Media Release

CommonwealthBank

Commonwealth Bank of Australia
March Quarter Trading Update

Sydney, 11 May 2011: The Commonwealth Bank ("the Group") today advised that its unaudited cash earnings for the three months ended 31 March 2011 ("the quarter") were approximately $1.7 billion. Key outcomes for the quarter are summarised below.

Key Outcomes

- Effective execution of the Group's strategic priorities continued to drive good performance outcomes across the Group through the quarter;
- Asset growth was fully deposit funded, with customer deposits as a proportion of total Group funding further improving to 61 percent;
- Fragile consumer and business confidence is reflected in subdued credit demand, notwithstanding some tentative signs of improvement in system business credit growth in recent times;
- CBA performed strongly in business lending, reflecting its status as one of the Group's five core strategic priorities and ensuring the Group is well placed to take advantage of an expected improvement in sector credit demand through calendar 2011 and 2012;
- Group NIM improved further following asset repricing in the first half in response to a sustained elevation in average funding costs;
- Credit quality trends remained broadly consistent with those reported at the Group's half year results in February. Total impairment expense was lower at 24 basis points of total average loans, or approximately $300 million in the quarter;
- Credit quality in the corporate and business portfolios continues to improve, with favourable trends in key indicators, including impaired assets, portfolio ratings migrations and watch list loans. Consumer credit quality also remains very sound, notwithstanding a modest uptick in home loan arrears, reflecting a combination of factors including the impact of severe weather events, normal post-Christmas seasonal factors and the seasoning of 2008 vintage loans;
- Given ongoing economic uncertainty, economic overlays have been retained in the loan impairment provision, with total overlay provisions unchanged at $1.2 bn;
- The Group's provision coverage ratios remain sector leading, with the ratio of Total Provisions to Credit Risk Weighted Assets further improved to 2.28 percent;
- Strong organic capital generation saw the Group's Tier 1 capital ratio improved by 19 basis points to 9.90 percent, or 13.2 percent on a UK FSA basis.

Business Commentary

Australia – Retail

The Retail Bank performed well with an ongoing focus on operational efficiency in an environment of subdued credit demand. The Retail Bank margin improved during the quarter following asset re-pricing in the first half, but remains below pre-GFC levels. Consumer credit quality remains strong, notwithstanding a modest uptick in home loan arrears rates.

A continued commitment to product innovation saw the successful launch of the Goal Saver high interest account and the introduction of a no fee variable rate Home Loan, the first loan of its type to be offered by a major Australian bank.

Bankwest also improved its performance, with further growth in customer numbers, improved new business lending quality and above system growth in home lending.

Australia – Commercial

In the commercial space conditions remain mixed, with a divergence of performance across sectors depending on relative exposure to factors such as the strengthening Australian dollar and the commodities and resources boom. Whilst business confidence levels remain fragile, there have been tentative signs of an improvement in system credit growth in recent times, with the expectation for an improvement in general corporate demand emerging through the remainder of calendar 2011.

CBA recorded good volume growth, with lending balances (ex Bankwest) growing well ahead of system. Institutional Banking & Markets (IB&M) recorded good balance growth, with margins holding up well notwithstanding competitive pressures.

Demand for credit in the SME market showed signs of improvement, with Business and Private Banking (BPB) recording solid growth. Equities trading volumes showed improvement with CommSec maintaining its market share. Operating expenses were tightly managed, with targeted investment in the front line continuing.

Bankwest continued to reweight its commercial lending portfolio towards lower risk segments, with a further winding back of exposures to riskier market segments.

Wealth Management and Insurance

Following a strong December quarter, relatively subdued market conditions resulted in volume growth being broadly flat through the quarter. Funds under Administration (FUA) increased by 0.2 percent for the quarter, with subdued net flows offset by positive investment returns. FirstChoice continued to perform relatively well, with net flows of $440 million for the quarter and First Wrap also grew solidly with net flows of $317 million. Insurance Inforce Premiums grew 1.1 percent driven by solid growth in Retail Life. Funds under Management (FUM) were impacted by market and currency conditions although CFS GAM investment performance remained strong with over 75% of funds exceeding benchmark over 1, 3 and 5 years.

Although General Insurance operating margins were impacted by claims associated with storms and flooding throughout Queensland, NSW and Victoria, the impact is not material to Group Profits. All insurance segments remain solidly profitable including the General business.

New Zealand

The New Zealand economy showed some signs of improvement, however the devastation caused by the Christchurch earthquake in February 2011 will delay recovery. In the longer term, lower interest rates, high commodity prices and reconstruction activity is expected to boost economic growth. ASB performed strongly through the quarter, with good income growth and continued cost discipline. Margins further benefited from asset repricing despite price competition for retail deposits.

Conclusion

Commenting on the March quarter, Commonwealth Bank of Australia Chief Executive Officer Ralph Norris said: “As we indicated at our half year results announcement in February, operating conditions remain challenging. Whilst the Australian economy continues to perform relatively well, consumer and business confidence remains fragile, resulting in subdued spending patterns and muted system credit growth.

“Overseas, the residual impacts of the Global Financial Crisis are still being felt and this is weighing on the pace and direction of the global economic recovery.”

“Against this background, the Group performed well, with key trends remaining broadly consistent with those experienced through the first half of the year. The Group continues to deliver strong financial outcomes, highlighted by solid income growth and a gradual improvement in credit quality. Whilst system credit growth remains relatively subdued, business credit showed signs of improvement in the quarter. Across all segments of our business the effective execution of our strategic agenda is driving consistently good financial outcomes, positioning the Group well for future growth."

"Whilst the shape and direction of Global regulatory changes are becoming clearer, 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."

"Notwithstanding present challenges, we continue to expect a gradual improvement in operating conditions through calendar 2011, as the economic recovery strengthens and system credit growth rebounds."

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