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COMMONWEALTH BANK OF AUSTRALIA SEPTEMBER QUARTER TRADING UPDATE

SYDNEY, 5 NOVEMBER 2014: The Commonwealth Bank (“the Group”) today advised that its unaudited cash earnings¹ for the three months ended 30 September 2014 (“the quarter”) were approximately \$2.3 billion. Statutory net profit on an unaudited basis for the same period was approximately \$2.4 billion, with non-cash items treated on a consistent basis to prior periods.

Key outcomes for the quarter are summarised below:

- Revenue growth and continued cost discipline resulted in positive “jaws” being maintained;
- Group Net Interest Margin was marginally lower, with improved wholesale funding costs more than offset by competitive pricing impacts;
- Underlying trading income was consistent with FY14 run-rates, with total trading income boosted by a small positive contribution from the Counterparty Valuation Adjustment (CVA) in the quarter;
- Overall business momentum was maintained. In home lending, focus remains on profitable growth in a competitive market, with strong new business levels balanced by higher repayment activity in a low interest rate environment. In commercial lending, system credit growth remained subdued, with the Group growing relatively strongly in priority markets. Household deposit growth continued in the quarter, with the Group growing slightly ahead of system. In Wealth Management, net flows, investment performance and FX impacts contributed to Assets under Management growing by 3.5 per cent over the three months, notwithstanding equity markets ending the quarter lower. Insurance inforce premiums increased by 2 per cent;
- Bankwest profitability continued to be supported by cost discipline;
- ASB maintained above system growth in business and rural lending, with margins benefiting from a favourable funding environment;

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 30 June 2014 profit announcement.

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- Credit quality remained sound, with retail arrears flat to slightly improved and impaired assets lower at \$3.1 billion. Total loan impairment expense was \$198 million in the quarter, with strong provisioning levels maintained and the economic overlay unchanged;
- Funding and liquidity positions remained strong, with liquid assets of \$145 billion, customer deposit funding at 63 per cent and the average tenor of the wholesale funding portfolio at 3.8 years. The Group completed \$12 billion of new term issuance in the quarter;
- The Group's Basel III CET1 (APRA) ratio as at 30 September 2014 was 8.6 per cent, down from 9.3 per cent at 30 June 2014. Organic capital generation in the quarter was offset by the impact of the declaration of the 2014 final dividend, which included the on market purchase of shares in respect of the Dividend Reinvestment Plan, as well as growth in Risk Weighted Assets. The Group's Basel III Internationally Comparable Common Equity Tier 1 (CET1) ratio as at 30 September 2014 was 12.9 per cent². In October 2014 the Group issued A\$3.0 billion of Tier 1 CommBank PERLS VII Capital Notes, the largest hybrid capital issuance ever completed in the Australian market. The Group also completed a buy-back of A\$2.0 billion PERLS V Tier 1 capital securities.

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2. The Group has revised its international measure of CET1 to align to the August 2014 Australian Bankers Association commissioned PwC report.