

Commonwealth Bank

Commonwealth Bank of Australia
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Communication, Community & Reputation
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COMMONWEALTH BANK DELIVERS STRONG RESULT

Another record Interim Dividend declared

Overview

The Commonwealth Bank of Australia today announced a statutory net profit after tax (NPAT) for the six months to 31 December 2005 of \$1,999 million, an increase of 18 percent on the prior six month period. Cash NPAT was up 17 percent, to \$2,061 million.

Excluding the one-off impact from the \$145 million profit on the sale of the Bank's Hong Kong based insurance business, cash NPAT was up 9 percent on the prior period and 11 percent on the prior comparable period to \$1,916 million. Cash earnings per share, again excluding the impact of the Hong Kong sale, increased 13 percent to 149.5 cents per share.

A fully franked dividend of 94 cents per share was declared, an increase of 11 percent on the 2005 interim dividend of 85 cents per share. The dividend will be paid on 5 April 2006.

Commonwealth Bank Chief Executive, Ralph Norris said: "This is a strong result. The earnings momentum from the prior fiscal year has been maintained despite some slowing in economic activity, particularly in consumer credit growth. We remain on track to deliver earnings per share growth for the 2006 fiscal year which equals or exceeds the average of our peers."

"In a competitive market, we focused on profitable growth and all our businesses performed well. A combination of solid volume growth, effective margin management and tight cost control have all contributed to this excellent result. It is pleasing to note that in this very competitive environment, we have been able to maintain a high degree of margin stability for the last four halves."

"We experienced good growth and stable margins in home lending, despite the slowing in retail system credit growth. In business banking, our volume growth was ahead of the market while our funds management business attracted strong inflows. ASB again outperformed in a competitive market."

"Which new Bank is not only on track to deliver financial benefits ahead of our estimates but will also provide a solid platform for future profitable growth. If we are to meet our aspiration of being Australia's finest financial services organisation, however, we must engage our people more effectively and demonstrate to our customers that we can provide them with the service they deserve. Our priority is to deliver these outcomes."

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“The Bank’s financial position is strong, we have positive earnings momentum and credit quality remains good. These factors leave us with a strong capital base which allowed us to increase the interim dividend by 11 percent. “

The previously announced \$500 million on market buy back, scheduled to complete on 28 April 2006, has been extended to complete on 28 October 2006.

Business Performance

The underlying NPAT from the banking business was \$1,589 million, up 5 percent on the prior half and 13 percent on the comparable period last year. This performance was underpinned by solid volume growth, a stable net interest margin and disciplined cost control programmes.

The retail banking operations performed well with strong revenue growth and further productivity gains. The increase in retail deposits growth was particularly pleasing, with the Bank responding to increased price-based competition through segmented product offers, including the launch of NetBank Saver in June.

Asset growth was lower over the half consistent with the general softening in system credit growth. Home loan market share was down slightly but margins were maintained, as the Bank elected not to match the aggressive discounting of some competitors. Unsecured credit growth was also lower, reflecting more subdued consumer demand and competition from low rate credit cards.

In Premium Business Services, the global markets business delivered a strong result, primarily due to good capital markets performance. The working capital services business maintained its leading position in transaction banking and merchant acquiring, despite increased competition. Business lending market share improved 27 bpts on June 2005.

ASB’s operating environment was impacted by the New Zealand Reserve Bank’s decision to increase the official cash rate twice during the period. Notwithstanding this monetary tightening, house sales and the lending market remained buoyant. ASB again achieved above market growth across its loan portfolio, despite intense competition.

During the half year, the Bank acquired a 19.9 percent interest in Hangzhou City Commercial Bank (HZB) for \$102 million. HZB is one of China’s top five city commercial banks by assets. This investment further supports the Bank’s existing business strategy in China with both banks delivering performances which exceeded expectations.

In the Funds Management business, underlying profit before tax of \$261 million represented an increase of 22 percent over the prior comparative period and was up 7 percent compared to the prior half year. After tax growth was adversely impacted by a significantly higher effective tax rate (due mainly to the loss of transitional tax relief). Funds under administration grew 11 percent to \$137 billion, which outpaced underlying market growth. This was the result of favourable investment markets and continued improvements in net funds flow.

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The insurance business delivered strong profit growth with underlying NPAT of \$103 million, up 54 percent on the prior comparative period and 16 percent on the prior half year. This was achieved through solid income growth in both Australia and New Zealand.

Outlook

The Australian economy performed well in the second half of the 2005 calendar year, despite some loss of momentum. Business credit growth has been solid, supported by infrastructure and capacity expansion while consumer credit growth has moderated.

The overall environment for financial services businesses is expected to remain highly competitive and as a result margin pressure will continue. Domestic credit quality, high employment levels and business confidence are strong and provide a positive outlook. Offshore, economic growth is likely to remain solid although oil prices and the rate of growth of the Chinese economy are two factors which are particularly likely to influence the domestic economy.

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

ENDS

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Media Release

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Highlights	31/12/05	30/06/05	31/12/04	Dec 05 v Jun 05	Dec 05 v Dec 04
	\$m	\$m	\$m	%	%
Banking	1,589	1,509	1,404	5	13
Funds Management	183	181	170	1	8
Insurance	103	89	67	16	54
Net profit after tax (underlying basis)	1,875	1,779	1,641	5	14
Add profit on sale of the Hong Kong Business	145	-	-	-	-
Add Shareholder Investment returns (after Tax)	41	66	111	-	-
Less WnB expenses	-	(86)	(19)	-	-
Net profit after tax (cash basis)	2,061	1,759	1,733	17	19
Less AIFRS non cash items	(62)	(71)	(21)	-	-
Net profit after tax (statutory basis)	1,999	1,688	1,712	18	17
Key Shareholder Ratios	31/12/05	30/06/05	31/12/04		
Earnings per share (cash basis - basic)	160.9	132.7	132.1	21	22
Return on equity (%) (cash basis)	21.7	18.8	19.0	290bpts	270bpts
Dividend per share (fully franked)	94	112	85	(16)	11
Dividend payout ratio (%) (cash basis)	58.8	84.9	64.8	-	-
Other Performance Indicators	31/12/05	30/06/05	31/12/04		
Total lending assets (net of securitisation) (\$m)	254,947	235,862	224,220	8	14
Total assets held and funds under administration (\$m)	466,950	437,509	419,578	7	11
Net interest margin (%)	2.41	2.44	2.43	(3)bpts	(2)bpts
Banking expense to income (%)	48.1	50.7	50.5	5.1	4.8
Funds management expense to average FUA (%)	0.70	0.71	0.73	1.4	4.1
Insurance expense to average in-force premiums (%)	40.5	46.6	44.9	13.1	9.8

Definitions:

NPAT ("Cash Basis") – Represents profit after tax and minority interests before superannuation plan expenses and treasury shares valuation adjustment.

NPAT ("Underlying Basis") – Represents NPAT ("Cash Basis") excluding WnB initiatives, shareholder investment returns and profit on sale of the Hong Kong business.

NPAT ("Statutory Basis") – Represents profit after tax, minority interests, defined benefit superannuation plan expenses and treasury shares. This is equivalent to the statutory item "Net Profit attributable to Members of the Group".