ASX Announcement

CBA 3Q19 Trading Update

For the quarter ended 31 March 2019[1]. Reported 13 May 2019. All comparisons are to the average of the two quarters of the first half of FY19 unless noted otherwise. Refer to Appendix for a reconciliation of key financials.

Sound business fundamentals and momentum maintained in a challenging operating environment. Additional customer remediation provisions of $714m.

"We are committed to improving outcomes for our customers, addressing past failings and compensating customers quickly. The additional $714m in pre-tax customer remediation provisions taken in the quarter demonstrates this commitment, and builds on a range of other initiatives to achieve better customer outcomes, including removing and reducing fees for our customers.

We continue to make progress on our strategy to become a simpler, better bank. While headline profitability was impacted by higher remediation provisions, our sound business fundamentals ensure we remain well-placed in a challenging environment, highlighted in this quarter by volume growth in our core businesses, a strong capital position and continued balance sheet strength."

Chief Executive Officer, Matt Comyn

Summary

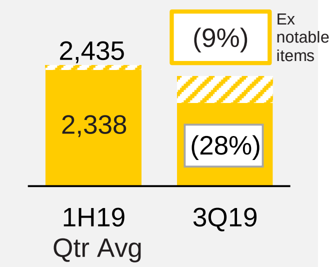
- **Sustained volume growth** in our core franchise, with home loan growth in line with system and continued growth in household deposits and business lending (BPB).
- **Capital and balance sheet strength maintained**, with the Common Equity Tier 1 (capital) ratio of 10.3%, up 30bpts excluding the impact of the 2019 interim dividend.
- **Headline profit** impacted by $714m in pre-tax additional customer remediation provisions ($500m post tax). Unaudited statutory net profit was approximately $1.75bn[2,3] in the quarter, with cash net profit from continuing operations approximately $1.70bn[2,4]. Excluding notable items, cash net profit decreased 9%.
- **Operating income** 4% lower, reflecting a combination of seasonal impacts, temporary headwinds (incl. unfavourable derivative valuation adjustment and weather events) and rebased fee income driven by the Bank's Better Customer Outcomes program.
- **Operating expenses** increased 1% excluding notable items, or 24% including additional customer remediation provisions/notable items. Refer to page 3 for an update on the Bank's customer remediation program.
- **Loan Impairment Expense** (LIE) was $314 million in the quarter, equating to 17bpts of GLAA[5]. Some pockets of stress remain apparent, with higher levels of consumer arrears and corporate troublesome and impaired assets in the quarter.

Customer Remediation

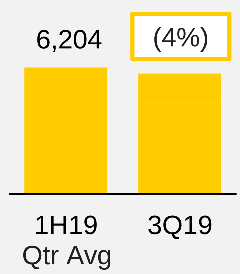
$714m

Additional pre-tax provisions

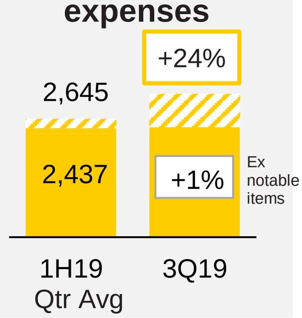
$m **Cash NPAT** unaudited



$m **Operating income**



$m **Operating expenses**



Capital

CET1

10.3%

Up 30bpts (ex dividend)

Deposit funding

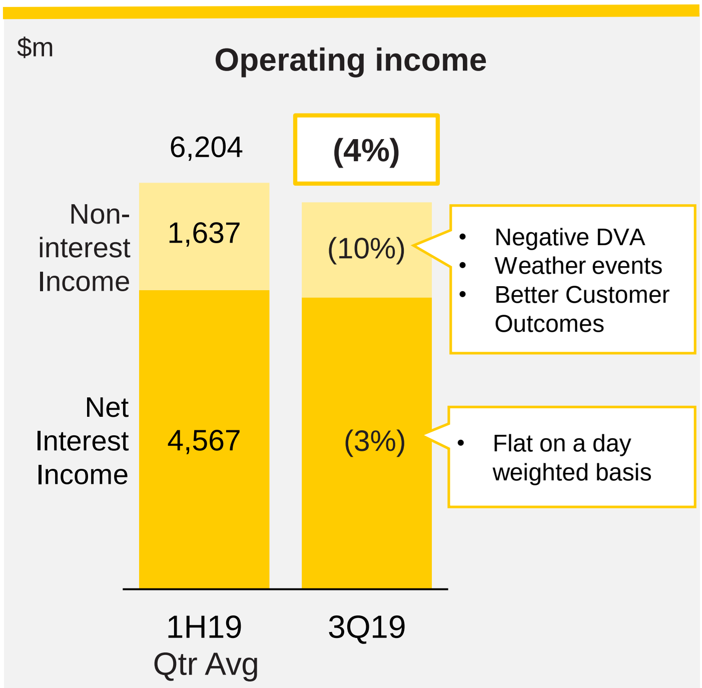
% total funding

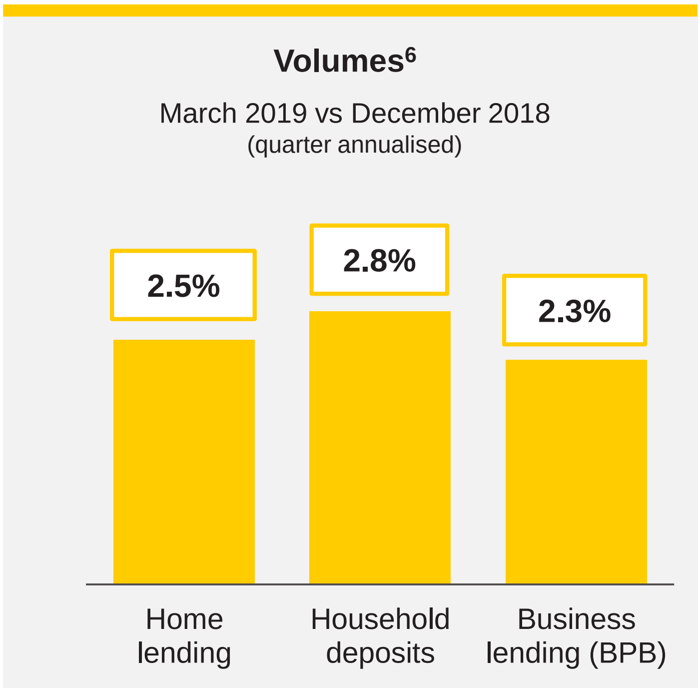
69%

Up 1% from Mar 18

notable items incl. $714m pre-tax add. remediation

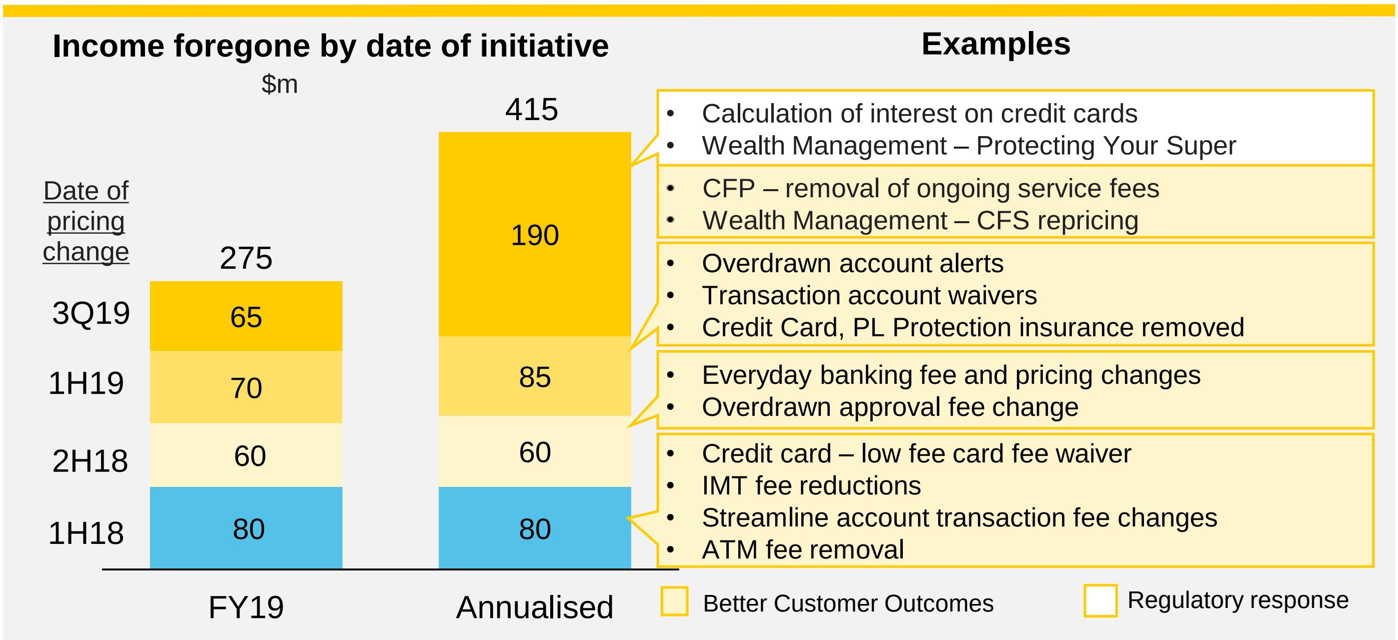
Operating income





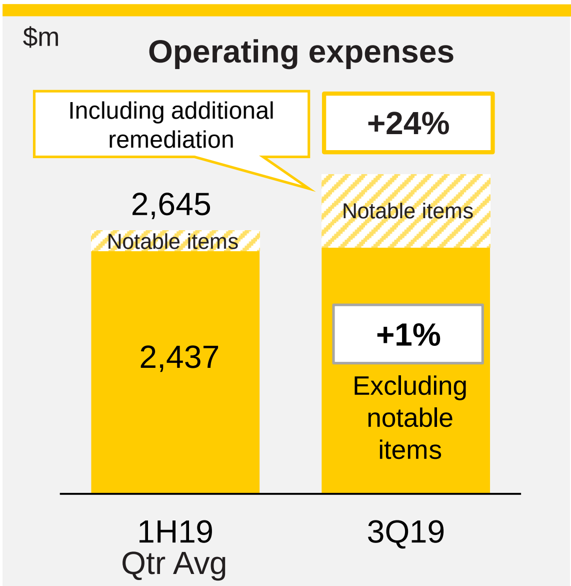
- Net interest income declined 3% due to the impact of two fewer days in the quarter. On a day-weighted basis, Net Interest Income was flat, with volume growth in home lending, household deposits and business lending (BPB) muted by a continued reduction in institutional lending balances and a slight reduction in the Group's Net Interest Margin[7].
- Non-interest income was 10% lower, impacted by a combination of temporary headwinds including a negative derivative valuation adjustment (DVA) and higher insurance claims from weather events, as well as the rebasing of fee income driven by the Bank's Better Customer Outcomes program.

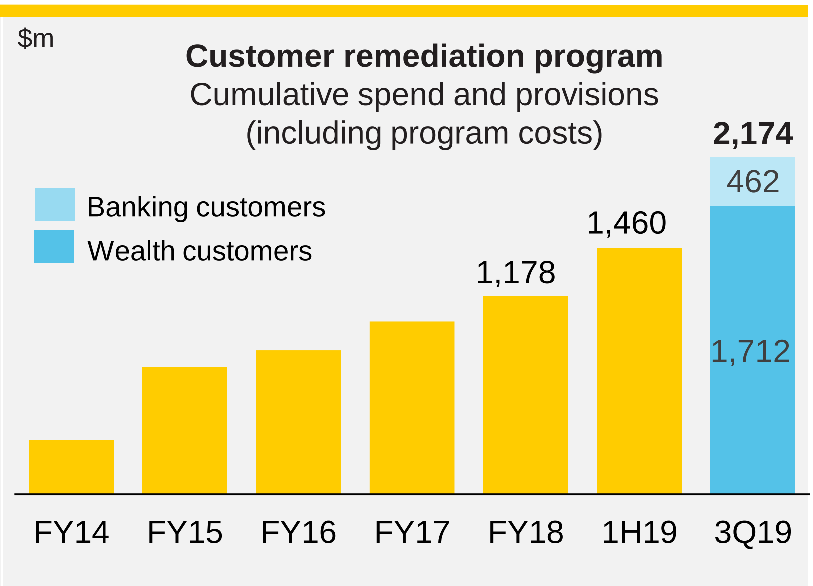
Better Customer Outcomes



- Over recent years, the Bank has introduced a range of new customer initiatives, including fee removals, fee reductions and pre-emptive fee alerts, for the benefit of our customers. These are expected to result in total annualised income foregone across continuing operations of $415m, of which $275m will be recognised in FY19 ($180m already recognised in the 9 months to March 2019).

Operating expenses





Customer remediation program and regulatory update

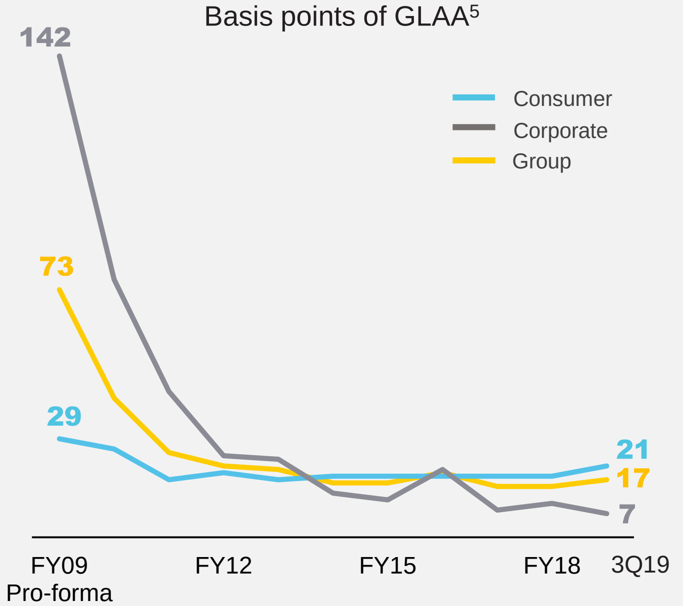
$m	Remediation program - details	1H19	3Q19	YTD to 3Q19	Total to-date
Aligned Advice remediation	A provision for an estimate of Aligned Advice remediation issues and program costs, including ongoing service fees charged where no service was provided.	200	334	534	534
Wealth customer refunds	Includes an estimate of refunds and interest to customers relating to advice quality, fees where no service was provided in the Commonwealth Financial Planning business, Credit Card Plus, CommInsure Life Insurance and Loan Protection Insurance.	46	72	118	459
Banking customer refunds	Includes an estimate of refunds and interest to customers relating to business banking products including bank guarantees, cash deposit accounts, merchants and NCCP-eligibility.	30	152	182	375
Other program costs	Estimate of program costs relating to the above issues and regulatory response costs including the implementation of Royal Commission recommendations.	6	156	162	806
Total		**282**	**714**	**996**	**2,174**

- The Bank is committed to comprehensively and efficiently addressing the full range of remediation issues impacting customers of our banking and wealth management businesses. Significant resources have been committed to a comprehensive program of work, to ensure all issues are identified and addressed.
- In the quarter to 31 March 2019, the Bank recognised additional pre-tax customer remediation provisions of $714m, including an additional $334m relating to Aligned Advice[8] remediation. Of the $714m, $704m was recognised in operating expenses and $10m in discontinued operations.
- The total Aligned Advice remediation provision recognised is $534m, which includes $374m in customer refunds (including $123m of interest) and $160m in program costs. The provision assumes a refund rate of 24% (excluding interest) of the ongoing service fees collected between FY09 and FY18.
- While these additional provisions are estimates that may change, the Bank believes it has adequately provided for currently known banking and wealth customer remediation. The Bank will continue to monitor the adequacy of these provisions.
- More broadly, the Bank and its operations are subject to heightened regulatory scrutiny and requirements. Regulatory actions (including potential enforcement actions) or policy changes may negatively impact the Bank's financial position or standing. There are a range of matters where the outcome and any associated costs cannot be reliably estimated, therefore these matters are treated as contingent liabilities. Further disclosure regarding the Group's contingent liabilities will be provided in the 30 June 2019 year end Financial Statements.

Sound credit quality, some pockets of stress

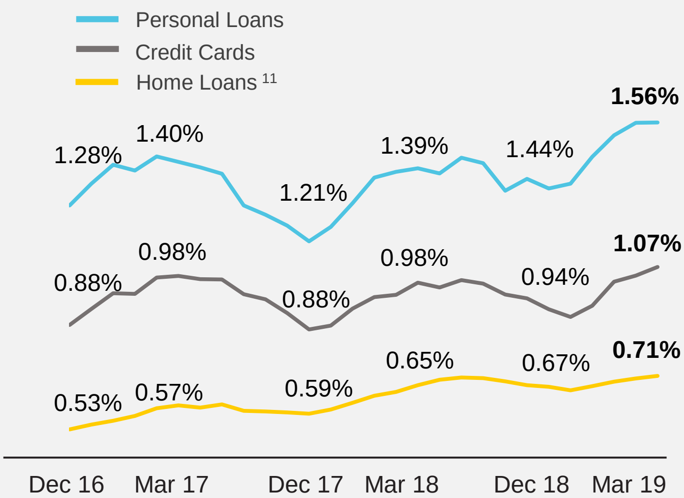
Loan impairment expense[9]

Basis points of GLAA[5]



Consumer arrears[10]

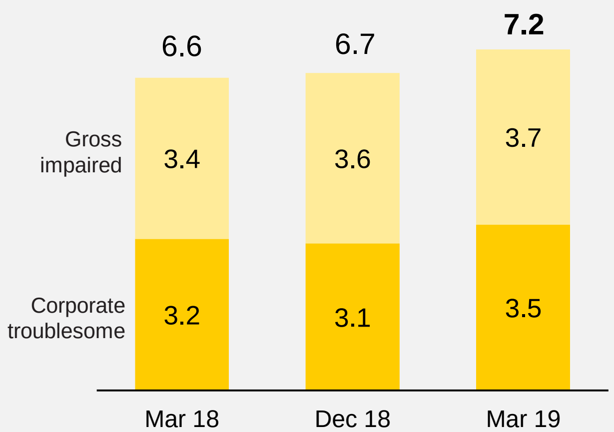
90+ days



- The credit quality of the Group's lending portfolios remained sound. Loan Impairment Expense of $314 million in the quarter equated to 17 basis points of Gross Loans and Acceptances, compared to 15 basis points in 1H19.
- Consumer arrears were impacted by seasonal factors in the quarter and continued to trend higher from a low base, influenced by subdued levels of income growth and cost of living challenges, most pronounced in outer metropolitan areas of Perth, Melbourne and Sydney.
- Accounts in negative equity represent just over 3% of total accounts, based on 31 March 2019 valuations. Approximately three quarters of the negative equity relates to Western Australia and Queensland.

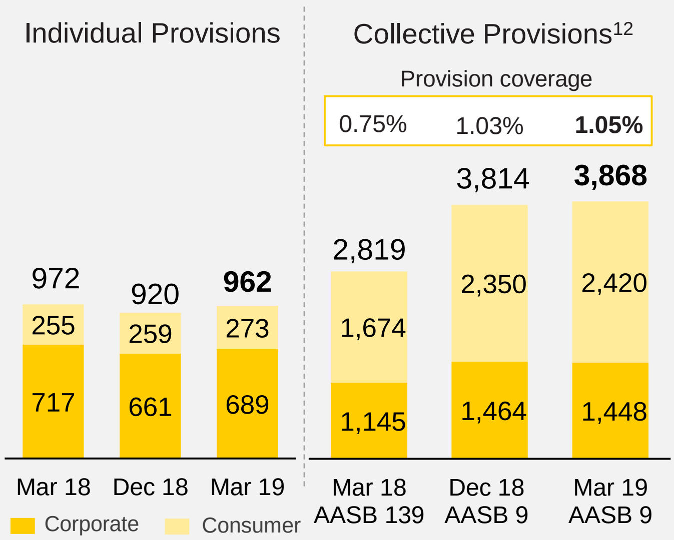
Troublesome and impaired assets

$bn



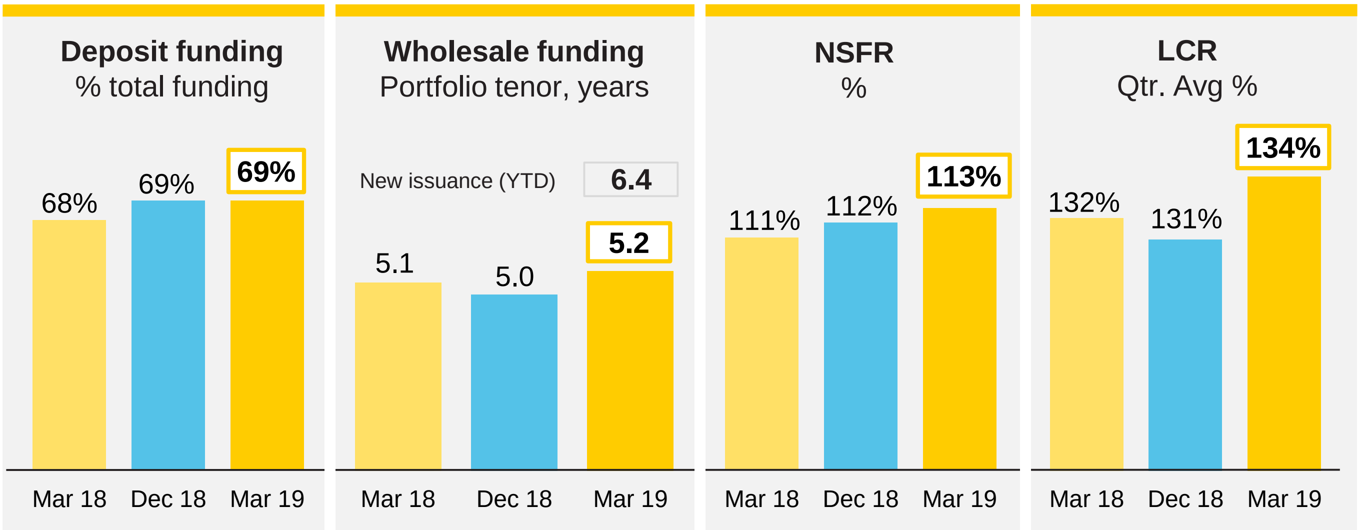
Credit provisions

$m

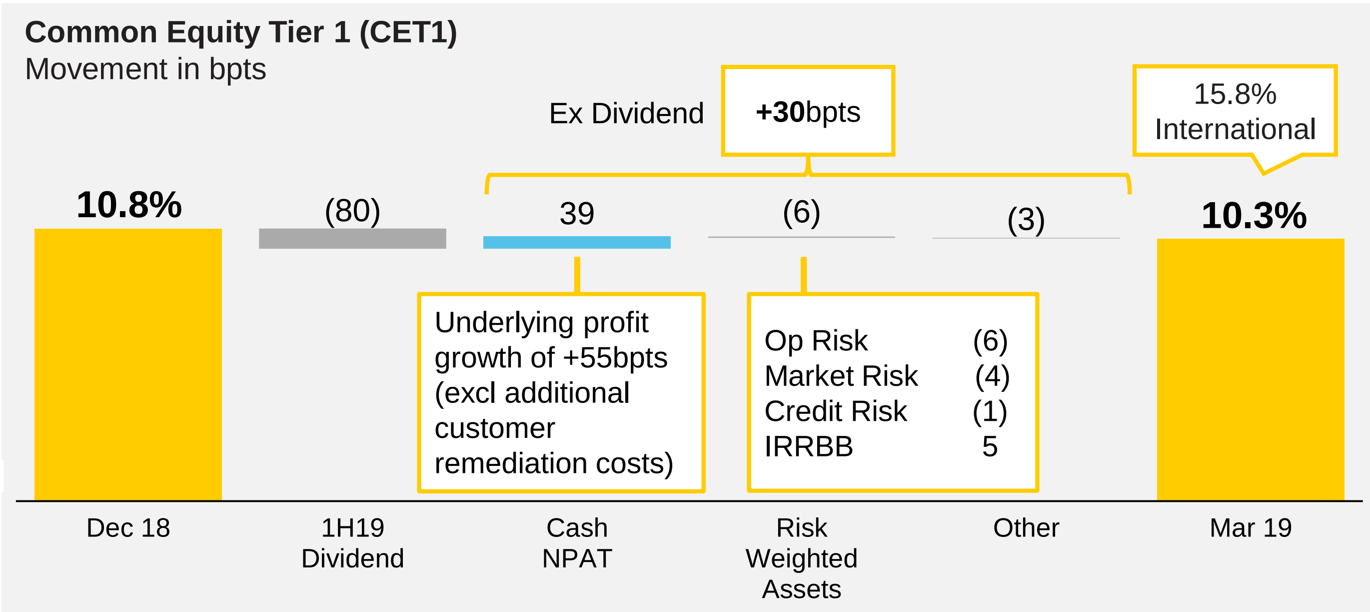


- Troublesome and impaired assets increased to $7.2 billion. Emerging signs of weakness in discretionary retail and drought-affected farmers and communities, and single name exposures drove the increase in corporate troublesome assets, whilst impaired assets continued to be influenced by home loan customers experiencing hardship.
- Prudent levels of credit provisioning were maintained, with total provisions increased by $96 million to approximately $4.8 billion and collective provision coverage further strengthened.

Balance sheet further strengthened



- Funding and liquidity positions remained strong, with customer deposit funding at 69% and the average tenor of the long term wholesale funding portfolio at 5.2 years. The Group issued $9.4 billion of long term funding in the quarter.
- The Net Stable Funding Ratio (NSFR) increased to 113% supported by growth in retail deposits.
- The Liquidity Coverage Ratio (LCR) was higher at 134% over the March quarter due to an improved customer deposit mix.
- The Group's Leverage Ratio is 5.4% on an APRA basis and 6.2% on an internationally comparable basis.



- The Common Equity Tier 1 (CET1) APRA ratio was 10.3% as at 31 March 2019. After allowing for the impact of the 2019 interim dividend (which included the on market purchase of shares in respect of the Dividend Reinvestment Plan), CET1 increased 30bpts in the quarter. This was driven by capital generated from earnings, partially offset by higher risk weighted assets.
- The Group has announced the divestment of a number of businesses as part of its strategy to build a simpler, better bank. As previously advised, the sale of BoComm Life is subject to regulatory approvals and is the final condition precedent for the sale of CommInsure Life (CMLA). The Bank now expects the divestment of CMLA to complete in the second half of calendar 2019, subject to the timing of the necessary Chinese regulatory approvals. Collectively, the announced divestments will provide an uplift to CET1 of approximately 120bpts, subject to regulatory approvals.
- Current RBNZ capital proposals would result in an additional Tier 1 capital requirement for ASB of ~NZ$3bn, assuming current balance sheet size and composition.

Appendix

Key financials reconciliation		1H19 $m	1H19 Qtr Avg $m	Movement 3Q19 vs 1H19 Qtr Avg
Operating Income	**Reported**	***12,408***	***6,204***	**(4%)**
	Mortgage Broking consolidation	*(145)*	*(73)*	
	Operating Income ex. notable items	**12,263**	**6,131**	**(4%)**
Operating Expense	**Reported**	***5,289***	***2,645***	**24%**
	Insurance recovery	*145*	*73*	
	Mortgage Broking consolidation	*(139)*	*(70)*	
	Wealth Management indemnity provision	*(200)*	*(100)*	
	Risk and compliance uplifts and customer remediation	*(221)*	*(111)*	
	Operating Expenses ex. notable items	**4,874**	**2,437**	**1%**
Loan Impairment Expense (LIE)		**577**	**289**	**9%**
Reported Cash NPAT		**4,676**	**2,338**	**(28%)**
Cash NPAT ex. notable items		**4,869**	**2,435**	**(9%)**

Footnotes

[1] Unless otherwise stated, the financial results are presented on a 'continuing operations' basis. This excludes the Bank's Australia and New Zealand life insurance businesses (CommInsure Life and Sovereign), BoComm Life, TymeDigital SA, CFSGAM and PT Commonwealth Life (discontinued operations), consistent with the financial disclosures as at 31 Dec 2018. Note the $714m in pre-tax additional customer remediation provisions includes $704m recognised in operating expenses (continuing operations) and $10m in discontinued operations.
[2] Rounded to the nearest $50 million.
[3] Including discontinued operations.
[4] 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 period on period and do not discriminate between positive and negative adjustments. For a more detailed description of these items, please refer to page 4 of the Group's 31 Dec 2018 Profit Announcement.
[5] LIE calculated as a percentage of average Gross Loans and Acceptances (GLAA) annualised. Expressed in basis points (bpts).
[6] Home lending includes CBA subsidiaries, Homepath P/L, Residential Mortgage Group P/L and Wallaby Trust. Household deposits as reported under APRA monthly Banking Statistics. Business lending is limited to Business and Private Banking and excludes Bankwest and Institutional Banking and Markets.
[7] The Group NIM movement is from 1H19 (six months ended 31 Dec 2018).
[8] Aligned Advisers are advisers who are not employed by the CBA Group but who are authorised to provide financial advice under the Financial Wisdom, Count Financial or CFP Pathways licences.
[9] FY09 includes Bankwest on a pro-forma basis and is based on LIE for the year.
[10] Consumer arrears includes retail portfolios of Retail Banking Services, Business & Private Banking and New Zealand.
[11] Excludes Reverse Mortgage, Commonwealth Portfolio Loan and Residential Mortgage Group loans.
[12] AASB 9 impairment was adopted on 1 Jul 2018, resulting in a $1,058 million increase in collective provisions.

Disclaimer

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