Media Release

Commonwealth Bank of Australia
March Quarter Trading Update

Sydney, 12 May 2010: The Commonwealth Bank ("the Group") today advised that its unaudited cash earnings for the three months ended 31 March 2010 ("the quarter") were approximately $1.5 billion. Key outcomes over the quarter are summarised below.

Key Outcomes

- Good volume growth in key markets, particularly deposits;
- Stable customer margins, with volatility evident in other elements of Group NIM;
- Softer Other Banking Income, including the impact of reductions made to retail exception fees in late 2009;
- Continued gains in Customer Satisfaction levels;
- Credit quality trends continuing to move in line with expectations;
- Impairment Expense of approximately $500m in the quarter, with improvements in CBA Institutional and SME segments balanced by the continued work-through of legacy issues in the Bankwest commercial book;
- Strong balance sheet provisioning and coverage ratios maintained, with the ratio of Total Provisions to Credit Risk Weighted Assets improved to 2.17 percent;
- The Group's Tier 1 capital ratio strengthened to 9.2 percent;
- Liquid asset balances maintained at $89 billion; and
- Strong funding position maintained, with the Group fully-funded for FY10 and an average duration on new term debt issuance of approximately 5 years.

Business Commentary

Australia – Retail

The Retail Bank continued to perform strongly, highlighted by solid volume growth, further improvements in customer satisfaction levels and ongoing efficiency gains. Consumer arrears remain stable, with the number of customers in assistance declining across the retail portfolios. Deposit growth was relatively strong in a competitive market.

An important milestone was achieved in March, with the successful migration of Term Deposits to the new Core Banking platform.

Bankwest continued to achieve good volume growth, highlighted by retail customer numbers surpassing 1 million in the quarter, together with further improvements in customer satisfaction levels.

Australia – Commercial

There was a stabilisation of balances within Institutional Banking & Markets (IB&M) through the quarter, as market conditions showed signs of improvement. Focus remains on proactive management of existing customer relationships. Whilst re-pricing for risk has continued in the loan book, spreads have narrowed from their previous highs. Impairment expense trended lower.

Business and Private Banking (BPB) continued to perform well in all segments, with good growth maintained in core deposit and lending products and an improving trend in impairment expense. CommSec maintained its strong market share position.

Impairment expense in the Bankwest commercial book remains at elevated levels, reflecting the continued work-through of legacy issues related to the Bank's pre-acquisition expansion in the East Coast property development sector.

Wealth Management and Insurance

Both Funds under Administration and Funds under Management were slightly lower in the quarter, impacted by outflows from short term wholesale cash mandates. FirstChoice continued to attract strong retail flows, with net inflows of just over $700m in the quarter.

Inforce premiums increased by 3.1 percent to $1.5 billion. General Insurance operating margins were impacted by claims associated with major weather events in Melbourne and Perth during the quarter. The impact was limited by reinsurance and is not material to Group profits. Investment experience has trended in line with investment markets which have been relatively flat over the quarter.

New Zealand

The New Zealand economy continued to show some signs of improvement, with ASB maintaining its strong relative market positioning in both home lending and deposits. Price competition for retail deposits continued to have a negative impact on margins.

Conclusion

Commenting on the March quarter, Commonwealth Bank of Australia Chief Executive Officer Ralph Norris said: "Whilst the economic outlook has progressively improved over the past 12 months or so, operating conditions remain challenging. Credit growth remains muted, and margins continue to come under pressure from higher average funding costs and strong price competition. Whilst we have clearly passed the peak in the bad debt cycle, key credit quality indicators remain at elevated levels and we continue to expect gradual, rather than dramatic improvement."

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

"Whilst the economic outlook is improving, short term risks and uncertainties remain. Recovery from the Global Financial Crisis will take time and there will be challenges along the way, evidenced by the current sovereign debt issues in the European Union. Given this uncertainty, the Group is retaining its conservative business settings, with capital, provisioning, funding and liquidity levels all remaining very strong."

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