



Commonwealth Bank of Australia September Quarter Trading Update

Sydney, 15 November 2010: The Commonwealth Bank (“the Group”) today advised that its unaudited cash earnings for the three months ended 30 September 2010 (“the quarter”) were approximately \$1.6 billion. Key outcomes over the quarter are summarised below.

Key Outcomes

- Operating conditions remain challenging, with muted system credit growth reflecting sustained deleveraging and ongoing caution on the part of both consumer and business customers;
- Effective execution of the Group’s strategic priorities continued to drive good performance outcomes across the Group;
- Disciplined cost control maintained;
- Good deposit growth resulted in asset growth being entirely deposit funded in the quarter, with customer deposits now representing 59% of total Group funding;
- Elevated funding costs continued to impact Retail Bank margins, offsetting stable to improved margin outcomes in some other segments of the business and resulting in a further progressive contraction in overall Group NIM in the quarter;
- Impairment expense of \$321 million in the quarter, with further gradual improvements in the quality of key lending portfolios;
- Strong balance sheet provisioning and coverage ratios maintained, with the ratio of Total Provisions to Credit Risk Weighted Assets improved to an industry leading 2.32 percent;
- The Group’s Tier 1 capital ratio increased 47 basis points to 9.6 percent; and
- Liquid asset balances increased to \$92 billion.

Business Commentary

Australia – Retail

The Retail Bank continued to perform reasonably well, with a focus on cost control during a period of subdued lending growth and continued increases in funding costs. Deposit growth was solid in a competitive market. Consumer arrears rates trended lower in all portfolios.

Margins continued to come under pressure as both deposit and wholesale funding costs remained at elevated levels. The Retail Bank margin for the quarter was 215 basis points, a decline of 15% since the start of the Global Financial Crisis. As a

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result, the decision was taken to increase the Home Loan Standard Variable Rate by 45 basis points, effective 5 November 2010.

The new Core Banking platform achieved some important milestones in the quarter, including the national rollout of new deposit account functionality and the successful migration of existing deposit accounts in Tasmania and Western Australia.

Bankwest continued to perform solidly through the quarter, with continuing growth in customer numbers and improvements in customer satisfaction levels.

Australia – Commercial

Balances within Institutional Banking & Markets (IB&M) continued to stabilise through the quarter as market conditions improved. Whilst lending demand remains concentrated in specific segments, there are indications that a more broad-based improvement in general corporate demand will emerge in the second half of the year. Whilst re-pricing for risk has continued in the loan book, credit spreads continue to narrow as liquidity has returned to the market and institutional appetite for corporate investment grade credit has increased.

Business and Private Banking (BPB) continued to perform well, highlighted by a strong banking performance. Demand for credit in the SME segment remains relatively subdued, with modest growth in the quarter. Total revenue growth was impacted by lower trading volumes in CommSec, reflecting softer market trading conditions.

Wealth Management and Insurance

Both Funds under Administration (FUA) and Funds under Management (FUM) performed strongly in the quarter, increasing by 4.6 percent and 4.4 percent respectively. Net flows for the quarter were positive \$2 billion (FUA). FirstChoice became the largest platform in the market in the June 2010 Plan for Life market share release and recorded positive net flows of \$513 million for the quarter. Insurance Inforce Premiums grew 2.1 percent, excluding the sale of the St Andrew's Insurance business (\$71 million).

New Zealand

The New Zealand economy continued to show some signs of improvement, albeit at a slow rate. ASB has maintained its strong relative market positioning in both home lending and deposits. Margins improved from asset repricing despite continued strong price competition for retail deposits.

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Conclusion

Commenting on the September quarter, Commonwealth Bank of Australia Chief Executive Officer Ralph Norris said: "As we indicated at our FY10 Full Year results announcement in August, operating conditions remain challenging. Credit growth remains muted, and margins continue to come under pressure from higher average funding costs and price competition. Whilst we have passed the peak in the bad debt cycle, improvement in key credit quality indicators continues to be gradual, rather than dramatic."

"Whilst the economic outlook is improving, short term risks and uncertainties remain. Globally, the economic recovery remains fragile, with persistent signs of weakness in the US and European economies balanced by a relatively stronger outlook in the domestic and Asian economies."

"The shape and direction of Global regulatory changes are becoming clearer, but some uncertainty still remains. Given this uncertainty, the Group is retaining its conservative business settings, with capital, provisioning, funding and liquidity levels all remaining strong."

"Against this background, the Group performed well through the quarter, highlighted by further improvements in customer satisfaction levels and disciplined cost control. The consistent delivery of our strategic agenda is driving good performance outcomes in each of our businesses, positioning the Group well for future growth."

"As we indicated at our Full Year results, we expect a gradual improvement in operating conditions in the second half of this financial year, as the economic recovery strengthens and system credit growth rebounds."

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