ASX Announcement

CBA FY18 Result

For the full year ended 30 June 2018

Reported 8 August 2018

Commonwealth Bank

Guide to CBA's FY18 financial results

CBA's net profit after tax is disclosed on both a statutory and cash basis. The statutory basis is prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). The cash basis is used by management to present a clear view of the Group's operating results. It is not a measure based on cash accounting or cash flows. The items excluded from cash profit, such as hedging and IFRS volatility and losses or gains on acquisition, disposal, closure and demerger of businesses are calculated consistently with the prior year and prior half disclosures and do not discriminate between positive and negative adjustments. These are disclosed on page 4 of the Profit Announcement (www.commbank.com.au/results).

In the current reporting period, the following items have been included in cash net profit after tax, but are highlighted to ensure transparency and to aid comparison.

1. AUSTRAC civil penalty

On 4 June 2018, the Group announced it had entered into an agreement with the Australian Transaction Reports and Analysis Centre (AUSTRAC) to resolve the civil penalty proceedings that AUSTRAC had commenced against CBA in the Federal Court of Australia in August 2017. The proceedings related to alleged contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth). The agreement has now been approved by the Federal Court.

The Group has recognised a $700 million non-tax deductible expense for the civil penalty payable under the agreement, with $375 million of this amount recognised in the first half of the financial year.

2. Risk, compliance and regulatory costs

A combined total of $389m in additional provisions was recognised for the year ended 30 June 2018. This comprises new risk and compliance provisions of $234 million (a $199 million increase on FY17) and one-off regulatory costs of $155 million. These provisions relate to financial crimes compliance, the ASIC investigation, the shareholder class actions, the AUSTRAC proceedings, the Royal Commission and the APRA Prudential Inquiry.

3. Continuing and discontinued operations

Australian Accounting Standards require the Group to disclose net profit after tax from discontinued operations separately from continuing operations. As a result, the Group's Income Statement includes a separate line item: 'net profit after tax from discontinued operations' and comparatives have been restated. The Group's Key Performance Indicators have been presented for both continuing operations, and for the Group including discontinued operations, in the Profit Announcement.

On 25 June 2018, the Group announced its intention to demerge its wealth management and mortgage broking businesses. This will involve the creation of a new wealth management and mortgage broking company ("NewCo"). These businesses are classified as continuing operations because the demerger is not expected to be completed until 2019. Indicative pro-forma NewCo financials are provided on page 66 of the Profit Announcement.

On 25 June 2018, the Group also announced a strategic review of its general insurance business including a potential sale. This business is included in continuing operations.

The following are classified as 'discontinued operations':

1) **CommInsure Life and Sovereign**

On 21 September 2017, the Group announced the sale of 100% of its life insurance businesses in Australia ("CommInsure Life") and New Zealand ("Sovereign") to AIA Group Limited ("AIA") for $3.8 billion. On 2 July 2018, the Group announced the completion of the first part of the transaction, the sale of Sovereign. The proceeds were $1.275 billion. The remainder of the transaction, the sale of CommInsure Life, remains subject to certain conditions and regulatory approvals and is expected to be completed before the end of calendar year 2018. CommInsure Life currently forms part of the Group's Wealth Management division while Sovereign forms part of the Group's New Zealand division. Both are treated as discontinued operations within each division, as detailed on pages 65 and 73 of the Profit Announcement, respectively.

2) **BoComm Life**

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoComm Life Insurance Company Limited ("BoComm Life") to Mitsui Sumitomo Insurance Co., Ltd ("MSI") for RMB 3.2 billion ($668 million). The transaction is expected to result in an indicative after tax gain on sale of approximately $450 million (this will not be included in cash profit), and to be completed in calendar year 2018, subject to regulatory approval. BoComm Life forms part of the Group's International Financial Services (IFS) division and is treated as a discontinued operation within this division, as included on page 82 of the Profit Announcement.

3) **TymeDigital in South Africa**

The CBA Board has approved the sale of Commonwealth Bank of South Africa (Holding Company) Limited ("TymeDigital") to the minority shareholder, African Rainbow Capital. The sale is subject to regulatory approval and potential sale price adjustments. As a result, the financial effect of the sale cannot currently be reliably estimated, however it is not expected to have a material impact on the Group's results. TymeDigital forms part of the Group's International Financial Services (IFS) division and is treated as a discontinued operation within this division. TymeDigital reported a net loss after tax of $78 million for FY18. This is included in IFS discontinued operations on page 82 of the Profit Announcement. TymeDigital's non current assets have been impaired by $91 million and recognised as a non-cash item included in Statutory Profit, as detailed on page 4 of the Profit Announcement.

4. Operating performance excluding one-off items

For the purposes of comparability, a number of adjustments have been made to exclude one-off items from operating income and operating expenses for continuing operations:

1) FY18 is adjusted to exclude: a $700 million expense for the AUSTRAC civil penalty; an increase of $226 million in income and $190 million in expense from the consolidation of AHL Holdings Pty Ltd (trading as Aussie Home Loans) ("AHL") as the Group acquired the remaining 20% share on 25 August 2017; $7 million of equity accounted profits relating to AHL; an increase of $4 million in income and $7 million in expense from the acquisition of eChoice; and one-off regulatory costs of $155 million associated with the Royal Commission, the AUSTRAC civil proceedings and the APRA Prudential Inquiry into CBA.

2) FY17 is adjusted to exclude: a $397 million gain on sale of the Group's remaining investment in Visa Inc.; a $393 million one-off expense for acceleration of amortisation on certain software assets; and $41 million of equity accounted profits from AHL.

Operating income ($m)	FY17	FY18	%	1H18	2H18	%
Reported (continuing operations)	25,257	25,907	2.6%	13,117	12,790	(2.5%)
Sale of Visa shares	*(397)*	-		-	-	
AHL and eChoice	*(41)*	*(237)*		*(94)*	*(143)*	
Operating income ex. one-offs	**24,819**	**25,670**	**3.4%**	**13,023**	**12,647**	**(2.9%)**
Operating expenses ($m)						
Reported (continuing operations)	10,622	11,599	9.2%	5,736	5,863	2.2%
Accelerated amortisation	*(393)*	-		-	-	
AHL and eChoice	-	*(197)*		*(71)*	*(126)*	
AUSTRAC civil penalty	-	*(700)*		*(375)*	*(325)*	
One-off regulatory costs	-	*(155)*		*(110)*	*(45)*	
Operating expenses ex. one-offs	**10,229**	**10,547**	**3.1%**	**5,180**	**5,367**	**3.6%**
Cash NPAT						
Reported (continuing operations)	**9,696**	**9,233**	**(4.8%)**	**4,759**	**4,474**	**(6.0%)**
One-off items (after tax)	*(44)*	*778*		*434*	*344*	
Cash NPAT ex. one-offs	**9,652**	**10,011**	**3.7%**	**5,193**	**4,818**	**(7.2%)**

5. Comparative metrics

For comparison purposes, a summary of key metrics is provided in the table below on the following three bases:

1) including discontinued operations, including one-offs (as per Profit Announcement);
2) continuing operations, including one-offs (as per Profit Announcement); and
3) continuing operations, excluding one-offs (pro-forma).

The one-offs are detailed in the table above.

	Profit Announcement					
	Inclusive of discontinued operations & incl. one-offs[2]		Continuing operations, incl. one-offs[2]		Pro-forma continuing operations, ex. one-offs[3]	
Full year ("cash basis")[1]	FY18	FY18 v FY17	FY18	FY18 v FY17	FY18	FY18 v FY17
Cash net profit after tax	$9,412m	(4.7%)	$9,233m	(4.8%)	$10,011m	3.7%
Cost-to-income[4]	45.4%	270 bpts	44.8%	270 bpts	41.1%	(10)bpts
Jaws[5]	(6.4%)	n/a	(6.6%)	n/a	0.3%	n/a
Effective tax rate	30.2%	180 bpts	30.2%	180 bpts	28.6%	20 bpts
Profit after capital charge[6]	$5,783m	(11.4%)	$5,803m	(11.1%)	$6,608m	1.9%
Earnings per share (basic)	538.8c	(6.1%)	528.6c	(6.2%)	573.1c	2.2%
Return on equity	14.4%	(160)bpts	14.1%	(160)bpts	15.3%	(30)bpts

ASX Announcement

CBA FY18 Result

For the full year ended 30 June 2018 [7,8]

Reported 8 August 2018

Becoming a simpler, better bank

Summary

- Statutory net profit after tax (NPAT) from continuing operations of $9,375 million, down 4.0%.[9]
- Cash NPAT from continuing operations of $9,233 million, down 4.8%.
- Operating income of $25,907 million, up 2.6%. Net interest margin was 2.15%, up 5 basis points.
- Operating expenses of $11,599 million, up 9.2%, largely due to the AUSTRAC civil penalty of $700 million.
- Loan impairment expense of $1,079 million, down 1.5%, equivalent to 15 basis points of gross loans and acceptances.
- Effective tax rate of 30.2%, expected to reduce to approximately 29% in FY19.
- Final dividend per share of $2.31, making a full year dividend of $4.31 per share, up 2 cents on FY17.
- Earnings per share (cash) of $5.29 per share, down 6.2%.
- Return on equity (cash) of 14.1%, down 160 basis points.
- Common Equity Tier 1 (APRA) capital ratio of 10.1%, flat on the prior year.[10]

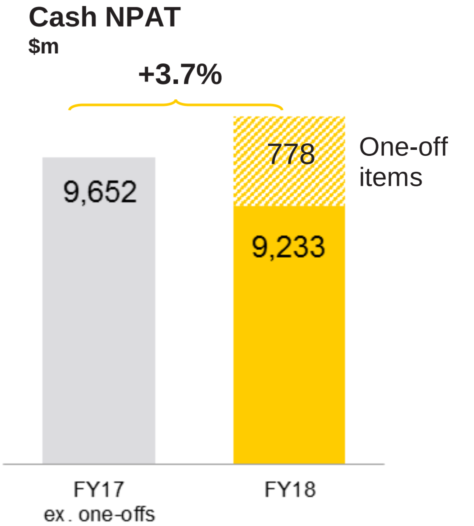
Resilient business performance

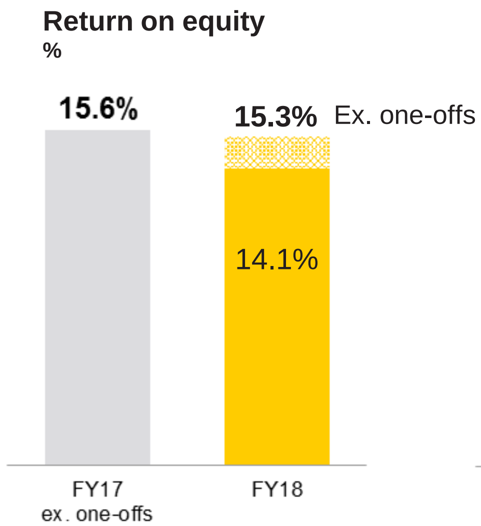
FY18 v FY17 (continuing ops)	Ex. one-offs[11]	Reported basis
Cash NPAT	3.7%	(4.8%)
Operating income	3.4%	2.6%
Operating expenses	3.1%	9.2%
Operating performance	3.7%	(2.2%)
Cost-to-income	(10)bpts	270 bpts

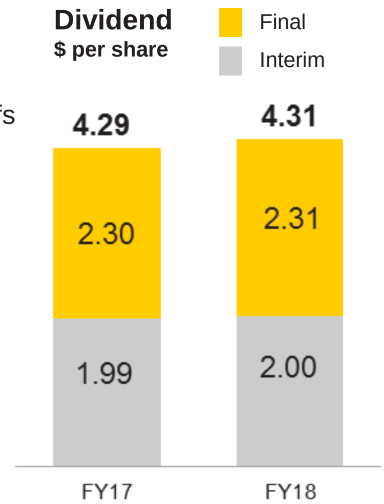
Matt Comyn, Chief Executive Officer

"Despite the challenges we have faced this year, the fundamentals of our business remained strong. Operating momentum was driven by our core franchise which delivered good volume margin management in home and business lending, ongoing growth in transaction accounts and deposits, and continued uptake of our technology offering. We also continued to strengthen our balance sheet. This performance has supported a higher dividend for shareholders."

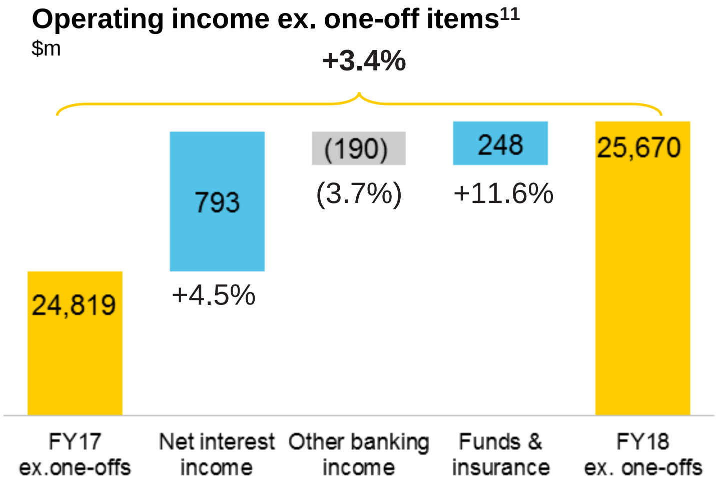
Earnings, returns, dividends

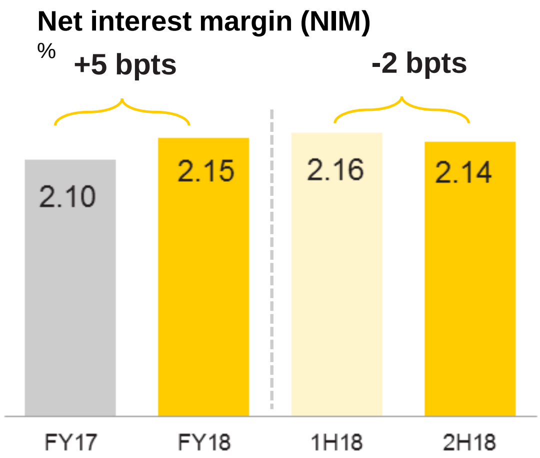






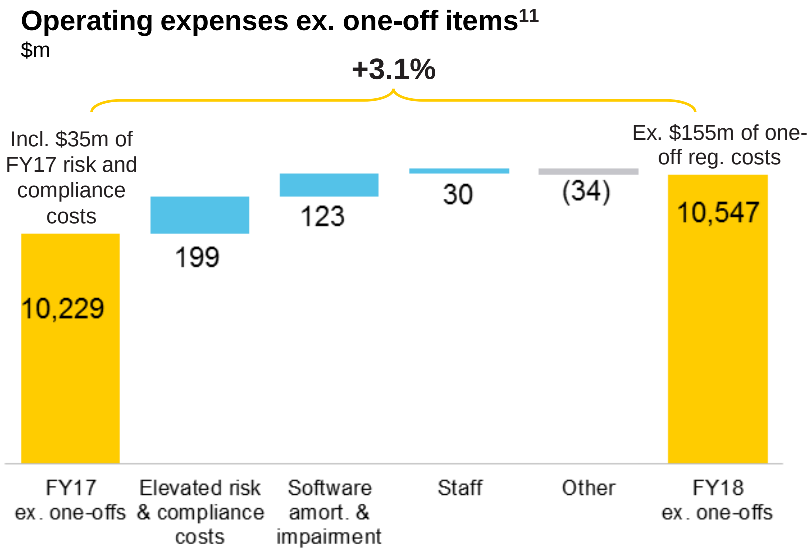
Operating income, margin

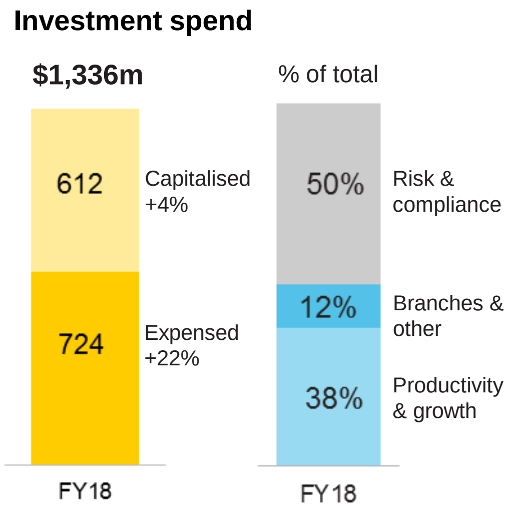




- Operating income excluding one-off items increased (+3.4%) due mainly to higher net interest income (+4.5%). This reflected continuing volume and margin management. Lending volumes were 2% higher and the net interest margin (NIM) increased 5 basis points on the prior year to 2.15%.
- The increase in NIM was driven by asset pricing (+4 bpts). This was largely due to the repricing of interest-only and investor loans undertaken in order to manage regulatory requirements. It was also supported by a favourable change in funding mix from strong growth in transaction deposits (+2 bpts). The gains were partly offset by higher funding costs (-1 bpt) due to the impact of the major bank levy and higher wholesale funding costs.
- In the second half of 2018, NIM reduced to 2.14% due to home loan switching and discounting (- 2 bpts), higher wholesale funding costs (-2 bpts) and basis risk (-2 bpts), offset by run-off of low margin institutional lending (+1 bpt), higher NZ NIM (+1 bpt) and deposit pricing (+2 bpts).
- Other banking income declined 3.7% due to a reduction in interchange revenue following regulatory changes, the removal of ATM withdrawal fees, weaker Markets trading performance, lower treasury income, and an accounting loss from the restructure of economic hedges for the Group's 30 year US debt issuances. This was partly offset by higher business lending fee income.
- Funds management income increased 9.3% driven by positive net flows, higher investment market returns, and lower advice remediation provisions.
- Insurance income increased 31.4% as a result of lower weather event claims and growth in premiums driven by risk based pricing initiatives.

Operating expenses, investment

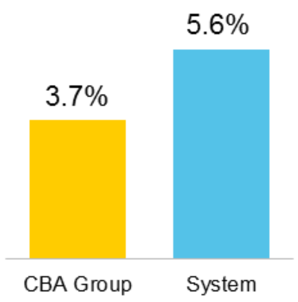




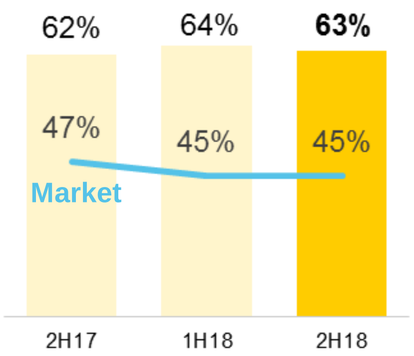
- Operating expenses excluding one-offs increased 3.1%, largely due to elevated risk and compliance costs. A combined total of $389m in additional provisions was recognised for the year. This comprised new risk and compliance provisions of $234m (a $199m increase on FY17) and one-off regulatory costs of $155m.
- Expenses include a $65m increase in capitalised software impairments, primarily due to the decision to implement a new institutional lending platform ($51m), plus a $58m increase in amortisation of software assets.
- Staff costs increased due to wage inflation, partly offset by lower employee incentives.
- Other expenses included the benefit of lower advice review program and other provisions, and lower non-regulatory professional fees, partly offset by the BBSW fine and lower IT rebates.
- Investment spend was $1,336m, up 12.9% on FY17. Spend on risk and compliance was 50% of total investment spend in FY18, and is expected to be more than 50% in FY19.

Home lending, deposits

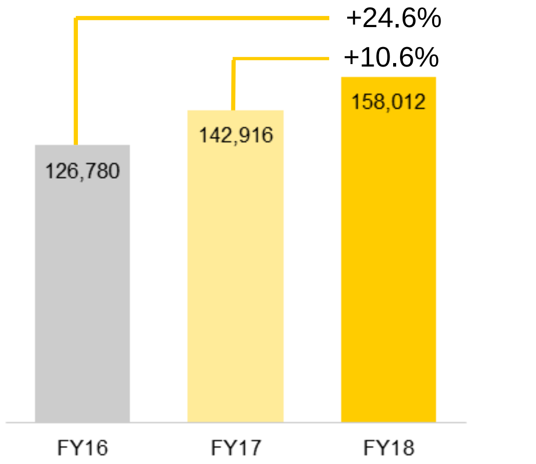
Home loan growth[12]
12 months to Jun 18



Home loans[13]
Proprietary channel
% of total flows ($), CBA



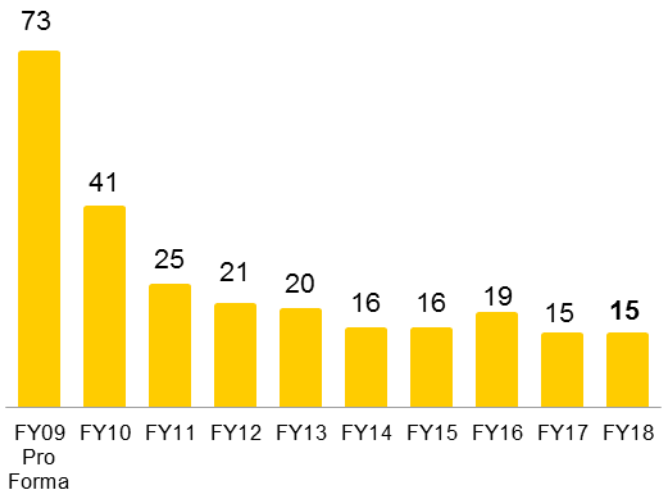
Group transaction deposit balances[14]
$m



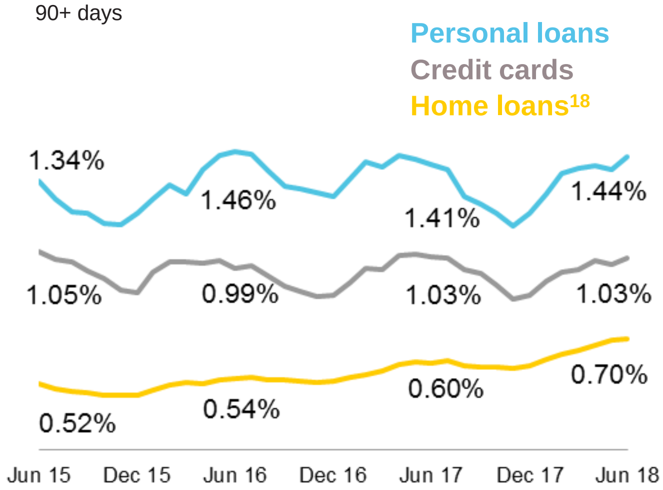
- Growth in the home loan portfolio moderated to 3.7%, as the Group took early measures in order to manage regulatory requirements. Owner-occupied home loans grew 6.2% while investment home lending decreased 1.2%.
- CBA remains focused on its core market of owner-occupied, proprietary lending. Proprietary loans represented 63% of home loans flows in 2H18, versus 45% for the market.
- The Group grew household deposits by 4.1%. Strength in transaction accounts continued through the period, with balances up 10.6% year on year, and Retail Banking Services (RBS) new transaction accounts up 4.6%.[15]

Credit quality

Loan impairment expense
Group, basis points[16]

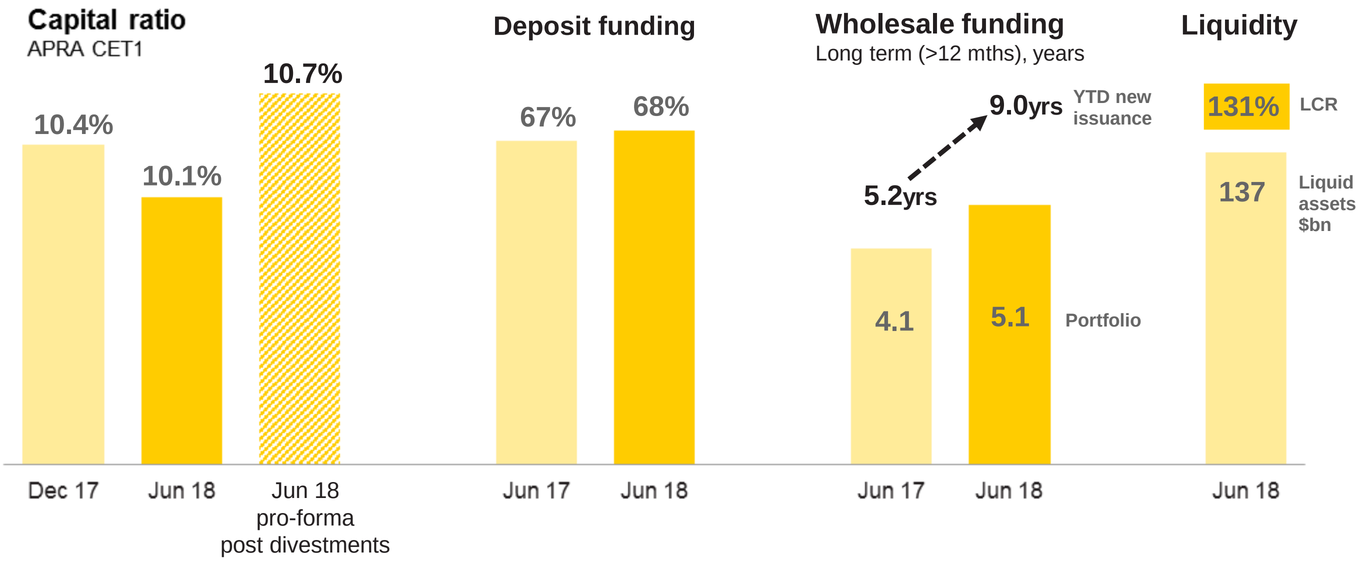


Consumer arrears[17]
90+ days



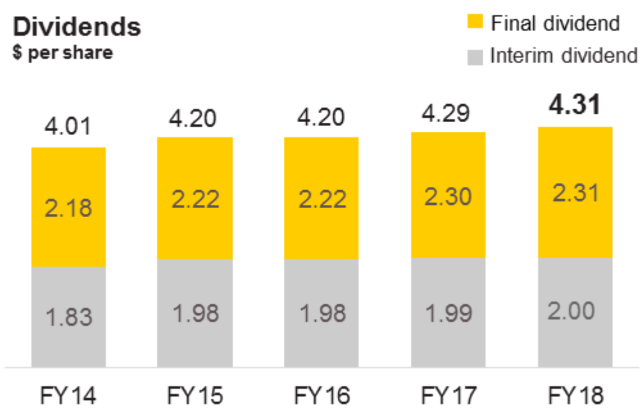
- Credit quality remained sound. Loan impairment expense (LIE) as a percentage of average gross loans and acceptances was 15 basis points.
- Consumer LIE was flat at 18 basis points and corporate LIE increased by 2 basis points to 10 basis points.
- There has been an uptick in home loan arrears as some households experienced difficulties with rising essential costs and limited income growth, leading to some pockets of stress.
- CBA will adopt AASB 9 from 1 July 2018. As a result, collective provisions will increase by $1,058m (before tax) to $3,821m, due to forward-looking factors and lifetime expected credit losses on stage 2 loans. The impact will be recognised in opening retained earnings and will have no impact on the Income Statement. The CET1 ratio will decrease by 18 basis points due to the higher collective provision (-23 bpts), less the removal of the deduction in the shortfall to Regulatory Expected Losses (5 bpts).[19]

Balance sheet strength



- CBA's Common Equity Tier 1 (CET1) capital ratio was 10.1% on an APRA basis at 30 June 2018, down 30 basis points on 31 December 2017.
- Organic capital generation during the second half was offset by a number of one-off items including: $325m expense for the AUSTRAC civil penalty (-7 bpts) (additional to the $375m expense in 1H18); the APRA operational risk regulatory adjustment (-28 bpts); the movement of Wealth Management Advice business to the regulatory consolidated group (-5 bpts); the maturity of the final tranche of Colonial debt (-7 bpts); and the BoComm Life capital injection (-5 bpts).
- On a pro-forma basis CET1 is 10.7%. This includes the Sovereign (+27 bpts), CommInsure Life (+38 bpts) and BoComm Life (+18 bpts) divestments, and takes into account the implementation of AASB 9 and AASB 15 (-21 bpts).
- Customer deposits contributed 68% of total funding, with transaction account balances up 10.6% on the prior year.
- The Net Stable Funding Ratio was 112%, up from 107% in June 2017, driven by a more NSFR efficient customer deposit mix.
- The weighted average maturity (WAM) of new long-term wholesale debt issued in the period was 9.0 years, bringing the portfolio WAM to 5.1 years. Long-term wholesale funding now accounts for 67% of total wholesale funding, up from 60% in June 2017.
- Liquid assets were $137bn, including a committed liquidity facility of $53.3bn, and the Liquidity Coverage Ratio was 131%, up from 129% at 30 June 2017.
- The Leverage Ratio was 5.5% on an APRA basis, up from 5.1% in the prior year, well above the Basel III minimum of 3% and APRA's proposed 4% minimum.

Dividends



- The Group's financial performance delivered an increased dividend for shareholders.
- The Board has determined a final dividend of $2.31 per share, up 1 cent on 2H17. This brings the full year dividend to $4.31, fully franked, up 2 cents on FY17.
- The full year dividend payout ratio is 80.4% of cash NPAT; 74.9% excluding the AUSTRAC civil penalty.
- The ex-dividend date is 15 August, the Record Date is 16 August, and the final dividend will be paid on 28 September.
- The dividend reinvestment plan (DRP) continues to apply, with no discount. The deadline for notifying participation in the DRP is 17 August.

Becoming a simpler, better bank

Become a simpler, better bank for our customers

- Simplify our business
- Lead in retail and commercial banking
- Best in digital

Supported by stronger capabilities

- Operational risk and compliance
- Cost reduction
- Data and analytics
- Innovation

Matt Comyn, Chief Executive Officer

"We are building a simpler, better bank, fully aligned to meeting the needs of customers in our core markets.

We are simplifying our portfolio, operating model and processes to deliver better customer, efficiency, and risk outcomes.

This will be underpinned by stronger capabilities in operational risk and compliance management, cost reduction, data and analytics and a continuing commitment to innovation and customer service.

The result will be a more focused business managed with greater discipline to deliver sustainable returns at lower risk."

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Footnotes

[1] Presented on a cash basis unless otherwise stated.

[2] Includes the one-offs detailed on page ii under 'Operating performance excluding one-off items'.

[3] Excludes the one-offs detailed on page ii under 'Operating performance excluding one-off items'.

[4] Operating expenses to total operating income.

[5] The Group uses Jaws as a key measure of financial performance. It is calculated as the difference between Total operating income growth and Operating expenses growth compared to the prior comparative period.

[6] The Group uses PACC as a key measure of risk adjusted profitability. It takes into account the profit achieved, the risk to capital that was taken to achieve it, and other adjustments.

[7] Unless otherwise stated, all figures relate to the full year ended 30 June 2018 and comparisons are to the full year ended 30 June 2017. Comparative information has been restated to conform to presentation in the current period.

[8] Unless otherwise stated, the financial results are presented on a 'continuing operations' basis. This excludes CommInsure Life, Sovereign, BoComm Life and TymeDigital (discontinued operations). See page i for details.

[9] For an explanation of and reconciliation between statutory and cash NPAT, refer to page 4 of the Profit Announcement.

[10] Includes discontinued operations.

[11] FY17 has been adjusted to exclude the following one-offs: a $397 million gain on sale of the Group's remaining investment in Visa Inc.; a $393 million one-off expense for acceleration of amortisation on certain software assets; and $41 million of equity accounted profits from AHL. FY18 has been adjusted to exclude: a $700 million expense for the AUSTRAC civil penalty; an increase of $226 million in income and $190 million in expense from the consolidation of AHL; $7 million of equity accounted profits relating to AHL; an increase of $4 million in income and $7 million in expense from the acquisition of eChoice; and a $155 million incremental expense for one-off regulatory costs.

[12] System source RBA Lending and Credit Aggregates and APRA Monthly Banking Statistics. CBA includes BWA.

[13] CBA only. System as at Mar-18 quarter. Source: MFAA.

[14] Includes non-interest bearing deposits.

[15] Retail Banking Services personal transaction accounts, excluding offset accounts.

[16] FY09 includes Bankwest on a pro-forma basis and is based on loan impairment expense for the year.

[17] Consumer arrears includes retail portfolios of CBA (Retail Banking Services, Business and Private Banking), Bankwest and New Zealand.

[18] Excludes Reverse Mortgage, Commonwealth Portfolio Loan (CBA only) and Residential Mortgage Group (CBA only) loans.

[19] The AASB 9 Accounting Standard is applicable from 1 July 2018. AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement'. The AASB 9 expected credit loss model is forward looking and replaces the existing incurred loss approach. The increase in impairment provisions on transition to AASB 9 is not reflective of a change in underlying portfolio credit quality.

Key financial information

Group performance summary (continuing operations)	Full year ended [1] (cash basis) 30 Jun 18 $m	30 Jun 17 $m	Jun 18 v Jun 17 %	Half year ended[1] (cash basis) 30 Jun 18 $m	31 Dec 17 $m	Jun 18 v Dec 17 %
Net interest income	18,341	17,543	5	9,086	9,255	(2)
Other banking income	5,182	5,578	(7)	2,495	2,687	(7)
Total banking income	23,523	23,121	2	11,581	11,942	(3)
Funds management income	2,091	1,913	9	1,052	1,039	1
Insurance income	293	223	31	157	136	15
Total operating income [2]	25,907	25,257	3	12,790	13,117	(2)
Investment experience	17	23	(26)	4	13	(69)
Total income	25,924	25,280	3	12,794	13,130	(3)
Operating expenses [3]	(11,599)	(10,622)	9	(5,863)	(5,736)	2
Loan impairment expense	(1,079)	(1,095)	(1)	(483)	(596)	(19)
Net profit before tax	13,246	13,563	(2)	6,448	6,798	(5)
NPAT from continuing operations (“cash basis”)	9,233	9,696	(5)	4,474	4,759	(6)
NPAT incl. discont’d operations ("cash basis")	9,412	9,881	(5)	4,541	4,871	(7)
NPAT incl. discont’d operations ("statutory basis")	9,329	9,928	(6)	4,423	4,906	(10)
Cash net profit after tax, by division (continuing operations)						
Retail Banking Services	5,193	4,933	5	2,540	2,653	(4)
Business and Private Banking	1,888	1,808	4	928	960	(3)
Institutional Banking and Markets	1,121	1,311	(14)	530	591	(10)
Wealth Management	563	422	33	282	281	-
New Zealand	975	869	12	492	483	2
Bankwest	681	576	18	342	339	1
IFS and Other	(1,188)	(223)	large	(640)	(548)	17
Shareholder ratios & performance indicators (continuing operations)						
Earnings per share - "cash basis" - basic (cents)	528.6	563.4	(6)	255.0	273.6	(7)
Return on equity - "cash basis" (%)	14.1	15.7	(160)bpts	13.5	14.6	(110)bpts
Dividends per share - fully franked (cents)	431	429	-	231	200	16
Dividend payout ratio - "cash basis" (%) [4]	80.4	75.0	large	89.5	72.0	large
Average interest earning assets ($M) [5]	854,264	834,741	2	857,050	851,522	1
Funds Under Administration - average ($M)	153,810	141,146	9	156,896	151,008	4
Assets Under Management - average ($M)	220,764	210,295	5	217,298	224,560	(3)
Net interest margin (%)	2. 15	2. 10	5 bpts	2. 14	2. 16	(2)bpts
Operating expenses to total operating income (%) [6]	44. 8	42. 1	270 bpts	45. 8	43. 7	210 bpts

[1] Comparative information has been restated to conform to presentation in the current period.

[2] The full year ended 30 June 2018 includes $226 million in income from the consolidation of AHL Holdings Pty Limited (AHL) as the Group acquired the remaining 20% share on 25 August 2017, an increase of $4 million in income from the acquisition of eChoice, $7 million of equity accounted profits relating to AHL. The full year ended 30 June 2017 includes a $397 million gain on sale of the Group’s remaining investment in Visa Inc. and $41 million of equity accounted profits from AHL.

[3] The full year ended 30 June 2018 includes $700 million for the AUSTRAC civil penalty, and $190 million in expense from the consolidation of AHL as the Group acquired the remaining 20% share on 25 August 2017, $7 million in expense from the acquisition of eChoice, and $155 million of one-off regulatory costs. The full year ended 30 June 2017 includes $393 million one-off expense for acceleration of amortisation on certain software assets.

[4] Includes discontinued operations.

[5] Average interest earning assets are net of average mortgage offset balances.

[6] See footnotes 2 and 3 above. Excluding these items, Operating expenses to total operating income is 41.1% from continuing operations and 41.8% including discontinued operations for the full year ended 30 June 2018.