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Media Release

COMMONWEALTH BANK INTERIM RESULTS - 31 DECEMBER 2002

Sydney, 12 February 2003

Result

In announcing its interim results today, the Commonwealth Bank reaffirmed its commitment to improving customer service standards while maintaining strong credit quality standards and a high dividend payout ratio. Recognising the challenging operating environment, the Bank acknowledged its shareholders' demand for security and income.

Statutory net profit after tax for the half year ended 31 December 2002 was $622 million, a decrease of 48% on the prior comparative period. The Bank announced a net profit on a cash basis of $1,208 million, an increase of 1% on the prior comparative period. The difference between the cash and statutory results for the period reflects goodwill amortisation of $160 million and a reduction in appraisal value of the funds management and life insurance businesses of $426 million, both of which are non-cash items.

In determining the value for the funds management and life insurance businesses, the Directors have taken into account the increased volatility and uncertainty within world equity markets, together with lower industry funds flows. As a result, they have adopted a value $780 million lower than the mid point of the range of reasonable values assessed by Trowbridge Deloitte in their independent valuation. This is consistent with the approach taken in June 2002 (when the valuation was $748 million lower).

On a cash basis, earnings per share was 95 cents, an increase of 1% over the prior comparative period. The Directors declared an interim dividend of 69 cents per share, fully franked. The interim dividend represents a cash basis payout ratio of 72.7%, consistent with 72.6% in the prior comparative period. For the past decade, the company has paid an increased dividend at every interim and full year profit result.

It was the Board's objective to maintain dividend growth for shareholders and that has been achieved despite the continuing difficult external environment. The company's ability to further increase the dividend confirms that the underlying operations of the business are making progress.

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Chief Executive Officer, Mr David Murray said: "It is within this difficult environment that our customers seek service they can rely on and our shareholders seek prudent decision-making that is in their best interests. The combination of quality, security and stability that the Commonwealth Bank offers is a rare commodity and the protection of this is always uppermost in our minds during our decision making processes," he said.

The half-year result incorporated $83 million in operating expenses that were included in profit for the first time. This amount represents one-off costs associated with strategy implementation and changes to accounting for share based compensation, as announced to the market at the Bank's Annual General Meeting.

Mr Murray said: "This result is consistent with the outlook that was foreshadowed at the Bank's 2002 Annual General Meeting. Strong growth has been achieved in the core banking business, while the performance of the funds management and life insurance businesses has declined over the period, reflecting poor investment returns and further declines in equity markets globally".

"The fact that we have been able to produce higher profits despite the continued weakness of the environment is the result of disciplined adherence to the Bank's core service values and adherence to the Bank's strategy. Our experienced approach has allowed us to manage the difficult conditions and preserve our achievements and the continued growth they create. Looking ahead, we want to ensure that the Bank is well positioned to benefit immediately from any improvement in external conditions," he noted.

Outlook

In talking about the current half year, Mr Murray confirmed that, as previously announced, the Bank expects to achieve modest growth in cash earnings. Despite these challenging operating conditions, the Bank reaffirmed its commitment to achieving sustainable business growth, while upholding strong credit quality standards and a high dividend payout ratio, based on cash profit, relative to peers.

Mr Murray said: "We are well aware that income through dividend and security through a strong capital position are very important to our shareholders, and our cash earnings have allowed us to respond positively to their demands. This objective will remain a key point on our agenda."

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Business Overview

Banking

Notwithstanding further margin contraction, the contribution from the banking business increased by 11% compared with the prior comparative period to an after tax result of $1,079 million. This result was achieved through growth in net interest earnings and other banking income, and was partly offset by the increased costs of strategic initiatives such as the elimination of duplication and process inefficiencies. Average interest earning assets increased to $184 billion during the period, up 9% on the prior comparative period.

In particular, housing loan balances (including securitisation) grew strongly during the half, increasing by 16% over the prior comparative period to over $99 billion. While demand for housing loans remained strong throughout the period, the increase in balances was achieved in competitive market conditions.

Mr Murray highlighted that the Bank's lending portfolio remains soundly managed. "The annualised credit charge for bad debts of 0.21% as a percentage of risk weighted assets, which is significantly lower than the 0.42% in December 2001, represents a strong result given continued uncertainty in the overall economic outlook. Overall credit quality has improved during the half, with the quality of the home mortgage portfolio remaining particularly strong," he said.

Mr Murray reiterated the Bank's commitment to seek further improvements in customer service. "We have made good progress this half towards new and better customer service standards, through strategic initiatives that are either now in train or are soon to be implemented.

The Bank further consolidated its position as Australia's most accessible bank. During the period, the Bank announced that it would keep its branch numbers at their current level of around 1,000, exceeding the nearest competitor by around 200 branches. The ongoing program to upgrade and improve the Bank's ATM network, Australia's largest proprietary ATM system, continued. The popularity of online banking further strengthened and significant growth in NetBank registrations saw registered NetBank customers reach almost 2.4 million. Telephone banking continued to grow strongly with over 76 million calls received over the period and a new call centre established to look after the financial requirements of the Bank's premium customers.

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Funds Management

The results for the funds management businesses were, as anticipated, disappointing, with a decrease in after tax earnings of 26% over the prior comparative period to $135 million. Total funds under management reduced by $11 billion to $95 billion over the half year. Included in this reduction is a net $3 billion outflow in relation to the acquisition and disposal of businesses.

Mr Murray said: “The funds management result was affected by cautious investor sentiment caused by poor investment markets. Industry flows into the retail market were down 40% for September 2002 quarter compared with the previous year. This resulted in a redirection of funds towards bank deposits. Offsetting this has been the highly successful launch of FirstChoice which has attracted over $1.8 billion of net flows since May”.

The Bank also disclosed a payment to a senior executive of Colonial First State who resigned after the end of the half year. Included in the half yearly accounts is a payment of $3.39m for an incentive payment in respect of the previous year, paid in the current year. Additionally, the executive received a $26.54m payment from a provision raised at the acquisition of Colonial for liabilities relating to the conditions in the contract with that company. The executive also received, after the balance date, $2.82m representing the payment of statutory entitlements and remuneration for the current year.

In the interests of proper disclosure the Bank believed it appropriate to announce this information with the interim results.

Life Insurance

The life insurance businesses reported an after tax loss of $6 million. While there was improvement in margins for the New Zealand and Asian life businesses during the half, a slightly less favourable claims experience and an asset write-down saw Australian operating margins decline. In addition, continued low investment returns as a result of weak equity markets contributed to the overall decrease in the life insurance result.

Capital Management

The Bank’s capital position remains strong with the Tier 1 capital ratio increasing from 6.78% at June 2002 to 7.06% at December. Also in light of the current conditions, while regulatory approvals have been received, the Board has elected to delay the previously announced “hybrid” note issue and share buy-back scheduled for the first half of 2003.

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Mr Murray concluded: “It is important to recognise that the adjustment made to appraisal values this half has no impact on the Bank’s capital adequacy or on dividends. The Bank is well capitalised, as recognised by its credit ratings, and it has strengthened its capital positioning over the half.”

For further information, please contact

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For copies of the Profit Announcement visit the Bank’s website at
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Performance Summary

Key aspects of the results:

Net Profit After Tax attributable to shareholders (statutory)	$622 million
Net Profit After Tax (cash basis)	$1,208 million
Banking: Net Profit After Tax	$1,079 million
Funds management: Net Profit After Tax	$135 million
Life Insurance: Net Loss After Tax	$6 million
Total assets held and Funds Under Management	$333 billion
Final dividend (fully franked)	69 cents
Reduction in Appraisal value	$426 million

Key Performance Measures and Comparison to prior comparative period:

Net Profit After Tax attributable to shareholders (statutory)	$622 million	Down 48% from $1,204
Net Profit After Tax (cash basis)[1]	$1,208 million	Up 1% from $1,192 million
Return on Equity (cash basis)[1]	12.39%	Down from 12.43%
Earnings per Share (cash basis)[1,]	95 cents	Up from 94.1 cents
Lending Assets net of securitisation	$169 billion	Up 9% from $155 billion
Banking Cost Income Ratio (underlying)	52.6%	Down from 54.2%
Risk Weighted Capital Ratio	9.81%	Up from 9.31%
Tier 1 Ratio	7.06%	Up from 6.75%