July. I do not want to comment in any detail here on the suggestions of the Inquiry, but I do want to reiterate that, as an integrated Group, we believe it is a core part of our responsibility to look after the financial affairs of our customers and if requested, to provide financial advice in an objective manner that seeks to secure and enhance their financial wellbeing. We need to, and seek to do this, in a manner that at all times seeks to avoid conflict of interest.

Operating and Financial results

In 2014 the Group again achieved an excellent result, improving productivity, maintaining leadership in customer satisfaction and growing profits. We have again increased the dividend, now at a record level. The share price has, during

the year, also been very strong though I appreciate only too well that this is a product of market forces as well as performance.

Within the Group your directors made sure they heard directly from market participants on the Group's performance and reputation in the markets; all of which was positive.

The result of the internal people engagement survey again reflected a continuation of the very good progress of recent years and illustrates the continually improving environment for our people working within the Group. They reflect this in their own dedication and hard work, which shows up in the Group's financial performance and standing in the community. In this vein there has also been a continuing focus on safety and the Group has consistently reduced the accident frequency rate during the year.

Outside Australia, the gradual improvement in the global economy continued into the 2014 financial year. However these results were achieved against an economic backdrop in Australia which has not reflected a marked improvement in consumer or business confidence. Corporate lending has therefore not grown although lower interest rates have contributed to an increase in the demand for housing finance and this has benefitted our retail banking business.

We are continuing to improve our business through focussing on the needs of our customers, continuing to invest in technology and driving further productivity and process simplification. These straight forward business priorities are augmented by our continued conservative management of the business, strong capital, high levels of liquidity and robust provisioning. The Group remains well funded with strong deposit growth and a conservative wholesale funding program.

Net profit after tax on a cash basis increased 12% on the prior year to \$8,680 million. Return on Equity, measured on a cash basis, increased 50 basis points to 18.7%. Key elements of the result were:

- **Net interest income** increased 8% to \$15,091 million, reflecting 8% growth in average interest earning assets and a one basis point increase in net interest margin;
- **Other banking income** increased 4% to \$4,323 million, due to volume driven growth in commissions and higher Markets trading income, partly offset by a lower favourable counterparty fair value adjustment and an impairment of the investment in Vietnam International Bank;
- **Funds management income** increased 6% to \$1,933 million. During the year the Group successfully completed the internalisation of the management of CFS Retail Property Group (CFX) and Kiwi Income Property Trust (KIP), and the Group has ceased to manage the Commonwealth Property Office Fund (CPA). The Group also sold its entire proprietary unit holding in CPA and KIP, and part of its proprietary unit holding in CFX. Excluding these Property transactions and businesses, funds management income increased 10% driven by a 20% increase in average Funds Under Administration from positive net flows, a strong investment performance and a 5% benefit from the lower Australian dollar. The increase was partly offset by a change in business mix;
- **Insurance income** increased 11% to \$819 million due to 8% average inforce premium growth as a result of reducing lapse rates and a 3% benefit from the lower Australian dollar;

- **Operating expenses** increased 5% to \$9,499 million, including a 2% impact from the lower Australian dollar, higher staff costs from inflation-related salary increases, higher Information Technology expenses due to increased amortisation and software write-offs. This was partly offset by the continued realisation of operational efficiencies from productivity initiatives; and
- **Loan impairment expense** decreased 12% to \$953 million, due to favourable loan loss experience and a reduction in individual provisioning requirements.

Assets grew by \$38 billion or 5% on the prior year driven by increased home lending, business and corporate lending and higher cash and liquid asset balances. The Group continued to satisfy a significant portion of its funding requirements from customer deposits. Customer deposits now represent 64% of total funding.

Capital and Dividends

The Group's ability to deliver strong performance and to be one of a very small number of global banks that have maintained ratings in the AA band, has been underpinned by our decision to retain conservative business settings, particularly with provisioning, liquidity, funding and capital.

Global regulators, including our domestic regulator, the Australian Prudential Regulation Authority (APRA), have introduced significant reforms in response to the problems faced by many financial institutions as a result of the Global Financial Crisis. In September 2012, APRA published final standards relating to the implementation of the Basel III capital reforms in Australia. APRA has adopted a more conservative approach than the minimum standards published by the Basel Committee on Banking Supervision and a more accelerated timetable for implementation.

The APRA prudential standards require a minimum Common Equity Tier 1 (CET1) ratio of 4.5% effective from 1 January 2013. An additional CET1 capital conservation buffer of 3.5%, inclusive of a Domestic Systemically Important Bank (DSIB) requirement of 1%, will be implemented on 1 January 2016, bringing the CET1 requirement for the Group to 8%. The Group has adopted a conservative and proactive approach to capital management and this is reflected in the overall strength of its capital position. The CET1 ratio (on an internationally harmonised basis) has increased by 520bps since the start of the Global Financial Crisis (June 2007).

As at 30 June 2014, the Group has a CET1 ratio of 9.3% under APRA's prudential standard version of Basel III, well above the current APRA minimum ratio of 4.5%. This is equivalent to an internationally harmonised CET 1 ratio of 12.1%.

The Group's dividend policy seeks to deliver the following objectives:

- Pay cash dividends at strong and sustainable levels;
- Target a full-year payout ratio of 70% to 80% of cash earnings; and
- Pay fully franked dividends.

Consistent with this policy, the final dividend declared was \$2.18 per share, bringing the total dividend for the financial year to \$4.01 per share. This represents a dividend payout ratio ("cash basis") for the year of 75.1% and is 10% above last year's full year dividend.

Commonwealth Financial Planning

As I said earlier, I want to reiterate what I said at our AGM in November 2013 that we deeply regret that some advisors

provided poor advice. We have no tolerance at all for behaviour that prejudices the financial wellbeing of our customers. When the extent and the seriousness of the issue was understood, we took decisive action to do the right thing for our customers and to change the way in which we run that business.

We have worked hard over the past three years on improving the business and its compliance and risk management framework and key elements include: we now have one of the most comprehensive staff training programmes in the industry; we have completely changed the remuneration structure; we have more rigorous systems and processes; we have better document management and we enforce higher standards. We have fostered an inclusive and engaged culture that is both open and transparent. Our people are now recognised and rewarded for improving the satisfaction of our customers and to do that, they have to understand our customers' needs objectively. And we have put in place a strategy that will serve the customer's best interests and will help them achieve their financial goals.

However despite these actions, your Board acknowledges that a number of stakeholders hold the view that our approach has not been sufficient to meet all of their needs. In response to these concerns we announced, on 3 July this year, our Open Advice Review program. This program is open to any Commonwealth Financial Planning and Financial Wisdom customer who received advice between 1 September 2003 and 1 July 2012 and has concerns regarding that advice.

The program will provide an assessment of the advice received, access to an independent customer advocate and an independent review panel. The program will be fully transparent to customers. To ensure we reach as many customers as possible there will be an extensive national advertising campaign, which has already commenced.

It has always been our intention to make it right for our customers and to put them back in the position they would have been had they received suitable advice. And in this regard we have already paid \$52 million in compensation to more than 1,100 customers of specific advisers who were identified as having provided poor advice.

Corporate Governance and Board Appointments

The Board's Non-Executive Directors meet without the Chief Executive Officer several times a year to discuss general items that may be on the minds of Directors that relate to the Group's business. I have an open dialogue with the Chief Executive Officer on any matters that may have been raised in these forums. There is a further meeting of the Board with the Chief Executive Officer for an open discussion on the Board's performance and to identify where improvements can be made in Board processes. The review process includes a performance assessment of the Board Committees and each Director as well as the Chairman.

In appointing new Non-Executive Directors, the Board Performance and Renewal Committee assesses the skills, experience and personal qualities of candidates. It also takes into consideration other attributes including diversity to ensure that any appointment decisions adequately reflect the environment in which the Group operates and its aspirations.

Following an extensive process your Board has announced the appointment of two new directors whom it believes will each make a significant contribution to the Board. Mr Shirish Apte and Sir David Higgins have a wide range of skills and

Chairman's Statement

experience including the ability to bring an international perspective and breadth of thinking which will deliver significant benefits to the Group.

Shirish and Sir David are highly respected business figures both in the Asia-Pacific region and globally. Shirish will bring international banking knowledge and experience that will greatly benefit the Commonwealth Bank. Sir David brings a vast array of high-level business, infrastructure and major project experience. Both men will be invaluable additions to the Commonwealth Bank Board and I very much look forward to working with them. Further details of Shirish and Sir David's business experience, qualifications and relevant external responsibilities can be found on pages 37 and 40 of this report.

The Board has again initiated a wide range of Board education sessions this year which have been most valuable in helping us better understand some of the complex issues facing the Group and providing exposure to a wide range of our stakeholders. In addition to the Board education sessions with investors I have continued to have regular meetings with our shareholders and I value the open and honest exchanges I have had with them.

Finally I would like to thank my fellow directors for their commitment, hard work and support over the past 12 months.

Outlook

We are cautiously positive about the outlook for the 2015 financial year. Whilst business and consumer confidence has remained fragile, the levels of underlying activity confirm the strong foundations of the Australian economy. Lower interest rates have been positive for the housing and construction sectors, where increased activity has gone some way to

offset the impacts of the anticipated reduction in investment in the resources sector. Although investment in the resources sector has tapered off as predicted, the fruits of previous investment are showing up in increased production of iron ore and LNG, as new projects move into the production phase. The past twelve months have also been a period of relative stability in the global economy although downside risk remains.

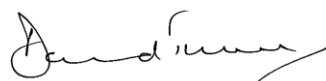
If the stability in global markets continues, gradual increases in consumer spending and demand for credit from businesses over the next year are likely, as long as budget discussions are progressed and there is a clear understanding of Australia's medium to long term economic direction.

In terms of our business settings, and economic policy, it is critical to take a long term view of the Australian economy. We will continue our focus on the future and building our key capabilities: people, technology, productivity and strength. We will also actively support policies designed to build a sustainable Australian economy over the next decade.

The Commonwealth Bank is fortunate to have a highly talented top executive team led by Ian Narev.

Ian would join with me however in acknowledging that we are dependent on everybody within the Group at every level and wherever they are, for their continuing commitment and loyalty. All of us who make up the Commonwealth Bank are very proud of the Group's place in Australia and its international reputation. Everyone in the Group works hard every day to secure and enhance the financial wellbeing of people, businesses and communities and to appropriately reward our shareholders for trusting us with their investment.

A sincere thank you to everybody.



David J Turner
Chairman
12 August 2014

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Chief Executive Officer's Statement

We have a very clear vision for the Commonwealth Bank Group: to excel at securing and enhancing the financial wellbeing of people, businesses and communities.

This is an enduring, long term vision. We are owned by our community. Nearly 800,000 Australians directly own our shares and millions more have ownership through their superannuation funds. Our owners expect us to think and act for the long-term, showing a long-term commitment to our customers and the community around us.

Our strategy to achieve our long-term vision is built around a customer-focused culture comprising people who thrive on providing outstanding service, a strong, flexible balance sheet, world-leading application of technology to financial services, and a focus on productivity that makes us easy and efficient to deal with.

This year we made good progress financially and in pursuing our long term strategy.

Our levels of customer satisfaction remained market leading across all our businesses. We continued to grow profits and dividends for our investors, and our share price reached an all-time high. The engagement of our people remained strong across the Group. And we continued to deepen our relationships with the community.

The number of mortgages provided to our Australian customers grew to around 340,000. We lent over \$9 billion to small and medium sized businesses, held \$26 billion more deposits on behalf of our customers and were trusted with more than \$20 billion in new investments.

We paid our Australian-based shareholders over \$6.4 billion in dividends. They saw the value of their investment in the Commonwealth Bank increase by over \$19 billion. We paid our 42,000 Australian-based staff \$4 billion in salaries and wages. We continued with our commitment not to offshore Australian jobs. We spent \$4 billion with more than 5,800 suppliers, including hundreds of local small businesses. We were one of Australia's largest taxpayers, paying around \$3.4 billion in State and Federal tax, which amounts to 4% of the total corporate tax levied by the Federal Government. And our commitment to the Australian community saw us continue our involvement with individuals, charities, sporting organisations and communities across Australia. We did this through a combination of financial contribution and more importantly through our staff freely giving their time.

Unfortunately these achievements were overshadowed by the ongoing impact of the poor actions of some of our financial planners in past years. While the Chairman has dealt with this in his letter to you, I would like to emphasise how seriously all of us on the management team take this matter. In July, I apologised to all our customers who lost savings as a result of the poor advice that these planners gave. And we put in place a comprehensive program to put these customers right.

The program provides a high degree of independence, so affected customers can have confidence that the compensation we offer is fair. Former High Court judge, Ian Callinan AC, QC will chair an independent panel which will decide any cases where the customer is not satisfied with the outcome. Before that, customers will have had access to an independent customer advocate, funded by us, to assess their case and represent them. And ultimately, though the Group will be bound by any determination from Mr Callinan's panel, the customer will not.

Mr Callinan's initial priority will be to advise me so that we make sure the review supports affected customers and

guarantees an independent review of their cases. He is now well advanced with that advice.

We are determined to put things right for our customers.

Over the past three years, we have spent a great deal of time and money rebuilding this business. We recognise that we must now focus on restoring trust with all our financial planning customers and the community generally. We do not take this for granted. I would like to reiterate that the conduct of some people working for our Commonwealth Financial Planning and Financial Wisdom businesses between 2003 and 2012 was clearly unacceptable. Their poor advice caused financial loss and distress and I am truly sorry for that.

During the year, economic conditions were generally stable. Lower interest rates and a lower Australian dollar assisted some sectors of the economy, notably housing. However, despite generally more positive conditions in global markets, consumer and corporate confidence remained fragile. As a result, while lending growth continued in housing, business credit growth remained low. And the propensity of corporates and consumers to save, rather than invest and spend, again drove strong deposit growth. Pleasingly, credit quality remained sound across the board.

Against this economic backdrop, the Group's 12% increase in cash profit was driven by continuing revenue growth, disciplined cost management and low loan impairment expenses.

Every business division made a positive contribution to the result.

- Retail Banking Services performed well on all dimensions. Lending and deposit volumes grew strongly in an increasingly competitive environment, and expenses were well controlled.
- Revenue growth for our Business and Private Banking division was subdued, reflecting the general lack of activity in the corporate sector, while margins were also negatively impacted by intense competition for deposits and the low cash rate environment. However, business lending volumes grew ahead of market, and cost discipline was strong.
- Institutional Banking and Markets also grew lending volumes ahead of the market. And our markets businesses performed well.
- Our Wealth Management business benefited from improved equity markets and better inflows as average Funds Under Administration grew by 13% while 84% of our funds performed above their respective benchmarks.
- Both ASB and Bankwest produced strong results, particularly from their retail businesses.
- Our International Financial Services business continued its consistent implementation of our strategy in Indonesia, China, Vietnam and India. Overall profits in the division were impacted by the impairment of our investment in Vietnam International Bank due to challenging macroeconomic conditions in Vietnam.

During the year we showed our continuing commitment to building our business for the long term. We reinvested \$1.2 billion into the business. Most of this investment was targeted at our long term strategic priorities – people, technology, productivity and strength.

The success of the Commonwealth Bank is dependent above all on our people. This year's result is a tribute to their commitment and hard work as a team. All of our internal

Chief Executive Officer's Statement

measures tell us that our people are highly engaged while our customers are also telling us that we are getting better at working with them to assist them in enhancing their financial wellbeing. We believe our people are our defining competitive advantage. Put simply we want to attract, retain and motivate the best people. That is why we continue to invest heavily in recruiting and development. And that is also why we encourage diversity throughout the bank. We aspire to be a place where people with good values, a strong work ethic and talent can thrive regardless of their gender, ethnicity, religion, sexual orientation, age or disability. We want to go much further than tolerating these differences – we want to celebrate them.

We again made significant progress this year on our aspiration to become a global leader in the application of technology to financial services. Having successfully completed our major platform replacement project, we are now the only major bank in Australia which provides all our customers with a 24 hour, 7 days a week real time banking experience. In addition to the customer and productivity benefits which are already being delivered, this investment provides us with a unique platform on which to build innovative business solutions. Some of the new products and services that we brought to market this year included our new Commbank app which has 3 million registrations already, Commisure's online motor insurance origination and ASB's PayTag which is currently being trialled. For business customers we introduced Daily IQ, a new mobile analytics app that gives business customers access to insights into their information such as cash flow and sales, as well as our CommBank Small Business app which, when paired with "Emmy", a next generation payments terminal, turns Apple or Android devices into powerful payment tools. We also introduced new services for consumers including "Lock and Limit" which give our credit card customers additional control over their card security and spending via the Commbank app, and "Cardless Cash" which enables customers to make ATM withdrawals using their mobile phone.

Productivity has been a continuing focus for the organisation. We are committed to ensuring that we have processes that allow our people to focus more on the customer, create a better customer experience, and enhance efficiency. We believe that cultural change is core to this strategy; our people need to have a continuous improvement mindset that drives us to look at better ways of doing what we do every day. Our financial results show the benefit of our efforts in this area.

But even more importantly, the number of people who have been trained in productivity-enhancing skills, and are putting them into practice every day, is rising significantly. That gives us confidence that we can continue to become more productive over the long term. Through the successful implementation of this programme over several years, the

Group will continue to avoid short term cost cutting initiatives that damage morale and thereby undermine long term value. We have not, and will not, set targets for reduction in people numbers. Nor will we resort to offshoring of Australian jobs.

Our final priority of strength also influenced our performance in the past year. Given that uncertainty remains in the global and local economies, we retained our conservative balance sheet throughout the year. However, we exist to support our customers. So we want to ensure that if growth is ahead of our expectations, we will have the capacity to extend that support. Our capital, liquidity, funding and provisioning levels are all designed with those dual long-term goals in mind: conservatism and customer focus. Regulation has also continued to impact our balance sheet decisions. We have worked closely with our regulators and we are well positioned to meet new Basel III capital and liquidity requirements. These and other regulatory requirements will require us to adapt our business model and, in most instances, lead to increased costs and higher levels of investment. So, by way of example, in 2014 nearly one quarter of our \$1.2 billion investment spend was on "risk and compliance".

In the Chairman's letter, he has summarised our outlook for the coming year. Against this backdrop we expect that subdued credit growth will see our banking businesses again deliver modest volume and revenue growth. Given the uncertain macro environment and the subdued outlook for domestic credit growth, we will be retaining our conservative business settings for the foreseeable future. Assuming the outlook doesn't change materially and that there are no substantial regulatory changes, we will look to retain levels of provisioning, liquidity and capital at or around current levels.

We will continue to pursue our vision to excel at securing and enhancing the financial wellbeing of people, businesses and communities.

Our strategy to achieve that vision has served our customers and shareholders well over recent years. We believe that there is still considerable upside yet to be realised in these key themes of customer focus, people, technology, productivity and strength.

For over 100 years successive Commonwealth Bank boards and management teams have sought to work to the highest ethical standards. As a result the Group is one of Australia's most trusted institutions. Our number one goal in the coming year is to enhance that trust.

The Group is well positioned for the future and I am confident that we have the ability to continue to deliver superior long term performance for our customers, our shareholders, our people and the communities in which we operate. Thank you again for your support this year. Your management team will continue to work hard to ensure that Commonwealth Bank remains strong and successful.



Ian M Narev
Chief Executive Officer
12 August 2014

Highlights

Group Performance Highlights ⁽¹⁾

| | Full Year Ended ("statutory basis") | | Full Year Ended ("cash basis") | | | Half Year Ended ("cash basis") | | |
|------------------------------------|--|----------|-----------------------------------|-----------|----------|-----------------------------------|-----------|----------|
| | Jun 14 vs | | Jun 14 vs | | | Jun 14 vs | | |
| | 30 Jun 14 | Jun 13 % | 30 Jun 14 | 30 Jun 13 | Jun 13 % | 30 Jun 14 | 31 Dec 13 | Dec 13 % |
| Net profit after tax (\$M) | 8,631 | 13 | 8,680 | 7,760 | 12 | 4,412 | 4,268 | 3 |
| Return on equity (%) | 18.7 | 70 bpts | 18.7 | 18.2 | 50 bpts | 18.8 | 18.7 | 10 bpts |
| Earnings per share - basic (cents) | 533.8 | 13 | 535.9 | 482.1 | 11 | 272.0 | 263.9 | 3 |
| Dividends per share (cents) | 401 | 10 | 401 | 364 | 10 | 218 | 183 | 19 |

(1) Comparative information has been restated to conform to presentation in the current year.

Financial Performance

The Group's net profit after tax ("statutory basis") for the year ended 30 June 2014 increased 13% on the prior year to \$8,631 million.

Return on equity ("statutory basis") was 18.7% and Earnings per share ("statutory basis") was 533.8 cents, an increase of 13% on the prior year.

The Management Discussion and Analysis discloses the net profit after tax on both a statutory and cash basis. The statutory basis is prepared and reviewed in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). The cash basis is used by management to present a clear view of the Group's underlying operating results, excluding items that introduce volatility and/or one-off distortions of the Group's current period performance. These items, such as hedging and IFRS volatility, are calculated consistently year on year and do not discriminate between positive and negative adjustments. A list of items excluded from statutory profit is provided in the reconciliation of the Net profit after tax ("cash basis") on page 9 and described in greater detail on page 19.

The Group's vision is to excel at securing and enhancing the financial well-being of people, businesses and communities. The strategies that the Group has pursued to achieve this vision have delivered consistent high rates of customer satisfaction and another strong financial result.

Operating income growth remained strong across the Retail, Wealth and New Zealand businesses. Business banking revenue reflected the modest level of domestic credit growth and continued competitive pressure on domestic deposit margins.

Operating expenses increased due to underlying inflationary pressures, the impact of foreign exchange and higher levels of software amortisation and write-offs; partly offset by the incremental benefit generated from productivity initiatives.

Loan impairment expense decreased due to the relatively benign economic environment. Provisioning levels remain prudent and there has been no change made to economic overlays.

Net profit after tax ("cash basis") for the year ended 30 June 2014 increased by 12% on the prior year to \$8,680 million. Cash earnings per share increased 11% to 535.9 cents per share.

Return on equity ("cash basis") for the year ended 30 June 2014 was 18.7%, an increase of 50 basis points on the prior year.

Capital

The Group continued to organically strengthen its capital

position under the Basel III regulatory capital framework. As at 30 June 2014, the Basel III Common Equity Tier 1 (CET1) ratio as measured on a fully internationally harmonised basis was 12.1% and 9.3% on an APRA basis.

This continues to place the Group in a strong position relative to our peers, and is well above the regulatory minimum levels.

Funding

The Group has continued to maintain conservative balance sheet settings, with a considerable portion of the Group's lending growth funded by growth in customer deposits, which increased to \$439 billion as at 30 June 2014, up \$34 billion on the prior year.

Dividends

The final dividend declared was \$2.18 per share, bringing the total dividend for the year ended 30 June 2014 to \$4.01 per share, an increase of 10% on the prior year. This represents a dividend payout ratio ("cash basis") of 75.1%.

The final dividend payment will be fully franked and paid on 2 October 2014 to owners of ordinary shares at the close of business on 21 August 2014 (record date). Shares will be quoted ex-dividend on 19 August 2014.

Outlook

We are cautiously positive about the outlook for the 2015 financial year. Whilst business and consumer confidence levels have remained fragile, the levels of underlying activity confirm the strong foundations of the Australian economy. Lower interest rates have been positive for the housing and construction sectors, where increased activity has gone some way to offset the impacts of the anticipated reduction in investment in the resources sector. And although investment in the resources sector has tapered off as predicted, the fruits of previous investment are showing up in increased production of iron ore and LNG, as new projects move into the production phase.

The past twelve months have also been a period of relative stability in the global economy although downside risks remain.

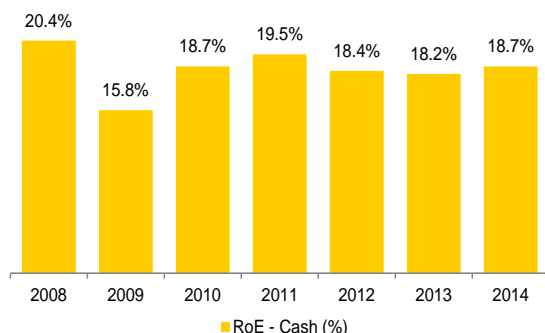
If the stability in global markets continues, gradual increases in consumer spending and demand for credit from businesses over the next year are likely, as long as budget discussions are progressed and there is a clear understanding of Australia's medium to long term economic direction.

In terms of our business settings, and economic policy, it is critical to take a long term view of the Australian economy. We will continue our focus on the future and building our key capabilities: people, technology, productivity and strength. We will also actively support policies designed to build a sustainable Australian economy over the next decade.

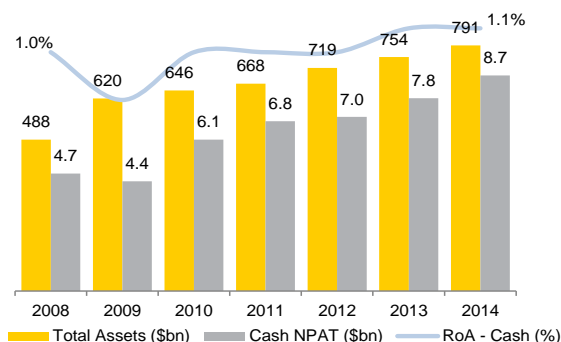
| Group Performance Summary ⁽¹⁾ | Full Year Ended ("cash basis") | | | Half Year Ended ("cash basis") | | | Full Year Ended ("statutory basis") | |
|--|--------------------------------|---------------|--------------------|--------------------------------|---------------|--------------------|-------------------------------------|--------------------|
| | 30 Jun 14 | 30 Jun 13 | Jun 14 vs Jun 13 % | 30 Jun 14 | 31 Dec 13 | Jun 14 vs Dec 13 % | 30 Jun 14 | Jun 14 vs Jun 13 % |
| | \$M | \$M | | \$M | \$M | | \$M | |
| Net interest income | 15,091 | 13,944 | 8 | 7,647 | 7,444 | 3 | 15,101 | 8 |
| Other banking income | 4,323 | 4,156 | 4 | 2,089 | 2,234 | (6) | 4,320 | 4 |
| Total banking income | 19,414 | 18,100 | 7 | 9,736 | 9,678 | 1 | 19,421 | 7 |
| Funds management income | 1,933 | 1,828 | 6 | 930 | 1,003 | (7) | 2,034 | 10 |
| Insurance income | 819 | 739 | 11 | 433 | 386 | 12 | 1,033 | 12 |
| Total operating income | 22,166 | 20,667 | 7 | 11,099 | 11,067 | - | 22,488 | 8 |
| Investment experience | 235 | 154 | 53 | 154 | 81 | 90 | n/a | n/a |
| Total income | 22,401 | 20,821 | 8 | 11,253 | 11,148 | 1 | 22,488 | 8 |
| Operating expenses | (9,499) | (9,010) | 5 | (4,748) | (4,751) | - | (9,573) | 5 |
| Loan impairment expense | (953) | (1,082) | (12) | (496) | (457) | 9 | (918) | (20) |
| Net profit before tax | 11,949 | 10,729 | 11 | 6,009 | 5,940 | 1 | 11,997 | 13 |
| Corporate tax expense ⁽²⁾ | (3,250) | (2,953) | 10 | (1,588) | (1,662) | (4) | (3,347) | 11 |
| Non-controlling interests ⁽³⁾ | (19) | (16) | 19 | (9) | (10) | (10) | (19) | 19 |
| Net profit after tax ("cash basis") | 8,680 | 7,760 | 12 | 4,412 | 4,268 | 3 | n/a | n/a |
| Hedging and IFRS volatility ⁽⁴⁾ | 6 | 27 | (78) | 11 | (5) | large | n/a | n/a |
| Other non-cash items ⁽⁴⁾ | (55) | (169) | (67) | 1 | (56) | large | n/a | n/a |
| Net profit after tax ("statutory basis") | 8,631 | 7,618 | 13 | 4,424 | 4,207 | 5 | 8,631 | 13 |
| Represented by: | | | | | | | | |
| Retail Banking Services | 3,472 | 3,089 | 12 | 1,801 | 1,671 | 8 | | |
| Business and Private Banking | 1,526 | 1,474 | 4 | 729 | 797 | (9) | | |
| Institutional Banking and Markets | 1,258 | 1,195 | 5 | 584 | 674 | (13) | | |
| Wealth Management | 793 | 679 | 17 | 398 | 395 | 1 | | |
| New Zealand | 742 | 621 | 19 | 387 | 355 | 9 | | |
| Bankwest | 680 | 561 | 21 | 327 | 353 | (7) | | |
| IFS and Other | 209 | 141 | 48 | 186 | 23 | large | | |
| Net profit after tax ("cash basis") | 8,680 | 7,760 | 12 | 4,412 | 4,268 | 3 | | |
| Investment experience - after tax | (197) | (105) | 88 | (135) | (62) | large | | |
| Net profit after tax ("underlying basis") | 8,483 | 7,655 | 11 | 4,277 | 4,206 | 2 | | |

- (1) During the prior half, comparative information has been restated to reflect: the reclassification of volume-related expenses from Operating expenses to Operating income; the impact on defined benefit superannuation expense of the application of revisions to AASB 119 Employee Benefits; and minor refinements to the allocation of customer balances and associated revenue and expenses between business segments.
- (2) For purposes of presentation, policyholder tax expense components of corporate tax expense are shown on a net basis (30 June 2014: \$126 million; 30 June 2013: \$112 million; and for the half years ended 30 June 2014: \$66 million and 31 December 2013: \$60 million).
- (3) Non-controlling interests include preference dividends paid to holders of preference shares in ASB Capital Limited and ASB Capital No.2 Limited.
- (4) Refer to page 19 for details.

Group Return on Equity



Group Return on Assets



Highlights

| Key Performance Indicators ⁽¹⁾ | Full Year Ended | | | Half Year Ended | | |
|---|-----------------|-----------|--------------------|-----------------|-----------|--------------------|
| | 30 Jun 14 | 30 Jun 13 | Jun 14 vs Jun 13 % | 30 Jun 14 | 31 Dec 13 | Jun 14 vs Dec 13 % |
| Group | | | | | | |
| Statutory net profit after tax (\$M) | 8,631 | 7,618 | 13 | 4,424 | 4,207 | 5 |
| Cash net profit after tax (\$M) | 8,680 | 7,760 | 12 | 4,412 | 4,268 | 3 |
| Net interest margin (%) | 2.14 | 2.13 | 1 bpt | 2.14 | 2.14 | - |
| Average interest earning assets (\$M) | 705,371 | 653,637 | 8 | 720,889 | 690,106 | 4 |
| Average interest bearing liabilities (\$M) | 661,733 | 609,557 | 9 | 675,749 | 647,944 | 4 |
| Funds Under Administration (FUA) - average (\$M) | 263,860 | 227,780 | 16 | 266,221 | 262,578 | 1 |
| Average inforce premiums (\$M) | 3,068 | 2,834 | 8 | 3,152 | 3,057 | 3 |
| Funds management income to average FUA (%) | 0.73 | 0.80 | (7)bpts | 0.70 | 0.76 | (6)bpts |
| Insurance income to average inforce premiums (%) | 26.7 | 26.1 | 60 bpts | 27.7 | 25.0 | 270 bpts |
| Operating expenses to total operating income (%) | 42.9 | 43.6 | (70)bpts | 42.8 | 42.9 | (10)bpts |
| Effective corporate tax rate ("cash basis") (%) | 27.2 | 27.5 | (30)bpts | 26.4 | 28.0 | (160)bpts |
| Retail Banking Services | | | | | | |
| Cash net profit after tax (\$M) | 3,472 | 3,089 | 12 | 1,801 | 1,671 | 8 |
| Operating expenses to total banking income (%) | 36.0 | 37.7 | (170)bpts | 35.0 | 37.0 | (200)bpts |
| Business and Private Banking | | | | | | |
| Cash net profit after tax (\$M) | 1,526 | 1,474 | 4 | 729 | 797 | (9) |
| Operating expenses to total banking income (%) | 37.0 | 36.9 | 10 bpts | 37.3 | 36.6 | 70 bpts |
| Institutional Banking and Markets | | | | | | |
| Cash net profit after tax (\$M) | 1,258 | 1,195 | 5 | 584 | 674 | (13) |
| Operating expenses to total banking income (%) | 35.3 | 33.8 | 150 bpts | 37.5 | 33.3 | 420 bpts |
| Wealth Management | | | | | | |
| Cash net profit after tax (\$M) | 793 | 679 | 17 | 398 | 395 | 1 |
| FUA - average (\$M) ⁽²⁾ | 241,405 | 202,259 | 19 | 247,645 | 235,678 | 5 |
| Average inforce premiums (\$M) | 2,237 | 2,068 | 8 | 2,291 | 2,219 | 3 |
| Funds management income to average FUA (%) ⁽²⁾ | 0.70 | 0.76 | (6)bpts | 0.69 | 0.72 | (3)bpts |
| Insurance income to average inforce premiums (%) | 25.7 | 26.2 | (50)bpts | 25.9 | 25.1 | 80 bpts |
| Operating expenses to total operating income (%) ⁽²⁾ | 66.7 | 66.8 | (10)bpts | 68.3 | 65.1 | 320 bpts |
| New Zealand | | | | | | |
| Cash net profit after tax (\$M) | 742 | 621 | 19 | 387 | 355 | 9 |
| FUA - average (\$M) | 10,877 | 8,484 | 28 | 11,507 | 10,263 | 12 |
| Average inforce premiums (\$M) | 590 | 516 | 14 | 628 | 582 | 8 |
| Funds management income to average FUA (%) ⁽³⁾ | 0.55 | 0.58 | (3)bpts | 0.54 | 0.58 | (4)bpts |
| Insurance income to average inforce premiums (%) ⁽³⁾ | 33.2 | 33.2 | - | 37.1 | 29.0 | large |
| Operating expenses to total operating income (%) ⁽³⁾ | 42.0 | 43.9 | (190)bpts | 41.5 | 42.6 | (110)bpts |
| Bankwest | | | | | | |
| Cash net profit after tax (\$M) | 680 | 561 | 21 | 327 | 353 | (7) |
| Operating expenses to total banking income (%) | 44.8 | 47.2 | (240)bpts | 45.4 | 44.2 | 120 bpts |
| Capital (Basel III) | | | | | | |
| Common Equity Tier 1 (Internationally Harmonised) (%) | 12.1 | 11.0 | 110 bpts | 12.1 | 11.4 | 70 bpts |
| Common Equity Tier 1 (APRA) (%) | 9.3 | 8.2 | 110 bpts | 9.3 | 8.5 | 80 bpts |

(1) During the prior half, comparative information has been restated to reflect: the reclassification of volume-related expenses from Operating expenses to Operating income; the impact on defined benefit superannuation expense of the application of revisions to AASB 119 Employee Benefits; and minor refinements to the allocation of customer balances and associated revenue and expenses between business segments.

(2) During the year the Group successfully completed the internalisation of the management of CFS Retail Property Group (CFX) and Kiwi Income Property Trust (KIP), and the Group has ceased to manage the Commonwealth Property Office Fund (CPA). The Group also sold its entire proprietary unit holding in CPA and KIP, and part of its proprietary unit holding in CFX. As such, these Property transactions and businesses have been excluded from the calculation of certain financial metrics and comparative information where indicated throughout this document.

(3) Key financial metrics are calculated in New Zealand dollar terms.

| Shareholder Summary ⁽¹⁾ | Full Year Ended | | | Half Year Ended | | |
|---|-----------------|-----------|-----------|-----------------|-----------|----------|
| | Jun 14 vs | | | Jun 14 vs | | |
| | 30 Jun 14 | 30 Jun 13 | Jun 13 % | 30 Jun 14 | 31 Dec 13 | Dec 13 % |
| Dividends per share - fully franked (cents) | 401 | 364 | 10 | 218 | 183 | 19 |
| Dividend cover - cash (times) | 1.3 | 1.3 | - | 1.2 | 1.4 | (0.2) |
| Earnings Per Share (EPS) (cents) | | | | | | |
| Statutory basis - basic | 533.8 | 474.2 | 13 | 273.3 | 260.5 | 5 |
| Cash basis - basic | 535.9 | 482.1 | 11 | 272.0 | 263.9 | 3 |
| Dividend payout ratio (%) | | | | | | |
| Statutory basis | 75.5 | 77.4 | (190)bpts | 80.3 | 70.5 | large |
| Cash basis | 75.1 | 75.9 | (80)bpts | 80.5 | 69.5 | large |
| Weighted average no. of shares ("statutory basis") - basic (M) ⁽²⁾ | 1,608 | 1,598 | 1 | 1,611 | 1,606 | - |
| Weighted average no. of shares ("cash basis") - basic (M) ⁽²⁾ | 1,611 | 1,601 | 1 | 1,614 | 1,609 | - |
| Return on equity ("statutory basis") (%) | 18.7 | 18.0 | 70 bpts | 19.0 | 18.5 | 50 bpts |
| Return on equity ("cash basis") (%) | 18.7 | 18.2 | 50 bpts | 18.8 | 18.7 | 10 bpts |

(1) Comparative information has been restated to conform to presentation in the current year.

(2) Fully diluted EPS and weighted average number of shares are disclosed in Note 6.

| Market Share ⁽¹⁾ | As at | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 | Jun 14 vs | Jun 14 vs |
| | % | % | % | Dec 13 % | Jun 13 % |
| Home loans | 25.3 | 25.3 | 25.3 | - | - |
| Credit cards - RBA ⁽²⁾ | 24.9 | 24.7 | 24.4 | 20 bpts | 50 bpts |
| Other household lending ⁽³⁾ | 18.8 | 18.2 | 16.9 | 60 bpts | 190 bpts |
| Household deposits ⁽⁴⁾ | 28.6 | 28.6 | 28.8 | - | (20)bpts |
| Retail deposits ⁽⁵⁾ | 25.4 | 25.4 | 25.5 | - | (10)bpts |
| Business lending - RBA | 17.8 | 18.0 | 18.0 | (20)bpts | (20)bpts |
| Business lending - APRA | 18.9 | 19.1 | 19.1 | (20)bpts | (20)bpts |
| Business deposits - APRA | 22.1 | 21.2 | 21.7 | 90 bpts | 40 bpts |
| Asset Finance | 13.2 | 13.3 | 13.3 | (10)bpts | (10)bpts |
| Equities trading | 5.2 | 5.1 | 5.2 | 10 bpts | - |
| Australian Retail - administrator view ⁽⁶⁾ | 15.8 | 15.7 | 15.7 | 10 bpts | 10 bpts |
| FirstChoice Platform ⁽⁶⁾ | 11.5 | 11.4 | 11.5 | 10 bpts | - |
| Australia life insurance (total risk) ⁽⁶⁾ | 12.5 | 12.9 | 13.1 | (40)bpts | (60)bpts |
| Australia life insurance (individual risk) ⁽⁶⁾ | 12.5 | 12.7 | 12.9 | (20)bpts | (40)bpts |
| NZ home loans | 21.9 | 22.1 | 22.3 | (20)bpts | (40)bpts |
| NZ retail deposits | 20.6 | 20.4 | 20.1 | 20 bpts | 50 bpts |
| NZ business lending | 11.0 | 10.6 | 10.4 | 40 bpts | 60 bpts |
| NZ retail FUA | 16.1 | 17.0 | 16.7 | (90)bpts | (60)bpts |
| NZ annual inforce premiums | 29.1 | 29.4 | 29.5 | (30)bpts | (40)bpts |

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

(2) As at 31 May 2014.

(3) Other household lending market share includes personal loans, margin loans and other forms of lending to individuals. In the current period, certain revolving credit products were reclassified from Home loans to Other household lending, resulting in the increase in this category.

(4) Comparatives have not been restated to include the impact of new market entrants in the current period.

(5) In accordance with RBA guidelines, these measures include some products relating to both the retail and corporate segments.

(6) As at 31 March 2014.

| Credit Ratings | Long-term | Short-term | Outlook |
|---------------------------|-----------|------------|---------|
| Fitch Ratings | AA- | F1+ | Stable |
| Moody's Investors Service | Aa2 | P-1 | Stable |
| Standard & Poor's | AA- | A-1+ | Stable |

Group Performance Analysis

Financial Performance and Business Review

Year Ended June 2014 versus June 2013

The Group's net profit after tax ("cash basis") increased 12% on the prior year to \$8,680 million.

Earnings per share ("cash basis") increased 11% on the prior year to 535.9 cents per share and return on equity ("cash basis") increased 50 basis points on the prior year to 18.7%.

The key components of the Group result were:

- **Net interest income** increased 8% to \$15,091 million, including a 1% benefit from the lower Australian dollar. This reflects 8% growth in average interest earning assets and a one basis point increase in net interest margin;
- **Other banking income** increased 4% to \$4,323 million, due to volume driven growth in commissions and higher Markets trading income, partly offset by a lower favourable counterparty fair value adjustment and an impairment of the investment in Vietnam International Bank (VIB);
- **Funds management income** increased 6% to \$1,933 million. During the year the Group successfully completed the internalisation of the management of CFS Retail Property Group (CFX) and Kiwi Income Property Trust (KIP), and the Group has ceased to manage the Commonwealth Property Office Fund (CPA). The Group also sold its entire proprietary unit holding in CPA and KIP, and part of its proprietary unit holding in CFX. Excluding these Property transactions and businesses, Funds management income increased 10% driven by a 20% increase in average Funds Under Administration (FUA) from positive net flows, a strong investment performance and a 5% benefit from the lower Australian dollar. The increase was partly offset by a change in business mix;
- **Insurance income** increased 11% to \$819 million due to 8% average inforce premium growth as a result of reducing lapse rates and a 3% benefit from the lower Australian dollar;
- **Operating expenses** increased 5% to \$9,499 million, including a 2% impact from the lower Australian dollar, higher staff costs from inflation-related salary increases, higher Information Technology (IT) expenses due to increased amortisation and software write-offs. This was partly offset by the continued realisation of operational efficiencies from productivity initiatives; and
- **Loan impairment expense** decreased 12% to \$953 million, due to a reduction in individual provisioning requirements.

Half Year Ended June 2014 versus December 2013

The Group's net profit after tax ("cash basis") increased 3% on the prior half to \$4,412 million.

Earnings per share ("cash basis") increased 3% on the prior half to 272.0 cents per share, whilst return on equity ("cash basis") improved 10 basis points to 18.8%.

It should be noted when comparing current half financial performance to the prior half that there are three less calendar days impacting revenue in the current half. Key points of note in the result included the following:

- **Net interest income** increased 3% to \$7,647 million, reflecting a 4% growth in average interest earning assets;
- **Other banking income** decreased 6% to \$2,089 million, due to a decrease in trading income following a strong prior half, an unfavourable counterparty fair value adjustment, and an impairment of the investment in VIB;
- **Funds management income** decreased 7% to \$930 million. Excluding the Property transactions and businesses, Funds management income decreased 1% on the prior half with a 5% increase in average FUA and a continued trend towards lower margin products;
- **Insurance income** increased 12% to \$433 million due to improved pricing, favourable claims experience and lapse rates in New Zealand and a 1% benefit from the lower Australian dollar;
- **Operating expenses** remained flat at \$4,748 million, including a 1% impact from the lower Australian dollar, partly offset by the continued realisation of incremental benefits from productivity initiatives; and
- **Loan impairment expense** increased 9% to \$496 million due to higher provisioning requirements in Business and Private Banking and lower recoveries in Institutional Banking and Markets.

Net Interest Income

| | Full Year Ended | | | Half Year Ended | | |
|---|------------------|------------------|-----------------------|------------------|------------------|-----------------------|
| | 30 Jun 14 \$M | 30 Jun 13 \$M | Jun 14 vs Jun 13 % | 30 Jun 14 \$M | 31 Dec 13 \$M | Jun 14 vs Dec 13 % |
| Net interest income ("cash basis") | 15,091 | 13,944 | 8 | 7,647 | 7,444 | 3 |
| Average interest earning assets | | | | | | |
| Home loans | 386,160 | 360,319 | 7 | 392,846 | 379,583 | 3 |
| Personal loans | 22,499 | 21,395 | 5 | 22,865 | 22,138 | 3 |
| Business and corporate loans | 177,249 | 168,296 | 5 | 180,528 | 174,024 | 4 |
| Total average lending interest earning assets | 585,908 | 550,010 | 7 | 596,239 | 575,745 | 4 |
| Non-lending interest earning assets | 119,463 | 103,627 | 15 | 124,650 | 114,361 | 9 |
| Total average interest earning assets | 705,371 | 653,637 | 8 | 720,889 | 690,106 | 4 |
| Net interest margin (%) | 2.14 | 2.13 | 1 bpt | 2.14 | 2.14 | - |

Year Ended June 2014 versus June 2013

Net interest income increased by 8% on the prior year to \$15,091 million. The result was driven by growth in average interest earning assets of 8% together with a one basis point increase in net interest margin. This includes a 1% benefit from the lower Australian dollar.

Average Interest Earning Assets

Average interest earning assets increased by \$52 billion on the prior year to \$705 billion, reflecting a \$36 billion increase in average lending interest earning assets and a \$16 billion increase in average non-lending interest earning assets.

Home loan average balances increased by \$26 billion or 7% on the prior year to \$386 billion. The growth in home loan balances was largely driven by domestic banking growth in line with system.

Average balances for business and corporate lending increased by \$9 billion on the prior year to \$177 billion driven by a growth in institutional lending balances.

Average non-lending interest earning assets increased \$16 billion on the prior year due to higher average levels of cash and liquid assets and trading assets.

Net Interest Margin

The Group's net interest margin increased one basis point on the prior year to 2.14%. The key drivers of the movement were:

Asset pricing: Decreased margin of two basis points, reflecting competitive pricing and change in mix with a shift in customer preference towards fixed rate home loans.

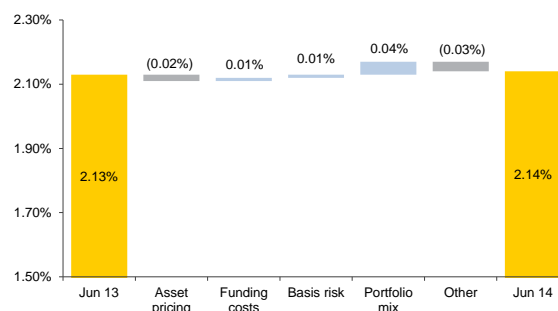
Funding costs: Increased margin of one basis point reflecting lower wholesale funding costs of two basis points, partly offset by a one basis point increase in deposits costs from ongoing strong competition and the impact of the falling cash rate environment.

Basis risk: Basis risk arises from funding assets which are priced relative to the cash rate with liabilities priced relative to the bank bill swap rate. The margin increased by one basis point as a result of a reduction in the spread between the cash rate and the bank bill swap rate during the year.

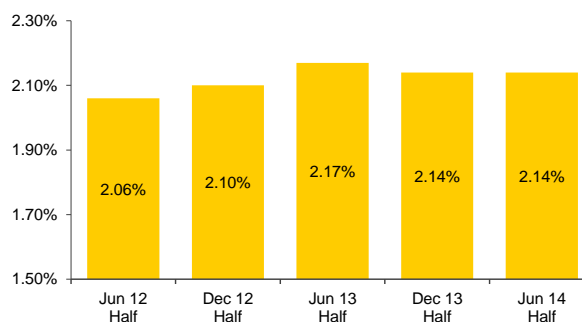
Portfolio mix: Increased margin of four basis points from strong growth in higher margin portfolios, plus favourable funding mix.

Other: Decreased margin of three basis points, primarily driven by increased holdings of liquid assets.

NIM Movement since June 2013



Group NIM (Half Year Ended)



Group Performance Analysis

Net Interest Income (continued)

Half Year Ended June 2014 versus December 2013

Net interest income increased by 3% on the prior half driven by growth in average interest earning assets of 4%, with a flat net interest margin of 2.14%.

Average Interest Earning Assets

Average interest earning assets increased by \$31 billion on the prior half to \$721 billion, reflecting a \$21 billion increase in average lending interest earning assets and a \$10 billion increase in average non-lending interest earning assets.

Home loan average balances increased by \$13 billion or 3% on the prior half to \$393 billion, primarily driven by growth in the domestic banking businesses in line with system.

Average balances for business and corporate lending increased by \$7 billion on the prior half to \$181 billion driven by growth in institutional lending balances.

Average non-lending interest earning assets increased \$10 billion on the prior half from growth in liquid assets.

Net Interest Margin

The Group's net interest margin of 2.14% remained unchanged from the prior half. The key drivers were:

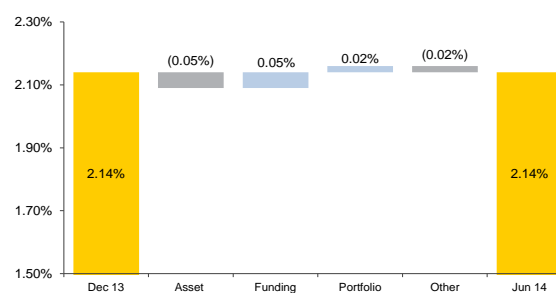
Asset pricing: Decrease in margin of five basis points reflecting competitive pricing and change in mix, with a shift in customer preference towards fixed rate home loans.

Funding costs: Increase in margin of five basis points reflecting lower wholesale funding cost of three basis points and lower cost of deposits of two basis points.

Portfolio mix: Increased margin of two basis points from strong growth in higher margin portfolios, plus favourable funding mix.

Other: Decreased margin of two basis points, primarily driven by increased holdings of liquid assets and lower replicating portfolio benefit.

NIM Movement since December 2013



Other Banking Income

| | Full Year Ended | | | Half Year Ended | | |
|--|------------------|------------------|-----------------------|------------------|------------------|-----------------------|
| | 30 Jun 14 \$M | 30 Jun 13 \$M | Jun 14 vs Jun 13 % | 30 Jun 14 \$M | 31 Dec 13 \$M | Jun 14 vs Dec 13 % |
| Commissions | 2,130 | 1,990 | 7 | 1,049 | 1,081 | (3) |
| Lending fees | 1,083 | 1,053 | 3 | 546 | 537 | 2 |
| Trading income | 922 | 863 | 7 | 414 | 508 | (19) |
| Other income ⁽¹⁾ | 188 | 250 | (25) | 80 | 108 | (26) |
| Other banking income ("cash basis") | 4,323 | 4,156 | 4 | 2,089 | 2,234 | (6) |

(1) Comparative information has been restated to conform to presentation in the current year.

Year Ended June 2014 versus June 2013

Other banking income increased 4% on the prior year to \$4,323 million, driven by the following revenue items:

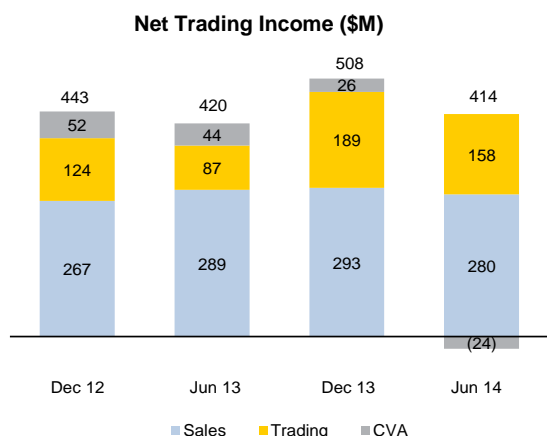
Commissions increased 7% on the prior year to \$2,130 million, driven by higher credit card interchange income and a strong performance of retail foreign exchange products;

Lending fees increased 3% on the prior year to \$1,083 million due to volume growth in cash advance facilities;

Trading income increased 7% on the prior year to \$922 million. This was primarily driven by a strong performance in Markets and Treasury, partly offset by a reduced benefit from favourable counterparty fair value adjustments; and

Other income decreased 25% on the prior year to \$188 million, mainly driven by an impairment of the investment in VIB and a loss on the hedge of New Zealand earnings due to the NZD appreciation.

Other Banking Income (continued)



Half Year Ended June 2014 versus December 2013

Other banking income decreased 6% on the prior half to \$2,089 million driven by the following revenue items:

Commissions decreased 3% on the prior half to \$1,049 million due to a decrease in consumer finance fees, reflecting the seasonal increase in loyalty points issued;

Lending fees increased 2% on the prior half to \$546 million, driven by higher deal flows in the Institutional Lending business;

Trading income decreased 19% on the prior half to \$414 million as a result of unfavourable counterparty fair value adjustments and lower trading gains; and

Other income decreased 26% on the prior half to \$80 million, principally due to an impairment of the investment in VIB and the impact of debt buybacks.

Funds Management Income

| | Full Year Ended ⁽¹⁾ | | | Half Year Ended ⁽¹⁾ | | |
|--|--------------------------------|------------------|-----------------------|--------------------------------|------------------|-----------------------|
| | 30 Jun 14 \$M | 30 Jun 13 \$M | Jun 14 vs Jun 13 % | 30 Jun 14 \$M | 31 Dec 13 \$M | Jun 14 vs Dec 13 % |
| Colonial First State ⁽²⁾ | 829 | 779 | 6 | 408 | 421 | (3) |
| CFS Global Asset Management (CFSGAM) | 739 | 647 | 14 | 371 | 368 | 1 |
| CommInsure | 132 | 117 | 13 | 63 | 69 | (9) |
| New Zealand | 60 | 49 | 22 | 30 | 30 | - |
| Other | 36 | 44 | (18) | 21 | 15 | 40 |
| Funds management income (excluding Property) ⁽³⁾ | 1,796 | 1,636 | 10 | 893 | 903 | (1) |
| Property ⁽³⁾ | 137 | 192 | (29) | 37 | 100 | (63) |
| Funds management income (including Property) ⁽³⁾ | 1,933 | 1,828 | 6 | 930 | 1,003 | (7) |

(1) Comparative information has been restated to separately disclose the Property transactions and businesses and to conform to presentation in the current year.

(2) Colonial First State incorporates the results of all financial planning businesses including Commonwealth Financial Planning.

(3) Property includes the operations of the CFS Retail Property Trust, Commonwealth Property Office Fund, Kiwi Income Property Trust, unlisted property funds and the asset management and development business.

Year Ended June 2014 versus June 2013

Funds management income increased 6% on the prior year to \$1,933 million. Excluding Property, Funds management income increased 10% on prior year driven by:

- A 20% increase in average FUA due to favourable investment markets and strong investment performance;
- Positive net flows and the benefit of a lower Australian dollar; partly offset by
- Funds management margin which declined seven basis points largely due to business mix and higher volume expenses.

Half Year Ended June 2014 versus December 2013

Funds management income decreased 7% on the prior half to \$930 million. Excluding Property, Funds management income decreased 1% on prior half driven by:

- Business mix which continued to trend towards lower margin products and an increase in volume expenses; partly offset by
- A 5% increase in average FUA from ongoing positive investment market performance and continued momentum in Australian Retail FUA net flows and solid growth in the ASB KiwiSaver scheme.

Group Performance Analysis

Insurance Income

| | Full Year Ended ⁽¹⁾ | | | Half Year Ended | | |
|--|--------------------------------|------------|--------------------|-----------------|------------|--------------------|
| | 30 Jun 14 | 30 Jun 13 | Jun 14 vs Jun 13 % | 30 Jun 14 | 31 Dec 13 | Jun 14 vs Dec 13 % |
| | \$M | \$M | | \$M | \$M | |
| Commlnsure | 575 | 542 | 6 | 294 | 281 | 5 |
| New Zealand | 202 | 171 | 18 | 115 | 87 | 32 |
| IFS Asia | 36 | 30 | 20 | 18 | 18 | - |
| Other | 6 | (4) | large | 6 | - | large |
| Insurance income ("cash basis") | 819 | 739 | 11 | 433 | 386 | 12 |

(1) Comparative information has been restated to conform to presentation in the current year.

Year Ended June 2014 versus June 2013

Insurance income increased by 11% on the prior year to \$819 million driven by:

- An increase in average inforce premiums of 8% to \$3,068 million driven by strong new business sales and the positive impact of retention initiatives on reducing lapse rates across Commlnsure and New Zealand;
- The benefit from foreign sourced income from New Zealand and Asia as result of a lower Australian dollar; partly offset by
- An increase in working claims in Commlnsure General Insurance, increased claims experience in Retail life and further reserve strengthening in Wholesale Life.

Half Year Ended June 2014 versus December 2013

Insurance income increased by 12% on the prior half to \$433 million driven by:

- The benefit from foreign sourced income from New Zealand as a result of a lower Australian dollar;
- An improvement in claims experience and lapse rates in New Zealand; and
- Wholesale Life and General Insurance income benefited from improved pricing and a lesser impact of reserve strengthening compared with the prior half.

Operating Expenses

| | Full Year Ended ⁽¹⁾ | | | Half Year Ended | | |
|--|--------------------------------|--------------|--------------------|-----------------|--------------|--------------------|
| | 30 Jun 14 | 30 Jun 13 | Jun 14 vs Jun 13 % | 30 Jun 14 | 31 Dec 13 | Jun 14 vs Dec 13 % |
| | \$M | \$M | | \$M | \$M | |
| Staff expenses | 5,542 | 5,232 | 6 | 2,757 | 2,785 | (1) |
| Occupancy and equipment expenses | 1,053 | 1,018 | 3 | 529 | 524 | 1 |
| Information technology services expenses | 1,380 | 1,299 | 6 | 680 | 700 | (3) |
| Other expenses | 1,524 | 1,461 | 4 | 782 | 742 | 5 |
| Operating expenses ("cash basis") | 9,499 | 9,010 | 5 | 4,748 | 4,751 | - |
| Operating expenses to total operating income (%) | 42.9 | 43.6 | (70)bpts | 42.8 | 42.9 | (10)bpts |
| Banking expense to operating income (%) | 39.7 | 40.6 | (90)bpts | 39.5 | 39.9 | (40)bpts |

(1) Comparative information has been restated to conform to presentation in the current year.

Year Ended June 2014 versus June 2013

Operating expenses increased 5% on the prior year to \$9,499 million.

Staff expenses increased by 6% to \$5,542 million, including a 2% impact from the lower Australian dollar, inflation-related salary increases and performance-related incentives;

Occupancy and equipment expenses increased by 3% to \$1,053 million, due to higher occupancy costs in New Zealand relating to the head office relocation and an unfavourable foreign exchange impact;

Information technology services expenses increased by 6% to \$1,380 million, driven by higher amortisation expenses and software write-offs;

Other expenses increased by 4% to \$1,524 million, driven by increased professional fees and higher loyalty redemption volumes; and

Group expense to income ratio improved 70 basis points on the prior year to 42.9%, reflecting higher revenues and productivity initiatives. The Banking expense to income ratio improved 90 basis points on the prior year to 39.7%.

Half Year Ended June 2014 versus December 2013

Operating expenses were unchanged on the prior half at \$4,748 million.

Staff expenses decreased by 1% to \$2,757 million, driven by lower staff numbers, partly offset by performance-related incentives and a 1% impact from the lower Australian dollar;

Occupancy and equipment expenses increased by 1% to \$529 million, primarily due to higher occupancy costs in New Zealand and an unfavourable foreign exchange impact;

Information technology services expenses decreased by 3% to \$680 million, driven by the one-off write-off of capitalised IT software in the prior half and the benefit of cost savings initiatives in the current half;

Other expenses increased by 5% to \$782 million, driven by increased professional fees; and

Group expense to income ratio improved 10 basis points on the prior comparative period to 42.8% reflecting higher revenues and productivity initiatives. The Banking expense to income ratio also improved 40 basis points on the prior comparative period to 39.5%.

Operating Expenses (continued)

Investment Spend

| | Full Year Ended | | | Half Year Ended | | |
|--|------------------|------------------|-----------------------|------------------|------------------|-----------------------|
| | 30 Jun 14 \$M | 30 Jun 13 \$M | Jun 14 vs Jun 13 % | 30 Jun 14 \$M | 31 Dec 13 \$M | Jun 14 vs Dec 13 % |
| Expensed investment spend ⁽¹⁾ | 598 | 566 | 6 | 310 | 288 | 8 |
| Capitalised investment spend | 584 | 671 | (13) | 283 | 301 | (6) |
| Investment spend | 1,182 | 1,237 | (4) | 593 | 589 | 1 |
| Comprising: | | | | | | |
| Productivity and growth | 774 | 651 | 19 | 400 | 374 | 7 |
| Core Banking Modernisation (CBM) | - | 200 | large | - | - | - |
| Risk and compliance | 280 | 234 | 20 | 141 | 139 | 1 |
| Branch refurbishment and other | 128 | 152 | (16) | 52 | 76 | (32) |
| Investment spend | 1,182 | 1,237 | (4) | 593 | 589 | 1 |

(1) Included within Operating Expenses disclosure on page 16.

The Group has continued to invest strongly to deliver on the strategic priorities of the business with \$1,182 million incurred in the full year to 30 June 2014, a reduction of 4% on the prior year.

The reduction is largely due to the completion of the Core Banking Modernisation (CBM) program in the prior year, partially offset by increased spend on initiatives driving productivity and growth, and risk and compliance projects.

Spend on productivity and growth includes an increased focus on the Group's digital channels, which has produced innovative new offerings such as the new Commbank app, PayTag, Cardless Cash, the Lock & Limit Credit Card feature, the MyWealth platform, as well as the Commbank Small Business App, improving the way small businesses accept payments and manage their cash flow.

Several initiatives are underway to deliver on the Group's One Commbank strategy, focused on better understanding customer needs and developing deeper customer relationships.

Significant spend on risk and compliance projects has continued as systems are implemented to assist in satisfying new regulatory obligations, including Stronger Super, Future of Financial Advice (FOFA) reforms and Foreign Account Tax Compliance Act (FATCA).

Spend on branch refurbishment and other costs decreased from prior year, as the prior year included significant investment in the North Wharf offices in New Zealand.

Loan Impairment Expense

| | Full Year Ended | | | Half Year Ended | | |
|---|------------------|------------------|-----------------------|------------------|------------------|-----------------------|
| | 30 Jun 14 \$M | 30 Jun 13 \$M | Jun 14 vs Jun 13 % | 30 Jun 14 \$M | 31 Dec 13 \$M | Jun 14 vs Dec 13 % |
| Retail Banking Services | 566 | 533 | 6 | 276 | 290 | (5) |
| Business and Private Banking | 253 | 280 | (10) | 166 | 87 | 91 |
| Institutional Banking and Markets | 61 | 154 | (60) | 40 | 21 | 90 |
| New Zealand | 51 | 45 | 13 | 33 | 18 | 83 |
| Bankwest | 11 | 118 | (91) | 6 | 5 | 20 |
| IFS and Other | 11 | (48) | large | (25) | 36 | large |
| Loan impairment expense ("cash basis") | 953 | 1,082 | (12) | 496 | 457 | 9 |

Year Ended June 2014 versus June 2013

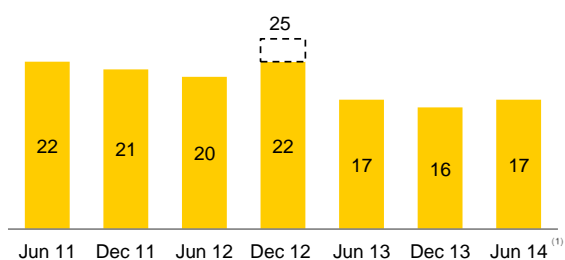
Loan impairment expense decreased 12% on the prior year to \$953 million. The decrease is driven by:

- A significant reduction in the Bankwest individual provision funding charges, consistent with the impact of the low interest rate environment;
- Increased write-backs and recoveries in Institutional Banking and Markets; partly offset by
- Increased expense in Retail Banking Services as a result of continued portfolio growth and increased write-offs in the unsecured portfolios.

Group Performance Analysis

Loan Impairment Expense (continued)

Half Year Loan Impairment Expense (Annualised) as a % of Average Gross Loans and Acceptances (bpts)



⊃ Provision relating to Bell Group litigation (non-cash items)

(1) 16 basis points, including the Bell Group write-back (non-cash item).

Half Year Ended June 2014 versus December 2013

Loan impairment expense increased 9% on the prior half to \$496 million mainly driven by:

- Increased expense in Business and Private Banking due to a small number of large increases to individual provisions;
- Reduced recoveries in Institutional Banking and Markets;
- Increased expense in ASB as the stabilisation of the portfolios resulted in lower provision releases; partly offset by
- Reduced expense in Retail Banking Services as a result of improving home loan portfolio quality.

Taxation Expense

| | Full Year Ended ⁽¹⁾ | | | Half Year Ended | | |
|-----------------------------|--------------------------------|------------------|-----------------------|------------------|------------------|-----------------------|
| | 30 Jun 14 \$M | 30 Jun 13 \$M | Jun 14 vs Jun 13 % | 30 Jun 14 \$M | 31 Dec 13 \$M | Jun 14 vs Dec 13 % |
| Corporate tax expense (\$M) | 3,250 | 2,953 | 10 | 1,588 | 1,662 | (4) |
| Effective tax rate (%) | 27.2 | 27.5 | (30)bpts | 26.4 | 28.0 | (160)bpts |

(1) Comparative information has been restated to conform to presentation in the current year.

Year Ended June 2014 versus June 2013

Corporate tax expense for the year ended 30 June 2014 increased 10% on the prior year representing a 27.2% effective tax rate.

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

Half Year Ended June 2014 versus December 2013

Corporate tax expense for the half year ended 30 June 2014 decreased 4% on the prior half representing a 26.4% effective tax rate, driven by adjustments to prior period tax expense.

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

Non-Cash Items Included in Statutory Profit

| | Full Year Ended | | | Half Year Ended | | |
|---|------------------|------------------|-----------------------|------------------|------------------|-----------------------|
| | 30 Jun 14 \$M | 30 Jun 13 \$M | Jun 14 vs Jun 13 % | 30 Jun 14 \$M | 31 Dec 13 \$M | Jun 14 vs Dec 13 % |
| Hedging and IFRS volatility | 6 | 27 | (78) | 11 | (5) | large |
| Bankwest non-cash items | (56) | (71) | (21) | (26) | (30) | (13) |
| Treasury shares valuation adjustment | (41) | (53) | (23) | (13) | (28) | (54) |
| Bell Group litigation | 25 | (45) | large | 25 | - | large |
| Gain on sale of management rights | 17 | - | large | 15 | 2 | large |
| Other non-cash items | (55) | (169) | (67) | 1 | (56) | large |
| Total non-cash items (after tax) | (49) | (142) | (65) | 12 | (61) | large |

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

Hedging and IFRS volatility

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

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

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

Fair value gains or losses on all of these economic hedges are excluded from cash profit since the asymmetric recognition of the gains or losses does not affect the Group's performance over the life of the hedge. A \$6 million after tax gain was recognised in statutory profit for the year ended 30 June 2014 (30 June 2013: \$27 million after tax gain).

Bankwest non-cash items

The acquisition of Bankwest resulted in the recognition of assets at fair value, representing certain financial instruments, core deposits and brand name totalling \$463 million that are being amortised over their useful lives. This resulted in amortisation charges of \$56 million after tax in the year ended 30 June 2014 (30 June 2013: \$71 million after tax).

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

Treasury shares valuation adjustment

Under IFRS, Commonwealth Bank of Australia shares held by the Group in the managed funds and life insurance businesses are defined as treasury shares and are held at cost. Distributions, realised and unrealised gains and losses are recognised in cash profit representing the underlying performance of the asset portfolio attributable to the wealth and life insurance businesses. These distributions, gains and losses are reversed as non-cash items for statutory reporting purposes. A \$41 million after tax loss was included in statutory profit in the year ended 30 June 2014 (30 June 2013: \$53 million after tax loss).

Bell Group litigation

Proceedings were brought by the liquidators of the Bell Group of companies against the consortium of banks that restructured its facilities on 26 January 1990. The Supreme Court of Western Australia Court of Appeal ruling on 17 August 2012 was adverse for the consortium of banks and resulted in an additional provision being raised by the Group. Settlement was reached during the current year, resulting in a partial write-off and release of the remaining provision. This is reported as a non-cash item due to its historic and one-off nature.

Gain on sale of management rights

The Group successfully completed the internalisation of the management of CFS Retail Property Trust Group (CFX) and Kiwi Income Property Trust (KIP), which resulted in a gain of \$17 million (net of transaction costs and indemnities) for the year ended 30 June 2014.

Policyholder tax

Policyholder tax is included in the Wealth Management business results for statutory reporting purposes. In the year ended 30 June 2014, tax expense of \$126 million (30 June 2013: \$112 million tax expense), funds management income of \$59 million (30 June 2013: \$77 million income) and insurance income of \$67 million (30 June 2013: \$35 million income) was recognised. The gross up of these items are excluded from cash profit as they do not reflect the underlying performance of the business which is measured on a net of policyholder tax basis.

Investment experience

Investment experience primarily includes the returns on shareholder capital invested in the wealth management and insurance businesses as well as the volatility generated through the economically hedged guaranteed annuity portfolio held by the Group's Wealth Management division. This item is classified separately within cash profit.

Group Performance Analysis

Review of Group Assets and Liabilities

| Total Group Assets and Liabilities | As at | | | | |
|---|------------------|------------------|------------------|-----------------------|-----------------------|
| | 30 Jun 14 \$M | 31 Dec 13 \$M | 30 Jun 13 \$M | Jun 14 vs Dec 13 % | Jun 14 vs Jun 13 % |
| Interest earning assets | | | | | |
| Home loans | 399,685 | 387,021 | 372,840 | 3 | 7 |
| Consumer finance | 23,058 | 22,636 | 22,013 | 2 | 5 |
| Business and corporate loans | 183,930 | 180,582 | 172,314 | 2 | 7 |
| Loans, bills discounted and other receivables ⁽¹⁾ | 606,673 | 590,239 | 567,167 | 3 | 7 |
| Non-lending interest earning assets | 119,699 | 119,388 | 106,060 | - | 13 |
| Total interest earning assets | 726,372 | 709,627 | 673,227 | 2 | 8 |
| Other assets ^{(1) (2)} | 65,079 | 72,674 | 80,630 | (10) | (19) |
| Total assets | 791,451 | 782,301 | 753,857 | 1 | 5 |
| Interest bearing liabilities | | | | | |
| Transaction deposits | 102,086 | 96,143 | 87,673 | 6 | 16 |
| Savings deposits | 127,430 | 120,686 | 106,935 | 6 | 19 |
| Investment deposits | 195,529 | 196,955 | 199,397 | (1) | (2) |
| Other demand deposits | 60,832 | 59,759 | 54,472 | 2 | 12 |
| Total interest bearing deposits | 485,877 | 473,543 | 448,477 | 3 | 8 |
| Debt issues | 147,246 | 147,482 | 138,871 | - | 6 |
| Other interest bearing liabilities | 42,079 | 47,299 | 44,306 | (11) | (5) |
| Total interest bearing liabilities | 675,202 | 668,324 | 631,654 | 1 | 7 |
| Non-interest bearing liabilities ⁽²⁾ | 66,901 | 66,940 | 76,666 | - | (13) |
| Total liabilities | 742,103 | 735,264 | 708,320 | 1 | 5 |

(1) Loans, bills discounted and other receivables exclude provisions for impairment which are included in Other assets.

(2) Comparative information has been restated to conform to presentation in the current year.

Year Ended June 2014 versus June 2013

Asset growth of \$38 billion or 5% on the prior year was due to increased home lending, business and corporate lending and higher cash and liquid asset balances.

The Group continued to satisfy a significant portion of its funding requirements from customer deposits. Customer deposits now represent 64% of total funding (30 June 2013: 63%).

Home loans

Home loan balances increased \$27 billion to \$400 billion, reflecting a 7% increase on the prior year. This includes a 1% increase due to the lower Australian dollar. Growth in Retail Banking Services was broadly in line with system growth within a competitive market environment, whilst Bankwest achieved above system growth.

Consumer finance

Personal loans, including credit cards and margin lending increased 5% on the prior year to \$23 billion due to continued growth in personal loan balances and above market credit card growth in Retail Banking Services and New Zealand.

Business and corporate loans

Business and corporate loans increased \$12 billion to \$184 billion, a 7% increase on the prior year. This includes a 1% increase due to the lower Australian dollar. This was driven by strong growth in commercial and institutional lending balances, higher leasing balances mainly in the United Kingdom and Asia, and above system growth in New Zealand. This was partly offset by the continued reduction in higher risk pre-acquisition exposures in Bankwest.

Non-lending interest earning assets

Non-lending interest earning assets increased \$14 billion to \$120 billion, reflecting a 13% increase on the prior year. This

includes a 2% increase due to the lower Australian dollar. This was driven by higher liquid asset balances held as a result of balance sheet growth and regulatory requirements.

Other assets

Other assets, including derivative assets, insurance assets and intangibles, decreased \$16 billion to \$65 billion, a 19% decrease on the prior year. This decrease reflected lower derivative asset balances.

Interest bearing deposits

Interest bearing deposits increased \$37 billion to \$486 billion, an 8% increase on the prior year.

This was driven by growth of \$20 billion in savings deposits, \$14 billion increase in transaction deposits and a \$6 billion increase in other demand deposits. This was partly offset by a \$4 billion decrease in investment deposits.

Debt issues

Debt issues increased \$8 billion to \$147 billion, a 6% increase on the prior year.

Refer to page 30 for further information on debt programs and issuance for the year ended 30 June 2014.

Other interest bearing liabilities

Other interest bearing liabilities, including loan capital, liabilities at fair value through the income statement and amounts due to other financial institutions, decreased \$2 billion to \$42 billion, a 5% decrease on the prior year.

Non-interest bearing liabilities

Non-interest bearing liabilities, including derivative liabilities and insurance policy liabilities, decreased \$10 billion to \$67 billion, a 13% decrease on the prior year.

Review of Group Assets and Liabilities (continued)

Half Year Ended June 2014 versus December 2013

Asset growth of \$9 billion or 1% on the prior half was primarily driven by increased home lending.

Continued deposits growth allowed the Group to satisfy a significant portion of its funding requirements through customer deposits. Customer deposits made up 64% of total funding as at 30 June 2014 up 1% from 63% in the prior half.

Home loans

Home loans balances increased \$13 billion to \$400 billion, a 3% increase on the prior half. New business growth remained strong in Retail Banking Services, and Bankwest achieved above system growth.

Consumer finance

Personal loans, including credit cards and margin lending increased 2% on the prior half to \$23 billion due to continued growth in personal loan balances in Retail Banking Services and New Zealand.

Business and corporate loans

Business and corporate loans increased \$3 billion to \$184 billion. This was largely due to solid business lending growth in both Australia and New Zealand.

Non-lending interest earning assets

Non-lending interest earning assets remained stable at \$120 billion.

Other assets

Other assets, including derivative assets, insurance assets and intangibles decreased 10% on the prior half to \$65 billion. This decrease reflected lower derivative asset balances.

Interest bearing deposits

Interest bearing deposits increased \$12 billion to \$486 billion, reflecting a 3% increase on the prior half.

This was driven by growth of \$7 billion in savings deposits, a \$6 billion increase in transaction deposits and a \$1 billion increase in other demand deposits. This was partly offset by a \$1 billion decrease in investment deposits.

Debt issues

Debt issues remained stable at \$147 billion.

Refer to page 30 for further information on debt programs and issuance for the half year ended 30 June 2014.

Other interest bearing liabilities

Other interest bearing liabilities, including loan capital, liabilities at fair value through the income statement and amounts due to other financial institutions, decreased 11% on the prior half to \$42 billion.

Non-interest bearing liabilities

Non-interest bearing liabilities, including derivative liabilities and insurance policy liabilities, remained stable at \$67 billion.

Group Operations and Business Settings

Loan Impairment Provisions and Credit Quality

Provisions for Impairment

| | As at | | | | |
|---|--------------|--------------|--------------|--------------------|--------------------|
| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 | Jun 14 vs Dec 13 % | Jun 14 vs Jun 13 % |
| | \$M | \$M | \$M | | |
| Provisions for impairment losses | | | | | |
| Collective provision | 2,779 | 2,870 | 2,858 | (3) | (3) |
| Individually assessed provisions | 1,127 | 1,416 | 1,628 | (20) | (31) |
| Total provisions for impairment losses | 3,906 | 4,286 | 4,486 | (9) | (13) |
| Less: Off balance sheet provisions | (40) | (24) | (31) | 67 | 29 |
| Total provisions for loan impairment | 3,866 | 4,262 | 4,455 | (9) | (13) |

Year Ended June 2014 versus June 2013

Total provisions for impairment losses decreased 13% on the prior year to \$3,906 million as at 30 June 2014. The movement in the level of provisioning reflects:

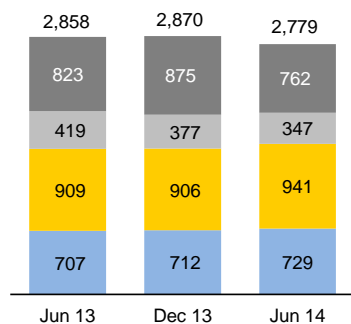
- Reduced individually assessed provisions as the level of impaired assets continues to reduce;
- A reduction of Bankwest collective provisions as troublesome loans continued to be refinanced or repaid; partly offset by
- Increased collective provisioning in the Commercial and Retail portfolios as a result of the annual review of factors and refinements to models; and
- Economic overlays remain unchanged on the prior year.

Half Year Ended June 2014 versus December 2013

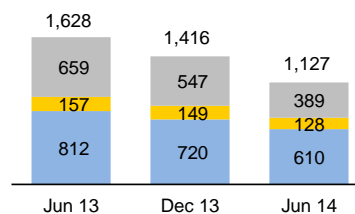
Total provisions for impairment losses decreased 9% on the prior half to \$3,906 million as at 30 June 2014. The movement in the level of provisioning reflects:

- Reduced individually assessed provisions as the level of impaired assets continues to reduce;
- A reduction of Bankwest collective provisions as troublesome loans continued to be refinanced or repaid;
- A reduction in management overlays as amounts set aside for factor changes and model refinements in the first half were utilised; partly offset by
- Increased Commercial and Retail provisions as a result of the annual review of provisioning models.

Collective Provisions (\$M)



Individually Assessed Provisions (\$M)



■ Overlay ■ Bankwest ■ Consumer ■ Commercial

Loan Impairment Provisions and Credit Quality (continued)

Credit Quality

| Credit Quality Metrics | Full Year Ended | | | Half Year Ended | | |
|--|-----------------|-----------|-----------|-----------------|-----------|-----------|
| | 30 Jun 14 | 30 Jun 13 | Jun 14 vs | 30 Jun 14 | 31 Dec 13 | Jun 14 vs |
| | | | Jun 13 % | | | Dec 13 % |
| Gross loans and acceptances (GLAA) (\$M) | 608,127 | 568,821 | 7 | 608,127 | 591,775 | 3 |
| Risk weighted assets (RWA) (\$M) - Basel III | 337,715 | 329,158 | 3 | 337,715 | 334,197 | 1 |
| Credit RWA (\$M) - Basel III | 289,138 | 279,674 | 3 | 289,138 | 282,204 | 2 |
| Gross impaired assets (\$M) | 3,367 | 4,330 | (22) | 3,367 | 3,939 | (15) |
| Net impaired assets (\$M) | 2,101 | 2,571 | (18) | 2,101 | 2,400 | (12) |
| Provision Ratios | | | | | | |
| Collective provision as a % of credit RWA - Basel III | 0.96 | 1.02 | (6)bpts | 0.96 | 1.02 | (6)bpts |
| Total provision as a % of credit RWA - Basel III | 1.35 | 1.60 | (25)bpts | 1.35 | 1.52 | (17)bpts |
| Total provisions for impaired assets as a % of gross impaired assets | 37.60 | 40.62 | (302)bpts | 37.60 | 39.07 | (147)bpts |
| Total provisions for impairment losses as a % of GLAA's | 0.64 | 0.79 | (15)bpts | 0.64 | 0.72 | (8)bpts |
| Asset Quality Ratios | | | | | | |
| Gross impaired assets as a % of GLAA's | 0.55 | 0.76 | (21)bpts | 0.55 | 0.67 | (12)bpts |
| Loans 90+ days past due but not impaired as a % of GLAA's | 0.39 | 0.39 | - | 0.39 | 0.44 | (5)bpts |
| Loan impairment expense ("cash basis") annualised as a % of average GLAA's | 0.16 | 0.20 | (4)bpts | 0.17 | 0.16 | 1 bpt |

Provision Ratios

Provision coverage ratios remain strong with collective provisions to Credit Risk Weighted Assets at 0.96% and Total Provisions to Credit Risk Weighted Assets at 1.35%.

Asset Quality

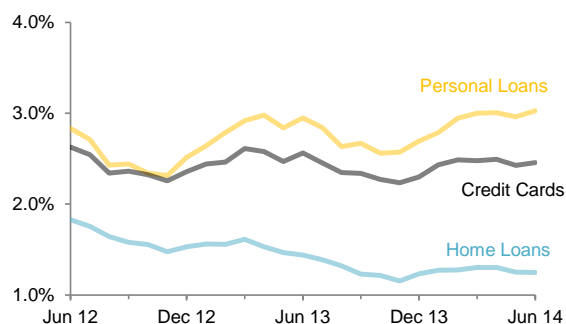
The low interest rate environment means that troublesome and impaired assets have continued to reduce and the arrears for the retail portfolios remain relatively low.

Retail Portfolios – Arrears Rates

Retail arrears for home loans and credit card products continued to show some improvement during the year.

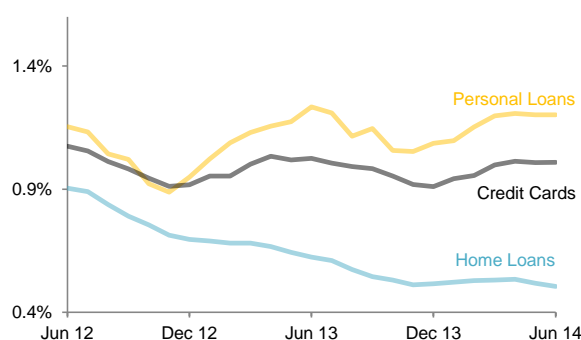
Home loan arrears reduced over the year, with 30+ day arrears decreasing from 1.44% to 1.25%, and 90+ day arrears reducing from 0.62% to 0.50%. Credit card arrears also improved with credit card 30+ day arrears falling from 2.56% to 2.46%, and 90+ day arrears reducing from 1.02% to 1.01%. Personal loan arrears were mixed over the year as 30+ day arrears increased from 2.95% to 3.03%, and 90+ day arrears reduced from 1.23% to 1.20%.

30+ Days Arrears Ratios (%) ⁽¹⁾



(1) Includes retail portfolios of Retail Banking Services, Bankwest and New Zealand.

90+ Days Arrears Ratios (%) ⁽¹⁾

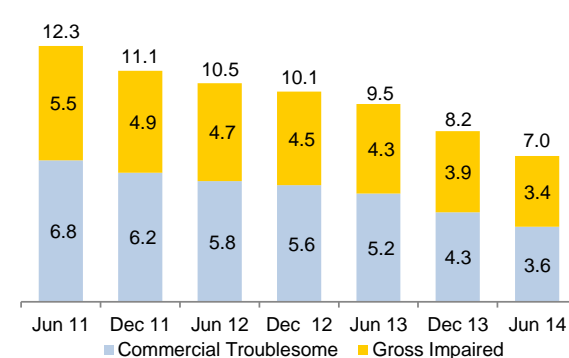


Troublesome and Impaired Assets

Commercial troublesome assets reduced 31% during the year to \$3,584 million.

Gross impaired assets decreased 22% on the prior year to \$3,367 million. Gross impaired assets as a proportion of gross loans and acceptances of 0.55% decreased 21 basis points on the prior year, reflecting the improving quality of the corporate portfolios.

Troublesome and Impaired Assets (\$B)



Group Operations and Business Settings

Capital

Basel Regulatory Framework

Background

The Group adopted the Basel III measurement and monitoring of regulatory capital effective from 1 January 2013.

In December 2010, the Basel Committee on Banking Supervision (BCBS) published a discussion paper on banking reforms to address issues which led to the Global Financial Crisis and to position banks for future crises. The objectives of the capital reforms are to increase the quality, consistency and transparency of capital, to enhance the risk coverage framework, and to reduce systemic and pro-cyclical risk. The major reforms are being implemented on a phased approach to 1 January 2019.

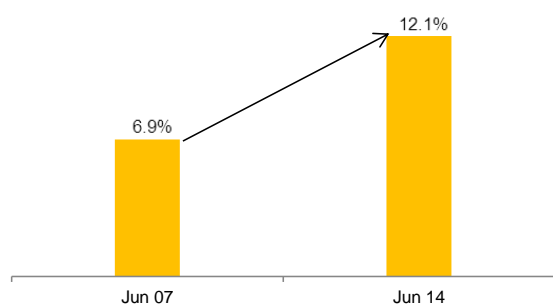
In September 2012, the Australian Prudential Regulation Authority (APRA) published final standards relating to the implementation of the Basel III capital reforms in Australia. APRA has adopted a more conservative approach than the minimum standards published by the BCBS and a more accelerated timetable for implementation.

The APRA prudential standards require a minimum CET1 ratio of 4.5% effective from 1 January 2013. An additional CET1 capital conservation buffer of 3.5%, inclusive of a Domestic Systemically Important Bank (DSIB) requirement of 1%, will be implemented on 1 January 2016, bringing the CET1 requirement for the Group to 8%.

Internationally Harmonised Capital Position

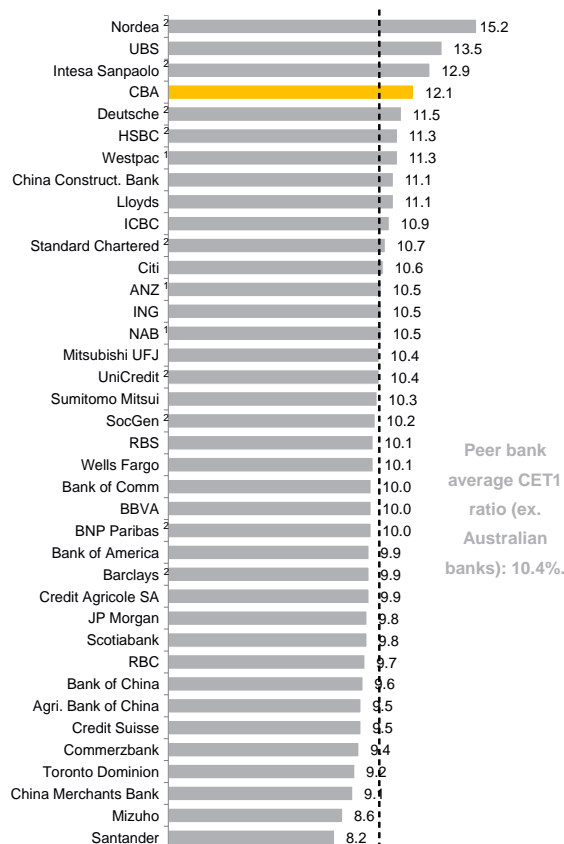
The Group's internationally harmonised CET1 ratios are calculated based on full adoption of the Basel III capital reforms, which will not come into effect until 2019 for most banks.

The Group is in a strong capital position with CET1 as measured on an internationally harmonised basis of 12.1% as at 30 June 2014.



The Group has adopted a conservative and proactive approach to capital management and this is reflected in the overall strength of its capital position. The CET1 ratio (on an internationally harmonised basis) has increased by 75% since the Global Financial Crisis (June 2007).

The Group's 30 June 2014 internationally harmonised CET1 ratio of 12.1%, places it well above the average of its international peers (approximately 10.4%).



Source: Morgan Stanley - Based on last reported CET1 ratios up to 8 August 2014 assuming Basel III capital reforms fully implemented. Peer group comprises listed commercial banks with total assets in excess of \$700 billion and which have disclosed fully implemented Basel III ratios or provided sufficient disclosure for a Morgan Stanley estimate.

(1) Domestic peer figures as at March 2014.

(2) Includes deduction for accrued expected future dividends.

APRA Capital Requirements

As at 30 June 2014, the Group has a CET1 ratio of 9.3% under APRA's prudential standard version of Basel III, well above the current APRA minimum ratio of 4.5%.

The differences in the Basel III APRA and the Basel III internationally harmonised CET1 ratios include:

Deductions

- APRA requires a full deduction to be taken against CET1 for equity investments (including investments in insurance and funds management operations) and deferred tax assets. On an internationally harmonised basis, such items are concessionally risk weighted if they fall below prescribed thresholds.

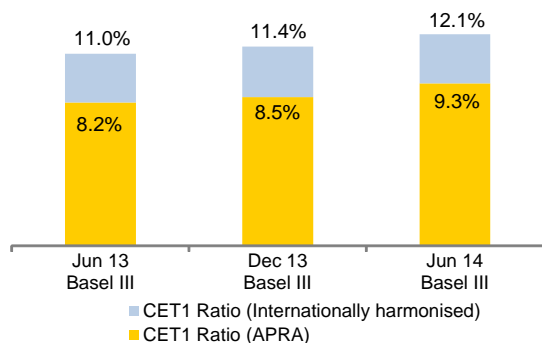
Risk Weighted Assets

- APRA requires capital to be held for Interest Rate Risk in the Banking Book (IRRBB). There is no similar requirement on an internationally harmonised basis; and
- APRA requires a minimum Loss Given Default (LGD) floor of 20% to be applied to residential mortgages, which is higher than regulatory requirements elsewhere.

Capital (continued)

Capital Position

The Group maintained a strong capital position with the capital ratios well in excess of regulatory minimum capital adequacy requirements at all times throughout the year ended 30 June 2014.



The Group's CET1 (internationally harmonised) and CET1 (APRA) ratios were 12.1% and 9.3% respectively at 30 June 2014. The increase in capital in the June 2014 half year was primarily driven by capital generated from earnings and the realisation of the benefits associated with the sale of the Group's Property business, more than offsetting the impact of the December 2013 interim dividend payment (net of shares issued under the Dividend Reinvestment Plan (DRP)) and an increase in Credit RWA.

During the June 2014 financial year, the Group's CET1 (internationally harmonised and APRA) increased by 110 basis points with the strong growth reflecting the sustained organic capital generation of the Group.

Capital Initiatives

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

- The DRP for the 2013 final dividend was satisfied in full by the on-market purchase of shares. The participation rate for the DRP was 22.4%; and
- The DRP in respect of the 2014 interim dividend was satisfied by the allocation of \$707 million of ordinary shares, representing a participation rate of 24%.

Pillar 3 Disclosures

Full details on the market disclosures required under Pillar 3, per prudential standard APS 330 "Public Disclosure", are provided on the Group's website at:

www.commbank.com.au/shareholders.

Other Regulatory Changes

Composition of Level 2 ADI Groups

In May 2014, APRA provided more clarity in relation to the definition of the Level 2 Banking Group. Subsidiary intermediate holding companies are now considered part of the Level 2 Group, regardless of the nature of any activity undertaken by the operating subsidiary. As a result, capital benefits arising from the debt issued by the Colonial Group will be phased out.

APRA has advised that transition arrangements will apply to impacted capital ratios in line with the existing maturity profile of the debt.

Given the transitional arrangements and the maturity profile of the debt, there is no immediate effect on the Group's capital ratios. The impact on future periods is expected to be minimal given the Group's strong capital generation capabilities.

Conglomerate Groups

In May 2013, APRA released a discussion paper and draft prudential standards titled "Supervision of Conglomerate Groups" focusing on the requirements of risk management and capital adequacy. APRA is extending its current prudential supervision framework to Conglomerate Groups that have material operations in more than one APRA regulated industry and/or have one or more material unregulated entities. The aims of the Level 3 proposals are to ensure that a Conglomerate Group holds adequate capital to protect the APRA regulated entities from potential contagion and other risks within the Group. APRA has yet to release final standards, with implementation of these new requirements scheduled from 1 January 2015.

Leverage Ratio

In January 2014, the BCBS endorsed the leverage ratio framework and disclosure requirements. The ratio is defined as Tier 1 Capital as a percentage of exposures, with a proposed minimum of 3%.

Public disclosure of the leverage ratio will commence from 1 January 2015. The BCBS has advised that any final adjustments to the definition and calibration of the ratio will be made by 2017. Migration to a Pillar 1 (minimum capital requirement) is expected from 1 January 2018.

Group Operations and Business Settings

Capital (continued)

The tables below show the APRA Basel III capital adequacy calculation at 30 June 2014 together with prior period comparatives.

| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 |
|------------------------------|-------------|-------------|-------------|
| Risk Weighted Capital Ratios | % | % | % |
| Common Equity Tier 1 | 9.3 | 8.5 | 8.2 |
| Tier 1 | 11.1 | 10.6 | 10.3 |
| Tier 2 | 0.9 | 0.8 | 0.9 |
| Total Capital | 12.0 | 11.4 | 11.2 |

| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 |
|---|---------------|---------------|---------------|
| | \$M | \$M | \$M |
| Ordinary Share Capital and Treasury Shares | | | |
| Ordinary Share Capital | 27,036 | 26,327 | 26,323 |
| Treasury Shares ⁽¹⁾ | 291 | 293 | 297 |
| Ordinary Share Capital and Treasury Shares | 27,327 | 26,620 | 26,620 |
| Reserves | | | |
| Reserves | 2,009 | 1,780 | 1,333 |
| Reserves related to non-consolidated subsidiaries ⁽²⁾ | (47) | (59) | 56 |
| Total Reserves | 1,962 | 1,721 | 1,389 |
| Retained Earnings and Current Period Profits | | | |
| Retained earnings and current period profits | 18,827 | 17,455 | 16,405 |
| Retained earnings adjustment from non-consolidated subsidiaries ⁽³⁾ | (368) | (472) | (345) |
| Net Retained Earnings | 18,459 | 16,983 | 16,060 |
| Non controlling interest | | | |
| Non controlling interest ⁽⁴⁾ | 537 | 536 | 537 |
| Less ASB perpetual preference shares | (505) | (505) | (505) |
| Less other non controlling interests not eligible for inclusion in regulatory capital | (32) | (31) | (32) |
| Minority Interest | - | - | - |
| Common Equity Tier 1 Capital before regulatory adjustments | 47,748 | 45,324 | 44,069 |

(1) Represents shares held by the Group's life insurance operations (\$129 million) and employee share scheme trusts (\$162 million).

(2) Reserve balances associated with the Insurance and Funds Management entities and those entities through which securitisation of the Group's assets are conducted. These entities are classified as non-consolidated subsidiaries by APRA and are excluded from the Level 2 Regulatory Consolidated Banking Group.

(3) Cumulative current year profit and retained earnings adjustments for subsidiaries not consolidated for regulatory purposes.

(4) Non-controlling interests predominantly comprise ASB Perpetual Preference Shares of NZD550 million issued by a New Zealand subsidiary entity. These are non-redeemable and carry limited voting rights. These are classified as Additional Tier 1 Capital.

Group Operations and Business Settings

Capital (continued)

| | 30 Jun 14 \$M | 31 Dec 13 \$M | 30 Jun 13 \$M |
|--|------------------|------------------|------------------|
| Common Equity Tier 1 regulatory adjustments | | | |
| Goodwill | (7,566) | (7,694) | (7,723) |
| Other intangibles (excluding software) ⁽¹⁾ | (295) | (644) | (682) |
| Capitalised costs | (285) | (275) | (272) |
| Capitalised software | (1,854) | (1,950) | (1,923) |
| General reserve for credit losses ⁽²⁾ | (214) | (198) | (208) |
| Deferred tax asset ⁽³⁾ | (1,164) | (1,248) | (1,400) |
| Cash flow hedge reserve ⁽⁴⁾ | (224) | (169) | (368) |
| Employee compensation reserve ⁽⁴⁾ | (125) | (79) | (132) |
| Equity investments ⁽⁵⁾ | (2,589) | (2,924) | (2,738) |
| Equity investments in non-consolidated subsidiaries ⁽⁶⁾ | (1,219) | (1,218) | (1,196) |
| Shortfall of provisions to expected losses ⁽⁷⁾ | (502) | (236) | (271) |
| Deferred fees | (103) | 7 | 59 |
| Gain due to changes in own credit risk on fair valued liabilities | (48) | (6) | (11) |
| Other | (148) | (152) | (174) |
| Common Equity Tier 1 regulatory adjustments | (16,336) | (16,786) | (17,039) |
| Common Equity Tier 1 | 31,412 | 28,538 | 27,030 |
| Additional Tier 1 Capital | | | |
| Basel III complying instruments ⁽⁸⁾ | 2,000 | 2,000 | 2,000 |
| Basel III non complying instruments net of transitional amortisation ⁽⁹⁾ | 4,196 | 4,720 | 4,720 |
| Additional Tier 1 Capital | 6,196 | 6,720 | 6,720 |
| Tier 1 Capital | 37,608 | 35,258 | 33,750 |
| Tier 2 Capital | | | |
| Basel III complying instruments ⁽¹⁰⁾ | 234 | - | - |
| Basel III non complying instruments net of transitional amortisation ⁽¹¹⁾ | 2,530 | 2,728 | 2,901 |
| Holding of own Tier 2 Capital | - | - | (15) |
| Prudential general reserve for credit losses ⁽¹²⁾ | 171 | 194 | 202 |
| Total Tier 2 Capital | 2,935 | 2,922 | 3,088 |
| Total Capital | 40,543 | 38,180 | 36,838 |

(1) Other intangibles (excluding capitalised software costs), net of any associated deferred tax liability.

(2) Adjustment to ensure the Group has sufficient provisions and capital to cover credit losses estimated to arise over the full life of individual facilities, as required by APRA Prudential Standard APS 220.

(3) Deferred tax assets net of deferred tax liabilities.

(4) Cash flow Hedge Reserve and Employee Compensation Reserve balances are ineligible for inclusion in CET1.

(5) Represents the Group's non-controlling interest in other entities.

(6) Represents the net tangible assets within the non-consolidated subsidiaries (primarily the insurance and funds management businesses operating within the Colonial Group). The adjustment is net of \$1,250 million in non-recourse debt (31 December 2013: \$1,215 million, 30 June 2013: \$1,315 million) and \$1,000 million in Colonial Group Subordinated Notes (31 December 2013: \$1,000 million, 30 June 2013: \$1,000 million). The Group's Insurance and fund management companies held \$1,374 million of capital in excess of minimum regulatory capital requirements at 30 June 2014.

(7) Regulatory Expected Loss (pre-tax) using stressed loss given default assumptions associated with the loan portfolio in excess of eligible credit provisions (pre-tax).

(8) Comprises PERLS VI \$2 billion issued in October 2012.

(9) Represents APRA Basel III non-compliant Additional Tier 1 Capital Instruments (PERLS III, PERLS V, Trust Preferred Securities (TPS) 03, TPS 06, ASB Perpetual Preference Shares, and Perpetual Exchangeable Floating Rate Note). These instruments are eligible for Basel III transitional relief.

(10) In April 2014, the Group issued NZD400 million ASB Subordinated Notes through ASB, its New Zealand subsidiary. The notes are Basel III compliant Tier 2 securities and fully contribute towards ASB capital ratios. The amount of these notes that contributes to ASB capital in excess of its minimum regulatory requirements is not eligible for inclusion in the Group's capital (30 June 2014 ineligible amount, AUD\$138 million).

(11) Includes both perpetual and term instruments subordinated to depositors and general creditors, having an original maturity of at least five years. APRA require these to be included as if they were unhedged. Term instruments are amortised 20% of the original amount during each of the last five years to maturity. These instruments are eligible for Basel III transitional relief. The June 2014 financial year included the redemption of \$500 million in subordinated Tier 2 debt.

(12) Represents the collective provision and general reserve for credit losses for exposures in the Group which are measured for capital purposes under the Standardised approach to credit risk.

Group Operations and Business Settings

Capital (continued)

| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 |
|--|----------------|----------------|----------------|
| | \$M | \$M | \$M |
| Risk Weighted Assets ⁽¹⁾ | | | |
| Credit Risk | | | |
| Subject to Advanced IRB approach | | | |
| Corporate | 49,067 | 48,331 | 53,468 |
| SME Corporate | 22,478 | 22,548 | 30,835 |
| SME Retail | 5,280 | 4,711 | 4,203 |
| SME Retail secured by residential mortgage ⁽²⁾ | 3,543 | 3,329 | 2,862 |
| Sovereign | 5,330 | 3,985 | 3,684 |
| Bank | 10,131 | 10,073 | 10,328 |
| Residential mortgage | 65,986 | 64,468 | 63,879 |
| Qualifying revolving retail | 8,215 | 6,553 | 6,683 |
| Other retail | 12,757 | 11,827 | 11,093 |
| Impact of the regulatory scaling factor ⁽³⁾ | 10,967 | 10,550 | 11,222 |
| Total Risk Weighted Assets subject to Advanced IRB approach | 193,754 | 186,375 | 198,257 |
| Specialised lending exposures subject to slotting criteria | 48,935 | 48,514 | 50,392 |
| Subject to Standardised approach | | | |
| Corporate | 10,850 | 11,087 | 3,684 |
| SME Corporate | 4,924 | 5,382 | 525 |
| SME Retail | 5,207 | 4,615 | 4,572 |
| Sovereign | 124 | 106 | 249 |
| Bank | 220 | 247 | 176 |
| Residential mortgage | 6,040 | 6,182 | 2,432 |
| Other retail | 2,648 | 2,571 | 2,224 |
| Other assets | 4,214 | 4,586 | 4,395 |
| Total Risk Weighted Assets subject to Standardised approach | 34,227 | 34,776 | 18,257 |
| Securitisation | 5,010 | 5,722 | 5,373 |
| Credit valuation adjustment | 6,636 | 6,381 | 7,395 |
| Central counterparties | 576 | 436 | - |
| Total Risk Weighted Assets for Credit Risk Exposures | 289,138 | 282,204 | 279,674 |
| Traded market risk | 5,284 | 5,970 | 5,151 |
| Interest rate risk in the banking book | 14,762 | 17,543 | 16,289 |
| Operational risk | 28,531 | 28,480 | 28,044 |
| Total Risk Weighted Assets | 337,715 | 334,197 | 329,158 |

(1) Effective 31 December 2013 APRA revoked the extension of the Group's AIRB accreditation to the Bankwest non-retail portfolio. This resulted in a reclassification of exposures and RWA from Advanced to Standardised. The impact on the Group's RWA and overall capital levels was not material.

(2) Advanced RWA for SME retail exposures secured by residential mortgages is calculated using the same method as advanced residential mortgages. From June 2014, unless specified otherwise, the Group will include these exposures under SME retail. Prior to that date, these exposures were included in residential mortgages.

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

Dividends

Final Dividend for the Year Ended 30 June 2014

The final dividend declared was \$2.18 per share, bringing the total dividend for the year ended 30 June 2014 to \$4.01 per share. This represents a dividend payout ratio ("cash basis") of 75.1% and is 10% above the prior full year dividend.

The final dividend will be fully franked and will be paid on 2 October 2014 to owners of ordinary shares at the close of business on 21 August 2014 (record date). Shares will be quoted ex-dividend on 19 August 2014.

Dividend Reinvestment Plan (DRP)

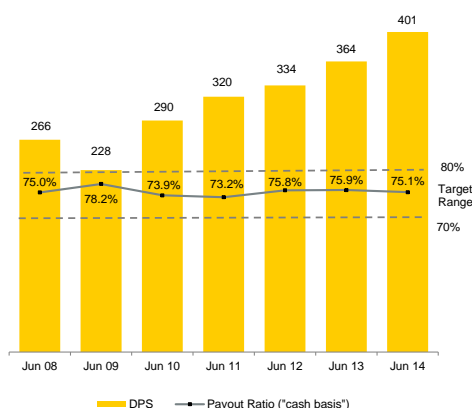
The DRP will continue to operate but no discount will be applied to shares allocated under the plan for the final dividend. The DRP for the 2014 final dividend is anticipated to be satisfied in full by an on-market purchase of shares.

Dividend Policy

The Group will seek to:

- Pay cash dividends at strong and sustainable levels;
- Target a full-year payout ratio of 70% to 80%; and
- Maximise the use of its franking account by paying fully franked dividends.

Full Year Dividend History (cents per share)



Liquidity

| | As at | | | | |
|--|----------------|----------------|----------------|--------------------|--------------------|
| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 | Jun 14 vs Dec 13 % | Jun 14 vs Jun 13 % |
| | \$M | \$M | \$M | | |
| Internal RMBS | 51,864 | 53,107 | 57,852 | (2) | (10) |
| Bank, NCD, Bills, RMBS, Supra, Covered Bonds | 30,932 | 29,867 | 29,540 | 4 | 5 |
| Cash, Government and Semi-Government Bonds | 56,621 | 53,596 | 49,324 | 6 | 15 |
| Liquid Assets⁽¹⁾ | 139,417 | 136,570 | 136,716 | 2 | 2 |

(1) Liquids are reported net of applicable regulatory haircuts.

Year Ended June 2014 versus June 2013

The Group holds a high quality, well diversified liquid asset portfolio to prudently meet balance sheet liquidity needs and regulatory requirements.

Liquid assets increased \$3 billion to \$139 billion, a 2% increase on the prior year. The increase was driven by the growth in deposits, which increased the regulatory minimum requirement.

Excluding internal Residential Mortgage Backed Securities (RMBS), the Group held \$88 billion of liquid assets, well above the regulatory minimum requirement of \$69 billion.

Half Year Ended June 2014 versus December 2013

The Group holds a high quality, well diversified liquid asset portfolio to prudently meet balance sheet liquidity needs and regulatory requirements.

Liquid assets increased \$3 billion to \$139 billion, a 2% increase on the prior half. The increase was mainly driven by the growth in deposits, which increased the regulatory minimum requirement.

Excluding internal RMBS assets, the Group held \$88 billion of liquid assets, well above the regulatory minimum requirement of \$69 billion.

Group Operations and Business Settings

Funding

| | As at | | | | |
|---|----------------|----------------|----------------|--------------------|--------------------|
| | 30 Jun 14 | 31 Dec 13 | 30 Jun 13 | Jun 14 vs Dec 13 % | Jun 14 vs Jun 13 % |
| | \$M | \$M | \$M | | |
| Group Funding ⁽¹⁾ | | | | | |
| Customer deposits | 438,890 | 426,407 | 405,377 | 3 | 8 |
| Short term wholesale funding | 109,318 | 113,716 | 107,758 | (4) | 1 |
| Short sales | 4,103 | 4,517 | 2,837 | (9) | 45 |
| Long term wholesale funding - less than one year residual maturity | 30,892 | 35,054 | 29,129 | (12) | 6 |
| Long term wholesale funding - more than one year residual maturity ⁽²⁾ | 102,163 | 95,739 | 96,611 | 7 | 6 |
| IFRS MTM and derivative FX revaluations | 3,251 | 5,722 | 1,837 | (43) | 77 |
| Total wholesale funding | 249,727 | 254,748 | 238,172 | (2) | 5 |
| Total funding | 688,617 | 681,155 | 643,549 | 1 | 7 |

(1) Shareholders' equity is excluded from this view of funding sources, other than the USD Trust Preferred Securities, which are classified as other equity instruments in the statutory Balance Sheet.

(2) Residual maturity of long term wholesale funding included in Debt issues, Loan capital and Share capital – other equity instruments, is the earlier of the next call date or final maturity.

Year Ended June 2014 versus June 2013

Customer Deposits

Customer deposits accounted for 64% of total funding at 30 June 2014, compared to 63% in the prior year. Strong deposit growth has seen the Group satisfy a significant proportion of its funding requirements from customer deposits. The remaining 36% of total funding comprised various wholesale debt issuances.

Short Term Funding

Short term wholesale funding includes debt with an original maturity or call date of less than 12 months, and consists of Certificates of Deposit and Bank Acceptances, as well as debt issued under domestic, Euro and US Commercial paper programs by Commonwealth Bank of Australia and ASB. Short term funding (including short sales) accounted for 45% of total wholesale funding at 30 June 2014, down from 46% in the prior year.

Long Term Funding

Long term wholesale funding includes debt with an original maturity or call date of greater than 12 months. Long term wholesale funding conditions improved during the year compared to the prior year as northern hemisphere central banks provided ongoing support to their economies and banking systems. During the year, the Group issued \$38 billion of long term wholesale debt transactions in multiple currencies including AUD, USD, EUR, and GBP. Given improved funding conditions, most issuances were in senior unsecured format, although the Group also used Residential Mortgage-Backed Securities (RMBS) and its covered bond program to provide cost, tenor and diversification benefits. The weighted average maturity (WAM) of new long term wholesale debt issued in the year was 3.9 years. The WAM of outstanding long term wholesale debt was 3.8 years at 30 June 2014.

Long term funding (including adjustment for IFRS MTM and derivative FX revaluations) accounted for 55% of total wholesale funding at 30 June 2014, compared to 54% in the prior year.

Half Year Ended June 2014 versus December 2013

Customer Deposits

Customer deposits accounted for 64% of total funding at 30 June 2014, up from 63% in the prior half. Strong deposit growth has seen the Group satisfy a significant proportion of its funding requirements from customer deposits. The remaining 36% of total funding comprised various wholesale debt issuances.

Short Term Funding

Short term wholesale funding includes debt with an original maturity or call date of less than 12 months, and consists of Certificates of Deposit and Bank Acceptances, as well as debt issued under domestic, Euro and US Commercial paper programs by Commonwealth Bank of Australia and ASB. Short term funding (including short sales) accounted for 45% of total wholesale funding at 30 June 2014, compared to 46% in the prior half.

Long Term Funding

Long term funding (including adjustment for IFRS MTM and derivative FX revaluations) accounted for 55% of total wholesale funding at 30 June 2014, compared to 54% in the prior half.

For further information on Liquidity and Funding risk, please refer to Note 36.

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Introduction

For the Group, sustainability means building a successful business today, while creating enduring value for the Group's customers, people, shareholders and the broader community.

Examples of the value created for the Group's stakeholders during the current financial year include:

- With more than 52,000 people, the Group's annual payroll expenditure was more than \$5 billion;
- The Group returned 75% of its profits to more than 800,000 Australians who hold CBA shares directly, and millions more who hold them through superannuation funds;
- The Group paid more than \$3 billion in taxes, making it Australia's third largest taxpayer;
- The Group directly helped 238 grassroots community organisations make a positive impact on the health and wellbeing of Australian youth; and
- The Group delivered financial literacy programs to more than 288,000 students.

Sustainability Approach

The Group's sustainability strategy reflects the importance of environmental, social and governance (ESG) considerations in a rapidly changing operating environment.

Across the Group a range of mechanisms are used to capture and incorporate the views of our diverse stakeholders, from customer feedback systems, to staff engagement surveys and meetings with interest groups.

The Board-endorsed Sustainability Strategic Framework, with its five focus areas, continues to address the Group's key ESG material issues as well as guide our approach to the effective management of those issues and associated risks and opportunities. This complies with principle 7.4 of the third edition of the ASX Corporate Governance Principles and Recommendations, released in March 2014, which requires a listed entity to disclose how it manages (or intends to) any material exposure to economic, environmental and social sustainability risks.

The media section on the Group's website provides our most up to date position on issues currently in the media, at commbank.com.au/about-us/news/on-the-record.

The Group's five key initiatives under the Sustainability Strategic Framework are:

1. Sustainable Business Practices

Disciplined financial management and rigorous governance are essential in bringing ongoing value to customers, shareholders and the broader community.

Preventing Financial Crime

Integrity is one of the Group's core values and in December 2013, the Board approved an updated Anti-Bribery and Corruption Policy which was then communicated broadly across the Group.

Amongst the policy principles, a zero tolerance to bribery, corruption and facilitation payments across all areas and levels of the business is clearly stated. The Group's employees, service providers and suppliers are encouraged to seek advice and report concerns about unethical behaviour and corruption via a wide range of internal mechanisms, or the new independent Speak Up hotline. The Group's Whistleblower Protection policy and procedures ensure that

reports are treated appropriately and that the person raising the concern is protected.

Focussing on Productivity

With a backdrop of increased competition and global financial uncertainty, productivity continues to be critical to the Group's long term success. During the reporting year, the Group rolled out additional productivity programs and initiatives to drive efficiencies to ultimately deliver better outcomes for the Group's customers. Training in productivity tools and techniques has been delivered extensively across the Group and a team accreditation program is underway to support teams in their efforts to align productivity initiatives to specific business goals whilst encouraging employee engagement.

2. Responsible Financial Services

The Group takes a responsible approach to providing financial services and products and remains committed to customer satisfaction.

Financial Wellbeing for all Australians

Each year the Group supports a number of customer segments with a wide range of fee-free and discounted financial services. In the reporting period, the Group has forgone more than \$183 million in revenue to support low income earners and the not-for-profit sector.

Maintaining Number 1 in Customer Satisfaction

The Group's unwavering focus on customer service has helped the Group maintain its position as the number one bank for customer satisfaction across all business areas, while delivering superior shareholder returns.

CBA maintained the number one ranking among the major banks in Main Financial Institution (MFI) Customer Satisfaction for the entirety of the 2014 financial year. During this time, the Group achieved the highest ever result recorded by a major bank. The Group has also been ranked equal or outright first across three of the four key business segments since November 2011 and in 2014 was voted Money Magazine Business Bank of the Year for the second consecutive year. Colonial First State was also ranked number one again in 2014. More information on scores and rankings is provided on page 35.

Taking Customer Feedback on Board

The Group actively encourages feedback from its customers and regards compliments and complaints as opportunities to continuously improve its customer relationships.

During the current year, the Group further embedded its centralised feedback management system "Firstpoint", which enables frontline staff to encourage customers to provide feedback through its compliments and complaints handling services.

Leading Technology Solutions for Customers

Achieving and maintaining a leadership position in technology and innovation is a strategic and operational priority for the Group. This financial year saw the launch of many new innovations for customers including:

- Daily IQ, the smart new mobile analytics app that gives business customers instant access to insights about their own business, their customers and their market;
- The new CommBank Small Business app, providing small business customers with access to world-class

mobile payment and cash flow management solutions; and

- An enhanced CommBank app for iPhone, Android and Windows phones which has attracted more than 3 million registrations since its launch in December 2013, bringing the mobile wallet one step closer to reality.

Building Financial Literacy Skills

In late 2009, the Group announced a commitment to improve the financial literacy of one million children by 2015. This goal was achieved in August 2014, 5 months ahead of schedule.

The Commonwealth Bank Foundation's StartSmart programs have now delivered financial literacy education sessions to more than one million students from primary and secondary schools; in all states and in both rural and urban settings.

The programs continue to evolve to meet the needs of students and teachers. A recent addition is the StartSmart Virtual Workshop, a free, easy to use and interactive financial literacy teaching resource which was created to help equip students with money management skills in regional and remote areas of Australia.

Indigenous Banking

Aboriginal and Torres Strait Islander communities can face barriers to accessing the kind of banking services most Australians take for granted.

The Commonwealth Bank's Indigenous Customer Assistance Line (ICAL), which takes more than 2,500 calls each week, removes some of these barriers by providing a range of specialised banking services over the phone to Indigenous customers in remote communities.

In October 2013 Commonwealth Bank formed a partnership with Indigenous Business Australia (IBA) to jointly provide Indigenous Australian entrepreneurs with a microenterprise loan and finance package. The package will provide eligible Aboriginal and Torres Strait people wishing to establish or grow their business with a tailored package of banking products and services specific to their individual needs.

Providing Leading Banking Solutions to Not-for-Profits

The Group has a dedicated Not-for-Profit Sector Banking team focused on listening and collaborating with Not-for-Profits. The Group has an accredited national network of more than 100 bankers who provide tailored products and services for not-for-profit clients. The Group is also supporting the treasurers and directors of community organisations through the development of free governance and financial literacy resources and a partnership with the Institute of Community Directors.

Managing ESG Risks

In May 2014 Commonwealth Bank became a signatory to the third iteration of the Equator Principles, which are a voluntary set of guidelines to assess and manage environmental and social risks in project finance.

By adopting the Equator Principles III, the Group builds on its commitment to responsible lending and formalises reporting of its environmental and social risk practices.

Responsible Investment

Colonial First State Global Asset Management (CFSGAM), a signatory to the UN Principles for Responsible Investment since 2007, launched its seventh Responsible Investment Report this year, available at

http://www.cfsgam.com.au/au/insto/responsible_investment/.

The report highlights examples of CFSGAM's stewardship

activities and illustrates how the business continues to execute upon its responsible investment commitments across its global investment business.

3. Engaged and Talented People

The Group supports its people by continuing to invest in their development and in programs designed to create a diverse, safe and rewarding workplace. In the reporting period the Group's people remained highly engaged, as shown by the Group's 2014 Employee Engagement score of 81%, up from 80% in 2013.

Building a Diverse and Inclusive Workplace

The Group is committed to providing a workplace that reflects the diversity and richness of the communities it serves.

The 2013-14 Diversity & Inclusion Strategy has three broad focus areas, each with goals and action plans. Specific members of the Executive Leadership Team take a hands-on and visible sponsorship of each area.

Inclusion and Respect

The Group is committed to building greater inclusion for employees from different cultural backgrounds and identities, including LGBTI (lesbian, gay, bisexual, transgender and intersex) employees, employees with disability and older workers.

In the reporting period:

- Unity, the LGBTI employees and allies' network celebrated its first anniversary. In 2014, 8.7% of the Group's employees disclosed they identified as LGBTI, up from 3.3% in the previous period. This increase can be seen as the result of the culture change work Unity supported to create an even safer and more comfortable workplace for LGBTI employees;
- Enable, an employee network for disability and accessibility was launched in July 2013 to support the implementation of the Group's fifth Disability Action Plan;
- Mosaic, an employee-led network for cultural diversity was launched in February 2014. The network aims to build greater inclusion and respect for culturally diverse employees - 40% of the Group's workforce is from a cultural background other than Australian;
- Through the Indigenous employment program, 137 career opportunities for Aboriginal and Torres Strait Islanders were created across the Group in the reporting period and an updated Indigenous Cultural awareness e-learning module, available to all employees, was also rolled out.

The Group's efforts were recognised in May 2014 with the Group being named the fourth most inclusive employer at the 2014 Australian Workplace Equality Index Awards.

Diversity in Leadership

A continued focus has seen the Group make significant progress towards its gender diversity target of 35% women in Executive Manager and above positions by December 2014. With females comprising 60% of its workforce, and 43% of those in management roles, the Group recognises the importance of building a strong female presence across all tiers of employment. Women are increasingly represented in senior leadership roles: 30% of the Board, 38% of the ASB Bank Board, 27% of the Executive Committee and 32.8% of Executive Manager and above roles.

In accordance with the requirements of the Workplace Gender Equality Act 2012, in May 2014 the Group lodged its

annual public report with the Workplace Gender Equality Agency. The report covers Australian domestic operations only (excluding Bankwest). Full disclosure of the Group's workforce profile is available at commbank.com.au/sustainability2014/engaged-and-talented-people. In addition Bankwest lodged its annual public report at the same time.

Adaptable Work Practices

More than 54% of the Group's people work flexibly, so support for flexibility is essential to productivity and engagement. The Group continues to support flexible ways of working such as working from different locations, altering start and finish times, reducing work hours and accessing a range of leave options. A key enabler is technology and innovations such as the recently launched app SideKick, which are helping staff access HR information remotely.

4. Community Contribution and Action

The Group has a proud history of supporting the communities in which it operates. By offering financial literacy programs, partnering with community organisations and supporting the Group's people in their endeavours, the Group continues to strengthen and extend its involvement, forging lasting relationships with community organisations and those they serve.

Empowering Support of the Community

The Group's Staff Community Fund is Australia's largest and longest running workplace-giving program. The Group matches its people's contributions dollar-for-dollar. In 2014, the Fund will award \$2 million to 238 grassroots programs focused on improving the health and wellbeing of Australian youth. In addition, the Group's employees rallied during April and collected more than \$275,000 in donations from customers and staff to support one of the Group's key charity partners, the Clown Doctors.

The Group continues to encourage volunteering with a range of partnerships that enable its people to participate through mentoring, team activities and skilled volunteering. In 2014, the Group continued to grow its skilled volunteering program with secondments in four regions across the country through the Jawun secondment program. Through this program, the Group continues to support the long term sustainable growth of Indigenous enterprises.

Supporting Sports, the Arts and Health in Australia

The Group partners with a number of organisations that lead the way in celebrating Australia's unique culture and addressing issues that matter to Australians. Examples of these partnerships include:

- The Group has been involved with Cricket at all levels for 27 years. Support includes the Australian Men's Test team, the Southern Stars, the National Indigenous Cricket Championships, The Imparja Cup and the Australian Country Cricket Championships. In the past 12 months the Group continued to invest in support for clubs, with the Grants for Grassroots™ program investing \$1.5+ million into more than 1,000 local cricket clubs in the past four years;
- The Group has been the major sponsor of the Australian of the Year Awards for more than 30 years, celebrating outstanding Australians and their commitment to their local communities;
- The support of the Breast Cancer Institute Australia

continues and over the past 19 years, the Group has contributed more than \$11 million via fundraising, sponsorship and diary sales;

- Since 2000, the Group has helped Prostate Cancer Foundation of Australia (PCFA) raise \$3.4 million through the Big Aussie Barbie campaign, sponsorship and other joint fundraising initiatives, which have contributed to PCFA's endeavours; and
- The Group continues to bring the arts to all Australians through enduring partnerships with Opera Australia, the Australian Chamber Orchestra and Bangarra Dance Theatre, as well as supports the efforts of the Great Barrier Reef Foundation in developing the scientific knowledge of the Great Barrier Reef.

5. Environmental Stewardship

As one of Australia's largest organisations, the Group recognises that its operations have direct and indirect impacts on the environment. The Group strives to actively manage those impacts to ensure the long term sustainability of the Group's business and the environment in which it operates.

Managing Carbon Emissions

In 2013, the Group exceeded its goal of reducing its carbon emissions by 20% from 2008–09 emission levels. Since that time, the Group has reduced its emissions by a further 12,385 tCO₂-e.

Following the achievement of the 20% carbon reduction target the Group has set new targets shown in the table below for the year ending 30 June 2015, covering both the Commonwealth Bank and Bankwest businesses. The reductions will be achieved through the continuing rollout of energy efficient lighting, upgrades to airconditioning and other initiatives.

| | |
|--|-----|
| Commonwealth Bank - Scope 1 ⁽¹⁾ | 25% |
| Commonwealth Bank - Scope 2 ⁽¹⁾ | 35% |
| Bankwest - Scope 1 ⁽¹⁾ | 45% |
| Bankwest - Scope 2 ⁽¹⁾ | 30% |

⁽¹⁾ Note: A description of Scope 1 and 2 emissions are set out in footnotes 10 and 11 to the Sustainability Scorecard on page 35.

All targets operate from a 1 July 2009 baseline.

CDP Recognition

Commonwealth Bank's actions to reduce carbon emissions and mitigate the risks of climate change have again been recognised by CDP, the world's only global environmental disclosure system.

The Group achieved a position in CDP's Global 500 and ASX 200 Climate Performance Leadership Indices. These indices analyse climate change disclosures as well as highlight those companies that demonstrate strategies committed to improving their impacts on the environment.

Commonwealth Bank is now the highest ranking Australian bank listed on the global index for disclosure.

Further Information

Visit the microsite, commbank.com.au/sustainability2014, for more information on the Group's approach to sustainability, including insights on key initiatives, achievements and independently assured metrics for the 2014 financial year. The microsite covers the activities of companies wholly owned by the Group within Australia for the financial year ending 30 June 2014.

Sustainability Scorecard ⁽¹⁾

| Customer Satisfaction | Units | 2014 | 2013 | 2012 |
|---|---------------------|-----------------------|-----------------------|-----------------------|
| Roy Morgan Research Main Financial Institution Customer Satisfaction ⁽²⁾ | % | 83.2 | 83.0 | 79.0 |
| Rank | | 1 st | 1 st | 2 nd |
| DBM Business Financial Services Monitor ⁽³⁾ | | 7.4 | 7.4 | 7.3 |
| Rank | | Equal 1 st | Equal 1 st | Equal 1 st |
| Wealth Insights Platform Service Level Survey ⁽⁴⁾ | | 7.94 | 8.32 | 7.86 |
| Rank | | 1 st | 1 st | 1 st |
| People | | | | |
| Engagement | | | | |
| Employee Engagement Index ⁽⁵⁾ | % | 81 | 80 | 80 |
| Employee Turnover (Voluntary) ⁽⁶⁾ | % | 10.60 | 10.60 | 12.90 |
| Diversity | | | | |
| Women in Manager and above roles ⁽⁷⁾ | % | 42.9 | 41.8 | 42.0 |
| Women in Executive Manager and above roles ⁽⁷⁾ | % | 32.8 | 30.3 | 30.9 |
| Safety and Well-being | | | | |
| Lost Time Injury Frequency Rate (LTIFR) ⁽⁸⁾ | Rate | 1.3 | 1.9 | 2.8 |
| Absenteeism ⁽⁹⁾ | Rate | 6.0 | 6.2 | 6.2 |
| Environment | | | | |
| Greenhouse Gas Emissions | | | | |
| Scope 1 emissions ⁽¹⁰⁾ | tCO ₂ -e | 7,936 | 8,064 | 8,192 |
| Scope 2 emissions ⁽¹¹⁾ | tCO ₂ -e | 91,275 | 100,997 | 118,047 |
| Scope 3 emissions ⁽¹²⁾ | tCO ₂ -e | 44,918 | 47,453 | 47,667 |
| Financial Literacy Programs | | | | |
| School Banking Students (active) ⁽¹³⁾ | | 273,034 | 233,217 | 191,416 |
| StartSmart Students Booked ⁽¹⁴⁾ | | 288,728 | 284,834 | 235,735 |

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

(2) The proportion of each financial institution's MFI retail customers surveyed by Roy Morgan Research that are either 'Very Satisfied' or 'Fairly Satisfied' with their overall relationship (defined as those holding at least a Deposit/Transaction account) with that financial institution on a scale of 1 to 5 where 1 is 'Very Dissatisfied' and 5 is 'Very Satisfied'. The metric is reported as a 6 month rolling average to June, based on the Australian population aged 14 and over. The ranking refers to CBA's position relative to the other three main Australian banks (Westpac, NAB and ANZ).

(3) The average satisfaction of each financial institution's MFI business customers surveyed by DBM Business Financial Services Monitor. Respondents rate their overall relationship with that institution on a scale from 0 to 10 (0 is 'Extremely Dissatisfied', 10 is 'Extremely Satisfied'). This is reported as a 6 month rolling average as at 30 June. The ranking refers to CBA's position relative to the other three major Australian banks (Westpac, NAB, and ANZ).

(4) The Colonial First State (the platform provider) score is calculated based on the weighted average (using the Funds Under Administration (FUA) as at December 2013 from the Plan for Life FUA subscription database) of the overall satisfaction scores of FirstChoice and FirstWrap. The ranking is calculated by comparing the score with the weighted average of other platform providers in the relevant peer set. The relevant peer set includes platforms belonging to Westpac, NAB, ANZ, AMP and Macquarie in the Wealth Insights survey. Due to a change in calculation of the satisfaction score in 2013, historical results have been restated. The score and ranking for 2012 changed from 7.69 (2nd) to 7.86 (1st).

(5) The index shows the proportion of employees replying with a score of 4 or 5 to questions relating to satisfaction, retention, advocacy and pride on a scale of 1-5 (5 is 'Strongly Agree', 1 is 'Strongly Disagree'). The result captures the responses of Group employees excluding Bankwest, ASB Bank and Sovereign entities.

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

(7) Percentage of roles at the level of both Manager and Executive Manager and above filled by women, in relation to the total domestic headcount at this level as at 30 June. Headcount captures permanent headcount (full-time, part-time, job share, on extended leave), and contractors (fixed term arrangements) paid directly by the Group. The percentage of roles at Executive Manager and above excludes Customs Solutions, CFSPM and Bankwest support units (Bankwest's HR, Risk, Finance and ES Service Operations).

(8) LTIFR is the reported number of occurrences of lost time arising from injury or disease that have resulted in an accepted workers compensation claim, for each million hours worked by the average number of domestic employees over the year. This relates to domestic employees only (permanent, casual and contractors paid directly by the Group). Data is presented using the information available as at 30 June for each financial year. Prior year data is updated due to late reporting of incidents that occurred during the year, or the subsequent acceptance or rejection of claims made in the year. In addition, CFSPM ceased to be an employing entity within CBA during the year, and the workers compensation liability was transferred out of the business. As a result, 2012 has changed from 2.7 to 2.8 and 2013 has changed from 1.7 to 1.9.

(9) Absenteeism is the annualised figure as at 31 May each year. Absenteeism refers to the average number of sick leave days (and, for CommSec employees, carers leave days) per domestic full-time equivalent (FTE).

(10) Scope 1 carbon emissions relate to the consumption of gas and fuel by retail, commercial properties and the business use of our tool-of-trade vehicle fleet. Source of emissions factors: NGA Factors (2013). Prior year data is updated to better reflect the GHG Protocol guidance.

(11) Scope 2 carbon emissions relate to the electricity use by retail and commercial properties and ATMs and certain residential properties. Due to the electricity billing cycle, 10% of 2014 electricity data was estimated to meet publication deadlines. Assets under the operational control of CFSGAM have been excluded. Source of emissions factors: NGA Factors (2013).

(12) Scope 3 carbon emissions relate to indirect emissions (tool-of-trade vehicles and electricity), rental car and taxi use, business use of private vehicles, dedicated bus service, business flights, office paper and waste to landfill. Source of emissions factors: NGA Factors (2013), DEFRA (2013) for flights. Prior year data is updated to better reflect the GHG Protocol guidance.

(13) The number of active students who participated in the Commonwealth Bank School Banking program. Active students are those who banked at least once during a 12 month period through a School Banking school.

(14) The number of students booked to attend the Commonwealth Bank Foundation's StartSmart programs. StartSmart sessions cover different topics and the same student may be booked to attend a number of sessions.

Directors' Report

The Directors of the Commonwealth Bank of Australia submit their report, together with the financial report of the Commonwealth Bank of Australia (the Bank) and of the Group, being the Bank and its controlled entities, for the year ended 30 June 2014.

The names of the Directors holding office during the financial year are set out below, together with details of Directors' experience, qualifications and special responsibilities.

David Turner, Chairman

Director of the Bank since August 2006.

David Turner was appointed Chairman of the Bank in February 2010.

He is Chairman of the Board Performance and Renewal Committee, and a member of the Risk Committee and the Remuneration Committee.

Mr Turner has extensive experience in finance, international business and governance.

He was Chairman of Cobham plc from May 2008 until May 2010. He has held a number of Directorships including Whitbread plc and the Iron Trades Insurance Group and has been a member of the Quotations Committee of the London Stock Exchange.

He was CEO of Brambles Limited from October 2003 until his retirement in June 2007, and formerly CFO from 2001 until 2003. He was also Finance Director of GKN plc and Finance Director of Booker plc, and spent six years with Mobil Oil.

Other Directorships: Ashurst Australia, O'Connell Street Associates Pty Ltd and Great Barrier Reef Foundation.

Qualifications: Fellow of the Institute of Company Directors, Fellow of the Institute of Chartered Accountants in England and Wales.

Mr Turner is a resident of New South Wales. Age 69.

Ian Narev, Managing Director and Chief Executive Officer

Director of the Bank since December 2011.

Ian Narev was appointed Managing Director and Chief Executive Officer on 1 December 2011.

He was a member of the Risk Committee during the 2014 financial year (ceased August 2014).

Mr Narev joined the Group in May 2007. From then until January 2009, he was Group Head of Strategy, with responsibility for corporate strategy development, mergers and acquisitions and major cross business strategic initiatives.

From January 2009 until September 2011, Mr Narev was Group Executive, Business and Private Banking, one of the Group's six operating divisions.

Prior to joining CBA, Mr Narev was a partner of McKinsey's New York, Sydney and Auckland offices (1998 to 2007). He became a global partner in 2003, and from 2005 until his departure in 2007 was head of McKinsey's New Zealand office. Prior to joining McKinsey, Mr Narev was a lawyer specialising in mergers and acquisitions.

Other Directorships: Commonwealth Bank Foundation (Chairman), and Financial Markets Foundation for Children.

Qualifications: BA LLB (Hons) (Auckland), LLM (Cantab), LLM (NYU).

Mr Narev is a resident of New South Wales. Age 47.

Sir John Anderson, KBE

Director of the Bank since March 2007.

Sir John Anderson is a member of the Risk Committee and the Board Performance and Renewal Committee. He is also a member of the Audit Committee (from August 2014).

He has held many senior positions in the New Zealand finance industry, including Chief Executive Officer and Director of ANZ National Bank Limited from 2003 until 2005 and the National Bank of New Zealand Limited from 1989 until 2003.

In 1994, he was awarded Knight Commander of the Civil Division of the Order of the British Empire, and in 2005 received the inaugural Blake Medal for "Outstanding Leadership Contributions to New Zealand". In 2012, he was awarded an Honorary Doctorate of Commerce by Victoria University, Wellington.

Other Directorships: PGG Wrightson Limited (Chairman; ceased October 2013), NPT Limited (Chairman), Steel & Tube Holdings Ltd (Chairman from October 2012), and Turners & Growers Limited (Deputy Chairman from December 2012).

Qualifications: Fellow of the New Zealand Institute of Chartered Accountants, Fellow of the Institute of Financial Professionals New Zealand, Fellow of the Institute of Directors, and Life Member of the Australian Institute of Banking and Finance.

Sir John is a resident of Wellington, New Zealand. Age 69.

Shirish Apte

Director of the Bank since June 2014.

Shirish Apte is a member of the Risk Committee and the Audit Committee.

He was Co-Chairman of Citi Asia Pacific Banking from January 2012 until January 2014. Previously he was Chief Executive Officer of Citi Asia Pacific (2009 to 2011), with responsibility for South Asia, including Australia, New Zealand, India and ASEAN countries.

He has more than 32 years' experience with Citi, including as CEO of Central & Eastern Europe, Middle East & Africa (CEEMEA) and, before that, as Country Manager and Deputy President of Citibank Handlowy, Poland.

Other directorships: Crompton Greaves Ltd, Citibank Japan, and member of the Supervisory Board of Citibank Handlowy, Poland.

Qualifications: Chartered Accountant, Institute of Chartered Accountants in England and Wales; Bachelor of Commerce (Calcutta), MBA (London Business School).

Mr Apte is a resident of Singapore. Age 61.

Jane Hemstritch

Director of the Bank since October 2006.

Jane Hemstritch is Chairman of the Remuneration Committee and a member of the Risk Committee.

She was Managing Director Asia Pacific for Accenture Limited from 2004 until her retirement in February 2007. In this role, she was a member of Accenture's global executive leadership team and oversaw the management of Accenture's business portfolio in Asia Pacific. Ms Hemstritch had a 24 year career with Accenture, preceded by seven years in the accounting profession.

She holds a Bachelor of Science Degree in Biochemistry and Physiology and has professional expertise in technology, communications, change management and accounting.

She also has experience across the financial services, telecommunications, government, energy and manufacturing sectors and in business expansion in Asia.

Other directorships: Lend Lease Corporation Limited, Santos Ltd, Tabcorp Holdings Ltd and Victorian Opera Company Ltd (Chairman from February 2013).

Qualifications: Fellow of the Institute of Chartered Accountants in England and Wales, Fellow of the Institute of Chartered Accountants in Australia, BSc (Hons) London University, and Fellow of the Australian Institute of Company Directors.

Ms Hemstritch is a resident of Victoria. Age 60.

Launa Inman

Director of the Bank since March 2011.

Launa Inman is a member of the Audit Committee and (from August 2014) the Remuneration Committee. She was a member of the Risk Committee during the 2014 financial year (ceased August 2014).

She was Managing Director and Chief Executive Officer of Billabong International Limited from 14 May 2012 until 2 August 2013. Prior to this, she was Managing Director of Target Australia Pty Limited (2005 to 2011), and Managing Director of Officeworks (2004 to 2005).

She has significant international and Australian experience in retailing, wholesale, property and logistics, as well as extensive marketing experience in traditional, digital and social media channels.

Other directorships: Managing Director of Billabong International Limited (ceased August 2013), member of the Board of Virgin Australia Melbourne Fashion Festival and The Alannah and Madeline Foundation.

Qualifications: MCom, University of South Africa (UNISA), BCom (Hons) (UNISA), BCom (Economics and Accounting) (UNISA), and Australian Institute of Company Directors (Member).

Ms Inman is a resident of Victoria. Age 58.

Directors' Report

Carolyn Kay

Director of the Bank since March 2003.

Carolyn Kay is a member of the Audit Committee and the Remuneration Committee. She was a member of the Risk Committee during the 2014 financial year (ceased August 2014).

She has over 25 years' experience in finance, particularly in International finance, including working as a banker and as a lawyer at Morgan Stanley, JP Morgan and Linklaters & Paines in London, New York and Australia. Through her executive and non-executive career, she has had experience across a broad range of sectors including mining, healthcare, logistics, infrastructure, banking and finance, funds management, packaging, beverages and government.

Other directorships: Allens Linklaters, Brambles Limited, Infrastructure NSW (ceased May 2014), John Swire & Sons Pty Limited and Sydney Institute.

Qualifications: BA (Melb), LLB (Melb), GDM (AGSM), and Fellow of the Australian Institute of Company Directors.

Ms Kay is a resident of New South Wales. Age 53.

Brian Long

Director of the Bank since September 2010.

Brian Long is Chairman of the Audit Committee and a member of the Risk Committee.

He retired as a partner of Ernst & Young on 30 June 2010. Until that time he was the Chairman of both the Ernst & Young Global Advisory Council and the Oceania Area Advisory Council. He was one of the firm's most experienced audit partners with over 30 years' experience in serving as audit signing partner on major Australian public companies including those in the financial services, property, insurance and media sectors.

Other directorships: Cantarella Bros. Pty Ltd, Ten Network Holdings Limited (Deputy Chairman) and Brambles Limited.

Qualifications: Fellow of the Institute of Chartered Accountants in Australia.

Mr Long is a resident of New South Wales. Age 68.

Andrew Mohl

Director of the Bank since July 2008.

Andrew Mohl is a member of the Risk Committee and the Remuneration Committee.

He has over 35 years' financial services experience. He was Managing Director and Chief Executive Officer of AMP Limited from October 2002 until December 2007.

His previous roles at AMP included Managing Director, AMP Financial Services and Managing Director and Chief Investment Officer, AMP Asset Management.

He was a former Group Chief Economist, Chief Manager, Retail Banking and Managing Director, ANZ Funds Management at ANZ Banking Group. Mr Mohl commenced his career at the Reserve Bank of Australia where his roles included Senior Economist and Deputy Head of Research.

Other directorships: Federal Government Export Finance and Insurance Corporation (Efic) (Chairman).

Qualifications: BEc (Hons), Monash.

Mr Mohl is a resident of New South Wales. Age 58.

Harrison Young

Director of the Bank since February 2007.

Harrison Young is Chairman of the Risk Committee and a member of the Audit Committee and the Board Performance and Renewal Committee.

He was Chairman of NBN Co Limited from March 2010 until March 2013. Previously he was a Director and Member of the Financial Stability Committee of the Bank of England (2009 to 2012), Chairman of Morgan Stanley Australia (2003 to 2007), and Vice Chairman of Morgan Stanley Asia (1998 to 2003).

Prior to that, Mr Young spent two years in Beijing as Chief Executive Officer of China International Capital Corporation. From 1991 until 1994, he was a senior officer of the Federal Deposit Insurance Corporation in Washington.

Other directorships: Nil.

Qualifications: A.B (Cum Laude) Harvard, LLD (Honoris Causa), Monash.

Mr Young is a resident of Victoria. Age 69.

Other Directorships

The Directors held the following directorships in other listed companies in the three years prior to the end of the 2014 financial year:

| Director | Company | Date Appointed | Date of Ceasing (if applicable) |
|-----------------|---------------------------------|----------------|---------------------------------|
| Jane Hemstritch | Tabcorp Holdings Limited | 13/11/2008 | |
| | Santos Limited | 16/02/2010 | |
| | Lend Lease Corporation Limited | 01/09/2011 | |
| Launa Inman | Billabong International Limited | 14/05/2012 | 02/08/2013 |
| Carolyn Kay | Brambles Limited | 21/08/2006 | |
| Brian Long | Ten Network Holdings Limited | 01/07/2010 | |
| | Brambles Limited | 01/07/2014 | |

Directors' Meetings

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

| Director | No. of Meetings Held ⁽¹⁾ | No. of Meetings Attended |
|-----------------------------|-------------------------------------|--------------------------|
| David Turner | 8 | 8 |
| Ian Narev | 8 | 8 |
| John Anderson | 8 | 8 |
| Shirish Apte ⁽²⁾ | 1 | 1 |
| Jane Hemstritch | 8 | 8 |
| Launa Inman | 8 | 8 |
| Carolyn Kay | 8 | 8 |
| Brian Long | 8 | 7 |
| Andrew Mohl | 8 | 8 |
| Harrison Young | 8 | 7 |

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

(2) Shirish Apte appointed a Director effective 10 June 2014.

Directors' Report

Committee Meetings

| Director | Risk Committee | | Audit Committee | | 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 |
| David Turner | 8 | 8 | - | - | 7 | 7 |
| Ian Narev | 8 | 8 | - | - | - | - |
| John Anderson | 8 | 8 | - | - | - | - |
| Shirish Apte ⁽²⁾ | 1 | 1 | 1 | 1 | - | - |
| Jane Hemstritch | 8 | 7 | - | - | 7 | 7 |
| Launa Inman | 8 | 8 | 8 | 8 | - | - |
| Carolyn Kay | 8 | 8 | 8 | 8 | 7 | 7 |
| Brian Long | 8 | 8 | 8 | 8 | - | - |
| Andrew Mohl | 8 | 8 | - | - | 7 | 6 |
| Harrison Young | 8 | 7 | 8 | 7 | - | - |

Board Performance and Renewal Committee

| Director | No. of Meetings Held ⁽¹⁾ | No. of Meetings Attended |
|----------------|-------------------------------------|--------------------------|
| | David Turner | 7 |
| John Anderson | 7 | 7 |
| Harrison Young | 7 | 6 |

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

(2) Shirish Apte appointed a Director effective 10 June 2014.

New Director commencing 1 September 2014

Sir David Higgins will join the Board on 1 September 2014.

Sir David is currently the Chairman of High Speed Two (HS2) Ltd, the company responsible for developing and promoting the UK's new high speed rail network. Prior to that, he was Chief Executive of Network Rail Infrastructure Ltd which is involved in the maintenance and development of railway infrastructure throughout the UK.

From 2006 until 2011, he was Chief Executive of the Olympic Delivery Authority where he oversaw the creation of the London 2012 Olympic Games venues, the Olympic Village and transport projects.

For the three years prior to 2005, he was Chief Executive of English Partnerships, the UK Government's national housing and regeneration agency. In 1985, he joined Lend Lease, and was Managing Director and Chief Executive Officer of Lend Lease from 1995 until 2002.

Qualifications: Bachelor of Engineering (Civil), USyd, Diploma, Securities Institute of Australia.

Sir David is a resident of London, United Kingdom. Age 59.

Principal Activities

The Group is one of Australia's leading providers of integrated financial services, including retail, business and institutional banking, funds management, superannuation, life insurance, general insurance, broking services and finance company activities.

The Group conducts its operations primarily in Australia, New Zealand and the Asia Pacific region. It also operates in a number of other countries including the United Kingdom and the United States.

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

Consolidated Profit

The Group's net profit after income tax and non-controlling interests for the year ended 30 June 2014 was \$8,631 million (2013: \$7,618 million).

The Group's vision is to excel at securing and enhancing the financial wellbeing of people, businesses and communities. The long term strategies that the Group has pursued to achieve this vision have delivered consistent high rates of customer satisfaction and another strong financial result.

Operating income growth remained strong across the Retail, Wealth and New Zealand businesses. Business banking revenue reflected the modest level of domestic credit growth and continued competitive pressure on domestic deposit margins.

Operating expenses increased due to underlying inflationary pressures, the impact of foreign exchange and higher levels of software amortisation and impairment, partly offset by the incremental benefit generated from productivity initiatives.

Loan impairment expense decreased due to the relatively benign corporate and commercial loan loss environment. Provisioning levels remain prudent and there has been no change made to economic overlays.

Dividends

The Directors have determined a fully franked (at 30%) final dividend of 218 cents per share amounting to \$3,534 million. The dividend will be payable on 2 October 2014 to shareholders on the register at 5pm EST on 21 August 2014.

Dividends paid in the year ended 30 June 2014 were as follows:

- In respect of the year to 30 June 2013, a fully franked final dividend of 200 cents per share amounting to \$3,224 million was paid on 3 October 2013. The payment comprised direct cash disbursements. The Dividend Reinvestment Plan (DRP) in respect of the final dividend was satisfied in full by the on market purchase of shares; and
- In respect of the year to 30 June 2014, a fully franked interim dividend of 183 cents per share amounting to \$2,950 million was paid on 3 April 2014. The payment comprised direct cash disbursements.

Review of Operations

An analysis of operations for the financial year is set out in the Highlights and Group Performance Analysis sections.

Changes in State of Affairs

The Group continues to make progress against each of the key strategic priorities in pursuit of our vision to secure and enhance the financial wellbeing of people, businesses and communities. Further information is contained in the Chief Executive Officer's Statement and the strong progress made is evidenced by the Group again winning the Money Magazine Award for "Bank of the Year".

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

Events Subsequent to Balance Sheet Date

The Bank expects the DRP for the final dividend for the year ended 30 June 2014 will be satisfied in full by an on market purchase and transfer of shares of approximately \$884 million.

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

Business Strategies and Future Developments

Business Strategies

Business strategies, prospects and future developments which may affect the operations of the Group in subsequent years are referred to in the Chief Executive Officer's Statement.

In the opinion of the Directors, disclosure of any further information on likely strategic developments would be unreasonably prejudicial to the interests of the Group.

Accommodation Strategy

Following on from the success of Activity Based Working (ABW) at Commonwealth Bank Place in Sydney and Bankwest Place in Perth, the Group has now established an ABW workplace at North Wharf, Auckland for ASB.

The consolidation of the Group's Melbourne commercial portfolio to two buildings on Collins Street in the Melbourne CBD was completed this year, with the opening of the Group's newest workplace at 727 Collins Street. The Group's new workplace in Adelaide was also completed this year and work continues in Perth to consolidate the commercial portfolio into Bankwest Place as opportunities arise.

Further opportunities to improve the workplace experience for employees will continue to be explored.

Environmental Reporting

The Group is subject to the Federal Government's National Greenhouse and Energy Reporting (NGER) scheme. The

scheme makes it mandatory for controlling corporations to report annually on greenhouse gas emissions, energy production and energy consumption, if they exceed certain threshold levels. As a result of a long history in voluntary environmental reporting, the Group is well placed to meet the NGER requirements.

The Group is also subject to the Energy Efficiency Opportunities Act 2006 (EEO Act), which encourages large energy-using businesses to improve their energy efficiency. As required by the EEO Act, the Group produced a public report annually, as well as reporting directly to Government when required. The Government has since decided to close the EEO Program, with effect from 29 June 2014.

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

Directors' Shareholdings and Options

Particulars of shares held by Directors and the Chief Executive Officer in the Commonwealth Bank or in a related body corporate are set out in the Financial Statements that accompany this report.

No options have previously been granted to the Directors or Chief Executive Officer.

Options Outstanding

As at the date of this Report there are no options outstanding in relation to Commonwealth Bank ordinary shares.

Directors' Interests in Contracts

A number of Directors have given written notices, stating that they hold office in specified companies and accordingly are to be regarded as having an interest in any contract or proposed contract that may be made between the Bank and any of those companies.

Directors' and Officers' Indemnity

The Directors, as named on pages 36 to 38 of this report, and the Secretaries of the Bank, being named on page 42 of this Report, are indemnified under the Constitution of Commonwealth Bank of Australia (the Constitution), as are all senior managers of the Bank.

Deeds of Indemnity have been executed by the Bank, consistent with the Constitution, in favour of each Director of the Bank.

An Indemnity Deed Poll has been executed by the Bank, consistent with the Constitution and to the extent permitted by law, in favour of each:

- secretary and senior manager of the Bank;
- director, secretary and senior manager of a related body corporate of the Bank;
- person who, at the prior formal request of the Bank, acts as director, secretary or senior manager of a body corporate which is not a related body corporate of the Bank (in which case the indemnity operates only in excess of protection provided by that body corporate); and
- person who, at the request of a related body corporate of the Bank, acts as a member of the compliance committee of a registered scheme for which the related body corporate of the Bank is the responsible entity.

Directors' Report

In the case of a partly-owned subsidiary of the Bank, where a director, secretary or senior manager of that entity is a nominee of a third party body corporate which is not a related body corporate of the Bank, the Indemnity Deed Poll will not apply to that person unless the Bank's CEO has certified that the indemnity will apply to that person.

Directors' and Officers' Insurance

The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and those named and referred to above including the directors, secretaries, officers and certain employees of the Bank and related bodies corporate as defined in the insurance policy. The insurance is appropriate pursuant to section 199B of the Corporations Act 2001 (Corporations Act). 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.

Proceedings on behalf of the Bank

No application has been made under section 237 of the Corporations Act in respect of the Bank, and there are no proceedings that a person has brought or intervened in on behalf of the Bank under that section.

Rounding and Presentation of Amounts

The Bank is of the kind of entity referred to in ASIC Class Order 98/100 (as amended) pursuant to section 341(1) of the Corporations Act.

As a result, amounts in this Directors' Report and the accompanying financial statements have been rounded to the nearest million dollars except where otherwise indicated.

The financial information included in this Annual Report, unless otherwise indicated, has been prepared and presented in accordance with Australian Accounting Standards. This ensures compliance with International Financial Reporting Standards.

The Group manages its business performance using a "cash basis" profit measure. The key items that are excluded from statutory profit for this purpose are non-recurring or not considered representative of the Group's ongoing financial performance. Profit on an "underlying basis" is used primarily in the Wealth Management businesses. It provides a profit measure that excludes both the volatility of equity markets on shareholder funds and the mark to market revaluations on the Guaranteed Annuity portfolio for a measure of core operating performance.

Corporate Governance Statement

The Bank is committed to ensuring that its policies and practices reflect a high standard of corporate governance. The Board has adopted a comprehensive framework of Corporate Governance Guidelines, designed to balance performance and conformance.

Throughout the 2014 financial year, the Bank's governance arrangements were consistent with the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The Group's Corporate Governance Statement can be viewed at:

www.commbank.com.au/about-us/shareholders/corporate-profile/corporate-governance.

Company Secretaries

Details of the Bank's Company Secretaries, including their experience and qualifications, are set out below.

Margaret Taylor was appointed Group Company Secretary of the Bank effective 6 August 2013. Before joining the Bank, she held the position of Group General Counsel and Company Secretary of Boral Limited. Prior to that, she was Regional Counsel Australia/Asia with BHP Billiton, and prior to that a partner with law firm Minter Ellison, specialising in corporate and securities laws. She holds Bachelor Degrees in Law (Hons) and Arts from the University of Queensland. She is a Fellow of the Governance Institute of Australia and a Member of the Australian Institute of Company Directors.

Carla Collingwood was appointed a Company Secretary of the Bank in July 2005. From 1994 until 2005, she was a solicitor with the Bank's Legal Department, before being appointed to the position of General Manager, Secretariat. She holds a Bachelor of Laws degree (Hons) and a Graduate Diploma in Company Secretary Practice from the Governance Institute of Australia. She is a Graduate of the Australian Institute of Company Directors.

Directors' Report – Remuneration Report

Message from the Remuneration Committee Chairman

Dear Shareholder,

2014 was another year of strong performance as the Group continued to deliver on its strategy to create long term value for our customers, shareholders, people and community. The Group had its highest ever levels of customer satisfaction, maintaining the number one position in retail customer satisfaction throughout the year. Shareholders benefited from record profits and dividends and a historically high share price. In addition, more progress was made in driving productivity and strategic growth.

The year's strong performance resulted in executives receiving above-target short term incentive awards. However we acknowledge that the quality of advice provided by some of our licensed advisers in past years has caused financial loss and distress for some of our customers. This has been a matter of intense public scrutiny through the year, with extensive coverage in the Senate Committee's inquiry into ASIC, following which the Group announced the Open Advice Review program. The Remuneration Committee has given serious consideration to the continuing impact of this issue. In consequence it has exercised its discretion to reduce the CEO's short term incentive outcome to 115%, or \$515,000 below what it would otherwise have been, with the quality of the Group's results. There have also been reductions associated with this issue for some Group Executives this year, as there have been in past years.

These discretionary adjustments show our policy operating in practice; balancing reward for superior performance over the year with consequences for relevant executives for issues that have seriously affected some customers.

Reflecting strong sustained financial performance and improved customer satisfaction over the last four years, the long term incentive awarded in 2010 vested at just under 97% of the maximum level.

During the 2014 financial year, the CEO and some Group Executives received modest fixed remuneration increases. There were no increases to Board or Committee fees paid to Non-Executive Directors.

The Committee's approach to remuneration has remained largely unchanged for the last few years, and has served the Group's shareholders well. This year, we enhanced our already strong remuneration framework by implementing a mandatory shareholding requirement for the CEO and Group Executives to further strengthen alignment with shareholders. There are no changes proposed to our executive remuneration framework for the 2015 financial year.

Effective governance is important, so in preparing this year's Remuneration Report, we have maintained our approach in providing relevant performance and remuneration information. Above all, this enables you to assess the linkages between remuneration, execution of the Group's strategy and Group performance.

I invite you to review the full report, and thank you for your interest.



Jane Hemstrich
Committee Chairman
12 August 2014

Directors' Report – Remuneration Report

2014 Remuneration Report

This Remuneration Report details the approach to remuneration frameworks, outcomes and performance, for the Commonwealth Bank of Australia (CBA) and its Key Management Personnel (KMP) for the year ended 30 June 2014.

In the 2014 financial year, KMP included the Non-Executive Directors, CEO and Group Executives listed in the table below. The table also includes movements during 2014. The key changes to the Executive team included:

- Ian Saines ceased as a KMP effective 15 December 2013; and
- Kelly Bayer Rosmarin was appointed to the role of Group Executive, Institutional Banking and Markets from 16 December 2013.

| Name | Position | Term as KMP |
|----------------------------------|---|--------------------|
| Non-Executive Directors | | |
| David Turner | Chairman | Full Year |
| John Anderson | Director | Full Year |
| Shirish Apte | Director (from 10 June 2014) | Part Year |
| Jane Hemstritch | Director | Full Year |
| Launa Inman | Director | Full Year |
| Carolyn Kay | Director | Full Year |
| Brian Long | Director | Full Year |
| Andrew Mohl | Director | Full Year |
| Harrison Young | Director | Full Year |
| Managing Director and CEO | | |
| Ian Narev | Managing Director and CEO | Full Year |
| Group Executives | | |
| Kelly Bayer Rosmarin | Group Executive, Institutional Banking and Markets (from 16 December 2013) | Part Year |
| Simon Blair | Group Executive, International Financial Services | Full Year |
| David Cohen | Group General Counsel and Group Executive, Group Corporate Affairs | Full Year |
| Matthew Comyn | Group Executive, Retail Banking Services | Full Year |
| David Craig | Group Executive, Financial Services and Chief Financial Officer | Full Year |
| Michael Harte | Group Executive, Enterprise Services and Chief Information Officer | Full Year |
| Robert Jesudason | Group Executive, Group Strategic Development | Full Year |
| Melanie Laing | Group Executive, Human Resources | Full Year |
| Grahame Petersen | Group Executive, Business and Private Banking | Full Year |
| Annabel Spring | Group Executive, Wealth Management | Full Year |
| Alden Toevs | Group Chief Risk Officer | Full Year |
| Former Executive | | |
| Ian Saines | Group Executive, Institutional Banking and Markets (resigned on 15 December 2013) | Part Year |

The report has been prepared and audited against the disclosure requirements of the Corporations Act 2001.

1. Remuneration Governance

1.1 Remuneration Committee

The Remuneration Committee (the Committee) is the main governing body for setting remuneration policy across the Group. The Committee develops the remuneration philosophy, framework and policies, for Board approval.

As at 30 June 2014, the Committee is made up of independent Non-Executive Directors and consists of the following members:

- Jane Hemstrich (Chairman);
- Carolyn Kay;
- Andrew Mohl; and
- David Turner.

The responsibilities of the Committee are outlined in their Charter, which is reviewed annually by the Board. The Charter is available on the Group's website at <https://www.commbank.com.au/about-us.html>.

In summary, the Committee is responsible for recommending to the Board for approval:

- Remuneration for senior executive appointments, and appointments where the remuneration target of the individual exceeds that of the head of their business/support unit;
- Remuneration arrangements and all reward outcomes for the CEO, senior direct reports to the CEO and other individuals whose roles may affect the financial soundness of the Group;
- Remuneration arrangements for finance, risk and internal control employees;
- Remuneration arrangements for employees who have a significant portion of their total remuneration based on performance; and
- Significant changes in remuneration policy and structure, including superannuation, employee equity plans and benefits.

This year, the Committee's key areas of focus were:

- The appointment of Kelly Bayer Rosmarin in the role of Group Executive, Institutional Banking and Markets, effective 16 December 2013, following the resignation of Ian Saines;
- The appointment of David Whiteing in the role of Group Executive, Enterprise Services and Chief Information Officer, effective 14 July 2014, following the resignation of Michael Harte;
- The implementation of a mandatory Shareholding Policy for the CEO and Group Executives;
- A review of Long Term Incentive (LTI) performance hurdles. This review confirmed that the current performance hurdles are appropriately aligned with the Group's business strategy and shareholder interests and no changes were made;
- The annual review of the Group Remuneration Policy in December 2013, and a subsequent review in June 2014 to incorporate changes to United Kingdom regulatory requirements;
- Continued monitoring of regulatory and legislative changes, both locally and offshore, ensuring our policies and practices remain compliant; and

- Continued focus on embedding a remuneration framework that is appropriate for our different businesses with transparency in design, strong governance and risk oversight.

Our Independent Remuneration Consultant

The Committee obtains executive remuneration information directly from its external independent remuneration consultant EY.

Throughout 2014, the main information received from the Committee's remuneration consultant related to:

- Regulatory reforms; and
- Current market practices.

EY provides information to assist the Committee in making remuneration decisions. EY has not made any remuneration decisions or recommendations during the 2014 financial year. The Committee is solely responsible for making decisions within the terms of its Charter.

1.2 Our Remuneration Philosophy

Our remuneration philosophy is the backbone of our remuneration framework, policies and processes. In summary, our remuneration philosophy for our CEO and Group Executives is to:

- Provide target remuneration which is market competitive, without putting upward pressure on the market;
- Align rewards with shareholder interests and our business strategy;
- Articulate clearly to Executives the link between individual and Group performance, and individual reward;
- Reward superior performance, while managing risks associated with delivering and measuring that performance;
- Provide flexibility to meet changing needs and emerging market practice; and
- Provide appropriate benefits on termination that do not deliver any windfall payments not related to performance.

1.3 Remuneration and Risk Management

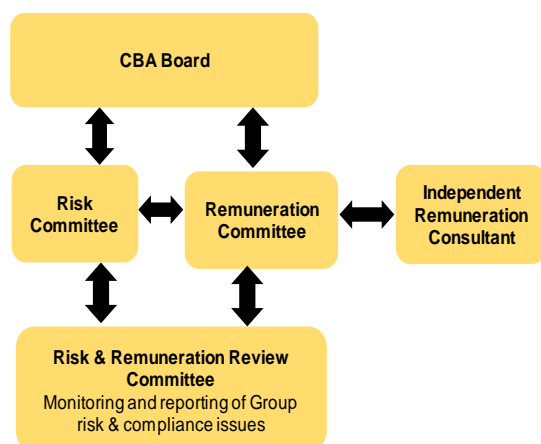
The Committee has a robust framework for the systematic review of risk and compliance issues impacting remuneration. The Committee:

- Takes note of any material risk issues impacting remuneration, with issues raised by the Committee provided to the Board's Risk Committee for noting;
- Considers issues and recommendations raised by the Risk and Remuneration Review Committee, a management committee that monitors material risk and compliance issues throughout the year;
- May impose adjustments to remuneration outcomes of Executives before or after awards are made, subject to Board approval; and
- Works closely with the Board's Risk Committee to ensure that any risks associated with remuneration arrangements are managed within the Group's risk management framework.

Directors' Report – Remuneration Report

1.3 Remuneration and Risk Management (continued)

The following diagram illustrates the Group's remuneration and risk governance framework:



1.4 Non-Executive Directors Remuneration

Non-Executive Directors receive fees to recognise their contribution to the work of the Board and the associated committees that they serve. Non-Executive Directors do not receive any performance-related remuneration.

The Board Performance and Renewal Committee reviews the Non-Executive Directors fee schedule regularly and examines fee levels against the market. No fee increases were awarded during the 2014 financial year.

Since 1 January 2013, Non-Executive Directors fees have included statutory superannuation contributions.

The following table outlines the Non-Executive Directors fees for the main Board and the Committees as at 30 June 2014:

| | Position | Fees ⁽¹⁾ (\$) |
|---------------------------------------|------------------------|-----------------------------|
| Board | Chairman | 849,800 |
| | Non-Executive Director | 236,400 |
| Audit Committee | Chairman | 56,300 |
| | Member | 28,100 |
| Risk Committee | Chairman | 56,300 |
| | Member | 28,100 |
| Remuneration Committee | Chairman | 56,300 |
| | Member | 28,100 |
| Board Performance & Renewal Committee | Chairman | 11,300 |
| | Member | 11,300 |

(1) Fees are inclusive of base fees and superannuation. The Chairman does not receive separate Committee fees.

Non-Executive Directors are required to hold 5,000 or more CBA shares. For those Non-Executive Directors who have holdings below this threshold, 20% of their after-tax base fees are used to purchase CBA shares until a holding of 5,000 shares has been reached.

The total amount of Non-Executive Directors fees is capped at a maximum pool that is approved by shareholders. The current fee pool remains at \$4 million, which was approved by shareholders at the Annual General Meeting (AGM) on 13 November 2008.

The statutory table on page 55 provides the individual remuneration expense for each Non-Executive Director in relation to the 2014 financial year.

2. Remuneration Framework

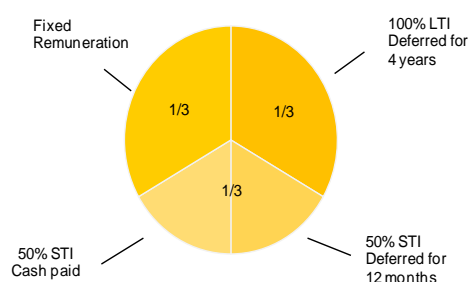
The remuneration arrangements of our CEO and Group Executives are made up of both fixed and at risk remuneration. This is composed of the following three elements:

- Fixed remuneration;
- Short Term Incentive (STI) at Risk; and
- Long Term Incentive (LTI) at Risk.

The at risk components are based on performance against key financial and non-financial measures. More detail on executive remuneration and the link to performance is included in section 3 of this report.

2.1 Total Target Remuneration

The following diagram illustrates the total target mix of the three remuneration elements:



The three remuneration elements are broken down into equal portions of total target remuneration.

When setting target remuneration levels, our key objective is to remain competitive by attracting and retaining highly talented Executives. We do this by considering the size and responsibilities of each role, using any relevant executive remuneration market surveys and disclosed data.

Importantly, for our most senior roles, we aim to avoid adding upward reward pressure to market remuneration levels.

Each component of remuneration has a direct link to our business strategy as detailed below.

2.2 Fixed Remuneration

- Fixed remuneration is made up of base remuneration and superannuation. Base remuneration includes cash salary and any salary sacrifice items;
- The Board determines an appropriate level of fixed remuneration for the CEO and Group Executives, with recommendations from the Committee; and
- Fixed remuneration is reviewed annually, following the end of the 30 June performance year. For the 2014 financial year the average fixed remuneration increase for Executives was 1.4%.

2.3 Short Term Incentive

- The CEO and Group Executives have an STI target that is equal to 100% of their fixed remuneration. Executives will only receive the full amount if they meet all of their performance goals;
- The CEO and Group Executives have a maximum STI potential of 150% of their STI target. No STI awards will be made if the relevant performance goals are not met;
- Executives receive 50% of their STI payment as cash following the Group's year-end results. The remaining

50% of the STI payment is deferred for one year and earns interest at the CBA one year term deposit rate;

- The CEO and Group Executives will forfeit the deferred portion of their STI if they resign or are dismissed from the Group before the end of the deferral period, unless the Board determines otherwise;
- The deferral assists in managing the risk of losing key Executive talent. It also allows the Board to reduce or cancel the deferred component of the STI where business outcomes are materially lower than expected; and
- STI payments are made within a funding cap which is determined by the Board after consideration of performance in the year. The Board retains discretion to adjust remuneration outcomes up or down to ensure consistency with the Group's remuneration philosophy and to prevent any inappropriate reward outcomes.

See section 3.1 for more detail on STI outcomes and the link to performance.

2.4 Long Term Incentive

- The CEO and each Group Executive has an LTI target that is equal to 100% of their fixed remuneration;

- The LTI award has a four year performance period and is measured against relative Total Shareholder Return (TSR) and relative Customer Satisfaction performance hurdles;
- The performance hurdles are aligned to our key business priorities of Customer Focus and shareholder interests;
- Executives only receive value if performance hurdles are met at the end of the four years, subject to final Board review;
- Executives receive one CBA share (or cash equivalent) for each right that vests; and
- No dividends are paid while LTI awards are unvested.

See section 3.2 for more detail on how the LTI award operates and its direct link to performance outcomes.

2.5 Mandatory Shareholding Policy

- The CEO and each Group Executive are required to accumulate CBA shares over a five year period to the value of 300% of fixed remuneration for the CEO and 200% of fixed remuneration for Group Executives.

3. Linking Remuneration to Performance

The remuneration framework is designed to attract and retain high calibre Executives by rewarding them for achieving goals that are aligned to the Group's business strategy. All our incentives are directly linked to both short term and long term performance goals.

3.1 2014 Short Term Performance

The table below provides an overview of performance for the year ended 30 June 2014 against key financial and non-financial performance measures. These measures are used to determine the individual STI outcomes of Executives, and are managed through a balanced scorecard approach. Financial objectives have a substantial weighting, and non-financial objectives vary by role. The CEO has a 40% weighting on financial outcomes, Executives managing business units typically have a 45% weighting on financial outcomes and Executives managing support functions have a typical weighting of 25% on financial outcomes.

Risk is also a key factor in accounting for short term performance. Firstly, we use Profit After Capital Charge, a risk-adjusted measure, as one of our primary measures of financial performance. It takes into account not just the profit achieved, but also considers the risk to capital that was taken to achieve it. Secondly, Executives are required to comply with the relevant Group or Business Unit Risk Appetite Statement. STI awards are adjusted downwards where material risk issues occur. Thirdly, risk is also managed through the compulsory 50% deferral of the CEO and Group Executives' STI outcomes for a period of 12 months and delivery of one-third of their total target remuneration after a four year period.

Under the Group's Remuneration Policy, the Board has discretion to make adjustments to deferred remuneration in various circumstances. Adjustments can include partial reductions or complete forfeiture of deferred STI awards.

Performance 2014 Key Achievements

Customer Focus Continue to build a vibrant customer focused culture

The Group's continued commitment to its customer focused culture resulted in the Group maintaining the number one major bank for customer satisfaction across all business areas. Specifically:

- For Retail Banking, CBA maintained the number one ranking among the major banks in Main Financial Institution (MFI) customer satisfaction⁽¹⁾ for the entire financial year. During this time, CBA also achieved the highest ever result recorded by a major bank and has continued to hold the leading position on Retail MFI customer satisfaction since January 2013;
- In Business Banking, CBA has maintained outright or equal first position in customer satisfaction⁽¹⁾ in three of the four key business segments among the four major banks for the entire financial year. Overall, CBA continues to hold equal first position in the DBM Business Financial Services Monitor (BFSM, June 2014);
- Wealth Management's platforms maintained a combined rating of first for adviser satisfaction among the four major banks and other key competitors; and
- In Institutional Banking, CBA continues to perform strongly. The DBM Business Financial Services Monitor has ranked CBA outright or equal first in Institutional Banking MFI customer satisfaction⁽¹⁾ for the past 12 months.

Directors' Report – Remuneration Report

| | |
|---------------------|---|
| Strength | <p>Maintain a strong, flexible Balance Sheet</p> <ul style="list-style-type: none">▪ The Group maintained a strong capital position with capital ratios well in excess of regulatory minimum capital requirements and the Board approved minimum levels at all times throughout the year ended 30 June 2014;▪ The group preserved its well-diversified funding base including:<ul style="list-style-type: none">– Customer deposits accounting for 64% of total funding at 30 June 2014 (2013: 63%); and– Short term wholesale funding accounted for 45% of total wholesale funding at 30 June 2014, down from 46% in the prior year.▪ The Group continues to hold a high quality, well diversified liquid asset portfolio of \$139 billion at 30 June 2014 (2013: \$137 billion), to prudently meet Balance Sheet liquidity needs and regulatory requirements; and▪ The Group continues to manage growth by assessing opportunities that will generate sustainable returns for the long term, demonstrated in the 2014 financial year by:<ul style="list-style-type: none">– A stable net interest margin and strong volume growth in average interest earning assets; and– Low levels of lending losses for the period. |
| Productivity | <p>Continuous and ongoing focus on streamlining processes whilst making things simpler and easier for the Group's customers and staff</p> <ul style="list-style-type: none">▪ To continue to build capability to drive short and long term gains in productivity, the Group has continued to expand training options across the entire Group with over 35,000 staff completing some form of productivity training. The launch of higher skilled courses, and an associated demonstration of capability through project delivery, is leading to a significant increase in formal productivity qualifications. This has been complemented by hiring of external local and global expertise;▪ The core set of four productivity habits is established across the Group; this is supported by an accreditation to ensure those habits are being embedded;▪ Productivity outcomes and behaviours are embedded in reward and recognition systems together with the Group's leadership capability framework; and▪ Projects continue to be executed across all business units and they are delivering financial and customer benefits, as well as supporting the transfer of productivity capability. |
| Technology | <p>Technology programs designed to enhance the customer experience through more innovative systems and processes, and improve efficiency levels</p> <p>The Group continued to deliver market leading technology solutions to enhance the customer experience through innovations such as:</p> <ul style="list-style-type: none">▪ Australia's first cardless cash service, enabling customers to use the CommBank app to withdraw cash without a card across its national ATM network;▪ Lock and Limit functionality which gives CommBank credit card customers additional control over their card security and spending via the CommBank app; and▪ MasterCard® PayPass™ payments capabilities on enabled Samsung GALAXY S4 devices. <p>The Group continued evolving its business customer's mobile banking experiences through initiatives that include:</p> <ul style="list-style-type: none">▪ The CommBank Small Business app that enables small business customers to manage their cash flow and business operations efficiently from their mobile device;▪ 'Emmy', a payment terminal that allows small businesses to accept card payments through tap-and-go contactless payments or with the encrypted chip plus PIN code;▪ 'Daily IQ', a new mobile analytics app that gives business customers access to insights about their cash flow, sales and information on the market in which they operate; and▪ The CommBiz app was updated to allow business customers to transfer funds and make or authorise payments anywhere, anytime. <p>In addition, CommInsure launched Simple Life, a 'do-it-yourself' direct life insurance solution that leverages Core capabilities providing customers with online functionality and tailored access for tablet and mobile devices.</p> |
| People | <p>Develop a long term people focus</p> <ul style="list-style-type: none">▪ In the 2014 financial year, the Group's people remained highly engaged, as shown by the Group's recent employee engagement score of 81%;▪ The Group remains committed to gender diversity. By embedding gender diversity into talent systems and a focus on the talent pipeline, the Group is gradually progressing towards its target, to increase the representation of women in leadership roles from 26.6% in December 2009 to 35% by December 2014. Women made up 32.8% of executive roles at 30 June 2014. The target of 35% remains unchanged and we expect it will be met after December 2014; |

Directors' Report – Remuneration Report

- The Group is now also making good progress in broadening its diversity and inclusion strategy and has elected to take an approach that aligns a combination of self-determination by the respective employee communities whilst embedding diversity into everyday business;
- To support culture and diversity, the Group has continued to invest in leadership development at every level of the organisation, embedding its long term customer-centric culture and adding stronger productivity and risk lenses; and

The Group remains committed to not offshoring jobs.

(1) Customer satisfaction is measured by three separate surveys. For the Retail bank, this is measured by Roy Morgan Research. Roy Morgan Research Main Financial Institution (MFI) Retail Customer Satisfaction measures percentage of the Australian population 14+, % "Very Satisfied" or "Fairly Satisfied" with their relationship with that MFI, based on a 6-month rolling average to June 2014. CBA excludes Bankwest. For business banking, this is measured by DBM Consultants Main Financial Institution (MFI) Business Customer Satisfaction. Satisfaction average with relationship with that MFI, 6-month rolling average to June 2014. For Wealth Management, customer satisfaction is measured by the Wealth Insights 2014 Service Level Report, Platforms. This survey measures satisfaction with the service of master trusts/wraps in Australia, by financial advisers. It includes Colonial First State's FirstChoice and FirstWrap platforms. For Institutional Banking, customer satisfaction is measured by DBM Business Financial Services Monitor (June 2014) six month rolling average of MFI satisfaction ratings of Australian businesses. Institutional banking includes businesses with turnover of \$100 million and above.

3.2 Long Term Performance

The executive remuneration structure also focuses on driving performance and creating shareholder alignment in the longer term, by providing Executives with LTI awards in the form of Reward Rights with a four year vesting period. Vesting is subject to performance against relative Total Shareholder Return (TSR) and relative Customer Satisfaction hurdles. The table below provides an overview of the CEO and Group Executives' current LTI awards which have not yet vested.

Overview of Unvested Long Term Incentive Awards at the end of the 2014 Financial Year

| Performance Period Ends | Equity Plan | Performance Hurdles |
|-------------------------|--------------------|--|
| 30 June 2015 | Group | Each reward is split and tested: |
| 30 June 2016 | Leadership | ▪ 75% TSR relative to peer group |
| 30 June 2017 | Reward Plan (GLRP) | ▪ 25% Customer Satisfaction ranking relative to peer group |

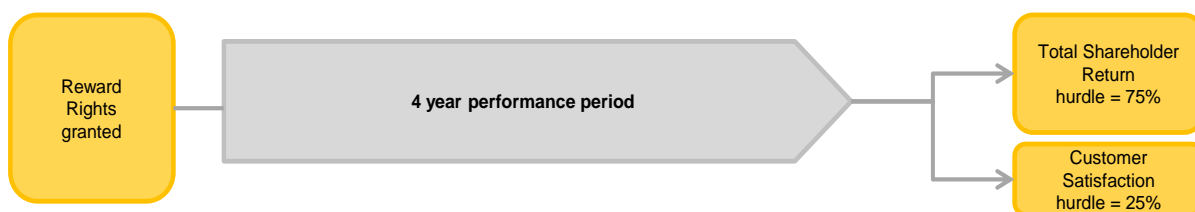
GLRP Award vested during 2014 Financial Year

The GLRP award granted during the 2011 financial year reached the end of its four year performance period on 30 June 2014. The GLRP 2011 award was weighted against two performance hurdles, relative TSR (75% of the award) and relative Customer Satisfaction (25% of the award). At the end of the performance period, the results against these measures were solid and included:

- 100% vesting against the TSR hurdle;
- 87.5% vesting against the Customer Satisfaction hurdle;
- In line with the plan rules for this award, 96.875% of the total award vested; and
- The Board reviewed the measurement outcomes of this award and concluded that the above vesting appropriately reflects performance over the four year performance period. The Customer Satisfaction performance results placed the Group midway between 75% and 100% vesting.

2014 GLRP Award granted in the 2014 Financial Year

The CEO and Group Executives currently receive LTI awards under the GLRP. The awards granted may deliver value to Executives at the end of the four year performance period, subject to meeting performance hurdles as set out in the diagram below:



The following table provides the key features of the 2014 GLRP award:

| Feature | Description |
|-------------------|---|
| Instrument | Reward Rights. Each Reward Right entitles the Executive to receive one CBA share in the future, subject to meeting the performance hurdles set out below. The number of rights that vest will not be known until the end of the performance period. |

Determining the number of Reward Rights The number of Reward Rights allocated depends on each Executive's LTI Target (see diagram on page 46 for explanation of target remuneration). The number of Reward Rights allocated aligns the Executive's LTI Target to the expected value at the end of the performance period, in today's dollars.

Directors' Report – Remuneration Report

| | |
|---|---|
| Performance Period | The performance period commences at the beginning of the financial year in which the award is granted. For the GLRP award granted in the 2014 financial year, the performance period started on 1 July 2013 and ends after four years on 30 June 2017. Any vesting will result in participants receiving shares during the first available trading window following the end of the performance period. |
| Performance Hurdles | <ul style="list-style-type: none"> ▪ 75% of each award is subject to a performance hurdle, which measures the Group's TSR performance relative to a set peer group⁽¹⁾. This is made up of the 20 largest companies on the Australian Securities Exchange (ASX) by market capitalisation at the beginning of the performance period, excluding resources companies and Commonwealth Bank of Australia. The next five largest companies listed on the ASX by market capitalisation will form a reserve bench of companies. A reserve bench company will be substituted (in order of market capitalisation as at the beginning of the Performance Period) into the Peer Group when a Peer Group Company ceases to be listed on the ASX as a result of an acquisition, merger or other relevant corporate action or delisting; and ▪ 25% of each award is subject to a performance hurdle that measures the Group's Customer Satisfaction outcomes relative to a peer group of Australia & New Zealand Banking Group Limited (ANZ), National Australia Bank Limited (NAB), Westpac Banking Corporation (WBC), and other key competitors for the wealth business. |
| Vesting Framework | <p><i>TSR (75% of the award)</i></p> <ul style="list-style-type: none"> ▪ 100% vesting is achieved if the Group's TSR is ranked in the top quarter of the peer group⁽¹⁾ (i.e. 75th percentile or higher); ▪ If the Group is ranked at the median, 50% of the Reward Rights will vest; ▪ Vesting occurs on a sliding scale if the Group is ranked between the median and the 75th percentile; and ▪ No Reward Rights in this part of the award will vest if the Group's TSR is ranked below the median of the peer group. <p><i>Customer Satisfaction (25% of the award)</i></p> <ul style="list-style-type: none"> ▪ 100% vesting applies if the weighted average ranking for the Group over the performance period is 1st; ▪ 50% will vest if the Group's weighted average ranking is 2nd; ▪ Vesting of between 50% and 100% will occur on a pro-rata straight line basis if the Group's weighted average ranking is between 2nd and 1st; and ▪ No Reward Rights in this part of the award will vest if the Group's weighted average ranking is less than 2nd. |
| Calculation of the Performance Results | <ul style="list-style-type: none"> ▪ TSR is calculated independently by Orient Capital. ▪ Customer Satisfaction is measured with reference to the three independent surveys below: <ul style="list-style-type: none"> – Roy Morgan Research (measuring customer satisfaction across Retail Banking); – DBM, Business Financial Services Monitor (measuring customer satisfaction across Business Banking); and – Wealth Insights Service Level Report, Platforms (measuring customer satisfaction across Wealth Management). |
| Board Discretion | The Board also retains sole discretion to determine the amount and form of any award that may vest (if any) to prevent any unintended outcomes, or in the event of a corporate restructuring or capital event. |
| Expiry | At the end of the applicable performance period, any Reward Rights that have not vested will expire. |

(1) The peer group (at the beginning of the performance period) for the TSR performance hurdle (at the time of grant) comprised Amcor Limited, AMP Limited, Australia and New Zealand Banking Group Limited, Brambles Limited, Coca-Cola Amatil Limited, Crown Limited, CSL Limited, Insurance Australia Group Limited, Macquarie Group Limited, National Australia Bank Limited, QBE Insurance Group Limited, Suncorp Group Limited, Telstra Corporation Limited, Transurban Group NPV, Twenty-First Century FOX, Inc., Wesfarmers Limited, Westfield Group Limited, Westfield Retail Trust, Westpac Banking Corporation and Woolworths Limited. The reserve bench comprised AGL Energy Limited, Goodman Group, GPT Group, Orica Limited and Stockland.

Directors' Report – Remuneration Report

Hedging of Invested Equity Awards

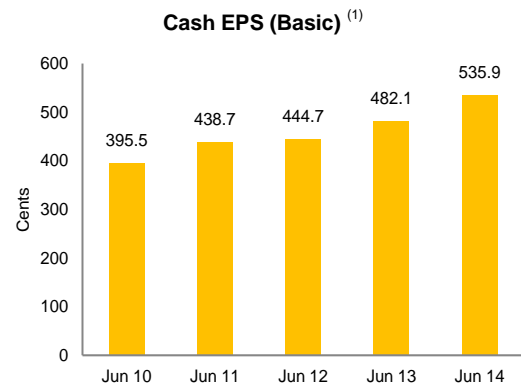
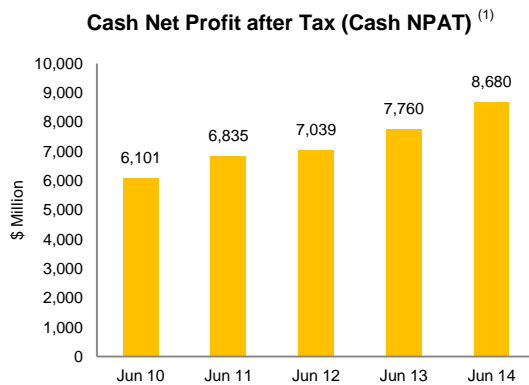
Employees are prohibited from hedging in relation to all of their unvested CBA equity awards, including shares or rights. Prohibited activity includes Executives controlling their exposure to risk in relation to their unvested awards. The CEO's direct reports are also prohibited from using instruments or arrangements for margin borrowing, short selling or stock lending of any Bank securities or the securities of any other member of the Group. All hedging restrictions are included in the Group's Securities Trading Policy.

Long Term Performance against Key Measures

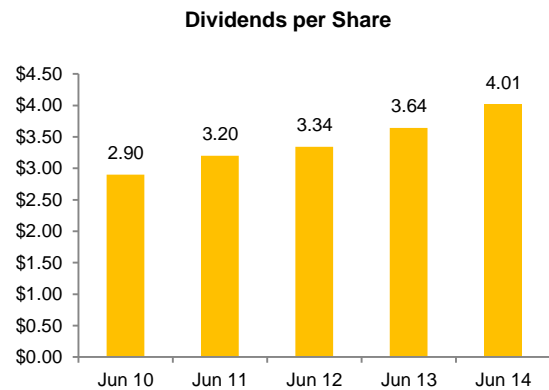
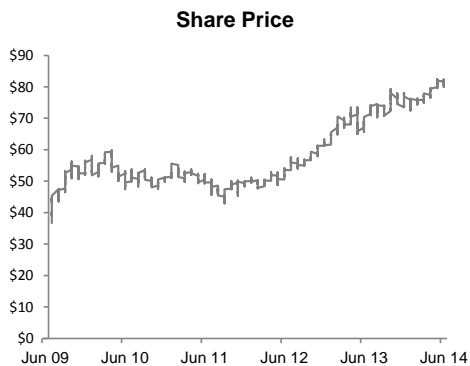
As detailed above, long term incentive arrangements are designed to align Executives with the Group's long term strategy and shareholder interests. The remainder of this section illustrates performance against key related metrics over time.

Financial Performance

The following graphs show the Group's cash Net Profit after Tax (cash NPAT), cash Earnings per Share (cash EPS), share price movement and full-year dividend results over the past five financial years (including 2014). The solid performance has delivered sound returns to shareholders.



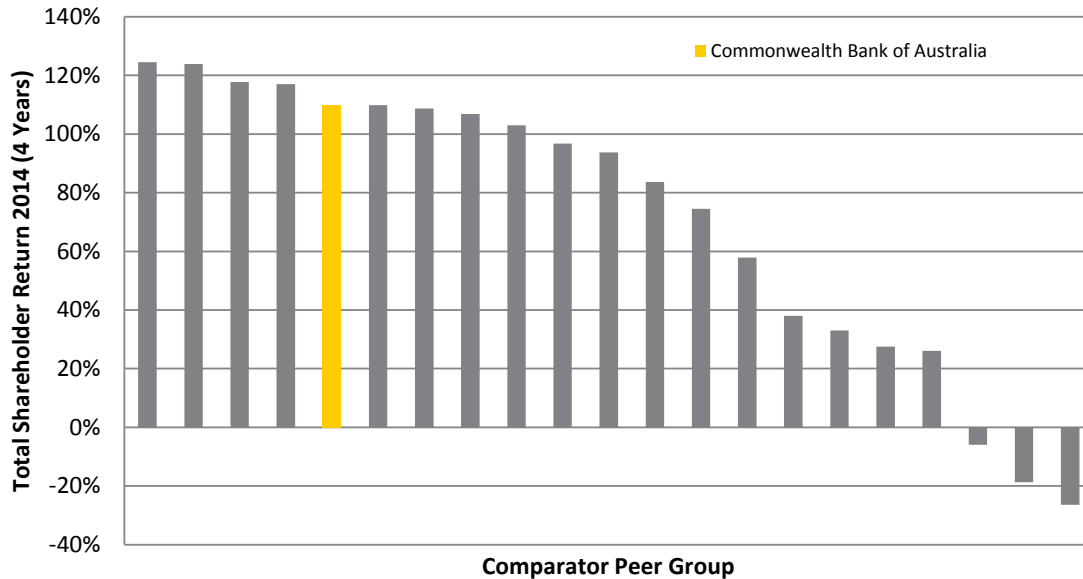
(1) Comparatives have been restated to conform to presentation in the current year.



Directors' Report – Remuneration Report

Relative TSR Performance against the Group's Peers

The graph below represents CBA's TSR performance against the comparator peer group for the period 1 July 2010 to 30 June 2014. The Group was ranked in the upper quartile relative to the peer group⁽¹⁾ at the end of the period. TSR is calculated by Orient Capital.

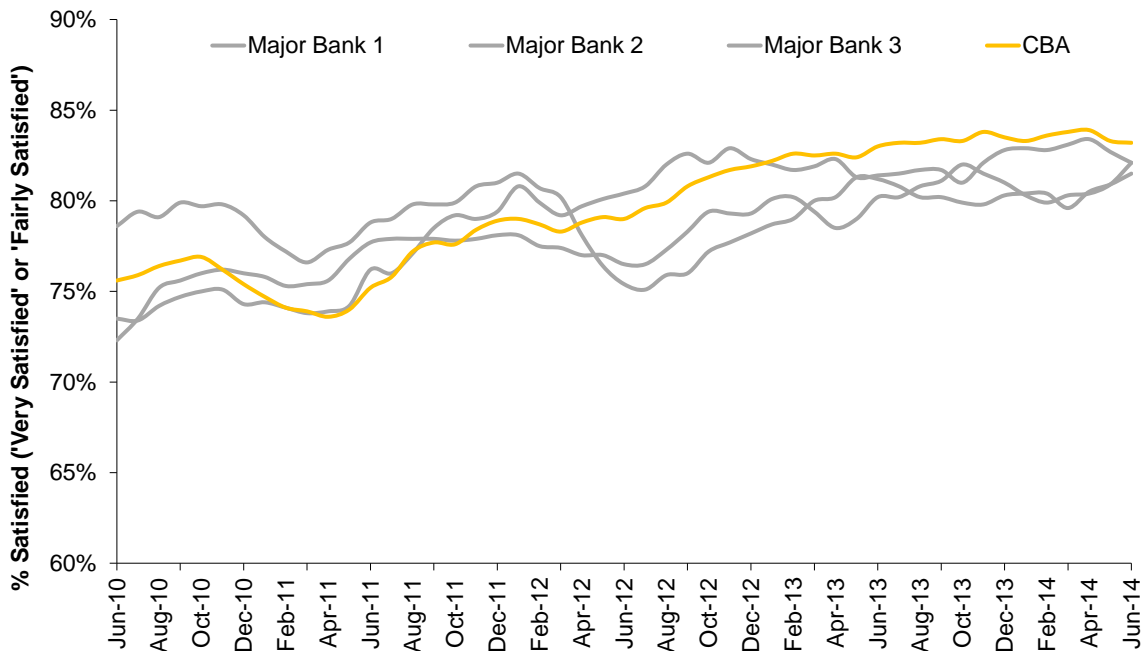


(1) The peer group (at the end of the performance period) for the TSR performance hurdle (at the time of grant) comprised AGL Energy Limited, AMP Limited, Australia and New Zealand Banking Group Limited, Brambles Limited, Coca-Cola Amatil Limited, Computershare Limited, Crown Limited, CSL Limited, Insurance Australia Group Limited, Leighton Holdings Limited, Macquarie Group Limited, National Australia Bank Limited, QBE Insurance Group Limited, Stockland, Suncorp Group Limited, Telstra Corporation Limited, Transurban Group, Wesfarmers Limited, Westpac Banking Corporation and Woolworths Limited.

Performance against Customer Satisfaction

The following graphs show CBA's customer satisfaction performance across Retail, Business and Wealth Management. During the 2014 financial year, CBA maintained the number one ranking among the major banks in MFI customer satisfaction and has also been ranked equal or outright first across three of the four key business segments. The Wealth Management results ranked the Group first for adviser satisfaction among the four major banks and other key competitors.

Retail Main Financial Institution Customer Satisfaction - Competitive Context

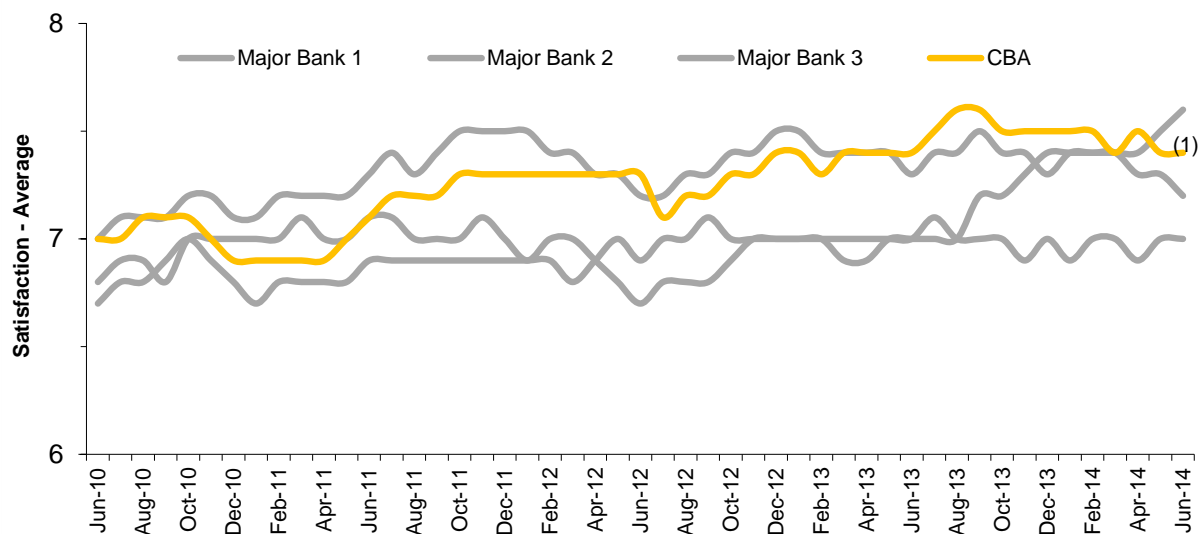


Source: Roy Morgan Research
6 month rolling average ⁽¹⁾

(1) Roy Morgan Research Main Financial Institution (MFI) Retail Customer Satisfaction. Australian population 14+, % "Very Satisfied" or "Fairly Satisfied" with relationship with that MFI. 6 month rolling average to June 2014. CBA excludes Bankwest.

Directors' Report – Remuneration Report

Business Main Financial Institution Customer Satisfaction - Competitive Context



Source: DBM, Business Financial Services Monitor
6 month rolling average⁽²⁾

- (1) CBA and Major Bank 1 are ranked equal 1st (DBM Business Financial Services Monitor, June 2014) as the difference in average satisfaction rating is not considered to be statistically significant.
- (2) DBM Business Financial Services Monitor (June 2014), average satisfaction rating of each financial institution's MFI business customers across all Australian businesses, 6 month rolling average.

Wealth Management Customer Satisfaction

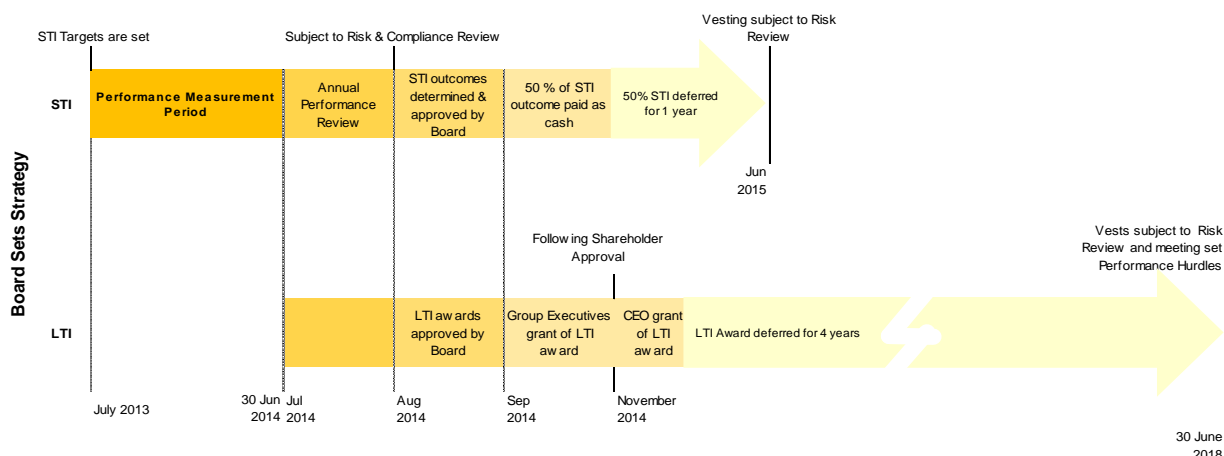
| | 30-Jun-14 | 30-Jun-13 | 30-Jun-12 ⁽¹⁾ | 30-Jun-11 ⁽²⁾ | 30-Jun-10 |
|----------------------|-----------|-----------|--------------------------|--------------------------|-----------|
| Score ⁽³⁾ | 7.94 | 8.32 | 7.86 | 7.74 | 7.70 |
| CBA Rank | 1st | 1st | 1st | 1st | 1st |

- (1) In the 2012 year, the satisfaction score was calculated on a straight average of FirstChoice and FirstWrap. Due to the change in calculation of the satisfaction score in 2013, historical results have been restated. As a result, the score and ranking for 2012 has changed from 7.69 (2nd) to 7.86 (1st). For remuneration purposes the ranking of 2nd has been applied.
- (2) For 2011 the ranking remains unchanged but average satisfaction result changed from 7.79 to 7.74. Prior to 2011, results remain unchanged despite change in calculation methodology.
- (3) For Wealth Management, customer satisfaction is measured by the Wealth Insights 2014 Service Level Report, Platforms.

3.3 Performance Timeline of At Risk Remuneration Outcomes

The Performance Management framework supports decisions in awarding appropriate annual STI outcomes for Executives. The STI performance objectives are communicated to Executives at the beginning of the performance year. Executives' annual performance evaluations are conducted following the end of the financial year. For 2014, the evaluations were conducted in July 2014.

The following diagram outlines the timing of the STI and LTI awards made to the Executives over the relevant performance periods. All awards are subject to risk and compliance reviews.



Directors' Report – Remuneration Report

3.4 CEO and Group Executive Remuneration Received in the year ended 30 June 2014

The incentives awarded to the CEO and Group Executives are directly linked to the Group's strong financial performance.

Total statutory remuneration recognised for the CEO and Group Executives for the 2014 performance year was \$43.8 million and is the total of the values for each executive shown in the statutory remuneration table on page 56. Statutory remuneration disclosures are prepared in accordance with the Corporations Act and Australian Accounting Standards. Total cash remuneration received by the CEO and Group Executives in relation to the 2014 performance year was \$21.9 million. The total cash remuneration received is used by management to present a clear view of the Group's remuneration payments made to the CEO and Group Executives during the performance year.

Table (a) below shows remuneration received in relation to the 2014 financial year. The total cash payments received are made up of base remuneration and superannuation (fixed remuneration), and the non-deferred portion of the 2014 STI award. This table also includes the value of previous years' deferred STI and LTI awards which vested during 2014.

(a) Remuneration in relation to the 2014 Financial Year

| | Base Remuneration & Superannuation ⁽¹⁾ | 2014 STI for Performance to 30 June 2014 ⁽²⁾ | Total Cash Payments in relation the 2014 year | | | Total received during 2014 | Previous Years' Awards that Vested during 2014 ⁽³⁾ | Previous Years' Awards Forfeited/Lapsed during 2014 ⁽⁴⁾ |
|--|---|---|--|------------------------------|------------|----------------------------------|--|---|
| | | | Deferred Cash Awards | Deferred Equity Awards | LTI Awards | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| Managing Director and CEO | | | | | | | | |
| Ian Narev | 2,575,000 | 1,480,625 | 4,055,625 | 1,607,359 | 2,441,061 | 8,104,045 | (309,425) | |
| Current Executives ⁽⁵⁾ | | | | | | | | |
| Kelly Bayer Rosmarin ⁽⁶⁾ | 528,932 | 330,582 | 859,514 | - | - | 859,514 | - | |
| Simon Blair | 850,000 | 527,425 | 1,377,425 | 520,836 | 2,191,745 | 4,090,006 | (277,768) | |
| David Cohen | 900,000 | 462,375 | 1,362,375 | 578,649 | 2,369,295 | 4,310,319 | (300,296) | |
| Matthew Comyn | 1,000,000 | 675,250 | 1,675,250 | 583,476 | - | 2,258,726 | - | |
| David Craig | 1,380,000 | 890,100 | 2,270,100 | 887,262 | 3,015,443 | 6,172,805 | (382,235) | |
| Michael Harte | 1,075,000 | 665,694 | 1,740,694 | 652,459 | 2,728,294 | 5,121,447 | (345,793) | |
| Robert Jesudason | 825,000 | 575,437 | 1,400,437 | 518,470 | - | 1,918,907 | - | |
| Melanie Laing | 825,000 | 506,344 | 1,331,344 | 493,781 | - | 1,825,125 | - | |
| Grahame Petersen | 1,175,000 | 644,928 | 1,819,928 | 646,672 | 3,159,060 | 5,625,660 | (400,419) | |
| Annabel Spring | 1,000,000 | 621,812 | 1,621,812 | 645,207 | 721,722 | 2,988,741 | - | |
| Alden Toevs | 1,430,000 | 933,075 | 2,363,075 | 875,277 | 4,020,674 | 7,259,026 | (509,598) | |

(1) Base Remuneration and Superannuation make up an Executive's fixed remuneration.

(2) This is the 50% of the 2014 STI for performance during the 12 months to 30 June 2014 (payable September 2014). The remaining 50% is deferred until 1 July 2015.

(3) The value of all deferred cash and/or equity awards that vested during 2014 financial year. This includes the value of the award that vested, plus any interest and/or dividends accrued during the vesting period. A portion of Ian Narev's deferred equity award was delivered in the form of cash, which was paid to registered charities pursuant to an option that the Board made available.

(4) The value of any deferred cash and/or equity awards that were forfeited/lapsed during the 2014 financial year.

(5) Group Executives as at 30 June 2014.

(6) Kelly Bayer Rosmarin commenced in the KMP role on 16 December 2013. Remuneration reflects time in the KMP role.

(b) CEO Reconciliation Table of Cash Payments from Table (a) and Statutory Remuneration Table on Page 56

| | 2014 \$ | Year Award Vests |
|---|------------------|---------------------|
| Cash remuneration received in relation to 2014 - refer to table (a) above | 4,055,625 | n/a |
| 2014 STI deferred for 12 months at risk | 1,480,625 | 2015 |
| Annual leave and long service leave accruals | (48,351) | n/a |
| Other Payments | 59,458 | n/a |
| Share based payments: accounting expense for 2014 for LTI awards made over the past 4 years | | |
| 2011 GLRP: Expense for one award that may vest subject to customer satisfaction performance | 98,153 | 2015 |
| 2011 GLRP: Expense for one award that may vest subject to relative TSR performance | 185,843 | 2015 |
| 2012 GLRP: Expense for one award that may vest subject to customer satisfaction performance | 265,796 | 2016 |
| 2012 GLRP: Expense for one award that may vest subject to relative TSR performance | 533,272 | 2016 |
| 2013 GLRP: Expense for one award that may vest subject to customer satisfaction performance | 234,797 | 2017 |
| 2013 GLRP: Expense for one award that may vest subject to relative TSR performance | 508,825 | 2017 |
| 2014 GLRP: Expense for one award that may vest subject to customer satisfaction performance | 139,272 | 2018 |
| 2014 GLRP: Expense for one award that may vest subject to relative TSR performance | 409,336 | 2018 |
| Total Statutory Remuneration as per page 56 | 7,922,651 | |

Directors' Report – Remuneration Report

4. KMP Disclosure Tables

4.1 Non-Executive Directors Statutory Remuneration

The statutory table below details individual statutory remuneration for the Non-Executive Directors for the year ended 30 June 2014.

| | Short Term Benefits | Post Employment Benefits | Share Based payments | Total Statutory Remuneration |
|--------------------------------|------------------------|-----------------------------|--|------------------------------------|
| | Cash ⁽¹⁾ | Super- annuation | Non-Executive Directors' Share Plan ⁽²⁾ | |
| | \$ | \$ | \$ | \$ |
| Chairman | | | | |
| David Turner | | | | |
| 2014 | 832,025 | 17,775 | - | 849,800 |
| 2013 | 839,538 | 16,470 | - | 856,008 |
| Non-Executive Directors | | | | |
| John Anderson | | | | |
| 2014 | 258,025 | 17,775 | - | 275,800 |
| 2013 | 261,281 | 16,470 | - | 277,751 |
| Shirish Apte ⁽³⁾ | | | | |
| 2014 | 13,704 | 886 | - | 14,590 |
| Jane Hemstritch | | | | |
| 2014 | 303,025 | 17,775 | - | 320,800 |
| 2013 | 306,614 | 16,470 | - | 323,084 |
| Launa Inman ⁽⁴⁾ | | | | |
| 2014 | 245,419 | 17,775 | 29,406 | 292,600 |
| 2013 | 238,210 | 16,470 | 28,543 | 283,223 |
| Carolyn Kay | | | | |
| 2014 | 302,925 | 17,775 | - | 320,700 |
| 2013 | 306,565 | 16,470 | - | 323,035 |
| Brian Long | | | | |
| 2014 | 303,025 | 17,775 | - | 320,800 |
| 2013 | 306,468 | 16,470 | - | 322,938 |
| Andrew Mohl | | | | |
| 2014 | 274,825 | 17,775 | - | 292,600 |
| 2013 | 278,244 | 16,470 | - | 294,714 |
| Harrison Young | | | | |
| 2014 | 314,325 | 17,775 | - | 332,100 |
| 2013 | 314,130 | 16,470 | - | 330,600 |

(1) Cash includes Board and Committee fees received as cash. The 2013 comparative also includes minor adjustments in relation to previous years.

(2) The values shown in the table represent the post-tax portion of fees received as shares.

(3) Shirish Apte was appointed as a Non-Executive Director on 10 June 2014 and his remuneration has been prorated accordingly. To comply with the Non-Executive Director shareholding requirement, shares for Shirish Apte will be purchased in the next trading window.

(4) Comparative information has been restated to conform to presentation in the current period.

4.2 Executive Statutory Remuneration

The following statutory tables detail the statutory accounting expense of all remuneration related items for the CEO and all Group Executives. This includes remuneration costs in relation to both the previous and current performance year. The tables are different to the cash table on page 54, which shows the remuneration received in 2014 rather than the accrual amounts on the statutory accounting basis, as outlined in these statutory tables.

The tables have been developed and audited against the relevant accounting standards. Refer to the footnotes below each table for more detail on each remuneration component.

Directors' Report – Remuneration Report

| | Base Remuneration ⁽¹⁾ | | Other Short Term Benefits | | | | Long Term Benefits | Share Based Payments | LTI Reward Shares/Rights At Risk ⁽⁸⁾ | Total Statutory Remuneration ⁽⁹⁾ |
|--------------------------------------|--------------------------------------|----------------------|-----------------------------------|-------------------------------------|-------------------------------------|----------------------|--------------------------|----------------------|---|---|
| | Short Term Cash Fixed ⁽²⁾ | Superannuation Fixed | Non Monetary Fixed ⁽³⁾ | Cash Payment At Risk ⁽⁴⁾ | STI Deferred At Risk ⁽⁵⁾ | Other ⁽⁶⁾ | Long Term ⁽⁷⁾ | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | | | |
| | | | | | | | | | | |
| Managing Director and CEO | | | | | | | | | | |
| Ian Narev | | | | | | | | | | |
| 2014 | 2,550,000 | 25,000 | 14,600 | 1,480,625 | 1,480,625 | (21,633) | 18,140 | 2,375,294 | 7,922,651 | |
| 2013 | 2,475,000 | 25,000 | 14,228 | 1,562,500 | 1,562,500 | 106,153 | 95,067 | 1,846,620 | 7,687,068 | |
| Group Executives | | | | | | | | | | |
| Kelly Bayer Rosmarin ⁽¹⁰⁾ | | | | | | | | | | |
| 2014 | 515,438 | 13,494 | 7,880 | 330,582 | 330,582 | (1,150) | 226,913 | 63,510 | 1,487,249 | |
| Simon Blair | | | | | | | | | | |
| 2014 | 825,000 | 25,000 | 14,600 | 527,425 | 527,425 | 7,264 | (23,146) | 915,947 | 2,819,515 | |
| 2013 | 805,000 | 25,000 | 14,228 | 506,300 | 506,300 | (3,273) | 18,540 | 901,654 | 2,773,749 | |
| David Cohen | | | | | | | | | | |
| 2014 | 875,000 | 25,000 | 14,600 | 462,375 | 462,375 | 39,387 | (19,559) | 987,395 | 2,846,573 | |
| 2013 | 875,000 | 25,000 | 14,228 | 562,500 | 562,500 | 68,959 | 22,751 | 1,013,110 | 3,144,048 | |
| Matthew Comyn ⁽¹⁰⁾ | | | | | | | | | | |
| 2014 | 975,000 | 25,000 | 13,486 | 675,250 | 675,250 | 38,336 | 247,359 | 508,664 | 3,158,345 | |
| 2013 | 850,343 | 22,260 | 11,766 | 567,192 | 567,192 | (27,658) | 207,144 | 199,918 | 2,398,157 | |
| David Craig | | | | | | | | | | |
| 2014 | 1,355,000 | 25,000 | 14,600 | 890,100 | 890,100 | 35,173 | (30,865) | 1,517,052 | 4,696,160 | |
| 2013 | 1,355,000 | 25,000 | 14,228 | 862,500 | 862,500 | (53,618) | 29,982 | 1,469,035 | 4,564,627 | |
| Michael Harte | | | | | | | | | | |
| 2014 | 1,050,000 | 25,000 | 13,486 | 665,694 | 665,694 | 105,106 | 17,794 | 1,183,807 | 3,726,581 | |
| 2013 | 1,050,000 | 25,000 | 13,191 | 634,250 | 634,250 | (7,635) | 14,162 | 1,200,120 | 3,563,338 | |
| Robert Jesudason | | | | | | | | | | |
| 2014 | 800,000 | 25,000 | 14,600 | 575,437 | 575,437 | 2,080 | 365,520 | 417,265 | 2,775,339 | |
| 2013 | 775,000 | 25,000 | 14,228 | 504,000 | 504,000 | 2,972 | 995,507 | 163,205 | 2,983,912 | |
| Melanie Laing | | | | | | | | | | |
| 2014 | 800,000 | 25,000 | 14,600 | 506,344 | 506,344 | (5,800) | 27,648 | 671,452 | 2,545,588 | |
| 2013 | 775,000 | 25,000 | 14,228 | 480,000 | 480,000 | 15,428 | 265,203 | 406,973 | 2,461,832 | |
| Grahame Petersen | | | | | | | | | | |
| 2014 | 1,150,000 | 25,000 | 14,600 | 644,928 | 644,928 | (27,955) | 34,290 | 1,295,598 | 3,781,389 | |
| 2013 | 1,150,000 | 25,000 | 14,228 | 628,625 | 628,625 | (16,346) | (5,662) | 1,338,075 | 3,762,545 | |
| Annabel Spring | | | | | | | | | | |
| 2014 | 975,000 | 25,000 | 13,486 | 621,812 | 621,812 | 38,859 | 153,511 | 795,932 | 3,245,412 | |
| 2013 | 955,000 | 25,000 | 13,191 | 627,200 | 627,200 | (17,785) | 278,718 | 474,436 | 2,982,960 | |
| Alden Toevs | | | | | | | | | | |
| 2014 | 1,405,000 | 25,000 | 14,600 | 933,075 | 933,075 | 47,396 | (39,018) | 1,577,942 | 4,897,070 | |
| 2013 | 1,405,000 | 25,000 | 14,228 | 850,850 | 850,850 | 28,343 | 30,454 | 1,493,661 | 4,698,386 | |
| Former Executive | | | | | | | | | | |
| Ian Saines ⁽¹¹⁾ | | | | | | | | | | |
| 2014 | 600,658 | 11,507 | 6,786 | - | - | 270,768 | (270,089) | (684,912) | (65,282) | |
| 2013 | 1,305,000 | 25,000 | 14,228 | 744,800 | 744,800 | 22,856 | 12,189 | 1,545,474 | 4,414,347 | |

(1) Base Remuneration comprises short term benefits, being the Cash Fixed component and post-employment benefit being Superannuation Fixed.

(2) Cash Fixed remuneration is the total cost of salary including any salary sacrificed benefits.

(3) Non-monetary Fixed represents the cost of car parking (including associated fringe benefits tax).

(4) This is 50% of the 2014 STI for performance during the 12 months to 30 June 2014 (payable September 2014).

(5) STI Deferred includes the compulsory deferral of 50% of total STI payments in recognition of performance for the year ended 30 June 2014.

(6) Other short term benefits relate to company funded benefits (including associated fringe benefits tax where applicable). This item also includes interest accrued in relation to the 2013 STI deferred award, which vested on 1 July 2014, the net change in accrued annual leave over the year and adjustments in relation to previous years. For Ian Saines, this item also includes payment in lieu of notice as per contractual arrangements.

(7) Includes long service entitlements accrued during the year as well as the impact of changes to long service leave valuation assumptions, which are determined in line with AASB119. For Ian Saines, this also includes the reversal of accrued long service leave which was forfeited upon resignation. For Kelly Bayer Rosmarin, Matthew Comyn, Robert Jesudason, Melanie Laing and Annabel Spring this also includes amounts relating to equity sign-on awards and/or deferred STI payments awarded under Executive General Manager arrangements. These equity awards are subject to forfeiture if the Executive ceases to be employed by the Group due to his or her resignation in any circumstances.

(8) This includes the 2014 expense for Reward Shares/Rights awarded during the 2011, 2012, 2013 and 2014 financial years under the GLRP.

(9) The percentage of 2014 remuneration related to performance was: Ian Narev 67%, Kelly Bayer Rosmarin 49%, Simon Blair 70%, David Cohen 67%, Matthew Comyn 59%, David Craig 70%, Michael Harte 67%, Robert Jesudason 57%, Melanie Laing 66%, Grahame Petersen 68%, Annabel Spring 63%, and Alden Toevs 70%.

(10) Kelly Bayer Rosmarin was appointed to the Group Executive Institutional Banking and Markets role on 16 December 2013. For the 2013 comparative, Matthew Comyn was appointed to the Group Executive Retail Banking Services role on 10 August 2012. The remuneration for these Executives reflects time in the KMP roles.

(11) Ian Saines ceased as a KMP on 15 December 2013 and his remuneration has been prorated accordingly. The LTI Shares/Rights value reflects forfeitures of awards upon resignation.

Directors' Report – Remuneration Report

4.3 Executive STI Allocations for 2014

| | STI Target | | Maximum STI Potential ⁽¹⁾ | | STI Paid ⁽²⁾ | | STI Portion Deferred ⁽³⁾ | |
|-------------------------------------|------------|------|--------------------------------------|-----------|-------------------------|-----------|-------------------------------------|--|
| | \$ | % | % | \$ | % | \$ | % | |
| | | | | | | | | |
| Managing Director and CEO | | | | | | | | |
| Ian Narev | 2,575,000 | 150% | 50% | 1,480,625 | 50% | 1,480,625 | | |
| Group Executives | | | | | | | | |
| Kelly Bayer Rosmarin ⁽⁴⁾ | 528,932 | 150% | 50% | 330,582 | 50% | 330,582 | | |
| Simon Blair | 850,000 | 150% | 50% | 527,425 | 50% | 527,425 | | |
| David Cohen | 900,000 | 150% | 50% | 462,375 | 50% | 462,375 | | |
| Matthew Comyn | 1,000,000 | 150% | 50% | 675,000 | 50% | 675,000 | | |
| David Craig | 1,380,000 | 150% | 50% | 890,100 | 50% | 890,100 | | |
| Michael Harte | 1,075,000 | 150% | 50% | 665,694 | 50% | 665,694 | | |
| Robert Jesudason | 825,000 | 150% | 50% | 575,437 | 50% | 575,437 | | |
| Melanie Laing | 825,000 | 150% | 50% | 506,344 | 50% | 506,344 | | |
| Grahame Petersen | 1,175,000 | 150% | 50% | 644,928 | 50% | 644,928 | | |
| Annabel Spring | 1,000,000 | 150% | 50% | 621,812 | 50% | 621,812 | | |
| Alden Toevs | 1,430,000 | 150% | 50% | 933,075 | 50% | 933,075 | | |

(1) The maximum STI is represented as a percentage of fixed remuneration. The minimum STI potential is zero.

(2) Includes 50% of the annual STI award payable as cash in recognition of performance for the year ended 30 June 2014.

(3) This represents 50% of the STI award that is deferred until 1 July 2015. The deferred awards are subject to Board review at the time of payment.

(4) Kelly Bayer Rosmarin commenced in the KMP role on 16 December 2013. Her STI target has been prorated accordingly.

4.4 Equity Awards Received as Remuneration

The table below details the value and number of equity awards that were granted or forfeited/lapsed during 2014. It also shows the number of previous year's awards that vested during the 2014 performance year.

| Name | Class | Granted during 2014 ⁽¹⁾ | | Previous Years' Awards Vested during 2014 ⁽²⁾ | | Forfeited or Lapsed during 2014 ⁽³⁾ | |
|----------------------------------|----------------------|------------------------------------|-----------|--|----|--|-------------|
| | | Units | \$ | Units | \$ | Units | \$ |
| Managing Director and CEO | | | | | | | |
| Ian Narev | Reward Shares/Rights | 62,966 | 3,435,060 | 29,422 | | (4,203) | (309,425) |
| | Deferred Shares | - | - | - | | - | - |
| Group Executives | | | | | | | |
| Kelly Bayer Rosmarin | Reward Shares/Rights | 12,935 | 636,170 | - | | - | - |
| | Deferred Shares | 5,729 | 416,670 | 4,153 | | - | - |
| Simon Blair | Reward Shares/Rights | 20,786 | 1,057,157 | 26,417 | | (3,773) | (277,768) |
| | Deferred Shares | - | - | - | | - | - |
| David Cohen | Reward Shares/Rights | 22,009 | 1,119,366 | 28,557 | | (4,079) | (300,296) |
| | Deferred Shares | - | - | - | | - | - |
| Matthew Comyn | Reward Shares/Rights | 24,454 | 1,243,711 | - | | - | - |
| | Deferred Shares | - | - | 7,009 | | - | - |
| David Craig | Reward Shares/Rights | 33,746 | 1,716,300 | 36,345 | | (5,192) | (382,235) |
| | Deferred Shares | - | - | - | | - | - |
| Michael Harte | Reward Shares/Rights | 26,288 | 1,336,988 | 32,884 | | (4,697) | (345,793) |
| | Deferred Shares | - | - | - | | - | - |
| Robert Jesudason | Reward Shares/Rights | 20,175 | 1,026,089 | - | | - | - |
| | Deferred Shares | - | - | 12,970 | | - | - |
| Melanie Laing | Reward Shares/Rights | 20,175 | 1,026,089 | - | | - | - |
| | Deferred Shares | - | - | 3,946 | | - | - |
| Grahame Petersen | Reward Shares/Rights | 28,733 | 1,461,332 | 38,076 | | (5,439) | (400,419) |
| | Deferred Shares | - | - | - | | - | - |
| Annabel Spring | Reward Shares/Rights | 24,454 | 1,243,711 | - | | - | - |
| | Deferred Shares | - | - | 9,036 | | - | - |
| Alden Toevs | Reward Shares/Rights | 34,968 | 1,778,435 | 48,461 | | (6,922) | (509,598) |
| | Deferred Shares | - | - | - | | - | - |
| Former Executive | | | | | | | |
| Ian Saines | Reward Shares/Rights | - | - | 44,999 | | (92,650) | (7,130,430) |
| | Deferred Shares | - | - | - | | - | - |

(1) This represents the maximum number of reward rights that may vest to each Executive. The value represents the fair value at grant date. For Ian Narev, the grant date for his Reward Shares/Rights was 11 November 2013. For Kelly Bayer Rosmarin the grant date for her Reward Shares/Rights was 13 February 2014. For all other Group Executives the grant date for Reward Shares/Rights was 23 September 2013. The minimum LTI potential is zero.

(2) Previous years' awards that vested include LTI and other deferred equity awards.

(3) This includes the portion of the LTI award that reached the end of its performance period on 30 June 2014 that did not meet the performance hurdle and was forfeited. For Ian Saines, this also includes 86,222 Reward Rights that were forfeited as a result of his resignation from the Group in December 2013. The value of the lapsed award is calculated using the Volume Weighted Average Closing Price (VWACP) for the five trading days preceding the transaction date.

Directors' Report – Remuneration Report

4.5 Fair Value Assumptions for Unvested Equity Awards

For the Customer Satisfaction component of all LTI awards, the fair value is the closing market price of a CBA share as at the grant date. For the Total Shareholder Return component of the LTI awards, the fair value has been calculated using a Monte-Carlo simulation method using the following assumptions:

| Award Type | Grant Date | Assumptions | | | | | | |
|-------------------------------------|------------|-------------|----------------|--------------------|---------------|-------------------------|---------------------|----------------|
| | | Fair Value | Exercise Price | Performance Period | Expected Life | Expected Dividend Yield | Expected Volatility | Risk Free Rate |
| | | \$ | \$ | End | (Years) | % | % | % |
| GLRP - Reward Rights ⁽¹⁾ | 13/02/2014 | 75.75 | Nil | 30/06/2017 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 13/02/2014 | 41.63 | Nil | 30/06/2017 | 3.4 | Nil | 20 | 3.3 |
| GLRP - Reward Rights ⁽¹⁾ | 11/11/2013 | 78.35 | Nil | 30/06/2017 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 11/11/2013 | 47.79 | Nil | 30/06/2017 | 3.6 | Nil | 20 | 3.6 |
| GLRP - Reward Rights ⁽¹⁾ | 23/09/2013 | 73.51 | Nil | 30/06/2017 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 23/09/2013 | 44.42 | Nil | 30/06/2017 | 3.8 | Nil | 20 | 3.5 |
| GLRP - Reward Rights ⁽¹⁾ | 05/11/2012 | 57.40 | Nil | 30/06/2016 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 05/11/2012 | 31.49 | Nil | 30/06/2016 | 3.7 | Nil | 20 | 3.2 |
| GLRP - Reward Rights ⁽¹⁾ | 04/10/2012 | 56.55 | Nil | 30/06/2016 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 04/10/2012 | 30.76 | Nil | 30/06/2016 | 3.7 | Nil | 20 | 3.0 |
| GLRP - Reward Rights ⁽¹⁾ | 15/02/2012 | 50.23 | Nil | 30/06/2015 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 15/02/2012 | 31.87 | Nil | 30/06/2015 | 3.4 | Nil | 30 | 4.4 |
| GLRP - Reward Rights ⁽¹⁾ | 15/11/2011 | 49.15 | Nil | 30/06/2015 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 15/11/2011 | 31.60 | Nil | 30/06/2015 | 3.6 | Nil | 30 | 4.2 |
| GLRP - Reward Rights ⁽¹⁾ | 29/08/2011 | 47.96 | Nil | 30/06/2015 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 29/08/2011 | 32.23 | Nil | 30/06/2015 | 3.8 | Nil | 30 | 4.7 |
| GLRP - Reward Rights ⁽¹⁾ | 10/03/2011 | 51.30 | Nil | 30/06/2014 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 10/03/2011 | 36.51 | Nil | 30/06/2014 | 3.3 | Nil | 30 | 5.5 |
| GLRP - Reward Rights ⁽¹⁾ | 27/09/2010 | 52.86 | Nil | 30/06/2014 | n/a | n/a | n/a | n/a |
| GLRP - Reward Rights ⁽²⁾ | 27/09/2010 | 37.61 | Nil | 30/06/2014 | 3.8 | Nil | 30 | 5.5 |

(1) The performance hurdle for this portion of the GLRP award is Customer Satisfaction relative to our peers.

(2) The performance hurdle for this portion of the GLRP award is Total Shareholder Return relative to our peers.

4.6 Termination Arrangements

The table below provides the termination arrangements included in all Executive contracts for our current KMP.

| | Contract Type ⁽¹⁾ | Notice | Severance ⁽²⁾ |
|------------------------------------|------------------------------|-----------|--------------------------|
| Managing Director & CEO | | | |
| Ian Narev | Permanent | 12 months | n/a |
| Group Executives | | | |
| Kelly Bayer Rosmarin | Permanent | 6 months | 6 months |
| Simon Blair | Permanent | 6 months | 6 months |
| David Cohen | Permanent | 6 months | 6 months |
| Matthew Comyn | Permanent | 6 months | 6 months |
| David Craig | Permanent | 6 months | 6 months |
| Michael Harte | Permanent | 6 months | 6 months |
| Robert Jesudason | Permanent | 6 months | 6 months |
| Melanie Laing | Permanent | 6 months | 6 months |
| Grahame Petersen | Permanent | 6 months | 6 months |
| Annabel Spring | Permanent | 6 months | 6 months |
| Alden Toevs | Permanent | 6 months | n/a |

(1) Permanent contracts are ongoing until notice is given by either party.

(2) Severance applies where the termination is initiated by the Group, other than for misconduct or unsatisfactory performance.

The termination entitlements are appropriate and do not deliver windfall payments on termination that are not related to performance. As part of these arrangements, Executives who resign or are dismissed will forfeit all their unvested deferred awards (including cash and equity awards), unless the Board determines otherwise, and will generally not be entitled to a STI payment for that year. At the Board's discretion, where an Executive's exit is related to retrenchment, retirement or death, the Executive may be entitled to an STI payment and any outstanding LTI awards continue unchanged with performance measured at the end of the performance period related to each award. The Board has ultimate discretion over the amount of awards that may vest.

Ian Saines was the only KMP who left the Group during the 2014 financial year.

Directors' Report – Remuneration Report

4.7 Equity Holdings of KMP

Shareholdings

Details of the shareholdings of KMP (or close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of the aforementioned hold significant voting power) are set out below. For details of Director and Executive equity plans refer to Note 26.

Shares Held by Directors

All shares were acquired by Directors on normal terms and conditions or through the Non-Executive Director's Share Plan.

| Directors | Class | Balance | Shares | Net Change | Balance |
|--------------------------------|---------------------------------|-------------|-------------------------|----------------------|--------------|
| | | 1 July 2013 | Acquired ⁽¹⁾ | Other ⁽²⁾ | 30 June 2014 |
| Non-Executive Directors | | | | | |
| David Turner | Ordinary | 11,840 | - | - | 11,840 |
| | PERLS ⁽³⁾ | 380 | - | - | 380 |
| | Other securities ⁽⁴⁾ | 67,647 | - | (67,647) | - |
| John Anderson ⁽⁵⁾ | Ordinary | 18,186 | - | - | 18,186 |
| Jane Hemstritch | Ordinary | 25,775 | - | - | 25,775 |
| | PERLS ⁽³⁾ | 9,300 | - | - | 9,300 |
| | Other securities ⁽⁴⁾ | 5,000 | - | - | 5,000 |
| Launa Inman | Ordinary | 2,236 | 419 | - | 2,655 |
| Carolyn Kay | Ordinary | 12,388 | - | - | 12,388 |
| Brian Long | Ordinary | 11,159 | 1,266 | - | 12,425 |
| | PERLS ⁽³⁾ | 400 | - | - | 400 |
| Andrew Mohl | Ordinary | 59,840 | - | - | 59,840 |
| Harrison Young | Ordinary | 26,764 | - | - | 26,764 |

(1) Non-Executive Directors who hold less than 5,000 Commonwealth Bank shares are required to receive 20% of their total post-tax annual fees as Commonwealth Bank shares. These shares are subject to a 10 year trading restriction (the shares will be released earlier if the director leaves the Board). To comply with the Non-Executive Director shareholding requirement, shares for Shirish Apte will be purchased in the next trading window.

(2) Net Change Other incorporates changes resulting from purchases and sales during the year.

(3) PERLS: Include cumulative holdings of all PERLS securities issued by the Group.

(4) Other securities: As at 30 June 2014 Jane Hemstritch held CNGHA notes (2013: CNGHA notes), and David Turner held no other shareholdings in related entities (2013: CPA units).

(5) Opening balance has been restated to recognise actual balance.

Directors' Report – Remuneration Report

Shares held by the CEO and Group Executives

| | Class ⁽¹⁾ | Balance | Acquired/ Granted as | Previous Years' Awards | Net Change | Balance |
|----------------------------------|----------------------|-------------|-------------------------|------------------------------|----------------------|----------------|
| | | 1 July 2013 | Remuneration | Vested ⁽²⁾ | Other ⁽³⁾ | 30 June 2014 |
| Managing Director and CEO | | | | | | |
| Ian Narev | Ordinary | 49,041 | - | - | 25,928 | 74,969 |
| | Reward Shares/Rights | 218,727 | 62,966 | (29,422) | (4,203) | 248,068 |
| | Deferred Shares | - | - | - | - | - |
| Group Executives | | | | | | |
| Kelly Bayer Rosmarin | Ordinary | 7,215 | - | - | 5,242 | 12,457 |
| | Reward Shares/Rights | - | 12,935 | - | - | 12,935 |
| | Deferred Shares | 14,794 | 5,729 | (4,153) | - | 16,370 |
| Simon Blair | Ordinary | - | - | - | 26,417 | 26,417 |
| | Reward Shares/Rights | 103,212 | 20,786 | (26,417) | (3,773) | 93,808 |
| | Deferred Shares | - | - | - | - | - |
| David Cohen | Ordinary | 78,752 | - | - | (33,000) | 45,752 |
| | Reward Shares/Rights | 111,749 | 22,009 | (28,557) | (4,079) | 101,122 |
| | Deferred Shares | - | - | - | - | - |
| Matthew Comyn | Ordinary | 16,397 | - | - | - | 16,397 |
| | Reward Shares/Rights | 30,843 | 24,454 | - | - | 55,297 |
| | Deferred Shares | 20,111 | - | (7,009) | - | 13,102 |
| David Craig | Ordinary | 98,236 | - | - | 36,345 | 134,581 |
| | Reward Shares/Rights | 163,493 | 33,746 | (36,345) | (5,192) | 155,702 |
| | Deferred Shares | - | - | - | - | - |
| Michael Harte ⁽⁴⁾ | Ordinary | - | - | - | - | - |
| | Reward Shares/Rights | 132,539 | 26,288 | (32,884) | (4,697) | 121,246 |
| | Deferred Shares | - | - | - | - | - |
| Robert Jesudason | Ordinary | 625 | - | - | 12,970 | 13,595 |
| | Reward Shares/Rights | 25,179 | 20,175 | - | - | 45,354 |
| | Deferred Shares | 26,993 | - | (12,970) | - | 14,023 |
| Melanie Laing | Ordinary | 7,990 | - | - | 3,946 | 11,936 |
| | Reward Shares/Rights | 49,133 | 20,175 | - | - | 69,308 |
| | Deferred Shares | 3,946 | - | (3,946) | - | - |
| Grahame Petersen | Ordinary | 103,552 | - | - | (43,167) | 60,385 |
| | Reward Shares/Rights | 147,369 | 28,733 | (38,076) | (5,439) | 132,587 |
| | Deferred Shares | - | - | - | - | - |
| Annabel Spring | Ordinary | 2,607 | - | - | 9,036 | 11,643 |
| | Reward Shares/Rights | 60,185 | 24,454 | - | - | 84,639 |
| | Deferred Shares | 16,599 | - | (9,036) | - | 7,563 |
| Alden Toeve | Ordinary | 57,177 | - | - | 18,461 | 75,638 |
| | Reward Shares/Rights | 181,786 | 34,968 | (48,461) | (6,922) | 161,371 |
| | Deferred Shares | - | - | - | - | - |
| Former Executive | | | | | | |
| Ian Saines ⁽⁵⁾ | Ordinary | 67,711 | - | - | (67,711) | - |
| | Reward Shares/Rights | 169,759 | - | (44,999) | (124,760) | - |
| | Deferred Shares | - | - | - | - | - |

(1) Reward Shares/Rights represent shares granted under the Group Leadership Reward Plan (GLRP) which are subject to performance hurdles. Deferred Shares represent the deferred portion of STI, sign-on and special retention awards received as restricted shares.

(2) Reward Shares/Rights and Deferred Shares become ordinary shares upon vesting. A portion of Ian Narev's vested equity award was delivered in the form of cash, which was paid to registered charities pursuant to an option that the Board made available.

(3) Net Change Other incorporates changes resulting from purchases, sales and forfeitures during the year.

(4) Opening balance has been restated to recognise actual balance.

(5) Ian Saines ceased as a KMP on 15 December 2013 and his shareholdings are not included in the balance as at 30 June 2014.

Directors' Report – Remuneration Report

4.8 Loans to KMP

All loans to KMP (or close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of the aforementioned held significant voting power) have been provided on an arm's length commercial basis including the term of the loan, security required and the interest rate (which may be fixed or variable). There has been no write down of loans during the period.

4.9 Total Loans to KMP

| | 2014 |
|--------------------------------|------------|
| | \$ |
| Opening Balance ⁽¹⁾ | 9,638,115 |
| Closing Balance | 14,187,609 |
| Interest Charged | 522,322 |

(1) Comparatives have been restated primarily to take into account the change in KMP membership for the 2014 financial year.

4.10 Loans to KMP Exceeding \$100,000 in Aggregate

| | Balance 1 July 2013 | Interest Charged | Interest Not Charged | Write-off | Balance 30 June 2014 | Highest Balance in Period ⁽¹⁾ |
|-------------------------------------|------------------------|---------------------|-------------------------|-----------|-------------------------|--|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Kelly Bayer Rosmarin ⁽²⁾ | n/a | 100,402 | - | - | 4,007,074 | 4,579,990 |
| David Cohen | 569,267 | 29,116 | - | - | 556,025 | 607,134 |
| Matthew Comyn | 1,474,571 | 85,020 | - | - | 1,958,518 | 2,414,931 |
| Michael Harte | 3,567,180 | 137,406 | - | - | 2,907,295 | 4,565,820 |
| Robert Jesudason | 3,157,599 | 141,609 | - | - | 4,075,680 | 4,164,125 |
| Melanie Laing | 661,104 | 27,666 | - | - | 559,750 | 813,870 |
| Total | 9,429,721 | 521,219 | - | - | 14,064,342 | 17,145,870 |

(1) Represents the highest balance per individual of loans outstanding at any period during the year ended 30 June 2014.

(2) Kelly Bayer Rosmarin commenced in the KMP role on 16 December 2013. The loan values disclosed relate to the period from 16 December 2013 to 30 June 2014. These loans were pre-existing prior to her appointment as a KMP.

4.11 Other Transactions of KMP

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed within this report) of KMP occur in the ordinary course of business on an arm's length basis.

Disclosure of financial instrument transactions regularly made as part of normal banking operations is limited to disclosure of such transactions with KMP and entities controlled or significantly influenced by them.

All such financial instrument transactions that have occurred between entities within the Group and their KMP have been trivial or domestic in nature and were in the nature of normal personal banking and deposit transactions.

Transactions other than Financial Instrument Transactions of Banks

All other transactions with KMP and their related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services by entities not controlled by the Group. A related party of an executive has also been employed by the Group, and is remunerated in a manner consistent with normal employee relationships.

Directors' Report - Remuneration Report

Glossary of Key Terms

To assist readers, key terms and abbreviations used in the remuneration report as they apply to the Group are set out below.

| Term | Definition |
|--|--|
| Base Remuneration | Cash and non-cash remuneration paid regularly with no performance conditions. |
| Board | The Board of Directors of the Group. |
| Deferred Shares | Shares subject to forfeiture on resignation. Used for sign-on awards and deferred STI below Group Executive level. |
| Executives | The CEO and Group Executives are collectively referenced as 'Executives'. |
| Fixed Remuneration | Consists of Base Remuneration plus employer contributions to superannuation. |
| Group | Commonwealth Bank of Australia and its subsidiaries. |
| Group Executive | Key Management Personnel who are also members of the Group's Executive Committee. |
| Group Leadership Reward Plan (GLRP) | The Group's long term incentive plan for the CEO and Group Executives. |
| Key Management Personnel (KMP) | Persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity. |
| Long Term Incentive (LTI) | A remuneration arrangement which grants benefits to participating executives that may vest if, and to the extent that, performance hurdles are met over a period of three or more years. The Group's long term incentive plan is the GLRP. |
| NPAT | Net profit after tax. |
| Performance Rights | Rights to acquire a Commonwealth Bank of Australia ordinary share with no payment by the recipient if relevant performance hurdles are met. |
| Remuneration Received | Represents all forms of consideration paid by the Group or on behalf of the Group during the current performance year ending 30 June 2014, in exchange for services previously rendered to the Group. |
| Reward Shares | Shares in CBA granted under the GLRP during the 2010 financial year and subject to performance hurdles. |
| Reward Rights | Rights to ordinary shares in CBA granted under the GLRP from the 2011 financial year and subject to performance hurdles. |
| Salary Sacrifice | An arrangement where an employee agrees to forgo part of his or her cash component of Base Remuneration in return for non-cash benefits of a similar value. |
| Short Term Incentive (STI) | Remuneration paid with direct reference to the Group's and the individual's performance over one financial year. |
| Statutory Remuneration | All forms of consideration paid, payable or provided by the Group, or on behalf of the Group, in exchange for services rendered to the Group. In reading this report, the term "remuneration" means the same as the term "compensation" for the purposes of the Corporations Act 2001 and the accounting standard AASB124. |
| Total Shareholder Return (TSR) | TSR measures a company's share price movement, dividend yield and any return of capital over a specific period. |

Non-Audit Services

Amounts paid or payable to PricewaterhouseCoopers (PwC) for audit and non-audit services provided during the year, as set out in Note 30 to the Financial Statements are as follows:

| | 2014 |
|--|---------------|
| | \$'000 |
| Project assurance services | 1,476 |
| Taxation services | 3,187 |
| Controls review and related work | 1,405 |
| Other | 510 |
| Total non-audit services ⁽¹⁾ | 6,578 |
| Total audit and related services | 22,736 |

(1) An additional amount of \$857,259 was paid to PwC for non-audit services provided to entities not consolidated into the Financial Statements.

Auditor's Independence Declaration

We have obtained an independence declaration from our external auditor as presented on the following page.

Auditor Independence

The Bank has in place an Independent Auditor Services Policy, details of which are set out in the Corporate Governance Statement that can be viewed at www.commbank.com.au/about-us/shareholders/corporate-profile/corporate-governance, to assist in ensuring the independence of the Bank's external auditor.

The Audit Committee has considered the provision, during the year, of non-audit services by PwC and has concluded that the provision of those services did not compromise the auditor independence requirements of the Corporations Act.

The Audit Committee advised the Board accordingly and, after considering the Committee's advice, the Board of Directors agreed that it was satisfied that the provision of the non-audit services by PwC during the year was compatible with the general standard of independence imposed by the Corporations Act.

The Directors are satisfied that the provision of the non-audit services during the year did not compromise the auditor independence requirements of the Corporations Act. The reasons for this are as follows:

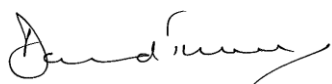
- The operation of the Independent Auditor Services Policy during the year to restrict the nature of non-audit service engagements, to prohibit certain services and to require Audit Committee pre-approval for all such engagements; and
- The relative quantum of fees paid for non-audit services compared to the quantum for audit and audit related services.

The above Directors' statements are in accordance with the advice received from the Audit Committee.

Incorporation of Additional Material

This Report incorporates the Chairman's and Chief Executive Officer's Statements (pages 2 to 7), Highlights (pages 8 to 11), Group Performance Analysis (pages 12 to 21), Group Operations and Business Settings (pages 22 to 30) and Shareholding Information (pages 190 to 193) sections of this Annual Report.

Signed in accordance with a resolution of the Directors.



D J Turner
Chairman
12 August 2014



I M Narev
Managing Director and Chief Executive Officer
12 August 2014



Auditor's Independence Declaration

As lead auditor for the audit of the Commonwealth Bank of Australia for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Commonwealth Bank of Australia and the entities it controlled during the year.

A handwritten signature in black ink that reads 'M. Laithwaite'.

Marcus Laithwaite
Partner
Pricewaterhouse Coopers

Sydney
12 August 2014

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Five Year Financial Summary

| | 2014 | 2013 ⁽¹⁾ | 2012 ⁽¹⁾ | 2011 | 2010 |
|---|----------------|---------------------|---------------------|----------------|----------------|
| | \$M | \$M | \$M | \$M | \$M |
| Net interest income | 15,091 | 13,944 | 13,157 | 12,645 | 12,008 |
| Other operating income ⁽²⁾ | 7,310 | 6,877 | 6,319 | 7,014 | 7,051 |
| Total operating income | 22,401 | 20,821 | 19,476 | 19,659 | 19,059 |
| Operating expenses | (9,499) | (9,010) | (8,627) | (8,891) | (8,601) |
| Impairment expense | (953) | (1,082) | (1,089) | (1,280) | (2,075) |
| Net profit before tax | 11,949 | 10,729 | 9,760 | 9,488 | 8,383 |
| Corporate tax expense | (3,250) | (2,953) | (2,705) | (2,637) | (2,266) |
| Non-controlling interests | (19) | (16) | (16) | (16) | (16) |
| Net profit after tax ("cash basis") | 8,680 | 7,760 | 7,039 | 6,835 | 6,101 |
| Treasury shares valuation adjustment | (41) | (53) | (15) | (22) | (44) |
| Hedging and IFRS volatility | 6 | 27 | 124 | (265) | 17 |
| Tax on NZ structured finance transactions | - | - | - | - | (171) |
| Gain/(loss) on disposal of controlled entities/investments | 17 | - | - | (7) | (23) |
| Bankwest non-cash items | (56) | (71) | (89) | (147) | (216) |
| Count Financial acquisition costs | - | - | (43) | - | - |
| Bell Group litigation | 25 | (45) | - | - | - |
| Net profit after income tax attributable to Equity holders of the Bank ("statutory basis") | 8,631 | 7,618 | 7,016 | 6,394 | 5,664 |
| Contributions to profit (after tax) | | | | | |
| Retail Banking Services | 3,472 | 3,089 | 2,703 | 2,854 | 2,461 |
| Business and Private Banking | 1,526 | 1,474 | 1,513 | 1,030 | 898 |
| Institutional Banking and Markets | 1,258 | 1,195 | 1,098 | 1,004 | 1,173 |
| Wealth Management | 621 | 577 | 492 | 581 | 592 |
| New Zealand | 739 | 616 | 557 | 469 | 387 |
| Bankwest | 680 | 561 | 527 | 463 | (45) |
| IFS and Other | 187 | 143 | 60 | 353 | 457 |
| Net profit after tax ("underlying basis") | 8,483 | 7,655 | 6,950 | 6,754 | 5,923 |
| Investment experience after tax | 197 | 105 | 89 | 81 | 178 |
| Net profit after tax ("cash basis") | 8,680 | 7,760 | 7,039 | 6,835 | 6,101 |
| Balance Sheet | | | | | |
| Loans, bills discounted and other receivables | 597,781 | 556,648 | 525,682 | 500,057 | 493,459 |
| Total assets | 791,451 | 753,857 | 718,839 | 667,899 | 646,330 |
| Deposits and other public borrowings | 498,352 | 459,429 | 437,655 | 401,147 | 374,663 |
| Total liabilities | 742,103 | 708,320 | 677,219 | 630,612 | 610,760 |
| Shareholders' equity | 49,348 | 45,537 | 41,620 | 37,287 | 35,570 |
| Net tangible assets | 38,080 | 33,638 | 29,869 | 26,217 | 24,688 |
| Risk weighted assets - Basel III (APRA) | 337,715 | 329,158 | n/a | n/a | n/a |
| Risk weighted assets - Basel II (APRA) | n/a | n/a | 302,787 | 281,711 | 290,821 |
| Average interest earning assets | 705,371 | 653,637 | 629,685 | 597,406 | 577,261 |
| Average interest bearing liabilities | 661,733 | 609,557 | 590,654 | 559,095 | 543,824 |
| Assets (on Balance Sheet) - Australia | 669,293 | 644,043 | 621,965 | 581,695 | 561,618 |
| Assets (on Balance Sheet) - New Zealand | 69,110 | 61,578 | 55,499 | 54,993 | 56,948 |
| Assets (on Balance Sheet) - Other | 53,048 | 48,236 | 41,375 | 31,211 | 27,764 |

(1) Comparative information has been restated to reflect: the reclassification of volume-related expenses from Operating Expenses to Operating Income; the impact on defined benefit superannuation expense of the application of revisions to AASB 119 Employee Benefits; and minor refinements to the allocation of customer balances and associated revenue and expenses between business segments.

(2) Includes investment experience.

Five Year Financial Summary

| | 2014 | 2013 ⁽¹⁾ | 2012 ⁽¹⁾ | 2011 | 2010 |
|---|---------|---------------------|---------------------|---------|---------|
| Shareholder summary | | | | | |
| Dividends per share - fully franked (cents) | 401 | 364 | 334 | 320 | 290 |
| Dividend cover - statutory (times) | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Dividend cover - cash (times) | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 |
| Earnings per share (cents) | | | | | |
| Basic | | | | | |
| Statutory | 533.8 | 474.2 | 444.2 | 411.2 | 367.9 |
| Cash basis | 535.9 | 482.1 | 444.7 | 438.7 | 395.5 |
| Fully diluted | | | | | |
| Statutory | 521.9 | 461.0 | 428.5 | 395.1 | 354.2 |
| Cash basis | 524.0 | 468.6 | 429.0 | 420.6 | 379.8 |
| Dividend payout ratio (%) | | | | | |
| Statutory | 75.5 | 77.4 | 76.0 | 78.3 | 79.7 |
| Cash basis | 75.1 | 75.9 | 75.8 | 73.2 | 73.9 |
| Net tangible assets per share (\$) | 23.5 | 20.9 | 18.8 | 16.8 | 15.9 |
| Weighted average number of shares (statutory basic) (M) | 1,608 | 1,598 | 1,570 | 1,545 | 1,527 |
| Weighted average number of shares (statutory fully diluted) (M) | 1,681 | 1,686 | 1,674 | 1,668 | 1,640 |
| Weighted average number of shares (cash basic) (M) | 1,611 | 1,601 | 1,573 | 1,548 | 1,531 |
| Weighted average number of shares (cash fully diluted) (M) | 1,684 | 1,689 | 1,677 | 1,671 | 1,644 |
| Number of shareholders | 791,564 | 786,437 | 792,906 | 792,765 | 784,382 |
| Share prices for the year (\$) | | | | | |
| Trading high | 82.68 | 74.18 | 53.80 | 55.77 | 60.00 |
| Trading low | 67.49 | 53.18 | 42.30 | 47.05 | 36.20 |
| End (closing price) | 80.88 | 69.18 | 53.10 | 52.30 | 48.64 |
| Performance ratios (%) | | | | | |
| Return on average Shareholders' equity | | | | | |
| Statutory | 18.7 | 18.0 | 18.5 | 18.4 | 17.5 |
| Cash basis | 18.7 | 18.2 | 18.4 | 19.5 | 18.7 |
| Return on average total assets | | | | | |
| Statutory | 1.1 | 1.0 | 1.0 | 1.0 | 0.9 |
| Cash basis | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 |
| Capital adequacy - Common Equity Tier 1 - Basel III (APRA) | 9.3 | 8.2 | n/a | n/a | n/a |
| Capital adequacy - Tier 1 - Basel III (APRA) | 11.1 | 10.3 | n/a | n/a | n/a |
| Capital adequacy - Tier 2 - Basel III (APRA) | 0.9 | 0.9 | n/a | n/a | n/a |
| Capital adequacy - Total - Basel III (APRA) | 12.0 | 11.2 | n/a | n/a | n/a |
| Capital adequacy - Tier One - Basel II | n/a | n/a | 10.0 | 10.0 | 9.2 |
| Capital adequacy - Tier Two - Basel II | n/a | n/a | 1.0 | 1.7 | 2.3 |
| Capital adequacy - Total - Basel II | n/a | n/a | 11.0 | 11.7 | 11.5 |
| Net interest margin | 2.14 | 2.13 | 2.09 | 2.12 | 2.08 |
| Other information (numbers) | | | | | |
| Full-time equivalent employees | 44,329 | 44,969 | 44,844 | 46,060 | 45,025 |
| Branches/services centres (Australia) | 1,150 | 1,166 | 1,167 | 1,160 | 1,147 |
| Agencies (Australia) | 3,717 | 3,764 | 3,818 | 3,795 | 3,884 |
| ATM's (proprietary) | 4,340 | 4,304 | 4,213 | 4,173 | 4,149 |
| EFTPOS terminals | 200,733 | 181,227 | 175,436 | 170,855 | 165,621 |
| Productivity⁽²⁾ | | | | | |
| Total income per full-time (equivalent) employee (\$) | 500,034 | 459,583 | 430,983 | 424,186 | 418,057 |
| Employee expense/Total income (%) | 25.0 | 25.3 | 26.1 | 24.5 | 24.1 |
| Total operating expenses/Total income (%) | 42.9 | 43.6 | 44.6 | 45.5 | 45.7 |

(1) Comparative information has been restated to reflect: the reclassification of volume-related expenses from Operating Expenses to Operating Income; the impact on defined benefit superannuation expense of the application of revisions to AASB 119 Employee Benefits; and minor refinements to the allocation of customer balances and associated revenue and expenses between business segments.

(2) The productivity metrics have been calculated on a "cash basis".

Financial Statements

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Income Statements

For the year ended 30 June 2014

| | Note | Group | | | Bank | |
|--|------|---------------|----------------------------|----------------------------|---------------|----------------------------|
| | | 2014 \$M | 2013 ⁽¹⁾ \$M | 2012 ⁽¹⁾ \$M | 2014 \$M | 2013 ⁽¹⁾ \$M |
| Interest income | 2 | 33,645 | 34,739 | 38,258 | 34,860 | 35,707 |
| Interest expense | 2 | (18,544) | (20,805) | (25,136) | (21,494) | (23,541) |
| Net interest income | | 15,101 | 13,934 | 13,122 | 13,366 | 12,166 |
| Other banking income | | 4,320 | 4,172 | 4,039 | 6,378 | 5,609 |
| Net banking operating income | | 19,421 | 18,106 | 17,161 | 19,744 | 17,775 |
| Funds management income | | 2,356 | 2,147 | 1,959 | - | - |
| Investment revenue | | 840 | 942 | 226 | - | - |
| Claims, policyholder liability and commission expense | | (1,162) | (1,242) | (599) | - | - |
| Net funds management operating income | 2 | 2,034 | 1,847 | 1,586 | - | - |
| Premiums from insurance contracts | | 2,604 | 2,353 | 2,114 | - | - |
| Investment revenue | | 547 | 449 | 547 | - | - |
| Claims, policyholder liability and commission expense from insurance contracts | | (2,118) | (1,879) | (1,698) | - | - |
| Net insurance operating income | 2 | 1,033 | 923 | 963 | - | - |
| Total net operating income before impairment and operating expenses | 2 | 22,488 | 20,876 | 19,710 | 19,744 | 17,775 |
| Loan impairment expense | 2,13 | (918) | (1,146) | (1,089) | (871) | (1,042) |
| Operating expenses | 2 | (9,573) | (9,085) | (8,762) | (7,866) | (7,301) |
| Net profit before income tax | 2 | 11,997 | 10,645 | 9,859 | 11,007 | 9,432 |
| Corporate tax expense | 4 | (3,221) | (2,899) | (2,705) | (2,565) | (2,199) |
| Policyholder tax expense | 4 | (126) | (112) | (122) | - | - |
| Net profit after income tax | | 8,650 | 7,634 | 7,032 | 8,442 | 7,233 |
| Non-controlling interests | | (19) | (16) | (16) | - | - |
| Net profit attributable to Equity holders of the Bank | | 8,631 | 7,618 | 7,016 | 8,442 | 7,233 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

The above Income Statements should be read in conjunction with the accompanying notes.

| | Note | Group | | |
|---------------------|------|-------------------------|--|--|
| | | 2014 Cents per share | 2013 ⁽¹⁾ Cents per share | 2012 ⁽¹⁾ Cents per share |
| Earnings per share: | | | | |
| Basic | 6 | 533.8 | 474.2 | 444.2 |
| Fully diluted | 6 | 521.9 | 461.0 | 428.5 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

Financial Statements

Statements of Comprehensive Income

For the year ended 30 June 2014

| | Group | | | Bank | |
|--|--------------|----------------------------|----------------------------|--------------|----------------------------|
| | 2014 \$M | 2013 ⁽¹⁾ \$M | 2012 ⁽¹⁾ \$M | 2014 \$M | 2013 ⁽¹⁾ \$M |
| Net profit after income tax for the financial year | 8,650 | 7,634 | 7,032 | 8,442 | 7,233 |
| Other comprehensive income/(expense): | | | | | |
| Items that may be reclassified subsequently to profit/(loss): | | | | | |
| Gains and losses on cash flow hedging instruments: | | | | | |
| Recognised in equity | 338 | (575) | 730 | 492 | (619) |
| Transferred to Income Statement | (596) | 226 | 758 | (614) | 229 |
| Gains and losses on available-for-sale investments: | | | | | |
| Recognised in equity | 509 | 553 | (349) | 671 | 365 |
| Transferred to Income Statement on disposal | (12) | (31) | (81) | (12) | (31) |
| Foreign currency translation reserve | 399 | 476 | 202 | - | 82 |
| Income tax on items transferred directly to/from equity: | | | | | |
| Cash flow hedge reserve | 114 | 73 | (442) | 38 | 122 |
| Available-for-sale investments revaluation reserve | (159) | (158) | 122 | (206) | (101) |
| Foreign currency translation reserve | (14) | (10) | (12) | - | - |
| Total of items that may be reclassified | 579 | 554 | 928 | 369 | 47 |
| Items that will not be reclassified to profit or loss: | | | | | |
| Actuarial gains and losses from defined benefit superannuation plans net of tax | 42 | 367 | (101) | 42 | 367 |
| Gains and losses on liabilities at fair value due to changes in own credit risk net of tax | 6 | - | - | 6 | - |
| Revaluation of properties | 28 | 4 | 32 | 27 | 9 |
| Income tax on revaluation of properties | (2) | (1) | (5) | (3) | (1) |
| Total of Items that will not be reclassified | 74 | 370 | (74) | 72 | 375 |
| Other comprehensive income/(expense) net of income tax | 653 | 924 | 854 | 441 | 422 |
| Total comprehensive income for the financial year | 9,303 | 8,558 | 7,886 | 8,883 | 7,655 |
| Total comprehensive income for the financial year is attributable to: | | | | | |
| Equity holders of the Bank | 9,284 | 8,542 | 7,870 | 8,883 | 7,655 |
| Non-controlling interests | 19 | 16 | 16 | - | - |
| Total comprehensive income net of income tax | 9,303 | 8,558 | 7,886 | 8,883 | 7,655 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

| | Note | Group | | |
|---|------|-----------------|-------|-------|
| | | 2014 | 2013 | 2012 |
| | | Cents per share | | |
| Dividends per share attributable to shareholders of the Bank: | | | | |
| Ordinary shares | 5 | 401 | 364 | 334 |
| Trust preferred securities | | 6,498 | 5,767 | 5,989 |

Balance Sheets

As at 30 June 2014

| | Note | Group | | Bank | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2014 \$M | 2013 \$M | 2014 \$M | 2013 \$M |
| Assets | | | | | |
| Cash and liquid assets | 7 | 26,409 | 20,634 | 24,108 | 18,030 |
| Receivables due from other financial institutions | 8 | 8,065 | 7,744 | 7,457 | 6,998 |
| Assets at fair value through Income Statement: | 9 | | | | |
| Trading | | 21,459 | 19,617 | 20,572 | 18,398 |
| Insurance | | 15,142 | 14,359 | - | - |
| Other | | 760 | 907 | 561 | 718 |
| Derivative assets | 10 | 29,247 | 45,340 | 29,615 | 45,203 |
| Available-for-sale investments | 11 | 66,137 | 59,601 | 131,577 | 125,941 |
| Loans, bills discounted and other receivables | 12 | 597,781 | 556,648 | 535,247 | 502,349 |
| Bank acceptances of customers | | 5,027 | 6,063 | 4,984 | 6,059 |
| Shares in and loans to controlled entities | 40 | - | - | 64,086 | 63,017 |
| Property, plant and equipment | 14 | 2,816 | 2,718 | 1,467 | 1,558 |
| Investment in associates and joint ventures | 38 | 1,844 | 2,281 | 1,029 | 1,607 |
| Intangible assets | 15 | 9,792 | 10,423 | 4,555 | 4,713 |
| Deferred tax assets ⁽¹⁾ | 4 | 586 | 916 | 796 | 1,044 |
| Other assets | 16 | 6,386 | 6,606 | 4,823 | 5,099 |
| Total assets | | 791,451 | 753,857 | 830,877 | 800,734 |
| Liabilities | | | | | |
| Deposits and other public borrowings | 17 | 498,352 | 459,429 | 457,571 | 425,276 |
| Payables due to other financial institutions | | 24,978 | 25,922 | 24,599 | 25,166 |
| Liabilities at fair value through Income Statement | 18 | 7,508 | 8,701 | 5,152 | 3,332 |
| Derivative liabilities | 10 | 27,259 | 38,580 | 29,341 | 40,229 |
| Bank acceptances | | 5,027 | 6,063 | 4,984 | 6,059 |
| Due to controlled entities | | - | - | 118,920 | 113,868 |
| Current tax liabilities | 19 | 688 | 1,529 | 612 | 1,440 |
| Deferred tax liabilities | 19 | 366 | 471 | - | - |
| Other provisions | 20 | 1,265 | 1,249 | 986 | 992 |
| Insurance policy liabilities | 29 | 13,166 | 13,004 | - | - |
| Debt issues | 21 | 142,219 | 132,808 | 119,548 | 115,291 |
| Managed funds units on issue | | 1,214 | 891 | - | - |
| Bills payable and other liabilities ⁽¹⁾ | 22 | 10,467 | 9,986 | 10,760 | 13,615 |
| | | 732,509 | 698,633 | 772,473 | 745,268 |
| Loan capital | 23 | 9,594 | 9,687 | 9,969 | 10,437 |
| Total liabilities | | 742,103 | 708,320 | 782,442 | 755,705 |
| Net assets | | 49,348 | 45,537 | 48,435 | 45,029 |
| Shareholders' Equity | | | | | |
| Share capital: | | | | | |
| Ordinary share capital | 25 | 27,036 | 26,323 | 27,323 | 26,619 |
| Other equity instruments | 25 | 939 | 939 | 1,895 | 1,895 |
| Reserves | 24 | 2,009 | 1,333 | 3,011 | 2,641 |
| Retained profits ⁽¹⁾ | 24 | 18,827 | 16,405 | 16,206 | 13,874 |
| Shareholders' equity attributable to Equity holders of the Bank | | 48,811 | 45,000 | 48,435 | 45,029 |
| Non-controlling interests | 38 | 537 | 537 | - | - |
| Total Shareholders' equity | | 49,348 | 45,537 | 48,435 | 45,029 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

The above Balance Sheets should be read in conjunction with the accompanying notes.

Financial Statements

Statements of Changes in Equity

For the year ended 30 June 2014

| | Group | | | | | | |
|---|-------------------------------------|---------------------------------------|-----------------|----------------------------|---|---|---|
| | Ordinary share capital \$M | Other equity instruments \$M | Reserves \$M | Retained profits \$M | Shareholders' equity attributable to Equity holders of the Bank \$M | Non- controlling interests \$M | Total Shareholders' equity \$M |
| As at 30 June 2012 | 25,175 | 939 | 1,571 | 13,356 | 41,041 | 531 | 41,572 |
| Change in accounting policy | - | - | - | 48 | 48 | - | 48 |
| As at 30 June 2012 (restated) | 25,175 | 939 | 1,571 | 13,404 | 41,089 | 531 | 41,620 |
| Net profit after income tax ⁽¹⁾ | - | - | - | 7,618 | 7,618 | 16 | 7,634 |
| Net other comprehensive income ⁽¹⁾ | - | - | 557 | 367 | 924 | - | 924 |
| Total comprehensive income for the financial year ⁽¹⁾ | - | - | 557 | 7,985 | 8,542 | 16 | 8,558 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | | |
| Dividends paid on ordinary shares | - | - | - | (5,776) | (5,776) | - | (5,776) |
| Dividends paid on other equity instruments | - | - | - | (28) | (28) | - | (28) |
| Dividend reinvestment plan (net of issue costs) | 929 | - | - | - | 929 | - | 929 |
| Other equity movements: | | | | | | | |
| Share based payments | - | - | (4) | - | (4) | - | (4) |
| Issue of shares (net of issue costs) | 193 | - | - | - | 193 | - | 193 |
| Purchase of treasury shares | (664) | - | - | - | (664) | - | (664) |
| Sale and vesting of treasury shares | 690 | - | - | - | 690 | - | 690 |
| Other changes | - | - | (791) | 820 | 29 | (10) | 19 |
| As at 30 June 2013 ⁽¹⁾ | 26,323 | 939 | 1,333 | 16,405 | 45,000 | 537 | 45,537 |
| Net profit after income tax | - | - | - | 8,631 | 8,631 | 19 | 8,650 |
| Net other comprehensive income | - | - | 605 | 48 | 653 | - | 653 |
| Total comprehensive income for the financial year | - | - | 605 | 8,679 | 9,284 | 19 | 9,303 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | | |
| Dividends paid on ordinary shares | - | - | - | (6,174) | (6,174) | - | (6,174) |
| Dividends paid on other equity instruments | - | - | - | (32) | (32) | - | (32) |
| Dividend reinvestment plan (net of issue costs) | 707 | - | - | - | 707 | - | 707 |
| Other equity movements: | | | | | | | |
| Share based payments | - | - | (7) | - | (7) | - | (7) |
| Issue of shares (net of issue costs) | - | - | - | - | - | - | - |
| Purchase of treasury shares | (813) | - | - | - | (813) | - | (813) |
| Sale and vesting of treasury shares | 819 | - | - | - | 819 | - | 819 |
| Other changes | - | - | 78 | (51) | 27 | (19) | 8 |
| As at 30 June 2014 | 27,036 | 939 | 2,009 | 18,827 | 48,811 | 537 | 49,348 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of Changes in Equity (continued)

For the year ended 30 June 2014

| | Ordinary share capital \$M | Other equity instruments \$M | Reserves \$M | Retained profits \$M | Bank Shareholders' equity attributable to Equity holders of the Bank \$M |
|---|---|---|-------------------------|-------------------------------------|---|
| As at 30 June 2012 | 25,498 | 1,895 | 2,732 | 10,734 | 40,859 |
| Change in accounting policy | - | - | - | 48 | 48 |
| As at 30 June 2012 (restated) | 25,498 | 1,895 | 2,732 | 10,782 | 40,907 |
| Net profit after income tax ⁽¹⁾ | - | - | - | 7,233 | 7,233 |
| Net other comprehensive income ⁽¹⁾ | - | - | 55 | 367 | 422 |
| Total comprehensive income for the financial year | - | - | 55 | 7,600 | 7,655 |
| Additions through merger of banking licences | - | - | 207 | 919 | 1,126 |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Dividends paid on ordinary shares | - | - | - | (5,776) | (5,776) |
| Dividend reinvestment plan (net of issue costs) | 928 | - | - | - | 928 |
| Other equity movements: | | | | | |
| Share based payments | - | - | (4) | - | (4) |
| Issue of shares (net of issue costs) | 193 | - | - | - | 193 |
| Other changes | - | - | (349) | 349 | - |
| As at 30 June 2013 ⁽¹⁾ | 26,619 | 1,895 | 2,641 | 13,874 | 45,029 |
| Net profit after income tax | - | - | - | 8,442 | 8,442 |
| Net other comprehensive income | - | - | 393 | 48 | 441 |
| Total comprehensive income for the financial year | - | - | 393 | 8,490 | 8,883 |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Dividends paid on ordinary shares | - | - | - | (6,174) | (6,174) |
| Dividend reinvestment plan (net of issue costs) | 704 | - | - | - | 704 |
| Other equity movements: | | | | | |
| Share based payments | - | - | (7) | - | (7) |
| Issue of shares (net of issue costs) | - | - | - | - | - |
| Other changes | - | - | (16) | 16 | - |
| As at 30 June 2014 | 27,323 | 1,895 | 3,011 | 16,206 | 48,435 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Financial Statements

Statements of Cash Flows ⁽¹⁾

For the year ended 30 June 2014

| | Note | Group | | | Bank | |
|--|--------|----------------|----------------|----------------|-----------------|----------------|
| | | 2014 \$M | 2013 \$M | 2012 \$M | 2014 \$M | 2013 \$M |
| Cash flows from operating activities | | | | | | |
| Interest received | | 33,623 | 34,868 | 38,337 | 34,827 | 36,065 |
| Interest paid | | (18,160) | (21,056) | (25,456) | (21,085) | (23,903) |
| Other operating income received | | 5,138 | 5,047 | 5,133 | 3,630 | 3,385 |
| Expenses paid ⁽²⁾ | | (8,377) | (7,819) | (7,913) | (6,852) | (6,269) |
| Income taxes paid | | (3,763) | (2,940) | (2,372) | (3,467) | (2,679) |
| Net inflows/(outflows) from assets at fair value through Income Statement (excluding life insurance) | | 5,188 | (756) | 2,328 | 4,871 | (368) |
| Net inflows/(outflows) from liabilities at fair value through Income Statement: | | | | | | |
| Insurance: | | | | | | |
| Investment income | | 394 | 2,551 | 791 | - | - |
| Premiums received ⁽³⁾ | | 2,899 | 2,106 | 2,138 | - | - |
| Policy payments and commission expense ^{(2) (3)} | | (3,080) | (4,516) | (3,656) | - | - |
| Other liabilities at fair value through Income Statement | | (1,619) | 1,503 | (3,603) | 1,815 | 81 |
| Cash flows from operating activities before changes in operating assets and liabilities | | 12,243 | 8,988 | 5,727 | 13,739 | 6,312 |
| Changes in operating assets and liabilities arising from cash flow movements | | | | | | |
| Movement in available-for-sale investments: | | | | | | |
| Purchases | | (49,468) | (45,429) | (76,408) | (48,489) | (46,730) |
| Proceeds | | 44,130 | 47,090 | 62,865 | 44,027 | 37,579 |
| Net change in deposits with regulatory authorities | | (48) | (2) | (15) | (8) | (5) |
| Net increase in loans, bills discounted and other receivables | | (36,795) | (28,035) | (25,754) | (33,355) | (29,042) |
| Net (increase)/decrease in receivables due from other financial institutions | | (197) | 3,540 | 49 | (360) | 6,491 |
| Net decrease/(increase) in securities purchased under agreements to resell | | 1,119 | (699) | (498) | 970 | (62) |
| Insurance business: | | | | | | |
| Purchase of insurance assets at fair value through Income Statement | | (3,156) | (2,591) | (2,189) | - | - |
| Proceeds from sale/maturity of insurance assets at fair value through Income Statement | | 3,804 | 3,832 | 3,291 | - | - |
| Net decrease/(increase) in other assets | | 298 | (265) | (61) | 325 | (368) |
| Net increase in deposits and other public borrowings | | 29,419 | 17,243 | 35,750 | 26,114 | 17,664 |
| Net (decrease)/increase in payables due to other financial institutions | | (1,812) | 2,123 | 4,752 | (1,246) | 2,348 |
| Net increase in securities sold under agreements to repurchase | | 4,389 | 327 | 1,183 | 4,419 | 281 |
| Net increase/(decrease) in other liabilities | | 37 | 455 | 155 | (3,278) | 3,847 |
| Changes in operating assets and liabilities arising from cash flow movements | | (8,280) | (2,411) | 3,120 | (10,881) | (7,997) |
| Net cash provided by/(used in) operating activities | 41 (a) | 3,963 | 6,577 | 8,847 | 2,858 | (1,685) |
| Cash flows from investing activities | | | | | | |
| Payments for acquisition of controlled entities | 41 (e) | - | - | (125) | - | - |
| Net proceeds from disposal of controlled entities | 41 (d) | 531 | - | - | 569 | - |
| Net proceeds from disposal of entities and businesses (net of cash disposals) | | 481 | - | 21 | 414 | - |
| Dividends received | | 70 | 82 | 52 | 1,944 | 1,507 |
| Net amounts received from controlled entities ⁽⁴⁾ | | - | - | - | 3,362 | 42 |
| Proceeds from sale of property, plant and equipment | | 61 | 30 | 25 | 47 | 23 |
| Purchases of property, plant and equipment | | (513) | (642) | (584) | (212) | (229) |
| Payments for acquisitions of investments in associates/joint ventures | | (36) | (264) | (85) | - | (206) |
| Purchase of intangible assets | | (400) | (464) | (585) | (346) | (412) |
| Sale of assets held for sale | | 7 | 2 | - | 7 | 2 |
| Additions through merger of banking licences | | - | - | - | - | 557 |
| Net cash provided by/(used in) investing activities | | 201 | (1,256) | (1,281) | 5,785 | 1,284 |

(1) It should be noted that the Group does not use these accounting Statements of Cash Flows in the internal management of its liquidity positions.

(2) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(3) Represents gross premiums and policy payments before splitting between policyholders and shareholders.

(4) Amounts received from and paid to controlled entities are presented in line with how they are managed and settled.

Statements of Cash Flows ⁽¹⁾ (continued)

For the year ended 30 June 2014

| | Note | Group | | | Bank | |
|---|--------|---------------|----------------|----------------|----------------|--------------|
| | | 2014 \$M | 2013 \$M | 2012 \$M | 2014 \$M | 2013 \$M |
| Cash flows from financing activities | | | | | | |
| Proceeds from issue of shares (net of issue costs) | | - | 193 | 2 | - | 193 |
| Dividends paid (excluding Dividend Reinvestment Plan) | | (5,491) | (4,860) | (3,748) | (5,458) | (4,833) |
| Proceeds from issuance of debt securities | | 87,554 | 92,250 | 162,430 | 76,482 | 86,296 |
| Redemption of issued debt securities | | (79,776) | (93,691) | (158,918) | (72,677) | (82,310) |
| Purchase of treasury shares | | (813) | (664) | (96) | - | - |
| Sale of treasury shares | | 760 | 634 | 19 | - | - |
| Issue of loan capital | | 358 | 1,977 | - | - | 1,965 |
| Redemption of loan capital | | (500) | (2,215) | (1,775) | (500) | (1,909) |
| Other | | (157) | 218 | 132 | (58) | 73 |
| Net cash provided by/(used in) financing activities | | 1,935 | (6,158) | (1,954) | (2,211) | (525) |
| Net increase/(decrease) in cash and cash equivalents | | 6,099 | (837) | 5,612 | 6,432 | (926) |
| Effect of foreign exchange rates on cash and cash equivalents | | 411 | 852 | 266 | 298 | 728 |
| Cash and cash equivalents at beginning of year | | 12,618 | 12,603 | 6,725 | 10,748 | 10,946 |
| Cash and cash equivalents at end of year | 41 (b) | 19,128 | 12,618 | 12,603 | 17,478 | 10,748 |

(1) It should be noted that the Group does not use these accounting Statements of Cash Flows in the internal management of its liquidity positions.

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Note 1 Accounting Policies

The Financial Statements of the Commonwealth Bank of Australia (the Bank) and the Bank and its subsidiaries (the Group) for the year ended 30 June 2014, were approved and authorised for issue by the Board of Directors on 12 August 2014. The Directors have the power to amend and reissue the Financial Statements.

The Bank is incorporated and domiciled in Australia. It is a company limited by shares that are publicly traded on the Australian Securities Exchange. The address of its registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000, Australia.

The Group is one of Australia's leading providers of integrated financial services, including retail, business and institutional banking, funds management, superannuation, life insurance, general insurance, broking services and finance company activities.

The principal accounting policies adopted in the preparation of this financial report and that of the previous financial year are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The assets and liabilities are presented in order of liquidity on the Balance Sheet.

Basis of Preparation

(a) Basis of Accounting

This General Purpose Financial Report for the year ended 30 June 2014 has been prepared in accordance with Australian Accounting Standards (the standards), which include Australian Interpretations by virtue of AASB 1048 'Interpretation and Application of Standards', and the requirements of the Corporations Act 2001. The Bank is a for-profit entity for the purposes of preparing this report.

The Financial Statements also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC).

(b) Historical Cost Convention

This financial report has been prepared under the historical cost convention, except for certain assets and liabilities (including derivative instruments) measured at fair value. A more detailed discussion on measurement basis is outlined within this note.

(c) Use of Estimates and Assumptions

The preparation of the financial report requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are discussed in Note 1 Critical Judgements and Estimates section.

(d) Rounding of Amounts

The amounts in this financial report have been rounded in accordance with ASIC Class Order 98/0100 to the nearest million dollars, unless otherwise indicated.

The financial report is presented in Australian dollars.

(e) Segment Reporting

Operating segments are reported based on the Group's organisational and management structures. Senior management review the Group's internal reporting based around these segments, in order to assess performance and allocate resources.

All transactions between segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated in "Other".

(f) Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of:

AASB 7 Offsetting

The Group has adopted the revised AASB 7 'Financial Instruments: Disclosures' requiring the disclosure of new information in respect of the Group's use of enforceable netting arrangements and similar agreements. These amendments require entities to disclose both gross and net amounts of financial assets and liabilities currently offset on the Balance Sheet; and amounts not offset, but subject to enforceable master netting agreements and similar arrangements, including the effects of financial collateral. The new information is disclosed in Note 44 'Offsetting Financial Assets and Financial Liabilities'.

AASB 9 Financial Instruments

The Group has early adopted the own credit requirements in AASB 9 'Financial Instruments' from 1 January 2014. Fair value movements relating to credit risk on own debt instruments were previously recognised in the Income Statement and will now be recognised in Other Comprehensive Income. There will be no recycling of these gains or losses on disposal. This policy has been applied prospectively from 1 January 2014 as the retrospective impact was not considered to be material.

AASB 10 Consolidated Financial Statements and Associated Standards

The Group has adopted the new consolidation suite of standards from 1 July 2013. The principal consolidation standard AASB 10 'Consolidated Financial Statements', introduces control as the single basis for consolidation for all entities, regardless of the nature of the investee. AASB 10 replaces those parts of AASB 127 'Consolidated and Separate Financial Statements' that address when and how an investor should prepare consolidated financial statements and replaces SIC-12 'Consolidation – Special Purpose Entities' in its entirety.

The implementation of AASB 10 did not materially impact the entities consolidated or deconsolidated by the Group, and the amounts recognised in the financial statements.

Concurrent with the adoption of AASB 10, the following associated standards were also adopted:

- AASB 11 'Joint Arrangements';
- AASB 12 'Disclosure of Interests in Other Entities';
- AASB 127 'Separate Financial Statements', amended for the issuance of AASB 10; and
- AASB 128 'Investments in Associates', amended for conforming changes based on the issuance of AASB 10 and AASB 11.

Note 1 Accounting Policies (continued)

Adoption of AASB 11, AASB 127 and AASB 128 has not resulted in any material impact to the Group.

AASB 12 sets out disclosures for interests in entities that are subsidiaries, associates, joint arrangements and structured entities. Adoption of AASB 12 has resulted in additional disclosures of structured entities as provided in Note 38. Comparative disclosures for interests in unconsolidated structured entities are not required in the first year of adoption.

AASB 13 Fair Value

AASB 13 'Fair Value' was applied by the Group from 1 July 2013. AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. Initial application has not resulted in any material impact to the Group, however additional fair value disclosure is now required and has been provided in Note 42.

AASB 119 Employee Benefits

The amended AASB 119 'Employee Benefits' was applied by the Group from 1 July 2013. This resulted in the following significant changes:

- Annual defined benefit superannuation expense now includes net interest expense or income, calculated by applying the relevant discount rate to the net defined benefit asset or liability. This replaced the former finance charge and expected return on plan assets. Applying this change to year ended 30 June 2013 and 30 June 2012 increased the total defined benefit plan expense by \$84 million and \$105 million respectively, with a corresponding increase net of tax recognised in Other Comprehensive Income of \$59 million and \$74 million respectively; and
- The discount rate used in calculating the defined benefit liability relating to active members can no longer include a 15% investment tax adjustment. This resulted in a one-off decrease of \$68 million in defined benefit liability as at 30 June 2012, which was recognised retrospectively through retained earnings.

Research and Development Expenditure Tax Offset

During the year, the Group has changed its accounting policy with respect to tax offsets received for expenditure incurred on software development. Previously, the Group had recognised these offsets as a reduction to corporate tax expense in the income statement in the period in which they were receivable. Under the Group's revised policy, such offsets are recognised as a reduction to the related software expense or asset.

The Group considers that the revised policy provides more reliable and relevant information. The cumulative impact of applying this change has been recognised wholly within the current period, as retrospective restatement was not considered material.

The impact of this change in accounting policy for the year ended 30 June 2014 was an increase in corporate tax expense of \$129 million, a decrease in operating expenses of \$64 million, decrease in net profit after income tax of \$65 million and a decrease in basic and diluted earnings per share of 4.0 and 3.9 cents respectively. The impact on the balance sheet as at 30 June 2014 was a decrease in intangible assets of \$65 million.

Volume Related Expenses

During the year the presentation of the following volume related expenses was changed to align with industry practice:

- The Group has reviewed the presentation of broker commissions paid within the funds management and insurance businesses together with other volume-related expenses. These expenses vary directly with the amount of associated revenue generated, and have been reclassified from operating expenses and netted against operating income. This is in line with recent industry practice and the relevant accounting requirements. This reclassification results in changes to the presentation of the Income Statement of the Group and affected business segments (Institutional Banking and Markets, Wealth Management, New Zealand and International Financial Services) as shown in Note 28. The total impact is an equivalent decrease in both operating expenses and operating income of \$678 million and \$674 million for the years ended 30 June 2013 and 30 June 2012 respectively.
- The Group has reclassified depreciation expense from operating expense to other operating income in line with industry practice on the basis it better represents net income earned from operating lease arrangements.

Comparatives

Where necessary, comparative information has been restated to conform to changes in presentation in the current year. All comparative changes have been made and all changes have been footnoted throughout the financial statements.

(g) Principles of Consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Bank and its subsidiaries. Subsidiaries are entities (including structured entities) over which the Bank has control. The Bank has control over another entity when the Bank has all of the following:

- power over the relevant activities of the entity, for example through voting or other rights;
- exposure to, or rights to, variable returns from the Bank's involvement with the entity; and
- the ability to use its power over the entity to affect the Bank's returns from the entity.

The effects of all transactions between entities in the Group are eliminated in full. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated Income Statement, Statement of Changes in Equity, and Balance Sheet.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Business Combinations

Business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values of assets given, equity instruments issued, or liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured

Note 1 Accounting Policies (continued)

at fair value on the acquisition date. Goodwill is recorded as the excess of the total consideration transferred, the carrying amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the net identifiable assets acquired. If there is a deficit instead, this discount on acquisition is recognised directly in the consolidated Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Interests in Associates and Joint Ventures Accounted for Using the Equity Method

Associates and joint ventures are entities over which the Group has significant influence or joint control, but not control, and are accounted for under the equity method. The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Group's share of its associates' and joint ventures' post-acquisition profits or losses in the Income Statement, and its share of post-acquisition movements in other comprehensive income 'OCI'. Associates and joint ventures are accounted for at cost less accumulated impairments at the Bank level.

The Group assesses, at each Balance Sheet date, whether there is any objective evidence of impairment. The main indicators of impairment are as for equity securities classified as available for sale (Note 1(u)). If there is an indication that an investment in an associate or joint venture may be impaired, then the entire carrying amount of the investment in associate or joint venture is tested for impairment by comparing the recoverable amount (higher of value in use and fair value less disposal costs) with its carrying amount. Impairment losses recognised in the income statement for investments in associates and joint ventures are subsequently reversed through the Income Statement if there has been a change in the estimates used to determine recoverable amount since the impairment loss was recognised.

(h) Foreign Currency Translation

Functional and Presentation Currency

The consolidated financial statements are presented in Australian dollars, which is the Bank's functional and presentation currency. The Group's foreign operations (including subsidiaries, branches, associates, and joint ventures) will have different functional currencies based on the currency of the main economy to which each operation is exposed.

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the date of each transaction.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date. Exchange differences arising upon settling or translating monetary items at different rates to those at which they were initially recognised or previously reported, are recognised in the Income Statement.

Foreign Operations

The results and financial position of all Group entities that have a functional currency different from the Group's presentation currency as follows:

- Assets and liabilities of each foreign operation are translated at the rates of exchange at Balance Sheet date;
- Revenue and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case revenue and expenses are translated at the exchange rate at transaction date; and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

When a foreign operation is disposed of, exchange differences are recognised in the Income Statement as part of the gain or loss on sale. No Group entities have a functional currency of a hyperinflationary economy.

(i) Offsetting

Income and expenses are only offset in the Income Statement if permitted under the relevant accounting standard. Examples of offsetting include gains and losses from foreign exchange exposures and trading operations.

Financial assets and liabilities are offset and the net amount is presented in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(j) Fair Value Measurement

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities at fair value through income statement, available-for-sale investments and all derivative instruments are initially recognised and subsequently measured at fair value.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. Assets and long positions are measured at a quoted bid price; liabilities and short positions are measured at a quoted asking price. Where the Group has positions with offsetting market risks, mid-market prices are used to measure the offsetting risk positions and a quoted bid or asking price adjustment is applied only to the net open position as appropriate.

Non-market quoted financial instruments are mostly valued using valuation techniques based on observable inputs, except for a limited number of instances where observable market data is unavailable. In this instance, the financial instrument is initially recognised at the transaction price, which is generally the best indicator of fair value. This may differ from the value obtained from the valuation model. The timing of the recognition in the Income Statement of this initial difference in fair value depends on the individual facts and circumstances of each transaction, but is never later than when the market data becomes observable. The difference may be either amortised over the life of the transaction, recognised when the inputs become observable or on derecognition of the instrument, as appropriate.

Note 1 Accounting Policies (continued)

Income Statement

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for each major revenue stream as follows:

(k) Interest Income

Interest income is brought to account using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs associated with loans are capitalised and included in the effective interest rate and recognised in the Income Statement, over the expected life of the instrument. Interest income on finance leases is brought to account progressively over the life of the lease, consistent with the outstanding investment and unearned income balance.

(l) Fee and Commission Income

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been complete.

Fees charged for providing ongoing services (for example, maintaining, managing and administering existing facilities and funds) are recognised as income over the period the service is provided.

Fees and commissions, which include commitment fees to originate a loan that is unlikely to be drawn down, are recognised as fee income as the facility is provided.

(m) Other Income

Trading income represents both realised and unrealised gains and losses from changes in the fair value of trading assets, liabilities and derivatives.

Translation differences on non-monetary items, such as derivatives measured at fair value through Income Statement, are reported as part of the fair value gain or loss on these items. Translation differences on non-monetary items measured at fair value through equity, such as equities classified as available-for-sale financial assets, are recognised in equity through OCI.

Insurance income recognition is outlined in Note 1(ff).

(n) Interest Expense

Interest expense on financial liabilities measured at amortised cost is recognised in the Income Statement using the effective interest rate method.

Interest expense includes issue costs that are initially recognised as part of the carrying value of the liability and amortised over the expected life using the effective interest rate method. These include fees and commissions payable to advisers and other expenses such as external legal costs, provided these are direct and incremental costs related to the issue of a financial asset.

(o) Operating Expenses

Operating expenses are recognised as the relevant service is rendered or once a liability is incurred.

Staff expenses are recognised over the period the employee renders the service to receive the benefit.

Staff expenses include share based remuneration which may be cash settled or equity settled. The fair value of equity settled remuneration is calculated at grant date and amortised to the Income Statement over the vesting period, with a corresponding increase in the employee compensation reserve. Market vesting conditions, such as share price performance conditions, are taken into account when estimating the fair value. Non-market vesting conditions, such as service conditions, are taken into account by adjusting the number of the equity instruments included in the measurement of the expense.

Cash settled share based remuneration is recognised as a liability and remeasured to fair value until settled, with changes in the fair value recognised as an expense.

Occupancy and equipment expenses include the depreciation and lease rentals that are outlined in Note 1(y) property, plant and equipment and Note 1(v) lease receivables respectively.

IT expenses are recognised as incurred unless they qualify for capitalisation as an asset due to the related service generating probable future economic benefits. If capitalised the asset is subsequently amortised per Note 1(z) intangible assets.

Taxation

(p) Income Tax Expense

Income tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly in OCI, in which case it is recognised in the Statement of Comprehensive Income. Income tax on the profit or loss for the period comprises current and deferred tax.

(q) Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

(r) Deferred Tax

Deferred tax is calculated using the Balance Sheet method where temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base are recognised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities (i.e. through use or through sale), using tax rates which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only when it is probable that future taxable profits will be available for it to be used against. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis with the same taxation authority.

(s) The Tax Consolidated Group

The Commonwealth Bank of Australia Tax Consolidated Group elected to be taxed as a single entity under the tax consolidation regime with effect from 1 July 2002.

Note 1 Accounting Policies (continued)

The Group has formally notified the Australian Taxation Office of its adoption of the tax consolidation regime. In addition, the measurement and disclosure of deferred tax assets and liabilities has been performed in accordance with the principles in AASB 112 'Income Taxes', and on a modified standalone basis under UIG 1052 'Tax Consolidation Accounting'.

The members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts.

Any current tax liabilities/assets and deferred tax assets arising from unused tax losses from subsidiaries are recognised in conjunction with any tax funding arrangement amounts by the Bank legal entity (as the head of the tax consolidated group).

Assets

(t) Cash and Liquid Assets

Cash and liquid assets include cash at branches, cash at banks, nostro balances, money at short call with an original maturity of three months or less and securities held under reverse repurchase agreements. They are measured at face value, or the gross value of the outstanding balance. Interest is recognised in the Income Statement using the effective interest method.

For the purposes of the Statements of Cash Flows, cash and cash equivalents include cash and money at short call.

(u) Financial Assets

The Group classifies its financial assets in the following categories:

- financial assets at fair value through the Income Statement;
- derivative assets;
- loans and receivables; and
- available-for-sale investments.

The classification of financial instruments at initial recognition depends on their purpose and characteristics and management's intention when acquiring them.

Financial instruments, except for loans and receivables, are initially recognised by the Group on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instruments. This applies to trades transacted in a regular way, i.e. purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and receivables are recognised on settlement date, when funding is advanced to the borrowers.

All financial assets are measured initially at their fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through the Income Statement. Directly attributable transaction costs on these assets are expensed on subsequent fair value measurement.

The Group has not classified any of its financial assets as held to maturity investments.

Financial Assets at Fair Value through the Income Statement

Assets classified at fair value through the Income Statement are further classified into three sub-categories: trading, insurance and other.

Trading assets are those acquired or incurred principally for the purpose of selling or repurchasing in the near term, or if they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking. Discounted bills that the Group intends to sell into the market immediately or in the near term also meet the definition of assets held for trading. Due to their nature, such assets are included in loans, bills discounted and other receivables in the Balance Sheet, while being measured at fair value.

Insurance assets are investments that back life insurance contracts and life investment contracts. These are outlined in Note 1(hh).

Other investments include financial assets, which the Group has designated at fair value through Income Statement at inception to: eliminate an accounting mismatch; reflect they are managed on a fair value basis; or where the asset is a contract which contains an embedded derivative.

Subsequent to initial recognition, financial assets are measured at fair value with changes in fair value recognised in other operating income. Dividends earned are recorded in other operating income. Interest earned is recorded within net interest income using the effective interest method.

Derivative Financial Instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable. They include forward rate agreements, futures, options and interest rate, currency, equity and credit swaps. Derivatives are entered into for trading purposes or for hedging purposes.

Subsequent to initial recognition, gains or losses on derivatives are recognised in the Income Statement, unless they are entered into for hedging purposes and designated into a cash flow hedge.

The Group uses derivatives to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions.

Where derivatives are held for risk management purposes and when transactions meet the required criteria, the Group applies one of three hedge accounting models; fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation as appropriate to the risks being hedged.

(i) Fair Value Hedges

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the Income Statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The changes in the fair value of the hedged asset or liability shall be adjusted against their carrying value.

If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the Income Statement over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the Income Statement.

(ii) Cash Flow Hedges

Changes in fair value associated with the effective portion of a derivative designated as a cash flow hedge are recognised

Note 1 Accounting Policies (continued)

through Other Comprehensive Income in the Cash Flow Hedge Reserve within equity. Ineffective portions are recognised immediately in the Income Statement. Amounts deferred in equity are transferred to the Income Statement in the period in which the hedged forecast transaction takes place.

When a hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified to profit or loss in the period in which the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recycled immediately to the Income Statement.

(iii) Net Investment Hedges

Gains and losses on derivative contracts relating to the effective portion of the net investment hedge are recognised in the foreign currency translation reserve in equity.

Ineffective portions are recognised immediately in the Income Statement. Gains and losses accumulated in equity are included in the Income Statement when the foreign subsidiary or branch is disposed of.

(iv) Embedded Derivatives

In certain instances, a derivative may be embedded within a host contract. If the host contract is not carried at fair value through Income Statement and the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, the embedded derivative is separated from the host contract. It is then accounted for as a stand-alone derivative instrument at fair value.

Available-for-Sale Investments

Available-for-sale (AFS) investments are non-derivative financial assets that are not classified at fair value through Income Statement or as loans and receivables. They primarily include public debt securities held as part of the Group's liquidity holdings.

Subsequent to initial recognition, AFS investments are measured at fair value with unrealised gains and losses arising from changes in fair value recognised in the AFS investments' reserve within equity, net of applicable income taxes until such investments are sold, collected, otherwise disposed of, or become impaired. Interest, premiums and dividends are recognised in the Income Statement when earned. Foreign exchange gains and losses on AFS equity instruments are recognised directly in equity.

The Group assesses at each Balance Sheet date, whether there is any objective evidence of impairment. If any such evidence exists for available-for-sale securities, cumulative losses are removed from equity and recognised in the Income Statement. If, in a subsequent period, the fair value of an AFS debt security increases and the increase can be linked objectively to an event occurring after the impairment event, the impairment is reversed through the Income Statement. However, impairment losses on AFS equity securities are not reversed.

Upon disposal, the accumulated change in fair value within the AFS investments reserve is transferred to the Income Statement and reported within other operating income.

Loans, Bills Discounted and Other Receivables

Loans, bills discounted and other receivables are non-derivative financial assets, with fixed and determinable payments that are not quoted in an active market.

Loans, bills discounted and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, bill financing, redeemable preference shares, securities, finance leases, and receivables due from other financial institutions (including loans, deposits with regulatory authorities and settlement account balances due from other banks). Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method and are presented net of provisions for impairment.

Discounted bills included in this category due to their nature meet the definition of trading assets and are therefore measured at fair value through Income Statement in line with the accounting policy for assets held for trading. As a result discounted bills are not subject to impairment assessment.

The Group assesses at each Balance Sheet date whether there is any objective evidence of impairment. If there is objective evidence that an impairment loss on loans and other receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short term balances are not discounted.

Loans and other receivables are presented net of provisions for loan impairment. The Group has individually assessed provisions and collectively assessed provisions. Individually assessed provisions are made against financial assets that are individually significant, or which have been individually assessed as impaired.

Individual provisions for impairment are recognised to reduce the carrying amount of non-performing facilities to the present value of their expected future cash flows. Individually significant provisions are calculated based on discounted cash flows.

The unwinding of the discount, from initial recognition of impairment through to recovery of the written down amount, is recognised as interest income. In subsequent periods, interest in arrears/due on non-performing facilities is recognised in the Income Statement using the original effective interest rate.

All loans and other receivables that do not have an individually assessed provision are assessed collectively for impairment. Collective provisions are maintained to reduce the carrying amount of portfolios of similar loans and advances to the present value of their expected future cash flows at the Balance Sheet date.

The expected future cash flows for portfolios of assets with similar credit risk characteristics are estimated on the basis of historical loss experience. Loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the loss experience is based and to remove the effects of conditions in the period that do not currently exist. Increases or decreases in the provision amount are recognised in the Income Statement.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

Derecognition of Financial Assets and Financial Liabilities

The Group derecognises financial assets when the rights to receive cash flows from the asset have expired or when the Group transfers its rights to receive cash flows from the asset together with substantially all the risks and rewards of the asset. The Group enters into certain transactions where it transfers financial assets recognised on its Balance Sheet but retains either all or a majority of the risks and rewards of the transferred financial assets. If all or substantially all risks and rewards are retained, the transferred financial assets are not derecognised from the Balance Sheet. Transactions where transfers of financial assets result in the Group retaining all or substantially all risks and rewards include reverse repurchase transactions, and some of the Group's securitisation and covered bonds programs. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Income Statement.

Repurchase and Reverse Repurchase Agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Group.

A counterparty liability is recognised within deposits and public borrowings. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Group does not acquire the risks and rewards of ownership, are recorded as receivables in cash and liquid assets. The security is not included in the Balance Sheet as the Group is not exposed to substantially all its risks and rewards. Interest income is accrued on the underlying receivable amount.

Provision for Off Balance Sheet Items

Guarantees and other contingent liabilities are accounted for as off balance sheet items. Provisioning for these exposures is calculated under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'.

Loan assets under committed lending facilities are not recognised until the facilities are drawn upon.

The Group has determined that it is appropriate to establish provisions in relation to such facilities where a customer has been downgraded. These provisions are disclosed as other liabilities in the Balance Sheet.

(v) Lease Receivables

Leases are classified as either a finance lease or an operating lease. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. Under an operating lease, these risks remain with the lessor.

As a lessor, the assets the Group has leased out under finance leases are recognised as lease receivables on the Balance Sheet at an amount equal to the net investment in the lease. Finance lease income reflects a constant periodic

return on this net investment and is recognised within interest income in the Income Statement.

The assets the Group has leased out under operating leases continue to be recognised on the Balance Sheet as property, plant and equipment and are depreciated accordingly. Operating lease revenue is recognised in the Income Statement on a straight line basis over the lease term.

As a lessee, the Group engages only in operating leases. Rental expense is recognised on a straight line basis over the lease term.

(w) Shares in and Loans to Controlled Entities

Investments in controlled entities are initially recorded at cost and subsequently held at the lower of cost and recoverable amount. Loans to controlled entities are subsequently recorded at amortised cost less impairment.

(x) Assets Classified as Held for Sale

Assets are classified as held for sale, when their carrying amounts are expected to be recovered principally through sale within twelve months. They are measured at the lower of carrying amount and fair value less costs to sell, unless the nature of the assets require that they be measured in line with another accounting standard.

Assets classified as held for sale are neither amortised nor depreciated.

(y) Property, Plant and Equipment

The Group measures its property assets (land and buildings) at fair value, based on annual independent market valuations.

Revaluation adjustments are reflected in the asset revaluation reserve, except to the extent they reverse a revaluation decrease of the same asset previously recognised in the Income Statement. Upon sale or disposal, realised amounts in the asset revaluation reserve are transferred to retained profits.

Other property, plant and equipment assets are stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and any impairment if required. Subsequent costs are capitalised if these result in an enhancement to the asset.

Depreciation is calculated using the straight line method over the asset's estimated useful economic life. The useful lives of major depreciable asset categories are as follows:

| | |
|------------------------|--|
| Land | Indefinite (not depreciated) |
| Buildings | Up to 30 years |
| Equipment | 3 – 8 years |
| Leasehold improvements | Lesser of unexpired lease term or lives as above |
| Assets under lease | |
| ▪ Aircraft | 25 years |
| ▪ Rail | 35-40 years |
| ▪ Ships | 25-40 years |

The Group assesses at each Balance Sheet date useful lives and residual values and whether there is any objective evidence of impairment. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Note 1 Accounting Policies (continued)

(z) Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance. They are recognised only if it is probable the asset will generate future benefits for the Group. They are measured at cost. Those assets with an indefinite useful life are tested for impairment annually. All intangible assets must be tested for impairment when there is an indication that its carrying amount may be greater than its recoverable amount.

Goodwill

Goodwill has an indefinite useful life. It represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired as at the date of acquisition. The cost of an acquisition is made up of the consideration transferred, the amount of non-controlling interests and the fair value of any previously held equity interest in the acquiree.

Goodwill arising from business combinations is included in intangible assets on the Balance Sheet. Goodwill is tested for impairment annually through allocation to a group of Cash Generating Units (CGUs). The CGUs' recoverable amount is then compared to its carrying amount and an impairment is recognised for any excess carrying value. The CGUs and how their recoverable amount is calculated are listed in Note 15.

Computer Software Costs

Certain internal and external costs directly incurred in acquiring and developing software, net of specific project related grants, are capitalised and amortised over the estimated useful life. The majority of software projects are amortised over two to five years. The Core Banking Modernisation software project is amortised over ten years.

Costs incurred on software maintenance are expensed as incurred.

Core Deposits

Core deposits were initially recognised at fair value following the acquisition of Bankwest and represent the value of the deposit base acquired in the business combination. Core deposits are amortised over their estimated useful life of seven years.

Brand Names

Brand names are recognised when acquired in a business combination. Initially recognised at fair value, in general they are considered to have a similar useful life to the period of the brand names existence at the time of purchase or an indefinite useful life. An indefinite useful life is considered appropriate when there is no foreseeable limit to the period over which the brand name is expected to generate cash flows.

Management Fee Rights

Management fee rights are recognised when acquired as part of a business combination and are considered to have an indefinite useful life under the contractual terms of the management agreements.

Other Intangibles

Other intangibles predominantly comprise customer lists. Customer relationships acquired as part of a business combination are initially measured at fair value at the date of acquisition and subsequently measured at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated based on the timing of projected cash flows of the relationships over their estimated useful lives.

Liabilities

(aa) Financial Liabilities

The Group classifies its financial liabilities in the following categories: liabilities at fair value through Income Statement, liabilities at amortised cost and derivative liabilities (refer to previous discussion on derivative financial instruments in Note 1(u)).

Financial liabilities are initially recognised at fair value less directly attributable transaction costs, except in the case of financial liabilities recorded at fair value through Income Statement. Directly attributable transaction costs on these liabilities are expensed on subsequent fair value measurement.

Liabilities at Fair Value through Income Statement

The Group designates certain liabilities at fair value through Income Statement on origination where those liabilities are managed on a fair value basis, where the liabilities eliminate an accounting mismatch, or where they contain embedded derivatives.

Subsequent to initial recognition these liabilities are measured at fair value with changes in fair value recognised in other operating income. Interest incurred is recorded within net interest income using the effective interest method.

Liabilities at Amortised Cost

(i) Deposits From Customers

Deposits from customers include certificates of deposit, term deposits, savings deposits, other demand deposits and debentures. Subsequent to initial recognition they are measured at amortised cost. Interest and yield related fees are recognised on an effective interest basis.

(ii) Payables Due to Other Financial Institutions

Payables due to other financial institutions include deposits, vostro balances and settlement account balances due to other banks. Subsequent to initial recognition they are measured at amortised cost. Interest and yield related fees are recognised using the effective interest method.

(iii) Debt Issues

Debt issues are short and long term debt issues of the Group, including commercial paper, notes, term loans and medium term notes issued by the Group. Commercial paper, floating, fixed and structured debt issues are recorded at cost or amortised cost using the effective interest method.

Premiums, discounts and associated issue expenses are recognised in the Income Statement using the effective interest method from the date of issue, to ensure that securities attain their redemption values by maturity date.

Interest is recognised in the Income Statement using the effective interest method. Any profits or losses arising from redemption prior to maturity are taken to the Income Statement in the period in which they are realised.

Where the Group has designated debt instruments at fair value through Income Statement, the changes in fair value are recognised in the Income Statement.

The Group hedges interest rate and foreign currency risk on certain debt issues. When fair value hedge accounting is applied to fixed rate debt issues, the carrying values are

Note 1 Accounting Policies (continued)

adjusted for changes in fair value related to the hedged risks, rather than carried at amortised cost.

(iv) Loan Capital

Loan capital is debt issued by the Group with terms and conditions that qualify for inclusion as capital, under APRA Prudential Standards. It is initially recorded at fair value, plus directly attributable transaction costs and thereafter at amortised cost using the effective interest method.

(v) Bank Acceptances of Customers - Liability

These are bills of exchange initially accepted and discounted by the Group and subsequently sold into the market. They are recognised at amortised cost. The market exposure is recognised as a liability. An asset of equal value is recognised to reflect the offsetting claim against the drawer of the bill.

Bank acceptances generate interest and fee income that is recognised in the Income Statement when earned.

(vi) Financial Guarantees and Credit Commitments

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, guarantees and acceptances. Financial guarantees are recognised within other liabilities in the financial statements initially at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income Statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the Income Statement. The premium received is recognised in the Income Statement in other operating income on a straight line basis over the life of the guarantee.

Loan commitments are defined amounts (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions. Loan commitments that are cancellable by the Group are not recognised on the Balance Sheet. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with accounting policies for loans and receivables. Irrevocable loan commitments are not recorded in the Balance Sheet, but a provision is recognised if it is probable that a loss has been incurred and a reliable estimate of the amount can be made.

(bb) Employee Benefits

Annual Leave

The provision for annual leave represents the current outstanding liability to employees for annual leave entitlements at Balance Sheet date.

Long Service Leave

The provision for long service leave is discounted to the present value and is set based on actuarial assumptions. The assumptions and provision balance are subject to tri-annual internal actuarial review.

Other Employee Benefits

The provision for other employee entitlements represents liabilities for a subsidy to a registered health fund with respect to retired and current employees, and employee incentives under employee share plans and bonus schemes.

Defined Benefit Superannuation Plans

The Group currently sponsors two defined benefit superannuation plans for its employees.

The net defined benefit liability or asset recognised in the Balance Sheet is the present value of the defined benefit obligation as at the Balance Sheet date less the fair value of plan assets. The defined benefit obligation is calculated by independent fund actuaries.

In each reporting period, the movement in the net defined benefit liability or asset is treated as follows:

- The net movement relating to the current period service cost, net interest cost (income), past service and other costs (such as the effects of any curtailments and settlements) is recognised as an employee expense in the Income Statement;
- Remeasurements relating to actuarial gains and losses and the difference between interest income and the return on plan assets are recognised directly in retained profits through OCI;
- Contributions made by the Group are recognised directly against the net defined benefit liability or asset; and
- Net interest cost (income) is determined by multiplying the government bond rate by the net defined benefit obligation (asset) at the beginning of the reporting period and adjusted for changes in the net defined benefit liability (asset) due to contributions and benefit payments.

Defined Contribution Superannuation Plans

The Group sponsors a number of defined contribution superannuation plans. The Group recognises contributions due in respect of the accounting period in the Income Statement. Any contributions unpaid at the Balance Sheet date are included as a liability.

(cc) Provisions

Provisions are recognised when a probable obligation has arisen as a result of a past event that can be reliably measured. The following are examples of provisions raised.

Provision for Dividends

A provision for dividend payable is recognised when dividends are determined or declared by the Directors.

Provisions for Restructuring

Provisions for restructuring are recognised where there is a detailed formal plan for restructure and a demonstrated commitment to that plan.

Provision for Self-Insurance

The provision for self-insurance covers certain non-lending losses and non-transferred insurance risks on lending products the Group originates. The provision is reassessed annually in consultation with actuarial advice.

Equity

(dd) Shareholders' Equity

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Where the Bank or other members of the Group purchase shares in the Bank, the consideration paid is deducted from total shareholders' equity and the shares are treated as treasury shares until they are subsequently sold, reissued or

Note 1 Accounting Policies (continued)

cancelled. Where such shares are sold or reissued, any consideration received is included in shareholders' equity.

(ee) Reserves

General Reserve

The general reserve is derived from revenue profits and is available for dividend payments except for undistributable profits in respect of the Group's life insurance businesses.

Capital Reserve

The capital reserve held by the Bank relates to historic internal Group restructuring performed at fair value. The capital reserve is eliminated on consolidation.

Asset Revaluation Reserve

The asset revaluation reserve is used to record revaluation adjustments on the Group's property assets. In the event the asset is sold or disposed of, any balance in the reserve in relation to the asset is transferred directly to retained profits.

Foreign Currency Translation Reserve

Exchange differences arising on translation of the Group's foreign operations are accumulated in the foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the foreign investment is disposed of or wound up.

Cash Flow Hedge Reserve

The cash flow hedge reserve is used to record fair value gains or losses associated with the effective portion of designated cash flow hedging instruments. Amounts are reclassified to profit or loss when the hedged transaction impacts profit or loss.

Employee Compensation Reserve

The employee compensation reserve is used to recognise the fair value of shares and other equity instruments issued to employees under the employee share plans and bonus schemes.

Available-for-sale Investment Reserve

The available-for-sale investment reserve includes changes in the fair value of available-for-sale financial assets. These changes are transferred to profit or loss when the asset is derecognised or impaired.

Life and General Insurance Business

The Group's consolidated financial statements include the assets, liabilities, income and expenses of the life and general insurance businesses conducted by various subsidiaries of the Bank.

Insurance contracts involve the acceptance of significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The insured benefit is either not linked or only partly linked to the market value of the investments held, and the financial risks are substantially borne by the insurer.

General insurance contracts are insurance contracts that are not life insurance contracts.

Life investment contracts involve the origination of one or more financial instruments and may involve the provision of management services. Life investment contracts do not meet the definition of insurance contracts as they do not involve an acceptance of significant insurance risk by the Group's life

insurers. The financial risks are substantially borne by the policyholder. Shareholders can only receive a distribution when the capital adequacy requirements of the Life Act are met.

(ff) Revenue

Life insurance premiums received for providing services and bearing risks are recognised as revenue. Premiums with a regular due date are recognised as revenue on a due and receivable basis. Premiums with no due date are recognised on a cash received basis.

Life investment premiums received include the management fee portion recognised as revenue over the period the service is provided and the deposit portion recognised as an increase in investment contract liabilities. Premiums with no due date are recognised on a cash received basis.

General insurance premium comprises amounts charged to policyholders, including fire service levies, but excludes taxes collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. Premium revenue is earned from the date of attachment of risk and over the term of the policies written, based on actuarial assessment of the likely pattern in which risk will emerge. The portion not yet earned based on the pattern assessment is recognised as unearned premium liability.

Returns on all investments controlled by life and general insurance businesses are recognised as revenue.

(gg) Expenses

Life and general insurance contract claims are recognised as an expense when a liability has been established.

Acquisition costs (which include commission costs) are the costs associated with obtaining and recording insurance contracts. Acquisition costs are deferred or capitalised when they relate to the acquisition of new business. These costs are amortised on the same basis as the earning pattern of the premium, over the life of the contract. The amount deferred is limited to the extent that they are deemed recoverable from the expected future profits.

(hh) Investment Assets

Assets backing insurance liabilities are carried at fair value through Income Statement.

Investments held in the life insurance funds are subject to the restrictions imposed under the Life Act.

(ii) Policy Liabilities

Life insurance contract liabilities are measured at the net present value of future receipts from and payments to policyholders using a risk free discount rate (or expected fund earning rate where benefits are contractually linked to the asset performance), and are calculated in accordance with the principles of Margin on Services (MoS) profit reporting as set out in Prudential Standard LPS 340 'Valuation of Policy Liabilities' issued by APRA.

Life investment contract liabilities are measured at fair value in accordance with AASB 139. The balance is no less than the contract surrender value.

General insurance policy liabilities are made up of two components: unearned premium liability and outstanding claims liability.

The unearned premium liability is subject to a liability adequacy test.

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

Any deficiency will be recognised as an expense in the Income Statement by first writing down any related deferred acquisition costs, with any excess being recorded on the Balance Sheet as an unexpired risk liability.

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported; claims incurred but not enough reported; and estimated claims handling costs.

Other

(jj) Managed Funds Units on Issue – Held by Non-controlling Unit-Holders

The life insurance and other funds include controlling interests in trusts and companies which are recognised in the Group's consolidated Financial Statements.

When a controlled unit trust is consolidated, the amounts due to external unit-holders remain as managed funds units on issue liabilities in the Group's consolidated balance sheet. In the Income Statement, the net profit or loss of the controlled entities relating to non-controlling interests is excluded from the Group's net profit or loss.

(kk) Asset Securitisation

The Group conducts an asset securitisation program through which it packages and sells asset backed securities to investors.

The Group is entitled to any residual income of the program after all payments due to investors and costs of the program have been met. The Group also directs any decisions over relevant activities of the program and therefore controls the entities through which asset securitisation is conducted and so it consolidates these entities.

Liabilities associated with asset securitisation entities and related issue costs are accounted for on an amortised cost basis using the effective interest method. Interest rate swaps and liquidity facilities are provided at arm's length to the program by the Group in accordance with APRA Prudential Guidelines

Derivatives return the risks and rewards of ownership of the securitised assets to the Group and consequently the Group cannot derecognise these assets. An imputed borrowing is recognised by the Bank inclusive of the derivative and any related fees.

(ll) Fiduciary Activities

Certain controlled entities within the Group act as Responsible Entity, Trustee and/or Manager for a number of wholesale, superannuation and investment funds, trusts and approved deposit funds.

The assets and liabilities of these trusts and funds are not included in the consolidated Financial Statements as the Group does not have direct or indirect control of the trusts and funds. Commissions and fees earned in respect of the activities are included in the Income Statement of the Group.

(mm) Earnings per Share

Basic earnings per share is calculated by dividing the Group's profit attributable to ordinary equity holders, by the weighted average number of ordinary shares outstanding during the financial year, excluding the number of ordinary shares purchased and held as treasury shares.

Diluted earnings per share is calculated by dividing the Group's profit attributable to ordinary equity holders, after deducting interest on the convertible redeemable loan capital instruments, by the weighted average number of ordinary shares adjusted for the effect of dilutive convertible non-cumulative redeemable loan capital instruments.

Critical Judgements and Estimates

The application of the Group's accounting policies requires the use of judgement, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Group.

(nn) Provisions for Impairment of Financial Assets

Provisions for impairment of financial assets are raised where there is objective evidence of impairment at an individual or collective basis, at an amount adequate to cover assessed credit related losses.

Credit losses arise primarily from loans, but also from other credit instruments such as bank acceptances, contingent liabilities, guarantees and other financial instruments.

Individually Assessed Provisions

Individually assessed provisions are raised where there is objective evidence of impairment (where the Group does not expect to receive all of the cash flows contractually due).

Individually assessed provisions are made against individual risk rated credit facilities where a loss of \$20,000 or more is expected. The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken and are measured as the difference between a financial asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short term balances are not discounted.

Collective Provision

All other loans and receivables that do not have an individually assessed provision are assessed collectively for impairment.

The collective provision is maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the Balance Sheet date.

The evaluation process is subject to a series of estimates and judgements. In the risk rated segment, the risk rating system, including the frequency of default and loss given default rates, loss history, and the size, structure and diversity of individual borrowers are considered. Current developments in portfolios (industry, geographic and term) are reviewed.

In the statistically managed (retail) segment, the history of defaults and losses, and the size, structure and diversity of portfolios are considered.

In addition, management considers overall indicators of portfolio performance, quality and economic conditions.

Changes in these estimates could have a direct impact on the level of provision determined.

The amount required to bring the collective provision to the level assessed is recognised in the Income Statement as set out in Note 13.

(oo) Provisions (Other than Loan Impairment)

Provisions are held in respect of a range of future obligations

Note 1 Accounting Policies (continued)

such as employee entitlements, restructuring costs, non-lending losses and customer remediation payments. Provisions carried for long service leave are calculated based on actuarial models and subject to annual review based on changes in underlying assumptions. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows.

The measurement of these obligations involves the exercise of management judgements about the ultimate outcomes of the transactions. Payments which are expected to be incurred later than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision. The carrying value of these provisions is included in Note 20.

(pp) Life Insurance Policyholder Liabilities

The determination of life insurance policyholder liabilities involves the following key actuarial assumptions:

- Business assumptions including amount, timing and duration of claims/policy payments, policy lapse rates and acquisition and 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. Further detail on the financial position on performance of the Group's Life Insurance operations is set out in Note 29.

(qq) Consolidation of Special Purpose Entities

The Group assesses, at inception and periodically, whether a structured entity should be consolidated based on the power the Bank has over the relevant activities of the entity and the significance of the Bank's exposure to variable returns of the structured entity. Such assessments are predominantly required in the context of the Group's securitisation program, structured transactions, and involvement with investment funds.

(rr) Financial Instruments at Fair Value

A significant portion of financial instruments are carried on the Balance Sheet at fair value.

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation

technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Data inputs that the Group relies upon when valuing financial instruments relate to counterparty credit risk, volatility, correlation and extrapolation.

Periodically, the Group calibrates its valuation techniques and tests them for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) and any other available observable market data. Details of the extent non-observable inputs are used to fair value financial instruments are included in Note 42.

(ss) Goodwill

The carrying value of goodwill is reviewed annually and is written down, to the extent that it is no longer supported by probable future benefits.

Goodwill is allocated to cash-generating units (CGUs) whose recoverable amount is calculated for the purpose of impairment testing. The recoverable amount calculation relies primarily on publicly available earnings multiples. Details of the inputs used in recoverable amount calculations are outlined further in Note 15.

(tt) Taxation

Provisions for taxation require significant judgement with respect to outcomes that are uncertain. For such uncertainties, the Group has estimated its tax provisions based on its expected outcomes.

(uu) Superannuation Obligations

The Group currently sponsors two defined benefit plans as described in Note 37. For each of these plans, actuarial valuations of the plan's obligations and the fair value measurements of the plan's assets are performed semi-annually in accordance with the requirements of AASB 119.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, discount rates, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of the difference between plan assets and obligations, and the superannuation cost charged.

Future Accounting Developments

The following amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2014 or later periods, but have not been adopted. They are not expected to result in significant changes to the Group's accounting policies, unless otherwise noted.

- AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9', including subsequent amendments in AASB 2009-11, 2012-6, and 2013-9;
- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities';

Notes to the Financial Statements

Note 1 Accounting Policies (continued)

- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures';
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'; and
- AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities.

In addition to the above, the IASB plans to issue new standards on Leases and Insurance Contracts. The Group will consider the financial impacts these new standards as they are finalised.

AASB 132 'Financial Instruments: Presentation', has been amended to clarify the conditions for offsetting financial assets and liabilities in the Balance Sheet. These amendments are effective from 1 July 2014 for the Group but are not likely to impact the Group's current accounting practice for offsetting arrangements.

AASB 9 'Financial Instruments' contains new accounting requirements for financial assets and liabilities, including classification and measurement and general hedge accounting.

The general hedge accounting provisions have been finalised with the new requirements being more principle based, allowing closer alignment between accounting and risk management practices.

The IASB finalised the modifications to classification and measurement requirements and the new expected credit loss impairment model in July 2014. In addition the IASB has a separate project on macro hedge accounting.

IFRS 15 'Revenue from Contracts with Customers' contains new requirements for the recognition of revenue. The standard will also include additional disclosures about revenue.

Adoption of IFRS 9 and IFRS 15 is not mandatory until annual periods beginning on or after 1 January 2017 and 1 January 2018 respectively. Early adoption is permitted. The potential financial impact to the Group is not yet possible to determine.

Note 2 Profit

Profit before income tax has been determined as follows:

| | Group | | | Bank | |
|---|---------------|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Interest Income | | | | | |
| Loans and bills discounted | 31,154 | 32,020 | 34,709 | 27,805 | 28,065 |
| Other financial institutions | 69 | 64 | 102 | 60 | 45 |
| Cash and liquid assets | 251 | 187 | 330 | 201 | 145 |
| Assets at fair value through Income Statement | 447 | 450 | 621 | 409 | 414 |
| Available-for-sale investments | 1,724 | 2,018 | 2,496 | 4,221 | 4,861 |
| Controlled entities | - | - | - | 2,164 | 2,177 |
| Total interest income ⁽¹⁾ | 33,645 | 34,739 | 38,258 | 34,860 | 35,707 |
| Interest Expense | | | | | |
| Deposits | 13,338 | 15,070 | 17,633 | 12,053 | 13,481 |
| Other financial institutions | 228 | 233 | 185 | 205 | 207 |
| Liabilities at fair value through Income Statement | 206 | 198 | 320 | 107 | 97 |
| Debt issues | 4,343 | 4,869 | 6,492 | 3,571 | 4,118 |
| Controlled entities | - | - | - | 5,137 | 5,209 |
| Loan capital | 429 | 435 | 506 | 421 | 429 |
| Total interest expense ⁽²⁾ | 18,544 | 20,805 | 25,136 | 21,494 | 23,541 |
| Net interest income | 15,101 | 13,934 | 13,122 | 13,366 | 12,166 |
| Other Operating Income | | | | | |
| Lending fees | 1,083 | 1,053 | 997 | 1,015 | 960 |
| Commissions | 2,130 | 1,990 | 1,997 | 1,783 | 1,621 |
| Trading income | 922 | 863 | 522 | 850 | 797 |
| Net gain on disposal of available-for-sale investments | 12 | 31 | 81 | 12 | 31 |
| Net gain/(loss) on other non-fair valued financial instruments | 36 | (41) | 2 | (4) | (41) |
| Net hedging ineffectiveness | (21) | (25) | 39 | (25) | (29) |
| Net gain/(loss) on sale of property, plant and equipment | (12) | (14) | 39 | (9) | (13) |
| Net gain/(loss) on other fair valued financial instruments: | | | | | |
| Fair value through Income Statement ⁽³⁾ | (6) | (1) | 48 | (1) | - |
| Non-trading derivatives ⁽⁴⁾ | (91) | 28 | 85 | (90) | (30) |
| Dividends - Controlled entities | - | - | - | 1,894 | 1,464 |
| Dividends - Other | 12 | 9 | 6 | 50 | 48 |
| Net funds management operating income: | | | | | |
| Fees receivable on trust and other fiduciary activities | 1,799 | 1,642 | 1,517 | - | - |
| Other ⁽⁵⁾ | 235 | 205 | 69 | - | - |
| Insurance contracts income ⁽⁵⁾ | 1,033 | 923 | 963 | - | - |
| Share of profit of associates and joint ventures net of impairment | 150 | 165 | 95 | - | - |
| Other ^{(5), (6)} | 105 | 114 | 128 | 903 | 801 |
| Total other operating income | 7,387 | 6,942 | 6,588 | 6,378 | 5,609 |
| Total net operating income before impairment and operating expense | 22,488 | 20,876 | 19,710 | 19,744 | 17,775 |
| Impairment Expense | | | | | |
| Loan impairment expense | 918 | 1,146 | 1,089 | 871 | 1,042 |
| Total impairment expense (Note 13) | 918 | 1,146 | 1,089 | 871 | 1,042 |

(1) Total interest income for financial assets that are not at fair value through profit or loss is \$33,081 million (2013: \$34,289 million, 2012: \$37,637 million) for the Group and \$34,334 million (2013: \$35,293 million) for the Bank.

(2) Total interest expense for financial liabilities that are not at fair value through profit or loss is \$18,338 million (2013: \$20,607 million, 2012: \$24,816 million) for the Group and \$21,387 million (2013: \$23,444 million) for the Bank.

(3) There was no gain or loss on financial assets and liabilities designated at fair value for the Group (2013: \$3 million gain, 2012: \$4 million loss) or for the Bank (2013: \$nil gain or loss).

(4) Non-trading derivatives are held for risk management purposes.

(5) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(6) For the Group includes depreciation of \$77 million (30 June 2013: \$65 million, 30 June 2012: \$50 million) and rental income of \$139 million (30 June 2013: \$116 million, 30 June 2012: \$89 million) in relation to operating leases where the Group is the lessor. For the Bank includes depreciation of \$17 million (30 June 2013: \$18 million) and rental income of \$38 million (30 June 2013: \$41 million) in relation to operating leases where the Bank is the lessor.

Notes to the Financial Statements

Note 2 Profit (continued)

| | Group | | | Bank | |
|--|---------------|---------------|--------------|---------------|--------------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Staff Expenses | | | | | |
| Salaries and wages | 4,490 | 4,250 | 4,136 | 3,377 | 3,165 |
| Share-based compensation | 244 | 192 | 185 | 107 | 95 |
| Superannuation ⁽¹⁾ | 354 | 346 | 315 | 279 | 272 |
| Provisions for employee entitlements | 81 | 96 | 101 | 72 | 75 |
| Payroll tax | 239 | 223 | 213 | 191 | 177 |
| Fringe benefits tax | 36 | 35 | 35 | 27 | 26 |
| Other staff expenses | 98 | 90 | 67 | 65 | 50 |
| Total staff expenses | 5,542 | 5,232 | 5,052 | 4,118 | 3,860 |
| Occupancy and Equipment Expenses | | | | | |
| Operating lease rentals | 607 | 580 | 585 | 526 | 493 |
| Depreciation of property, plant and equipment ⁽¹⁾ | 244 | 234 | 220 | 197 | 186 |
| Repairs and maintenance | 94 | 92 | 90 | 76 | 74 |
| Other | 108 | 112 | 111 | 88 | 82 |
| Total occupancy and equipment expenses | 1,053 | 1,018 | 1,006 | 887 | 835 |
| Information Technology Services | | | | | |
| Application, maintenance and development | 412 | 439 | 322 | 375 | 394 |
| Data processing | 218 | 236 | 241 | 218 | 236 |
| Desktop | 101 | 100 | 105 | 89 | 87 |
| Communications | 189 | 202 | 226 | 169 | 180 |
| Amortisation of software assets | 328 | 245 | 183 | 290 | 216 |
| Software write-offs | 70 | - | - | 68 | - |
| IT equipment depreciation | 62 | 77 | 82 | 59 | 73 |
| Total information technology services | 1,380 | 1,299 | 1,159 | 1,268 | 1,186 |
| Other Expenses | | | | | |
| Postage | 118 | 114 | 112 | 108 | 101 |
| Stationery | 70 | 85 | 85 | 57 | 68 |
| Fees and commissions: | | | | | |
| Professional fees ⁽¹⁾ | 257 | 230 | 195 | 232 | 206 |
| Other ⁽¹⁾ | 111 | 120 | 108 | 328 | 297 |
| Advertising, marketing and loyalty | 477 | 463 | 459 | 391 | 364 |
| Amortisation of intangible assets (excluding software and merger related amortisation) | 19 | 20 | 18 | - | - |
| Non-lending losses | 97 | 67 | 81 | 92 | 60 |
| Other ⁽¹⁾ | 375 | 362 | 352 | 311 | 268 |
| Total other expenses | 1,524 | 1,461 | 1,410 | 1,519 | 1,364 |
| Total expenses | 9,499 | 9,010 | 8,627 | 7,792 | 7,245 |
| Investment and Restructuring | | | | | |
| Integration expenses ⁽²⁾ | - | - | 60 | - | - |
| Merger related amortisation ⁽³⁾ | 74 | 75 | 75 | 74 | 56 |
| Total investment and restructuring | 74 | 75 | 135 | 74 | 56 |
| Total operating expenses | 9,573 | 9,085 | 8,762 | 7,866 | 7,301 |
| Profit before income tax | 11,997 | 10,645 | 9,859 | 11,007 | 9,432 |
| Net hedging ineffectiveness comprises: | | | | | |
| Gain/(loss) on fair value hedges: | | | | | |
| Hedging instruments | 59 | (614) | (337) | (315) | (424) |
| Hedged items | (71) | 617 | 318 | 305 | 421 |
| Cash flow hedge ineffectiveness | (9) | (28) | 58 | (15) | (26) |
| Net hedging ineffectiveness | (21) | (25) | 39 | (25) | (29) |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(2) Comprises expenses related to the Count Financial Limited acquisition.

(3) Merger related amortisation relates to Bankwest core deposits and customer lists.

Notes to the Financial Statements

Note 3 Average Balances and Related Interest

The following tables have been produced using Statutory Balance Sheet and Income Statement categories. The tables list the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rate (predominantly daily averages). Interest is accounted for based on product yield.

Where assets or liabilities are hedged, the amounts are shown net of the hedge, however individual items not separately hedged may be affected by movements in exchange rates. The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities. Non-accrual loans are included in interest earning assets under Loans, bills discounted and other receivables. The official cash rate in Australia decreased by 25 basis points during the year while rates in New Zealand increased by 75 basis points.

| Interest earning assets ⁽¹⁾ | 2014 | | | 2013 | | | Group 2012 | | |
|---|-----------------|---------------|--------------|-----------------|---------------|--------------|-----------------|---------------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| | \$M | \$M | % | \$M | \$M | % | \$M | \$M | % |
| Cash and liquid assets | | | | | | | | | |
| Australia | 8,179 | 169 | 2.1 | 5,459 | 116 | 2.1 | 6,581 | 233 | 3.5 |
| Overseas | 17,840 | 82 | 0.5 | 12,787 | 71 | 0.6 | 12,456 | 97 | 0.8 |
| Receivables due from other financial institutions | | | | | | | | | |
| Australia | 5,070 | 29 | 0.6 | 3,405 | 35 | 1.0 | 3,676 | 69 | 1.9 |
| Overseas | 4,334 | 40 | 0.9 | 5,888 | 29 | 0.5 | 5,321 | 33 | 0.6 |
| Assets at fair value through Income Statement - Trading & Other | | | | | | | | | |
| Australia | 16,259 | 352 | 2.2 | 10,551 | 362 | 3.4 | 11,366 | 476 | 4.2 |
| Overseas | 6,053 | 95 | 1.6 | 6,035 | 88 | 1.5 | 6,152 | 145 | 2.4 |
| Available-for-sale investments | | | | | | | | | |
| Australia | 54,026 | 1,635 | 3.0 | 52,680 | 1,933 | 3.7 | 48,073 | 2,376 | 4.9 |
| Overseas | 7,702 | 89 | 1.2 | 6,822 | 85 | 1.2 | 7,237 | 120 | 1.7 |
| Loans, bills discounted and other receivables ⁽²⁾ | | | | | | | | | |
| Australia ⁽³⁾ | 512,894 | 27,371 | 5.3 | 491,160 | 28,840 | 5.9 | 475,066 | 31,685 | 6.7 |
| Overseas | 73,014 | 3,783 | 5.2 | 58,850 | 3,180 | 5.4 | 53,757 | 3,024 | 5.6 |
| Total interest earning assets and interest income | 705,371 | 33,645 | 4.8 | 653,637 | 34,739 | 5.3 | 629,685 | 38,258 | 6.1 |

(1) Certain comparative information has been restated to conform to presentation in the current year.

(2) Loans, bills discounted and other receivables include bank acceptances.

(3) Excludes amortisation of acquisition related fair value adjustments made to fixed interest financial instruments.

| Non-interest earning assets | 2014 | | 2013 | | Group 2012 | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Average Balance | Average Balance | Average Balance | Average Balance | Average Balance | Average Balance |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Assets at fair value through Income Statement - Insurance | | | | | | |
| Australia | 12,141 | 12,464 | 13,220 | | | |
| Overseas | 2,413 | 2,177 | 2,046 | | | |
| Property, plant and equipment | | | | | | |
| Australia | 2,506 | 2,380 | 1,967 | | | |
| Overseas | 237 | 210 | 194 | | | |
| Other assets | | | | | | |
| Australia | 51,448 | 52,036 | 55,706 | | | |
| Overseas | 10,824 | 9,986 | 8,992 | | | |
| Provisions for impairment | | | | | | |
| Australia | (4,027) | (4,516) | (4,801) | | | |
| Overseas | (269) | (234) | (263) | | | |
| Total non-interest earning assets | 75,273 | 74,503 | 77,061 | | | |
| Total assets | 780,644 | 728,140 | 706,746 | | | |
| Percentage of total assets applicable to overseas operations (%) | 15.6 | 14.1 | 13.6 | | | |

Notes to the Financial Statements

Note 3 Average Balances and Related Interest (continued)

| Interest bearing liabilities ⁽¹⁾ | 2014 | | | 2013 | | | Group 2012 | | |
|--|-----------------|---------------|--------------|-----------------|---------------|--------------|-----------------|---------------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| | \$M | \$M | % | \$M | \$M | % | \$M | \$M | % |
| Time deposits | | | | | | | | | |
| Australia | 210,406 | 7,990 | 3.8 | 210,293 | 9,649 | 4.6 | 200,713 | 11,131 | 5.5 |
| Overseas | 36,516 | 931 | 2.5 | 35,602 | 954 | 2.7 | 35,378 | 1,125 | 3.2 |
| Savings deposits | | | | | | | | | |
| Australia | 110,358 | 2,278 | 2.1 | 94,714 | 2,355 | 2.5 | 86,145 | 2,734 | 3.2 |
| Overseas | 12,897 | 395 | 3.1 | 8,740 | 274 | 3.1 | 7,445 | 272 | 3.7 |
| Other demand deposits | | | | | | | | | |
| Australia | 97,985 | 1,649 | 1.7 | 89,612 | 1,766 | 2.0 | 84,507 | 2,308 | 2.7 |
| Overseas | 5,024 | 95 | 1.9 | 3,988 | 72 | 1.8 | 3,534 | 63 | 1.8 |
| Payables due to other financial institutions | | | | | | | | | |
| Australia | 9,520 | 116 | 1.2 | 7,518 | 117 | 1.6 | 4,602 | 98 | 2.1 |
| Overseas | 16,829 | 112 | 0.7 | 13,768 | 116 | 0.8 | 14,140 | 87 | 0.6 |
| Liabilities at fair value through Income Statement | | | | | | | | | |
| Australia | 4,306 | 102 | 2.4 | 2,433 | 97 | 4.0 | 4,381 | 200 | 4.6 |
| Overseas | 4,105 | 104 | 2.5 | 4,399 | 101 | 2.3 | 5,123 | 120 | 2.3 |
| Debt issues ⁽²⁾ | | | | | | | | | |
| Australia | 129,101 | 4,000 | 3.1 | 118,295 | 4,666 | 3.9 | 126,477 | 6,450 | 5.1 |
| Overseas | 15,183 | 343 | 2.3 | 10,257 | 203 | 2.0 | 7,096 | 42 | 0.6 |
| Loan capital | | | | | | | | | |
| Australia | 5,959 | 259 | 4.3 | 5,846 | 283 | 4.8 | 5,784 | 312 | 5.4 |
| Overseas | 3,544 | 170 | 4.8 | 4,092 | 152 | 3.7 | 5,329 | 194 | 3.6 |
| Total interest bearing liabilities and interest expense | 661,733 | 18,544 | 2.8 | 609,557 | 20,805 | 3.4 | 590,654 | 25,136 | 4.3 |

(1) Certain comparative information has been restated to conform to presentation in the current year.

(2) Debt issues include bank acceptances.

| Non-interest bearing liabilities | 2014 | | 2013 | | Group 2012 | |
|--|-----------------|-----------------|-----------------|-----------------|------------|--|
| | Average Balance | Average Balance | Average Balance | Average Balance | | |
| | \$M | \$M | \$M | \$M | | |
| Deposits not bearing interest | | | | | | |
| Australia | 8,878 | 7,895 | 7,312 | | | |
| Overseas | 2,328 | 1,903 | 1,694 | | | |
| Insurance policy liabilities | | | | | | |
| Australia | 11,648 | 11,799 | 12,298 | | | |
| Overseas | 1,389 | 1,255 | 1,268 | | | |
| Other liabilities | | | | | | |
| Australia | 37,386 | 42,945 | 45,897 | | | |
| Overseas | 9,975 | 9,332 | 8,374 | | | |
| Total non-interest bearing liabilities | 71,604 | 75,129 | 76,843 | | | |
| Total liabilities | 733,337 | 684,686 | 667,497 | | | |
| Shareholders' equity | 47,307 | 43,454 | 39,249 | | | |
| Total liabilities and Shareholders' equity | 780,644 | 728,140 | 706,746 | | | |
| Total liabilities applicable to overseas operations (%) | 14.7 | 13.6 | 13.4 | | | |

Changes in Net Interest Income: Volume and Rate Analysis

The following tables show the movement in interest income and expense due to changes in volume and interest rates. Volume variances reflect the change in interest from the prior year due to movement in the average balance. Rate variance reflects the change in interest from the prior year due to changes in interest rates.

Notes to the Financial Statements

Note 3 Average Balances and Related Interest (continued)

Volume and rate variance for total interest earning assets and interest bearing liabilities have been calculated separately (rather than being the sum of the individual categories).

| | Group | |
|---|-----------------------------------|---|
| | June 2014 vs June 2013 | June 2013⁽¹⁾ vs June 2012 |
| | \$M | \$M |
| Change in net interest income | | |
| Due to changes in average volume of interest earning assets | 1,105 | 505 |
| Due to changes in interest margin | 62 | 307 |
| Change in net interest income | 1,167 | 812 |

| Changes in net interest income: | June 2014 vs June 2013 | | | June 2013 vs June 2012⁽¹⁾ | | |
|---|-------------------------------|----------------|----------------|---|----------------|----------------|
| | Volume | Rate | Total | Volume | Rate | Total |
| Volume and rate analysis | \$M | \$M | \$M | \$M | \$M | \$M |
| Interest Earning Assets | | | | | | |
| Cash and liquid assets | | | | | | |
| Australia | 57 | (4) | 53 | (32) | (85) | (117) |
| Overseas | 26 | (15) | 11 | 2 | (28) | (26) |
| Receivables due from other financial institutions | | | | | | |
| Australia | 13 | (19) | (6) | (4) | (30) | (34) |
| Overseas | (11) | 22 | 11 | 3 | (7) | (4) |
| Assets at fair value through Income Statement - Trading & Other | | | | | | |
| Australia | 160 | (170) | (10) | (31) | (83) | (114) |
| Overseas | - | 7 | 7 | (2) | (55) | (57) |
| Available-for-sale investments | | | | | | |
| Australia | 45 | (343) | (298) | 198 | (641) | (443) |
| Overseas | 11 | (7) | 4 | (6) | (29) | (35) |
| Loans, bills discounted and other receivables | | | | | | |
| Australia | 1,218 | (2,687) | (1,469) | 1,009 | (3,854) | (2,845) |
| Overseas | 750 | (147) | 603 | 281 | (125) | 156 |
| Changes in interest income | 2,609 | (3,703) | (1,094) | 1,364 | (4,883) | (3,519) |

Interest Bearing Liabilities and Loan Capital

| | | | | | | |
|--|--------------|----------------|----------------|------------|----------------|----------------|
| Time deposits | | | | | | |
| Australia | 5 | (1,664) | (1,659) | 485 | (1,967) | (1,482) |
| Overseas | 24 | (47) | (23) | 7 | (178) | (171) |
| Savings deposits | | | | | | |
| Australia | 356 | (433) | (77) | 243 | (622) | (379) |
| Overseas | 129 | (8) | 121 | 44 | (42) | 2 |
| Other demand deposits | | | | | | |
| Australia | 153 | (270) | (117) | 120 | (662) | (542) |
| Overseas | 19 | 4 | 23 | 8 | 1 | 9 |
| Payables due to other financial institutions | | | | | | |
| Australia | 28 | (29) | (1) | 54 | (35) | 19 |
| Overseas | 23 | (27) | (4) | (3) | 32 | 29 |
| Liabilities at fair value through Income Statement | | | | | | |
| Australia | 60 | (55) | 5 | (83) | (20) | (103) |
| Overseas | (7) | 10 | 3 | (17) | (2) | (19) |
| Debt issues | | | | | | |
| Australia | 381 | (1,047) | (666) | (370) | (1,414) | (1,784) |
| Overseas | 104 | 36 | 140 | 41 | 120 | 161 |
| Loan capital | | | | | | |
| Australia | 5 | (29) | (24) | 3 | (32) | (29) |
| Overseas | (23) | 41 | 18 | (45) | 3 | (42) |
| Changes in interest expense | 1,621 | (3,882) | (2,261) | 725 | (5,056) | (4,331) |
| Changes in net interest income | 1,105 | 62 | 1,167 | 505 | 307 | 812 |

(1) Comparative information has been restated to conform to presentation in the current year.

Notes to the Financial Statements

Note 4 Income Tax

The income tax expense for the year is determined from the profit before income tax as follows:

| | Group | | | Bank | |
|--|---------------|--------|-------|---------------|-------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Profit before Income Tax ⁽¹⁾ | 11,997 | 10,645 | 9,859 | 11,007 | 9,432 |
| Prima facie income tax at 30% ⁽¹⁾ | 3,599 | 3,193 | 2,958 | 3,302 | 2,830 |
| Effect of amounts which are non-deductible/ (assessable) in calculating taxable income: | | | | | |
| Taxation offsets and other dividend adjustments | (6) | (3) | (3) | (574) | (442) |
| Tax adjustment referable to policyholder income | 89 | 79 | 86 | - | - |
| Tax losses not previously brought to account | (21) | (18) | (28) | (15) | (13) |
| Offshore tax rate differential | (99) | (89) | (83) | (21) | (12) |
| Offshore banking unit | (30) | (33) | (36) | (30) | (33) |
| Effect of changes in tax rates | 3 | - | - | 3 | - |
| Income tax (over)/under provided in previous years ⁽²⁾ | (121) | (50) | 22 | (77) | (71) |
| Other ⁽¹⁾ | (67) | (68) | (89) | (23) | (60) |
| Total income tax expense | 3,347 | 3,011 | 2,827 | 2,565 | 2,199 |
| Corporate tax expense ⁽¹⁾ | 3,221 | 2,899 | 2,705 | 2,565 | 2,199 |
| Policyholder tax expense | 126 | 112 | 122 | - | - |
| Total income tax expense | 3,347 | 3,011 | 2,827 | 2,565 | 2,199 |

| | Group | | | Bank | |
|---|--------------|-------|-------|--------------|-------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Income tax expense attributable to profit from ordinary activities | | | | | |
| Australia | | | | | |
| Current tax expense | 2,433 | 2,392 | 2,487 | 2,214 | 2,296 |
| Deferred tax (benefit)/expense ⁽¹⁾ | 389 | 192 | (61) | 247 | (159) |
| Total Australia | 2,822 | 2,584 | 2,426 | 2,461 | 2,137 |
| Overseas | | | | | |
| Current tax expense | 670 | 425 | 319 | 84 | 68 |
| Deferred tax expense/(benefit) | (145) | 2 | 82 | 20 | (6) |
| Total overseas | 525 | 427 | 401 | 104 | 62 |
| Total income tax expense | 3,347 | 3,011 | 2,827 | 2,565 | 2,199 |

| | Group | | | Bank | |
|---|-------|------|------|------|------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | % | % | % | % | % |
| Effective Tax Rate ⁽¹⁾ | | | | | |
| Total – corporate | 27.1 | 27.5 | 27.8 | 23.3 | 23.3 |
| Retail Banking Services – corporate | 29.9 | 29.9 | 29.6 | n/a | n/a |
| Business and Private Banking – corporate | 29.9 | 29.7 | 30.1 | n/a | n/a |
| Institutional Banking and Markets – corporate | 24.8 | 22.8 | 21.3 | n/a | n/a |
| Wealth Management – corporate | 23.4 | 27.6 | 27.6 | n/a | n/a |
| New Zealand – corporate | 24.4 | 24.7 | 25.7 | n/a | n/a |
| Bankwest – corporate | 30.1 | 29.8 | 33.0 | n/a | n/a |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(2) Group and Bank balances include the impact of the change in accounting policy for Research and Development tax offsets. Refer to Note 1(f) for more details.

Note 4 Income Tax (continued)

| | Group | | | Bank | |
|--|--------------|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Deferred tax asset balances comprise temporary differences attributable to: | | | | | |
| Amounts recognised in the Income Statement: | | | | | |
| Provision for employee benefits | 437 | 414 | 381 | 360 | 347 |
| Provisions for impairment on loans, bills discounted and other receivables | 1,044 | 1,177 | 1,264 | 986 | 1,121 |
| Other provisions not tax deductible until expense incurred | 160 | 175 | 192 | 134 | 145 |
| Recognised value of tax losses carried forward | 1 | - | 1 | - | - |
| Financial instruments | 9 | 9 | 10 | 2 | 3 |
| Defined benefit superannuation plan ⁽¹⁾ | 265 | 199 | 141 | 265 | 199 |
| Other | 232 | 231 | 212 | 206 | 216 |
| Total amount recognised in the Income Statement | 2,148 | 2,205 | 2,201 | 1,953 | 2,031 |
| Amounts recognised directly in Other Comprehensive Income: | | | | | |
| Asset revaluation reserve | - | 2 | 2 | - | 2 |
| Foreign currency translation reserve | - | 3 | 3 | - | - |
| Cash flow hedge reserve | 99 | 77 | 72 | 6 | 4 |
| Employee compensation reserve | 2 | 1 | - | 2 | 1 |
| Available-for-sale investments reserve | - | - | 36 | 1 | 57 |
| Total amount recognised directly in Other Comprehensive Income | 101 | 83 | 113 | 9 | 64 |
| Total deferred tax assets (before set off) ⁽²⁾ | 2,249 | 2,288 | 2,314 | 1,962 | 2,095 |
| Set off of tax ^{(1) (3)} | (1,663) | (1,372) | (1,354) | (1,166) | (1,051) |
| Net deferred tax assets | 586 | 916 | 960 | 796 | 1,044 |
| Deferred tax liability balances comprise temporary differences attributable to: | | | | | |
| Amounts recognised in the Income Statement: | | | | | |
| Impact of TOFA adoption | - | 11 | 9 | - | 11 |
| Lease financing | 381 | 370 | 365 | 187 | 182 |
| Intangible assets | 45 | 73 | 127 | 37 | 62 |
| Financial instruments | 184 | 142 | 168 | 15 | 27 |
| Other | 624 | 587 | 564 | 151 | 161 |
| Total amount recognised in the Income Statement | 1,234 | 1,183 | 1,233 | 390 | 443 |
| Amounts recognised directly in Other Comprehensive Income: | | | | | |
| Revaluation of properties | 85 | 82 | 79 | 84 | 82 |
| Cash flow hedge reserve | 193 | 259 | 302 | 179 | 200 |
| Defined benefit superannuation plan ⁽¹⁾ | 229 | 180 | 54 | 229 | 180 |
| Available-for-sale investments reserve | 288 | 139 | 24 | 284 | 146 |
| Total amount recognised directly in Other Comprehensive Income | 795 | 660 | 459 | 776 | 608 |
| Total deferred tax liabilities (before set off) ⁽⁴⁾ | 2,029 | 1,843 | 1,692 | 1,166 | 1,051 |
| Set off of tax ^{(1) (3)} | (1,663) | (1,372) | (1,354) | (1,166) | (1,051) |
| Net deferred tax liabilities (Note 20) | 366 | 471 | 338 | - | - |
| Deferred tax assets opening balance: ⁽¹⁾ | 916 | 960 | 1,300 | 1,044 | 879 |
| Movement in temporary differences during the year: | | | | | |
| Additions through merger of banking licences | - | - | - | - | 469 |
| Provisions for employee benefits | 23 | 33 | 6 | 13 | 21 |
| Provisions for impairment on loans, bills discounted and other receivables | (133) | (87) | (123) | (135) | (69) |
| Other provisions not tax deductible until expense incurred | (15) | (17) | (10) | (11) | 2 |
| Recognised value of tax losses carried forward | 1 | (1) | - | - | - |
| Financial instruments | 19 | (32) | (121) | (55) | 28 |
| Defined benefit superannuation plan ⁽¹⁾ | 66 | 58 | 48 | 66 | 58 |
| Asset revaluation reserve | (2) | - | 2 | (2) | - |
| Other | 2 | 20 | 17 | (9) | 45 |
| Set off of tax ^{(1) (3)} | (291) | (18) | (159) | (115) | (389) |
| Deferred tax assets closing balance | 586 | 916 | 960 | 796 | 1,044 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(2) The following amounts are expected to be recovered within twelve months of the Balance Sheet date: for the Group \$1,151 million (2013: \$1,165 million); for the Bank \$1,031 million (2013: \$1,074 million).

(3) Deferred tax assets and liabilities are set off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

(4) The following amounts are expected to be settled within twelve months of the Balance Sheet date: for the Group \$366 million (2013: \$329 million); for the Bank \$189 million (2013: \$194 million).

Notes to the Financial Statements

Note 4 Income Tax (continued)

| | Group | | | Bank | |
|---|------------|------------|------------|----------|----------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Deferred tax liabilities opening balance: | 471 | 338 | 301 | - | - |
| Movement in temporary differences during the year: | | | | | |
| Additions through merger of banking licences | - | - | - | - | 292 |
| Impact of TOFA adoption | (11) | 2 | (21) | (11) | 2 |
| Property asset revaluations | 3 | 3 | 9 | 2 | 3 |
| Lease financing | 11 | 5 | (5) | 5 | 1 |
| Defined benefit superannuation plan ⁽¹⁾ | 49 | 126 | (62) | 49 | 126 |
| Intangible assets | (28) | (54) | (7) | (25) | (26) |
| Financial instruments | 125 | 46 | 290 | 105 | 6 |
| Other ⁽¹⁾ | 37 | 23 | (8) | (10) | (15) |
| Set off of tax ^{(1) (2)} | (291) | (18) | (159) | (115) | (389) |
| Deferred tax liabilities closing balance (Note 19) | 366 | 471 | 338 | - | - |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(2) Deferred tax assets and liabilities are set off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

Deferred tax assets have not been recognised in respect of the following items:

| | Group | | | Bank | |
|---|-------|------|------|------|------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Deferred tax assets not taken to account | | | | | |
| Tax losses and other temporary differences on revenue account | 62 | 94 | 71 | 39 | 66 |

| | Group | | | Bank | |
|--|-----------|-----------|-----------|-----------|-----------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Expiration of deferred tax assets not taken to account | | | | | |
| At Balance Sheet date carry-forward losses expired as follows: | | | | | |
| From one to two years | 9 | 14 | 6 | 1 | - |
| From two to four years | 16 | 3 | 20 | 14 | 15 |
| After four years | 25 | 66 | 45 | 24 | 51 |
| Losses that do not expire under current tax legislation | 12 | 11 | - | - | - |
| Total | 62 | 94 | 71 | 39 | 66 |

Potential deferred tax assets of the Group arose from:

- Tax losses and temporary differences in offshore centres.

These deferred assets have not been recognised because it is not considered probable that future taxable profit will be available against which they can be realised.

These potential tax benefits will only be obtained if:

- Future capital gains and assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised is derived;
- Compliance with the conditions for claiming capital losses and deductions imposed by tax legislation is continued; and
- No changes in tax legislation adversely affect the Group in realising the benefit from deductions for the losses.

Tax Consolidation

Tax consolidation legislation has been enacted to allow Australian resident entities to elect to consolidate and be treated as single entities for Australian tax purposes. The Commonwealth Bank of Australia elected to be taxed as a single entity with effect from 1 July 2002.

The Bank has recognised a tax consolidation contribution to the wholly-owned tax consolidated entity of \$97 million (2013: \$89 million).

The Bank is the head entity of the tax consolidated group and has entered into tax funding and tax sharing agreements with its eligible Australian resident subsidiaries. The terms and conditions of these agreements are set out in Note 1(s). The amount receivable by the Bank under the tax funding agreement was \$252 million as at 30 June 2014 (2013: \$207 million receivable). This balance is included in 'Other assets' in the Bank's separate Balance Sheet.

Taxation of Financial Arrangements (TOFA)

The new tax regime for financial instruments TOFA began to apply to the Tax Consolidated Group from 1 July 2010. The regime allows a closer alignment of the tax and accounting recognition and measurement of financial arrangements and their related flows. Following adoption, deferred tax balances from financial arrangements progressively reverse over a four year period.

Notes to the Financial Statements

Note 5 Dividends

| | Group | | | Bank | |
|--|--------------|--------------|--------------|--------------|--------------|
| | 2014 \$M | 2013 \$M | 2012 \$M | 2014 \$M | 2013 \$M |
| Ordinary Shares | | | | | |
| Interim ordinary dividend (fully franked) (2014: 183 cents; 2013: 164 cents; 2012: 137 cents) | | | | | |
| Interim ordinary dividend paid - cash component only | 2,243 | 2,639 | 1,635 | 2,243 | 2,639 |
| Interim ordinary dividend paid - Dividend Reinvestment Plan | 707 | - | 531 | 707 | - |
| Total dividend paid | 2,950 | 2,639 | 2,166 | 2,950 | 2,639 |
| Other Equity Instruments | | | | | |
| Dividend paid | 45 | 40 | 42 | - | - |
| Total dividend provided for, reserved or paid | 2,995 | 2,679 | 2,208 | 2,950 | 2,639 |
| Other provision carried | 73 | 65 | 52 | 73 | 65 |
| Dividend proposed and not recognised as a liability (fully franked) (2014: 218 cents; 2013: 200 cents, 2012: 197 cents) ⁽¹⁾ | 3,534 | 3,224 | 3,137 | 3,534 | 3,224 |
| Provision for dividends | | | | | |
| Opening balance | 65 | 52 | 37 | 65 | 52 |
| Provision made during the year | 6,174 | 5,831 | 5,113 | 6,174 | 5,831 |
| Provision used during the year | (6,166) | (5,818) | (5,098) | (6,166) | (5,818) |
| Closing balance (Note 20) | 73 | 65 | 52 | 73 | 65 |

(1) The 2014 final dividend will be satisfied in full by cash disbursements with the Dividend Reinvestment Plan (DRP) anticipated to be satisfied in full by an on market purchase of shares. The 2013 final dividend was satisfied by cash disbursements of \$3,224 million with the DRP satisfied in full by an on market purchase of shares. The 2012 final dividend was satisfied by cash disbursements of \$2,207 million and \$930 million being reinvested by participants through the DRP.

Dividend Franking Account

After fully franking the final dividend to be paid for the year, the amount of credits available, at the 30% tax rate as at 30 June 2014 to frank dividends for subsequent financial years, is \$533 million (2013: \$742 million). This figure is based on the franking accounts of the Bank at 30 June 2014, adjusted for franking credits that will arise from the payment of income tax payable on profits for the year, franking debits that will arise from the payment of dividends proposed, and franking credits that the Bank may be prevented from distributing in subsequent financial periods.

The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. These calculations have been based on the taxation law as at 30 June 2014.

Dividend History

| Half year ended | Cents Per | | Half-year | Full Year | DRP | DRP |
|---------------------------------|-----------|------------|-----------------------------|-----------------------------|-------|-----------------------------------|
| | Share | Date Paid | Payout Ratio ⁽¹⁾ | Payout Ratio ⁽¹⁾ | Price | Participation Rate ⁽²⁾ |
| | | | % | % | \$ | % |
| 31 December 2011 ⁽³⁾ | 137 | 05/04/2012 | 60.8 | - | 48.81 | 24.5 |
| 30 June 2012 ⁽³⁾ | 197 | 05/10/2012 | 92.0 | 76.0 | 54.54 | 29.6 |
| 31 December 2012 ⁽³⁾ | 164 | 05/04/2013 | 73.1 | - | 68.76 | 22.7 |
| 30 June 2013 ⁽³⁾ | 200 | 03/10/2013 | 81.3 | 77.4 | 73.42 | 22.4 |
| 31 December 2013 | 183 | 03/04/2014 | 70.5 | - | 75.26 | 24.0 |
| 30 June 2014 ⁽⁴⁾ | 218 | 02/10/2014 | 80.3 | 75.5 | - | - |

(1) Dividend Payout Ratio: dividends divided by statutory earnings (earnings are net of dividends on other equity instruments).

(2) DRP Participation Rate: the percentage of total issued share capital participating in the DRP.

(3) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(4) Dividend expected to be paid on 2 October 2014.

Note 6 Earnings Per Share

| Earnings per ordinary share | Group | | |
|-----------------------------|-----------------|---------------------|---------------------|
| | 2014 | 2013 ⁽¹⁾ | 2012 ⁽¹⁾ |
| | Cents per Share | | |
| Basic | 533.8 | 474.2 | 444.2 |
| Fully diluted | 521.9 | 461.0 | 428.5 |

(1) Comparative information has been restated to conform to presentation in current year.

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares on issue during the year, excluding the number of ordinary shares purchased and held as treasury shares.

Notes to the Financial Statements

Note 6 Earnings Per Share (continued)

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the Bank (after deducting interest on the convertible redeemable loan capital instruments) by the weighted average number of ordinary shares issued during the year (adjusted for the effects of dilutive options and dilutive convertible non-cumulative redeemable loan capital instruments).

| | Group | | |
|---|--------------|---------------------------|---------------------------|
| | 2014 | 2013⁽¹⁾ | 2012⁽¹⁾ |
| | \$M | \$M | \$M |
| Reconciliation of earnings used in calculation of earnings per share | | | |
| Profit after income tax | 8,650 | 7,634 | 7,032 |
| Less: Other equity instrument dividends | (45) | (40) | (42) |
| Less: Non-controlling interests | (19) | (16) | (16) |
| Earnings used in calculation of basic earnings per share | 8,586 | 7,578 | 6,974 |
| Add: Profit impact of assumed conversions of loan capital | 190 | 193 | 199 |
| Earnings used in calculation of fully diluted earnings per share | 8,776 | 7,771 | 7,173 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

| | Number of Shares | | |
|--|-------------------------|-------------|-------------|
| | 2014 | 2013 | 2012 |
| | M | M | M |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 1,608 | 1,598 | 1,570 |
| Effect of dilutive securities - executive share plans and convertible loan capital instruments | 73 | 88 | 104 |
| Weighted average number of ordinary shares used in the calculation of fully diluted earnings per share | 1,681 | 1,686 | 1,674 |

Note 7 Cash and Liquid Assets

| | Group | | Bank | |
|---|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Notes, coins and cash at banks | 12,490 | 7,653 | 11,089 | 6,183 |
| Money at short call | 6,482 | 4,367 | 6,302 | 3,976 |
| Securities purchased under agreements to resell | 7,281 | 8,016 | 6,630 | 7,282 |
| Bills received and remittances in transit | 156 | 598 | 87 | 589 |
| Total cash and liquid assets | 26,409 | 20,634 | 24,108 | 18,030 |

Note 8 Receivables Due from Other Financial Institutions

| | Group | | Bank | |
|--|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Placements with and loans to other financial institutions | 7,885 | 7,612 | 7,429 | 6,978 |
| Deposits with regulatory authorities ⁽¹⁾ | 180 | 132 | 28 | 20 |
| Total receivables due from other financial institutions | 8,065 | 7,744 | 7,457 | 6,998 |

(1) Required by law for the Group to operate in certain regions.

The majority of the above amounts are expected to be recovered within twelve months of the Balance Sheet date.

Note 9 Assets at Fair Value through Income Statement

| | Group | | Bank | |
|--|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Trading | 21,459 | 19,617 | 20,572 | 18,398 |
| Insurance | 15,142 | 14,359 | - | - |
| Other financial assets designated at fair value | 760 | 907 | 561 | 718 |
| Total assets at fair value through Income Statement⁽¹⁾ | 37,361 | 34,883 | 21,133 | 19,116 |

(1) In addition to the assets above, the Group also measures bills discounted that are intended to be sold into the market at fair value. These are classified within Loans, bills discounted and other receivables (refer to Note 12).

Notes to the Financial Statements

Note 9 Assets at Fair Value through Income Statement (continued)

| | Group | | Bank | |
|---|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Trading | \$M | \$M | \$M | \$M |
| Government bonds, notes and securities | 10,453 | 13,866 | 10,311 | 13,780 |
| Corporate/financial institution bonds, notes and securities | 7,216 | 4,672 | 6,477 | 3,550 |
| Shares and equity investments | 1,791 | 949 | 1,791 | 949 |
| Commodities | 1,999 | 130 | 1,993 | 119 |
| Total trading assets | 21,459 | 19,617 | 20,572 | 18,398 |

The above amounts are expected to be recovered within twelve months of the Balance Sheet date.

| | Investments Backing Life Risk Contracts | Investments Backing Life Investment Contracts | Total | Investments Backing Life Risk Contracts | Investments Backing Life Investment Contracts | Total |
|---|--|--|---------------|--|--|---------------|
| | 2014 | 2014 | | 2013 | 2013 | |
| | \$M | \$M | | \$M | \$M | |
| Insurance | | | | | | |
| Equity Security Investments: | | | | | | |
| Direct | 400 | 1,051 | 1,451 | 389 | 953 | 1,342 |
| Indirect | 525 | 3,771 | 4,296 | 542 | 3,115 | 3,657 |
| Total equity security investments | 925 | 4,822 | 5,747 | 931 | 4,068 | 4,999 |
| Debt Security Investments: | | | | | | |
| Direct | 910 | 79 | 989 | 830 | 235 | 1,065 |
| Indirect | 2,530 | 3,371 | 5,901 | 2,197 | 3,699 | 5,896 |
| Total debt security investments | 3,440 | 3,450 | 6,890 | 3,027 | 3,934 | 6,961 |
| Property Investments: | | | | | | |
| Direct | 163 | 436 | 599 | 224 | 203 | 427 |
| Indirect | 119 | 229 | 348 | 221 | 365 | 586 |
| Total property investments | 282 | 665 | 947 | 445 | 568 | 1,013 |
| Other Assets | 409 | 1,149 | 1,558 | 249 | 1,137 | 1,386 |
| Total life insurance investment assets | 5,056 | 10,086 | 15,142 | 4,652 | 9,707 | 14,359 |

Of the above amounts, \$1,412 million is expected to be recovered within twelve months of the Balance Sheet date (2013: \$1,794 million).

Direct investments refer to positions held directly in the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

Investments held in the Australian statutory funds may only be used within the restrictions imposed under the Life Insurance Act 1995. Refer to Note 1(hh) for further details.

| | Group | | Bank | |
|--|------------|------------|------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Other ⁽¹⁾ | \$M | \$M | \$M | \$M |
| Government securities | 192 | 632 | 137 | 588 |
| Receivables due from other financial institutions | 568 | 275 | 424 | 130 |
| Total other assets at fair value through Income Statement | 760 | 907 | 561 | 718 |

(1) Designated at Fair Value through Income Statement at inception as they are managed by the Group on a fair value basis or to eliminate an accounting mismatch.

Of the amounts in the preceding table, \$705 million is expected to be recovered within twelve months of the Balance Sheet date by the Group (2013: \$862 million). All amounts are expected to be recovered within twelve months of the Balance Sheet date by the Bank.

Notes to the Financial Statements

Note 10 Derivative Financial Instruments

Derivative Contracts

Derivatives are classified as "Held for Trading" or "Held for Hedging". Held for Trading derivatives are contracts entered into in order to meet customers' needs, to undertake market making and positioning activities, or for risk management purposes that do not qualify for hedge accounting. Held for Hedging derivatives are instruments held for risk management purposes, which meet the criteria for hedge accounting.

Derivatives Transacted for Hedging Purposes

There are three types of allowable hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. For details on the accounting treatment of each type of hedging relationship refer to Note 1(u).

Fair Value Hedges

Fair value hedges are used by the Group to manage exposure to changes in the fair value of an asset, liability or unrecognised firm commitment. Changes in fair values can arise from fluctuations in interest or foreign exchange rates. The Group principally uses interest rate swaps, cross currency swaps and futures to protect against such fluctuations.

All gains and losses associated with the ineffective portion of fair value hedge relationships are recognised immediately as 'Other operating income' in the Income Statement. Ineffectiveness recognised in the Income Statement in the current year amounted to a \$12 million net loss for the Group (2013: \$3 million net gain), and \$10 million net loss for the Bank (2013: \$3 million net loss).

Cash Flow Hedges

Cash flow hedges are used by the Group to manage exposure to volatility in future cash flows, which may result from fluctuations in interest or exchange rates on financial assets, liabilities or highly probable forecast transactions. The Group principally uses interest rate and cross currency swaps to protect against such fluctuations. Ineffectiveness recognised in the Income Statement in the current year amounted to a \$9 million loss for the Group (2013: \$28 million loss), and \$15 million loss for the Bank (2013: \$26 million loss).

Amounts accumulated in Other Comprehensive Income in respect of cash flow hedges are recycled to the Income Statement when the forecast transaction occurs. Underlying cash flows from cash flow hedges are discounted to calculate deferred gains and losses which are expected to occur in the following periods:

| | Exchange Rate | | Interest Rate | | Group | |
|------------------------------------|-------------------|--------------|-------------------|------------|------------|------------|
| | Related Contracts | | Related Contracts | | Total | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Within 6 months | (41) | (3) | 139 | 55 | 98 | 52 |
| 6 months - 1 year | (51) | (15) | 85 | (52) | 34 | (67) |
| 1 - 2 years | (83) | (27) | 352 | 212 | 269 | 185 |
| 2 - 5 years | (303) | (173) | 616 | 831 | 313 | 658 |
| After 5 years | (325) | (153) | (70) | (96) | (395) | (249) |
| Net deferred (losses)/gains | (803) | (371) | 1,122 | 950 | 319 | 579 |

| | Exchange Rate | | Interest Rate | | Bank | |
|------------------------------------|-------------------|--------------|-------------------|------------|------------|------------|
| | Related Contracts | | Related Contracts | | Total | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Within 6 months | (2) | (1) | 39 | 48 | 37 | 47 |
| 6 months - 1 year | (14) | (17) | 5 | (42) | (9) | (59) |
| 1 - 2 years | (7) | (25) | 285 | 167 | 278 | 142 |
| 2 - 5 years | (120) | (120) | 641 | 886 | 521 | 766 |
| After 5 years | (145) | (94) | (77) | (74) | (222) | (168) |
| Net deferred (losses)/gains | (288) | (257) | 893 | 985 | 605 | 728 |

Notes to the Financial Statements

Note 10 Derivative Financial Instruments (continued)

Net Investment Hedges

The Group uses foreign exchange forward transactions to minimise its exposure to the currency translation risk of certain net investments in foreign operations.

In the current and prior year, there have been no material gains or losses as a result of ineffective net investment hedges.

The fair value of derivative financial instruments is set out in the following tables:

| | 2014 | | Group 2013 | |
|--|---------------------|-------------------------|---------------------|-------------------------|
| | Fair Value Asset | Fair Value Liability | Fair Value Asset | Fair Value Liability |
| | \$M | \$M | \$M | \$M |
| Derivative assets and liabilities | | | | |
| Held for trading | 20,290 | (19,841) | 36,531 | (30,571) |
| Held for hedging | 8,957 | (7,418) | 8,809 | (8,009) |
| Total derivative assets/(liabilities) | 29,247 | (27,259) | 45,340 | (38,580) |

| | 2014 | | Group 2013 | |
|---|---------------------|-------------------------|---------------------|-------------------------|
| | Fair Value Asset | Fair Value Liability | Fair Value Asset | Fair Value Liability |
| | \$M | \$M | \$M | \$M |
| Derivatives held for trading | | | | |
| Exchange rate related contracts: | | | | |
| Forward contracts | 3,666 | (3,784) | 7,529 | (6,896) |
| Swaps | 4,200 | (4,536) | 14,570 | (9,819) |
| Futures | 15 | - | 6 | - |
| Options purchased and sold | 391 | (373) | 392 | (405) |
| Total exchange rate related contracts | 8,272 | (8,693) | 22,497 | (17,120) |
| Interest rate related contracts: | | | | |
| Forward contracts | - | - | 6 | (6) |
| Swaps | 11,103 | (10,163) | 13,091 | (12,641) |
| Futures | 7 | (4) | - | - |
| Options purchased and sold | 620 | (580) | 754 | (670) |
| Total interest rate related contracts | 11,730 | (10,747) | 13,851 | (13,317) |
| Credit related contracts: | | | | |
| Swaps | 33 | (38) | 24 | (27) |
| Total credit related contracts | 33 | (38) | 24 | (27) |
| Equity related contracts: | | | | |
| Swaps | 65 | (9) | 4 | (8) |
| Options purchased and sold | 34 | (53) | 78 | (25) |
| Total equity related contracts | 99 | (62) | 82 | (33) |
| Commodity related contracts: | | | | |
| Swaps | 136 | (205) | 54 | (51) |
| Options purchased and sold | 14 | (14) | 10 | (7) |
| Total commodity related contracts | 150 | (219) | 64 | (58) |
| Identified embedded derivatives | 6 | (82) | 13 | (16) |
| Total derivative assets/(liabilities) held for trading | 20,290 | (19,841) | 36,531 | (30,571) |

Derivative assets and liabilities held for trading are expected to be recovered or due to be settled within twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 10 Derivative Financial Instruments (continued)

| | 2014 | | Group 2013 | |
|---|---------------------|-------------------------|---------------------|-------------------------|
| | Fair Value Asset | Fair Value Liability | Fair Value Asset | Fair Value Liability |
| | \$M | \$M | \$M | \$M |
| Derivatives held for hedging | | | | |
| Fair value hedges | | | | |
| Exchange rate related contracts: | | | | |
| Forward contracts | 2 | - | 1 | - |
| Swaps | 4,481 | (2,516) | 3,534 | (2,626) |
| Total exchange rate related contracts | 4,483 | (2,516) | 3,535 | (2,626) |
| Interest rate related contracts: | | | | |
| Swaps | 938 | (3,101) | 1,374 | (2,760) |
| Total interest rate related contracts | 938 | (3,101) | 1,374 | (2,760) |
| Equity related contracts: | | | | |
| Swaps | 33 | (1) | 33 | (1) |
| Total equity related contracts | 33 | (1) | 33 | (1) |
| Total fair value hedges | 5,454 | (5,618) | 4,942 | (5,387) |
| Cash flow hedges | | | | |
| Exchange rate related contracts: | | | | |
| Swaps | 983 | (640) | 1,103 | (1,242) |
| Total exchange rate related contracts | 983 | (640) | 1,103 | (1,242) |
| Interest rate related contracts: | | | | |
| Swaps | 2,518 | (1,160) | 2,764 | (1,378) |
| Total interest rate related contracts | 2,518 | (1,160) | 2,764 | (1,378) |
| Total cash flow hedges | 3,501 | (1,800) | 3,867 | (2,620) |
| Net investment hedges | | | | |
| Exchange rate related contracts: | | | | |
| Forward contracts | 2 | - | - | (2) |
| Total exchange rate related contracts | 2 | - | - | (2) |
| Total net investment hedges | 2 | - | - | (2) |
| Total derivative assets/(liabilities) held for hedging | 8,957 | (7,418) | 8,809 | (8,009) |

The majority of derivative assets and liabilities held for hedging are expected to be recovered or due to be settled more than twelve months after the Balance Sheet date.

Notes to the Financial Statements

Note 10 Derivative Financial Instruments (continued)

| | 2014 | | Bank 2013 | |
|--|---------------|-----------------|---------------|-----------------|
| | Fair Value | Fair Value | Fair Value | Fair Value |
| | Asset | Liability | Asset | Liability |
| Derivative assets and liabilities | \$M | \$M | \$M | \$M |
| Held for trading | 20,961 | (21,717) | 36,826 | (32,007) |
| Held for hedging | 8,654 | (7,624) | 8,377 | (8,222) |
| Total derivative assets/(liabilities) | 29,615 | (29,341) | 45,203 | (40,229) |

| | 2014 | | Bank 2013 | |
|---|---------------|-----------------|---------------|-----------------|
| | Fair Value | Fair Value | Fair Value | Fair Value |
| | Asset | Liability | Asset | Liability |
| Derivatives held for trading | \$M | \$M | \$M | \$M |
| Exchange rate related contracts: | | | | |
| Forward contracts | 3,642 | (3,733) | 7,424 | (6,863) |
| Swaps | 4,272 | (4,469) | 14,605 | (9,725) |
| Futures | 15 | - | 6 | - |
| Options purchased and sold | 391 | (372) | 390 | (404) |
| Derivatives held with controlled entities | 744 | (2,081) | 744 | (1,857) |
| Total exchange rate related contracts | 9,064 | (10,655) | 23,169 | (18,849) |
| Interest rate related contracts: | | | | |
| Forward contracts | - | - | 6 | (6) |
| Swaps | 10,890 | (9,828) | 12,613 | (12,036) |
| Futures | 3 | (4) | - | - |
| Options purchased and sold | 619 | (578) | 752 | (667) |
| Derivatives held with controlled entities | 98 | (251) | 117 | (315) |
| Total interest rate related contracts | 11,610 | (10,661) | 13,488 | (13,024) |
| Credit related contracts: | | | | |
| Swaps | 33 | (38) | 24 | (27) |
| Total credit related contracts | 33 | (38) | 24 | (27) |
| Equity related contracts: | | | | |
| Swaps | 64 | (9) | 4 | (8) |
| Options purchased and sold | 34 | (53) | 78 | (25) |
| Total equity related contracts | 98 | (62) | 82 | (33) |
| Commodity related contracts: | | | | |
| Swaps | 136 | (205) | 54 | (51) |
| Options purchased and sold | 14 | (14) | 8 | (7) |
| Derivatives held with controlled entities | - | - | 1 | - |
| Total commodity related contracts | 150 | (219) | 63 | (58) |
| Identified embedded derivatives | 6 | (82) | - | (16) |
| Total derivative assets/(liabilities) held for trading | 20,961 | (21,717) | 36,826 | (32,007) |

Derivative assets and liabilities held for trading are expected to be recovered or due to be settled within twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 10 Derivative Financial Instruments (continued)

| | 2014 | | Bank 2013 | |
|---|----------------------------|--------------------------------|----------------------------|--------------------------------|
| | Fair Value Asset \$M | Fair Value Liability \$M | Fair Value Asset \$M | Fair Value Liability \$M |
| Derivatives held for hedging | | | | |
| Fair value hedges | | | | |
| Exchange rate related contracts: | | | | |
| Forward contracts | 2 | - | 1 | - |
| Swaps | 4,313 | (2,351) | 3,432 | (2,591) |
| Derivatives held with controlled entities | 162 | (271) | - | (255) |
| Total exchange rate related contracts | 4,477 | (2,622) | 3,433 | (2,846) |
| Interest rate related contracts: | | | | |
| Swaps | 826 | (3,027) | 1,244 | (2,683) |
| Derivatives held with controlled entities | 27 | (139) | 70 | (119) |
| Total interest rate related contracts | 853 | (3,166) | 1,314 | (2,802) |
| Equity related contracts: | | | | |
| Swaps | 33 | (1) | 33 | (1) |
| Total equity related contracts | 33 | (1) | 33 | (1) |
| Total fair value hedges | 5,363 | (5,789) | 4,780 | (5,649) |
| Cash flow hedges | | | | |
| Exchange rate related contracts: | | | | |
| Swaps | 946 | (475) | 1,022 | (1,202) |
| Derivatives held with controlled entities | 30 | (290) | - | (78) |
| Total exchange rate related contracts | 976 | (765) | 1,022 | (1,280) |
| Interest rate related contracts: | | | | |
| Swaps | 2,305 | (1,066) | 2,548 | (1,293) |
| Derivatives held with controlled entities | 10 | (4) | 27 | - |
| Total interest rate related contracts | 2,315 | (1,070) | 2,575 | (1,293) |
| Total cash flow hedges | 3,291 | (1,835) | 3,597 | (2,573) |
| Total derivative assets/(liabilities) held for hedging | 8,654 | (7,624) | 8,377 | (8,222) |

The majority of derivative assets and liabilities held for hedging are expected to be recovered or due to be settled more than twelve months after the Balance Sheet date.

Note 11 Available-for-Sale Investments

| | Group | | Bank | |
|--|---------------|---------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Government bonds, notes and securities | 32,727 | 29,506 | 32,017 | 28,459 |
| Corporate/financial institution bonds, notes and securities | 22,098 | 19,809 | 21,894 | 20,000 |
| Shares and equity investments | 942 | 647 | 799 | 527 |
| Covered bonds, mortgage backed securities & SSA ⁽¹⁾ | 10,364 | 9,608 | 76,861 | 76,925 |
| Other securities | 6 | 31 | 6 | 30 |
| Total available-for-sale investments | 66,137 | 59,601 | 131,577 | 125,941 |

(1) Supranational, Sovereign and Agency Securities (SSA).

The following amounts are expected to be recovered within twelve months of the Balance Sheet date: for Group \$17,928 million (2013: \$12,920 million); for Bank \$17,373 million (2013: \$12,319 million).

Revaluation of Available-for-sale investments resulted in a gain of \$509 million for the Group (2013: \$553 million gain) and a gain of \$671 million for the Bank (2013: \$365 million gain) recognised directly in other comprehensive income. As a result of sale, derecognition or impairment during the year of Available-for-sale investments, the following amounts were removed from equity and reported in Income Statement; Group: \$12 million net gain (2013: \$31 million net gain), Bank: \$12 million net gain (2013: \$31 million net gain).

Proceeds received from settlement at or close to maturity of Available-for-sale investments for the Group were \$41,527 million (2013: \$44,645 million) and for the Bank were \$41,424 million (2013: \$35,135 million).

Proceeds from the sale of Available-for-sale investments for the Group were \$2,603 million (2013: \$2,445 million) and for the Bank were \$2,603 million (2013: \$2,444 million).

Maturity Distribution and Weighted Average Yield

| | Group | | | | | | | | | | | |
|---|---------------------------------|----------|----------------|----------|---------------|----------|---------------|----------|------------------|----------|--------------|---------------|
| | Maturity Period at 30 June 2014 | | | | | | | | | | | Total |
| | 0 to 3 Months | | 3 to 12 Months | | 1 to 5 Years | | 5 to 10 Years | | 10 or more Years | | Non-Maturing | |
| \$M | % | \$M | % | \$M | % | \$M | % | \$M | % | \$M | \$M | |
| Government bonds, notes and securities | 2,424 | 0.48 | 1,979 | 3.90 | 11,424 | 3.81 | 12,189 | 4.92 | 4,711 | 4.81 | - | 32,727 |
| Corporate/financial institution bonds, notes and securities | 9,424 | 2.54 | 3,110 | 2.97 | 9,559 | 3.48 | 5 | 4.65 | - | - | - | 22,098 |
| Shares and equity investments | - | - | - | - | - | - | - | - | - | - | 942 | 942 |
| Covered bonds, mortgage backed securities & SSA | 60 | 4.70 | 791 | 4.70 | 4,469 | 4.40 | 518 | 4.81 | 4,526 | 3.43 | - | 10,364 |
| Other securities | - | - | - | - | - | - | - | - | - | - | 6 | 6 |
| Total available-for-sale investments | 11,908 | - | 5,880 | - | 25,452 | - | 12,712 | - | 9,237 | - | 948 | 66,137 |

| | Group | | | | | | | | | | | |
|---|---------------------------------|----------|----------------|----------|---------------|----------|---------------|----------|------------------|----------|--------------|---------------|
| | Maturity Period at 30 June 2013 | | | | | | | | | | | Total |
| | 0 to 3 Months | | 3 to 12 Months | | 1 to 5 Years | | 5 to 10 Years | | 10 or more Years | | Non-Maturing | |
| \$M | % | \$M | % | \$M | % | \$M | % | \$M | % | \$M | \$M | |
| Government bonds, notes and securities | 889 | 0.72 | 2,086 | 0.93 | 10,519 | 4.83 | 11,753 | 5.00 | 4,259 | 5.03 | - | 29,506 |
| Corporate/financial institution bonds, notes and securities | 7,149 | 2.79 | 2,223 | 2.98 | 10,432 | 3.39 | 5 | 4.65 | - | - | - | 19,809 |
| Shares and equity investments | 4 | - | - | - | - | - | - | - | - | - | 643 | 647 |
| Covered bonds, mortgage backed securities & SSA | - | - | 567 | 4.64 | 4,388 | 5.06 | 547 | 4.72 | 4,106 | 3.69 | - | 9,608 |
| Other securities | - | - | - | - | 25 | 4.18 | - | - | - | - | 6 | 31 |
| Total available-for-sale investments | 8,042 | - | 4,876 | - | 25,364 | - | 12,305 | - | 8,365 | - | 649 | 59,601 |

Notes to the Financial Statements

Note 12 Loans, Bills Discounted and Other Receivables

| | Group | | Bank | |
|--|----------------|----------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Australia | | | | |
| Overdrafts | 23,350 | 20,039 | 23,350 | 20,039 |
| Home loans ⁽¹⁾ | 360,218 | 338,023 | 358,343 | 336,927 |
| Credit card outstandings | 11,736 | 11,457 | 11,736 | 11,457 |
| Lease financing | 4,162 | 4,328 | 3,024 | 2,944 |
| Bills discounted ⁽²⁾ | 19,244 | 22,017 | 19,244 | 22,017 |
| Term loans | 107,380 | 101,141 | 107,140 | 100,814 |
| Other lending | 348 | 271 | 347 | 270 |
| Other securities | - | 7 | - | - |
| Total Australia | 526,438 | 497,283 | 523,184 | 494,468 |
| Overseas | | | | |
| Overdrafts | 1,230 | 1,098 | 222 | 187 |
| Home loans ⁽¹⁾ | 39,467 | 34,817 | 481 | 457 |
| Credit card outstandings | 803 | 676 | - | - |
| Lease financing | 339 | 392 | 59 | 62 |
| Term loans | 34,823 | 28,492 | 16,114 | 12,678 |
| Total overseas | 76,662 | 65,475 | 16,876 | 13,384 |
| Gross loans, bills discounted and other receivables | 603,100 | 562,758 | 540,060 | 507,852 |
| Less | | | | |
| Provisions for Loan Impairment (Note 13): | | | | |
| Collective provision | (2,739) | (2,827) | (2,547) | (2,628) |
| Individually assessed provisions | (1,127) | (1,628) | (1,087) | (1,585) |
| Unearned income: | | | | |
| Term loans | (802) | (900) | (798) | (891) |
| Lease financing | (651) | (755) | (381) | (399) |
| | (5,319) | (6,110) | (4,813) | (5,503) |
| Net loans, bills discounted and other receivables | 597,781 | 556,648 | 535,247 | 502,349 |

(1) Home loans balance includes residential mortgages that have been assigned to securitisation vehicles and covered bond trusts. Further detail on these residential mortgages is disclosed in Note 43.

(2) The Group measures bills discounted intended to be sold into the market at fair value and includes these within loans, bills discounted and other receivables to reflect the nature of the lending arrangement.

The following amounts, based on behavioural terms and current market conditions, are expected to be recovered within twelve months of the Balance Sheet date for Group \$172,321 million (2013: \$184,807 million), and for Bank \$141,976 million (2013: \$167,238 million). The maturity tables below are based on contractual terms.

Finance Lease Receivables

The Group and the Bank provide finance leases to a broad range of clients to support financing needs in acquiring movable assets such as trains, aircraft, ships and major production and manufacturing equipment.

Finance lease receivables are included within loans, bills discounted and other receivables to customers.

| | 2014 | | | Group 2013 | | |
|-------------------------|--|-----------------|---|--|-----------------|---|
| | Gross Investment in Finance Lease Receivable | Unearned Income | Present Value of Minimum Lease Payment Receivable | Gross Investment in Finance Lease Receivable | Unearned Income | Present Value of Minimum Lease Payment Receivable |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Not later than one year | 1,050 | (142) | 908 | 1,390 | (221) | 1,169 |
| One year to five years | 2,824 | (365) | 2,459 | 2,735 | (388) | 2,347 |
| Over five years | 627 | (144) | 483 | 595 | (146) | 449 |
| | 4,501 | (651) | 3,850 | 4,720 | (755) | 3,965 |

Notes to the Financial Statements

Note 12 Loans, Bills Discounted and Other Receivables (continued)

| | 2014 | | | | | | Bank |
|-------------------------|---|--------------------|--|---|--------------------|--|------|
| | 2014 | | | 2013 | | | |
| | Gross Investment in Finance Lease Receivable | Unearned Income | Present Value of Minimum Lease Payment Receivable | Gross Investment in Finance Lease Receivable | Unearned Income | Present Value of Minimum Lease Payment Receivable | |
| | \$M | \$M | \$M | \$M | \$M | \$M | |
| Not later than one year | 789 | (66) | 723 | 1,028 | (125) | 903 | |
| One year to five years | 1,898 | (197) | 1,701 | 1,749 | (169) | 1,580 | |
| Over five years | 396 | (118) | 278 | 229 | (105) | 124 | |
| | 3,083 | (381) | 2,702 | 3,006 | (399) | 2,607 | |

| | Group | | | |
|--|---------------------------------|------------------------------------|------------------------------|----------------|
| | Maturity Period at 30 June 2014 | | | |
| | Maturing 1 Year or Less | Maturing Between 1 & 5 Years | Maturing After 5 Years | Total |
| | \$M | \$M | \$M | \$M |
| Industry⁽¹⁾ | | | | |
| Australia | | | | |
| Sovereign | 5,074 | 547 | 299 | 5,920 |
| Agriculture | 2,336 | 2,470 | 1,058 | 5,864 |
| Bank and other financial | 4,970 | 4,817 | 392 | 10,179 |
| Home loans | 8,574 | 27,679 | 323,965 | 360,218 |
| Construction | 1,286 | 975 | 418 | 2,679 |
| Other personal | 7,608 | 13,138 | 2,301 | 23,047 |
| Asset financing | 2,452 | 5,391 | 235 | 8,078 |
| Other commercial and industrial | 43,496 | 55,476 | 11,481 | 110,453 |
| Total Australia | 75,796 | 110,493 | 340,149 | 526,438 |
| Overseas | | | | |
| Sovereign | 6,206 | 4,679 | 1,424 | 12,309 |
| Agriculture | 1,344 | 2,074 | 3,971 | 7,389 |
| Bank and other financial | 2,089 | 1,595 | 1,802 | 5,486 |
| Home loans | 6,748 | 4,094 | 28,625 | 39,467 |
| Construction | 166 | 104 | 108 | 378 |
| Other personal | 1,044 | 39 | 2 | 1,085 |
| Asset financing | 16 | 82 | 229 | 327 |
| Other commercial and industrial | 4,186 | 3,777 | 2,258 | 10,221 |
| Total overseas | 21,799 | 16,444 | 38,419 | 76,662 |
| Gross loans, bills discounted and other receivables | 97,595 | 126,937 | 378,568 | 603,100 |

| | Maturing 1 Year or Less | Maturing Between 1 & 5 Years | Maturing After 5 Years | Total |
|--|-------------------------------|------------------------------------|------------------------------|----------------|
| | \$M | \$M | \$M | \$M |
| | Interest rate | | | |
| Australia | 65,755 | 92,588 | 273,965 | 432,308 |
| Overseas | 14,525 | 10,245 | 18,602 | 43,372 |
| Total variable interest rates | 80,280 | 102,833 | 292,567 | 475,680 |
| Australia | 10,041 | 17,905 | 66,184 | 94,130 |
| Overseas | 7,274 | 6,199 | 19,817 | 33,290 |
| Total fixed interest rates | 17,315 | 24,104 | 86,001 | 127,420 |
| Gross loans, bills discounted and other receivables | 97,595 | 126,937 | 378,568 | 603,100 |

(1) The industry split has been prepared on an industry exposure basis.

The maturity tables are based on contractual terms.

Notes to the Financial Statements

Note 12 Loans, Bills Discounted and Other Receivables (continued)

| Industry ⁽¹⁾ | Maturity Period at 30 June 2013 | | | Group |
|--|---------------------------------|------------------------------------|------------------------------|----------------|
| | Maturing 1 Year or Less | Maturing Between 1 & 5 Years | Maturing After 5 Years | Total |
| | \$M | \$M | \$M | \$M |
| Australia | | | | |
| Sovereign | 1,627 | 212 | 132 | 1,971 |
| Agriculture | 2,637 | 2,214 | 1,120 | 5,971 |
| Bank and other financial | 3,301 | 4,260 | 368 | 7,929 |
| Home loans | 7,985 | 24,529 | 305,509 | 338,023 |
| Construction | 1,719 | 552 | 363 | 2,634 |
| Other personal | 7,338 | 12,320 | 2,138 | 21,796 |
| Asset financing | 2,995 | 5,309 | 110 | 8,414 |
| Other commercial and industrial | 47,594 | 49,522 | 13,429 | 110,545 |
| Total Australia | 75,196 | 98,918 | 323,169 | 497,283 |
| Overseas | | | | |
| Sovereign | 4,649 | 3,761 | 1,260 | 9,670 |
| Agriculture | 1,343 | 1,862 | 3,275 | 6,480 |
| Bank and other financial | 2,079 | 2,110 | 2,840 | 7,029 |
| Home loans | 6,315 | 3,743 | 24,759 | 34,817 |
| Construction | 102 | 112 | 87 | 301 |
| Other personal | 831 | 28 | 4 | 863 |
| Asset financing | 18 | 123 | 133 | 274 |
| Other commercial and industrial | 2,643 | 2,808 | 590 | 6,041 |
| Total overseas | 17,980 | 14,547 | 32,948 | 65,475 |
| Gross loans, bills discounted and other receivables | 93,176 | 113,465 | 356,117 | 562,758 |

| Interest rate | Maturing 1 Year or Less | Maturing Between 1 & 5 Years | Maturing After 5 Years | Total |
|--|-------------------------------|------------------------------------|------------------------------|----------------|
| | \$M | \$M | \$M | \$M |
| | Australia | 63,405 | 83,039 | 265,866 |
| Overseas | 13,132 | 10,426 | 19,763 | 43,321 |
| Total variable interest rates | 76,537 | 93,465 | 285,629 | 455,631 |
| Australia | 11,791 | 15,879 | 57,303 | 84,973 |
| Overseas | 4,848 | 4,121 | 13,185 | 22,154 |
| Total fixed interest rates | 16,639 | 20,000 | 70,488 | 107,127 |
| Gross loans, bills discounted and other receivables | 93,176 | 113,465 | 356,117 | 562,758 |

(1) The industry split has been prepared on an industry exposure basis.

The maturity tables are based on contractual terms.

Note 13 Provisions for Impairment

| | Group | | | | Bank |
|---|--------------|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| Provisions for impairment losses | \$M | \$M | \$M | \$M | \$M |
| Collective provision | | | | | |
| Opening balance | 2,858 | 2,837 | 3,043 | 2,659 | 1,989 |
| Additions through merger of banking licences | - | - | - | - | 664 |
| Net collective provision funding | 497 | 559 | 312 | 495 | 522 |
| Impairment losses written off | (753) | (695) | (740) | (717) | (649) |
| Impairment losses recovered | 165 | 154 | 228 | 148 | 132 |
| Other | 12 | 3 | (6) | 2 | 1 |
| Closing balance | 2,779 | 2,858 | 2,837 | 2,587 | 2,659 |
| Individually assessed provisions | | | | | |
| Opening balance | 1,628 | 2,008 | 2,125 | 1,585 | 1,011 |
| Additions through merger of banking licences | - | - | - | - | 894 |
| Net new and increased individual provisioning | 726 | 937 | 1,202 | 630 | 805 |
| Write-back of provisions no longer required | (305) | (350) | (425) | (254) | (285) |
| Discount unwind to interest income | (51) | (90) | (122) | (51) | (77) |
| Impairment losses written off | (1,060) | (1,194) | (1,137) | (1,010) | (1,019) |
| Other | 189 | 317 | 365 | 187 | 256 |
| Closing balance | 1,127 | 1,628 | 2,008 | 1,087 | 1,585 |
| Total provisions for impairment losses | 3,906 | 4,486 | 4,845 | 3,674 | 4,244 |
| Less: Off balance sheet provisions | (40) | (31) | (18) | (40) | (31) |
| Total provisions for loan impairment | 3,866 | 4,455 | 4,827 | 3,634 | 4,213 |

| | Group | | | | Bank |
|--|--------------|-------------|-------------|-------------|-------------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| Provision ratios | % | % | % | % | % |
| Total provisions for impaired assets as a % of gross impaired assets | 37.60 | 40.62 | 45.47 | 40.61 | 43.53 |
| Total provisions for impairment losses as a % of gross loans and acceptances | 0.64 | 0.79 | 0.89 | 0.67 | 0.83 |

| | Group | | | | Bank |
|--|--------------|--------------|--------------|-------------|--------------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| Loan impairment expense | \$M | \$M | \$M | \$M | \$M |
| Net collective provision funding | 497 | 559 | 312 | 495 | 522 |
| Net new and increased individual provisioning | 726 | 937 | 1,202 | 630 | 805 |
| Write-back of individually assessed provisions | (305) | (350) | (425) | (254) | (285) |
| Total loan impairment expense | 918 | 1,146 | 1,089 | 871 | 1,042 |

Notes to the Financial Statements

Note 13 Provisions for Impairment (continued)

| Individually assessed provisions by industry classification | Group | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Sovereign | - | - | - | - | - |
| Agriculture | 123 | 168 | 89 | 87 | 75 |
| Bank and other financial | 68 | 217 | 235 | 254 | 254 |
| Home loans | 151 | 182 | 256 | 202 | 150 |
| Construction | 29 | 89 | 152 | 133 | 132 |
| Other personal | 14 | 14 | 11 | 11 | 21 |
| Asset financing | 30 | 23 | 14 | 37 | 15 |
| Other commercial and industrial | 620 | 871 | 1,163 | 1,307 | 1,268 |
| Total Australia | 1,035 | 1,564 | 1,920 | 2,031 | 1,915 |
| Overseas | | | | | |
| Sovereign | - | - | - | - | - |
| Agriculture | 3 | 16 | 7 | 11 | 15 |
| Bank and other financial | 15 | 5 | 6 | 1 | 1 |
| Home loans | 11 | 17 | 28 | 25 | 12 |
| Construction | 1 | - | - | - | - |
| Other personal | - | - | - | - | - |
| Asset financing | - | - | - | - | - |
| Other commercial and industrial | 62 | 26 | 47 | 57 | 49 |
| Total overseas | 92 | 64 | 88 | 94 | 77 |
| Total individually assessed provisions | 1,127 | 1,628 | 2,008 | 2,125 | 1,992 |

| Loans written off by industry classification | Group | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Sovereign | - | - | - | - | - |
| Agriculture | 138 | 30 | 32 | 10 | 10 |
| Bank and other financial | 122 | 79 | 51 | 107 | 383 |
| Home loans | 113 | 217 | 88 | 84 | 95 |
| Construction | 52 | 139 | 45 | 89 | 72 |
| Other personal | 677 | 622 | 657 | 567 | 651 |
| Asset financing | 37 | 25 | 38 | 26 | 72 |
| Other commercial and industrial | 568 | 686 | 884 | 989 | 604 |
| Total Australia | 1,707 | 1,798 | 1,795 | 1,872 | 1,887 |
| Overseas | | | | | |
| Sovereign | - | - | - | - | - |
| Agriculture | 3 | 4 | 5 | 17 | 7 |
| Bank and other financial | - | 10 | 1 | 1 | 50 |
| Home loans | 13 | 21 | 24 | 26 | 25 |
| Construction | - | - | - | 1 | - |
| Other personal | 30 | 25 | 19 | 22 | 18 |
| Asset financing | - | - | - | - | - |
| Other commercial and industrial | 60 | 31 | 33 | 36 | 86 |
| Total overseas | 106 | 91 | 82 | 103 | 186 |
| Gross loans written off | 1,813 | 1,889 | 1,877 | 1,975 | 2,073 |
| Recovery of amounts previously written off | | | | | |
| Australia | 148 | 144 | 216 | 199 | 70 |
| Overseas | 17 | 10 | 12 | 7 | 7 |
| Total amounts recovered | 165 | 154 | 228 | 206 | 77 |
| Net loans written off | 1,648 | 1,735 | 1,649 | 1,769 | 1,996 |

Notes to the Financial Statements

Note 13 Provisions for Impairment (continued)

| | Group | | | | |
|--|------------|------------|------------|------------|-----------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| Loans recovered by industry classification | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Sovereign | - | - | - | - | - |
| Agriculture | - | - | - | - | - |
| Bank and other financial | 6 | 8 | 17 | 3 | - |
| Home loans | 4 | 4 | 5 | 43 | 3 |
| Construction | - | - | - | - | - |
| Other personal | 106 | 113 | 147 | 134 | 59 |
| Asset financing | 5 | 6 | 17 | 2 | 3 |
| Other commercial and industrial | 27 | 13 | 30 | 17 | 5 |
| Total Australia | 148 | 144 | 216 | 199 | 70 |
| Overseas | | | | | |
| Sovereign | - | - | - | - | - |
| Agriculture | 3 | - | - | - | - |
| Bank and other financial | 3 | 1 | - | - | - |
| Home loans | 1 | 1 | - | - | - |
| Construction | - | - | - | - | - |
| Other personal | 8 | 8 | 8 | 7 | 6 |
| Asset financing | - | - | - | - | - |
| Other commercial and industrial | 2 | - | 4 | - | 1 |
| Total overseas | 17 | 10 | 12 | 7 | 7 |
| Total loans recovered | 165 | 154 | 228 | 206 | 77 |

Note 14 Property, Plant and Equipment

| | Group | | Bank | |
|--|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Land | | | | |
| At 30 June valuation | 196 | 217 | 177 | 197 |
| Closing balance | 196 | 217 | 177 | 197 |
| Buildings | | | | |
| At 30 June valuation | 303 | 316 | 271 | 279 |
| Closing balance | 303 | 316 | 271 | 279 |
| Total land and buildings | 499 | 533 | 448 | 476 |
| Leasehold Improvements | | | | |
| At cost | 1,392 | 1,416 | 1,180 | 1,200 |
| Accumulated depreciation | (803) | (772) | (693) | (661) |
| Closing balance | 589 | 644 | 487 | 539 |
| Equipment | | | | |
| At cost | 1,621 | 1,517 | 1,268 | 1,171 |
| Accumulated depreciation | (1,266) | (1,174) | (995) | (910) |
| Closing balance | 355 | 343 | 273 | 261 |
| Assets Under Lease | | | | |
| At cost | 1,603 | 1,366 | 331 | 350 |
| Accumulated depreciation | (230) | (168) | (72) | (68) |
| Closing balance | 1,373 | 1,198 | 259 | 282 |
| Total property, plant and equipment | 2,816 | 2,718 | 1,467 | 1,558 |

The majority of the above amounts have expected useful lives longer than twelve months after the Balance Sheet date.

There are no significant items of property, plant and equipment that are currently under construction.

Land and buildings are carried at fair value based on independent valuations performed during the year; refer to Note 1(y).

These fair values fall under the Level 3 category of the fair value hierarchy as defined in Note 42.

Notes to the Financial Statements

Note 14 Property, Plant and Equipment (continued)

The table below sets out the carrying amount that would have been recognised had the assets measured at fair value been measured using the cost model.

| | Group | | Bank | |
|---|------------|------------|------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Carrying value at cost | \$M | \$M | \$M | \$M |
| Land | 95 | 102 | 89 | 97 |
| Buildings | 129 | 143 | 114 | 135 |
| Total land and buildings at cost | 224 | 245 | 203 | 232 |

Reconciliation of the carrying amounts of Property, Plant and Equipment is set out below:

| | Group | | Bank | |
|---|--------------|--------------|------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Land | | | | |
| Carrying amount at the beginning of the year | 217 | 222 | 197 | 145 |
| Additions through merger of banking licences | - | - | - | 52 |
| Transfers to assets held for sale | - | (3) | - | (3) |
| Disposals | (22) | (3) | (19) | (3) |
| Net revaluations | 1 | (1) | (1) | 5 |
| Foreign currency translation adjustment | - | 2 | - | 1 |
| Carrying amount at the end of the year | 196 | 217 | 177 | 197 |
| Buildings | | | | |
| Carrying amount at the beginning of the year | 316 | 351 | 279 | 255 |
| Additions through merger of banking licences | - | - | - | 57 |
| Additions | 7 | 8 | 7 | 8 |
| Transfers to assets held for sale | - | (3) | - | (2) |
| Disposals | (19) | (3) | (15) | (3) |
| Transfers | - | - | - | (3) |
| Net revaluations | 26 | 4 | 27 | 4 |
| Depreciation | (29) | (43) | (27) | (37) |
| Foreign currency translation adjustment | 2 | 2 | - | - |
| Carrying amount at the end of the year | 303 | 316 | 271 | 279 |
| Leasehold Improvements | | | | |
| Carrying amount at the beginning of the year | 644 | 620 | 539 | 450 |
| Additions through merger of banking licences | - | - | - | 97 |
| Additions | 86 | 146 | 74 | 100 |
| Disposals | (16) | (15) | (14) | (10) |
| Net revaluations | (2) | 2 | - | - |
| Depreciation | (130) | (116) | (112) | (99) |
| Foreign currency translation adjustment | 7 | 7 | - | 1 |
| Carrying amount at the end of the year | 589 | 644 | 487 | 539 |
| Equipment | | | | |
| Carrying amount at the beginning of the year | 343 | 355 | 261 | 231 |
| Additions through merger of banking licences | - | - | - | 57 |
| Additions | 161 | 143 | 131 | 102 |
| Disposals | (8) | (12) | (2) | (8) |
| Transfers | - | - | - | 3 |
| Net revaluations | - | 3 | - | - |
| Depreciation | (147) | (151) | (117) | (124) |
| Foreign currency translation adjustment | 6 | 5 | - | - |
| Carrying amount at the end of the year | 355 | 343 | 273 | 261 |
| Assets Under Lease | | | | |
| Carrying amount at the beginning of the year | 1,198 | 955 | 282 | 295 |
| Additions | 260 | 358 | - | 19 |
| Disposals | (5) | (70) | (6) | (14) |
| Depreciation | (77) | (65) | (17) | (18) |
| Foreign currency translation adjustment | (3) | 20 | - | - |
| Carrying amount at the end of the year | 1,373 | 1,198 | 259 | 282 |

Note 15 Intangible Assets

| | Group | | Bank | |
|---|--------------|---------------|--------------|--------------|
| | 2014 \$M | 2013 \$M | 2014 \$M | 2013 \$M |
| Goodwill ⁽¹⁾ | | | | |
| Purchased goodwill at cost | 7,566 | 7,723 | 2,522 | 2,522 |
| Closing balance | 7,566 | 7,723 | 2,522 | 2,522 |
| Computer Software Costs | | | | |
| Cost | 2,913 | 2,770 | 2,580 | 2,503 |
| Accumulated amortisation | (1,059) | (847) | (856) | (696) |
| Closing balance | 1,854 | 1,923 | 1,724 | 1,807 |
| Core Deposits ⁽²⁾ | | | | |
| Cost | 495 | 495 | 495 | 495 |
| Accumulated amortisation | (390) | (318) | (389) | (318) |
| Closing balance | 105 | 177 | 106 | 177 |
| Management Fee Rights ⁽³⁾ | | | | |
| Cost | - | 316 | - | - |
| Closing balance | - | 316 | - | - |
| Brand Names ⁽⁴⁾ | | | | |
| Cost | 190 | 190 | 186 | 186 |
| Accumulated amortisation | (1) | - | - | - |
| Closing balance | 189 | 190 | 186 | 186 |
| Other Intangibles ⁽⁵⁾ | | | | |
| Cost | 256 | 255 | 38 | 38 |
| Accumulated amortisation | (178) | (161) | (21) | (17) |
| Closing balance | 78 | 94 | 17 | 21 |
| Total intangible assets | 9,792 | 10,423 | 4,555 | 4,713 |

- (1) Following the internalisation of the management of both CFS Retail Property Trust Group (CFX) and the Kiwi Income Property Trust (KIP), and the sale of Commonwealth Property Office Fund, goodwill was allocated to the business by means of a relative values allocation and derecognised.
- (2) Core deposits represent the value of the Bankwest deposit base compared to the avoided cost of alternative funding sources such as securitisation and wholesale funding. This asset was acquired on 19 December 2008 with a useful life of seven years based on the weighted average attrition rates of the Bankwest deposit portfolio.
- (3) Management fee rights have an indefinite useful life under the contractual terms of the management agreements, and are subject to an annual valuation for impairment testing purposes. No impairment was required as a result of this valuation. The management rights were disposed of as part of the internalisation of the management of CFS Retail Property Trust Group (CFX) during the 2014 financial year.
- (4) Brand names predominantly represent the value of royalty costs foregone by the Group through acquiring the Bankwest brand name. The royalty costs that would have been incurred by an entity using the Bankwest brand name are based on an annual percentage of income generated by Bankwest. This asset has an indefinite useful life, as there is no foreseeable limit to the period over which the brand name is expected to generate cash flows. The asset is not subject to amortisation, but is subject to annual impairment testing. No impairment was required as a result of this test. The balance also includes the Count Financial Limited brand name (\$4 million) that is amortised over the estimated useful life of 20 years.
- (5) Other intangibles include the value of credit card relationships acquired from Bankwest and Count franchise relationships. This value represents future net income generated from the relationships that existed at Balance Sheet date. The assets have a useful life of 10 years based on the attrition rates of customers.

Impairment Tests for Goodwill and Intangible Assets with Indefinite Lives

To assess whether goodwill and other assets with indefinite useful lives are impaired, the carrying amount of a cash-generating unit or a group of cash-generating units are compared to the recoverable amount. The recoverable amount is determined based on fair value less cost to sell, using an earnings multiple applicable to that type of business. The category of this fair value is Level 3 as defined in Note 42.

Earnings multiples relating to the Group's Banking (Retail Banking Services, Business and Private Banking, New Zealand and IFS and Other) and Wealth Management cash-generating units are sourced from publicly available data associated with businesses displaying similar characteristics to those cash-generating units, and are applied to current earnings. The key assumption is the Price-Earnings (P/E) multiple observed for these businesses, which for the Banking businesses were in the range of 12.4 – 14.2 (2013: 12.0 – 15.1), and for Wealth Management businesses were in the range of 11.4 – 19.1 (2013: 11.0 – 23.0). The P/E multiples are sourced for similar companies operating in Australia and New Zealand.

Carrying amounts of cash-generating units are determined with reference to the contribution of that business to the Group's Earnings.

Notes to the Financial Statements

Note 15 Intangible Assets (continued)

Goodwill Allocation to the following Cash-Generating Units

| | Group | |
|--|--------------|--------------|
| | 2014 | 2013 |
| | \$M | \$M |
| Retail Banking Services ⁽¹⁾ | 4,149 | 4,149 |
| Business and Private Banking | 297 | 297 |
| Wealth Management ⁽²⁾ | 2,410 | 2,587 |
| New Zealand | 691 | 667 |
| IFS and Other | 19 | 23 |
| Total | 7,566 | 7,723 |

(1) The allocation to Retail Banking Services includes goodwill related to the acquisitions of Colonial and State Bank of Victoria.

(2) The allocation to Wealth Management principally relates to the goodwill on acquisitions of Colonial and Count Financial Limited.

Reconciliation of the carrying amounts of Intangible Assets is set out below:

| | Group | | Bank | |
|--|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Goodwill | | | | |
| Opening balance | 7,723 | 7,705 | 2,522 | 2,522 |
| Additions | - | - | - | - |
| Transfers/disposals | (171) | - | - | - |
| Foreign currency translation adjustments | 14 | 18 | - | - |
| Closing balance | 7,566 | 7,723 | 2,522 | 2,522 |
| Computer Software Costs | | | | |
| Opening balance | 1,923 | 1,700 | 1,807 | 1,601 |
| Additions: | | | | |
| Through merger of banking licences | - | - | - | 10 |
| From purchases | 17 | 14 | 12 | 6 |
| From internal development ⁽¹⁾ | 312 | 454 | 263 | 406 |
| Amortisation and write-offs | (398) | (245) | (358) | (216) |
| Closing balance | 1,854 | 1,923 | 1,724 | 1,807 |
| Core Deposits | | | | |
| Opening balance | 177 | 247 | 177 | - |
| Additions through merger of banking licences | - | - | - | 230 |
| Amortisation | (72) | (70) | (71) | (53) |
| Closing balance | 105 | 177 | 106 | 177 |
| Management Fee Rights | | | | |
| Opening balance | 316 | 316 | - | - |
| Transfers/disposals | (316) | - | - | - |
| Closing balance | - | 316 | - | - |
| Brand Names | | | | |
| Opening balance | 190 | 190 | 186 | - |
| Additions through merger of banking licences | - | - | - | 186 |
| Amortisation | (1) | - | - | - |
| Closing balance | 189 | 190 | 186 | 186 |
| Other Intangibles | | | | |
| Opening balance | 94 | 123 | 21 | - |
| Additions through merger of banking licences | - | - | - | 24 |
| Additions | 7 | 1 | - | - |
| Disposals | - | (5) | - | - |
| Amortisation | (23) | (25) | (4) | (3) |
| Closing balance | 78 | 94 | 17 | 21 |

(1) Group and Bank balances include the impact of the change in accounting policy for Research and Development tax offsets. Refer to Note 1(f) for more details.

Notes to the Financial Statements

Note 16 Other Assets

| | Group | | Bank | |
|--|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Accrued interest receivable | 2,167 | 2,145 | 2,737 | 2,705 |
| Accrued fees/reimbursements receivable | 1,313 | 1,155 | 155 | 154 |
| Securities sold not delivered | 1,264 | 1,414 | 908 | 955 |
| Intragroup current tax receivable | - | - | 252 | 207 |
| Current tax assets | 7 | 41 | - | - |
| Prepayments | 606 | 453 | 519 | 370 |
| Life insurance other assets | 455 | 425 | 40 | 41 |
| Other | 574 | 973 | 212 | 667 |
| Total other assets | 6,386 | 6,606 | 4,823 | 5,099 |

The above amounts are expected to be recovered within twelve months of the Balance Sheet date.

Note 17 Deposits and Other Public Borrowings

| | Group | | Bank | |
|---|----------------|----------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Australia | | | | |
| Certificates of deposit | 43,912 | 42,346 | 44,900 | 43,316 |
| Term deposits | 150,406 | 157,959 | 150,712 | 158,322 |
| On demand and short-term deposits | 227,555 | 195,017 | 227,739 | 195,199 |
| Deposits not bearing interest | 9,971 | 8,891 | 9,971 | 8,891 |
| Securities sold under agreements to repurchase | 9,925 | 5,502 | 9,958 | 5,539 |
| Total Australia | 441,769 | 409,715 | 443,280 | 411,267 |
| Overseas | | | | |
| Certificates of deposit | 6,286 | 6,238 | 6,016 | 6,157 |
| Term deposits | 28,703 | 26,881 | 8,000 | 7,536 |
| On demand and short term deposits | 19,054 | 14,464 | 198 | 233 |
| Deposits not bearing interest | 2,504 | 2,061 | 77 | 83 |
| Securities sold under agreements to repurchase | 36 | 70 | - | - |
| Total overseas | 56,583 | 49,714 | 14,291 | 14,009 |
| Total deposits and other public borrowings | 498,352 | 459,429 | 457,571 | 425,276 |

The majority of the amounts are due to be settled within twelve months of the Balance Sheet date as shown in the maturity analysis table below.

| | Group | | | | |
|---|---|---|--|--|----------------|
| | At 30 June 2014 | | | | |
| | 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⁾ | 22,942 | 6,305 | 2,598 | 12,067 | 43,912 |
| Term deposits | 86,350 | 26,938 | 28,515 | 8,603 | 150,406 |
| Total Australia | 109,292 | 33,243 | 31,113 | 20,670 | 194,318 |
| Overseas | | | | | |
| Certificates of deposit ⁽¹⁾ | 2,359 | 1,245 | 2,622 | 60 | 6,286 |
| Term deposits | 15,437 | 6,362 | 4,501 | 2,403 | 28,703 |
| Total overseas | 17,796 | 7,607 | 7,123 | 2,463 | 34,989 |
| Total certificates of deposits and term deposits | 127,088 | 40,850 | 38,236 | 23,133 | 229,307 |

(1) All certificates of deposit issued by the Group are for amounts greater than \$100,000.

Notes to the Financial Statements

Note 17 Deposits and Other Public Borrowings (continued)

| | Group | | | | Total \$M |
|---|---|---|--|--|----------------|
| | At 30 June 2013 | | | | |
| | Maturing Three Months or Less \$M | Maturing Between Three & Six Months \$M | Maturing Between Six & Twelve Months \$M | Maturing after Twelve Months \$M | |
| Australia | | | | | |
| Certificates of deposit ⁽¹⁾ | 20,635 | 7,495 | 563 | 13,653 | 42,346 |
| Term deposits | 103,853 | 19,560 | 27,384 | 7,162 | 157,959 |
| Total Australia | 124,488 | 27,055 | 27,947 | 20,815 | 200,305 |
| Overseas | | | | | |
| Certificates of deposit ⁽¹⁾ | 2,797 | 2,835 | 539 | 67 | 6,238 |
| Term deposits | 15,344 | 5,326 | 4,260 | 1,951 | 26,881 |
| Total overseas | 18,141 | 8,161 | 4,799 | 2,018 | 33,119 |
| Total certificates of deposits and term deposits | 142,629 | 35,216 | 32,746 | 22,833 | 233,424 |

(1) All certificates of deposit issued by the Group are for amounts greater than \$100,000.

Note 18 Liabilities at Fair Value through Income Statement

| | Group | | | Bank |
|---|--------------|--------------|--------------|--------------|
| | 2014 \$M | 2013 \$M | 2014 \$M | 2013 \$M |
| Deposits and other borrowings ⁽¹⁾ | 1,333 | 1,454 | 203 | - |
| Debt instruments ⁽¹⁾ | 1,563 | 4,300 | 343 | 400 |
| Trading liabilities | 4,612 | 2,947 | 4,606 | 2,932 |
| Total liabilities at fair value through Income Statement | 7,508 | 8,701 | 5,152 | 3,332 |

(1) These liabilities have been designated at fair value through Income Statement at inception as they are managed by the Group on a fair value basis. Designating these liabilities at fair value through Income Statement has also eliminated an accounting mismatch created by measuring assets and liabilities on a different basis.

Of the above amounts, trading liabilities are expected to be settled within twelve months of the Balance Sheet date for the Group and the Bank. For the Group, the majority of the other amounts are expected to be settled within twelve months of the Balance Sheet date. For the Bank, the majority of debt instruments are expected to be settled more than twelve months after the Balance Sheet date.

The change in fair value for those liabilities designated at fair value through Income Statement due to credit risk for the Group is a \$4 million loss (2013: \$11 million loss) and for the Bank is a \$4 million loss (2013: \$10 million loss), which has been calculated by determining the changes in credit spreads implicit in the fair value of the instruments issued. The cumulative change in fair value due to changes in credit risk for the Group is a \$6 million gain (2013: \$11 million gain) and for the Bank is a \$6 million gain (2013: \$10 million gain).

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through Income Statement for the Group is \$7,450 million (2013: \$8,641 million) and for the Bank is \$5,100 million (2013: \$3,278 million).

Note 19 Tax Liabilities

| | Note | Group | | | Bank |
|------------------------------|------|--------------|--------------|-------------|--------------|
| | | 2014 \$M | 2013 \$M | 2014 \$M | 2013 \$M |
| Australia | | | | | |
| Current tax liability | | 599 | 1,473 | 599 | 1,439 |
| Total Australia | | 599 | 1,473 | 599 | 1,439 |
| Overseas | | | | | |
| Current tax liability | | 89 | 56 | 13 | 1 |
| Deferred tax liability | 4 | 366 | 471 | - | - |
| Total overseas | | 455 | 527 | 13 | 1 |
| Total tax liabilities | | 1,054 | 2,000 | 612 | 1,440 |

Notes to the Financial Statements

Note 20 Other Provisions

| | Note | Group | | Bank | |
|-----------------------------------|------|--------------|--------------|-------------|-------------|
| | | 2014 \$M | 2013 \$M | 2014 \$M | 2013 \$M |
| Long service leave | | 444 | 445 | 405 | 412 |
| Annual leave | | 217 | 223 | 174 | 180 |
| Other employee entitlements | | 64 | 61 | 63 | 59 |
| Restructuring costs | | 60 | 41 | 57 | 41 |
| General insurance claims | | 161 | 159 | - | - |
| Self insurance/non-lending losses | | 42 | 52 | 39 | 49 |
| Dividends | 5 | 73 | 65 | 73 | 65 |
| Other | | 204 | 203 | 175 | 186 |
| Total other provisions | | 1,265 | 1,249 | 986 | 992 |

Maturity Distribution for Other Provisions

| | 2014 | | | Group 2013 | | |
|-----------------------------------|------------------------------------|---------------------------------------|--------------|------------------------------------|---------------------------------------|--------------|
| | Due to be Settled Within 12 Months | Due to be Settled More than 12 Months | Total | Due to be Settled Within 12 Months | Due to be Settled More than 12 Months | Total |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| | | | | | | |
| Long service leave | 329 | 115 | 444 | 299 | 146 | 445 |
| Annual leave | 217 | - | 217 | 221 | 2 | 223 |
| Other employee entitlements | 1 | 63 | 64 | 2 | 59 | 61 |
| Restructuring costs | 60 | - | 60 | 34 | 7 | 41 |
| General insurance claims | 140 | 21 | 161 | 141 | 18 | 159 |
| Self insurance/non-lending losses | 11 | 31 | 42 | 13 | 39 | 52 |
| Dividends | 73 | - | 73 | 65 | - | 65 |
| Other | 140 | 64 | 204 | 156 | 47 | 203 |
| Total | 971 | 294 | 1,265 | 931 | 318 | 1,249 |

| | 2014 | | | Bank 2013 | | |
|-----------------------------------|------------------------------------|---------------------------------------|------------|------------------------------------|---------------------------------------|------------|
| | Due to be Settled Within 12 Months | Due to be Settled More than 12 Months | Total | Due to be Settled Within 12 Months | Due to be Settled More than 12 Months | Total |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| | | | | | | |
| Long service leave | 298 | 107 | 405 | 289 | 123 | 412 |
| Annual leave | 174 | - | 174 | 180 | - | 180 |
| Other employee entitlements | - | 63 | 63 | - | 59 | 59 |
| Restructuring costs | 57 | - | 57 | 34 | 7 | 41 |
| General insurance claims | - | - | - | - | - | - |
| Self insurance/non-lending losses | 8 | 31 | 39 | 10 | 39 | 49 |
| Dividends | 73 | - | 73 | 65 | - | 65 |
| Other | 111 | 64 | 175 | 141 | 45 | 186 |
| Total | 721 | 265 | 986 | 719 | 273 | 992 |

Notes to the Financial Statements

Note 20 Other Provisions (continued)

| | Group | | Bank | |
|--|------------|------------|------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Reconciliation | \$M | \$M | \$M | \$M |
| Restructuring costs: | | | | |
| Opening balance | 41 | 74 | 41 | 38 |
| Additions through merger of banking licences | - | - | - | 24 |
| Additional provisions | 37 | 7 | 34 | 7 |
| Amounts utilised during the year | (18) | (40) | (18) | (28) |
| Closing balance | 60 | 41 | 57 | 41 |
| General insurance claims: | | | | |
| Opening balance | 159 | 184 | - | - |
| Additional provisions | 64 | 54 | - | - |
| Amounts utilised during the year | (62) | (79) | - | - |
| Closing balance | 161 | 159 | - | - |
| Self insurance/non-lending losses: | | | | |
| Opening balance | 52 | 53 | 49 | 49 |
| Additions through merger of banking licences | - | - | - | 4 |
| Additional provisions | 10 | 11 | 10 | 7 |
| Amounts utilised during the year | (16) | (5) | (15) | (4) |
| Release of provision | (4) | (7) | (4) | (7) |
| Closing balance | 42 | 52 | 40 | 49 |
| Other: | | | | |
| Opening balance | 203 | 143 | 186 | 117 |
| Additions through merger of banking licences | - | - | - | 16 |
| Additional provisions | 26 | 94 | 10 | 63 |
| Amounts utilised during the year | (11) | (26) | (8) | (4) |
| Release of provision | (14) | (8) | (13) | (6) |
| Closing balance | 204 | 203 | 175 | 186 |

Provision Commentary

Restructuring Costs

Provisions are recognised for restructuring activities when a detailed plan has been developed and a valid expectation that the plan will be carried out is held by those affected by it. The majority of the provision is expected to be used within 12 months of the Balance Sheet date.

General Insurance Claims

This provision is to cover future claims on general insurance contracts that have been incurred but not reported. The provision will be realised upon settlement of claims whose maturities were uncertain at the reporting date.

Self Insurance and Non-Lending Losses

This provision covers certain non-transferred insurance risk and non-lending losses. The self insurance provision is reassessed annually in consultation with actuarial advice.

Note 21 Debt Issues

| | Note | Group | | Bank |
|--|------|----------------|----------------|----------------|
| | | 2014 \$M | 2013 \$M | 2013 \$M |
| Medium term notes | | 72,608 | 71,039 | 64,813 |
| Commercial paper | | 32,905 | 34,602 | 33,738 |
| Securitisation notes | 43 | 11,426 | 8,929 | - |
| Covered bonds | 43 | 25,280 | 18,238 | 16,740 |
| Total debt issues | | 142,219 | 132,808 | 115,291 |
| Short Term Debt Issues by currency | | | | |
| USD | | 32,155 | 34,230 | 33,366 |
| EUR | | 178 | 99 | 99 |
| AUD | | 164 | 91 | 91 |
| GBP | | 333 | 182 | 182 |
| Other currencies | | 75 | - | - |
| Long term debt issues with less than one year to maturity ⁽¹⁾ | | 20,375 | 20,116 | 15,707 |
| Total short term debt issues | | 53,280 | 54,718 | 49,445 |
| Long Term Debt Issues by currency | | | | |
| USD | | 28,298 | 30,581 | 29,800 |
| EUR | | 22,748 | 17,077 | 15,984 |
| AUD | | 16,334 | 12,742 | 5,437 |
| GBP | | 5,975 | 3,695 | 3,173 |
| NZD | | 2,910 | 2,397 | 730 |
| JPY | | 6,353 | 4,911 | 4,856 |
| Other currencies | | 5,875 | 6,648 | 5,827 |
| Offshore loans (all JPY) | | 446 | 39 | 39 |
| Total long term debt issues | | 88,939 | 78,090 | 65,846 |
| Maturity Distribution of Debt Issues ⁽²⁾ | | | | |
| Less than three months | | 14,666 | 16,472 | 14,805 |
| Between three and twelve months | | 38,614 | 38,246 | 34,640 |
| Between one and five years | | 65,649 | 56,970 | 47,443 |
| Greater than five years | | 23,290 | 21,120 | 18,403 |
| Total debt issues | | 142,219 | 132,808 | 115,291 |

(1) For the Group this balance represents \$11,698 million USD (2013: \$11,138 million); \$3,394 million AUD (2013: \$3,243 million); and \$5,283 million other currencies (2013: \$5,735 million). For the Bank this balance represents \$11,152 million USD (2013: \$10,619 million); \$575 million AUD (2013: \$1,107 million); and \$4,414 million other currencies (2013: \$3,981 million).

(2) Represents the contractual maturity of the underlying instrument.

The Bank's long term debt issues include notes issued under the: USD70 billion Euro Medium Term Note Program; the USD50 billion US Medium Term Note Program; the USD30 billion Covered Bond Program; the USD25 billion CBA New York Branch Medium Term Note Program; and other applicable debt documentation. Notes issued under debt programs are both fixed and variable rate. Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework.

For certain debt issues booked in an offshore branch or subsidiary, the amounts have first been converted into the functional currency of the branch at a branch defined exchange rate, before being converted into the AUD equivalent.

Where proceeds have been employed in currencies other than that of the ultimate repayment liability, swaps or other risk management arrangements have been entered into.

Notes to the Financial Statements

Note 21 Debt Issues (continued)

| | 2014 | 2013 | Group 2012 |
|--|------------------------------|--------|---------------|
| | \$M (except where indicated) | | |
| Short term borrowings by program | | | |
| Total | | | |
| Outstanding at year-end ⁽¹⁾ | 32,905 | 34,602 | 34,142 |
| Maximum amount outstanding at any month end ⁽²⁾ | 33,174 | 34,602 | 39,242 |
| Average amount outstanding ⁽²⁾ | 31,096 | 28,178 | 36,721 |
| US Commercial Paper Program | | | |
| Outstanding at year-end ⁽¹⁾ | 31,158 | 33,492 | 26,471 |
| Maximum amount outstanding at any month end ⁽²⁾ | 32,405 | 33,492 | 30,998 |
| Average amount outstanding ⁽²⁾ | 29,667 | 25,515 | 28,292 |
| Weighted average interest rate on: | | | |
| Average amount outstanding | 0.2% | 0.3% | 0.4% |
| Outstanding at year end | 0.2% | 0.3% | 0.4% |
| Euro Commercial Paper Program | | | |
| Outstanding at year-end ⁽¹⁾ | 1,747 | 1,110 | 7,671 |
| Maximum amount outstanding at any month end ⁽²⁾ | 1,983 | 6,642 | 9,472 |
| Average amount outstanding ⁽²⁾ | 1,429 | 2,663 | 8,415 |
| Weighted average interest rate on: | | | |
| Average amount outstanding | 0.4% | 0.6% | 0.8% |
| Outstanding at year end | 0.4% | 0.5% | 0.7% |
| Domestic Commercial Paper Program | | | |
| Outstanding at year-end ⁽¹⁾ | - | - | - |
| Maximum amount outstanding at any month end ⁽²⁾ | - | - | 150 |
| Average amount outstanding ⁽²⁾ | - | 1 | 14 |
| Weighted average interest rate on: | | | |
| Average amount outstanding | 0.0% | 0.0% | 0.0% |
| Outstanding at year-end | 0.0% | 0.0% | 0.0% |

(1) The amount outstanding at year end is measured at amortised cost.

(2) The maximum and average amounts over the year are reported on a face value basis because the carrying values of these amounts are not available. Any differences between face value and carrying value would not be material given the short term nature of the borrowings.

| | | As At 30 June 2014 | As At 30 June 2013 |
|---|-----------------|--------------------------|--------------------------|
| Exchange rates utilised ⁽¹⁾ | | | |
| AUD 1.00 = | Currency | | |
| | USD | 0.9405 | 0.9268 |
| | EUR | 0.6892 | 0.7098 |
| | GBP | 0.5525 | 0.6076 |
| | NZD | 1.0762 | 1.1860 |
| | JPY | 95.4517 | 91.5647 |

(1) End of day, Sydney time.

Note 21 Debt Issues (continued)

Guarantee Arrangements

Commonwealth Bank of Australia

Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding (Guarantee Scheme)

The Bank issued debt under its programs which has the benefit of a guarantee by the Australian Government announced on 12 October 2008 and formally commenced on 28 November 2008. On 7 February 2010 it was announced that the Guarantee Scheme would close to new liabilities from 31 March 2010.

The arrangements were provided in a Deed of Guarantee dated 20 November 2008, Scheme Rules and in additional documentation for offers to residents of the United States and other jurisdictions.

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

Existing guaranteed debt issued by the Bank remains guaranteed until maturity, unless redeemed earlier.

The Financial Claims Scheme (also known as the Australian Government Deposit Guarantee), which is administered by the Australian Prudential Regulation Authority, guarantees deposits denominated in Australian dollars held in a specified range of deposit accounts with the Bank for balances per account-holder totalling up to \$250,000. Deposits and Other Public Borrowings are set out in Note 17.

Guarantee under the Commonwealth Bank Sale Act

Historically, the due payment of all monies payable by the Bank was guaranteed by the Commonwealth of Australia under section 117 of the Commonwealth Banks Act 1959 (as amended) at 30 June 1996. With the sale of the Commonwealth's shareholding in the Bank this guarantee has been progressively phased out under transitional arrangements found in the Commonwealth Bank Sale Act 1995.

Demand deposits are no longer guaranteed by the Commonwealth under this guarantee. However, debt issues payable by the Bank under a contract entered into prior to 19 July 1996 and outstanding at 19 July 1999 remain guaranteed until maturity.

Note 22 Bills Payable and Other Liabilities

| | Note | Group | | Bank | |
|--|------|---------------|--------------|---------------|---------------|
| | | 2014 \$M | 2013 \$M | 2014 \$M | 2013 \$M |
| Bills payable | | 912 | 861 | 862 | 823 |
| Accrued interest payable | | 2,957 | 3,252 | 2,290 | 2,559 |
| Accrued fees and other items payable | | 2,467 | 2,186 | 1,690 | 1,464 |
| Defined benefit superannuation plan deficit ⁽¹⁾ | 37 | 191 | 138 | 191 | 138 |
| Securities purchased not delivered | | 1,552 | 1,275 | 1,197 | 802 |
| Amortised receipts | | 870 | 820 | 505 | 485 |
| Life insurance other liabilities and claims payable | | 315 | 298 | 48 | 62 |
| Other | | 1,203 | 1,156 | 3,977 | 7,282 |
| Total bills payable and other liabilities | | 10,467 | 9,986 | 10,760 | 13,615 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

Other than the defined benefit superannuation plan deficit, the majority of the amounts are expected to be settled within twelve months of the Balance Sheet date.

Notes to the Financial Statements

Note 23 Loan Capital

| | Currency | Amount (M) | Footnotes | Group | | Bank | |
|----------------------------------|-----------|------------|-----------|--------------|--------------|--------------|---------------|
| | | | | 2014 | 2013 | 2014 | 2013 |
| | | | | \$M | \$M | \$M | \$M |
| Tier 1 Loan Capital | | | | | | | |
| Undated | FRN | USD 100 | (1) | 106 | 108 | 106 | 108 |
| Undated | TPS | USD 550 | (2) | 585 | 593 | 584 | 593 |
| Undated | PERLS III | AUD 1,166 | (3) | 1,162 | 1,160 | 1,162 | 1,160 |
| Undated | PERLS V | AUD 2,000 | (4) | 1,997 | 1,991 | 1,997 | 1,988 |
| Undated | PERLS VI | AUD 2,000 | (5) | 1,982 | 1,979 | 1,982 | 1,979 |
| Undated | TPS | USD 700 | (6) | - | - | 741 | 755 |
| Total Tier 1 Loan Capital | | | | 5,832 | 5,831 | 6,572 | 6,583 |
| Tier 2 Loan Capital | | | | | | | |
| AUD denominated | | | (7) | 300 | 799 | 300 | 799 |
| USD denominated | | | (8) | 372 | 377 | 372 | 377 |
| JPY denominated | | | (9) | 618 | 648 | 618 | 648 |
| GBP denominated | | | (10) | 270 | 246 | 270 | 246 |
| NZD denominated | | | (11) | 362 | - | - | - |
| EUR denominated | | | (12) | 1,446 | 1,404 | 1,446 | 1,404 |
| Total Tier 2 Loan Capital | | | | 3,368 | 3,474 | 3,006 | 3,474 |
| Fair value hedge adjustments | | | | 394 | 382 | 391 | 380 |
| Total Loan Capital | | | | 9,594 | 9,687 | 9,969 | 10,437 |

As at the reporting date, there are no securities of the Group or the Bank (other than the \$275 million extendible floating rate notes, and the NZD350 million debt issue that previously qualified as Tier 2 Capital until April 2013) that are contractually due for redemption in the next twelve months (note the Group has the right to call some securities earlier than the contractual maturity date).

(1) USD100 million Floating Rate Notes

On 15 October 1986, the State Bank of Victoria issued USD125 million of floating rate notes current outstanding balance of USD100 million. The floating rate notes are perpetual but were able to be redeemed from October 1991. They were assigned to the Bank on 1 January 1991.

The Bank entered into an agreement with the Commonwealth of Australia on 31 December 1991 which provides that, if certain events occur, the Bank may either issue CBA ordinary shares to the Commonwealth of Australia, or (with the consent of the Commonwealth of Australia) conduct a renounceable rights issue for CBA ordinary shares to all shareholders. The capital raised must be used to pay any amounts due and payable on the floating rate notes.

The floating rate notes were issued into the international markets and are subject to English law. They qualify as Additional Tier 1 Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by APRA.

(2) TPS 2003

On 6 August 2003, a wholly owned entity of the Bank (CBA Capital Trust) issued USD550 million of Trust Preferred Securities (TPS 2003). TPS 2003 may be redeemed for cash on 30 June 2015 and, if not redeemed, CBA Capital Trust will be required to exchange TPS 2003 for CBA ordinary shares.

TPS 2003 were issued into the US capital markets and are subject to Delaware law. They qualify as Additional Tier 1 Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by APRA.

(3) PERLS III

On 6 April 2006, a wholly owned entity of the Bank (Preferred

Capital Limited or "PCL") issued \$1,166 million of Perpetual Exchangeable Repurchaseable Listed Shares (PERLS III). PERLS III are preference shares which may be exchanged for CBA ordinary shares or \$200 cash each (or a combination of both) on 6 April 2016. If PCL does not elect to exchange PERLS III, the margin on the distributions payable on PERLS III will increase by 1.00% per annum. PERLS III will automatically be exchanged for CBA preference shares no later than 10 Business Days prior to 6 April 2046.

PERLS III are listed on the ASX and are subject to New South Wales law. They qualify as Additional Tier 1 Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by APRA.

(4) PERLS V

On 14 October 2009, the Bank issued \$2,000 million of Perpetual Exchangeable Resaleable Listed Securities (PERLS V). PERLS V are stapled securities comprising an unsecured subordinated note issued by the Bank's New Zealand branch and a preference share issued by the Bank. PERLS V may be resold to a third party or repurchased for \$200 cash each on 31 October 2014 and, if not resold or repurchased, the Bank will be required to convert PERLS V into CBA ordinary shares provided certain conditions are met. PERLS V are listed on the ASX and are subject to New South Wales law. They qualify as Additional Tier 1 Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by APRA.

(5) PERLS VI

On 17 October 2012, the Bank issued \$2,000 million of Perpetual Exchangeable Resaleable Listed Securities (PERLS VI). PERLS VI are subordinated, unsecured notes.

PERLS VI may be redeemed or resold to a third party for \$100 cash each on 15 December 2018 and, if not redeemed

Note 23 Loan Capital (continued)

or resold, the Bank will be required to exchange PERLS VI for CBA ordinary shares on 15 December 2020.

PERLS VI are listed on the ASX and are subject to New South Wales law. They qualify as Additional Tier 1 Capital of the Bank under Basel III as implemented by APRA.

⁽⁶⁾ TPS 2006

On 15 March 2006, a wholly owned entity of the Bank (CBA Capital Trust II) issued USD700 million of Trust Preferred Securities (TPS 2006) which may be redeemed for cash, CBA Tier 1 Capital securities or CBA preference shares on 15 March 2016. If CBA Capital Trust II does not elect to redeem TPS 2006, the fixed distribution rate payable on TPS 2006 will change to a floating distribution rate. TPS 2006 will automatically be exchanged for CBA preference shares on 15 March 2056.

TPS 2006 were issued into the US capital markets and are subject to Delaware law. They qualify as Additional Tier 1 Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by APRA.

⁽⁷⁾ AUD denominated Tier 2 Loan Capital issuances

- \$275 million extendible floating rate notes, issued December 1989, due December 2014;
- \$25 million subordinated floating rate notes, issued April 1999, due April 2029; and
- \$500 million subordinated floating rate notes, issued September 2008, and redeemed in September 2013.

⁽⁸⁾ USD denominated Tier 2 Loan Capital issuances

- USD350 million subordinated fixed rate notes, issued June 2003, due June 2018.

⁽⁹⁾ JPY denominated Tier 2 Loan Capital issuances

- JPY20 billion perpetual subordinated EMTN (Euro Medium Term Notes), issued February 1999;
- JPY30 billion subordinated EMTN, issued October 1995, due October 2015; and

- JPY9 billion perpetual subordinated notes, issued May 1996.

⁽¹⁰⁾ GBP denominated Tier 2 Loan Capital issuances

- GBP150 million subordinated EMTN, issued June 2003, due December 2023.

⁽¹¹⁾ NZD denominated Tier 2 Loan Capital issuances

- On 17 April 2014, a wholly owned entity of the Bank (ASB Bank Limited) issued NZD400 million subordinated, unsecured notes (ASB Notes) with a face value of NZD1 each. As at 30 June 2014, all 400 million ASB Notes remain outstanding and ASB's liability remains at NZD400 million. ASB Notes may be redeemed on 15 June 2019, and, if not redeemed, are due on 15 June 2024. ASB Notes may be exchanged for CBA ordinary shares (subject to a maximum number of 24,278,502 CBA ordinary shares) if either ASB is deemed non-viable by the Reserve Bank of New Zealand (RBNZ) (including if ASB is made subject to statutory management) or the Bank is deemed to be non-viable by APRA. No payment will be made by either ASB or the Bank in respect of the exchange.

ASB Notes are listed on the New Zealand Stock Exchange (NZX) debt market and are subject to New South Wales and New Zealand law. They qualify as Tier 2 Capital of the Bank and ASB under Basel III as implemented by APRA and the RBNZ.

⁽¹²⁾ EUR denominated Tier 2 Loan Capital Issuances

- EUR1,000 million subordinated notes, issued August 2009, due August 2019.

All Tier 2 Capital securities (other than the \$500 million subordinated floating rate notes) qualify as Tier 2 Capital as implemented by APRA.

Notes to the Financial Statements

Note 24 Shareholders' Equity

| | Note | Group | | Bank |
|---|------|---------------|-------------|---------------|
| | | 2014 \$M | 2013 \$M | 2013 \$M |
| Ordinary Share Capital ⁽¹⁾ | | | | |
| Opening balance | | 26,323 | 25,175 | 26,619 |
| Issue of shares ⁽²⁾ | | - | 193 | - |
| Dividend Reinvestment Plan (net of issue costs) ⁽³⁾ | | 707 | 929 | 704 |
| Purchase of treasury shares ⁽⁴⁾ | | (813) | (664) | - |
| Sale and vesting of treasury shares ⁽⁴⁾ | | 819 | 690 | - |
| Closing balance | 25 | 27,036 | 26,323 | 27,323 |
| Other Equity Instruments ⁽¹⁾ | | | | |
| Opening balance | | 939 | 939 | 1,895 |
| Closing balance | 25 | 939 | 939 | 1,895 |
| Retained Profits | | | | |
| Opening balance ⁽⁵⁾ | | 16,405 | 13,404 | 13,874 |
| Additions through merger of banking licences | | - | - | 919 |
| Actuarial gains and losses from defined benefit superannuation plans ⁽⁵⁾ | | 42 | 367 | 42 |
| Gains and losses on liabilities at fair value due to changes in own credit risk | | 6 | - | 6 |
| Realised gains and dividend income on treasury shares | | 27 | 29 | - |
| Operating profit attributable to Equity holders of the Bank | | 8,631 | 7,618 | 8,442 |
| Total available for appropriation | | 25,111 | 21,418 | 22,364 |
| Transfers (to)/from general reserve | | (101) | 436 | - |
| Transfers from capital reserve | | - | 355 | - |
| Transfers from asset revaluation reserve | | 23 | - | 16 |
| Interim dividend - cash component | | (2,243) | (2,639) | (2,243) |
| Interim dividend - Dividend Reinvestment Plan ⁽³⁾ | | (707) | - | (707) |
| Final dividend - cash component | | (3,224) | (2,207) | (3,224) |
| Final dividend - Dividend Reinvestment Plan ⁽³⁾ | | - | (930) | - |
| Other dividends ⁽⁶⁾ | | (32) | (28) | - |
| Closing balance | | 18,827 | 16,405 | 16,206 |

(1) Refer to Note 25.

(2) During the prior year the number of shares issued included the acquisition of an additional 47% interest in Aussie Home Loans Pty Limited.

(3) The determined dividend includes an amount attributable to Dividend Reinvestment Plan (DRP) of \$707 million (interim 2013/2014) and \$930 million (final 2011/12) with \$707 million and \$929 million ordinary shares being issued under plan rules respectively which include the carry forward of DRP balance from previous dividends.

(4) Relates to the on-market purchase of shares to satisfy the 2012/13 final and 2012/13 interim DRP and the movement in treasury shares held within Life Insurance Statutory Funds and the employee share scheme trust.

(5) Comparative information has been restated to conform to presentation in the current year.

(6) Dividends relating to equity instruments on issue other than ordinary shares.

The balances disclosed above include a share of associates' and joint ventures' other comprehensive income of \$nil million for the year ended 30 June 2014 (2013: \$1 million).

Note 24 Shareholders' Equity (continued)

| | Group | | Bank | |
|--|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Reserves | \$M | \$M | \$M | \$M |
| General Reserve | | | | |
| Opening balance | 765 | 1,201 | 573 | 570 |
| Appropriation from/(to) retained profits | 101 | (436) | - | 3 |
| Closing balance | 866 | 765 | 573 | 573 |
| Capital Reserve | | | | |
| Opening balance | - | 351 | 1,254 | 1,594 |
| Additions through merger of banking licences | - | - | - | 8 |
| Revaluation surplus on sale of property | - | 4 | - | 4 |
| Transfer to retained profits | - | (355) | - | (352) |
| Closing balance | - | - | 1,254 | 1,254 |
| Asset Revaluation Reserve | | | | |
| Opening balance | 194 | 195 | 164 | 150 |
| Additions through merger of banking licences | - | - | - | 10 |
| Revaluation of properties | 28 | 4 | 27 | 9 |
| Transfers on sale of properties | - | (4) | - | (4) |
| Transfer to retained profits | (23) | - | (16) | - |
| Tax on revaluation of properties | (2) | (1) | (3) | (1) |
| Closing balance | 197 | 194 | 172 | 164 |
| Foreign Currency Translation Reserve | | | | |
| Opening balance | (427) | (893) | (178) | (260) |
| Currency translation adjustments of foreign operations | 405 | 489 | 3 | 93 |
| Currency translation on net investment hedge | (6) | (13) | (3) | (11) |
| Tax on translation adjustments | (14) | (10) | - | - |
| Closing balance | (42) | (427) | (178) | (178) |
| Cash Flow Hedge Reserve | | | | |
| Opening balance | 368 | 644 | 508 | 587 |
| Additions through merger of banking licences | - | - | - | 189 |
| Gains and losses on cash flow hedging instruments: | | | | |
| Recognised in other comprehensive income | 338 | (575) | 492 | (619) |
| Transferred to Income Statement: | | | | |
| Interest income | (1,294) | (1,046) | (1,249) | (862) |
| Interest expense | 698 | 1,272 | 635 | 1,091 |
| Tax on cash flow hedging instruments | 114 | 73 | 38 | 122 |
| Closing balance | 224 | 368 | 424 | 508 |
| Employee Compensation Reserve | | | | |
| Opening balance | 132 | 136 | 132 | 136 |
| Current period movement | (7) | (4) | (7) | (4) |
| Closing balance | 125 | 132 | 125 | 132 |
| Available-for-Sale Investments Reserve | | | | |
| Opening balance | 301 | (63) | 188 | (45) |
| Net gains and losses on revaluation of available-for-sale investments | 509 | 553 | 671 | 365 |
| Net gains and losses on available-for-sale investments transferred to Income Statement on disposal | (12) | (31) | (12) | (31) |
| Tax on available-for-sale investments | (159) | (158) | (206) | (101) |
| Closing balance | 639 | 301 | 641 | 188 |
| Total Reserves | 2,009 | 1,333 | 3,011 | 2,641 |
| Shareholders' Equity attributable to Equity holders of the Bank | 48,811 | 45,000 | 48,435 | 45,029 |
| Shareholders' Equity attributable to Non-controlling interests | 537 | 537 | - | - |
| Total Shareholders' Equity | 49,348 | 45,537 | 48,435 | 45,029 |

Notes to the Financial Statements

Note 25 Share Capital

Ordinary Share Capital

| | Group | | Bank | |
|--|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Issued and paid up ordinary capital | | | | |
| Ordinary Share Capital | | | | |
| Opening balance (excluding treasury shares deduction) | 26,620 | 25,498 | 26,619 | 25,498 |
| Issue of shares ⁽¹⁾ | - | 193 | - | 193 |
| Dividend reinvestment plan: Final dividend prior year ⁽²⁾ | - | 929 | - | 928 |
| Dividend reinvestment plan: Interim dividend ⁽³⁾ | 707 | - | 704 | - |
| Closing balance (excluding treasury shares deduction) | 27,327 | 26,620 | 27,323 | 26,619 |
| Less: treasury shares ⁽⁴⁾ | (291) | (297) | - | - |
| Closing balance | 27,036 | 26,323 | 27,323 | 26,619 |

- (1) During the prior year the number of shares issued included the acquisition of an additional 47% interest in Aussie Home Loans Pty Limited.
- (2) The determined dividend includes an amount attributable to DRP of \$930 million (final 2011/2012) with \$929 million ordinary shares being issued under plan rules, which include the carry forward of DRP balance from previous dividends. The DRP in respect of 2012/2013 final dividend was satisfied in full through the on market purchase and transfer of \$722 million of shares to participating shareholders.
- (3) The determined dividends include an amount attributable to DRP of \$707 million (interim 2013/2014) with \$707 million ordinary shares being issued under plan rules. The DRP in respect of 2012/2013 interim dividend was satisfied in full through the on market purchase and transfer of \$596 million shares to participating shareholders.
- (4) Relates to treasury shares held within Life Insurance statutory funds and the employee share scheme trust.

| | Group | | Bank | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Shares | Shares | Shares | Shares |
| Number of shares on issue | | | | |
| Opening balance (excluding treasury shares deduction) | 1,611,928,836 | 1,592,154,780 | 1,611,928,836 | 1,592,154,780 |
| Issue of shares ⁽¹⁾ | - | 2,747,995 | - | 2,747,995 |
| Dividend reinvestment plan issues: | | | | |
| 2011/2012 Final dividend fully paid ordinary shares \$54.54 | - | 17,026,061 | - | 17,026,061 |
| 2012/2013 Interim dividend fully paid ordinary shares \$68.76 ⁽²⁾ | - | - | - | - |
| 2012/2013 Final dividend fully paid ordinary shares \$73.42 ⁽²⁾ | - | - | - | - |
| 2013/2014 Interim dividend fully paid ordinary shares \$75.26 | 9,390,358 | - | 9,390,358 | - |
| Closing balance (excluding treasury shares deduction) | 1,621,319,194 | 1,611,928,836 | 1,621,319,194 | 1,611,928,836 |
| Less: treasury shares ⁽³⁾ | (5,516,035) | (6,076,006) | - | - |
| Closing balance | 1,615,803,159 | 1,605,852,830 | 1,621,319,194 | 1,611,928,836 |

- (1) During the prior year the number of shares issued included the acquisition of an additional 47% interest in Aussie Home Loans Pty Limited.
- (2) The DRP in respect of 2012/2013 interim, and final dividend were satisfied in full through the on market purchase and transfer of 8,662,389 and 9,829,242 shares to participating shareholders.
- (3) Relates to treasury shares held within the Life Insurance statutory funds and the employees share scheme trust.

Ordinary shares have no par value and the Company does not have a limited amount of share capital.

Ordinary shares entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of fully paid ordinary shares held.

On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

Other Equity Instruments

| | Group | | Bank | |
|---------------------------------|---------|---------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Other equity instruments | | | | |
| Issued and paid up | 939 | 939 | 1,895 | 1,895 |
| | | | | |
| | Shares | Shares | Shares | Shares |
| Number of shares | 700,000 | 700,000 | 1,400,000 | 1,400,000 |

Trust Preferred Securities 2006

On 15 March 2006, a wholly owned entity of the Bank (CBA Capital Trust II) issued USD700 million of Trust Preferred Securities (TPS 2006) into the US capital markets. They qualify as Additional Tier 1 Capital under the Basel III transitional arrangements for capital instruments as implemented by APRA.

A related instrument was issued by the Bank to a subsidiary for \$956 million and eliminates on consolidation.

Note 25 Share Capital (continued)

Dividends

The Directors have declared a franked final dividend of 218 cents per share amounting to \$3,534 million. The dividend will be payable on 2 October 2014 to shareholders on the register at 5pm AEST on 21 August 2014.

The Board determines the dividends based on the Group's net profit after tax ("cash basis") per share, having regard to a range of factors including:

- Current and expected rates of business growth and the mix of business;
- Capital needs to support economic, regulatory and credit ratings requirements;
- Investments and/or divestments to support business development;
- Competitors comparison and market expectations; and
- Earnings per share growth.

Dividends Paid since the End of the Previous Financial Year

- A fully franked final dividend of 200 cents per share amounting to \$3,224 million was paid on 3 October 2013. The payment comprised cash disbursements of \$3,224 million. The DRP was satisfied in full by the on market purchase of shares; and
- A fully franked interim dividend of 183 cents per share amounting to \$2,950 million was paid on 3 April 2014. The payment was satisfied by cash disbursements of \$2,243 million and \$707 million being reinvested by participants through the DRP.

Dividend Reinvestment Plan

The Bank expects the DRP for the final dividend for the year ended 30 June 2014 will be satisfied in full by an on market purchase of shares of approximately \$884 million.

Record Date

The register closes for determination of dividend entitlement at 5pm AEST on 21 August 2014.

Ex-dividend Date

The ex-dividend date is 19 August 2014.

Note 26 Share Based Payments

The Group operates a number of cash and equity settled share plans as detailed below.

Employee Share Acquisition Plan

Under the Employee Share Acquisition Plan (ESAP), eligible employees have the opportunity to receive up to \$1,000 worth of ordinary shares ("shares") each year (at no cost to them) if the Group meets the required performance hurdles.

To be eligible for an award each employee must achieve a minimum level of performance and service. The value of the shares an individual receives is determined by the Group's performance against a hurdle. The performance hurdle is growth in the Group's net profit after tax ("cash basis") of greater than 5%. If the hurdle is not met, the Board has discretion to determine whether a full award, a partial award or no award is made.

The number of shares a participant receives is calculated by dividing the award amount by the average price paid for shares purchased during the purchase period preceding the grant date. Shares granted are restricted from sale until the earlier of three years or until such time as the participant ceases employment with the Group. Participants receive full dividend entitlements and voting rights attached to those shares. The Group achieved the performance target for 2013 resulting in \$1,000 worth of shares being awarded to each eligible employee during the financial year ended 30 June 2014.

The following table provides details of shares granted under the ESAP during the current and previous financial years ended 30 June.

| Period | Allocation date | Participants | Number of Shares | | Issue Price \$ | Total Fair Value \$ |
|--------|-----------------|--------------|--------------------------|----------------------------------|----------------|---------------------|
| | | | Allocated by Participant | Total Number of Shares Allocated | | |
| 2014 | 23 Sep 2013 | 32,749 | 13 | 425,737 | 73.42 | 31,257,610 |
| 2013 | 14 Sep 2012 | 29,921 | 14 | 418,894 | 54.79 | 22,951,202 |

It is estimated that approximately \$34.0 million of shares will be purchased on market at the prevailing market price for the 2014 grant.

International Employee Share Acquisition Plan

A limited number of employees receive cash-based versions of ESAP under the International Employee Share Acquisition Plan (IESAP). Like the ESAP, eligible employees can receive an award up to \$1,000 determined by the Group's performance against a hurdle. The performance hurdle is the same as that which applies to ESAP. To be eligible for an award each employee must achieve a minimum level of performance and service. Under IESAP participants receive grants of performance units, which are monetary units with a value linked to the share price.

A total of \$0.6 million has been expensed during the year (2013: \$0.5 million) in respect of this plan.

Notes to the Financial Statements

Note 26 Share Based Payments (continued)

Group Rights Plan (GRP)

The Group Rights Plan (GRP) replaced the Employee Share Plan (ESP) from 1 July 2013 and facilitates mandatory short term incentive (STI) deferral, sign-on incentives and retention awards.

Under the GRP, participants are awarded rights to shares that generally vest when the participant remains in employment of the Group until the vesting date. Each right that vests entitles the participant to receive one share. The Board has discretion to apply a cash equivalent.

The following table provides details of outstanding awards of shares granted under the GRP.

| Period | Outstanding 1 July | Granted | Vested | Forfeited | Outstanding 30 June |
|-----------------------|-----------------------|---------|---------|-----------|------------------------|
| July 2013 - June 2014 | - | 675,469 | (3,624) | (17,729) | 654,116 |
| Total 2014 | - | 675,469 | (3,624) | (17,729) | 654,116 |
| Total 2013 | - | - | - | - | - |

The weighted average fair value at grant date of rights awarded during the year was \$73.00 (2013: \$nil). A total of \$20.2 million has been expensed during the year (2013: \$nil) in respect of this plan.

Employee Share Plan

The Employee Share Plan (ESP) facilitated mandatory STI deferral, sign-on incentives and retention awards made from 1 July 2010. The ESP was replaced by the GRP in July 2013 and is now closed to new offers.

Under the ESP, shares awarded generally vest when the participant remains in employment of the Group until the vesting date. The Group purchases fully paid shares and holds these in trust until such time as the vesting conditions are met. ESP shares receive full dividend and voting rights. Participants may direct the Trustee on how the voting rights are to be exercised during the vesting period. Dividends accrue in the trust and are paid to participants upon vesting of the shares. Where a participant does not satisfy the vesting conditions, shares and dividend rights are forfeited.

The following table provides details of outstanding awards of shares granted under the ESP.

| Period | Outstanding 1 July | Granted | Vested | Forfeited | Outstanding 30 June |
|-----------------------|-----------------------|---------|-----------|-----------|------------------------|
| July 2010 - June 2011 | 502,437 | - | (498,849) | - | 3,588 |
| July 2011 - June 2012 | 782,942 | - | (175,920) | (18,779) | 588,243 |
| July 2012 - June 2013 | 776,565 | - | (136,647) | (17,232) | 622,686 |
| July 2013 - June 2014 | - | 10,663 | (4,094) | - | 6,569 |
| Total 2014 | 2,061,944 | 10,663 | (815,510) | (36,011) | 1,221,086 |
| Total 2013 | 1,634,889 | 827,482 | (307,770) | (92,657) | 2,061,944 |

The weighted average fair value at grant date of shares awarded during the year was \$72.63 (2013: \$54.82). A total of \$25 million has been expensed during the year (2013: \$41.5 million) in respect of this plan.

Employee Share (Performance Unit) Plan

A limited number of employees receive awards under a cash-based version of GRP through the Employee Share (Performance Unit) Plan (ESPUP). The ESPUP facilitates mandatory STI deferral, sign-on incentives and retention awards. Under the ESPUP participants receive grants of performance units, which are monetary units with a value linked to the share price. Performance units generally vest when the participant remains employed by the Group until the vesting date.

On meeting the vesting conditions, a cash payment is made to the participant, the value of which is determined based on the share price upon vesting plus an accrued dividend value. The following table provides details of outstanding awards of performance units granted under the ESPUP.

| Period | Outstanding 1 July | Granted | Vested | Forfeited | Outstanding 30 June |
|-----------------------|-----------------------|---------|-----------|-----------|------------------------|
| July 2010 - June 2011 | 39,287 | - | (34,814) | - | 4,473 |
| July 2011 - June 2012 | 56,606 | - | (27,180) | (1,313) | 28,113 |
| July 2012 - June 2013 | 50,321 | - | (11,980) | (246) | 38,095 |
| July 2013 - June 2014 | - | 131,047 | (42,658) | - | 88,389 |
| Total 2014 | 146,214 | 131,047 | (116,632) | (1,559) | 159,070 |
| Total 2013 | 159,290 | 79,634 | (82,972) | (9,738) | 146,214 |

The weighted average fair value at grant date of performance units issued during the year was \$69.59 (2013: \$54.63). A total of \$9.4 million has been expensed during the year (2013: \$7.4 million) in respect of this plan.

Note 26 Share Based Payments (continued)

Group Employee Rights Plan

The Group Employee Rights Plan (GERP) facilitated mandatory STI deferral, sign-on incentives and retention awards for executives of selected subsidiary companies made from December 2009. The GERP was replaced by the GRP in July 2013 and is now closed to new offers. Under the GERP, participants receive a right to a share which is subject to vesting conditions. Rights awarded generally vest when the participant remains in employment of the Group until the vesting date.

No new awards were made under the GERP in 2014. The following table provides details of outstanding awards of rights granted under GERP.

| Allocation period | Outstanding 1 July | Granted | Vested | Forfeited | Outstanding 30 June |
|-----------------------|-----------------------|---------------|-----------------|----------------|------------------------|
| July 2010 - June 2011 | 15,834 | - | (15,834) | - | - |
| July 2011 - June 2012 | 29,944 | - | (5,804) | (2,127) | 22,013 |
| July 2012 - June 2013 | 29,357 | - | (6,392) | (1,243) | 21,722 |
| Total 2014 | 75,135 | - | (28,030) | (3,370) | 43,735 |
| Total 2013 | 59,943 | 34,400 | (14,477) | (4,731) | 75,135 |

The weighted average fair value at grant date of rights issued during 2013 was \$54.74. A total of \$1 million has been expensed during the year (2013: \$1.5 million) in respect of this plan.

Employee Salary Sacrifice Share Plan

Under the Employee Salary Sacrifice Share Plan (ESSSP), Australian-based employees can elect to receive between \$2,000 and \$5,000 of their fixed remuneration and/or annual STI as shares. Shares are purchased on market at the current market price and are restricted from sale for a minimum of two years and a maximum of seven years or earlier, if the employee ceases employment with the Group. Shares receive full dividend entitlements and voting rights.

The following table provides details of shares granted under the ESSSP.

| Period | Participants | Number of Shares Purchased | Average Share Price \$ | Total purchase consideration \$ |
|--------|--------------|-------------------------------|---------------------------|------------------------------------|
| 2014 | 395 | 17,610 | 75.62 | 1,331,652 |
| 2013 | 477 | 17,965 | 59.86 | 1,075,390 |

Equity Participation Plan

The Equity Participation Plan (EPP) facilitated the partial deferral of executives STI payments, together with sign-on and retention awards until it was closed to new offers in the 2010 financial year. The final EPP award reached its vesting date during the 2013 financial year. Vested awards may remain in the EPP for up to 10 years from the date they are granted, and are subject to holding locks during that period.

The following table provides details of outstanding awards of shares granted under the EPP.

| Allocation period | Outstanding 1 July | Granted | Vested and Released | Forfeited | Outstanding 30 June |
|--------------------------------------|-----------------------|----------|------------------------|-----------|------------------------|
| July 2003 - June 2004 | 23,462 | - | (23,462) | - | - |
| July 2004 - June 2005 ⁽¹⁾ | 18,089 | - | (4,407) | - | 13,682 |
| July 2007 - June 2008 | 22,871 | - | (7,833) | - | 15,038 |
| July 2008 - June 2009 | 20,100 | - | (4,643) | - | 15,457 |
| July 2009 - June 2010 | 16,752 | - | (5,522) | - | 11,230 |
| Total 2014 | 101,274 | - | (45,867) | - | 55,407 |
| Total 2013 | 686,400 | - | (585,126) | - | 101,274 |

(1) No awards were allocated from July 2005 to June 2007.

No amount has been expensed during the year (2013: \$0.04 million).

Group Leadership Reward Plan

The Group Leadership Reward Plan (GLRP) is the Group's long term incentive plan for the CEO and Group Executives. The GLRP focuses on driving performance and shareholder alignment in the longer term.

Under the GLRP, participants are awarded a maximum number of Reward Rights that may vest at the end of a performance period of up to four years subject to the satisfaction of performance hurdles. Each Reward Right that vests entitles the participant to receive one share. The Board has discretion to apply a cash equivalent.

Vesting is subject to the satisfaction of certain performance hurdles as follows.

Notes to the Financial Statements

Note 26 Share Based Payments (continued)

Group Leadership Reward Plan (continued)

For the award made during the 2010 financial year:

- 50% of the award was assessed against Customer Satisfaction compared to a set peer group; and
- 50% of the award was assessed against Total Shareholder Return (TSR) compared to a set peer group.

For awards made from the 2011 financial year onwards:

- 25% of the is award assessed against Customer Satisfaction compared to a set peer group; and
- 75% of the is award assessed against TSR compared to a set peer group.

The Customer Satisfaction peer group consists of the ANZ, NAB, St George (FY10 award only), Westpac and other key competitors for our wealth management business.

The TSR peer group for all awards comprises the 20 largest companies listed on the ASX (by market capitalisation) at the beginning of each respective performance period, excluding resource companies and CBA.

Customer satisfaction is determined by the Board with reference to independent external surveys, and TSR is measured independently.

The Board applies a scale when determining the portion of each award to vest at the end of the performance period as follows:

- For the 2010 financial year award, the portion of the award assessed against Customer Satisfaction that will vest is: 100% if CBA is ranked 1st, 75% if CBA is ranked 2nd, and 50% if CBA is ranked 3rd at the end of the performance period, with no vesting below this level.
- For the 2011 and 2012 financial year awards, the portion of the awards assessed against Customer Satisfaction that will vest is: 100% if CBA is ranked 1st across three surveys, 75% if CBA is ranked 1st across two surveys, and 50% if CBA is ranked 2nd across the three surveys at the end of the performance period. The Board will exercise discretion where CBA's Customer Satisfaction has improved over the performance period, but in a different combination. Where the Board determines that the overall performance is worse at the end of the performance period than at the beginning, none of this portion will vest.
- For the 2013 and 2014 financial year awards, the portion of the award assessed against Customer Satisfaction that will vest is: 100% where the weighted average ranking for CBA over the performance period is 1st (i.e. 1.00), 50% where CBA's weighted average ranking is 2nd and vesting on a sliding scale between 100% and 50% on a pro-rata straight line basis if CBA's weighted average ranking is between 1st and 2nd (i.e. between 1.00 and 2.00). No Reward Rights in this part of the award will vest if CBA's weighted average ranking is lower than 2nd (i.e. above 2.00).

For the portion of the awards assessed against TSR performance, full vesting applies where CBA is ranked in the top quartile of the peer group at the end of the performance period, 50% will vest if CBA is ranked at the median, with vesting on a sliding scale between the median and 75th percentile. No Reward Rights in this part of the award will vest if the Group's TSR is ranked below the median of the peer group. The total number of Reward Rights that vest will be the aggregate of rights that vest against the Customer Satisfaction and the TSR hurdles at the end of the performance period.

The second tranche of the 2010 financial year award reached the end of its performance period on 30 June 2013 and in line with the plan rules 87.50% of the awarded rights vested.

The following table provides details of outstanding awards of performance rights granted under the GLRP.

| Performance period start date | Performance test date | Outstanding 1 July | Granted | Vested | Forfeited | Outstanding 30 June |
|-------------------------------|-----------------------|--------------------|---------|-----------|-----------|---------------------|
| 1 July 2009 | 30 June 2013 | 476,448 | - | (416,896) | (59,552) | - |
| 1 July 2010 | 30 June 2014 | 353,966 | - | - | (4,540) | 349,426 |
| 1 July 2011 | 30 June 2015 | 378,059 | - | - | (39,824) | 338,235 |
| 1 July 2012 | 30 June 2016 | 446,281 | - | - | (41,858) | 404,423 |
| 1 July 2013 | 30 June 2017 | - | 331,689 | - | - | 331,689 |
| Total 2014 | | 1,654,754 | 331,689 | (416,896) | (145,774) | 1,423,773 |
| Total 2013 | | 1,699,614 | 446,281 | (312,931) | (178,210) | 1,654,754 |

The weighted average fair value at the grant date of all Reward Rights issued during the year was \$74.52 per right (2013: \$53.86). The fair value of TSR hurdled Reward Rights granted during the period has been independently calculated at grant date using a Monte-Carlo pricing model. The assumptions included in the valuation of the 2014 financial year award includes a risk free interest rate ranging from 3.28% to 3.59%, a nil dividend yield on the Bank's shares and a volatility in the share price of 20%. The fair value for customer satisfaction hurdled Reward Rights granted during the period is the closing price of shares on the grant date.

A total of \$11.9 million has been expensed in the current year (2013: \$12.9 million) for GLRP.

Equity Reward Plan

The Equity Reward Plan (ERP) was the Group's long term incentive plan for executives until the final grants were made in 2006. Under the ERP executives could receive awards of shares or options.

The final ERP award reached the end of its performance period during the 2010 financial year. Vested awards may remain in the ERP for up to 10 years from the date they are granted, and are subject to holding locks during that period.

The following table provides details of outstanding awards of shares granted under the ERP.

Note 26 Share Based Payments (continued)

Equity Reward Plan (continued)

| Allocation period | Outstanding | Granted | Released | Forfeited | Outstanding |
|-----------------------|-------------|---------|----------|-----------|-------------|
| | 1 July | | | | 30 June |
| July 2003 - June 2004 | 12,500 | - | (12,500) | - | - |
| July 2004 - June 2005 | 10,500 | - | (2,500) | - | 8,000 |
| July 2005 - June 2006 | 30,780 | - | (2,000) | - | 28,780 |
| July 2006 - June 2007 | 35,000 | - | (3,300) | - | 31,700 |
| Total 2014 | 88,780 | - | (20,300) | - | 68,480 |
| Total 2013 | 102,330 | - | (13,550) | - | 88,780 |

No amount has been expensed in the current or prior year.

Non-Executive Directors Share Plan

The Non-Executive Directors Share Plan (NEDSP) facilitates the following arrangements for Non-Executive Directors' (NEDs):

- Acquisition of shares using 20% of their post-tax fees. NEDs are required to defer 20% of their post-tax fees until they reach a minimum shareholding requirement of 5,000 shares; and
- Further voluntary fee sacrifice of between \$2,000 and \$5,000 p.a. on a pre-tax basis.

Shares acquired using after tax fees are restricted for sale for ten years or until such time as the Non-Executive Director retires from the Board if earlier. Shares acquired voluntarily are restricted from sale for a minimum of two years and a maximum of seven years, or earlier if the Non-Executive Director retires from the Board.

Shares are purchased on market at the prevailing market price at that time, and rank equally for dividends with other ordinary shares.

For the current year \$0.03 million (2013: \$0.03 million) was expensed reflecting shares purchased and allocated under the NEDSP.

The following table provides details of the number of shares acquired under the NEDSP.

| Period | Total fees applied | Participants | Number of shares | Average purchase price |
|--------|--------------------|--------------|------------------|------------------------|
| | \$ | | purchased | \$ |
| 2014 | 32,067 | 1 | 419 | 76.53 |
| 2013 | 34,049 | 1 | 538 | 63.29 |

Note 27 Capital Adequacy

Capital Management

The Bank is an Authorised Deposit-taking Institution (ADI) and is subject to regulation by APRA under the authority of the Banking Act 1959. APRA has set minimum regulatory capital requirements for banks based on the Basel Committee on Banking Supervision (BCBS) guidelines.

The Basel III measurement and monitoring of capital has been effective from 1 January 2013. APRA has adopted a more conservative approach than the minimum standards published by the BCBS and a more accelerated timetable. The requirements define what is acceptable as capital and provide methods of measuring the risks incurred by the Bank.

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

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

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

Regulatory capital is divided into Common Equity Tier 1 (CET1), Tier 1 and Tier 2 Capital. CET1 primarily consists of Shareholders' Equity, less goodwill and other prescribed

adjustments. Tier 1 Capital is comprised of CET1 plus other capital instruments acceptable to APRA. Tier 2 Capital is comprised primarily of hybrid and debt instruments acceptable to APRA. Total Capital is the aggregate of Tier 1 and Tier 2 Capital.

The tangible component of the investment in the insurance and funds management operations are deducted 100% from CET1.

Capital adequacy is measured by means of a risk based capital ratio. The capital ratios reflect capital (CET1, Tier 1, Tier 2 or Total Capital) as a percentage of total Risk Weighted Assets (RWA). RWA represents an allocation of risks associated with the Group's assets and other related exposures.

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

The Group's capital position is monitored on a continuous basis and reported monthly to both the Executive Committee and the Asset and Liability Committee (ALCO). Three year capital forecasts are conducted on a quarterly basis with a

Notes to the Financial Statements

Note 27 Capital Adequacy (continued)

detailed capital and strategy plan presented to the Board annually.

The Group's capital ratios throughout the 2013 and 2014 financial years were in compliance with both APRA minimum capital adequacy requirements and the Board

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

Note 28 Financial Reporting by Segments

The principal activities of the Group are carried out in the below business segments. These segments are based on the distribution channels through which the customer relationship is being managed.

The primary sources of revenue are interest and fee income (Retail Banking Services, Institutional Banking and Markets, Business and Private Banking, Bankwest, New Zealand, IFS and Other Divisions) and insurance premium and funds management income (Wealth Management, New Zealand, IFS and Other Divisions).

Revenues and expenses occurring between segments are subject to transfer pricing arrangements. All intra-group profits are eliminated on consolidation.

Business segments are managed on the basis of net profit after income tax ("cash basis"). Management use "cash basis" to assess performance and it provides the basis for the determination of the Bank's dividends. The "cash basis" presents a clear view of the Group's underlying operating results, excluding a number of items that introduce volatility and/or one-off distortions of the Group's current period performance. These items, such as hedging and IFRS volatility, are calculated consistently year on year and do not discriminate between positive and negative adjustments.

(i) Retail Banking Services

Retail Banking Services provides home loan, consumer finance and retail deposit products and servicing to all Retail bank customers. In addition, commission is received for the distribution of wealth management products through the retail distribution network.

(ii) Business and Private Banking

Business and Private Banking provides specialised banking services to relationship managed business and Agribusiness customers, private banking to high net worth individuals and margin lending and trading through CommSec.

(iii) Institutional Banking and Markets

Institutional Banking and Markets services the Group's major corporate, institutional and government clients using a relationship management model based on industry expertise and local insights. The Total Capital Solutions offering

includes debt and equity capital raising, financial and commodities price risk management and transactional banking capabilities. Institutional Banking and Markets has international operations in London, Malta, New York, New Zealand, Singapore, Hong Kong, Japan and Shanghai.

(iv) Wealth Management

Wealth Management includes the Global Asset Management (including operations in Asia and Europe), Platform Administration and Life and General Insurance businesses of the Australian operations.

(v) New Zealand

New Zealand includes the Banking, Funds Management and insurance businesses operating in New Zealand (excluding the international business of Institutional Banking and Markets).

(vi) Bankwest

Bankwest is active in all domestic market segments, with lending diversified between the business, rural, housing and personal markets, including a full range of deposit products.

(vii) IFS and Other Divisions

The following parts of the business are included in the IFS and Other Divisions:

- International Financial Services Asia incorporates the Asian retail and SME banking operations (Indonesia, China, Vietnam and India), investments in Chinese and Vietnamese banks, the joint venture Chinese life insurance business and the life insurance operations in Indonesia. It does not include the Business and Private Banking, Institutional Banking and Markets and Colonial First State Global Asset Management businesses in Asia;
- Corporate Centre includes the results of unallocated Group support functions such as Investor Relations, Group Strategy, Secretariat and Treasury; and
- Group wide Eliminations/Unallocated includes intra-group elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.

Note 28 Financial Reporting by Segments (continued)

| | | | | | | | | 2014 |
|---|--|---|--|------------------------------|------------------------|-----------------|--------------------------|---------------|
| | Retail Banking Services | Business and Private Banking | Institutional Banking and Markets | Wealth Management | New Zealand | Bankwest | IFS and Other | Total |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Net interest income | 7,004 | 2,997 | 1,421 | - | 1,378 | 1,577 | 714 | 15,091 |
| Other banking income | 1,619 | 859 | 1,258 | - | 192 | 206 | 189 | 4,323 |
| Total banking income | 8,623 | 3,856 | 2,679 | - | 1,570 | 1,783 | 903 | 19,414 |
| Funds management income | - | - | - | 1,837 | 60 | - | 36 | 1,933 |
| Insurance income | - | - | - | 575 | 202 | - | 42 | 819 |
| Total operating income | 8,623 | 3,856 | 2,679 | 2,412 | 1,832 | 1,783 | 981 | 22,166 |
| Investment experience ⁽¹⁾ | - | - | - | 202 | 5 | - | 28 | 235 |
| Total net operating income before impairment and operating expense | 8,623 | 3,856 | 2,679 | 2,614 | 1,837 | 1,783 | 1,009 | 22,401 |
| Operating expenses | (3,103) | (1,426) | (947) | (1,588) | (805) | (799) | (831) | (9,499) |
| Loan impairment expense | (566) | (253) | (61) | - | (51) | (11) | (11) | (953) |
| Net profit before income tax | 4,954 | 2,177 | 1,671 | 1,026 | 981 | 973 | 167 | 11,949 |
| Corporate tax expense | (1,482) | (651) | (413) | (233) | (239) | (293) | 61 | (3,250) |
| Non-controlling interests | - | - | - | - | - | - | (19) | (19) |
| Net profit after tax ("cash basis") ⁽²⁾ | 3,472 | 1,526 | 1,258 | 793 | 742 | 680 | 209 | 8,680 |
| Hedging and IFRS volatility | - | - | - | - | 10 | - | (4) | 6 |
| Other non-cash items | - | - | 25 | (24) | - | (56) | - | (55) |
| Net profit after tax ("statutory basis") | 3,472 | 1,526 | 1,283 | 769 | 752 | 624 | 205 | 8,631 |
| Additional information | | | | | | | | |
| Intangible asset amortisation | (25) | (34) | (44) | (19) | (38) | (75) | (186) | (421) |
| Depreciation | (6) | (1) | (17) | (3) | (36) | (31) | (212) | (306) |
| Balance Sheet | | | | | | | | |
| Total assets | 281,062 | 103,864 | 149,802 | 20,759 | 65,736 | 76,795 | 93,433 | 791,451 |
| Total liabilities | 196,853 | 69,691 | 145,457 | 24,133 | 58,149 | 45,671 | 202,149 | 742,103 |

(1) Investment experience is presented on a pre-tax basis.

(2) Non-cash items are excluded from net profit after tax ("cash basis"), which is management's preferred measure of the Group's financial performance, as they tend to be non-recurring in nature or not considered representative of the Group's ongoing financial performance. The items for the period are gain on sale of management rights (\$17 million gain), treasury shares valuation adjustment (\$41 million loss), unrealised gains and losses related to hedging and IFRS volatility (\$6 million gain), Bankwest non-cash items (\$56 million loss) and Bell Group litigation (\$25 million gain).

Notes to the Financial Statements

Note 28 Financial Reporting by Segments (continued)

| | | | | | | | | 2013 ⁽¹⁾ |
|---|--|---|--|--------------------------------------|--------------------------------|-------------------------|----------------------------------|----------------------|
| | Retail Banking Services \$M | Business and Private Banking \$M | Institutional Banking and Markets \$M | Wealth Management \$M | New Zealand \$M | Bankwest \$M | IFS and Other \$M | Total \$M |
| Net interest income | 6,425 | 2,952 | 1,341 | - | 1,093 | 1,537 | 596 | 13,944 |
| Other banking income | 1,504 | 817 | 1,238 | - | 237 | 210 | 150 | 4,156 |
| Total banking income | 7,929 | 3,769 | 2,579 | - | 1,330 | 1,747 | 746 | 18,100 |
| Funds management income | - | - | - | 1,735 | 49 | - | 44 | 1,828 |
| Insurance income | - | - | - | 542 | 171 | - | 26 | 739 |
| Total operating income | 7,929 | 3,769 | 2,579 | 2,277 | 1,550 | 1,747 | 816 | 20,667 |
| Investment experience ⁽²⁾ | - | - | - | 145 | 6 | - | 3 | 154 |
| Total net operating income before impairment and operating expense | 7,929 | 3,769 | 2,579 | 2,422 | 1,556 | 1,747 | 819 | 20,821 |
| Operating expenses | (2,992) | (1,392) | (871) | (1,494) | (686) | (825) | (750) | (9,010) |
| Loan impairment expense | (533) | (280) | (154) | - | (45) | (118) | 48 | (1,082) |
| Net profit before income tax | 4,404 | 2,097 | 1,554 | 928 | 825 | 804 | 117 | 10,729 |
| Corporate tax expense | (1,315) | (623) | (359) | (249) | (204) | (243) | 40 | (2,953) |
| Non-controlling interests | - | - | - | - | - | - | (16) | (16) |
| Net profit after tax ("cash basis") ⁽³⁾ | 3,089 | 1,474 | 1,195 | 679 | 621 | 561 | 141 | 7,760 |
| Hedging and IFRS volatility | - | - | - | - | (24) | - | 51 | 27 |
| Other non-cash items | - | - | (45) | (53) | - | (71) | - | (169) |
| Net profit after tax ("statutory basis") | 3,089 | 1,474 | 1,150 | 626 | 597 | 490 | 192 | 7,618 |
| Additional information | | | | | | | | |
| Intangible asset amortisation | (27) | (31) | (37) | (14) | (27) | (75) | (129) | (340) |
| Depreciation | (7) | (1) | (15) | (3) | (29) | (36) | (220) | (311) |
| Balance Sheet | | | | | | | | |
| Total assets | 264,332 | 102,432 | 146,407 | 20,508 | 58,187 | 73,781 | 88,210 | 753,857 |
| Total liabilities | 182,286 | 64,840 | 149,539 | 22,882 | 51,541 | 41,925 | 195,307 | 708,320 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(2) Investment experience is presented on a pre-tax basis.

(3) Non-cash items are excluded from net profit after tax ("cash basis"), which is management's preferred measure of the Group's financial performance, as they tend to be non-recurring in nature or not considered representative of the Group's ongoing financial performance. The items for the period are Bell Group litigation (\$45 million loss), treasury shares valuation adjustment (\$53 million loss), unrealised gains and losses related to hedging and IFRS volatility (\$27 million gain), and Bankwest non-cash items (\$71 million loss).

Notes to the Financial Statements

Note 28 Financial Reporting by Segments (continued)

Products and Services Information

Revenue from external customers by product or service is disclosed in Note 2. No single customer amounted to greater than 10% of the Group's revenue.

Geographical Information

| Financial performance and position | Group Year Ended 30 June | | | | | |
|---|-----------------------------|--------------|---------------------|--------------|---------------------|--------------|
| | 2014 | | 2013 ⁽¹⁾ | | 2012 ⁽¹⁾ | |
| | \$M | % | \$M | % | \$M | % |
| Income | | | | | | |
| Australia | 37,603 | 84.8 | 39,119 | 87.3 | 41,759 | 88.6 |
| New Zealand | 4,633 | 10.5 | 3,890 | 8.7 | 3,708 | 7.9 |
| Other locations ⁽²⁾ | 2,076 | 4.7 | 1,793 | 4.0 | 1,676 | 3.5 |
| Total income | 44,312 | 100.0 | 44,802 | 100.0 | 47,143 | 100.0 |
| Non-Current Assets⁽³⁾ | | | | | | |
| Australia | 13,199 | 91.3 | 14,211 | 92.2 | 13,594 | 92.6 |
| New Zealand | 1,057 | 7.3 | 1,023 | 6.6 | 917 | 6.2 |
| Other locations ⁽²⁾ | 196 | 1.4 | 188 | 1.2 | 171 | 1.2 |
| Total non-current assets | 14,452 | 100.0 | 15,422 | 100.0 | 14,682 | 100.0 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(2) Other locations include: United Kingdom, United States, Japan, Singapore, Malta, Hong Kong, Indonesia, China, India and Vietnam.

(3) Non-current assets include Property, plant and equipment, Investments in associates and joint ventures and Intangibles.

The geographical segment represents the location in which the transaction was recognised.

Note 29 Insurance Businesses

Life Insurance

The following information is provided to disclose the statutory life insurance business transactions contained in the Group Financial Statements and the underlying methods and assumptions used in their calculations.

All financial assets within the life statutory funds have been determined to support either life insurance or life investment contracts. Refer to Note 1(ff) – (ii). The insurance segment result is prepared on a business segment basis.

| Summarised Income Statement | Life Insurance Contracts | | Life Investment Contracts | | Group | |
|--|-----------------------------|---------------------|------------------------------|---------------------|--------------|---------------------|
| | 2014 | 2013 ⁽¹⁾ | 2014 | 2013 ⁽¹⁾ | 2014 | 2013 ⁽¹⁾ |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Net premium income and related revenue | 1,843 | 1,659 | 216 | 244 | 2,059 | 1,903 |
| Outward reinsurance premiums expense | (289) | (302) | - | - | (289) | (302) |
| Claims expense | (1,277) | (1,187) | (40) | (51) | (1,317) | (1,238) |
| Reinsurance recoveries | 223 | 233 | - | - | 223 | 233 |
| Investment revenue (excluding investments in subsidiaries): | | | | | | |
| Equity securities | 138 | 164 | 657 | 757 | 795 | 921 |
| Debt securities | 193 | 84 | 280 | 242 | 473 | 326 |
| Property | 33 | 40 | 34 | 61 | 67 | 101 |
| Other | 91 | 39 | 91 | 146 | 182 | 185 |
| Increase in contract liabilities | (242) | (157) | (946) | (1,097) | (1,188) | (1,254) |
| Operating income | 713 | 573 | 292 | 302 | 1,005 | 875 |
| Acquisition expenses | (96) | (87) | (2) | (9) | (98) | (96) |
| Maintenance expenses | (192) | (159) | (56) | (60) | (248) | (219) |
| Management expenses | (8) | (9) | (10) | (9) | (18) | (18) |
| Net profit before income tax | 417 | 318 | 224 | 224 | 641 | 542 |
| Income tax expense attributable to operating profit ⁽²⁾ | (125) | (125) | (113) | (121) | (238) | (246) |
| Net profit after income tax | 292 | 193 | 111 | 103 | 403 | 296 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(2) Income tax includes tax attributable to policyholders and shareholders.

Notes to the Financial Statements

Note 29 Insurance Businesses (continued)

| | Life Insurance Contracts | | Life Investment Contracts | | Group | |
|--|-----------------------------|------------|------------------------------|------------|------------|------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Sources of life insurance net profit | \$M | \$M | \$M | \$M | \$M | \$M |
| The net profit after income tax is represented by: | | | | | | |
| Emergence of planned profit margins | 219 | 222 | 94 | 83 | 313 | 305 |
| Difference between actual and planned experience | (38) | (95) | 16 | 19 | (22) | (76) |
| Effects of changes to underlying assumptions | 6 | 8 | - | - | 6 | 8 |
| Reversal of previously recognised losses or loss recognition on groups of related products | 4 | (4) | - | - | 4 | (4) |
| Investment earnings on assets in excess of policyholder liabilities | 101 | 62 | 1 | 1 | 102 | 63 |
| Other movements | - | - | - | - | - | - |
| Net profit after income tax | 292 | 193 | 111 | 103 | 403 | 296 |
| Life insurance premiums received and receivable | 2,238 | 2,046 | 602 | 541 | 2,840 | 2,587 |
| Life insurance claims paid and payable | 1,348 | 1,247 | 1,386 | 1,633 | 2,734 | 2,880 |

The disclosure of the components of net profit after income tax is required to be separated between policyholders' and shareholders' interests. As policyholder profits are an expense of the Group and not attributable to shareholders, no such disclosure is required.

| | Life Insurance Contracts | | Life Investment Contracts | | Group | |
|--|-----------------------------|------------|------------------------------|------------|------------|------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Reconciliation of movements in policy liabilities | \$M | \$M | \$M | \$M | \$M | \$M |
| Contract policy liabilities | | | | | | |
| Gross policy liabilities opening balance | 3,415 | 3,266 | 9,589 | 9,728 | 13,004 | 12,994 |
| Movement in policy liabilities reflected in the Income Statement | 305 | 245 | 946 | 1,097 | 1,251 | 1,342 |
| Contract contributions recognised in policy liabilities | 7 | 6 | 328 | 237 | 335 | 243 |
| Contract withdrawals recognised in policy liabilities | (68) | (61) | (1,349) | (1,582) | (1,417) | (1,643) |
| Non-cash movements | (18) | (60) | - | 41 | (18) | (19) |
| FX translation adjustment | (10) | 19 | 21 | 68 | 11 | 87 |
| Gross policy liabilities closing balance | 3,631 | 3,415 | 9,535 | 9,589 | 13,166 | 13,004 |
| Liabilities ceded under reinsurance | | | | | | |
| Opening balance | (261) | (172) | - | - | (261) | (172) |
| Increase in reinsurance assets | (64) | (89) | - | - | (64) | (89) |
| Closing balance | (325) | (261) | - | - | (325) | (261) |
| Net policy liabilities | | | | | | |
| Expected to be realised within 12 months | 512 | 579 | 1,668 | 1,728 | 2,180 | 2,307 |
| Expected to be realised in more than 12 months | 2,794 | 2,575 | 7,867 | 7,861 | 10,661 | 10,436 |
| Total net insurance policy liabilities | 3,306 | 3,154 | 9,535 | 9,589 | 12,841 | 12,743 |

Capital Adequacy of The Group's Life Insurance Company

Under the Life Insurance Act 1995, life insurers are required to hold reserves in excess of the amount of policy liabilities. These additional reserves are necessary to support the life insurer's capital requirements under its business plan and to provide a cushion against adverse experience in managing long term risks. APRA has issued Life Prudential Standard (LPS) 110 'Capital Adequacy' for determining the level of capital reserves. LPS110 prescribes the minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund.

The table below shows the Capital Adequacy Multiple representing the ratio of assets available for capital over the capital reserve.

| | 2014 | 2013 |
|---|-------|-------|
| | Times | Times |
| The Colonial Mutual Life Assurance Society Limited, Australia | 1.88 | 1.65 |

Notes to the Financial Statements

Note 30 Remuneration of Auditors

During the financial year, the following fees were paid or payable for services provided by the auditor of the Group and the Bank, and its network firms:

| | Group | | Bank | |
|---|----------------|----------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| a) Audit and audit related services | | | | |
| Audit services | | | | |
| PricewaterhouseCoopers Australian firm | 14,719 | 14,627 | 10,438 | 10,077 |
| Network firms of PricewaterhouseCoopers Australian firm | 3,997 | 3,915 | 577 | 517 |
| Total remuneration for audit services | 18,716 | 18,542 | 11,015 | 10,594 |
| Audit related services | | | | |
| PricewaterhouseCoopers Australian firm | 3,232 | 2,702 | 2,700 | 2,157 |
| Network firms of PricewaterhouseCoopers Australian firm | 788 | 538 | 93 | 218 |
| Total remuneration for audit related services | 4,020 | 3,240 | 2,793 | 2,375 |
| Total remuneration for audit and audit related services | 22,736 | 21,782 | 13,808 | 12,969 |
| b) Non-audit services | | | | |
| Taxation services | | | | |
| PricewaterhouseCoopers Australian firm | 1,665 | 1,881 | 1,487 | 1,513 |
| Network firms of PricewaterhouseCoopers Australian firm | 1,522 | 1,207 | 677 | 116 |
| Total remuneration for tax related services | 3,187 | 3,088 | 2,164 | 1,629 |
| Other Services | | | | |
| PricewaterhouseCoopers Australian firm | 3,370 | 1,678 | 2,766 | 1,287 |
| Network firms of PricewaterhouseCoopers Australian firm | 21 | - | - | - |
| Total remuneration for other services | 3,391 | 1,678 | 2,766 | 1,287 |
| Total remuneration for non-audit services | 6,578 | 4,766 | 4,930 | 2,916 |
| Total remuneration for audit and non-audit services ⁽¹⁾ | 29,314 | 26,548 | 18,738 | 15,885 |

(1) An additional amount of \$9,106,912 (2013: \$8,812,600) was paid to PricewaterhouseCoopers by way of fees for entities not consolidated into the Financial Statements. Of this amount, \$8,249,653 (2013: \$8,331,928) relates to audit and audit-related services.

The Audit Committee has considered the non-audit services provided by PricewaterhouseCoopers and is satisfied that the services and the level of fees are compatible with maintaining auditors' independence. All such services were approved by the Audit Committee in accordance with pre-approved policies and procedures.

Audit related services principally includes assurance and attestation reviews of the Group's foreign disclosures for overseas investors, services in relation to regulatory requirements, acquisition accounting advice as well as reviews of internal control systems and financial or regulatory information.

Taxation services included assistance and training in relation to tax legislation and developments and other services primarily consisted of project assurance and risk compliance support.

Other services include project assurance particularly relating to information technology projects, and reviews of compliance with legal and regulatory frameworks.

Note 31 Lease Commitments

| | Group | | Bank | |
|--|--------------|--------------|--------------|--------------|
| | 2014 \$M | 2013 \$M | 2014 \$M | 2013 \$M |
| Lease Commitments - Property, Plant and Equipment | | | | |
| Due within one year | 561 | 565 | 509 | 515 |
| Due after one year but not later than five years | 1,453 | 1,427 | 1,300 | 1,284 |
| Due after five years | 994 | 1,073 | 753 | 839 |
| Total lease commitments - property, plant and equipment | 3,008 | 3,065 | 2,562 | 2,638 |

Lease Arrangements

Operating leases are entered into to meet the business needs of entities in the Group. Leases are primarily over commercial and retail premises and plant and equipment.

Lease rentals are determined in accordance with market conditions when leases are entered into or on rental review dates.

The total expected future sublease payments to be received are \$127 million as at 30 June 2014 (2013: \$149 million).

Notes to the Financial Statements

Note 32 Contingent Liabilities, Contingent Assets and Commitments

Details of contingent liabilities and off balance sheet business are presented below. The face (contract) value represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations.

| | Face Value | | Group Credit Equivalent | |
|--|----------------|----------------|----------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Credit risk related instruments | | | | |
| Guarantees ⁽¹⁾ | 6,121 | 5,696 | 6,121 | 5,696 |
| Standby letters of credit ⁽²⁾ | 171 | 134 | 171 | 134 |
| Bill endorsements ⁽³⁾ | 16 | 19 | 16 | 19 |
| Documentary letters of credit ⁽⁴⁾ | 4,729 | 3,653 | 4,546 | 3,621 |
| Performance related contingents ⁽⁵⁾ | 1,585 | 1,542 | 1,409 | 1,510 |
| Commitments to provide credit ⁽⁶⁾ | 151,135 | 139,964 | 143,270 | 132,451 |
| Other commitments ⁽⁷⁾ | 2,175 | 1,868 | 1,714 | 1,510 |
| Total credit risk related instruments | 165,932 | 152,876 | 157,247 | 144,941 |

| | Face Value | | Bank Credit Equivalent | |
|--|----------------|----------------|---------------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M |
| Credit risk related instruments | | | | |
| Guarantees ⁽¹⁾ | 5,724 | 5,345 | 5,724 | 5,345 |
| Standby letters of credit ⁽²⁾ | 60 | 36 | 60 | 36 |
| Bill endorsements ⁽³⁾ | 16 | 19 | 16 | 19 |
| Documentary letters of credit ⁽⁴⁾ | 4,637 | 3,601 | 4,499 | 3,575 |
| Performance related contingents ⁽⁵⁾ | 1,585 | 1,542 | 1,409 | 1,510 |
| Commitments to provide credit ⁽⁶⁾ | 140,209 | 130,753 | 133,469 | 123,235 |
| Other commitments ⁽⁷⁾ | 1,152 | 939 | 1,113 | 924 |
| Total credit risk related instruments | 153,383 | 142,235 | 146,290 | 134,644 |

(1) Guarantees are unconditional undertakings given to support the obligations of a customer to third parties.

(2) Standby letters of credit are undertakings to pay, against presentation of documents, an obligation in the event of a default by a customer.

(3) Bills of exchange endorsed by the Group and Bank which represent liabilities in the event of default by the acceptor and the drawer of the bill.

(4) Documentary letters of credit are undertakings by the Group and Bank to pay or accept drafts drawn by a supplier of goods against presentation of documents in the event of payment default by a customer.

(5) Performance related contingents are undertakings that oblige the Group and Bank to pay third parties should a customer fail to fulfil a contractual non-monetary obligation.

(6) Commitments to provide credit include all obligations on the part of the Group and Bank to provide credit facilities. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

(7) Other commitments include underwriting facilities and commitments with certain drawdowns.

Contingent Credit Liabilities

The Group and Bank is party to a range of financial instruments that give rise to contingent and/or future liabilities. These transactions are a consequence of the Group's normal course of business to meet the financing needs of its customers and in managing its own risk. These financial instruments include guarantees, letters of credit, bill endorsements and other commitments to provide credit. The face (contract) value represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations.

As the Group and Bank will only be required to meet these obligations in the event of default, the cash requirements of these instruments are expected to be considerably less than their face values.

These transactions combine varying levels of credit, interest rate, foreign exchange and liquidity risk. In accordance with Bank policy, exposures to any of these transactions (net of collateral) are not carried at a level that would have a material adverse effect on the financial condition of the Bank and its controlled entities.

Commitments to provide credit include both fixed and variable facilities. Fixed rate or fixed spread commitments extended to customers that allow net settlement of the change in the value of the commitment are written options and are recorded at fair value. Other commitments include the Group's and Bank's obligations under sale and repurchase agreements, outright forward purchases, forward deposits and underwriting facilities. Other commitments also include obligations not otherwise disclosed above to extend credit, which are irrevocable because they cannot be withdrawn at the discretion of the Group or Bank without the risk of incurring significant penalty or expense. In addition, commitments to purchase or sell loans are included in other commitments.

These transactions are categorised and credit equivalents calculated under APRA guidelines for the risk-based measurement of capital adequacy. The credit equivalent amounts are a measure of potential loss to the Group in the event of non-performance by the counterparty.

Under the Basel III advanced internal ratings based approach for credit risk, the credit equivalent amount is the face value of the transaction, on the basis that at default the exposure is the amount fully advanced. Only when approved by APRA may an exposure less than that fully-advanced amount be used as the credit equivalent exposure amount.

Note 32 Contingent Liabilities, Contingent Assets and Commitments (continued)

Contingent Credit Liabilities (continued)

As the potential loss depends on counterparty performance, the Group utilises the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Group and Bank takes collateral where it is considered necessary to support off balance sheet financial instruments with credit risk. If an event has occurred that gives rise to a present obligation and it is probable a loss will eventuate, then provisions are raised.

Failure to Settle Risk

The Group is subject to a credit risk exposure in the event that another financial institution fails to settle for its payments clearing activities, in accordance with the regulations and procedures of the following clearing systems of the Australian Payments Clearing Association Limited: The Australian Paper Clearing System, The Bulk Electronic Clearing System, The Consumer Electronic Clearing System and the High Value Clearing System (only if operating in "fallback mode"). This credit risk exposure is unquantifiable in advance, but is well understood, and is extinguished upon settlement following each exchange during the business day or at 9am next business day.

Interbank Deposit Agreement

The Bank is a participant to the Interbank Deposit Agreement along with the other three major Australian banks. This agreement has been certified as a liquidity support facility by APRA. Under the agreement, should one of the participants experience liquidity issues, it can request deposits from the other three participating banks, each of which are required to deposit up to \$2 billion for a period of 30 days. At the end of 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of mortgages to the value of the deposit.

Other Contingent Liabilities

Fiduciary Activities

The Group conducts investment management and other fiduciary activities as responsible entity, trustee, custodian, adviser or manager for investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail trusts. These funds and trusts are not consolidated as the Group does not have direct or indirect control. Where the Group incurs liabilities in respect of these activities, and the primary obligation is incurred in an agency capacity, for the fund or trust rather than on its own account, a right of indemnity exists against the assets of the applicable fund or trust. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Group will be required to settle the liabilities, the liabilities are not included in the financial statements.

Services Agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Chief Executive Officer and other Group Key Management Personnel at 30 June 2014 was \$4.9 million (2013: \$5 million).

Litigation related Contingent Liabilities

The Group is not engaged in any litigation or claim which is likely to have a materially adverse effect on the business, financial condition or operating results of the Group. For all litigation exposure where some loss is probable and can be

reliably estimated an appropriate provision has been made. Litigation related contingent liabilities at 30 June 2014 included:

Storm Financial

The Australian Securities and Investments Commission (ASIC) commenced legal proceedings against the Bank in relation to Storm Financial, a Queensland-based financial planning firm that collapsed and went into receivership in March 2009. These proceedings were settled in September 2012 with CBA agreeing, without admission of liability, to pay affected investors up to approximately \$136 million (in addition to payments under CBA's resolution scheme). The majority of payments to affected investors under the ASIC settlement have been paid by CBA.

In addition, class action proceedings have been commenced against the Group in relation to Storm Financial. At this stage only the damages sought on behalf of the four lead applicants have been quantified on a number of alternate bases, thus quantification of the claims of all group members is not possible. The hearing of the proceedings was completed in November 2013 and judgement is yet to be delivered.

The Group believes that appropriate provisions are held to cover any exposures referred to above.

Exception Fee Class Action

In May 2011, Maurice Blackburn announced that it intended to sue 12 Australian banks, including Commonwealth Bank of Australia and Bankwest, with respect to exception fees. On 16 December 2011 proceedings were issued against Commonwealth Bank of Australia, and on 18 April 2012 proceedings were issued against Bankwest. The stay of the two class actions has been extended from March 2014 to December 2014 (and may be extended again) pending the hearing of similar proceedings against another bank. The financial impact is not yet known however, it is not anticipated to have a material impact on the Group.

Open Advice Review program

On 3 July 2014, the Group announced an Open Advice Review program for customers of Commonwealth Financial Planning and Financial Wisdom, who received advice between 1 September 2003 and 1 July 2012. The program involves:

- A free review of past advice by a specialist Commonwealth Bank team for customers who have a concern;
- Customers having access to an independent customer advocate funded by the Group and an Independent Review Panel chaired by the Hon Ian Callinan AC;
- The Group being bound by any determinations made by the Independent Review Panel. However, customers will retain their rights to escalate their concerns to the Financial Ombudsman Service or otherwise pursue a claim; and
- Independent reporting by Promontory Financial Group.

Customer registrations opened on 3 July 2014 and will remain open for 12 months. As this program has only recently commenced, and the outcomes are therefore uncertain, the Group considers that provisions held are adequate and that

Note 32 Contingent Liabilities, Contingent Assets and Commitments (continued)

the overall costs of the program will not be material to the Group results.

Contingent Assets

The credit commitments shown in the table on page 138 also constitute contingent assets. These commitments would be classified as loans and other assets in the balance sheet on the occurrence of the contingent event.

Capital Commitments

The Group is committed for capital expenditure on property, plant and equipment and computer software under contract of \$19 million as at 30 June 2014 (2013: \$17 million). The Bank is committed for \$11 million (2013: \$12 million). These commitments are expected to be extinguished within 12 months.

Note 33 Risk Management

Risk Management

The Group is a major financial services provider of integrated financial services including retail, premium, business and institutional banking, funds management, superannuation, insurance, investment and share-broking products and services. Financial instruments are fundamental to the Group's business. Managing financial risks, especially credit risk, is a fundamental part of the Group's business activities.

Risk Management Governance

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

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

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

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

Risk Committee

The Risk Committee oversees the Group's risk management framework. This includes credit, market (including traded interest rate risk in the banking book, non-traded equity, structural foreign exchange and lease residual values), liquidity and funding, operational, insurance, compliance and

reputational risks assumed by the Group in the course of carrying on its business. It reviews regular reports from management on the measurement of risk and the adequacy and effectiveness of the Group's risk management and internal controls systems.

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

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

The risk appetite is designed to achieve portfolio outcomes consistent with the Group's risk-return expectations. It includes:

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

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

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

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

The Risk Committee reviews significant correspondence with regulators, receives reports from management on regulatory relations and reports any significant regulatory issues to the Board.

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

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

Risk Management Framework

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

This framework requires each business to manage the outcome of its risk-taking activities and allows it to benefit from the resulting risk adjusted returns.

Accountability for risk management is structured by a "Three Lines of Defence" model as follows:

- Line 1 – Business Management – risk is best managed at the place it occurs. Business Managers are responsible for managing the risks for their business.

Note 33 Risk Management (continued)

This includes implementing approaches to proactively manage their risk within risk appetite levels, and using risk management outcomes (“the costs of risk”) and considerations as part of their day-to-day business making processes. They are to establish and maintain all appropriate risk controls.

- Line 2 – Risk Management – Group and Business Unit Risk Management teams provide risk management expertise and oversight for Business Management risk-taking activities. Risk Management develop and maintain aligned and integrated frameworks, policies and procedures for risk management and ensure they are embedded and in use as part of the day-to-day management of the business.

Risk Management also measures risk exposures to support risk decisions by business owners and also to make certain market and credit risk decisions under approved delegations of authority; in particular it undertakes quantitative and qualitative analysis of the credit exposures originated by the business as part of its responsibility for credit rating and decisioning. Line 2 also monitors control testing by Line 1 and provides supplemental control testing.

- Line 3 – Group Audit and Assurance – provide independent assurance to key stakeholders regarding the adequacy and effectiveness of the Group’s system of internal controls, risk management procedures and governance processes. It is responsible for reviewing risk management frameworks and Business Unit practices, including credit origination and credit quality of the portfolio.

Material Business Risks

There are a number of material business risks that could adversely affect the achievement of the Group’s financial performance objectives. The main financial risks affecting the Group are discussed in Notes 29 (Insurance Businesses), 34 (Credit Risk), 35 (Market Risk), and 36 (Liquidity and Funding Risk). Insurance Risk, Operational Risk, Compliance Risk, Strategic Business Risk and Reputational Risk are discussed below.

Insurance Risk

Insurance risk is the risk of loss due to increases in claim payments arising from variations in the incidence or severity of insured events. In the life insurance business, this arises primarily through mortality (death) or morbidity (illness or injury) claims being greater than expected. For the general insurance business, variability arises mainly through weather related incidents and similar events, as well as general variability in home and motor insurance claims.

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

The major methods of mitigating insurance risk are:

- Sound product design and pricing, to ensure customers understand the extent of their cover and that premiums are sufficient to cover the risk involved;
- Underwriting of new customers to ensure that the cover provided and the premium rates quoted are appropriate for the level of risk accepted;

- Regular review of insurance experience, so that product design, policy liabilities and pricing remains sound;
- Claims management to ensure that claims are paid within the agreed policy terms and that these genuine claims are paid as soon as possible after documentation is received and reasonable investigations are undertaken; and
- Transferring a proportion of insurance risk to reinsurers to keep within risk appetite.

Further information on the Life Insurance Business is included in Note 29 to the Financial Statements.

Operational Risk

Operational risk is defined as the risk of economic loss arising from inadequate or failed internal processes, people, systems, or from external events. The Group is continually faced with issues or incidents that have the potential to disrupt normal business operations, exposing the Group to loss, reputation and/or regulatory scrutiny.

The Group’s operational risk objectives support the achievement of its financial and business goals, through:

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

The Operational Risk Management Framework (ORMF) is integral to the achievement of the Group’s operational risk objectives and is embedded within business practices across the Group. It comprises four core components to ensure sound management and measurement of the Group’s operational risk. The core components are:

- Governance;
- Management, Measurement and Systems;
- Analytics, Review and Reporting; and
- People and Culture.

The Group continues to enhance and embed its ORMF, supported by its strategic investment in consolidating operational risk and compliance systems into a single platform, internally referred to as RiskInSite. The deployment of the RiskInSite platform across all Business Units enables consistency, sharing of better operational risk practices and enhanced analytical capabilities for the Group.

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

The Group’s Compliance Risk Management Framework (CRMF) is consistent with the Australian Standard on Compliance Programs and is designed to help meet the Group’s obligations under the Corporations Act 2001, the Group’s Australian Financial Services Licence and Australian Credit Licences. The CRMF incorporates a number of components, including Group policies, key mandatory requirements and roles and responsibilities for achieving

Note 33 Risk Management (continued)

Compliance. It captures Compliance Obligations, Group Policies, Regulatory Change and People and Culture considerations.

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

The Group purchases insurance to mitigate some operational risks. The insurance cover and risks insured are reviewed and monitored by the Executive Committee, Risk Committee and the Board.

Reputational Risk

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

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

Strategic Business Risk

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

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

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

Note 34 Credit Risk

Credit risk is the potential for loss arising from failure of a debtor or counterparty to meet their contractual obligations. It arises primarily from lending activities, the provision of guarantees (including letters of credit), commitments to lend, investments in bonds and notes, financial market transactions, providers of credit enhancements (e.g. credit default swaps, lenders mortgage insurance), securitisations and other associated activities. In the insurance business, credit risk arises from investment in bonds and notes, loans, and from reliance on reinsurance.

Credit Risk Management Principles and Portfolio Standards

The Risk Committee of the Board operates under a Charter by which it oversees the Group's credit risk management policies and portfolio standards. These are designed to achieve portfolio outcomes that are consistent with the Group's risk appetite and risk/return expectations. The

Committee meets at least quarterly, and more often if required.

The Group has clearly defined credit policies for the approval and management of credit risk. Formal credit standards apply to all credit risks, with specific portfolio standards applying to all major lending areas. These incorporate income/repayment capacity, acceptable terms and security and loan documentation tests.

The Group uses a Risk Committee approved diversified portfolio approach for the management of credit risk concentrations comprised of the following:

- A large credit exposures policy, which sets limits for aggregate exposures to individual, commercial, bank and government client groups;
- An industry concentrations policy that defines a system of limits for concentrations by industry; and
- A country risk exposure policy that sets limits for managing geographic exposures beyond the borders of Australia and New Zealand.

The Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security, in the form of real estate or a charge over income or assets, is generally taken for business credit except for major government, bank and corporate counterparties that are often externally risk-rated and of strong financial standing other than for collateral held on derivative products. Longer term consumer finance (e.g. housing loans) is generally secured against real estate while short term revolving consumer credit is generally not secured by formal collateral.

While the Group applies policies, standards and procedures in governing the credit process, the management of credit risk also relies on the application of judgement and the exercise of good faith and due care by relevant people within their delegated authority.

A centralised exposure management system is used to record all significant credit risks borne by the Group. The credit risk portfolio has two major segments:

(i) Retail Managed

This segment has sub-segments covering housing loan, credit card and personal loan facilities, some leasing products and most secured commercial lending up to \$1 million.

Auto-decisioning is used to approve credit applications for eligible business and consumer customers. Auto-decisioning uses a scorecard approach based on the Group's historical experience on similar applications, information from a credit reference bureau and/or from the Group's existing knowledge of a customer's behaviour.

Loan applications that do not meet scorecard Auto-decisioning requirements may be referred to a Risk Management Officer with a Personal Credit Approval Authority (PCAA) for manual decisioning.

After loan origination, these portfolios are managed using behavioural scoring systems and on a delinquency band approach (e.g. actions taken when loan payments are greater than 30 days past due differ from actions when payments are greater than 60 days past due), and are reviewed by the relevant Risk Management or Business Credit Support Unit. Commercial lending up to \$3 million is reviewed as part of the Group's quality assurance process and oversight is provided by the independent Credit Portfolio Assurance unit.

Note 34 Credit Risk (continued)

(ii) Credit Risk-Rated

This segment comprises commercial exposures, including bank and government exposures. Each exposure is assigned an internal Credit Risk Rating (CRR). The CRR is normally assessed by reference to a matrix where the probability of default (PD) and the amount of loss given default (LGD) combine to determine a CRR grade commensurate with expected loss (EL).

For Credit Risk Rated exposures either a PD Rating Tool or Expert Judgement is used to determine the PD. Expert Judgement is used where the complexity of the transaction and/or the debtor is such that it is inappropriate to rely completely on a statistical model. Ratings by Moody's or Standard and Poor's may be used as inputs into the Expert Judgement assessment.

The CRR is designed to:

- Aid in assessing changes to the client quality of the Group's credit portfolio;
- Influence decisions on approval, management and pricing of individual credit facilities; and
- Provide the basis for reporting details of the Group's credit portfolio to APRA.

Credit risk-rated exposures are generally reviewed on an individual basis, at least annually, although small transactions may be managed on a behavioural basis after their initial rating at origination.

Credit risk-rated exposures fall within the following categories:

- "Pass" – Internal CRR of 1-6. These credit facilities qualify for approval of new or increased exposure on normal commercial terms; and
- "Troublesome or Impaired Assets (TIAs)" – Internal CRR of 7-9. These credit facilities are not eligible for new or increased exposure unless it will protect or improve the Group's position by maximising recovery prospects or to facilitate rehabilitation. Where a client is in default but the facility is well secured then the facility may be classed as troublesome but not impaired. Where a client's facility is not well secured and a loss is expected, then the facility is impaired.

Facilities are classified as restructured where their original contractual arrangements have been modified to provide for concessions of interest or principal, for reasons that relate to the customer's financial difficulties, rendering the facility non-commercial to the Group. Facilities that have been restructured are considered impaired.

Default is usually consistent with one or more of the following criteria:

- The customer is 90 days or more overdue on a scheduled credit obligation repayment; or
- The customer is unlikely to repay their credit obligation to the Bank in full, without taking actions such as realising on available security.

The Credit Portfolio Assurance unit, part of Group Audit and Assurance, reviews credit portfolios and business unit compliance with policies, portfolio standards, application of credit risk ratings and other key practices on a regular basis. The Credit Portfolio Assurance unit reports its findings to the Board Audit and Risk Committees as appropriate.

Credit Risk Measurement

The measurement of credit risk uses analytical tools to

calculate both (i) expected, and (ii) unexpected loss probabilities for the credit portfolio. The use of analytical tools is governed by a Credit Rating Governance Committee that reviews and endorses the use of the tools prior to their implementation to ensure they are sufficiently predictive of risk.

(i) Expected Loss

Expected Loss (EL) is the product of:

- Probability of default (PD);
- Exposure at default (EAD); and
- Loss given default (LGD).

For credit risk-rated facilities, EL is allocated within CRR bands. All credit risk-rated exposures are required to be reviewed at least annually although small transactions may be managed on a behavioural basis post origination.

The PD, expressed as a percentage, is the estimate of the probability that a client will default within the next twelve months. It reflects a client's ability to generate sufficient cash flows into the future to meet the terms of all its credit obligations with the Group. When assessing a client's PD, all relevant and material information is considered. The same PD is applied to all credit facilities provided to a client except where prudential standards permit differentiation.

EAD, expressed as a percentage of the facility limit, is the proportion of a facility that may be outstanding in the event of default. The EAD treatment is as follows for different facility types:

- Drawn committed facilities (such as fully drawn loans and advances), EAD will generally be the higher of the limit or outstanding balance;
- Committed facilities with uncertain future drawdown (such as credit cards and overdrafts), EAD is based on the Group's historical experience of additional drawings prior to customer default; and
- Uncommitted facilities, EAD will generally be the outstanding balance only.

LGD, expressed as a percentage, is the estimated proportion of a facility likely to be lost in the event of default. LGD is impacted by:

- Type and level of any collateral held;
- Liquidity and volatility of collateral;
- Carrying costs (effectively the costs of providing a facility that is not generating an interest return); and
- Realisation costs (costs of internal workout specialists).

Various factors are considered when calculating PD, EAD and LGD. Considerations include the potential for default by a borrower due to economic, management, industry and other risks, and the mitigating benefits of any collateral.

(ii) Unexpected Loss

In addition to EL, a more stressed loss amount is calculated. This unexpected loss estimate directly affects the calculation of regulatory and internal economic capital requirements, refer to the Group Operations and Business Settings section and Note 27, for information relating to regulatory capital.

In addition to the credit risk management processes used to manage exposures to credit risk in the credit portfolio, the internal ratings process also assists management in assessing impairment and provisioning of financial assets, refer to Note 13.

Note 34 Credit Risk (continued)

Credit Risk Mitigation, Collateral and Other Credit Enhancements

Where it is considered appropriate, the Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken to mitigate credit risk, including valuation parameters, review frequency and independence of valuation.

The general nature and amount of collateral that may be taken by financial asset classes are summarised below. A table setting out the collateral held against Loans, bills discounted and other receivables is included in the collateral held against loans, bills discounted and other receivables section of this note.

Cash and Liquid Assets

Collateral is not usually sought on the majority of Cash and Liquid Asset balances as these types of exposures are generally considered low risk. However, securities purchased under agreement to resell are 100% collateralised by highly liquid debt securities. The collateral related to agreements to resell has been legally transferred to the Group subject to an agreement to return them for a fixed price.

The Group's cash and liquid asset balance as of 30 June 2014 was \$26,409 million (2013: \$20,634 million). Included in this balance is \$15,815 million (2013: \$9,250 million) that is deposited with central banks and considered to carry less credit risk.

Receivables Due from Other Financial Institutions

Collateral is usually not sought on these balances as exposures are generally considered to be of low risk. The exposures are mainly to relatively low risk banks (Rated A+, AA- or better). As of 30 June 2014, the Group had \$8,065 million (2013: \$7,744 million) receivables due from other financial institutions.

Trading Assets at Fair Value through Income Statement

These assets are carried at fair value which accounts for the credit risk. Collateral is not generally sought from the issuer or counterparty. Credit derivatives have been used to a limited extent to mitigate the exposure to credit risk. As of 30 June 2014, the Group held \$21,459 million (2013: \$19,617 million) trading assets at fair value through Income Statement.

Insurance Assets

These assets are carried at fair value which accounts for the credit risk. Collateral is not generally sought or provided on these types of assets, other than a fixed charge over properties backing Australian mortgage investments.

As at 30 June 2014, the Group has \$10,086 million (2013: \$9,707 million) of life investment contracts, the credit risk on which is borne by policyholders.

Other Assets at Fair Value through Income Statement

These assets are carried at fair value which accounts for the credit risk. Credit derivatives used to mitigate the exposure to credit risk are not significant.

Derivative Assets

The Group's use of derivative contracts is outlined in Note 10. The Group is exposed to credit risk on derivative contracts, which arises as a result of counterparty credit risk. The Group's exposure to counterparty credit risk is affected by the

nature of the trades, the creditworthiness of the counterparty, netting, and collateral arrangements.

Credit risk from derivatives is mitigated where possible (typically for financial markets counterparties, but less frequently for corporate or government counterparties) through netting agreements, whereby derivative assets and liabilities with the same counterparty can be offset. Group policy requires all netting arrangements to be legally documented. The International Swaps and Derivatives Association (ISDA) Master Agreement (or other derivative contracts) are used by the Group as an agreement for documenting over the counter (OTC) derivatives. It provides the contractual framework within which dealing activities across a range of OTC products are conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and/or nature of the transaction. As at 30 June 2014, the Group held positive derivative asset OTC contracts with a value of \$29,247 million (2013: \$45,340 million). The Group holds collateral in relation to its derivative assets. The related credit risk is further reduced where the Group has master netting agreements with the derivative counterparties. The fair value of collateral held and the potential effect of offset obtained by applying master netting agreements are disclosed in Note 44 Offsetting of Financial Assets and Financial Liabilities.

Available-for-Sale (AFS) Investments

As of 30 June 2014, the Group held \$66,137 million (2013: \$59,601 million) of AFS Investments. As at this date there were no longer any holdings of securities issued by Australian banks, which were subject to an Australian Government guarantee (2013: \$523 million).

Due from Controlled Entities

Collateral is not generally taken on these intergroup balances

Credit Commitments and Contingent Liabilities

The Group applies fundamentally the same risk management policies for off balance sheet risks as it does for its on balance sheet risks. In the case of credit commitments, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

As at 30 June 2014, the Group had \$165,932 million (2013: \$152,876 million) of off balance sheet exposures (commitments and guarantees). Of these \$85,613 million (2013: \$82,199 million) are secured.

Loans, Bills Discounted and Other Receivables

The principal collateral types for loans and receivable balances are:

- Mortgages over residential and commercial real estate;
- Charges over business assets such as cash, scrip, inventory and accounts receivables; and
- Guarantees received from third parties.

Specifically, the collateral mitigating credit risk of the key lending portfolios is addressed in the table notes in the collateral held against Loans, bills discounted and other receivables section of this note.

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

The below tables detail the concentration of credit exposure assets by significant geographical locations and counterparty types. Disclosures do not take into account collateral held and other credit enhancements.

| | Group | | | | | | | | | |
|--|------------------------|--------------------------|---|-----------------------|---------------------------|---------------------------|----------------------------------|---|---------------|----------------|
| | At 30 June 2014 | | | | | | | | | |
| | Sovereign | Agri- culture | Bank & Other Financial | Home Loans | Constr- uction | Other Personal | Asset Financ- ing | Other Comm & Indust. | Other | Total |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | | | | | | |
| Credit risk exposures relating to on balance sheet assets: | | | | | | | | | | |
| Cash and liquid assets | - | - | 8,249 | - | - | - | - | - | - | 8,249 |
| Receivables due from other financial institutions | - | - | 3,707 | - | - | - | - | - | - | 3,707 |
| Assets at fair value through Income Statement: | | | | | | | | | | |
| Trading | 9,026 | - | 1,517 | - | - | - | - | 7,049 | - | 17,592 |
| Insurance ⁽¹⁾ | 767 | - | 7,425 | - | - | - | - | 4,816 | - | 13,008 |
| Other | 54 | - | 372 | - | - | - | - | - | - | 426 |
| Derivative assets | 414 | 48 | 21,989 | - | 19 | - | - | 3,268 | - | 25,738 |
| Available-for-sale investments | 32,097 | - | 24,795 | - | - | - | - | 947 | - | 57,839 |
| Loans, bills discounted and other receivables ⁽²⁾ | 5,920 | 5,864 | 10,179 | 360,218 | 2,679 | 23,047 | 8,078 | 110,453 | - | 526,438 |
| Bank acceptances | 2 | 2,226 | 128 | - | 536 | - | - | 2,092 | - | 4,984 |
| Other assets ⁽³⁾ | 77 | 16 | 4,794 | 642 | 7 | 76 | 9 | 393 | 12,868 | 18,882 |
| Total on balance sheet Australia | 48,357 | 8,154 | 83,155 | 360,860 | 3,241 | 23,123 | 8,087 | 129,018 | 12,868 | 676,863 |
| Credit risk exposures relating to off balance sheet assets: | | | | | | | | | | |
| Guarantees | 103 | 26 | 214 | - | 806 | - | - | 4,555 | - | 5,704 |
| Loan commitments | 808 | 1,701 | 2,577 | 64,904 | 1,832 | 21,551 | 7 | 36,316 | - | 129,696 |
| Other commitments | 57 | 20 | 4,634 | - | 490 | - | 147 | 2,056 | - | 7,404 |
| Total Australia | 49,325 | 9,901 | 90,580 | 425,764 | 6,369 | 44,674 | 8,241 | 171,945 | 12,868 | 819,667 |
| Overseas | | | | | | | | | | |
| Credit risk exposures relating to on balance sheet assets: | | | | | | | | | | |
| Cash and liquid assets | - | - | 18,160 | - | - | - | - | - | - | 18,160 |
| Receivables due from other financial institutions | - | - | 4,358 | - | - | - | - | - | - | 4,358 |
| Assets at fair value through Income Statement: | | | | | | | | | | |
| Trading | 1,426 | - | 571 | - | - | - | - | 1,870 | - | 3,867 |
| Insurance ⁽¹⁾ | - | - | 2,134 | - | - | - | - | - | - | 2,134 |
| Other | 138 | - | 196 | - | - | - | - | - | - | 334 |
| Derivative assets | 181 | 10 | 2,589 | - | - | - | - | 729 | - | 3,509 |
| Available-for-sale investments | 5,703 | - | 2,594 | - | - | - | - | 1 | - | 8,298 |
| Loans, bills discounted and other receivables ⁽²⁾ | 12,309 | 7,389 | 5,486 | 39,467 | 378 | 1,085 | 327 | 10,221 | - | 76,662 |
| Bank acceptances | - | 11 | - | - | - | - | - | 32 | - | 43 |
| Other assets ⁽³⁾ | 35 | - | 761 | 1 | 1 | 4 | 49 | 43 | 1,648 | 2,542 |
| Total on balance sheet overseas | 19,792 | 7,410 | 36,849 | 39,468 | 379 | 1,089 | 376 | 12,896 | 1,648 | 119,907 |
| Credit risk exposures relating to off balance sheet assets: | | | | | | | | | | |
| Guarantees | 1 | 3 | 50 | - | 82 | - | - | 281 | - | 417 |
| Loan commitments | 491 | 547 | 722 | 5,598 | 543 | 1,689 | - | 11,849 | - | 21,439 |
| Other commitments | 73 | - | - | - | 6 | - | - | 1,193 | - | 1,272 |
| Total overseas | 20,357 | 7,960 | 37,621 | 45,066 | 1,010 | 2,778 | 376 | 26,219 | 1,648 | 143,035 |
| Total gross credit risk | 69,682 | 17,861 | 128,201 | 470,830 | 7,379 | 47,452 | 8,617 | 198,164 | 14,516 | 962,702 |

- (1) In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.
- (2) Loans, bills discounted and other receivables is presented gross of provisions for impairment and unearned income on lease receivables in line with Note 12.
- (3) For the purpose of reconciling to the Balance Sheet, "Other assets" predominantly comprises assets which do not give rise to credit exposure, including Intangible assets, Property, plant and equipment and Other assets.

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Maximum Exposure to Credit Risk by Industry and Asset Class before Collateral Held or Other Credit Enhancements

| | Group | | | | | | | | | |
|--|------------------------|--------------------------|---|-----------------------|---------------------------|---------------------------|----------------------------------|---|---------------|----------------|
| | At 30 June 2013 | | | | | | | | | |
| | Sovereign | Agri- culture | Bank & Other Financial | Home Loans | Constr- uction | Other Personal | Asset Financ- ing | Other Comm & Indust. | Other | Total |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | | | | | | |
| Credit risk exposures relating to on balance sheet assets: | | | | | | | | | | |
| Cash and liquid assets | - | - | 5,857 | - | - | - | - | - | - | 5,857 |
| Receivables due from other financial institutions | - | - | 3,808 | - | - | - | - | - | - | 3,808 |
| Assets at fair value through Income Statement: | | | | | | | | | | |
| Trading | 9,726 | - | 1,078 | - | - | - | - | 2,406 | - | 13,210 |
| Insurance ⁽¹⁾ | 945 | - | 8,013 | - | - | - | - | 3,487 | - | 12,445 |
| Other | 44 | - | 145 | - | - | - | - | - | - | 189 |
| Derivative assets | 422 | 33 | 35,189 | - | 42 | - | - | 4,539 | - | 40,225 |
| Available-for-sale investments | 28,587 | - | 23,311 | - | - | - | - | 859 | - | 52,757 |
| Loans, bills discounted and other receivables ⁽²⁾ | 1,971 | 5,971 | 7,929 | 338,023 | 2,634 | 21,796 | 8,414 | 110,545 | - | 497,283 |
| Bank acceptances | 3 | 2,770 | 190 | - | 554 | - | - | 2,537 | - | 6,054 |
| Other assets ^{(3) (4)} | 98 | 22 | 1,802 | 770 | 7 | 49 | 12 | 469 | 17,607 | 20,836 |
| Total on balance sheet Australia | 41,796 | 8,796 | 87,322 | 338,793 | 3,237 | 21,845 | 8,426 | 124,842 | 17,607 | 652,664 |
| Credit risk exposures relating to off balance sheet assets: | | | | | | | | | | |
| Guarantees | 1,430 | 46 | 192 | - | 726 | - | - | 2,935 | - | 5,329 |
| Loan commitments | 919 | 1,470 | 1,905 | 60,584 | 1,615 | 18,625 | - | 37,686 | - | 122,804 |
| Other commitments | 123 | 22 | 3,477 | - | 538 | - | - | 1,903 | - | 6,063 |
| Total Australia | 44,268 | 10,334 | 92,896 | 399,377 | 6,116 | 40,470 | 8,426 | 167,366 | 17,607 | 786,860 |
| Overseas | | | | | | | | | | |
| Credit risk exposures relating to on balance sheet assets: | | | | | | | | | | |
| Cash and liquid assets | - | - | 14,777 | - | - | - | - | - | - | 14,777 |
| Receivables due from other financial institutions | - | - | 3,936 | - | - | - | - | - | - | 3,936 |
| Assets at fair value through Income Statement: | | | | | | | | | | |
| Trading | 493 | - | 798 | - | - | - | - | 5,116 | - | 6,407 |
| Insurance ⁽¹⁾ | - | - | 1,914 | - | - | - | - | - | - | 1,914 |
| Other | 587 | - | 131 | - | - | - | - | - | - | 718 |
| Derivative assets | 474 | 15 | 3,481 | - | - | - | - | 1,145 | - | 5,115 |
| Available-for-sale investments | 5,460 | - | 1,359 | - | - | - | - | 25 | - | 6,844 |
| Loans, bills discounted and other receivables ⁽²⁾ | 9,670 | 6,480 | 7,029 | 34,817 | 301 | 863 | 274 | 6,041 | - | 65,475 |
| Bank acceptances | - | - | - | - | - | - | - | 9 | - | 9 |
| Other assets ⁽³⁾ | 24 | 1 | 426 | 1 | 1 | - | 2 | 36 | 1,617 | 2,108 |
| Total on balance sheet overseas | 16,708 | 6,496 | 33,851 | 34,818 | 302 | 863 | 276 | 12,372 | 1,617 | 107,303 |
| Credit risk exposures relating to off balance sheet assets: | | | | | | | | | | |
| Guarantees | 7 | 2 | 43 | - | 45 | - | - | 270 | - | 367 |
| Loan commitments | 388 | 447 | 132 | 4,066 | 729 | 1,383 | - | 10,015 | - | 17,160 |
| Other commitments | 76 | 5 | 191 | - | 10 | - | 75 | 796 | - | 1,153 |
| Total overseas | 17,179 | 6,950 | 34,217 | 38,884 | 1,086 | 2,246 | 351 | 23,453 | 1,617 | 125,983 |
| Total gross credit risk | 61,447 | 17,284 | 127,113 | 438,261 | 7,202 | 42,716 | 8,777 | 190,819 | 19,224 | 912,843 |

(1) In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

(2) Loans, bills discounted and other receivables is presented gross of provisions for impairment and unearned income on lease receivables in line with Note 12.

(3) For the purpose of reconciling to the Balance Sheet, "Other assets" predominantly comprises assets which do not give rise to credit exposure, including Intangible assets, Property, plant and equipment and Other assets.

(4) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

Note 34 Credit Risk (continued)

Large Exposures

Concentrations of exposure to any debtor or counterparty group are controlled by a large credit exposure policy, which defines a graduated limit framework that restricts credit limits based on the internally assessed risk of the client, the type of client and the security cover. All exposures outside the policy limits require approval by the Executive Risk Committee and are reported to the Board Risk Committee.

The following table shows the aggregated number of the Group's Corporate and Industrial counterparty exposures (including direct and contingent exposures), which individually were greater than 5% of the Group's capital resources (Tier 1 and Tier 2 capital):

| | Group | |
|---|--------|--------|
| | 2014 | 2013 |
| | Number | Number |
| 5% to less than 10% of the Group's capital resources | 2 | - |
| 10% to less than 15% of the Group's capital resources | - | - |

The Group has a good quality and well diversified credit portfolio, with 60% of the gross loans and other receivables in domestic mortgage loans and a further 7% in overseas mortgage loans primarily in New Zealand. Overseas loans account for 13% of loans and advances.

The Group restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements are primarily used to manage the risk of derivative transactions and off balance sheet exposures. Balance Sheet assets and liabilities are usually settled on a gross basis.

The credit risk associated with favourable contracts is reduced by a master netting arrangement. The potential offset available to the Group under these arrangements is set out in Note 44 Offsetting of Financial Assets and Financial Liabilities.

Derivative financial instruments expose the Group to credit risk where there is a positive current fair value. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative. For further information regarding derivatives see Note 10.

The Group also nets its credit exposure through the operation of certain corporate facilities that allow on balance sheet netting for credit management purposes. On balance sheet netting reduced the credit risk of the Group by approximately \$20.0 billion as at 30 June 2014 (2013: \$16.7 billion).

Distribution of Financial Assets by Credit Classification

When doubt arises as to the collectability of a credit facility, the financial instrument is classified and reported as impaired. Provisions for impairment are raised where there is objective evidence of impairment and for an amount adequate to cover assessed credit related losses. The Group regularly reviews its financial assets and monitors adherence to contractual terms. Credit risk-rated portfolios are assessed, at least at each Balance Sheet date, to determine whether the financial asset or portfolio of assets is impaired.

Distribution of Financial Instruments by Credit Quality

| | Group | | | | | |
|---|-------------------------------------|---------------------------------|--------------------|------------------------------------|----------------|----------------|
| | 2014 | | | | | |
| | Neither Past Due nor Impaired | Past due but not Impaired | Impaired Assets | Total Provisions for Impairment | | Net |
| | \$M | \$M | \$M | Gross \$M | Losses \$M | |
| Cash and liquid assets | 26,409 | - | - | 26,409 | - | 26,409 |
| Receivables due from other financial institutions | 8,065 | - | - | 8,065 | - | 8,065 |
| Assets at fair value through Income Statement: | | | | | | |
| Trading | 21,459 | - | - | 21,459 | - | 21,459 |
| Insurance | 15,142 | - | - | 15,142 | - | 15,142 |
| Other | 760 | - | - | 760 | - | 760 |
| Derivative assets | 29,213 | - | 34 | 29,247 | - | 29,247 |
| Available-for-sale investments | 66,137 | - | - | 66,137 | - | 66,137 |
| Loans, bills discounted and other receivables: | | | | | | |
| Australia | 511,154 | 12,665 | 2,619 | 526,438 | (3,599) | 522,839 |
| Overseas | 73,188 | 2,923 | 551 | 76,662 | (267) | 76,395 |
| Bank acceptances | 5,027 | - | - | 5,027 | - | 5,027 |
| Credit related commitments | 165,769 | - | 163 | 165,932 | (40) | 165,892 |
| Total | 922,323 | 15,588 | 3,367 | 941,278 | (3,906) | 937,372 |

Notes to the Financial Statements

Note 34 Credit Risk (continued)

| | Group 2013 | | | | | |
|---|---|---|------------------------------------|--|-----------------------|--------------------|
| | Neither Past Due nor Impaired ⁽¹⁾ \$M | Past Due but not Impaired ⁽¹⁾ \$M | Impaired Assets \$M | Total Provisions for Impairment | | Net \$M |
| | | | | Gross \$M | Losses \$M | |
| Cash and liquid assets | 20,634 | - | - | 20,634 | - | 20,634 |
| Receivables due from other financial institutions | 7,744 | - | - | 7,744 | - | 7,744 |
| Assets at fair value through Income Statement: | | | | | | |
| Trading | 19,617 | - | - | 19,617 | - | 19,617 |
| Insurance | 14,359 | - | - | 14,359 | - | 14,359 |
| Other | 907 | - | - | 907 | - | 907 |
| Derivative assets | 45,337 | - | 3 | 45,340 | - | 45,340 |
| Available-for-sale investments | 59,601 | - | - | 59,601 | - | 59,601 |
| Loans, bills discounted and other receivables: | | | | | | |
| Australia | 480,575 | 13,170 | 3,539 | 497,284 | (4,198) | 493,086 |
| Overseas | 63,010 | 2,017 | 447 | 65,474 | (257) | 65,217 |
| Bank acceptances | 6,063 | - | - | 6,063 | - | 6,063 |
| Credit related commitments | 152,535 | - | 341 | 152,876 | (31) | 152,845 |
| Total | 870,382 | 15,187 | 4,330 | 889,899 | (4,486) | 885,413 |

| | Bank 2014 | | | | | |
|---|---|---|------------------------------------|--|-----------------------|--------------------|
| | Neither Past Due nor Impaired ⁽¹⁾ \$M | Past Due but not Impaired ⁽¹⁾ \$M | Impaired Assets \$M | Total Provisions for Impairment | | Net \$M |
| | | | | Gross \$M | Losses \$M | |
| Cash and liquid assets | 24,108 | - | - | 24,108 | - | 24,108 |
| Receivables due from other financial institutions | 7,457 | - | - | 7,457 | - | 7,457 |
| Assets at fair value through Income Statement: | | | | | | |
| Trading | 20,572 | - | - | 20,572 | - | 20,572 |
| Insurance | - | - | - | - | - | - |
| Other | 561 | - | - | 561 | - | 561 |
| Derivative assets | 29,582 | - | 33 | 29,615 | - | 29,615 |
| Available-for-sale investments | 131,577 | - | - | 131,577 | - | 131,577 |
| Loans, bills discounted and other receivables: | | | | | | |
| Australia | 507,950 | 12,658 | 2,576 | 523,184 | (3,563) | 519,621 |
| Overseas | 16,622 | 21 | 233 | 16,876 | (71) | 16,805 |
| Bank acceptances | 4,984 | - | - | 4,984 | - | 4,984 |
| Shares in and loans to controlled entities | 64,086 | - | - | 64,086 | - | 64,086 |
| Credit related commitments | 153,226 | - | 157 | 153,383 | (40) | 153,343 |
| Total | 960,725 | 12,679 | 2,999 | 976,403 | (3,674) | 972,729 |

| | Bank 2013 | | | | | |
|---|---|---|------------------------------------|--|-----------------------|--------------------|
| | Neither Past Due nor Impaired ⁽¹⁾ \$M | Past Due but not Impaired ⁽¹⁾ \$M | Impaired Assets \$M | Total Provisions for Impairment | | Net \$M |
| | | | | Gross \$M | Losses \$M | |
| Cash and liquid assets | 18,030 | - | - | 18,030 | - | 18,030 |
| Receivables due from other financial institutions | 6,998 | - | - | 6,998 | - | 6,998 |
| Assets at fair value through Income Statement: | | | | | | |
| Trading | 18,398 | - | - | 18,398 | - | 18,398 |
| Insurance | - | - | - | - | - | - |
| Other | 718 | - | - | 718 | - | 718 |
| Derivative assets | 45,200 | - | 3 | 45,203 | - | 45,203 |
| Available-for-sale investments | 125,941 | - | - | 125,941 | - | 125,941 |
| Loans, bills discounted and other receivables: | | | | | | |
| Australia | 477,823 | 13,150 | 3,495 | 494,468 | (4,168) | 490,300 |
| Overseas | 13,278 | 8 | 98 | 13,384 | (45) | 13,339 |
| Bank acceptances | 6,059 | - | - | 6,059 | - | 6,059 |
| Shares in and loans to controlled entities | 63,017 | - | - | 63,017 | - | 63,017 |
| Credit related commitments | 141,896 | - | 339 | 142,235 | (31) | 142,204 |
| Total | 917,358 | 13,158 | 3,935 | 934,451 | (4,244) | 930,207 |

(1) Comparative information has been restated to conform to presentation in the current period.

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Financial Assets Assessed as Impaired

| | 2014 | | | Group 2013 | | |
|--|-----------------------|---|---------------------|-----------------------|---|---------------------|
| | Gross Impaired Assets | Total Provisions for Impaired Assets ⁽¹⁾ | Net Impaired Assets | Gross Impaired Assets | Total Provisions for Impaired Assets ⁽¹⁾ | Net Impaired Assets |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | | |
| Home loans | 755 | (151) | 604 | 946 | (182) | 764 |
| Other personal | 261 | (145) | 116 | 255 | (142) | 113 |
| Asset financing | 85 | (30) | 55 | 58 | (23) | 35 |
| Other commercial and industrial | 1,630 | (840) | 790 | 2,620 | (1,345) | 1,275 |
| Financial assets assessed as impaired - Australia | 2,731 | (1,166) | 1,565 | 3,879 | (1,692) | 2,187 |
| Overseas | | | | | | |
| Home loans | 143 | (11) | 132 | 171 | (17) | 154 |
| Other personal | 11 | (8) | 3 | 9 | (3) | 6 |
| Asset financing | 2 | - | 2 | 4 | - | 4 |
| Other commercial and industrial | 480 | (81) | 399 | 267 | (47) | 220 |
| Financial assets assessed as impaired - overseas | 636 | (100) | 536 | 451 | (67) | 384 |
| Total financial assets assessed as impaired | 3,367 | (1,266) | 2,101 | 4,330 | (1,759) | 2,571 |

| | 2014 | | | Bank 2013 | | |
|--|-----------------------|---|---------------------|-----------------------|---|---------------------|
| | Gross Impaired Assets | Total Provisions for Impaired Assets ⁽¹⁾ | Net Impaired Assets | Gross Impaired Assets | Total Provisions for Impaired Assets ⁽¹⁾ | Net Impaired Assets |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | | |
| Home loans | 753 | (151) | 602 | 945 | (182) | 763 |
| Other personal | 261 | (145) | 116 | 255 | (142) | 113 |
| Asset financing | 85 | (30) | 55 | 56 | (22) | 34 |
| Other commercial and industrial | 1,589 | (840) | 749 | 2,578 | (1,345) | 1,233 |
| Financial assets assessed as impaired - Australia | 2,688 | (1,166) | 1,522 | 3,834 | (1,691) | 2,143 |
| Overseas | | | | | | |
| Home loans | 1 | - | 1 | - | - | - |
| Other personal | - | - | - | - | - | - |
| Asset financing | - | - | - | 1 | - | 1 |
| Other commercial and industrial | 310 | (52) | 258 | 100 | (22) | 78 |
| Financial assets assessed as impaired - overseas | 311 | (52) | 259 | 101 | (22) | 79 |
| Total financial assets assessed as impaired | 2,999 | (1,218) | 1,781 | 3,935 | (1,713) | 2,222 |

(1) This includes individually assessed provisions, as well as collective provisions held for these portfolios.

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Distribution of Loans, Bills Discounted and Other Receivables by Impairment Status

The table below segregates the loans, bills discounted and other receivables into neither past due nor impaired, past due but not impaired and impaired. An asset is considered to be past due when any payment under the contractual terms has been missed.

The amount included as past due is the entire contractual balance, rather than the overdue portion.

The split in the tables below does not reflect the basis by which the Group manages credit risk.

| | Group | | Bank | |
|--|----------------|--------------------|----------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M ⁽¹⁾ | \$M | \$M ⁽¹⁾ |
| Distribution of loans by credit quality | | | | |
| Gross loans | | | | |
| Australia | | | | |
| Neither past due nor impaired | 511,154 | 480,575 | 507,950 | 477,823 |
| Past due but not impaired | 12,665 | 13,170 | 12,658 | 13,150 |
| Impaired | 2,619 | 3,539 | 2,576 | 3,495 |
| Total Australia | 526,438 | 497,284 | 523,184 | 494,468 |
| Overseas | | | | |
| Neither past due nor impaired | 73,188 | 63,010 | 16,622 | 13,278 |
| Past due but not impaired | 2,923 | 2,017 | 21 | 8 |
| Impaired | 551 | 447 | 233 | 98 |
| Total overseas | 76,662 | 65,474 | 16,876 | 13,384 |
| Total gross loans | 603,100 | 562,758 | 540,060 | 507,852 |

(1) Comparative information has been restated to conform to presentation in the current year.

Credit Quality of Loans, Bills Discounted and Other Financial Assets which were Neither Past Due nor Impaired

For the analysis below, financial assets that are neither past due nor impaired have been segmented into investment, pass and weak classifications. This segmentation of loans in retail and risk-rated portfolios is based on the mapping of a customer's internally assessed PD to Standard and Poor's ratings, reflecting a client's ability to meet their credit obligations. In particular, retail PD pools have been aligned to the Group's PD grades which are consistent with rating agency views of credit quality segmentation. Investment grade is representative of lower assessed default probabilities with other classifications reflecting progressively higher default risk. No consideration is given to LGD, the impact of any recoveries or the potential benefit of mortgage insurance.

Segmentation of financial assets other than loans is based on external credit ratings of the counterparties and issuers of financial instruments held by the Group and the Bank.

| | Group | | | | Total |
|---|----------------|----------------|-----------------|---------------------------------|----------------|
| | 2014 | | | | |
| | Home Loans | Other Personal | Asset Financing | Other Commercial and Industrial | |
| | \$M | \$M | \$M | \$M | \$M |
| Credit grading | | | | | |
| Australia | | | | | |
| Investment | 236,487 | 4,367 | 597 | 86,674 | 328,125 |
| Pass | 104,144 | 13,647 | 7,060 | 43,557 | 168,408 |
| Weak | 9,110 | 3,845 | 218 | 1,448 | 14,621 |
| Total Australia | 349,741 | 21,859 | 7,875 | 131,679 | 511,154 |
| Overseas⁽¹⁾ | | | | | |
| Investment | 11,819 | - | 12 | 23,802 | 35,633 |
| Pass | 24,979 | 738 | 300 | 11,146 | 37,163 |
| Weak | 264 | - | 1 | 127 | 392 |
| Total overseas | 37,062 | 738 | 313 | 35,075 | 73,188 |
| Total loans which were neither past due nor impaired | 386,803 | 22,597 | 8,188 | 166,754 | 584,342 |

(1) For New Zealand Housing Loans, PDs reflect Reserve Bank of New Zealand requirements resulting in higher PDs on average and lower grading.

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Credit Quality of Loans, Bills Discounted and Other Financial Assets which were Neither Past Due nor Impaired (continued)

| | | | | | Group 2013 |
|---|----------------|-------------------|--------------------|---------------------------------------|----------------|
| | Home Loans | Other Personal | Asset Financing | Other Commercial and Industrial | Total |
| Credit grading ⁽¹⁾ | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Investment | 224,531 | 3,582 | 712 | 81,617 | 310,442 |
| Pass | 93,671 | 13,490 | 7,447 | 41,058 | 155,666 |
| Weak | 8,575 | 3,547 | 98 | 2,247 | 14,467 |
| Total Australia | 326,777 | 20,619 | 8,257 | 124,922 | 480,575 |
| Overseas ⁽²⁾ | | | | | |
| Investment | 8,129 | - | 10 | 19,682 | 27,821 |
| Pass | 24,365 | 644 | 240 | 8,982 | 34,231 |
| Weak | 590 | - | - | 368 | 958 |
| Total overseas | 33,084 | 644 | 250 | 29,032 | 63,010 |
| Total loans which were neither past due nor impaired | 359,861 | 21,263 | 8,507 | 153,954 | 543,585 |

(1) Comparative information has been restated to conform to presentation in the current year.

(2) For New Zealand Housing Loans, PDs reflect Reserve Bank of New Zealand requirements resulting in higher PDs on average and lower grading.

| | | | | | Bank 2014 |
|---|----------------|-------------------|--------------------|---------------------------------------|----------------|
| | Home Loans | Other Personal | Asset Financing | Other Commercial and Industrial | Total |
| Credit grading | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Investment | 236,276 | 4,366 | 549 | 85,772 | 326,963 |
| Pass | 102,495 | 13,647 | 7,010 | 43,277 | 166,429 |
| Weak | 9,103 | 3,845 | 217 | 1,393 | 14,558 |
| Total Australia | 347,874 | 21,858 | 7,776 | 130,442 | 507,950 |
| Overseas | | | | | |
| Investment | 158 | - | 1 | 14,645 | 14,804 |
| Pass | 305 | 13 | 3 | 1,497 | 1,818 |
| Weak | - | - | - | - | - |
| Total overseas | 463 | 13 | 4 | 16,142 | 16,622 |
| Total loans which were neither past due nor impaired | 348,337 | 21,871 | 7,780 | 146,584 | 524,572 |

| | | | | | Bank 2013 |
|---|----------------|-------------------|--------------------|---------------------------------------|----------------|
| | Home Loans | Other Personal | Asset Financing | Other Commercial and Industrial | Total |
| Credit grading ⁽¹⁾ | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Investment | 224,244 | 3,581 | 659 | 80,679 | 309,163 |
| Pass | 92,888 | 13,490 | 7,324 | 40,603 | 154,305 |
| Weak | 8,563 | 3,547 | 94 | 2,151 | 14,355 |
| Total Australia | 325,695 | 20,618 | 8,077 | 123,433 | 477,823 |
| Overseas | | | | | |
| Investment | 188 | - | 1 | 11,469 | 11,658 |
| Pass | 258 | 13 | 1 | 1,272 | 1,544 |
| Weak | 3 | - | - | 73 | 76 |
| Total overseas | 449 | 13 | 2 | 12,814 | 13,278 |
| Total loans which were neither past due nor impaired | 326,144 | 20,631 | 8,079 | 136,247 | 491,101 |

(1) Comparative information has been restated to conform to presentation in the current year.

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Other Financial Assets which were Neither Past Due nor Impaired

The majority of all other financial assets of the Group and the Bank that were neither past due nor impaired as of 30 June 2014 and 30 June 2013 were of investment grade.

Age Analysis of Loans, Bills Discounted and Other Receivables that are Past Due but Not Impaired

For the purposes of this analysis an asset is considered to be past due when any payment under the contractual terms has been missed.

Past due loans are not classified as impaired if no loss to the Group is expected or if the loans are unsecured consumer loans and less than 90 days past due.

| | | | | | Group 2014 |
|---|---------------|----------------------------------|--------------------|---------------------------------------|---------------|
| | Home Loans | Other Personal ⁽¹⁾ | Asset Financing | Other Commercial and Industrial | Total |
| | \$M | \$M | \$M | \$M | \$M |
| Loans which were past due but not impaired | | | | | |
| Australia | | | | | |
| Past due 1 - 29 days | 5,639 | 622 | 66 | 797 | 7,124 |
| Past due 30 - 59 days | 1,731 | 185 | 39 | 255 | 2,210 |
| Past due 60 - 89 days | 830 | 111 | 11 | 147 | 1,099 |
| Past due 90 - 179 days | 860 | - | - | 274 | 1,134 |
| Past due 180 days or more | 676 | 10 | - | 412 | 1,098 |
| Total Australia | 9,736 | 928 | 116 | 1,885 | 12,665 |
| Overseas | | | | | |
| Past due 1 - 29 days | 1,829 | 253 | 9 | 285 | 2,376 |
| Past due 30 - 59 days | 254 | 39 | 2 | 10 | 305 |
| Past due 60 - 89 days | 95 | 22 | 1 | 3 | 121 |
| Past due 90 - 179 days | 57 | 15 | 1 | 5 | 78 |
| Past due 180 days or more | 27 | 7 | - | 9 | 43 |
| Total overseas | 2,262 | 336 | 13 | 312 | 2,923 |
| Total loans which were past due but not impaired | 11,998 | 1,264 | 129 | 2,197 | 15,588 |

| | | | | | Group 2013 |
|---|------------------------------|----------------------------------|--------------------|---------------------------------------|---------------|
| | Home Loans ⁽²⁾ | Other Personal ⁽¹⁾ | Asset Financing | Other Commercial and Industrial | Total |
| | \$M | \$M | \$M | \$M | \$M |
| Loans which were past due but not impaired | | | | | |
| Australia | | | | | |
| Past due 1 - 29 days | 5,999 | 620 | 62 | 948 | 7,629 |
| Past due 30 - 59 days | 1,754 | 178 | 26 | 229 | 2,187 |
| Past due 60 - 89 days | 896 | 109 | 10 | 247 | 1,262 |
| Past due 90 - 179 days | 891 | - | 1 | 151 | 1,043 |
| Past due 180 days or more | 781 | 15 | - | 253 | 1,049 |
| Total Australia | 10,321 | 922 | 99 | 1,828 | 13,170 |
| Overseas | | | | | |
| Past due 1 - 29 days | 1,195 | 149 | 15 | 193 | 1,552 |
| Past due 30 - 59 days | 212 | 38 | 3 | 6 | 259 |
| Past due 60 - 89 days | 65 | 11 | 1 | 6 | 83 |
| Past due 90 - 179 days | 58 | 5 | 2 | 3 | 68 |
| Past due 180 days or more | 30 | 5 | - | 20 | 55 |
| Total overseas | 1,560 | 208 | 21 | 228 | 2,017 |
| Total loans which were past due but not impaired | 11,881 | 1,130 | 120 | 2,056 | 15,187 |

(1) Included in these balances are credit card facilities and other unsecured portfolio managed facilities up to 90 days past due. At 90 days past due, the loans are classified as impaired.

(2) Certain comparative information has been restated to conform to presentation in the current year.

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Age Analysis of Loans, Bills Discounted and Other Receivables that are Past Due but Not Impaired (continued)

| | | | | | Bank 2014 |
|---|---------------|----------------------------------|--------------------|---------------------------------------|---------------|
| | Home Loans | Other Personal ⁽¹⁾ | Asset Financing | Other Commercial and Industrial | Total |
| Loans which were past due but not impaired | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Past due 1 - 29 days | 5,635 | 622 | 66 | 797 | 7,120 |
| Past due 30 - 59 days | 1,729 | 185 | 39 | 255 | 2,208 |
| Past due 60 - 89 days | 829 | 111 | 10 | 147 | 1,097 |
| Past due 90 - 179 days | 860 | - | - | 274 | 1,134 |
| Past due 180 days or more | 676 | 10 | - | 413 | 1,099 |
| Total Australia | 9,729 | 928 | 115 | 1,886 | 12,658 |
| Overseas | | | | | |
| Past due 1 - 29 days | 15 | - | - | 3 | 18 |
| Past due 30 - 59 days | 1 | - | - | - | 1 |
| Past due 60 - 89 days | - | - | - | - | - |
| Past due 90 - 179 days | 1 | - | - | - | 1 |
| Past due 180 days or more | 1 | - | - | - | 1 |
| Total overseas | 18 | - | - | 3 | 21 |
| Total loans which were past due but not impaired | 9,747 | 928 | 115 | 1,889 | 12,679 |

| | | | | | Bank 2013 |
|---|------------------------------|----------------------------------|--------------------|---------------------------------------|---------------|
| | Home Loans ⁽²⁾ | Other Personal ⁽¹⁾ | Asset Financing | Other Commercial and Industrial | Total |
| Loans which were past due but not impaired | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Past due 1 - 29 days | 5,992 | 620 | 59 | 948 | 7,619 |
| Past due 30 - 59 days | 1,753 | 178 | 25 | 229 | 2,185 |
| Past due 60 - 89 days | 895 | 109 | 7 | 247 | 1,258 |
| Past due 90 - 179 days | 889 | - | - | 151 | 1,040 |
| Past due 180 days or more | 780 | 15 | - | 253 | 1,048 |
| Total Australia | 10,309 | 922 | 91 | 1,828 | 13,150 |
| Overseas | | | | | |
| Past due 1 - 29 days | 4 | - | - | - | 4 |
| Past due 30 - 59 days | 2 | - | - | - | 2 |
| Past due 60 - 89 days | - | - | - | - | - |
| Past due 90 - 179 days | 2 | - | - | - | 2 |
| Past due 180 days or more | - | - | - | - | - |
| Total overseas | 8 | - | - | - | 8 |
| Total loans which were past due but not impaired | 10,317 | 922 | 91 | 1,828 | 13,158 |

(1) Included in these balances are credit card facilities and other unsecured portfolio managed facilities up to 90 days past due. At 90 days past due, the loans are classified as impaired.

(2) Certain comparative information has been restated to conform to presentation in the current year.

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Impaired Assets by Classification

Assets in credit risk rated portfolios and home loan portfolios are assessed for objective evidence that the financial asset is impaired. Impaired assets in the unsecured retail segment are those facilities that are past due 90 days or more.

Impaired assets are split into the following categories:

- Non-Performing Facilities;
- Restructured Facilities; and
- Unsecured retail products 90 days or more past due.

Non-performing facilities are facilities against which an individually assessed provision for impairment has been raised and facilities where loss of principal or interest is anticipated.

Restructured facilities are facilities where the original contractual terms have been modified to non-commercial terms due to financial difficulties of the borrower. Interest on these facilities is taken to the Income Statement. Failure to comply fully with the modified terms will result in immediate reclassification to non-performing.

Unsecured retail products 90 days or more past due are credit cards, personal loans and other unsecured retail products which are 90 days or more past due. These loans are collectively provided for.

The Group does not manage credit risk based solely on arrears categorisation, but also uses credit risk rating principles as described earlier in this note.

| | Group | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | |
| Non-Performing assets: | | | | | |
| Gross balances | 2,134 | 3,316 | 3,966 | 4,592 | 4,633 |
| Less individual provisions for impairment | (1,035) | (1,564) | (1,920) | (2,031) | (1,915) |
| Net non-performing assets | 1,099 | 1,752 | 2,046 | 2,561 | 2,718 |
| Restructured assets: | | | | | |
| Gross balances | 361 | 346 | 93 | 38 | 78 |
| Less individual provisions for impairment | - | - | - | - | - |
| Net restructured assets | 361 | 346 | 93 | 38 | 78 |
| Unsecured retail products 90 days or more past due: | | | | | |
| Gross balances | 236 | 217 | 204 | 202 | 205 |
| Less provisions for impairment ⁽¹⁾ | (131) | (128) | (120) | (109) | (107) |
| Unsecured retail products 90 days or more past due | 105 | 89 | 84 | 93 | 98 |
| Net Australia impaired assets | 1,565 | 2,187 | 2,223 | 2,692 | 2,894 |
| Overseas | | | | | |
| Non-Performing assets: | | | | | |
| Gross balances | 377 | 356 | 344 | 467 | 317 |
| Less individual provisions for impairment | (92) | (64) | (88) | (94) | (77) |
| Net non-performing assets | 285 | 292 | 256 | 373 | 240 |
| Restructured assets: | | | | | |
| Gross balances | 248 | 87 | 70 | 189 | 169 |
| Less individual provisions for impairment | - | - | - | - | - |
| Net restructured assets | 248 | 87 | 70 | 189 | 169 |
| Unsecured retail products 90 days or more past due: | | | | | |
| Gross balances | 11 | 8 | 10 | 14 | 17 |
| Less provisions for impairment ⁽¹⁾ | (8) | (3) | (3) | (3) | (3) |
| Unsecured retail products 90 days or more past due | 3 | 5 | 7 | 11 | 14 |
| Net overseas impaired assets | 536 | 384 | 333 | 573 | 423 |
| Total net impaired assets | 2,101 | 2,571 | 2,556 | 3,265 | 3,317 |

(1) Collective provisions are held for these portfolios.

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Impaired Assets by Size

| | Australia | | Overseas | | Group | |
|--------------------------------|--------------|------------|--------------|--------------|------------|--------------|
| | 2014 | 2014 | 2014 | 2013 | 2013 | 2013 |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Impaired assets by size | | | | | | |
| Less than \$1 million | 1,203 | 160 | 1,363 | 1,359 | 185 | 1,544 |
| \$1 million to \$10 million | 902 | 125 | 1,027 | 1,159 | 146 | 1,305 |
| Greater than \$10 million | 626 | 351 | 977 | 1,361 | 120 | 1,481 |
| Total | 2,731 | 636 | 3,367 | 3,879 | 451 | 4,330 |

Movement in Impaired Assets

| Movement in gross impaired assets | Group | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | \$M | \$M | \$M | \$M | \$M |
| Gross impaired assets - opening balance | 4,330 | 4,687 | 5,502 | 5,419 | 4,210 |
| New and increased | 2,393 | 3,016 | 3,389 | 4,156 | 5,455 |
| Balances written off | (1,697) | (1,774) | (1,687) | (1,798) | (1,904) |
| Returned to performing or repaid | (2,303) | (2,165) | (3,040) | (2,740) | (2,545) |
| Portfolio managed - new/increased/return to performing/repaid ⁽¹⁾ | 644 | 566 | 523 | 465 | 203 |
| Gross impaired assets - closing balance | 3,367 | 4,330 | 4,687 | 5,502 | 5,419 |

(1) 2010 represents the balance of unsecured retail products 90 days or more past due.

Impaired Loans by Industry and Status

| Industry | Group | | | | | | |
|---------------------------------|----------------------|--------------|--------------------------------------|--------------------|--------------|--------------|----------------|
| | Gross Impaired Loans | | Total Provisions for Impaired Assets | Net Impaired Loans | Write-offs | Recoveries | Net Write-offs |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | | | |
| Sovereign | 5,920 | - | - | - | - | - | - |
| Agriculture | 5,864 | 326 | (123) | 203 | 138 | - | 138 |
| Bank and other financial | 10,179 | 73 | (68) | 5 | 122 | (6) | 116 |
| Home loans | 360,218 | 743 | (151) | 592 | 113 | (4) | 109 |
| Construction | 2,679 | 42 | (29) | 13 | 52 | - | 52 |
| Other personal | 23,047 | 260 | (145) | 115 | 677 | (106) | 571 |
| Asset financing | 8,078 | 85 | (30) | 55 | 37 | (5) | 32 |
| Other commercial and industrial | 110,453 | 1,090 | (620) | 470 | 568 | (27) | 541 |
| Total Australia | 526,438 | 2,619 | (1,166) | 1,453 | 1,707 | (148) | 1,559 |
| Overseas | | | | | | | |
| Sovereign | 12,309 | - | - | - | - | - | - |
| Agriculture | 7,389 | 72 | (3) | 69 | 3 | (3) | - |
| Bank and other financial | 5,486 | 30 | (15) | 15 | - | (3) | (3) |
| Home loans | 39,467 | 143 | (11) | 132 | 13 | (1) | 12 |
| Construction | 378 | 5 | (1) | 4 | - | - | - |
| Other personal | 1,085 | 11 | (8) | 3 | 30 | (8) | 22 |
| Asset financing | 327 | 2 | - | 2 | - | - | - |
| Other commercial and industrial | 10,221 | 288 | (62) | 226 | 60 | (2) | 58 |
| Total overseas | 76,662 | 551 | (100) | 451 | 106 | (17) | 89 |
| Gross balances | 603,100 | 3,170 | (1,266) | 1,904 | 1,813 | (165) | 1,648 |

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Impaired Loans by Industry and Status (continued)

| Industry | Group 2013 | | | | | | |
|---------------------------------|----------------|----------------------|--------------------------------------|--------------------|--------------|--------------|----------------|
| | Loans | Gross Impaired Loans | Total Provisions for Impaired Assets | Net Impaired Loans | Write-offs | Recoveries | Net Write-offs |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Australia | | | | | | | |
| Sovereign | 1,971 | - | - | - | - | - | - |
| Agriculture | 5,971 | 398 | (168) | 230 | 30 | - | 30 |
| Bank and other financial | 7,929 | 300 | (217) | 83 | 79 | (8) | 71 |
| Home Loans | 338,023 | 924 | (182) | 742 | 217 | (4) | 213 |
| Construction | 2,634 | 110 | (89) | 21 | 139 | - | 139 |
| Other personal | 21,796 | 255 | (142) | 113 | 622 | (113) | 509 |
| Asset financing | 8,414 | 58 | (23) | 35 | 25 | (6) | 19 |
| Other commercial and industrial | 110,545 | 1,494 | (871) | 623 | 686 | (13) | 673 |
| Total Australia | 497,283 | 3,539 | (1,692) | 1,847 | 1,798 | (144) | 1,654 |
| Overseas | | | | | | | |
| Sovereign | 9,670 | - | - | - | - | - | - |
| Agriculture | 6,480 | 142 | (16) | 126 | 4 | - | 4 |
| Bank and other financial | 7,029 | 36 | (5) | 31 | 10 | (1) | 9 |
| Home Loans | 34,817 | 171 | (17) | 154 | 21 | (1) | 20 |
| Construction | 301 | 4 | - | 4 | - | - | - |
| Other personal | 863 | 9 | (3) | 6 | 25 | (8) | 17 |
| Asset financing | 274 | 4 | - | 4 | - | - | - |
| Other commercial and industrial | 6,041 | 81 | (26) | 55 | 31 | - | 31 |
| Total overseas | 65,475 | 447 | (67) | 380 | 91 | (10) | 81 |
| Gross balances | 562,758 | 3,986 | (1,759) | 2,227 | 1,889 | (154) | 1,735 |

Collateral held against Loans, Bills Discounted and Other Receivables

| | Group 2014 | | | | |
|-----------------------------------|-------------------------------|----------------|-----------------|---------------------------------|----------------|
| | Home Loans | Other Personal | Asset Financing | Other Commercial and Industrial | Total |
| | Maximum exposure (\$M) | 399,685 | 24,132 | 8,405 | 170,877 |
| Collateral classification: | | | | | |
| Secured (%) | 99.3 | 14.3 | 99.0 | 43.2 | 80.0 |
| Partially secured (%) | 0.7 | - | 1.0 | 13.5 | 4.3 |
| Unsecured (%) | - | 85.7 | - | 43.3 | 15.7 |

| | Group 2013 | | | | |
|-----------------------------------|-------------------------------|----------------|-----------------|---------------------------------|----------------|
| | Home Loans | Other Personal | Asset Financing | Other Commercial and Industrial | Total |
| | Maximum exposure (\$M) | 372,840 | 22,659 | 8,688 | 158,571 |
| Collateral classification: | | | | | |
| Secured (%) | 99.1 | 15.0 | 99.3 | 44.6 | 80.4 |
| Partially secured (%) | 0.9 | - | 0.7 | 14.5 | 4.7 |
| Unsecured (%) | - | 85.0 | - | 40.9 | 14.9 |

Notes to the Financial Statements

Note 34 Credit Risk (continued)

Collateral held against Loans, Bills Discounted and Other Receivables (continued)

| | | | | | Bank 2014 |
|-----------------------------------|-----------------------|---------------------------|----------------------------|--|----------------------|
| | Home Loans | Other Personal | Asset Financing | Other Commercial and Industrial | Total |
| Maximum exposure (\$M) | 358,824 | 23,060 | 7,979 | 150,197 | 540,060 |
| Collateral classification: | | | | | |
| Secured (%) | 99.2 | 14.8 | 98.9 | 42.1 | 79.8 |
| Partially secured (%) | 0.8 | - | 1.1 | 12.8 | 4.1 |
| Unsecured (%) | - | 85.2 | - | 45.1 | 16.1 |
| | | | | | Bank 2013 |
| | Home Loans | Other Personal | Asset Financing | Other Commercial and Industrial | Total |
| Maximum exposure (\$M) | 337,384 | 21,808 | 8,227 | 140,433 | 507,852 |
| Collateral classification: | | | | | |
| Secured (%) | 99.1 | 15.4 | 99.2 | 44.5 | 80.5 |
| Partially secured (%) | 0.9 | - | 0.8 | 13.7 | 4.4 |
| Unsecured (%) | - | 84.6 | - | 41.8 | 15.1 |

A facility is determined to be secured where the ratio of the exposure to that facility to the estimated value of the collateral (adjusted for lending margins) is less than or equal to 100%. A facility is deemed to be partially secured when this ratio exceeds 100% but not more than 250%, and unsecured when either no security is held, (e.g. can include credit cards, personal loans, and exposures to highly rated corporate entities), or where the secured loan to estimated value of collateral exceeds 250%.

Home Loans

All home loans are secured by fixed charges over borrowers' residential properties, other properties (including commercial and broad acre), or cash (usually in the form of a charge over a deposit). Further, with the exception of some relatively small portfolios, for loans with a Loan to Valuation (LVR) of higher than 80% either a Low Deposit Premium is levied, or Lenders Mortgage Insurance (LMI) is taken out to cover 100% of the principal amount at default plus interest.

Personal Lending

Personal lending (such as credit cards), is predominantly unsecured.

Asset Finance

The Group leases assets to corporate and retail clients. When the title to the underlying assets are held by the Group as collateral, the balance is deemed fully secured. In other instances, a client's facilities may be secured by collateral valued at less than the carrying amount of credit exposure. These facilities are deemed partially secured or unsecured.

Other Commercial and Industrial Lending

The Group's main collateral types for other commercial and industrial lending consists of secured rights over specified assets of the borrower in the form of: commercial property; land rights; cash (usually in the form of a charge over a deposit); guarantees by company directors supporting commercial lending; a charge over a company's assets (including debtors, stock and work in progress); or a charge over stock or scrip. In other instances, a client's facilities may be secured by collateral with value less than the carrying amount of the credit exposure. These facilities are deemed partially secured or unsecured.

Notes to the Financial Statements

Note 35 Market Risk

Market Risk

Market risk is the potential of an adverse impact on the Group's earnings from changes in interest rates, foreign exchange rates, commodity and equity prices, credit spreads, and the resale value of assets underlying operating leases at maturity (lease residual value risk).

The Group makes a distinction between Traded and Non-traded market risks for the purposes of risk management, measurement and reporting. Traded market risks principally arise from the Group's trading book activities within the Institutional Banking and Markets business and ASB.

The predominant Non-traded market risk is interest rate risk that arises from banking book activities. Other Non-traded market risks are Non-traded equity risk, market risk arising from the insurance business, structural foreign exchange risk and lease residual value risk.

The Group's assessment of regulatory capital required under the Basel II and Basel III framework is discussed in Note 27.

Market Risk Measurement

The Group uses Value-at-Risk (VaR) as one of the measures of Traded and Non-traded market risk. VaR measures potential loss using historically observed market volatility and correlation between different markets. The VaR measured for Traded market risk uses two years of daily movements in market rates. The VaR measure for Non-traded Banking Book market risk uses six years of daily movement in market rates.

VaR is modelled at a 97.5% confidence level over a 1 day holding period for trading book positions. A 20 day holding period is used for interest rate risk in the banking book (IRRBB), insurance business market risk and Non-traded equity risk.

Stressed VaR is calculated for Traded market risk using the same methodology as the regular Traded market risk VaR except that the historical data is taken from a one year observation period of significant market volatility as seen during the Global Financial Crisis (GFC).

VaR is driven by actual historical observations and is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, management also uses stress testing to measure the potential for economic loss at confidence levels significantly higher than 97.5%. Management then uses the results in its decisions to manage the economic impact of market risk positions.

The stress events considered for market risk are extreme but plausible market movements, and have been back-tested against moves seen during 2008 and 2009 at the height of the GFC. The results are reported to the Board Risk Committee and the Group's Asset and Liability Committee (ALCO) on a regular basis. Stress tests also include a range of forward looking macro scenario stresses.

The following table provides a summary of VaR, across the Group, for those market risk types where it is appropriate to use this measure.

| Total Market Risk VaR (1 day 97.5% confidence) | Average ⁽¹⁾ | As at | Average ⁽¹⁾ | As at |
|--|------------------------|--------------|------------------------|--------------|
| | June 2014 | June 2014 | June 2013 | June 2013 |
| | \$M | \$M | \$M | \$M |
| Traded Market Risk | 11.0 | 7.8 | 9.1 | 11.6 |
| Non-Traded Interest Rate Risk ⁽²⁾ | 11.9 | 19.0 | 15.3 | 9.0 |
| Non-Traded Equity Risk ⁽²⁾ | 20.3 | 15.6 | 22.4 | 25.0 |
| Non-Traded Insurance Market Risk ⁽²⁾ | 5.8 | 4.7 | 7.5 | 6.9 |

(1) Average VaR calculated for each twelve month period.

(2) The risk of these exposures has been represented in this table using a one day holding period. In practice however, these 'non-traded' exposures are managed to a longer holding period.

Traded Market Risk

The Group trades and distributes financial markets products and provides risk management services to customers on a global basis.

The objectives of the Group's financial markets activities are to:

- Provide risk management capital markets products and services to customers;
- Efficiently assist in managing the Group's own market risks; and
- Conduct profitable market making within a controlled framework, to assist in the provision of products and services to customers.

The Group maintains access to markets by quoting bid and offer prices with other market makers and carries an inventory of treasury, capital market and risk management instruments, including a broad range of securities and derivatives.

The Group is a participant in all major markets across foreign exchange and interest rate products, debt, equity and commodities products as required to provide treasury, capital markets and risk management services to institutional, corporate, middle market and retail customers.

Income is earned from spreads achieved through market making and from warehousing market risk. Trading positions are valued at fair value and taken to profit and loss on a mark to market basis. Market liquidity risk is controlled by concentrating trading activity in highly liquid markets.

Trading assets at fair value through the Income Statement are shown in Note 9. Trading liabilities at fair value through the Income Statement are shown in Note 18. Note 2 details the income contribution of trading activities to the income of the Group.

The Group measures and manages Traded market risk through a combination of VaR and stress test limits, together with other key controls including permitted instruments, sensitivity limits and term restrictions. Thus Traded market risk is managed under a clearly defined risk appetite within the Market Risk Policy and limit structure approved by the Board Risk Committee of the Board. Risk is monitored by an independent Market Risk Management (MRM) function.

Credit Valuation Adjustment (CVA) is comparable to Traded market risk and is managed using a VaR and stress-testing framework. The Board Risk Committee and ALCO monitors CVA exposures with oversight by the independent risk function.

Note 35 Market Risk (continued)

The Basel III framework has required a CVA regulatory capital charge since 1 January 2013.

The following table provides a summary of VaR for the trading book of the Group. The VaR for ASB is shown separately; all other data relates to the Group and is split by risk type.

| Traded Market Risk VaR (1 day 97.5% confidence) | Average ⁽¹⁾ | As at | Average ⁽¹⁾ | As at |
|---|------------------------|---------------------|------------------------|---------------------|
| | June 2014 \$M | June 2014 \$M | June 2013 \$M | June 2013 \$M |
| Interest rate risk | 5.4 | 4.4 | 5.9 | 6.1 |
| Foreign exchange risk | 1.4 | 0.8 | 1.0 | 1.0 |
| Equities risk | 1.2 | 0.3 | 2.1 | 0.4 |
| Commodities risk | 2.3 | 0.7 | 1.0 | 0.9 |
| Credit spread risk | 1.8 | 2.2 | 2.4 | 1.7 |
| Diversification benefit | (6.2) | (4.7) | (7.4) | (5.4) |
| Total general market risk | 5.9 | 3.7 | 5.0 | 4.7 |
| Undiversified risk | 4.9 | 3.9 | 3.9 | 6.7 |
| ASB Bank | 0.2 | 0.2 | 0.2 | 0.2 |
| Total | 11.0 | 7.8 | 9.1 | 11.6 |

(1) Average VaR calculated for each twelve month period.

Non-Traded Market Risk

Non-traded market risk activities are governed by the Group market risk framework approved by the Board Risk Committee. The Group market risk framework governs all the activities performed in relation to Non-traded market risk. Implementation of the policy, procedures and limits for the Group is the responsibility of the Group Executive undertaking activities with Non-traded market risk. The Group's Risk division performs risk measurement and monitoring activities of Non-traded market risk. Ownership and management responsibility for the Bank's domestic operations are assumed by Group Treasury. Management actions conventionally include hedging activities using a range of policy approved derivative instruments. Independent management of the Non-traded market risk activities of offshore banking subsidiaries is delegated to the CEO of each entity, with oversight by the local ALCO. Senior management oversight is provided by the Group's ALCO.

Interest Rate Risk in the Banking Book

Interest rate risk is the current and prospective impact to the Group's financial condition due to adverse changes in interest rates to which the Group's Balance Sheet is exposed. Maturity transformation activities of the Group result in mismatched assets and liabilities positions which direct that the propensity, timing and quantum of interest rate movements have undesired outcomes over both the short term and long term. The Group's objective is to manage interest rate risk to achieve stable and sustainable net interest income in the long term.

The Group measures and manages the impact of interest rate risk in two ways:

(a) Next 12 months' earnings

Interest rate risk from an earnings perspective is the impact based on changes to the net interest income over the next 12 months.

The risk to net interest income over the next 12 months from changes in interest rates is measured on a monthly basis.

Earnings risk is measured through sensitivity analysis, which applies an instantaneous 100 basis point parallel shock in interest rates across the yield curve.

The prospective change to the net interest income is measured by using an Asset and Liability Management simulation model which incorporates both existing and anticipated new business in its assessment. The change in the Balance Sheet product mix, growth, funding and pricing strategies is incorporated. Assets and liabilities that repriced directly from observable market rates are measured based on the full extent of the rate shock that is applied.

Products that are priced based on Group administered or discretionary interest rates and that are impacted by customer behaviour are measured by taking into consideration the historic repricing strategy of the Group and repricing behaviours of customers. In addition to considering how the products have repriced in the past the expected change in price based on both the current and anticipated competitive market forces are also considered in the sensitivity analyses.

The figures in the following table represent the potential unfavourable change to the Group's net interest earnings during the year based on a 100 basis point parallel rate shock.

| Net Interest Earnings at Risk | | June 2014 | June 2013 |
|----------------------------------|-----|--------------|--------------|
| | | \$M | \$M |
| Average monthly exposure | AUD | 90.2 | 105.1 |
| | NZD | 21.0 | 9.5 |
| High monthly exposure | AUD | 134.0 | 128.6 |
| | NZD | 29.6 | 16.2 |
| Low monthly exposure | AUD | 43.6 | 59.3 |
| | NZD | 12.3 | 4.3 |
| As at balance date | AUD | 117.4 | 59.3 |
| | NZD | 28.4 | 12.1 |

(b) Economic Value

Interest rate risk from the economic value perspective is based on a 20 day 97.5% VaR measure.

Measuring the change in the economic value of equity is an assessment of the long term impact to the earnings potential of the Group present valued to the current date. The Group assesses the potential change in its economic value of equity through the application of the VaR methodology. A 20 day 97.5% VaR measure is used to capture the net economic value impact over the long term or total life of all Balance Sheet assets and liabilities to adverse changes in interest rates. The impact of customer prepayments on the contractual cash flows for fixed rate products is included in the calculation. Cash flows for discretionary priced products are behaviourally adjusted and repriced at the resultant profile.

The figures in the following table represent the net present value of the expected change in the Group's future earnings in all future periods for the remaining term of all existing assets and liabilities.

Notes to the Financial Statements

Note 35 Market Risk (continued)

| | Average ⁽¹⁾ | Average ⁽¹⁾ |
|---|------------------------|------------------------|
| | June | June |
| Non-Traded Interest Rate VaR | 2014 | 2013 |
| (20 day 97.5% confidence) ⁽²⁾ | \$M | \$M |
| AUD Interest rate risk | 53.1 | 68.5 |
| NZD Interest rate risk ⁽³⁾ | 2.0 | 3.0 |

(1) Average VaR calculated for each twelve month period.

(2) VaR is only for entities that have material risk exposure.

(3) ASB data (expressed in NZD) is for the month-end date.

Non-Traded Equity Risk

The Group retains Non-traded equity risk through business activities in divisions including Institutional Banking and Markets, and Wealth Management. This activity is subject to governance arrangements approved by the Board Risk Committee, and is monitored within the Risk Management function.

A 20-day, 97.5% confidence VaR is used to measure the economic impact of adverse changes in value. The following table provides a summary of VaR for Non-traded equity.

| | As at | As at |
|----------------------------------|-------------|-------------|
| | June | June |
| Non-Traded Equity VaR | 2014 | 2013 |
| (20 day 97.5% confidence) | \$M | \$M |
| VaR | 70.0 | 112.0 |

Market Risk in Insurance Businesses

Modest in the broader Group context, a significant component of Non-traded market risk activities result from the holding of assets related to the Life Insurance businesses. There are two main sources of market risk in these businesses: (i) market risk arising from guarantees made to policyholders; and (ii) market risk arising from the investment of Shareholders' capital.

A second order market risk also arises for the Group from assets held for investment linked policies. On this type of contract the policyholder takes the risk of falls in the market value of the assets. However, falls in market value also impact assets under management and reduce the fee income collected for this class of business.

Guarantees (to Policyholders)

All financial assets within the Life Insurance Statutory Funds directly support either the Group's life insurance or life investment contracts. Market risk arises for the Group on contracts where the liabilities to policyholders are guaranteed by the Group. The Group manages this risk by having an asset and liability management framework and monitoring the risk on a monthly basis.

However, for some contracts the ability to match asset characteristics with policy obligations is constrained by a number of factors such as the lack of investments that substantially align cash flows with the cash payments to be made to policyholders. This risk is managed through the use of hedging instruments.

Shareholders' Capital

A portion of financial assets held within the Insurance business, both within the Statutory Funds and in the Shareholder Funds of the Life Insurance company represents shareholder (Group) capital. Market risk also arises for the

Group on the investment of this capital. Shareholders' funds in the Australian Life Insurance businesses are invested 91% in income assets (cash and fixed interest) and 9% in growth assets (shares and property) as at 30 June 2014.

A 20 day 97.5% VaR measure is used to capture the Non-traded market risk exposures.

| | Average ⁽¹⁾ | Average ⁽¹⁾ |
|--|------------------------|------------------------|
| | June | June |
| Non-Traded VaR in Australian | 2014 | 2013 |
| Life Insurance Business | \$M | \$M |
| (20 day 97.5% confidence) | | |
| Shareholder funds ⁽²⁾ | 18.9 | 21.3 |
| Guarantees (to Policyholders) ⁽³⁾ | 15.2 | 20.0 |

(1) Average VaR calculated for each twelve month period.

(2) VaR in relation to the investment of shareholder funds.

(3) VaR in relation to product portfolios where the Group has guaranteed liability to policyholders.

Further information on the Insurance Businesses can be found in Note 29.

Structural Foreign Exchange Risk

Structural foreign exchange risk is the risk that movements in foreign exchange rates may have an adverse effect on the Group's Australian dollar earnings and economic value when the Group's foreign currency denominated earnings and capital are translated into Australian dollars. The Group's only material exposure to this risk arises from its New Zealand banking and insurance subsidiaries. This risk is managed in accordance with the following Board Risk Committee approved principles:

- Permanently deployed capital in a foreign jurisdiction is not hedged; and
- Forecast earnings from the Group's New Zealand banking and insurance subsidiaries are hedged.

The management of structural foreign exchange risk is regularly reported to the Group's ALCO.

Lease Residual Value Risk

The Group takes lease residual value risk on assets such as industrial, mining, rail, aircraft, marine, technology, healthcare and other equipment. A lease residual value guarantee exposes the Group to the movement in second-hand asset prices. The lease residual value risk within the Group is controlled through a risk management framework approved by the Board Risk Committee. Supporting this framework is an internal Market Risk Standard document which has a risk limit framework which includes asset, geographic and maturity concentration limits and stress testing which is performed by the MRM function.

Commonwealth Bank Group Super Fund

The Commonwealth Bank Group Super Fund (the Fund) is the staff superannuation fund for the Group's Australian employees and former employees. Wealth Risk Management and Human Resources manage the risks of the Fund on behalf of the Group. Regular reporting is provided to senior management via the Group's ALCO and the Board Risk Committee on the status of the surplus, risk sensitivities and risk management options. For further information on the Fund, refer to Note 37.

Note 36 Liquidity and Funding Risk

Overview

The Group's liquidity and funding policies are designed to ensure it will meet its obligations as and when they fall due by ensuring it is able to borrow funds on an unsecured basis, has sufficient quality assets to borrow against on a secured basis, or has sufficient quality liquid assets to sell to raise immediate funds without adversely affecting the Group's net asset value.

The Group's liquidity policies are designed to ensure it maintains sufficient cash balances and liquid asset holdings to meet its obligations to customers, in both ordinary market conditions and during periods of extreme stress. These policies are intended to protect the value of the Group's operations across its Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, Wealth Management, New Zealand, Bankwest, and overseas businesses, during periods of unfavourable market conditions.

The Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, jurisdiction, currency and concentration, on a cost effective basis. This objective applies to the Group's wholesale and retail funding activities.

Liquidity and Funding Risk Management Framework

The Group's liquidity and funding policies are approved by the Board and agreed with APRA. The Group has an Asset and Liability Committee (ALCO) whose charter includes reviewing the management of assets and liabilities, reviewing liquidity and funding policies and strategies, as well as regularly monitoring compliance with those policies across the Group. Group Treasury manages the Group's liquidity and funding positions in accordance with the Group's liquidity policies and has ultimate authority to execute liquidity decisions should the Group Contingent Funding Plan be evoked. Group Risk Management provides oversight of the Group's liquidity and funding risks, compliance with Group policies and manages the Group's relationship with prudential regulators.

Subsidiaries within the Colonial Group apply their own liquidity and funding strategies to address their specific needs. The Group's New Zealand banking subsidiary, ASB Bank, manages its own domestic liquidity and funding needs in accordance with its own liquidity policies and the policies of the Group. ASB's liquidity policy is also overseen by the Reserve Bank of New Zealand. The Group also has a relatively small banking subsidiary in Indonesia that manages its own liquidity and funding on a similar basis.

Liquidity and Funding Policies and Management

The Group's liquidity and funding policies provide that:

- Balance Sheet assets that cannot be liquidated quickly are funded with deposits or term borrowings that meet minimum maturity requirements with appropriate liquidity buffers;
- Short and long term wholesale funding limits are established, reviewed regularly and monitored to ensure that they are met. The Group's market capacity is regularly assessed and used as a factor in funding strategies;

- At least a prescribed minimum level of assets are retained in highly liquid form;
- This level of liquid assets complies with crisis scenario assumptions related to "stressed" wholesale and retail market conditions; is adequate to meet known funding obligations over certain timeframes and are held to provide for the risk of the Group's committed but undrawn lending obligations;
- Liquid assets are held in Australian dollar and foreign currency denominated securities in accordance with expected requirements;
- The Group has three categories of liquid assets within its domestic liquid assets portfolio. The first includes cash, government and Australian semi-government bonds. The second includes negotiable certificates of deposit, bank bills, bank term securities, supranational bonds and Australian Residential Mortgage-backed Securities (RMBS), securities that meet certain Reserve Bank of Australia (RBA) requirements. The final is internal RMBS, being mortgages that have been securitised but retained by the Bank, that are repo-eligible with the RBA under a stress scenario; and
- Offshore branches and subsidiaries adhere to liquidity policies and hold appropriate foreign currency liquid assets as required. All securities are central bank repo-eligible under normal market conditions.

The Group's key funding tools include:

- Its consumer retail funding base, which includes a wide range of retail transaction accounts, savings accounts and term deposits for individual consumers;
- Its small business customer and institutional deposit base; and
- Its wholesale international and domestic funding programs which include its Australian dollar Negotiable Certificates of Deposit; Australian dollar bank bills; Asian Transferable Certificates of Deposit program; Australian, U.S. and Euro Commercial Paper programs; U.S. Extendible Notes programs; Australian dollar Domestic Debt Program; U.S.144a and 3a2 Medium Term Note Programs; Euro Medium Term Note Program, multi jurisdiction Covered Bond program, and its Medallion securitisation program.

The Group's key liquidity tools include:

- A liquidity management model similar to a "maturity ladder" or "liquidity gap analysis", that allows forecasting of liquidity needs on a daily basis;
- An additional liquidity management model that implements the agreed prudential liquidity policies. This model is calibrated with a series of "stress" liquidity crisis scenarios, incorporating both systemic and "name" crisis assumptions, such that the Group will have sufficient liquid assets available to ensure it meets all of its obligations as and when they fall due;
- Central bank repurchase agreement facilities provide the Group with the ability to borrow funds on a secured basis, even when normal funding markets are unavailable; and
- A robust Contingent Funding Plan is in place and regularly tested so that it can be evoked in case of need due to a liquidity event.

Notes to the Financial Statements

Note 36 Liquidity and Funding Risk (continued)

Recent Market Environment

In January 2014, APRA issued revised prudential standard APS210 to implement the Basel III liquidity reforms in Australia. APS210 requires ADIs to maintain a ratio of high quality liquid assets to projected 30 day cash outflows (Liquidity Coverage Ratio or LCR) of at least 100%. In addition, the standard requires ADIs to calculate "going concern" and "stress" funding and liquidity metrics. LCR compliance is required from 1 January 2015 until which time the Group is subject to the existing "name crisis".

The Group's wholesale funding costs generally improved over the course of the financial year as high levels of global

liquidity and a generally improved economic global outlook combined to lower credit spreads in domestic and international debt capital markets. The Group has managed its debt portfolio to avoid concentrations such as dependence on single sources of funding, by type or by investor, and continues to maintain a diversified funding base and significant funding capacity in the domestic and global unsecured and secured debt markets.

Details of the Group's regulatory capital position and capital management activities are disclosed in Note 27.

Maturity Analysis of Monetary Liabilities

Amounts shown in the tables below are based on contractual undiscounted cash flows for the remaining contractual maturities.

| | Group | | | | | | Total |
|---|------------------------------------|----------------|----------------|----------------|---------------|---------------|----------------|
| | Maturity Period as at 30 June 2014 | | | | | | |
| | At Call | 0 to 3 | 3 to 12 | 1 to 5 | Over 5 | Not | |
| | \$M | Months | Months | Years | Years | Specified | \$M |
| Monetary liabilities | | | | | | | |
| Deposits and other public borrowings ⁽¹⁾ | 259,411 | 138,127 | 80,473 | 23,912 | 584 | - | 502,507 |
| Payables due to other financial institutions | 6,816 | 16,488 | 1,358 | 345 | - | - | 25,007 |
| Liabilities at fair value through Income Statement | - | 3,171 | 410 | 2,971 | 2,243 | - | 8,795 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | - | 19,605 | - | - | - | - | 19,605 |
| Held for hedging purposes (net-settled) | - | 130 | 186 | 1,512 | 2,461 | - | 4,289 |
| Held for hedging purposes (gross-settled): | | | | | | | |
| Outflows | - | 447 | 8,552 | 36,502 | 9,872 | - | 55,373 |
| Inflows | - | (333) | (8,130) | (34,180) | (9,300) | - | (51,943) |
| Bank acceptances | - | 5,017 | 10 | - | - | - | 5,027 |
| Insurance policy liabilities | - | - | - | - | - | 13,166 | 13,166 |
| Debt issues and loan capital | - | 15,527 | 44,519 | 74,146 | 35,154 | - | 169,346 |
| Managed funds units on issue | - | - | - | - | - | 1,214 | 1,214 |
| Other monetary liabilities | 881 | 4,624 | 1,248 | 370 | - | 42 | 7,165 |
| Total monetary liabilities | 267,108 | 202,803 | 128,626 | 105,578 | 41,014 | 14,422 | 759,551 |
| Guarantees ⁽²⁾ | - | 6,121 | - | - | - | - | 6,121 |
| Loan commitments ⁽²⁾ | - | 151,135 | - | - | - | - | 151,135 |
| Other commitments ⁽²⁾ | - | 8,676 | - | - | - | - | 8,676 |
| Total off balance sheet items | - | 165,932 | - | - | - | - | 165,932 |
| Total monetary liabilities and off balance sheet items | 267,108 | 368,735 | 128,626 | 105,578 | 41,014 | 14,422 | 925,483 |

(1) Includes deposits that are contractually at call, customer savings and cheque accounts. Historical experience is that such accounts provide a stable source of long term funding for the Group.

(2) All off balance sheet items are included in the 0 to 3 month maturity band to reflect their earliest possible maturity.

Notes to the Financial Statements

Note 36 Liquidity and Funding Risk (continued)

Maturity Analysis of Monetary Liabilities (continued)

| | Maturity Period as at 30 June 2013 | | | | | | Group |
|---|------------------------------------|----------------|----------------|---------------|---------------|---------------|----------------|
| | At Call | 0 to 3 | 3 to 12 | 1 to 5 | Over 5 | Not | Total |
| | \$M | Months | Months | Years | Years | Specified | |
| Monetary liabilities | | | | | | | |
| Deposits and other public borrowings ⁽¹⁾ | 222,387 | 147,939 | 69,453 | 23,748 | 432 | - | 463,959 |
| Payables due to other financial institutions | 9,304 | 13,747 | 2,489 | 437 | - | - | 25,977 |
| Liabilities at fair value through Income Statement | - | 3,613 | 2,524 | 1,808 | 1,356 | - | 9,301 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | - | 30,138 | - | - | - | - | 30,138 |
| Held for hedging purposes (net-settled) | - | 102 | 186 | 1,653 | 2,142 | - | 4,083 |
| Held for hedging purposes (gross-settled): | | | | | | | |
| Outflows | - | 301 | 10,846 | 25,709 | 13,958 | - | 50,814 |
| Inflows | - | (277) | (9,467) | (24,016) | (13,323) | - | (47,083) |
| Bank acceptances | - | 6,061 | 2 | - | - | - | 6,063 |
| Insurance policy liabilities | - | - | - | - | - | 13,004 | 13,004 |
| Debt issues and loan capital | - | 17,375 | 41,063 | 67,397 | 33,777 | - | 159,612 |
| Managed funds units on issue | - | - | - | - | - | 891 | 891 |
| Other monetary liabilities | 868 | 4,079 | 1,944 | 309 | - | 101 | 7,301 |
| Total monetary liabilities | 232,559 | 223,078 | 119,040 | 97,045 | 38,342 | 13,996 | 724,060 |
| Guarantees ⁽²⁾ | - | 5,696 | - | - | - | - | 5,696 |
| Loan commitments ⁽²⁾ | - | 139,964 | - | - | - | - | 139,964 |
| Other commitments ⁽²⁾ | - | 7,216 | - | - | - | - | 7,216 |
| Total off balance sheet items | - | 152,876 | - | - | - | - | 152,876 |
| Total monetary liabilities and off balance sheet items | 232,559 | 375,954 | 119,040 | 97,045 | 38,342 | 13,996 | 876,936 |

| | Maturity Period as at 30 June 2014 | | | | | | Bank |
|---|------------------------------------|----------------|----------------|----------------|----------------|-----------|----------------|
| | At Call | 0 to 3 | 3 to 12 | 1 to 5 | Over 5 | Not | Total |
| | \$M | Months | Months | Years | Years | Specified | |
| Monetary liabilities | | | | | | | |
| Deposits and other public borrowings ⁽¹⁾ | 238,346 | 130,289 | 70,084 | 21,972 | 593 | - | 461,284 |
| Payables due to other financial institutions | 6,579 | 16,420 | 1,291 | 336 | - | - | 24,626 |
| Liabilities at fair value through Income Statement | - | 852 | 371 | 2,954 | 2,241 | - | 6,418 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | - | 19,246 | - | - | - | - | 19,246 |
| Held for hedging purposes (net-settled) | - | 44 | 249 | 1,640 | 2,493 | - | 4,426 |
| Held for hedging purposes (gross-settled): | | | | | | | |
| Outflows | - | - | 6,696 | 41,422 | 21,793 | - | 69,911 |
| Inflows | - | - | (6,476) | (38,756) | (20,392) | - | (65,624) |
| Bank acceptances | - | 4,976 | 8 | - | - | - | 4,984 |
| Debt issues and loan capital | - | 13,663 | 39,150 | 58,450 | 33,076 | - | 144,339 |
| Due to controlled entities | 3,155 | 4,616 | 6,455 | 23,206 | 81,490 | - | 118,922 |
| Other monetary liabilities | 817 | 4,118 | 3,396 | 106 | - | 17 | 8,454 |
| Total monetary liabilities | 248,897 | 194,224 | 121,224 | 111,330 | 121,294 | 17 | 796,986 |
| Guarantees ⁽²⁾ | - | 5,724 | - | - | - | - | 5,724 |
| Loan commitments ⁽²⁾ | - | 140,209 | - | - | - | - | 140,209 |
| Other commitments ⁽²⁾ | - | 7,450 | - | - | - | - | 7,450 |
| Total off balance sheet items | - | 153,383 | - | - | - | - | 153,383 |
| Total monetary liabilities and off balance sheet items | 248,897 | 347,607 | 121,224 | 111,330 | 121,294 | 17 | 950,369 |

(1) Includes deposits that are contractually at call, customer savings and cheque accounts. Historical experience is that such accounts provide a stable source of long term funding for the Group.

(2) All off balance sheet items are included in the 0 to 3 month maturity band to reflect their earliest possible maturity.

Notes to the Financial Statements

Note 36 Liquidity and Funding Risk (continued)

Maturity Analysis of Monetary Liabilities (continued)

| | Maturity Period as at 30 June 2013 | | | | | | Bank |
|---|------------------------------------|----------------|----------------|----------------|----------------|-----------|----------------|
| | At Call | 0 to 3 | 3 to 12 | 1 to 5 | Over 5 | Not | Total |
| | \$M | Months | Months | Years | Years | Specified | \$M |
| Monetary liabilities | | | | | | | |
| Deposits and other public borrowings ⁽¹⁾ | 206,390 | 140,244 | 60,073 | 22,271 | 487 | - | 429,465 |
| Payables due to other financial institutions | 9,008 | 13,652 | 2,460 | 56 | - | - | 25,176 |
| Liabilities at fair value through Income Statement | - | 394 | 371 | 1,792 | 1,345 | - | 3,902 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | - | 29,704 | - | - | - | - | 29,704 |
| Held for hedging purposes (net-settled) | - | 48 | 216 | 1,926 | 2,165 | - | 4,355 |
| Held for hedging purposes (gross-settled): | | | | | | | |
| Outflows | - | - | 10,113 | 36,428 | 23,105 | - | 69,646 |
| Inflows | - | - | (8,779) | (33,692) | (21,800) | - | (64,271) |
| Bank acceptances | - | 6,059 | - | - | - | - | 6,059 |
| Debt issues and loan capital | - | 15,568 | 36,989 | 56,051 | 31,181 | - | 139,789 |
| Due to controlled entities | 4,059 | 4,540 | 6,195 | 22,431 | 76,643 | - | 113,868 |
| Other monetary liabilities | 826 | 3,767 | 7,169 | 103 | - | 32 | 11,897 |
| Total monetary liabilities | 220,283 | 213,976 | 114,807 | 107,366 | 113,126 | 32 | 769,590 |
| Guarantees ⁽²⁾ | - | 5,345 | - | - | - | - | 5,345 |
| Loan commitments ⁽²⁾ | - | 130,753 | - | - | - | - | 130,753 |
| Other commitments ⁽²⁾ | - | 6,137 | - | - | - | - | 6,137 |
| Total off balance sheet items | - | 142,235 | - | - | - | - | 142,235 |
| Total monetary liabilities and off balance sheet items | 220,283 | 356,211 | 114,807 | 107,366 | 113,126 | 32 | 911,825 |

(1) Includes deposits that are contractually at call, customer savings and cheque accounts. Historical experience is that such accounts provide a stable source of long term funding for the Group.

(2) All off balance sheet items are included in the 0 to 3 month maturity band to reflect their earliest possible maturity.

Note 37 Retirement Benefit Obligations

| Name of Plan | Type | Form of Benefit | Date of Last Actuarial Assessment of the Fund |
|--|--|------------------------------|---|
| Commonwealth Bank Group Super | Defined Benefits ⁽¹⁾ and Accumulation | Indexed pension and lump sum | 30 June 2012 |
| Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA (UK) SBS) | Defined Benefits ⁽¹⁾ and Accumulation | Indexed pension and lump sum | 30 June 2013 |

(1) The defined benefit formulae are generally comprised of final superannuation salary, or final average superannuation salary, and service.

Regulatory Framework

Both plans operate under trust law with the assets of the plans held separately in trust. The Trustee of Commonwealth Bank Group Super is Commonwealth Bank Officers Superannuation Corporation Pty Limited. The Trustee of CBA (UK) SBS is Commonwealth Bank of Australia (UK) Staff Benefits Scheme Trustee Company Limited. Both Trustees are wholly owned subsidiaries of the Group. The Trustees do not conduct any business other than trusteeship of the plans. The plans are managed and administered on behalf of the members in accordance with the terms of each trust deed and relevant legislation. The funding of the plans complies with regulations in Australia and the UK respectively.

Funding and Contributions

Entities of the Group contribute to the plans listed in the above table in accordance with the trust deeds following the receipt of actuarial advice.

With the exception of contributions corresponding to salary sacrifice benefits, the Bank ceased contributions to Commonwealth Bank Group Super from 8 July 1994. Further, the Bank ceased contributions to the Commonwealth Bank Group Super relating to salary sacrifice benefits from 1 July 1997. An actuarial assessment as at 30 June 2012 showed the plan remained in funding surplus at that time, however due to the accounting deficit and forecast funding deficit the actuary recommended that the Bank consider recommencing contributions from 1 July 2013. The Bank agreed to contribute \$20 million per month to Commonwealth Bank Group Super commencing January 2014. Employer contributions paid to the plan are subject to tax at the rate of 15% in the plan.

Note 37 Retirement Benefit Obligations (continued)

Funding and Contributions (continued)

An actuarial assessment of the CBA (UK) SBS as at 30 June 2013 confirmed a funding deficit of GBP 62 million (\$112 million at the 30 June 2014 exchange rate). The Bank agreed to continue the deficit recovery contributions of GBP 15 million per annum (\$27 million at the 30 June 2014 exchange rate) until 31 December 2017 to CBA (UK) SBS in addition to the regular GBP 2 million per annum (\$4 million at the 30 June 2014 exchange rate) contributions for future defined benefit accruals.

The Group's expected contribution to the Commonwealth Bank Group Super and the CBA (UK) SBS for the year ended 30 June 2015 are \$240 million and GBP17 million (\$31 million at the 30 June 2014 exchange rate) respectively.

Defined Benefit Superannuation Plans

The amounts reported in the Balance Sheet are reconciled as follows:

| | Commonwealth Bank | | CBA(UK)SBS | | Total | |
|--|-------------------|---------------------|--------------|---------------------|----------------|---------------------|
| | Group Super | | | | | |
| | 2014 | 2013 ⁽¹⁾ | 2014 | 2013 ⁽¹⁾ | 2014 | 2013 ⁽¹⁾ |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Present value of funded obligations | (3,510) | (3,269) | (544) | (472) | (4,054) | (3,741) |
| Fair value of plan assets | 3,388 | 3,204 | 475 | 399 | 3,863 | 3,603 |
| Net pension liabilities as at 30 June | (122) | (65) | (69) | (73) | (191) | (138) |
| Amounts in the Balance Sheet: | | | | | | |
| Liabilities (Note 22) | (122) | (65) | (69) | (73) | (191) | (138) |
| Net liabilities | (122) | (65) | (69) | (73) | (191) | (138) |
| The amounts recognised in the Income Statement are as follows: | | | | | | |
| Current service cost | (38) | (45) | (4) | (4) | (42) | (49) |
| Net interest expense | (8) | (15) | (3) | (5) | (11) | (20) |
| Employer financed benefits within accumulation division ⁽²⁾ | (231) | (219) | - | - | (231) | (219) |
| Total included in superannuation plan expense | (277) | (279) | (7) | (9) | (284) | (288) |
| Changes in the present value of the defined benefit obligation are as follows: | | | | | | |
| Opening defined benefit obligation | (3,269) | (3,648) | (472) | (420) | (3,741) | (4,068) |
| Current service cost | (38) | (45) | (4) | (4) | (42) | (49) |
| Interest cost | (145) | (141) | (23) | (20) | (168) | (161) |
| Member contributions | (8) | (9) | - | - | (8) | (9) |
| Actuarial gains/(losses) from changes in demographic assumptions | - | - | 16 | - | 16 | - |
| Actuarial gains/(losses) from changes in financial assumptions | (234) | 346 | (30) | (16) | (264) | 330 |
| Actuarial gains/(losses) from changes in other assumptions | (14) | 33 | (3) | 1 | (17) | 34 |
| Payments from the plan | 198 | 195 | 19 | 17 | 217 | 212 |
| Exchange differences on foreign plans | - | - | (47) | (30) | (47) | (30) |
| Closing defined benefit obligation | (3,510) | (3,269) | (544) | (472) | (4,054) | (3,741) |
| Changes in the fair value of plan assets are as follows: | | | | | | |
| Opening fair value of plan assets | 3,204 | 3,360 | 399 | 312 | 3,603 | 3,672 |
| Interest income | 137 | 126 | 20 | 15 | 157 | 141 |
| Return on plan assets (excluding interest income) | 328 | 123 | 4 | 37 | 332 | 160 |
| Member contributions | 8 | 9 | - | - | 8 | 9 |
| Employer contributions | 140 | - | 31 | 29 | 171 | 29 |
| Employer financed benefits within accumulation division | (231) | (219) | - | - | (231) | (219) |
| Payments from the plan | (198) | (195) | (19) | (17) | (217) | (212) |
| Exchange differences on foreign plans | - | - | 40 | 23 | 40 | 23 |
| Closing fair value of plan assets | 3,388 | 3,204 | 475 | 399 | 3,863 | 3,603 |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(2) Represents superannuation contributions required by the Bank to meet its obligations to members of the defined contribution division of Commonwealth Bank Group Super.

Notes to the Financial Statements

Note 37 Retirement Benefit Obligations (continued)

Economic Assumptions

| | Commonwealth Bank Group Super | | CBA(UK)SBS | |
|---|----------------------------------|------|------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Economic assumptions | % | % | % | % |
| The above calculations were based on the following assumptions: | | | | |
| Discount rate | 4.10 | 4.60 | 4.20 | 4.50 |
| Inflation rate | 2.25 | 2.25 | 3.60 | 3.60 |
| Rate of increases in salary | 3.75 | 3.75 | 4.60 | 4.60 |

The discount rate assumption for Commonwealth Bank Group Super is based on the blend of yields on long dated Commonwealth and State government securities with durations exceeding 10 years.

In addition to financial assumptions, the mortality assumptions for pensioners can materially impact the defined benefit obligations. These assumptions are age related and allowances are made for future improvement in mortality. The expected life expectancies (longevity) for pensioners are set out below:

| | Commonwealth Bank Group Super | | CBA(UK)SBS | |
|--|----------------------------------|-------|------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| Expected life expectancies for pensioners | Years | Years | Years | Years |
| Male pensioners currently aged 60 | 29.5 | 29.3 | 28.4 | 29.2 |
| Male pensioners currently aged 65 | 24.6 | 24.5 | 23.4 | 24.3 |
| Female pensioners currently aged 60 | 34.5 | 34.4 | 30.9 | 31.8 |
| Female pensioners currently aged 65 | 29.4 | 29.3 | 25.9 | 26.7 |

Sensitivity to Changes in Assumptions

The table below sets out the sensitivities of the present value of defined benefit obligations at 30 June to a change in the principal actuarial assumptions:

| | Commonwealth Bank | |
|---|-------------------|------------|
| | Group Super | CBA(UK)SBS |
| Impact of change in assumptions on liabilities | 2014 | 2014 |
| | % | % |
| 0.25% decrease in discount rate | 3.00 | 4.70 |
| 0.25% increase in inflation rate | 2.65 | 3.00 |
| 0.25% increase to the rate of increases in salary | 0.45 | 0.30 |
| Longevity increase of 1 year | 3.00 | 2.90 |

Average Duration

The average duration of defined benefit obligation at the balance date is as follows:

| | Commonwealth Bank | |
|----------------------------------|-------------------|------------|
| | Group Super | CBA(UK)SBS |
| | 2014 | 2014 |
| | Years | Years |
| Average duration at balance date | 13 | 19 |

Risk Management

The pension plans expose the Group to longevity risk, currency risk, interest rate risk and market risk. The Trustees perform Asset-Liability Matching (ALM) exercises to ensure the plan assets are well matched to the nature and maturities of the defined benefit obligations.

During the year ended 30 June 2013, the Trustee of Commonwealth Bank Group Super implemented a new investment strategy of 50% growth 50% defensive assets (previously 70% growth 30% defensive). Inflation and interest rate risks are partially mitigated by investing in long dated fixed interest securities which better match the average duration of liabilities and entering into inflation and interest swaps.

Notes to the Financial Statements

Note 37 Retirement Benefit Obligations (continued)

Risk Management (continued)

The allocation of assets backing the defined benefit portion of Commonwealth Bank Group Super is as follows:

| Asset allocations | Commonwealth Bank Group Super | | | |
|--|-------------------------------|--------------------|---------------------|--------------------|
| | 2014 | | 2013 | |
| | Fair value (\$M) | % of plan asset | Fair value (\$M) | % of plan asset |
| Cash | 224 | 6.60 | 186 | 5.80 |
| Equities - Australian ⁽¹⁾ | 329 | 9.70 | 404 | 12.60 |
| Equities - Overseas ⁽¹⁾ | 531 | 15.70 | 465 | 14.50 |
| Bonds - Commonwealth Government ⁽¹⁾ | 443 | 13.10 | 452 | 14.10 |
| Bonds - Semi-Government ⁽¹⁾ | 1,053 | 31.10 | 871 | 27.20 |
| Bonds - Corporate and other ⁽¹⁾ | 72 | 2.10 | 73 | 2.30 |
| Real Estate ⁽²⁾ | 225 | 6.60 | 295 | 9.20 |
| Derivatives ⁽²⁾ | 14 | 0.40 | 3 | 0.10 |
| Other ⁽³⁾ | 497 | 14.70 | 455 | 14.20 |
| Total fair value of plan assets | 3,388 | 100.00 | 3,204 | 100.00 |

(1) Values based on prices or yields quoted in an active market.

(2) Values based on non-quoted information.

(3) 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 Australian equities fair value includes \$136 million of Commonwealth Bank shares. The real estate fair value includes \$40 million of property assets leased to the Bank.

Note 38 Investments in Subsidiaries and Other Entities

Subsidiaries

Under AASB 10 'Consolidated Financial Statements', the Group has control over an entity when it is exposed or has rights to variable returns from its involvement in the entity and has the ability to affect those returns through its power over the entity.

A subsidiary is considered material if the value of the consolidated gross assets at the end of the financial year of the subsidiary and the entities it controls (if any) is more than 0.1% of the total assets of the Group.

The key subsidiaries of the Bank including but not limited to those meeting the criteria above are:

| Entity Name | Entity Name |
|---|--|
| Australia | |
| (a) Banking | |
| CBA Covered Bond Trust | Medallion Trust Series 2013-2 |
| CBA International Finance Pty Limited | Medallion Trust Series 2014-1 |
| GT USD Funding Pty Limited | Preferred Capital Limited |
| Medallion Trust Series 2007-1G | Residential Mortgage Group Pty Ltd |
| Medallion Trust Series 2008-1R | Series 2008-1D SWAN Trust |
| Medallion Trust Series 2011-1 | Security Holding Investment Entity Linking Deals Limited Series 50 |
| Medallion Trust Series 2013-1 | |
| (b) Insurance and Funds Management | |
| Capital 121 Pty Limited | Commonwealth Insurance Limited |
| Colonial Holding Company Limited | The Colonial Mutual Life Assurance Society Limited |
| Commonwealth Insurance Holdings Limited | |

All the above subsidiaries are 100% owned and incorporated in Australia.

Notes to the Financial Statements

Note 38 Investments in Subsidiaries and Other Entities (continued)

Subsidiaries (continued)

| Entity Name | Extent of Beneficial Interest if not 100% | Incorporated in |
|---|--|-----------------|
| New Zealand | | |
| (a) Banking | | |
| ASB Bank Limited | | New Zealand |
| ASB Covered Bond Trustee Limited | | New Zealand |
| ASB Finance Limited | | New Zealand |
| ASB Holdings Limited | | New Zealand |
| ASB Term Fund | | New Zealand |
| CBA Funding (NZ) Limited | | New Zealand |
| Medallion NZ Series Trust 2009-1R | | New Zealand |
| (b) Insurance and Funds Management | | |
| ASB Group (Life) Limited | | New Zealand |
| Other Overseas | | |
| (a) Banking | | |
| CBA Capital Trust II | | USA |
| CommBank Europe Limited | | Malta |
| Newport Limited | | Malta |
| PT Bank Commonwealth | 99% | Indonesia |

The Group also consolidates a number of unit trusts as part of the ongoing investment activities of the life insurance and wealth businesses. These investment vehicles are excluded from the above list.

Disposal of Controlled Entities

The Group disposed of certain CFS GAM operations including Colonial First State Property Management Pty Limited, Commonwealth Management Investments Limited and Colonial First State Management Pty Limited during the 2014 financial year. Refer to Note 41 (d) for details.

Transition to a Single Authorised Deposit-taking Institution with Bank of Western Australia Limited (Bankwest)

On 1 October 2012 the Commonwealth Bank of Australia Limited and Bank of Western Australia Limited (Bankwest) commenced operating as a single Authorised Deposit-taking Institution (ADI). In conjunction with that process, the legal entity Bank of Western Australia Limited was deregistered and the Commonwealth Bank of Australia Limited became its successor in law. This resulted in all of Bankwest's assets and liabilities (including all deposits, contracts and debt securities previously issued by Bankwest) becoming the Commonwealth Bank of Australia Limited's assets and liabilities. All Bankwest directly owned subsidiaries became directly owned by the Commonwealth Bank of Australia Limited.

Notes to the Financial Statements

Note 38 Investments in Subsidiaries and Other Entities (continued)

Subsidiaries (continued)

Details of the impact of transferring the assets and liabilities of Bankwest to the Bank and the derecognition of the Bank's investment in Bankwest are set out below:

| | 1 October 2012 |
|--|----------------|
| | \$M |
| Assets | |
| Cash and liquid assets | 557 |
| Receivables due from other financial institutions | 2,749 |
| Derivative assets | (104) |
| Available-for-sale investments | 2 |
| Loans, bills discounted and other receivables | 66,563 |
| Shares in and loans to controlled entities | (32,472) |
| Property, plant and equipment | 262 |
| Intangible assets | 449 |
| Deferred tax assets | 469 |
| Other assets | 151 |
| Total assets | 38,626 |
| Liabilities | |
| Deposits and other public borrowings | 43,567 |
| Payables due to other financial institutions | 80 |
| Liabilities at fair value through Income Statement | 1 |
| Derivative liabilities | (363) |
| Due to controlled entities | (7,656) |
| Other provisions | 43 |
| Debt issues | 665 |
| Deferred tax liabilities | 292 |
| Bills payable and other liabilities | 750 |
| | 37,379 |
| Loan capital | 121 |
| Total liabilities | 37,500 |
| Net assets | 1,126 |
| Shareholders' Equity | |
| Share capital: | |
| Ordinary share capital | - |
| Other equity instruments | - |
| Reserves | 207 |
| Retained profits | 919 |
| Total Shareholders' equity | 1,126 |

Significant Judgements and Assumptions

Control and Voting Rights

Holding more than 50% of an entity's voting rights typically indicates that the Group has control over the entity. Significant judgement is involved where the Group either holds more than 50% of the voting rights but does not control an entity, which occurs in the case of Aussie Home Loans Pty Limited (AHL) as outlined below or where the Group is deemed to control an entity despite holding less than 50% of the voting rights.

Aussie Home Loans Pty Limited (AHL)

Management have determined that the Group does not control AHL despite owning 80% of the issued share capital of this entity. According to the Shareholders Deed agreed between the shareholders of AHL, unanimous consent is required from all parties to the Deed for all key decisions. This results in joint control and hence the Group accounts for its investment in AHL as a joint venture using the equity method.

Agent or principal

The Group is deemed to have power over an investment fund when it holds either the responsible entity (RE) and/or the manager function of that fund. Whether that power translates to control depends on whether the Group is deemed to act as an agent or a principal of that fund. Management have determined that the Group acts as a principal and controls a fund when it cannot be easily removed as a manager or RE by investors and when its economic interest in that fund is substantial compared to the economic interest of other investors. In all other cases the Group acts as agent and does not control the fund.

Notes to the Financial Statements

Note 38 Investments in Subsidiaries and Other Entities (continued)

Non-Controlling Interests

| | Group | |
|--|------------|------------|
| | 2014 | 2013 |
| | \$M | \$M |
| Shareholders' equity | 537 | 537 |
| Total non-controlling interests | 537 | 537 |

The share capital above comprises predominantly New Zealand Perpetual Preference Shares (PPS) of AUD505 million. On 10 December 2002, ASB Capital Limited, a New Zealand subsidiary, issued NZD200 million (AUD182 million) of PPS. The PPS were issued into the New Zealand capital markets and are subject to New Zealand law. Such shares are non-redeemable and carry limited voting rights. Dividends are payable quarterly based on the New Zealand one year swap rate plus a margin of 1.3% and are non-cumulative. The payments of dividends are subject to a number of conditions including the satisfaction of solvency tests and the ability of the Board to cancel payments.

On 22 December 2004, ASB Capital No.2 Limited, a New Zealand subsidiary, issued NZD350 million (AUD323 million) of PPS. The PPS were issued into the New Zealand capital markets and are subject to New Zealand law. Such shares are non-redeemable and carry limited voting rights. Dividends are payable quarterly on the New Zealand one year swap rate plus a margin of 1.0% and are non-cumulative. The payments of dividends are subject to a number of conditions including the satisfaction of solvency tests and the ability of the Board to cancel payments.

ASB Capital Limited and ASB Capital No.2 Limited have advanced proceeds from the above public issues to ASB Funding Limited, a New Zealand subsidiary. ASB Funding Limited in turn invested the proceeds in PPS issued by ASB Limited (ASB PPS), also a New Zealand subsidiary. In relation to ASB Capital No.2 Limited, if an APRA Event occurs, the loan to ASB Funding Limited will be repaid and ASB Capital No.2 Limited will become the holder of the corresponding ASB PPS.

The PPS may be purchased by a Commonwealth Bank subsidiary exercising a buy-out right five years or more after issue, or on the occurrence of regulatory or tax events.

Significant Restrictions

There were no significant restrictions on the ability to transfer cash or other assets, pay dividends or other capital distributions, provide or repay loans and advances between the entities within the Group. There were also no significant restrictions on CBA's ability to access or use the assets and settle the liabilities of the Group resulting from protective rights of non-controlling interests.

Associates and Joint Ventures

An associate or joint venture is considered material if the value of the net assets at the end of the financial year of that associate or joint venture and the entities it controls (if any) is more than 0.5% of the total assets of the Group.

There were no individually significant investments in associates or joint ventures held by the Group as at 30 June 2014 and 30 June 2013. In addition, there were no significant restrictions on the ability of associates or joint ventures to transfer funds to CBA or its subsidiaries in the form of cash dividends or to repay loans or advances made.

Notes to the Financial Statements

Note 38 Investments in Subsidiaries and Other Entities (continued)

Associates and Joint Ventures (continued)

The Group's investments in associates and joint ventures are shown in the table below.

| | 2014 | | 2013 | | Principal Activities | Country of Incorporation | Group Balance Date |
|--|--|--------------|----------------------|----------------------|----------------------|--------------------------|--------------------|
| | \$M | \$M | Ownership Interest % | Ownership Interest % | | | |
| | Aussie Home Loans Pty Limited ^{(1) (2)} | 266 | 258 | 80 | | | |
| Bank of Hangzhou Co., Limited | 772 | 648 | 20 | 20 | Commercial Banking | China | 31-Dec |
| BoCommLife Insurance Company Limited ⁽²⁾ | 79 | 80 | 38 | 38 | Life Insurance | China | 31-Dec |
| CFS Retail Property Trust ^{(3) (5)} | - | 439 | - | 8 | Funds Management | Australia | 30-Jun |
| Commonwealth Property Office Fund ^{(4) (5)} | - | 147 | - | 6 | Funds Management | Australia | 30-Jun |
| Countplus Limited ⁽⁶⁾ | 55 | 55 | 37 | 37 | Financial Advice | Australia | 30-Jun |
| First State European Diversified Investment Fund | 161 | 151 | 11 | 20 | Funds Management | Luxembourg | 31-Dec |
| Qilu Bank Co., Limited | 254 | 223 | 20 | 20 | Commercial Banking | China | 31-Dec |
| Vietnam International Commercial Joint Stock Bank ⁽⁷⁾ | 164 | 219 | 20 | 20 | Financial Services | Vietnam | 31-Dec |
| Other ⁽⁸⁾ | 93 | 61 | Various | Various | Various | Various | Various |
| Carrying amount of investments in associates and joint ventures | 1,844 | 2,281 | | | | | |

(1) The Group's 80% interest in Aussie Home Loans Pty Limited is jointly controlled as the key financial and operating decisions require the unanimous consent of all directors. Aussie Home Loans Pty Limited is considered a structured entity. The Group's maximum exposure to loss in relation to its investment is its carrying value and the total assets of Aussie Home Loans equals \$374 million.

(2) These are joint ventures of the Group.

(3) The management of CFS Retail Property Trust Group (CFX) was internalised during the 2014 financial year and a portion of the Group's ownership interest disposed of. The prior year value for CFS Retail Property Trust based on published quoted prices was \$441 million as at 30 June 2013.

(4) Commonwealth Property Office Fund was sold during the 2014 financial year. The prior year value for Commonwealth Property Office Fund based on published quoted prices was \$165 million as at 30 June 2013.

(5) The Group previously had significant influence due to its relationship as Responsible Entity. However, following the internalisation of CFX management and the sale of CPA the Group is no longer the responsible entity and all remaining holdings in CFS Retail Property Trust have been reclassified as available for sale securities. These holdings exclude assets held in statutory funds backing policyholder liabilities, which are disclosed as Assets at fair value through Income Statement.

(6) The value for Countplus Limited based on published quoted prices was \$72 million as at 30 June 2014 (2013: \$74 million). This investment was purchased during the 2012 financial year.

(7) An impairment of \$50 million was recognised at 30 June 2014.

(8) The investments included in "Other" are mostly joint ventures. For these investments, the Group is committed to equity injections of \$nil million (2013: \$36 million) within 12 months and \$nil million (2013: \$5 million) greater than 12 months.

| Share of Associates' and Joint Ventures profits | Group | |
|--|------------|------------|
| | 2014 \$M | 2013 \$M |
| Operating profits before income tax | 254 | 254 |
| Income tax expense | (62) | (44) |
| Operating profits after income tax ⁽¹⁾ | 192 | 210 |

(1) This amount is recognised within Note 2 in the share of profits of associates and joint ventures, \$150 million for the year ended 30 June 2014 (2013: \$165 million) and net funds management operating income, \$42 million for the year ended 30 June 2014 (2013: \$45 million) line items.

Structured Entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. Depending on the Group's power over the activities of the entity and its exposure to and ability to influence its own returns, it may consolidate the entity. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

Consolidated Structured Entities

The Group has the following contractual arrangements which require it to provide financial support to its structured entities.

Securitisation Special Purpose Vehicles (SPVs)

The Group provides liquidity facilities to Medallion, Swan and SHIELD 50 Structured Entities. These facilities can only be drawn to cover cash flow shortages relating to mismatches in timing of cash inflows due from securitised asset pools and cash outflows due to note holders. These 'timing mismatch' facilities rank pari passu with other senior secured creditors. The facility limit is \$2,066 million.

The Group has no contractual obligations to purchase assets from its Securitisation Structured Entities.

Covered Bonds Trust

The Bank provides funding and support facilities to the CBA Covered Bond Trust, a bankruptcy remote SPE that guarantees any debt obligations owing under the US\$30 billion CBA Covered Bond Programme. The funding facilities allow the Covered Bond Trust to hold sufficient residential mortgage loans to support the guarantee provided to the Covered Bonds. The Bank also provides various swaps to the Covered Bond Trust to hedge any interest rate and currency mismatches.

Notes to the Financial Statements

Note 38 Investments in Subsidiaries and Other Entities (continued)

Consolidated Structured Entities (continued)

The Bank, either directly or via its wholly owned subsidiary, Securitisation Advisory Services Pty Limited, provides various services to the Covered Bond Trust including servicing and monitoring of the residential mortgages.

Structured Asset Finance SPVs

The Group has no contractual obligation to provide financial support to any of its Structured Asset Finance Structured Entities.

Unconsolidated Structured Entities

The Group has exposure to various securitisation vehicles via Residential Mortgage-backed Securities (RMBS) and Asset-backed Securities (ABS). The Group may also provide derivatives and other commitments to these vehicles. The Group also has exposure to Investment Funds and other financing vehicles.

Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor.

The Group may trade or invest in Residential Mortgage-backed Securities and Asset-backed Securities which are backed by Commercial Properties, Equipment and Auto Finance. The Group may also provide lending, derivatives, liquidity and commitments to these Securitisation vehicles.

Other Financing

Asset-backed vehicles are used to provide tailored lending for the purchase or lease of assets transferred by the Group or its clients. The assets are normally pledged as collateral to the lenders. The Group engages in raising finance for assets such as aircraft, trains, vessels and other infrastructure. The Group may also provide lending, derivatives, liquidity and commitments to these vehicles.

Investment Funds

The Group conducts investment management and other fiduciary activities as responsible entity, trustee, custodian, advisor or manager for investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail trusts. The Groups exposure to Investment Funds includes holding units in the investment funds and trusts, providing lending facilities, derivatives and receiving fees for services.

The nature and extent of the Group's interests in these entities are summarised below. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and currency swaps) and positions where the Group creates rather than absorbs variability of the Structured Entity, for example deposits. These have been excluded from the below table.

| | 2014 | | | | Total \$M |
|--|---------------|--------------|---------------------------|----------------------------|----------------|
| | RMBS \$M | ABS \$M | Other Financing \$M | Investment Funds \$M | |
| Exposures to unconsolidated structured entities | | | | | |
| Assets at fair value through income statement - trading | 82 | - | - | 1,592 | 1,674 |
| Available-for-sale investments | 4,887 | 678 | - | 157 | 5,722 |
| Loans, bills and discounted and other receivables | 2,152 | 541 | 1,592 | 14,727 | 19,012 |
| Other assets | - | - | - | 176 | 176 |
| Total on balance sheet exposures | 7,121 | 1,219 | 1,592 | 16,652 | 26,584 |
| Total notional amounts of off balance sheet exposures ⁽¹⁾ | 776 | 331 | 262 | 152 | 1,521 |
| Total maximum exposure to loss | 7,897 | 1,550 | 1,854 | 16,804 | 28,105 |
| Total assets of the entities ⁽²⁾ | 46,363 | 4,364 | 11,003 | 265,751 | 327,481 |

(1) Relates to undrawn facilities.

(2) Size of the entities is generally the total assets of the entities, except for Real Estate Investment Trusts where the size is based on the Group's credit exposure of \$12.9 billion.

The Group's exposure to loss depends on the level of subordination of the interest which indicates the extent to which other parties are obliged to absorb credit losses before the Group. An overview of the Group's interests, relative ranking and external credit rating, for vehicles that have credit subordination in place, is summarised in the table below, and include securitisation vehicles and other financing.

Notes to the Financial Statements

Note 38 Investments in Subsidiaries and Other Entities (continued)

Unconsolidated Structured Entities (continued)

| Ranking and credit rating of exposures to unconsolidated structured entities | 2014 | | | Total \$M |
|--|--------------|--------------|---------------------------|---------------|
| | RMBS \$M | ABS \$M | Other Financing \$M | |
| Senior ⁽¹⁾ | 7,844 | 1,537 | 1,821 | 11,202 |
| Mezzanine ⁽²⁾ | 26 | 13 | 33 | 72 |
| Subordinated ⁽³⁾ | 27 | - | - | 27 |
| Total maximum exposure to loss | 7,897 | 1,550 | 1,854 | 11,301 |

(1) \$7,548 million of RMBS exposures, \$1,503 million of ABS exposures and \$818 million of other financing exposures are rated investment grade, the remaining \$1,333 million exposures are rated sub-investment grade.

(2) All RMBS and ABS exposures are rated investment grade, all other financing exposures are rated sub investment grade.

(3) All exposures are rated sub investment grade.

Sponsored unconsolidated structured entities

For the purposes of this disclosure, the Group sponsors an entity when it manages or advises the entity's program, places securities into the market on behalf of the entity, provides liquidity and/or credit enhancements to the entity, or the Group's name appears in the Structured Entity.

During the year ended 30 June 2014, the Group has sponsored two unconsolidated structured entities being Security Holding Investment Entity Linking Deals Limited (SHIELD) and SHIELD Trust No. 2. A wholly owned subsidiary of the Group, Securitisation Advisory Services Pty Limited (SAS), is the manager of SHIELD and SHIELD is the trustee of SHIELD Trust No. 2. The Group continues to hold an interest in these structured entities.

There has been no income earned or expense incurred directly from these entities during the year ended 30 June 2014. There also have been no assets transferred by all parties to the sponsored entities during the year ended 30 June 2014.

Note 39 Key Management Personnel

Detailed remuneration disclosures by KMP are provided in the Remuneration Report of the Directors' Report on pages 55 to 61 and have been audited.

| Key management personnel compensation | Group | | Bank | |
|---------------------------------------|----------------|-------------------------------|----------------|-------------------------------|
| | 2014 \$'000 | 2013 ⁽¹⁾ \$'000 | 2014 \$'000 | 2013 ⁽¹⁾ \$'000 |
| Short term benefits ⁽²⁾ | 34,051 | 34,186 | 34,051 | 34,186 |
| Post-employment benefits | 443 | 777 | 443 | 777 |
| Share-based payments | 11,654 | 9,882 | 11,654 | 9,882 |
| Long term benefits | 708 | 1,310 | 708 | 1,310 |
| Total | 46,856 | 46,155 | 46,856 | 46,155 |

(1) Colin Galbraith and Fergus Ryan retired from the Group on 30 October 2012. Total statutory remuneration for the 2013 financial year was \$265,666 and \$274,956, respectively.

(2) Short Term Benefits includes payment made to Ian Saines in lieu of notice as per contractual arrangements and adjustments in relation to previous years.

Shareholdings

Details of the aggregate shareholdings of Key Management Personnel are set out below.

| Equity Holdings of Key Management Personnel | Class ⁽¹⁾ | Balance 1 July 2013 | Acquired/ Granted as Remuneration | Reward/ Deferred | Net | Balance 30 June 2014 |
|---|---------------------------------|------------------------|---|---------------------------------|--------------------------------|-------------------------|
| | | | | Shares Vested ⁽²⁾ | Change Other ⁽³⁾ | |
| Non-Executive Directors | Ordinary ⁽⁴⁾ | 168,188 | 1,685 | - | - | 169,873 |
| | PERLS | 10,080 | - | - | - | 10,080 |
| | Other securities ⁽⁵⁾ | 72,647 | - | - | (67,647) | 5,000 |
| Executives | Ordinary | 489,303 | - | - | (5,533) | 483,770 |
| | Reward Shares/Rights | 1,393,974 | 331,689 | (285,161) | (159,065) | 1,281,437 |
| | Deferred Shares | 82,443 | 5,729 | (37,114) | - | 51,058 |

(1) Reward Shares/Rights represent shares granted under the Group Leadership Reward Plan (GLRP) which are subject to performance hurdles.

(2) Deferred Shares represent the deferred portion of STI, sign-on and special retention awards received as restricted shares. Reward Shares/Rights and Deferred Shares become ordinary shares upon vesting.

(3) Net Change Other incorporates changes resulting from purchases, sales and forfeitures during the year.

(4) Non-Executive Directors who hold less than 5,000 Commonwealth Bank shares are required to receive 20% of their total post-tax annual fees as Commonwealth Bank shares. These shares are subject to a 10 year trading restriction (the shares will be released earlier if the director leaves the Board).

(5) Other securities: As at 30 June 2014 Non-Executive Directors held 5,000 CNGHA notes (2013: 5,000 CNGHA notes).

Notes to the Financial Statements

Note 39 Key Management Personnel (continued)

Loans to Key Management Personnel

All loans to Key Management Personnel (or close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of the aforementioned held significant voting power) have been provided on an arm's length commercial basis including the term of the loan, security required and the interest rate (which may be fixed or variable).

Details of aggregate loans to Key Management Personnel are set out below:

| KMP's | 2014 \$'000 | 2013 \$'000 |
|------------------|----------------|----------------|
| Loans | 14,188 | 9,583 |
| Interest Charged | 522 | 484 |

Other transactions of Key Management Personnel

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed within this report) of Key Management Personnel occur in the ordinary course of business on an arm's length basis.

Disclosure of financial instrument transactions regularly made as part of normal banking operations is limited to disclosure of such transactions with Key Management Personnel and entities controlled or significantly influenced by them.

All such financial instrument transactions that have occurred between entities within the Group and their Key Management Personnel have been trivial or domestic in nature and were in the nature of normal personal banking and deposit transactions.

Transactions other than Financial Instrument Transactions of Banks

All other transactions with Key Management Personnel and their related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services by entities not controlled by the Group. A related party of an executive has also been employed by the Group, and is remunerated in a manner consistent with normal employee relationships.

Note 40 Related Party Disclosures

The Group is controlled by the Commonwealth Bank of Australia, the ultimate parent, which is incorporated in Australia.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. The definition includes subsidiaries, associates, joint ventures, pension plans as well as other persons.

A number of banking transactions are entered into with related parties in the normal course of business on an arm's length basis. These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned. Details of amounts paid or received from related parties, in the form of dividends or interest, are set out in Note 2.

The Bank's aggregate investments in, and loans to controlled entities are disclosed in the table below. Amounts due to controlled entities are disclosed in the Balance Sheet of the Bank.

| | 2014 \$M | Bank 2013 \$M |
|---|---------------|---------------------|
| Shares in controlled entities | 14,234 | 16,167 |
| Loans to controlled entities | 49,852 | 46,850 |
| Total shares in and loans to controlled entities | 64,086 | 63,017 |

The Group also receives fees on an arm's length basis of \$66 million (2013: \$81 million) from funds classified as associates.

The Bank provides letters of comfort to other entities within the Group on standard terms. Guarantees include a \$5 million bank guarantee provided to Colonial First State Investments Limited and a \$40 million guarantee to AFS license holders in respect of excess compensation claims.

The Bank is the head entity of the tax consolidated group and has entered into tax funding and tax sharing agreements with its eligible Australian resident subsidiaries. The terms and conditions of these agreements are set out in Note 1(s). The amount receivable by the Bank under the tax funding agreement with the tax consolidated entities is \$252 million as at 30 June 2014 (2013: \$207 million receivable). This balance is included in 'Other assets' in the Bank's separate Balance Sheet.

All transactions between Group entities are eliminated on consolidation.

Notes to the Financial Statements

Note 41 Notes to the Statements of Cash Flows

(a) Reconciliation of Net Profit after Income Tax to Net Cash provided by/(used in) Operating Activities

| | Group | | | Bank | |
|--|--------------|--------------|--------------|--------------|----------------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Net profit after income tax ⁽¹⁾ | 8,650 | 7,634 | 7,032 | 8,442 | 7,233 |
| (Increase)/decrease in interest receivable | (22) | 130 | 79 | (33) | 358 |
| Decrease in interest payable | (295) | (251) | (320) | (269) | (362) |
| Net (increase)/decrease in assets at fair value through Income Statement (excluding life insurance) | (1,016) | (3,472) | 3,391 | (1,433) | (4,535) |
| Net (gain)/loss on sale of controlled entities and associates | (60) | (7) | (21) | 29 | - |
| Net gain on sale of investments | (2) | - | (1) | (2) | - |
| Net movement in derivative assets/liabilities | 5,375 | 2,372 | (663) | 5,887 | 3,781 |
| Net loss/(gain) on sale of property, plant and equipment | 12 | 14 | (39) | 9 | 13 |
| Equity accounting profit | (192) | (210) | (120) | - | - |
| Loan impairment expense | 918 | 1,146 | 1,089 | 871 | 1,042 |
| Depreciation and amortisation (including asset write downs) | 874 | 716 | 628 | 705 | 549 |
| (Decrease)/increase in liabilities at fair value through Income Statement (excluding life insurance) | (1,674) | 1,569 | (4,321) | 1,788 | 126 |
| Increase/(decrease) in other provisions | 7 | 19 | (69) | (14) | 40 |
| (Decrease)/increase in income taxes payable | (617) | 45 | 37 | (1,124) | (341) |
| (Decrease)/increase in deferred tax liabilities | (104) | 133 | 152 | - | (292) |
| Decrease/(increase) in deferred tax assets | 363 | (26) | 349 | 281 | 234 |
| (Increase)/decrease in accrued fees/reimbursements receivable | (158) | (272) | 18 | (1) | 32 |
| Increase in accrued fees and other items payable | 94 | 315 | 64 | 40 | 179 |
| Decrease in life insurance contract policy liabilities | (1,082) | (1,401) | (1,157) | - | - |
| Increase/(decrease) in cash flow hedge reserve | 9 | 27 | (58) | 15 | 26 |
| Loss/(gain) on changes in fair value of hedged items | 71 | (617) | (318) | (305) | (421) |
| Dividend received | - | - | - | (1,944) | (1,512) |
| Changes in operating assets and liabilities arising from cash flow movements | (8,280) | (2,411) | 3,120 | (10,881) | (7,997) |
| Other ⁽¹⁾ | 1,092 | 1,124 | (25) | 797 | 162 |
| Net cash provided by/(used in) operating activities | 3,963 | 6,577 | 8,847 | 2,858 | (1,685) |

(1) Comparative information has been restated to reflect the impact of changes in accounting policy. Refer to Note 1(f) for more details.

(b) Reconciliation of Cash

For the purposes of the Statements of Cash Flows, cash includes cash and money at short call.

| | Group | | | Bank | |
|---|---------------|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M |
| Notes, coins and cash at banks | 12,490 | 7,653 | 8,508 | 11,089 | 6,183 |
| Other short term liquid assets | 6,638 | 4,965 | 4,095 | 6,389 | 4,565 |
| Cash and cash equivalents at end of year | 19,128 | 12,618 | 12,603 | 17,478 | 10,748 |

(c) Non-cash Financing and Investing Activities

| | Group | | |
|--|------------|------------|--------------|
| | 2014 | 2013 | 2012 |
| | \$M | \$M | \$M |
| Shares issued under the Dividend Reinvestment Plan ⁽¹⁾ | 707 | 929 | 1,363 |

(1) Part of the Dividend Reinvestment Plan paid out in the 2014 financial year was satisfied through the on-market purchase and transfer of \$722 million of shares to participating shareholders (2013: \$596 million).

(d) Disposal of Controlled Entities - Fair Value of Asset Disposal

The Group disposed of certain CFS GAM operations including Colonial First State Property Management Pty Limited, Commonwealth Management Investments Limited and Colonial First State Management Pty Limited during the 2014 financial year.

| | Group | | |
|---|-------|------|------|
| | 2014 | 2013 | 2012 |
| | \$M | \$M | \$M |
| Net assets | 440 | - | - |
| Cash consideration received | 569 | - | - |
| Cash and cash equivalents held in disposed entities | 38 | - | - |

Notes to the Financial Statements

Note 41 Notes to the Statements of Cash Flows (continued)

(e) Acquisition of Controlled Entities

The Group gained control of Count Financial Limited (Count Financial) on 29 November 2011. The Group subsequently acquired 100% of the issued share capital on 9 December 2011. Count Financial is an independent, accountant-based financial advice business. This acquisition will support the Group in growing its distribution capabilities through the expansion of its adviser network.

The fair value of the identifiable assets acquired and liabilities assumed at the acquisition date are as follows:

| | 2014 | 2013 | Group 2012 |
|---|----------|----------|---------------|
| | \$M | \$M | \$M |
| Net identifiable assets at fair value | - | - | 140 |
| Add: Goodwill | - | - | 232 |
| Purchase consideration transferred | - | - | 372 |
| Less: Cash and cash equivalents acquired | - | - | (10) |
| | - | - | 362 |
| Less: Non-cash consideration | - | - | (237) |
| Net cash outflow on acquisition | - | - | 125 |

Note 42 Disclosures about Fair Values

According to AASB 13 'Fair Value Measurement', fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at measurement date.

(a) Valuation

The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where no quoted market price for an instrument is available, the fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in a limited number of instances, rely on inputs which are reasonable assumptions based on market conditions.

Determination of the fair value of Over-the-Counter (OTC) derivatives includes credit valuation adjustments (CVA) for derivative assets to reflect the credit worthiness of the counterparty, and debit valuation adjustment (DVA) for derivative liabilities and other liabilities at fair value to reflect the Group's own credit risk. These adjustments are applied after considering any relevant collateral or master netting arrangements.

The Group utilises various valuation techniques and applies a hierarchy for valuation inputs that maximise the use of observable market data, if available.

Under AASB 13 all financial and non-financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

Quoted Prices in Active Markets – Level 1

This category includes assets and liabilities for which the valuation is determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Financial instruments included in this category are liquid government bonds, financial institution and corporate bonds, certificates of deposit, bank bills, listed equities and exchange traded derivatives.

Valuation Technique Using Observable Inputs – Level 2

This category includes assets and liabilities that have been valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.

Financial instruments included in this category are commercial papers, mortgage-backed securities and OTC derivatives including interest rate swaps, cross currency swaps and FX options.

Valuation Technique Using Significant Unobservable Inputs – Level 3

This category includes assets and liabilities the valuation of which incorporates significant inputs that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historic transactions and economic models, where available. These inputs may include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility.

Financial instruments included in this category for the Group and Bank are certain exotic OTC derivatives and certain asset-backed securities valued using unobservable inputs.

Notes to the Financial Statements

Note 42 Disclosures about Fair Values (continued)

(b) Fair Value Hierarchy for Financial Assets and Liabilities Measured at Fair Value

The classification in the fair value hierarchy of the Group's and the Bank's financial assets and liabilities measured at fair value is presented in the table below:

| | Fair Value as at 30 June 2014 | | | | Fair Value as at 30 June 2013 | | | |
|--|-------------------------------|---------------|------------|----------------|-------------------------------|---------------|-----------|----------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Group | | | | | | | | |
| Financial assets measured at fair value on a recurring basis | | | | | | | | |
| Assets at fair value through Income Statement: | | | | | | | | |
| Trading ⁽¹⁾ | 15,785 | 5,674 | - | 21,459 | 17,819 | 1,798 | - | 19,617 |
| Insurance | 5,451 | 9,691 | - | 15,142 | 4,580 | 9,779 | - | 14,359 |
| Other | 192 | 568 | - | 760 | 632 | 275 | - | 907 |
| Derivative assets | 19 | 29,093 | 135 | 29,247 | 8 | 45,263 | 69 | 45,340 |
| Available-for-sale investments ⁽¹⁾ | 58,033 | 8,007 | 97 | 66,137 | 53,006 | 6,591 | 4 | 59,601 |
| Bills Discounted ⁽²⁾ | 19,244 | - | - | 19,244 | 22,017 | - | - | 22,017 |
| Total financial assets measured at fair value | 98,724 | 53,033 | 232 | 151,989 | 98,062 | 63,706 | 73 | 161,841 |
| Financial liabilities measured at fair value on a recurring basis | | | | | | | | |
| Liabilities at fair value through Income Statement ⁽¹⁾ | | | | | | | | |
| Derivative liabilities | - | 27,245 | 14 | 27,259 | - | 38,566 | 14 | 38,580 |
| Life investment contracts | - | 9,536 | - | 9,536 | - | 9,589 | - | 9,589 |
| Total financial liabilities measured at fair value | 4,612 | 39,677 | 14 | 44,303 | 2,948 | 53,908 | 14 | 56,870 |

(1) In the current period the Group revised the fair value hierarchy classification of certain financial instruments valued using quoted yields to align with market practice and guidance referred in AASB 13 'Fair Value Measurement'. The policy has been applied retrospectively and at 30 June 2013 resulted in a \$4,965 million reduction of Level 2 and a corresponding increase of Level 1 Available-for-sale securities; a \$1,745 million reduction in Level 2 and a corresponding increase in Level 1 Trading Assets; and a \$196 million reduction in Level 2 and a corresponding increase in Level 1 Trading liabilities.

(2) The Group has included both current year and comparative balances for bills discounted on the basis they are measured at fair value using quoted prices. These balances are included within loans, bills discounted and other receivables on the face of the Balance Sheet.

| | Fair Value as at 30 June 2014 | | | | Fair Value as at 30 June 2013 | | | |
|--|-------------------------------|---------------|---------------|----------------|-------------------------------|---------------|---------------|----------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Bank | | | | | | | | |
| Financial assets measured at fair value on a recurring basis | | | | | | | | |
| Assets at fair value through Income Statement: | | | | | | | | |
| Trading ⁽¹⁾ | 15,764 | 4,808 | - | 20,572 | 17,796 | 602 | - | 18,398 |
| Other | 137 | 424 | - | 561 | 588 | 130 | - | 718 |
| Derivative assets | 18 | 29,350 | 247 | 29,615 | 12 | 45,129 | 62 | 45,203 |
| Available-for-sale investments ^{(1) (2)} | 57,221 | 6,062 | 68,294 | 131,577 | 51,931 | 5,400 | 68,610 | 125,941 |
| Bills Discounted ⁽³⁾ | 19,244 | - | - | 19,244 | 22,017 | - | - | 22,017 |
| Total financial assets measured at fair value | 92,384 | 40,644 | 68,541 | 201,569 | 92,344 | 51,261 | 68,672 | 212,277 |
| Financial liabilities measured at fair value on a recurring basis | | | | | | | | |
| Liabilities at fair value through Income Statement ⁽¹⁾ | | | | | | | | |
| Derivative liabilities | - | 29,225 | 116 | 29,341 | 23 | 40,192 | 14 | 40,229 |
| Total financial liabilities measured at fair value | 4,606 | 29,771 | 116 | 34,493 | 2,956 | 40,591 | 14 | 43,561 |

(1) In the current period the Bank revised the fair value hierarchy classification of certain financial instruments valued using quoted yields to align with market practice and guidance referred in AASB 13 'Fair Value Measurement'. The policy has been applied retrospectively and at 30 June 2013 resulted in a \$4,965 million reduction of Level 2 and a corresponding increase of Level 1 Available-for-sale securities; a \$1,745 million reduction in Level 2 and a corresponding increase in Level 1 Trading Assets; and a \$196 million reduction in Level 2 and a corresponding increase in Level 1 Trading liabilities.

(2) Level 3 Available-for-sale investments for the Bank include \$67,457 million of internal RMBS issues. These financial instruments are not quoted in an active market and their fair value is based on significant unobservable inputs. Specifically, the fair values are determined by discounting future expected cash flows of the notes using discount factors that reflect trading margin on most recent comparable issues. As at 30 June 2014, the trading margin used to determine the fair values of the notes of internal RMBS was 110 bpts. An increase/decrease of 10 bpts in trading margin would decrease/increase the fair value of the notes by \$210 million.

(3) The Group has included both current year and comparative balances for bills discounted on the basis they are measured at fair value using quoted prices. These balances are included on the face of the Balance Sheet as loans, bills discounted and other receivables.

Notes to the Financial Statements

Note 42 Disclosures about Fair Values (continued)

(c) Analysis of Movements between Fair Value Hierarchy Levels

During the year ended 30 June 2014 the Group and the Bank reclassified \$172 million of available-for-sale securities and \$722 million of trading securities from Level 1 to Level 2 due to changes in the observability of inputs (2013: nil). The table below summarises movements in Level 3 balance during the year. Transfers have been reflected as if they had taken place at the end of the reporting period.

Level 3 Movement Analysis for the year ended 30 June 2014

| | Group | | | |
|--|--------------------------------------|---|---|----------------------|
| | Derivative Assets \$M | Available for Sale Investments \$M | Derivative Liabilities \$M | Total \$M |
| As at 1 July 2012 | 26 | 1 | (17) | 10 |
| Purchases | 44 | 1 | (5) | 40 |
| Sales/Settlements | - | - | 10 | 10 |
| Gains/(losses) in the period: | | | | |
| Recognised in the Income Statement | 7 | - | (2) | 5 |
| Recognised in the Statement of Comprehensive Income | - | - | - | - |
| Transfers in | - | 2 | - | 2 |
| Transfers out | (8) | - | - | (8) |
| As at 30 June 2013 | 69 | 4 | (14) | 59 |
| Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2012 | 6 | - | (5) | 1 |
| As at 1 July 2013 | 69 | 4 | (14) | 59 |
| Purchases | 1 | 750 | - | 751 |
| Sales/Settlements | (18) | (155) | 2 | (171) |
| Gains/(losses) in the period: | | | | |
| Recognised in the Income Statement | (3) | 3 | 1 | 1 |
| Recognised in the Statement of Comprehensive Income | - | (1) | - | (1) |
| Transfers in | 86 | 96 | (3) | 179 |
| Transfers out | - | (600) | - | (600) |
| As at 30 June 2014 | 135 | 97 | (14) | 218 |
| Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2014 | 9 | - | 1 | 10 |

Notes to the Financial Statements

Note 42 Disclosures about Fair Values (continued)

Level 3 Movement Analysis for the year ended 30 June 2014 (continued)

| | Bank | | | |
|--|--------------------------------------|---|---|----------------------|
| | Derivative Assets \$M | Available for Sale Investments \$M | Derivative Liabilities \$M | Total \$M |
| As at 1 July 2012 | 12 | 66,459 | (17) | 66,454 |
| Purchases | 49 | - | (5) | 44 |
| Sales/Settlements | (2) | (1,150) | 10 | (1,142) |
| Gains/(losses) in the period: | | | | |
| Recognised in the Income Statement | 10 | - | (2) | 8 |
| Recognised in the Statement of Comprehensive Income | - | (136) | - | (136) |
| Transfers in | - | 688 | - | 688 |
| Transfers out | (7) | - | - | (7) |
| Additions through merger of banking licence | - | 2,749 | - | 2,749 |
| As at 30 June 2013 | 62 | 68,610 | (14) | 68,658 |
| Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2012 | 8 | - | (6) | 2 |
| As at 1 July 2013 | 62 | 68,610 | (14) | 68,658 |
| Purchases | 1 | 750 | - | 751 |
| Sales/Settlements | (23) | (738) | 2 | (759) |
| Gains/(losses) in the period: | | | | |
| Recognised in the Income Statement | 9 | - | 1 | 10 |
| Recognised in the Statement of Comprehensive Income | - | 176 | - | 176 |
| Transfers in | 198 | 96 | (105) | 189 |
| Transfers out | - | (600) | - | (600) |
| As at 30 June 2014 | 247 | 68,294 | (116) | 68,425 |
| Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2014 | 9 | - | 2 | 11 |

Transfers in and out of Level 3 are due to changes in the observability of the inputs.

The Group's exposure to financial instruments measured at fair value based in full or in part on non-market observable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios to which they belong. As such, the purchases, sales, as well as any change in the assumptions used to value the instruments to a reasonably possible alternative do not have a material effect on the portfolio balance of the Group's results.

Notes to the Financial Statements

Note 42 Disclosures about Fair Values (continued)

(d) Fair Value Information for Financial Instruments not measured at Fair Value

The estimated fair values and fair value hierarchy of the Group's and the Bank's financial instruments not measured at fair value as at 30 June 2014 are presented below:

| | 30 June 2014 | | | | Group | | | | | |
|---|----------------|---------------|----------------|----------------|----------------|----------------|----------------|---------|-------|-------|
| | Carrying value | Fair value | | | Total | Carrying value | Fair value | | | |
| | | Total | Level 1 | Level 2 | | | | Level 3 | Total | Total |
| | | \$M | \$M | \$M | | | | \$M | \$M | \$M |
| Financial assets not measured at fair value on a recurring basis | | | | | | | | | | |
| Cash and liquid assets | 26,409 | 19,128 | 7,281 | - | 26,409 | 20,634 | 20,634 | | | |
| Receivables due from other financial institutions | 8,065 | - | 8,065 | - | 8,065 | 7,744 | 7,744 | | | |
| Loans and other receivables | 578,537 | - | - | 579,070 | 579,070 | 534,631 | 535,339 | | | |
| Bank acceptances of customers | 5,027 | - | - | 5,027 | 5,027 | 6,063 | 6,063 | | | |
| Other assets | 4,745 | 509 | 4,236 | - | 4,745 | 6,998 | 6,998 | | | |
| Total financial assets | 622,783 | 19,637 | 19,582 | 584,097 | 623,316 | 576,070 | 576,778 | | | |
| Financial liabilities not measured at fair value on a recurring basis | | | | | | | | | | |
| Deposits and other public borrowings | 498,352 | - | 483,660 | 15,903 | 499,563 | 459,429 | 460,251 | | | |
| Payables due to other financial institutions | 24,978 | - | 24,978 | - | 24,978 | 25,922 | 25,922 | | | |
| Bank acceptances | 5,027 | 5,027 | - | - | 5,027 | 6,063 | 6,063 | | | |
| Debt issues | 142,219 | 1,032 | 142,208 | 135 | 143,375 | 132,808 | 136,638 | | | |
| Managed funds units on issue | 1,214 | - | 1,214 | - | 1,214 | 891 | 891 | | | |
| Bills payable and other liabilities | 7,888 | - | 7,888 | - | 7,888 | 7,574 | 7,574 | | | |
| Loan capital | 9,594 | 3,259 | 6,565 | - | 9,824 | 9,687 | 9,989 | | | |
| Total financial liabilities | 689,272 | 9,318 | 666,513 | 16,038 | 691,869 | 642,374 | 647,328 | | | |
| Financial guarantees, loan commitments and other off-balance sheet instruments | 164,347 | - | - | 164,347 | 164,347 | 151,334 | 151,334 | | | |

| | 30 June 2014 | | | | Bank | | | | | |
|---|----------------|---------------|----------------|----------------|----------------|----------------|----------------|---------|-------|-------|
| | Carrying value | Fair value | | | Total | Carrying value | Fair value | | | |
| | | Total | Level 1 | Level 2 | | | | Level 3 | Total | Total |
| | | \$M | \$M | \$M | | | | \$M | \$M | \$M |
| Financial assets not measured at fair value on a recurring basis | | | | | | | | | | |
| Cash and liquid assets | 24,108 | 17,477 | 6,631 | - | 24,108 | 18,030 | 18,030 | | | |
| Receivables due from other financial institutions | 7,457 | - | 7,457 | - | 7,457 | 6,998 | 6,998 | | | |
| Loans and other receivables | 516,003 | - | - | 516,553 | 516,553 | 502,349 | 502,978 | | | |
| Bank acceptances of customers | 4,984 | - | - | 4,984 | 4,984 | 6,059 | 6,059 | | | |
| Loans to controlled entities | 49,852 | - | - | 49,732 | 49,732 | 46,850 | 46,852 | | | |
| Other assets | 3,800 | 496 | 3,304 | - | 3,800 | 5,423 | 5,423 | | | |
| Total financial assets | 606,204 | 17,973 | 17,392 | 571,269 | 606,634 | 585,709 | 586,340 | | | |
| Financial liabilities not measured at fair value on a recurring basis | | | | | | | | | | |
| Deposits and other public borrowings | 457,571 | - | 443,969 | 14,178 | 458,147 | 425,276 | 426,048 | | | |
| Payables due to other financial institutions | 24,599 | - | 24,599 | - | 24,599 | 25,166 | 25,166 | | | |
| Bank acceptances | 4,984 | 4,984 | - | - | 4,984 | 6,059 | 6,059 | | | |
| Due to controlled entities | 118,920 | - | 3,498 | 115,422 | 118,920 | 113,868 | 113,868 | | | |
| Debt issues | 119,548 | - | 120,817 | 135 | 120,952 | 115,291 | 119,032 | | | |
| Bills payable and other liabilities | 6,039 | - | 6,039 | - | 6,039 | 5,648 | 5,648 | | | |
| Loan capital | 9,969 | 2,119 | 8,061 | - | 10,180 | 10,437 | 10,445 | | | |
| Total financial liabilities | 741,630 | 7,103 | 606,983 | 129,735 | 743,821 | 701,745 | 706,266 | | | |
| Financial guarantees, loan commitments and other off-balance sheet instruments | 151,798 | - | - | 151,798 | 151,798 | 140,693 | 140,693 | | | |

Note 42 Disclosures about Fair Values (continued)

(d) Fair Value Information for Financial Instruments not measured at Fair Value (continued)

The fair values disclosed above represent estimates of prices at which these instruments could be sold or transferred in an orderly transaction between market participants. However, many of the instruments lack an available trading market and it is the intention to hold to maturity. Thus it is possible that realised amounts may differ to amounts disclosed above. Due to the wide range of valuation techniques and the numerous estimates that must be made, it may be difficult to make a reasonable comparison of the fair value information disclosed here, against that disclosed by other financial institutions.

The fair value estimates disclosed above have been derived as follows:

Loans and Other Receivables

The carrying value of loans and other receivables is net of accumulated collective and individually assessed provisions for impairment. Customer creditworthiness is regularly reviewed in line with the Group's credit policies and where necessary, pricing is adjusted in accordance with individual credit contracts.

For the majority of variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of fair value. For Institutional variable rate loans, the fair value is calculated using discounted cash flow models with a discount rate reflecting market rates offered on similar loans to customers with similar creditworthiness. The fair value of impaired loans is calculated by discounting estimated future cash flows using the loan's market interest rate.

The fair value of fixed rate loans is calculated using discounted cash flow models where the discount rate reflects market rates offered for loans of similar remaining maturities and creditworthiness as the customer.

Deposits and Other Public Borrowings

Fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, approximate their carrying value as they are short term in nature or payable on demand.

Fair value of term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.

Debt Issues and Loan Capital

The fair values are calculated using quoted market prices, where available. Where quoted market prices are not available, discounted cash flow and option pricing models are used. The discount rate applied reflects the terms of the instrument, the timing of the cash flows and is adjusted for any change in the Group's applicable credit rating.

Other Financial Assets and Liabilities

For all other financial assets and liabilities fair value approximates carrying value due to their short term nature, frequent repricing or high credit rating.

Note 43 Securitisation, Covered Bonds and Transferred Assets

Transfer of Financial Assets

In the normal course of business the Group enters into transactions by which it transfers financial assets to counterparties or directly to Special Purpose Entities (SPE's). These transfers do not give rise to derecognition of those financial assets for the Group.

Repurchase Agreements

Securities sold under agreement to repurchase are retained on the Balance Sheet when substantially all the risks and rewards of ownership remain with the Group, and the counterparty liability is included separately on the balance sheet when cash consideration is received.

Securitisation Programs

Residential mortgages securitised under the Group's securitisation programs are equitably assigned to bankruptcy remote special purpose entities (SPEs). The Group is entitled to any residual income of the securitisation program after all payments due to investors have been met. In addition, where derivatives are transacted between the SPE and the Bank, such that the Bank retains exposure to the variability in cash flows from the transferred residential mortgages, the mortgages will continue to be recognised on the Bank's balance sheet. The investors have full recourse only to the residential mortgages segregated into an SPE.

Covered Bonds Programs

To complement the existing wholesale funding sources, the Group has established two global covered bond programs for the Bank and ASB respectively. Certain residential mortgages have been assigned to a bankruptcy remote SPE associated with covered bond programs to provide security for the obligations payable on the covered bonds issued by the Group. Similarly to securitisation programs, the Group is entitled to any residual income after all payments due to covered bonds investors have been met. As the Bank retains substantially all of the risks and rewards associated with the mortgages through derivatives transacted with the SPE, the Bank continues to recognise the mortgages on its Balance Sheet. The covered bond holders have dual recourse to the Bank and the covered pool assets.

Notes to the Financial Statements

Note 43 Securitisation, Covered Bonds and Transferred Assets (continued)

At the Balance Sheet date, transferred financial assets that did not qualify for derecognition and their associated liabilities are as follows:

| | Group | | | | | |
|--|------------------------------|-------------|----------------------|-------------|-----------------------|--------------|
| | Repurchase Agreements | | Covered Bonds | | Securitisation | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Carrying amount of transferred assets | 9,961 | 5,572 | 34,147 | 33,634 | 12,982 | 10,169 |
| Carrying amount of associated liabilities ⁽¹⁾ | 9,961 | 5,572 | 25,280 | 18,238 | 11,426 | 8,929 |
| For those liabilities that have recourse only to the transferred assets: | | | | | | |
| Fair value of transferred assets | | | | | 12,992 | 10,183 |
| Fair value of associated liabilities | | | | | 11,471 | 8,927 |
| Net position | | | | | 1,521 | 1,256 |

| | Bank | | | | | |
|--|------------------------------|-------------|----------------------|-------------|-----------------------|-------------|
| | Repurchase Agreements | | Covered Bonds | | Securitisation | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Carrying amount of transferred assets | 9,958 | 5,539 | 29,216 | 29,487 | 84,214 | 77,150 |
| Carrying amount of associated liabilities ⁽²⁾ | 9,958 | 5,539 | 22,732 | 16,740 | 84,214 | 77,150 |
| For those liabilities that have recourse only to the transferred assets: | | | | | | |
| Fair value of transferred assets | | | | | 84,262 | 77,234 |
| Fair value of associated liabilities | | | | | 84,214 | 77,150 |
| Net position | | | | | 48 | 84 |

(1) Securitisation liabilities of the Group include RMBS notes issued by securitisation SPEs and held by external investors.

(2) Securitisation liabilities of the Bank include borrowings from securitisation SPEs, including the SPEs that issue only internally held notes for repurchase with central banks, recognised on transfer of residential mortgages by the Bank.

Note 44 Offsetting Financial Assets and Financial Liabilities including Collateral Arrangements

Collateral Accepted as Security for Assets

The Group takes collateral where it is considered necessary to support both on and off balance sheet financial instruments. The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, is based on management's credit evaluation of the counterparty. The Group has the right to sell, re-pledge, or otherwise use some of the collateral received. At Balance Sheet date the carrying value of cash accepted as collateral (and recognised on the Group's and the Bank's Balance Sheets) and the fair value of securities accepted as collateral (but not recognised on the Group's or the Bank's Balance Sheets) were as follows:

| | Group | | | | Bank | |
|--|---------------|---------------|---------------|---------------|-------------|-------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Cash | 4,648 | 6,963 | 4,518 | 6,689 | | |
| Securities | 7,282 | 8,016 | 6,631 | 7,282 | | |
| Collateral held | 11,930 | 14,979 | 11,149 | 13,971 | | |
| Collateral held which is re-pledged or sold | - | 15 | - | - | | |

Assets Pledged

As part of standard terms of transactions with other banks, the Group has provided collateral to secure liabilities. At Balance Sheet date, the carrying value of assets pledged as collateral to secure liabilities is as follows:

| | Group | | | | Bank | |
|---|---------------|--------------|---------------|--------------|-------------|-------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | \$M | \$M | \$M | \$M | \$M | \$M |
| Cash | 3,745 | 2,853 | 3,477 | 2,823 | | |
| Securities ⁽¹⁾ | 10,308 | 5,877 | 10,306 | 5,844 | | |
| Assets pledged | 14,053 | 8,730 | 13,783 | 8,667 | | |
| Asset pledged which can be re-pledged or re-sold by counterparty | 9,961 | 5,572 | 9,958 | 5,539 | | |

(1) These balances include assets sold under repurchase agreements. The liabilities related to these repurchase agreements are disclosed in Note 17.

Note 44 Offsetting Financial Assets and Financial Liabilities including Collateral Arrangements (continued)

The Group and the Bank have pledged collateral as part of entering repurchase and derivative agreements. These transactions are governed by standard industry agreements.

Offsetting Financial Assets and Liabilities

According to AASB 132 financial assets and financial liabilities can be set off on the balance sheet only when there is a currently enforceable legal right to offset the respective recognised amounts and an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The right to offset is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable, generally from the same counterparty, against it.

The Group has an enforceable legal right and intention to settle some of its receivables and payables with clients, and exchanges arising in relation to equities brokerage transactions, on a net basis. Such receivables and payables are presented on the Balance Sheet on a net basis. As at 30 June 2014, the Group's gross receivables and payables in relation to these transactions amount to \$928 million and \$1,035 million, respectively (2013: \$898 million and \$943 million). As a result of netting on the Balance Sheet, the gross receivables and payables were reduced by \$516 million and \$515 million respectively (2013: \$456 million and \$444 million).

The Group enters into netting agreements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives, repurchase and reverse repurchase transactions, securities borrowing and lending transactions. These netting agreements and similar arrangements enable the counterparties to offset liabilities against assets if an event of default or other predetermined event occurs, however they generally do not result in net settlement in the ordinary course of business. Consequently, the Group does not set off its financial assets and liabilities on the Balance Sheet, even if these amounts are subject to enforceable netting arrangements.

A cash settled derivative instrument that trades on an exchange is deemed in substance economically settled and therefore is outside the scope of these Offsetting Disclosures if the change in fair value of the instrument is economically settled on a daily basis through the cash payment or receipt of variation margin.

The tables on pages 184 to 185 identify the amounts that are covered by enforceable netting and similar arrangements (offsetting arrangements and financial collateral).

Derivative Assets and Liabilities

The 'Financial Instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement. All outstanding transactions with the same counterparty can be offset and close-out netting applied if an event of default or other predetermined events occur. Financial collateral refers to cash and non-cash collateral obtained to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

Repurchase and Reverse Repurchase Agreements and Security Lending Agreements

The 'Financial Instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchase agreements and global master securities lending agreements. Under these netting agreements, all outstanding transactions with the same counterparty can be offset and close-out netting applied if an event of default or other predetermined events occur. Financial collateral typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

Notes to the Financial Statements

Note 44 Offsetting Financial Assets and Financial Liabilities including Collateral Arrangements (continued)

| | | | | | | | Group 30 June 2014 |
|------------------------------------|---|---|--|----------------|--|--|-----------------------|
| Financial Instruments | Amounts subject to Enforceable Master Netting or Similar Agreements | | | | Financial Assets/ (Liabilities) not subject to Enforceable Master Netting or Similar Agreements | Total Financial Assets/ (Liabilities) Recognised on the Balance Sheet | |
| | Amounts of Recognised Financial Assets/ (Liabilities) Reported on the Balance Sheet | Related Amounts not Set Off on the Balance Sheet | | Net Amount | | | |
| | | Financial Instruments ⁽¹⁾ | Financial Collateral (Received)/ Pledged ⁽¹⁾ | | | | |
| | | | | | | | \$M |
| Derivative assets | 24,249 | (18,009) | (4,367) | 1,873 | 4,998 | 29,247 | |
| Reverse repurchase agreements | 6,516 | (180) | (6,297) | 39 | - | 6,516 | |
| Security borrowing agreements | 765 | - | (765) | - | - | 765 | |
| Total financial assets | 31,530 | (18,189) | (11,429) | 1,912 | 4,998 | 36,528 | |
| Derivative liabilities | (23,293) | 18,009 | 3,128 | (2,156) | (3,966) | (27,259) | |
| Repurchase agreements | (9,961) | 180 | 9,779 | (2) | - | (9,961) | |
| Security lending agreements | (3) | - | 3 | - | - | (3) | |
| Total financial liabilities | (33,257) | 18,189 | 12,910 | (2,158) | (3,966) | (37,223) | |

| | | | | | | | Group 30 June 2013 |
|------------------------------------|---|---|--|----------------|--|--|-----------------------|
| Financial Instruments | Amounts subject to Enforceable Master Netting or Similar Agreements | | | | Financial Assets/ (Liabilities) not subject to Enforceable Master Netting or Similar Agreements | Total Financial Assets/ (Liabilities) Recognised on the Balance Sheet | |
| | Amounts of Recognised Financial Assets/ (Liabilities) Reported on the Balance Sheet | Related Amounts not Set Off on the Balance Sheet | | Net Amount | | | |
| | | Financial Instruments ⁽¹⁾ | Financial Collateral (Received)/ Pledged ⁽¹⁾ | | | | |
| | | | | | | | \$M |
| Derivative assets | 37,819 | (28,932) | (6,404) | 2,483 | 7,521 | 45,340 | |
| Reverse repurchase agreements | 7,182 | (1,144) | (5,982) | 56 | - | 7,182 | |
| Security borrowing agreements | 834 | - | (832) | 2 | - | 834 | |
| Total financial assets | 45,835 | (30,076) | (13,218) | 2,541 | 7,521 | 53,356 | |
| Derivative liabilities | (33,160) | 28,932 | 2,693 | (1,535) | (5,420) | (38,580) | |
| Repurchase agreements | (5,572) | 1,144 | 4,420 | (8) | - | (5,572) | |
| Security lending agreements | (11) | - | 11 | - | - | (11) | |
| Total financial liabilities | (38,743) | 30,076 | 7,124 | (1,543) | (5,420) | (44,163) | |

(1) For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/ (liabilities) reported on the Balance Sheet, i.e. over-collateralisation, where it exists, is not reflected in the tables. As a result the above collateral balances will not correspond to the tables on page 182.

Note 44 Offsetting Financial Assets and Financial Liabilities including Collateral Arrangements (continued)

| | | | | | | | Bank 30 June 2014 |
|------------------------------------|---|-----------------|---|--|--|--|----------------------|
| Financial Instruments | Amounts subject to Enforceable Master Netting or Similar Agreements | | | | Financial Assets/ (Liabilities) not subject to Enforceable Master Netting or Similar Agreements | Total Financial Assets/ (Liabilities) Recognised on the Balance Sheet | |
| | Amounts of Recognised Financial Assets/ (Liabilities) Reported on the Balance Sheet | | Related Amounts not Set Off on the Balance Sheet | | | | |
| | | | Financial Instruments ⁽¹⁾ | Financial Collateral (Received)/ Pledged ⁽¹⁾ | | | Net Amount |
| | \$M | \$M | \$M | \$M | | | \$M |
| Derivative assets | 23,703 | (17,618) | (4,246) | 1,839 | 5,912 | 29,615 | |
| Reverse repurchase agreements | 5,865 | (145) | (5,681) | 39 | - | 5,865 | |
| Security borrowing agreements | 765 | - | (765) | - | - | 765 | |
| Total financial assets | 30,333 | (17,763) | (10,692) | 1,878 | 5,912 | 36,245 | |
| Derivative liabilities | (22,491) | 17,618 | 3,128 | (1,745) | (6,850) | (29,341) | |
| Repurchase agreements | (9,958) | 145 | 9,811 | (2) | - | (9,958) | |
| Security lending agreements | (3) | - | 3 | - | - | (3) | |
| Total financial liabilities | (32,452) | 17,763 | 12,942 | (1,747) | (6,850) | (39,302) | |

| | | | | | | | Bank 30 June 2013 |
|------------------------------------|---|-----------------|---|--|--|--|----------------------|
| Financial Instruments | Amounts subject to Enforceable Master Netting or Similar Agreements | | | | Financial Assets/ (Liabilities) not subject to Enforceable Master Netting or Similar Agreements | Total Financial Assets/ (Liabilities) Recognised on the Balance Sheet | |
| | Amounts of Recognised Financial Assets/ (Liabilities) Reported on the Balance Sheet | | Related Amounts not Set Off on the Balance Sheet | | | | |
| | | | Financial Instruments ⁽¹⁾ | Financial Collateral (Received)/ Pledged ⁽¹⁾ | | | Net Amount |
| | \$M | \$M | \$M | \$M | | | \$M |
| Derivative assets | 36,898 | (28,291) | (6,181) | 2,426 | 8,305 | 45,203 | |
| Reverse repurchase agreements | 6,448 | (1,095) | (5,293) | 60 | - | 6,448 | |
| Security borrowing agreements | 834 | - | (832) | 2 | - | 834 | |
| Total financial assets | 44,180 | (29,386) | (12,306) | 2,488 | 8,305 | 52,485 | |
| Derivative liabilities | (32,619) | 28,291 | 2,664 | (1,664) | (7,610) | (40,229) | |
| Repurchase agreements | (5,539) | 1,095 | 4,435 | (9) | - | (5,539) | |
| Security lending agreements | (11) | - | 11 | - | - | (11) | |
| Total financial liabilities | (38,169) | 29,386 | 7,110 | (1,673) | (7,610) | (45,779) | |

(1) For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/ (liabilities) reported on the Balance Sheet, i.e. over-collateralisation, where it exists, is not reflected in the tables. As a result the above collateral balances will not correspond to the tables on page 182.

Notes to the Financial Statements

Note 45 Subsequent Events

The Bank expects the DRP for the final dividend for the year ended 30 June 2014 will be satisfied in full by an on-market purchase and transfer of shares of approximately \$884 million.

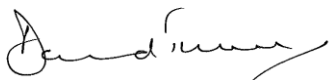
The Directors are not aware of any other matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Directors' Declaration

In accordance with a resolution of the Directors of the Commonwealth Bank of Australia (Bank), the Directors declare that:

- (a) the financial statements for the financial year ended 30 June 2014 in relation to the Bank and the consolidated entity (Group) (together the Financial Statements), and the notes to the Financial Statements, are in accordance with the Corporations Act 2001, including:
 - (i) s 296 (which requires the financial report, including the Financial Statements and the notes to the Financial Statements, to comply with the accounting standards); and
 - (ii) s 297 (which requires the Financial Statements, and the notes to the Financial Statements, to give a true and fair view of the financial position and performance of the Group and the Bank);
- (b) in compliance with the accounting standards, the notes to the Financial Statements include an explicit and unreserved statement of compliance with international financial reporting standards (see Note 1(a));
- (c) in the opinion of the Directors, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable; and
- (d) the Directors have been given the declarations required by s 295A in respect of the financial year ended 30 June 2014.

Signed in accordance with a resolution of the Directors.



D J Turner
Chairman
12 August 2014



I M Narev
Managing Director and Chief Executive Officer
12 August 2014



Independent auditor's report to the members of Commonwealth Bank of Australia

Report on the financial report

We have audited the accompanying financial report of Commonwealth Bank of Australia, which comprises the balance sheets as at 30 June 2014, and the income statements, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both the Commonwealth Bank of Australia and the Group (the consolidated entity). The consolidated entity comprises Commonwealth Bank of Australia and the entities it controlled at the year-end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Commonwealth Bank of Australia are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors of Commonwealth Bank of Australia also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PricewaterhouseCoopers, ABN 52 780 433 757

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Independent auditor's report to the members of Commonwealth Bank of Australia
(continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Commonwealth Bank of Australia is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of Commonwealth Bank of Australia's and the consolidated entity's financial position as at 30 June 2014 and of their performance for the year ended on that date; and
 - (ii) compliance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 43 to 63 of the directors' report for the year ended 30 June 2014. The directors of Commonwealth Bank of Australia are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Commonwealth Bank of Australia for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in dark ink that reads 'R. Waterhouse Coopers'.

PricewaterhouseCoopers

A handwritten signature in dark ink that reads 'M. Laithwaite'.

Marcus Laithwaite
Partner
Pricewaterhouse Coopers

Sydney
12 August 2014

Shareholding Information

Top 20 Holders of Fully Paid Ordinary Shares as at 7 August 2014

| Rank | Name of Holder | Number of Shares | % |
|------|--|------------------|-------|
| 1 | HSBC Custody Nominees (Australia) Limited | 252,540,410 | 15.58 |
| 2 | J P Morgan Nominees Australia Limited | 191,710,722 | 11.82 |
| 3 | National Nominees Limited | 132,373,837 | 8.16 |
| 4 | Citicorp Nominees Pty Limited | 72,514,447 | 4.47 |
| 5 | BNP Paribas Noms Pty Ltd | 37,489,301 | 2.31 |
| 6 | RBC Investor Services Australia Nominees Pty Limited | 16,680,691 | 1.03 |
| 7 | Bond Street Custodians Limited | 15,840,011 | 0.98 |
| 8 | AMP Life Limited | 12,151,248 | 0.75 |
| 9 | Australian Foundation Investment Company Limited | 8,482,900 | 0.52 |
| 10 | UBS Wealth Management Australia Nominees Pty Ltd | 5,654,924 | 0.35 |
| 11 | Pacific Custodians Pty Limited | 4,119,022 | 0.25 |
| 12 | Navigator Australia Ltd | 3,579,587 | 0.22 |
| 13 | Milton Corporation Limited | 3,034,225 | 0.19 |
| 14 | Argo Investments Limited | 2,777,895 | 0.17 |
| 15 | Dawnraptor Pty Limited | 2,747,995 | 0.17 |
| 16 | Nulis Nominees (Australia) Limited | 2,313,792 | 0.14 |
| 17 | Questor Financial Services Limited | 2,102,424 | 0.13 |
| 19 | Mr Barry Martin Lambert | 1,711,854 | 0.11 |
| 19 | Sandhurst Trustees Ltd | 1,485,326 | 0.09 |
| 20 | McCusker Holdings Pty Ltd Level 3 | 1,374,000 | 0.08 |

The top 20 shareholders hold 770,684,611 shares which is equal to 47.52% of the total shares on issue.

Stock Exchange Listing

The shares of the Commonwealth Bank of Australia (Bank) are listed on the Australian Securities Exchange under the trade symbol CBA, with Sydney being the home exchange.

Details of trading activity are published in most daily newspapers, generally under the abbreviation of CBA or C'wealth Bank. The Bank is not currently in the market conducting an on market buy-back of its shares.

Range of Shares (Fully Paid Ordinary Shares and Employee Shares): 7 August 2014

| Range | Number of Shareholders | Percentage of Shareholders | Number of Shares | Percentage of Issued Capital |
|--------------------------------------|------------------------|----------------------------|----------------------|------------------------------|
| 1 – 1,000 | 573,672 | 73.60 | 188,194,274 | 11.61 |
| 1,001 – 5,000 | 180,318 | 23.13 | 375,665,151 | 23.17 |
| 5,001 – 10,000 | 17,708 | 2.27 | 121,065,023 | 7.47 |
| 10,001 – 100,000 | 7,523 | 0.97 | 142,200,887 | 8.77 |
| 100,001 and over | 202 | 0.03 | 794,193,859 | 48.98 |
| Total | 779,423 | 100.00 | 1,621,319,194 | 100.00 |
| Less than marketable parcel of \$500 | 14,177 | 0.02 | 42,952 | 0.00 |

Voting Rights

Under the Bank's Constitution, each person who is a voting Shareholder and who is present at a general meeting of the Bank in person or by proxy, attorney or official representative is entitled:

- On a show of hands – to one vote; and
- On a poll – to one vote for each share held or represented.

If a person present at a general meeting represents personally or by proxy, attorney or official representative more than one Equity holder, on a show of hands the person is entitled to one vote even though he or she represents more than one Equity holder.

If an Equity holder is present in person and votes on a resolution, any proxy or attorney of that Equity holder is not entitled to vote.

If more than one official representative or attorney is present for an Equity holder:

- None of them is entitled to vote on a show of hands; and
- On a poll only one official representative may exercise the Equity holders voting rights and the vote of each attorney shall be of no effect unless each is appointed to represent a specified proportion of the Equity holders voting rights, not exceeding in aggregate 100%.

If an Equity holder appoints two proxies and both are present at the meeting:

- If the appointment does not specify the proportion or number of the Equity holder's votes each proxy may exercise, then on a poll each proxy may exercise one half of the Equity holder's votes;
- Neither proxy shall be entitled to vote on a show of hands; and
- On a poll each proxy may only exercise votes in respect of those shares or voting rights the proxy represents.

Shareholding Information

Top 20 Holders of Perpetual Exchangeable Repurchaseable Listed Shares III ("PERLS III") as at 7 August 2014

| Rank | Name of Holder | Number of Shares | % |
|------|---|------------------|------|
| 1 | UBS Wealth Management Australia | 221,014 | 3.79 |
| 2 | National Nominees Limited | 152,343 | 2.61 |
| 3 | AMP Life Limited | 135,309 | 2.32 |
| 4 | Citicorp Nominees Pty Limited | 127,035 | 2.18 |
| 5 | J P Morgan Nominees Australia | 91,513 | 1.57 |
| 6 | Navigator Australia Ltd | 78,533 | 1.35 |
| 7 | Mr Walter Lawton and Mrs Jan Rynette Lawton | 70,000 | 1.20 |
| 8 | HSBC Custody Nominees | 60,995 | 1.05 |
| 9 | Nulis Nominees (Australia) | 59,914 | 1.03 |
| 10 | The Australian National | 51,082 | 0.88 |
| 11 | Catholic Education Office | 49,750 | 0.85 |
| 12 | RBC Dexia Investor Services | 43,637 | 0.75 |
| 13 | Australian Executor Trustees Limited | 40,176 | 0.69 |
| 14 | Truckmate (Australia) Pty Ltd | 35,000 | 0.60 |
| 15 | BNP Paribas Noms Pty Ltd | 28,526 | 0.49 |
| 16 | Mifare Pty Ltd | 25,000 | 0.43 |
| 17 | UCA Cash Management Fund Ltd | 25,000 | 0.43 |
| 19 | Mutual Trust Pty Ltd | 24,570 | 0.42 |
| 19 | ANZ Executors & Trustee Company Limited | 23,560 | 0.40 |
| 20 | Fleischmann Holdings Pty Ltd | 22,500 | 0.39 |

The top 20 PERLS III shareholders hold 1,365,457 shares which is equal to 23.43% of the total shares on issue.

Stock Exchange Listing

PERLS III are preference shares issued by Preferred Capital Limited (a wholly-owned entity of the Bank). They are listed on the Australian Securities Exchange under the trade symbol PCAPA. Details of trading activity are published in most daily newspapers.

Range of Shares (PERLS III): 7 August 2014

| Range | Number of Shareholders | Percentage of Shareholders | Number of Shares | Percentage of Issued Capital |
|--------------------------------------|------------------------|----------------------------|------------------|------------------------------|
| 1 – 1,000 | 17,408 | 96.73 | 3,062,044 | 52.50 |
| 1,001 – 5,000 | 523 | 2.91 | 1,016,065 | 17.42 |
| 5,001 – 10,000 | 31 | 0.17 | 230,511 | 3.96 |
| 10,001 – 100,000 | 30 | 0.17 | 905,952 | 15.53 |
| 100,001 and over | 4 | 0.02 | 617,709 | 10.59 |
| Total | 17,996 | 100.00 | 5,832,281 | 100.00 |
| Less than marketable parcel of \$500 | 17 | 0.09 | 32 | 0.00 |

Voting Rights

PERLS III do not confer any voting rights in the Bank but if they are exchanged for or convert into ordinary shares or preference shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on page 190 and the voting rights of the preferences shares will be as set out in the PERLS III prospectus.

Shareholding Information

Top 20 Holders of Perpetual Exchangeable Resaleable Listed Securities V ("PERLS V") as at 7 August 2014

| Rank | Name of Holder | Number of Securities | % |
|------|--|----------------------|------|
| 1 | Bond Street Custodians Limited | 325,480 | 3.25 |
| 2 | UBS Wealth Management Australia | 273,224 | 2.73 |
| 3 | Questor Financial Services | 213,114 | 2.13 |
| 4 | RBC Dexia Investor Services Australia Nominees Pty Limited | 145,172 | 1.45 |
| 5 | Navigator Australia Ltd | 134,452 | 1.34 |
| 6 | HSBC Custody Nominees (Australia) Limited | 122,549 | 1.23 |
| 7 | Citicorp Nominees Pty Limited | 113,629 | 1.14 |
| 8 | Nulis Nominees (Australia) | 109,115 | 1.09 |
| 9 | Australian Executor Trustees Limited | 82,955 | 0.83 |
| 10 | J P Morgan Nominees Australia Limited | 78,500 | 0.79 |
| 11 | National Nominees Limited | 76,410 | 0.76 |
| 12 | Netwealth Investments Limited | 62,097 | 0.62 |
| 13 | Dimbulu Pty Ltd | 50,000 | 0.50 |
| 14 | Invia Custodian Pty Limited | 40,568 | 0.41 |
| 15 | Avanteos Investments Limited | 34,936 | 0.35 |
| 16 | JMB Pty Ltd | 33,925 | 0.34 |
| 17 | Peters (Meat) Export Pty Ltd | 28,455 | 0.28 |
| 19 | Gyor Investments Pty Ltd | 25,000 | 0.25 |
| 19 | Mr Terrence Elmore Peabody + | 25,000 | 0.25 |
| 20 | UCA Cash Management Fund Ltd | 25,000 | 0.25 |

The top 20 PERLS V security holders hold 1,999,581 securities which is equal to 19.99% of the total securities on issue.

Stock Exchange Listing

PERLS V are stapled securities comprising an unsecured subordinated note issued by the Bank's New Zealand branch and a preference share issued by the Bank. They are listed on the Australian Securities Exchange under the trade symbol CBAPA. Details of trading activity are published in most daily newspapers.

Range of Shares (PERLS V): 7 August 2014

| Range | Number of Security holders | Percentage of Security holders | Number of Securities | Percentage of Issued Capital |
|--------------------------------------|----------------------------|--------------------------------|----------------------|------------------------------|
| 1 – 1,000 | 31,930 | 96.80 | 5,605,894 | 56.06 |
| 1,001 – 5,000 | 951 | 2.89 | 1,870,304 | 18.7 |
| 5,001 – 10,000 | 57 | 0.18 | 429,562 | 4.3 |
| 10,001 – 100,000 | 44 | 0.13 | 1,137,675 | 11.38 |
| 100,001 and over | 6 | 0.00 | 956,565 | 9.56 |
| Total | 32,988 | 100.00 | 10,000,000 | 100.00 |
| Less than marketable parcel of \$500 | 13 | 0.00 | 19 | 0.00 |

Voting Rights

PERLS V confer voting rights in the Bank in the following limited circumstances:

- When dividend payments on the preference shares are in arrears;
- On proposals to reduce the Bank's share capital;
- On a proposal that affects rights attached to preference shares;
- On a resolution to approve the terms of a buy-back agreement;
- On a proposal to wind up the Bank;
- On a proposal for the disposal of the whole of the Bank's property, business and undertaking; and
- During the winding-up of the Bank.

Furthermore, if PERLS V convert into ordinary shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on page 190.

At a general meeting of the Bank, holders of PERLS V are entitled:

- On a show of hands, to exercise one vote when entitled to vote on the matters listed above; and
- On a poll, to exercise one vote for each preference share.

The holders will be entitled to the same rights as the holders of the Bank's ordinary shares in relation to receiving notices, reports and financial statements and attending and being heard at all general meetings of the Bank.

Shareholding Information

Top 20 Holders of Perpetual Exchangeable Resaleable Listed Securities VI ("PERLS VI") as at 7 August 2014

| Rank | Name of Holder | Number of Securities | % |
|------|---|----------------------|------|
| 1 | UBS Wealth Management Australia | 648,421 | 3.24 |
| 2 | Bond Street Custodians Limited | 522,643 | 2.61 |
| 3 | J P Morgan Nominees Australia Limited | 342,160 | 1.71 |
| 4 | Questor Financial Services | 291,008 | 1.46 |
| 5 | HSBC Custody Nominees (Australia) Limited | 262,412 | 1.31 |
| 6 | National Nominees Limited | 253,643 | 1.27 |
| 7 | Australian Executor Trustees Limited | 161,028 | 0.81 |
| 8 | Snowside Pty Ltd | 156,818 | 0.78 |
| 9 | Cogent Nominees Pty Limited | 108,666 | 0.54 |
| 10 | Citicorp Nominees Pty Limited | 107,669 | 0.54 |
| 11 | Netwealth Investments Limited | 106,777 | 0.53 |
| 12 | Nulis Nominees (Australia) | 106,485 | 0.53 |
| 13 | Dimbulu Pty Ltd | 100,000 | 0.50 |
| 14 | Eastcote Pty Limited | 100,000 | 0.50 |
| 15 | UCA Cash Management Fund Ltd | 96,500 | 0.48 |
| 16 | V S Access Pty Ltd | 80,000 | 0.40 |
| 17 | Invia Custodian Pty Limited | 68,279 | 0.34 |
| 19 | Navigator Australia Ltd | 58,960 | 0.29 |
| 19 | Wenthor Pty Ltd | 57,000 | 0.29 |
| 20 | Marento Pty Ltd | 52,916 | 0.26 |

The top 20 PERLS VI security holders hold 3,681,385 securities which is equal to 18.39% of the total securities on issue.

Stock Exchange Listing

PERLS VI are subordinated unsecured notes issued by the Bank. They are listed on the Australian Securities Exchange under the trade symbol CBAPC. Details of trading activity are published in most daily newspapers.

Range of Shares (PERLS VI): 7 August 2014

| Range | Number of Security holders | Percentage of Security holders | Number of Securities | Percentage of Issued Capital |
|--------------------------------------|----------------------------|--------------------------------|----------------------|------------------------------|
| 1 – 1,000 | 26,110 | 89.98 | 8,371,565 | 41.86 |
| 1,001 – 5,000 | 2,607 | 8.98 | 5,496,486 | 27.48 |
| 5,001 – 10,000 | 205 | 0.71 | 1,550,046 | 7.75 |
| 10,001 – 100,000 | 88 | 0.30 | 2,381,632 | 11.91 |
| 100,001 and over | 9 | 0.03 | 2,200,271 | 11.00 |
| Total | 29,019 | 100.00 | 20,000,000 | 100.00 |
| Less than marketable parcel of \$500 | 2 | 0.00 | 4 | 0.00 |

Voting Rights

PERLS VI do not confer any voting rights in the Bank but if they are exchanged for ordinary shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on page 190 for the Bank's ordinary 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. 700,000 Trust Preferred Securities were issued on 15 March 2006. Cede & Co is registered as the sole holder of these securities. The Trust Preferred Securities do not confer any voting rights in the Bank but if they are exchanged for or converted into ordinary shares or preference shares of the Bank in accordance with their terms of issue, then the voting rights of the ordinary shares will be as set out on page 190 and the voting rights of the preference shares will be as set out in the Trust Preferred Securities information memorandums.

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Additional Chinese representation

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Contact Us

132 221 General Enquiries

For your everyday banking including paying bills using BPAY® our automated service is available 24 hours a day, 7 days a week.

132 221 Lost or Stolen Cards

To report a lost or stolen card 24 hours a day, 7 days a week. From overseas call +61 2 9999 3283. Operator assistance is available 24 hours a day, 7 days a week.

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132 224 Home Loans & Investment Home Loans

To apply for a new home loan or investment home loan or to maintain an existing loan. Available from 8am to 8pm, 7 days a week.

131 431 Personal Loan Sales

To apply for a new personal loan. Available from 8am to 8pm, 7 days a week.

1800 805 605 Customer Relations

If you would like to pay us a compliment or are dissatisfied with any aspect of the service you have received.

Internet Banking

You can apply for a home loan, credit card, personal loan, term deposit or a savings account on the internet by visiting our website at www.commbank.com.au available 24 hours a day, 7 days a week.

Do your everyday banking on our internet banking service NetBank at www.commbank.com.au/netbank available 24 hours a day, 7 days a week.

To apply for access to NetBank, call 132 221.

Available 24 hours a day, 7 days a week.

Do your business banking on our Business Internet Banking Service CommBiz at www.commbank.com.au/CommBiz available 24 hours a day, 7 days a week.

To apply for access to CommBiz, call 132 339.

Available 24 hours a day, 7 days a week.

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Customers who are hearing or speech impaired can contact us via the National Relay Service (www.relayservice.com.au) (24 hours a day, 7 days a week).

- Telephone Typewriter (TTY) service users can be connected to any of our telephone numbers via 133 677.
- Speak and Listen (speech-to-speech relay) users can also connect to any of our telephone numbers by calling 1300 555 727.
- Internet relay users can be connected to our telephone numbers via National Relay Service.

131 519 CommSec (Commonwealth Securities)

CommSec provides the information and tools to make smart investment easy, accessible and affordable for all Australians, by phone or Internet at www.commsec.com.au.

Available from 8am to 8pm (Sydney Time), Monday to Friday, for share trading and stock market enquiries, and 8am to 8pm 7 days a week for Commsec Cash Management. A 24 hour lost and stolen card line is available 24 hours, 7 days a week.

131 709 CommSec Margin Loan

Enables you to expand your portfolio by borrowing against your existing shares and managed funds. To find out more simply call 131 709 8am to 8pm (Sydney Time) Monday to Friday or visit www.commsec.com.au.

1800 019 910 Corporate Financial Services

For a full range of financial solutions for medium-size and larger companies.

Available from 8am to 6pm (Sydney Time), Monday to Friday.

131 998 Local Business Banking

A dedicated team of Business Banking Specialists, supporting a network of branch business bankers, will help you with your financial needs.

Available 24 hours a day, 7 days a week or visit www.commbank.com.au/lbb.

1300 245 463 (1300 AGLINE) AgriLine

A dedicated team of Agribusiness Specialists will help you with your financial needs. With our Business Banking team living in regional and rural Australia, they understand the challenges you face. Available from 8am to 6pm, Monday to Friday (Sydney time).

Colonial First State

Existing investors can call 131 336 from 8am to 7pm (Sydney Time) Monday to Friday.

New investors without a financial adviser can call 1300 360 645. Financial advisers can call 131 836.

Alternatively, visit www.colonialfirststate.com.au.

1300 362 081 Commonwealth Private

Commonwealth Private offers clients with significant financial resources a comprehensive range of services, advice and opportunities to meet their specific needs. For a confidential discussion about how Commonwealth Private can help you, call 1300 362 081 between 8am to 5:30pm (Sydney time), Monday to Friday or visit www.commbank.com.au/commonwealthprivate

132 015 Commonwealth Financial Services

For enquiries on retirement and superannuation products, or managed investments. Available from 8.30am to 6pm (Sydney Time), Monday to Friday.

Unit prices are available 24 hours a day, 7 days a week.

CommInsure

For all your general insurance needs call 132 423 8am to 8pm (Sydney Time), 7 days a week.

For all your life insurance needs call 131 056 8am to 8pm (Sydney Time), Monday to Friday.

Alternatively, visit www.comminsure.com.au.

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Company Secretary

Margaret Taylor

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www.commbank.com.au/shareholder

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United Kingdom

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Fiji

008 002 054

Other International

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Australian Securities Exchange Listing

CBA

Annual Report

To request a copy of the Annual Report, please call Link Market Services Limited on 1800 022 440 or by email at cba@linkmarketservices.com.au

Electronic versions of Commonwealth Bank's past and current Annual Reports are available on www.commbank.com.au/shareholder/annualreports.



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