Commonwealth Bank
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COMMONWEALTH BANK OF AUSTRALIA
SEPTEMBER QUARTER 2008 TRADING UPDATE

Sydney, 13 November 2008: Despite difficult environmental and market conditions, the underlying business performance of the Commonwealth Bank of Australia ("the Group") was relatively strong through the September 2008 quarter. However, financial performance for the first half of the 2009 financial year will be negatively impacted by increased Loan Impairment Expense.

To September, the Group has increased its home loan market share in 18 consecutive months. Growth in deposits has been particularly strong, with total deposits growing well ahead of system and business deposits growing at almost twice the market rate.

The Group continues to maintain a cautious approach in the current environment, with emphasis on maintaining strong capital, funding and liquidity positions. Liquid assets now total $66 billion, and the Group is well advanced with its 2009 term funding programme, which is approximately 40 per cent completed.

While there is no evidence of systemic credit issues, the Group's exposure to Lehman Brothers, Allco Finance Group Limited and ABC Learning Centres Limited will result in significantly higher first half provisions.

Overall credit quality in the Group's consumer and commercial books remains sound, with little sign of material deterioration in key indicators.

The Group's low-risk, domestically focussed strategy remains on track. The Group has achieved the strongest gains in both retail and business customer satisfaction over recent times and results continue to trend higher. The acquisition of BankWest and St Andrew's, in early October, provides a compelling strategic growth opportunity through a significantly expanded presence in the growing Western Australia market with a well recognised brand. The completion of the transaction is subject to regulatory approvals. Representatives from CBA, BankWest and St Andrew's are working together to ensure a smooth transition with as little disruption to customers as possible.

The Core Banking Modernisation programme is on track, with initial launch phases already underway.

Performance outcomes for key areas of the Group's operations are summarised below.

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Retail Banking – Australia

The Retail Bank achieved a strong result over the quarter despite the changing domestic and global economic landscape. This was highlighted by continued strong volume growth, effective cost management, sound risk management and asset quality, and strategic business investment.

The Bank's focus on 'excelling in customer service' has helped improve customer satisfaction levels and lifted the Group into fourth place amongst the major banks in the Roy Morgan customer satisfaction ratings.

Home Lending and Deposits grew at annualised rates of 12 and 23 per cent respectively (after adjusting for peer bank reclassifications in the September month), reflecting both a "flight-to-quality" and improved customer service. Branch home loan sales performance was also strong over the quarter.

Personal Loan balance growth has increased steadily over the period. Credit Cards maintained the number one market share position, growing balances in a sustainable manner without participating in the 'zero balance transfer' market.

The Retail Bank has taken a considered approach to recovering part of the increased funding costs through re-pricing, resulting in balanced customer and shareholder outcomes. Deposit margins have come under pressure as competition remains fierce.

Operating expenses continue to be tightly managed with strategic investment in the business and higher staff costs, offset by process and back office efficiencies.

Retail Banking - New Zealand

The outlook for the New Zealand banking market remains stable despite the challenging economic environment evidenced by two consecutive quarters of negative GDP, rising inflation and unemployment and falling house prices.

ASB Bank ('ASB') continues to attract strong funding into its diverse range of savings and investment products, assisted by the flight to quality following the collapse of a number of finance companies in New Zealand.

ASB's lending book is still growing - with business and rural lending showing particular strength. Lending criteria has been reviewed to reflect the economic environment so borrowers are better placed to meet their loan payments in a market where lending costs are expected to remain high for some time.

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Loan provisions have also increased, albeit off a very low base, reflecting an increase in arrears over 90 days. However, with only 15 per cent of ASB's loans being over 80 per cent Loan to Valuation (and only 4 per cent over 90 per cent Loan to Valuation), ASB has a quality lending portfolio. Provisions are expected to remain well below the industry average.

ASB Group Investments' share of KiwiSaver members has exceeded expectations, as demand from New Zealanders has continued for the Government's KiwiSaver retirement savings scheme introduced last year.

Premium Business Services

Premium Business Services ('PBS') maintained solid growth during the quarter as it continued to benefit from both its investment in Business Banking as well as its continued focus on improving customer service.

Over the last 12 months PBS recorded the greatest improvement in customer satisfaction, as measured by TNS, increasing its customer satisfaction score by 16.2 per cent to 78.0 per cent. This improvement saw the Group move to third position out of the majors.

Deposit growth remained strong during the quarter with PBS increasing its deposit book by 6.5 per cent compared to market growth of 3.7 per cent.

Credit growth continued to slow with the market only managing to grow by half the rate of the same period last year. PBS has continued its cautious lending approach with tight credit criteria and increased pricing which appropriately reflects risk. Margins across the lending portfolio remained stable during the quarter.

The trading desk within the markets business performed well during the quarter with revenues exceeding internal forecasts. CommSec experienced increased trading volumes from the recent volatility across equity markets. Margin lending volumes continued to decline. The IWL integration progressed smoothly.

Wealth Management & Insurance

The Wealth Management businesses were impacted by the continued deterioration in investment markets.

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Wealth Management's Funds under Administration ("FUA") at 30 September 2008 was $178 billion, down 3.8 percent for the quarter, due to market falls in Australian and global equities and the outflow of short term cash mandates.

Retail net flows were down $266 million, due to deteriorating investment markets and the long term run-off of closed legacy products. First Choice and Avanteos achieved positive net flows during the quarter, albeit at lower levels than the seasonally strong June quarter.

Investment markets continued to decline in the month of October, with the ASX 200 falling 13 per cent over the month. Wealth Management FUA fell a further 7.7 per cent during October to $164 billion. For the four months to 31 October, average FUA has declined 8 per cent compared to the previous half. This will flow through to lower fee revenue and lower first half profits for Colonial First State (CFS) and CFS Global Asset Management.

CFS formed a strategic alliance with US firm Research Affiliates for the exclusive right to utilise the enhanced Research Affiliates Fundamental Index methodology to manage and distribute index funds in Australia. These funds will be offered to retail investors through FirstChoice as well as distribution to institutional investors. CFS also enhanced its FirstChoice platform with a highly competitive interest cash deposit product - FirstRate Saver. CFS GAM is maintaining strong investment performance with 75% of funds outperforming benchmark on a three year basis.

Wealth Management is exercising strong cost discipline and is targeting flat cost growth for the half.

In CommInsure, the life insurance business attracted strong new business volumes in both retail and wholesale lines driving a 5.2 per cent growth in Inforce Premiums for the quarter. Comminsure increased its leading market share in Total Life Insurance Risk from 14.3 per cent in June 2007 to 14.7 per cent in June 2008. While revenue growth was strong, lower shareholder returns had an unfavourable impact on profitability during the period.

CommInsure was awarded the 2008 "Best Life Insurance Company of the Year" in the Australian Banking and Finance awards.

Funding and Liquidity

Global credit markets remain significantly constrained, and funding costs remain very high.

Despite the disruption, the Group continues to benefit from a well diversified and highly respected funding operation, which has facilitated continued access to domestic and international markets. To date, the Group has completed approximately $11 billion or

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around 40 per cent of its 2009 funding task, inclusive of BankWest requirements. The weighted average maturity of long term funds continues to be maintained above 3 years.

The Group's very strong deposit growth through the September quarter has further reinforced its already high percentage of retail funding, which now stands at 57 per cent.

The Group has further increased its liquidity position as a contingency in difficult market conditions. Liquid assets now total $66 billion, with an excess liquidity buffer of $39 billion or 59 per cent. As market conditions improve, it is anticipated this excess will be progressively reduced. The Group's strong liquidity position includes a portfolio of residential mortgage backed securities which, if required, can be used for repurchase agreements with the Reserve Bank of Australia, up to $ 26 billion.

Credit quality

Risk management and asset quality have remained sound over the quarter. Home Loan arrears over 90 days have increased marginally, with signs of some stress in certain demographic and geographic segments, but still in line with expectations. Arrears over 90 days in the unsecured portfolio have remained stable over the quarter reflecting careful portfolio management and responsible lending practices.

Loan Impairment Expense increased during the quarter and will increase further in the second quarter reflecting the impacts of a slowing economy and the Group's exposure to a number of "single names". The Group continues to work closely with these entities to which it has exposure and continues to monitor its commercial exposures closely.

Full year Impairment Expense is expected to be between 40 and 50 basis points, with the majority in the first half.

Conclusion

Commenting on the September quarter, Commonwealth Bank Chief Executive Officer, Ralph Norris said: "Market conditions remain challenging, with problems in global credit markets now flowing into the wider economy. Notwithstanding the intervention of governments and regulatory bodies world-wide, global credit markets are constrained and funding costs remain high. While the Australian economy has been relatively resilient, domestic economic activity is slowing.

"The Group's underlying business performance over the quarter has been solid. Home loan growth was maintained at above system levels, helping to offset the impact of slowing system growth. Our deposits performance has been pleasing, with growth

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across our portfolio well ahead of the system. Our share of total household deposits is now almost 30 per cent, which is advantageous in a constrained funding environment.

"With credit growth continuing to slow, we are pursuing initiatives across the Group to curtail our cost growth to ensure that our costs are appropriate given the more subdued outlook.

"The Group continues to maintain a measured approach, with emphasis on strong capital and funding positions. Our Tier 1 capital ratio of 7.5 per cent is largely unchanged from 30 June 2008 and our 2009 funding programme is well advanced.

"At this stage we are not seeing any systemic credit issues in our portfolio. However, our half year results will be adversely impacted by additional provisions driven primarily by a small number of single name exposures.

"Our strategy remains on track and continues to deliver, with sector leading improvements in customer satisfaction levels continuing through the quarter. The acquisition of BankWest and St. Andrew's provides us with the opportunity to significantly expand our presence in the fast-growing WA market."

ENDS

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