Media Release

Commonwealth Bank
Commonwealth Bank of Australia
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COMMONWEALTH BANK OF AUSTRALIA
MARCH QUARTER TRADING UPDATE

Sydney, 15 May 2008: Despite recent signs of a slowing in demand, particularly for business lending, strong credit growth in both the consumer and business segments continued into the March quarter. Commonwealth Bank of Australia ("the Group") continued to benefit from the "flight to quality" with above system growth in a number of products, including home loans and household and business deposits.

Conditions in global debt markets remained challenging, maintaining upward pressure on wholesale funding costs. There have been tentative signs of improvement in global credit markets in the last few weeks.

Retail Banking – Australia

Retail Bank Services (RBS) maintained its solid performance over the quarter. This was highlighted by strong volume growth in key product lines, tight expense management, sound credit quality and strategic business investment.

Progress on key initiatives included:

- the roll out of the new branch design in a number of locations;
- further improvements in the 'Simple Home Loan' process, with suitable loans to be taken from application to ready-to-fund within 24 hours, and the funding of home loan Top Ups within the hour;
- a focus on sustainability with over 200,000 account holders electing to opt out of receiving paper statements; and
- an increase in the NetBank helpdesk hours of operation to 24 hours, 7 days a week.

These and other actions helped RBS to maintain its key customer satisfaction and people engagement outcomes.

Home Lending and Deposits grew at above system levels, reflecting both a "flight-to-quality" response to prevailing market conditions as well as the positive impact from ongoing investment in frontline sales and service capability. The new network operating model delivered excellent results with strong home loan and retail deposit balance growth across all branch tiers.

Personal Loan growth remained steady, while the Credit Card portfolio continued to build momentum to the point where it has now recaptured the number one market share position without participating in the zero balance transfers.

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Funds transfer pricing was adjusted in line with movements in funding costs, ensuring high visibility of these costs in product rate setting decisions. Margin outcomes were in line with expectations given market factors.

Increases in arrears rates through the quarter appear to be in line with normal seasonal expectations, and while there are some pockets of stress in certain demographic and geographic segments, overall portfolio quality remains strong with low delinquency and loss rates.

Retail Banking - New Zealand

In New Zealand, ASB focused on quality growth and maintained its share of home lending in a slowing market. Business and commercial lending market growth was strong and ASB increased its market share. Retail funding market share also grew, reflecting ASB's competitive product offering and higher interest rates, together with a flight-to-quality following the failures of more New Zealand finance companies.

Demand for the Government's Kiwisaver retirement savings initiative was strong, and ASB Group Investment's share of Kiwisaver members has surpassed expectations in the first nine months. Five new branches were opened in the quarter - two in Auckland, two in the Waikato-Bay of Plenty, and one in Havelock North.

Premium Business Services

While the market showed signs of slowing over the quarter, Premium Business Services (PBS) grew its lending and deposits balances, albeit at a slower rate.

Corporate Financial Services benefited from the Business Banking Growth Strategy expansion and change program. Recent progress has included:

- The opening of a new Business Banking Centre in Victoria in February and another in Western Australia in April, adding to the four new Centres opened across NSW, SA and VIC in the first half of the 2008 financial year;
- The continued migration of customers to CommBiz with over 25,000 business customers now enjoying this service;
- Further strong take-up of MediClear (the new Medicare claims facility), with over 1,000 healthcare professionals now utilising this service; and
- Continued focus on high potential markets with the launch of the Healthcare specialist offering.

Momentum in Local Business Banking (LBB) was maintained, with 165 Local Business Bankers now in the branch network. With referrals and related conversion rates improving, lending growth is expected to continue. LBB's focus on growing deposits delivered market share improvements.

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Agribusiness performed strongly, benefiting from greatly improved customer service results and from the provision of the 24 hour contact centre 'AgriLine'.

In an environment where credit growth has slowed, Institutional Banking and Global Markets businesses achieved solid balance growth and stable margins across both assets and liabilities by focusing on delivering Total Capital Solutions to customers. Markets activity showed good growth during recent financial market volatility, assisted by demand from clients for risk management and trading products.

Challenging equity markets have seen margin lending balance growth and CommSec trading volumes return to longer term trends. However, market share in both segments remained strong. Integration of the recently acquired IWL Group is on track.

Across the business lending portfolios, interest rates were adjusted in line with higher funding costs.

Wealth Management & Insurance

The Funds Management businesses were impacted by poor investment markets which will result in lower fee revenue in the second half. Funds under Administration ("FUA") declined 5.4 percent during the quarter, primarily due to market falls in Australian and global equities. Pleasingly, net flows for the quarter remained positive. Lower fee revenue will flow through to lower second half profits for CFS. Global Asset Management (GAM), with a greater international exposure, is expected to continue to grow profitably in the second half.

The Life insurance business attracted strong new business volumes in both personal and wholesale lines driving growth in Inforce Premiums of 5.7 percent in the quarter. Widening credit spreads have impacted the Guaranteed Annuities portfolio giving rise to mark to market write downs of $34 million. Actual losses are expected to be significantly lower as credit markets stabilise and the underlying assets in the portfolio mature.

General Insurance experienced strong new business volumes with motor insurance sales exceeding expectations. The incidence of adverse weather events continued in the second half leading to poor claims experience. Notwithstanding this, General Insurance revenue is expected to be slightly up on the first half.

Funding and Liquidity

Since early August 2007, credit markets have deteriorated and the cost of wholesale funding has increased across the banking community. During the quarter credit margins payable for long term debt issues remained volatile. However, funding conditions have shown some recent improvements, with liquidity gradually returning to markets which were previously closed.

The Group remained relatively insulated from the disruption by maintaining a large, diversified pool of funding that has protected the Group from being overly reliant on any

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particular funding market. Retail deposits represent 54 percent of the Group's funding base, with the remaining wholesale funding task split approximately 54/46 between short and long term funding.

The Group proactively responded to the market volatility by focusing on opportunistic funding in the long-term market, In April, its long term funding programme for the current financial year of $25 billion was completed. The weighted average maturity of long term funds extended slightly to 4.1 years.

The Group is currently holding an excess liquidity buffer of $10 billion as a contingency, which will have a slightly negative impact on NIM. As market conditions improve, it is anticipated this excess will be progressively reduced. The Group also created a portfolio of residential mortgage backed securities which, if required, can be used for repurchase agreements with the Reserve Bank of Australia to generate up to an additional $12.25 billion of liquidity.

Credit quality

Credit quality of the consumer book remains good despite the slowing of the domestic economy and the first signs of deterioration in consumer sentiment. Loan Impairment Expense as a percentage of Gross Loans and Acceptances (LIE/GLA) is expected to increase in the second half in line with normal seasonal trends.

Credit quality of the commercial book remains sound. On the whole, corporate Australia is conservatively geared with no evidence of any systemic credit issues either generally or in specific industries or sectors, despite higher credit costs and signs of a slowdown in economic activity. The Group continues to monitor its commercial exposures carefully and is working closely with the “single names” to which it has exposure.

For the full year, the Group expects its aggregate loan impairment expense as a percentage of gross loans and acceptances to be around 0.23 percent.

Conclusion

Commenting on the March quarter, Commonwealth Bank Chief Executive Officer, Ralph Norris said: “The Group achieved good volume and share gains in its banking businesses and is well positioned to continue to grow in an environment where we are beginning to experience a slowing in underlying credit growth. Our Wealth Management business demonstrated the strength of its brand and its distribution capabilities by again recording positive net inflows. However, difficult trading conditions in equity markets will clearly have a negative impact on their second half earnings. We are continuing to invest for medium term growth and productivity, as evidenced by the recent announcement to replace our core banking systems.

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"In a challenging funding environment, the Group completed its long term wholesale funding programme for the current financial year in April, and we maintain a prudent liquidity buffer as a contingency. Credit quality remains good and despite some signs of an economic slowdown there are no indications of any systemic deterioration at this stage.

"The March quarter has been a challenging one for the global banking industry and despite some recent signs of improvement the outlook remains uncertain. In this environment being well funded with a strong capital base places us in an excellent position to continue to grow our strong franchise."

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