CommonwealthBank

ASX Announcement

CBA 1Q18 Trading Update

For the quarter ended 30 September 2017. Reported 8 November 2017.
All comparisons are to the average of the two quarters of the second half of FY17 unless noted otherwise.

Summary

- Unaudited statutory net profit of approximately $2.80bn in the quarter
- Unaudited cash earnings[1] of approximately $2.65bn in the quarter, up 6%
- Operating income growth of 4% underpinned by volume growth and improved margins
- Sound credit quality, with Loan Impairment Expense of $198m in the quarter or 11 bpts of GLAA[2]
- Further balance sheet strengthening, with deposit funding at 68% and the Liquidity Coverage Ratio at 131%
- CET1 (APRA) ratio at 10.1%, up 55 bpts since June 17 after allowing for the payment of the 2017 final dividend

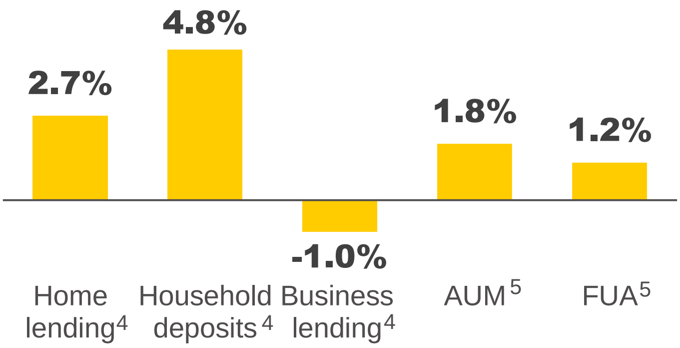
Key Financials

Approximate

1Q18	vs 2H17 Quarterly Average
Operating Income	+4%
Operating Expense	+4%
Operating Performance[3]	+4%
LIE	(20%)
Cash NPAT[1]	**+6%**

Key Volumes

September 2017 vs June 2017
(quarter annualised, except where noted)



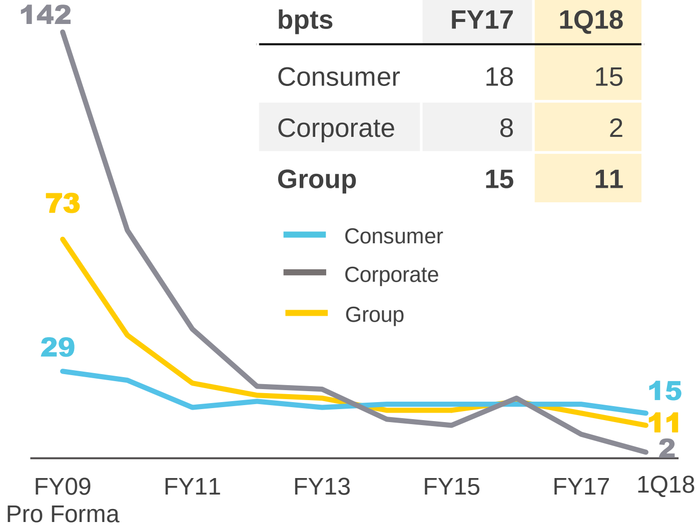
- Operating income grew by 4%, with banking income supported by improved margins. Home lending[4] growth was managed within regulatory limits. Trading income was broadly flat. Funds management income decreased slightly, with lower margins partly offset by the benefit of positive investment markets, which contributed to AUM and FUA growth in the quarter[5]. Insurance income improved reflecting fewer weather events and the non-recurrence of loss recognition.
- Group Net Interest Margin was higher in the quarter[6] driven by asset repricing and reduced liquid asset balances, partly offset by the impact of the banking levy, higher funding costs and competition.
- Expense growth of 4% includes provisions[7] for our current estimates of future project costs associated with regulatory actions and compliance programs.

Sound credit quality

Loan impairment expense

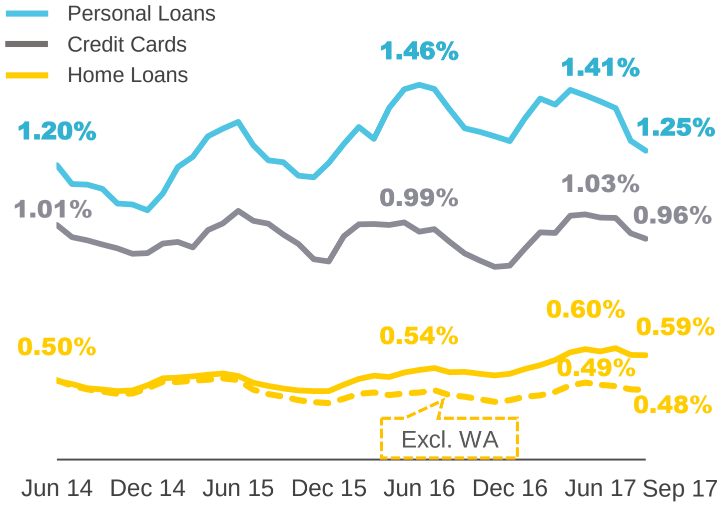
Basis points of GLAA[2]

bpts	FY17	1Q18
Consumer	18	15
Corporate	8	2
Group	**15**	**11**



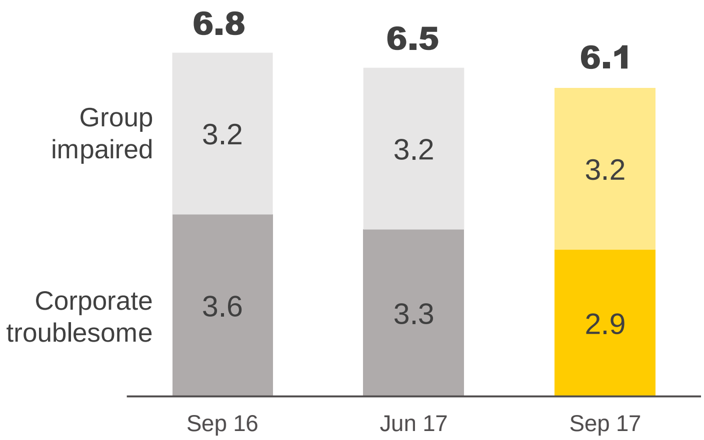
Consumer arrears

90+ days



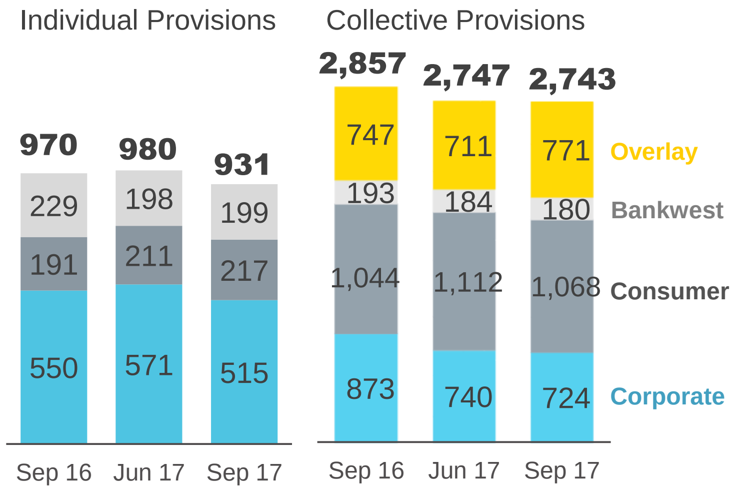
Troublesome and impaired assets

$bn



Credit provisions

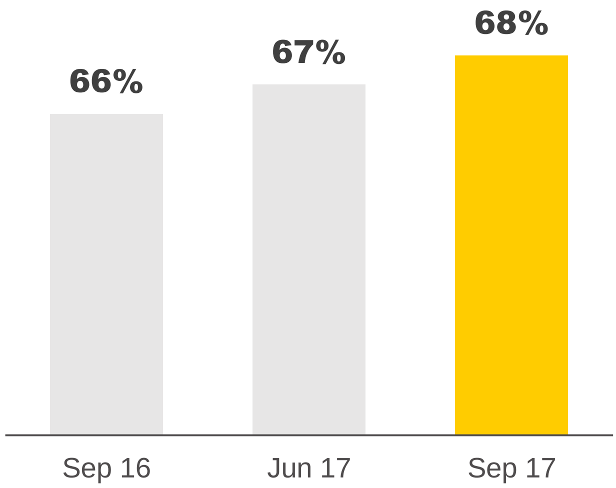
$m



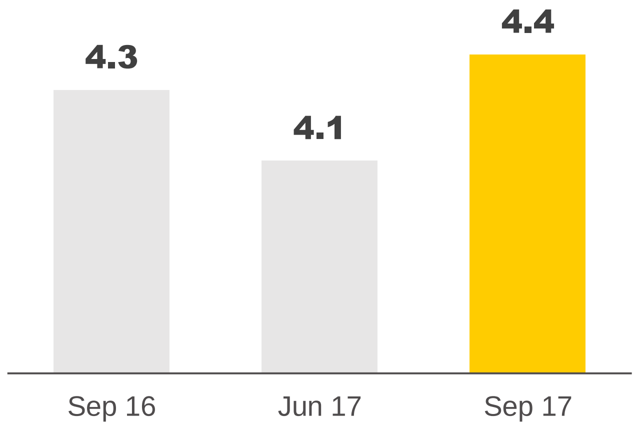
- The credit quality of the Group's lending portfolios remained sound.
- Loan Impairment Expense (LIE) of $198 million in the quarter equated to 11 basis points of Gross Loans and Acceptances, compared to 15 basis points in FY17.
- Corporate LIE was substantially lower in the quarter. Troublesome and impaired assets were lower at $6.1 billion, with broadly stable outcomes across most sectors.
- Consumer arrears were seasonally lower but continued to be elevated in Western Australia.
- Prudent levels of credit provisioning were maintained, with Total Provisions at approximately $3.7 billion.

Further balance sheet strengthening

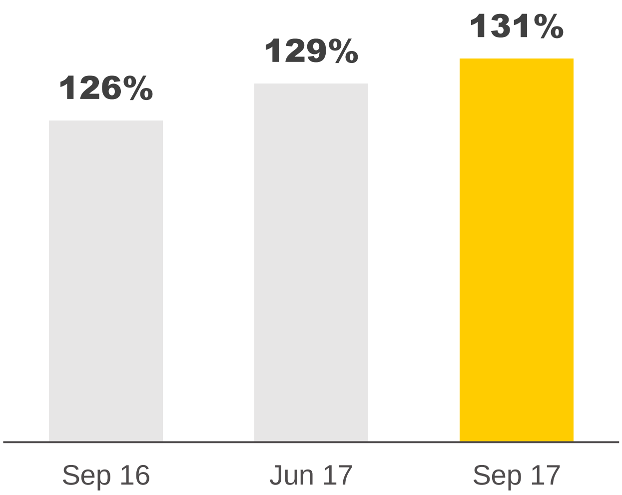
Deposit funding
% of total funding



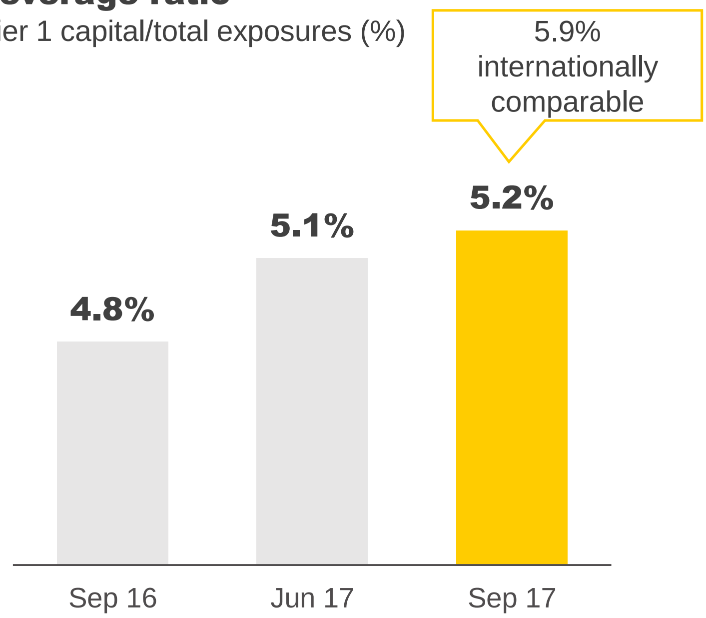
Wholesale funding
Portfolio tenor (years)



Liquidity coverage ratio
Total liquid assets/Total net cash outflows (%)



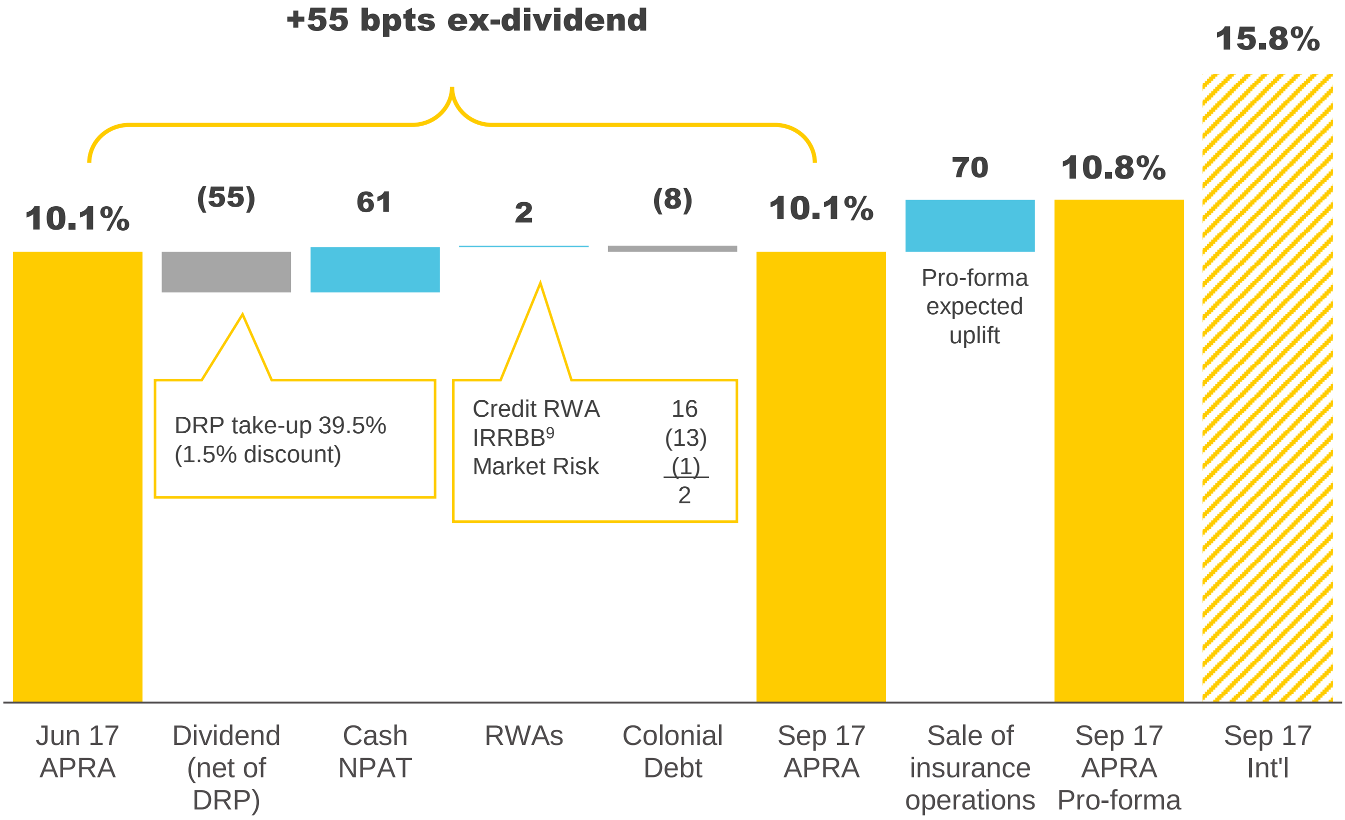
Leverage ratio
Tier 1 capital/total exposures (%)



- Funding and liquidity positions remained strong, with customer deposit funding at 68% and the average tenor of the wholesale funding portfolio at 4.4 years. The Group issued $9.5 billion of long term funding in the quarter, including a 30 year US$1.5bn issue – a first for an Australian major bank.
- The Net Stable Funding Ratio (NSFR) was 107% at September 2017.
- The Liquidity Coverage Ratio (LCR) was 131% as at September 2017, with liquid asset balances and net cash outflows moving by similar amounts in the quarter. Liquid assets totalled $132 billion[8] as at September 2017.
- The Group's Leverage Ratio was 5.2% on an APRA basis and 5.9% on an internationally comparable basis, an increase under both measures of 10 basis points on June 17.

Organic capital generation underpinned by lower Credit RWAs

Common Equity Tier 1
Basis points



- The Group's Common Equity Tier 1 (CET1) APRA ratio was 10.1% as at 30 September 2017. After allowing for the impact of the 2017 final dividend (which included the issuance of shares in respect of the Dividend Reinvestment Plan), CET1 increased 55 basis points in the quarter.
- Credit Risk Weighted Assets (RWAs) were lower in the quarter, contributing 16 basis points to CET1, partially offset by higher IRRBB[9] (-13 bpts) driven by interest rate movements and risk management activities.
- The maturity of a further $350m of Colonial debt compressed CET1 by 8 basis points in the quarter. The final tranche of Colonial debt ($315m) is due to mature in the June 2018 half year, with an estimated CET1 impact of -7 basis points.
- In September 2017 the Group announced the sale of its Australian and New Zealand life insurance operations to AIA Group Ltd. The sale is expected to be completed in calendar year 2018 and is expected to result in a pro-forma uplift to the CET1 (APRA) ratio of approximately 70 basis points.

Footnotes

[1] Cash earnings is used by management to present a clear view of the Group's underlying operating results, excluding certain items that introduce volatility and/or one-off distortions of the Group's current period performance. These items, such as hedging and IFRS volatility, 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 2017 Profit Announcement.

[2] Loan impairment expense calculated as a percentage of average Gross Loans and Acceptances (GLAA). Expressed in basis points (bpts).

[3] Operating performance is operating income less operating expenses.

[4] As reported in APRA Monthly Banking Statistics (Historical series) and RBA Financial Aggregates. Business lending (ex CMPF) represents drawn balances and includes specific "business lending" categories in lodged APRA returns – ARF 320.0 Statement of Financial Position Domestic Book, ARF 320.1 Debt Securities Held and ARF 320.4 Accepted and Endorsed Bills, excluding sub-categories of Banks, ADIs, RFCs and Governments.

[5] Assets Under Management (AUM) and Funds Under Administration (FUA). Volume growth comparison to average AUM and FUA for the quarter ended 30 June 2017. Not annualised.

[6] Movement in Group Net Interest Margin from 2H17 (period ended June 2017).

[7] These provisions represent our current estimates of future project costs expected to be incurred for various regulatory actions and compliance programs, including those related to the Australian Transaction Reports and Analysis Centre (AUSTRAC) proceedings. On 3 August 2017, AUSTRAC commenced civil penalty proceedings against CBA. CBA is preparing to lodge its defence in response to the allegations in the Statement of Claim and at this time it is not possible to reliably estimate any potential penalties relating to these proceedings. Any such potential penalties are therefore excluded from these provisions. For a more detailed description, please refer to page 192 of the Group's 30 June 2017 Annual Report.

[8] Spot balance as at 30 September 2017.

[9] Interest rate risk in the banking book.

Disclaimer

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