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COMMONWEALTH BANK OF AUSTRALIA MARCH QUARTER TRADING UPDATE

SYDNEY, 14 MAY 2014: The Commonwealth Bank (“the Group”) today advised that its unaudited cash earnings¹ for the three months ended 31 March 2014 (“the quarter”) were approximately \$2.2 billion. Statutory net profit on an unaudited basis for the same period was approximately \$2.3 billion, with non-cash items treated on a consistent basis to prior periods.

Key outcomes for the quarter are summarised below:

- A combination of solid revenue growth and cost discipline resulted in positive “jaws”;
- First half business momentum was maintained but with increased focus on managing the volume/margin trade off as competitive pressures, particularly in lending, intensified;
- Trading income returned to normalised levels;
- System mortgage credit growth was moderate. Lower interest rates supported strong growth in new business activity compared to the prior year, however this was balanced by higher levels of loan repayments;
- Household deposit growth remained strong and broadly in line with system;
- Commercial lending growth remained subdued and was broadly in line with system;
- The Group’s productivity initiatives delivered benefits at a run rate which was consistent with the first half of the current financial year.
- Group Net Interest Margin was marginally lower primarily because of an increase in liquids;
- Credit quality was stable, with impaired assets unchanged at \$3.9 billion. Strong provisioning levels and coverage ratios were maintained, with the economic overlay unchanged. Total loan impairment expense was \$204 million;

(1) Cash earnings is used by Management to present a clear view of the Group’s underlying operating results, excluding a number of items that introduce volatility and/or one-off distortions of the Group’s current period performance. These items are calculated consistently period on period and do not discriminate between positive and negative adjustments. For a more detailed description of these items, please refer to page 15 of the Group’s 31 December 2013 profit announcement.

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- The Group successfully completed the previously announced property transactions resulting in an \$11 billion reduction in Funds under Administration (“FUA”), with a further \$4 billion to follow in the fourth quarter. FUA was \$249 billion, benefitting from combined platform net flows of \$1bn. Investment performance remained strong with 89 per cent of assets outperforming benchmark over a three year period. Insurance Inforce Premiums increased 1 per cent and lapse rates continued to improve in response to retention initiatives;
- Strong liquidity and funding positions were maintained, with liquid assets standing at \$144 billion, customer deposit funding at 63 per cent and the average tenor of the wholesale funding portfolio at 3.9 years. The Group has completed \$29 billion of new term issuance in this financial year largely meeting the required task for FY2014;
- The Group’s APRA Common Equity Tier 1 (CET1) ratio at 31 March 2014 was 8.5 per cent while Internationally Harmonised CET 1 was 11.6 per cent, compared to 8.5 and 11.4 per cent respectively at 31 December 2013. Movements in CET 1 were driven by strong organic capital growth and the realisation of 19 basis points of benefits associated with the sale of the Group’s property business, offset by the impact of the declaration of 2014 interim dividend (net of shares issued under the Dividend Reinvestment Plan) and modest growth in Risk Weighted Assets;
- Bankwest performed well, highlighted by above system home lending, solid growth in deposit volumes and good cost discipline; and
- The New Zealand economy continued to gain momentum as strong demand for commodity exports and construction growth drove improved activity across a broad range of sectors. ASB lending growth for the quarter was modest, with margins remaining under competitive pressure and a continued customer preference for fixed rate lending. Retail deposits continued to grow above system.

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Media:

Kate Abrahams
Ph: (02) 9303 1660
Mobile: 0481 012 110

Investor Relations:

Warwick Bryan
Ph: (02) 9118 7112
Mobile: 0406 316 725