Commonwealth Bank of Australia to acquire Bank West and St Andrew's

Sydney, 8 October 2008

Footnote 1

The Commonwealth Bank of Australia (the Group) has acquired the Bank of Western Australia Limited (BankWest) and St Andrew's Australia Pty Ltd (St Andrew's) through the execution of a sale and purchase agreement with UK based HBOS plc.

The purchase does not extend to HBOS's other Australian businesses - Capital Finance Australia Ltd, BOS International (Australia) Ltd and HBOS's Australian Treasury operations.

The purchase price will be $2.1 billion. The purchase is conditional on the receipt of all necessary competition, regulatory and government approvals - and will be completed following receipt of those approvals.

The Group is determined to continue to carry substantial surplus capital due to the current volatile market conditions. It intends to fully fund the purchase price by undertaking a

$2 billion accelerated institutional placement which will maintain APRA Tier 1 capital at 7.6% and Tier 1 capital under UK FSA rules at 10.1%.

Standard & Poor's, Moodys and Fitch have all confirmed the Group's credit ratings with stable outlook post the acquisition.

Credit Suisse has served as exclusive financial adviser to the Group on this transaction.

Ralph Norris, Commonwealth Bank Chief Executive Officer said, "The Commonwealth Bank regularly reviews acquisition opportunities but rarely have we seen a quality asset such as BankWest become available on such attractive terms to us. The strength of our current capital and funding position combined with the strategic value of this transaction makes this an attractive opportunity for the Group and its shareholders."

“BankWest provides a significant opportunity to further develop the Group’s business in the fast growing Western Australian market. It complements our existing operations and will deliver additional growth opportunities in key market segments, as well as enhanced product and service delivery opportunities for customers,” Mr Norris said.

BankWest is a strong business and a market leader in Western Australia. It is the Commonwealth Bank’s intention to maintain and grow the BankWest brand.

Commonwealth Bank and BankWest branches and business centres in Western Australia will not be closing as a consequence of this acquisition, and both BankWest and Commonwealth Bank customers will be able to use each other’s ATMs without paying any additional fees once our systems allow.

St Andrew’s is HBOS Australia’s wealth management business, providing life insurance and wealth management products to the Australian marketplace. Its range of products is complementary to the Group’s existing wealth management business.

The Group is strongly committed to its Australian businesses and on achieving its vision to be Australia’s finest financial services organisation through excelling in customer service. This acquisition demonstrates this commitment, by expanding in a rapidly growing region of the Australian economy.

“I am confident that this acquisition will deliver significant benefits for the people and customers of both organisations. HBOS’ Australian businesses are good quality, strong businesses underpinned by dedicated and talented staff,” Mr Norris said.

The Strategic Rationale

Builds on the Commonwealth Bank’s commitment to being Australia’s leading financial services organisation with strong positions in home loans, retail deposits and business banking, and an enhanced position in credit cards, personal lending and wealth management;

Strengthens the competitive position in the fast growing and attractive Western Australian market. The BankWest brand will be retained;

Provides opportunities to enhance the Group's reputation as a leader in product innovation and customer service by further developing existing relationships with nearly 11 million Australians; and

Provides a wider pool of talented and experienced people to complement the focus on achieving the Group's vision of becoming Australia's finest financial service organisation through excelling in customer service.

Note regarding 6 October Suncorp Announcement

High level, exploratory discussions have been conducted with Suncorp.

ENDS

For further information please contact:

Media	Analyst
Steve Batten	Warwick Bryan
Media Relations	Investor Relations
Commonwealth Bank	Commonwealth Bank
(02) 9378 2504	02 93785979

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Commonwealth Bank of Australia

Determined to offer strength in uncertain times

Acquisition of BankWest and St. Andrew's Australia – A Compelling Strategic Growth Opportunity

Investor Pack

8 October 2008

Determined to be different

Commonwealth Bank of Australia ACN 123 123 124

Summary

- BankWest and St. Andrew's Australia only
- Consistent with CBA strategy
- Attractive price and terms:
  - Purchase price \$2.1bn
  - 0.80 x 2007A book value [1]   Footnote 3 & 39
  - 11.2 x 2007A net profit [2]
- Expected to be EPS accretive immediately
- Substantial cost synergies

1. Ordinary shareholders' equity.
2. Profit attributable to equity holders, after dividends on Redeemable Preference Shares.

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6

Key terms and conditions

- Final purchase price to not exceed $2.1bn Footnote 7
- Sale and purchase agreement signed
- Subject to regulatory, ACCC and Govt approvals (discussions commenced)
- HBOS plc shareholder approval not required
- Does not require CBA shareholder approval
- Completion expected end January 2009

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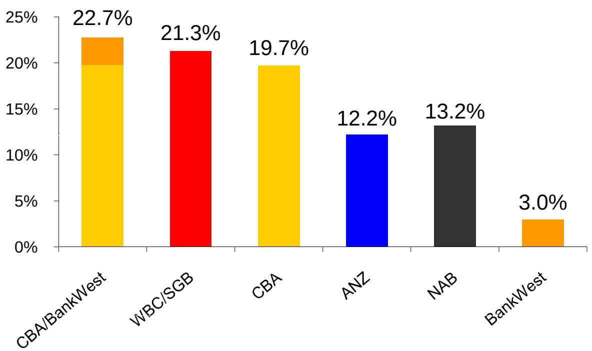
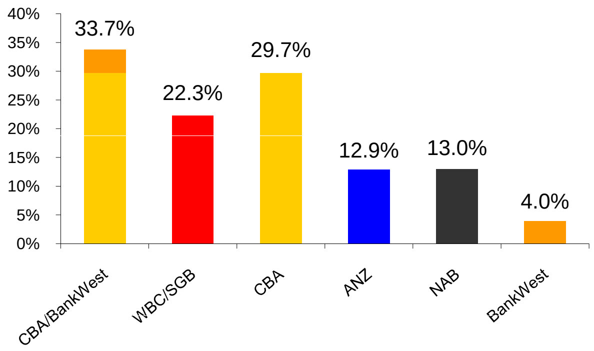
Reinforces strong Australian market position

Market Shares - Australia

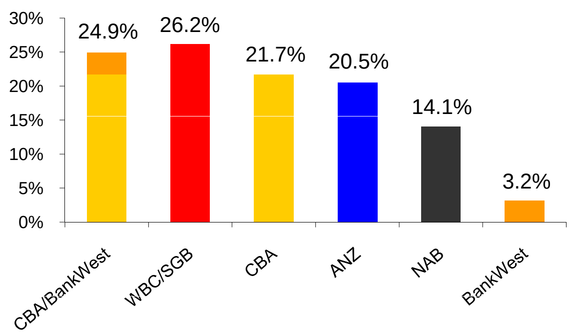
Home Lending



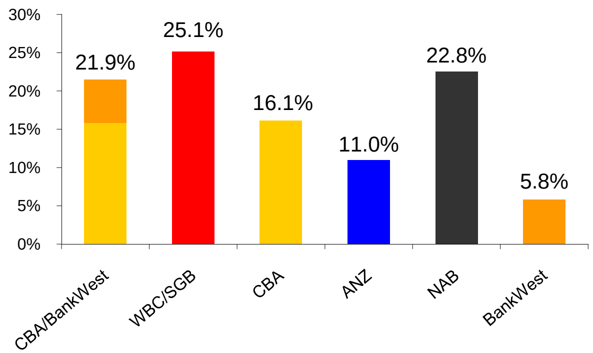
Household Deposits



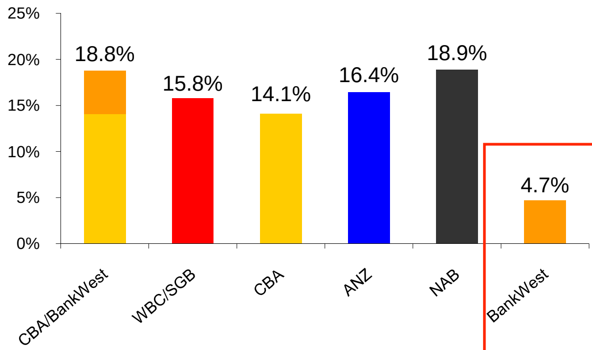
Credit Cards



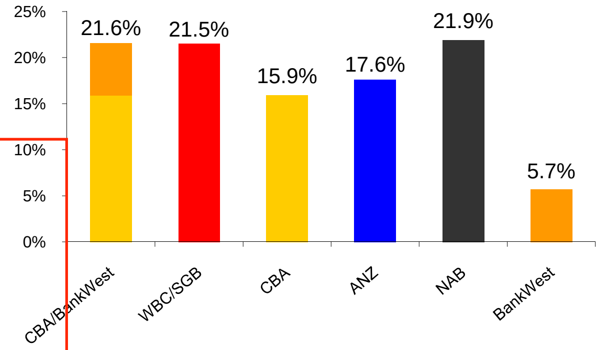
Personal Lending



Business Lending



Business Deposits



Footnote 57

Source: APRA / RBA (July 2008).

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Proposed operating model

	Business	Description	Proposed Model
BankWest abetterdeal	Retail Banking	▪ 860,000 customers ▪ Lending assets of $28bn ▪ Deposits of $15bn ▪ 2008 Regional Bank of the Year [1]	▪ Brand retained in WA ▪ East coast retail expansion strategy to be reviewed ▪ Streamlining of administrative functions, systems, and processes of CBA and BankWest, where synergies exist and it enhances the customer experience to do so
BankWest Business	Business & Corporate Banking	▪ 77 Business Banking Centres [2] ▪ Lending assets of $27bn ▪ Deposits of $22bn	▪ Brand retained in WA ▪ Integration of two businesses with a view to incorporating best practice and enhancing customer experience across the Group ▪ Streamlining / sharing of back-office and systems where synergies exist
St Andrew's AUSTRALIA	Insurance and Investments	▪ Wealth management and insurance ▪ Funds under Management of more than $2.4bn	▪ Integrated into broader Group

Note: All Lending Assets and Deposits figures as at 30 June 2008. (Source: HBOS plc interim report). Funds under management figure as at 31 December 2007. (Source: HBOS Australia 31 December 2007 annual report). Exchange rate of 2.08 AUD to 1 GBP.
1. Australian Banking and Finance Magazine.
2. Source: BankWest website.

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BankWest Balance Sheet

	2005 $m	2006 $m	2007 $m	Unaudited June 2008
Loans and advances to customers	31,582	40,276	50,838	55,500
Other assets	5,058	5,398	7,974	7,700
Total assets	**36,667**	**45,674**	**58,812**	**63,200**
Customer deposits & Intergroup funding	28,482	35,197	45,899	50,800
Other interest bearing liabilities	5,993	7,723	9,385	8,700
Non interest bearing liabilities	413	505	478	300
Total liabilities	**34,888**	**43,425**	**55,762**	**59,800**
Issued share capital (incl preference shares)	992	1,282	1,907	2,100
Retained earnings	787	967	1,143	1,300
Total equity[1]	**1,779**	**2,249**	**3,050** Footnote 40	**3,400**
Total liabilities and equity	**36,667**	**45,674**	**58,812**	**63,200**

Footnote 4

Source: BankWest financial reports for the years ended 31 December 2005, 2006 and 2007.
[1] Includes redeemable preference shares 2007: $530m, 2006: $305m, 2005: $115m.

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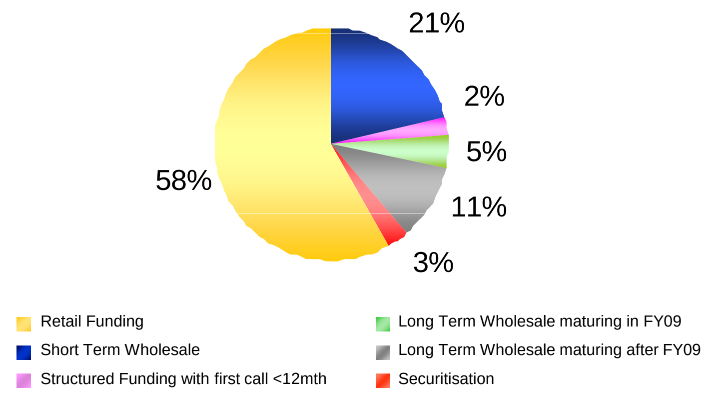
CBA funding position very strong

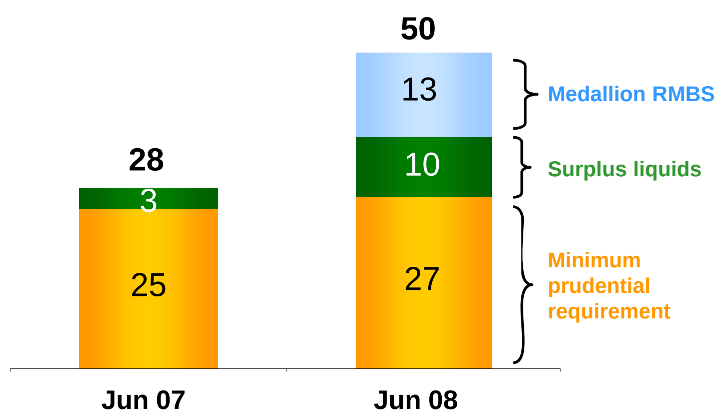
Footnote 2

- BankWest intra-group funding of ~$18bn easily accommodated within existing CBA internal resources
- Overview of CBA funding position:
  - AA credit rating
  - 58% retail funded
  - Well advanced in 2009 funding programme – 30% completed
  - Significant surplus liquids

CBA's Existing Source of Funding[1]



CBA's Liquid Assets ($bn)[2]



1. Surplus liquids are excluded from short term wholesale funding.
2. 6 month average liquid assets held.

Estimate

Financial Impact of Acquisition[1]

	Net Assets $m	Pre-tax Profit / (Loss) $m
Indicative fair value of net assets acquired	2,720	
Consideration paid	(2,100)	
Discount on acquisition		620
Transaction costs		(20)
Day 1 gain through P&L		600

Integration & restructuring provision	(330)	(330)
Comprising: ▪ Restructuring costs ▪ Technology integration expenditure ▪ Other transition costs		

- Fair value of acquired net assets to be finalised
- Gain on acquisition and Integration provision to be excluded from Cash NPAT
- Year 1 (2009) CBA P&L/EPS positive
- Integration provision 150% of maintainable cost savings

[1] Subject to finalisation of completion accounts.

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Oct 16 2010 at 12:08 AM | Updated Oct 16 2010 at 5:00 AM

Small is bountiful in the west

by **Jonathan Barrett**

Jon Sutton was watching his son play rugby in Queensland on an October long weekend in 2008 when he received a call from his bank employer to get to Sydney as soon as possible.

The head of Commonwealth Bank of Australia 's agribusiness lending was to help run the ruler over Bankwest as CBA moved in on the West Australian asset controlled by the British Lloyd's-owned HBOS.

Two years after the due diligence process and subsequent acquisition, Sutton, who was appointed managing director, says the renewal of Bankwest is on track, even though a surge in bad debts showed up in its books.

"We went in with our eyes open because we knew that it was at the height of the financial crisis and it was reasonably well known that Bankwest was acquiring customers on the commercial loan book portfolio that you would normally not see at other financial institutions," Sutton says.

Footnote 5

"That was all to do with the previous owner. Leading up to the acquisition there was significant growth in the east coast property book and all of those loans have taken a while to work through."

CBA chief executive Ralph Norris revealed at the bank's annual results meeting in August that a significant portfolio of east coast loans written by Bankwest had slipped to impaired status.

It was the second major impairment shock in as many years. Despite assurances by Sutton and others last year that the debts had been catered for, the true fallout from Bankwest's aggressive east coast expansion finally became known.

One analyst said it was hard to criticise CBA since it bought the WA bank cheaply in a rushed due diligence process.

"They got it sub-book [value] and they had to make a quick decision," the analyst says.

"But there is another view that maybe they should have done their due diligence a little more thoroughly."

Bankwest was purchased for a discount price equivalent to 0.8 times the book value of its assets, although that equation has changed since the real extent of the bad debts has become known.

Nonetheless, Norris said in August that he would do the Bankwest deal "a hundred times over" – a view shared by Sutton.

"These sorts of transaction don't happen very often," Sutton says.

In fact, Australian Competition and Consumer Commission chairman Graeme Samuel conceded that the competition regulator approved transactions during the crisis that it would not have endorsed in more normal financial market conditions.

Key people responsible for Bankwest's debts, such as its former chief risk officer and its former head of business lending, have moved on.

Footnote 43

CBA has increased its provisions against bad debts by $304 million to reflect the 1100 problem Bankwest business loans, pushing the bank's gross impaired assets tally up 24 per cent to $5.2 billion.

CBA can't pursue HBOS for compensation because the loans were classed as "performing" when the deal was finalised in December 2008. Norris has consistently denied that due diligence had been insufficient.

The aggressive east coast business lending push by HBOS has not been all bad news for its new owner. Bankwest's retail expansion has not been hit by the same problems.

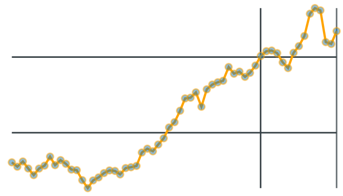
Speaking from his office overlooking the Swan River, Sutton says mergers usually have come unstuck when the "acquiring bank pulled down the signs of the acquired bank".

"This brand is not going to go away. This brand is going to be here for another 100 years," Sutton says.

"West Australians are fiercely proud of their institutions."

$86.30 -0.33 -0.38%
volume 2181424 value 188686463.7

5 YEARS 1 DAY



Last updated: Thu Jul 23 2015 - 8:02:24 pm AEST

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Banking, financial and related services.

http://www.commbank.com.au/

Banks (401010)

ASIC 123123124

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22/7/15	Change in substantial holding for PRG
20/7/15	Change in substantial holding for PHG
20/7/15	Change in substantial holding for AFG
20/7/15	CBA's response to APRA's release on Mortgage Risk Weights

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Indeed, one of the first things Sutton noticed when he relocated to Perth was jibes about Bankwest being “the bank that used to live here".

“It’s a fair summation that under the previous owners they had lost their way a little bit in terms of the bank’s heritage and what the bank means to West Australians," says Sutton, who has been working in financial services for 16 years, including a decade in the dealing room in the global markets team.

He says Bankwest is intent on tapping into that parochialism, including almost blanket advertising at key sites such as Perth Airport.

Nonetheless, Nielsen research shows Bankwest is the only one of the 10 most heavily advertised finance brands to cut advertising budgets in the June half.

A case of cost-saving in the merged entity? “We compete fiercely for customers here," Sutton says. “CBA does its thing and we do our thing."

Sutton describes the search for synergies as a “never-ending process", although it’s unlikely that a CBA customer will be able to deposit a cheque into their account through Bankwest any time soon, because it will require the merging of their core banking platforms.

“That’s one of the things that we won’t be doing at this stage," Sutton says.

That’s not to say Bankwest won’t call on the considerable resources of its parent from time to time.

Bankwest aims to tap into the growth of its mineral-rich home state by hiring another 50-odd bankers focused on the small to medium-sized company (SME) sector in the next 12 to 18 months.

“I think over the next five, 10, 15 years, this state will be the engine of growth for Australia," Sutton says.

With the exception of a stalling property market, all economic indicators are going in the right direction in WA. Its forecast of 4.5 per cent growth this financial year is the highest of any state.

The resource-rich state enjoys the lowest unemployment rate in the country and boasts $86 billion of energy and mining projects in development, according to the Australian Bureau of Agricultural and Resource Economics.

“When CBA looked at acquiring Bankwest, it was about having exposure to a high beta economy in a market where perhaps it was a little underweight from the SME side of the business," Sutton says.

“This is a fast-growing economy and will be for the next 15 to 20 years, given what’s happening in China and India and those emerging economies."

It doesn’t hurt that with an average annual wage of $70,000 a year, WA also has more than its share of well-off banking customers, even if the state’s relatively small population does limit the size of its customer base.

The bank that was set up in 1895 to lend to the WA farming industry – and which is now headed by the former head of agribusiness lending at CBA – is intent on servicing mid-sized businesses, such as accounting, legal and engineering firms, that are tapping into the Asian markets.

“We don’t play in the institutional banking space, but we certainly play in the small business and SME sector," Sutton says.

“This is undeniably a period where this state and this state’s people will see significant transformational change because of what’s happening in China. In China there will be 10 cities with 25 million or more people in the next few years. There will be none in Europe."

The Australian Financial Review

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30/11/2013

CBA rebuts claims it 'forced' defaults
THE AUSTRALIAN RICHARD GLUYAS THE AUSTRALIAN NOVEMBER 30, 2013 12:00AM

COMMONWEALTH Bank has exposed the entrails of its controversial, $2.1 billion Bankwest deal, seeking to rebut allegations ahead of a planned class action next year that it benefited by engineering Bankwest loan defaults.

Responding to extracts of the 2008 Bankwest share-sale deed, obtained by The Weekend Australian, CBA group general counsel David Cohen detailed the impact of key items in the agreement, including vendor warranties and a price adjustment mechanism to lower or raise the purchase price depending on impairments identified during intensive, post-acquisition due diligence.

Mr Cohen revealed that, contrary to CBA reaping a windfall gain by foreclosing on Bankwest commercial customers and then invoking the adjustment provisions, the financial impact of changes made after the deal's December 19, 2008 completion was insignificant.

The price adjustment mechanism resulted in a $26 million increase in the Bankwest purchase price, while the warranty claims resulted in a payment to CBA of "less than $6m".

"If a class action does emerge, CBA will confidently defend its position," Mr Cohen told The Weekend Australian.

At the height of the financial crisis, after three days of rushed due diligence, CBA snared Bankwest from its distressed parent, British-based HBOS, at the knockdown price of 0.8 times 2007 book value -- far less than Westpac's purchase of St George Bank at 2.7 times book value.

The acquisition team was led by Ian Narev, since promoted to CBA chief executive, with Mr Cohen drafting the terms and conditions of the Bankwest share-sale deed. Footnote 6

While the deal enabled CBA to consolidate its position as the nation's leading home lender, the bank has become dogged by allegations that it unfairly foreclosed on some of Bankwest's commercial customers.

Among the claims, consistently rejected by CBA, is that it "manufactured" defaults -- for example, by pressuring valuers to undervalue properties -- so it could lower the Bankwest purchase price under the "claw back" arrangements with HBOS.

The claims were aired in a federal Senate inquiry last year, and the founder of the Unhappy Banking lobby group Geoff Shannon has said they will form the core of a class action next year potentially worth "billions of dollars".
Individual borrowers like Rory O'Brien, developer of the $282m Whisper Bay

CommonwealthBank

Our company

Home > About Us > Our company > Management > Group Executive Profiles

Group Executive Profiles

Ian Narev

Managing Director and Chief Executive Officer

Mr Narev commenced as Managing Director and Chief Executive Officer on 1 December 2011

Ian 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. He led the Group's $2.1 billion acquisition of Bankwest in 2008, as well as the Group's investment in Aussie Home Loans.

Footnote 6

From January 2009 until September 2011, Ian was Group Executive, Business and Private Banking, one of the Group's six operating divisions, with responsibility for small and medium enterprise business banking, agri banking, private banking and the CommSec retail brokerage and margin lending businesses. The division's annual profit after tax is approximately $1 billion. It has approximately 200,000 business customers, 1 million trading customers, and 15,000 private banking customers, and employs more than 4,000 people.

Prior to joining CBA, Ian was a partner of McKinsey & Company, the global consulting firm. He worked in McKinsey's New York, Sydney and Auckland offices from 1998-2007. 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, Ian was a lawyer specialising in mergers and acquisitions.

Ian holds Masters of Law degrees from Cambridge University (International Corporate Law), where he was the top student in his year, and New York University (International Relations), where he was a Hauser Scholar. He also holds undergraduate degrees in English and Law from the University of Auckland, where he was Editor-in-Chief of the Law Review.

In the not-for-profit sector, Ian is Chairman of Springboard Trust, which works with principals of low-decile primary schools in South Auckland to help improve school effectiveness, a Trustee of the Louise Perkins Foundation, which helps women with advanced breast cancer, and our Ambassador for the Australian Indigenous Education Foundation.

Ian is 44 and lives in Sydney with his wife and daughters.

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Profit Announcement

For the half year ended 31 December 2008

WINNER
Money MAGAZINE AWARDS 2008
BANK OF THE YEAR

11 February 2009

Commonwealth Bank of Australia ACN 123 123 124

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Notes to the Financial Statements continued

Note 14 Acquisition of Controlled Entities

On 19 December 2008, the Group acquired 100% of the share capital of Bank of Western Australia Ltd (consisting of retail and business banking), St Andrew's Australia Pty Ltd (consisting of insurance and wealth management services businesses) and HBOSA Group (Services) Pty Ltd (an internal administrative support entity) for cash consideration of $2.1 billion.

Details of net assets acquired and the provisional discount arising on acquisition are as follows:

Purchase consideration	$M	
Cash paid	2,100	Footnote 8
Provision for remaining consideration	328	
Direct costs relating to the acquisition	31	
Total purchase consideration	2,459	2,100+
Provisional fair value of net identifiable assets acquired (see below)	3,771	328
Less: Preference share placement	(530)	
Provisional discount on acquisition before tax	782	2,428

The provisional discount on acquisition, has arisen after the Group's reassessment of the acquired entities' identifiable assets, liabilities and contingent liabilities and the cost of the acquisition, and has been recognised in the Group's statutory net profit in the current period. The provisional discount on acquisition will be adjusted in the next reporting period on finalisation of fair value procedures.

The assets and liabilities arising from the acquisition, reported in aggregate for the acquired entities, are as follows:

		Pre-acquisition carrying amount $M	Recognised values on acquisition $M
	Cash and liquid assets	330	330
	Receivables due from other financial institutions	378	378
	Assets at fair value through Income Statement:		
	Trading	5,661	5,661
	Insurance	279	279
	Other	115	115
	Derivative assets	1,043	1,043
	Available-for-sale investments	3	3
	Loans, advances and other receivables	58,337	57,887
	Property, plant and equipment	177	177
	Intangible assets	90	90
	Deferred tax assets	161	236
	Other assets	304	304
	Total assets	66,878	66,503
Footnote 15	Deposits and other public borrowings	50,370	50,370
	Payables due to other financial institutions	4,587	4,587
	Liabilities at fair value through Income Statement	242	242
	Derivative liabilities	515	515
	Current tax liabilities	5	5
	Deferred tax liabilities	64	3
	Other provisions	85	85
	Insurance policy liabilities	204	204
	Debt issues	5,221	5,221
	Bills payable and other liabilities	289	289
	Loan capital	1,211	1,211
	Total liabilities	62,793	62,732
	Net assets	4,085	3,771

Outflow of cash to to acquire business, net of cash acquired:		
Cash consideration	n/a	2,100
Direct costs relating to acquisition	n/a	31
Cash and cash equivalents in subsidiaries acquired	n/a	(330)
Cash outflow on acquisition	n/a	1,801

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Annual Report 2009

Determined to be different

Commonwealth Bank of Australia ACN 123 123 124

Acquisition of Bankwest and St Andrew's

Acquisition Overview

The Group acquired 100% of the share capital of the Bank of Western Australia Limited ("Bankwest") and St Andrew's Australia Pty Ltd ("St Andrew's") on 19 December 2008.

Bankwest operates in the domestic market providing a comprehensive range of products, focusing on the small business banking and retail segments.

Since acquisition, Bankwest has continued to expand its customer base. As at 30 June 2009 Bankwest provided services to more than 960,000 retail customers and 26,000 business clients, through an extensive network of 135 retail branches, 78 Business Banking centres, direct and third party distribution channels, agencies and electronic, telephone and internet banking facilities.

St Andrew's provides life insurance and wealth management products to the Australian marketplace. Its range of products is similar to those provided by the Group's existing Wealth Management business.

The acquisition of Bankwest provides the Group with a significant opportunity to further develop its business in the Western Australian market. It complements the Group's existing operations and delivers additional growth opportunities in key market segments, as well as enhanced product and service delivery opportunities to customers.

The Group's Executive Committee and Bankwest Board are committed to delivering sustainable growth of the business in line with the Group's existing strategic priorities. Bankwest will continue to operate under the retained brand name, with a separate Board of Directors.

Acquisition Accounting

Following the finalisation of the fair value of assets and liabilities acquired, the gain on acquisition was $983 million before tax and has been treated as a non-cash item. The gain is significantly higher than the $660 million indicated at the time the acquisition was announced, due to the increase in the final fair value of net assets acquired, including $719 million of intangible assets. This is despite an increase of $1,059 million to the collective and individual provisions arising from the acquisition.

As part of the acquisition, fair value adjustments relating to fixed interest assets and liabilities and intangible assets subject to amortisation were recognised. Due to the significant size and non-recurring nature of these adjustments, the amortisation of the adjustments will be treated as non-cash and recognised over the assets and liabilities remaining useful lives.

Further details on the acquisition are disclosed in Note 49 Acquisition of Controlled Entities, page 223.

Purchase Consideration as at 30 June 2009	$M
Original purchase price	2,100
Additional purchase price adjustment	26
Costs relating to acquisition	37
Purchase consideration	2,163
Fair value of net identifiable assets acquired	3,676
Less: preference share placement	(530)
Gain on acquisition	983
Income tax expense	(371)
Gain on acquisition after tax	**612**

Integration Progress

The integration of Bankwest and St Andrew's into the Group is progressing smoothly. The initial phase is focused on aligning the operations of Bankwest and the Group across the country, and consolidating systems and processes for efficiency.

The operations of St Andrew's are run as part of the Group's Wealth Management business. The integration of St Andrew's will enable existing customers to benefit from a wide range of investment platforms and product offerings.

During the half year to 30 June 2009, several key integration milestones have been achieved, including:

- Reciprocal ATM access, with customers of both the Commonwealth Bank and Bankwest having access to more than 4,000 ATMs, the largest network of any bank nationally, without paying any additional fees;
- Established an integration/synergy program including a cross business steering group;
- Commenced restructuring activities;
- Initiated a review of major contracts and licences to identify savings through additional buying power, notably for large IT licensing arrangements;
- Established initial technology links; and
- Delivered a directional target operating model for Bankwest.

Integration Expenses and Synergies

Total integration expenditure for the initial phase is anticipated to be $313 million. The expenditure will be incurred over three years and due to its size and non-recurring nature it will be treated as a non-cash item.

The amount of integration expenditure for the six months to 30 June 2009 was $112 million.

Integration Expenditure for the year ended 30 June 2009	$M
Restructuring	16
Property	7
Operations	24
IT expenditure	60
Other	5
Total	**112**

Footnote 36

Anticipated cost synergies have increased from an annualised run rate (by 2012) of $220 million to $250 million. This includes benefits associated with restructuring, cessation of the East Coast store rollout and other IT and property synergies. A low risk approach to the integration is being adopted that focuses on minimising distraction while maximising customer and business outcomes.

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Bankwest

Financial Performance and Business Review

The Group acquired 100% of the share capital of Bank of Western Australia Ltd ("Bankwest") on 19 December 2008, providing the opportunity to expand the Group's business in the Western Australian and East Coast markets.

Bankwest operates in the domestic market and is focused on providing a comprehensive range of products to the business banking and retail segments.

Since acquisition, Bankwest has continued to expand its customer base and as at 30 June 2009 provided services to more than 960,000 retail customers and 26,000 business clients through its extensive network of 135 retail branches, 78 Business Banking Centres, direct and third party distribution channels, agencies and electronic, telephone and internet banking facilities.

Bankwest is a market leader in Western Australia, having a banking relationship with more than a quarter of Western Australians. Outside Western Australia, Bankwest has established itself on the East Coast as a challenger brand in Australia.

Achievements during the period include:

- Gold award winner for six products in Money Magazine's 2009 Best of the Best Awards and the winner of their 2009 Money Minder of the year award; and
- Four retail deposit and three credit card products received a five star rating from CANSTAR CANNEX.

Retail

Retail operating income during the half year benefited from solid home loan volume growth. Home lending balances of $35 billion have increased by 4% over the half, driven by the East Coast expansion, first home buyers grant stimulus and successful customer acquisition campaigns.

Lending margins have improved following repricing initiatives implemented to partly offset increased funding costs and credit risk as arrears deteriorate.

Deposit margins have improved over the half, benefiting from effective margin management and the run off of low margin term deposits. Deposit balances have been favourably impacted by the launch of innovative new products such as Smart eSaver.

Business

Business operating income during the half was strong, supported by solid asset growth and favourable margins from improved lending pricing strategies.

Business advances and business deposits increased 6% and 5% respectively during the half to 30 June 2009.

Operating Expenses

Operating expenses for the half to 30 June 2009 were $483 million. The implementation of cost management initiatives and integration strategies has resulted in an improvement in productivity over the half. The expense to income ratio as at 30 June 2009 was 63.6%.

Impairment Expense

Impairment expense for the half year to 30 June 2009 was $113 million. To strengthen asset quality, credit risk management disciplines and improved lending practices have been implemented.

	Half Year Ended 30/06/09 $M
Net interest income	591
Other banking income	168
Total banking income	759
Operating expenses	483
Impairment expense	113
Net profit before tax	163
Corporate tax expense	50
Cash net profit after tax	**113**

Major Balance Sheet Items	As at 30/06/09 $M	31/12/08 $M	Jun 09 vs Dec 08 %
Home lending (including securitisation)	35,048	33,685	4
Other lending assets	26,366	25,009	5
Assets at fair value through income statement (1)	48	5,776	large
Other assets (1)	6,865	1,726	large
Total assets	68,327	66,196	3
Transaction deposits	4,321	4,136	4
Savings deposits	10,948	9,649	13
Investment deposits	20,558	20,256	1
Certificates of deposits and other (2)	21,572	16,342	32
Debt issues	4,903	5,221	(6)
Due to other financial institutions (3) Footnote 16	27	4,587	large
Other liabilities	2,059	2,324	(11)
Total liabilities	64,388	62,515	3

(1) Assets at fair value through income statement previously held to meet liquid asset ratio requirements have been sold during the half and placed on deposit with Group Treasury. The deposit is included in other assets.

(2) Includes amounts due to group companies of $19.1 billion at June 2009 ($13.6 billion at December 2008).

(3) Deposits held with RBA in relation to Series 2008 securitisation funding repaid in January 2009.

Note 49 Acquisition of Controlled Entities

On 19 December 2008, the Group acquired 100% of the share capital of Bank of Western Australia Ltd (consisting of retail and business banking), St Andrew's Australia Pty Ltd (consisting of insurance and wealth management services businesses) and HBOSA Group (Services) Pty Ltd (an internal administrative support entity) for cash consideration (including transaction costs) of $2.2 billion. These businesses collectively represent the retail and business operations in HBOSA.

Details of the purchase consideration and the gain arising on acquisition are as follows:

Purchase consideration	$M
Cash paid	2,126
Direct costs relating to the acquisition	37
Total purchase consideration	2,163
Fair value of net identifiable assets acquired (see below)	3,676
Less: Preference share placement	(530)
Gain on acquisition before tax	**983**

The gain on acquisition has arisen after the Group's reassessment of the fair value of the acquired entities' identifiable assets, liabilities and contingent liabilities and the cost of the acquisition, and has been recognised in the Group's statutory net profit in the current period.

The assets and liabilities arising from the acquisition, reported in aggregate for the acquired entities, are as follows:

	Pre-acquisition carrying amount $M	Recognised values on acquisition $M
Cash and liquid assets	422	422
Receivables due from other financial institutions	283	283
Assets at fair value through Income Statement:		
Trading	5,907	5,907
Insurance	212	212
Derivative assets	1,014	1,014
Available-for-sale investments	3	3
Loans, bills discounted and other receivables	58,153	57,351
Property, plant and equipment	177	225
Intangible assets	98	806
Deferred tax assets	255	610
Other assets	289	288
Total assets	66,813	67,121
Deposits and other public borrowings	50,401	50,677
Footnote 17 Payables due to other financial institutions	4,673	4,673
Liabilities at fair value through Income Statement	250	250
Derivative liabilities	512	512
Deferred tax liabilities	54	258
Other provisions	84	84
Insurance policy liabilities	202	202
Debt issues	5,221	5,221
Bills payable and other liabilities	357	357
Loan capital	1,211	1,211
Total liabilities	62,965	63,445
Net assets	3,848	3,676
Outflow of cash to to acquire business, net of cash acquired:		
Cash consideration	n/a	2,126
Direct costs relating to acquisition	n/a	37
Cash and cash equivalents in subsidiaries acquired	n/a	(422)
Cash outflow on acquisition	n/a	1,741

During the period 19 December 2008 to 30 June 2009, these operations contributed $113 million to the consolidated net profit after tax ("cash basis") and a net profit after tax of $42 million to the consolidated statutory net profit after tax for the year.

If the acquisition had occurred on 1 July 2008 the contribution to the Group's revenue would have been $1,561 million for the year and contribution to the Group's net profit after tax would have been a net loss after tax of $184 million for the year ended 30 June 2009. This pro-forma financial information uses data for the twelve month period ended 30 June 2009 and represents the historical operating results reported in accordance with the Group's accounting policies.

Determined to be better than we've ever been.

Profit Announcement

For the full year ended 30 June 2010

CommonwealthBank

WINNER
Money MAGAZINE AWARDS 2010
BANK OF THE YEAR

11 August 2010

Commonwealth Bank of Australia ACN 123 123 124

Group Performance Analysis continued

Operating Expenses

Operating expenses increased by 5% over the prior year to $8,601 million. The increase was driven by:

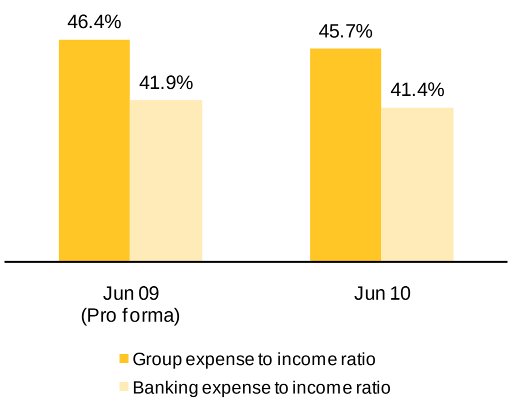
- Higher staff costs reflecting an out of cycle 2% pay rise;
- Continued investment in technology and projects to support strategic priorities and drive Group wide productivity; and
- The unfavourable impact of investment markets on the Group's defined benefit superannuation fund resulting in a $103 million expense for the current year (2009: $14 million non-cash expense).

Gross investment spend remains strong at $1,036 million. The primary focus is again on Core Banking Modernisation, with additional investment on the upgrade of Risk Management systems.

In the half year ended 30 June 2010, operating expenses increased 2% compared to the prior half to $4,333 million which included higher information technology expenses and an out of cycle 2% pay rise.

Expense to Income Ratios

The Group's expense to income ratio improved by 70 basis points over the prior year to 45.7%. The improvement reflects the Group's strong income growth, combined with a continued focus on technological and operational efficiencies.



Impairment Expense

Impairment expense for the year was $2,075 million, down significantly compared to the prior year. The reduction was driven by the non-recurrence of a small number of single name corporate exposures that impacted the prior year. Loan impairment expense in the corporate portfolio has also decreased following improved economic conditions and credit ratings.

Retail loan impairment expense however, has increased as a result of solid consumer finance volume growth and the Group continuing to support customers through difficult times. Tightening of credit policies and investment in the credit decisioning and collections capabilities have seen some improvement in arrears rates over the prior half.

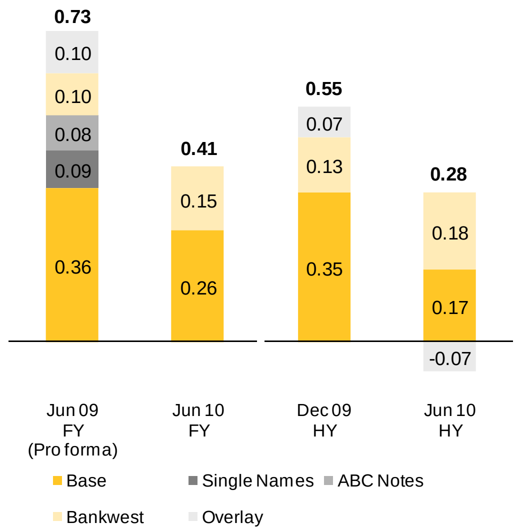
Bankwest loan impairment expense has also increased as a result of deterioration of the pre-acquisition business lending portfolio.

Since the initial review of the Bankwest portfolio, further detailed work has been undertaken into the Bankwest business banking portfolio. This comprehensive review identified pre-acquisition loans reflecting poor asset quality, high loan to value ratios and insufficient covenant coverage. This resulted in significant risk grade reassessments and security revaluations with provisioning increasing $304 million. These loans are confined to the pre-acquisition business banking portfolio. Footnote 42

Given the one off nature of the impairment and the fact it relates to an understatement of provisioning in the pre-acquisition portfolio, this additional amount of loan impairment expense has been recorded as a non-cash item. This is consistent with the treatment of the gain on acquisition of Bankwest.

Gross impaired assets increased to $5,216 million at 30 June 2010, a 24% increase over the prior year, including the impact of the Bankwest business banking review.

Impairment Expense ("cash basis") as a % of Average Gross Loans and Acceptances



Provisions for Impairment

The Group maintains a prudent and conservative approach to provisioning, with total provisions for impairment losses including Bankwest at 30 June 2010 of $5,453 million. This represents a $179 million increase since December 2009 and $499 million increase since June 2009. The current level reflects:

- Increased individual and collective provisioning to cover specific pre-acquisition exposures in the Bankwest loan book;
- Reduced credit exposure in the corporate portfolio;
- Growth and higher arrears rates over the year in the retail portfolios; and
- A management overlay of $1,192 million to cover the impact of economic conditions and other risks.

Taxation Expense

The corporate tax expense for the year was $2,266 million, representing an effective tax rate of 27%.

The effective tax rate is below the Australian company tax rate of 30% primarily as a result of:

- The benefit received from investment allowance tax credits associated with the structured asset finance leasing business; and
- The profit earned by the offshore banking unit and offshore jurisdictions that have lower corporate tax rates.

Bankwest

Financial Performance and Business Review

Bankwest cash net profit after tax for the year ended 30 June 2010 was $60 million, up from the pro forma profit of $3 million in the prior year. The result reflected a strong operating performance, partly offset by higher loan impairment expense.

Key highlights of the operating performance were:

- Banking income increased by 25% to $1,720 million, supported by strong retail lending volume growth and higher margins;
- Operating expenses decreased by 3% to $880 million, driven by efficiency gains and a continued focus on discretionary expenditure; and
- The expense to income ratio decreased from 66% to 51%.

Footnote 41

The cash net profit after tax was unfavourably impacted by loan impairment expense of $754 million, up 65% on the prior year. The increase in impairment expense was mainly due to property related exposures, primarily in Queensland and New South Wales.

Deposit balances increased 9% over the prior year in a highly competitive market, with more pronounced growth in the second half driven by attractive product offerings and a strong focus on sales.

Lending balances increased 10% over the prior year, driven by growth in home loans, with lending growth moderating in the second half.

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

- The introduction of e-statements for Retail Customers, with over 140,000 customers converting from paper to e-statements in the four months since the initiative was launched in February 2010;
- Continuing to introduce late night and weekend trading across the branch network, particularly to stores located in metropolitan, high density areas;
- A re-invigoration of the brand in Western Australia to embed the market leading position on the West Coast; and
- Continued investment in the customer network, which now includes 138 branches, 742 ATMs and phone and internet banking platforms.

The success of the above initiatives has been reflected in:

- An improvement in customer satisfaction scores, up 2.7% from June 2009 to 78.9% at June 2010[(1)];
- An increase in home loan market share, up 0.45% to 3.62% as at 30 June 2010;
- Six products receiving gold awards in Money Magazine's 2010 Best of the Best Awards, including Best Everyday Branch Access account and Best Kid's Savings account; and
- Three retail deposits receiving a five star rating from CANSTAR CANNEX.

In addition, the annual Gallup People & Culture Survey was completed in February with results showing a significant increase in the level of staff engagement across the business.

Retail

Home loan balances increased 19% on the prior year to $42 billion, driven by improved customer retention rates, competitive loan rates and an increased number of branches on the East Coast. Margins improved in the first half due to repricing for the current risk environment and increasing funding costs.

Retail deposit balances decreased 9% on the prior year and margins remained relatively stable reflecting the highly competitive market.

Other banking income decreased 3% on the prior year. The reduction in ATM and exception fees was partially offset by higher activity fees from increased credit card usage.

Business

Business lending balances decreased 3% on the prior year to $24 billion due to weaker market demand and a strategic shift in focus away from the property sector. Lending margins were broadly in line with the prior year.

Business deposits increased 19% on the prior year due to strong demand for money market products and a focus on sales. This compares to system growth of 2%. Business deposit margins increased due to a focus on profitable growth.

Other banking income decreased 10% on the prior year as lower capital markets volatility resulted in less client demand for trading and risk products.

Operating Expenses

Operating expenses decreased 3% over the prior year to $880 million. Expense management remains a key focus, with numerous expense containment and integration initiatives currently in progress.

Impairment Expense

Impairment expense for the year was $754 million, up 65% from the prior year. The increase in impairment expense was mainly due to property related exposures, primarily in Queensland and New South Wales.

Arrears levels have improved during the year, with greater than 90 day rates declining across the entire retail portfolio, in particular credit cards.

The Group has also included $304 million of loan impairment expense as a non-cash item which relates specifically to the Bankwest pre-acquisition loan portfolio.

Since the initial review of the Bankwest portfolio, further detailed work has been undertaken into the Bankwest business banking portfolio. This comprehensive review identified many pre-acquisition loans reflecting poor asset quality, high loan to value ratios and insufficient covenant coverage. This resulted in significant risk grade reassessments and security revaluations with loan impairment expense increasing $304 million. These loans are confined to the pre-acquisition business banking book.

Given the one off nature of the impairment and the fact it relates to an understatement of the provisioning on the pre-acquisition portfolio, this additional amount of loan impairment expense has been recorded as a non-cash item. This is consistent with the treatment of the gain on acquisition of Bankwest.

(1) Source: Roy Morgan Research satisfaction with Main Financial Institution.

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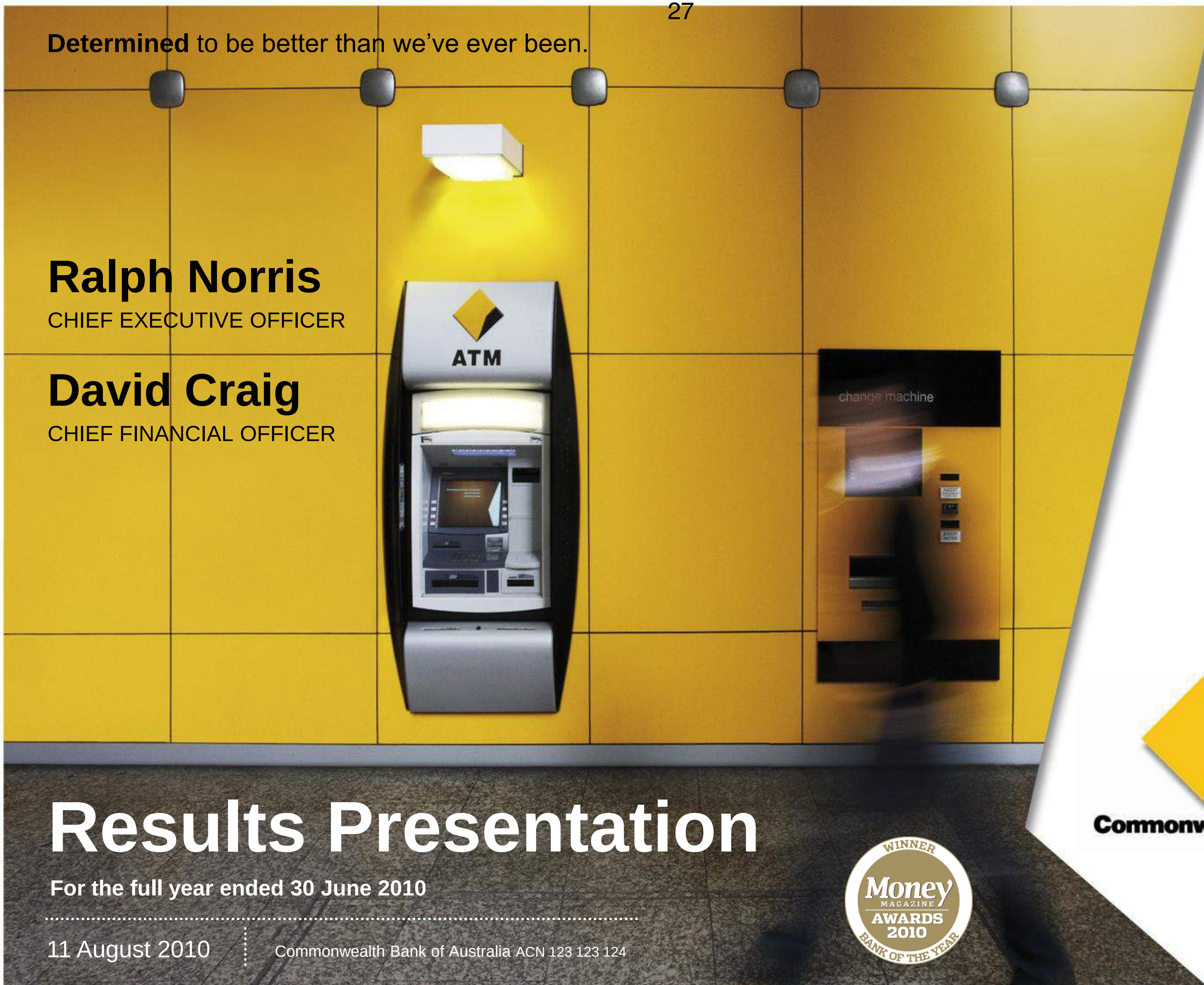

Ralph Norris
CHIEF EXECUTIVE OFFICER

David Craig
CHIEF FINANCIAL OFFICER

Results Presentation

For the full year ended 30 June 2010

11 August 2010 | Commonwealth Bank of Australia ACN 123 123 124

CommonwealthBank

Bankwest Legacy Book Review

- A comprehensive, in-depth review:
  - ~1,100 individual files (66% of book now reviewed)
  - Results extrapolated to remaining, lower risk segment
  - Independent insolvency firms engaged
  - Specialist management team reviews across key industry sectors
- Profile of problem loans:
  - Legacy - 99% written pre-acquisition
  - Predominantly East Coast
  - Performing loans; average loan size $8m
  - Unrealistic security valuations
- Risk management practices significantly strengthened:
  - Strengthened oversight regime (Board and Executive Risk Committees)
  - Guidelines and delegations tightened
  - Alignment with CBA policy and procedures

BANK OF WESTERN AUSTRALIA LTD
ABN 22 050 494 454

Annual Financial Report
31 December 2008

Income Statements

For year ended 31 December 2008

	Note	Group 2008 $M	Group 2007 $M	Company 2008 $M	Company 2007 $M
Interest and similar income		**4,896.4**	3,728.1	**4,757.1**	3,535.1
Interest expense and similar charges		**(3,722.6)**	(2,871.5)	**(3,815.2)**	(2,673.2)
Net interest income	2A	**1,173.8**	856.6	**940.9**	861.9
Fee and commission income		**219.9**	209.9	**225.6**	213.5
Fee and commission expense		**(47.3)**	(46.7)	**(76.5)**	(59.3)
Net fee and commission income		**172.6**	163.2	**149.1**	154.2
Net trading income	2A	**44.7**	24.7	**194.9**	25.0
Other operating income		**114.5**	92.8	**238.1**	85.7
		159.2	117.5	**433.0**	110.7
Net operating income	2A	**1,505.6**	1,137.3	**1,523.0**	1,126.8
Administrative expenses	2B	**(853.5)**	(728.7)	**(857.2)**	(727.9)
Depreciation, amortisation and impairment					
Property and equipment	12	**(32.1)**	(21.7)	**(31.9)**	(21.7)
Intangible assets other than goodwill	11	**(23.0)**	(18.6)	**(23.0)**	(18.6)
Operating expenses		**(908.6)**	(769.0)	**(912.1)**	(768.2)
Operating profit		**597.0**	368.3	**610.9**	358.6
Share of (losses)/profits of associated undertakings	10	**(0.5)**	2.0	**-**	-
Impairment losses on loans and advances	8	**(825.3)**	(87.8)	**(825.3)**	(87.8)
(Loss)/profit before income tax		**(228.8)**	282.5	**(214.4)**	270.8
Income tax benefit/(expense)	3	**89.8**	(77.5)	**91.2**	(71.1)
(Loss)/profit for the period attributable to equity holders of the Company		**(139.0)**	205.0	**(123.2)**	199.7

Footnote 10

The Income Statements are to be read in conjunction with the notes to the financial statements set out on pages 11 to 46.

Balance Sheets

As at 31 December 2008

	Note	Group 2008 $M	Group 2007 $M	Company 2008 $M	Company 2007 $M
Assets					
Cash and balances with central banks		**203.5**	954.4	**203.5**	954.4
Items in course of collection		**126.6**	135.1	**126.6**	135.1
Financial assets at fair value through Income statement	6	**5,775.9**	5,999.2	**5,779.2**	5,999.2
Derivative assets	25	**1,042.8**	333.4	**643.4**	333.4
Loans and advances to banks	5	**240.5**	42.6	**240.5**	42.6
Loans and advances to customers	7	**57,973.9**	50,839.0	**57,848.4**	50,908.8
Investment securities		**3.4**	3.4	**3.4**	3.4
Interests in group undertakings	9	**-**	-	**12.8**	12.9
Interests in associated undertakings	10	**-**	7.3	**-**	-
Goodwill and other intangible assets	11	**73.1**	58.5	**72.1**	57.5
Property and equipment	12	**175.0**	147.7	**175.0**	144.4
Deferred tax assets	13	**315.1**	97.5	**315.1**	95.8
Other assets		**162.9**	100.3	**275.8**	115.0
Prepayments and accrued income		**36.5**	93.7	**76.9**	99.6
Amounts due from controlled entities		**-**	-	**7,634.6**	-
Total assets		**66,129.2**	58,812.1	**73,307.2**	58,902.1
Liabilities					
Deposits by banks		**820.9**	49.2	**820.9**	49.2
Customer accounts	14	**60,400.1**	45,898.7	**50,539.7**	46,066.4
Financial liabilities at fair value through income statement	6	**4,008.5**	1,277.7	**4,008.5**	1,277.7
Derivative liabilities	25	**515.4**	773.7	**479.1**	315.7
Deferred tax liabilities	13	**49.6**	38.3	**49.6**	38.3
Other liabilities		**177.2**	271.0	**744.5**	579.4
Accruals and deferred income		**101.9**	108.9	**101.7**	108.7
Provisions	15	**62.1**	59.9	**62.1**	59.9
Debt securities in issue	19	**5,220.6**	6,138.6	**-**	-
Subordinated liabilities	18	**1,211.0**	1,146.2	**1,211.0**	1,146.2
Amounts due to controlled entities	17	**-**	-	**11,747.6**	6,246.0
Total liabilities		**62,567.2**	55,762.2	**69,764.7**	55,887.5
Equity					
Issued capital	16	**2,606.8**	1,906.8	**2,606.8**	1,906.8
Retained earnings		**955.2**	1,143.1	**935.7**	1,107.8
Total equity		**3,562.0**	3,049.9	**3,542.5**	3,014.6
Total liabilities and equity		**66,129.2**	58,812.1	**73,307.2**	58,902.1

footnote 16 & 17

The Balance Sheets are to be read in conjunction with the notes to the financial statements set out on pages 11 to 46.

Notes to the Accounts (Continued)

17. Amounts Due to Controlled Entities

	Company	
	2008	2007
	$M	$M
Amounts due to Series 2002 - 1E Swan Trust	**107.7**	143.8
Amounts due to Series 2004 - 1P Swan Trust	**861.3**	1,141.4
Amounts due to Series 2006 - 1E Swan Trust	**1,522.3**	2,047.7
Amounts due to Series 2007 - 1E Swan Trust	**2,216.5**	2,913.1
Amounts due to Series 2008 - 1D Swan Trust	**7,039.8**	-
	11,747.6	6,246.0

18. Subordinated Liabilities

	Group & Company	
	2008	2007
	$M	$M
Dated Loan Capital		
AUD 200m Sub FRN BBSW+85bp 23 Dec 2014	**200.6**	200.3
AUD 125m Sub FRN BBSW+85bp 28 Oct 2015	**125.4**	126.7
AUD 200m Sub FRN BBSW+85bp 27 Feb 2018	**200.5**	201.5
AUD 200m Sub FRN BBSW+83bp 29 Aug 2016	**200.5**	201.5
AUD 300m Sub FRN BBSW+76bp 28 Aug 2017	**300.7**	302.3
	-	-
Undated Loan Capital	**-**	-
Yen 9bn Yen Swap+220bp 30 May 1996 (5y reprice)	**183.3**	113.9
	1,211.0	1,146.2

Dated Loan Capital is unsecured and subordinated to the claims of all external creditors and constitutes Tier 2 capital as defined by the Australian Prudential Regulation Authority for capital adequacy purposes. The amount of the instrument eligible for inclusion in Lower Tier 2 capital is amortised on a straight line basis at a rate of 20 per cent per annum over the last 4 years to maturity.

The Undated Loan Capital consists of Yen 9 billion Perpetual Notes. The debt was issued on 30 May 1996 and has no final maturity date. The notes may be redeemed at par, at the option of the Group, on 30 May 2018 and every five years thereafter. If the Group does not exercise the option, the interest rate payable on the notes will be reset on each redemption option date to 220 basis points over the five year Yen swap rate. The notes are unsecured and subordinated to the claims of all external creditors. The notes constitute Tier 2 capital as defined by the Australian Prudential Regulation Authority for capital adequacy purposes.

19. Debt Securities in Issue

	Group		Company	
	2008	2007	**2008**	2007
	$M	$M	**$M**	$M
Bonds and medium term notes	**5,220.5**	6,138.6	**-**	-

Home loans secured by a registered first ranking mortgage have been pledged as collateral in the form of a first ranking floating charge against bonds and medium term notes amounting to $4,686.54 million (2007: $6,224.9 million). These home loans are disclosed in Note 7 Loans and Advances to Customers.

20. Share Based Payments

Plan	Date of grant	Number granted	Contractual life	Vesting conditions	Market Value of share	Method of settlement	Income statement charge ($000)
Free shares in HBOS plc 2005	31/07/2005	404,363	3 years	Service	$21.54	Shares	1,445
Free shares in HBOS plc 2006	08/08/2006	481,813	3 years	Service	$24.19	Shares	5,731
Free shares in HBOS plc 2007	07/08/2007	579,075	3 years	Service	$22.37	Shares	10,816
Free shares in HBOS plc 2008	05/09/2008	1,946,798	3 years	Service	$6.11	Shares	11,835

Share based payments provided to staff consisted of shares in HBOS plc, the Group's former ultimate holding company. The shares were purchased using cash at the outset of the plan and were held in trust. The cost was charged to the income statement over the vesting period.

To qualify, employees must:
- have been employed by HBOS Australia or any of its subsidiaries as a permanent or fixed term employee on the grant date; and
- still be employed by HBOS Australia or any of its subsidiaries on the Free Shares vesting date.

The number of Free Shares awarded was based on 3.5% (2007: 5%) of an employees basic salary as at the grant date, subject to a minimum of £350 equivalent and a maximum of £2,100 equivalent.

The sale of the Company has triggered the full recognition of all outstanding share plans. The impact to this year's operating results is a charge of $18.5 million in relation to the fully vested shares of the Company's employees. The charge will be fully reimbursed by HBOS Australia as part of the sale of the Company to the Commonwealth Bank of Australia. The net impact on the operating results is nil.

Notes to the Accounts (Continued)

26. Risk management (continued)

(b) Credit risk (continued) Footnote 47 & 53

Internal credit rating of loans and advances neither past due nor impaired	Group 2008 $M	Group 2007 $M	Company 2008 $M	Company 2007 $M
Risk Grade 1	**2,075.9**	665.4	**1,962.1**	665.0
Risk Grade 2	**3,445.1**	1,576.4	**3,444.4**	1,575.4
Risk Grade 3	**6,932.3**	2,257.5	**6,930.8**	2,256.1
Risk Grade -4	**6,177.8**	4,636.6	**6,176.4**	4,633.6
Risk Grade 4	**6,744.2**	10,489.0	**6,742.7**	10,582.9
Risk Grade +4	**5,044.1**	6,532.1	**5,043.0**	6,527.9
Risk Grade -5	**4,412.8**	3,585.3	**4,411.8**	3,583.0
Risk Grade 5	**5,177.1**	5,806.8	**5,176.0**	5,803.1
Risk Grade +5	**2,218.6**	2,348.8	**2,218.1**	2,347.3
Risk Grade -6	**2,114.4**	1,892.5	**2,113.9**	1,891.3
Risk Grade 6	**5,255.4**	3,206.3	**5,264.2**	3,204.3
Risk Grade +6	**1,685.8**	937.7	**1,685.4**	937.1
Risk Grade -7 *	**1,543.4**	-	**1,543.0**	-
Risk Grade 7	**785.2**	-	**785.0**	-
Risk Grade +7 *	**610.3**	4,059.3	**510.2**	4,056.7
Risk Grade -8 *	**260.8**	-	**260.8**	-
Risk Grade 8	**293.0**	355.1	**292.9**	354.9
Total	**54,676.2**	48,348.8	**54,550.7**	48,418.6

* During the year modifications were made to the credit grade rating scale. The modifications resulted in improved granularity amongst the higher order default probabilities and the addition of rating grades -7, +7 and -8.

Gross loans and advances to customers are analysed as follows:	Group 2008 $M	Group 2007 $M	Company 2008 $M	Company 2007 $M
Not impaired:				
Neither past due nor impaired*	**54,676.2**	48,348.8	**54,550.7**	48,418.6
Past due up to 3 months but not impaired	**2,653.0**	2,200.5	**2,553.0**	2,200.5
Impaired:				
Past due 0 to 3 months	**648.7**	172.1	**648.7**	172.1
Past due 3 to 6 months	**353.1**	81.9	**353.1**	81.9
Past due 6 to 12 months	**327.5**	47.9	**327.6**	47.9
Past due over 12 months	**89.6**	88.4	**89.6**	88.4
Possession**	**220.5**	56.2	**220.5**	56.2
Total	**58,868.6**	50,995.8	**58,743.1**	51,065.6
** Collateral held against possession cases	**154.7**	48.7	**154.7**	48.7
* Includes loans and advances that would have been past due or impaired had their terms not been renegotiated	**66.9**	182.6	**66.9**	182.6

External credit rating of financial assets neither past due nor impaired

2008	Rated AAA $M	Rated AA $M	Rated A $M	Rated BBB $M	Other rated $M	Unrated $M	Group Total $M
Financial assets at fair value through income statement	**99.3**	**4,842.7**	**592.1**	**98.7**	**-**	**143.1**	**5,775.9**
Derivative assets	**-**	**682.3**	**83.2**	**0.1**	**-**	**277.2**	**1,042.8**
Loans and advances to banks	**-**	**155.1**	**16.3**	**0.1**	**-**	**69.0**	**240.5**
Investment securities	**-**	**-**	**-**	**-**	**-**	**3.4**	**3.4**

2008	Rated AAA $M	Rated AA $M	Rated A $M	Rated BBB $M	Other rated $M	Unrated $M	Company Total $M
Financial assets at fair value through income statement	**99.3**	**4,842.7**	**692.1**	**98.7**	**-**	**146.4**	**5,779.2**
Derivative assets	**-**	**282.9**	**83.2**	**0.1**	**-**	**277.2**	**643.4**
Loans and advances to banks	**-**	**155.1**	**16.3**	**0.1**	**-**	**69.0**	**240.5**
Investment securities	**-**	**-**	**-**	**-**	**-**	**3.4**	**3.4**

2007	Rated AAA $M	Rated AA $M	Rated A $M	Rated BBB $M	Other rated $M	Unrated $M	Group Total $M
Financial assets at fair value through income statement	426.0	4,806.8	569.4	104.8	-	92.2	5,999.2
Derivative assets	-	295.3	28.2	-	-	9.9	333.4
Loans and advances to banks	-	42.6	-	-	-	-	42.6
Investment securities	-	-	-	-	-	3.4	3.4

2007	Rated AAA $M	Rated AA $M	Rated A $M	Rated BBB $M	Other rated $M	Unrated $M	Company Total $M
Financial assets at fair value through income statement	426.0	4,806.8	569.4	104.8	-	92.2	5,999.2
Derivative assets	-	295.3	28.2	-	-	9.9	333.4
Loans and advances to banks	-	42.6	-	-	-	-	42.6
Investment securities	-	-	-	-	-	3.4	3.4

Notes to the Accounts (Continued)

26. Risk management (continued)

(b) Credit risk (continued)

Impaired loans and advances to customers
Impaired loans and advances to customers are loans and advances to customers that are contractually past due 90 days or more or where the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded +8, 9 and 10 in the Group's internal risk grading system.

Past due but not impaired loans
Past due but not impaired loans and advances are loans and advances to customers where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Loans and advances with renegotiated terms
Loans and advances with renegotiated terms are loans and advances that have been restructured due to a deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Loans continue to be reported separately until they are considered to be rehabilitated.

Allowances for impairment
The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy
The Group writes off a loan balance (and any related allowances for impairment losses) when it determines that the loans are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Real estate or other assets acquired through the enforcement of security
In the event of customer default, any loan security is held as mortgagee in possession and therefore the Group does not hold any real estate or other assets acquired through the enforcement of security.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, guarantees and lenders mortgage insurance. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchases and securities borrowing activity. Collateral usually is not held against other financial assets.

Repossessed collateral
During the period, the Group obtained assets by taking possession of collateral held as security, as follows:

	Group		Company	
	2008	2007	**2008**	2007
Nature of assets	**$M**	$M	**$M**	$M
Residential property	**27.0**	39.4	**27.0**	39.4
Commerical property	**127.6**	6.0	**127.6**	6.0
Other	**0.1**	3.3	**0.1**	3.3
Total	**154.7**	48.7	**154.7**	48.7

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed properties are classified in the balance sheet within other assets.

Notes to the Accounts (Continued)

26. Risk management (continued)

Concentration of risks of financial assets with credit exposure

(i) Geographical sectors
The Group's exposure to credit risk by geographic region at balance date is primarily limited to Australia.

(ii) Industry sectors
The following table breaks down the Group's exposure to credit risk at their carrying amounts by industry sector:

Credit Risk Concentration
Group

2008	Cash and balances with central banks $M	Items in course of collection $M	Financial assets at fair value through income statement $M	Derivative assets $M	Loans and advances to banks $M	Loans and advances to customers $M	Investment securities $M	Other assets, prepayments and accruals $M	Contingent liabilities and commitments $M
Agriculture, forestry and fishing	-	-	43.7	-	-	1,907.5	-	-	-
Energy	-	-	-	-	-	251.3	-	-	-
Financial	203.5	126.6	5,600.2	1,042.8	240.5	129.0	-	48.9	8,967.8
Other services	-	-	83.6	-	-	2,655.9	-	-	-
Manufacturing industry	-	-	16.5	-	-	800.6	-	-	-
Construction and property	-	-	22.3	-	-	12,734.0	3.4	-	-
Hotels, restaurants and wholesale and retail trade	-	-	9.6	-	-	4,538.1	-	-	-
Transport storage and communication	-	-	-	-	-	334.8	-	-	-
Individuals	-	-	-	-	-	34,764.3	-	-	-
Loans and advances to overseas residents	-	-	-	-	-	753.1	-	-	-
Provisions for impairment losses on loans and advances	-	-	-	-	-	(894.7)	-	-	-
Total	**203.5**	**126.6**	**5,775.9**	**1,042.8**	**240.5**	**57,973.9**	**3.4**	**48.9**	**8,967.8**

Company

2008	Cash and balances with central banks $M	Items in course of collection $M	Financial assets at fair value through income statement $M	Derivative assets $M	Loans and advances to banks $M	Loans and advances to customers $M	Investment securities $M	Other assets, prepayments and accruals $M	Contingent liabilities and commitments $M
Agriculture, forestry and fishing	-	-	43.7	-	-	1,907.6	-	-	-
Energy	-	-	-	-	-	251.3	-	-	-
Financial	203.5	126.6	5,603.5	643.4	240.5	6.1	-	89.8	8,967.8
Other services	-	-	83.6	-	-	2,655.9	-	-	-
Manufacturing industry	-	-	16.5	-	-	800.6	-	-	-
Construction and property	-	-	22.3	-	-	12,734.0	3.4	-	-
Hotels, restaurants and wholesale and retail trade	-	-	9.6	-	-	4,538.1	-	-	-
Transport storage and communication	-	-	-	-	-	334.8	-	-	-
Individuals	-	-	-	-	-	34,761.6	-	-	-
Loans and advances to overseas residents	-	-	-	-	-	753.1	-	-	-
Provisions for impairment losses on loans and advances	-	-	-	-	-	(894.7)	-	-	-
Total	**203.5**	**126.6**	**5,779.2**	**643.4**	**240.5**	**57,848.4**	**3.4**	**89.8**	**8,967.8**

Notes to the Accounts (Continued)

26. Risk management (continued)

Concentration of risks of financial assets with credit exposure (continued)

Credit Risk Concentration

Group 2007	Cash and balances with central banks $M	Items in course of collection $M	Financial assets at fair value through income statement $M	Derivative assets $M	Loans and advances to banks $M	Loans and advances to customers $M	Investment securities $M	Other assets, prepayments and accruals $M	Contingent liabilities and commitments $M
Agriculture, forestry and fishing	-	-	10.5	-	-	1,778.2	-	-	-
Energy	-	-	-	-	-	230.0	-	-	-
Financial	954.4	135.1	5,915.4	333.4	42.6	631.0	-	65.7	9,956.0
Other services	-	-	39.8	-	-	2,354.2	-	-	-
Manufacturing industry	-	-	12.9	-	-	847.2	-	-	-
Construction and property	-	-	20.6	-	-	10,553.0	3.4	-	-
Hotels, restaurants and wholesale and retail trade	-	-	-	-	-	4,298.4	-	-	-
Transport storage and communication	-	-	-	-	-	340.5	-	-	-
Individuals	-	-	-	-	-	29,802.9	-	-	-
Loans and advances to overseas residents	-	-	-	-	-	160.4	-	-	-
Provisions for impairment losses on loans and advances	-	-	-	-	-	(156.8)	-	-	-
Total	954.4	135.1	5,999.2	333.4	42.6	50,839.0	3.4	65.7	9,956.0

Company 2007	Cash and balances with central banks $M	Items in course of collection $M	Financial assets at fair value through income statement $M	Derivative assets $M	Loans and advances to banks $M	Loans and advances to customers $M	Investment securities $M	Other assets, prepayments and accruals $M	Contingent liabilities and commitments $M
Agriculture, forestry and fishing	-	-	10.5	-	-	1,778.2	-	-	-
Energy	-	-	-	-	-	230.0	-	-	-
Financial	954.4	135.1	5,915.4	333.4	42.6	731.5	-	72.6	9,956.0
Other services	-	-	39.8	-	-	2,355.8	-	-	-
Manufacturing industry	-	-	12.9	-	-	847.2	-	-	-
Construction and property	-	-	20.6	-	-	10,553.0	3.4	-	-
Hotels, restaurants and wholesale and retail trade	-	-	-	-	-	4,298.4	-	-	-
Transport storage and communication	-	-	-	-	-	340.5	-	-	-
Individuals	-	-	-	-	-	29,770.6	-	-	-
Loans and advances to overseas residents	-	-	-	-	-	160.4	-	-	-
Provisions for impairment losses on loans and advances	-	-	-	-	-	(156.8)	-	-	-
Total	954.4	135.1	5,999.2	333.4	42.6	50,908.8	3.4	72.6	9,956.0

Notes to the Accounts (Continued)

26. Financial risk management (continued)

(g) Fair value of financial assets and liabilities

	Group		Company	
2008	**Carrying value $M**	**Contractual liability $M**	**Carrying value $M**	**Contractual liability $M**
* Financial liabilities at fair value through income statement	**4,008.5**	**4,225.2**	**4,008.5**	**4,225.2**
* Derivative liabilities	**515.4**	**367.7**	**479.1**	**350.0**
* Debt securities in issue	-	-	-	-
Designated at fair value through profit and loss	**5,220.5**	**935.1**	-	-
Amortised cost	-	-	-	-
* Subordinated liabilities	-	-	-	-
Designated at fair value through profit and loss	**183.3**	**147.7**	**183.3**	**147.7**
Amortised cost	**1,027.7**	**1,039.8**	**1,027.7**	**1,039.8**

	Group		Company	
2007	Carrying value $M	Fair value $M	Carrying value $M	Fair value $M
Assets				
Cash and balances with central banks	954.4	954.4	954.4	954.4
Items in course of collection	135.1	135.1	135.1	135.1
Financial assets at fair value through income statement	5,999.2	5,999.2	5,999.2	5,999.2
Derivative assets	333.4	333.4	333.4	333.4
Loans and advances to banks	42.6	42.6	42.6	42.6
Loans and advances to customers (net of provisions for impairment losses)	50,839.0	50,794.6	50,908.8	50,863.5
Investment securities	3.4	3.4	3.4	3.4
Other assets (excluding non financial assets)	51.2	51.2	51.2	51.2
Prepayments and accrued income (excluding non financial assets)	14.5	14.5	21.4	21.4
Total financial assets	58,372.8	58,328.4	58,449.5	58,404.2
Liabilities				
Deposits by banks	49.2	49.2	49.2	49.2
Customer accounts	45,898.7	45,937.1	46,066.4	46,104.3
Financial liabilities at fair value through income statement *	1,277.7	1,277.7	1,277.7	1,277.7
Derivative liabilities *	773.7	773.7	315.7	315.7
Other liabilities (excluding non financial liabilities)	169.7	169.7	411.9	411.9
Accruals and deferred income (excluding non financial liabilities)	44.8	44.8	44.7	44.7
Debt securities in issue *	6,138.8	6,138.6	-	-
Subordinated liabilities *	1,146.2	1,206.6	1,146.2	1,206.8
Amounts due to controlled entities	-	-	6,246.0	6,246.0
Total financial liabilities	55,498.6	55,597.4	55,557.8	55,656.1

	Group		Company	
2007	Carrying value $M	Contractual liability $M	Carrying value $M	Contractual liability $M
* Financial liabilities at fair value through income statement	1,277.7	1,284.3	1,277.7	1,284.3
* Derivative liabilities	773.7	952.1	315.7	16.9
* Debt securities in issue				
Designated at fair value through profit and loss	6,138.6	935.1	-	-
* Subordinated liabilities				
Designated at fair value through profit and loss	113.9	93.5	113.9	93.5
Amortised cost	1,032.3	1,045.4	1,032.3	1,045.4

Notes to the Accounts (Continued)

29. Related Party Transactions

Ultimate Parent Entity
For the period to 18 December 2008 the immediate parent of the Company was HBOS Australia Pty Ltd and the ultimate parent of the Company was HBOS plc, an entity listed on the London Stock Exchange and incorporated in the United Kingdom. On 19 December 2008 HBOS Australia Pty Ltd sold the Company to the Commonwealth Bank of Australia Ltd, an entity listed on the Australian Stock Exchange and domiciled and incorporated in Australia.

Controlled Entities
Interests in controlled entities are set out in Note 9.

Transactions with controlled entities
Transactions between the Company and its controlled entities during the year consisted of:

- the provision of banking services, including the granting of loans;
- the acceptance of deposits;
- the provision of associated financial services; and
- the provision of premises, data processing and accounting facilities.

These transactions were made on normal commercial terms and conditions.

As at 31 December 2008, the Company had interest free loans outstanding from its wholly owned subsidiaries amounting to $10.4 million (2007: $19.0 million) and interest free loans owing to its wholly owned subsidiaries amounting to $35.4 million (2007: $28.4 million).

	2008 $M	2007 $M
Interest free loans outstanding		
BWA Intellectual Property Holdings Limited	10.0	10.0
CBS Integrated Solutions Limited	0.4	0.4
Haselgrove Wines Pty Ltd*	-	8.8
	10.4	19.0
Interest free loans owing		
BWA Intellectual Property Holdings Limited	18.3	11.7
CBS Integrated Solutions Limited	1.7	1.7
BW Securitisation Management Pty Ltd	5.0	4.6
BAWA (No1) Pty Ltd	10.4	10.4
	35.4	28.4

* The Company sold its interest in Haselgrove Wines Pty Ltd on 5 February 2008.

During the year CBS Integrated Solutions Limited and its controlled entity earned interest of $229,398 (2007: $210,567) on funds held on deposit with the Company.

During the year CBS Professional Services Ltd earned interest of $217,650 (2007: $210,559) on funds held on deposit with the Company.

Transactions with other related parties
Transactions between the Group and other related parties during the year consisted of the following:

	2008 $M	2007 $M
Intercompany receivable		
St Andrews Australia Pty Ltd	0.3	-
HBOS Australia Pty Ltd *	-	86.5
BOS International (Australia) Ltd *	-	-
Bank of Scotland plc, Australia branch *	-	263.0
Commonwealth Bank of Australia **	946.1	-
	946.4	349.5
Intercompany payable		
BWA Group Services Pty Ltd (formerly known as HBOS Australia Group (Services) Pty Ltd)	3.5	2.9
Capital Finance Australia Ltd *	-	-
Bank of Scotland plc*	-	1,032.3
Bank of Scotland plc, Australia branch *	-	8,718.6
Commonwealth Bank of Australia **	14,581.5	-
	14,585.0	9,753.8
Derivative Contracts - fair value derivative asset		
Bank of Scotland plc, Australia branch *	-	141.9
BOS International (Australia) Ltd *	-	-
Commonwealth Bank of Australia **	224.3	-
	224.3	141.9
Derivative Contracts - fair value derivative liability		
Bank of Scotland plc, Australia branch *	-	124.8
BOS International (Australia) Ltd *	-	53.8
Commonwealth Bank of Australia **	372.2	-
	372.2	178.6

* These entities ceased to be related parties on 19th December 2008 following the sale of the Company to the Commonwealth Bank of Australia.
** These balances originally with Bank of Scotland plc, Australia Branch were novated to the Commonwealth Bank of Australia on 19th December 2008.

Information technology services were provided, on normal commercial terms and conditions, by Unisys West Pty Limited (an associated undertaking of BWA Intellectual Property Holdings Limited). There were no services provided during the year (31 December 2007: $29.8 million). Shares in Unisys West Pty Limited were sold on 24 November 2008.

During the year the Group provided banking services to Bank of Scotland plc, a subsidiary of HBOS plc, including the provision of loans, the acceptance of deposits and foreign exchange transactions. In addition, the Group accepted deposits, granted loans and entered into foreign exchange contracts with Bank of Scotland plc, Australia branch, Capital Finance Australia Ltd, BOS International (Australia) Ltd, HBOS Australia Pty Ltd and St Andrews Australia Pty Ltd. All transactions entered into were on normal terms and conditions and the resultant profit and loss and balance sheet impact of these transactions is not material.

During the year ended 31 December 2008 the Group received income from HBOS plc in relation to customisation, development, implementation and maintenance of the Core Banking System technology. Total income recognised was $1.9 million (2007: $1.9 million).

Notes to the Accounts (Continued)

30. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of financial reports, and directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee (the Deed). The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The following subsidiaries became a party to the Deed on 13 December 2006, by virtue of a Deed of Assumption.
- Asklepios Ltd
- BOSI Security Services Ltd (formerly known as BWA Custodians Ltd)
- TW Custodians Limited
- BWA Intellectual Property Holdings Limited
- CBS Intergrated Solutions Limited
- CBS Professional Services Limited

The Company transferred its interest in BOSI Security Services Ltd (formerly known as BWA Custodians Ltd) to BOS International (Australia) Limited, a subsidiary of HBOS Australia, on 15 December 2008. Subsequently, this entity was no longer subject to the Deed.

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, is set out as follows:

Summarised income statement and retained profits

	2008 $M	2007 $M
(Loss)/profit before income tax	**(216.8)**	275.5
Income tax benefit/(expense)	**89.3**	(71.2)
(Loss)/profit for the period attributable to equity holders of the Company	**(127.5)**	204.3
Retained profits at beginning of year	**1,133.6**	958.4
Dividends recognised during the year	**(48.9)**	(29.1)
Retained profits at end of year	**957.2**	1,133.6
Balance Sheet		
Assets		
Cash and balances with central banks	**203.5**	954.4
Items in course of collection	**126.6**	214.3
Financial assets at fair value through income statement	**5,779.2**	5,999.2
Derivative assets	**643.4**	333.4
Loans and advances to banks	**240.5**	42.6
Loans and advances to customers	**57,830.4**	50,923.3
Investment securities	**3.4**	3.4
Interests in group undertakings	**10.9**	10.9
Interests in associated undertakings	**-**	7.3
Goodwill and other intangible assets	**72.1**	57.5
Property and equipment	**175.0**	144.4
Investment properties	**-**	-
Deferred tax assets	**315.0**	97.5
Other assets	**275.8**	114.8
Prepayments and accrued income	**76.9**	99.8
Amounts due from controlled entities	**7,534.5**	
Total assets	**73,287.2**	59,002.8
Liabilities		
Deposits by banks	**820.9**	49.2
Customer accounts	**50,513.4**	46,043.4
Financial liabilities at fair value through income statement	**4,008.5**	1,277.7
Derivative liabilities	**479.1**	315.7
Deferred tax liabilities	**49.6**	38.3
Other liabilities	**744.3**	579.4
Accruals and deferred income	**101.8**	108.7
Provisions	**62.2**	59.9
Debt securities in issue	**-**	-
Subordinated liabilities	**1,211.0**	1,146.3
Amounts due to controlled entities	**11,732.4**	6,343.8
Total liabilities	**69,723.2**	55,962.4
Equity		
Issued capital	**2,606.8**	1,906.8
Retained earnings	**957.2**	1,133.6
Total equity	**3,564.0**	3,040.4
Total liabilities and equity	**73,287.2**	59,002.8

BANK OF WESTERN AUSTRALIA LTD
ABN 22 050 494 454

Financial Report
For the Year Ended 30 June 2010
(Prior period 6 months to 30 June 2009)

Statements of Comprehensive Income

For the twelve months ended 30 June 2010

	Note	Group 12 months ended 30 Jun 10 $M	Group 6 months ended 30 Jun 09 $M	Company 12 months ended 30 Jun 10 $M	Company 6 months ended 30 Jun 09 $M
Interest and similar income		4,340.8	1,854.5	4,079.7	1,863.5
Interest expense and similar charges		(2,853.8)	(1,242.2)	(2,703.7)	(1,481.1)
Net interest income	2A	1,487.0	612.3	1,376.0	382.4
Fee and commission income		228.3	120.2	223.5	120.9
Fee and commission expense		(32.1)	(16.0)	(5.5)	(16.0)
Net fee and commission income		196.2	104.2	218.0	104.9
Net trading (loss)/income	2A	2.5	(40.6)	2.5	125.3
Other operating income/(expense)		10.3	(72.7)	164.9	(0.6)
		12.8	(113.3)	187.4	124.7
Net operating income		1,896.0	603.3	1,761.4	612.0
Administrative expenses	2B	(851.3)	(468.8)	(847.2)	(467.7)
Depreciation, amortisation and impairment					
Property and equipment	12	(33.9)	(18.8)	(33.9)	(18.8)
Intangible assets other than goodwill	11	(16.2)	(41.7)	(16.2)	(41.7)
Operating expenses		(901.4)	(529.3)	(897.3)	(528.2)
Impairment losses on loans and advances	8	(1,212.1)	(461.5)	(1,212.1)	(461.5)
Operating (loss)/profit		(417.6)	(387.5)	(348.0)	(377.7)
Share of (losses)/profit of associated undertakings	10	-	-	-	-
Loss before income tax		(417.6)	(387.5)	(348.0)	(377.9)
Income tax (expense)/benefit	3	131.4	(284.1)	129.3	(280.3)
Loss for the period		(286.1)	(671.6)	(218.7)	(657.9)
Other comprehensive income					
Gain on revaluation of land and buildings	12	11.2	41.1	11.2	41.1
Changes in the fair value of available for sale assets		34.1	-	34.1	-
Changes in the fair value of cash flow hedges		52.8	(2.6)	52.8	(2.6)
Income tax relating to components of other comprehensive income	3	(28.7)	(11.6)	(28.7)	(11.6)
Other comprehensive income for the period net of tax		69.4	26.9	69.4	26.9
Total comprehensive income for the period		(216.7)	(644.7)	(149.3)	(631.0)

The Statements of Comprehensive Income are to be read in conjunction with the notes to the financial statements set out on pages 12 to 47.

Group	Note	Issued share capital $M	Cash Flow hedge reserve $M	Asset revaluation reserve $M	Retained earnings $M	Total $M
Balance at 1 January 2009		2,606.8	-	-	955.2	3,562.0
Pre tax loss for the period		-	-	-	(387.1)	(387.1)
Income tax relating to components of comprehensive income		-	-	-	(284.1)	(284.1)
Reserves						
Cashflow hedges						
Gains and losses on cash flow hedging instruments:						
Recognised in equity		-	(2.9)	-	-	(2.9)
Transferred to profit or loss						
Interest Income						
Interest expense		-	0.3	-	-	0.3
Tax on cash flow hedging Instruments		-	0.8	-	-	0.8
Asset revaluation reserve						
Revaluation of properties		-	-	41.1	-	41.1
Tax on revaluation of properties		-	-	(12.4)	-	(12.4)
Total comprehensive Income for the period		-	(1.8)	28.7	(671.2)	(644.3)
Transactions with owners in their capacity as owners :						
Increase in share capital		600.0	-	-	-	800.0
Balance at 30 June 2009	16	3,206.8	(1.8)	28.7	284.0	3,517.7

Company	Note	Issued share capital $M	Cash Flow hedge reserve $M	Asset revaluation reserve $M	Retained earnings $M	Total $M
Balance at 1 January 2009		2,606.8	-	-	936.1	3,542.9
Loss for the period		-	-	-	(377.9)	(377.9)
Income tax relating to components of comprehensive income		-	-	-	(280.2)	(280.2)
Reserves						
Cashflow hedges						
Gains and losses on cash flow hedging instruments:						
Recognised in equity		-	(2.9)	-	-	(2.9)
Transferred to profit or loss						
Interest Income						
Interest expense		-	0.3	-	-	0.3
Tax on cash flow hedging instruments		-	0.8	-	-	0.8
Asset revaluation reserve						
Revaluation of properties		-	-	41.1	-	41.1
Tax on revaluation of properties		-	-	(12.4)	-	(12.4)
Total comprehensive Income for the period		-	(1.8)	28.7	(658.1)	(631.2)
Transactions with owners in their capacity as owners :						
Increase in share capital		600.0	-	-	-	600.0
Balance at 30 June 2009	18	3,206.8	(1.8)	28.7	278.0	3,511.7

The Statements of Changes in Equity are to be read in conjunction with the notes to the financial statements set out on pages 12 to 47.

Statements of Financial Position

As at 30 June 2010

		Group		Company	
		30 Jun 10	30 Jun 09	30 Jun 10	30 Jun 09
	Note	$M	$M	$M	$M
Assets					
Cash and liquid assets		**1,260.2**	6,477.6	**1,260.2**	5,477.6
Financial assets at fair value through profit or loss	6	**2.2**	47.5	**2.2**	47.5
Derivative assets	24	**387.7**	437.9	**387.7**	445.1
Loans and advances to customers	7	**65,448.4**	60,070.1	**65,448.0**	60,067.6
Available for sale	5	**8,225.0**	3.5	**5,225.0**	3.5
Interests in group undertakings	9	**-**	-	**11.8**	12.6
Investments in associates	10	**-**	-	**-**	-
Goodwill and other intangible assets	11	**28.0**	33.7	**28.0**	32.7
Property and equipment	12	**207.2**	214.5	**207.2**	214.8
Deferred tax assets	13	**285.6**	0.6	**286.1**	0.8
Other assets		**375.3**	288.2	**523.3**	374.1
Amounts due from controlled entities		**-**	-	**5,339.9**	6,147.0
Total assets		**74,219.8**	67,574.0	**79,717.4**	73,623.6
Liabilities					
Deposits by banks		**15,484.4**	18,165.2	**15,484.4**	16,155.2
Customer accounts	14	**41,610.6**	36,192.1	**41,629.1**	37,634.0
Financial liabilities at fair value through profit or loss	5	**32.2**	170.5	**32.2**	170.5
Derivative liabilities	24	**368.3**	456.3	**200.2**	325.1
Other liabilities		**820.0**	558.0	**1,332.3**	1,366.6
Provisions	15	**104.5**	96.4	**104.5**	96.4
Debt securities in issue	19	**10,428.3**	5,142.9	**7,557.6**	1,062.8
Subordinated liabilities	18	**1,170.1**	1,173.0	**1,170.1**	1,173.0
Amounts due to controlled entities	17	**-**	-	**7,944.1**	10,316.0
Total liabilities		**70,018.4**	64,056.4	**75,454.5**	70,311.7
Equity					
Issued capital	18	**4,106.8**	3,206.6	**4,106.8**	3,206.6
Retained earnings		**0.4**	283.9	**62.1**	278.2
Reserves		**94.0**	26.9	**94.0**	26.9
Total equity		**4,201.2**	3,517.6	**4,262.9**	3,511.9
Total liabilities and equity		**74,219.6**	67,574.0	**79,717.4**	73,623.6

The Statements of Financial Position are to be read in conjunction with the notes to the financial statements set out on pages 12 to 47.

Notes to the Accounts (Continued)

7. Loans and Advances to Customers

	Group		Company	
	2010	2009	**2010**	2009
	$M	$M	**$M**	$M
Loans and advances to customers	**87,537.4**	61,351.5	**67,635.0**	61,349.2
Provisions for impairment losses on loans and advances	**(2,089.0)**	(1,281.4)	**(2,089.0)**	(1,281.4)
Net loans and advances to customers	**85,448.4**	60,070.1	**65,446.0**	60,067.8

Loans and advances to customers before losses includes mortgages amounting to $2,983.4 million (2009: $3,965.3 million) which secure the bonds and medium term notes disclosed within Note 19 Debt Securities in Issue.

Loans and advances to customers include finance leases analysed as follows:

	Group & Company	
	2010	2009
	$M	$M
Gross investment in finance lease receivables:		
Within one year	**11.7**	10.3
Between one and five years	**9.9**	21.2
More than five years	**6.3**	5.9
	27.9	37.4
Less: Unearned finance income	**(3.9)**	(6.0)
Present value of minimum lease payments	**24.0**	31.4
Analysed as:		
Within one year	**11.1**	7.9
Between one and five years	**7.8**	18.1
More than five years	**5.1**	5.4
Finance lease receivables	**24.0**	31.4

8. Impairment Losses on Loans and Advances

	Group & Company		2010	Group & Company		2009
	Individual	**Collective**	**Total**	Individual	Collective	Total
	$M	**$M**	**$M**	$M	$M	$M
At 1 July 2009	**819.8**	**661.6**	**1,281.4**			
New impairment provisions less releases	**701.0**	**471.4**	**1,172.4**			
Interest and fees reserved	**88.0**	**-**	**88.0**			
Discount unwind to interest income	**(82.6)**	**-**	**(82.6)**			
Amounts written off	**(370.2)**	**-**	**(370.2)**			
At 30 June 2010	**956.0**	**1,133.0**	**2,089.0**			
At 1 January 2009				400.8	494.0	894.8
New impairment provisions less releases				297.5	167.6	465.1
Interest and fees reserved				25.7	-	25.7
Discount unwind to interest income				(15.1)	-	(15.1)
Amounts written off				(89.1)	-	(89.1)
At 30 June 2009				619.8	661.6	1,281.4
New impairment provisions less releases	**701.0**	**471.4**	**1,172.4**	298.8	167.6	466.4
Direct Writeoffs	**49.0**	**-**	**49.0**	-	-	-
Recoveries of amounts previously written off	**(9.3)**	**-**	**(9.3)**	(4.9)	-	(4.9)
Impairment losses charged to the comprehensive income	**740.7**	**471.4**	**1,212.1**	293.9	167.6	461.5

Notes to the Accounts (Continued)

17. Amounts Due to Controlled Entities

	Company	
	2010	2009
	$M	$M
Amounts due to Series 2002 - 1E Swan Trust	-	0.3
Amounts due to Series 2004 - 1P Swan Trust	-	740.6
Amounts due to Series 2006 - 1E Swan Trust	**977.9**	1,310.1
Amounts due to Series 2007 - 1E Swan Trust	**1,419.5**	1,915.4
Amounts due to Series 2008 - 1D Swan Trust	**4,980.8**	8,349.6
Amounts due to Series 2010 - 1P Swan Trust	**565.9**	-
	7,944.1	10,316.0

18. Subordinated Liabilities

	Group & Company	
	2010	2009
	$M	$M
Dated Loan Capital		
AUD 200m Sub FRN BBSW+232bp 23 Dec 2018	**200.0**	200.4
AUD 125m Sub FRN BBSW+227bp 28 Oct 2019	**125.0**	126.2
AUD 200m Sub FRN BBSW+204bp 27 Feb 2020	**200.0**	201.0
AUD 200m Sub FRN BBSW+195bp 29 Aug 2020	**200.0**	200.9
AUD 300m Sub FRN BBSW+177bp 28 Aug 2021	**300.0**	301.0
Undated loan capital		
Yen 9bn Yen Perpetual 4.55% Fixed 30 May 2016 (First call date)	**145.1**	143.5
	1,170.1	1,173.0

Dated Loan Capital is unsecured and subordinated to the claims of all external creditors and constitute Tier 2 capital as defined by the Australian Prudential Regulation Authority for capital adequacy purposes. The amount of the instrument eligible for inclusion in Lower Tier 2 capital is amortised on a straight line basis at a rate of 20 per cent per annum over the last 4 years to maturity.

The Undated Loan Capital consists of Yen 9 billion Perpetual Notes. The debt was issued on 30 May 1995 and has no final maturity date. The notes may be redeemed at par, at the option of Bankwest, on 30 May 2016 and every five years thereafter. The notes are unsecured and subordinated to the claims of all external creditors. The notes constitute Tier 2 capital as defined by the Australian Prudential Regulation Authority for capital adequacy purposes.

19. Debt Securities in Issue

	Group		Company	
	2010	2009	**2010**	2009
	$M	$M	**$M**	$M
Bonds and medium term notes	2,870.7	4,080.5	-	-
Other Bonds and medium term notes	7,557.6	1,062.8	7,557.6	1,062.8
Total Debt Securities in Issue	**10,428.3**	5,143.3	**7,557.6**	**1,062.8**

Home loans secured by a registered first ranking mortgage have been pledged as collateral in the form of a first ranking floating charge against bonds and medium term notes amounting to $2,963.4 million (2009: $3,965.6 million).

Foreign denominated debt securities relating to securitised loans are carried at fair value (with recognised gains and losses disclosed within note 2C), while those denominated in Australian dollars are recognised at amortised cost.

All fair value debt securities are classified as Level 2 per the fair value measurement hierarchy as they are based on observable market inputs.

Notes to the Accounts (Continued)

25. Risk management (continued)

(b) Credit risk (continued)

	Group 2010 $M	Group 2009 $M	Company 2010 $M	Company 2009 $M
Distribution of loans and advances by credit quality				
Gross loans and advances				
Neither past due nor impaired	**63,077.5**	57,402.4	**63,075.3**	57,400.1
Past due but not impaired	**2,406.8**	2,583.3	**2,406.7**	2,583.3
Impaired	**2,053.1**	1,365.8	**2,053.0**	1,365.8
Total	**67,537.4**	81,351.5	**67,535.0**	61,349.2

Footnote 47 & 53

Internal credit rating* of loans and advances neither past due nor impaired	2010 $M	2009 $M	2010 $M	2009 $M
Risk Grade 1	**4,065.8**	2,792.8	**4,065.4**	2,794.0
Risk Grade 2	**5,550.9**	3,969.5	**5,550.7**	3,971.1
Risk Grade 3	**9,933.1**	7,498.8	**9,932.7**	7,501.9
Risk Grade -4	**8,118.7**	6,193.0	**8,118.4**	6,195.5
Risk Grade 4	**7,042.7**	6,274.6	**7,042.4**	6,251.4
Risk Grade +4	**5,154.9**	4,571.4	**5,154.7**	4,573.3
Risk Grade -5	**5,130.0**	4,720.1	**5,129.9**	4,722.0
Risk Grade 5	**4,228.0**	5,214.9	**4,227.9**	5,217.1
Risk Grade +5	**2,238.8**	2,270.9	**2,238.8**	2,271.8
Risk Grade -6	**1,515.5**	1,988.6	**1,515.4**	1,989.4
Risk Grade 6	**3,390.7**	5,629.4	**3,390.8**	5,631.7
Risk Grade +6	**1,832.3**	2,145.0	**1,832.2**	2,145.9
Risk Grade -7	**999.6**	1,274.2	**999.6**	1,274.7
Risk Grade 7	**1,594.8**	1,078.7	**1,594.5**	1,079.1
Risk Grade +7	**1,078.9**	740.8	**1,078.8**	741.1
Risk Grade -8	**318.4**	226.7	**318.4**	226.8
Risk Grade 8	**479.1**	428.9	**479.1**	429.1
Risk Grade +8	**405.8**	384.1	**405.7**	384.3
Total	**83,077.5**	57,402.4	**83,075.3**	57,400.1

* The grading scale reflects the order of default probability, 1 being the lowest and +8 being the highest.

Gross loans and advances to customers are analysed as follows:	Group 2010 $M	Group 2009 $M	Company 2010 $M	Company 2009 $M
Past due but not impaired				
Past due 1 to 29 days	**1,375.7**	1,533.0	**1,375.6**	1,533.0
Past due 30 to 59 days	**296.7**	290.7	**296.7**	290.7
Past due 60 to 89 days	**235.9**	174.8	**235.9**	174.8
Past due 90 days to 179 days	**278.8**	273.9	**278.8**	273.9
Past due 180 days or more	**219.8**	310.9	**219.8**	310.9
Total loans and advances which were past due but not impaired	**2,406.8**	2,583.3	**2,406.7**	2,583.3

External credit rating of financial assets neither past due nor impaired

Group

2010	Rated AAA $M	Rated AA $M	Rated A $M	Rated BBB $M	Other rated $M	Unrated $M	Total $M
Financial assets at fair value through profit or loss	-	**2.1**	-	-	-	**0.1**	**2.2**
Derivative assets	-	**276.5**	**33.4**	-	-	**77.8**	**387.7**
Loans and advances to banks	-	-	-	-	-	-	-
Available for sale investments	**2,189.4**	**3,518.8**	**284.4**	**24.3**	-	**210.3**	**6,225.0**

Company

2010	Rated AAA $M	Rated AA $M	Rated A $M	Rated BBB $M	Other rated $M	Unrated $M	Total $M
Financial assets at fair value through profit or loss	-	**2.1**	-	-	-	**0.1**	**2.2**
Derivative assets	-	**276.5**	**33.4**	-	-	**77.8**	**387.7**
Loans and advances to banks	-	-	-	-	-	-	-
Available for sale investments	**2,189.4**	**3,516.6**	**284.4**	**24.3**	-	**210.3**	**6,225.0**

2009	Rated AAA $M	Rated AA $M	Rated A $M	Rated BBB $M	Other rated $M	Unrated $M	Group Total $M
Financial assets at fair value through profit and loss	-	18.5	-	-	-	29.0	47.5
Derivative assets	-	225.8	24.1	-	-	188.0	437.9
Loans and advances to banks	-	-	-	-		-	-
Available for sale investments	-	-	-	-	-	3.5	3.5

2009	Rated AAA $M	Rated AA $M	Rated A $M	Rated BBB $M	Other rated $M	Unrated $M	Company Total $M
Financial assets at fair value through profit and loss	-	18.5	-	-	-	29.0	47.5
Derivative assets	-	194.7	24.1	-	-	228.3	445.1
Loans and advances to banks	-	-	-	-	-	-	-
Available for sale investments	-	-	-	-	-	3.5	3.5

Notes to the Accounts (Continued)

25. Risk management (continued)

Concentration of risks of financial assets with credit exposure

(i) Geographical sectors
Bankwest's exposure to credit risk by geographic region at balance date is primarily limited to Australia.

(ii) Industry sectors
The following table breaks down Bankwest's exposure to credit risk at their carrying amounts by industry sector:

Credit Risk Concentration
Group

2010	Cash and liquid assets $M	Financial assets at fair value through profit or loss $M	Derivative assets $M	Loans and advances to customers $M	Available for Sale Assets $M	Other assets, prepayments and accruals $M	Contingent liablitles and commitments $M
Agriculture, forestry and fishing	-	-	9.6	2,296.6	-	-	223.0
Energy	-	-	0.3	79.8	-	-	95.4
Financial	1,260.2	2.2	314.0	408.8	6,436.2	357.3	183.8
Other services	-	-	7.4	5,224.5	788.8	-	2,016.4
Manufacturing industry	-	-	3.6	831.4	-	-	172.6
Construction and property	-	-	28.1	10,460.6	-	-	841.7
Hotels, restaurants and wholesale and retail trade	-	-	20.3	4,681.7	-	-	213.1
Transport storage and communication	-	-	1.1	466.4	-	-	35.8
Individuals	-	-	2.5	43,088.7	-	-	6,491.3
Provisions for impairment losses on loans and advances	-	-	-	(2,088.0)	-	-	-
Total	1,260.2	2.2	387.7	66,448.4	6,226.0	357.3	10,272.7

Company

2010	Cash and liquid assets $M	Financial assets at fair value through profit or loss $M	Derivative assets $M	Loans and advances to customers $M	Available for Sale Assets $M	Other assets, prepayments and accruals $M	Contingent liabilities and commitments $M
Agriculture, forestry and fishing	-	-	9.6	2,295.6	-	-	223.0
Energy	-	-	0.3	78.8	-	-	96.4
Financial	1,280.2	2.2	314.0	406.4	6,435.2	505.0	183.8
Other services	-	-	7.4	6,224.6	789.8	-	2,016.4
Manufacturing industry	-	-	3.5	831.4	-	-	172.6
Construction and property	-	-	29.1	10,460.5	-	-	841.7
Hotels, restaurants and wholesale and retail trade	-	-	20.3	4,681.7	-	-	213.1
Transport storage and communication	-	-	1.1	466.4	-	-	35.8
Individuals	-	-	2.5	43,088.7	-	-	6,491.3
Provisions for impairment losses on loans and advances	-	-	-	(2,089.0)	-	-	-
Total	1,280.2	2.2	387.7	65,446.0	8,225.0	505.0	10,272.7

Notes to the Accounts (Continued)

25. Risk management (continued)

Concentration of risks of financial assets with credit exposure (continued)

Credit Risk Concentration

Group

2009	Cash and liquid assets $M	Financial assets at fair value through profit or loss $M	Derivative assets $M	Loans and advances to customers $M	Investment securities $M	Other assets, prepayments and accruals $M	Contingent liabilities and commitments $M
Agriculture, forestry and fishing	-	-	16.8	2,140.4	-	-	195.4
Energy	-	-	0.1	137.3	-	-	76.6
Financial	6,477.6	12.5	62.2	386.8	-	288.3	271.4
Other services	-	35.0	76.1	4,110.6	-	-	2,569.3
Manufacturing industry	-	-	6.1	885.5	-	-	150.9
Construction and property	-	-	2.9	12,290.4	3.5	-	1,027.4
Hotels, restaurants and wholesale and retail trade	-	-	38.0	4,850.9	-	-	-
Transport storage and communication	-	-	-	460.7	-	-	25.8
Individuals	-	-	235.7	35,930.5	-	-	5,390.6
Loans and advances to overseas residents	-	-	-	158.4	-	-	-
Provisions for impairment losses on loans and advances	-	-	-	(1,281.4)	-	-	-
Total	6,477.6	47.5	437.9	60,070.1	3.5	288.3	9,707.4

Company

2009	Cash and liquid assets $M	Financial assets at fair value through profit or loss $M	Derivative assets $M	Loans and advances to customers $M	Investment securities $M	Other assets, prapayments and accruals $M	Contingent liabilities and commitments $M
Agriculture, forestry and fishing	-	-	16.8	2,139.5	-	-	195.4
Energy	-	-	0.1	137.2	-	-	76.6
Financial	6,477.6	12.5	62.2	386.7	-	373.9	271.4
Other services	-	35.0	83.3	4,108.8	-	-	2,569.3
Manufacturing industry	-	-	6.1	885.1	-	-	150.9
Construction and property	-	-	2.9	12,285.1	3.5	-	1,027.4
Hotels, restaurants and wholesale and retail trade	-	-	38.0	4,848.7	-	-	-
Transport storage and communication	-	-	-	460.5	-	-	25.8
Individuals	-	-	235.7	35,939.3	-	-	5,390.6
Loans and advances to overseas rasidents	-	-	-	158.3	-	-	-
Provisions for Impairment losses on loans and advances	-	-	-	(1,281.4)	-	-	-
Total	6,477.6	47.5	445.1	60,067.8	3.5	373.9	9,707.4

Notes to the Accounts (Continued)

25. Risk management (continued)

Company 2009	At call $M	Up to 1 month $M	1 to 3 months $M	3 to 12 months $M	1 year to 5 years $M	Over 5 years $M
Deposits by banks	127.4	689.6	1,333.6	10,350.8	7,386.3	9.8
Customer accounts	17,860.8	8,603.8	8,806.3	3,390.3	418.3	0.2
Financial liabilities at fair value through profit or loss	-	126.7	44.2	0.4	-	-
Derivative liabilities	-	4.2	35.5	91.5	160.5	33.3
Other liabilities (excluding non financial liabilities)	947.4	-	-	-	-	-
Debt securities in issue	-	1,067.8	-	-	-	-
Subordinated liabilities	-	4.3	10.5	30.2	158.4	1,366.2
Amounts due to controlled entities	-	84.0	919.8	2,751.1	5,481.0	1,589.2
Undrawn loan facilities	8,763.5	-	-	-	-	-
	27,699.1	10,580.4	11,149.9	18,814.1	13,604.5	2,998.7

(d) Market risks

Market risk is the risk that movements in interest rates, foreign exchange rates, equity prices or commodity prices will affect Bankwest's profits. Market risk arises in both Bankwest's core banking businesses.

Management of market risks

Market Risk on the Banking book is managed under the interest rate risk in the banking book (IRRBB) policy which is approved by the Board. Financial Instruments which are not Hedge accounted for are valued daily at current market prices (mark-to-market basis). Market risk is controlled through the imposition of limits on positions taken by Bankwest. Compliance against delegated limits is completed for all trading activities undertaken by Bankwest including trading activities in the derivatives market, which are directed at executing customer orders or hedging Bankwest's own balance sheet.

Interest rate risk

Market risk in the Banking book centres on interest rate risk which arises from changes in the shape and direction of interest rates (yield curve risk) as well as mismatches in the re-pricing term of assets and liabilities.

Bankwest does not retain any material interest rate risk. To achieve this outcome Bankwest has entered into a series of interest rate derivatives with CBA to offset the positions taken with customers.

Management of interest rate risk

Interest rate risk in the Banking book is monitored by the Finance Division under guidelines and limits defined by ALCO and the Board. This is modelled under a range of interest rate and balance sheet scenarios using specialised modelling software.

Notes to the Accounts (Continued)

25. Risk management (continued)

(f) Capital management

APRA sets and monitors Bankwest's capital requirements. Bankwest has in place a capital management policy approved annually by the Board which has delegated authority for determining issues of materiality and limits applicable to the management of capital to the Risk Committee which is assisted by the Asset and Liability Committee. This governance ensures that Bankwest complies with APRA's prudential requirements. Bankwest has complied with all externally imposed capital requirements for the period to 30 June 2010.

For Basel II Standardised capital requirements, APRA requires Bankwest to maintain prescribed ratios of capital to risk weighted assets. Banking operations are categorised as either banking book or trading book and the risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures.

For regulatory purposes "Company" comprises the APRA Level 1 entities and "Group" comprises APRA Level 2 entities.

Bankwest's regulatory capital is analysed into two tiers:

- Tier 1 Capital, including ordinary share capital, retained earnings, qualifying residual tier 1 securities with deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy reporting purposes.
- Tier 2 Capital, including qualifying subordinated liabilities and collective impairment provisions.

Regulatory capital position

	Group		Company	
	2010 $M	2009 $M	**2010 $M**	2009 $M
Total Risk Weighted Assets	**46,808.6**	44,115.9	**46,806.6**	44,115.9
Tier 1				
Ordinary share capital	**4,107.1**	3,206.8	**4,107.1**	3,206.8
Eligible reserves	**21.6**	142.8	**9.4**	121.9
Less deductions:				
Goodwill, Intangibles and other adjustments	**(189.8)**	(122.6)	**(189.8)**	(121.6)
50% deductions from tier 1 capital	**-**		**(4.9)**	(4.9)
Total Tier 1 capital	**3,938.8**	3,227.0	**3,921.8**	3,202.2
Tier 2				
Qualifying subordinated liabilities	**1,143.6**	1,140.9	**1,143.8**	1,140.9
Collectively assessed impairment provisions	**672.6** *	551.4	**672.6** *	551.4
Asset revaluation reserve	**22.6**	18.5	**22.6**	18.5
Less deductions:				
50% deductions from tier 2 capital	**-**	-	**(4.9)**	(4.9)
Total Tier 2 capital	**1,738.7**	1,710.8	**1,733.8**	1,705.9
Total regulatory capital	**6,677.5**	4,937.8	**6,666.6**	4,908.1
Tier 1 capital ratio (%)	**8.6%**	7.3%	**8.6%**	7.3%
Total capital ratio (%)	**12.4%**	11.2%	**12.3%**	11.1%

* Includes general reserve for credit losses

(g) Fair value of financial assets and liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. AASB7 requires the disclosure of the fair value of those financial instruments not already carried at fair value in the balance sheet.

The following tables summarises the carrying and fair values of financial assets and liabilities presented on the Group and the Bank's balance sheets. The disclosure does not cover assets or liabilities that are not considered to be financial instruments from an accounting perspective.

	Group		Company	
2010	**Carrying value $M**	**Fair value $M**	**Carrying value $M**	**Fair value $M**
Assets				
Cash and liquid assets	1,280.2	1,260.2	1,260.2	1,260.2
Financial assets at fair value through profit or loss	2.2	2.2	2.2	2.2
Derivative assets	387.7	387.7	387.7	387.7
Loans and advances to customers (net of provisions for impairment losses)	66,448.4	66,421.3	66,446.0	66,418.8
Investment securities	6,226.0	8,226.0	6,226.0	6,226.0
Due from controlled entities	0.0	0.0	6,339.9	6,339.9
Other assets	367.3	367.3	606.0	606.0
Total financial assets	73,680.8	73,663.7	79,166.0	79,138.9
Liabilities				
Deposits by banks	16,484.4	16,484.4	16,484.4	16,484.4
Customer accounts	41,610.6	41,746.6	41,829.1	41,766.1
Financial liabilities at fair value through profit or loss	32.2	32.2	32.2	32.2
Derivative liabilities	368.3	368.3	200.2	200.2
Other liabilities	678.8	876.8	1,218.1	1,216.1
Debt securities in issue	10,428.3	10,428.3	7,667.6	7,667.6
Subordinated liabilities	1,170.1	1,170.1	1,170.1	1,170.1
Amounts due to controlled entities	-	-	7,844.1	7,944.1
Total financial liabilities	69,770.6	69,906.6	76,233.8	76,369.8

Notes to the Accounts (Continued)

26. Financial risk management (continued)

(g) Fair value of financial assets and liabilities

2009	Group Carrying value $M	Group Fair value $M	Company Carrying value $M	Company Fair value $M
Assets				
Cash and liquid assets	6,477.6	6,477.6	6,477.6	6,477.6
Financial assets at fair value through profit or loss	47.5	47.5	47.5	47.5
Derivative assets	437.9	437.9	445.1	445.1
Loans and advances to customers (net of provisions for impairment losses)	60,070.1	60,001.4	60,067.8	59,999.1
Investment securities	3.5	3.5	3.5	3.5
Due from controlled entities	-	-	6,147.0	6,147.0
Other assets	288.3	288.3	373.9	373.9
Total financial assets	67,324.9	67,256.2	73,562.4	73,425.0
Liabilities				
Deposits by banks	18,165.2	18,165.2	18,165.2	18,229.7
Customer accounts	38,192.1	38,050.3	37,634.0	37,778.1
Financial liabilities at fair value through profit or loss	170.5	170.5	170.5	170.5
Derivative liabilities	458.3	458.3	325.1	329.0
Other liabilities	653.0	653.0	1,368.6	1,363.5
Debt securities in issue	5,143.3	5,143.3	1,062.8	1,062.8
Subordinated liabilities	1,173.0	1,173.0	1,173.0	1,173.0
Amounts due to controlled entities	-	-	10,316.0	10,316.0
Total financial liabilities	63,955.1	63,813.6	70,215.2	70,422.6

The fair values disclosed above represent estimates at which these instruments could be exchanged in a current transaction between willing parties. However, many of the instruments lack an available trading market and it is the intention to hold to maturity. Thus it is possible that realised amounts may differ to amounts disclosed above.

Loans and advances to customers

The carrying value of loans is net of provisions for impairment. For variable rate loans, the carrying amount is considered a reasonable estimate of fair value. The fair value of fixed rate loans is calculated using discounted cash flows with a discount rate reflecting market rates offered for loans of similar remaining maturities and credit worthiness of the borrower.

Customer Accounts

Customer accounts 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 for term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.

Notes to the Accounts (Continued)

Transactions with other related parties
Transactions between Bankwest and other related parties during the period consisted of the following:

	2010 $M	2009 $M
Intercompany receivable		
St Andrews Australia Pty Ltd	-	0.3
BWA Group Services Pty Ltd (formerly known as HBOS Australia Group (Services) Pty Ltd)	-	11.0
Commonwealth Bank of Australia	843.3	8,089.5
	843.3	8,100.8
Intercompany payable		
BWA Group Services Pty Ltd (formerly known as HBOS Australia Group (Services) Pty Ltd)	5.3	4.8
Commonwealth Bank of Australia	16,416.5	19,092.7
	16,420.8	19,097.5
Deposits		
BWA Group Services Pty Ltd (formerly known as HBOS Australia Group (Services) Pty Ltd)	19.0	22.3
St Andrews Australia Pty Ltd	9.7	31.4
	28.7	53.7
Derivative Contracts - fair value derivative asset		
Commonwealth Bank of Australia	272.9	229.7
	272.9	229.7
Derivative Contracts - fair value derivative liability		
Commonwealth Bank of Australia	163.6	240.6
	163.6	240.6

2010	Ultimate Parent $M	Intragroup $M	Subsidiary $M	Total $M
Interest and similar income	39.3	-	-	39.3
Interest expense and similar charges	(876.4)	(0.3)	-	(876.7)
Net trading income	(11.9)	-	-	(11.9)
Other operating income	(722.9)	-	1.3	(721.6)
Net operating income	(1,671.9)	(0.3)	1.3	(1,570.9)
Operating expenses	-	-	-	(43.6)

2009	Ultimate Parent $M	Intragroup $M	Subsidiary $M	Total $M
Interest and similar income	2.5	-	0.1	2.6
Interest expense and similar charges	(399.3)	(0.1)	-	(399.4)
Net trading income	131.0	-	-	131.0
Other operating income	-	1.2	-	1.2
Net operating income	(285.8)	1.1	0.1	(264.6)
Operating expenses	-	(29.3)	-	(29.3)

During the period, the Company entered into funding arrangements with CBA in the form of loans and derivatives.

Commonwealth Bank Group
Commonwealth Bank of Australia
ABN: 48 123 123 124

Legal Services

Level 9
309 George Street
SYDNEY NSW 2000

Reply
GPO Box 2719
SYDNEY NSW 2001
DX 1440 Sydney

20 April 2009

Attention: Company Secretary and Group
Counsel HBOS Australia
Level 28, 45 Clarence Street
Sydney NSW 2000
Facsimile: 8299 8095

Dear Sirs

Sale Deed – Draft Completion Balance Sheets Dispute Notice

We refer to the Share Sale Deed between Commonwealth Bank of Australia (**CBA**), HBOS Australia Pty Limited (**HBOSA**) and HBOS plc (**HBOS**) dated 8 October 2008 (**Sale Deed**) and the Draft Completion Balance Sheets (as defined in the Sale Deed) provided by of HBOSA tc of CBA by email dated 19 February 2009.

Words and expressions defined in the Sale Deed have the same meaning when used in this letter.

1 Dispute Notice

In accordance with clause 10.4(b) of the Sale Deed, CBA hereby gives notice to HBOSA that CBA does not agree with the Draft Completion Balance Sheets and Calculations. **Schedule 1** to this Dispute Notice sets out:

a) each Disputed Item (in relation to both the Draft Completion Balance Sheets and the Calculations);

b) a brief summary of the grounds on which CBA disputes each Disputed Item (further detail regarding the grounds for each Disputed Item is attached as **Appendix 1**); and

c) the proposed adjustments to be made to the Completion Balance Sheets and / or the Calculations as a result of each Disputed Item.

Schedule 2 to this Dispute Notice sets out the revised Calculations which take into account the proposed adjustments made to the Completion Balance Sheets and the Calculations as a result of the Disputed Items.

2 Period to resolve Disputed Items

In accordance with clause 10.5(b) of the Sale Deed, we look forward to conferring with you to resolve the Disputed Items before the 20 Business Day period from the date of this Dispute Notice referred to in clause 10.5(b) expires on 18 May 2009. To achieve this, we propose the following steps:

a) Consistent with the engagement model adopted by the parties to date, CBA and HBOSA instruct PricewaterhouseCoopers (PwC) and KMPG respectively to continue their discussions to clarify the Disputed Items for CBA and HBOSA respectively. CBA will provide, via requests from KPMG to PwC, appropriate additional supporting documentation or explanations sought by HBOSA in relation to the grounds for the Disputed Items.

b) CBA will make available for a preliminary meeting with HBOSA to discuss the Disputed Items once HBOSA has had an opportunity to review this Dispute Notice. We suggest this take place on or before Friday 24 April 2009.

c) In addition to any interim discussions the parties may choose to undertake, CBA and HBOSA meet no later than Tuesday 12 May 2009 to confirm those Disputed Items that have been resolved by agreement and to endeavour to reach agreement on any remaining Disputed Items.

3 Appointment of the Expert

If any Disputed Items remain unresolved by 18 May 2009 necessitating the appointment of an Expert under clause 10.5(c) of the Sale Deed, we would propose that Ernst & Young be agreed by CBA and HBOSA as the appropriate independent firm of accountants to conduct the determination. Please confirm whether you agree with this nomination at your earliest convenience.

Please do not hesitate to contact if you would like to discuss.

Yours faithfully

David Cohen
Group General Counsel
Commonwealth Bank of Australia

Copy:

Schedule 1 – Dispute Items

Item #	Item disputed in Completion Balance Sheet / Calculations	Grounds for dispute	Adjusting Journal	Line items impacted: Assets	Liabilities	Equity	P+L	NFE Impact	Risk Weighted Assets Impact
Draft Completion Balance Sheet Dispute Items									
1	Derivative assets and net trading income	Derivatives not valued based on specific counter party risk. Analysis of specific counter party risk demonstrated overvaluation of assets based on accurate risk profile	Dr P&L Cr Derivative Assets	-$22,000,000			-$22,000,000	-$22,000,000	$11,000,000
2	Individual provisions and impairment losses on loans and advances	Specific provisions underprovided	Dr P&L Cr Individual Provisions	-$232,000,000			-$232,000,000	-$232,000,000	$232,000,000
3	Group collective provisions and impairment losses on loans and advances	Collective provisions underprovided	Dr P&L Cr Collective Provisions	-$186,000,000			-$186,000,000	-$186,000,000	-
4	Current tax and tax expense	Under provision for FBT	Dr P&L - Tax expense Cr Provision for FBT		$510,000		-$510,000	-$510,000	-
5	Provisions and staff costs	Inappropriate write back of bonus provisions - KPMG unadjusted differences #3	Dr P&L Cr Bonus Provisions		$1,300,000		-$1,300,000	-$1,300,000	-
6	Goodwill and other intangibles and impairment expense	Whittaker Mcnaught goodwill overvalued - impairment required	Dr P&L Cr Goodwill	-$22,900,000			-$22,900,000	-$22,900,000	N/a – St Andrew's
7	Goodwill and other intangibles and impairment expense	RACV customer list intangible asset overvalued	Dr P&L - Impairment Exp Cr Customer List	-$1,980,000			-$1,980,000	-$1,980,000	N/a – St Andrew's
8	Goodwill and other intangibles and impairment expense	RACV goodwill overvalued - impairment required	Dr P&L Cr Goodwill	-$593,000			-$593,000	-$593,000	N/a – St Andrew's

9	Other liabilities and administration expense	The NSW Office of State Revenue has a dispute in place with St Andrew's over stamp duty payable. This is currently unprovided for	Dr Administration expense Cr Other liabilities		$2,000,000		-$ 2,000,000	-$2,000,000	N/a - St Andrew's
10	Provisions and operating expenses	Loyalty provisions for credit cards understated	Dr P&L Cr Loyalty Point Provisions		$2,300,000		-$2,300,000	-$2,300,000	-
11	Other assets and administrative expenses	To correctly accrue for expenses incurred pre year end - KPMG unadjusted audit difference item #4	Dr P&L Cr Accruals & Def. Income		$1,117,377		-$1,117,377	-$1,117,377	-
12	Derivative liabilities and net trading income	Basis swaps incorrectly recorded at off market rates	Dr P&L Cr Derivative Liability		$6,400,000		-$6,400,000	-$6,400,000	-
13	Prepayments and other operating income	To adjust for revenue accrual in relation to the P&L offset accounts	Dr B/S - Prepayments Cr P&L	$2,305,517			$2,305,517	$2,305,517	$2,305,517
14	Tax effect of BankWest Disputed Items	Tax effect of Disputed Items	Cr/Dr P&L Dr/Cr DTA/ DTL	$135,335,213	$591,655		$134,643,558	$0	-
15	Tax effect of St Andrew's Disputed Items	Tax effect of Disputed Items	Dr DTL Cr RE		-$594,000		$594,000	$594,000	N/a - St Andrew's
Calculation Dispute Items									
16	Deductions - Other capitalised expenses in the "Excess Capital Calculations" schedule	Capitalised software expense understated in BankWest Adjusted Purchase Price calculation (understated NFE deduction)	N/a					-$1,890,000	-
17	Deductions - Securitisation establishment costs in the "Excess Capital Calculations" schedule	Capitalised securitisation expense understated in BankWest Adjusted Purchase Price calculation (understated NFE deduction)	N/a					-$2,348,640	-
18	Total RWA in the "Excess Capital Calculations" schedule	No capital held for home loans until drawn, understatement of	N/a					$0	$354,000,000

		RWA							
19	Total RWA in the "Excess Capital Calculations" schedule	Credit conversion factor on Derivative Interest Rate Options was incorrectly applied, understatement of RWA	N/a					$0	$321,000
20	Total RWA in the "Excess Capital Calculations" schedule	Incorrect risk weighting applied to market related counterparty (AIG) resulting in understatement of RWA	N/a					$0	$450,000
21	Total RWA in the "Excess Capital Calculations" schedule	Incorrect risk weighting applied to market related counterparty Morgan Stanley capital services 20% instead of 50%. Credit equivalent amount of $88m, hence RWA understated	N/a					$0	$26,400,000
22	Total RWA in the "Excess Capital Calculations" schedule	If RWA were calculated on 19/12/08 instead of 31/12/08, then RWA would be higher	N/a					$0	$25,300,000

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Schedule 2 – Calculations

Adjusted Purchase Price

	Calculations per HBOSA (1) $m	CBA variation as a result of Disputed items $m	Calculations per CBA $m
Initial Purchase Price	2,100.0		2,100.0
Adjustments:			
BankWest excess capital calculation (2)	157.3	(464.0)	(306.7)
St Andrew's movement in net assets (3)	22.4	(26.9)	(4.5)
HBOSGS movement in net assets (4)	17.1	0.0	17.1
Total adjustment to Initial Purchase Price	196.8	(490.8)	(294.0)
Adjusted Purchase Price	2,296.8	(490.8)	1,806.0 Footnote 34

Notes

(1)	As set out in the Draft Completion Balance Sheets provided by HBOSA to CBA on 19 February 2009.			
(2)	Please refer to appended "BankWest Excess Capital Calculations" for detail.			
(3)	Movement in net assets of St Andrew's Group:			
	- Completion Net Asset Amount of St Andrew's (19 Dec 2008)	112.4	(26.9)	85.5
	- Net Asset Amount of St Andrew's (31 Aug 2008)	90.0	0	90.0
	- Movement in St Andrew's net assets	22.4	(26.9)	(4.5)
(4)	Movement in net assets of HBOSGS:			
	- Completion Net Asset Amount of HBOSGS (19 Dec 2008)	25.8	0	25.8
	- Net Asset Amount of HBOSGS (31 Dec 2007)	8.7	0	8.7
	- Movement in HBOSGS net assets	17.1	0	17.1

BankWest Excess Capital Calculations

Excess capital calculations – BankWest Completion Balance Sheet	Per HBOSA (1) $	CBA variation as a result of Disputed Items $	Per CBA $
Tier 1			
Issued share capital	2,076,833,572	0	2,076,833,572
Retained earnings	1,014,852,916	0	1,014,852,916
YTD profit	(4,050,768)	(314,678,302)	(318,729,070)
Total Fundamental Tier 1 Capital	3,087,635,720		2,772,957,418
~~Deductions~~			
Goodwill and other intangibles	(989,962)	0	(989,962)
FITB	(140,662,660)	(134,643,658)	(275,306,218)
Loan and lease origination fees	(85,199,170)	0	(85,199,170)
Securitisation establishment costs	(8,766,599)	(1,890,000)	(10,656,599)
Other capitalised expenses	(69,999,784)	(2,348,640)	(72,348,424)
Total Tier 1 Deductions	(305,618,175)		(444,500,373)
Total Tier 1 Capital	2,782,017,545		2,328,457,045
Total RWA (2)	41,995,147,096	166,776,517	42,161,923,613
Total Fundamental Tier 1 Capital Ratio	6.25%		6.25%
Total Fundamental Tier 1 Capital Requirement	2,624,696,694		2,635,120,226
Excess Fundamental Tier 1 Capital	157,320,852		(306,663,181)
Actual Fundamental Tier 1 Capital Ratio	6.62%		5.52%

Footnote 20

Notes

(1) As set out in the Draft Completion Balance Sheets provided by HBOSA to CBA on 19 February 2009.

(2) RWA calculation

Clause 4.2(a) of the Sale Deed defines RWA as the greatest of the following:

Method 1

RWA assumed	40,700,000,000		40,700,000,000

Method 2

RWA is 59% of BankWest total assets (as shown in Completion Balance Sheets adding back impact of redemption of the BankWest Redeemable Preference Shares)

BankWest total assets (per Completion Balance Sheet)	66,636,400,000	(302,359,270)	66,234,040,730
Less redemption of RPS	(530,000,000)	0	(530,000,000)
Adjusted total assets	66,006,400,000		65,704,040,730
59% of adjusted total assets	38,943,776,000		38,765,384,031

Method 3

RWA as calculations by reference to the Completion Balance Sheet and as calculated in accordance with APRA Prudential Standards (Basel 1)

RWA per Completion Balance Sheet excess capital calculation set out above	41,995,147,096	166,776,517	42,161,923,613
Method 3 to be applied to Completion Balance Sheet / Calculation	41,995,147,096		42,161,923,613

Appendix 1 – Further detail of Disputed Items

Index

Item #	Item disputed in Completion Balance Sheet	Grounds for dispute	Reference for additional details
1	Derivative assets and net trading income	Derivatives not valued based on specific counter party risk. Analysis of specific counter party risk demonstrated overvaluation of assets based on accurate risk profile assessment	Section 1
2	Individual provisions and impairment losses on loans and advances	Specific provisions underprovided	Section 2
3	Group collective provisions and impairment losses on loans and advances	Collective provisions underprovided	Section 3
4	Current tax and tax expense	Under provision for FBT	Section 4
5	Provisions and staff costs	Inappropriate write back of bonus provisions - KPMG unadjusted differences #3	Appendix 1A - KPMG SUD
6	Goodwill and other intangibles and impairment expense	Whittaker Macnaught goodwill overvalued - impairment required ($4.7m KPMG unadjusted differences #8 and an additional $2m identified by CBA)	Section 5 and Appendix 1A - KPMG SUD
7	Goodwill and other intangibles and impairment expense	RACV customer list intangible asset overvalued	Section 6
8	Goodwill and other intangibles and impairment expense	RACV goodwill overvalued - impairment required	Section 7

Item #	Item disputed in Completion Balance Sheet	Grounds for dispute	Reference for additional details
9	Other liabilities and administration expense	The NSW Office of State Revenue has requested additional stamp duty payments from St Andrew's following a review of its records. This is currently unprovided for	Section 8
10	Provisions and operating expenses	Loyalty provisions for credit cards understated	Section 9
11	Other assets and administrative expenses	To correctly accrue for expenses incurred pre year end - KPMG unadjusted audit difference item #4	Appendix 1A - KPMG SUD
12	Derivative liabilities and net trading income	Basis swaps incorrectly recorded at off-market rates	Section 10
13	Prepayments and other operating income	To adjust for revenue accrual in relation to the P&L offset accounts - KPMG unadjusted audit difference item #5	Appendix 1A - KPMG SUD
14	Tax effect of BankWest Disputed Items	Tax effect of Disputed Items	N/a – self explanatory
15	Tax effect of St Andrew's Disputed Items	Tax effect of Disputed Items	N/a – self explanatory
16	Deductions - Other capitalised expenses in the "Excess Capital Calculations" schedule	Capitalised software expense understated in BankWest Adjusted Purchase Price calculation (understated NFE deduction)	Section 11
17	Deductions - Securitisation establishment costs in the "Excess Capital Calculations" schedule	Capitalised securitisation expense understated in BankWest Adjusted Purchase Price calculation (understated NFE deduction)	Section 12

Item #	Item disputed in Completion Balance Sheet	Grounds for dispute	Reference for additional details
18	Total RWA in the "Excess Capital Calculations" schedule	No capital held for home loans until drawn, understatement of RWA	Section 13
19	Total RWA in the "Excess Capital Calculations" schedule	Credit conversion factor on derivative interest rate options was incorrectly applied, understatement of RWA	Section 14
20	Total RWA in the "Excess Capital Calculations" schedule	Incorrect risk weighting applied to market related counterparty (AIG) resulting in understatement of RWA	Section 15
21	Total RWA in the "Excess Capital Calculations" schedule	Incorrect risk weighting of 20% applied to market related counterparty Morgan Stanley Capital Services instead of 50%. Credit equivalent amount of $88m, hence RWA understated	Section 16
22	Total RWA in the "Excess Capital Calculations" schedule	If RWA were calculated on 19/12/08 instead of 31/12/08, then RWA would be higher	Section 17

Section 1 - Derivatives not valued based on specific counter party risk

Impact on Adjusted Purchase Price (APP) - $22 million reduction in BankWest Tier 1 Capital

The value of derivative assets in the BankWest Draft Completion Balance Sheet was not adjusted for specific counterparty risk. This is because when calculating the mark to market for derivatives, the BankWest system (Quantum) assumes a default counterparty credit risk of AA. The counterparty fair value adjustment takes into account the actual credit risk of BankWest customers in the mark to market calculation.

CBA calculated this adjustment by carrying out the following steps:

1. Obtaining the detailed list of all derivative assets and the relevant counterparties.
2. Mapping each derivative asset to its specific counterparty credit risk grade.
3. Where a counterparty had a rating of A or less the timing of net cashflows expected from each derivative was collated based on the terms of the instrument and discounted using a lending based credit adjusted discount rate specific to the derivative counterparties credit risk.

Analysis of specific counter party risk demonstrated overvaluation of derivative assets. After taking into account specific counterparty credit risk, the value of the derivative assets was $22 million less than that stated in the Draft Completion Balance Sheets. The impact on NFE of BankWest is a reduction of $22 million. The impact on RWA is a reduction of $11 million (based on a conservative 50% risk weighting).

Summary Tables for Completion Accounts Value and CFVA Adjustment

Value as per Completion

	Maturity								
Counterparty Rating	1: <6mths	2: 6-12 mths	3: 1-2 yrs	4: 2-3 yrs	5: 3-4 yrs	6: 4-5 yrs	7: 5-7 yrs	8: 7-10 yrs	Grand Total
A	2,844,116	1,342,635	7,359,386	2,562,745	2,596,589	1,741,720	15,340,788	76,945,101	110,733,081
BBB+				83,610	151,808				235,418
BBB	12,863,568	1,420,066	163,916	1,083,570					15,531,121
BB+	95,352	105,203	271,333	385,869	1,130,508	88,672	369,136	580,347	3,026,421
BB	6,572,818	2,961,883	9,329,851	5,455,281	5,515,660	7,291,773	271,468	1,637,483	39,036,217
BB-	1,807,281	5,103,505	21,550,498	15,474,913	8,482,123	10,488,813	11,114,654	17,887,208	91,908,996
B+	1,117,868	2,792,936	13,341,240	13,800,305	9,611,425	7,062,792	4,261,615	31,977,117	83,965,299
B	30,727	293,576	2,964,392	1,939,987	1,674,709	2,124,843		475,360	9,503,595
B-	57,820	78,660	1,376,123	724,257	535,073	274,288	336,598	247,315	3,630,134
CCC		116,991	496,546	177,817	53,595	2,091,348			2,936,296
CC	37,558	402,970	1,196,831	1,938,157	194,178				3,769,694
D	12,799	201,367	863,907	331,983	1,052,850		38,029	894,247	3,395,183
Not Rated	73,860	347,111	1,552,013	1,945,103	2,502,593	3,969,955	715,713	234,557	11,340,904
Total	25,513,768	15,166,903	60,466,037	45,903,597	33,501,109	35,134,206	32,448,002	130,878,735	379,012,359

Sum of Counterparty fair value adjustment

	Maturity								
Counterparty Rating	1: <6mths	2: 6-12 mths	3: 1-2 yrs	4: 2-3 yrs	5: 3-4 yrs	6: 4-5 yrs	7: 5-7 yrs	8: 7-10 yrs	Grand Total
A	(1,708)	(2,412)	(25,870)	(14,678)	(20,314)	(17,035)	(222,735)	(2,162,405)	(2,467,156)
BBB+				(1,190)	(2,946)				(4,136)
BBB	(18,909)	(6,720)	(1,718)	(18,467)					(45,815)
BB+	(288)	(1,048)	(5,639)	(13,839)	(58,398)	(6,968)	(36,641)	(78,115)	(200,936)
BB	(23,159)	(35,050)	(240,991)	(239,117)	(372,967)	(713,677)	(33,494)	(272,910)	(1,931,366)
BB-	(7,173)	(67,907)	(606,197)	(734,006)	(609,969)	(1,109,661)	(1,480,903)	(3,288,442)	(7,904,260)
B+	(4,870)	(40,718)	(414,127)	(721,402)	(764,821)	(826,436)	(512,359)	(3,524,352)	(6,809,089)
B	(148)	(4,708)	(101,098)	(111,276)	(145,957)	(272,080)		(59,930)	(695,197)
B-	(303)	(1,376)	(51,130)	(45,206)	(50,646)	(38,013)	(49,771)	(44,537)	(280,982)
CCC		(2,070)	(18,843)	(11,360)	(5,147)	(295,295)			(332,715)
CC	(217)	(7,714)	(49,045)	(133,927)	(20,138)				(211,041)
D	(74)	(3,855)	(35,402)	(22,940)	(109,188)		(6,458)	(168,055)	(345,972)
Not Rated	(260)	(4,067)	(39,623)	(84,561)	(169,225)	(388,690)	(88,305)	(39,092)	(813,823)
Total	(57,110)	(177,644)	(1,589,684)	(2,151,969)	(2,329,715)	(3,667,856)	(2,430,666)	(9,637,838)	(22,042,482)

Credit Spreads by maturity and counterparty credit risk grade.

	1: <6mths	2: 6-12 mths	3: 1-2 yrs	4: 2-3 yrs	5: 3-4 yrs	6: 4-5 yrs	7: 5-7 yrs	8: 7-10 yrs
AUD Spread gap	6m	1y	2y	3y	4y	5y	7y	10y
A+	8	7.5	7.5	7.5	7.5	7.5	11.5	17.5
A	25	25	25	25	25	25	29.0	35.0
A-	33	37.5	37.5	37.5	37.5	52.5	56.5	62.5
BBB+	47	52.5	52.5	62.5	62.5	77.5	78.5	80.1
BBB	61	65	75	75	90	95	96.0	97.6
BBB-	91	100	110	110	120	150	151.0	152.6
BB+	126	140	150	160	170	210	209.2	208.0
BB	147	165	185	195	225	265	264.2	263.0
BB-	166	186	203	212	240	288	287.2	286.0
B+	183	206	226	236	267	321	256.9	160.8
B	202	227	249	260	294	354	289.9	193.8
B-	221	248	272	284	321	386	321.9	225.8
CCC	225	251	278	291	326	394	344.3	269.8
> CCC	244	272	301	316	354	425	375.3	300.8
CC	244	272	301	316	354	425	375.3	300.8
D	244	272	301	316	354	425	375.3	300.8
Not Rated	147	165	185	195	225	265	264.2	263.0

Section 2 - Specific provisions underprovided

Impact on APP - $232m reduction in BankWest Tier 1 Capital

A detailed review of the Higher Risk database / Watchlist and impaired exposures within BankWest has identified the following:

- a number of accounts were incorrectly rated as Productive as at 19/12/08 and should have been identified as Impaired based on the information held at that time. Individual provisions are required to be held against a number of these exposures.
- for some impaired exposures the provisions held as at 19/12/08 have been assessed as being inadequate based on a review of a number of these files. Reasons vary from file to file and include, inter alia, adoption of the 'Best case' recovery scenario and reliance on outdated property valuations in calculating the required provision.

As a result, the level of individually assessed provisions has been reassessed as follows:

Customer	Exposure ($M)	IAP ($M) At 19 Dec 08	Revised IAP	IAP Variance
[redacted]	109.700	0.000	46.050	46.050
	66.600	36.630	50.123	13.493
	47.300	0.000	2.080	2.080
	46.500	0.000	18.983	18.983
	40.484	15.150	26.198	11.048
	28.250	12.500	16.583	4.083
	27.912	0.000	3.351	3.351
	24.200	0.000	1.100	1.100
	23.600	0.000	5.900	5.900
	23.400	0.000	1.700	1.700
	21.800	4.114	9.604	5.490
	21.039	0.000	14.990	14.990
	18.122	7.290	11.353	4.063
	18.000	0.000	6.406	6.406
	16.725	0.000	7.625	7.625
	15.132	0.000	4.830	4.830
	14.900	2.940	6.640	3.700
	14.344	9.892	12.993	3.101
	12.172	0.000	2.976	2.976
	11.100	2.050	5.260	3.210
	10.477	0.000	3.463	3.463
	9.888	0.000	3.719	3.719
	9.886	0.000	1.978	1.978
	9.140	4.350	5.960	1.610
	8.581	0.000	4.127	4.127
	8.470	0.000	1.697	1.697
	8.041	0.000	4.331	4.331
	7.934	0.000	3.100	3.100
	7.799	0.510	4.584	4.074
	7.400	2.700	4.400	1.700

Customer	Exposure ($M)	IAP ($M) At 19 Dec 08	Revised IAP	IAP Variance
[redacted]	6.938	3.500	4.340	0.840
	6.930	3.880	4.510	0.630
	6.683	2.100	2.381	0.281
	6.530	0.000	0.740	0.740
	6.297	0.000	2.079	2.079
	5.706	0.000	2.695	2.695
	5.573	0.000	2.418	2.418
	5.540	0.880	3.210	2.330
	5.400	0.000	0.313	0.313
	5.230	2.980	3.280	0.300
	5.143	1.920	2.481	0.561
	5.110	2.750	3.740	0.990
	5.100	3.340	4.080	0.740
	5.008	0.000	3.255	3.255
	4.300	2.300	3.300	1.000
	4.040	0.460	1.030	0.570
	4.000	0.000	1.160	1.160
	3.723	2.060	2.841	0.781
	3.490	0.000	1.557	1.557
	3.464	0.000	1.207	1.207
	3.300	0.000	1.100	1.100
	2.950	1.600	1.846	0.246
	2.810	0.000	0.900	0.900
	2.800	0.000	1.150	1.160
	2.747	0.000	0.844	0.844
	2.640	1.010	1.450	0.440
	2.630	1.900	2.480	0.580
	2.030	0.000	1.010	1.010
	1.566	0.000	1.007	1.007
	1.760	0.000	1.040	1.040
	1.732	0.000	1.714	1.714
	1.509	0.000	0.410	0.410
	1.490	0.000	1.310	1.310
	1.330	0.660	0.810	0.150
	1.160	0.000	0.530	0.530
	1.102	0.000	0.470	0.470
	0.501	0.000	0.367	0.367

File Count	67			
Over $10m	611.757	90.566	258.208	167.642
Under $10m	215.351	38.900	102.951	64.051
Total	827.108	129.466	361.159	231.693

Footnote 11

The review indicated that the specific provision included in the Draft Completion Balance Sheets was understated by $232 million. This Disputed item has a consequential adjustment to NFE of BankWest and RWA.

Section 3 - Collective provisions underprovided

Impact on APP - $186m reduction in BankWest Tier 1 Capital

CBA reviewed and recalculated BankWest's collective provisioning levels using a peer comparison methodology. The application of this methodology resulted in a requirement for collective provisions above the collective provisions in the Draft Completion Balance Sheets. A high level discussion of the recalculation is set out below and a Dispute Item of $186 million has been raised. CBA considered a number of methodologies of which the one adopted below produced the lowest Disputed Item by a significant amount.

Methodology discussion

The methodology required 2 steps:

1. A risk adjusted peer analysis was performed on retail and business lending exposures and relevant coverage ratios. The results are included in table 1 & 2 below. This peer analysis was completed using the following:

   - The collective provisions were allocated to retail and business lending based upon KPMG's mid range estimate of provisions.
   - BankWest collective provisions (using the above analysis) were increased to allow for BankWest individually providing for retail products at an earlier stage than peers. BankWest's writeoff rates were also adjusted to take into account BankWest not writing off loans at 180 days.
   - The peer comparison information was based on Pillar 3 information and additional information provided by Pricewaterhouse Coopers.

2. A management overlay was then applied to the peer analysis consistent with industry practice, see table 3 below.

Table 1 – Retail peer analysis

	Credit Cards $m	Personal Loans $m	Home Loans $m	Retail Other (unadj) $m	Total $m
Exposure[1]	1,074	407	33,379	36	34,896
Measure for comparison	Loss rate	Loss rate	90 DPD	n/a	
Bankwest	3.9%	4.2%	0.86%		
Highest Peer[2]	3.3%	3.8%	1.03%		
Highest peer coverage ratio[3] excl management overlay	4.8%	4.0%	0.10%		
Collective provision - based on peer coverage ratio	52	16	33		101
Adjustment for BankWest's portfolio quality[4]	118%	109%	83%		
Collective provision - after adjustment for BankWest's portfolio quality – pre management overlay	61	18	28	3	110

Table 2 – Business peer analysis

	Business Lending	Business Lending	Business Lending
Measure	Risk weight	90 DPD or Impaired	Blend
Bankwest	82%	0.69%	
Average Peer	60%	0.36%	
Risk Adj factor[5]	136%	191%	163%
Exposure[6]	25,302	25,302	25,302
Peer coverage ratio excl management overlay[7]	0.43%	0.43%	0.43%
Collective provision - based on peer coverage ratio	109	109	109
Collective provision - after adjustment for Bankwest's portfolio quality – pre management overlay	148	208	178

[1] Credit card and personal loan exposures have been adjusted to remove 180 plus day exposures. For home loan exposures, impaired loans have been removed.
[2] As per APS 330 disclosures.
[3] This information has been provided by Pricewaterhouse Coopers.
[4] This is calculated by comparing BankWest's ratio from above to the highest peer ratio.
[5] Pillar 3 information was again used as the basis for comparing the quality of BankWest's risk rated book to the Big Four banks. Two measures were used:

- the relative level of investment grade to non investment grade loans on the basis that investment grade loans will attract a relatively low level of provisions compared to non investment grade loans.
- the relative level of property (and property related loans) and the impact this has on 90 days past due and impaired loans.

[6] The BankWest loans used for this comparison exclude any treasury assets.
[7] This information has been provided by Pricewaterhouse Coopers.

Table 3 – Management Overlay for Retail and Business portfolios

($m)	Retail	Non Retail	Total
Base Collective	110	178	288
Overlay	33	89	122
Total	143	267	410
Less Current Provisions (including adjustment for unsecured retail)	115	109	224
Adjustment	28	158	186
Actual Provisions	91	109	200
Revised collective provisions	119	267	386

Management Overlay background

We believe there are two main reasons for an overlay at this time:

- the economic environment has changed such that historical information is not predictive of incurred but not reported losses as data was derived from a period which is much different from today and are unlikely to be representative of the losses that will emerge from the current loans; and
- model overlay – using a peer comparison to determine a level of collective provisions creates a significant amount of uncertainty as to the accuracy of the provisions.

BankWest had a management overlay for economic and model risk of 37.5% (25% model risk and an additional 10% on the 25% for economic environment) and an additional overlay of $50m to allow for some of the uncertainties of the approach.

Due to the differing characteristics inherent in the retail and non retail portfolios we have applied the following overlays to each:

- Retail management overlay of 30% [8]; and
- Non-retail management overlay of 50% 9.

[8] The management overlay of 30% for retail products should take into account:

- the basic model issues of using a peer comparison model for determining an appropriate level of provisions
- the likely impact of the global economic slowdown on Australian unemployment rates. There is a lagged effect on unemployment rates. With unemployment already increasing, it is likely that loss rates (and therefore incurred losses) on all retail products will increase; and

the retail portfolio which has experienced significant growth in the past few years – due the lag between growth and losses, this in itself will lead to increased losses on the portfolio.

[9] For the business loans the following indicate a need for a higher overlay of 50%:

- the factors mentioned for the retail models;
- the significant increase in individual provisions required as a result of the review of the higher risk/ watchlist and impaired loans – some of which were due to older valuations in the files; and
- BankWest's concentration of loans in Commercial property (50%) could be an indication of greater levels of incurred losses in the next few years.

Section 4 - Under provision for FBT

Impact on APP - $510k reduction in BankWest Tier 1 Capital

This Disputed Item is made up of two amounts:

1. An underprovision of $505,000 relating to a notional loan (i.e. expensed previously for accounting purposes) provided by BankWest to a HBOS plc secondee (the Secondee) to cover the Secondee's personal Australian tax liabilities. As background, the Secondee retired from HBOS during 2007 and we understand that, at that time, the Secondee gave an undertaking that they would repay the notional loan from their expected UK tax refund. The Secondee has since left Australia and returned to the UK. We are not aware of any steps being taken by HBOS, HBOSA or BankWest to recover the loan from the Secondee. This being the case, it would appear prudent for BankWest to forgive the notional debt which triggers an obligation to pay any associated FBT relating to its non-recovery which in turn should be provided for.

2. An underprovision of approximately $5,000 relating to benefits provided by BOS Treasury Branch to a staff member employed by HBOS Group Services. At 19 December 2009, HBOS-GS had not provisioned for the FBT associated with the benefit, as HBOS-GS was not aware of the arrangements the staff member had in place with BOS Treasury.

The above items result in a reduction in NFE of BankWest of $510,000.

Section 5 - goodwill overvalued - impairment required

Impact on APP - $22.9m reduction in the Completion Net Assets of St Andrew's

Whittaker Macnaught – Carrying value of intangible assets $33.8 million

While the carrying value of the intangible assets was noted at $33.8 million in the Draft Completion Balance Sheet, CBA disputes the results of the valuation model prepared by HBOSA and has determined a value of intangibles for of $10.9 million.

Disclosed prices for Dealer Groups since January 2008 have ranged from 0.5% of Funds Under Advice (FUA) to 1.25% of FUA. The HBOSA and KPMG valuations imply a multiple in excess of 2%. A high multiple is not supported based upon recent transactions. Our valuation adopts a multiple of 1.00%, which based on a FUA of $1.3 billion provides an enterprise valuation of $13 million.

FUA dropped from $1.735 billion at point of sale to $1.3b at completion, a reduction of 25%. During the same period, comparable businesses such as Financial Wisdom experienced a FUA drop of 13%. The ASX 200, a leading indicator of FUA performance, dropped 19% over the same period. This pervasive near term trend brings into question the sustainability of both the FUA and the relatively high multiple of FUA for valuation purposes.

We note further that the business reported an unaudited Net Profit after Tax of $1.6m for the year ended 31 December 2008. Unaudited accounts for January 2009 show the company to be making a loss. The drop in FUA is a key contributor to a drop in revenue and the resultant impact on profitability. Given its loss-making position, the Company may require support in the nature of a capital injection to maintain its solvency and viability. Such a dramatic decrease in cash flows further supports a valuation at the medium to lower end of the range based on both cash flows and multiples approaches.

We note KPMG undertook a valuation of which resulted in a value of approximately $29.1 million and thus a corresponding impairment of $4.7 million when compared to value in the Draft Completion Balance Sheet ($33.8 million - $29.1 million). Refer KPMG unadjusted audit differences schedule (see Appendix A, KPMG SUD Item 8). KPMG noted that their valuation would be towards the upper end of an expected valuation range. Notwithstanding that we strongly question the outcome of KPMG's review, we note their impairment was not taken up in the Completion Balance Sheet as it came under the $10 million materiality threshold. There is no materiality threshold in the Completion Balance Sheet.

net assets are $2.1 million at 31 December 2008. Deducting this from the enterprise value of $13.0 million above provides an intangible assets valuation of $10.9 million. As a point of note by CBA and PwC, the HBOSA model did not allow for this working capital balance. The total adjustment to the Completion Net Assets Amount of St Andrew's is therefore a decrease of $22.9 million, being $33.8 million less $10.9 million.

Section 6 - customer list intangible asset overvalued

Impact on APP - $1.98m reduction in Completion Net Assets Amount of St. Andrew's

The Draft Completion Balance Sheet for St Andrew's included an amount of $1.98 million for an intangible asset relating to a marketing alliance agreement (the Marketing Alliance Agreement) between St Andrew's Financial Services Pty Ltd (formerly RACV Financial Services Limited) (St Andrew's Financial Services) and . The Marketing Alliance Agreement was recognised previously on the acquisition of St Andrew's Financial Services by St Andrew's. On the acquisition of St Andrew's by CBA, exercised its right pursuant to a change in control clause in the Marketing Alliance Agreement to terminate the agreement.

We note that the CEO of St Andrew's in a memo dated 24 December 2008 stated that "in the event were to exercise its right to terminate... the value of the intangible will be impaired... with the worst case scenario being the need to write off the remaining carrying value".

Due to the termination of the Marketing Alliance Agreement, the customer list is impaired by $1.98 million. This results in a $1.98 million reduction in the Completion Net Assets Amount of St Andrew's.

Section 7 - goodwill overvalued - impairment required

Impact on APP - $593,000 reduction in Completion Net Assets Amount of St Andrew's

In light of the cancellation of the Marketing Alliance Agreement (refer section 6), the goodwill is fully impaired and has been included as a Dispute Item.

This will result in a $593,000 reduction in the Completion Net Asset Amount of St Andrew's.

Section 8 - The NSW Office of State Revenue (OSR) has requested additional stamp duty payments from St Andrew's following a review of its records

Impact on APP - $2 million reduction in Completion Net Asset Amount of St Andrew's

The NSW OSR has assessed that an additional $2 million in stamp duty is payable by St Andrew's. There was no provision to cover this in the Draft Completion Balance Sheets. It is noted that St Andrew's is disputing this claim through Ernst & Young, however the obligation to pay the OSR existed as at 19 December 2008 and so should be provided for.

This will result in a $2 million reduction in the Completion Net Asset Amount for St Andrew's.

Section 9 - Loyalty provisions for credit cards understated

Impact on APP - $2.3 million reduction in BankWest Tier 1 Capital

BankWest currently has 2 credit card reward points programs in place (Wishlist and BankWest Extra Points Program). BankWest provides for approximately 70% of the obligation to customers associated with unclaimed credit card points on both programs. This is based on monthly points claimed by customers relative to monthly points earned.

CBA believes that this provision of 70% is not sufficient.

For the Wishlist program CBA believes a provision figure of 90% is more appropriate as this is in line with peer claim history for such points programs.

CBA notes that points associated with the BankWest Extra Points Program do not expire and as a result, a provision for the entire obligation associated with this plan should be recorded as this is more in line with CBA's experience and current practice.

As is shown in the table below, based on the points balances outstanding at 19 December 2008, the associated provisions in the Draft Completion Balance Sheets, and the revised provisions based on CBA estimates, a further $2.3 million in provisions needs to be recorded, resulting in a reduction in BankWest NFE of $2.3 million.

Provisions for rewards programs calculations

Wishlist Program	
Points at 19/12	559,915,416
points per dollar	188
Maximum potential obligation	2,986,216
Completion accounts balance	2,004,732
90% of max. obligation	2,687,594
Underprovision	682,862
Bankwest Extra Points Program	
Points at 19/12 *	1,531,068,082
points per dollar	294
Maximum potential obligation	5,207,715
Completion accounts balance	3,585,658
100% of max. obligation	5,207,715
underprovision	1,622,057
Total Underprovision	2,304,919

* based on average of opening bal of 1,900,292,477/closing bal of 1,161,843,687

Section 10 - Basis swaps incorrectly recorded at off market rates

Impact on APP - $6.4m reduction in BankWest Tier 1 Capital

HBOS/ BOSTA entered into 18 basis swaps with BankWest on 25 November 2008 at off market rates (i.e. the basis trades were entered into flat – excluding market spreads). This resulted in the BankWest treasury system (Quantum) not valuing these positions appropriately.

The details of the basis swaps are:

Quantum					
Trade Date	Quantum Ref	1st Date	Mat Date	LEG 1 FIX/FL	LEG 2 FIX/FL
25-Nov-08	702758	12-Dec-08	12-Mar-09	Floating	Floating
25-Nov-08	702760	12-Dec-08	12-Jun-09	Floating	Floating
25-Nov-08	702763	12-Dec-08	14-Sep-09	Floating	Floating
25-Nov-08	702765	13-Jan-09	13-Jan-10	Floating	Floating
25-Nov-08	702769	12-Dec-08	13-Dec-10	Floating	Floating
25-Nov-08	702772	12-Dec-08	12-Dec-11	Floating	Floating
25-Nov-08	702773	12-Dec-08	12-Dec-12	Floating	Floating
25-Nov-08	702774	12-Dec-08	12-Dec-13	Floating	Floating
25-Nov-08	702776	12-Dec-08	14-Dec-15	Floating	Floating
25-Nov-08	702778	12-Dec-08	12-Dec-18	Floating	Floating

25-Nov-08	702782	22-Jan-09	22-Jul-09	Floating	Floating
25-Nov-08	702785	22-Jan-09	22-Jan-10	Floating	Floating
25-Nov-08	702786	22-Jan-09	24-Jan-11	Floating	Floating
25-Nov-08	702788	18-Dec-08	19-Dec-11	Floating	Floating
25-Nov-08	702790	22-Jan-09	22-Jan-13	Floating	Floating
25-Nov-08	702792	22-Dec-08	23-Dec-13	Floating	Floating
25-Nov-08	702794	23-Jan-09	25-Jan-16	Floating	Floating
25-Nov-08	702796	24-Dec-08	24-Dec-18	Floating	Floating

The valuation performed by CBA for these swaps at market rates on 25 November 2008 resulted in a derivative liability for BankWest of $5.565 million. A similar valuation performed by CBA on 10 February 2009 resulted in a $8.24 million liability. Valuations for these basis swaps were not performed as at 19 December 2008 so a value has been interpolated for this date of $6.4 million liability. This Valuation is considered conservative on the basis that:

- a further data point of 3 March 2009 resulted in a value of $10.84 million liability that would have increased the interpolated liability value for 19 December 2008, and
- 19 December 2008 is within a traditionally a more illiquid period for markets resulting in wider margins than the current interpolation would imply.

These factors aside the current Dispute Item results in a reduction of NFE for BankWest of $6.4 million.

Section 11 - Capitalised software expense understated in BankWest Adjusted Purchase Price calculation

Impact on APP - $1.89m reduction in BankWest Tier 1 Capital

The Tier 1 Deduction for capitalised software expenses of $70 million was calculated by assuming that capitalised software expenses of $72 million as at 31 December 2008 were incurred evenly throughout the year and making a prorated adjustment for the 12 days between the Completion Date (i.e. 19 December 2008) and 31 December 2008. However, the appropriateness of this assumption is questionable, given that capitalised software expenses as at 1 January 2008 amounted to $57.5 million and under the terms of the Sale Deed BankWest was required to stop work on the East Coast expansion from the date of the Sale Deed (8 October 2008) and the East Coast expansion was a large source of capitalised software assets. Therefore, the Tier 1 Deduction for capitalised software expenses is understated by up to $1.89 million.

As per HBOSA	Revised	Difference
$70m - $0 * 12/365	$70m - $57.5m * 12/365	$2.3m - $0.41
= $2.3m	= $0.41m	= $1.89m

Section 12 - Capitalised securitisation expense understated in BankWest Adjusted Purchase Price calculation (understated NFE deduction)

Impact on APP - $2.3m reduction in BankWest Tier 1 Capital

In a similar vein to the Tier 1 Deduction for capitalised software expense, securitisation establishment costs are required to be deducted from Tier 1 Capital. The reconciliation of pre-paid expenses provided to CBA by BankWest discloses that prepaid costs in relation to securitisation programs held on the BankWest Draft Completion Balance Sheet amounts to $11.1 million. However the amount included in the BankWest capital note is $8.8 million.

Therefore, the Tier 1 Deduction for securitisation establishment costs is understated by $2.3 million.

Section 13 - No capital held for home loans until drawn, understatement of RWA

Impact on APP - $354m increase in BankWest RWA

RWA should be calculated for undrawn credit commitments in accordance with AGN 112.2. Such commitments are classified into the following APRA categories:

- Commitments with certain drawdown;
- Undrawn formal standby facilities with a residual maturity of less than 1 year;
- Undrawn formal standby facilities with a residual maturity of greater than 1 year; and
- Commitments which can be unconditionally revoked at any time without notice,

which are all risk weighted at 50%.

BankWest could not comply with the above due to systems inadequacies.

CBA's compliance methodology is to hold capital for home loan approvals granted, based on the previous 2 months approvals and this methodology has been approved by APRA.

BankWest have advised that home loan approvals which had an "unconditionally approved" status that were entered into since 1 November 2008 and still undrawn at 31 December 2008 amounted to $708.1 million. Of these commitments, $669 million were subsequently disbursed between 1 January 2009 and 31 March 2009.

The amount of risk weighted asset required to be held for such commitments would amount to:

- $708.1 million x 100% credit conversion factor for commitments certain to be drawn x 50% risk-weight for home loans = $354 million RWA

	31 Dec 08 $m	RWA $m
Home Loan Approvals as disclosed in APRA Return	1,624	
Approvals < 2 months old	708	354

This has resulted in an understatement of RWA by $354 million.

This is a conservative estimate for two reasons:

- The total of unconditionally approved loans for the period was $1,624m whereas the above calculation only takes those loans approved in the last 2 months ($708m).
- The 2 month period encompasses a traditionally quiet period for home loan approvals over Christmas.

Section 14 - Credit conversion factor on derivative interest rate options was incorrectly applied, understatement of RWA

Impact on APP - $321k increase in BankWest RWA

The credit conversion factor on "Item 23 - Interest rate options" of the APRA return form 112, amounting to $290.5 million relating to contracts with greater than 5 years residual maturity, was not correctly computed in accordance with APRA guidelines (BankWest have used the credit conversion factor associated with contracts with a maturity of 1 to 5 years, 0.5% instead of 1.5% - refer Attachment B of ARF112.2 for relevant guidelines). This has resulted in an understatement of RWA by $0.321 million.

Section 15 - Incorrect risk weighting applied to market related counterparty (AIG) resulting in understatement of RWA

Impact on APP - $450k increase in BankWest RWA

A risk weighting of 20% was used for . This is the applicable risk weight for claims on an ADI in Australia or an overseas bank however : Corp. is not a bank and is therefore deemed to be a claim on a private sector counterparty. As a result, a risk weighting of 50%, as applicable to a Private or Financial Corporation, should be applied. This error has resulted in an understatement of RWA by $0.450 million.

Section 16 - Incorrect risk weighting of 20% applied to market related counterparty instead of 50%.

Impact on APP - $26.4m increase in BankWest RWA

Exposures to have been risk weighted at 20%, which is the applicable risk weight for claims on an ADI in Australia or an overseas bank however is not a bank and is therefore deemed to be a claim on a private sector counterparty and as a result should be risk weighted at 50%. This would increase RWAs by $26.4 million.

Section 17 - If RWA were calculated on 19/12/08 instead of 31/12/08, then RWA would be higher

Impact on APP - $26.3 million increase in BankWest RWA

KPMG's audit work papers included a comparison of asset balances from 19 December 2008 to 31 December 2008.

The most significant movement was a decrease of $131.4 million in Financial Assets Held for Trading ($118.4 million of which was attributed to derivative positions with CBA which were closed out by 31 December 2008). Applying a 20% risk weight for bank counterparties would result in a corresponding BankWest RWA increase of $26.3 million (i.e. $131.4 million * 20%).

Appendix 1A – KPMG Summary of Unadjusted Differences (KPMG SUD)

Client:	Bankwest Completion Accounts										
Period:	1/01/08 - 18/12/08										
Tax Rate	30.00%		Balance Sheet Materiality		124,000,000						
			Profit and Loss Materiality		18,000,000						
			SUD posting level:		1,000,000						
Proposed Adjustments											
Impact on dr/(cr)			BALANCE SHEET					INCOME			
			Assets		Liabilities			Non	Judgmental	Projected	
W/P Ref.	SUD #	Description (state if impacted by specific materiality)	Current	Non-Current	Current	Non-Current	Equity	Judgemental	Differences	Differences	Total
Item	1	Dr Individual impairment losses on loans & advances (P&L) Cr Provisions for impairment losses on loans and advances (B/S)			(12,000,000)			12,000,000			12,000,000
Description	1	To recognise known difference for understatement I specific impairment of loans and advances									
Item	2	Dr Individual impairment losses on loans & advances (P&L) Cr Accruals and deferred income (B/S)			(2,000,000)			2,000,000			2,000,000
Description	2	To correct for the adjustments to individual impairment losses from 31 December 2008 to 18 December 2008									
Item	3	Dr Bonus payments accrued (P/L) Cr accruals and deferred income (B/S)			(1,900,000)			1,900,000			1,900,000
Description	3	To correct for the adjustments to bonus payments from 31 December 2008 to 18 December 2008									
Item	4	Dr Other expenses (P/L) Cr Accruals and deferred income (B/S)			(1,117,377)			1,117,377			1,117,377
Description	4	To correctly accrue for expenses incurred pre year end									
Item	5	Dr Prepayments and accrued income (B/S) Cr Profit and Loss (P&L)	[illegible]					(2,305,517)			(2,305,517)
Description	5	To adjust for revenue accrual in relation to the P&L offset accounts									
Item	6	Dr Derivative liability (B/S) Cr P/L reval on CCY IRS (P/L)			1,819,873			(1,819,973)			(1,819,973)
Description	6	To recognise MLD for valuation of cross currency swaps									
Item	7	Dr Debt securities on issue (B/S) Cr P/L on reval of debt securities (P/L)			5,158,850			(5,158,850)			(5,158,850)
Description	7	To recognise MLD for valuations of securitisation notes									
Item	8	Dr Impairment of intangible assets (P/L) Cr Goodwill (B/S)		(4,700,000.00)				4,700,000.00			4,700,000
Description	8	Management has performed a high level analysis indicating that the carrying value is appropriate. Stress testing the analysis indicated that a growth rate of at lease 13% per year is needed over the next 5 years to support the carrying amount.									
Total Adjusted Differences.			-	-	-	-	-	-	-	-	-
Total Unadjusted Differences			2,305,617	(4,700,000)	(9,440,554)	-	-	11,836,037	-	-	11,835,037
Tax Effect of Pretax Unadjusted Differences											(2,140,511)
After Tax Impact of Unadjusted Differences		-	2,305,517	(4,700,000)	(8,440,664)	-					9,894,526
Total After Tax Impact of Unadjusted Differences on Equity							9,894,526	-			

Table 1

BankWest Issued Share Capital	1,906.80
Retained Earnings	1,143.10
YTD Profit	
BankWest 2007 Total Fundamental Tier 1 capital	3,049.90
Less deductions	506
Tier 1 Capital	2,543.75

		Table 2	Period Ending			
Note		**Value and number of Commercial Book Loans Impaired by 30 Jun**	Notice 21 Ap	Waranty Per	Total	
24	Table16 - 18	**Impairment Losses Booked to BankWest Income Statement**	825	965	$1,790	$M
10	67	Less HBOS Provisions to 19 December 2009 Per Dispute Notice	-129	0	-$129	$M
30	Tables 13 an	CBA Sponsored Impairement Provisions on Loans and Advances	696	965	$1,661	$M
31	Calculated	Value of Impaired Loans	2,314	3,206	$5,520	$M
32	Calculated	Number of Loans Impaired Refer Jonathan Barret Article Page 95	289	401	690	
33	Provided by (	Average Loan Size page 99 CBA 2010 Results Presentation	8	8	$8	$M
34	Calculated	Impairments as a Percentage of Total Loan Book	28%	39%	67%	

Table 3

Note		**Acquisition Cost Over the Period**	**June 2007 $M**	**2009 $M**	**2010 $M**
24A	22	**2007A bankWest Net Equity (Book Value) per BankWest Balance**	**3049.9**	**3049.9**	**3049.9**
3	19	BankWest Provisional Purchase Price	2,428	2,428	2,428
3	Table 10	Less Variance to BankWest ProvisionalPurchase Price		-302	-302
25	Table 16	Less gain on Warranty Claims Refer Claculation Below Table 16		-$1,661	-2,164
30	Tables 4 and 8	CBA Sponsored Impairement Provisions on Loans and Advances		$1,661	$2,468
28	Calculated	**Final Purchase Price**	**2428**	**2126**	**2430**
28	Calculated	**Purchase Price as a Percentage of Book Value**	**0.80**	**0.70**	**0.80**

		Table 4	
Note		**Final Price Paid to HBOS**	**$M**
3	19	Initial Purchase Price Cash Paid	2,428
3	Table 10	Less Variance to BankWest ProvisionalPurchase Price	-302
25	Table 16	Less gain on Warranty Claims Refer Claculation Below Table 16	-2,164
45	Calculated	Total CBA Claw Backs	-2,466
46	Calculated	**Final Purchase Price Paid to HBOS (Costs of AcquisitionI??)**	**-38**

		Table 5	Period Ending	
Note		**Value and number of Commercial Book Loans Impaired by 30 Jun**	Magellan 30 June 2010	
24	Table 8	**Impairment Losses Booked to BankWest Income Statement**	807	$M
10	67	Less HBOS Provisions to 19 December 2009 Per Dispute Notice	0	$M
30	Tables 4 and	CBA Sponsored Impairement Provisions on Loans and Advances	807	$M
31	Calculated	Value of Impaired Loans	2,682	$M
32	Calculated	Number of Loans Impaired Refer Jonathan Barret Article Page 95	335	
33	Provided by (	Average Loan Size page 99 CBA 2010 Results Presentation	8	$M
34	Calculated	Impairments as a Percentage of Total Loan Book	33%	

Table 6

Risk Grade	2007	2008	2009	2010	
Home Loans					
RISK GRADE 1	665	1962	2800	4066	
RISK GRADE 2	1575	3444	3980	5551	
RISK GRADE 3	2256	6931	7518	9933	
RISK GRADE -4	4634	6176	6209	8119	
RISK GRADE 4	10583	6743	6291	7043	
RISK GRADE +4	6528	5043	4583	5155	
RISK GRADE -5	3583	4412	4732	5130	
Home Loans	**29824**	**34711**	**36114**	**44996**	individuals
Commercial Loans					home loans
RISK GRADE 5	5803	5176	5229	4228	
RISK GRADE +5	2347	2218	2277	2239	
RISK GRADE -6	1891	2114	1994	1516	
RISK GRADE 6	3204.3	5254.2	5644	3391	
RISK GRADE +6	937.1	1685.4	2150.6	1832	
RISK GRADE -7		1543	1277.5	1000	
RISK GRADE 7		785	1081.5	1595	
RISK GRADE +7	4057	510.2	742.7	1079	
RISK GRADE -8		260.8	227.3	318	
RISK GRADE 8	355	292.9	430	479	
RISK GRADE +8			385.1	406	
Commercial Loans	18595	19840	21438	18082	
Total	**48419**	**54551**	**57552**	**63078**	

Table 7	2007	2008	2009	2010
AGRICULTURE FORESTRY FISHIN(	1778.2	1907.6	2139.5	2295.6
ENERGY	230	251.3	137.2	79.8
FINANCIAL	731.5	6.1	386.7	406.4
OTHER SERVICES	2355.8	2655.9	4108.8	5224.45
MANUFACTURING	847.2	800.66	885.1	831.4
CONSTRUCTION & PROPERTY	10553	12734	12285.1	10460.5
HOTELS RESTAURANTS AND WH(	4298.4	4538.1	4848.7	4681.7
TRANSPORT STORAGE & COMMU	340.5	334.8	460.5	455.4
INDIVIDUALS	29770.6	34761.6	36065.1	43099.7
OVERSEAS RESIDENTS	160.4		158.3	
	51065.6	57990.06	61475	67534.95

Table 8

Internal Credit Rating of loans a	2007A	2008A	FY09	FY10
RISK GRADE 5	5,803	584		
RISK GRADE +5	2,347	2,218	250	
RISK GRADE -6	1,891	2,114	1,994	
Total Risk Grade 5 to -6	**10,042**			
RISK GRADE 6	3,204	5,254	5,644	3,391
RISK GRADE +6	937	1,685	2,151	1,832
Total Risk Grade 6 to +6	**4,141**			
RISK GRADE -7		1,543	1,278	1,000
RISK GRADE 7		785	1,082	1,595
RISK GRADE +7	4,056.70	510	743	1,079
RISK GRADE -8		261	227	318
RISK GRADE 8	354.90	293	430	479
Total Risk Grade +7 to 8	**4,412**	**1,064**	**Zero**	
RISK GRADE +8			385	406
Total Risk Grade 6 to +6			4,144	Zero
Total Commercial Loans	**18,595**	15,247	14,183	**10,099**
2007A Loans that have been classified either pa		3,348	1,065	4,144
Total 2007A Loans that have been classified either past due or impair				**8,556**
Less HBOS Provided Loans				- 354.90
CBA Impaired Loans 20 December 2008 - 30 June 2010				**8,201**

Average Loan Size	$8M	$8M
Total Customers	2,324.34	1,070

Table 8

Risk Grade (RG)	2007A	2008A	FY09	FY10
RISK GRADE 5	5,803	584[1]		Note RG 5 to RG -6 further downgraded in FY09 an FY 10.
RISK GRADE +5	2,347	2,218	250	
RISK GRADE -6	1,891	2,114	1,994	
Total Risk Grade 5 to -6	**10,042**			
RISK GRADE 6	Note $5 billion from RG5 to -6 regraded to RG 6 in 2008	5,126[2]	5,644	
Subtotal RG 5 to 6		**10,042**		3,391
RISK GRADE 6	3,204	128[3]		
RISK GRADE +6	937	1,685	2,151	1,832
Total Risk Grade 6 to +6	**4,141**		**10,038**	
RISK GRADE -7	Note RG 6 to RG+6 downgraded in FY08 & FY09 and obliterated in FY10	1,543	1,278	1,000
RISK GRADE 7		785	1,082	1,595
Subtotal RG 6 to 7		**4,141**		
RISK GRADE +7	4,057	510	743	1,079
RISK GRADE -8		261	227	318
RISK GRADE 8	355	293	430	479
Total Risk Grade +7 to 8	**4,412**	**1,064**	**Zero**	
RISK GRADE +8	Note RG +7 to 8 reduced from $4,412 in 2007 to $1,064 in 2008 and obliterated in 2009		385	406
Subtotal Risk Grade 6 to +8			**4,144**	**10,099**
Subtotal RG 6 to +7 Obliterated				**Zero**
2007 Total Commercial Loans Reducing by CBA Impairments	**18,595**	**15,247**	**14,183**	**10,099**

[1] 2008 RG 5 equals $5,176 M. The $584 M displayed in Table 8 at 2008 RG5 represents the amount of loans calculated as written in the 2007A year.

[2] 2008 RG 6 equals $5,254.2 M. The $5,126 M displayed in Table 8 2008 RG 6 green represents the portion of loans that were Constructively regraded in 2008 to RG 6 from their previous Grading in 2007A as RG 5 to RG - 6.

[3] 2008 RG 6 equals $5,254.2 M. The $ 128 million displayed in Table 8 2008 RG 6 yellow represents the Loans that remained RG6 from the previous 2007 year.

Note		**Table 9** **Value and number of Commercial Book Loans Impaired by 30 Jun**	Period Ending Notice 21 Ap	Waranty Per	Magellan 30 June 2010			
24	Table 8	**Impairment Losses Booked to BankWest Income Statement**	825	$965	$807	$2,597	$M	
10	67	Less HBOS Provisions to 19 December 2009 Per Dispute Notice	-129			-$129	$M	
30	Tables 4 and	CBA Sponsored Impairement Provisions on Loans and Advances	$696	$965	$807	$2,468	$M	30%
31	Calculated	Value of Impaired Loans	$2,314	$3,206	$2,682	$8,201	$M	
32	Calculated	Number of Loans Impaired Refer Jonathan Barret Article Page 95	289	401	335	1,025		
33	Provided by (	Average Loan Size page 99 CBA 2010 Results Presentation	$8	$8	$8	$8	$M	
34	Calculated	Impairments as a Percentage of Total Loan Book	28%	39%	33%	100%		

Footnote 9 & 37

Table 10

Note	Page from Ar	**Provision for Remaining Consideration Reconciled to Gain on Acc**	**9/12/2008 $N**	**30/06/2009**	**Variance $M**
1	19 & 23	Cash paid	2,100	2,126	-26
2	19	Provision for remaining consideration	328		328
3	19 & 23	**Provisional Purchase Price & Variances resulting from Dispute No**	2,428	**2,126**	**302**
4	19 & 23	Direct costs relating to the acquisition	31	37	-6
5	19 & 23	Fair value of net identifiable assets acquired	3,771	3,676	-95
6	19 & 23	Less: Preference share placement	-530	-530	0
7	19 & 23	**Gain on acquisition before tax**	782	**983**	**201**

Table 11 Footnote 37

Note	Page from Ar	**Extracted From BankWest 31 December 2008 Income Statement**	**1/12/2008 $M**
8	30	Operating Profit Refer page 41 of these Annexures	597
9	30	Impairment Losses On Loans and Advances	-825
10	Calculated	Reduction to Initial Purchase Price	-228
11	30	Less Tax Receivable	90
12	Calculated	**Provision For Remaining Consideration Per CBA Half Year Profit A**	**-139**

Table 12 Footnote 9 & 37

Note	Page from Ar	Calculation of Provision for Remaining Consideration calcualted fr	**9/12/2008 $M**
8	30	Operating Profit Per BankWest 2008 Income Statement	597
10	67	Less HBOS Provisions to 19 December 2009 Per Dispute Notice	-129
11	Calculated	**Gross Provision For Remaining Consideration**	**468**
12	Calculated	Less Tax Payable 30%	-140
2	19	**Provision For Remaining Consideration Per CBA Half Year Profit A**	**328**

Table 13 Footnote 46

Note	Page from Ar	**Calculation of CBA Sponsored Impairments backdated to 19 Dece**	**$M**
9	30	Impairment Losses On Loans and Advances	825
10	67	Less HBOS Provisions to 19 December 2009 Per Dispute Notice	-129
13	Calculated	CBA Sponsored Impairments	696

Table 14

Note	Page from Ar	Reconcialition of BankWest 2008 Income Statement to Dispute No	9/12/2008 $M
3	19	Provisional Purchase Price	2428
13	Table 13	CBA sponsored Impairments Backdated to 19 December 2008	-696
14	Table 15	Plus Tax Receivable see calculation below	68.49
15	58	Add Back St Andrews and HBOSGS (HBOS Australia Group Services)	12.6
16	Calculated	**Adjusted CBA Purchase Price**	**1813.25**
17	58	**Adjusted CBA Purchase Price, per 20 April Dispute notice, Tab Q**	**-1806**
	Calculated	Variance	7.25
	Calculated	Variance as a Percentage of FPP 10 above	-0.30%

Table 15

Note	Page from Ar	**Tax Receivable Calculation Note 14**	$M
11	Table 12	Targeted BWA Profit as at 19 December 08 refer Paragraph 26	468
13	Table 13	Less CBA sponsored Impairments Backdated to 19 December 2	-696.3
18	Calculated	Reduction to IPP	-228
14	Calculated	**Tax Receivable at 30% per paragraph 31 Note 12 above**	**68.49**

Table 16

25		**Gain On Warranty Claim**	**2010 $M**
26	Table 17	Plus Total Impairmenents Provisions Balance	807
29	25	Bad and Doubtful Debts Paid by the CBA per 2010 Annual Report F	304
25	Calculated	Gain on Warranty Claim	503

Table 17

Note		**Impairment Provisions Balance Note 26**	**0/06/2009 $M**	**0/06/2010 $M**
30	Table 18 & 19	Total Impairment Provision Balance Per Apra Basel II	1,282	2089
19	Table 18 & 19	Less Impairment Provisions 1 January 2008	-157	-1,282
26	Calculated	**Net Impairment Provisions Balance**	**1,125**	**807**

Footnote 43

Table 18

Note		**Bankwest Impairment Losses to 30 June 2010**	**Millions**	**Millions**
18	Table 22	Impairment Provision 30 June 2010 per Basel II Reports	$2,089	
		Less		
19	31	Impairment Provision 1 January 2008 per BanWest Balance Sheet	-$157	
20	Calculated	Increase In Impairment Provision	$1,932	**$1,932**
		Actual Loan Write Offs - to Impairment Provisions		
21		12 Months 31 December 2008 per BankWest Balance Sheet	$98	
22	Table 22	1 Jan 2009 - 30 June 2010 Actual Losses per Apra Basel II Reports	$567	
23	Calculated		$665	**$665**
24	Calculated	**Impairment Losses Booked to BankWest Income Statement**		**$2,597**

Table 19

Note		**Bankwest Impairment Losses to 30 June 2009**	**Millions**	**Millions**
18	Table 22	Impairment Provision 30 June 2009 per Basel II Reports	$1,282	
		Less		
19	31	Impairment Provision 1 January 2008 per BanWest Balance Sheet	-$157	
20	Calculated	Increase In Impairment Provision	$1,125	**$1,125**
		Actual Loan Write Offs - to Impairment Provisions		
21		12 Months 31 December 2008 per BankWest Balance Sheet	$98	
22	Table 22	1 Jan 2009 - 30 June 2009 Actual Losses per Apra Basel II Reports	$94	
23	Calculated		$192	**$665**
24	Calculated	**Impairment Losses Booked to BankWest Income Statement**		**$1,790**

Table 13

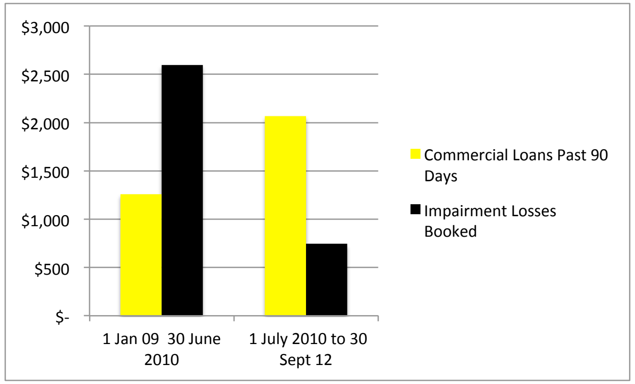
Note	Page from Ar	**Calculation of CBA Sponsored Impairments backdated to 19 Dece**	**$M**
9	30	Impairment Losses On Loans and Advances	825
10	67	Less HBOS Provisions to 19 December 2009 Per Dispute Notice	-129
13	Calculated	CBA Sponsored Impairments to 31 December 2008	696

Table 20

		Bankwest Total Book		
		Impairment Provision 30 Septrmber 2012	1555	
		Less		
		Impairment Provision 1 January 2008	-157	
			1398	1398
		Actual Loan Write Offs - to Impairment Provisions		
		12 Months 31 December 2008	98	
		1 Jan 2009 - 30 Sept 2012	1845	
			1943	1943
		Impairment Losses Booked to BankWest Income Statement		**3341**
		27 Months July 10 to Sept 12		**744**

$ Millions	1 Jan 09 30 June 2010	1 July 2010 to 30 Sept 12
Commercial l	$ 1,260	$ 2,067
Impairment l	$ 2,597	$ 744

Table 21



Bank not working with customers impairing performing loans
Warranty Period

Bank working with 90 Day Past loans rehabilitating them
Warranty Period Finished

Table 22 Total BankWest Book

Date of Quarterly Statement	Impaired Loans	Past Due Loans greater than or equal to 90 days	Specific Impairment Provision Balance	Collective Provisions (part of general provision)	Total Impairment Provision Balance	Actual Losses	RWA
$M	$M	$M	$M	$M	$M	$M	$M
31-Mar-09	895	490	443	501	944	5	40552
30-Jun-09	1366	585	620	662	1282	89	44116
30-Sep-09	1627	446	744	830	1574	24	44715
31-Dec-09	1741	447	750	743	1493	184	45375
31-Mar-10	2034	436	975	834	1809	43	45207
30-Jun-10	2054	499	970	1119	2089	222	45806
30-Sep-10	1971	538	985	1139	2124	54	45627
31-Dec-10	1744	547	942	1069	2011	241	45287
31-Mar-11	1628	629	977	1015	1992	73	44250
30-Jun-11	1773	539	995	858	1853	271	45356
30-Sep-11	1723	535	990	823	1813	89	45831
31-Dec-11	1774	471	1011	769	1780	115	46618
31-Mar-12	1751	469	996	717	1713	152	46797
30-Jun-12	1785	464	953	652	1605	152	47779
30-Sep-12	1683	658	915	640	1555	131	48143
Total Actual Losses	25549	7753				**1845**	

Table 23 **Corporate Bankwest book**

Date of Quarterly Statement	Impaired Loans	Past Due Loans greater than or equal to 90 days	Specific Impairment Provision Balance	Collective Provisions (part of general provision)	Total Impairment Provision Balance	Actual Losses	RWA	Corp RWA/Total RWA
$M	$M	$M	$M	$M	$M	$M	$M	
31-Mar-09	753	226	341	501	842	1	14181	35%
30-Jun-09	1258	311	562	662	1224	3	14784	34%
30-Sep-09	1511	191	690	830	1520	9	14831	33%
31-Dec-09	1632	193	691	743	1434	175	14483	32%
31-Mar-10	1933	154	913	834	1747	43	14062	31%
30-Jun-10	1938	185	909	1119	2028	188	13577	30%
30-Sep-10	1871	240	926	1139	2065	41	13476	30%
31-Dec-10	1650	256	879	1069	1948	216	12794	28%
31-Mar-11	1532	309	920	1015	1935	59	12194	28%
30-Jun-11	1675	195	933	858	1791	248	12493	28%
30-Sep-11	1662	232	930	823	1753	76	12395	27%
31-Dec-11	1666	183	947	769	1716	102	12886	28%
31-Mar-12	1639	175	934	717	1651	142	12584	27%
30-Jun-12	1616	179	883	652	1535	135	12858	27%
30-Sep-12	1527	298	849	640	1489	102	13170	27%
Total Actual Losses	23863	3327				**1540**		

CHAIR: In your submission you say:

Any amendments to lending policy did not impact existing loan agreements and covenants.

This is post GFC. Does that mean that changes in the loan to valuation ratio would not impact on existing loans?

Mr De Luca: If a customer breached the loan to value ratio, then obviously they have breached the contract.

CHAIR: So a change in the valuation would qualify as a breach of the LVR?

Mr De Luca: Yes.

CHAIR: If the LVR was 60 per cent in an existing loan and then you changed that later on to 50 per cent, 60 per cent would still apply to the original amount?

Mr De Luca: We would not unilaterally change it during the contract period.

CHAIR: But what could change is the value of the property—

Mr De Luca: Yes.

CHAIR: which then triggers it. You raise the issue of the so-called clawback or the warranty. I know it is primarily an issue for the Commonwealth Bank, but you raised it in your submission and in your opening statement. You say:

Any losses that Bankwest incurred in its dealings with customers post acquisition date were borne by Bankwest and could not be "clawed back".

That is consistent with the evidence we received from the Commonwealth Bank yesterday. Is that an absolute statement that there was no way in which, whether it be against the purchase price or in any other way, shape or form, losses or impaired loans that became apparent after the purchase date could be offset or claimed back from HBOS under any aspect of the agreement or the deal with HBOS?

Mr De Luca: That is certainly our understanding, and obviously Mr David Cohen discussed that yesterday.

CHAIR: He did, but I did not ask him that question quite that way. I just accepted what he said, which I still do—'This is the price and we had to pay an extra $26 million after doing what we did.' What I am trying to work out is whether there is something that we have missed, because there do seem to be a lot of issues raised.

Mr Corfield: I was working in the business at that point in time and there were absolutely no operating instructions that would have given you any other sense than what they would have said yesterday.

CHAIR: So, in relation to the $17 billion loan book that HBOS had arranged for Bankwest, there was no way of offsetting impaired loans against what might be repaid or how much the Commonwealth Bank would have paid to take over those?

Mr Corfield: Not on anything that became impaired after the contract date.

CHAIR: One of the witnesses this morning suggested that HBOS's figures—and we will have a look at this ourselves just to see—subsequent to the purchase showed a payment of something like 100 million pounds from the Commonwealth Bank to HBOS for impaired loans. Does that sound like something you are aware of?

Mr Corfield: I am not aware of that.

CHAIR: We will follow that one up anyway.

Senator WILLIAMS: On that $17 billion that the Commonwealth Bank had to come up with, do you know if that figure is right? That figure of $17 billion is thrown around as the amount HBOS had put into Bankwest. Did the Commonwealth Bank have to pay that $17 billion back to HBOS?

Mr Corfield: As I understood at the time—and obviously I was not in HBOS; I was in Bankwest—there was
Footnote 12 $17 billion of funding secured on wholesale markets by HBOS, and that was replaced at the time of acquisition by CBA treasury, who took $17 billion of funding from wholesale markets in their name.

Senator WILLIAMS: Senator Bushby just asked you about what happened after the sale date of 18 December 2008. Whatever happened with impaired loans, you had to cop it. When the Commonwealth Bank went through the books after that sale date, they would have gone through the loans up to 18 December—correct?

Mr De Luca: In terms of the due diligence?

Senator WILLIAMS: Looking at impaired loans.

Mr De Luca: Post acquisition?

Senator WILLIAMS: Post acquisition. They took over on 18 December 2008. They then had a time period to go back and look through the loan book up to 18 December 2008. Correct?

Mr De Luca: Yes.

CLAYTON UTZ

Second Deed of Amendment

HBOS Australia Pty Ltd
Seller

HBOS plc
Seller's Guarantor

Commonwealth Bank of Australia
Buyer

Clayton Utz
Lawyers
Levels 19-35 No. 1 O'Connell Street Sydney NSW 2000 Australia
PO Box H3 Australia Square Sydney NSW 1215
T +61 2 9353 4000 F +61 2 8220 6700

www.claytonutz.com

Our reference 126/16713/80083448

Contents

Amendment deed dated 19 December 2008

Parties **HBOS Australia Pty Ltd (ACN 070 002 587)** of Level 27, 45 Clarence Street, Sydney New South Wales, 2000 (**Seller**)

HBOS plc (registered in Scotland No. SC218813) of The Mound, Edinburgh, EH1 1YZ, United Kingdom (**Seller's Guarantor**)

Commonwealth Bank of Australia (ACN 123 123 124) of Level 2, 48 Martin Place, Sydney, New South Wales (**Buyer**)

Background

A. By deed dated 8 October 2008 (the **Principal Agreement**) between the Seller, the Buyer and the Seller's Guarantor:

(i) the Seller agreed to sell and the Buyer agreed to buy the BankWest Shares, the St Andrew's Shares and the HBOSGS Shares on certain terms and conditions; and

(ii) the Seller's Guarantor agreed to guarantee the performance by the Seller of its obligations under the Principal Agreement, and to assume certain other obligations, on certain terms and conditions.

B. By deed dated on or about 22 October 2008 (the **First Amendment Deed**) between the Seller, the Buyer and the Seller's Guarantor, the parties amended the Principal Agreement.

C. The parties wish to further amend the Principal Agreement in the form set out in this deed.

Operative provisions

1. Definitions and interpretation

1.1 Definitions

In this deed:

Effective Date means the date of execution of this deed.

1.2 Interpretation

Clause 1.4 of the Principal Agreement applies to this deed as if set out in full in this deed.

2. Amendments to Principal Agreement

2.1 Amendment

With effect from the Effective Date the Principal Agreement is amended as indicated by mark-up on the copy of the Principal Agreement attached as Schedule 1.

2.2 Remaining provisions unaffected

Except as specifically amended by this deed, all terms and conditions of the Principal Agreement remain in full force and effect.

2.3 Amendments not to affect validity, rights, obligations

The amendment of the Principal Agreement does not effect the validity or enforceability of the Principal Agreement (as amended by this deed).

Nothing in this deed:

(i) prejudices or adversely affects any right, power, authority, discretion or remedy arising under the Principal Agreement before the date of this deed; or

(ii) discharges, releases or otherwise effects any liability or obligation arising under the Principal Agreement before the date of this deed.

2.4 Confirmation

The Seller, Seller's Guarantor and Buyer are bound by the Principal Agreement as amended by this deed.

2.5 Acknowledgement

The Seller, Seller's Guarantor and Buyer acknowledge that this deed is made in accordance with the Principal Agreement.

3. General

3.1 Notices

Each communication (including each notice, consent, approval, request and demand) under or in connection with this deed:

(a) must be in writing;

(b) must be addressed to the addresses set out in clause 26.1 (c) of the Principal Agreement (or as otherwise notified by a party to each other party from time to time);

(c) must be signed by the party making it or (on that party's behalf) by the solicitor for, or any attorney, director, secretary or authorised agent of, that party;

(d) must be delivered by hand or posted by prepaid post to the address, or sent by fax to the number, of the addressee, in accordance with clause 3.1(b); and

(e) is taken to be received by the addressee:

(i) (in the case of prepaid post sent to an address in the same country) on the third day after the date of posting;

(ii) (in the case of prepaid post sent to an address in another country) on the fifth day after the date of posting by airmail;

(iii) (in the case of fax) at the time in the place to which it is sent equivalent to the time shown on the transmission confirmation report produced by the fax machine from which it was sent; and

(iv) (in the case of delivery by hand) on delivery, but if the communication is taken to be received on a day that is not a working day or after 5.00 pm, it is taken to be received at 9.00 am on the next working day ("working day" meaning a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally, in the place to which the communication is posted, sent or delivered).

3.2 Governing law

This deed is governed by and must be construed according to the law applying in New South Wales.

3.3 Jurisdiction

Each party irrevocably:

(a) submits to the non-exclusive jurisdiction of the courts of New South Wales, and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this deed; and

(b) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 3.3(a).

3.4 Amendments

This deed may only be varied by a deed executed by or on behalf of each party.

3.5 Waiver

(a) Failure to exercise or enforce, or a delay in exercising or enforcing, or the partial exercise or enforcement of, a right, power or remedy provided by law or under this deed by a party does not preclude, or operate as a waiver of, the exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed.

(b) A waiver or consent given by a party under this deed is only effective and binding on that party if it is given or confirmed in writing by that party.

(c) No waiver of a breach of a term of this deed operates as a waiver of another breach of that term or of a breach of any other term of this deed.

3.6 Further acts and documents

Each party must promptly do all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by another party to give effect to this deed.

3.7 Assignment

A party cannot assign, novate or otherwise transfer any of its rights or obligations under this deed without the prior consent of each other party.

3.8 Counterparts

This deed may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes the deed of each party who has executed and delivered that counterpart.

3.9 No representation or reliance

(a) Each party acknowledges that no party (nor any person acting on a party's behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed.

(b) Each party acknowledges and confirms that it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other party, except for representations or inducements expressly set out in this deed.

3.10 Expenses

Except as otherwise provided in this deed, each party must pay its own costs and expenses in connection with negotiating, preparing, executing and performing this deed.

3.11 Entire agreement

To the extent permitted by law, in relation to its subject matter, this deed:

(a) embodies the entire understanding of the parties, and constitutes the entire terms agreed by the parties; and

(b) supersedes any prior written or other agreement of the parties.

Schedule 1 Amended share sale deed

Share sale deed

HBOS Australia Pty Ltd
Seller

HBOS plc
Seller's Guarantor

Commonwealth Bank of Australia
Buyer

Clayton Utz
Lawyers
Levels 19-35 No. 1 O'Connell Street Sydney NSW 2000 Australia
PO Box H3 Australia Square Sydney NSW 1215
T +61 2 9353 4000 F +61 2 8220 6700

www.claytonutz.com

Our reference 835/16566 Project Cyclops

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Contents

Share sale deed dated 8 October 2008

Parties

HBOS Australia Pty Ltd (ACN 070 002 587) of ~~BankWest Tower, Level 24, 108 St Georges Terrace, Perth, Western Australia~~ Level 27, 45 Clarence Street, Sydney, New South Wales, 2000 (**Seller**)

HBOS plc (registered in Scotland No. SC218813) of The Mound, Edinburgh, EH1 1YZ, United Kingdom (**Seller's Guarantor**)

Commonwealth Bank of Australia (ACN 123 123 124) of Level 2, 48 Martin Place, Sydney, New South Wales, 2000 (**Buyer**)

Background

A. The Seller owns:

(a) the BankWest Shares;

(b) the St Andrew's Shares; and

(c) the HBOSGS Shares.

B. The Seller wishes to sell the BankWest Shares, the St Andrew's Shares and the HBOSGS Shares and the Buyer wishes to buy the BankWest Shares, the St Andrew's Shares and the HBOSGS Shares on the terms and conditions of this deed.

C. The Seller's Guarantor has agreed to guarantee the Seller's obligations under this deed.

D. The Seller's Guarantor is the registered holder of the BankWest Redeemable Preference Shares.

E. Subject to the terms and conditions of this deed, BankWest wishes to redeem all of the BankWest Redeemable Preference Shares immediately prior to Completion.

F. If the redemption of the BankWest Redeemable Preference Shares by BankWest under Recital E cannot occur prior to the time of Completion, the Seller's Guarantor wishes to sell the BankWest Redeemable Preference Shares and the Buyer wishes to buy the BankWest Redeemable Preference Shares on the terms and conditions of this deed.

Operative provisions

1. Definitions and interpretation

1.1 Definitions

In this deed:

ACCC means the Australian Competition and Consumer Commission.

ACCC Condition means the Condition set out in clause 2.1(a).

Accounts in respect of each Group Company means the audited balance sheet of that Group Company as at the Accounts Date and the audited income statement, cash flow statement and statement of changes in equity of that Group Company for the year ending on the Accounts Date, including in each case the notes thereto.

Accounts Date means 31 December 2007.

Accounting Standards means, at any time:

(a) the requirements of the Corporations Act about the preparation and contents of financial reports;

(b) the accounting standards approved under the Corporations Act; and

(c) generally accepted accounting principles, policies, practices and procedures in Australia to the extent not inconsistent with the accounting standards described in paragraph (b).

Adjustment Payment Date means the date which is 2 Business Days after the date on which the Adjusted Purchase Price is finally determined in accordance with clause 10 or any other date agreed between the Seller and the Buyer in writing.

APRA means the Australian Prudential Regulation Authority.

Asset means each asset owned or held by the Group Companies or exclusively used in the business conducted by them, including any assets held under any financing or operating lease.

Auditor means KPMG as the auditor of the Group Companies.

Authorisation means any licence, consent, approval, permit, registration or other authorisation given or issued by any Regulatory Authority or any other person.

ASIC means the Australian Securities and Investments Commission.

BankWest means Bank of Western Australia Ltd (ACN 050 494 454).

BankWest and St Andrew's Businesses means the banking business and the insurance and wealth management business conducted by BankWest and St Andrew's respectively as at the Completion Date.

BankWest Group Company means each of BankWest and each BankWest Subsidiary.

BankWest Redeemable Preference Shares means the 530,000,000 redeemable preference shares in the capital of BankWest held by the Seller's Guarantor specified in Part D of Schedule ~~3~~1.

BankWest Redeemable Preference Shares Amount means $530,000,000.

BankWest Shares means the ordinary shares in the capital of BankWest specified in Part A of Schedule 1 which, for the avoidance of doubt, does not include the BankWest Redeemable Preference Shares which will be either redeemed and cancelled by BankWest or transferred by the Seller's Guarantor to the Buyer in accordance with clause 12.

BankWest Subsidiaries means each of the companies specified in Part A of Schedule ~~4~~3.

BOSIAL means BOS International (Australia) Limited (ACN 066 601 250), a Seller Group Member.

Business Day means a day that is not a Saturday, Sunday or public holiday and is a day on which banks are open for business generally in Sydney.

Buyer Accountants means PricewaterhouseCoopers

Buyer Group Member means the Buyer and each Related Entity of the Buyer and after Completion includes each Group Company.

Buyer Nominee means Commonwealth Insurance Holdings Limited ACN 089 327 959.

Buyer Warranties means the warranties set out in Schedule 7.

CFAL means Capital Finance Australia Limited (ACN 069 663 136), a Seller Group Member.

Claim means any claim, demand or cause of action whether arising in contract, tort, under statute or otherwise in relation to:

(a) any provision of this deed or any agreement entered into pursuant to this Deed, including the Transitional Services Agreement;

(b) the Shares or their sale,

other than a Tax Claim.

Claim Notice has the meaning given in clause 16.2(a).

Claim Threshold means $5,000,000.

Completion means the completion of the sale and purchase of the Shares in accordance with clause 9.

Completion Balance Sheets means the balance sheet prepared and finalised in accordance with clause 10.

Completion Date means the date on which Completion occurs.

Condition means each condition specified in clause 2.1.

Confidential Information means:

(a) all information relating to the operations or affairs of any Group Company including all financial or accounting information, all customer names and lists, sales records, marketing research and reports and other marketing information and all trade secrets, know how, operating procedures and technical information; and

(b) all other information treated by any Group Company as confidential or capable of being protected at law or equity as confidential information or the disclosure of which might cause loss or damage to or otherwise adversely affect any Group Company,

in whatever form and in each case including information that has been disclosed by the Seller or any Group Company or their respective Representatives under the terms of a confidentiality agreement.

Consolidated Group means:

(a) a "Consolidated Group" as defined in section 703-5 of ITAA 1997; or

(b) a "MEC group" as defined in section 719-5 of ITAA 1997.

Constituent Documents means the governing rules of a Financial Product including a contract, policy, trust deed or offer document.

Contribution Amount has the meaning given in section 721-25 of the Tax Act.

Corporations Act means the Corporations Act 2001 (Cth).

Defaulting Party has the meaning given in clause 9.10.

Disputed Item has the meaning given in clause 10.5.

Disputing Action means, in respect of a Tax Demand, any action to cause the Tax Demand to be withdrawn, reduced or postponed or to avoid, resist, object to, defend, appear against or compromise the Tax Demand and any judicial or administrative proceedings arising out of that action.

Distribution Agreement means any agreement (whether in written, oral or both forms) which provides for the promotion, issue, sale, or other distribution of a financial product or financial service of a third party by a Group Entity.

Distributor means an entity which distributes a Financial Product including the employees and agents of a corporate entity.

Draft Completion Balance Sheets has the meaning given in clause 10.1.

Due Diligence Materials means:

(a) the written information and documents provided to the Buyer by the Seller, the Group Companies and their respective Representatives before 2am on 7 October 2008 (including in the virtual data room), an index of which is attached as Attachment 2);

(b) the written questions raised by the Buyer in the due diligence process and the written responses given by the Seller, the Group Companies and their respective Representatives before 2am on 7 October 2008; and

(c) the information provided at the management presentations on Sunday 5 October 2008.

Employee means an employee engaged in the BankWest and St Andrew's Businesses.

Employee Entitlements means all entitlements to annual leave, long service leave and personal/carer's leave of the Transferring Employees accrued as at Completion.

Encumbrance means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off, or any other security agreement or arrangement in favour of any person, whether registered or unregistered.

End Date means 31 March 2009, or such other date agreed in writing between the Seller and the Buyer.

Exit Payment means the payment to be made by each Group Company to permit that Group Company to leave the Seller Consolidated Group on Completion clear of any Group Liability pursuant to section 721-35 of the Tax Act calculated or estimated in accordance with the principles set out in the Tax Sharing Agreement.

Expert has the meaning given in clause 10.5(e).

Financial Indebtedness means financial obligations of any kind.

Financial Product means each financial product (as defined in the Corporations Act), loan product or other banking service which is issued, provided, supplied or operated by a Group Company in the course of the conduct of the Financial Services and includes a product which is branded under the name or brand of a third party.

Financial Services means the banking, superannuation, life insurance, general insurance and managed investment businesses conducted by a Group Company.

Group Company means each of BankWest, St Andrew's, HBOSGS, each BankWest Subsidiary and each St Andrew's Subsidiary.

Group Company Encumbrance means any Encumbrance granted by any Group Company over any of its assets or undertakings.

Group Company Guarantee means any Guarantee provided by any Group Company in relation to the obligations of any Seller Group Member.

Group Liability has the meaning given in section 721-10 of the Tax Act.

Group Liability Date means the date Group Liability becomes due and payable.

GST has the meaning given in the GST Act.

GST Act means the A New Tax System (Goods and Services Tax) Act 1999 (Cth).

Guarantee means any guarantee, bond, security deposit, letter of credit or suretyship or any other obligation to pay, purchase or provide funds (whether by the advance of money, the purchase of or subscription for shares or other securities, the purchase of assets or services, or otherwise) for the payment or discharge of, to indemnify against the consequences of default in the payment of, or otherwise be responsible for, any indebtedness of, obligation of, liability of or the insolvency of any other person.

HBOSGS means HBOS Australia Group (Services) Pty Ltd (ACN 111 209 440).

HBOSGS Shares means the ordinary shares in the capital of HBOSGS specified in Part C of Schedule 1.

Head Company has the meaning given in section 995-1 of the Tax Act.

Indemnified Losses means, in relation to any fact, matter or circumstance, all losses, costs, damages, expenses, Taxes, penalties and other liabilities arising out of or in connection with that fact, matter or circumstance and including all legal and other professional expenses on a solicitor-client basis incurred in connection with investigating, disputing, defending or settling any claim, action, demand or proceeding relating to that fact, matter or circumstance (including any claim, action, demand or proceeding based on the terms of this deed).

Initial Purchase Price has the meaning given in clause 4.

Insurances means complete and accurate particulars of all current insurance policies and cover notes taken out in respect of a Group Company or the BankWest and St Andrew's Businesses as at the date of this deed contained in the Due Diligence Materials.

Intellectual Property Rights means all intellectual and industrial property rights and interests throughout the world, whether registered or unregistered, including trade marks, designs, patents, inventions, circuit layouts, copyright and analogous rights, confidential information, know-how and all other intellectual property rights as defined in Article 2 of the convention establishing the World Intellectual Property Organisation of 14 July 1967 as amended from time to time.

ITAA 1936 means the Income Tax Assessment Act 1936 (Cth).

ITAA 1997 means the Income Tax Assessment Act 1997 (Cth).

Last Accounts means the balance sheets and income statements of BankWest and its Subsidiaries and St Andrew's and its Subsidiaries as at 31 August 2008 and HBOSGS as at 31 December 2007, including in each case any notes thereto, as included in the Due Diligence Materials.

Material Authorisations means all the Authorisations that are material to conduct the BankWest and St Andrew's Businesses as they are being carried on at Completion.

Non-Defaulting Party has the meaning given in clause 9.10.

Non-Transferring Employee means an Out of Scope Employee who does not accept the Seller's or Seller Group Member's offer of employment made under clause 11.1.

Out of Scope Employee means an employee of a Group Company who is not employed in the BankWest or St Andrew's Businesses or an employee identified pursuant to paragraph 2(a)(ii) of Schedule 4.

Properties means the premises at which the BankWest and St Andrew's Businesses are conducted.

Purchase Price means the Initial Purchase Price as adjusted in accordance with this deed.

Regulatory Authority means:

(a) any government or local authority and any department, minister or agency of any government; and

(b) any other authority, agency, commission or similar entity having powers or jurisdiction under any law or regulation or the listing rules of any recognised stock or securities exchange.

Regulatory Conditions means each of the Conditions specified in sub-clauses 2.1(a), (b), (c), (d) and (e).

Related Entity of a corporation means:

(a) a related body corporate of that corporation within the meaning of section 50 of the Corporations Act; and

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Share Sale Deed Amendments.DOC

(b) a unit trust in relation to which that corporation directly or indirectly:

(i) controls the right to appoint the trustee;

(ii) is in a position to control the casting of, more than one half of the maximum number of votes that might be cast at a meeting of holders of units in the trust; or

(iii) holds or is in a position to control the disposal of more than one half of the issued units of the trust.

Relevant Legislation includes the *Banking Act 1959 (Cth)*, the Corporations Act, the *Australian Securities and Investments Commission Act 2001 (Cth*, the *Trade Practices Act 1974 (Cth)*, the *Insurance Act 1973 (Cth)*, the *Insurance Contracts Act 1984 (Cth)*, the *Superannuation Industry (Supervision) Act 1993 (Cth)*, the *Uniform Consumer Credit Code*, the *Privacy Act 1988 (Cth)*, the *Financial Transaction Reports Act 1988 (Cth)*, the *Anti-Money Laundering and Counter-Terrorism Financing Act 2001 (Cth)* and the *Life Insurance Act 1995 (Cth)*.

Representatives means, in relation to a party, all officers, employees, professional advisers and agents of the party or of its Related Entities.

Restricted Business means a full service retail banking business or a full service business banking business.

Restricted Person means the Seller's Guarantor and its subsidiaries.

Retained Businesses means all businesses conducted by the Seller Group Members prior to Completion, but excluding the BankWest and St Andrew's Businesses and the business conducted by HBOSGS.

Risk Weighted Assets means risk weighted assets calculated in the way in which that amount is calculated in accordance with APRA's Prudential Standards (reflecting Basel 1).

St Andrew's means St Andrew's Australia Pty Ltd (ACN 105 176 234).

St Andrew's Group Company means each of St Andrew's and each St Andrew's Subsidiary.

St Andrew's Shares means the shares in the capital of St Andrew's specified in Part B of Schedule 1.

St Andrew's Subsidiaries means each of the companies specified in Part B of Schedule 13.

Secondee means a person employed by a Seller Group Member and who has been engaged full time or substantially full time in the BankWest and St Andrew's Businesses in the twelve months prior to the date of this deed.

Seller Accountants means KPMG of Central Park, Level 31, 152-158 St Georges Terrace, Perth.

Seller Consolidated Group means the Consolidated Group of which the Seller is the Head Company.

Seller Group means the Seller's Guarantor and its Related Entities.

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Seller Group Guarantee means any Guarantee provided by any Seller Group Member in relation to the obligations of any Group Company.

Seller Group Member means each of the Seller, the Seller's Guarantor and each of their Related Entities, other than each Group Company.

Seller Trade Marks means each registered or unregistered trade mark owned or used by the Seller or any Seller Group Member containing the name HBOS, Halifax, Bank of Scotland, Bank of Scotland International, Birmingham Midshires, Clerical Medical, esure, Insight Investment or St James's Place.

Services means the services to be provided by the Buyer to the Seller, and/or by the Seller to the Buyer as agreed in the Transitional Services Agreement or, failing that, in accordance with clause 7.3.

Services Period means the period of 6 months after Completion, except as otherwise specified in Schedule 4.

Shares means the BankWest Shares, the St Andrew's Shares and the HBOSGS Shares.

Standard Rate in relation to interest payable on any payment due under this agreement means the rate which is the 90 day Bank Bill Swap Reference Rate (Average Bid) as published on the page entitled 'BBSY' on the Reuters Monitor System or any replacement page (the BBSY Page) at or about 10.10am (Sydney time) on the first date on which interest accrues on that payment (or, if the BBSY Page is not available on that date for any reason, the average bid rate quoted on the BBSY Page at or about 10.10am (Sydney time) on the last Business Day immediately preceding that date) plus a margin of 2% per annum.

Subsidiaries means the BankWest Subsidiaries and the St Andrew's Subsidiaries.

Superannuation Funds means St Andrew's Superannuation Fund.

Tax means any tax, levy, excise, duty, charge, surcharge, contribution, withholding tax, impost or withholding obligation of whatever nature, whether direct or indirect, by whatever method collected or recovered, together with any penalties, fines, interest or statutory charges.

Tax Act means the ITAA 1936 and the ITAA 1997 or either of them.

Tax Authority means any Regulatory Authority responsible for the assessment, collection, withholding or administration of Tax in any country or jurisdiction.

Tax Claim means any claim against the Seller's Guarantor under clause 15.4.

Tax Demand means:

(a) a written notice of, or demand for, an amount payable or assessment from a Tax Authority requiring the payment of any Tax for which the Seller or the Seller's Guarantor may be liable under this deed;

(b) any document received from a Tax Authority administering any Tax assessing, imposing, claiming or indicating an intention to claim any Tax;

(c) a notice to a contributing member of a Consolidated Group given under section 721-15(5) or (5A) of the ITAA 1997; or

(d) lodgment of a tax return or a request for an amendment under a law about self-assessment of Tax.

Tax Funding Agreement means an agreement between the members of a Consolidated Group in relation to the obligations of the Head Company to pay a Group Liability.

Tax Law means any law relating to Tax.

Tax Release Deed means a deed of release between the Seller and each wholly owned Group Company in the form set out in Attachment 3~~2~~, or as otherwise agreed between the Buyer and the Seller.

Tax Sharing Agreement means a tax sharing agreement or agreements between the Seller and the wholly owned Group Companies as contemplated by section 721-25 of the ITAA 1997 and includes any Tax Funding Agreement between the same parties.

Tax Warranties means the Warranties set out in Warranty 14 of Schedule 6.

Third Party means any person or entity (including a Regulatory Authority) other than a Seller Group Member, a Buyer Group Member or a Group Company.

Third Party Claim means any claim or potential claim by any person other than any Buyer Group Member or any Seller Group Member against any Group Company other than a Tax Demand.

Third Party Intellectual Property ~~means any~~ means any Intellectual Property Rights used by a Group Company in the conduct of, or forming part of, the ~~Business~~BankWest and St Andrew's Businesses that are owned by a Third Party.

Title Warranties means the Warranties set out in Warranty 1 of Schedule 6.

Termination and Post-Completion Deed means the deed to be entered into by the Seller and the Buyer, among others, as contemplated by clause 7 of Schedule 4.

Transferring Employee means an Out of Scope Employee who accepts the Seller's or Seller Group Member's offer of employment made under clause 11.1.

Transitional Services Agreement means each of the transitional services agreements to be entered into between:

(a) the Seller and the Buyer, among others; and

(b) the Seller's Guarantor and the Buyer, among others,

as contemplated by clause 8.

Trustee Accounts means, in respect of each Superannuation Fund, the audited balance sheet of the Superannuation Fund as at the date of the accounts and the audited profit and loss account for the Scheme or Superannuation Fund for the year ended on that date.

Warranties means the warranties set out in Schedule 6.

Warranty Claim means any Claim by the Buyer arising out of a breach of a Warranty.

1.2 Reasonable endeavours

Any provision of this deed which requires a party to use reasonable endeavours or all reasonable endeavours to procure that something is performed or occurs or does not occur does not include any obligation:

(a) to pay any money or to provide any financial compensation, valuable consideration or any other incentive to or for the benefit of any person except for payment of any applicable fee for the lodgement or filing of any relevant application with any Regulatory Authority; or

(b) to commence any legal action or proceeding against any person,

except where that provision expressly specifies otherwise.

1.3 Knowledge and awareness

(a) If any Warranty is qualified by the Seller's Guarantor's awareness or knowledge, the facts of which the Seller's Guarantor is aware or that are within the Seller's Guarantor's awareness or knowledge are taken to be all facts of which any of the executives of the Seller who presented to the Buyer's Representatives on 5 October 2008 or Craig Rice are actually aware at the date of this deed.

(b) A reference to the Buyer's knowledge or awareness of facts (or that of its Representatives) is a reference to facts actually known by the executives of the Buyer who have worked on the acquisition of the Group Companies for the Buyer or the Buyer Accountants acting in their capacity as advisers to the Buyer on that acquisition.

1.4 General rules of interpretation

In this deed headings are for convenience only and do not affect interpretation and, unless the contrary intention appears:

(a) a word importing the singular includes the plural and vice versa, and a word of any gender includes the corresponding words of any other gender;

(b) the word "including" or any other form of that word is not a word of limitation;

(c) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;

(d) a reference to a "person" includes an individual, the estate of an individual, a corporation, an authority, an association or parties in a joint venture, a partnership and a trust;

(e) a reference to a party includes that party's executors, administrators, successors and permitted assigns, including persons taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;

(f) a reference to a document (including this deed) is to that document as varied, novated, ratified or replaced from time to time;

(g) a reference to a party, clause, schedule, exhibit, attachment, or annexure is a reference to a party, clause, schedule, exhibit, attachment, or annexure to or of this deed, and a reference to this deed includes all schedules, exhibits, attachments, and annexures to it;

(h) a reference to an agency or body if that agency or body ceases to exist or is reconstituted, renamed or replaced or has its powers or function removed (obsolete body), means the agency or body which performs most closely the functions of the obsolete body;

(i) a reference to a statute includes any regulations or other instruments made under it (delegated legislation) and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, re-enactments and replacements;

(j) a reference to "$" or "dollar" is to Australian currency;

(k) terms defined in clauses 4 and 10 have the meanings there given; and

(l) this deed must not be construed adversely to a party just because that party prepared it or caused it to be prepared.

2. Conditions precedent

2.1 Conditions

Clauses 3, 4 and 9 do not become binding on the parties and have no force or effect, and Completion cannot take place, until each of the conditions listed in the first column of the following table has been either satisfied or waived in accordance with clause 2.7:

Condition	Right to waive
(a) the Buyer has received written notification from the Australian Competition and Consumer Commission (ACCC) that either: (i) based on the information provided by the Buyer to the ACCC, the ACCC does not propose to intervene in the acquisition by the Buyer of the Shares pursuant to section 50 of the Trade Practices Act 1974 (Cth) (whether or not such notice also states that the ACCC reserves its position if other material information emerges); or (ii) based on the information provided by the Buyer to the ACCC and the acceptance by the ACCC of written undertakings provided or agreed to be provided to the ACCC, the ACCC does not propose to intervene in the acquisition by the Buyer of the Shares pursuant to section 50 of the Trade Practices Act 1974 (Cth) (whether or not such notice also states that the ACCC reserves its position if other material information emerges);	Buyer and Seller

Condition		Right to waive
(b)	all necessary approvals are provided in respect of the acquisition by the Buyer of the BankWest Shares under this deed pursuant to the Banking Act 1959 (Cth). If such approvals are subject to conditions, those conditions must be acceptable to the Buyer, acting reasonably;	Buyer and Seller
(c)	all necessary approvals are provided in respect of the acquisition by the Buyer of the Shares under this deed pursuant to the Financial Sector (Shareholdings) Act 1998 (Cth). If such approvals are subject to conditions, those conditions must be acceptable to the Buyer, acting reasonably;	Buyer and Seller
(d)	all necessary confirmations that the acquisition by the Buyer of the St Andrew's Shares is not contrary to the public interest are provided and a "go-ahead" decision is made under the Insurance Acquisitions and Takeovers Act 1991 (Cth). If such approvals are subject to conditions, those conditions must be acceptable to the Buyer, acting reasonably; and	Buyer and Seller
(e)	no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction, no preliminary or final decision, determination, or order issued by any Regulatory Authority and no other legal restraint preventing any of the transactions contemplated by this deed is in effect or has been issued or made and not withdrawn immediately prior to Completion.	Buyer and Seller

2.2 Reasonable endeavours to satisfy Conditions

Each party must use all reasonable endeavours to ensure that each Condition is satisfied as soon as practicable after the date of this deed and in any event before the End Date and in particular:

(a) the Buyer must as soon as practicable:

(i) comply with its obligations under clauses 2.3 and 2.4 in relation to the Regulatory Conditions;

(ii) provide to the Seller all information reasonably required by the Seller for the purposes of procuring the satisfaction of any Condition;

(b) the Seller must as soon as practicable:

(i) prepare and lodge each notice or application required to be given or made by the Seller to the relevant Regulatory Authority for the purposes of procuring the satisfaction of the Regulatory Conditions; and

(ii) provide to the Buyer all information reasonably required by the Buyer to enable the Buyer to prepare any document to assist the Buyer to comply

with 2.2(a)(i) or otherwise for the purposes of procuring the satisfaction of any Condition;

(c) each party must otherwise co-operate with, and comply with all reasonable requests of the other party for the purposes of procuring the satisfaction of any Condition and must not take any action that will or is likely to hinder or prevent the satisfaction of any Condition; and

(d) each party must, as soon as practicable, keep the other party informed of any fact, matter or circumstance of which it becomes aware that may result in a Condition not being satisfied in accordance with its terms.

2.3 Buyer's obligations in relation to Regulatory Conditions

Without limiting clause 2.2, the Buyer must use all reasonable endeavours to ensure that each Regulatory Condition is satisfied as soon as practicable after the date of this deed. In particular the Buyer must in relation to the Regulatory Conditions other than the ACCC Condition (to which clause 2.4 applies):

(a) consult with the Seller about drafts of documents which it has prepared for the purposes of procuring satisfaction of any Regulatory Condition and respond to enquiries from the Seller about the progress of the application;

(b) consult with the Seller in relation to any further information to be provided to the relevant Regulatory Authority.

2.4 Buyer's obligations in relation to ACCC Condition

Without limiting clause 2.2, the Buyer must use all reasonable endeavours to procure satisfaction of the ACCC Condition as soon as practicable after the date of this deed and in particular must:

(a) file or cause to be filed with the ACCC all notifications or submissions, in each case in accordance with the applicable guidelines of the ACCC, which are required for the purposes of procuring satisfaction of the ACCC Condition;

(b) authorise the ACCC to conduct any market investigations which the ACCC wishes to undertake in connection with the proposed acquisition by the Buyer of the Shares; and

(c) provide to the ACCC any behavioural or structural undertakings reasonably acceptable to the Buyer which relate to any Buyer Group Member and which are required by the ACCC for the purposes of procuring satisfaction of the ACCC Condition.

2.5 Sensitive information

Nothing in clauses 2.3 and 2.4 requires the Buyer to provide the Seller with any commercially sensitive information provided by the Buyer to a Regulatory Authority (including the ACCC).

2.6 Notice in relation to satisfaction of Conditions

Each party must within 1 Business Day after becoming aware of the satisfaction of any Condition notify the other party of the satisfaction of that Condition and provide reasonable evidence that the Condition has been satisfied.

2.7 Waiver of Conditions

A Condition may be waived and may only be waived:

(a) if one party is specified in the second column of the table in clause 2.1 opposite that Condition, by that party by notice to the other party; or

(b) if more than one party is specified in the second column of the table in clause 2.1 opposite that Condition, by written agreement between all of those parties.

Notwithstanding the above the ACCC Condition shall be deemed to have been waived by both parties if as a consequence of any change in the law or any action arising in relation to any such change in the law, the ACCC may not intervene in the acquisition of the shares pursuant to section 50 of the Trade Practices Act 1974 (Cth). The waiver is deemed to have occurred at the time at which such law becomes operative or any action arising in relation to any such change in the law is taken.

A party entitled to waive or to agree to waive a Condition under this clause 2.7 may do so in its absolute discretion. A party that waives or agrees to waive a Condition may not bring a Claim against any other party in respect of any breach of this deed that caused that Condition not to be satisfied.

2.8 Failure of Conditions

A party is entitled to terminate this deed by notice to the other party:

(a) at any time on or before the End Date if any Condition has become incapable of satisfaction; or

(b) at any time after the End Date if any Condition has not been satisfied or waived in accordance with clause 2.7 before the End Date,

except where the relevant Condition has been waived by the party seeking to terminate or has become incapable of satisfaction or has not been satisfied as a direct result of a failure by the party seeking to terminate to comply with its obligations under clauses 2.2.

3. Sale and purchase of Shares

3.1 Sale and purchase

On Completion the Seller must sell and the Buyer must buy the Shares for the Purchase Price free from all Encumbrances.

4. Purchase Price

4.1 Initial Purchase Price

(a) The initial purchase price payable for the Shares is $2.1 billion (**Initial Purchase Price**).

(b) The Initial Purchase Price will be apportioned as follows:

(i) $2.037 billion payable for the BankWest Shares (**BankWest IPP**); and

(ii) $63 million payable for the St Andrew's Shares (**St Andrew's IPP**); and

(iii) $2 payable for the HBOSGS Shares (**HBOSGS IPP**).

4.2 Adjustments to Initial Purchase Price

(a) **Concepts**

Completion Net Asset Amount of HBOSGS means net assets of HBOSGS as shown in the Completion Balance Sheets.

Completion Net Asset Amount of St Andrew's means consolidated net assets of St Andrew's and its Subsidiaries as shown in the Completion Balance Sheets.

Net Asset Amount of HBOSGS means net assets of HBOSGS as shown in HBOSGS's annual financial statements as of 31 December 2007.

Net Asset Amount of St Andrew's means consolidated net assets of St Andrew's and its Subsidiaries as shown in St Andrew's management accounts as of 31 August 2008.

NFE of BankWest means the "fundamental tier 1 Capital" of BankWest calculated by reference to the Completion Balance Sheets, (but excluding the effect of any new ordinary share capital issued by BankWest to the Buyer, any effect arising from all funding provided by the Buyer and any effect arising from Tier 2 subordinated debt instruments issued by BankWest to the Buyer, on or after Completion), in the way in which that term is calculated in accordance with paragraph 10(a) of APRA's Prudential Standard 111 as at May 2006 (reflecting Basel I) less the deductions from tier 1 described in paragraph 28 of that standard, (including goodwill).

RWA of BankWest means the greatest of:

Footnote 19

(i) $40.7bn;

(ii) 59% of BankWest's total assets (as shown in the Completion Balance Sheet but adding back to that Balance Sheet any amount equivalent to the redemption of the BankWest Redeemable Preference Shares, to the extent that redemption has reduced total assets, in accordance with clause 12); and

(iii) the amount of BankWest's "risk weighted assets" calculated by reference to the Completion Balance Sheets in the way in which that amount is calculated in accordance with APRA's Prudential Standards (reflecting Basel 1).

(b) **Obligation to calculate**

The Completion Balance Sheet must be prepared (including separate balance sheets (being consolidated balance sheets, in the case of St Andrew's and BankWest) for St Andrew's, BankWest and HBOSGS), and the following amounts must be calculated:

(i) Net Asset Amount of St Andrew's;

(ii) Net Asset Amount of HBOSGS;

(iii) NFE of BankWest; and

(iv) RWA of BankWest,

in each case as at the Completion Date.

(c) **Adjusted Purchase Price**

The Adjusted Purchase Price will be the sum of the Adjusted Purchase Prices for each of BankWest, St Andrew's and HBOSGS. To avoid doubt, one or more of these component Adjusted Purchase Prices may be negative.

(d) **BankWest Adjusted Purchase Price**

The BankWest Adjusted Purchase Price will be the BankWest IPP subject to the following adjustments:

(i) if the Completion Net Fundamental Tier 1 Ratio is less than 6.25%, the BankWest Adjusted Purchase Price will be the BankWest IPP decreased by the amount which is determined in accordance with the following formula:

Decrease = (6.25% x RWA) – NFE;

(ii) if the Completion Net Fundamental Tier 1 Ratio is higher than 6.25%, the BankWest Adjusted Purchase Price will be the BankWest IPP increased by the amount which is determined in accordance with the following formula:

Increase = NFE - (6.25% x RWA); or

(iii) if the Completion Net Fundamental Tier 1 Ratio is equal to 6.25%, the BankWest Adjusted Purchase Price will be the BankWest IPP.

(e) **St Andrew's Adjusted Purchase Price**

The St Andrew's Adjusted Purchase Price will be the St Andrew's IPP subject to the following adjustments:

(i) if the Completion Net Asset Amount of St Andrew's is greater than the Net Asset Amount of St Andrew's, the St Andrew's Adjusted Purchase Price will be the St Andrew's IPP increased by the amount of the excess;

(ii) if the Completion Net Asset Amount of St Andrew's is less than the Net Asset Amount of St Andrew's, the St Andrew's Adjusted Purchase Price will be the St Andrew's IPP decreased by the amount of the excess;

(iii) if the Completion Net Asset Amount of St Andrew's is equal to the Net Asset Amount of St Andrew's, the St Andrew's Adjusted Purchase Price will be the St Andrew's IPP.

(f) **HBOSGS Adjusted Purchase Price**

The HBOSGS Adjusted Purchase Price will be the HBOSGS IPP subject to the following adjustments:

(i) if the Completion Net Asset Amount of HBOSGS is greater than the Net Asset Amount of HBOSGS, the HBOSGS Adjusted Purchase Price will be the HBOSGS IPP increased by the amount of the excess;

(ii) if the Completion Net Asset Amount of HBOSGS is less than the Net Asset Amount of HBOSGS, the HBOSGS Adjusted Purchase Price will be the HBOSGS IPP decreased by the amount of the excess;

(iii) if the Completion Net Asset Amount of HBOSGS is equal to the Net Asset Amount of HBOSGS, the HBOSGS Adjusted Purchase Price will be the HBOSGS IPP.

(g) **Allocation**

If the St Andrew's Adjusted Purchase Price or the HBOSGS Adjusted Purchase Price or both is negative, the absolute value of the St Andrew's Adjusted Purchase Price or HBOSGS Adjusted Purchase Price or both (as the case may be) will constitute a further downward adjustment to the Adjusted Purchase Price for BankWest (but this paragraph does not affect the payment required under clause 4.3).

4.3 Payment of Purchase Price

The Purchase Price must be paid as follows:

(a) on Completion, the Buyer must pay the Initial Purchase Price to the Seller in accordance with clause 9.7 and clause 23;

(b) if the Adjusted Purchase Price is greater than the Initial Purchase Price, on the Adjustment Payment Date the Buyer must pay to the Seller the amount of the difference; and +$26m?

(c) if the Adjusted Purchase Price is less than the Initial Purchase Price, on the Adjustment Payment Date the Seller must pay to the Buyer the amount of the difference.

4.4 **Adjustment for certain payments**

Any payment made:

(a) by the Seller to a Buyer Group Member for a Warranty Claim, under the tax indemnity set out in clause 15.4 or under clause 19, will be treated as a pro-rata reduction in the purchase price of each BankWest or St Andrew's Share, as applicable; or

(b) by the Buyer to the Seller under clause 16 or clause 19.2 will be treated as a pro-rata increase in the purchase price of each BankWest Share or St Andrew's Share, as applicable.

5. Period before Completion

5.1 Buyer access

(a) For the purposes of observing the business operations of the Group Companies, assisting the Buyer and its Representatives to understand the BankWest and St Andrew's Businesses and preparing for the transition to the Buyer's normal working procedures, the Seller must procure that from the date of this deed until Completion the Buyer and its Representatives are given reasonable access during normal working hours (9:00am to 5:30pm local time) on reasonable notice to:

(i) the Assets, Properties and records relating to the BankWest and St Andrew's Businesses; and

(ii) all officers and senior employees of any Group Company during business hours,

provided that the Seller is not obliged to comply with this clause 5.1 to the extent that giving such access would cause material disruption to or have a material adverse effect on, the day to day conduct of the BankWest and St Andrew's Businesses or constitute a breach by the Seller or any Group Company of any law (including banker/customer obligations of confidentiality) or of the terms of any agreement to which it is party.

(b) The Seller must provide the Buyer with monthly updates up as to the amount of the Risk Weighted Assets, which will be calculated on a Basel 1 basis and will use its best endeavours to provide estimates on a fortnightly basis if requested.

5.2 Conduct of Business

Notwithstanding clause ~~5.2~~ 5.3, the Seller must procure that until Completion:

(a) except with the prior consent of the Buyer, each Group Company conducts the BankWest and St Andrew's Businesses in the ordinary and usual course consistent with its usual business practices and does not make any significant change to the nature or scale of any activity comprised in the BankWest and St Andrew's Businesses; and

(b) each Group Company consults with the Buyer with respect to all material dealings between Group Companies and the Seller Group Members.

5.3 Restricted conduct

The Seller must procure that before Completion, except with the prior consent of the Buyer, each Group Company does not:

(a) issue or allot any share capital or options, securities or other rights convertible into share capital other than to another Group Company as necessary to meet any prudential requirements for capital adequacy or solvency;

(b) buy back or redeem any shares other than the BankWest Redeemable Preference Shares or otherwise reduce its share capital or provide financial assistance for the acquisition of its own shares or shares in its holding company;

(c) declare or pay any dividends or other distributions;

(d) alter the provisions of its constitution;

(e) dispose of or create any Encumbrance over, or declare itself the trustee of, any material asset except in the ordinary course of business;

(f) in aggregate with all Group Companies, enter into any contract or commitment requiring it to pay more than $10 million or more than $2 million per annum for more than 5 years other than in the ordinary course of its business (such ordinary course including lending transactions where the Group Company is acting as creditor) and the entry into the lease of premises at Raine Square, Perth;

(g) in aggregate with all Group Companies, acquire or dispose of any assets, whose aggregate value exceeds $10 million other than in the ordinary course of business;

(h) engage any new permanent employee with a total annual remuneration in excess of $500,000 per annum except in accordance with current personnel practices or in the ordinary course of business;

(i) terminate or encourage the resignation of any Employee, except in accordance with current personnel practices or for good cause;

(j) and that each Seller Group Member does not, cancel any existing insurance policy in the name of or for the benefit of the Group Company unless a replacement policy (on terms no less favourable to the Group Company, if available in the market place) has been put in place;

(k) revalue its assets other than in accordance with any accounting method, practice or principle used by the Group Company as at 31 August 2008;

(l) defer any capital expenditure or undertake any capital expenditure that is in excess of $10 million;

(m) vary, terminate or fail to renew any of its contracts, Authorisations or commitments, except in the ordinary course of business;

(n) change any accounting method, practice or principle used by it or the basis on which any fees are charged or costs recovered between each Group Company and the Seller Group;

(o) enter into any credit related derivatives, credit enhancements or other similar synthetic instruments, arrangements or transactions lowering Risk Weighted Assets; or

(p) authorise, or agree conditionally or otherwise to do, any of the things referred to in this clause 5.3.

Despite the foregoing, except in relation to the rollout of branches in relation to which there exists a binding commitment as at the date of this deed to lease and/or proceed with a scheduled fitout of premises, the Seller must not continue with its east coast expansion strategy without the Buyer's prior written consent.

6. Separation principles

6.1 Overview

The parties acknowledge that at the time of executing this deed they have agreed in principle as to the intended legal and economic effect of the sale of BankWest and St Andrew's by the Seller to the Buyer. The principles set out below are designed to facilitate the economic separation and the orderly transition of the BankWest and St Andrew's Businesses to the Buyer, and to ensure that the infrastructure and operating assets required to operate the Retained Businesses are made available to the Seller and the infrastructure and operating assets required to operate the BankWest and St Andrew's Businesses are made available to the Buyer as necessary.

6.2 Separation arrangements

The Seller and the Buyer must, acting in good faith, use all reasonable endeavours to procure the effective separation of the operations, systems and facilities of the BankWest and St Andrew's Businesses from the Retained Businesses as soon as practicable following Completion having regard to the principles set out in clauses 6.3, 6.4 and 6.5.

6.3 Buyer to acquire BankWest and St Andrew's Businesses

On and from Completion:

(a) the Buyer will acquire the risk and economic benefit of the BankWest and St Andrew's Businesses; and

(b) each of the BankWest and St Andrew's Businesses will have all necessary employees, IT, shared services and other operations necessary to continue its respective operations in substantially the same manner as it was conducted prior to Completion.

6.4 Seller to retain Retained Businesses

On and from Completion:

(a) the Seller will retain the risk and economic benefit of the Retained Businesses; and

(b) each of the Retained Businesses will have all necessary employees, IT, shared services and other operations necessary to continue its respective operations in substantially the same manner as conducted prior to Completion.

6.5 Services after transition period

Subject to the provisions of Schedule 4, any service arrangements that continue between the Group Companies and Seller Group Companies for more than 6 months or such longer period specified in Schedule 4 (or such shorter period as agreed between the parties) are continued on mutually acceptable terms.

6.6 Specific principles

The detailed principles to be applied to the separation in relation to specific assets and services are set out in Schedule 4 to this deed.

7. Provision of transitional services

7.1 Transitional Services Agreement

The Seller and the Buyer must use all reasonable endeavours to agree as soon as possible after the date of this deed, and in any event before Completion, the terms of a transitional services agreement to take effect on Completion setting out:

(a) the matters to be implemented at Completion, in accordance with the principles of Schedule 4;

(b) the terms on which the Seller Group Members and BankWest and St Andrew's must provide the Services to each other during the Services Period; and

(c) the obligations of the Seller Group Members and each of BankWest and St Andrew's during the Services Period to procure the effective separation of all operations, systems and facilities of the BankWest and St Andrew's Businesses from the operations, systems and facilities of the Retained Businesses,

in each case consistent with the principles set out in clause 7 above.

7.2 Failure to agree

If the terms of the Transitional Services Agreement are not agreed by Completion:

(a) the Buyer and the Seller must use all reasonable endeavours to agree the terms of the Transitional Services Agreement as soon as possible after Completion; and

(b) until the terms of the Transitional Services Agreement have been agreed clauses 7.3 and 7.4 will apply.

7.3 Continued provisions of Services

If the terms and conditions of the Transitional Services Agreement are not agreed by Completion:

(a) except as otherwise requested by BankWest or St Andrew's in writing, the Seller must use all reasonable endeavours to ensure that each Seller Group Member provides to BankWest and St Andrew's those services that were being provided by each Seller Group Member to BankWest and St Andrew's before Completion; and

(b) except as otherwise requested by a Seller Group Member in writing, the Buyer must use all reasonable endeavours to ensure that each of BankWest and St Andrew's provides to each Seller Group Member those Services that were being provided by BankWest and St Andrew's to each Seller Group Member before Completion,

in each case for a period not exceeding the Services Period and in accordance with the principles set out clause 6 above, and to the extent not inconsistent with the principles set out in clause 6, consistent with the terms applying to the provision of those services immediately before the date of this deed.

7.4 Charges for transitional services

(a) The provision of Services by either party will be charged to the recipient at cost.

(b) Fixed and operating assets, systems and facilities held by one party that are necessary for the conduct of the other party's business will be made available at cost.

7.5 Liability for the provision of services

The liability in respect of the provision of Services, operations, systems and facilities by either party will be capped at the amount charged for the provision of those Services, operations, systems and facilities.

8. Separation and transition committee

Promptly following the execution of this deed, the parties will establish a separation and transition committee to act as a forum for consultation and planning between the parties in relation to the orderly separation of the BankWest and St Andrew's Businesses from the Retained Businesses. The committee, once established, will remain in existence until the earlier of the termination of this deed and the end of the Services Period. Both the Seller and the Buyer will cooperate in good faith and use their best endeavours to progress the separation and transition in accordance with the principles set out in clause 6 above.

The specific functions of the committee will be as follows:

(a) to finalise and implement a separation plan; and

(b) to finalise the Transitional Services Agreement.

9. Completion

9.1 Time and place for Completion

(a) Completion must take place at the offices of Clayton Utz located at Level 34, No. 1 O'Connell Street, Sydney at ~~12 noon~~9:30am (Sydney time) on the date which is the earlier of:

(i) 19 December 2008; and

(ii) 2 Business Days after all of the Conditions have been satisfied or waived in accordance with clause ~~2.7~~2.7,

or at such other place, date or time as the Seller and the Buyer agree in writing.

(b) (i) In the event that the last of the steps set out in clauses 9.6, 9.7 and 9.8 (the Required Steps) occurs prior to 6:00pm (Sydney time) on the Completion Date, irrespective of the actual time that each of Required Steps occurs, Completion will be deemed to have occurred at 6:00pm (Sydney time).

(ii) In the event that the last of the Required Steps occurs on or after 6:00pm (Sydney time) of the Completion Date Completion will occur at the actual time that the last of the Required Steps has been completed.

9.2 Provision of information before Completion

The Buyer must provide to the Seller no later than 3 Business Days before Completion:

(a) the names of any director, secretary and public officer of each Group Company that the Buyer does not require to resign on Completion; and

(b) the names of each person that the Buyer requires to be appointed as a director, secretary or public officer of any Group Company together with a signed consent to act in that capacity.

9.3 Seller obligations prior to Completion

(a) ~~Subject to clause 9.3(c) below, the~~The Seller must procure BankWest to redeem the BankWest Redeemable Preference Shares ~~no later than 1 Business Day prior to~~on Completion, and cancel the BankWest Redeemable Preference Shares and pay the BankWest Redeemable Preference Shares Amount to the Seller's Guarantor at Completion.

(b) In accordance with the Terms and Conditions of the Redeemable Preference Shares, redemption of the BankWest Redeemable Preference Shares cannot take place until each of the following conditions have been satisfied:

(i) all necessary approvals are provided by APRA in respect of the redemption by BankWest; and

(ii) BankWest gives the Seller's Guarantor not more than 120 days and not less than 30 days written notice of the date on which the redemption of the BankWest Redeemable Preference Shares is to occur.

~~(c) If either of the conditions in clauses 9.3(b)(i) or 9.3(b)(ii) have not been satisfied by 9am (Sydney time) on the Business Day prior to Completion or the Buyer requires that the BankWest Redeemable Preference Shares be transferred under this clause rather than redeemed, the Seller's Guarantor will transfer the BankWest Redeemable Preference Shares to the Buyer immediately prior to Completion for the BankWest Redeemable Preference Shares Amount.~~

9.4 Seller Obligations at Completion

At Completion, the Seller must deliver to the Buyer:

(a) completed transfers of the Shares in favour of the Buyer, or as the Buyer directs, as transferee duly executed by the registered holder as transferor and share certificates, or duly executed indemnities for lost share certificates, in respect of all Shares;

(b) completed transfers of any shares in any Group Company which are not registered in the name of another Group Company in favour of the Buyer or as the Buyer directs and share certificates for such shares;

(ba) completed transfers of any shares in any Group Company which are registered in the name of another Group Company but the Buyer requests to be transferred directly to the Buyer Group, in favour of the Buyer or as the Buyer directs and share certificates for such shares;

(c) all statutory registers, minute books and other record books, financial records, including asset registers, management accounts, budgets, ledgers, journals, books of account and other records of each Group Company and the common seal, if any, of each Group Company;

(d) all documents of title in the possession of a Group Company relating to the ownership of a Group Company's Assets.

(e) subject to the provisions of the Transitional Services Agreement and clause 7, possession of each Property, all keys to each Property and all title documents and other documents held by each Group Company in connection with the ownership of each Property;

(f) all insurance policies and certificates of currency in relation to all insurances held by each Group Company, except in the case of any policy held as part of a group insurance policy held by any Seller Group Member, in which case the Seller must deliver to the Buyer a copy of that policy and certificates of currency;

(g) the written resignation in a form to be agreed by the Buyer and Seller of each director, secretary and public officer of each Group Company except for any director, secretary or public officer notified by the Buyer under clause 9.2(a) and who has agreed to remain in office;

(h) documentation reasonably required by the Buyer to evidence the release of each Group Company Guarantee procured in accordance with clause 13.1;

(i) duly signed minutes of each meeting convened under clause 9.6; and

(j) all documents required at Completion to comply with the separation and transitional arrangements set out in clauses 7 and 8 and Schedule 4;

(k) an original counterpart of the Tax Release Deed duly executed by the Seller and each Group Company and documentation evidencing to the reasonable satisfaction of the Buyer the payment by each Group Company of the amount determined in accordance with clause 19.1; and

(l) ~~if the BankWest Redeemable Preference Shares are transferred to the Buyer in accordance with clause 9.3(c) above, completed transfers of the BankWest Redeemable Preference Shares in favour of the Buyer, or as it directs, as transferee duly executed by the Seller's Guarantor as transferor and share certificates, or duly executed statutory declaration in relation to lost share certificates, in respect of the BankWest Redeemable Preference Shares;~~

(l) ~~(m) if the BankWest Redeemable Preference Shares are redeemed in accordance with Clause 9.3(a),~~ documentation reasonably required by the Buyer to evidence the redemption under clause 9.3(a).

9.5 Delivery method

With the prior written consent of the Buyer, any document or other item specified in clause 9.4(bc), 9.4(ed), 9.4(e) or 9.4(ef) may be delivered to the Buyer by leaving that document or other item in a safe and appropriate place at the Property at which it is located at the Completion Date.

9.6 Board meetings

The Seller must procure that on or before Completion a meeting of the directors of each Group Company is convened and the directors resolve, subject to Completion occurring:

(a) in the case of BankWest ~~and~~, St Andrew's and HBOSGS to approve the registration of the Buyer or its nominee as directed by the Buyer in accordance with 9.4(a) or 9.4(ba) as the holder of the BankWest Shares, the St Andrew's Shares and the HBOSGS Shares respectively, subject to payment of any duty payable on their transfer;

(b) in the case of each other Group Company to approve the registration of the Buyer or its nominee as the holder of any shares in that Group Company in respect of which a transfer is provided by the Seller under clause 9.4(b) or clause 9.4(ba) subject to payment of any duty payable on the transfer of those Shares;

(c) to record the resignation of each director, secretary and public officer of each Group Company whose resignation effective from Completion is to be delivered under clause 9.4(g);

(d) to appoint as directors, secretaries and public officers of each Group Company each person notified under clause 9.2(b); and

(e) ~~if the BankWest Redeemable Preference Shares are redeemed and cancelled in accordance with clause 9.3(a),~~ noting the receipt of the redemption notice to be issued by BankWest prior to Completion in respect of the BankWest Redeemable Preference Shares and confirming the cancellation of the BankWest Redeemable Preference Shares and pay the BankWest Redeemable Preference Share Amount to the Seller's Guarantor at Completion.

9.7 Buyer obligations

At Completion the Buyer must:

(a) pay the Initial Purchase Price to the Seller;

(b) if applicable pay the BankWest Redeemable Preference Share Amount to the Seller;

(c) procure that each Group Company is provided with such funds as are necessary to repay all intercompany indebtedness owed by each Group Company to any Seller Group Member in accordance with and subject to the limit specified in clause 12;

(d) deliver to the Seller all documents required at Completion to comply with the separation and transitional arrangements set out in clauses 7 and 8 and Schedule 4;

(e) deliver to the Seller documentation evidencing the release of each Seller Group Guarantee procured in accordance with clause 13.2.

9.8 Payment obligations

(a) At Completion, the Seller's Guarantor must ensure that all amounts payable by or on behalf of a Seller Group Member in accordance with clause 12 are paid to the Buyer.

(b) At Completion, the Buyer must fund the net payment of all amounts payable by or on behalf of the Group Companies in accordance with clause 12.

(c) The parties agree that the payments will be made in accordance with the order and timing set out in Schedule 8. For the avoidance of doubt, the payments described in Schedule 8 will not commence until all other steps in clauses 9.4, 9.7 and 9.8 have occurred, (on the basis that all deliverables will be held in escrow until such payments have been made).

9.9 Interdependence of obligations at Completion

The obligations of the parties under clauses ~~9.3, 9.6~~9.4, 9.7 and ~~9.7~~9.8 are interdependent and must be performed, as nearly as possible, simultaneously. If any obligation specified in clauses ~~9.3, 9.6 or~~9.4, 9.7 and 9.8 is not performed on or before Completion then, without limiting any other rights of the parties, Completion is taken not to have occurred and any document delivered, or payment made, under clause ~~9.3 or clause~~9.4, 9.7 and 9.8 must be returned to the party that delivered it or paid it.

9.10 Notice to complete

If Completion does not occur in accordance with this clause 9 because of the failure of any party (the **Defaulting Party**) to satisfy any of its obligations under this clause 9 then:

(a) the Buyer (where the Defaulting Party is the Seller or the Seller's Guarantor); or

(b) the Seller (where the Defaulting Party is the Buyer),

(in either case the **Non-Defaulting Party**) may give the Defaulting Party a notice requiring the Defaulting Party to satisfy those obligations within a period of 5 Business Days after the date of the notice and specifying that time is of the essence in relation to that notice.

9.11 Remedies for failure to comply with notice

If the Defaulting Party fails to comply with a notice given under clause 9.10, the Non-Defaulting Party may without limiting its other rights or remedies available under this deed or at law:

(a) immediately terminate this deed, in which case the Non-Defaulting Party may seek damages for breach of this deed; or

(b) seek specific performance of this deed, in which case:

(i) if specific performance is obtained the Non-Defaulting Party may also seek damages for breach of this deed; and

(ii) if specific performance is not obtained the Non-Defaulting Party may then terminate this deed in which case the Non-Defaulting Party may seek damages for breach of this deed.

9.12 Title and risk

Beneficial ownership of and risk in the Shares will pass from the Seller to the Buyer on Completion.

10. Adjustment to Purchase Price

10.1 Preparation and delivery of Completion Balance Sheets

The Seller must prepare and deliver to the Buyer no later than 40 Business Days after Completion:

(a) a draft consolidated balance sheet of each of BankWest and St Andrew's and their respective controlled entities and HBOSGS as at Completion (together the **Draft Completion Balance Sheets**) including for BankWest Note 27(f) headed Capital Management and the items Net Fundamental Tier 1 Ratio, NFE, risk weighted assets, total assets and ratio of risk weighted assets to total assets) and prepared:

A. in the form of the Accounts;

B. in the case of BankWest, to exclude any new ordinary share capital issued by BankWest to the Buyer on or after Completion;

C. in the case of BankWest, to exclude any adjustments to NFE arising from all funding provided by the Buyer and to exclude any adjustments arising from Tier 2 subordinated debt instruments issued by BankWest to the Buyer, on or after Completion;

D. ~~B.~~ in accordance with:

(i) the accounting principles, policies and practices adopted by the Group Companies in the preparation of the Accounts; and

(ii) to the extent that the treatment of any item is not dealt with in the principles and policies referred to in clauses ~~10~~10.1(a)~~B~~D.(i), the Accounting Standards in force as at Completion.

(b) the calculations in accordance with clause 4.2(b); and

(c) the BankWest Adjusted Purchase Price, the St Andrew's Adjusted Purchase Price, the HBOSGS Adjusted Purchase Price and the Adjusted Purchase Price (the **Calculations**).

10.2 Reports and confirmations in relation to Draft Completion Balance Sheets

The Draft Completion Balance Sheets and the Calculations must:

(a) be audited by the Auditor and accompanied by a special purpose audit report, in compliance with Australian audit standards; and

(b) be accompanied by an unqualified report from the Auditor stating that in the opinion of the Auditor the Draft Completion Balance Sheets and the Calculations have been prepared in compliance with the provisions of this deed.

10.3 Assistance from Group Companies

The Buyer must from the Completion Date until the Completion Balance Sheets have been finalised in accordance with this clause 10 procure that each Group Company provides all assistance reasonably required to enable the Seller to comply with the provisions of clause 10.1, including by providing access to the Seller and the Seller Accountants to the records relating to the BankWest and St Andrew's Businesses and the employees of any Group Company and the relevant premises.

10.4 Buyer's response to Draft Completion Balance Sheets

The Buyer must within 40 Business Days after the date on which it receives the Draft Completion Balance Sheets and Calculations give notice to the Seller either:

(a) stating that the Buyer agrees with the Draft Completion Balance Sheets and Calculations; or

(b) stating that the Buyer does not agree with the Draft Completion Balance Sheets and/or Calculations and specifying:

(i) each item in the Draft Completion Balance Sheet(s) that it disputes;

(ii) the grounds on which it disputes each such item; and

(iii) the proposed adjustment to each item which it disputes.

If the Buyer gives notice under clause 10.4(a) that it agrees with the Draft Completion Balance Sheets and the Calculations or if at the conclusion of the 40 Business Day period referred to in this clause 10.4 the Buyer has not provided to the Seller a notice complying with either 10.4(a) or 10.4(b) then the Draft Completion Balance Sheets and the Calculations will constitute the Completion Balance Sheets and the Calculations respectively for the purposes of this deed.

10.5 Resolution of disputes and finalisation of Completion Balance Sheet

If within the 40 Business Day period referred to in clause 10.4 the Buyer gives notice under clause 10.4(b) (a **Dispute Notice**) that it disputes any item in the Draft Completion Balance Sheets and/or Calculations (each a **Disputed Item**) then:

(a) the Draft Completion Balance Sheets and the Calculations are final and conclusive of all matters specified in them which are not specified in the Dispute Notice;

(b) the Buyer and the Seller must confer and use all reasonable endeavours to resolve each Disputed Item within 20 Business Days after the Dispute Notice is given to the Buyer;

(c) if any Disputed Item is not resolved between the Buyer and the Seller within the 20 Business Day period referred to in clause 10.5(b) then the Disputed Items must be referred to a firm of accountants agreed by the Buyer and the Seller in writing or, failing such agreement within 10 Business Days, appointed by the Chairman of the Institute of Chartered Accountants in Australia, Sydney branch (the **Expert**) for resolution in accordance with clause 10.6;

(d) the Draft Completion Balance Sheets and/or Calculations must be adjusted to reflect the resolution of all Disputed Items resolved in accordance with clause 10.5(b) and the determination of all Disputed Items determined in accordance with clause 10.5(c) and clause 10.6; and

(e) the Draft Completion Balance Sheets and/or Calculations as adjusted under clause 10.5(d) will constitute the Completion Balance Sheets and Calculations for the purposes of this deed.

10.6 Determination by the Expert

The Buyer and the Seller must procure that the Expert determines the Disputed Items referred to the Expert under clause 10.5(c) in accordance with the following provisions:

(a) the Buyer and the Seller must instruct the Expert to:

(i) decide the Disputed Items in accordance with the terms of this deed and within the shortest possible time but, in any event, within 20 Business Days after the Disputed Items are referred to the Expert; and

(ii) provide a report to the Buyer and the Seller stating the determination of the Expert in relation to each Disputed Item referred to the Expert;

(b) the Expert must decide the procedure to be followed to determine the Disputed Items referred to the Expert;

(c) the Buyer and the Seller must provide the Expert with any information and assistance reasonably required by the Expert to determine the Disputed Items referred to the Expert;

(d) all correspondence between a party and the Expert must be in writing and copied to the other parties;

(e) the Expert acts as an independent expert and not as an arbitrator and the decision of the Expert is final and binding on the Buyer and the Seller in the absence of manifest error; and

(f) the Buyer must pay the costs of the Expert, except where the Adjusted Purchase Price as disclosed in the Completion Balance Sheets after the decision of the Expert is equal to or greater than 120% of the Adjusted Purchase Price as disclosed in the Draft Completion Balance Sheets, and in that case the costs of the Expert must be paid by the Seller.

11. Employees

11.1 Offer of employment

The Seller, or another Seller Group Member nominated by the Seller, must make an offer of employment to each Out of Scope Employee which must be made:

(a) ~~as soon as reasonably practicable after the date of this deed and in any event, within 10 Business Days of the date of this deed~~, on or before 29 October 2008; or

(b) in respect of any person who becomes an Out of Scope Employee after the date of this deed and prior to Completion, as soon as reasonably practicable after the date on which that person becomes an Out of Scope Employee and in any event within 2 Business Days of that date.

11.2 Terms of offer of employment

An offer of employment made by the Seller, or another Seller Group Member nominated by the Seller, under clause 11.1 must:

(a) be conditional on and effective from Completion;

(b) be conditional on the Out of Scope Employee's employment with the Group Company not ceasing before Completion;

(c) be on terms (including terms relating to superannuation) that are substantially similar and no less favourable, considered on an overall basis, than the terms of employment that applied to the Out of Scope Employee immediately before Completion;

(d) be for a role that is comparable or superior to the existing position of the Out of Scope Employee before Completion, taking into account the employee's salary, skills and experience and the location of the role;

(e) provide the Out of Scope Employee with the same or superior salary;

(f) provide that the Out of Scope Employee's service with the Group Company will be treated as service with the Seller or the Seller Group Member for the purpose of all service related entitlements and the continuity of the Out of Scope Employee's employment with the Group Company and the Seller or the Seller Group Member is deemed to be unbroken;

(g) provide that the Seller or Seller Group Member waives the qualifying period in section 634(6) of the Workplace Relations Act 1996 (Cth) in respect of any application made by the Out of Scope Employee under section 643(1)(a) of the Workplace Relations Act 1996 (Cth); and

(h) provide that by accepting the offer of employment the Out of Scope Employee will be taken to resign from his or her employment with the Group Company effective from Completion.

11.3 Secondees

The Buyer may require HBOSGS (or another Buyer nominee) to make, prior to Completion, an offer of employment to any Secondee. If the Buyer requires HBOSGS or another nominee to make an offer of employment to a Secondee, the Seller must encourage the Secondee to accept the offer; and if the Secondee accepts the offer of employment:

(a) the Completion Balance Sheet must include an amount equal to its likely assumed liability net of tax; and

(b) the Seller must pay the Buyer or the entity making the offer pursuant to clause 11.3(b) on demand an amount equal to all Indemnified Losses suffered or incurred by a Group Company arising out of or in connection with the termination of employment with the Group Company of any Secondee.

11.4 Buyer's review rights

Within 5 Business Days after the date of this deed the Seller must provide to the Buyer a draft of the offer of employment it has prepared in accordance with clauses 11.1 and 11.2 and give the Buyer a reasonable opportunity to comment on that draft.

11.5 Acceptance of resignation and release

On or before the Completion Date, the Seller must procure that the employer of each Transferring Employee:

(a) accepts the resignation of that Transferring Employee; and

(b) releases the Transferring Employee from their employment.

11.6 Payment obligations

On or before the Completion Date, the Seller must procure that the employer of each Transferring Employee pays to or in respect of that Transferring Employee:

(a) all amounts to which the Transferring Employee is entitled (other than the Employee Entitlements) including wages, salary, allowances, superannuation contributions and commissions accrued or arising at Completion (whether arising by law or under any award, agreement, contract or arrangement) in relation to their employment before Completion; and

(b) to the extent it has not already done so, all bonus payments which have fallen due for payment in respect of any period before the Completion Date.

11.7 Seller's payment obligations

With effect from Completion, the Seller or Seller Group Member must pay to and in respect of each Transferring Employee as and when they fall due:

(a) the Employee Entitlements of that Transferring Employee;

(b) all annual leave, long service leave and personal/carer's leave of that Transferring Employee accruing after Completion; and

(c) all wages, salary, allowances, superannuation contributions, commissions and other payments of each Transferring Employee accruing after Completion.

11.8 Non-Transferring Employees

On or before Completion, the Seller must procure that the employer of each Non-Transferring Employee:

(a) terminates that employee's employment with effect from Completion;

(b) pays or provides to or in respect of the employee any amount or benefit the employee is entitled to receive including wages, salary, allowances, all bonus payments, superannuation contributions and commission in relation to their employment; and

(c) pays or provides to or in respect of the employee any amount or benefit the employee is entitled to receive in relation to the termination of their employment.

11.9 Seller's indemnity

(a) The Seller must pay to the Buyer or HBOSGS on demand an amount equal to all Indemnified Losses suffered or incurred by a Group Company arising out of or in connection with any claim by any employee of that Group Company for any amount to which the employee is entitled, including wages, salary, allowances, all bonus payments which have fallen due for payment before Completion, superannuation contributions and commission in relation to their employment by the Group Company before Completion, including the Employee Entitlements.

(b) The Seller must pay to the Buyer or HBOSGS on demand an amount equal to all Indemnified Losses suffered or incurred by a Group Company arising out of or in connection with any claim by any Transferring Employee for any amount to which the Transferring Employee is entitled including wages, salary, allowances, all bonus payments, superannuation contributions and commission in relation to their employment on or after Completion.

11.10 Seller's further indemnity

The Seller must pay to the Buyer or HBOSGS on demand an amount equal to all Indemnified Losses suffered or incurred by a Group Company arising out of or in connection with the termination of employment with the Group Company of any Out of Scope Employee.

12. Repayment of indebtedness

(a) Subject to clause 12(dc), the parties agree that immediately prior to or on Completion:

(i) all repurchase agreements and other financial transactions between Seller Group Companies and Group Companies, other than hedge arrangements, letters of credit and bank guarantees dealt with in accordance with paragraph 1 of Schedule 4, will be closed out in accordance with usual market conventions;

(ii) (subject to any APRA approval required in relation to the subordinated debt) and subject to clause 12(d), any amount owing by a Group Company to a Seller Group Member including without limitation the subordinated debt, will be paid in full by that Group Company (including accrued interest, but no break costs or prepayment penalties will apply);

(iii) subject to clause 12(d), any amount owing by a Seller Group Member to a Group Company will be paid in full by that Seller Group Member (including accrued interest, but no break costs or prepayment penalties will apply); and

(iv) ~~subject to clause 9.2(c)~~ BankWest will redeem the BankWest Redeemable Preference Shares for the BankWest Redeemable Preference Share Amount which will be payable by the Buyer on Completion.

~~The arrangements must be effected in a manner that results in a single net amount being due from BankWest to the Seller or by the Seller to BankWest, such amount other than the Excess Amount to be payable at Completion with the funds provided by the Buyer in accordance with clause 3.7.~~

(b) At Completion, the parties will undertake the transactions contemplated by paragraph 1 of Schedule 4 to be undertaken at Completion.

~~(c) If on 1 Business Day prior to the Completion Date the conditions in clause 9.3(b) have not been satisfied to permit BankWest to redeem the BankWest Redeemable Preference Shares or repay subordinated debt, the Buyer will purchase the BankWest Redeemable Preference Shares and subordinated debt at par from the Seller's Guarantor at Completion. The Seller agrees to use reasonable endeavours to ensure that APRA approval to the repayment of the subordinated debt is obtained and if that is not possible, reasonable endeavours to minimise the costs to the Buyer of the purchase of the subordinated debt.~~

(c) ~~(d)~~ If the aggregate amount payable by the Buyer and the Group Companies to the Seller Group Members under clause 12(a), ~~(b)~~ and (cb) is greater than $14.5 billion, then the amount that is greater than $14.5 billion (the Excess Amount) will not be required to be paid by the Buyer or the Group Companies until the date falling 6 months after the Completion Date (the Payment Completion Date). In addition to paying the Excess Amount on the Payment Completion Date, the Group Companies shall also pay interest on the Excess Amount at the Australian Bank Bill Swap Reference Rate for 6 months. Footnote 13

(d) ~~Liabilities owed between Seller Group Members and Group Companies for normal operating services incurred in the ordinary course of business on or prior to Completion for the months of November (to the extent not already paid) and December 2008 (which the Seller estimates to be approximately $2 million) will be paid promptly upon calculation of the relevant amounts after month end of 31 December 2008, and in any event by 31 January 2009.~~

13. Release of Guarantees

13.1 Group Company Guarantees

The Seller must use all reasonable endeavours to procure the release with effect from Completion of each Group Company from any actual, contingent or accrued liabilities under each Group Company Guarantee, including by providing to the beneficiary under each Group Company Guarantee an equivalent Guarantee and any information or document reasonably required by that beneficiary as a condition of releasing that Group Company Guarantee. If any Group Company Guarantee is not released by Completion the Seller:

(a) must continue to use all such reasonable endeavours after Completion to procure the release of that Group Company Guarantee; and

(b) must pay to the Buyer on demand an amount equal to all Indemnified Losses suffered or incurred after Completion by any Buyer Group Member under or in connection with a Group Company Guarantee.

13.2 Seller Group Guarantees

The Buyer must use all reasonable endeavours to procure the release with effect from Completion of each Seller Group Member from any actual, contingent or accrued liabilities under each Seller Group Guarantee, including by providing to the beneficiary under each Seller Group Guarantee an equivalent Guarantee and any information or document reasonably required by that beneficiary as a condition of releasing that Seller Group Guarantee. If any Seller Group Guarantee is not released by Completion the Buyer:

(a) must continue to use all such reasonable endeavours to procure the release of such Seller Group Guarantee; and

(b) must pay to the Seller on demand an amount equal to all Indemnified Losses suffered or incurred after Completion by any Seller Group Member under or in connection with a Seller Group Guarantee.

14. Other obligations following Completion

14.1 Access to Records

(a) In addition to any other rights of access under this deed, the Buyer must procure that for a period of 7 years after Completion (or for any longer period required by law) each Group Company retains all records relating to the BankWest and St Andrew's Businesses and makes available to the Seller and its Representatives on

reasonable notice and at the expense of the Seller any such records which are reasonably required by the Seller:

(i) to enable any Seller Group Member to prepare accounts, tax returns and other statutory returns or fulfil any other obligation relating wholly or partly to any period before Completion; or

(ii) in connection with the prosecution or defence of any claim by or against any Seller Group Member.

(b) Clause 21 applies to any information provided under clause 14.1(a) and the Seller shall have no claim against any Buyer Group Member or Group Company with respect to the accuracy, relevance or use of that information.

(c) The Buyer is not obliged to waive legal professional privilege. The Seller must comply with any reasonable steps requested by the Buyer to preserve confidentiality.

14.2 Seller Trade Marks

The Buyer acknowledges that the Seller or the relevant Seller Group Member remain the owner of each Seller Trade Mark and the parties agree that:

(a) the Buyer will not; and

(b) with effect from the date which is 2090 Business Days after the Completion Date, the Buyer will procure that each Group Company does not,

use any trade mark, brand name, business name, domain name or corporate name that contains or includes a Seller Trade Mark or is deceptively similar to a Seller Trade Marks.

15. Warranties

15.1 Warranties

The Seller's Guarantor warrants to the Buyer and each Buyer Nominee that each Warranty is true and correct as at:

(a) the date of execution of this deed; and

(b) at Completion,

unless the Warranty is expressed to be given only at a particular time in which case it is given as at that time.

15.2 Warranties separate

Each Warranty is to be treated as a separate warranty and is not limited by reference to any other warranty or any other provision of this deed.

15.3 Reliance

The Seller's Guarantor acknowledges that the Buyer has entered into this deed and will complete this deed in reliance on the Warranties.

15.4 Tax indemnity

The Seller's Guarantor indemnifies the Buyer, each Buyer Nominee and each Group Company against, and must pay the Buyer, Buyer Nominee or Group Company the amount of, any Tax payable by a Group Company to the extent that Tax relates to any period, or part period, up to and including Completion.

15.5 Termination for breach of Warranty

If before Completion the Seller's Guarantor becomes aware of any fact, matter or circumstance which is reasonably likely to result in a Warranty Claim of not less than $750 million if Completion were to occur then:

(a) the Seller's Guarantor must advise the Buyer of details of the fact, matter or circumstance; and

(b) either the Seller's Guarantor or the Buyer may, by notice to the other at any time before Completion, terminate this deed.

15.6 Buyer's acknowledgments

The Buyer acknowledges and agrees that:

(a) the Buyer has made and has relied on its own searches, investigations and enquiries in respect of the Group Companies, the Business and the Assets and its own evaluation of any material provided by the Seller to the Buyer or its Representatives before the date of this deed including the Due Diligence Materials;

(b) it has agreed to enter into this deed regardless of the scope of the due diligence inquiries it has been able to conduct and the time within which these inquiries have been conducted;

(c) the Buyer has extensive knowledge and experience of the financial services industry in Australia and has had the benefit of independent legal, financial and technical advice relating to its proposed purchase of the Shares and the terms of this deed;

(d) no Seller Group Member has made and no Representative of any Seller Group Member has made any warranty as to the accuracy of any forecast, budget, estimate, projection, statement of opinion or statement of intention provided to the Buyer or its Representatives before the date of this deed other than the Warranties;

(e) the Buyer is not entering into this deed in reliance on, and it may not rely on, any forecast, budget, estimate, projection, statement of opinion, statement of intention or any other warranty, representation or other statement made or purporting to be made by or on behalf of any Seller Group Member, or its Representatives, other than the Warranties; and

(f) any Claim by any Buyer Group Member must be based solely on and limited to the express provisions of this deed and that, to the maximum extent permitted by law, all terms and conditions that may be implied by law in any jurisdiction and which are not expressly set out in this deed are excluded (and to the extent that any such terms and conditions cannot be excluded then the Buyer irrevocably waives all rights and remedies that it may have in relation to, and releases the Seller and each of its Representatives from any liability in respect of, such terms and conditions).

15.7 Warranties by the Buyer

The Buyer warrants to the Seller's Guarantor:

(a) that each Buyer Warranty is true and correct as at the date of execution of this deed and as at the time immediately prior to Completion; and

(b) that as at the date of this deed it has no actual knowledge of any breach of any Warranty or any other fact, matter or circumstance that it is aware will give rise to a Warranty Claim being made against the Seller's Guarantor.

16. Limitations of liability

16.1 Disclosure and knowledge

The Seller's Guarantor is not liable in respect of a Warranty Claim to the extent that the fact, matter or circumstance giving rise to the Warranty Claim:

(a) is disclosed or described in this deed;

(b) is fully and fairly disclosed in the Due Diligence Materials;

(c) would have been disclosed to the Buyer had the Buyer conducted searches prior to the date of this deed of the public records maintained by ASIC;

(d) was known to the Buyer before 2am on 7 October 2008 including as a result of their due diligence inquiries;

(e) became known to the Buyer or its Representatives after the date of this deed and before Completion and the Buyer did not give notice of that fact, matter or circumstances to the Seller before Completion; or

(f) is provided for or otherwise taken into account in the Last Accounts or Completion Balance Sheets either specifically or as part of a general provision or allowance for matters of that type or nature or is disclosed in the Last Accounts or Completion Balance Sheets.

The Buyer or a Buyer Nominee shall not be precluded from making a Claim because of clause 16.1(e) if the aggregate of undisclosed Claims, along with disclosed Claims, would not have given the Seller's Guarantor a right to terminate pursuant to clause 15.5, but the right to Claim will be reduced to the extent that the Seller's Guarantor and the Seller have suffered loss or damage as a result of the fact disclosure was made after Completion.

16.2 Time limits for Warranty Claims

The Seller's Guarantor is not liable in respect of a Warranty Claim unless:

(a) the Buyer or a Buyer Nominee has given the Seller and the Seller's Guarantor notice describing in reasonable detail each fact, matter or circumstance giving rise to the Warranty Claim and stating why such fact, matter or circumstance gives rise to a Warranty Claim and including an estimate of the amount (to the extent then known) of the Warranty Claim (Claim Notice) no later than 20 Business Days after the Buyer first becomes aware of that fact, matter or circumstance and of the fact that it constitutes a breach of Warranty and the Buyer agrees to provide any Claim Notice within such period;

(b) in relation to Warranty Claim other than for a Title Warranty or Tax Warranty, the Claim Notice is received by the Seller's Guarantor no later than 1 year after Completion;

(c) in relation to a Warranty Claim for a Tax Warranty, the Claim Notice is received by the Seller's Guarantor no later than 7 years after Completion; and

(d) within 6 months after the Claim Notice is received by the Seller or the Seller's Guarantor (as the case may be) either the Warranty Claim has been satisfied or settled or the Buyer or a Buyer Nominee has commenced legal proceedings against the Seller or the Seller's Guarantor (as the case may be) in respect of the Warranty Claim.

16.3 Minimum amount for Warranty Claims

(a) The Seller's Guarantor is not liable in respect of a Warranty Claim unless the amount that the Buyer or a Buyer Nominee would be entitled to recover in relation to that Warranty Claim is at least $5 million.

16.4 Threshold for Warranty Claims

The Seller's Guarantor is not liable in respect of a Warranty Claim unless the aggregate amount that the Buyer and the Buyer Nominees would be entitled to recover in relation to all Warranty Claims is at least $30 million, in which event the Seller and the Seller's Guarantor are liable for the whole of that amount and not merely the excess.

16.5 Insurance coverage

If any Buyer Group Member has a right to recover under any contract of insurance in respect of any fact, matter or circumstance giving rise to the Warranty Claim, Seller's Guarantor is not liable in respect of that Warranty Claim to the extent that the relevant Buyer Group Member recovers from the relevant insurer.

16.6 Other limitations

The Seller's Guarantor is not liable in respect of any Warranty Claim to the extent that:

(a) the fact, matter or circumstance giving rise to the Warranty Claim is provided for or otherwise taken into account in the Completion Balance Sheets;

(b) the loss or damage giving rise to the Warranty Claim is recovered by any Buyer Group Member under another Warranty Claim or is made good or otherwise compensated for without cost to any Buyer Group Member;

(c) the fact, matter or circumstance giving rise to the Warranty Claim gives rise to a Tax benefit to any Buyer Group Member;

(d) the circumstances giving rise to the Warranty Claim are remedied by the Seller to the reasonable satisfaction of the Buyer within 10 Business Days after receiving notice of the Warranty Claim from the Buyer or a Buyer Nominee;

(e) the Warranty Claim arises out of anything done or omitted to be done in accordance with the terms of this deed or with the prior written approval of the Buyer or a Buyer Nominee;

(f) the Warranty Claim arises out of any voluntary act, omission or transaction carried out after Completion by or on behalf of any Buyer Group Member (other than in conducting the business of any Group Company in the ordinary course and in the same manner as carried on before Completion);

(g) the amount of the Claim is increased as a result of the failure of the Buyer to comply with its obligations under clause 17 in respect of that Claim;

(h) the Claim arises out of any change after Completion in the accounting policies or practices applied by any Buyer Group Member other than those required by law;

(i) the Warranty Claim arises from a change in any legislation or regulation, any judicial or administrative interpretation of the law or any practice or policy of a Regulatory Authority after the date of this deed (whether or not retrospective in effect); or

(j) the Claim arises from a cessation of or a significant change in the nature of the business of the Group Companies after Completion undertaken by or at the direction of the Buyer or a Buyer Nominee.

16.7 Limitations on liability in respect of Tax Claims

The Seller's Guarantor is not liable in respect of any Tax Claim to the extent that:

(a) provision for the Tax which is the subject of the Tax Claim has been included in the Completion Balance Sheets;

(b) the amount otherwise payable in respect of the Tax Claim has been recovered by the Buyer or a Buyer Nominee under a Warranty Claim;

(c) the fact, matter or circumstance giving rise to the Tax Claim gives rise to any Tax benefit to any Buyer Group Member;

(d) the Tax Claim arises out of anything done or omitted to be done in accordance with the terms of this deed or with the prior written approval of the Buyer or a Buyer Nominee;

(e) the Tax Claim arises out of any voluntary act, omission or transaction carried out by or on behalf of any Buyer Group Member after Completion;

(f) the Tax Claim arises from the failure of any Buyer Group Member after Completion to make any valid claim or election in relation to Tax the making of which was assumed in preparing the Last Accounts or the Completion Balance Sheets or to lodge in a timely manner any return, notice or other document relating to Tax;

(g) the Tax Claim arises from a change by any Buyer Group Member after Completion in any claim or election in relation to Tax made before Completion or the amendment after Completion of any Tax return of any Buyer Group Member relating to a period ending on or before Completion (except where that amendment is required by law or is approved by the Seller in writing before it is made);

(h) the amount of the Tax Claim is increased as a result of the failure of the Buyer to comply with the provisions of clause 20;

(i) the Tax Claim arises from a change in any legislation or regulation relating to Tax, any judicial or administrative interpretation of such legislation or regulation or any practice or policy or public or private ruling of any Tax Authority after the date of this deed (whether or not retrospective in effect); or

(j) the Tax which is the subject of the Tax Claim is GST which is recoverable from the recipient of a supply or for which an input tax credit is available.

The Seller's Guarantor is not liable in respect of a Tax Claim unless the notice of the Tax Claim is received by the Seller's Guarantor no later than 7 years after Completion.

16.8 Maximum recovery

The maximum aggregate amount recoverable by the Buyer and the Buyer Nominees from the Seller and the Seller's Guarantor in relation to all Claims is the amount of the Initial Purchase Price.

16.9 Rights against Third Parties

If the Seller or the Seller's Guarantor has made a payment to the Buyer or a Buyer Nominee in relation to any Warranty Claim and any Buyer Group Member has or subsequently obtains a right to recover an amount from any person other than the Seller or Seller's Guarantor in connection with the fact, matter or circumstance that gave rise to the Warranty Claim, the Buyer must:

(a) promptly notify the Seller of that right of recovery and provide such information in relation to the circumstances giving rise to that right as the Seller may reasonably require; and

(b) take or procure that the relevant Buyer Group Member takes all reasonable steps to enforce that right of recovery.

16.10 Reimbursement of benefits subsequently received

If the Seller or the Seller's Guarantor has made a payment to the Buyer or a Buyer Nominee in respect of a Warranty Claim (**Claim Amount**) and after such payment is made any Buyer Group Member receives any payment, benefit or credit (including any benefit in relation to Tax) by reason of the fact, matter or circumstance to which the Warranty Claim relates (**Recovery Amount**), then the Buyer or Buyer Nominee must as soon as reasonably practicable repay to the Seller or the Seller's Guarantor an amount equal to the lesser of the Claim Amount and the Recovery Amount less:

(a) all costs incurred by any Buyer Group Member in recovering the Recovery Amount (including any increase in insurance premiums in respect of future periods); and

(b) any Tax payable by any Buyer Group Member as a result of receiving the Recovery Amount.

16.11 Mitigation

Nothing in this deed relieves any person from any duty at law to mitigate any loss or damage that it may suffer or incur as a result of any breach of this deed (including a breach of any Warranty).

16.12 Exclusion of certain losses

No party is liable to any other party for any loss or damage resulting from a breach of this deed (including a breach of any Warranty):

(a) which does not arise naturally or in the usual course of things from that breach where that loss was not in the reasonable contemplation of the parties at the time of the execution of this deed; or

(b) which constitutes, or arises from or in connection with, a loss of goodwill or loss of business reputation even if such loss arises naturally or in the usual course of things from that breach,

except where this deed specifically provides that that type of loss or damage is recoverable.

16.13 No action against officers and employees

(a) The Buyer waives and must procure that each other Buyer Group Member waives all rights and claims that it may have personally against the officers and employees of any Seller Group Member in relation to any matter arising directly or indirectly in connection with this deed or the sale of the Shares. The parties acknowledge and agree that:

(i) the Seller has sought and obtained this waiver as agent for and on behalf of each Seller Group Member's respective officers and employees and holds the benefit of this clause 16.13(a) as trustee for them; and

(ii) the provisions of this clause 16.13(a) may be enforced by the Seller on behalf of and for the benefit of each Seller Group Member's respective officers and employees and those persons may plead this clause 16.13(a) in answer to any claim made by a Buyer Group Member against them.

This clause 16.13(ba) does not apply to any rights and claims which arise as a result of or in connection with a fraudulent act or omission by any of the aforementioned persons in relation to any matter arising directly or indirectly in connection with this deed or the sale of the Shares.

(b) The Seller waives and must procure that each other Seller Group Member waives all rights and claims that it may have personally against the current or former directors, officers and employees of any Buyer Group Member, including any director, officer or employee of any Buyer Group Member who was at the date of this deed a director, officer or employee of the Seller, any Seller Group Member or a Group Company, in relation to any matter arising directly or indirectly in connection with this deed or the sale of the Shares. The parties acknowledge and agree that:

(i) the Buyer has sought and obtained this waiver as agent for and on behalf of each Buyer Group Member's respective directors, officers and employees and holds the benefit of this clause 16.13(b) as trustee for them; and

(ii) the provisions of this clause 16.13(b) may be enforced by the Buyer on behalf of and for the benefit of each Buyer Group Member's respective directors, officers and employees and those persons may plead this clause 16.13(b) in answer to any claim made by a Seller Group Member against them.

This clause 16.13(b) does not apply to any rights and claims which arise as a result of or in connection with a fraudulent act or omission by any of the aforementioned persons in relation to any matter arising directly or indirectly in connection with this deed or the sale of the Shares.

16.14 Circumstances where limitations not to apply

None of the limitations in this clause 16 apply to any Claim to the extent that it arises out of, or is increased as a result of, any fraud by the Seller or any of its Representatives.

16.15 Refunds

If the Seller's Guarantor made a payment to the Buyer in relation to Tax Claims under clause 16.4 **(Tax Payment Amount)** and any Buyer Group Member receives any refund in respect of the fact, matter or circumstance in respect of which that payment was made **(Tax Refund Amount)** then the Buyer must as soon as reasonably practicable after receipt pay to the Seller's Guarantor an amount equal to the lesser of the Tax Payment Amount and the Tax Refund Amount less:

(a) all costs incurred by any Buyer Group Member in obtaining such refund; and

(b) if a refund includes interest on overpaid Tax, the amount of Tax payable on that interest by the recipient of the refund.

17. Third Party Claims

17.1 Notice

Without limiting any other rights of the Seller under this deed, if after Completion the Buyer becomes aware of any Third Party Claim which may give rise to a Warranty Claim the Buyer must within 20 Business Days after becoming aware of the Third Party Claim (and of the fact that it may give rise to a Warranty Claim) give the Seller notice of the Third Party Claim (including reasonable details of the facts, matters or circumstances giving rise to the Third Party Claim, the basis of the Third Party Claim and an estimate of the amount of the Third Party Claim).

17.2 Obligations after notice given

If the Buyer gives notice under clause 17.1 then until the Third Party Claim has been finally resolved or the Seller gives notice under clause 17.3:

(a) the Buyer must act and must procure that each relevant Group Company acts in good faith and with due diligence in relation to the Third Party Claim;

(b) the Buyer must give to the Seller such information and assistance as the Seller may reasonably require in relation to the Third Party Claim and must regularly consult with the Seller in relation to the conduct of any proceedings or negotiations in relation to the Third Party Claim; and

(c) the Buyer must not make and must procure that no Group Company makes any admission of liability, agreement, compromise or settlement in relation to the Third Party Claim without the prior written consent of the Seller which must not be unreasonably withheld.

17.3 Assumption of conduct by Seller

Upon receipt of a notice under clause 17.1, the Seller may, by giving written notice to the Buyer within 40 Business Days from the date of notice, assume the conduct of the defence of the Third Party Claim.

17.4 Effect of assumption of conduct by Seller

If the Seller gives notice under clause 17.3 assuming the conduct of a Third Party Claim then, subject to clauses 17.5 and 17.6, and provided that the Seller provides the Buyer and the Group Companies with an indemnity against all Indemnified Loss that may result from such action (together with such security to support the indemnity as the Buyer may reasonably request):

(a) the Buyer must allow and must procure that each Group Company allows the Seller to take over the conduct of all proceedings and negotiations in relation to the Third Party Claim and to settle or compromise the Third Party Claim;

(b) the Buyer must procure that each Group Company:

(i) provides the Seller and its professional advisers with such access to the employees and records of each relevant Group Company as the Seller may reasonably require in connection with the Third Party Claim and permits the Seller to take copies of such records;

(ii) uses all reasonable endeavours (including the reimbursement of all out of pocket expenses) to procure that employees of each Group Company provide such witness statements and other evidence as the Seller may reasonably require to avoid, dispute, resist, defend, appeal, compromise or mitigate the Third Party Claim;

(iii) takes all other action that the Seller may request to avoid, dispute, resist, defend, appeal, compromise or mitigate the Third Party Claim; and

(iv) does not make any admission of liability, agreement, compromise or settlement in relation to the Third Party Claim without the prior written consent of the Seller which consent must not be unreasonably withheld or delayed;

(c) the Seller must give to the Buyer such information as the Buyer may reasonably require in relation to the Third Party Claim and must keep the Buyer informed in relation to the conduct of any proceedings or negotiations in relation to the Third Party Claim; and

(d) the Seller must pay to the Buyer on demand an amount equal to all reasonable costs and expenses suffered or incurred by the Buyer or any Group Company arising out of or in connection with any action taken by, or omitted to be taken by, the Buyer or any Group Company under this clause 17.4.

17.5 Conduct of claim by Seller

If the Seller assumes the conduct of the defence of a Third Party Claim, in conducting any proceedings or actions in respect of that Third Party Claim, the Seller must:

(a) act in good faith;

(b) liaise with the Buyer in relation to the defence of the Third Party Claim;

(c) provide the Buyer with reasonable access to a copy of any notice, correspondence or other document relating to the Third Party Claim; and

(d) act reasonably in all the circumstances, including having regard to the likelihood of success and the effect of the proceedings or actions on the goodwill or reputation of the Business or any party to this deed.

17.6 Restriction on access

Nothing in clause 17.4 requires the Buyer (acting reasonably) to allow the Seller to have access to anything that:

(a) is the subject of legal professional privilege; or

(b) has been prepared for the purpose of, or in contemplation of, the Buyer making a Claim against the Seller under this deed.

18. Restraint

18.1 Non-competition

The Seller must not, and must procure that each other Restricted Person does not for a period of 3 years after Completion carry on any Restricted Business as principal or on its own account or as agent for any other person within Western Australia, New South Wales, Victoria or Queensland.

18.2 Non-solicitation

The Seller must not, and must procure that each other Restricted Person does not for a period of 12 months after Completion:

(a) approach any person who is at Completion a customer of any Group Company for the purpose of obtaining that person as a customer for goods or services provided in Australia of the type provided by any Group Company at Completion, unless that person is approached in the ordinary course of the business of the Restricted Person as at Completion; or

(b) induce or encourage any person who is at Completion a director or senior employee of any Group Company to leave his or her employment.

18.3 Exceptions

Clauses 18.1 and 18.2 do not prevent any Restricted Person from:

(a) holding securities in any listed corporation or unit trust which in aggregate carry not more than 5% of the votes which could be cast at a general meeting of that corporation or a meeting of holders of units in that unit trust;

(b) advertising employment vacancies in any newspaper, website or other publication or through a recruitment agency (except where the recruitment agency targets employees of any Group Company) and interviewing and negotiating with any person responding to such advertisement;

(c) continuing to conduct after Completion any business carried on as at Completion by Seller Group Members, or Lloyds TSB Group plc, or any of its subsidiaries who are not Seller Group Members other than the Group Companies, as at the date of this agreement; and

(d) acquiring and operating any group of companies, company or business which has operations in Australia which carry on any Restricted Business or otherwise compete with any Group Company provided those operations do not account for more than 20% of the worldwide turnover of any such group, company or business.

19. Tax

19.1 Exit from Seller Consolidated Group

The Seller must:

(a) procure that until the Completion Date each Group Company remains a subsidiary member of the Seller Consolidated Group;

(b) no later than 10 Business Days before Completion give to the Buyer a statement of the Group Liabilities of the Seller Consolidated Group that have fallen due or that will fall due before Completion and a draft calculation of the Exit Payment for each Group Company;

(c) no later than 2 Business Days before Completion:

(i) give to each Group Company a calculation of the Exit Payment for each Group Company based on the draft calculation referred to in clause 19.1(b) but amended as required to take account of any reasonable comments provided by the Buyer on or before the date that is 5 Business Days before Completion; and

(ii) procure that each member of the Seller Consolidated Group gives all other notifications required to be given under the Tax Sharing Agreement in connection with the proposed exit of each Group Company from the Seller Consolidated Group; and

(d) no later than one Business Day before Completion procure that each Group Company pays to the Seller the Exit Payment for that Group Company and provide to the Buyer written evidence of such payment having been made.

19.2 Over-provision for Tax

If:

(a) except in relation to a Tax on income assessed under the ITAA 1936 or ITAA 1997, an accrual, allowance, provision or reserve in the ~~Last~~Completion Accounts in respect of a Tax exceeds the actual liability in respect of that Tax and the liability has been finally satisfied after Completion; or

(b) except in relation to a Tax on income assessed under the ITAA 1936 or ITAA 1997, an entitlement to any credit, rebate, relief, right of set off or right to repayment of Tax or any allowance, deduction, tax loss or other benefit that is shown as an asset in the ~~Last~~Completion Accounts is understated and the amount of the understatement has been actually received by a Group Company after Completion,

then the Buyer will within 5 Business Days of the satisfaction of the liability or receipt of underpayment, as the case may be, pay to the Seller the amount of the actual excess or actual understatement.

20. Tax returns and tax audits

20.1 Tax returns relating to periods ending before Completion

The Seller is responsible for preparing and lodging with the appropriate Tax Authority all returns required to be lodged in relation to the Tax affairs of any Group Company in relation to any period ending on or before Completion that have not been prepared and lodged on or before Completion and the Seller must prepare and lodge all such returns as soon as reasonably practicable after Completion.

20.2 Assistance from Buyer

The Buyer must provide to the Seller at its own cost all information and assistance reasonably required by the Seller (including reasonable access to employees and records of the Group Companies) in connection with the preparation of the returns referred to in clause 20.1.

20.3 Tax returns relating to periods ending after Completion

The Buyer is responsible for preparing and lodging with the appropriate Tax Authority all returns required to be lodged in relation to the Tax affairs of any Group Company in relation to any period ending after Completion. The Buyer must, in respect of all returns in relation to the period in which Completion occurs:

(a) prepare all such returns with due care, skill and diligence and as soon as reasonably practicable after the end of the relevant period;

(b) give to the Seller drafts of all such returns and any other documents to be provided to any Tax Authority in relation to such returns before submission to the relevant Tax Authority and permit the Seller a reasonable opportunity to comment on these documents;

(c) lodge all such returns and other documents with the relevant Tax Authority as soon as practicable after receipt of the Seller's comments (and in any event within any time period required by law) and provide a copy of the lodged documents to the Seller; and

(d) provide the Seller with copies of all correspondence with any Tax Authority in relation to such returns after lodgement.

20.4 Assistance from Seller

The Seller must provide to the Buyer at the Buyer's own cost all information and assistance reasonably required by the Buyer in connection with the preparation of any returns referred to in clause 20.3 where any part of the period in relation to which the return is required is before Completion.

20.5 Tax audits

(a) (Notice): If after Completion the Buyer becomes aware of any Tax Demand which may give rise to a Warranty Claim the Buyer must within 20 Business Days after becoming aware of the Tax Demand give the Seller notice and a copy of the Tax Demand (including reasonable details of the facts, matters or circumstances giving rise to the Tax Demand, the basis of the Tax Demand and an estimate of the amount of the Tax Demand).

(b) **(No admission):** Subject to the Seller's continuing compliance with clause 20.5(e) and clause 20.5(f) the Buyer must not, and must ensure that each Group Company and Buyer Group Member does not:

(i) accept, compromise or pay.

(ii) agree to arbitrate, compromise or settle; or

(iii) make any admission or take any action in relation to,

a Tax Demand that may lead to liability on the part of the Seller under a Claim or Tax Claim without the Seller's prior written approval (which must not be unreasonably withheld or delayed). However, the Buyer or a Group Company may pay any Tax to a Tax Authority by the due date for payment without affecting any of its rights under this deed.

(c) **(Payment if not contesting a Tax Demand):** If the Seller does not advise the Buyer that it wishes to contest the Tax Demand then the Seller must pay in as a reduction in the Purchase Price the amount notified by the Buyer by the later of:

(i) 2 Business Days before the due date for payment to the Tax Authority; or

(ii) 10 Business Days after receipt of the notice given by the Buyer under clause .

(d) **(Contesting a Tax Demand):** Following receipt of a notice under clause 20.5(a) in respect of a Tax Demand, the Seller may, by written notice to the Buyer by the later of 5 Business Days before the due date for payment of the relevant Tax or 10 Business Days of receiving notice of the Tax Demand under clause 20.5(a) advise the Buyer that it wishes to contest the Tax Demand.

(e) **(Procedure for contesting a Tax Demand):** If the Seller advises the Buyer that it wishes to contest the Tax the subject of the Tax Demand then:

(i) **(Payment of Tax):** the Seller must pay the Buyer as a reduction in the Purchase Price so much of the Tax as is required by the relevant Tax Authority to be paid while any action is being taken by the date which is the later of 2 Business Days before the due date for payment to the Tax Authority and 10 Business Days after receipt of the notice given by the Buyer under clause 20.5(a) and the Buyer must promptly pay the relevant amount to the Tax Authority; and

(ii) **(Objection to Tax Demand or Disputing Action):** at the Seller's written request, the Buyer must take, or procure that the person required to pay the Tax (**Tax Payer**) takes such Disputing Action in a timely manner in relation to the Tax Demand as the Seller may reasonably require.

(f) **(Conduct of proceedings by Seller):** If the Seller contests the Tax the subject of the Tax Demand then the Buyer must follow, and must procure that each Buyer

Group Member and Group Company follows, all reasonable directions of the Seller relating to the conduct of any Disputing Action referred to in clause 20.5(e) and this clause 20.5(f) including using professional advisers nominated by the Seller. In making any directions under this clause 20.5(f), the Seller must:

(i) act in good faith;

(ii) liaise with the Buyer in relation to conduct of Disputing Action referred to in clause 20.5(e) and this clause 20.5(f);

(iii) provide the Buyer with reasonable access to a copy of any notice, correspondence of other document relating to that Disputing Action; and

(iv) act reasonably in all the circumstances, including, having regard to the likelihood of success and the effect of the directions on the goodwill or reputation of the BankWest and St Andrew's Businesses or any party to this deed.

(g) **(Access):** The Buyer must provide, and must procure that each Buyer Group Member and Group Company provides, the Seller with all reasonable assistance requested by it in relation to the Tax Demand and the Disputing Action contemplated by clause 20.5(e) and clause 20.5(f) including providing, at the Seller's cost, access to witnesses and documentary or other evidence relevant to the Tax Demand or the Disputing Action, allowing it and its legal advisers to inspect and take copies of all relevant books, records, files and documents, and providing it with reasonable access to the personnel, premises and chattels of the Seller Group Members and the Group Companies for the sole purpose of obtaining information in relation to the Tax Demand to the Disputing Action.

20.6 Change in tax treatment

(a) If, following Completion, and in consequence of the acquisition of the Shares by the Buyer, the Buyer considers it necessary or appropriate to amend the Tax treatment of any pre Completion matter of BankWest and/or St Andrews, subject to clause 20.6(b), the Seller must procure that each Seller Group Member works with the Buyer in good faith to facilitate such amendment applications.

(b) Subject to clause 20.6(c), the Buyer indemnifies the Seller against:

(i) all reasonable costs incurred by the Seller in working with the Buyer to facilitate such amendment applications; and

(ii) any Tax liabilities arising out of such amendment applications.

(c) In consideration of the indemnities in clause 20.6(b), the Seller agrees to pass on to the Buyer the full amount of any Tax liability (or Tax refund) that may arise in consequence of any such amendment applications.

(d) This clause 20.6 only applies to amendment applications made as a consequence of a change in tax treatment arising as a consequence of the acquisition of BankWest and St Andrews by the Purchaser, and does not restrict the liabilities of the Seller in relation to the amendment of the Tax liability arising out of the period prior to Completion in accordance with clause 15.4.

21. Confidentiality

21.1 No announcement or other disclosure of transaction

Except as permitted by clause 21.2:

(a) the Seller must keep confidential, and must:

(i) procure that each Seller Group Member and each of their respective Representatives, keeps confidential; and

(ii) until Completion procure that each Group Company and each of their respective Representatives, keeps confidential,

the existence of and the terms of this deed and all negotiations between the parties in relation to the subject matter of this deed; and

(b) the Buyer must keep confidential, and must procure that each Buyer Group Member and each of their respective Representatives keeps confidential, the existence of and the terms of this deed and all negotiations between the parties in relation to the subject matter of this deed.

21.2 Permitted disclosure

Nothing in this deed prevents a person from disclosing matters referred to in clause 21.1:

(a) if disclosure is required to be made by law or the rules of a recognised stock or securities exchange and the party whose obligation it is to keep matters confidential or procure that those matters are kept confidential:

(i) has not through any voluntary act or omission (other than the execution of this deed) caused the disclosure obligation to arise; and

(ii) has before disclosure is made notified each other party of the requirement to disclose and, where the relevant law or rules permit and where practicable to do so, given each other party a reasonable opportunity to comment on the requirement for and proposed contents of the proposed disclosure;

(b) if disclosure is made by way of a written announcement the terms of which have been agreed in writing by the parties prior to the making of the announcement or by way of the initial announcements of the transaction to stock exchanges;

(c) if disclosure is reasonably required to enable a party to perform its obligations under this deed and the terms of the disclosure have been agreed in writing by the parties prior to the making of the disclosure;

(d) to any professional adviser of a party who has been retained to advise in relation to the transactions contemplated by this deed or to the auditor of a party;

(e) to any financier who has made a bona fide proposal to provide finance to a party in relation to the transactions contemplated by this deed;

(f) with the prior written approval of each party other than the party whose obligation it is to keep those matters confidential or procure that those matters are kept confidential; or

(g) where the matter has come into the public domain otherwise than as a result of a breach by any party of this deed.

21.3 No use or disclosure of Confidential Information

The Seller must not at any time whether before or after Completion use or disclose to any person other than the Buyer and its Representatives any Confidential Information except if disclosure is required to be made by law or with the prior written approval of the Buyer.

22. Termination

22.1 Termination by Buyer

The Buyer may terminate this deed at any time before Completion:

(a) in accordance with clause 2.8, clause 9.11 or clause 15.5; or

(b) by notice to the Seller if there is a breach by the Seller or the Seller's Guarantor of the Warranty set out in paragraph 1.3 of Schedule 6,

but is not entitled to terminate or rescind this deed for any other reason.

22.2 Termination by Seller

The Seller may terminate this deed at any time before Completion:

(a) in accordance with clause 2.8, , clause 9.11 or clause 15.5; or

(b) by notice to the Buyer if there is a breach by the Buyer of the Buyer Warranty set out in paragraph 1.3 of Schedule 7.

but is not entitled to terminate or rescind this deed for any other reason.

22.3 Effect of termination

If this deed is terminated then:

(a) the provisions of this deed shall cease to have effect except for the provisions of clauses 1, 21, this clause 22 and clauses 24 to 29 which will survive termination;

(b) each party retains the rights it has against the others in respect of any breach of this deed occurring before termination; and

(c) the Buyer must return to the Seller all Confidential Information in relation to the Group Companies in its possession.

23. Payments

23.1 Direction

Any reference in this deed to a payment to any party includes payment to another person at the direction of that party.

23.2 Method of payment

Payment of any amount due under this deed by any party must be made by the paying party to the recipient party by:

(a) electronic funds transfer to an account with an Australian bank specified by the recipient party to the paying party at least 3 Business Days before the due date for payment and confirmed by the paying party to the recipient party by notice; or

(b) otherwise, unendorsed bank cheque drawn on an Australian bank or other immediately available funds.

23.3 No deduction

Any payment to be made under this deed must be made free and clear of any deduction or withholding, except where that deduction or withholding is required or compelled by law.

23.4 Gross-up for withholdings

Any person who is required or compelled by law to make any deduction or withholding from any amount payable under this deed must, to the extent permitted by law, pay to the payee an additional amount sufficient to ensure that the amount received by the payee equals the full amount that would have been received by the payee, if that deduction or withholding had not been required or compelled.

23.5 Default Interest

If any party (the Payer) fails to make a payment to any other party (the Payee) under this deed on or before the due date for payment, then, without limiting any other remedy of the Payee, the Payer must pay to the Payee upon demand interest on the due amount calculated at the Standard Rate, with interest to accrue from the due date to the day immediately before the actual date of payment, calculated daily on the basis of a 365 day year and capitalised monthly.

24. GST

24.1 Interpretation

The parties agree that:

(a) except where the context suggests otherwise, terms used in this clause 24 have the meanings given to those terms by the GST Act (as amended from time to time);

(b) any part of a supply that is treated as a separate supply for GST purposes (including attributing GST payable to tax periods) will be treated as a separate supply for the purposes of this clause 24; and

(c) any consideration that is specified to be inclusive of GST must not be taken into account in calculating the GST payable in relation to a supply for the purpose of this clause 24.

24.2 Reimbursements and similar payments

Any payment or reimbursement required to be made under this deed that is calculated by reference to a cost, expense, or other amount paid or incurred will be limited to the total cost, expense or amount less the amount of any input tax credit to which an entity is entitled for the acquisition to which the cost, expense or amount relates.

24.3 GST payable

If GST is payable in relation to a supply made under or in connection with this deed then any party (Recipient) that is required to provide consideration to another party (Supplier) for that supply must pay an additional amount to the Supplier equal to the amount of that GST at the same time as other consideration is to be provided for that supply or, if later, within 5 Business Days of the Supplier providing a valid tax invoice to the Recipient.

24.4 Variation to GST payable

If the GST payable in relation to a supply made under or in connection with this deed varies from the additional amount paid by the Recipient under clause 24.3 then the Supplier will provide a corresponding refund or credit to, or will be entitled to receive the amount of that variation from, the Recipient. Any ruling, advice, document or other information received by the Recipient from the Australian Taxation Office in relation to any supply made under this deed shall be conclusive as to the GST payable in relation to that supply. Any payment, credit or refund under this paragraph is deemed to be a payment, credit or refund of the additional amount payable under clause 24.3.

25. Guarantee by Seller's Guarantor

25.1 Guarantee and indemnity

The Seller's Guarantor:

(a) unconditionally and irrevocably guarantees to the Buyer on demand, the due and punctual performance of the Seller's obligations under this deed and the Transitional Services Agreement; and

(b) as a separate and additional liability, indemnifies the Buyer against all Indemnified Loss, actions, proceedings and judgments of any nature, incurred by, brought, made or recovered against the Buyer arising from any default or delay in the due and punctual performance of the Seller's obligations under this deed and the Transitional Services Agreement.

25.2 Extent of guarantee and indemnity

The liability of the Seller's Guarantor under this clause 25 is not affected by anything which, but for this clause 25 might operate to release or exonerate the Seller's Guarantor in whole or in part from its obligations including any of the following, whether with or without the consent of the Seller's Guarantor:

(a) the grant to the Seller, the Seller's Guarantor or any other person of any time, waiver or other indulgence, or the discharge or release of the Seller, the Seller's Guarantor or any other person from any liability or obligation;

(b) any transaction or arrangement that may take place between the Seller, the Seller's Guarantor, the Buyer or any other person;

(c) the Buyer exercising or refraining from exercising its rights under any security or any other rights, powers or remedies against the Seller, the Seller's Guarantor or any other person;

(d) the amendment, replacement, extinguishment, unenforceability, failure, loss, release, discharge, abandonment or transfer either in whole or in part and either with or without consideration, of any security now or in the future held by the Buyer from the Seller, the Seller's Guarantor or any other person or by the taking of or failure to take any security;

(e) the failure or omission or any delay by the Seller or the Buyer to give notice to the Seller's Guarantor of any default by the Seller under this deed; and

(f) any legal limitation, disability, incapacity or other circumstances related to the Seller, the Seller's Guarantor or any other person.

25.3 Principal and independent obligation

This clause 25 is a principal obligation and is not to be treated as ancillary or collateral to any other right or obligation and extends to cover this deed and the Transitional Services Agreement as amended, varied, supplemented, renewed or replaced.

25.4 Continuing guarantee and indemnity

This clause 25 is a continuing obligation of the Seller's Guarantor, despite Completion, and remains in full force and effect for so long as the Seller has any liability or obligation to the Buyer under this deed and the Transitional Services Agreement until all of those liabilities or obligations have been fully discharged.

25.5 No withholdings

(a) The Seller's Guarantor must make all payments that become due under this clause 25 free and clear and without deduction of all present and future withholdings (including taxes, duties, levies, imposts, deductions and charges of Australia or any other jurisdiction).

(b) If the Seller's Guarantor is compelled by law to deduct any withholding, then in addition to any payment due under this clause 25, it must pay to the Buyer such amount as is necessary to ensure that the net amount received by the Buyer after withholding equals the amount the Buyer would otherwise been entitled to if not for the withholding.

25.6 Currency

The Seller's Guarantor must pay all moneys that it becomes liable to pay under this clause 25 in the currency in which they are payable under this deed and free of any commissions and expenses relating to foreign currency conversion or any other charges or expenses.

25.7 No set off

The Seller's Guarantor has no right to set off, deduct or withhold any moneys that it may be or become liable to pay under this clause 25, against any moneys that the Buyer or any other Buyer Group Member may be, or become, liable to pay to a Seller Group Member whether under this deed or otherwise.

25.8 Seller's Guarantor's Liability

The Seller's Guarantor's liability in respect of any Claim shall not exceed the Seller's liability in respect of that Claim.

25.9 Payments by the Seller's Guarantor

The Seller's Guarantor will procure the Seller to pay all payments to the Buyer under this clause 25 and all such payments shall be in reduction of the Purchase Price.

25.10 Assigning benefit

The Buyer may assign the benefit of this clause 25 without the Seller's Guarantor's consent if the Buyer assigns the benefit of this deed with the Seller's consent.

26. Notices

26.1 How notice to be given

Each communication (including each notice, consent, approval, request and demand) under or in connection with this deed:

(a) may be given by personal service, post or facsimile;

(b) must be in writing;

(c) must be addressed as follows (or as otherwise notified by that party to each other party from time to time):

(i) if to the Seller

Attention: Company Secretary and Group Counsel, HBOS Australia

Address: Level 28, 45 Clarence Street, Sydney NSW 2000

Fax number: +61 2 8299 8095

with a copy to: Clayton Utz

Attention: Rod Halstead/Karen Evans-Cullen

Address: Levels 27-35, No. 1 O'Connell Street Sydney NSW 2000

Fax number: +612 8220 6700

(ii) if to the Seller's Guarantor:

Attention: Company Secretary and Group Counsel, HBOS plc

Address: The Mound Edinburgh EH1 1YZ United Kingdom

Fax number: +0131 243 5546

with a copy to: Clayton Utz

Attention: Rod Halstead/Karen Evans-Cullen

Address: Levels 27-35, No. 1 O'Connell Street Sydney NSW 2000

Fax number: +612 8220 6700

(iii) If to the Buyer:

Attention: John Hatton, Company Secretary

Address: Level 2, 48 Martin Place, Sydney, NSW, 2000

Fax number: +61 2 9378 4792

with a copy to Freehills:

Attention: Tony Damian/Philippa Stone

Address: Level 32, MLC Centre, Martin Place, Sydney NSW 2000

Fax number: +612 9322 4000

(d) (in the case of personal service, post or facsimile) must be signed by the party making it or (on that party's behalf) by the solicitor for, or any attorney, director, secretary or authorised agent of, that party; and

(e) must be delivered by hand or posted by prepaid post to the address or sent by fax to the number of the addressee, in accordance with clause 26.1(c).

26.2 When notice taken to be received

Each communication (including each notice, consent, approval, request and demand) under or in connection with this deed is taken to be received by the addressee:

(a) (in the case of prepaid post sent to an address in the same country) on the third day after the date of posting;

(b) (in the case of prepaid post sent to an address in another country) on the fifth day after the date of posting by airmail;

(c) (in the case of fax) at the time in the place to which it is sent equivalent to the time shown on the transmission confirmation report produced by the fax machine from which it was sent; and

(d) (in the case of delivery by hand) on delivery.

but if the communication would otherwise be taken to be received on a day that is not a working day or after 5.00 pm, it is taken to be received at 9.00 am on the next working day ("working day" meaning a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally, in the place to which the communication is posted, sent or delivered).

26.3 Local agent

The Seller's Guarantor irrevocably appoints Clayton Utz as its agent for the service of process in Australia in relation to any matter arising out of this agreement. If Clayton Utz ceases to be able to act as such or have an address in Australia, the Seller's Guarantor agrees to appoint a new process agent in Australia and deliver to the Buyer within 20 Business Days a copy of a written acceptance of appointment by the process agent, upon receipt of which the new appointment becomes effective for the purpose of this agreement and the Transitional Services Agreement. The Seller's Guarantor must inform the Buyer in writing of any change in the address of its process agent within 20 Business Days of the change.

27. Entire agreement

This deed constitutes the entire agreement between the parties in relation to its subject matter including the sale and purchase of the Shares and supersedes all previous agreements and understandings between the parties in relation to its subject matter.

28. General

28.1 Amendments

This deed may only be varied by a document signed by or on behalf of each party.

28.2 Assignment

A party cannot assign or otherwise transfer any of its rights under this deed without the prior consent of each other party.

28.3 Consents

Unless this deed expressly provides otherwise, a consent under this deed may be given or withheld in the absolute discretion of the party entitled to give the consent and to be effective must be given in writing.

28.4 Counterparts

This deed may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes an original of this deed, and all together constitute one deed.

28.5 Costs

Except as otherwise provided in this deed, each party must pay its own costs and expenses and the Seller must pay any costs and expenses of each Group Company in connection with negotiating, preparing, executing and performing this deed.

28.6 Further acts and documents

Each party must promptly do all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by another party to give effect to this deed.

28.7 Stamp duties

The Buyer:

(a) must pay all stamp duties and any related fines and penalties in respect of this deed, the performance of this deed and each transaction effected by or made under this deed;

(b) must pay to the Seller on demand an amount equal to all Indemnified Losses suffered or incurred by the Seller arising out of or in connection with any failure to comply with clause 28.7(a); and

(c) is authorised to apply for and retain the proceeds of any refund due in respect of stamp duty paid under this clause.

Despite the foregoing, the Seller will be liable for any stamp duties and any related fines and penalties arising out of the transactions contemplated in paragraphs 1(a) and 1(c) of Schedule 4 that are effected by way of assignment but only to the extent that there is an increase in stamp duties and any related fines and penalties because the transactions contemplated in paragraphs 1(a) and 1(c) of Schedule 4 are effected by way of assignment rather than novation.

28.8 Waivers

Without limiting any other provision of this deed, the parties agree that:

(a) failure to exercise or enforce, or a delay in exercising or enforcing, or the partial exercise or enforcement of, a right, power or remedy provided by law or under this deed by a party does not preclude, or operate as a waiver of, the exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this deed;

(b) a waiver given by a party under this deed is only effective and binding on that party if it is given or confirmed in writing by that party; and

(c) no waiver of a breach of a term of this deed operates as a waiver of another breach of that term or of a breach of any other term of this deed.

28.9 Severance

If any provision or part of a provision of this deed is held or found to be void, invalid or otherwise unenforceable (whether in respect of a particular party or generally), it will be

deemed to be severed to the extent that it is void or to the extent of violability, invalidity or unenforceability, but the remainder of that provision will remain in full force and effect.

28.10 Benefits held on trust

The Buyer holds the benefit of each indemnity, promise and obligation in this deed expressed to be for the benefit of a Buyer Nominee that is not a party to this deed on trust for that Buyer Nominee.

29. Governing law and jurisdiction

29.1 Governing law

This deed is governed by the law applying in New South Wales.

29.2 Jurisdiction

Each party irrevocably:

(a) submits to the non exclusive jurisdiction of the courts of New South Wales, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this deed; and

(b) waives any objection it may have now or in the future to the venue of any proceedings, and any claim it may have now or in the future that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 29.2(a).

Auditor	
Registered office	Bank of Western Australia Ltd BankWest Tower Level 34 108 St Georges Terrace Perth WA 6000

Schedule 4 - - Separation Principles and Transitional Services

Principles in relation to specific assets and services

1. Financing arrangements

The Seller and the Buyer will (unless otherwise agreed) enter into (and in the case of the Seller procure the entry into of) such arrangements as are necessary to provide for:

Financing arrangements between Bank of Scotland plc, Australia Branch (BOS Aust) and BankWest:

(a) all derivatives contracts and hedging arrangements entered into between the Seller Group and the BankWest and St Andrew's Businesses, ~~if agreed between the Seller and the Buyer, to be closed out in accordance with the terms of those derivatives contracts and other hedging arrangements or, if this is not agreed in relation to all or any of these contracts and other arrangements, the Seller Group will on or prior to Completion novate to the Buyer (or any entity nominated by the Buyer) the relevant contracts and other arrangements in consideration for a settlement amount (which will be payable by the Seller Group Member to the Buyer if favourable to the BankWest and St Andrew's Businesses and by the Buyer to the Seller Group Member if favourable to the Seller Group Member) equal to the agreed mark-to-market value of the relevant derivative contracts and hedging arrangements, payable on the date of novation~~ to be on Completion or as soon as possible thereafter transferred by way of assignment, assumption and release to the Buyer and the Buyer will enter into a back-to-back arrangement with the relevant member of the Seller Group and the Buyer and the relevant member of the Seller Group will each provide credit support to each other;

(b) the transfer of all management by BOS Aust as agent of hedging arrangements and other treasury activities in the name BankWest or any other Group Company to the Buyer (or any entity nominated by the Buyer);

(c) if agreement is reached with the counterparty to such contracts and other arrangements, the ~~novation~~transfer by way of assignment, assumption and release of the derivatives contracts and other hedging arrangements between the Seller Group and customers of the BankWest and St Andrew's Businesses to which the guarantees described in paragraph (d) below are applicable from the relevant Seller Group Member to the Buyer (or any entity nominated by the Buyer) ~~in consideration for a settlement amount (which will be payable by the Seller Group Member to the Buyer if favourable to the BankWest and St Andrew's Businesses and by the Buyer to the Seller Group Member if favourable to the Seller Group Member) equal to the agreed mark-to-market value of these derivative contracts and hedging~~together with the documents required to transfer the related credit support arrangements and the Buyer (or any entity nominated by the Buyer) entering into a back-to-back arrangement with the relevant member of the Seller Group and the relevant member of the Seller Group and the Buyer each providing to each other credit support for those arrangements~~, payable on the date of novation~~ (in the same form as set out in paragraph (a) above). The Seller and the Buyer will use reasonable endeavours to procure that such ~~novation~~assignment occurs provided that if the Buyer and the Seller agree, in good faith, that the number of these transactions makes seeking ~~novation~~assignment impractical on the basis of the time and cost which would be expended, the parties are released from this reasonable endeavours obligation;

(d) in relation to the derivatives contracts and hedging arrangements between the Seller Group and customers of the BankWest and St Andrew's Businesses which are not novated on the terms of paragraph (c):

(i) BOS Aust (and any other Seller Group Member having the benefit of such a guarantee, if any) at Completion releases the global guarantee between BankWest and BOS Aust in respect of any transactions entered into after Completion; and

(ii) BOS Aust and Bank of Scotland plc (and any other Seller Group Member having the benefit of such a guarantee, if any) at Completion releases the client specific guarantees in respect of any transactions entered into after Completion,

and that the Seller Group Member that is party to the relevant derivative contracts and hedging arrangements (Relevant Transactions):

(iii) consults with BankWest in relation to each relevant transaction and the exercise of rights under it;

(iv) complies with any instructions of BankWest with respect to each Relevant Transaction in relation to the exercise of rights which the Seller Group Member acting reasonably determines that it has under the Relevant Transaction and, if the Seller Group Member determines acting reasonably that to comply with the instructions will require it to incur any costs, BankWest has indemnified it for any such costs and provided that, in no circumstances, will any Seller Group Member be required to commence any legal proceedings or any other proceedings of any nature or enter into any new or amended derivatives contract or other hedging arrangement;

(v) does not amend, vary, assign or waive any provision of a Relevant Transaction without the prior written consent of BankWest (such consent to be granted or withheld at BankWest's sole discretion) and agrees to close out any Relevant Transaction at its mark to market value (determined in accordance with the provisions of the Relevant Transaction) if requested by BankWest and this is permitted in accordance with the terms of the Relevant Transaction;

(e) in relation to derivatives contracts and hedging arrangements between the BankWest and St Andrew's Businesses and customers of the Seller Group, reasonable endeavours to be used to procure that those transactions are novated to the Seller (or any entity nominated by the Seller) in consideration for a settlement amount (which will be payable by the Seller Group Member to the relevant Group Company if favourable to the BankWest and St Andrew's Businesses and by the Buyer to the relevant Seller Group Member if favourable to the Seller Group Member) equal to the agreed mark to market value of the relevant derivative contracts and hedging arrangements, payable on the date of novation;

(f) in relation to the derivatives contracts and hedging arrangements between the BankWest and St Andrew's Businesses and customers of the Seller Group which are not novated on the terms of paragraph (e):

(i) BankWest (and any other Group Company) releases the global guarantee between BankWest and BOSIAL (and any other Group Company, if relevant) in respect of any transactions entered into after Completion; and

(ii) the Group Company that is party to the relevant derivative contracts and hedging arrangements (Other Transactions):

A. consults with the Seller in relation to each relevant transaction and the exercise of rights under it;

B. complies with any instructions of the Seller with respect to each Other Transaction in relation to the exercise of rights which the Group Company acting reasonably determines that it has under the Other Transaction and, if the Group Company determines acting reasonably that to comply with the instruction will require it to incur any costs, the Seller has indemnified it for any such costs and provided that, in no circumstances, will any Group Company be required to commence any legal proceedings or any other proceedings of any nature or enter into any new or amended derivatives contract or other hedging arrangement;

C. does not amend, vary, assign or waive any provision of an Other Transaction without the prior written consent of the Seller (such consent to be granted or withheld at the Seller's sole discretion) and agrees to close out any Other Transaction at its mark to market value (determined in accordance with the provisions of the Other Transaction) if requested by the Seller and this is permitted in accordance with the terms of the Other Transaction.

Notwithstanding any other provision of this paragraph (f), if the maximum exposure of BankWest under the derivatives contracts and hedging arrangements between the BankWest and St Andrews Businesses and customers of the Seller Group is determined by the Seller and Buyer, by agreement, to be a material amount in the context of the transactions contemplated by this agreement, then the Seller will use all reasonable endeavours to procure that those transactions are closed out provided it is economic, from the perspective of the Seller Group, to do so;

Financing arrangements between BankWest and either CFAL or BOSIAL

(g) at Completion the termination of any ongoing agency relationship or agreement between BankWest and CFAL in relation to business asset financing transactions and release BankWest from all liabilities to CFAL in respect of that agency relationship or agreement (provided that this will not limit the obligations of the parties under paragraph 2(g) and 2(h) of this Schedule 4);

(h) existing bank guarantees and letters of credit provided by BankWest for the account or at the request of BOSIAL (or any customers of BOSIAL) are not extended or otherwise varied so as to alter the obligations of BankWest and continue to be subject to the indemnity in place from BOSIAL to BankWest as at the date of this agreement;

(j) At Completion BankWest and CFAL to enter into such agreements as the Buyer and the Seller, acting reasonably, agree are necessary to ensure that:

(i) BankWest retains, or is granted, the exclusive right to control the method and manner of enforcement of any Security, excluding any security relating solely to assets financed under any BAF Agreement (the **BAF Security**) given in connection with a BAF Agreement (each as defined under the Principal and Agent Agreement dated 12 October 2004 between BankWest (as Agent) and CFAL (as Principal) (the **BAF PAA**), subject to the following:

A. if CFAL, after complying with its obligations under subparagraph (ii) below, and after consulting with and indemnifying BankWest requires enforcement of any BAF Security to be commenced, BankWest will promptly commence that enforcement action and ensure that it is promptly continued in good faith; and

B. if all amounts owing to BankWest that are secured by any BAF Security have been fully and finally repaid, BankWest will act in accordance with the instructions of the Seller or CFAL in respect of control of the method and manner of enforcement of that BAF Security (subject to the Seller meeting the costs of BankWest in doing so or such costs being recoverable from the proceeds of enforcement of the BAF Security) and BankWest will at the cost of the Seller transfer to CFAL any such BAF Security at the request of the Seller or CFAL; and

C. in any case, BankWest will consult with CFAL prior to any enforcement action being commenced and in respect of any enforcement action that is taken;

(ii) CFAL undertakes and agrees that it will use all reasonable endeavours, to the extent that, because it has legal title or a security interest over the relevant asset, it has legally enforceable rights to do so, to have recourse to any asset of a Customer (as defined under the BAF PAA) (**BAF Customer**) that is financed under the BAF Agreement before it shall be entitled to recover under any BAF Security and must consult with BankWest prior to any enforcement against those assets and shares proceeds of recovery *pari passu*; and

(iii) BankWest and (with respect to any shortfall following the exercise of any rights of CFAL against a BAF Customer or asset referred to in paragraph (ii) above, if any) CFAL, shall rank pari passu as between themselves with respect to the proceeds received following the enforcement of a BAF Security with respect to that BAF Customer (subject always to paragraph (i) above).

All arrangements currently supported by BOSIAL credit will be supplemented at Completion by a Seller Guarantor guarantee on market pricing if such pricing is agreed between the Buyer and the Seller's Guarantor.

Mark to market

The Buyer and the Seller agree that if any mark to market value of any derivatives contracts or other hedging arrangements cannot be agreed between the parties in accordance with this Schedule 4 the Buyer and the Seller will jointly approach each of Westpac Banking Corporation, National Australia Bank Limited and Australia and New Zealand Banking Group Limited to seek quotes for that mark to market value. The mark to market value will be the average of the amounts that are quoted by those 3 financial institutions.

2. Principles relating to employees, premises, systems, assets, shared services and knowledge and skills transfer

The Buyer and Seller agree that the period for services to be provided under clause 8 of the deed is intended to be no longer than reasonably necessary to achieve an orderly transition in the transfer of the ownership of the BankWest and St Andrew's Businesses to the Buyer. In most cases, the Services Period will be 6 months or shorter however in relation to premises and systems, a longer period is likely to be required although the Buyer and Seller will work together to ensure that it is no longer than reasonably necessary.

(a) Employees:

In relation to Employees of a Group Company who are as at the date of this deed engaged in the Retained Businesses, the following principles will apply:

(i) ~~(ii)~~ the employment of the persons who normally work exclusively, or almost exclusively in the Retained Businesses will be offered employment in accordance with the deed as Out of Scope Employees;

(ii) ~~(iii)~~ persons who work for both the BankWest and/or St Andrew's Businesses and the Retained Businesses will continue in their employment with the exception of those persons whose transfer is necessary in order to ensure that all capabilities required to conduct the Retained Businesses remain available after Completion. Such persons will become Out of Scope Employees when agreed between the Seller and the Buyer. The Seller and the Buyer will work together to identify the appropriate employees to be classified as Out of Scope Employees. These employees will be offered employment in accordance with the Deed as Out of Scope Employees. The Seller and the Buyer will work together to ensure that the Employees are identified and agreed in sufficient time to enable the Seller to comply with its obligations under clause 11.1.

(b) Leased Premises:

(i) The leases of any premises which are used solely by the BankWest and St Andrew's Businesses and which are not held by a Group Company will be transferred to the Buyer at Completion under the deed.

(ii) In respect of premises which are as at the date of this deed shared by the BankWest and St Andrew's Businesses and the Retained Businesses (including for example BOSI, CFAL and their respective head office functions):

A. where the majority of the space available under the lease is used by the BankWest and St Andrew's Businesses but the lessee is a Seller Group Member, the lease will be transferred to the Buyer;

B. where the majority of the space available under the lease is used by the other Retained Businesses but the lessee is a Group Company, the lease will be transferred to the Seller;

C. sub-lease arrangements will be put in place under which the premises will continue to be shared for a transition period of 1 year following the Completion Date; and

D. the Buyer and the Seller will work together to agree a re-location plan which allocates separate spaces to the respective businesses in proportion to their respective employee headcount and other relevant considerations;

(iii) The sub-lessee will compensate the lessee of shared premises on a cost recovery basis.

The Buyer and the Seller will work together and to all things reasonably necessary to obtain any consents which are required in order to transfer leases as contemplated in this Schedule 4.

If requested by the Buyer prior to Completion, title to any tangible property that is held by a Seller Group Member and is used exclusively or near exclusively by a Group Company for its business operations will be transferred to a Group Company nominated by the Buyer.

(c) Names:

If requested by the Buyer, title to any name or brand that is used by a Group Company for its business will be transferred to a Group Company nominated by the Buyer.

The Buyer and the Seller will do all things reasonably necessary to transfer to the Seller (or other Seller Group Members) prior to Completion or, if this is not possible, as soon as practicable after Completion:

(i) ~~(c)~~ the domain name "mybbosa.com.au" which is owned by BankWest; and

(ii) ~~(d)~~ the "Bank of Scotland (Australia)" business name which is registered in all Australian States and territories in the name of BankWest.

(d) Systems:

(i) In respect of each information technology and telecommunications system, item of hardware and software (including, without limitation, the Core Business System) which is owned or licensed:

A. by a Group Company and used at the date of this deed by a Seller Group Member; or

B. by a Seller Group Member and used at the date of this deed by a Group Company

(the Shared Systems), the relevant Group Company or Seller Group Member (as the case may be) will license or sub-license the Shared Systems to the relevant user(s) for a transition period of 2 years and will provide all assistance and information reasonably required to support the Shared Systems.

(ii) The licence (or sub-licence) and support arrangements will be provided at cost.

(e) Assets:

(i) In respect of each asset (other than premises and systems) which is as at the date of this deed:

A. used by and material to the conduct of the BankWest and St Andrew's Businesses but which is owned or leased by a Seller Group Member; or

B. used by and material to the conduct of the Retained Businesses but which is owned or leased by a Group Company,

the Buyer and Seller will work together to implement a plan under which access is provided to the relevant asset for a transition period of 6 months, until the Buyer or Seller (as the case may be) is able to put in place alternative arrangements.

If the relevant asset is owned by a Seller Group Member but is used exclusively, or almost exclusively, by a Group Company for its business operations it may prior to Completion request that the relevant asset be transferred to a Group Company prior to Completion provided that the Buyer will enter into any post-Completion access arrangements that the Seller may reasonably require (at cost).

(ii) Access to assets will be provided at cost.

(f) Shared Services:

(i) In respect of each service provided by:

A. a Group Company and used at the date of this deed by a Seller Group Member; or

B. a Seller Group Member and used at the date of this deed by a Group Company, or provided by a Third Party to:

C. a Group Company and used at the date of this deed by a Seller Group Member; or

D. a Seller Group Member and used at the date of this deed by a Group Company,

(the **Shared Services**),

the relevant Group Company or Seller Group Member (as the case may be) will make such Shared Services available to the relevant user(s) for a transition period of 6 months(or such shorter period as the Seller and the Buyer agree).

(ii) The Shared Services will be provided at cost.

(g) Knowledge and skill transfer:

(i) Subject to any applicable confidentiality obligations owed by a Seller Group Member or a Group Company to any Third Party or otherwise at law:

A. each Seller Group Member will use reasonable endeavours to ensure that a sufficient knowledge and skills transfer is effected between the relevant Seller Group Member and each Group Company in relation to the Shared Systems and Shared Services for a transition period of 1 year (or such shorter period as the Buyer and the Seller agree); and

B. each Group Company will use reasonable endeavours to ensure that a sufficient knowledge and skills transfer is effected between the relevant Group Company and each Seller Group Member in relation to the Shared Systems and Shared Services for a transition period of 1 year (or such shorter period as the Buyer and the Seller agree).

(ii) Knowledge and skills will be provided at cost.

(iii) The parties will use reasonable endeavours to agree a shorter period than 1 year for the purposes of subparagraph (i)A. and (i)B. above.

3. Principles relating to terminating agreements

(a) The Seller and the Buyer acknowledge and agree that each of the following agreements is to be terminated as soon as reasonably practicable and that the services provided under those agreements will (subject to the principles in this Schedule 4) be addressed in the Transitional Services Agreement in accordance with the principles in clause 2 of this Schedule 4:

(i) the agreement entitled "HBOS Australia Shared Services Agreement" dated 31 January 2006 between BankWest, the Seller and others;

(ii) the agreement entitled "Management and Servicing Agreement" dated 24 January 2005 between BankWest and BOSIAL;

(iii) the agreement entitled "Management and Servicing Agreement" dated 12 October 2004 between BankWest and CFAL;

(iv) the agreement entitled "Principal and Agent Agreement" dated 12 October 2004 between BankWest and CFAL;

(v) the agreement entitled "Outsourcing Agreement" dated 29 August 2005 between BOS Aust and BankWest;

(vi) the agreement entitled "Management and Servicing Agreement" dated 7 September 2005 between BankWest and BOS Aust; and

(vii) the agreement entitled "Labour Supply Agreement" dated 30 November 2005 between the Seller, BankWest, CFAL and others.

(b) No new transactions will be entered into as agent or otherwise under the agreements referred to in sub-paragraph (a)(iv) or (a)(v) after Completion.

4. Security trustee services and Servicing arrangements

(a) In respect of any security trustee services provided by:

(i) a Seller Group Member to a Group Company or a customer of a Group Member/Company; or

(ii) by a Group Company to a Seller Group Member or a customer of a Seller Group Member,

the Seller and the Buyer will enter into (and procure the entry into of) such arrangements as are necessary to transfer such custodial arrangements from the relevant entity to:

(iii) in respect of paragraph (a)(i) above, any entity nominated by the Buyer; and

(iv) in respect of paragraph (a)(ii) above, any entity nominated by the Seller.

(b) In respect of any residential mortgage-backed security transaction (RMBS) of a Group Company, the Seller and the Buyer will enter into (and procure the entry into of) such arrangements as are necessary to transfer:

(i) the ownership, management and control of such RMBS to BankWest (or any entity nominated by BankWest); and

(ii) (if not conducted by a Group Company) the servicing of such RMBS and related assets to any entity nominated by the Buyer,

provided that it is agreed that no party has any obligation to procure the transfer of the income unit held by Swan Securitisation Finance Limited in respect of the RMBS known as "Series 2004 - 1P" to the Buyer or any other person.

5. Principles relating to transfers

The Seller will procure the transfer of the ownership of BOSI Security Services Ltd from the BankWest Group Companies to BOSIAL prior to Completion provided that any security trustee role that BOSI Security Services Ltd performs in respect of a syndicated financing where a Group Company, but no Seller Group Member is a financier will be transferred to a nominee of the Buyer as soon as practicable after the date of this agreement

Schedule 5

~~SCHEDULE 5~~ — [*Not used*].

Schedule 6 - Warranties

PART A – Title and authorisation

1. Ownership and structure

1.1 Group structure

(a) The structure diagram for the Group Companies set out in Schedule 9 is accurate and complete and shareholdings are 100%.

(b) No Group Company:

(i) is the holder or beneficial owner of any shares or other capital in any body corporate (wherever incorporated) except for any shares or other interest it holds in its capacity as custodian, manager, trustee, administrator, adviser, or nominee of a Superannuation Fund or, if it is a life insurance company, except for any shares or other interest held as an asset of its statutory funds;

(ii) is a member of any partnership or other unincorporated association (other than a recognised trade association); or

(iii) has any permanent establishment (as that expression is defined in any relevant double taxation agreement) outside the country in which it is incorporated.

1.2 Ownership

At Completion:

(a) the Seller is the legal and beneficial owner of the Shares; and

(b) the Shares comprise all of the issued capital of BankWest, St Andrews and HBOSGS; and

(c) the Buyer will acquire the full legal and beneficial ownership of the Shares free and clear of all Encumbrances, subject to registration of the Buyer in the register of shareholders.

1.3 No Encumbrances or other arrangements

For each Group Company:

(a) at Completion all of its shares are free and clear of all Encumbrances;

(b) its shares can be sold and transferred free of any competing rights, including pre emptive rights or rights of first refusal;

(c) its shares have been validly issued, are fully paid and no money is owing in respect of them;

(d) it is not under an obligation to issue, and no person has the right to call for the issue or transfer of, any shares or other securities in it at any time;

(e) it has not issued securities with conversion rights to shares or securities in it and there are no agreements or arrangements under which options or convertible notes have been issued by it; and

(f) there are no voting agreements or arrangements with respect to its shares.

2. Power and Authority

2.1 No legal impediment

The execution, delivery and performance by each of the Seller and the Seller's Guarantor of this agreement:

(a) complies with its constitution or other constituent documents; and

(b) does not constitute a breach of any law or obligation, or cause or result in a default under any material agreement, or Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under this agreement.

2.2 Corporate Authorisations

(a) All necessary authorisations for the execution, delivery and performance by each of the Seller and the Seller's Guarantor of this agreement in accordance with its terms have been obtained or will be obtained before Completion, other than the consents and approvals required under clause 2.1.

(b) Each of the Seller and the Seller's Guarantor has full power and capacity to own its own assets and to enter into and perform its obligations under this agreement.

(c) Each of the Seller and the Seller's Guarantor is validly incorporated, organised and subsisting in accordance with the laws of its place of incorporation.

2.3 Group Companies

Each Group Company:

(a) is duly incorporated under the laws of the place of its incorporation;

(b) has the power to own its assets and carry on the BankWest and St Andrew's Businesses as it is being carried on at Completion;

(c) is duly registered and authorised to do business in those jurisdictions which, by the nature of its business and assets, makes registration or authorisation necessary; and

(d) has conducted the BankWest and St Andrew's Businesses in compliance with the constitution or other constituent documents of that Group Company.

2.4 No trust.

The Seller enters into and performs this agreement on its own account and not as trustee for or nominee of any other person.

2.5 **Enforceability**

The Seller's obligations under this agreement are enforceable in accordance with its terms.

3. Solvency

3.1 No liquidation

Neither the Seller nor any Seller Group ~~Company~~Member has:

(a) gone, or is proposed to go, into liquidation or passed a winding up resolution or commenced steps for winding up or dissolution;

(b) received a deregistration notice under section 601AB of the Corporations Act or any communication from ASIC that might lead to such notice or applied for deregistration under section 601AA of the Corporations Act;

(c) been presented or threatened in writing with a petition or other process for winding up or dissolution, in the case of the Seller's Guarantor, in relation to a material amount which is not capable of satisfaction, and so far as the Seller's Guarantor is aware, there are no circumstances justifying such a petition or other process;

(d) had a receiver, receiver and manager, judicial manager, liquidator, administrator or like official appointed, or threatened or expected to be appointed, over the whole or a substantial part of the undertaking or property of the Seller or a Seller Group ~~Company~~Member, and, so far as the Seller's Guarantor is aware, there are no circumstances justifying such an appointment;

(e) entered into, or taken steps or proposed to enter into, any arrangement, compromise or composition with or assignment for the benefit of its creditors or a class of them; or

(f) had a writ of execution issued against it or the property of that company and, so far as the Seller's Guarantor is aware, there are no circumstances justifying such a writ

3.2 Solvency

Each Seller Group Member and each Group Company is able to pay its debts as and when they fall due. No Seller Group Member and no Group Company is taken under applicable laws to be unable to pay its debts or has stopped or suspended, or threatened to stop or suspend, payment of all or a class of its debts.

PART B – BankWest and St Andrew's Businesses Warranties

4. Accounts

4.1 Basis of Preparation

The Accounts have been prepared:

(a) in accordance with the Accounting Standards;

(b) in accordance with the requirements of the Corporations Act and any other applicable laws;

(c) in the manner described in the notes to them; and

(d) on a consistent basis with the equivalent accounts for the previous accounting period, and include an unqualified auditor's opinion.

4.2 True and fair view

(a) The Accounts give a true and fair view of the financial position of the Group Companies as at the Accounts Date and of their performance for the financial period ended on the Accounts Date.

(b) Since the Accounts Date the BankWest and St Andrew's Businesses have been conducted in all material respects in the ordinary and usual course of business, other than for the transactions contemplated by this agreement and the Transaction Agreements and without limiting the foregoing:

(i) no Group Company has sold, disposed of or created a Encumbrance over any of its assets, or entered into any Financial Indebtedness, worth more than $10 million except in the ordinary course of business (including lending transactions where the Group Company is acting as creditor);

(ii) no Group Company has acquired any assets worth more than $10 million, except in the ordinary course of business.

(c) ~~(c)~~ There has been no change in the accounting methods, policies, practices and principles from that adopted by the Group Companies in preparation of the Accounts, including in preparation of the Last Accounts.

4.3 Liabilities

(a) The Accounts include all liabilities (whether actual or contingent) of the Group Companies at the relevant balance dates in accordance with the requirements referred to in Warranty 4.1.

4.4 Off balance sheet financing

(a) No Group Company is engaged in any financing or hedging (including the incurring of any borrowing or any indebtedness in the nature of acceptances or acceptance credits) of a type that would not be required to be shown or reflected in the Accounts.

5. Records and corporate matters

5.1 Accounts and records

All accounts, books, ledgers and financial records of each Group Company have been properly maintained and do not contain or reflect any material inaccuracies or material discrepancies and:

(a) are in the possession and unqualified control of the Group Company; and

(b) for employee records, contain adequate and suitable records regarding the service of each of the Employees.

(c) No Group Company has received notice of any application or intended application for the rectification of its register of members or any other register that it is required by law to maintain.

5.2 **Trustee Accounts**

(a) The Trustee Accounts show a true and fair view of the financial position of each Superannuation Fund (as applicable) as at the date of the Trustee Accounts and of its performance for the financial period ended on that date.

(b) The Trustee Accounts of each Superannuation Fund include all liabilities of the Superannuation Fund at the relevant balance dates in accordance with the requirements referred to in Warranty 4.1.

6. Contracts

(a) No Group Company is in default, or would be in default but for the requirements of notice or lapse of time, under any agreement to which it is a party, where such default will, or would reasonably be likely to give rise to a Warranty Claim in excess of the Claim Threshold.

(b) So far as the Seller's Guarantor is aware, no other party to any agreement to which a Group Company is a party is in default, or would be in default but for the requirements of notice or lapse of time, under that agreement, where such default will, or would reasonably be likely to give rise to a Warranty Claim in excess of the Claim Threshold.

(c) As at the date of this agreement no Group Company has received, or given, any notice of termination of any agreement to which it is a party that will, or would reasonably be likely to give rise to a Warranty Claim in excess of the Claim Threshold.

(d) So far as the Seller's Guarantor is aware, no Group Company is party to any agreement or arrangement with a Seller Group Member under which the Group Company is required to give a material financial benefit to that Seller Group Member, other than an agreement or arrangement made on arm's length terms or one which is terminable on reasonable notice.

(e) No Group Company has entered into an agreement that contains a non compete undertaking in favour of any Third Party that materially restricts the Group Company's ability to carry on the BankWest and St Andrew's Businesses.

(f) As far as the Seller's Guarantor is aware, there are no material contracts (other than between a Group Company and a Seller Group Member) that are not on arm's length terms or otherwise outside the ordinary course of business.

(g) All material contracts between a Group Company and a Seller Group Member have been disclosed to the Buyer.

7. Assets

7.1 **Assets sufficient**

Upon Completion the Group Companies will own, or have the right to use (on terms no less favourable to the Group Companies that the terms applicable as at the date of this deed), all of the assets that are material for the conduct of the BankWest and St Andrew's Businesses as carried on at Completion, (not including the assets or services to be provided pursuant to clause 8 or the Transitional Services Agreement).

7.2 **Shared exposures**

(a) The face value of letters of credit, bank guarantees and other contingent liabilities issued at the request or for the account of HBOS group companies (or their customers) as at 30 June 2008 does not exceed $60 million.

(b) The face amount of all exposures to customers with whom security is shared with CFAL does not exceed $550 million as at the date of this deed.

8. Financing arrangements

(a) There is no existing or unremedied breach of, or any event of default, cancellation event, prepayment event or similar event (including any event enabling a Group Company to be replaced as a party) under any agreement or arrangement referred to in the Group Companies' financial arrangements and the transactions contemplated by this agreement will not trigger any such breach, event of default, cancellation event, prepayment event or similar event or events (including any event enabling a Group Company to be replaced as a party).

(b) Any residential mortgage-backed securities on issue by a Group Company are eligible to be used as collateral by the Buyer under a repurchase agreement with the Reserve Bank of Australia.

(c) All securities and obligations forming part of its tier 1 or tier 2 capital are legally and beneficially held by each Group Company other than the 9 billion Yen face value perpetual debt referred to in Note 19 of the Accounts.

(d) ~~(f)~~ There are no financing arrangements that restrict the disposal of a Group Company.

(e) ~~(g)~~ No notices or demands have been served on a Group Company that remain outstanding in relation to default or non-compliance under any financing arrangement of a Group Company.

(f) ~~(h)~~ So far as the Seller's Guarantor is aware, no legal or enforcement action has been taken, or demand has been made, by any party to enforce any security or other financing arrangement of a Group Company.

9. Properties

Each Group Company owns or has immediately before Completion, a right to occupy the properties required to conduct its business.

10. Information technology and intellectual property

(a) The information technology and telecommunications systems, hardware and software owned or used by a Group Company in the conduct of the BankWest and St Andrew's Businesses as at the date of this agreement (Systems)

(i) comprise all the information technology and telecommunications systems, hardware and software necessary for the conduct of the BankWest and St Andrew's Businesses as conducted at Completion.

(ii) are supplied to the Group Company on terms that will not be altered or affected by Completion, including without limitation terms relating to fees or costs.

(b) Each Group Company owns or has a right to use the intellectual property required for the conduct of its business as conducted at the date of this agreement.

(c) Each Group Company has and will have immediately following Completion an enforceable right to use all Third Party Intellectual Property on terms and conditions no less favourable to it than the terms and conditions applicable as at the date of this agreement.

11. Litigation, compliance and Authorisations

11.1 Material proceedings

(a) No Group Company is as at the date of this agreement a party to, and has not in the preceding 5 years been a party to, any investigation, prosecution, litigation, legal proceedings, arbitration, mediation or any other form of litigation or dispute resolution process or administrative or governmental proceedings that will, or would reasonably be likely to give rise to a Warranty Claim in excess of the Claim Threshold (Material Proceedings).

(b) So far as the Seller's Guarantor is aware, as at the date of this agreement no Material Proceedings against a Group Company are pending or threatened and the Seller's Guarantor is not aware of any disputes that will, or would reasonably be likely to, give rise to any Material Proceedings.

(c) There are no outstanding settlements, judgments, decrees, awards, orders or other decisions of any court, quasi judicial body or Regulatory Authority (including any competition authority) made against a Group Company that will, or would reasonably be likely to give rise to a Warranty Claim in excess of the Claim Threshold.

11.2 Undertakings and Capital adequacy

(a) No Group Company has given an undertaking or written assurance (whether legally binding or not) to any court or Regulatory Authority (including any competition authority) under any anti trust or similar legislation in any jurisdiction.

(b) Each Group Company has at all times complied with the capital adequacy requirements to which it is subject as set out in the Australian Prudential Standards.

11.3 Compliance with laws and Authorisations

(a) Each Group Company and each Financial Product issued, provided, supplied or operated by a Group Company has complied, and currently complies, in all material respects with applicable laws and regulations (including the Relevant Legislation), industry codes of practice or conduct which it has adopted, policy statements applicable to the Group Company's business, and administrative requirements and each Group Company has reported all significant breaches of financial services laws (as defined in the Corporations Act) by it to ASIC and/or APRA.

(b) All Material Authorisations have been complied with in all material respects by the relevant Group Company.

(c) The Seller's Guarantor is not aware of any action to revoke, prevent the renewal of or impose any new and material conditions on any Material Authorisation.

(d) Each Group Company that is or has been engaged in Financial Services or is involved in the distribution of Financial Products has complied in all material respects with the terms of each Constituent Document.

12. Employees

(a) The Seller has provided details of all material industrial instruments operating in respect of employees engaged in the BankWest and St Andrew's Businesses.

(b) The Seller's Guarantor is not aware of any material non-compliance by any employer of employees engaged in the BankWest and St Andrew's Businesses with any obligations under employment contracts, industrial instruments or employee related legislation.

(c) No employer of employees engaged in the BankWest and St Andrew's Businesses have been involved in any material dispute with any employee or any employee representative body at any time within the 2 years preceding the date of this agreement, and there are no circumstances likely to give rise to any material dispute with an employee or an employee representative body.

(d) There are no defined benefit superannuation schemes in operation in respect of employees or former employees engaged in the BankWest and St Andrew's Businesses.

13. Insurance

(a) Each Group Company has at all material times prior to Completion been, and is at the date of this agreement adequately insured against, accident, damage, injury, advice, third party loss (including product liability), loss of profits and any other risk normally insured by a prudent person operating the types of business similar to the BankWest and St Andrew's Businesses (noting the GBP25 million excess under the HBOS policies which cover the Group Company).

(b) As far as the Seller's Guarantor is aware, no event (other than one that has given rise to a claim that is not outstanding) has arisen that may give rise to a material claim by a Group Company under any insurance policy.

(c) So far as the Seller's Guarantor is aware, nothing has been done or omitted to be done that would make any Insurance void or voidable or that would permit an insurer to cancel the policy or refuse or materially reduce a claim or materially increase the premiums payable under the Insurances.

14. Taxes

14.1 Returns submitted

(a) Each Group Company has submitted any necessary information, notices, computations and returns to the relevant Tax Authority in respect of any Tax relating to the Group Companies.

(b) So far as the Seller's Guarantor is aware, any information, notice, computation and return that has been submitted by the Group Company to a Tax Authority in respect of any Tax:

(i) discloses all material facts required to be disclosed under any Tax Law;

(ii) is not misleading in any material particular; and

(iii) has been submitted with the relevant Tax Authority.

14.2 No Tax audit

The Seller's Guarantor is not aware of any pending or threatened Tax audit relating to a Group Company.

14.3 No disputes

There are no disputes between a Group Company and any Tax Authority in respect of any Tax.

14.4 Consolidation

(a) Each Group Company will be taken to have been a member of the Seller's Consolidated Group at all times on and from 1 July 2004.

(b) No Group Company has at any time been a member of a Consolidated Group other than the Seller's Consolidated Group.

(c) The Tax Sharing Agreement covers all Group Liabilities of the Seller's Consolidated Group in the manner described in section 721 25 of the ITAA 1997.

(d) The payments made before Completion by each Group Company to the Seller's Head Company as contemplated by clause 20.1 represent the amount that is necessary to enable that Group Company to leave the Seller's Consolidated Group at Completion clear of any Group Liability in respect of which the Group Liability Date is after Completion in accordance with section 721 35 of the ITAA 1997.

(e) The Seller's Head Company has not and will not make a choice under section 701 40 of the *Income Tax (Transitional Provisions) Act 1997* that would result in a reduction in the tax cost setting amount of a depreciating asset held by a Group Company at Completion.

14.5 Tax Sharing Agreements

(a) Each Group Company that was a member of the Seller Consolidated Group as 1 July 2004 has been a party to a valid Tax Sharing Agreement with the Seller (as the Head Company of the Seller Consolidated Group) such agreements having had effect at all times from 1 July 2004 to date.

(b) Each Group Company that became a member of the Seller Consolidated Group at a date later than 1 July 2004 has been a party to a valid Tax Sharing Agreement with the Seller (as the Head Company) such agreements having had effect at all times from the date that these Group Company joined the Seller Consolidated Group to date.

(c) The Group Companies have paid all amounts required to be paid under the Tax Sharing Agreement and any Tax Funding Agreement and no further amounts will become payable by them under those agreements.

15. Accuracy of information

(a) As far as the Seller's Guarantor is aware, the information concerning the BankWest and St Andrew's Businesses prepared by or on behalf of the Seller and contained in the Due Diligence Materials is accurate in all material respects taking into account the purpose for which it was prepared, the basis on which it was prepared and the timeframe within which it was required to be prepared. As far as the Seller's Guarantor is aware, the Seller has not included any information in the Due Diligence Materials that is misleading in any material respect and no information has been omitted from the Due Diligence Materials that would render the Due Diligence Materials misleading in any material respect.

(b) As at the date of this agreement, the Seller's Guarantor is not aware of any materially adverse information relating to the BankWest and St Andrew's Businesses that has not been made available to the Buyer before the date of this agreement or in the Due Diligence Materials.

16. Distribution

(d) The Seller has provided the Buyer with correct and complete copies of, or pro formas of all material Distribution Agreements.

(e) Except as disclosed in the Due Diligence Material, the Distribution Agreements contain restraint of trade provisions which reasonably and validly prevent, and otherwise protect against, Distributors distributing financial products other than the Financial Products during the term of the Distribution Agreements and a reasonable time thereafter.

17. Actuarial

For each Group Company which is an Insurer:

(a) the policy liabilities of that company as set out in the Accounts have been correctly calculated in accordance with the bases and assumptions set out in its appointed actuary's latest Financial Condition Report and are in accordance with the Relevant Legislation and the Actuarial Standards;

(b) the capital adequacy and solvency requirements for that company as disclosed in the latest Financial Condition Report are calculated correctly and in accordance with the requirements of the Relevant Legislation and the Actuarial Standards;

(c) the company currently complies with the Actuarial Standards pertaining to capital adequacy and solvency; and

(d) the company's appraisal value as set out in its latest Appraisal Value Report has been correctly calculated in all material respects in accordance with the bases and assumptions set out in that report.

Schedule 7 - Buyer Warranties

1. The Buyer

1.1 Capacity and authorisation

The Buyer is a company properly incorporated and validly existing under the laws of Australia, and has taken all corporate actions necessary to enable it to execute, deliver and perform its obligations under this deed.

1.2 Valid obligations

This deed constitutes (or will when executed constitute) valid legal and binding obligations of the Buyer in accordance with its terms.

1.3 Solvency

None of the following events has occurred in relation to the Buyer:

(a) a receiver, receiver and manager, liquidator, provisional liquidator, administrator, trustee or similar officer is appointed in respect of the Buyer or any of its assets;

(b) an application is made to court or a resolution is passed or an order is made for the winding up or dissolution of the Buyer;

(c) the Buyer proposes or takes any steps to implement a scheme of arrangement or other compromise or arrangement with its creditors or any class of them; or

(d) the Buyer stops paying its debts when they become due or is declared or taken under any applicable law to be insolvent or the Buyer's board of directors resolves that it is, or is likely to become at some future time, insolvent.

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~~Not used~~

Schedule 8 – Payment order

SCHEDULE 9 8

COMPLETION DATE AGENDA FOR PAYMENT ORDER PROCESS

	ACTIVITY	PAYMENT	EVIDENCE FOR COMPLETION	PERSON RESPONSIBLE	DELIVERED ON COMPLETION AND NOTIONAL TIMING
1 [B]	BW redeems preference shares issued to HBOS at par	A$530m paid by BW to HBOS Accrued interest to be paid by BW to HBOS	Share registry to be produced and updated to reflect no RPS Confirmatory letter from HBOS plc to be provided (confirming redemption of RPS)		9.30am
2 [D] [E]	CBA purchases BW/SAA/GS ordinary shares from HBOSA	A$2,100m paid by CBA to HBOSA	Payment direction from HBOSA (payment to be made to BOSTA) Payment message from CBA evidencing payment transfer Payment message from HBOSA evidencing receipt of payment Entry of CBA in share register of BW	HBOS	10.00am
3 [F] [H]	a) CBA purchases new tier 2 instruments issued by BW (rates and terms to be agreed	a) A$1,025m paid by CBA on behalf of BW to HBOS plc a) BW to pay accrued interest to HBOS plc a) BW to withhold withholding tax and	a) Payment direction from BW to CBA to pay HBOS plc (payment to be made to BOSTA) a)(i) Signed application form a)(ii) Payment message from CBA evidencing payment a)(iii) Payment message (for p&l)	CBA	10.30am

	b) BW redeems tier 2 subordinated debt issued to HBOS at par	forward to tax office	from HBOS evidencing receipt of payment b) BW to provide a letter evidencing redemption	HBOS	
4 [C]	BW issues new ordinary shares to CBA	A$530m paid by CBA to BW	Payment message from CBA evidencing payment Payment message evidencing receipt from BW BW share register entry of new shares	HBOS Sue Wilson	11.00am
5 [I] [M]	a) BW repays intercompany loans from BOSTA – principal plus accrued interest - BOSTA repays fx loans to BW – principal and interest. BW repays FX loans to BOSTA – principal and interest. Footnot	a) CBA pays A$12,968,069,641.35 to BW representing the principal of all the $A intercompany loans from BOSTA to BW less the Excess Amount. b) BW to pay accrued interest on all $A intercompany loans from BOSTA to BW.	a) Payment direction from BW (payment to be made to BOSTA) with respect to the A$ principal repayments b) Payment messages from CBA evidencing series of A$ payments c) Payment messages from BOSTA evidencing receipt of A$ payments d) Payment messages from BOSTA and BW evidencing the payment of foreign currency to close out the fx	HBOS HBOS	Payments made from 11.15am (for JPY) Subsequent payments then made at intervals until final net settlement payment (incorporating

		c) BW to repay all principal and accrued interest on all FX loans from BOSTA. Payments are to be made in the relevant foreign currency. d) BOSTA to repay all principal and accrued interest on all FX loans from BW. Payments are to be made in the relevant foreign currency. e) Following the closure of deals between BOSTA and BW in c) and d) above, upon confirmation from to BOSTA, BOSTA staff, acting on behalf of BW, will then enter into fx loans and deposits with CBA Global Markets such that CBA will stand in the same position with respect to BW as BOSTA previously had.	loans and deposits e) Deal confirmations and payment messages evidencing new fx deals between CBA and BW to be exchanged per normal commercial practice. f) HBOS provide confirmation that all inter-company loans have been repaid, except for the Excess Facility Amount. CBA and BOSTA will agreed on the 6mth BBSW rate on 19 December 2008 for BOSTA to apply to the Excess Facility Amount loan.	HBOS / Ian Marschem CBA Freehills to provide CBA & BOSTA	excess facility loan amount) to occur from CBA by 2.30pm

Schedule 9 — Structure diagram for Group Companies

Note: This Schedule has not been amended and remains remains in the form of Attachment 2 to the Sale Deed executed on 8 October 2008.

Executed as a deed.

Signed sealed and delivered for and on behalf of
HBOS Australia Pty Ltd (ACN 070 002 597)
by its Attorney under a Power of Attorney dated 6 October 2008 and the Attorney declares that the Attorney has not received any notice of the revocation of such Power of Attorney, in the presence of:

sign here ► ______________________________
Attorney

print name ______________________________

sign here ► ______________________________
Witness

print name ______________________________

Signed sealed and delivered by
HBOS plc (registered in Scotland No. SC218813)
by

sign here ► ______________________________
Company Secretary/Director

print name ______________________________

sign here ► ______________________________
Director

print name ______________________________

Lending Guide 2 Credit Policy - General 2 Non-Retail and Retail Credit Grading Policy	2.2.1 Non-Retail and Retail Credit Grading Policy Policy Archived on: 01/06/2009 Version: 19 by Head of Portfolio Management & Models

INTRODUCTION

This document details HBOSA's Non-Retail and Retail Credit Grading Policy. This document is a key component of the overall risk management process within the Group.

POLICY

Taking credit risk for a commensurate return is a core business activity of HBOSA and as such it is important that not only do we have a clear understanding of the risks being accepted, but we also have a consistent method of measuring credit risk in order to determine the level of return that we require. In addition, we need to be able to manage the portfolio such that the overall profile reflects the appetite for risk that has been determined by the HBOSA Board, and, in recognition of the dynamic nature of credit risk, we also need a method of monitoring changes to the risk profile of both individual credits as well as the portfolio as a whole.

In view of the differing risk and return characteristics of the retail book as compared with the non-retail book, it is appropriate to have measurement methods that reflect the unique nature of these business areas. Therefore, the process for measuring retail credit risk revolves around a scorecard process that facilitates a portfolio approach, whereas the business book generally requires more in-depth analysis on an individual credit basis. Accordingly, this policy document is structured to reflect these two different measurement approaches. It should be noted however that where a business loan is both small and uncomplicated, it may assume the characteristics of a retail exposure, that is "Retail Other" (refer to Basel Exposures Definitions - link attached below).

Non Retail Loan Portfolio

Non-retail (Business) loans will be assessed using the Business Risk Grade System ("BRGS") that enables the calculation of the Credit Grade.

The Credit Grade is determined by modelling the "Probability of Default" (PD) and can be thought of as an indicator of the strength of the "First Way Out", being the entity's ability to repay debt from the cash flow of the operations.

The "Loss Given Default" (LGD) is determined by modelling the "Second Way Out". That is, in the event of business failure, the extent to which the Bank can recover its exposure through the realisation of security collateral, including claims against guarantors. The LGD represents the percentage of the exposure that would potentially be lost in the event that the new facility falls into regulatory default. The LGD is calculated via inputs into the Risk-Adjusted Return On Capital (RAROC) calculator.

The credit grade is also a key input into the RAROC pricing model that allows HBOSA to ensure that we understand the return that we should be receiving for the risks that we are accepting.

The Basel Accord requires the following:

- Rating assignments and periodic rating reviews must be completed or approved by a party that does not directly stand to benefit from the extension of credit. (extract of

Footnote 66

Clause 424)

Therefore credit grade ratings completed by sales staff must be confirmed by an independent party (eg Credit Sanctioning, Credit Review). The procedures in place to meet this requirement for the various business lending areas are summarised in the Checking of Credit Grades document (refer link below).

Credit Grade

The Credit Grade provides a relative measure of the probability that an entity may default by measuring quantitative factors such as profitability, cash flow, and capital structure as well as qualitative factors such as the quality of management.

Credit grades range from: 1 (highest quality / least risk) through to 10 (loss).

Our credit grading system is designed to map against recognised external ratings systems such as Moodys and Standard and Poors as shown below. A full description of the criteria relating to each credit grade is outlined in the Credit Grade Classes document (refer link below).

Credit Grade	Definition	Moody's Equivalent	Standard Poors (S & P)
1	Exceptional	Aaa / Aa1-3 / A1 / A2	AAA / AA+ / AA / AA- / A+ / A
2	Excellent	A3	A-
3	Very Good	A3 / Baa1	A- / BBB+
4-	Good	Baa1 / Baa2	BBB+ / BBB
4		Baa2 / Baa3 / Ba1	BBB / BBB- / BB+
4+		Ba2	BB
5-	Average	Ba2 / Ba3	BB / BB-
5		Ba3	BB-
5+		Ba3 / B1	BB- / B+
6-	Adequate	B1	B+
6		B1	B+
6+		B1	B+
7	Weak / Pass with Caution	B2 / B3 / Caa1-3	B / B- / CCC+ / CCC / CCC-
8	Watch List / Substandard	Caa3 / CC-D	CCC- / D
9	Doubtful	D	D
10	Loss	D	D

Individual credit grade models have been developed for some of the industry segments that are often reflected within the HBOSA portfolio. These models have been constructed using expert input and statistical analysis to determine the key decision variables for that industry. The industry segments that currently have models available are as follows:

Credit Grading Models	Transaction Type & Exposure Size Range
Project Finance	Project finance transactions where exposure is greater than $1M

7	0.042469	0.649999	0.0477841	B B- CCC+ CCC CCC-	B2 B3 Caa1 Caa2 Caa3	Weak/Pass with Caution	Weak credits that may be acceptable if structured properly and managed to mitigate the credit risks posed by some weak operating fundamentals. Companies whose management has allowed the fundamental profitability, cash flow, and, consequently, capital structure to deteriorate to the point such that debt service capacity may not be adequate in the short run. These companies' ability to meet their debt service requirements may be susceptible to even short term economic and competitive pressures. Weaknesses usually consist of one or more of the following: volatile profitability that may have resulted in losses in a recent period; strained ability to meet debt service requirements from operational cash flows in a recent period; leverage in excess of the bank's tolerance; volatile and/or declining sales; sales growth at a rate beyond their ability to manage. If these credit risks are to improve, management must take action to correct current weaknesses.
8	0.650000	1.000000	0.7000000	CCC- Default	Caa3 CC - D	Watch List/ Substandard	These are usually either "watch" credits or workout credits. These credits are not acceptable new credits. Companies whose internally generated debt service capacity in one or more recent period has been inadequate, resulting in slow or missed payments. Companies in this category may have been meeting debt service requirements by extending the trade, drawing on lines of credit or through additional borrowings. Their long term ability to meet payments from documented sources is in question and usually not expected unless execution of a risk reduction plan is successful. Additionally weaknesses usually include many of the following: volatile profitability that has resulted in significant losses in a recent period; inability to meet debt service requirements from operational cash flows in a recent period; leverage in excess of the

							Bank's tolerance that make these companies vulnerable to adverse economic conditions; no access to additional capital; volatile and/or declining sales. If these credit risks are to improve, management must take swift action to correct current weaknesses.
9	1.000000	1.000000	1.000000	D	D	Doubtful	These are workout credits where full collection of principal and or interest is doubtful. Companies whose internally generated debt service capacity has been inadequate. These companies are usually past due. If debt service requirements are met, it is a result of extending the trade, drawing on lines of credit or through additional borrowings. These companies' long term ability to meet payments from documented sources is highly unlikely. Companies in this category usually exhibit operating losses, little, if any, liquidity, negative cash flow and high leverage. The high leverage suggests that collateral, unless pledged from third party sources, may be inadequate, on average, to fully protect the Bank from loss.
Footnote 29 10	1.000000	1.000000	1.000000	D	D	Loss	These are workout credits where a loss of principal or interest is expected and usually has been taken. Companies whose internally generated debt service capacity has been inadequate to meet debt obligations. Companies in this category exhibit operating losses, no liquidity, negative cash flow and extremely high leverage.

Risk Grade	Descriptor	Characteristics	Strategy/Action Plan
RG 7 PD is 13.45%	Watchlist/Retention Focus	• Customer anticipates business or financial difficulty, or is not performing to expected levels. • Cash flow and debt service measures indicate early signs of weakness through covenant breaches. • Customer has a pattern of minor problems or account excesses which together signal causes for concern. • Credit quality is below the standard acceptable for new business.	• Although difficulties are expected to be temporary, customer must implement action plans to correct problems. • Expected PD is 13.45% based on balanced assessment of business outlook, cash flow, asset realisation and refinancing potential, and management commitment. • Progress to be managed by Account Manager (with Portfolio Enhancement oversight via Early Warning Watchlist in BW Business). • Within six months of being graded Watchlist, customer position must be reviewed and facilities regraded to Performing or Special Mention or worse rating.
RG 7+ PD is 25%	Special Mention/Retention Focus/Exit (High Risk)	• Customer demonstrates operating weakness in the form of reduced sales or margins, losses, management turnover, delayed or inadequate financial information, audit qualification, broken commitments or adverse industry or business developments. • Customer evidences financial weakness in the form of deteriorating cash flow and debt service measures, restricted	• Special Mention credits are not exposed to sufficient risk to warrant Substandard or Doubtful classification, and no loss is yet envisaged. • Expected PD is 25% based on balanced assessment of business outlook, cash flow, asset realisation and refinancing potential, and management commitment. • In the event weaknesses are not corrected, more rapid

Risk Grade	Descriptor	Characteristics	Strategy/Action Plan
		liquidity, pressure on or material breach of financial covenants and account limits, weaker security and LVR coverage. • Increasing customer reliance on external refinancing, or sale of assets (including security property) as principle source of repayment.	deterioration in repayment prospects and security could occur. • Substantive discussions with the customer are required to agree remedial management steps. Comprehensive internal or formal external review of all facility documentation is required. Decision whether to stay with or exit the customer relationship must be made, and consequent strategy plan recorded. • Strategy plan must specify future developments which, if they occur, will trigger a regrade. • Within BW Business these exposures will be managed by Portfolio Enhancement. • Failure to achieve the strategy may result in down grade to Sub-standard/Exit or transfer to Credit & Asset Management as Defaulted.
RG 8- PD is 70%	Sub-standard/Exit (High Risk)	• Facilities are fully current as to interest and principal obligations and profit is being taken to account on an accrual basis. • Customer demonstrates significant weakness in debt service or security coverage that jeopardise the repayment of debt within its current contractual	• Substandard credits are not yet expected to incur a loss of interest or principal but probability is high. • Expected PD is 70% based on balanced assessment of business outlook, cash flow, asset realisation and refinancing potential, and management

Risk Grade	Descriptor	Characteristics	Strategy/Action Plan
		terms. • If the weaknesses are not rectified, possible loss of principle or interest could occur. • Ongoing corrective action, including its effect on the estimated realisable value of security supports a greater than 50% probability of recovery of all principal and interest.	commitment. • Security requires to be objectively evaluated, reflecting expected timing and sale conditions for its realisation to determine its LGD value. • Detailed work out strategies, timelines and triggers need to be set. • Within BW Business these exposures will be managed by Portfolio Enhancement. • Failure to achieve the strategy may result in down grade to Defaulted and transfer to Credit & Asset Management.
Footnote 20 RG 8 PD is 100%	Defaulted/Impaired (Exit/Enforcement)	• 90 Days Past Due/Well Secured. Contractual payments of interest and principal are 90 or more consecutive days past due, or overdrafts have been continuously above approved limits (including excesses) for 90 or more consecutive days AND estimated net realisable value of security is sufficient to cover all principal, interest due and an additional 12 months interest. Interest is being taken to account on an accrual basis. • Restructured Loan/No Provision. Original contracted terms have been formally modified to provide capitalization of interest	• Defaulted credits have problems inherent in a sub-standard facility, but these are advanced to the point where full recovery of interest and principal is now in serious doubt. • Expected PD is 100% probability of loss is based on conservative assessment of business outlook, cash flow, asset realisation and refinancing potential and management commitment. • Security needs to be objectively evaluated on liquidation or forced sale basis, reflecting expected timing and sale conditions for its realisation to determine its LGD value.

Risk Grade	Descriptor	Characteristics	Strategy/Action Plan
		and deferral of principal repayment that afford the Borrower time to liquidate its assets in an orderly fashion.	
RG 8+ PD is 100%	On Non Performing Asset (NPA) System as Productive	• Insolvency or bankruptcy appointment made to Borrower or security holder • 90+ days past due with no agreed resolution • Borrower uncooperative or contact unable to be made • Requiring the specialist skills or management of Asset Recoveries • Security (ERV less costs) adequate to cover (not necessarily met on time) principal debt & interest on IAS basis	• Exit of connection in a timely manner maximising recoveries • Alternatively if default can be rectified in the short term then this to occur and file repatriated to LOB.
RG 9 PD is 100%	On Non Performing Asset (NPA) System as Unproductive	• Insolvency or bankruptcy appointment made to Borrower or security holder • 90+ days past due with no agreed resolution • Borrower uncooperative or contact unable to be made • Requiring the specialist skills or management of Asset Recoveries • Security (ERV less costs) Inadequate to cover both principal debt & interest on IAS basis with the possibility of a provision	• Interest and fees now to be reserved • Exit connection to maximise the recoveries and minimise any loss • Alternatively look to restructure or return facility to LOB to prevent loss position crystallising • A provision may have been raised or write-off may have been taken.

Footnote 20 & 29

Risk Grade	Descriptor	Characteristics	Strategy/Action Plan
RG 10 PD is 100%	On Non Performing Asset (NPA) System with Specific Provision recorded	• Loan is judged to be uncollectible or of such little value that it should no longer be carried on the Bank's balance sheet • Insolvency or bankruptcy appointment made to Borrower or security holder • 90+ days past due with no agreed resolution • Borrower uncooperative or contact unable to be made • Requiring the specialist skills or management of Asset Recoveries • Security (ERV less costs) inadequate to cover both principal debt & interest on IAS basis with NPV calculation indicating an IFRS provision	• Interest and fees now to be reserved • Exit connection to maximise the recoveries and minimise the loss • Alternatively look to restructure or return facility to LOB to prevent full loss position crystallising • Loans should be written of in the fiscal accounting period it is classified as a loss. This grade includes those assets which are yet to be written off.

2009 ANNUAL GENERAL MEETING
EXTRACT OF SHAREHOLDER QUESTIONS
ANSWERED AT THE MEETING

QUESTION: The Commonwealth Bank acquired Bankwest rather quickly a year ago, raising some $2.1 billion in a new equity to fund the purchase, which also includes St Andrews. What was the total cost, after completion of the due diligence and associated adjustments to the purchase price and what does the implementation of "improved lending practices" mean, mentioned in the annual report? Does this mean that shareholders should expect to see increased impairment from Bankwest?

Are there any restrictions imposed on the CBA's operation of Bankwest by the Western Australian Government's Bankwest Act? How long are these likely to remain and do they have any serious consequences?

John Schubert: Thank you very much. I'm sure a question that interests everyone here in the west. This was a purchase that took place last year. It followed the collapse of markets around the world and Bankwest, of course, was owned by a bank located in the UK. They were in trouble. We had the opportunity and we were probably the only bank capable of buying Bankwest, so we took that opportunity and made a very attractive purchase for our shareholders. I believe Bankwest will prosper under our ownership and be great for both the customers and for the Commonwealth Bank shareholders.

Footnote 35 & 68

In regard to the cost of the acquisition of Bankwest, we obviously signed a confidentiality agreement on the settlement process that we went into, post acquisition. It was an agreement in and around making sure that Bankwest was appropriately provisioned for bad and doubtful debts and there was also an issue around the appropriate level of fundamental capital within the Bankwest Group.

In that negotiation that followed, we went from a position, which I can talk about in ratios. We went from a cost of 0.8 times book to a cost of 0.7 times book, so I think you can take it from that

Footnote 35 &69

calculation that we paid a little less in value terms for the Bankwest Group.

In regard to impairment, there’s no doubt that Bankwest had a significantly greater exposure to property loans and development loans and if we go back to June of 2008, Bankwest had provisioning for bad and doubtful debts of around $200 million. Through the acquisition process, through our process of diligence, we came to a view that we should increase that substantially. So as at 30 June 2009, Bankwest had provisions for bad and doubtful debts of around $1.6 billion. That has been charged off against the gain on acquisition and we are now of the view that Bankwest is appropriately provisioned.

In regard to the Bankwest Act, the Act imposes commitments that we, as an owner of Bankwest, have to follow and that includes having a Chief Executive Officer resident here in Western Australia, which we do and also the chairman of the Bankwest Board being Western Australian based as well and on that basis we also comply.

INSIDE BUSINESS

Commonwealth Bank makes record profit

Broadcast: 15/08/2010

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|
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ALAN KOHLER, PRESENTER: What's a poor banker supposed to do? Coming out of the worst global financial maelstrom in 80 years, the Commonwealth Bank this week delivered a record full year profit of $6.1 billion and an unexpectedly large jump in dividends... Up almost 50 per cent, and no one's happy.

Investors dumped the stock and the public called for a bank super profits tax.

I spoke to the Commonwealth's boss Ralph Norris after the dust from his results had started to settle.

Well Ralph Norris, you've had a big profit, a record profit - $6.1 billion - but it was all in the first half wasn't it? The second half wasn't so good.

RALPH NORRIS: There's no doubt that the second half has been more difficult. On two counts really. I mean the first count is that deposit pricing has been significantly more competitive in the second half, particularly in the first quarter of the second half.

And then as the half progressed we did see a slowing in demand. So there's been a softness in business conditions as well. So those two things together have put a bit of pressure on business during the second half.

ALAN KOHLER: Is that why you're quite cautious now about the outlook?

RALPH NORRIS: I think it's more about prevailing economic conditions and I think that if you talk to most people over the last couple of months there's no doubt there's been a softening, we've seen a reduction in the demand for mortgages and overall I think that there's been a lot of issues internationally that have obviously impacted upon local sentiment and business confidence is obviously down.

One of the things we do find a little hard to rationalise is the very strong consumer confidence but that's not really translating into expenditure or into house sales.

ALAN KOHLER: So is there also a structural overlay as well as the cycle - by which I mean, that households and businesses are reducing their debt, restructuring their balance sheets, at the same time as the economy is softening a bit - so there's two things going on at once.

RALPH NORRIS: I think we have a situation here where there are a couple of factors at play. I think that there's no doubt that we saw during the last year a significant pay down of debt by the bigger end of town.

There's no doubt that, you know, there were a lot of equity raisings which led to a lot of debt being repaid. Um, I think it's also fair to say that we have seen an improvement in the arrears rates on consumer loans, we have seen an increase in deposits - so there's no doubt that, I think, that people are being a bit more cautious in approach to personal balance sheets and I think small business and the like are taking a view that economic conditions are still somewhat uncertain and therefore are not embarking upon any major projects etc.

So I think there's a combination of factors there. But when we look at the underlying performance of the Australian economy, it is performing very well. Trade surpluses are very strong and all the leading indicators are that we would expect to see some improvement in the second half.

ALAN KOHLER: Yeah, but that's not particularly relevant to you if noone's borrowing any money.

RALPH NORRIS: Well I think we're going through this period where obviously there's been a lot of choppiness in the news out there and while I think that there is a degree of caution, looking at the forward economic forecasts by our economists here, they're still reasonably positive about, you know, the growth in the economy, growth in credit, but I think it's fair to say that we're going through a period of some caution.

ALAN KOHLER: And there's been a lot of unhappiness with the amount of money you made, six billion dollars or so; now you'd probably say, well you've got to relate that to assets and capital and so on, but in fact the number has got the politicians jumping along with everyone else.

RALPH NORRIS: Well I think, as I made the point at the results presentation, this is a very big business. It has assets, that is loans of approaching $650 billion, and if you look at what is regarded as the international benchmark for reasonable returns by banks, a one per cent return on those assets after tax is regarded as being reasonably appropriate.

And in our situation we're a little bit under that so I don't see that the profit is exorbitant in relation to the size of the business, the business is a very big business and as a result of that you'd expect to see a profit number that was of a comparative size.

ALAN KOHLER: Well of course you would say that, but I mean the government has shown a propensity to impose a super profits tax on the mining companies, do you have any concerns that they'll do that to the banks?

RALPH NORRIS: Well certainly as far as profits taxes on miners etc, I mean that was all about resources that are fundamentally owned by Australian citizens, and I think it's fair to say that the commentary that the Treasurer has made this week is that he would not see the necessity for placing a super tax on banks.

ALAN KOHLER: I guess the other question is, Bankwest, the acquisition - now you lost 10 per cent of their loan book, or at least 10 per cent of their loan book has disappeared. Now you mustn't be happy with that?

RALPH NORRIS: Well I think, I'm not happy about that obviously Alan, but I think it's fair to say that we bought that bank at a very good price so the price to book after the pre-acquisition or post-acquisition adjustments was 0.7 times book.

Footnote 45

What this has done is effectively taken it back to the original offer price of 0.8 times book and while I'm not happy about that it's still a very good buy. And if I had the opportunity to buy more banks at that sort of price, even with the problems that we've obviously found inside Bankwest, I'd do it all over again.

ALAN KOHLER: Yeah, but are you sure you've found all the crook loans in Bankwest?

Footnote 41

RALPH NORRIS: I think it's fair to say that when I found out that we had problems there I indicated very directly that we needed to undertake an in-depth review of the whole book at Bankwest - all of the performing loans, and this is really a situation where we found that loans were inappropriately rated from a credit quality perspective, we've adjusted those ratings and the security supporting those loans in some respects was overvalued, and I think it's fair to say that the people that have done that are a team that have gone from Sydney to Perth, we've used some external advisers as well through that process, because it was obviously a process that took some time and a lot of effort. And I have to say that I think the people that have undertaken that task have done a very rigorous review so I'm confident that have that pretty much nailed down.

ALAN KOHLER: Thanks for joining us Ralph Norris.

RALPH NORRIS: Thanks very much Alan.

Last Week's Stories

- Inside Business Sunday 1 December
- Farewell Inside Business

Business and Finance News

- Torres Strait air service decision looms
- Farm group seeks clearer drought aid transition
- Houseboat strategy worries council
- Early childhood ABC centres targeted for closure: LHMU
- Public urged to do energy retailer homework

Bankwest response statement
We strongly deny the allegations made. Due to the GFC and the broader economic environment property values and property development in general suffered between 2008 and 2011* and Bankwest assisted many customers through this period and continues to do so.

The Bank does not gain anything financially when receivers are appointed so the suggestion that Bankwest forced customers into receivership is absurd.

When our customers do sometimes face financial difficulties, our overriding priority is to work closely with them on an individual basis to try and assist them wherever possible.

*Note ; ASIC's records are that in the financial year 2007/2008 there were 637 receiver and manager appointments ships across the country whereas in the financial year 2008/2009, when the GFC period commenced, the number of receiverships more than doubled with 1487 across Australia.

Footnote 56

Basel Committee on Banking Supervision

International Convergence of Capital Measurement and Capital Standards

A Revised Framework
Comprehensive Version

This document is a compilation of the June 2004 Basel II Framework, the elements of the 1988 Accord that were not revised during the Basel II process, the 1996 Amendment to the Capital Accord to Incorporate Market Risks, and the 2005 paper on the Application of Basel II to Trading Activities and the Treatment of Double Default Effects. No new elements have been introduced in this compilation.

June 2006

BANK FOR INTERNATIONAL SETTLEMENTS

rating as part of the loan approval process. Similarly, for retail, each exposure must be assigned to a pool as part of the loan approval process.

423. Each separate legal entity to which the bank is exposed must be separately rated. A bank must have policies acceptable to its supervisor regarding the treatment of individual entities in a connected group including circumstances under which the same rating may or may not be assigned to some or all related entities.

Footnote 66

(ii) Integrity of rating process

Standards for corporate, sovereign, and bank exposures

424. Rating assignments and periodic rating reviews must be completed or approved by a party that does not directly stand to benefit from the extension of credit. Independence of the rating assignment process can be achieved through a range of practices that will be carefully reviewed by supervisors. These operational processes must be documented in the bank's procedures and incorporated into bank policies. Credit policies and underwriting procedures must reinforce and foster the independence of the rating process.

425. Borrowers and facilities must have their ratings refreshed at least on an annual basis. Certain credits, especially higher risk borrowers or problem exposures, must be subject to more frequent review. In addition, banks must initiate a new rating if material information on the borrower or facility comes to light.

426. The bank must have an effective process to obtain and update relevant and material information on the borrower's financial condition, and on facility characteristics that affect LGDs and EADs (such as the condition of collateral). Upon receipt, the bank needs to have a procedure to update the borrower's rating in a timely fashion.

Standards for retail exposures

427. A bank must review the loss characteristics and delinquency status of each identified risk pool on at least an annual basis. It must also review the status of individual borrowers within each pool as a means of ensuring that exposures continue to be assigned to the correct pool. This requirement may be satisfied by review of a representative sample of exposures in the pool.

(iii) Overrides

428. For rating assignments based on expert judgement, banks must clearly articulate the situations in which bank officers may override the outputs of the rating process, including how and to what extent such overrides can be used and by whom. For model-based ratings, the bank must have guidelines and processes for monitoring cases where human judgement has overridden the model's rating, variables were excluded or inputs were altered. These guidelines must include identifying personnel that are responsible for approving these overrides. Banks must identify overrides and separately track their performance.

(iv) Data maintenance

429. A bank must collect and store data on key borrower and facility characteristics to provide effective support to its internal credit risk measurement and management process, to enable the bank to meet the other requirements in this document, and to serve as a basis for supervisory reporting. These data should be sufficiently detailed to allow retrospective re-allocation of obligors and facilities to grades, for example if increasing sophistication of the internal rating system suggests that finer segregation of portfolios can be achieved.