

Commonwealth Bank

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COMMONWEALTH BANK FULL YEAR RESULTS – 30 JUNE 2005

Highlights

- All businesses performed well, with service enhancements for customers and productivity increases reinforcing strong competitive positioning
- Which new Bank ('WnB') service transformation has made significant progress ahead of expectations, with better service and simpler processes for customers
- This delivered a cash NPAT of \$3,538 million, up 31 percent on previous year. This excludes appraisal value uplift and goodwill amortisation, neither of which, under new accounting standards, will be recognised next year
- Statutory NPAT of \$3,991 million was up 55 percent on prior year. This includes the appraisal value uplift which reflects the strong performance of the wealth management business
- Cash earnings per share increased by 30%. For the full year, fully franked dividends of \$1.97 per share, based on cash NPAT, were declared - an increase of 14 cents per share on the prior year
- International investments in two Chinese City Commercial banks and in a representative office in India provide longer term growth options
- Subject to market conditions, the Bank remains committed to delivering on its promise of CAGR Cash EPS growth over 2003-2006 exceeding 12 percent per annum. For the 2006 fiscal year, the Bank remains confident that the momentum within the business from WnB will ensure that the Bank delivers EPS growth which equals or exceeds the average of its peers
- Following Mr David Murray's retirement, Mr Ralph Norris will take up the position of Chief Executive Officer and Managing Director of the Bank from close of business on 22 September 2005. This timing allows for a smooth transition in the last year of WnB and will facilitate continuing growth underpinned by the Bank's competitive positioning established with the WnB programme.

Results overview

The Bank's statutory net profit after tax ('NPAT') was up 55 percent on the prior year to \$3,991 million. This increase was influenced by the appraisal value uplift, reflecting the strong performance of the wealth management businesses. On a cash basis, which excludes goodwill amortisation and appraisal value uplift (both of which will cease to be recognised under the new accounting standards effective next financial year), NPAT was \$3,538 million, an increase of 31 percent. Underlying NPAT, which excludes the net costs associated with WnB and shareholder investment returns, was \$3,466 million, an increase of 13 percent on the previous year.

Based on cash profit, earnings per share was 267.6 cents, an increase of 30 percent on the previous year. The Bank declared another record dividend on the back of strong results across all businesses. The full year dividend per share is \$1.97 fully franked (\$1.12 for the second half) versus \$1.83 last year.

Chief Executive Officer, David Murray said, "Our decision to invest in our customers and people is delivering strong results and positioning the Bank competitively for the future. Today's result not only confirms the strength of the Bank's business mix but also the strong momentum from Which new Bank. Our people are fully committed to providing our customers with better service and the rollout of CommSee, the Bank's new customer service system, to over 50 percent of sites is helping them achieve this objective."

Highlights include a strong performance in banking operations, demonstrating the Bank's improved ability to compete in what is a more challenging environment. Both the funds management and insurance businesses showed significant profit growth, supported by further productivity increases.

Banking NPAT increased 11 percent over the previous year, driven by strong growth in home loans and other personal lending. Net interest margin remained stable in the second half to bring the full year average net interest margin to 2.45 percent, eight basis points below the average for the prior year. Productivity improvements from WnB helped drive down the underlying expense ratio to below 50 per cent for the year.

ASB Bank in New Zealand produced another strong result and its market shares have continued to grow across all segments. Its net interest margin was down 10 basis points over the year, driven by a combination of increased wholesale funding costs and intense competition in the New Zealand market.

In the funds management business, NPAT growth was 28 percent for the year. This improved performance was the result of strong funds inflow, revenue growth, attractive customer offerings and flat expenses. Funds under administration increased by 12 percent to \$123.1 billion.

In the insurance business, the full year profit after tax increased 21 percent to \$156 million. This result attests to the Bank's strong competitive position and the success of its efforts to make insurance more accessible for customers.

During the year, the Bank acquired an 11 percent interest in Jinan City Commercial Bank, one of the 10 largest city commercial banks in China by assets. Subject to regulatory approval, the Bank

has also taken a 19.9 percent interest in H Zhangzhou City Commercial Bank, ranked in the top five city commercial banks by assets. It also established a representative office in Bangalore, India.

Mr Murray said, "These investments provide the Bank with a platform to develop a broad-based financial service presence in targeted Asian markets. They are low capital investments that allow us both to build our knowledge of these rapidly growing markets and to utilise our existing expertise."

Which new Bank

The Bank continues to make significant progress in excess of the estimates initially provided to the market with net benefits in 2005 totalling \$724 million and gross investment spend of \$601 million. The program remains on track to deliver total annual net benefits of at least \$900 million in 2006 and beyond.

Mr Murray said, "The continuing success of Which new Bank has allowed us to extract additional benefits above those originally anticipated. Over the past four months, CommSee, the Bank's new customer service system which allows us to have a single view of our customer, has been implemented for over 50 percent of customer facing staff. A further 127 branches have been refurbished this year, bringing the total number of branches modernised to provide a faster, more efficient, service to 253."

Progress in cultural change is gaining momentum as demonstrated by improvements in the Bank's major measures. The annual Gallup Survey result saw the Bank increase its percentile rating from 74th in May 2003 to 77th in May 2005, exceeding its objective of reaching the global best practice mark of 75th percentile.

CommWay, the Bank's approach to continuous improvement of its processes, has completed 41 projects over the year, averaging a 49 percent improvement in turn-around times, as well as achieving other efficiency gains. Customers are already receiving quicker credit decisions, and other customer benefits will become evident as further initiatives are completed.

"Our strong result reflects the underlying momentum created by Which new Bank's progress which has significantly enhanced the Bank's already strong competitive position. I am confident that the momentum which now exists throughout the business will be maintained and will continue to deliver substantial future benefits as the post-Which new Bank strategy is developed and implemented," said Mr Murray.

Outlook

From an international perspective, we anticipate continuing respectable economic growth and strong commodity prices. Although domestic growth has slowed, a combination of widespread investment in capacity expansion, and favourable terms of trade together suggest some pick up in growth. Progress of the domestic economy is therefore contingent upon continuing strong terms of trade and the success of business investment.

Media Release Media Release

Australia's fiscal position, credit quality, employment levels and business confidence are strong and provide a positive overall environment for financial services businesses. Robust demand for business credit is helping offset the continuing moderation of demand for housing credit from its record peak. Competition across the banking industry, particularly for deposits, is likely to continue, with margins declining generally in line with experience in recent years.

In February 2005, the Bank increased its expected compound annual growth rate in cash earnings per share for the period 2003 to 2006 from exceeding 10 percent per annum to exceeding 12 percent per annum. Subject to market conditions, the Bank remains committed to at least achieving this goal. For the 2006 fiscal year, the Bank remains confident that the momentum within the business from WnB will ensure that the Bank delivers EPS growth which equals or exceeds the average of its peers. As a consequence, the Bank expects dividend per share to further increase in the 2006 fiscal year subject to the factors considered in its dividend policy.

As announced on 14 June 2005, following Mr David Murray's retirement, Mr Ralph Norris will take up the position of Chief Executive Officer and Managing Director of the Bank from close of business on 22 September 2005. This timing allows for a smooth transition in the last year of WnB and will facilitate continuing growth underpinned by the Bank's competitive positioning established with the WnB programme.

Media Release

Highlights	30 June 2005	30 June 2004	30 Jun 05 v 30 Jun 04
Contributions to profit:			
Banking	\$2,959m	\$2,675m	Up 11%
Funds Management	\$351m	\$274m	Up 28%
Insurance	\$156m	\$129m	Up 21%
Net profit after tax (underlying basis)	\$3,466	\$3,078m	Up 13%
Shareholder investment returns (after tax)	\$177m	\$152m	Up 16%
Initiatives including WnB (after tax)	(\$105m)	(\$535m)	Large
Net profit after tax (cash basis)	\$3,538m	\$2,695m	Up 31%
Appraisal value uplift	\$778m	\$201m	Large
Goodwill amortisation	(\$325m)	(\$324m)	No change
Net profit after tax (statutory basis)	\$3,991m	\$2,572m	Up 55 %
Key Shareholder Ratios	30 June 2005	30 June 2004	30 Jun 05 v 30 Jun 04
Earnings per share (cash basis - basic)	267.6 cents	206.6 cents	Up 30%
Return on equity (cash basis)	16.0%	12.7%	Up 330 bps
Dividend per share (fully franked) (final dividend payable 23 September 2005)	197 cents	183 cents	Up 14 cents
Dividend payout ratio (cash basis, adjusting for WnB in 2004)	73.9%	73.9%	No change
Other Performance Indicators	30 June 2005	30 June 2004	30 Jun 05 v 30 Jun 04
Total lending assets (net of securitisation)	\$236bn	\$206bn	Up 15%
Total assets held and funds under administration	\$429bn	\$393bn	Up 9%
Net interest margin	2.45%	2.53%	8bps decline
Banking expense to income (underlying)	48.9%	50.8%	3.7% improvement
Funds management expense to average funds under administration (underlying)	0.70%	0.76%	7.9% improvement
Insurance expense to average inforce premiums	45.3%	46.1%	1.7% improvement

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