



# Profit Announcement

For the Half Year Ended  
31 December 2016

## ASX Appendix 4D

### Results for announcement to the market <sup>(1)</sup>

#### Report for the half year ended 31 December 2016

	<b>\$M</b>	
Revenue from ordinary activities	22,607	Up 3%
Profit/(loss) from ordinary activities after tax attributable to Equity holders	4,895	Up 6%
Net profit/(loss) for the period attributable to Equity holders	4,895	Up 6%
<b>Dividends (distributions)</b>		
Interim dividend - fully franked (cents per share)		199
<b>Record date for determining entitlements to the dividend</b>		23 February 2017

(1) Rule 4.2A.3.

This half year report is provided to the ASX under Rule 4.2A. Refer to Appendix 11 ASX Appendix 4D for disclosures required under ASX Listing Rules.

This report should be read in conjunction with the 30 June 2016 Annual Financial Report of the Commonwealth Bank of Australia and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

#### Important dates for shareholders

Half year results announcement	15 February 2017
Ex-dividend date	22 February 2017
Record date	23 February 2017
Interim dividend payment date	4 April 2017

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##### Investor Relations

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Except where otherwise stated, all figures relate to the half year ended 31 December 2016. The term "prior comparative period" refers to the half year ended 31 December 2015, while the term "prior half" refers to the half year ended 30 June 2016.

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# Media Release

## CBA 1H17 Results

For the half year ended 31 December 2016<sup>1</sup>  
Reported 15 February 2017



**Commonwealth**Bank

### Summary

- Statutory net profit after tax (NPAT) of \$4,895 million, up 6%.<sup>2</sup>
- Cash NPAT of \$4,907 million, up 2%.
- Operating income of \$13,126 million, up 6%.
- Interim dividend of \$1.99 per share, up 1 cent.
- Earnings per share (cash) of \$2.86, flat.
- Return on equity (cash) of 16.0%.
- Common Equity Tier 1 capital ratio of 9.9% on an APRA basis, 15.4% on an internationally comparable basis.

### Financial snapshot

<b>Performance</b>	Cash basis	Underlying cash basis <sup>3</sup>
Total operating income (vs 1H16)	6%	3%
Operating expenses (vs 1H16)	9%	1%
Operating performance (vs 1H16)	4%	4%
Cost-to-income	43.3%	41.5%
Loan impairment expense (vs 1H16)	17 bpts - flat	
Net interest margin (vs 1H16)	2.11% - down 4 bpts	

#### CEO Comment: Ian Narev

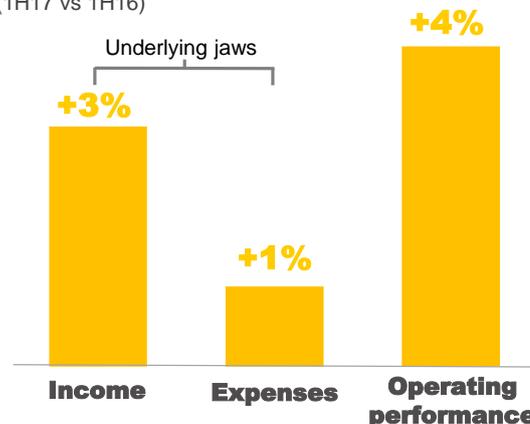
“We have maintained our commitment to our long term strategy. We have invested carefully but consistently over many years, leading to ongoing revenue and balance sheet growth, and continuous innovation for our customers. At the same time, our emphasis on productivity has ensured that expense growth is fit for the times.”

### Managing for today's environment

- Income growth, combined with cost control, delivered “positive jaws” for the Group on an underlying basis.<sup>3</sup>
- Strong home lending and solid corporate lending, together with growth in deposits, underpinned income.
- Productivity measures delivered lower expenses, with the Group's cost-to-income ratio falling 60 basis points to 41.5% on an underlying basis.
- Margins were impacted by higher funding costs, with the Group's net interest margin down 4 basis points to 2.11%.

#### Positive jaws

(1H17 vs 1H16)



<sup>1</sup> Unless otherwise indicated all comparisons are to the prior comparative period (pcp), the half year ended 31 December 2015.

<sup>2</sup> For an explanation of and reconciliation between statutory and cash NPAT, refer to pages 2, 3 and 15 of the Group's Profit Announcement for the half year ended 31 December 2016, available at [commbank.com.au/shareholder](http://commbank.com.au/shareholder).

<sup>3</sup> “Underlying basis” excludes a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets.

## More satisfied customers

### Retail customer satisfaction

(% 'very satisfied' or 'fairly satisfied')



As at 31 December 2016, the Group ranked:

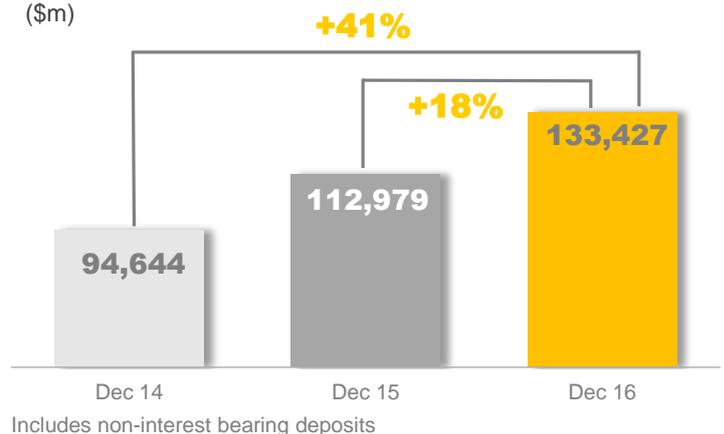
- #1 for retail customer satisfaction for 19 consecutive months (Roy Morgan Research Retail MFI Customer Satisfaction);
- #1 or equal #1 for small business customer satisfaction for 28 consecutive months and #1 or equal #1 for large corporates for 4 years (DBM);<sup>4</sup>
- #1 for online and mobile banking (CANSTAR);
- #1 for wealth (Wealth Insights Platform Service Level Survey); and
- #1 for International Financial Services (PT Bank Commonwealth Indonesia, MRI Standards for Customer Service Excellence).

## Deposit growth

- Customer satisfaction supported growth in deposits across the Group, with Group transaction balances up 18%.
- Retail Banking Services achieved 30% growth in transaction deposits and a 16% increase in new transaction accounts (including offset accounts).
- Total customer deposits increased 8% to \$541 billion, and contributed 66% of total Group funding.

### Group transaction balances

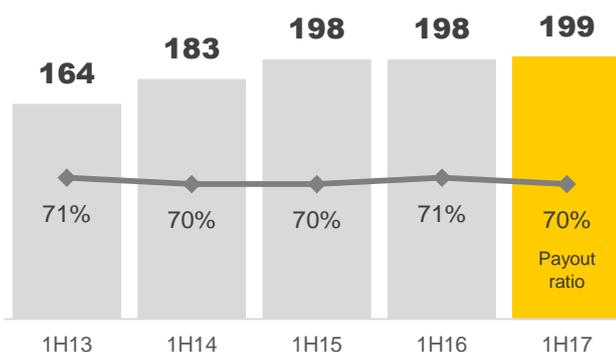
(\$m)



## Consistent dividends

### Interim dividend

(cents per share)

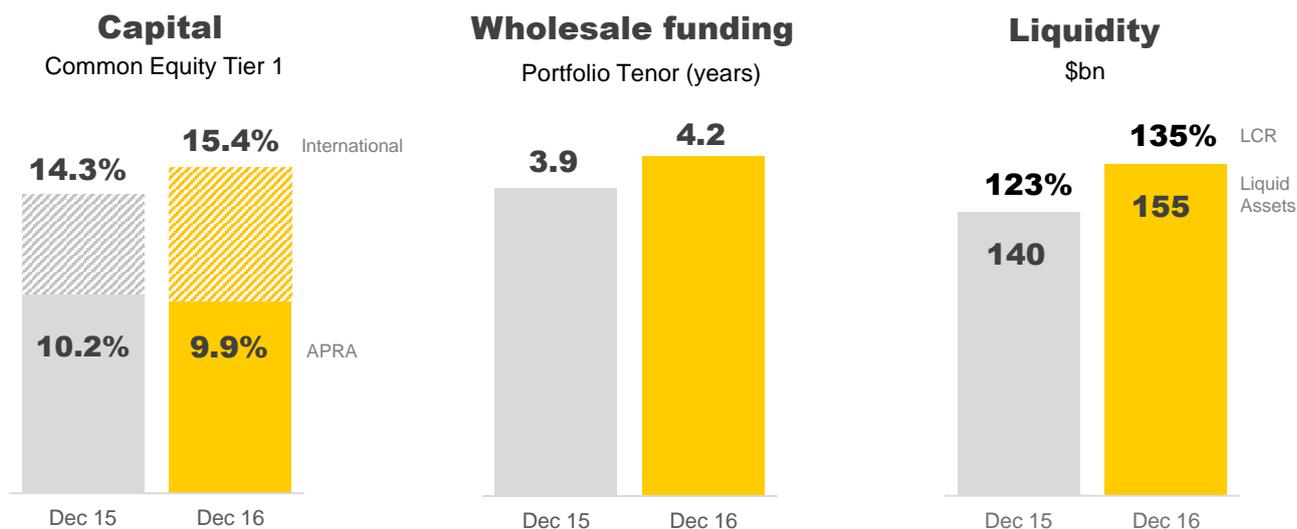


The Group's performance supported the Board's aim of consistent dividends for shareholders.

- Interim dividend of \$1.99, fully franked, up 1 cent.
- Dividend payout ratio of 70% of cash NPAT.
- Ex-dividend date - 22 February 2017.
- Record Date - 23 February 2017.
- Interim dividend payment date - 4 April 2017.
- The dividend reinvestment plan (DRP) continues to apply with no discount, and the deadline for notifying participation in the DRP is 24 February 2017.

<sup>4</sup> Small businesses are those with annual turnover up to \$1 million, large businesses are those with annual turnover of \$50m to less than \$500m.

## Balance sheet strength

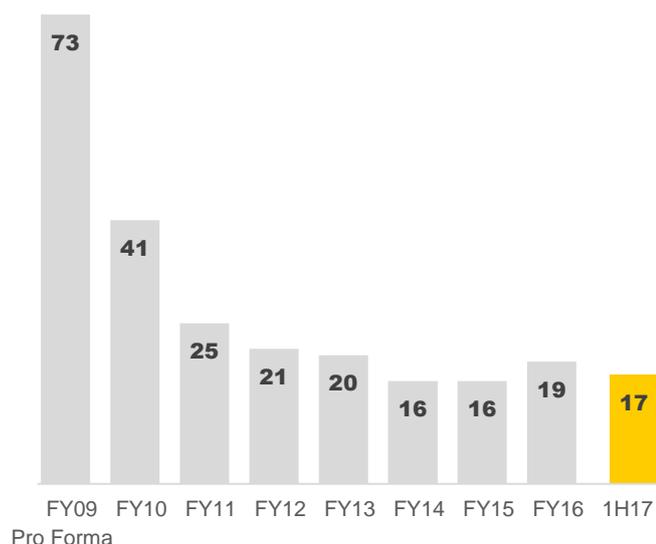


- Capital generated by earnings was offset primarily by APRA's requirement to hold an additional 80 basis points of capital for Australian residential mortgages (implemented 1 July 2016) and the 2016 full year dividend. CBA ranks near the top of the top quartile of international peer banks for CET1.
- The Group strengthened its funding position in the period, with the average tenor of long term wholesale funding increasing to 4.2 years.
- The Group's Liquidity Coverage Ratio (LCR) increased to 135% and the leverage ratio was 4.9% (APRA basis).

## Credit quality

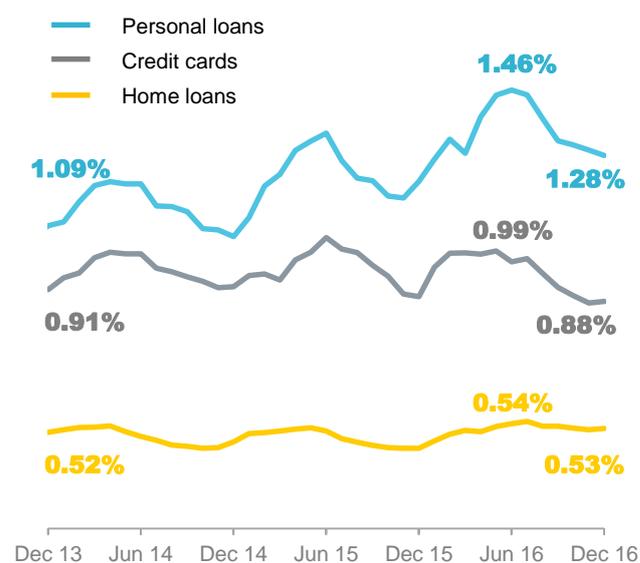
### Loan impairment expense

Group (basis points)



### Consumer arrears

90+ days



- Overall, loan impairment expense (LIE) remains low, at 17 basis points of gross loans and acceptances.
- Consumer LIE was flat at 18 basis points, while corporate LIE fell to 14 basis points from 20 basis points (both on the prior financial year).
- Personal loan arrears were seasonally lower, although still elevated in Western Australia.
- Home loan arrears continue at low levels, despite higher arrears in Western Australia.

## Delivering on our Vision

In the six months ended 31 December 2016, CBA continued to secure the financial wellbeing of people, businesses and communities by providing trusted services and funding community initiatives.

- \$109 billion in new lending to personal and business customers.
- 140,000 new home loans, including 15,000 for first home buyers.
- \$3.5 billion in new loans to 12,700 small businesses.
- \$1.2 billion in new lending to farmers and other rural customers.
- 1.5 million new deposit accounts.
- \$132 million of investment into the community through donations, volunteer time and support for local projects.



## Delivering innovation



### Digital banking

- TYME, CBA's wholly owned financial services technology company in South Africa, has developed a kiosk which can on-board new customers through biometric authentication in 4 minutes.
- The kiosks enable customers to transfer money and make payments, and can issue personalised debit cards.
- 685 kiosks have been installed in-store at Pick n Pay, one of South Africa's largest retailers.
- 100,000 customers have enrolled since launch in May 2016.

## Outlook

### CEO Comment: Ian Narev

"The combination of geopolitical volatility and weak economic recovery in parts of the world means the risk of market volatility, and indeed economic shock, remains heightened. At the same time, recent trends in the Australian economy are more positive. Our job as a major financial institution is to maintain a focus on the long term, whilst ensuring that we can withstand nearer term shocks. Our contribution to Australia's economic growth must continue to be the combination of strength and innovation that has served Australia well through global volatility. So we will continue to manage our balance sheet, and our expenditure, conservatively. But we will also continue to invest confidently so we can play our part in the bright future that we see for Australia".

### Media

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[commbank.com.au/shareholder](http://commbank.com.au/shareholder)

## Key financial information

### Half Year Ended

Group performance summary <sup>(1)</sup>	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
Net interest income	8,743	8,508	8,427	3	4
Other banking income <sup>(2)</sup>	2,986	2,444	2,416	22	24
<b>Total banking income</b>	<b>11,729</b>	<b>10,952</b>	<b>10,843</b>	<b>7</b>	<b>8</b>
Funds management income	1,004	984	1,032	2	(3)
Insurance income	393	308	487	28	(19)
<b>Total operating income</b>	<b>13,126</b>	<b>12,244</b>	<b>12,362</b>	<b>7</b>	<b>6</b>
Investment experience	16	83	58	(81)	(72)
<b>Total income</b>	<b>13,142</b>	<b>12,327</b>	<b>12,420</b>	<b>7</b>	<b>6</b>
Operating expenses <sup>(3)</sup>	(5,677)	(5,224)	(5,210)	9	9
Loan impairment expense	(599)	(692)	(564)	(13)	6
<b>Net profit before tax</b>	<b>6,866</b>	<b>6,411</b>	<b>6,646</b>	<b>7</b>	<b>3</b>
<b>Net profit after tax ("cash basis")</b>	<b>4,907</b>	<b>4,637</b>	<b>4,808</b>	<b>6</b>	<b>2</b>
<b>Net profit after tax ("statutory basis")</b>	<b>4,895</b>	<b>4,600</b>	<b>4,623</b>	<b>6</b>	<b>6</b>
	<b>31 Dec 16</b>	<b>30 Jun 16</b>	<b>31 Dec 15</b>	<b>Dec 16 vs</b>	<b>Dec 16 vs</b>
<b>Cash net profit after tax, by division <sup>(1)</sup></b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>Jun 16 %</b>	<b>Dec 15 %</b>
Retail Banking Services	2,466	2,268	2,272	9	9
Business and Private Banking	791	748	774	6	2
Institutional Banking and Markets	683	568	622	20	10
Wealth Management	249	236	376	6	(34)
New Zealand	471	417	464	13	2
Bankwest	355	375	403	(5)	(12)
IFS and Other	(108)	25	(103)	large	5
	<b>31 Dec 16</b>	<b>30 Jun 16</b>	<b>31 Dec 15</b>	<b>Dec 16 vs</b>	<b>Dec 16 vs</b>
<b>Shareholder ratios &amp; performance indicators <sup>(1)</sup></b>				<b>Jun 16 %</b>	<b>Dec 15 %</b>
Earnings Per Share - "cash basis" - basic (cents)	285.8	270.3	284.6	6	-
Return on equity - "cash basis" (%)	16.0	15.6	17.3	40 bpts	(130) bpts
Return on average total assets - "cash basis" (%)	1.0	1.0	1.1	-	(10) bpts
Dividends per share - fully franked (cents)	199	222	198	(10)	1
Dividend payout ratio - "cash basis" (%)	69.9	82.4	70.8	large	(90) bpts
Average interest earning assets (\$M) <sup>(4)</sup>	823,058	800,379	780,921	3	5
Funds Under Administration - average (\$M)	150,134	145,299	144,751	3	4
Assets Under Management - average (\$M)	206,996	200,075	203,603	3	2
Net interest margin (%)	2.11	2.14	2.15	(3) bpts	(4) bpts
Operating expenses to total operating income (%) <sup>(5)</sup>	43.3	42.7	42.1	60 bpts	120 bpts

<sup>(1)</sup> Comparative information has been restated to reflect refinements to the allocation of customer balances, revenue and expense methodology including updated transfer pricing allocations, and changes to the recognition of Global Asset Management long-term incentives in Wealth Management.

<sup>(2)</sup> The current half includes a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

<sup>(3)</sup> The current half includes a \$393 million one-off expense for acceleration of amortisation on certain software assets.

<sup>(4)</sup> Net of average mortgage offset balances.

<sup>(5)</sup> Excluding a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets, operating expenses to total operating income is 41.5% for the current period.

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# Highlights

## Group Performance Highlights

	Half Year Ended <sup>(1)</sup> ("statutory basis")			Half Year Ended <sup>(1)</sup> ("cash basis")				
	Dec 16 vs		31 Dec 15 %	Dec 16 vs		Dec 16 vs		Dec 15 %
	31 Dec 16	Dec 15 %		31 Dec 16	30 Jun 16	31 Dec 15	Jun 16 %	
Net profit after tax (\$M)	4,895	6		4,907	4,637	4,808	6	2
Return on equity (%)	16.0	(70)bpts		16.0	15.6	17.3	40 bpts	(130)bpts
Earnings per share - basic (cents)	285.3	4		285.8	270.3	284.6	6	-
Dividends per share (cents)	199	1		199	222	198	(10)	1

(1) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.

### Financial Performance

The Group's net profit after tax ("statutory basis") for the half year ended 31 December 2016 increased 6% on the prior comparative period to \$4,895 million.

Return on equity ("statutory basis") was 16.0% and Earnings per share ("statutory basis") was 285.3 cents, an increase of 4% on the prior comparative period.

The Management Discussion and Analysis discloses the net profit after tax on both a statutory and cash basis. The statutory basis is prepared and reviewed in accordance with the Corporations Act 2001 and the 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 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 with the prior comparative period and prior half disclosures and do not discriminate between positive and negative adjustments. A list of items excluded from statutory profit is provided in the reconciliation of the Net profit after tax ("cash basis") on page 3 and described in greater detail on page 15.

The Group's vision is to excel at securing and enhancing the financial wellbeing of people, businesses and communities. The long-term strategies that the Group has pursued to achieve this vision have continued to deliver high levels of customer satisfaction across all businesses and another solid financial result.

Operating income increased, relative to both the prior comparative period and prior half, including a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

Operating expenses increased, including a \$393 million one-off expense for acceleration of amortisation on certain software assets. Underlying expenses increased due to higher staff costs, partly offset by the incremental benefit generated from productivity initiatives.

Loan impairment expense increased, primarily due to higher provisioning levels in Bankwest and Retail Banking Services. Provisioning levels remain prudent and there has been no change to the economic overlay.

Net profit after tax ("cash basis") for the half year ended 31 December 2016 increased 2% on the prior comparative period to \$4,907 million. Cash earnings per share was 285.8 cents per share, flat on the prior comparative period.

Return on equity ("cash basis") for the half year ended 31 December 2016 was 16.0%, a decrease of 130 basis points on the prior comparative period.

### Capital

After allowing for the implementation of the APRA requirement to hold additional capital with respect to

Australian residential mortgages, effective from 1 July 2016, the Group continued to strengthen its capital position during the half year.

As at 31 December 2016, the Basel III Common Equity Tier 1 (CET1) ratio was 15.4% on an internationally comparable basis and 9.9% on an APRA basis.

### Funding

The Group continued to maintain conservative Balance Sheet settings, with a considerable portion of the Group's lending growth funded by strong growth in customer deposits, which increased to \$541 billion, up \$41 billion on the prior comparative period.

### Dividends

The interim dividend declared was \$1.99 per share, an increase of 1 cent on the prior comparative period. This represents a dividend payout ratio ("cash basis") of 69.9%.

The interim dividend payment will be fully franked and paid on 4 April 2017 to owners of ordinary shares at the close of business on 23 February 2017 (record date). Shares will be quoted ex-dividend on 22 February 2017.

### Outlook

Prospects for the Australian economy remain encouraging. Despite the disappointing GDP numbers for the third quarter last year, income growth is on a more positive trajectory. Increased global demand for commodities and some supply cutbacks have raised prices and improved Australia's terms of trade; the negative effects on spending and jobs from the multi-year reduction in mining investment are coming to an end; and the lower Australian dollar has enabled export sensitive industries to make more of a contribution to economic growth, alongside resources and construction.

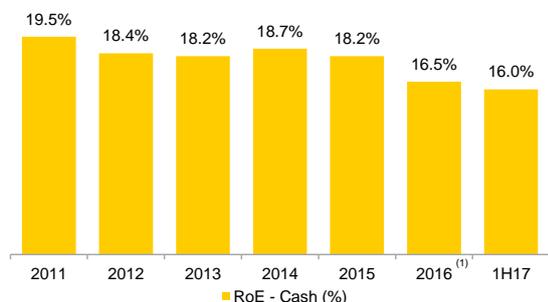
These trends can broaden the base of Australia's economy, if supported by the right trade, investment, immigration, infrastructure and taxation policies. And they could also stimulate a more vibrant services sector that takes advantage of Australia's links with the high income growth region in Asia. So we remain positive about Australia's medium to long term growth prospects, and we have the confidence to continue to invest.

In the shorter term, however, the combination of geopolitical uncertainty and weak economic recovery in parts of the world means the risk of market volatility, and indeed economic shock, remains heightened. The strength of the Australian banking system over the past decade has been critical in insulating Australia from global shocks. Given on-going challenges, we will maintain appropriate capital and liquidity levels, funding strategies and credit origination and management standards. And while continuing to invest, we will also continue to manage expenditure carefully to reflect the lower growth environment.

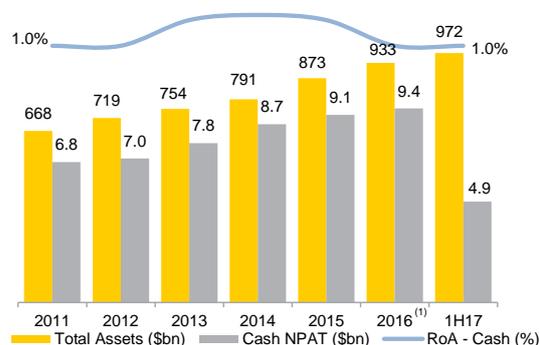
Group Performance Summary	Half Year Ended <sup>(1)</sup> ("cash basis")					Half Year Ended <sup>(1)</sup> ("statutory basis")	
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %	31 Dec 16	Dec 16 vs Dec 15 %
	\$M	\$M	\$M			\$M	
Net interest income	8,743	8,508	8,427	3	4	8,741	4
Other banking income <sup>(2)</sup>	2,986	2,444	2,416	22	24	2,998	36
<b>Total banking income</b>	<b>11,729</b>	<b>10,952</b>	<b>10,843</b>	<b>7</b>	<b>8</b>	<b>11,739</b>	<b>10</b>
Funds management income	1,004	984	1,032	2	(3)	991	(3)
Insurance income	393	308	487	28	(19)	378	(32)
<b>Total operating income</b>	<b>13,126</b>	<b>12,244</b>	<b>12,362</b>	<b>7</b>	<b>6</b>	<b>13,108</b>	<b>7</b>
Investment experience	16	83	58	(81)	(72)	-	-
<b>Total income</b>	<b>13,142</b>	<b>12,327</b>	<b>12,420</b>	<b>7</b>	<b>6</b>	<b>13,108</b>	<b>7</b>
Operating expenses <sup>(3)</sup>	(5,677)	(5,224)	(5,210)	9	9	(5,679)	8
Loan impairment expense	(599)	(692)	(564)	(13)	6	(599)	6
<b>Net profit before tax</b>	<b>6,866</b>	<b>6,411</b>	<b>6,646</b>	<b>7</b>	<b>3</b>	<b>6,830</b>	<b>7</b>
Corporate tax expense <sup>(4)</sup>	(1,950)	(1,765)	(1,827)	10	7	(1,926)	9
Non-controlling interests <sup>(5)</sup>	(9)	(9)	(11)	-	(18)	(9)	(18)
<b>Net profit after tax ("cash basis")</b>	<b>4,907</b>	<b>4,637</b>	<b>4,808</b>	<b>6</b>	<b>2</b>	<b>n/a</b>	<b>n/a</b>
Hedging and IFRS volatility <sup>(6)</sup>	8	(49)	(150)	large	large	n/a	n/a
Other non-cash items <sup>(6)</sup>	(20)	12	(35)	large	(43)	n/a	n/a
<b>Net profit after tax ("statutory basis")</b>	<b>4,895</b>	<b>4,600</b>	<b>4,623</b>	<b>6</b>	<b>6</b>	<b>4,895</b>	<b>6</b>
<b>Represented by: <sup>(1)</sup></b>							
Retail Banking Services	2,466	2,268	2,272	9	9		
Business and Private Banking	791	748	774	6	2		
Institutional Banking and Markets	683	568	622	20	10		
Wealth Management	249	236	376	6	(34)		
New Zealand	471	417	464	13	2		
Bankwest	355	375	403	(5)	(12)		
IFS and Other	(108)	25	(103)	large	5		
Net profit after tax ("cash basis")	4,907	4,637	4,808	6	2		
Investment experience after tax	(9)	(56)	(44)	(84)	(80)		
<b>Net profit after tax ("underlying basis")</b>	<b>4,898</b>	<b>4,581</b>	<b>4,764</b>	<b>7</b>	<b>3</b>		

- (1) Comparative information has been restated to reflect refinements to the allocation of customer balances, revenue and expense methodology including updated transfer pricing allocations, and changes to the recognition of Global Asset Management long-term incentives in Wealth Management.
- (2) The current half includes a \$397 million gain on sale of the Group's remaining investment in Visa Inc.
- (3) The current half includes a \$393 million one-off expense for acceleration of amortisation on certain software assets.
- (4) For the purposes of presentation of Net profit after tax ("cash basis"), policyholder tax benefit/(expense) components of corporate tax expense are shown on a net basis (31 December 2016: \$24 million benefit; 30 June 2016: \$92 million expense; 31 December 2015: \$9 million expense).
- (5) Non-controlling interests include preference dividends paid to holders of preference shares in ASB Capital Limited and ASB Capital No.2 Limited.
- (6) Refer to page 15 for details.

## Group Return on Equity



## Group Return on Assets



- (1) Comparative information has been restated to conform to presentation in the current period.

# Highlights

Key Performance Indicators	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Group</b>					
Statutory net profit after tax (\$M)	4,895	4,600	4,623	6	6
Cash net profit after tax (\$M)	4,907	4,637	4,808	6	2
Net interest margin (%)	2.11	2.14	2.15	(3)bpts	(4)bpts
Net interest margin excluding Treasury and Markets (%)	2.08	2.13	2.13	(5)bpts	(5)bpts
Average interest earning assets (\$M) <sup>(2)</sup>	823,058	800,379	780,921	3	5
Average interest bearing liabilities (\$M) <sup>(2)</sup>	747,236	730,246	737,226	2	1
Funds Under Administration (FUA) - average (\$M)	150,134	145,299	144,751	3	4
Assets Under Management (AUM) - average (\$M)	206,996	200,075	203,603	3	2
Average inforce premiums (\$M)	3,475	3,417	3,386	2	3
Operating expenses to total operating income (%) <sup>(3)</sup>	43.3	42.7	42.1	60 bpts	120 bpts
Effective corporate tax rate ("cash basis") (%)	28.4	27.5	27.5	90 bpts	90 bpts
<b>Retail Banking Services</b>					
Cash net profit after tax (\$M)	2,466	2,268	2,272	9	9
Operating expenses to total banking income (%)	30.8	31.9	32.3	(110)bpts	(150)bpts
<b>Business and Private Banking</b>					
Cash net profit after tax (\$M)	791	748	774	6	2
Operating expenses to total banking income (%)	39.3	38.8	38.7	50 bpts	60 bpts
<b>Institutional Banking and Markets</b>					
Cash net profit after tax (\$M)	683	568	622	20	10
Operating expenses to total banking income (%)	36.7	38.2	36.6	(150)bpts	10 bpts
<b>Wealth Management</b>					
Cash net profit after tax (\$M)	249	236	376	6	(34)
FUA - average (\$M)	138,146	134,292	134,352	3	3
AUM - average (\$M)	201,967	195,513	199,294	3	1
Average inforce premiums (\$M)	2,505	2,480	2,470	1	1
Operating expenses to total operating income (%)	73.5	77.8	63.8	(430)bpts	large
<b>New Zealand</b>					
Cash net profit after tax (\$M)	471	417	464	13	2
FUA - average (\$M)	11,988	11,007	10,399	9	15
AUM - average (\$M)	5,029	4,562	4,309	10	17
Average inforce premiums (\$M)	715	682	664	5	8
Operating expenses to total operating income (%) <sup>(4)</sup>	38.0	40.6	39.2	(260)bpts	(120)bpts
<b>Bankwest</b>					
Cash net profit after tax (\$M)	355	375	403	(5)	(12)
Operating expenses to total banking income (%)	41.3	41.5	41.1	(20)bpts	20 bpts
<b>Capital (Basel III)</b>					
Common Equity Tier 1 (Internationally Comparable) (%) <sup>(5)</sup>	15.4	14.4	14.3	100 bpts	110 bpts
Common Equity Tier 1 (APRA) (%)	9.9	10.6	10.2	(70)bpts	(30)bpts
<b>Leverage Ratio (Basel III)</b>					
Leverage Ratio (Internationally Comparable) (%) <sup>(6)</sup>	5.5	5.6	5.6	(10)bpts	(10)bpts
Leverage Ratio (APRA) (%)	4.9	5.0	5.0	(10)bpts	(10)bpts

(1) Comparative information has been restated to reflect refinements to the allocation of customer balances, revenue and expense methodology including updated transfer pricing allocations, and changes to the recognition of Global Asset Management long-term incentives in Wealth Management.

(2) Net of average mortgage offset balances.

(3) Excluding a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets, operating expenses to total operating income is 41.5% for the current period.

(4) Key financial metrics are calculated in New Zealand dollar terms.

(5) Analysis aligns with the 13 July 2015 APRA study titled "International capital comparison study".

(6) The Tier 1 Capital included in the calculation of the internationally comparable leverage ratio aligns with the 13 July 2015 APRA study titled "International capital comparison study", and includes Basel III non-compliant Tier 1 instruments that are currently subject to transitional rules.

Shareholder Summary	Half Year Ended				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
Dividends per share - fully franked (cents)	199	222	198	(10)	1
Dividend cover - "cash basis" (times)	1.4	1.2	1.4	17	-
Earnings Per Share (EPS) (cents) <sup>(1) (2)</sup>					
Statutory basis - basic	285.3	268.4	273.9	6	4
Cash basis - basic	285.8	270.3	284.6	6	-
Dividend payout ratio (%) <sup>(1) (2)</sup>					
Statutory basis	70.1	83.1	73.6	large	(350)bpts
Cash basis	69.9	82.4	70.8	large	(90)bpts
Weighted average no. of shares ("statutory basis") - basic (M) <sup>(2) (3)</sup>	1,715	1,707	1,676	-	2
Weighted average no. of shares ("cash basis") - basic (M) <sup>(2) (3)</sup>	1,717	1,709	1,678	-	2
Return on equity - "statutory basis" (%) <sup>(1) (2)</sup>	16.0	15.6	16.7	40 bpts	(70)bpts
Return on equity - "cash basis" (%) <sup>(1) (2)</sup>	16.0	15.6	17.3	40 bpts	(130)bpts

- (1) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.  
(2) For definitions refer to Appendix 16.  
(3) Diluted EPS and weighted average number of shares are disclosed in Appendix 13.

Market Share <sup>(1)</sup>	As at				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16	Dec 16 vs Dec 15
	%	%	%		
Home loans	25.4	25.3	25.1	10 bpts	30 bpts
Credit cards - RBA <sup>(2)</sup>	24.3	24.4	24.4	(10)bpts	(10)bpts
Other household lending <sup>(3)</sup>	16.9	16.8	16.9	10 bpts	-
Household deposits	29.0	29.2	29.3	(20)bpts	(30)bpts
Business lending - RBA	16.6	16.9	17.0	(30)bpts	(40)bpts
Business lending - APRA	18.6	18.7	18.7	(10)bpts	(10)bpts
Business deposits - APRA	19.8	20.2	20.3	(40)bpts	(50)bpts
Asset Finance	12.7	12.9	13.1	(20)bpts	(40)bpts
Equities trading	4.0	4.7	5.6	(70)bpts	(160)bpts
Australian Retail - administrator view <sup>(4)</sup>	15.5	15.6	15.5	(10)bpts	-
FirstChoice Platform <sup>(4)</sup>	10.8	11.0	10.9	(20)bpts	(10)bpts
Australia life insurance (total risk) <sup>(4)</sup>	11.2	11.4	11.6	(20)bpts	(40)bpts
Australia life insurance (individual risk) <sup>(4)</sup>	10.3	10.7	11.0	(40)bpts	(70)bpts
NZ home loans	22.0	21.8	21.8	20 bpts	20 bpts
NZ retail deposits	21.1	21.0	20.9	10 bpts	20 bpts
NZ business lending	13.1	12.4	11.9	70 bpts	120 bpts
NZ retail FUA	15.5	15.4	15.8	10 bpts	(30)bpts
NZ annual inforce premiums	28.0	28.4	28.7	(40)bpts	(70)bpts

- (1) Prior periods have been restated in line with market updates and comparatives have not been restated to include the impact of new market entrants in the current period.  
(2) As at 30 November 2016.  
(3) Other household lending market share includes personal loans, margin loans and other forms of lending to individuals.  
(4) As at 30 September 2016.

Credit Ratings	Long-term	Short-term	Outlook
Fitch Ratings	AA-	F1+	Stable
Moody's Investors Service	Aa2	P-1	Negative
S&P Global Ratings	AA-	A-1+	Negative

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## Contents

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# Group Performance Analysis

## Financial Performance and Business Review

### December 2016 versus December 2015

The Group's net profit after tax ("cash basis") increased 2% on the prior comparative period to \$4,907 million.

Earnings per share ("cash basis") was in line with the prior comparative period at 285.8 cents per share and return on equity ("cash basis") decreased 130 basis points on the prior comparative period to 16.0%.

The key components of the Group result were:

- **Net interest income** increased 4% to \$8,743 million, reflecting 5% growth in average interest earning assets, partly offset by a four basis point decrease in net interest margin. Net interest margin excluding Treasury and Markets decreased five basis points;
- **Other banking income** increased 24% to \$2,986 million, including a \$397 million gain on sale of the Group's remaining investment in Visa Inc., a strong sales and trading performance in Markets, and strong growth in fees and commissions;
- **Funds management income** decreased 3% to \$1,004 million, including a 2% unfavourable impact from the higher Australian dollar. This reflects a 4% increase in average Funds Under Administration (FUA) and a 2% increase in average Assets Under Management (AUM), offset by lower FUA margins;
- **Insurance income** decreased 19% to \$393 million, with average inforce premium growth of 3% and fewer event claims, offset by an increase in income protection claims reserves resulting in loss recognition of \$90 million;
- **Operating expenses** increased 9% to \$5,677 million, including a \$393 million one-off expense for acceleration of amortisation on certain software assets. Underlying expense growth of 1% was driven by higher staff costs, partly offset by the continued realisation of incremental benefits from productivity initiatives and the timing of investment spend; and
- **Loan impairment expense** increased 6% to \$599 million, due to higher provisioning primarily in Bankwest and Retail Banking Services.

### December 2016 versus June 2016

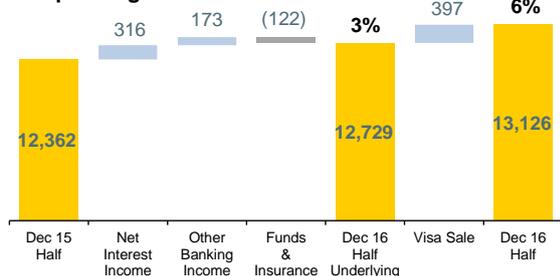
The Group's net profit after tax ("cash basis") increased 6% on the prior half.

Earnings per share ("cash basis") increased 6% on the prior half to 285.8 cents per share, and return on equity ("cash basis") increased 40 basis points to 16.0%.

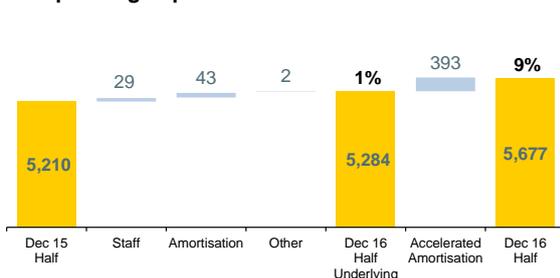
It should be noted when comparing current half financial performance to the prior half that there are two more calendar days, benefiting revenue in the current half. Key points of note in the result included the following:

- **Net interest income** increased 3%, reflecting 3% growth in average interest earning assets, partly offset by a three basis point decrease in net interest margin. Net interest margin excluding Treasury and Markets decreased five basis points;
- **Other banking income** increased 22%, including a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and strong growth in fees and commissions;
- **Funds management income** increased 2%, including a 2% unfavourable impact from the higher Australian dollar. This reflects a 3% increase in average FUA and average AUM, partly offset by lower FUA margins;
- **Insurance income** increased 28% due to average inforce premium growth of 2% and fewer event claims, partly offset by an increase in income protection claims reserves resulting in loss recognition of \$90 million, \$25 million higher than the prior half;
- **Operating expenses** increased 9%, including a \$393 million one-off expense for acceleration of amortisation on certain software assets. Underlying expense growth of 1% was driven by higher staff costs, partly offset by the continued realisation of incremental benefits from productivity initiatives and the timing of investment spend; and
- **Loan impairment expense** decreased 13%, reflecting lower levels of provisioning in Institutional Banking and Markets, Business and Private Banking and New Zealand, partly offset by increased provisioning in Bankwest.

### Total Operating Income



### Total Operating Expenses



## Net Interest Income

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
<b>Net interest income - "cash basis"</b>	<b>8,743</b>	8,508	8,427	3	4
<b>Average interest earning assets</b>					
Home loans <sup>(2)</sup>	430,408	414,749	404,644	4	6
Consumer finance	23,460	23,838	23,608	(2)	(1)
Business and corporate loans	220,519	215,027	207,726	3	6
Total average lending interest earning assets	674,387	653,614	635,978	3	6
Non-lending interest earning assets	148,671	146,765	144,943	1	3
<b>Total average interest earning assets</b>	<b>823,058</b>	800,379	780,921	3	5
Net interest margin (%)	2.11	2.14	2.15	(3)bpts	(4)bpts
Net interest margin excluding Treasury and Markets (%)	2.08	2.13	2.13	(5)bpts	(5)bpts

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Net of average mortgage offset balances. Gross average home loans balance, excluding mortgage offset accounts is \$463,811 million (30 June 2016: \$443,497 million; 31 December 2015: \$429,639 million).

### December 2016 versus December 2015

Net interest income increased 4% on the prior comparative period to \$8,743 million. The result was driven by growth in average interest earning assets of 5%, partly offset by a four basis point decrease in net interest margin.

### Average Interest Earning Assets

Average interest earning assets increased \$42 billion on the prior comparative period to \$823 billion, driven by:

- Home loan average balances increased \$25 billion or 6% on the prior comparative period to \$430 billion. The growth in home loan balances was largely driven by domestic banking growth;
- Average balances for business and corporate lending increased \$13 billion or 6% on the prior comparative period to \$221 billion, driven by growth in institutional and business banking lending balances; and
- Average non-lending interest earning assets increased \$4 billion or 3% on the prior comparative period to \$149 billion primarily due to higher trading assets.

### Net Interest Margin

The Group's net interest margin decreased four basis points on the prior comparative period to 2.11%. The key drivers of the movement were:

**Asset Pricing:** Increased margin of four basis points with the benefit of home loan repricing partly offset by the impact of competition on home and business lending.

**Funding costs:** Decreased margin of five basis points reflecting an increase in deposit costs of three basis points and an increase in wholesale funding costs.

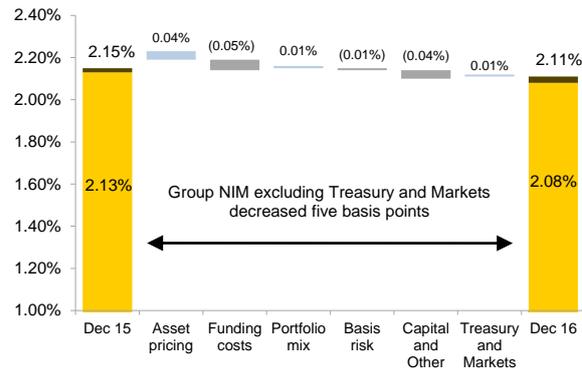
**Portfolio mix:** Increased margin of one basis point reflecting a favourable change in funding mix from proportionally higher levels of transactions and savings deposits, partly offset by an unfavourable change in lending mix.

**Basis risk:** Basis risk arises from funding assets which are priced relative to the cash rate with liabilities priced relative to the bank bill swap rate. The margin decreased one basis point as a result of an increase in the spread between the cash rate and the bank bill swap rate during the half.

**Capital and Other:** Decreased margin of four basis points driven by the impact of the falling cash rate environment on free equity funding, and a two basis point reduction in contribution from New Zealand.

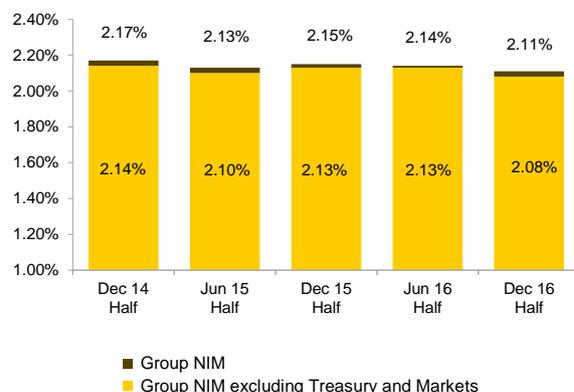
**Treasury and Markets:** Increased margin of one basis point driven by a higher contribution from Treasury.

### NIM movement since December 2015<sup>(1)</sup>



■ Group NIM  
■ Group NIM excluding Treasury and Markets

### Group NIM (Half Year Ended)<sup>(1)</sup>



■ Group NIM  
■ Group NIM excluding Treasury and Markets

(1) Comparative information has been restated to conform to presentation in the current period.

# Group Performance Analysis

## Net Interest Income (continued)

### December 2016 versus June 2016

Net interest income increased 3% on the prior half, with growth in average interest earning assets of 3%, partly offset by a three basis point decrease in net interest margin.

### Average Interest Earning Assets

Average interest earning assets increased \$23 billion on the prior half to \$823 billion, driven by:

- Home loan average balances increased \$16 billion or 4% on the prior half, primarily driven by growth in the domestic banking business;
- Average balances for business and corporate lending increased \$5 billion or 3% on the prior half, driven by growth in business banking lending balances; and
- Average non-lending interest earning assets increased \$2 billion or 1% on the prior half.

### Net Interest Margin

The Group's net interest margin decreased three basis points on the prior half to 2.11%. The key drivers were:

**Asset pricing:** Increased margin of three basis points, reflecting the impact of home loan repricing, partly offset by the impact of competition on home and business lending.

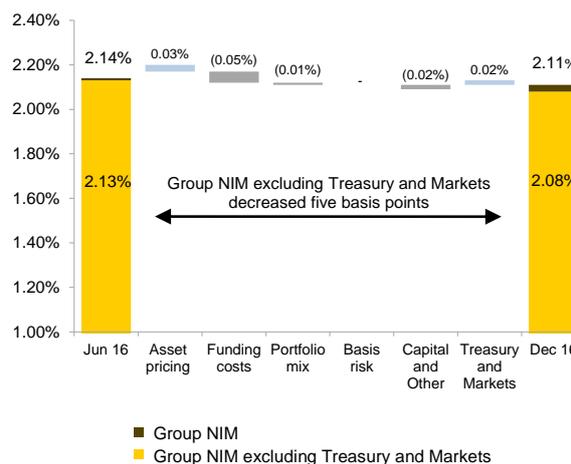
**Funding costs:** Decreased margin of five basis points, reflecting an increase in deposit costs of three basis points due to the lower cash rate and increased competition, and an increase in wholesale funding costs.

**Portfolio mix:** Decreased margin of one basis point reflecting an unfavourable change in lending mix from proportionally higher levels of home lending.

**Capital and Other:** Decreased margin of two basis points driven by the impact of the falling cash rate environment on free equity funding, and a lower contribution from New Zealand.

**Treasury and Markets:** Increased margin of two basis points driven by a higher contribution from Treasury.

NIM movement since June 2016 <sup>(1)</sup>



(1) Comparative information has been restated to conform to presentation in the current period.

## Other Banking Income

	Half Year Ended				
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
Commissions	1,254	1,064	1,151	18	9
Lending fees	533	503	507	6	5
Trading income	600	591	496	2	21
Other income <sup>(1)</sup>	599	286	262	large	large
<b>Other banking income - "cash basis" <sup>(1)</sup></b>	<b>2,986</b>	<b>2,444</b>	<b>2,416</b>	<b>22</b>	<b>24</b>

(1) The current half includes a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

### December 2016 versus December 2015

Other banking income increased 24% on the prior comparative period to \$2,986 million, driven by:

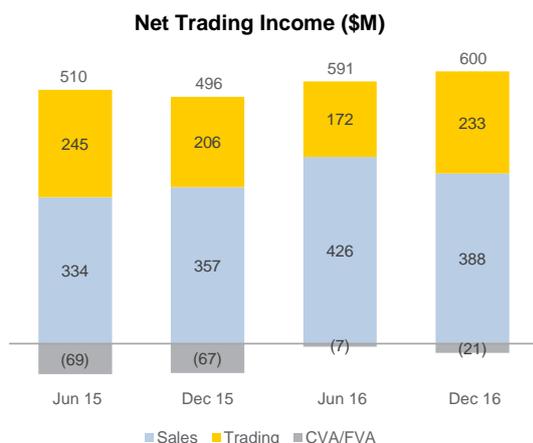
**Commissions** increased 9% on the prior comparative period to \$1,254 million due to higher credit card income from higher purchases and lower loyalty costs, and increased merchant fee income;

**Lending fees** increased 5% on the prior comparative period to \$533 million, driven by higher business lending fee income;

**Trading income** increased 21% on the prior comparative period to \$600 million, driven by a strong sales and trading performance in Markets and a less unfavourable derivative valuation adjustment; and

**Other income** increased \$337 million on the prior comparative period to \$599 million, driven by a gain on sale of the Group's remaining investment in Visa Inc., partly offset by a higher realised loss on the hedge of New Zealand earnings.

## Other Banking Income (continued)



### December 2016 versus June 2016

Other banking income increased 22% on the prior half to \$2,986 million, driven by:

**Commissions** increased 18% on the prior half due to higher credit card income from seasonally higher purchases, lower loyalty costs, and increased foreign exchange income;

**Lending fees** increased 6% on the prior half, driven by higher business lending fee income;

**Trading income** increased 2% on the prior half, driven by a strong trading performance in Markets, partly offset by lower sales and unfavourable derivative valuation adjustments; and

**Other income** increased \$313 million on the prior half driven by a gain on sale of the Group's remaining investment in Visa Inc. and increased structured asset finance income, partly offset by a higher realised loss on the hedge of New Zealand earnings.

## Funds Management Income

	Half Year Ended				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Colonial First State (CFS) <sup>(1)</sup>	447	462	467	(3)	(4)
CFS Global Asset Management (CFSGAM)	425	405	437	5	(3)
CommInsure	61	60	60	2	2
New Zealand	45	40	40	13	13
Other	26	17	28	53	(7)
<b>Funds management income - "cash basis"</b>	<b>1,004</b>	<b>984</b>	<b>1,032</b>	<b>2</b>	<b>(3)</b>

(1) Colonial First State incorporates the results of all Wealth Management Financial Planning businesses.

### December 2016 versus December 2015

Funds management income decreased 3% on the prior comparative period to \$1,004 million, driven by:

- A 4% increase in average FUA reflecting positive investment markets and net flows across the Australia and New Zealand businesses; and
- A 2% increase in average AUM driven by positive investment markets in Australia and New Zealand; offset by
- The impact of the higher Australian dollar;
- A decline in FUA margins as a result of provisioning for customer remediation costs in CFS; and
- A decline in AUM margins as a result of a change in asset mix in the Australian business.

### December 2016 versus June 2016

Funds management income increased 2% on the prior half, driven by:

- A 3% increase in average FUA reflecting solid investment market returns across the Australian and New Zealand businesses; and
- A 3% increase in average AUM as a result of positive investment markets across the Australia and New Zealand businesses and positive net flows in New Zealand; partly offset by
- The impact of the higher Australian dollar; and
- A decline in FUA margins due to provisioning for customer remediation costs in CFS.

# Group Performance Analysis

## Insurance Income

	Half Year Ended				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
CommInsure	220	172	330	28	(33)
New Zealand	139	115	127	21	9
IFS	26	22	24	18	8
Other	8	(1)	6	large	33
<b>Insurance income - "cash basis"</b>	<b>393</b>	<b>308</b>	<b>487</b>	<b>28</b>	<b>(19)</b>

### December 2016 versus December 2015

Insurance income decreased 19% on the prior comparative period to \$393 million, driven by:

- Fewer severe weather related event claims in CommInsure General Insurance; and
- A 3% increase in average inforce premiums to \$3,475 million across the Australia, New Zealand and IFS businesses; offset by
- An increase in CommInsure income protection claims reserves resulting in loss recognition of \$90 million.

### December 2016 versus June 2016

Insurance income increased 28% on the prior half, driven by:

- A 2% increase in average inforce premiums across the Australia and New Zealand businesses;
- An increase in New Zealand and IFS due to premium income growth; and
- Fewer severe weather related event claims in CommInsure General Insurance; partly offset by
- An increase in CommInsure income protection claims reserves resulting in loss recognition of \$90 million, \$25 million higher than the prior half.

## Operating Expenses

	Half Year Ended				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Staff expenses <sup>(1)</sup>	3,108	3,090	3,079	1	1
Occupancy and equipment expenses	568	575	559	(1)	2
Information technology services expenses <sup>(2)</sup>	1,155	733	752	58	54
Other expenses	846	826	820	2	3
<b>Operating expenses - "cash basis" <sup>(2)</sup></b>	<b>5,677</b>	<b>5,224</b>	<b>5,210</b>	<b>9</b>	<b>9</b>
Operating expenses to total operating income (%) <sup>(1) (3)</sup>	<b>43.3</b>	42.7	42.1	60 bpts	120 bpts
Banking expenses to total operating income (%) <sup>(3)</sup>	<b>39.4</b>	38.0	38.6	140 bpts	80 bpts

(1) Comparative information has been restated to conform to presentation in the current period.

(2) The current half includes a \$393 million one-off expense for acceleration of amortisation on certain software assets.

(3) Excluding a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets, operating expenses to total operating income is 41.5% for the current period and banking expenses to total operating income is 37.4% for the current period.

### December 2016 versus December 2015

Operating expenses increased 9% on the prior comparative period to \$5,677 million. Excluding the one-off impact of accelerated software amortisation, operating expenses increased 1%. The key drivers were:

**Staff expenses** increased 1% to \$3,108 million, driven by salary increases, partly offset by a benefit from the higher Australian dollar and productivity initiatives;

**Occupancy and equipment expenses** increased 2% to \$568 million, primarily due to rental reviews and depreciation;

**Information technology services expenses** increased 54% to \$1,155 million, primarily driven by the one-off expense for acceleration of amortisation on certain software assets. Underlying expenses increased 1% due to higher licensing and lease costs, partly offset by a reduction in investment spend;

**Other expenses** increased 3% to \$846 million, due to increased professional fees, partly offset by reduced marketing spend and customer loyalty costs; and

**Group expense to income ratio** increased 120 basis points on the prior comparative period, primarily driven by a gain on sale of the Group's remaining investment in Visa Inc. and the one-off expense for acceleration of amortisation on certain software assets. The underlying ratio was 41.5%.

### December 2016 versus June 2016

Operating expenses increased 9% on the prior half. Excluding the one-off impact of accelerated software amortisation, operating expenses increased 1%. The key drivers were:

**Staff expenses** increased 1%, driven by salary increases, partly offset by the benefit from the higher Australian dollar and productivity initiatives;

**Occupancy and equipment expenses** decreased 1%, primarily due to reduced maintenance and investment spend, partly offset by rental reviews and higher depreciation;

**Information technology services expenses** increased 58%, primarily driven by the one-off expense for acceleration of amortisation on certain software assets. Underlying expenses increased 4% due to higher software licencing, lease and amortisation costs, partly offset by a reduction in investment spend;

**Other expenses** increased 2%, due to higher professional fees, partly offset by reduced marketing spend and non-lending losses; and

**Group expense to income ratio** increased 60 basis points on the prior half, primarily driven by a gain on sale of the Group's remaining investment in Visa Inc. and the one-off expense for acceleration of amortisation on certain software assets.

## Operating Expenses (continued)

### Investment Spend

	Half Year Ended				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Expensed investment spend <sup>(1)</sup>	277	305	299	(9)	(7)
Capitalised investment spend	323	387	382	(17)	(15)
<b>Investment spend</b>	<b>600</b>	<b>692</b>	<b>681</b>	<b>(13)</b>	<b>(12)</b>
<b>Comprising:</b>					
Productivity and growth	316	346	355	(9)	(11)
Risk and compliance	219	262	243	(16)	(10)
Branch refurbishment and other	65	84	83	(23)	(22)
<b>Investment spend</b>	<b>600</b>	<b>692</b>	<b>681</b>	<b>(13)</b>	<b>(12)</b>

(1) Included within the Operating Expenses disclosure on page 12.

### December 2016 versus December 2015

The Group continues to invest to deliver on the strategic priorities of the business with \$600 million incurred in the half year to 31 December 2016, a decrease of 12% on the prior comparative period.

The decrease is due to significant progress made with branch transformations and the roll-out of refreshed ATMs, the completion of key phases of risk and compliance projects in the prior half, and the timing of spend on productivity and growth initiatives.

Spend on productivity and growth continues to focus on delivering further enhancements to the Group's sales management capabilities, digital channels, and customer data insights.

Significant spend on risk and compliance projects continues as systems are implemented to assist in satisfying new regulatory obligations, including Stronger Super and Common Reporting Standard requirements. In addition, the Group continues to invest in safeguarding information security to mitigate risks and provide greater stability for customers.

### December 2016 versus June 2016

Investment spend decreased 13% on the prior half, largely due to the timing of spend on productivity and growth initiatives, completion of key phases of risk and compliance projects, and significant progress with the roll-out of refreshed ATMs.

## Loan Impairment Expense

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Retail Banking Services	350	357	306	(2)	14
Business and Private Banking	64	106	70	(40)	(9)
Institutional Banking and Markets	44	112	140	(61)	(69)
New Zealand	47	83	37	(43)	27
Bankwest	43	6	(16)	large	large
IFS and Other	51	28	27	82	89
<b>Loan impairment expense - "cash basis"</b>	<b>599</b>	<b>692</b>	<b>564</b>	<b>(13)</b>	<b>6</b>

(1) Comparative information has been restated to conform to presentation in the current period.

### December 2016 versus December 2015

Loan impairment expense increased 6% on the prior comparative period to \$599 million. The increase was driven by:

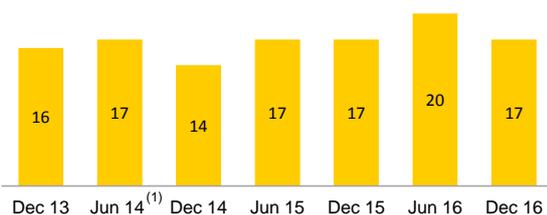
- An increase in Retail Banking Services as a result of higher home loan and personal loan losses, predominantly in Western Australia;
- Lower home loan provision releases and higher growth in New Zealand lending portfolios;
- An increase in Bankwest due to slower run-off of the troublesome book, reduced write-backs and higher home loan losses, predominantly in Western Australia; and

- An increase in IFS as a result of losses in the PT Bank Commonwealth (PTBC) commercial lending portfolio; partly offset by
- Lower individual provisions in Business and Private Banking; and
- A reduction in Institutional Banking and Markets due to lower collective provisions and a higher level of write-backs.

# Group Performance Analysis

## Loan Impairment Expense (continued)

### Half Year Loan Impairment Expense (Annualised) as a % of Average Gross Loans and Acceptances (bpts)



(1) 16 basis points, including the Bell group write-back (non-cash item).

### December 2016 versus June 2016

Loan impairment expense decreased 13% on the prior half mainly driven by:

- Seasonally lower arrears in Retail Banking Services;
- Reduced individual provisions and a lower collective provision charge in Business and Private Banking;
- Fewer large individual provisions in Institutional Banking and Markets; and
- Lower provisioning in the New Zealand dairy sector and a seasonal decrease in unsecured retail provisioning; partly offset by
- Lower collective provision releases in the Bankwest business portfolio; and
- An increase in IFS as a result of losses in the PTBC commercial lending portfolio.

## Taxation Expense

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Corporate tax expense (\$M)	1,950	1,765	1,827	10	7
Effective tax rate - "cash basis" (%)	28.4	27.5	27.5	90 bpts	90 bpts

(1) Comparative information has been restated to conform to presentation in the current period.

### December 2016 versus December 2015

Corporate tax expense for the half year ended 31 December 2016 increased 7% on the prior comparative period representing a 28.4% effective tax rate. This increase is primarily as a result of lower tax benefits from offshore businesses.

The effective tax rate is below the Australian company tax rate of 30% primarily as a result of the profit earned by the offshore banking unit and offshore jurisdictions that have lower corporate tax rates.

### December 2016 versus June 2016

Corporate tax expense for the half year ended 31 December 2016 increased 10% on the prior half.

## Non-Cash Items Included in Statutory Profit

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
<b>Hedging and IFRS volatility</b>	8	(49)	(150)	large	large
Bankwest non-cash items	(1)	(1)	(26)	-	(96)
Treasury shares valuation adjustment	(19)	13	(9)	large	large
<b>Other non-cash items</b>	<b>(20)</b>	12	(35)	large	(43)
<b>Total non-cash items (after tax)</b>	<b>(12)</b>	(37)	(185)	(68)	(94)

(1) Comparative information has been restated to conform to presentation in the current period.

Non-cash items are excluded from net profit after tax ("cash basis"), which is management's preferred measure of the Group's financial performance, as they tend to be non-recurring in nature or are not considered representative of the Group's ongoing financial performance. The impact of these items on the Group's net profit after tax ("statutory basis") is outlined below and is treated consistently with prior comparative period and prior half disclosures. Refer to Appendix 12 for the detailed profit reconciliation.

### Hedging and IFRS volatility

Hedging and IFRS volatility includes unrealised fair value gains or losses on economic hedges that do not qualify for hedge accounting under IFRS, including:

- Cross currency interest rate swaps hedging foreign currency denominated debt issues; and
- Foreign exchange hedges relating to future New Zealand earnings.

Hedging and IFRS volatility also includes unrealised fair value gains or losses on the ineffective portion of economic hedges that qualify for hedge accounting under IFRS.

Fair value gains or losses on all of these economic hedges are excluded from cash profit, since the asymmetric recognition of the gains or losses does not affect the Group's performance over the life of the hedge. An \$8 million after tax gain was recognised in statutory profit for the half year ended 31 December 2016 (30 June 2016: \$49 million after tax loss; 31 December 2015: \$150 million after tax loss).

### Bankwest non-cash items

The acquisition of Bankwest resulted in the recognition of assets at fair value, representing certain financial instruments, core deposits, customer lists and brand name totalling \$463 million. The core deposits and customer lists have been amortising over their useful life, resulting in amortisation charges of \$1 million after tax in the half year ended 31 December 2016 (30 June 2016: \$1 million; 31 December 2015: \$26 million). As at 31 December 2015 the core deposits have been fully amortised.

These items were not recognised in cash profit as they were not representative of the Group's expected ongoing financial performance.

### Treasury shares valuation adjustment

Under IFRS, Commonwealth Bank of Australia shares held by the Group in the managed funds and life insurance businesses are defined as treasury shares and are held at cost. Distributions, and realised and unrealised gains and losses were recognised in cash profit representing the underlying performance of the asset portfolio attributable to the wealth and life insurance businesses. These distributions, gains and losses are reversed as non-cash items for statutory reporting purposes. A \$19 million after tax loss was included in statutory profit in the half year ended 31 December 2016 (30 June 2016: \$13 million after tax gain; 31 December 2015: \$9 million after tax loss).

### Policyholder tax

Policyholder tax is included in the Wealth Management and New Zealand business results for statutory reporting purposes. In the half year ended 31 December 2016, a tax benefit of \$24 million (30 June 2016: \$92 million expense; 31 December 2015: \$9 million expense), increased funds management income of \$17 million (30 June 2016: \$3 million increase; 31 December 2015: \$11 million decrease) and a decrease in insurance income of \$41 million (30 June 2016: \$89 million increase; 31 December 2015: \$20 million increase) were recognised. The gross up of these items is excluded from cash profit, as they do not reflect the underlying performance of the business, which is measured on a net of policyholder tax basis.

### Investment experience

Investment experience primarily includes the returns on shareholder capital invested in the wealth management and insurance businesses, as well as the volatility generated through the annuity portfolio held by the Group's Wealth Management division. This item is classified separately within cash profit.

# Group Performance Analysis

## Review of Group Assets and Liabilities

	As at				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
<b>Total Group Assets and Liabilities</b>					
<b>Interest earning assets</b>					
Home loans <sup>(1)</sup>	472,532	456,074	437,176	4	8
Consumer finance	23,895	23,862	24,012	-	-
Business and corporate loans	221,707	220,611	213,278	-	4
<b>Loans, bills discounted and other receivables <sup>(2)</sup></b>	<b>718,134</b>	<b>700,547</b>	<b>674,466</b>	<b>3</b>	<b>6</b>
Non-lending interest earning assets	159,767	137,838	138,499	16	15
<b>Total interest earning assets</b>	<b>877,901</b>	<b>838,385</b>	<b>812,965</b>	<b>5</b>	<b>8</b>
Other assets <sup>(2) (3)</sup>	93,818	94,616	90,026	(1)	4
<b>Total assets</b>	<b>971,719</b>	<b>933,001</b>	<b>902,991</b>	<b>4</b>	<b>8</b>
<b>Interest bearing liabilities</b>					
Transaction deposits <sup>(4) (5)</sup>	93,641	89,780	97,327	4	(4)
Savings deposits <sup>(4)</sup>	191,406	191,313	189,560	-	1
Investment deposits	211,711	197,085	195,814	7	8
Other demand deposits	67,652	71,293	60,861	(5)	11
<b>Total interest bearing deposits</b>	<b>564,410</b>	<b>549,471</b>	<b>543,562</b>	<b>3</b>	<b>4</b>
Debt issues	177,023	162,716	162,438	9	9
Other interest bearing liabilities	58,888	54,101	58,147	9	1
<b>Total interest bearing liabilities</b>	<b>800,321</b>	<b>766,288</b>	<b>764,147</b>	<b>4</b>	<b>5</b>
Non-interest bearing transaction deposits	39,786	37,000	15,652	8	large
Other non-interest bearing liabilities <sup>(3) (5)</sup>	69,800	69,149	63,528	1	10
<b>Total liabilities</b>	<b>909,907</b>	<b>872,437</b>	<b>843,327</b>	<b>4</b>	<b>8</b>

(1) Gross of mortgage offset balances.

(2) Loans, bills discounted and other receivables exclude provisions for impairment which are included in Other assets.

(3) Comparative information has been restated to conform to presentation in the current period.

(4) Includes mortgage offset balances.

(5) During the prior half, following a change in terms, Interest bearing transaction deposits of \$18,314 million became Non-interest bearing and have been disclosed accordingly.

### December 2016 versus December 2015

Asset growth of \$69 billion or 8% on the prior comparative period was driven by increased home lending, business and corporate lending, and higher liquid asset balances.

The Group continued to satisfy a significant portion of lending growth from customer deposits. Customer deposits represent 66% of total funding (31 December 2015: 66%).

Total assets and liabilities include a 1% decrease due to the higher Australian dollar.

#### Home loans

Home loan balances increased \$35 billion to \$473 billion, reflecting an 8% increase on the prior comparative period, driven by growth in Retail Banking Services, New Zealand and Bankwest.

#### Business and corporate loans

Business and corporate loans increased \$8 billion to \$222 billion, a 4% increase on the prior comparative period. This was driven by strong growth in business lending in Business and Private Banking and New Zealand.

#### Non-lending interest earning assets

Non-lending interest earning assets increased \$21 billion to \$160 billion, reflecting a 15% increase on the prior comparative period. This includes a 3% decrease due to currency movements. The increase was driven by higher liquid asset balances held as a result of Balance Sheet growth and a reduction in Committed Liquidity Facility (CLF) effective 1 January 2017.

#### Other assets

Other assets, including derivative assets, insurance assets and intangibles, increased \$4 billion to \$94 billion, a 4% increase on the prior comparative period, reflecting higher settlement account balances and higher derivative balances.

### Interest bearing deposits

Interest bearing deposits increased \$21 billion to \$564 billion, a 4% increase on the prior comparative period, driven by strong growth of \$16 billion in investment deposits and a \$7 billion increase in other demand deposits, partly offset by \$18 billion of interest bearing transaction deposits becoming non-interest bearing following a change in terms.

#### Debt issues

Debt issues increased \$15 billion to \$177 billion, a 9% increase on the prior comparative period. While deposits satisfied the majority of the Group's funding requirements, strong access was maintained to both domestic and international wholesale debt markets.

Refer to page 26 for further information on debt programs and issuance for the half year ended 31 December 2016.

#### Other interest bearing liabilities

Other interest bearing liabilities, including loan capital, liabilities at fair value through income statement and amounts due to other financial institutions, increased \$1 billion to \$59 billion, a 1% increase on the prior comparative period. This includes a 4% decrease due to currency movements.

#### Non-interest bearing transaction deposits

Non-interest bearing transaction deposits, including business and personal transaction accounts, increased \$24 billion to \$40 billion. This includes an \$18 billion increase following a change in terms in the prior half, with underlying growth remaining strong.

#### Other non-interest bearing liabilities

Other non-interest bearing liabilities, including derivative liabilities and insurance policy liabilities, increased \$6 billion to \$70 billion, a 10% increase on the prior comparative period, reflecting higher settlement account balances and higher derivative liability balances.

## Review of Group Assets and Liabilities (continued)

### December 2016 versus June 2016

Asset growth of \$39 billion or 4% on the prior half was driven by increased home lending and higher liquid asset balances.

Continued deposit growth allowed the Group to continue to satisfy a significant portion of its funding requirements through customer deposits. Customer deposits made up 66% of total funding (30 June 2016: 66%).

#### Home loans

Home loan balances increased \$16 billion, a 4% increase on the prior half, reflecting growth in Retail Banking Services, New Zealand and Bankwest.

#### Business and corporate loans

Business and corporate loans increased \$1 billion on the prior half, reflecting growth in business lending in Business and Private Banking and New Zealand, partly offset by a reduction in institutional lending.

#### Non-lending interest earning assets

Non-lending interest earning assets increased \$22 billion, a 16% increase on the prior half. The increase was driven by higher liquid asset balances held as a result of Balance Sheet growth and a reduction in CLF effective 1 January 2017.

#### Other assets

Other assets, including derivative assets, insurance assets and intangibles decreased \$1 billion, a 1% decrease on the prior half, reflecting lower trading and derivative asset balances.

#### Interest bearing deposits

Interest bearing deposits increased \$15 billion, a 3% increase on the prior half, reflecting strong growth in transaction and investment deposits.

#### Debt issues

Debt issues increased \$14 billion, a 9% increase on the prior half.

Refer to page 26 for further information on debt programs and issuance for the half year ended 31 December 2016.

#### Other interest bearing liabilities

Other interest bearing liabilities, including loan capital, liabilities at fair value through income statement and amounts due to other financial institutions, increased \$5 billion, a 9% increase on the prior half.

#### Non-interest bearing transaction deposits

Non-interest bearing transaction deposits, including business and personal transaction accounts, increased \$3 billion, an 8% increase on the prior half, driven by growth in Retail Banking Services.

#### Other non-interest bearing liabilities

Other non-interest bearing liabilities, including derivative liabilities and insurance policy liabilities, increased \$1 billion, a 1% increase on the prior half.

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## **Contents**

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# Group Operations and Business Settings

## Loan Impairment Provisions and Credit Quality

### Provisions for Impairment

	As at				
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Provisions for impairment losses</b>					
Collective provision	2,807	2,818	2,801	-	-
Individually assessed provisions	1,017	944	909	8	12
<b>Total provisions for impairment losses</b>	<b>3,824</b>	<b>3,762</b>	<b>3,710</b>	<b>2</b>	<b>3</b>
Less: Provision for Off Balance Sheet exposures	(35)	(44)	(47)	(20)	(26)
<b>Total provisions for loan impairment</b>	<b>3,789</b>	<b>3,718</b>	<b>3,663</b>	<b>2</b>	<b>3</b>

#### December 2016 versus December 2015

Total provisions for impairment losses increased 3% on the prior comparative period to \$3,824 million as at 31 December 2016. The movement in the level of provisioning reflects:

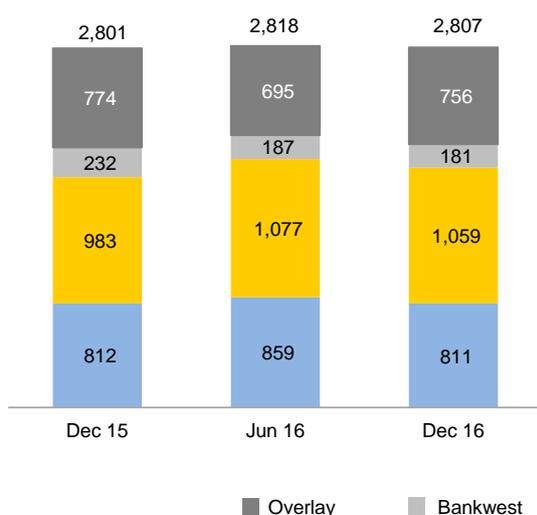
- An increase in consumer collective provisions from home loans and personal loans in Retail Banking Services;
- Higher consumer individually assessed provisions mainly due to home loan impairments in Western Australia; and
- An increase in commercial individually assessed provisions from Institutional Banking and Markets and International Financial Services (IFS); partly offset by
- Lower collective provisions in Bankwest due to model factor updates and troublesome book run-off; and
- Reduced management overlays, mainly due to model factor updates. Economic overlays remained unchanged on the prior year.

#### December 2016 versus June 2016

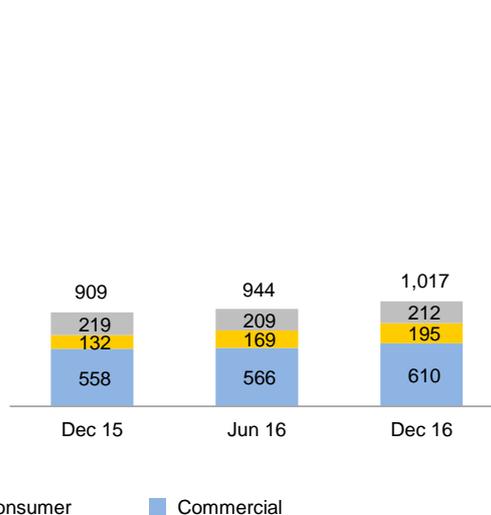
Total provisions for impairment losses increased 2% on the prior half. The movement in the level of provisioning reflects:

- An increase in management overlays predominantly reflecting potential home loan losses in mining towns and Western Australia. Economic overlays remain unchanged;
- Higher commercial individually assessed provisions in Institutional Banking and Markets and IFS; and
- An increase in consumer individually assessed provisions primarily due to home loan impairments in Western Australia; partly offset by
- A reduction in commercial collective provisions, mainly due to model factor updates; and
- Reduced consumer collective provisions, predominantly from lower personal loan arrears in Retail Banking Services.

Collective Provisions (\$M)



Individually Assessed Provisions (\$M)



# Group Operations and Business Settings

## Loan Impairment Provisions and Credit Quality (continued)

### Credit Quality

Credit Quality Metrics	Half Year Ended				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Gross loans and acceptances (GLAA) (\$M)	719,250	701,730	675,728	2	6
Risk weighted assets (RWA) (\$M) - Basel III	436,481	394,667	392,662	11	11
Credit RWA (\$M) - Basel III	373,526	344,030	334,957	9	12
Gross impaired assets (\$M)	3,375	3,116	2,788	8	21
Net impaired assets (\$M)	2,193	1,989	1,756	10	25
<b>Provision Ratios</b>					
Collective provision as a % of credit RWA - Basel III	0.75	0.82	0.84	(7)bpts	(9)bpts
Total provisions as a % of credit RWA - Basel III	1.02	1.09	1.11	(7)bpts	(9)bpts
Total provisions for impaired assets as a % of gross impaired assets	35.02	36.17	37.02	(115)bpts	(200)bpts
Total provisions for impairment losses as a % of GLAAs	0.53	0.54	0.55	(1)bpt	(2)bpts
<b>Asset Quality Ratios</b>					
Gross impaired assets as a % of GLAAs	0.47	0.44	0.41	3 bpts	6 bpts
Loans 90+ days past due but not impaired as a % of GLAAs	0.33	0.33	0.30	-	3 bpts
Loan impairment expense ("cash basis") annualised as a % of average GLAAs	0.17	0.20	0.17	(3)bpts	-

### Provision Ratios

Provision coverage ratios remain prudent. The impaired asset portfolio remains well provisioned with provision coverage of 35.02%.

### Asset Quality

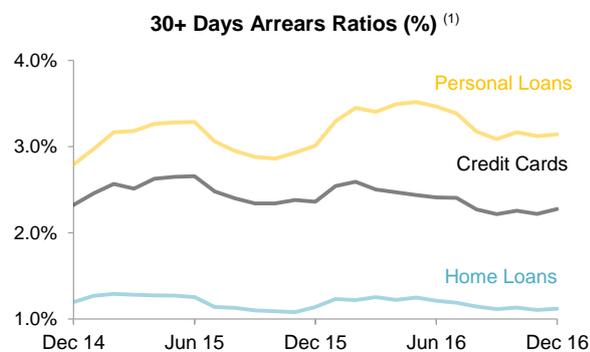
Gross impaired assets have increased over the half while commercial troublesome assets have decreased.

The arrears for the home loan and credit card portfolios are relatively low, however personal loan arrears continue to be elevated driven primarily by Western Australia and Queensland.

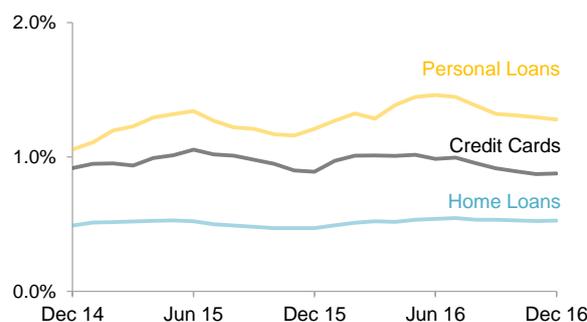
### Retail Portfolios – Arrears Rates

Retail arrears across all products reduced during the current half reflecting seasonal trends.

Home loan arrears reduced over the prior half, with 30+ days arrears decreasing from 1.21% to 1.12%, and 90+ days arrears reducing from 0.54% to 0.53%. Unsecured retail arrears improved over the half with credit card 30+ days arrears falling from 2.41% to 2.28%, and 90+ days arrears reducing from 0.99% to 0.88%. Personal loan arrears also improved with 30+ days arrears falling from 3.46% to 3.14% and 90+ days arrears falling from 1.46% to 1.28%.



### 90+ Days Arrears Ratios (%) <sup>(1)</sup>

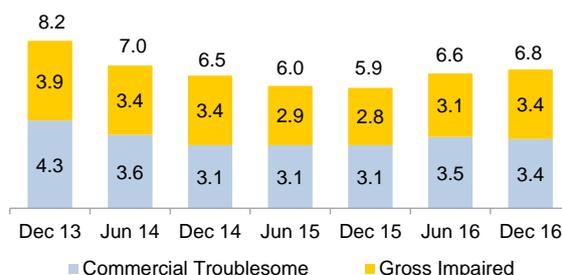


### Troublesome and Impaired Assets

Commercial troublesome assets decreased 2% during the half to \$3,420 million.

Gross impaired assets increased 8% on the prior half to \$3,375 million. Gross impaired assets as a proportion of GLAAs of 0.47% was up on the prior half.

### Troublesome and Impaired Assets (\$B)



(1) Includes retail portfolios of Retail Banking Services, Bankwest and New Zealand.

# Group Operations and Business Settings

## Capital

### Basel Regulatory Framework

#### Background

The Basel Committee on Banking Supervision (BCBS) has implemented a set of capital, liquidity and funding reforms known as “Basel III”. The objectives of the reforms are to increase the quality, consistency and transparency of capital, to enhance the risk coverage framework, and to reduce systemic and pro-cyclical risk. The major reforms are being implemented on a phased approach to 1 January 2019.

The capital reforms were implemented in Australia from 1 January 2013. APRA has adopted a more conservative approach than the minimum standards published by the BCBS and also adopted an accelerated timetable for implementation.

The APRA prudential standards require a minimum CET1 ratio of 4.5% effective from 1 January 2013. An additional CET1 capital conservation buffer of 3.5%, inclusive of a Domestic Systemically Important Bank (DSIB) requirement of 1% and a countercyclical capital buffer (CCyB)<sup>(1)</sup> of 0%, was effective from 1 January 2016, bringing the CET1 requirement to at least 8%.

#### Financial System Inquiry

In December 2014, the Government released the final report of the Financial System Inquiry (FSI).

In July 2015, in connection with the FSI recommendations, APRA released the following:

- Information paper: “International capital comparison study” (APRA study), which endorsed the FSI recommendation that the capital of Australian ADIs should be unquestionably strong; and
- An announcement in relation to increases in the capital requirements under the IRB approach for Australian residential mortgages, effective from 1 July 2016, with the change aimed at increasing mortgage competition between the major banks and non-major banks.

In August 2016, APRA reaffirmed its aim to increase the average risk weight on Australian mortgages across all IRB banks to an average of at least 25%. APRA has advised that both recalibration and modelling changes are likely to lead to some volatility in mortgage risk weights as these changes are finalised.

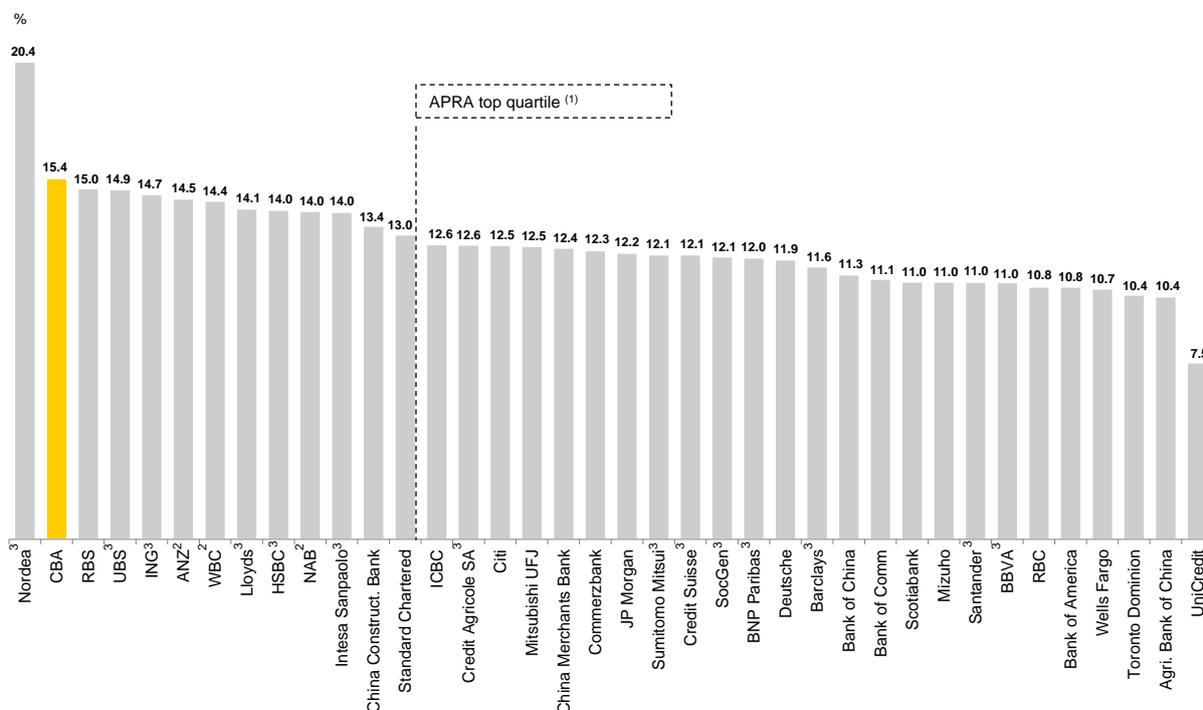
APRA is expected to consult further with the industry on the FSI recommendations during 2017.

#### Internationally Comparable Capital Position

The Group’s CET1 as measured on an internationally comparable basis was 15.4% as at 31 December 2016, placing it amongst the top quartile of international peer banks.

(1) In January 2017, APRA announced that the CCyB for Australian exposures will remain at 0%. The Group has limited exposures to those offshore jurisdictions in which a CCyB in excess of 0% has been imposed.

International Peer Basel III CET1



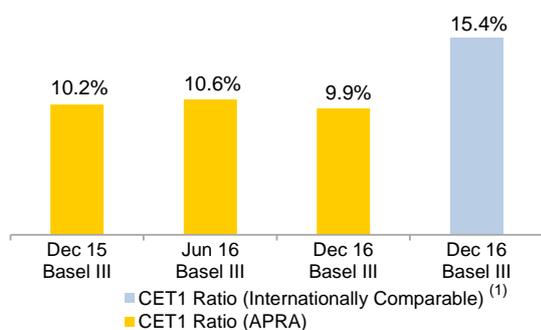
Source: Morgan Stanley and CBA. Based on last reported CET1 ratios up to 9 February 2017 assuming Basel III capital reforms fully implemented. Peer group comprises listed commercial banks with total assets in excess of \$750 billion and which have disclosed fully implemented Basel III ratios or provided sufficient disclosure for a Morgan Stanley estimate.

(1) APRA Insight Issue Two “International capital comparison update” (4 July 2016).  
 (2) Domestic peer figures as at 30 September 2016.  
 (3) Deduction for accrued expected future dividends added back for comparability.

## Capital (continued)

### Capital Position

The Group's CET1 ratio as measured on an APRA basis was 9.9% at 31 December 2016, compared with 10.6% at 30 June 2016 and 10.2% at 31 December 2015. The capital ratios were maintained well in excess of regulatory minimum capital adequacy requirements at all times throughout the half year ended 31 December 2016.



(1) Analysis aligns with the 13 July 2015 APRA study titled "International capital comparison study".

The Group's CET1 (APRA) ratio decreased 70 basis points for the half year ended 31 December 2016. After allowing for the implementation of the APRA requirement to hold additional capital of 80 basis points with respect to Australian residential mortgages, effective from 1 July 2016, the underlying increase in the Group's CET1 (APRA) ratio was 10 basis points on the prior half. This primarily reflected the impact of the capital generated from earnings, partly offset by the June 2016 final dividend (net of issuance of shares through the Dividend Reinvestment Plan (DRP)) and an increase in Risk Weighted Assets (RWA).

APRA re-accredited the use of the AIRB approach for the Bankwest non-retail portfolio, effective from 30 September 2016. This change had minimal impact on the Group's capital.

### Capital Initiatives

The following CET1 capital initiatives were undertaken during the half year ended 31 December 2016:

- The DRP in respect of the 2016 final dividend was satisfied by the issuance of \$586 million of ordinary shares, representing a participation rate of 15.4%.

Further details of the Group's current regulatory capital position are included in Appendix 8.

### Pillar 3 Disclosures

Details on the market disclosures required under Pillar 3, per prudential standard APS 330 "Public Disclosure", are provided on the Group's website at:

[www.commbank.com.au/about-us/shareholders](http://www.commbank.com.au/about-us/shareholders).

### Other Regulatory Changes

#### Basel Committee on Banking Supervision

The BCBS has issued a number of consultation documents associated with:

- Design of a framework for the application of capital floors based on standardised approaches;
- Revisions to the standardised approach for credit risk;
- Implementation of constraints on the use of internal credit risk models; and
- Revisions to operational risk.

In addition, the BCBS completed a review of the trading book requirements in January 2016 with an effective implementation date of 1 January 2019. The review of Interest Rate Risk in the Banking Book (IRRBB) was completed in April 2016, with the BCBS concluding that there will be no requirement to include this risk in the regulatory capital calculation. However, additional disclosure requirements will be implemented from 1 January 2018.

APRA is expected to consult on the domestic application of all of the above changes following finalisation by the BCBS.

#### Composition of Level 2 ADI Groups

In May 2014, APRA provided more clarity on the definition of the Level 2 Banking Group. Subsidiary intermediate holding companies are considered part of the Level 2 Group, regardless of the nature of any activity undertaken by their operating subsidiaries. As a result, capital benefits arising from the debt issued by the Colonial Group are being phased out. APRA granted transition arrangements on these changes, in line with the maturity profile of the debt.

From 31 December 2016, a number of intermediate holding companies within the Colonial Group are now consolidated into the Level 2 Banking Group. This change had minimal impact on the Group's capital.

#### Conglomerate Groups

APRA is extending its prudential supervision framework to Conglomerate Groups that have material operations in more than one APRA regulated industry and/or have one or more material unregulated entities. In March 2016, APRA advised that it was deferring finalisation of the capital requirements with respect to conglomerates until after the completion of other domestic and international policy initiatives. APRA does not anticipate that consultation on the capital requirements will commence earlier than mid-2017. Non-capital related requirements, which include such items as governance, risk exposures and intra group exposures, will become effective on 1 July 2017.

# Group Operations and Business Settings

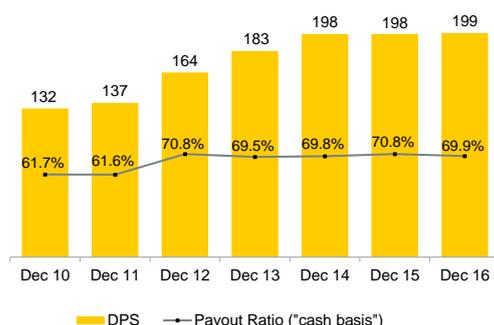
## Dividends

### Interim Dividend for the Half Year Ended 31 December 2016

An interim dividend of \$1.99 per share has been declared, an increase of 1 cent on the prior comparative period. The dividend payout ratio ("cash basis") for the half year to 31 December 2016 was 69.9%.

The interim dividend will be fully franked and will be paid on 4 April 2017 to owners of ordinary shares at the close of business on 23 February 2017 (record date). Shares will be quoted ex-dividend on 22 February 2017.

#### Interim Dividend History (cents per share)



### Dividend Reinvestment Plan (DRP)

The DRP will continue to be offered to shareholders, but no discount will be applied to shares allocated under the plan for the interim dividend.

### Dividend Policy

The Group will seek to:

- Pay cash dividends at strong and sustainable levels;
- Target a full-year payout ratio of 70% to 80%; and
- Maximise the use of its franking account by paying fully franked dividends.

## Leverage Ratio

Summary Group Leverage Ratio	As at				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
Tier 1 Capital (\$M)	50,218	48,553	47,972	3	5
Total Exposures (\$M) <sup>(1)</sup>	1,018,931	980,846	952,969	4	7
<b>Leverage Ratio (APRA) (%)</b>	<b>4.9</b>	5.0	5.0	(10)bpts	(10)bpts
<b>Leverage Ratio (Internationally Comparable) (%) <sup>(2)</sup></b>	<b>5.5</b>	5.6	5.6	(10)bpts	(10)bpts

(1) Total exposures is the sum of on Balance Sheet exposures, derivatives, Securities Financing Transactions (SFTs), and off Balance Sheet exposures, net of any Tier 1 regulatory deductions, as outlined in APS 110 "Capital Adequacy".

(2) The Tier 1 Capital included in the calculation of the internationally comparable leverage ratio aligns with the 13 July 2015 APRA study titled "International capital comparison study", and includes Basel III non-compliant Tier 1 instruments that are currently subject to transitional rules.

The Group's leverage ratio, defined as Tier 1 Capital as a percentage of total exposures, was 4.9% at 31 December 2016 on an APRA basis and 5.5% on an internationally comparable basis.

There was a small decline in the ratio across the December 2016 half year with growth in exposures partly offset by an increase in capital levels.

The BCBS has advised that the leverage ratio will migrate to a Pillar 1 minimum capital requirement of 3% from 1 January 2018. The BCBS will confirm the final calibration in 2017.

# Group Operations and Business Settings

## Liquidity

Level 2	As at				
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Liquidity Coverage Ratio (LCR) Liquid Assets</b>					
High Quality Liquid Assets (HQLA) <sup>(1)</sup>	96,244	75,147	73,657	28	31
Committed Liquidity Facility (CLF)	58,500	58,500	66,000	-	(11)
<b>Total LCR liquid assets</b>	<b>154,744</b>	<b>133,647</b>	<b>139,657</b>	<b>16</b>	<b>11</b>
<b>Net Cash Outflows (NCO)</b>					
Customer deposits	71,418	70,139	67,137	2	6
Wholesale funding <sup>(2)</sup>	24,705	19,406	25,316	27	(2)
Other net cash outflows <sup>(3)</sup>	18,693	21,854	20,754	(14)	(10)
<b>Total NCO</b>	<b>114,816</b>	<b>111,399</b>	<b>113,207</b>	<b>3</b>	<b>1</b>
<b>Liquidity Coverage Ratio (%)</b>	<b>135</b>	<b>120</b>	<b>123</b>	<b>large</b>	<b>large</b>
<b>LCR surplus</b>	<b>39,928</b>	<b>22,248</b>	<b>26,450</b>	<b>79</b>	<b>51</b>

(1) Includes all repo-eligible securities with the Reserve Bank of New Zealand. The Exchange Settlement Account (ESA) cash balance is netted down by the Reserve Bank of Australia open-repo of internal Residential Mortgage-Backed Securities (RMBS).

(2) Includes all interbank deposits that are included as short-term wholesale funding on page 85.

(3) Includes cash inflows.

### December 2016 versus December 2015

The Group holds high quality, well diversified liquid assets to meet Balance Sheet liquidity needs and internal and external regulatory requirements, such as APRA's Liquidity Coverage Ratio (LCR). At 31 December 2016, the Group's LCR was 135%, up from 123% on the prior comparative period.

High Quality Liquid Assets (HQLA) in the form of cash, deposits with central banks, Australian Commonwealth Government and Semi-Government securities increased \$23 billion to \$96 billion, as the group managed its liquidity position ahead of a reduction of \$10 billion in the RBA's Committed Liquidity Facility (CLF) effective 1 January 2017.

Liquid assets surplus to regulatory requirements increased to \$40 billion, with total liquid assets as at 31 December 2016 of \$155 billion, including the CLF.

Projected Net Cash Outflows (NCOs) increased \$2 billion on the prior comparative period to \$115 billion. Projected customer deposit cash outflows increased \$4 billion to \$71 billion reflecting the increase in customer deposit balances.

### December 2016 versus June 2016

At 31 December 2016, the Group's LCR was 135%, up from 120% on the prior half. LCR liquid assets of \$155 billion increased \$21 billion on the prior half, primarily due to an increase in projected net cash outflows in anticipation of a decrease in the CLF of \$10 billion on 1 January 2017.

Projected NCOs increased \$3 billion on the prior half, primarily due to an increase in wholesale funding maturing in the next 30 days. This includes elevated covered bond maturities on the five year anniversary of the program establishment.

### Pillar 3 Disclosures

Details on the market disclosures required under Pillar 3, per prudential standard APS 330 "Public Disclosure", are provided on the Group's website at: [www.commbank.com.au/about-us/shareholders](http://www.commbank.com.au/about-us/shareholders).

# Group Operations and Business Settings

## Funding

	As at				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Group Funding</b> <sup>(1)</sup>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>		
Customer deposits	541,351	517,974	500,356	5	8
Short-term wholesale funding <sup>(2)</sup>	116,186	110,714	108,783	5	7
Long-term wholesale funding - less than or equal to one year residual maturity	29,780	29,297	28,075	2	6
Long-term wholesale funding - more than one year residual maturity <sup>(3)</sup>	126,062	118,121	113,332	7	11
IFRS MTM and derivative FX revaluations	1,489	4,149	2,488	(64)	(40)
<b>Total wholesale funding</b>	<b>273,517</b>	<b>262,281</b>	<b>252,678</b>	<b>4</b>	<b>8</b>
Short-term collateral deposits <sup>(4)</sup>	9,813	8,323	9,942	18	(1)
<b>Total funding</b>	<b>824,681</b>	<b>788,578</b>	<b>762,976</b>	<b>5</b>	<b>8</b>

(1) Shareholders' Equity is excluded from this view of funding sources, other than the USD Trust Preferred Securities (redeemed March 2016), which are classified as other equity instruments in the statutory Balance Sheet.

(2) Short-term wholesale funding includes debt with an original maturity or call date of less than or equal to 12 months, and consists of certificates of deposit and bank acceptances, debt issued under the EMTN program and the domestic, Euro and US commercial paper programs of Commonwealth Bank of Australia and ASB. Short-term wholesale funding also includes deposits from banks and central banks as well as net repurchase agreements.

(3) Long-term wholesale funding includes debt with an original maturity or call date of greater than 12 months.

(4) Short-term collateral deposits includes net collateral received and the amount of internal RMBS pledged with the Reserve Bank to facilitate intra-day cash flows in the Exchange Settlement Account.

### December 2016 versus December 2015

#### Customer Deposits

Customer deposits accounted for 66% of total funding at 31 December 2016, in line with the prior comparative period. Strong deposit growth has seen the Group satisfy a significant proportion of its funding requirements from retail, business and institutional customer deposits.

#### Short-Term Wholesale Funding

Short-term wholesale funding accounted for 42% of total wholesale funding at 31 December 2016, a decrease of 1% on the prior comparative period. Short-term wholesale funding increased 7%, partly driven by funding of higher High Quality Liquid Assets (HQLA). Within short-term funding, US commercial paper outstanding fell due to regulatory changes for US investors, while non-US issuance increased due to higher investor appetite.

#### Long-Term Wholesale Funding

Long-term wholesale funding (including an adjustment for IFRS MTM and derivative FX revaluations) accounted for 58% of total wholesale funding at 31 December 2016, an increase of 1% on the prior comparative period.

During the period, the Group raised \$43 billion of long-term wholesale funding in multiple currencies including AUD, USD, EUR, and GBP. The cost of new long-term wholesale funding decreased compared to the prior comparative period.

Most issuance was in senior unsecured format, although the Group used its covered bond and RMBS programs to provide cost, tenor and diversification benefits. The Group also issued Basel III compliant Tier 2 capital deals in the Australian, Japanese and US markets.

The Weighted Average Maturity (WAM) of new long-term wholesale debt issued in the year to December 2016 was 5.4 years. The WAM of outstanding long-term wholesale debt with a residual maturity greater than 12 months was 4.2 years at 31 December 2016.

#### Short-Term Collateral Deposits

Net collateral received remained flat on the prior comparative period.

### December 2016 versus June 2016

#### Customer Deposits

Customer deposits accounted for 66% of total funding at 31 December 2016, in line with the prior half. Strong deposit growth has seen the Group satisfy a significant proportion of its funding requirements from retail, business and institutional customer deposits.

#### Short-Term Wholesale Funding

Short-term wholesale funding accounted for 42% of total wholesale funding at 31 December 2016, in line with the prior half. Short-term wholesale funding increased 5%, partly driven by funding of higher HQLA. Within short-term funding, US commercial paper increased once investors became comfortable with regulatory changes, and non-US issuance increased due to higher investor appetite.

#### Long-Term Wholesale Funding

Long-term wholesale funding (including an adjustment for IFRS MTM and derivative FX revaluations) accounted for 58% of total wholesale funding at 31 December 2016, in line with the prior half.

During the half, the Group raised \$22 billion of long-term wholesale funding. The cost of new long-term funding improved marginally on the prior half as markets shrugged off any potential negative sentiment associated with the US Presidential election result, a 25 basis points Federal Reserve rate rise, higher global bond yields, and Brexit.

The WAM of new long-term wholesale debt issued in the six months to December 2016 was 5.7 years.

#### Short-Term Collateral Deposits

Net collateral received increased \$1 billion, largely due to the impact of the lower Australian dollar.

For further information on Funding risk, please refer to Appendix 6.

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# Retail Banking Services

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
Net interest income	4,584	4,417	4,300	4	7
Other banking income	1,006	853	941	18	7
<b>Total banking income</b>	<b>5,590</b>	<b>5,270</b>	<b>5,241</b>	<b>6</b>	<b>7</b>
Operating expenses	(1,722)	(1,679)	(1,694)	3	2
Loan impairment expense	(350)	(357)	(306)	(2)	14
Net profit before tax	3,518	3,234	3,241	9	9
Corporate tax expense	(1,052)	(966)	(969)	9	9
<b>Cash net profit after tax</b>	<b>2,466</b>	<b>2,268</b>	<b>2,272</b>	<b>9</b>	<b>9</b>
<b>Income analysis</b>					
<b>Net interest income</b>					
Home loans	2,147	1,947	2,002	10	7
Consumer finance <sup>(2)</sup>	1,004	1,024	1,007	(2)	-
Retail deposits	1,399	1,411	1,248	(1)	12
Other <sup>(3)</sup>	34	35	43	(3)	(21)
<b>Total net interest income</b>	<b>4,584</b>	<b>4,417</b>	<b>4,300</b>	<b>4</b>	<b>7</b>
<b>Other banking income</b>					
Home loans	110	106	115	4	(4)
Consumer finance <sup>(2)</sup>	310	225	282	38	10
Retail deposits	287	251	260	14	10
Distribution <sup>(4)</sup>	227	202	220	12	3
Other <sup>(3)</sup>	72	69	64	4	13
<b>Total other banking income</b>	<b>1,006</b>	<b>853</b>	<b>941</b>	<b>18</b>	<b>7</b>
<b>Total banking income</b>	<b>5,590</b>	<b>5,270</b>	<b>5,241</b>	<b>6</b>	<b>7</b>

	As at <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
<b>Balance Sheet</b>					
Home loans <sup>(5)</sup>	325,794	313,682	301,177	4	8
Consumer finance <sup>(2)</sup>	17,229	17,228	17,316	-	(1)
Other interest earning assets	3,042	2,870	2,891	6	5
<b>Total interest earning assets</b>	<b>346,065</b>	<b>333,780</b>	<b>321,384</b>	<b>4</b>	<b>8</b>
Other assets	1,406	852	788	65	78
<b>Total assets</b>	<b>347,471</b>	<b>334,632</b>	<b>322,172</b>	<b>4</b>	<b>8</b>
Transaction deposits <sup>(6) (7)</sup>	23,013	18,084	32,655	27	(30)
Savings deposits <sup>(6)</sup>	120,073	118,913	118,544	1	1
Investment deposits and other	76,676	73,111	74,038	5	4
<b>Total interest bearing deposits</b>	<b>219,762</b>	<b>210,108</b>	<b>225,237</b>	<b>5</b>	<b>(2)</b>
Non-interest bearing transaction deposits <sup>(7)</sup>	27,241	25,338	6,093	8	large
Other non-interest bearing liabilities	2,685	3,078	2,354	(13)	14
<b>Total liabilities</b>	<b>249,688</b>	<b>238,524</b>	<b>233,684</b>	<b>5</b>	<b>7</b>

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
				Jun 16 %	Dec 15 %
<b>Key Financial Metrics</b>					
<b>Performance indicators</b>					
Return on assets (%)	1.4	1.4	1.4	-	-
Impairment expense annualised as a % of average GLAAs (%)	0.20	0.22	0.19	(2)bpts	1 bpt
Operating expenses to total banking income (%)	30.8	31.9	32.3	(110)bpts	(150)bpts
<b>Other asset/liability information</b>					
Average interest earning assets (\$M) <sup>(8)</sup>	313,679	303,842	297,820	3	5
Average interest bearing liabilities (\$M) <sup>(8)</sup>	189,004	191,516	201,967	(1)	(6)

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Consumer finance includes personal loans and credit cards.

(3) Other includes asset finance, merchants and business lending.

(4) Distribution includes income associated with the sale of foreign exchange products, and commissions received from the distribution of wealth management products through the retail network.

(5) Gross of mortgage offset balances.

(6) Includes mortgage offset balances.

(7) During the prior half, following a change in terms, Interest bearing transaction deposits of \$17,353 million became Non-interest bearing and have been disclosed accordingly.

(8) Net of average mortgage offset balances.

## Financial Performance and Business Review

### December 2016 versus December 2015

Retail Banking Services cash net profit after tax for the half year ended 31 December 2016 was \$2,466 million, an increase of 9% on the prior comparative period. The result was driven by strong growth in total banking income, partly offset by higher expenses and increased loan impairment expense. As at December 2016, the Retail bank extended its lead in customer satisfaction over its peers<sup>(1)</sup>.

#### Net Interest Income

Net interest income was \$4,584 million, an increase of 7% on the prior comparative period. This reflected strong balance growth in home lending and deposits, and improved net interest margin.

Balance Sheet growth included:

- Home loan growth of 8%, reflecting above system growth; and
- Total deposit balance growth of 7%, resulting from solid growth in transaction and investment accounts; partly offset by
- Consumer finance decrease of 1%, broadly in line with system.

Net interest margin improved, reflecting:

- Higher home lending margin driven by pricing, partly offset by higher cash basis risk; and
- Increased deposit margins, in particular savings margins, partly offset by a reduction in the cash rate.

#### Other Banking Income

Other banking income was \$1,006 million, an increase of 7% on the prior comparative period, reflecting:

- Higher consumer finance income, driven by lower loyalty costs, higher purchases, and increased foreign exchange income; and
- An increase in deposit fee income from higher transaction volumes.

#### Operating Expenses

Operating expenses were \$1,722 million, an increase of 2% on the prior comparative period. The key drivers were higher staff costs, increased amortisation and ongoing investment in technology and digital capabilities, partly offset by the benefit of productivity savings.

The operating expense to total banking income ratio was 30.8%, a decrease of 150 basis points on the prior comparative period.

#### Loan Impairment Expense

Loan impairment expense was \$350 million, an increase of 14% on the prior comparative period. This result was driven by higher losses from home and personal loans, predominantly in Western Australia.

### December 2016 versus June 2016

Cash net profit after tax increased 9% on the prior half. The result was driven by strong revenue growth and lower loan impairment expense, partly offset by higher expenses.

#### Net Interest Income

Net interest income increased 4% on the prior half, reflecting solid balance growth in home lending and deposits, partly offset by lower net interest margin.

Balance Sheet growth included:

- Home loan growth of 4%, reflecting above system growth;
- Total deposit balance growth of 5%, driven by growth in transaction and investment accounts; and
- Flat consumer finance balances, broadly in line with system.

Net interest margin decreased, reflecting continued competition in deposits and the impact of a cash rate reduction on deposits.

#### Other Banking Income

Other banking income increased 18% on the prior half, reflecting:

- Higher consumer finance income, driven by lower loyalty costs, seasonally higher credit card purchases, and increased foreign exchange income;
- An increase in deposit fee income from higher transaction volumes; and
- Higher distribution income, driven by increased foreign exchange transactions.

#### Operating Expenses

Operating expenses increased 3% on the prior half, driven by higher staff costs and amortisation, and continued investment in technology and digital capabilities, partly offset by benefits from productivity initiatives.

The operating expense to total banking income ratio improved 110 basis points on the prior half.

#### Loan Impairment Expense

Loan impairment expense decreased 2% on the prior half. This was driven by seasonally lower arrears, partly offset by the deterioration in Western Australia home and personal loans arrears.

(1) Roy Morgan Research. Retail Main Financial Institution (MFI) Customer Satisfaction, Australians 14+, % "Very Satisfied" or "Fairly Satisfied" with relationship with that MFI. Six month rolling average to December 2016. Rank based on the major four Australian banks.

# Business and Private Banking

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Net interest income	1,513	1,496	1,505	1	1
Other banking income	458	425	414	8	11
<b>Total banking income</b>	<b>1,971</b>	<b>1,921</b>	<b>1,919</b>	<b>3</b>	<b>3</b>
Operating expenses	(775)	(746)	(742)	4	4
Loan impairment expense	(64)	(106)	(70)	(40)	(9)
Net profit before tax	1,132	1,069	1,107	6	2
Corporate tax expense	(341)	(321)	(333)	6	2
<b>Cash net profit after tax</b>	<b>791</b>	<b>748</b>	<b>774</b>	<b>6</b>	<b>2</b>

## Income analysis

<b>Net interest income</b>					
Corporate Financial Services	548	545	559	1	(2)
Regional and Agribusiness	282	272	274	4	3
Business Banking SME	452	450	448	-	1
Private Bank	153	154	150	(1)	2
CommSec	78	75	74	4	5
<b>Total net interest income</b>	<b>1,513</b>	<b>1,496</b>	<b>1,505</b>	<b>1</b>	<b>1</b>
<b>Other banking income</b>					
Corporate Financial Services	179	153	153	17	17
Regional and Agribusiness	50	47	44	6	14
Business Banking SME	91	87	85	5	7
Private Bank	33	30	30	10	10
CommSec	105	108	102	(3)	3
<b>Total other banking income</b>	<b>458</b>	<b>425</b>	<b>414</b>	<b>8</b>	<b>11</b>
<b>Total banking income</b>	<b>1,971</b>	<b>1,921</b>	<b>1,919</b>	<b>3</b>	<b>3</b>
<b>Income by product</b>					
Business products	1,158	1,115	1,128	4	3
Retail products	556	540	521	3	7
Equities and Margin Lending	155	166	163	(7)	(5)
Markets	69	68	70	1	(1)
Other	33	32	37	3	(11)
<b>Total banking income</b>	<b>1,971</b>	<b>1,921</b>	<b>1,919</b>	<b>3</b>	<b>3</b>

	As at <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
<b>Balance Sheet</b>					
Home loans <sup>(2)</sup>	32,661	31,987	30,748	2	6
Consumer finance	643	630	651	2	(1)
Business loans <sup>(3)</sup>	68,249	65,446	62,692	4	9
Margin loans	2,575	2,697	2,821	(5)	(9)
Total interest earning assets	104,128	100,760	96,912	3	7
Non-lending interest earning assets	290	238	346	22	(16)
Other assets <sup>(4)</sup>	136	454	318	(70)	(57)
<b>Total assets</b>	<b>104,554</b>	<b>101,452</b>	<b>97,576</b>	<b>3</b>	<b>7</b>
Transaction deposits <sup>(3) (5) (6)</sup>	12,714	12,024	11,721	6	8
Savings deposits <sup>(5)</sup>	32,409	30,812	29,657	5	9
Investment deposits and other	27,397	25,773	25,557	6	7
Total interest bearing deposits	72,520	68,609	66,935	6	8
Non-interest bearing transaction deposits <sup>(6)</sup>	7,300	6,738	5,378	8	36
Other non-interest bearing liabilities	552	834	645	(34)	(14)
<b>Total liabilities</b>	<b>80,372</b>	<b>76,181</b>	<b>72,958</b>	<b>6</b>	<b>10</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Gross of mortgage offset balances.

(3) Business loans include \$248 million of Cash Management Pooling Facilities (CMPF) (30 June 2016: \$281 million; 31 December 2015: \$288 million). Transaction Deposits include \$808 million of CMPF liabilities (30 June 2016: \$778 million; 31 December 2015: \$678 million). These balances are required to be grossed up under accounting standards, but are netted for the calculation of customer interest and risk weighted assets.

(4) Other assets include Intangible assets.

(5) Includes mortgage offset balances.

(6) During the prior half, following a change in terms, Interest bearing transaction deposits of \$961 million became Non-interest bearing and have been disclosed accordingly.

# Business and Private Banking

Key Financial Metrics	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Performance indicators</b>					
Return on assets (%)	1.5	1.5	1.6	-	(10)bpts
Impairment expense annualised as a % of average GLAAs (%)	0.12	0.22	0.14	(10)bpts	(2)bpts
Operating expenses to total banking income (%)	39.3	38.8	38.7	50 bpts	60 bpts
<b>Other asset/liability information</b>					
Average interest earning assets (\$M) <sup>(2)</sup>	99,282	95,543	92,845	4	7
Average interest bearing liabilities (\$M) <sup>(2)</sup>	68,450	65,271	63,279	5	8

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Net of average mortgage offset balances.

## Financial Performance and Business Review

### December 2016 versus December 2015

Business and Private Banking cash net profit after tax for the half year ended 31 December 2016 was \$791 million, an increase of 2% on the prior comparative period. The result was driven by growth in total banking income, and lower loan impairment expense, partly offset by higher expenses.

#### Net Interest Income

Net interest income was \$1,513 million, an increase of 1% on the prior comparative period. This was driven by strong growth in business lending balances and deposits, partly offset by lower net interest margins.

Balance Sheet growth included:

- Deposit growth of 10%, resulting from strong growth in savings accounts and term deposits;
- Business lending growth of 9%, with growth across most industries. Geographically, the growth was driven by New South Wales and Victoria; and
- Home loan growth of 6%, driven by growth in owner occupied loans.

Net interest margin decreased, reflecting lower business lending and deposit margins. Business lending margins were lower due to competitive pricing pressure, higher funding costs and a mix shift towards products with a higher relative proportion of fee income. Deposit margins were impacted by lower cash rates and increased term deposit competition, partly offset by repricing.

#### Other Banking Income

Other banking income was \$458 million, an increase of 11% on the prior comparative period, reflecting:

- Higher business lending fee income; and
- Increased merchant income driven by the interchange rate reduction.

#### Operating Expenses

Operating expenses were \$775 million, an increase of 4% on the prior comparative period, reflecting higher staff costs, investment in frontline and product development initiatives, partly offset by productivity savings.

#### Loan Impairment Expense

Loan impairment expense was \$64 million, a decrease of 9% on the prior comparative period. The decrease was driven by lower individual provisions, partly offset by lower levels of write-backs.

### December 2016 versus June 2016

Cash net profit after tax increased 6% on the prior half. The result was driven by growth in total banking income, and lower loan impairment expense, partly offset by higher expenses.

#### Net Interest Income

Net interest income increased 1% on the prior half, reflecting solid lending and deposit balance growth, partly offset by lower net interest margins.

Balance Sheet growth included:

- Deposit growth of 6%, reflecting continued strong growth in savings and term deposits;
- Business lending growth of 4%; and
- Home loan growth of 2%.

Net interest margin decreased due to lower deposit and business lending margins. Deposit margins were impacted by the low cash rate environment and increased term deposit competition. Business lending margins were lower due to a mix shift towards fee based products.

#### Other Banking Income

Other banking income increased 8% on the prior half reflecting:

- Higher business lending fee income; and
- Increased merchant income.

#### Operating Expenses

Operating expenses increased 4% on the prior half, driven by higher staff expenses, investment in frontline and product development initiatives, partly offset by productivity savings.

#### Loan Impairment Expense

Loan impairment expense reduced \$42 million on the prior half, reflecting a decrease in individual provisions and lower collective provisions.

# Institutional Banking and Markets

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
Net interest income	761	803	814	(5)	(7)
Other banking income	724	631	645	15	12
<b>Total banking income</b>	<b>1,485</b>	<b>1,434</b>	<b>1,459</b>	<b>4</b>	<b>2</b>
Operating expenses	(545)	(548)	(534)	(1)	2
Loan impairment expense	(44)	(112)	(140)	(61)	(69)
Net profit before tax	896	774	785	16	14
Corporate tax expense	(213)	(206)	(163)	3	31
<b>Cash net profit after tax</b>	<b>683</b>	<b>568</b>	<b>622</b>	<b>20</b>	<b>10</b>

## Income analysis

<b>Net interest income</b>					
Institutional Banking	692	697	744	(1)	(7)
Markets	69	106	70	(35)	(1)
<b>Total net interest income</b>	<b>761</b>	<b>803</b>	<b>814</b>	<b>(5)</b>	<b>(7)</b>
<b>Other banking income</b>					
Institutional Banking	400	351	396	14	1
Markets	324	280	249	16	30
<b>Total other banking income</b>	<b>724</b>	<b>631</b>	<b>645</b>	<b>15</b>	<b>12</b>
<b>Total banking income</b>	<b>1,485</b>	<b>1,434</b>	<b>1,459</b>	<b>4</b>	<b>2</b>

## Income by product

Institutional products	891	895	941	-	(5)
Asset leasing	158	122	165	30	(4)
Markets	419	393	383	7	9
Other	43	31	34	39	26
<b>Total banking income excluding derivative valuation adjustments</b>	<b>1,511</b>	<b>1,441</b>	<b>1,523</b>	<b>5</b>	<b>(1)</b>
Derivative valuation adjustments	(26)	(7)	(64)	large	(59)
<b>Total banking income</b>	<b>1,485</b>	<b>1,434</b>	<b>1,459</b>	<b>4</b>	<b>2</b>

	As at <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
<b>Balance Sheet</b>					
Interest earning lending assets <sup>(2)</sup>	109,755	112,432	109,863	(2)	-
Non-lending interest earning assets	29,152	27,594	29,466	6	(1)
Other assets <sup>(3)</sup>	38,718	41,226	36,280	(6)	7
<b>Total assets</b>	<b>177,625</b>	<b>181,252</b>	<b>175,609</b>	<b>(2)</b>	<b>1</b>
Transaction deposits <sup>(2)</sup>	40,136	41,382	36,481	(3)	10
Savings deposits	4,115	6,350	5,808	(35)	(29)
Investment deposits	45,457	39,371	40,392	15	13
Certificates of deposit and other	14,290	14,435	12,262	(1)	17
<b>Total interest bearing deposits</b>	<b>103,998</b>	<b>101,538</b>	<b>94,943</b>	<b>2</b>	<b>10</b>
Due to other financial institutions	15,477	15,610	16,391	(1)	(6)
Debt issues and other <sup>(4)</sup>	8,458	9,064	8,058	(7)	5
Non-interest bearing liabilities <sup>(3)</sup>	27,120	28,307	24,812	(4)	9
<b>Total liabilities</b>	<b>155,053</b>	<b>154,519</b>	<b>144,204</b>	<b>-</b>	<b>8</b>

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
				Jun 16 %	Dec 15 %
<b>Key Financial Metrics</b>					
<b>Performance indicators</b>					
Return on assets (%)	0.8	0.6	0.7	20 bpts	10 bpts
Impairment expense annualised as a % of average GLAAs (%)	0.08	0.20	0.27	(12)bpts	(19)bpts
Operating expenses to total banking income (%)	36.7	38.2	36.6	(150)bpts	10 bpts
<b>Other asset/liability information</b>					
Average interest earning assets (\$M)	138,398	138,001	135,702	-	2
Average interest bearing liabilities (\$M)	124,377	120,257	120,162	3	4

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Interest earning lending assets include \$20,036 million of Cash Management Pooling Facilities (CMPF) (30 June 2016: \$23,743 million; 31 December 2015: \$19,296 million). Transaction Deposits include \$25,744 million of CMPF liabilities (30 June 2016: \$29,319 million; 31 December 2015: \$25,611 million). These balances are required to be grossed up under accounting standards, but are netted for the calculation of customer interest and risk weighted assets.

(3) Other assets include Intangible assets and Derivative assets. Non-interest bearing liabilities include Derivative liabilities.

(4) Debt issues and other includes Bank acceptances, Liabilities at fair value and Loan capital.

## Financial Performance and Business Review

### December 2016 versus December 2015

Institutional Banking and Markets cash net profit after tax for the half year ended 31 December 2016 was \$683 million, an increase of 10% on the prior comparative period. The result was driven by positive sales and trading revenue in Markets, lower losses from derivative valuation adjustments, and lower loan impairment expense.

#### Net Interest Income

Net interest income was \$761 million, a decrease of 7% on the prior comparative period. The result was driven by lower margins, partly offset by balance growth.

Average balance growth included:

- Average deposit balance growth of 11%, resulting from growth in transaction and investment deposits;
- A 2% increase in average lending balances, driven by growth in strategic focus industries of Financial Institutions and Infrastructure, partly offset by active management of the portfolio; and
- Average leasing balances up 2%.

Net interest margin decreased, reflecting higher funding costs and continued competitive pressure on margins.

#### Other Banking Income

Other banking income was \$724 million, an increase of 12% on the prior comparative period, reflecting:

- Strong Markets sales and trading performance, resulting in a \$37 million increase on the prior comparative period; and
- Unfavourable derivative valuation adjustments of \$26 million, compared to a \$64 million unfavourable adjustment in the prior comparative period.

#### Operating Expenses

Operating expenses were \$545 million, an increase of 2% on the prior comparative period. The increase was driven by investment in technology and higher risk and compliance costs, partly offset by the ongoing realisation of productivity benefits.

#### Loan Impairment Expense

Loan impairment expense was \$44 million, a decrease of \$96 million on the prior comparative period. The decrease was driven by lower collective provisions and a higher level of write-backs, partly offset by fewer recoveries.

#### Corporate Tax Expense

The corporate tax expense was \$213 million. The effective tax rate of 23.8% was higher than the prior comparative period due to a higher proportion of profits earned domestically, where there is a higher corporate tax rate.

### December 2016 versus June 2016

Cash net profit after tax increased 20% on the prior half. The result was driven by higher Markets and Asset Leasing revenue, lower operating expenses and lower loan impairment expense.

#### Net Interest Income

Net interest income decreased 5% on the prior half, driven by lower average balance growth and lower margins.

Average balance movement included:

- Average deposit balance growth of 7%; offset by
- Lower average lending balances of 3%, driven by industry wide contraction in Australian and New Zealand corporate lending volumes and active management of the portfolio; and
- Lower average leasing balances of 1%.

Net interest margin decreased, reflecting higher funding costs and strong competition for investment deposits.

#### Other Banking Income

Other banking income increased 15% on the prior half, due to:

- Strong trading revenues in Markets from fixed income and rates; and
- Timing of realised gains and losses on sale of assets in the structured asset finance portfolio.

#### Operating Expenses

Operating expenses decreased 1% on the prior half, driven by ongoing realisation of productivity benefits.

The operating expense to total banking income ratio was 36.7%, a decrease of 150 basis points on the prior half.

#### Loan Impairment Expense

Loan impairment expense reduced \$68 million on the prior half reflecting fewer large individual provisions.

#### Corporate Tax Expense

The effective tax rate was lower than the prior half due to a change in the mix of taxable earnings across domestic and offshore locations.

# Wealth Management

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Funds management income	933	927	964	1	(3)
Insurance income	220	172	330	28	(33)
Total operating income	1,153	1,099	1,294	5	(11)
Operating expenses	(847)	(855)	(826)	(1)	3
Net profit before tax	306	244	468	25	(35)
Corporate tax expense	(80)	(51)	(132)	57	(39)
Underlying profit after tax	226	193	336	17	(33)
Investment experience after tax	23	43	40	(47)	(43)
<b>Cash net profit after tax</b>	<b>249</b>	<b>236</b>	<b>376</b>	<b>6</b>	<b>(34)</b>
<b>Represented by:</b>					
CFS Global Asset Management	125	99	125	26	-
Colonial First State <sup>(2)</sup>	92	115	115	(20)	(20)
CommInsure	106	83	191	28	(45)
Other	(74)	(61)	(55)	21	35
<b>Cash net profit after tax</b>	<b>249</b>	<b>236</b>	<b>376</b>	<b>6</b>	<b>(34)</b>

Key Financial Metrics	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Performance indicators</b>					
Operating expenses to total operating income (%)	73.5	77.8	63.8	(430)bpts	large
FUA - average (\$M)	138,146	134,292	134,352	3	3
FUA - spot (\$M)	140,820	135,801	135,476	4	4
AUM - average (\$M) <sup>(3)</sup>	201,967	195,513	199,294	3	1
AUM - spot (\$M) <sup>(3)</sup>	203,223	199,735	195,248	2	4
Annual Inforce Premiums - average (\$M)	2,505	2,480	2,470	1	1
Annual Inforce Premiums - spot (\$M)	2,520	2,508	2,472	-	2

	Half Year Ended <sup>(1)</sup>											
	CFS			Colonial			CommInsure			Other		
	Global Asset Management			First State <sup>(2)</sup>								
	Dec 16	Jun 16	Dec 15	Dec 16	Jun 16	Dec 15	Dec 16	Jun 16	Dec 15	Dec 16	Jun 16	Dec 15
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Funds management income	425	405	437	447	462	467	61	60	60	-	-	-
Insurance income	-	-	-	-	-	-	220	172	330	-	-	-
Total operating income	425	405	437	447	462	467	281	232	390	-	-	-
Operating expenses	(258)	(287)	(285)	(323)	(302)	(307)	(161)	(177)	(162)	(105)	(89)	(72)
Net profit before tax	167	118	152	124	160	160	120	55	228	(105)	(89)	(72)
Corporate tax (expense)/benefit	(37)	(20)	(29)	(37)	(48)	(51)	(36)	(13)	(67)	30	30	15
Underlying profit after tax	130	98	123	87	112	109	84	42	161	(75)	(59)	(57)
Investment experience after tax	(5)	1	2	5	3	6	22	41	30	1	(2)	2
<b>Cash net profit/(loss) after tax</b>	<b>125</b>	<b>99</b>	<b>125</b>	<b>92</b>	<b>115</b>	<b>115</b>	<b>106</b>	<b>83</b>	<b>191</b>	<b>(74)</b>	<b>(61)</b>	<b>(55)</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Colonial First State incorporates the results of all Financial Planning businesses.

(3) AUM excludes the Group's interest in the First State Cinda Fund Management Company Limited.

## Financial Performance and Business Review

### December 2016 versus December 2015

Wealth Management cash net profit after tax for the half year ended 31 December 2016 was \$249 million, a decrease of 34% on the prior comparative period. The result was driven by an 11% decrease in total operating income, higher operating expenses and lower investment experience. Insurance income was down 33%, with strong growth in general insurance income offset by a significantly lower life insurance result.

#### Funds Management Income

Funds management income was \$933 million, a decrease of 3% on the prior comparative period.

Average Assets Under Management (AUM) increased 1% to \$202 billion, reflecting positive investment markets performance, partly offset by the impact of the higher Australian dollar. Investment performance in CFS GAM remained strong with 75% of assets outperforming their three year benchmark. Net flows in emerging market equities were impacted by macroeconomic factors, partly offset by positive flows in the infrastructure business. Demand for cash investments remained strong throughout the year.

AUM margins declined slightly reflecting a change in mix toward lower margin investments in a volatile economic environment.

Average Funds Under Administration (FUA) increased 3% to \$138 billion. The FirstChoice and Custom Solutions platforms experienced continued growth in average FUA of 4% and 11% respectively, reflecting solid performance in investment markets and positive net flows in Custom Solutions.

FUA margins declined due to provisioning for Advice customer remediation costs while underlying platform margins remained stable.

#### Insurance Income

Insurance income was \$220 million, a decrease of 33% on the prior comparative period.

General insurance income experienced strong growth as a result of fewer and less severe weather events and a 9% increase in inforce premiums due to higher renewals.

Wholesale life insurance income decreased slightly reflecting higher claims experience, partly offset by benefits from new business.

Retail life income decreased due to higher claims. In addition, an increase in income protection claims reserves resulted in loss recognition of \$90 million.

#### Operating Expenses

Operating expenses were \$847 million, an increase of 3% on the prior comparative period. This was driven by increased investment spend, and higher compliance and remediation program costs, partly offset by the benefit of the higher Australian dollar.

#### Investment Experience

Investment experience after tax decreased 43% as a result of lower returns from shareholder assets and non-recurring revaluation gains.

### December 2016 versus June 2016

Cash net profit after tax increased 6% on the prior half driven by strong growth in insurance income and lower operating expenses, partly offset by lower investment experience.

#### Funds Management Income

Funds management income increased 1% on the prior half.

Average AUM increased 3%, reflecting investment market performance, partly offset by the impact of the higher Australian dollar. AUM margins remained stable.

Average FUA increased 3% driven by positive investment market returns and positive net flows.

FUA margins declined due to provisioning for Advice customer remediation costs while platform margins remained stable.

#### Insurance Income

Insurance income increased 28% on the prior half.

General insurance income increased as a result of fewer and less severe weather events and solid growth in inforce premiums due to higher renewals and new business sales.

Wholesale life results decreased slightly on the prior half due to higher claims, partly offset by new business sales.

Retail life income decreased on the prior half, driven by an increase in income protection claims reserves resulting in loss recognition of \$90 million, \$25 million higher than the prior half, partly offset by improved lump sum claims experience.

#### Operating Expenses

Operating expenses decreased 1% on the prior half driven by effective cost management and the benefit of the higher Australian dollar, partly offset by higher compliance and remediation program costs.

#### Investment Experience

Investment experience decreased 47% on the prior half. The result reflected prior half benefits of annual economic assumption changes relating to the insurance business.

# Wealth Management

Assets Under Management (AUM) <sup>(2)</sup>	Half Year Ended									
	30 Jun 16	Inflows	Outflows	Net Flows	Other <sup>(3)</sup>	31 Dec 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M			
Australian equities	27,240	7,434	(7,478)	(44)	2,053	29,249	27,965	7	5	
Global equities	90,900	9,764	(12,748)	(2,984)	2,158	90,074	89,755	(1)	-	
Fixed income <sup>(4)</sup>	74,670	26,932	(25,716)	1,216	593	76,479	71,680	2	7	
Infrastructure	6,925	1,567	(765)	802	(306)	7,421	5,848	7	27	
<b>Total</b>	<b>199,735</b>	<b>45,697</b>	<b>(46,707)</b>	<b>(1,010)</b>	<b>4,498</b>	<b>203,223</b>	<b>195,248</b>	<b>2</b>	<b>4</b>	

Funds Under Administration (FUA)	Half Year Ended <sup>(1)</sup>									
	30 Jun 16	Inflows	Outflows	Net Flows	Other <sup>(3)</sup>	31 Dec 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M			
FirstChoice	75,694	6,936	(7,108)	(172)	3,582	79,104	74,874	5	6	
Custom Solutions <sup>(5)</sup>	22,890	3,206	(2,193)	1,013	1,294	25,197	22,276	10	13	
CFS Non-Platform	15,054	4,196	(4,134)	62	55	15,171	16,029	1	(5)	
CommInsure Investments	12,272	224	(835)	(611)	206	11,867	12,580	(3)	(6)	
Other	9,891	559	(518)	41	(451)	9,481	9,717	(4)	(2)	
<b>Total</b>	<b>135,801</b>	<b>15,121</b>	<b>(14,788)</b>	<b>333</b>	<b>4,686</b>	<b>140,820</b>	<b>135,476</b>	<b>4</b>	<b>4</b>	

Insurance Inforce	Half Year Ended									
	30 Jun 16	Sales	Lapses	Net Flows	Other	31 Dec 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M			
Life Insurance	1,773	126	(147)	(21)	-	1,752	1,766	(1)	(1)	
General Insurance	735	74	(41)	33	-	768	706	4	9	
<b>Total</b>	<b>2,508</b>	<b>200</b>	<b>(188)</b>	<b>12</b>	<b>-</b>	<b>2,520</b>	<b>2,472</b>	<b>-</b>	<b>2</b>	

- (1) Comparative information has been restated to conform to presentation in the current period.  
(2) AUM excludes the Group's interest in the First State Cinda Fund Management Company Limited.  
(3) Includes investment income and foreign exchange gains and losses from translation of internationally sourced business.  
(4) Fixed income include short-term investments and global credit.  
(5) Custom Solutions include FirstWrap product.

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# New Zealand

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	A\$M	A\$M	A\$M		
Net interest income	833	786	795	6	5
Other banking income <sup>(2)</sup>	140	141	147	(1)	(5)
<b>Total banking income</b>	<b>973</b>	<b>927</b>	<b>942</b>	<b>5</b>	<b>3</b>
Funds management income	45	40	40	13	13
Insurance income	139	115	127	21	9
<b>Total operating income</b>	<b>1,157</b>	<b>1,082</b>	<b>1,109</b>	<b>7</b>	<b>4</b>
Operating expenses	(453)	(448)	(441)	1	3
Loan impairment expense	(47)	(83)	(37)	(43)	27
<b>Net profit before tax</b>	<b>657</b>	<b>551</b>	<b>631</b>	<b>19</b>	<b>4</b>
Corporate tax expense	(177)	(140)	(171)	26	4
<b>Underlying profit after tax</b>	<b>480</b>	<b>411</b>	<b>460</b>	<b>17</b>	<b>4</b>
Investment experience after tax	(9)	6	4	large	large
<b>Cash net profit after tax</b>	<b>471</b>	<b>417</b>	<b>464</b>	<b>13</b>	<b>2</b>

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	NZ\$M	NZ\$M	NZ\$M		
Net interest income	876	851	868	3	1
Other banking income	181	172	174	5	4
<b>Total banking income</b>	<b>1,057</b>	<b>1,023</b>	<b>1,042</b>	<b>3</b>	<b>1</b>
Funds management income	47	44	43	7	9
Insurance income	146	124	140	18	4
<b>Total operating income</b>	<b>1,250</b>	<b>1,191</b>	<b>1,225</b>	<b>5</b>	<b>2</b>
Operating expenses	(475)	(484)	(480)	(2)	(1)
Loan impairment expense	(49)	(89)	(41)	(45)	20
<b>Net profit before tax</b>	<b>726</b>	<b>618</b>	<b>704</b>	<b>17</b>	<b>3</b>
Corporate tax expense	(198)	(158)	(191)	25	4
<b>Underlying profit after tax</b>	<b>528</b>	<b>460</b>	<b>513</b>	<b>15</b>	<b>3</b>
Investment experience after tax	(9)	7	4	large	large
<b>Cash net profit after tax</b>	<b>519</b>	<b>467</b>	<b>517</b>	<b>11</b>	<b>-</b>
<b>Represented by:</b>					
ASB	507	437	477	16	6
Sovereign	44	51	54	(14)	(19)
Other <sup>(3)</sup>	(32)	(21)	(14)	52	large
<b>Cash net profit after tax</b>	<b>519</b>	<b>467</b>	<b>517</b>	<b>11</b>	<b>-</b>

Key Financial Metrics <sup>(4)</sup>	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
Operating expenses to total operating income (%)	38.0	40.6	39.2	(260)bpts	(120)bpts
FUA - average (NZ\$M)	12,575	11,902	11,420	6	10
FUA - spot (NZ\$M)	12,586	12,063	11,731	4	7
AUM - average (NZ\$M) <sup>(5)</sup>	5,276	4,932	4,752	7	11
AUM - spot (NZ\$M) <sup>(5)</sup>	4,980	5,222	4,791	(5)	4

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Other banking income disclosed in AUD includes realised gains or losses associated with the hedge of the New Zealand operations.

(3) Other includes ASB and Sovereign funding entities and elimination entries between Sovereign and ASB.

(4) Key financial metrics are calculated in New Zealand dollar terms.

(5) AUM excludes NZD6,780 million spot balances managed by CFS Global Asset Management (30 June 2016: NZD5,918 million; 31 December 2015: NZD5,569 million). These are included in the AUM balances reported by CFS Global Asset Management.

## Financial Performance and Business Review

### December 2016 versus December 2015

New Zealand<sup>(1)</sup> cash net profit after tax<sup>(2)</sup> for the half year ended 31 December 2016 was NZD519 million, flat on the prior comparative period, driven by solid performance in ASB, offset by lower profit in Sovereign.

(1) The New Zealand result incorporates ASB Bank and Sovereign Insurance businesses. The CBA Branch results relating to the Institutional Banking and Markets business in New Zealand are not included.

(2) Includes allocated capital charges and other CBA costs.

### December 2016 versus June 2016

New Zealand cash net profit after tax increased 11% on the prior half. ASB's result increased 16% reflecting strong lending growth and a lower loan impairment expense, partly offset by a 14% decrease in Sovereign's profit reflecting lower investment returns.

ASB	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	NZ\$M	NZ\$M	NZ\$M	Jun 16 %	Dec 15 %
Net interest income	917	879	884	4	4
Other banking income	202	191	192	6	5
Total banking income	1,119	1,070	1,076	5	4
Funds management income	47	43	42	9	12
Total operating income	1,166	1,113	1,118	5	4
Operating expenses	(414)	(415)	(414)	-	-
Loan impairment expense	(49)	(89)	(41)	(45)	20
Net profit before tax	703	609	663	15	6
Corporate tax expense	(196)	(172)	(186)	14	5
<b>Cash net profit after tax</b>	<b>507</b>	<b>437</b>	<b>477</b>	<b>16</b>	<b>6</b>

Balance Sheet	As at				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	NZ\$M	NZ\$M	NZ\$M	Jun 16 %	Dec 15 %
Home loans	50,248	47,784	45,662	5	10
Business and rural lending	23,991	22,588	21,310	6	13
Other interest earning assets	2,084	1,951	1,910	7	9
Total lending interest earning assets	76,323	72,323	68,882	6	11
Non-lending interest earning assets	8,644	7,130	6,413	21	35
Other assets	1,974	2,106	2,179	(6)	(9)
<b>Total assets</b>	<b>86,941</b>	<b>81,559</b>	<b>77,474</b>	<b>7</b>	<b>12</b>
Customer deposits	51,018	49,811	48,524	2	5
Debt issues	18,380	13,431	11,221	37	64
Other interest bearing liabilities <sup>(2)</sup>	2,614	3,972	4,812	(34)	(46)
Total interest bearing liabilities	72,012	67,214	64,557	7	12
Non-interest bearing liabilities	6,378	6,192	5,473	3	17
<b>Total liabilities</b>	<b>78,390</b>	<b>73,406</b>	<b>70,030</b>	<b>7</b>	<b>12</b>

Key Financial Metrics <sup>(3)</sup>	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
				Jun 16 %	Dec 15 %
<b>Performance indicators</b>					
Return on assets (%)	1.2	1.1	1.2	10 bpts	-
Impairment expense annualised as a % of average GLAAs (%)	0.13	0.25	0.12	(12)bpts	1 bpt
Operating expenses to total operating income (%)	35.5	37.3	37.0	(180)bpts	(150)bpts
<b>Other asset/liability information</b>					
Average interest earning assets (NZ\$M)	82,455	77,412	73,717	7	12
Average interest bearing liabilities (NZ\$M)	70,175	65,937	63,203	6	11
FUA - average (NZ\$M)	12,575	11,902	11,420	6	10
FUA - spot (NZ\$M)	12,586	12,063	11,731	4	7
AUM - average (NZ\$M) <sup>(4)</sup>	4,584	4,232	4,031	8	14
AUM - spot (NZ\$M) <sup>(4)</sup>	4,325	4,523	4,051	(4)	7

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Other interest bearing liabilities includes NZD14 million due to Group companies (30 June 2016: NZD119 million; 31 December 2015: NZD1,498 million).

(3) Key financial metrics are calculated in New Zealand dollar terms.

(4) AUM excludes NZD5,336 million spot balances managed by CFS Global Asset Management (30 June 2016: NZD4,394 million; 31 December 2015: NZD4,109 million). These are included in the AUM balances reported by CFS Global Asset Management.

## Financial Performance and Business Review

### December 2016 versus December 2015

ASB cash net profit after tax for the half year ended 31 December 2016 was NZD507 million, an increase of 6% on the prior comparative period. The result was driven by solid growth in total operating income, partly offset by increased loan impairment expense.

#### Net Interest Income

Net interest income was NZD917 million, an increase of 4% on the prior comparative period. Strong volume growth was partly offset by continued margin pressure across key portfolios.

Balance Sheet growth included:

- Home loan growth of 10%, above system, with continued customer preference for fixed rate borrowing;
- Business and rural loan growth of 13%, above system, following continued investment in this business; and
- Customer deposit growth of 5%, reflecting a slowing retail deposit market.

Net interest margin decreased, reflecting continued competitive pressure on lending and deposit margins, higher wholesale funding costs and higher net fixed rate loan prepayment expense.

#### Other Banking and Funds Management Income

Other banking income was NZD202 million, an increase of 5% on the prior comparative period, driven by higher card fees, partly offset by lower insurance commissions and lending fees.

Funds management income was NZD47 million, an increase of 12% on the prior comparative period, due to strong net flows and performance in investment markets.

#### Operating Expenses

Operating expenses were NZD414 million, flat on the prior comparative period with lower marketing and occupancy costs, and benefits from productivity initiatives, offset by ongoing investment in frontline, technology and digital capabilities.

The operating expense to total operating income ratio was 35.5%, an improvement of 150 basis points reflecting a continued focus on productivity.

#### Loan Impairment Expense

Loan impairment expense was NZD49 million, an increase of 20% on the prior comparative period, primarily due to lower home loan provision releases and continued growth across all lending portfolios.

### December 2016 versus June 2016

Cash net profit after tax increased 16% on the prior half. This result was driven by operating income growth of 5% and a decrease in loan impairment expense.

#### Net Interest Income

Net interest income increased 4% on the prior half reflecting strong lending growth and improved lending margins, partly offset by increased competitive pressure on retail deposits.

Balance Sheet growth included:

- Home loan growth of 5%, continuing above system;
- Business and rural loan growth of 6%, remaining above system; and
- Customer deposit growth of 2%, reflecting a slowing retail deposit market.

Net interest margin decreased, reflecting pressure on deposit margins, higher wholesale funding costs, and higher net fixed rate loan prepayment expense, partly offset by an increase in lending margins.

#### Other Banking and Funds Management Income

Other banking income increased 6% on the prior half, driven by higher card fees, partly offset by lower insurance commissions and lower Markets performance.

Funds management income increased 9%, driven by continued solid net flows and market performance.

#### Operating Expenses

Operating expenses were flat on the prior half, with lower operational losses and marketing costs, offset by higher staff costs following continued investment in frontline capability.

The operating expense to total operating income ratio improved 180 basis points on the prior half.

#### Loan Impairment Expense

Loan impairment expense decreased NZD40 million on the prior half, due to lower dairy sector provisioning and a seasonal decrease in unsecured retail provisioning. This was partly offset by lower home loan provision releases.

	Half Year Ended				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Sovereign</b>	<b>NZ\$M</b>	<b>NZ\$M</b>	<b>NZ\$M</b>		
Insurance income	127	107	123	19	3
Operating expenses	(62)	(70)	(65)	(11)	(5)
Net profit before tax	65	37	58	76	12
Corporate tax (expense)/benefit	(13)	5	(10)	large	30
Underlying profit after tax	52	42	48	24	8
Investment experience after tax	(8)	9	6	large	large
<b>Cash net profit after tax</b>	<b>44</b>	<b>51</b>	<b>54</b>	<b>(14)</b>	<b>(19)</b>
<b>Represented by:</b>					
Planned profit margins	47	48	45	(2)	4
Experience variations	5	(6)	3	large	67
Operating margins	52	42	48	24	8
Investment experience after tax	(8)	9	6	large	large
<b>Cash net profit after tax</b>	<b>44</b>	<b>51</b>	<b>54</b>	<b>(14)</b>	<b>(19)</b>

	Half Year Ended				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Key Financial Metrics</b>					
<b>Performance indicators</b>					
Average inforce premiums - average (NZ\$M)	750	737	727	2	3
Annual inforce premiums - spot (NZ\$M)	758	744	733	2	3

	Half Year Ended									
	30 Jun 16	Sales	Lapses	Net Flows	Other	31 Dec 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %	
<b>Insurance Inforce</b>	\$M	\$M	\$M	\$M	\$M	\$M	\$M			
Life Insurance	744	60	(42)	18	(4)	758	733	2	3	
<b>Total</b>	<b>744</b>	<b>60</b>	<b>(42)</b>	<b>18</b>	<b>(4)</b>	<b>758</b>	<b>733</b>	<b>2</b>	<b>3</b>	

## Financial Performance and Business Review

### December 2016 versus December 2015

Sovereign cash net profit after tax for the half year ended 31 December 2016 was NZD44 million, a decrease of 19% on the prior comparative period. The result was driven by higher insurance income and lower operating expenses offset by lower investment experience.

#### Insurance Income

Insurance income was NZD127 million, an increase of 3% on the prior comparative period, driven by annual inforce premium growth, partly offset by higher claims expense.

#### Operating Expenses

Operating expenses were NZD62 million, a decrease of 5% on the prior comparative period, driven by lower spend on technology.

#### Investment Experience

Investment experience after tax was a loss of NZD8 million, a decrease of NZD14 million on the prior comparative period, driven by an increase in the average discount rate negatively impacting policyholder valuations.

### December 2016 versus June 2016

Cash net profit after tax decreased 14% on the prior half, driven by higher insurance income and lower operating expenses offset by lower investment experience.

#### Insurance Income

Insurance income increased 19% on the prior half, driven by annual inforce premium growth, partly offset by higher claims expense.

#### Operating Expenses

Operating expenses decreased 11% on the prior half, driven by lower spend on technology and lower staff costs.

#### Corporate Tax Expense

Corporate tax expense increased NZD18 million on the prior half due to timing differences in tax provisions.

#### Investment Experience

Investment experience after tax decreased NZD17 million from the prior half, driven by an increase in the average discount rate negatively impacting policyholder valuations.

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
Net interest income	819	814	843	1	(3)
Other banking income	121	110	107	10	13
<b>Total banking income</b>	<b>940</b>	<b>924</b>	<b>950</b>	<b>2</b>	<b>(1)</b>
Operating expenses	(388)	(383)	(390)	1	(1)
Loan impairment (expense)/benefit	(43)	(6)	16	large	large
Net profit before tax	509	535	576	(5)	(12)
Corporate tax expense	(154)	(160)	(173)	(4)	(11)
<b>Cash net profit after tax</b>	<b>355</b>	<b>375</b>	<b>403</b>	<b>(5)</b>	<b>(12)</b>

Balance Sheet	As at				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
Home loans <sup>(2)</sup>	65,377	64,412	62,041	1	5
Other interest earning lending assets	17,996	18,184	17,832	(1)	1
<b>Total interest earning assets</b>	<b>83,373</b>	<b>82,596</b>	<b>79,873</b>	<b>1</b>	<b>4</b>
Other assets	232	284	219	(18)	6
<b>Total assets</b>	<b>83,605</b>	<b>82,880</b>	<b>80,092</b>	<b>1</b>	<b>4</b>
Transaction deposits <sup>(3)</sup>	12,499	12,155	11,369	3	10
Savings deposits	9,802	10,569	11,017	(7)	(11)
Investment deposits	27,122	26,152	26,339	4	3
Certificates of deposit and other	35	37	45	(5)	(22)
<b>Total interest bearing deposits</b>	<b>49,458</b>	<b>48,913</b>	<b>48,770</b>	<b>1</b>	<b>1</b>
Other interest bearing liabilities	33	66	27	(50)	22
Non-interest bearing transaction deposits	1,703	1,565	1,525	9	12
Other non-interest bearing liabilities	491	556	515	(12)	(5)
<b>Total liabilities</b>	<b>51,685</b>	<b>51,100</b>	<b>50,837</b>	<b>1</b>	<b>2</b>

Key Financial Metrics	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
				Jun 16 %	Dec 15 %
<b>Performance indicators</b>					
Return on assets (%)	0.8	0.9	1.0	(10)bpts	(20)bpts
Impairment expense annualised as a % of average GLAAs (%)	0.10	0.01	(0.04)	9 bpts	14 bpts
Operating expenses to total banking income (%)	41.3	41.5	41.1	(20)bpts	20 bpts
<b>Other asset/liability information</b>					
Average interest earning assets (\$M) <sup>(4)</sup>	78,659	77,691	76,040	1	3
Average interest bearing liabilities (\$M) <sup>(4)</sup>	45,619	45,748	45,018	-	1

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Gross of mortgage offset balances.

(3) Includes mortgage offset balances.

(4) Net of average mortgage offset balances.

## Financial Performance and Business Review

### December 2016 versus December 2015

Bankwest cash net profit after tax for the half year ended 31 December 2016 was \$355 million, a decrease of 12% on the prior comparative period.

The result was driven by higher loan impairment expense and lower total banking income, partly offset by lower operating expenses.

#### Net Interest Income

Net interest income was \$819 million, a decrease of 3% on the prior comparative period. The result was driven by balance growth in key product lines, offset by a reduction in net interest margin, particularly in transaction deposit accounts, as a result of the lower cash rate environment.

Balance Sheet growth included:

- Home loan growth of 5%, reflecting a slowing Western Australian economy;
- Core business lending growth of 3%;
- Growth of 10% in total transaction deposits, reflecting a continued focus on deepening customer relationships; and
- Growth of 3% in investment deposits; partly offset by
- A decrease of 11% in savings deposits due to both a focus on margins and customer preferences for term investment deposits; and
- A decrease in higher risk non-core business lending.

Net interest margin decreased on the prior comparative period due to lower lending margins resulting from competitive market pressures, and a reduction in transaction account margins due to the lower cash rate environment. This was partly offset by higher savings deposit margins.

#### Other Banking Income

Other banking income was \$121 million, an increase of 13% on the prior comparative period, reflecting an increase in fee based package offerings and lower reward outlays for cards.

#### Operating Expenses

Operating expenses were \$388 million, a decrease of 1% on the prior comparative period, reflecting a continued focus on productivity and disciplined expense management.

#### Loan Impairment Expense

Loan impairment expense was \$43 million compared to \$16 million benefit in the prior comparative period. The increase was driven by continued, albeit slower, run-off of the troublesome book, reduced write-backs and higher home loans losses, predominantly in Western Australia. The quality of the business portfolio has been stable.

### December 2016 versus June 2016

Cash net profit after tax decreased 5% on the prior half. The result was driven by higher loan impairment expense, partly offset by higher total banking income.

#### Net Interest Income

Net interest income increased 1% on the prior half reflecting balance growth across key products, partly offset by a lower net interest margin.

Balance Sheet growth included:

- Home loan growth of 1%, reflecting continued challenging market conditions, particularly in Western Australia; and
- Continued growth of 4% in total transaction deposits; partly offset by
- Core business lending balances decrease of 1% due to competition and the slowing Western Australia economy; and
- A decrease of 7% in savings deposit balances resulting from repricing.

Net interest margin decreased on the prior half due to the lower cash rate impacting deposit margins, partly offset by higher lending margins.

#### Other Banking Income

Other banking income increased 10% on the prior half reflecting growth in business lending fees and income from risk management product sales.

#### Operating Expenses

Operating expenses increased 1% on the prior half driven by targeted business investment, partly offset by continued disciplined expense management.

#### Loan Impairment Expense

Loan impairment expense increased \$37 million on the prior half, predominantly due to lower collective provision releases in the business portfolio.

## IFS and Other

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
IFS	31	37	15	(16)	large
Corporate Centre	(112)	(136)	(180)	(18)	(38)
Eliminations/Unallocated	(27)	124	62	large	large
<b>Cash net (loss)/profit after tax</b>	<b>(108)</b>	25	(103)	large	5

IFS <sup>(2)</sup>	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs	Dec 16 vs
	\$M	\$M	\$M	Jun 16 %	Dec 15 %
Net interest income	69	78	79	(12)	(13)
Other banking income	157	138	143	14	10
Total banking income	226	216	222	5	2
Insurance income	26	22	24	18	8
Total operating income	252	238	246	6	2
Operating expenses	(168)	(184)	(198)	(9)	(15)
Loan impairment expense	(52)	(39)	(27)	33	93
Net profit before tax	32	15	21	large	52
Corporate tax (expense)/benefit	(4)	4	(9)	large	(56)
Non-controlling interests	(3)	(2)	(2)	50	50
Underlying profit after tax	25	17	10	47	large
Investment experience after tax	6	20	5	(70)	20
<b>Cash net profit after tax</b>	<b>31</b>	37	15	(16)	large

(1) Comparative information has been restated to conform to presentation in the current period.

(2) International Financial Services incorporates the Asian retail and business banking operations (Indonesia, China, Vietnam and India), associate investments in two Chinese and one Vietnamese bank, and a Chinese life insurance business, the life insurance operations in Indonesia and a financial services technology business in South Africa. It does not include the Business and Private Banking, Institutional Banking and Markets and Colonial First State Global Asset Management businesses in Asia.

### Financial Performance and Business Review

#### December 2016 versus December 2015

International Financial Services (IFS) cash net profit after tax for the half year ended 31 December 2016 was \$31 million, an increase of \$16 million on the prior comparative period. The result was driven by higher operating income and lower operating expenses, partly offset by higher loan impairment expense.

The economic environment across our markets remains challenging, and continued to adversely impact business volume growth and loan impairment expenses. The ongoing IFS strategic shift away from commercial lending has seen growth in the small-medium enterprises and consumer segment which now represents 88% of the portfolio, up from 67% in the prior comparative period.

The business has continued to invest in its digital capability, risk infrastructure and talent.

The total number of direct customers grew 5% to over 505,000.

#### Net Interest Income

Net interest income was \$69 million, a decrease of 13% on the prior comparative period. This reflected the wind-down of the non-strategic commercial segment, and funding costs associated with the South Africa expansion.

Net interest margin remained stable despite competitive pressure.

#### Other Banking Income

Other banking income was \$157 million, an increase of 10% on the prior comparative period, including a 10% decrease from the higher Australian dollar. This reflected strong contributions from associates in China due to above system asset growth.

#### Insurance Income

Insurance income in PT Commonwealth Life (PTCL) was \$26 million, an 8% increase on the prior comparative period. The result was driven by higher premiums and lower claims.

#### Operating Expenses

Operating expenses were \$168 million, a decrease of 15% on comparative period, including a 3% benefit from the higher Australian dollar. This reflected disciplined cost control, partly offset by ongoing strategic investment in the business.

#### Loan Impairment Expense

Loan impairment expense was \$52 million, an increase of \$25 million on the prior comparative period, driven by losses in the PT Bank Commonwealth (PTBC) commercial lending portfolio which is in run-off.

## December 2016 versus June 2016

Cash net profit after tax decreased 16% on the prior half. The result was driven by higher operating income and lower expenses, offset by higher loan impairment expense in PTBC.

### Net Interest Income

Net interest income decreased 12% on the prior half, reflecting lower commercial lending due to the wind-down of the non-strategic commercial segment, and funding costs associated with the South Africa expansion.

### Other Banking Income

Other banking income increased 14% on the prior half, including a 4% decrease from the higher Australian dollar. This reflected strong contributions from associates in China.

### Insurance Income

Insurance income in PTCL increased 18% on the prior half due to higher premiums, partly offset by higher claims.

### Operating Expenses

Operating expenses decreased 9% on the prior half. This reflected strong cost discipline and productivity benefits.

### Loan Impairment Expense

Loan impairment expense increased \$13 million on the prior half, driven by losses in the PTBC commercial lending portfolio which is in run-off.

### Investment Experience

Investment experience decreased \$14 million on the prior half driven by strong contributions from investment gains in China in the prior half.

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
Corporate Centre <sup>(2)</sup>	\$M	\$M	\$M		
Net interest income	179	121	88	48	large
Other banking income	60	84	53	(29)	13
Total banking income	239	205	141	17	70
Operating expenses	(386)	(381)	(385)	1	-
Net loss before tax	(147)	(176)	(244)	(16)	(40)
Corporate tax benefit	35	40	64	(13)	(45)
<b>Cash net loss after tax</b>	<b>(112)</b>	<b>(136)</b>	<b>(180)</b>	<b>(18)</b>	<b>(38)</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Corporate Centre includes the results of unallocated Group support functions such as Investor Relations, Group Strategy, Marketing, Secretariat and Treasury.

Treasury is primarily focused on the management of the Group's interest rate risk, funding and liquidity requirements, and management of the Group's capital.

The Treasury function includes:

- Portfolio Management: manages the interest rate risk of the Group's non-traded Balance Sheet using transfer pricing to consolidate risk into Treasury and hedging the residual mismatch between assets and liabilities using swaps, futures and options;
- Group Funding & Liquidity: manages the Group's long-term and short-term wholesale funding requirements and the Group's prudent liquidity requirements; and
- Capital and Regulatory Strategy: manages the Group's capital requirements.

## December 2016 versus December 2015

Corporate Centre cash net loss after tax for the half year ended 31 December 2016 decreased \$68 million on the prior comparative period to a loss of \$112 million.

Total banking income increased 70% to \$239 million reflecting higher earnings from management of interest rate risk in the banking book.

Operating expenses were \$386 million, in line with the prior comparative period.

## December 2016 versus June 2016

Cash net loss after tax decreased \$24 million on the prior half.

Total banking income increased 17% to \$239 million reflecting higher earnings from management of interest rate risk in the banking book.

Operating expenses increased 1% on the prior half driven by higher spend on technology.

## IFS and Other

	Half Year Ended <sup>(1)</sup>				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Eliminations/Unallocated</b> <sup>(2)</sup>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>		
Net interest income	(15)	(7)	3	large	large
Other banking income <sup>(3)</sup>	320	62	(34)	large	large
Total banking income	305	55	(31)	large	large
Funds management income	26	17	28	53	(7)
Insurance income	8	(1)	6	large	33
Total operating income	339	71	3	large	large
Operating expenses <sup>(4)</sup>	(393)	-	-	large	large
Loan impairment benefit	1	11	-	(91)	large
Net profit before tax	(53)	82	3	large	large
Corporate tax benefit	43	63	72	(32)	(40)
Non-controlling interests	(6)	(7)	(9)	(14)	(33)
Underlying profit after tax	(16)	138	66	large	large
Investment experience after tax	(11)	(14)	(4)	(21)	large
<b>Cash net (loss)/profit after tax</b>	<b>(27)</b>	<b>124</b>	<b>62</b>	<b>large</b>	<b>large</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Group wide Eliminations/Unallocated includes intra-group elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.

(3) The current half includes a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

(4) The current half includes a \$393 million one-off expense for acceleration of amortisation on certain software assets.

### December 2016 versus December 2015

Eliminations/Unallocated cash net profit after tax for the half year ended 31 December 2016 reduced \$89 million on the prior comparative period to a loss of \$27 million. This was primarily driven by a one-off expense for acceleration of amortisation on certain software assets, and the timing of recognition of unallocated revenue items and eliminations, partly offset by a gain on sale of the Group's remaining investment in Visa Inc.

### December 2016 versus June 2016

Cash net profit after tax reduced \$151 million on the prior half to a loss of \$27 million. This was primarily driven by the one-off expense for acceleration of amortisation on certain software assets, and the timing of recognition of unallocated revenue items and eliminations, partly offset by a gain on sale of the Group's remaining investment in Visa Inc.

## Investment Experience

### Investment Experience

Investment experience includes net returns from shareholder investments held within Wealth Management, and within the New Zealand and Indonesian life insurance businesses.

Investment Experience	Half Year Ended				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Wealth Management <sup>(1)</sup>	34	66	55	(48)	(38)
New Zealand	(12)	11	5	large	large
IFS and Other <sup>(1)</sup>	(6)	6	(2)	large	large
Investment experience before tax	16	83	58	(81)	(72)
Tax on Investment experience	(7)	(27)	(14)	(74)	(50)
<b>Investment experience after tax</b>	<b>9</b>	<b>56</b>	<b>44</b>	<b>(84)</b>	<b>(80)</b>

(1) Comparative information has been restated to conform to presentation in the current period.

### Shareholder Investment Asset Mix

The net tangible assets by investment asset class shown below represent shareholder investments held within Wealth Management, and within the New Zealand and Indonesian life insurance businesses.

Shareholder Investment Asset Mix (%)	As at 31 December 2016			
	Australia <sup>(1)</sup>	New Zealand	Asia	Total
	%	%	%	%
Equities	-	-	-	-
Fixed interest	2	57	94	20
Cash	95	43	6	78
Other	3	-	-	2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Shareholder Investment Asset Mix (\$M)	As at 31 December 2016			
	Australia <sup>(1)</sup>	New Zealand	Asia	Total
	\$M	\$M	\$M	\$M
Equities	6	4	-	10
Fixed interest	41	432	292	765
Cash	2,607	325	19	2,951
Other	91	-	-	91
<b>Total</b>	<b>2,745</b>	<b>761</b>	<b>311</b>	<b>3,817</b>

(1) Includes Shareholders' funds in the CFS Global Asset Management, Colonial First State and CommInsure businesses.

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# Directors' Report

The Directors of the Commonwealth Bank of Australia submit their report together with the financial statements of the Commonwealth Bank of Australia and its controlled entities (collectively referred to as "the Group") for the half year ended 31 December 2016.

## Directors

The names of the Directors holding office during and since the end of the half year were:

David Turner	Chairman, retired on 31 December 2016
Catherine Livingstone	Director, Chairman since 1 January 2017
Ian Narev	Managing Director and Chief Executive Officer
Sir John Anderson	Director, retired on 9 November 2016
Shirish Apte	Director
Sir David Higgins	Director
Launa Inman	Director
Brian Long	Director
Andrew Mohl	Director
Mary Padbury	Director
Wendy Stops	Director
Harrison Young	Director

## Review and Results of Operations

The Group earned a consolidated statutory net profit after tax of \$4,895 million for the half year ended 31 December 2016, compared with \$4,623 million for the prior comparative period, an increase of 6%. The result was driven by revenue growth.

The statutory net profit after tax from Retail Banking Services was \$2,466 million (December 2015: \$2,272 million) reflecting strong volume growth in home lending and deposits, and improved net interest margin.

The statutory net profit after tax from Business and Private Banking was \$791 million (December 2015: \$774 million), driven by strong growth in business lending balances and deposits and lower loan impairment expense, partly offset by lower margins and higher operating expenses.

The statutory net profit after tax from Institutional Banking and Markets was \$683 million (December 2015: \$622 million), driven by positive sales and trading revenue in Markets, lower losses from derivative valuation adjustments, and lower loan impairment expense, partly offset by higher operating expenses.

The statutory net profit after tax from Wealth Management was \$230 million (December 2015: \$367 million), reflecting lower funds management and insurance income, higher operating expenses and lower investment experience.

The statutory net profit after tax from New Zealand was \$473 million (December 2015: \$355 million), driven by a solid performance in ASB with strong growth in lending, partly offset by a lower profit in Sovereign and the foreign exchange hedge on earnings.

The statutory net profit after tax from Bankwest was \$354 million (December 2015: \$377 million), reflecting higher loan impairment expense and lower total banking income, partly offset by lower operating expenses.

Signed in accordance with a resolution of the Directors.



Catherine Livingstone AO  
Chairman  
14 February 2017

Additional analysis of operations for the financial year is set out in the Highlights and Group Performance Analysis sections.

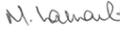
The Board has received written statements from the Chief Executive Officer and Chief Financial Officer that the accompanying Financial Statements have been prepared in accordance with Australian Accounting Standards, Corporations Regulations 2001 and Corporations Act 2001.

## Rounding of Amounts

Unless otherwise indicated, the Group has rounded off amounts in this Directors' Report and the accompanying financial statements to the nearest million dollars in accordance with ASIC Corporations Instrument 2016/191.

## Auditor's Independence Declaration

We have obtained the following independence declaration from the Group's auditors, PricewaterhouseCoopers:


<b>Auditor's Independence Declaration</b>
As lead auditor for the review of Commonwealth Bank of Australia for the half year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:
(a) no contraventions of the auditor independence requirements of the <i>Corporations Act 2001</i> in relation to the review; and
(b) no contraventions of any applicable code of professional conduct in relation to the review.
This declaration is in respect of Commonwealth Bank of Australia and the entities it controlled during the period.

Marcus Laithwaite Partner PricewaterhouseCoopers
Sydney 14 February 2017
<small>PricewaterhouseCoopers, ABN 52 780 433 757 Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171 T: +61 2 8266 0000; F: +61 2 8266 9999; www.pwc.com.au Liability limited by a scheme approved under Professional Standards Legislation.</small>



Ian Narev  
Managing Director and Chief Executive Officer  
14 February 2017

## Consolidated Income Statement

For the half year ended 31 December 2016

	Notes	Half Year Ended		
		31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M
Interest income	2	16,674	16,974	16,843
Interest expense	2	(7,933)	(8,465)	(8,417)
Net interest income		8,741	8,509	8,426
Other banking income		2,998	2,372	2,204
Net banking operating income		11,739	10,881	10,630
Funds management income		1,157	1,129	1,186
Investment revenue		268	193	90
Claims, policyholder liability and commission expense		(434)	(285)	(252)
Net funds management operating income		991	1,037	1,024
Premiums from insurance contracts		1,510	1,458	1,463
Investment (expense)/revenue		(14)	337	130
Claims, policyholder liability and commission expense from insurance contracts		(1,118)	(1,341)	(1,041)
Net insurance operating income		378	454	552
<b>Total net operating income before impairment and operating expenses</b>		<b>13,108</b>	<b>12,372</b>	<b>12,206</b>
Loan impairment expense	5	(599)	(692)	(564)
Operating expenses <sup>(1)</sup>	2	(5,679)	(5,226)	(5,247)
<b>Net profit before income tax</b>		<b>6,830</b>	<b>6,454</b>	<b>6,395</b>
Corporate tax expense <sup>(1)</sup>	3	(1,950)	(1,753)	(1,752)
Policyholder tax benefit/(expense)	3	24	(92)	(9)
<b>Net profit after income tax</b>		<b>4,904</b>	<b>4,609</b>	<b>4,634</b>
Non-controlling interests		(9)	(9)	(11)
<b>Net profit attributable to Equity holders of the Bank</b>		<b>4,895</b>	<b>4,600</b>	<b>4,623</b>

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

	Half Year Ended <sup>(1)</sup>		
	31 Dec 16	30 Jun 16	31 Dec 15
Earnings per share:			
Basic	285.3	268.4	273.9
Diluted	276.7	261.8	267.1

(1) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.

# Financial Statements

## Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2016

	Half Year Ended		
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M
<b>Net profit after income tax for the period</b> <sup>(1)</sup>	4,904	4,609	4,634
<b>Other comprehensive income/(expense):</b>			
<b>Items that may be reclassified subsequently to profit/(loss):</b>			
Foreign currency translation reserve net of tax	83	2	381
Gains and (losses) on cash flow hedging instruments net of tax	(520)	336	(126)
Losses on available-for-sale investments net of tax	(143)	(220)	(96)
<b>Total of items that may be reclassified</b>	<b>(580)</b>	<b>118</b>	<b>159</b>
<b>Items that will not be reclassified to profit/(loss):</b>			
Actuarial gains and (losses) from defined benefit superannuation plans net of tax	142	(120)	130
Losses on liabilities at fair value due to changes in own credit risk net of tax	(2)	-	(1)
Revaluation of properties net of tax	-	1	-
<b>Total of items that will not be reclassified</b>	<b>140</b>	<b>(119)</b>	<b>129</b>
<b>Other comprehensive income/(expense) net of income tax</b>	<b>(440)</b>	<b>(1)</b>	<b>288</b>
<b>Total comprehensive income for the period</b>	<b>4,464</b>	<b>4,608</b>	<b>4,922</b>
<b>Total comprehensive income for the period is attributable to:</b>			
Equity holders of the Bank	4,455	4,599	4,911
Non-controlling interests	9	9	11
<b>Total comprehensive income net of income tax</b>	<b>4,464</b>	<b>4,608</b>	<b>4,922</b>

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
	Cents per Share		
Dividends per share attributable to shareholders of the Bank:			
Ordinary shares	199	222	198
Trust preferred securities	-	3,686	4,308

(1) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.

## Consolidated Balance Sheet

As at 31 December 2016

Assets	Notes	As at		
		31 Dec 16	30 Jun 16	31 Dec 15
		\$M	\$M	\$M
Cash and liquid assets		44,709	23,372	31,587
Receivables due from other financial institutions		10,612	11,591	12,350
Assets at fair value through Income Statement:				
Trading		34,199	34,067	27,140
Insurance		13,795	13,547	13,316
Other		803	1,480	1,488
Derivative assets		45,837	46,567	45,532
Available-for-sale investments		81,675	80,898	78,161
Loans, bills discounted and other receivables	4	712,905	695,398	669,163
Bank acceptances of customers		1,440	1,431	1,640
Property, plant and equipment		4,094	3,940	3,321
Investments in associates and joint ventures		2,842	2,776	2,673
Intangible assets		10,000	10,384	10,018
Deferred tax assets <sup>(1)</sup>		782	389	436
Other assets <sup>(1)</sup>		8,026	7,161	6,166
<b>Total assets</b>		<b>971,719</b>	<b>933,001</b>	<b>902,991</b>
<b>Liabilities</b>				
Deposits and other public borrowings	6	606,091	588,045	560,498
Payables due to other financial institutions		34,031	28,771	35,053
Liabilities at fair value through Income Statement		8,404	10,292	9,011
Derivative liabilities		38,042	39,921	37,357
Bank acceptances		1,440	1,431	1,640
Current tax liabilities		1,012	1,022	559
Deferred tax liabilities		332	340	360
Other provisions		1,625	1,656	1,657
Insurance policy liabilities		12,388	12,636	12,611
Debt issues		175,583	161,284	160,798
Managed funds units on issue		2,362	1,606	1,326
Bills payable and other liabilities <sup>(1)</sup>		11,600	9,889	8,058
		892,910	856,893	828,928
Loan capital		16,997	15,544	14,399
<b>Total liabilities</b>		<b>909,907</b>	<b>872,437</b>	<b>843,327</b>
<b>Net assets</b>		<b>61,812</b>	<b>60,564</b>	<b>59,664</b>
<b>Shareholders' Equity</b>				
Share capital:				
Ordinary share capital	8	34,455	33,845	33,252
Other equity instruments	8	-	-	939
Reserves	8	2,144	2,734	2,554
Retained profits <sup>(1)</sup>	8	24,662	23,435	22,365
<b>Shareholders' Equity attributable to Equity holders of the Bank</b>		<b>61,261</b>	<b>60,014</b>	<b>59,110</b>
Non-controlling interests	8	551	550	554
<b>Total Shareholders' Equity</b>		<b>61,812</b>	<b>60,564</b>	<b>59,664</b>

(1) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

# Financial Statements

## Consolidated Statement of Changes in Equity

For the half year ended 31 December 2016

	Ordinary share capital \$M	Other equity instruments \$M	Reserves \$M	Retained profits \$M	Shareholders' Equity attributable to Equity holders of the Bank \$M	Non- controlling interests \$M	Total Shareholders' Equity \$M
<b>As at 30 June 2015</b> <sup>(1)</sup>	27,619	939	2,345	21,340	52,243	562	52,805
Net profit after income tax <sup>(1)</sup>	-	-	-	4,623	4,623	11	4,634
Net other comprehensive income	-	-	159	129	288	-	288
Total comprehensive income for the period	-	-	159	4,752	4,911	11	4,922
Transactions with Equity holders in their capacity as Equity holders:							
Dividends paid on ordinary shares	-	-	-	(3,613)	(3,613)	-	(3,613)
Dividends paid on other equity instruments	-	-	-	(32)	(32)	-	(32)
Dividend reinvestment plan (net of issue costs)	657	-	-	-	657	-	657
Issue of shares (net of issue costs)	5,022	-	-	-	5,022	-	5,022
Share-based payments	-	-	(37)	-	(37)	-	(37)
Purchase of treasury shares	(99)	-	-	-	(99)	-	(99)
Sale and vesting of treasury shares	53	-	-	-	53	-	53
Redemptions	-	-	-	-	-	-	-
Other changes	-	-	87	(82)	5	(19)	(14)
<b>As at 31 December 2015</b>	33,252	939	2,554	22,365	59,110	554	59,664
Net profit after income tax <sup>(1)</sup>	-	-	-	4,600	4,600	9	4,609
Net other comprehensive income	-	-	119	(120)	(1)	-	(1)
Total comprehensive income for the period	-	-	119	4,480	4,599	9	4,608
Transactions with Equity holders in their capacity as Equity holders:							
Dividends paid on ordinary shares	-	-	-	(3,381)	(3,381)	-	(3,381)
Dividends paid on other equity instruments	-	-	-	(18)	(18)	-	(18)
Dividend reinvestment plan (net of issue costs)	552	-	-	-	552	-	552
Issue of shares (net of issue costs)	-	-	-	-	-	-	-
Share-based payments	-	-	47	-	47	-	47
Purchase of treasury shares	(9)	-	-	-	(9)	-	(9)
Sale and vesting of treasury shares	50	-	-	-	50	-	50
Redemptions	-	(939)	-	-	(939)	-	(939)
Other changes	-	-	14	(11)	3	(13)	(10)
<b>As at 30 June 2016</b>	33,845	-	2,734	23,435	60,014	550	60,564
Net profit after income tax	-	-	-	4,895	4,895	9	4,904
Net other comprehensive income	-	-	(580)	140	(440)	-	(440)
Total comprehensive income for the period	-	-	(580)	5,035	4,455	9	4,464
Transactions with Equity holders in their capacity as Equity holders:							
Dividends paid on ordinary shares	-	-	-	(3,808)	(3,808)	-	(3,808)
Dividends paid on other equity instruments	-	-	-	-	-	-	-
Dividend reinvestment plan (net of issue costs)	586	-	-	-	586	-	586
Issue of shares (net of issue costs)	(6)	-	-	-	(6)	-	(6)
Share-based payments	-	-	(25)	-	(25)	-	(25)
Purchase of treasury shares	(27)	-	-	-	(27)	-	(27)
Sale and vesting of treasury shares	57	-	-	-	57	-	57
Redemptions	-	-	-	-	-	-	-
Other changes	-	-	15	-	15	(8)	7
<b>As at 31 December 2016</b>	34,455	-	2,144	24,662	61,261	551	61,812

(1) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Condensed Consolidated Statement of Cash Flows <sup>(1)</sup>

For the half year ended 31 December 2016

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
Cash flows provided by/(used in) operating activities before changes in operating assets and liabilities	3,008	(501)	9,580
Changes in operating assets and liabilities arising from cash flow movements	(9,836)	(427)	(13,213)
<b>Net cash used in operating activities</b>	<b>(6,828)</b>	<b>(928)</b>	<b>(3,633)</b>
<b>Net cash used in investing activities</b>	<b>(471)</b>	<b>(1,222)</b>	<b>(810)</b>
Dividends paid (excluding Dividend Reinvestment Plan)	(3,216)	(2,849)	(2,978)
Redemption of other equity instruments (net of costs)	-	(939)	-
Proceeds from issuance of debt securities	53,978	49,234	49,724
Redemption of issued debt securities	(37,765)	(49,398)	(48,342)
Proceeds from issue of shares (net of issue costs)	(6)	-	5,022
Other cash provided by financing activities	1,814	757	1,389
<b>Net cash provided by/(used in) financing activities</b>	<b>14,805</b>	<b>(3,195)</b>	<b>4,815</b>
Net increase/(decrease) in cash and cash equivalents	7,506	(5,345)	372
Effect of foreign exchange rates on cash and cash equivalents	21	(288)	438
Cash and cash equivalents at beginning of period	14,447	20,080	19,270
<b>Cash and cash equivalents at end of period</b>	<b>21,974</b>	<b>14,447</b>	<b>20,080</b>

(1) It should be noted that the Group does not use this accounting Statement of Cash Flows in the internal management of its liquidity positions.

# Notes to the Financial Statements

## Note 1 Accounting Policies

### General Information

The Financial Statements of the Commonwealth Bank of Australia (the Bank) and its subsidiaries (the Group) for the half year ended 31 December 2016, were approved and authorised for issue by the Board of Directors on 14 February 2017. The Directors have the power to amend and reissue the Financial Statements.

The Bank is a for-profit entity incorporated and domiciled in Australia. It is a company limited by shares that are publicly traded on the Australian Securities Exchange (ASX). The registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney NSW 2000, Australia.

There have been no significant changes in the nature of the principal activities of the Group during the half year.

### Basis of Accounting

This Interim Financial Report for the half year ended 31 December 2016 has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 'Interim Financial Reporting' which ensures compliance with IAS 34 'Interim Financial Reporting'. The Group is a for-profit entity for the purpose of preparing this report.

This half year financial report does not include all notes of the type normally included within an Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the Annual Financial Report.

As a result, this report should be read in conjunction with the 30 June 2016 Annual Financial Report of the Group and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The amounts contained in this Financial Report and the Financial Statements are presented in Australian dollars and rounded to the nearest million dollars unless otherwise stated, under the option available under ASIC Corporations Instrument 2016/191.

For the purpose of this half year financial report, the half year has been treated as a discrete reporting period.

During the period, the Group changed its accounting policy in relation to the recognition of Global Asset Management long-term incentives provided to certain employees in Wealth Management. The new accounting policy expenses the long-term incentives when granted rather than over the vesting period per the previous accounting policy. The new policy more closely aligns the accounting with the economic substance of the arrangements. The change has been applied retrospectively and as at 30 June 2016 results in a reduction of \$192 million in retained earnings (31 December 2015: \$183 million), a reduction of \$77 million in total assets (31 December 2015: \$84 million) and an increase in total liabilities of \$115 million (31 December 2015: \$99 million).

Other than the above, the accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Annual Financial Report for the year ended 30 June 2016.

Where necessary, comparative information has been restated to conform to presentation in the current period. All changes have been footnoted throughout the financial statements.

No amendments to Australian Accounting Standards have been adopted during the period that have a material impact on the Group.

### Future Accounting Developments

AASB 9 'Financial Instruments' will replace AASB 139 'Financial Instruments: Recognition and Measurement' and introduces changes in three areas:

- Financial assets will be categorised according to a cash flow and business model test. The outcome of these tests will drive the measurement of financial assets at either amortised cost, fair value through profit or loss or fair value through other comprehensive income;
- Impairment of financial assets will be based on an expected loss rather than incurred loss model; and
- Simplifications to hedge accounting which more closely align with risk management activities.

AASB 9 is not mandatory until 1 July 2018 for the Group. The Group has commenced an implementation program.

AASB 15 'Revenue from Contracts with Customers' replaces AASB 118 'Revenue' and introduces a single model for the recognition of revenue based on the satisfaction of performance obligations. It does not apply to financial instruments. AASB 15 is not mandatory until 1 July 2018 for the Group.

AASB 16 'Leases' amends the accounting for leases and will replace AASB 117 'Leases'. Lessees will be required to bring both operating and finance leases on Balance Sheet as a right of use asset along with the associated lease liability. Interest expense will be recognised in profit or loss using the effective interest rate method, and the right of use asset will be depreciated. Lessor accounting remains largely unchanged. AASB 16 is not mandatory until 1 July 2019 for the Group.

The potential financial impacts of the above to the Group have not yet been determined. Other than the "own credit requirements" of AASB 9, which were early adopted from 1 January 2014, the Group does not intend to early adopt these standards.

Other amendments to existing standards that are not yet effective are not expected to result in significant changes to the Group's accounting policies.

# Notes to the Financial Statements

## Note 2 Profit

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Interest Income</b>			
Loans and bills discounted	15,446	15,506	15,460
Other financial institutions	59	91	46
Cash and liquid assets	118	162	129
Assets at fair value through Income Statement	230	279	297
Available-for-sale investments	821	936	911
<b>Total interest income</b>	<b>16,674</b>	<b>16,974</b>	<b>16,843</b>
<b>Interest Expense</b>			
Deposits	5,274	5,680	6,005
Other financial institutions	126	146	131
Liabilities at fair value through Income Statement	67	107	104
Debt issues	2,145	2,230	1,895
Loan capital	321	302	282
<b>Total interest expense</b>	<b>7,933</b>	<b>8,465</b>	<b>8,417</b>
<b>Net interest income</b>	<b>8,741</b>	<b>8,509</b>	<b>8,426</b>
<b>Other Operating Income</b>			
Lending fees	533	503	507
Commissions	1,254	1,064	1,151
Trading income	600	591	496
Net gain/(loss) on non-trading financial instruments <sup>(1) (2)</sup>	374	95	(122)
Net gain/(loss) on sale of property, plant and equipment	7	(15)	(6)
Net gain/(loss) from hedging ineffectiveness	39	(37)	(35)
Dividends - Other	5	7	5
Net funds management operating income <sup>(3)</sup>	991	1,037	1,024
Insurance contracts income	378	454	552
Share of profit from associates and joint ventures net of impairment	154	144	145
Other <sup>(4)</sup>	32	20	63
<b>Total other operating income</b>	<b>4,367</b>	<b>3,863</b>	<b>3,780</b>
<b>Total net operating income before impairment and operating expenses</b>	<b>13,108</b>	<b>12,372</b>	<b>12,206</b>
<b>Impairment Expense</b>			
Loan impairment expense	599	692	564
<b>Total impairment expense (Note 5)</b>	<b>599</b>	<b>692</b>	<b>564</b>

(1) Includes non-trading derivatives that are held for risk management purposes.

(2) The current half includes a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

(3) Includes net profit of \$6 million relating to First Gas Limited (30 June 2016: \$nil, 31 December 2015: \$nil).

(4) Includes depreciation of \$45 million (30 June 2016: \$55 million; 31 December 2015: \$52 million), and impairment of \$6 million (30 June 2016: \$64 million, 31 December 2015: \$5 million) in relation to assets held for lease by the Group.

# Notes to the Financial Statements

## Note 2 Profit (continued)

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Staff Expenses</b>			
Salaries and related on-costs <sup>(1)</sup>	2,826	2,831	2,826
Share-based compensation	61	52	50
Superannuation	221	207	203
<b>Total staff expenses</b>	<b>3,108</b>	<b>3,090</b>	<b>3,079</b>
<b>Occupancy and Equipment Expenses</b>			
Operating lease rentals	330	329	321
Depreciation of property, plant and equipment	143	136	130
Other occupancy expenses	95	110	108
<b>Total occupancy and equipment expenses</b>	<b>568</b>	<b>575</b>	<b>559</b>
<b>Information Technology Services</b>			
Application, maintenance and development	222	231	280
Data processing	105	98	99
Desktop	99	82	61
Communications	93	95	108
Amortisation of software assets <sup>(2)</sup>	613	202	177
Software write-offs	-	-	1
IT equipment depreciation	23	25	26
<b>Total information technology services</b>	<b>1,155</b>	<b>733</b>	<b>752</b>
<b>Other Expenses</b>			
Postage and stationery	97	96	96
Transaction processing and market data	98	84	95
Fees and commissions:			
Professional fees	175	130	117
Other	43	46	47
Advertising, marketing and loyalty	197	232	259
Amortisation of intangible assets (excluding software and merger related amortisation)	7	7	7
Non-lending losses	54	63	40
Other	175	168	159
<b>Total other expenses</b>	<b>846</b>	<b>826</b>	<b>820</b>
<b>Total operating expenses</b>	<b>5,677</b>	<b>5,224</b>	<b>5,210</b>
<b>Investment and Restructuring</b>			
Merger related amortisation <sup>(3)</sup>	2	2	37
<b>Total investment and restructuring</b>	<b>2</b>	<b>2</b>	<b>37</b>
<b>Total operating expenses</b>	<b>5,679</b>	<b>5,226</b>	<b>5,247</b>
<b>Profit before income tax</b>	<b>6,830</b>	<b>6,454</b>	<b>6,395</b>
<b>Net hedging ineffectiveness comprises:</b>			
Gain/(loss) on fair value hedges:			
Hedging instruments	1,255	(192)	(517)
Hedged items	(1,223)	164	478
Gain/(loss) on cash flow and net investment hedge ineffectiveness	7	(9)	4
<b>Net gain/(loss) from hedging ineffectiveness</b>	<b>39</b>	<b>(37)</b>	<b>(35)</b>

(1) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.

(2) The current half includes a \$393 million one-off expense for acceleration of amortisation on certain software assets.

(3) Merger related amortisation relates to Bankwest core deposits and customer lists.

# Notes to the Financial Statements

## Note 3 Income Tax Expense

	Half Year Ended <sup>(1)</sup>		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Profit before Income Tax</b>	<b>6,830</b>	6,454	6,395
Prima facie income tax at 30%	<b>2,049</b>	1,936	1,919
<b>Effect of amounts which are non-deductible/(assessable) in calculating taxable income:</b>			
Taxation offsets and other dividend adjustments	<b>(6)</b>	-	(4)
Tax adjustment referable to policyholder income	<b>(17)</b>	65	6
Tax losses not previously brought to account	<b>(80)</b>	(3)	(2)
Offshore tax rate differential	<b>(36)</b>	(35)	(44)
Offshore banking unit	<b>(21)</b>	(9)	(24)
Effect of changes in tax rates	<b>2</b>	1	-
Income tax under/(over) provided in previous years	<b>7</b>	(91)	(86)
Other <sup>(2)</sup>	<b>28</b>	(19)	(4)
<b>Total income tax expense</b>	<b>1,926</b>	1,845	1,761
Corporate tax expense	<b>1,950</b>	1,753	1,752
Policyholder tax (benefit)/expense	<b>(24)</b>	92	9
<b>Total income tax expense</b>	<b>1,926</b>	1,845	1,761
<b>Effective tax rate (%) <sup>(3)</sup></b>	<b>28.5</b>	27.6	27.4

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Primarily related to amounts in respect of the run-off of specialised financing transactions.

(3) Policyholder tax is excluded from both profit before income tax and tax expense for the purpose of calculating the Group's effective tax rate as it is not incurred directly by the Group.

## Notes to the Financial Statements

### Note 4 Loans, Bills Discounted and Other Receivables

	As at		
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M
<b>Australia</b>			
Overdrafts	22,813	26,857	22,066
Home loans	423,163	409,452	393,395
Credit card outstandings	12,280	12,122	12,243
Lease financing	4,305	4,412	4,414
Bills discounted	7,993	10,507	11,615
Term loans and other lending	146,526	140,784	138,365
<b>Total Australia</b>	<b>617,080</b>	<b>604,134</b>	<b>582,098</b>
<b>New Zealand</b>			
Overdrafts	1,027	1,119	984
Home loans	48,347	45,640	42,834
Credit card outstandings	997	912	912
Lease financing	30	45	283
Term loans and other lending	26,207	24,696	23,196
<b>Total New Zealand</b>	<b>76,608</b>	<b>72,412</b>	<b>68,209</b>
<b>Other Overseas</b>			
Overdrafts	473	473	480
Home loans	1,022	982	947
Lease financing	18	27	38
Term loans and other lending	22,609	22,271	22,316
<b>Total Other Overseas</b>	<b>24,122</b>	<b>23,753</b>	<b>23,781</b>
<b>Gross loans, bills discounted and other receivables</b>	<b>717,810</b>	<b>700,299</b>	<b>674,088</b>
<b>Less:</b>			
Provisions for Loan Impairment (Note 5):			
Collective provision	(2,782)	(2,783)	(2,763)
Individually assessed provisions	(1,007)	(935)	(900)
Unearned income:			
Term loans	(689)	(701)	(722)
Lease financing	(427)	(482)	(540)
	<b>(4,905)</b>	<b>(4,901)</b>	<b>(4,925)</b>
<b>Net loans, bills discounted and other receivables</b>	<b>712,905</b>	<b>695,398</b>	<b>669,163</b>

# Notes to the Financial Statements

## Note 5 Provisions for Impairment and Asset Quality

As at 31 December 2016					
	Home	Other	Asset	Other	
	Loans	Personal <sup>(1)</sup>	Financing	Commercial	Total
	\$M	\$M	\$M	\$M	\$M
<b>Loans which were neither past due nor impaired</b>					
Investment Grade	301,353	4,564	911	133,714	440,542
Pass Grade	151,134	14,661	7,595	73,096	246,486
Weak	8,533	3,210	235	1,937	13,915
<b>Total loans which were neither past due nor impaired</b>	<b>461,020</b>	<b>22,435</b>	<b>8,741</b>	<b>208,747</b>	<b>700,943</b>
<b>Loans which were past due but not impaired</b>					
Past due 1 - 29 days	5,886	842	105	1,086	7,919
Past due 30 - 59 days	1,805	224	49	242	2,320
Past due 60 - 89 days	849	131	29	114	1,123
Past due 90 - 179 days	977	15	4	175	1,171
Past due 180 days or more	906	10	1	252	1,169
<b>Total loans past due but not impaired</b>	<b>10,423</b>	<b>1,222</b>	<b>188</b>	<b>1,869</b>	<b>13,702</b>

As at 30 June 2016					
	Home	Other	Asset	Other	
	Loans	Personal <sup>(1)</sup>	Financing	Commercial	Total
	\$M	\$M	\$M	\$M	\$M
<b>Loans which were neither past due nor impaired</b>					
Investment Grade	290,404	4,454	768	131,535	427,161
Pass Grade	142,180	15,628	7,468	73,852	239,128
Weak	10,189	3,669	257	1,475	15,590
<b>Total loans which were neither past due nor impaired</b>	<b>442,773</b>	<b>23,751</b>	<b>8,493</b>	<b>206,862</b>	<b>681,879</b>
<b>Loans which were past due but not impaired</b>					
Past due 1 - 29 days	7,494	830	93	1,044	9,461
Past due 30 - 59 days	1,942	229	47	194	2,412
Past due 60 - 89 days	946	139	24	116	1,225
Past due 90 - 179 days	1,065	16	1	183	1,265
Past due 180 days or more	834	11	2	231	1,078
<b>Total loans past due but not impaired</b>	<b>12,281</b>	<b>1,225</b>	<b>167</b>	<b>1,768</b>	<b>15,441</b>

As at 31 December 2015					
	Home	Other	Asset	Other	
	Loans	Personal <sup>(1)</sup>	Financing	Commercial	Total
	\$M	\$M	\$M	\$M	\$M
<b>Loans which were neither past due nor impaired</b>					
Investment Grade	277,388	4,510	959	131,324	414,181
Pass Grade	137,203	14,617	8,312	67,014	227,146
Weak	9,938	3,403	243	1,822	15,406
<b>Total loans which were neither past due nor impaired</b>	<b>424,529</b>	<b>22,530</b>	<b>9,514</b>	<b>200,160</b>	<b>656,733</b>
<b>Loans which were past due but not impaired</b>					
Past due 1 - 29 days	7,326	841	84	838	9,089
Past due 30 - 59 days	2,000	230	49	223	2,502
Past due 60 - 89 days	768	134	23	103	1,028
Past due 90 - 179 days	855	15	1	179	1,050
Past due 180 days or more	732	12	2	249	995
<b>Total loans past due but not impaired</b>	<b>11,681</b>	<b>1,232</b>	<b>159</b>	<b>1,592</b>	<b>14,664</b>

(1) Included in these balances are credit card facilities and other unsecured portfolio managed facilities up to 90 days past due. At 90 days past due all unsecured portfolio managed facilities are classified as impaired.

# Notes to the Financial Statements

## Note 5 Provisions for Impairment and Asset Quality (continued)

	Half Year Ended		
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M
<b>Movement in gross impaired assets</b>			
Gross impaired assets - opening balance	3,116	2,788	2,855
New and increased	1,194	1,302	1,068
Balances written off	(584)	(698)	(630)
Returned to performing or repaid	(566)	(650)	(810)
Portfolio managed - new/increased/return to performing/repaid	215	374	305
<b>Gross impaired assets - closing balance <sup>(1)</sup></b>	<b>3,375</b>	<b>3,116</b>	<b>2,788</b>

(1) Includes \$3,165 million of loans and advances and \$210 million of other financial assets (30 June 2016: \$2,979 million of loans and advances and \$137 million of other financial assets; 31 December 2015: \$2,690 million of loans and advances and \$98 million of other financial assets).

	As at		
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M
<b>Impaired assets by size of asset</b>			
Less than \$1 million	1,300	1,293	1,280
\$1 million to \$10 million	948	876	876
Greater than \$10 million	1,127	947	632
<b>Gross impaired assets</b>	<b>3,375</b>	<b>3,116</b>	<b>2,788</b>
Less total provisions for impaired assets <sup>(1)</sup>	(1,182)	(1,127)	(1,032)
<b>Net impaired assets</b>	<b>2,193</b>	<b>1,989</b>	<b>1,756</b>

(1) Includes \$1,017 million of individually assessed provisions and \$165 million of collective provisions (30 June 2016: \$944 million of individually assessed provisions and \$183 million of collective provisions; 31 December 2015: \$909 million of individually assessed provisions and \$123 million of collective provisions).

### Provisioning Policy

Provisions for impairment are maintained at an amount adequate to cover incurred credit related losses.

For loans and other receivables the Group assesses at each Balance Sheet date whether there is any objective evidence of impairment. Individually assessed provisions are made against financial assets that are individually significant, or which have been individually assessed as impaired. All loans and other receivables that do not have an individually assessed provision are assessed collectively for impairment. If there is objective evidence of impairment, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short-term balances are not discounted.

	Half Year Ended		
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M
<b>Provision for impairment losses</b>			
<b>Collective provision</b>			
Opening balance	2,818	2,801	2,762
Net collective provision funding	324	340	324
Impairment losses written off	(443)	(431)	(415)
Impairment losses recovered	107	105	120
Other	1	3	10
<b>Closing balance</b>	<b>2,807</b>	<b>2,818</b>	<b>2,801</b>
<b>Individually assessed provisions</b>			
Opening balance	944	909	887
Net new and increased individual provisioning	370	454	334
Write-back of provisions no longer required	(95)	(102)	(94)
Discount unwind to interest income	(16)	(14)	(13)
Impairment losses written off	(207)	(339)	(232)
Other	21	36	27
<b>Closing balance</b>	<b>1,017</b>	<b>944</b>	<b>909</b>
<b>Total provisions for impairment losses</b>	<b>3,824</b>	<b>3,762</b>	<b>3,710</b>
Less: Provision for Off Balance Sheet exposures	(35)	(44)	(47)
<b>Total provisions for loan impairment</b>	<b>3,789</b>	<b>3,718</b>	<b>3,663</b>

## Notes to the Financial Statements

### Note 5 Provisions for Impairment and Asset Quality (continued)

	As at		
	31 Dec 16	30 Jun 16	31 Dec 15
	%	%	%
<b>Provision ratios</b>			
Total provisions for impaired assets as a % of gross impaired assets	35.02	36.17	37.02
Total provisions for impairment losses as a % of gross loans and acceptances	0.53	0.54	0.55

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Loan impairment expense</b>			
Net collective provision funding	324	340	324
Net new and increased individual provisioning	370	454	334
Write-back of individually assessed provisions	(95)	(102)	(94)
<b>Total loan impairment expense</b>	599	692	564

### Note 6 Deposits and Other Public Borrowings

	As at		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Australia</b>			
Certificates of deposit	41,018	43,762	38,800
Term deposits	151,263	138,443	140,409
On-demand and short-term deposits	286,407	281,648	285,414
Deposits not bearing interest	37,833	35,164	13,699
Securities sold under agreements to repurchase	13,015	17,124	11,910
<b>Total Australia</b>	529,536	516,141	490,232
<b>New Zealand</b>			
Certificates of deposit	2,521	2,779	2,210
Term deposits	24,560	22,060	21,694
On-demand and short-term deposits	23,082	23,752	22,750
Deposits not bearing interest	3,784	3,345	3,170
Securities sold under agreements to repurchase	-	-	29
<b>Total New Zealand</b>	53,947	51,936	49,853
<b>Other Overseas</b>			
Certificates of deposit	9,343	6,319	6,962
Term deposits	10,694	10,009	10,967
On-demand and short-term deposits	2,507	3,575	2,417
Deposits not bearing interest	64	65	67
<b>Total Other Overseas</b>	22,608	19,968	20,413
<b>Total deposits and other public borrowings</b>	606,091	588,045	560,498

## Notes to the Financial Statements

### Note 7 Financial Reporting by Segments

The principal activities of the Group are carried out in the business segments below. These segments are based on the distribution channels through which the customer relationship is being managed. During the half year, refinements have been made to the allocation of customer balances and associated revenue and expenses between business segments, including updated transfer pricing allocations. These changes have not impacted the Group's cash net profit, but have resulted in changes to the presentation of the Income Statement and the Balance Sheet of the Group and affected segments. There have also been changes to the recognition of Global Asset Management long-term incentives in Wealth Management, as set out in Note 1 Accounting Policies, which have had a minor impact on the Group's cash net profit.

#### Half Year Ended 31 December 2016

	<b>Retail Banking Services</b>	<b>Business and Private Banking</b>	<b>Institutional Banking and Markets</b>	<b>Wealth Management</b>	<b>New Zealand</b>	<b>Bankwest</b>	<b>IFS and Other</b>	<b>Total</b>
	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Net interest income	4,584	1,513	761	-	833	819	233	<b>8,743</b>
Other banking income <sup>(1)</sup>	1,006	458	724	-	140	121	537	<b>2,986</b>
<b>Total banking income</b>	<b>5,590</b>	<b>1,971</b>	<b>1,485</b>	<b>-</b>	<b>973</b>	<b>940</b>	<b>770</b>	<b>11,729</b>
Funds management income	-	-	-	933	45	-	26	<b>1,004</b>
Insurance income	-	-	-	220	139	-	34	<b>393</b>
<b>Total operating income</b>	<b>5,590</b>	<b>1,971</b>	<b>1,485</b>	<b>1,153</b>	<b>1,157</b>	<b>940</b>	<b>830</b>	<b>13,126</b>
Investment experience <sup>(2)</sup>	-	-	-	34	(12)	-	(6)	<b>16</b>
<b>Total income</b>	<b>5,590</b>	<b>1,971</b>	<b>1,485</b>	<b>1,187</b>	<b>1,145</b>	<b>940</b>	<b>824</b>	<b>13,142</b>
Operating expenses <sup>(3)</sup>	(1,722)	(775)	(545)	(847)	(453)	(388)	(947)	<b>(5,677)</b>
Loan impairment expense	(350)	(64)	(44)	-	(47)	(43)	(51)	<b>(599)</b>
<b>Net profit before tax</b>	<b>3,518</b>	<b>1,132</b>	<b>896</b>	<b>340</b>	<b>645</b>	<b>509</b>	<b>(174)</b>	<b>6,866</b>
Corporate tax (expense)/benefit	(1,052)	(341)	(213)	(91)	(174)	(154)	75	<b>(1,950)</b>
Non-controlling interests	-	-	-	-	-	-	(9)	<b>(9)</b>
<b>Net profit after tax - "cash basis" <sup>(4)</sup></b>	<b>2,466</b>	<b>791</b>	<b>683</b>	<b>249</b>	<b>471</b>	<b>355</b>	<b>(108)</b>	<b>4,907</b>
Hedging and IFRS volatility	-	-	-	-	2	-	6	<b>8</b>
Other non-cash items	-	-	-	(19)	-	(1)	-	<b>(20)</b>
<b>Net profit after tax - "statutory basis"</b>	<b>2,466</b>	<b>791</b>	<b>683</b>	<b>230</b>	<b>473</b>	<b>354</b>	<b>(102)</b>	<b>4,895</b>
<b>Additional information</b>								
Amortisation and depreciation	(121)	(59)	(63)	(19)	(39)	(13)	(474)	<b>(788)</b>
<b>Balance Sheet</b>								
Total assets	347,471	104,554	177,625	21,862	86,085	83,605	150,517	<b>971,719</b>
Total liabilities	249,688	80,372	155,053	26,975	79,058	51,685	267,076	<b>909,907</b>

(1) The current half includes a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

(2) Investment experience is presented on a pre-tax basis.

(3) The current half includes a \$393 million one-off expense for acceleration of amortisation on certain software assets.

(4) This balance excludes non-cash items, including unrealised gains and losses relating to hedging and IFRS volatility (\$8 million gain), Bankwest non-cash items (\$1 million expense) and treasury shares valuation adjustment (\$19 million expense).

## Note 7 Financial Reporting by Segments (continued)

Half Year Ended 31 December 2015 <sup>(1)</sup>

	<b>Retail Banking Services \$M</b>	<b>Business and Private Banking \$M</b>	<b>Institutional Banking and Markets \$M</b>	<b>Wealth Management \$M</b>	<b>New Zealand \$M</b>	<b>Bankwest \$M</b>	<b>IFS and Other \$M</b>	<b>Total \$M</b>
Net interest income	4,300	1,505	814	-	795	843	170	<b>8,427</b>
Other banking income	941	414	645	-	147	107	162	<b>2,416</b>
<b>Total banking income</b>	<b>5,241</b>	<b>1,919</b>	<b>1,459</b>	<b>-</b>	<b>942</b>	<b>950</b>	<b>332</b>	<b>10,843</b>
Funds management income	-	-	-	964	40	-	28	<b>1,032</b>
Insurance income	-	-	-	330	127	-	30	<b>487</b>
<b>Total operating income</b>	<b>5,241</b>	<b>1,919</b>	<b>1,459</b>	<b>1,294</b>	<b>1,109</b>	<b>950</b>	<b>390</b>	<b>12,362</b>
Investment experience <sup>(2)</sup>	-	-	-	55	5	-	(2)	<b>58</b>
<b>Total income</b>	<b>5,241</b>	<b>1,919</b>	<b>1,459</b>	<b>1,349</b>	<b>1,114</b>	<b>950</b>	<b>388</b>	<b>12,420</b>
Operating expenses	(1,694)	(742)	(534)	(826)	(441)	(390)	(583)	<b>(5,210)</b>
Loan impairment expense	(306)	(70)	(140)	-	(37)	16	(27)	<b>(564)</b>
<b>Net profit before tax</b>	<b>3,241</b>	<b>1,107</b>	<b>785</b>	<b>523</b>	<b>636</b>	<b>576</b>	<b>(222)</b>	<b>6,646</b>
Corporate tax (expense)/benefit	(969)	(333)	(163)	(147)	(172)	(173)	130	<b>(1,827)</b>
Non-controlling interests	-	-	-	-	-	-	(11)	<b>(11)</b>
<b>Net profit after tax - "cash basis" <sup>(3)</sup></b>	<b>2,272</b>	<b>774</b>	<b>622</b>	<b>376</b>	<b>464</b>	<b>403</b>	<b>(103)</b>	<b>4,808</b>
Hedging and IFRS volatility	-	-	-	-	(109)	-	(41)	<b>(150)</b>
Other non-cash items	-	-	-	(9)	-	(26)	-	<b>(35)</b>
<b>Net profit after tax - "statutory basis"</b>	<b>2,272</b>	<b>774</b>	<b>622</b>	<b>367</b>	<b>355</b>	<b>377</b>	<b>(144)</b>	<b>4,623</b>
<b>Additional information</b>								
Amortisation and depreciation	(100)	(54)	(38)	(16)	(39)	(48)	(82)	<b>(377)</b>
<b>Balance Sheet</b>								
Total assets	322,172	97,576	175,609	19,670	75,066	80,092	132,806	<b>902,991</b>
Total liabilities	233,684	72,958	144,204	24,860	68,087	50,837	248,697	<b>843,327</b>

(1) Comparative information has been restated to reflect refinements to the allocation of customer balances, revenue and expense methodology including updated transfer pricing allocations, and changes to the recognition of Global Asset Management long-term incentives in Wealth Management.

(2) Investment experience is presented on a pre-tax basis.

(3) This balance excludes non-cash items, including unrealised gains and losses relating to hedging and IFRS volatility (\$150 million expense), Bankwest non-cash items (\$26 million expense) and treasury shares valuation adjustments (\$9 million expense).

## Notes to the Financial Statements

### Note 7 Financial Reporting by Segments (continued)

Geographical Information Financial Performance and Position	Half Year Ended			
	31 Dec 16	31 Dec 16	31 Dec 15	31 Dec 15
	\$M	%	\$M	%
<b>Income</b>				
Australia <sup>(1)</sup>	18,851	83.4	18,184	83.0
New Zealand	2,554	11.3	2,514	11.5
Other locations <sup>(2)</sup>	1,202	5.3	1,218	5.5
<b>Total Income</b>	<b>22,607</b>	<b>100.0</b>	<b>21,916</b>	<b>100.0</b>
<b>Non-Current Assets</b>				
Australia	15,557	91.8	14,689	91.7
New Zealand	1,047	6.2	1,017	6.4
Other locations <sup>(2)</sup>	332	2.0	306	1.9
<b>Total non-current assets</b> <sup>(3)</sup>	<b>16,936</b>	<b>100.0</b>	<b>16,012</b>	<b>100.0</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Other locations include: United Kingdom, United States, Japan, Singapore, Malta, Hong Kong, Indonesia, China, India, Vietnam and South Africa.

(3) Non-current assets include Property, plant and equipment, Investments in associates and joint ventures, and Intangibles.

The geographical segment represents the location in which the transaction was recognised.

# Notes to the Financial Statements

## Note 8 Shareholders' Equity

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Ordinary Share Capital</b>			
Shares on issue:			
Opening balance	34,129	33,577	27,898
Issue of shares (net of issue costs) <sup>(1)</sup>	(6)	-	5,022
Dividend reinvestment plan (net of issue costs) <sup>(2)</sup>	586	552	657
	<b>34,709</b>	<b>34,129</b>	<b>33,577</b>
Less treasury shares:			
Opening balance	(284)	(325)	(279)
Purchase of treasury shares <sup>(3)</sup>	(27)	(9)	(99)
Sale and vesting of treasury shares <sup>(3)</sup>	57	50	53
	<b>(254)</b>	<b>(284)</b>	<b>(325)</b>
<b>Closing balance</b>	<b>34,455</b>	<b>33,845</b>	<b>33,252</b>
<b>Other Equity Instruments</b>			
Opening balance	-	939	939
Redemptions <sup>(4)</sup>	-	(939)	-
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>939</b>
<b>Retained Profits</b>			
Opening balance <sup>(5)</sup>	23,435	22,365	21,340
Actuarial gains and (losses) from defined benefit superannuation plans	142	(120)	130
Losses on liabilities at fair value due to changes in own credit risk	(2)	-	(1)
Realised gains and dividend income on treasury shares	15	13	7
Operating profit attributable to Equity holders of the Bank <sup>(5)</sup>	4,895	4,600	4,623
	<b>28,485</b>	<b>26,858</b>	<b>26,099</b>
Net loss on sale/redemption of other equity <sup>(6)</sup>	-	(10)	-
Transfers to general reserve	(21)	(19)	(101)
Transfers from asset revaluation reserve	6	5	14
Transfers to employee compensation reserve	-	-	(2)
Interim dividend - cash component	-	(2,829)	-
Interim dividend - dividend reinvestment plan <sup>(2)</sup>	-	(552)	-
Final dividend - cash component	(3,222)	-	(2,958)
Final dividend - dividend reinvestment plan <sup>(2)</sup>	(586)	-	(655)
Other dividends <sup>(7)</sup>	-	(18)	(32)
<b>Closing balance</b>	<b>24,662</b>	<b>23,435</b>	<b>22,365</b>

(1) The Group undertook a capital raising through a rights issue to all eligible shareholders in the 2016 financial year. An accelerated institutional offer closed on 13 August 2015, while the retail entitlement offer closed on 8 September 2015, jointly raising \$5,016 million net of issue costs.

(2) The determined dividend includes an amount attributable to Dividend Reinvestment Plan (DRP) of \$586 million (final 2015/2016), \$552 million (interim 2015/2016) and \$655 million (final 2014/2015) with \$586 million, \$552 million and \$657 million ordinary shares being issued under plan rules, which include the carry forward of DRP balance from previous dividends.

(3) Relates to the movements in treasury shares held within Life Insurance Statutory Funds and the employee share scheme trust.

(4) Redemption of Trust Preferred Securities (TPS 2006) on 15 March 2016.

(5) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.

(6) Includes other equity instruments of non-controlling interests.

(7) Includes dividends relating to equity instruments on issue other than ordinary shares.

# Notes to the Financial Statements

## Note 8 Shareholders' Equity (continued)

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Reserves</b>			
<b>General Reserve</b>			
Opening balance	939	920	819
Appropriation from retained profits	21	19	101
<b>Closing balance</b>	<b>960</b>	<b>939</b>	<b>920</b>
<b>Asset Revaluation Reserve</b>			
Opening balance	173	177	191
Revaluation of properties	-	2	-
Transfer to retained profits	(6)	(5)	(14)
Tax on revaluation of properties	-	(1)	-
<b>Closing balance</b>	<b>167</b>	<b>173</b>	<b>177</b>
<b>Foreign Currency Translation Reserve</b>			
Opening balance	739	737	356
Currency translation adjustments of foreign operations	69	11	378
Currency translation of net investment hedge	9	(8)	(4)
Tax on translation adjustments	5	(1)	7
<b>Closing balance</b>	<b>822</b>	<b>739</b>	<b>737</b>
<b>Cash Flow Hedge Reserve</b>			
Opening balance	473	137	263
Gains and (losses) on cash flow hedging instruments:			
Recognised in other comprehensive income	(1,031)	249	1
Transferred to Income Statement:			
Interest income	(678)	(410)	(558)
Interest expense	960	639	379
Tax on cash flow hedging instruments	229	(142)	52
<b>Closing balance</b>	<b>(47)</b>	<b>473</b>	<b>137</b>
<b>Employee Compensation Reserve</b>			
Opening balance	132	85	122
Current period movement	(25)	47	(37)
<b>Closing balance</b>	<b>107</b>	<b>132</b>	<b>85</b>
<b>Available-for-sale Investments Reserve</b>			
Opening balance	278	498	594
Net gains and (losses) on revaluation of available-for-sale investments	241	(162)	(74)
Net gains and (losses) on available-for-sale investments transferred to Income Statement on disposal	(437)	(150)	(72)
Tax on available-for-sale investments	53	92	50
<b>Closing balance</b>	<b>135</b>	<b>278</b>	<b>498</b>
<b>Total Reserves</b>	<b>2,144</b>	<b>2,734</b>	<b>2,554</b>
<b>Shareholders' Equity attributable to Equity holders of the Bank</b>	<b>61,261</b>	<b>60,014</b>	<b>59,110</b>
<b>Shareholders' Equity attributable to Non-controlling interests</b>	<b>551</b>	<b>550</b>	<b>554</b>
<b>Total Shareholders' Equity</b>	<b>61,812</b>	<b>60,564</b>	<b>59,664</b>

## Notes to the Financial Statements

### Note 9 Disclosures about Fair Values

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. AASB 134 'Interim Financial Reporting' requires the disclosure of the fair value of those financial instruments not already carried at fair value in the Balance Sheet and disclosures about fair value measurements.

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

#### (a) Fair Value Information for Financial Instruments not measured at Fair Value

The estimated fair value of the Group's financial instruments not measured at fair value as at 31 December 2016 are presented below. The disclosure does not cover assets or liabilities that are not considered to be financial instruments from an accounting perspective.

	31 Dec 16		30 Jun 16	
	Carrying value \$M	Fair value \$M	Carrying value \$M	Fair value \$M
<b>Financial assets not measured at fair value on a recurring basis</b>				
Cash and liquid assets	44,709	44,709	23,372	23,372
Receivables due from other financial institutions	10,612	10,612	11,591	11,591
Loans and other receivables	704,912	705,310	684,891	685,341
Bank acceptances of customers	1,440	1,440	1,431	1,431
Other assets	6,113	6,113	5,599	5,599
<b>Total financial assets</b>	<b>767,786</b>	<b>768,184</b>	<b>726,884</b>	<b>727,334</b>
<b>Financial liabilities not measured at fair value on a recurring basis</b>				
Deposits and other public borrowings	606,091	606,420	588,045	588,405
Payables due to other financial institutions	34,031	34,031	28,771	28,771
Bank acceptances	1,440	1,440	1,431	1,431
Debt issues	175,583	176,246	161,284	161,049
Managed funds units on issue	2,362	2,362	1,606	1,606
Bills payable and other liabilities <sup>(1)</sup>	9,322	9,322	7,613	7,613
Loan capital	16,997	17,233	15,544	15,101
<b>Total financial liabilities</b>	<b>845,826</b>	<b>847,054</b>	<b>804,294</b>	<b>803,976</b>

(1) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.

The fair values disclosed above represent estimates of prices at which these instruments could be sold or transferred in an orderly transaction between market participants. However, many of the instruments lack an available trading market and it is the intention to hold to maturity. Thus it is possible that realised amounts may differ to amounts disclosed above.

Due to the wide range of valuation techniques and the numerous estimates that must be made, it may be difficult to make a reasonable comparison of the fair value information disclosed here, against that disclosed by other financial institutions.

# Notes to the Financial Statements

## Note 9 Disclosures about Fair Values (continued)

### (a) Fair Value Information for Financial Instruments not measured at Fair Value (continued)

For financial instruments not carried at fair value, an estimate of fair value has been derived as follows:

#### Loans and Other Receivables

The carrying value of loans and other receivables is net of accumulated collective and individually assessed provisions for impairment. Customer creditworthiness is regularly reviewed in line with the Group's credit policies and, where necessary, pricing is adjusted in accordance with individual credit contracts.

For the majority of variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of fair value. For institutional variable rate loans, the fair value is calculated using discounted cash flow models, with a discount rate reflecting market rates offered on similar loans to customers with similar creditworthiness. The fair value of impaired loans is calculated by discounting estimated future cash flows using the loan's market interest rate.

The fair value of fixed rate loans is calculated using discounted cash flow models, where the discount rate reflects market rates offered for loans of similar remaining maturities and creditworthiness of the customer.

#### Deposits and Other Public Borrowings

Fair value of non-interest bearing, at call and variable rate deposits, and fixed rate deposits repricing within six months, approximate their carrying value as they are short-term in nature or payable on demand.

Fair value of term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.

#### Debt Issues and Loan Capital

The fair values are calculated using quoted market prices, where available. Where quoted market prices are not available, discounted cash flow and option pricing models are used. The discount rate applied reflects the terms of the instrument, the timing of the cash flows, and is adjusted for any change in the Group's applicable credit rating.

#### Other Financial Assets and Liabilities

For all other financial assets and liabilities fair value approximates carrying value due to their short-term nature, frequent repricing and/or high credit rating.

### (b) Valuation Methodology for Financial Instruments carried at Fair Value

A significant number of financial instruments are carried on Balance Sheet at fair value.

The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where no quoted market price for an instrument is available, the fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in a limited number of instances, rely on inputs which are reasonable assumptions based on market conditions.

Determination of the fair value of Over-the-Counter (OTC) derivatives includes Credit Valuation Adjustments (CVA) for derivative assets to reflect the credit worthiness of the counterparty. Fair value of uncollateralised derivative assets and uncollateralised derivative liabilities incorporate Funding Valuation Adjustments (FVA) to reflect funding costs and benefits to the Group. These adjustments are applied after considering any relevant collateral or master netting arrangements.

The Group utilises various valuation techniques and applies a hierarchy for valuation inputs that maximise the use of observable market data, if available.

The tables below categorise financial assets and liabilities that are recognised and measured at fair value, and the valuation methodology according to the following hierarchy.

#### Valuation Inputs

##### *Quoted Prices in Active Markets – Level 1*

The valuation of Level 1 financial instruments are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Financial instruments included in this category are liquid government bonds, financial institution and corporate bonds, certificates of deposit, bank bills, listed equities and exchange traded derivatives.

##### *Valuation Technique Using Observable Inputs – Level 2*

Level 2 financial instruments are valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.

Financial instruments included in this category are commercial papers, mortgaged-backed securities and OTC derivatives including interest rate swaps, cross currency swaps and FX options.

##### *Valuation Technique Using Significant Unobservable Inputs – Level 3*

The valuation of Level 3 financial instruments incorporates significant inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historic transactions and economic models, where available. These inputs may include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility.

Financial instruments included in this category for the Group are certain exotic OTC derivatives and certain asset-backed securities valued using unobservable inputs.

## Notes to the Financial Statements

### Note 9 Disclosures about Fair Values (continued)

#### (c) Fair Value Hierarchy for Financial Assets and Liabilities measured at Fair Value

The classification in the fair value hierarchy of the Group's financial assets and liabilities measured at fair value is presented in the table below:

	Fair Value as at 31 December 2016				Fair Value as at 30 June 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<b>Financial assets measured at fair value on a recurring basis</b>								
Assets at fair value through Income Statement:								
Trading	22,897	11,302	-	34,199	23,180	10,887	-	34,067
Insurance	3,630	10,093	72	13,795	4,014	9,533	-	13,547
Other	43	760	-	803	43	1,437	-	1,480
Derivative assets	304	45,444	89	45,837	16	46,491	60	46,567
Available-for-sale investments	72,393	9,055	227	81,675	71,244	9,353	301	80,898
Bills Discounted <sup>(1)</sup>	7,993	-	-	7,993	10,507	-	-	10,507
<b>Total financial assets measured at fair value</b>	<b>107,260</b>	<b>76,654</b>	<b>388</b>	<b>184,302</b>	<b>109,004</b>	<b>77,701</b>	<b>361</b>	<b>187,066</b>
<b>Financial liabilities measured at fair value on a recurring basis</b>								
Liabilities at fair value through Income Statement	2,153	6,251	-	8,404	2,749	7,543	-	10,292
Derivative liabilities	2	37,996	44	38,042	38	39,819	64	39,921
Life investment contracts	-	8,312	-	8,312	-	8,582	-	8,582
<b>Total financial liabilities measured at fair value</b>	<b>2,155</b>	<b>52,559</b>	<b>44</b>	<b>54,758</b>	<b>2,787</b>	<b>55,944</b>	<b>64</b>	<b>58,795</b>

(1) These balances are included within loans, bills discounted and other receivables on the face of the Balance Sheet.

#### (d) Analysis of Movements between Fair Value Hierarchy Levels

During the half year ended 31 December 2016 there have been no reclassifications of available-for-sale securities (30 June 2016: \$547 million from Level 2 to Level 1). There were insurance security reclassifications of \$488 million (30 June 2016: \$628 million) from Level 1 to Level 2. There were no trading security reclassifications (30 June 2016: \$nil) from Level 2 to Level 1. Transfers in and out of Levels are due to changes in the observability of the inputs. The table below summarises movements in Level 3 balances during the half year. Transfers have been reflected as if they had taken place at the end of the reporting period.

#### Level 3 Movement Analysis for the half year ended 31 December 2016

	Insurance Assets	Derivative Assets	Available for Sale Investments	Derivative Liabilities	Total
	\$M	\$M	\$M	\$M	\$M
<b>As at 1 July 2016</b>	-	60	301	(64)	297
Purchases	-	-	-	-	-
Sales/Settlements	-	10	(71)	3	(58)
Gains/(losses) in the period:					
Recognised in the Income Statement	-	16	(1)	17	32
Recognised in the Statement of Comprehensive Income	-	-	(2)	-	(2)
Transfers in	72	3	-	-	75
Transfers out	-	-	-	-	-
<b>As at 31 December 2016</b>	<b>72</b>	<b>89</b>	<b>227</b>	<b>(44)</b>	<b>344</b>
<b>Gains/(losses) recognised in the Income Statement for financial instruments held as at 31 December 2016</b>	<b>-</b>	<b>16</b>	<b>-</b>	<b>17</b>	<b>33</b>

The Group's exposure to financial instruments measured at fair value based in full or in part on non-market observable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios to which they belong. As such, the purchases, sales, as well as any change in the assumptions used to value the instruments to a reasonably possible alternative do not have a material effect on the portfolio balance of the Group's results.

## Notes to the Financial Statements

### Note 10 Contingent Liabilities, Contingent Assets, Provisions and Commitments

Details of contingent liabilities, provisions and off Balance Sheet business are presented below. The face (contract) value represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. The credit equivalent amounts are a measure of potential loss to the Group in the event of non-performance by the counterparty. The credit commitments shown in the table below also constitute contingent assets. These commitments would be classified as loans and other assets in the Balance Sheet on the occurrence of the contingent event.

	Face Value		Group Credit Equivalent	
	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16
	\$M	\$M	\$M	\$M
<b>Credit risk related instruments</b>				
Guarantees <sup>(1)</sup>	6,647	6,216	6,647	6,216
Documentary letters of credit <sup>(2)</sup>	1,387	1,308	1,378	1,153
Performance related contingents <sup>(3)</sup>	2,422	2,568	2,414	2,560
Commitments to provide credit <sup>(4)</sup>	176,063	170,742	169,674	162,967
Other commitments <sup>(5)</sup>	1,014	1,636	891	1,359
<b>Total credit risk related instruments</b>	<b>187,533</b>	<b>182,470</b>	<b>181,004</b>	<b>174,255</b>

- (1) Guarantees are unconditional undertakings given to support the obligations of a customer to third parties.
- (2) Documentary letters of credit are undertakings by the Group to pay or accept drafts drawn by a supplier of goods against presentation of documents in the event of payment default by a customer.
- (3) Performance related contingents are undertakings that oblige the Group to pay third parties should a customer fail to fulfil a contractual non-monetary obligation.
- (4) Commitments to provide credit include all obligations on the part of the Group to provide credit facilities. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.
- (5) Other commitments include underwriting facilities, commitments with certain drawdowns, standby letters of credit and bill endorsements.

There has been no material change in contingent liabilities since those disclosed in the Financial Statements for the year ended 30 June 2016.

#### Advice Review Program

Certain remediation programs are being undertaken in the Group's advice business as follows:

- The Open Advice Review program for customers of Commonwealth Financial Planning Limited (CFPL) and Financial Wisdom Limited (FWL), who received advice between 1 September 2003 and 1 July 2012. Registrations for the program closed in July 2015. Customer file assessments are complete and remediation is ongoing. Promontory is expected to release its final independent review of advice assessed through the Open Advice Review program in March 2017.
- Variations to CFPL's and FWL's licence conditions agreed with ASIC in August 2014. The licensees are continuing to work with ASIC and the compliance expert to complete further reviews of customer files for 17 advisers identified by the compliance expert. The reviews will assess if the advice provided before 2012 was appropriate, and where required, customers will be remediated. The compliance expert confirmed in December 2016 that the licensees took appropriate action to contact more than 4,300 customers in 2015, respond to customers' request for information, and perform further reviews of their advice.
- A review of service delivery against past adviser service package offerings from 1 July 2007 to 30 June 2015. In instances where the Group's records do not show that customers who paid for the service package during this period received an annual review, customers are being refunded. Affected customers will be advised by June 2017 and refunds with interest have commenced.

The Group has provided for the cost of running these programs, together with anticipated remediation costs. Key assumptions in determining the remediation and program cost provisions include customer registrations and responses, remediation rates and amounts, case complexity and program design. These have been developed considering historical evidence, current information available and the exercise of judgement. As the nature of these estimates and assumptions are uncertain, the provisions may change. The Group considers that provisions held are adequate and represent our best estimate of the anticipated future costs.

The Group will re-evaluate the assumptions underpinning the provisions at each reporting date as more information becomes available.

### Note 11 Subsequent Events

The Directors have declared a fully franked interim dividend of 199 cents per share amounting to \$3,429 million.

The Bank expects the DRP for the interim dividend for the half year ended 31 December 2016 will be satisfied by the issue of shares of approximately \$531 million.

The Group is not aware of any further matters or circumstances that have occurred since the end of the period that have significantly affected or will significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## Directors' Declaration

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The Directors of the Commonwealth Bank of Australia declare that in their opinion:

- (a) the consolidated financial statements and notes for the half year ended on 31 December 2016, as set out on pages 51 to 72, are in accordance with the Corporations Act 2001, including:
- (i) complying with the Accounting Standards and any further requirements in the Corporations Regulations 2001; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the six months ended 31 December 2016; and
- (b) there are reasonable grounds to believe that the Commonwealth Bank of Australia will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Catherine Livingstone AO  
Chairman  
14 February 2017



Ian Narev  
Managing Director and Chief Executive Officer  
14 February 2017



## Independent auditor's review report to the members of Commonwealth Bank of Australia

### Report on the Half Year Financial Report

We have reviewed the accompanying half year financial report of Commonwealth Bank of Australia (the Company), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, selected explanatory notes and the directors' declaration for the consolidated entity. The consolidated entity comprises the Company and the entities it controlled during that half year.

#### *Directors' responsibility for the half year financial report*

The directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Commonwealth Bank of Australia, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

#### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Commonwealth Bank of Australia is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

PricewaterhouseCoopers

Marcus Laithwaite  
Partner

Sydney  
14 February 2017

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# Appendices

## 1. Net Interest Margin

	Half Year Ended <sup>(1)</sup>		
	31 Dec 16	30 Jun 16	31 Dec 15
	%	%	%
<b>Australia</b>			
Interest spread <sup>(2)</sup>	2.01	2.03	2.11
Benefit of interest-free liabilities, provisions and equity <sup>(3)</sup>	0.21	0.20	0.13
<b>Net interest margin <sup>(4)</sup></b>	<b>2.22</b>	<b>2.23</b>	<b>2.24</b>
<b>New Zealand</b>			
Interest spread <sup>(2)</sup>	1.66	1.75	1.86
Benefit of interest-free liabilities, provisions and equity <sup>(3)</sup>	0.34	0.35	0.38
<b>Net interest margin <sup>(4)</sup></b>	<b>2.00</b>	<b>2.10</b>	<b>2.24</b>
<b>Other Overseas</b>			
Interest spread <sup>(2)</sup>	0.57	0.70	0.69
Benefit of interest-free liabilities, provisions and equity <sup>(3)</sup>	0.03	0.05	0.02
<b>Net interest margin <sup>(4)</sup></b>	<b>0.60</b>	<b>0.75</b>	<b>0.71</b>
<b>Total Group</b>			
Interest spread <sup>(2)</sup>	1.91	1.94	2.02
Benefit of interest-free liabilities, provisions and equity <sup>(3)</sup>	0.20	0.20	0.13
<b>Net interest margin <sup>(4)</sup></b>	<b>2.11</b>	<b>2.14</b>	<b>2.15</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Difference between the average interest rate earned and the average interest rate paid on funds.

(3) A portion of the Group's interest earning assets is funded by net interest-free liabilities and Shareholders' Equity. The benefit to the Group of these interest-free funds is the amount it would cost to replace them at the average cost of funds.

(4) Net interest income divided by average interest earning assets for the half year annualised.

## 2. Average Balances and Related Interest

The following tables list the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rate for each of the half years ended 31 December 2016, 30 June 2016 and 31 December 2015. Averages used were predominantly daily averages. Interest is accounted for based on product yield.

Where assets or liabilities are hedged, the interest amounts are shown net of the hedge, however individual items not separately hedged may be affected by movements in exchange rates.

The New Zealand and Other Overseas components comprise overseas branches of the Bank and overseas domiciled controlled entities.

Non-accrual loans are included in interest earning assets under Loans, bills discounted and other receivables.

The official cash rate in Australia decreased 25 basis points during the half year, while rates in New Zealand decreased 50 basis points during the half year.

	Half Year Ended 31 Dec 16			Half Year Ended 30 Jun 16 <sup>(1)</sup>			Half Year Ended 31 Dec 15 <sup>(1)</sup>		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
<b>Interest Earning Assets</b>									
Home loans <sup>(2)</sup>	430,408	9,541	4.40	414,749	9,637	4.67	404,644	9,646	4.74
Consumer finance <sup>(3)</sup>	23,460	1,433	12.12	23,838	1,464	12.35	23,608	1,458	12.28
Business and corporate loans	220,519	4,472	4.02	215,027	4,406	4.12	207,726	4,355	4.17
<b>Loans, bills discounted and other receivables</b>	<b>674,387</b>	<b>15,446</b>	<b>4.54</b>	<b>653,614</b>	<b>15,507</b>	<b>4.77</b>	<b>635,978</b>	<b>15,459</b>	<b>4.84</b>
Cash and other liquid assets	42,801	177	0.82	42,328	253	1.20	45,838	175	0.76
Assets at fair value through Income Statement (excluding life insurance)	25,252	230	1.81	24,246	279	2.31	20,661	297	2.86
Available-for-sale investments	80,618	823	2.03	80,191	936	2.35	78,444	911	2.31
<b>Non-lending interest earning assets</b>	<b>148,671</b>	<b>1,230</b>	<b>1.64</b>	<b>146,765</b>	<b>1,468</b>	<b>2.01</b>	<b>144,943</b>	<b>1,383</b>	<b>1.90</b>
Total interest earning assets <sup>(4)</sup>	823,058	16,676	4.02	800,379	16,975	4.27	780,921	16,842	4.29
Non-interest earning assets	134,122			123,061			128,358		
<b>Total average assets</b>	<b>957,180</b>			<b>923,440</b>			<b>909,279</b>		

	Half Year Ended 31 Dec 16			Half Year Ended 30 Jun 16 <sup>(1)</sup>			Half Year Ended 31 Dec 15 <sup>(1)</sup>		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
<b>Interest Bearing Liabilities</b>									
Transaction deposits <sup>(5)</sup>	68,620	266	0.77	68,664	303	0.89	79,791	303	0.76
Savings deposits <sup>(5)</sup>	180,106	1,302	1.43	180,815	1,578	1.76	173,624	1,816	2.08
Investment deposits	206,527	2,619	2.52	195,980	2,674	2.74	196,068	2,747	2.79
Certificates of deposit and other	68,717	1,087	3.14	68,315	1,127	3.32	64,646	1,137	3.50
<b>Total interest bearing deposits</b>	<b>523,970</b>	<b>5,274</b>	<b>2.00</b>	<b>513,774</b>	<b>5,682</b>	<b>2.22</b>	<b>514,129</b>	<b>6,003</b>	<b>2.32</b>
Payables due to other financial institutions	30,182	126	0.83	32,390	146	0.91	41,622	131	0.63
Liabilities at fair value through Income Statement	8,105	67	1.64	7,583	107	2.84	6,155	104	3.36
Debt issues	169,388	2,145	2.51	161,879	2,230	2.77	162,155	1,895	2.32
Loan capital	15,591	321	4.08	14,620	302	4.15	13,165	282	4.26
<b>Total interest bearing liabilities</b>	<b>747,236</b>	<b>7,933</b>	<b>2.11</b>	<b>730,246</b>	<b>8,467</b>	<b>2.33</b>	<b>737,226</b>	<b>8,415</b>	<b>2.27</b>
Non-interest bearing liabilities	148,756			134,057			115,817		
<b>Total average liabilities</b>	<b>895,992</b>			<b>864,303</b>			<b>853,043</b>		

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Net of average mortgage offset balances. Gross average home loans balance, excluding mortgage offset accounts is \$463,811 million (30 June 2016: \$443,497 million, 31 December 2015: \$429,639 million).

(3) Consumer finance includes personal loans, credit cards and margin loans.

(4) Used for calculating Net interest margin.

(5) Net of average mortgage offset balances.

## Appendices

### 2. Average Balances and Related Interest (continued)

	Half Year Ended 31 Dec 16			Half Year Ended 30 Jun 16 <sup>(1)</sup>			Half Year Ended 31 Dec 15 <sup>(1)</sup>		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
Net Interest Margin	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
Total interest earning assets	823,058	16,676	4.02	800,379	16,975	4.27	780,921	16,842	4.29
Total interest bearing liabilities	747,236	7,933	2.11	730,246	8,467	2.33	737,226	8,415	2.27
Net interest income and interest spread		8,743	1.91		8,508	1.94		8,427	2.02
Benefit of free funds			0.20			0.20			0.13
Net interest margin			2.11			2.14			2.15

Geographical Analysis of Key Categories	Half Year Ended 31 Dec 16			Half Year Ended 30 Jun 16 <sup>(1)</sup>			Half Year Ended 31 Dec 15 <sup>(1)</sup>		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
<b>Loans, Bills Discounted and Other Receivables</b>									
Australia	576,123	13,218	4.55	560,995	13,369	4.79	547,493	13,251	4.81
New Zealand <sup>(2)</sup>	74,127	1,889	5.06	68,358	1,787	5.26	64,496	1,874	5.78
Other Overseas <sup>(2)</sup>	24,137	339	2.79	24,261	351	2.91	23,989	334	2.77
<b>Total</b>	<b>674,387</b>	<b>15,446</b>	<b>4.54</b>	<b>653,614</b>	<b>15,507</b>	<b>4.77</b>	<b>635,978</b>	<b>15,459</b>	<b>4.84</b>
<b>Non-Lending Interest Earning Assets</b>									
Australia	104,530	1,045	1.98	102,338	1,197	2.35	99,318	1,177	2.36
New Zealand <sup>(2)</sup>	7,659	85	2.20	7,058	90	2.56	6,392	101	3.14
Other Overseas <sup>(2)</sup>	36,482	100	0.54	37,369	181	0.97	39,233	105	0.53
<b>Total</b>	<b>148,671</b>	<b>1,230</b>	<b>1.64</b>	<b>146,765</b>	<b>1,468</b>	<b>2.01</b>	<b>144,943</b>	<b>1,383</b>	<b>1.90</b>
<b>Total Interest Bearing Deposits</b>									
Australia	451,960	4,385	1.92	446,216	4,829	2.18	450,632	5,018	2.21
New Zealand <sup>(2)</sup>	49,188	716	2.89	46,935	720	3.08	45,819	828	3.59
Other Overseas <sup>(2)</sup>	22,822	173	1.50	20,623	133	1.30	17,678	157	1.77
<b>Total</b>	<b>523,970</b>	<b>5,274</b>	<b>2.00</b>	<b>513,774</b>	<b>5,682</b>	<b>2.22</b>	<b>514,129</b>	<b>6,003</b>	<b>2.32</b>
<b>Other Interest Bearing Liabilities</b>									
Australia	164,546	2,007	2.42	161,790	2,200	2.73	167,733	1,905	2.26
New Zealand <sup>(2)</sup>	22,420	416	3.68	17,828	347	3.91	14,766	311	4.19
Other Overseas <sup>(2)</sup>	36,300	236	1.29	36,854	238	1.30	40,598	196	0.96
<b>Total</b>	<b>223,266</b>	<b>2,659</b>	<b>2.36</b>	<b>216,472</b>	<b>2,785</b>	<b>2.59</b>	<b>223,097</b>	<b>2,412</b>	<b>2.15</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) The New Zealand and Other Overseas components comprise overseas branches of the Group and overseas domiciled controlled entities. Overseas intragroup borrowings have been adjusted into the interest spread and margin calculations to more appropriately reflect the overseas cost of funds. Non-accrual loans were included in Interest earning assets under Loans, bills discounted and other receivables.

## 3. Interest Rate and Volume Analysis

	Half Year Ended Dec 16 vs Jun 16 <sup>(1)</sup>			Half Year Ended Dec 16 vs Dec 15 <sup>(1)</sup>		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest Earning Assets <sup>(2)</sup></b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Home loans	355	(451)	(96)	593	(698)	(105)
Consumer finance	(23)	(8)	(31)	(9)	(16)	(25)
Business and corporate loans	112	(46)	66	264	(147)	117
<b>Loans, bills discounted and other receivables</b>	<b>484</b>	<b>(545)</b>	<b>(61)</b>	<b>907</b>	<b>(920)</b>	<b>(13)</b>
Cash and other liquid assets	2	(78)	(76)	(12)	14	2
Assets at fair value through Income Statement (excluding life insurance)	10	(59)	(49)	54	(121)	(67)
Available-for-sale investments	5	(118)	(113)	24	(112)	(88)
<b>Non-lending interest earning assets</b>	<b>17</b>	<b>(255)</b>	<b>(238)</b>	<b>33</b>	<b>(186)</b>	<b>(153)</b>
<b>Total interest earning assets</b>	<b>470</b>	<b>(769)</b>	<b>(299)</b>	<b>881</b>	<b>(1,047)</b>	<b>(166)</b>

	Half Year Ended Dec 16 vs Jun 16 <sup>(1)</sup>			Half Year Ended Dec 16 vs Dec 15 <sup>(1)</sup>		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest Bearing Liabilities <sup>(2)</sup></b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Transaction deposits	-	(37)	(37)	(43)	6	(37)
Savings deposits	(6)	(270)	(276)	57	(571)	(514)
Investment deposits	139	(194)	(55)	140	(268)	(128)
Certificates of deposit and other	6	(46)	(40)	68	(118)	(50)
<b>Total interest bearing deposits</b>	<b>108</b>	<b>(516)</b>	<b>(408)</b>	<b>107</b>	<b>(836)</b>	<b>(729)</b>
Payables due to other financial institutions	(10)	(10)	(20)	(42)	37	(5)
Liabilities at fair value through Income Statement	6	(46)	(40)	25	(62)	(37)
Debt issues	99	(184)	(85)	88	162	250
Loan capital	20	(1)	19	51	(12)	39
<b>Total interest bearing liabilities</b>	<b>189</b>	<b>(723)</b>	<b>(534)</b>	<b>110</b>	<b>(592)</b>	<b>(482)</b>

	Half Year Ended <sup>(1)</sup>	
	Dec 16 vs Jun 16 Increase/(Decrease)	Dec 16 vs Dec 15 Increase/(Decrease)
<b>Change in Net Interest Income <sup>(3)</sup></b>	<b>\$M</b>	<b>\$M</b>
Due to changes in average volume of interest earning assets	243	451
Due to changes in interest margin	(125)	(135)
Due to variation in time period	117	-
<b>Change in net interest income</b>	<b>235</b>	<b>316</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) The volume and rate variances for total interest earning assets and total interest bearing liabilities have been calculated separately (rather than being the sum of the individual categories).

(3) "Volume" reflects the change in net interest income over the period due to balance growth (assuming average rates were held constant), and "Rate" reflects the change due to movements in yield (assuming average volumes were held constant). "Variation in time periods" only applies to reporting periods of differing lengths (e.g. between half years).

## Appendices

### 3. Interest Rate and Volume Analysis (continued)

Geographical Analysis of Key Categories <sup>(2)</sup>	Half Year Ended Dec 16 vs Jun 16 <sup>(1)</sup>			Half Year Ended Dec 16 vs Dec 15 <sup>(1)</sup>		
	Volume \$M	Rate \$M	Total \$M	Volume \$M	Rate \$M	Total \$M
<b>Loans, Bills Discounted and Other Receivables</b>						
Australia	354	(505)	(151)	675	(708)	(33)
New Zealand	149	(47)	102	263	(248)	15
Other Overseas	(2)	(10)	(12)	2	3	5
<b>Total</b>	<b>484</b>	<b>(545)</b>	<b>(61)</b>	<b>907</b>	<b>(920)</b>	<b>(13)</b>
<b>Non-Lending Interest Earning Assets</b>						
Australia	24	(176)	(152)	57	(189)	(132)
New Zealand	7	(12)	(5)	17	(33)	(16)
Other Overseas	(3)	(78)	(81)	(7)	2	(5)
<b>Total</b>	<b>17</b>	<b>(255)</b>	<b>(238)</b>	<b>33</b>	<b>(186)</b>	<b>(153)</b>
<b>Total Interest Bearing Deposits</b>						
Australia	59	(503)	(444)	14	(647)	(633)
New Zealand	34	(38)	(4)	55	(167)	(112)
Other Overseas	15	25	40	42	(26)	16
<b>Total</b>	<b>108</b>	<b>(516)</b>	<b>(408)</b>	<b>107</b>	<b>(836)</b>	<b>(729)</b>
<b>Other Interest Bearing Liabilities</b>						
Australia	36	(229)	(193)	(38)	140	102
New Zealand	87	(18)	69	152	(47)	105
Other Overseas	(4)	2	(2)	(24)	64	40
<b>Total</b>	<b>84</b>	<b>(210)</b>	<b>(126)</b>	<b>2</b>	<b>245</b>	<b>247</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) The volume and rate variances for total loans, bills discounted and other receivables, total non-lending interest earning assets, total interest bearing deposits and total other interest bearing liabilities have been calculated separately (rather than being the sum of the individual categories).

### 4. Other Banking Income

	Half Year Ended				
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
Lending fees	533	503	507	6	5
Commissions	1,254	1,064	1,151	18	9
Trading income	600	591	496	2	21
Net gain/(loss) on non-trading financial instruments <sup>(1) (2)</sup>	374	95	(122)	large	large
Net gain/(loss) on sale of property, plant and equipment	7	(15)	(6)	large	large
Net gain/(loss) from hedging ineffectiveness	39	(37)	(35)	large	large
Dividends	5	7	5	(29)	-
Share of profit of associates and joint ventures net of impairment	154	144	145	7	6
Other	32	20	63	60	(49)
<b>Total other banking income - "statutory basis"</b>	<b>2,998</b>	<b>2,372</b>	<b>2,204</b>	<b>26</b>	<b>36</b>

(1) Inclusive of non-trading derivatives that are held for risk management purposes.

(2) The current half includes a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

#### Other Banking Income – Reconciliation of Cash and Statutory Basis

The table below sets out various accounting impacts arising from the application of AASB 139 'Financial Instruments: Recognition and Measurement' to the Group's derivative hedging activities and other non-cash items.

	Half Year Ended		
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M
<b>Other banking income - "cash basis"</b>	<b>2,986</b>	<b>2,444</b>	<b>2,416</b>
Revenue hedge of New Zealand operations - unrealised	(2)	(46)	(151)
Hedging and IFRS volatility	14	(26)	(61)
<b>Other banking income - "statutory basis"</b>	<b>2,998</b>	<b>2,372</b>	<b>2,204</b>

## 5. Commlnsure and Sovereign Sources of Profit

### Wealth Management - Commlnsure

Sources of Profit from Commlnsure	Half Year Ended				
	31 Dec 16 \$M	30 Jun 16 \$M	31 Dec 15 \$M	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
Life insurance operating margins:					
Planned profit margins	80	94	98	(15)	(18)
Experience variations	(94)	(112)	-	(16)	large
Funds management operating margins	38	41	37	(7)	3
General insurance operating margins	60	19	26	large	large
Operating margins	84	42	161	large	(48)
Investment experience after tax	22	41	30	(46)	(27)
<b>Cash net profit after tax</b>	<b>106</b>	<b>83</b>	<b>191</b>	<b>28</b>	<b>(45)</b>

### New Zealand - Sovereign

Sources of Profit from Sovereign	Half Year Ended				
	31 Dec 16 NZ\$M	30 Jun 16 NZ\$M	31 Dec 15 NZ\$M	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
Planned profit margins	47	48	45	(2)	4
Experience variations	5	(6)	3	large	67
Operating margins	52	42	48	24	8
Investment experience after tax	(8)	9	6	large	large
<b>Cash net profit after tax</b>	<b>44</b>	<b>51</b>	<b>54</b>	<b>(14)</b>	<b>(19)</b>

## Appendices

### 6. Integrated Risk Management (Excludes Insurance and Funds Management)

The major categories of risk actively managed by the Group include credit risk, market risk, liquidity and funding risk and operational risks.

The Group's approach to risk management including governance, management, material business risks, and policies and procedures are described in the Notes to the Financial Statements in the 30 June 2016 Annual Report of the Group. Further disclosures in respect of capital adequacy and risk are provided in the Group's annual Pillar 3 document.

#### Credit Risk

The Group uses a portfolio approach for the management of its credit risk, of which a key element is a well-diversified portfolio. The Group uses various portfolio management tools to assist in diversifying the credit portfolio.

Below is a breakdown of the Group's committed exposure across industry, region and commercial credit quality.

	As at		
	31 Dec 16	30 Jun 16	31 Dec 15
<b>By Industry</b> <sup>(1)</sup>	%	%	%
Agriculture, forestry and fishing	2.0	1.9	1.8
Banks	6.3	6.8	7.8
Business services	1.3	1.2	1.3
Construction	0.8	0.8	0.8
Consumer	54.8	54.9	54.0
Culture and recreational services	0.7	0.7	0.7
Energy	1.2	1.1	1.1
Finance - Other	5.1	5.2	5.1
Health and community service	0.7	0.7	0.7
Manufacturing	1.6	1.6	1.8
Mining	1.4	1.5	1.8
Property	6.7	6.6	6.4
Retail trade and wholesale trade	2.4	2.4	2.3
Sovereign	9.5	9.0	8.7
Transport and storage	1.5	1.5	1.6
Other	4.0	4.1	4.1
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

	As at		
	31 Dec 16	30 Jun 16	31 Dec 15
<b>By Region</b> <sup>(1)</sup>	%	%	%
Australia	76.4	76.7	75.4
New Zealand	9.7	9.2	8.8
Europe	5.8	5.4	6.4
Americas	4.2	4.5	5.1
Asia	3.7	3.8	4.1
Other	0.2	0.4	0.2
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

	As at		
	31 Dec 16	30 Jun 16	31 Dec 15
<b>Commercial Portfolio Quality</b> <sup>(1)</sup>	%	%	%
AAA/AA	32.0	31.8	30.7
A	17.6	17.8	19.0
BBB	19.1	19.1	20.1
Other	31.3	31.3	30.2
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(1) Committed exposures by industry, region and commercial credit quality are disclosed on a gross basis (calculated before collateralisation).

As a measure of individually risk-rated commercial portfolio exposure (including finance and insurance), the Group has 68.7% (June 2016: 68.7%; December 2015: 69.8%) of commercial exposures at investment grade quality.

## 6. Integrated Risk Management (continued)

### Market Risk

Market risk in the Balance Sheet is discussed within Note 33 of the 2016 Annual Report.

### Value at Risk (VaR)

The Group uses Value at Risk (VaR) as one of the measures of Traded and Non-Traded Market Risk. VaR is a statistical measure of potential loss using historically observed market movements.

VaR is modelled at a 97.5% confidence level. A 1-day holding period is used for trading book positions. A 20-day holding period is used for Interest Rate Risk in the Banking Book, insurance business market risk and Non-traded equity risk.

Where VaR is deemed not to be an appropriate method of risk measurement other risk measures have been used, as specified by the heading or accompanying footnotes of the tables provided.

	Average VaR		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Traded Market Risk <sup>(1)</sup></b>			
<b>Risk Type</b>			
Interest rate risk <sup>(2)</sup>	12.0	9.6	6.3
Foreign exchange risk	2.3	1.9	2.6
Equities risk	0.6	0.5	0.4
Commodities risk	2.7	2.2	2.1
Credit spread risk	3.6	3.1	2.9
Diversification benefit	(11.1)	(8.2)	(8.4)
Total general market risk	10.1	9.1	5.9
Undiversified risk	2.2	2.3	2.3
ASB Bank	0.2	0.1	0.2
<b>Total</b>	<b>12.5</b>	<b>11.5</b>	<b>8.4</b>

(1) Average VaR is at 1 day 97.5% confidence, and is calculated for each six month period.

(2) The increase in traded market risk average VaR relative to prior comparative periods was mainly driven by a conservative measurement approach for some longer term interest rates, particularly in currencies with negative or near zero rates. The approach has been reviewed and an enhanced methodology commenced in September 2016. While this methodology results in lower daily VaR, the average VaR across the current period is not fully reflective of this change.

	Average VaR <sup>(1)</sup>		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Non-Traded VaR in Australian Life Insurance Business</b>			
<b>(20 day 97.5% confidence)</b>			
Shareholder funds <sup>(2)</sup>	1.3	2.1	5.7
Guarantees (to Policyholders) <sup>(3)</sup>	21.6	21.7	17.0

(1) For the half year ended.

(2) VaR in relation to the investment of Shareholder Funds.

(3) VaR in relation to product portfolios where the Group has a guaranteed liability to policyholders (e.g. annuities where we receive a lump sum payment and guarantee to pay a series of future payments).

### Non-Traded Equity

Non-traded equity includes all equity instruments outside the trading portfolio with the exception of the Group's structural and strategic holdings.

	As at VaR		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Non-Traded Equity Risk VaR (20 day 97.5% confidence)</b>			
VaR	26.9	34.0	43.5

## Appendices

### 6. Integrated Risk Management (continued)

#### Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book is discussed within Note 33 of the 2016 Annual Report.

#### (a) Next 12 Months' Earnings

The potential unfavourable change to the Group's net interest earnings based on 100 basis point parallel rate shock is as follows:

		31 Dec 16	30 Jun 16	31 Dec 15
		\$M	\$M	\$M
<b>Net Interest Earnings at Risk<sup>(1)</sup></b>				
Average monthly exposure	AUD	284.9	307.6	324.6
	NZD	27.9	31.0	29.5
High month exposure	AUD	309.7	338.5	408.7
	NZD	33.5	38.9	37.7
Low month exposure	AUD	260.7	286.5	227.1
	NZD	21.4	16.5	23.9

(1) For the half year ended. NZD amounts are presented in NZD.

#### (b) Economic Value

A 20-day 97.5% VaR measure is used to capture the economic impact of adverse changes in interest rates on all banking book assets and liabilities.

		Average VaR <sup>(1)</sup>		
		31 Dec 16	30 Jun 16	31 Dec 15
		\$M	\$M	\$M
<b>Non-Traded Interest Rate Risk (20 day 97.5% confidence)</b>				
AUD Interest rate risk		99.3	79.5	51.8
NZD Interest rate risk <sup>(2)</sup>		4.7	3.3	3.8

(1) For the half year ended. NZD amounts are presented in NZD.

(2) Relates specifically to ASB data as at month end.

## 6. Integrated Risk Management (continued)

### Funding Sources

The following table provides the funding sources for the Group including customer deposits, short-term and long-term wholesale funding. Shareholders' equity is excluded from this view of funding sources other than the USD Trust Preferred Securities which are classified as other equity instruments in the statutory Balance Sheet.

	As at				
	31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
	\$M	\$M	\$M		
Transaction deposits	93,641	89,780	97,327	4	(4)
Savings deposits	191,406	191,313	189,560	-	1
Investment deposits	211,711	197,085	195,814	7	8
Other customer deposits <sup>(1)</sup>	44,593	39,796	17,655	12	large
<b>Total customer deposits</b>	<b>541,351</b>	<b>517,974</b>	<b>500,356</b>	<b>5</b>	<b>8</b>
<b>Wholesale funding</b>					
<b>Short-term</b>					
Certificates of deposit <sup>(2)</sup>	44,100	43,702	37,438	1	18
Euro commercial paper programme	2,597	2,210	3,518	18	(26)
US commercial paper programme	32,013	28,395	37,919	13	(16)
Euro medium-term note programme	12,749	9,135	6,092	40	large
Central Bank deposits	20,626	17,826	18,120	16	14
Other <sup>(3)</sup>	4,101	9,446	5,696	(57)	(28)
<b>Total short-term wholesale funding</b>	<b>116,186</b>	<b>110,714</b>	<b>108,783</b>	<b>5</b>	<b>7</b>
Net collateral received	5,728	4,009	5,642	43	2
Internal RMBS sold under agreement to repurchase with RBA	4,085	4,314	4,300	(5)	(5)
<b>Total short-term collateral deposits</b>	<b>9,813</b>	<b>8,323</b>	<b>9,942</b>	<b>18</b>	<b>(1)</b>
<b>Total long-term funding - less than or equal to one year residual maturity</b>	<b>29,780</b>	<b>29,297</b>	<b>28,075</b>	<b>2</b>	<b>6</b>
<b>Long-term - greater than one year residual maturity</b>					
Domestic debt program	18,029	17,001	12,292	6	47
Euro medium-term note programme	26,160	25,272	23,199	4	13
US medium-term note programme <sup>(4)</sup>	28,502	24,602	23,418	16	22
Covered bond programme	25,589	21,777	27,839	18	(8)
Securitisation	7,890	9,431	9,205	(16)	(14)
Loan capital	16,747	14,945	12,778	12	31
Other	3,145	5,093	4,601	(38)	(32)
<b>Total long-term funding - greater than one year residual maturity</b>	<b>126,062</b>	<b>118,121</b>	<b>113,332</b>	<b>7</b>	<b>11</b>
<b>IFRS MTM and derivative FX revaluations</b>	<b>1,489</b>	<b>4,149</b>	<b>2,488</b>	<b>(64)</b>	<b>(40)</b>
<b>Total funding</b>	<b>824,681</b>	<b>788,578</b>	<b>762,976</b>	<b>5</b>	<b>8</b>
<b>Reported as</b>					
Deposits and other public borrowings	606,091	588,045	560,498	3	8
Payables due to other financial institutions	34,031	28,771	35,053	18	(3)
Liabilities at fair value through Income Statement	8,404	10,292	9,011	(18)	(7)
Bank acceptances	1,440	1,431	1,640	1	(12)
Debt issues	175,583	161,284	160,798	9	9
Loan capital	16,997	15,544	14,399	9	18
Shareholders' equity - other equity instruments <sup>(5)</sup>	-	-	939	-	large
Loans and other receivables - collateral posted	(520)	(720)	(502)	(28)	4
Receivables due from other financial institutions - collateral posted	(6,263)	(7,144)	(7,352)	(12)	(15)
Securities purchased under agreements to resell	(11,082)	(8,925)	(11,508)	24	(4)
<b>Total Funding</b>	<b>824,681</b>	<b>788,578</b>	<b>762,976</b>	<b>5</b>	<b>8</b>

(1) Other customer deposits primarily consist of non-interest bearing deposits and deposits held at fair value through the Income Statement.

(2) Includes Bank acceptances.

(3) Includes net securities sold under agreement to repurchase and purchased under agreement to resell and interbank borrowings.

(4) Includes notes issued under the Bank's 3(a)(2) program.

(5) Redemption of Trust Preferred Securities (TPS 2006) on 15 March 2016.

## 6. Integrated Risk Management (continued)

### Liquidity and Funding Policies and Management

The Group recognises the critical nature of managing liquidity and funding risks to be able to meet financial obligations as they fall due in all market conditions.

The Group liquidity and funding framework comprises a Group liquidity risk policy and strategy, a risk appetite statement, liquidity risk tolerances, an annual funding strategy, and a Contingent Funding Plan (CFP). Group Treasury is responsible for managing liquidity risk under delegated authorities, subject to the oversight of an independent liquidity risk management function and of internal audit.

Australian Authorised Deposit-taking Institutions (ADIs) are subject to the Liquidity Coverage Ratio (LCR), implemented by the Australian Prudential Regulation Authority (APRA) in ADI Prudential Standard 210 (APS 210). The LCR requires locally-incorporated ADIs to maintain liquid assets to cover net cash outflows forecast to occur over a prescribed 30 day liquidity stress scenario. Cash flow assumptions and liquid assets in the LCR are defined in APS 210; liquid assets are defined as High Quality Liquid Assets (HQLA), and include cash and government and semi-government debt.

As a shortfall in HQLA exists in Australia relative to the aggregate LCR requirement, the Reserve Bank of Australia (RBA) has provided eligible ADIs with a Committed Liquidity Facility (CLF). Under the CLF, the RBA has committed to provide crisis funding secured against approved securities, up to an amount set annually by APRA, for each participating ADI.

Risk tolerances and active forecasting of the LCR ensure that the Group maintains a superior level of liquidity at all times relative to regulatory requirements. Group Treasury works to ensure that the Group is well placed to meet emerging regulation such as the Net Stable Funding Ratio, which is due to be implemented in 2018.

The Group's liquidity and funding policies also establish a framework that ensures the Group has:

- Predominantly customer deposit funding;
- Diverse and stable sources of wholesale funding;
- A buffer over the regulatory requirement of a 100% LCR;
- Short and long-term wholesale funding limits, which are reviewed regularly and are based on an assessment of the Group's capacity to borrow in the markets;
- Stress tests, covering a range of short-term and protracted idiosyncratic and market-wide stress scenarios, to identify potential sources of liquidity strain (including from contingent liquidity exposures) and possible contingent funding actions. The stress test results drive management discussions and decisions on appropriate buffers;
- A diversified liquid asset portfolio of high quality securities eligible for repurchase with central banks, managed within specific concentration limits, and designated as liquid assets under the LCR, including:
  - HQLA such as cash, government and semi-government bonds;
  - ADI-issued securities, eligible securitisations and

covered bonds, and securities issued by supranationals, all of which are repo-eligible by the RBA under normal operations and in crisis under the CLF; and

- Internal securitisations, being assets securitised by the Group and retained on the Balance Sheet that can be used as collateral for crisis funding from the RBA under the CLF; and
- Specific foreign currency limits and policies that apply to offshore branches and subsidiaries, ensuring the holding of appropriate foreign currency liquid assets. Foreign currency liquid assets provide liquidity in addition to the domestic liquid asset portfolio.

The Group's key liquidity risk management measures include:

- An LCR model incorporating the APRA defined behaviour of cash flows in a prescribed liquidity crisis over 30 days. The model calculates the actual and forecast LCR, and is used to monitor the buffer over the regulatory requirement;
- A going concern model that is used to analyse and forecast funding needs over the medium-term;
- Supplementary stress tests used to validate management buffers contained in the liquidity and funding policies;
- Early warning indicators to identify the emergence of increased risk or vulnerabilities in the liquidity risk position or potential funding needs; and
- A detailed and robust CFP defining the approach to a liquidity shock on a location-specific and Group-wide basis, crisis management actions, roles and responsibilities, contingent sources of liquidity and funding, crisis reporting and operational guidelines. The CFP is tested and updated annually.

The Group's funding sources include:

- Its consumer retail funding base, covering a wide range of retail transaction accounts, investment accounts and retirement style accounts for individual consumers;
- Its small business and institutional deposit base;
- Its wholesale international and domestic funding programs that include its Australian dollar Negotiable Certificates of Deposit, Australian dollar bank bills, Asian Transferable Certificates of Deposit programme, Australian, US and Euro Commercial Paper programme, US Extendible Notes programme, Australian dollar Domestic Debt program, US Medium-Term Note programme, Euro Medium-Term Note programme, multi-jurisdiction Covered Bonds programme and its Medallion securitisation programme; and
- Other contingent funding sources including access to various central bank repurchase agreement facilities, including the CLF, providing the Group with the ability to borrow funds on a secured basis, even when normal markets are not available.

## 7. Counterparty and Other Credit Risk Exposures

### Securitisation Vehicles

Reason for establishment – The Group conducts an asset securitisation program that transfers assets to a Special Purpose Vehicle (SPV) and issues asset-backed securities to investors. The Group securitises modest amounts of residential home loans to issue residential mortgage-backed securities and covered bonds to diversify the Group's wholesale funding.

Control factors – The Group manages these securitisation vehicles, services assets in the SPV, provides interest rate and currency hedging, or provides other facilities such as liquidity facilities. The Group retains the risks associated with the provision of these services. The Group is also entitled to any residual income from the SPVs after all payments due to investors and costs of the program have been met.

### Asset-backed Securities

Asset-backed securities are debt securities where the cash flow is dependent on the performance of the assets assigned to the SPV, which may consist of residential mortgages, commercial mortgages or other types of receivables. The Group has acquired asset-backed securities primarily as part of its trading activities (classified as Trading assets), liquidity management (classified as Available-for-sale investments), or through investments in SPVs.

The primary source of repayment of the debt instruments is the cash flows from the underlying assets. Investors in the debt instruments have no recourse to the general assets of the sponsor (except in the case of covered bonds where investors have recourse to both the underlying pool and the sponsor for repayment of principal and interest). The majority of the Group's asset-backed securities portfolio consists of notes externally rated AAA that are carried at fair value on the Balance Sheet.

### Special Purpose Vehicles

The Group invests in or establishes SPVs in the ordinary course of business, primarily to provide funding and financial services for its customers. These SPVs are consolidated in the Financial Statements whenever they meet the criteria of control as outlined in Note 36 to the Financial Statements of the 2016 Annual Report. The definition of control depends upon substance rather than form and accordingly, determination of the existence of control involves management judgement. The Group assesses, at inception and periodically, whether an SPV should be consolidated based on the power the Group has over relevant activities of the entity, and the significance of the Group's exposure to variable returns of the structured entity.

The lending and investment arrangements are entered into under the Group's approved lending criteria and are subject to appropriate credit approval processes. The assets arising from these financing activities are generally included in Receivables due from other financial institutions, Available-for-sale investments or Loans, bills discounted and other receivables. Exposures in the form of guarantees or undrawn credit lines are included within contingent liabilities and credit related commitments.

Control factors – The Group may manage these vehicles, hold minor amounts of capital, provide financing or transact derivatives with these entities. These entities are generally consolidated by the Group.

### Other Exposures

#### Leveraged Finance

The Group provides debt financing to companies acquired or owned by private equity firms. These acquisitions can be highly leveraged. The businesses are domiciled in Australia and New Zealand with stable and established earnings and the ability to reduce borrowing levels.

The Group's exposure is well diversified across industries and private equity sponsors. All highly leveraged debt facilities provided are senior with first ranking security over the cash flows and assets of the businesses.

#### Hedge Funds

There were no material movements in exposures to hedge funds since 30 June 2016 and these exposures are not considered to be material.

#### Collateralised Debt Obligations (CDOs) and Credit Linked Notes

The Group has no material direct or indirect exposure to CDOs or credit linked notes.

## Appendices

### 7. Counterparty and Other Credit Risk Exposures (continued)

#### Securitisation and Covered Bond Vehicles

An analysis of the assets of, and exposures to, consolidated securitisation and covered bond vehicles which the Group has established or manages is outlined in the tables below.

	Covered Bonds		Securitisation	
	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16
	\$M	\$M	\$M	\$M
Carrying amount of transferred assets	34,978	36,770	11,515	13,863
Carrying amount of associated liabilities	36,106	31,802	10,208	12,106
<b>Net position</b> <sup>(1)</sup>	<b>(1,128)</b>	<b>4,968</b>	<b>1,307</b>	<b>1,757</b>

(1) Net position on covered bonds exclude hedging derivatives and cash received.

#### Asset-backed Securities

An analysis of the exposure to non-Group originated asset-backed securities and related facilities is outlined in the tables below.

Summary of Asset-backed Securities	Carrying Amount	
	31 Dec 16	30 Jun 16
	\$M	\$M
Commercial mortgage-backed securities	87	35
Residential mortgage-backed securities	6,877	7,118
Other asset-backed securities	718	836
<b>Total</b>	<b>7,682</b>	<b>7,989</b>

#### Asset-backed Securities by Underlying Asset

	Trading Portfolio		AFS Portfolio <sup>(1)</sup>		Other		Total	
	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Sub-prime	-	-	-	-	-	-	-	-
Non-conforming	-	-	333	355	-	-	333	355
Prime mortgages	1	4	6,544	6,759	-	-	6,545	6,763
Consumer Receivables	-	-	-	-	-	-	-	-
Other assets	-	-	804	871	-	-	804	871
<b>Total</b>	<b>1</b>	<b>4</b>	<b>7,681</b>	<b>7,985</b>	<b>-</b>	<b>-</b>	<b>7,682</b>	<b>7,989</b>

(1) Available-for-sale investments (AFS).

#### Asset-backed Securities by Credit Rating and Geography

	AAA & AA		A		BBB		BB and below including not rated		Total	
	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Australia	7,633	7,922	2	5	3	3	13	24	7,651	7,954
UK	-	-	31	35	-	-	-	-	31	35
<b>Total</b>	<b>7,633</b>	<b>7,922</b>	<b>33</b>	<b>40</b>	<b>3</b>	<b>3</b>	<b>13</b>	<b>24</b>	<b>7,682</b>	<b>7,989</b>

Warehousing Financing Facilities	Funded Commitments		Unfunded Commitments		Total	
	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16	31 Dec 16	30 Jun 16
	\$M	\$M	\$M	\$M	\$M	\$M
Australia	3,362	3,664	2,303	1,408	5,665	5,072
New Zealand	318	362	96	121	414	483
UK	182	11	72	260	254	271
<b>Total</b>	<b>3,862</b>	<b>4,037</b>	<b>2,471</b>	<b>1,789</b>	<b>6,333</b>	<b>5,826</b>

## 8. Capital

The tables below show the APRA Basel III capital adequacy calculation at 31 December 2016 together with prior period comparatives.

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
<b>Risk Weighted Capital Ratios</b>	%	%	%
Common Equity Tier 1	9.9	10.6	10.2
Tier 1	11.5	12.3	12.2
Tier 2	2.2	2.0	1.9
<b>Total Capital</b>	<b>13.7</b>	<b>14.3</b>	<b>14.1</b>

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Ordinary Share Capital and Treasury Shares</b>			
Ordinary Share Capital	34,455	33,845	33,252
Treasury Shares <sup>(1)</sup>	254	284	325
<b>Ordinary Share Capital and Treasury Shares</b>	<b>34,709</b>	<b>34,129</b>	<b>33,577</b>
<b>Reserves</b>			
Reserves	2,144	2,734	2,554
Reserves related to non-consolidated subsidiaries <sup>(2)</sup>	(152)	(143)	(181)
<b>Total Reserves</b>	<b>1,992</b>	<b>2,591</b>	<b>2,373</b>
<b>Retained Earnings and Current Period Profits <sup>(3)</sup></b>			
Retained earnings and current period profits	24,662	23,435	22,365
Retained earnings adjustment from non-consolidated subsidiaries <sup>(4)</sup>	(505)	(259)	(298)
<b>Net Retained Earnings</b>	<b>24,157</b>	<b>23,176</b>	<b>22,067</b>
<b>Non-controlling interest</b>			
Non-controlling interest <sup>(5)</sup>	551	550	554
Less ASB perpetual preference shares	(505)	(505)	(505)
Less other non-controlling interests not eligible for inclusion in regulatory capital	(46)	(45)	(49)
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Common Equity Tier 1 Capital before regulatory adjustments</b>	<b>60,858</b>	<b>59,896</b>	<b>58,017</b>

- (1) Represents shares held by the Group's life insurance operations (\$112 million) and employee share scheme trusts (\$142 million).
- (2) Represents foreign currency translation reserve and available-for-sale investments reserve balances associated with the insurance and funds management entities, and those entities through which securitisation of the Group's assets are conducted. These entities are classified as non-consolidated subsidiaries by APRA and are excluded from the Level 2 Regulatory Consolidated Banking Group.
- (3) Comparative information has been restated to reflect the change in incentives accounting policy detailed in Note 1.
- (4) Cumulative current period profit and retained earnings adjustments for subsidiaries not consolidated for regulatory purposes.
- (5) Non-controlling interests predominantly comprise ASB Perpetual Preference Shares of NZD550 million issued by a New Zealand subsidiary entity. These are non-redeemable and carry limited voting rights. These are classified as Additional Tier 1 Capital.

# Appendices

## 8. Capital (continued)

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Common Equity Tier 1 regulatory adjustments</b>			
Goodwill <sup>(1)</sup>	(7,624)	(7,603)	(7,597)
Other intangibles (including software) <sup>(2)</sup>	(2,104)	(2,313)	(2,294)
Capitalised costs and deferred fees	(696)	(535)	(498)
Defined benefit superannuation plan surplus <sup>(3)</sup>	(299)	(183)	(307)
General reserve for credit losses <sup>(4)</sup>	(372)	(386)	(270)
Deferred tax asset	(1,524)	(1,443)	(1,078)
Cash flow hedge reserve	47	(473)	(137)
Employee compensation reserve	(107)	(132)	(85)
Equity investments <sup>(5)</sup>	(2,741)	(3,120)	(3,263)
Equity investments in non-consolidated subsidiaries <sup>(1)(6)</sup>	(1,632)	(1,458)	(1,688)
Shortfall of provisions to expected losses <sup>(7)</sup>	(220)	(314)	(245)
Gain due to changes in own credit risk on fair valued liabilities	(147)	(161)	(132)
Other	(114)	(112)	(207)
<b>Common Equity Tier 1 regulatory adjustments</b>	<b>(17,533)</b>	<b>(18,233)</b>	<b>(17,801)</b>
<b>Common Equity Tier 1</b>	<b>43,325</b>	<b>41,663</b>	<b>40,216</b>
<b>Additional Tier 1 Capital</b>			
Basel III complying instruments <sup>(8)</sup>	6,450	6,450	5,000
Basel III non-complying instruments net of transitional amortisation <sup>(9)</sup>	643	640	2,756
Holding of Additional Tier 1 Capital <sup>(10)</sup>	(200)	(200)	-
<b>Additional Tier 1 Capital</b>	<b>6,893</b>	<b>6,890</b>	<b>7,756</b>
<b>Tier 1 Capital</b>	<b>50,218</b>	<b>48,553</b>	<b>47,972</b>
<b>Tier 2 Capital</b>			
Basel III complying instruments <sup>(11)</sup>	7,639	5,834	5,033
Basel III non-complying instruments net of transitional amortisation <sup>(12)</sup>	1,580	1,934	2,141
Holding of Tier 2 Capital	(34)	(25)	(19)
Prudential general reserve for credit losses <sup>(13)</sup>	188	181	178
<b>Total Tier 2 Capital</b>	<b>9,373</b>	<b>7,924</b>	<b>7,333</b>
<b>Total Capital</b>	<b>59,591</b>	<b>56,477</b>	<b>55,305</b>

(1) Goodwill excludes \$256 million which is included in equity investments in non-controlled subsidiaries.

(2) Other intangibles (including capitalised software costs), net of any associated deferred tax liability.

(3) In accordance with APRA regulations, the surplus in the Group's defined benefit superannuation fund, net of any deferred tax liability, must be deducted from Common Equity Tier 1.

(4) Adjustment to ensure the Group has sufficient provisions and capital to cover credit losses estimated to arise over the full life of individual facilities, as required by APRA Prudential Standard APS 220.

(5) Represents the Group's non-controlling interest in other entities.

(6) Non-consolidated subsidiaries primarily represent the insurance and funds management companies operating in the Colonial Group. The adjustment at 31 December 2016 is net of \$1,665 million of Colonial non-recourse debt and subordinated notes that are subject to APRA approved transitional relief for regulatory capital purposes. Effective 31 December 2016 a number of intermediate holding companies within the Colonial Group were consolidated into the Level 2 Banking Group. The Group's insurance and funds management operating entities held \$1,201 million of capital in excess of minimal regulatory requirements at 31 December 2016.

(7) Regulatory Expected Loss (pre-tax) using stressed loss given default assumptions associated with the loan portfolio in excess of eligible credit provisions (pre-tax).

(8) As at 31 December 2016, comprises PERLS VIII \$1,450 million issued March 2016, PERLS VII \$3,000 million issued in October 2014 and PERLS VI \$2,000 million issued in October 2012.

(9) Represents APRA Basel III non-compliant Additional Tier 1 Capital Instruments that are eligible for Basel III transitional relief.

(10) Represents holdings of Additional Tier 1 capital instruments issued by the Colonial Mutual Life Assurance Society Limited.

(11) In the December 2016 half year, the Group issued a series of subordinated notes that are Basel III compliant Tier 2 Capital: USD750 million, NZD400 million (issued through ASB, the Group's New Zealand subsidiary) and three separate JPY notes totalling JPY40 billion.

(12) Includes both perpetual and term instruments subordinated to depositors and general creditors, having an original maturity of at least five years. APRA require these to be included as if they were unhedged. Term instruments are amortised 20% of the original amount during each of the last five years to maturity. These instruments are eligible for Basel III transitional relief.

(13) Represents the collective provision and general reserve for credit losses for exposures in the Group which are measured for capital purposes under the Standardised approach to credit risk.

## 8. Capital (continued)

	As at		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Risk Weighted Assets</b>			
<b>Credit Risk</b>			
<b>Subject to Advanced IRB approach <sup>(1)</sup></b>			
Corporate <sup>(2)</sup>	79,392	71,682	73,555
SME Corporate <sup>(2)</sup>	35,239	29,957	26,570
SME Retail	4,747	4,953	5,648
SME Retail secured by residential mortgage	2,812	2,813	2,830
Sovereign	6,742	6,622	6,516
Bank	13,481	13,098	13,336
Residential mortgage <sup>(3)</sup>	115,647	83,758	79,511
Qualifying revolving retail	9,413	9,897	9,864
Other retail	14,970	15,102	15,104
<b>Total Risk Weighted Assets subject to Advanced IRB approach</b>	<b>282,443</b>	<b>237,882</b>	<b>232,934</b>
<b>Specialised lending exposures subject to slotting criteria</b>	<b>60,504</b>	<b>56,795</b>	<b>54,885</b>
<b>Subject to Standardised approach</b>			
Corporate <sup>(2)</sup>	1,128	10,982	10,284
SME corporate <sup>(2)</sup>	596	4,133	4,571
SME retail	6,089	6,122	6,093
Sovereign	242	268	206
Bank	192	224	236
Residential mortgage <sup>(2)</sup>	4,788	7,428	7,044
Other retail	2,776	2,750	2,744
Other assets	5,385	5,360	5,811
<b>Total Risk Weighted Assets subject to Standardised approach</b>	<b>21,196</b>	<b>37,267</b>	<b>36,989</b>
Securitisation	1,572	1,511	1,567
Credit valuation adjustment	6,332	8,273	7,686
Central counterparties	1,479	2,302	896
<b>Total Risk Weighted Assets for Credit Risk Exposures</b>	<b>373,526</b>	<b>344,030</b>	<b>334,957</b>
Traded market risk	5,707	9,439	7,451
Interest rate risk in the banking book	23,498	7,448	17,511
Operational risk	33,750	33,750	32,743
<b>Total Risk Weighted Assets</b>	<b>436,481</b>	<b>394,667</b>	<b>392,662</b>

(1) Pursuant to APRA requirements, RWA amounts derived from AIRB risk weight functions have been multiplied by a scaling factor of 1.06. Comparatives have been restated to conform to presentation in the current period.

(2) APRA has re-accredited the use of the advanced AIRB approach for the Bankwest non-retail portfolio, effective 30 September 2016.

(3) Includes \$32.0 billion due to implementation of APRA requirements to increase the average risk weight applied to Australian residential mortgages using the AIRB approach, effective 1 July 2016.

# Appendices

## 9. Share Capital

	Half Year Ended		
	31 Dec 16	30 Jun 16	31 Dec 15
Shares on Issue	Number	Number	Number
Opening balance (excluding Treasury Shares deduction)	1,715,142,177	1,707,544,714	1,627,592,713
Issue of shares <sup>(1)</sup>	-	-	71,161,207
Dividend reinvestment plan issue:			
2014/2015 Final dividend fully paid ordinary shares \$74.75	-	-	8,790,794
2015/2016 Interim dividend fully paid ordinary shares \$72.68	-	7,597,463	-
2015/2016 Final dividend fully paid ordinary shares \$72.95	8,036,332	-	-
Closing balance (excluding Treasury Shares deduction)	1,723,178,509	1,715,142,177	1,707,544,714
Less: Treasury Shares <sup>(2)</sup>	(3,421,776)	(4,080,435)	(4,578,698)
<b>Closing balance</b>	<b>1,719,756,733</b>	<b>1,711,061,742</b>	<b>1,702,966,016</b>

(1) The Group undertook a capital raising through a rights issue to all eligible shareholders in the 2016 financial year. An accelerated institutional offer closed on 13 August 2015 resulting in the issue of 28,897,186 shares on 26 August 2015. The retail entitlement offer closed on 8 September 2015 resulting in the issue of 42,264,021 shares on 18 September 2015.

(2) Relates to Treasury shares held within the Life Insurance statutory funds and the employees share scheme trust.

### Dividend Franking Account

After fully franking the interim dividend to be paid for the half year, the amount of credits available at the 30% tax rate as at 31 December 2016 to frank dividends for subsequent financial years, is \$537 million (June 2016: \$532 million; December 2015: \$395 million). This figure is based on the franking accounts of the Bank at 31 December 2016, adjusted for franking credits that will arise from the payment of income tax payable on profits for the half year, franking debits that will arise from the payment of dividends proposed, and franking credits that the Bank may be prevented from distributing in subsequent financial periods.

The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. These calculations have been based on the taxation law as at 31 December 2016.

### Dividends

The Directors have declared a fully franked interim dividend of 199 cents per share amounting to \$3,429 million. There is no foreign conduit income attributed to the final dividend. The dividend will be payable on 4 April 2017 to shareholders on the register at 5:00pm EST on 23 February 2017.

The Board determines the dividends per share based on net profit after tax ("cash basis") per share, having regard to a range of factors including:

- Current and expected rates of business growth and the mix of business;
- Capital needs to support economic, regulatory and credit ratings requirements;
- Investments and/or divestments to support business development;
- Competitors comparison and market expectations; and
- Earnings per share growth.

### Dividend Reinvestment Plan

Participation in the DRP is optional and offers ordinary shareholders in certain jurisdictions the opportunity to acquire fully paid ordinary shares instead of receiving the dividend in cash. Shares allocated under the DRP will rank equally with other ordinary shares already on issue.

### Record Date

The register closes for determination of dividend entitlement at 5:00pm EST on 23 February 2017. The deadline for notifying participation in the DRP is 5:00pm EST on 24 February 2017.

### Ex-Dividend Date

The ex-dividend date is 22 February 2017.

## 10. Intangible Assets

	As at		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Goodwill</b>			
Purchased goodwill at cost	7,880	7,925	7,597
<b>Closing balance</b>	<b>7,880</b>	<b>7,925</b>	<b>7,597</b>
<b>Computer Software Costs</b>			
Cost	4,095	3,823	3,592
Accumulated amortisation	(2,198)	(1,595)	(1,409)
<b>Closing balance</b>	<b>1,897</b>	<b>2,228</b>	<b>2,183</b>
<b>Core Deposits <sup>(1)</sup></b>			
Cost	495	495	495
Accumulated amortisation	(495)	(495)	(495)
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Brand Names <sup>(2)</sup></b>			
Cost	190	190	190
Accumulated amortisation	(1)	(1)	(1)
<b>Closing balance</b>	<b>189</b>	<b>189</b>	<b>189</b>
<b>Other Intangibles <sup>(3)</sup></b>			
Cost	155	156	154
Accumulated amortisation	(121)	(114)	(105)
<b>Closing balance</b>	<b>34</b>	<b>42</b>	<b>49</b>
<b>Total intangible assets</b>	<b>10,000</b>	<b>10,384</b>	<b>10,018</b>

- (1) Core deposits represent the value of the Bankwest deposit base compared to the avoided cost of alternative funding sources such as securitisation and wholesale funding. This asset was acquired on 19 December 2008 with a useful life of seven years based on the weighted average attrition rates of the Bankwest deposit portfolio. It was fully amortised during the 2016 financial year.
- (2) Brand names predominantly represent the value of royalty costs foregone by the Group through acquiring the Bankwest brand name. The royalty costs that would have been incurred by an entity using the Bankwest brand name are based on an annual percentage of income generated by Bankwest. The Bankwest brand name has an indefinite useful life as there is no foreseeable limit to the period over which the brand name is expected to generate cash flows. It is not subject to amortisation, but is subject to annual impairment testing. No impairment was required as a result of this test. The balance also includes Count Financial Limited brand name (\$4 million) that is amortised over the estimated useful life of 20 years.
- (3) Other intangibles include the value of credit card relationships acquired from Bankwest and Count franchise relationships. This value represents future net income generated from the relationships that existed at Balance Sheet date. The assets have a useful life of 10 years based on the attrition rates of customers.

# Appendices

## 11. ASX Appendix 4D

Cross Reference Index	Page
Details of Reporting Period and Previous Period (Rule 4.2A.3 Item No. 1)	Inside front cover
Results for Announcement to the Market (Rule 4.2A.3 Item No. 2)	Inside front cover
Commentary on Results (Rule 4.2A.3 Item No. 2.6)	2
Net Tangible Assets per Security (Rule 4.2A.3 Item No. 3)	101
Dividends (Rule 4.2A.3 Item No. 5)	92
Dividend Dates (Rule 4.2A.3 Item No. 5)	Inside front cover
Dividend Reinvestment Plan (Rule 4.2A.3 Item No. 6)	92

### Details of entities over which control was gained and lost during the period (Rule 4.2A.3 Item No. 4)

The Group has gained control over Water Utilities Australia Pty Ltd on 23 December 2016.

### Details of Associates and Joint Ventures (Rule 4.2A.3 Item No. 7)

As at 31 December 2016	Ownership Interest Held (%)
AHL Holdings Pty Limited <sup>(1)</sup>	80%
Aegis Correctional Partnership Pty Limited	50%
Aegis Correctional Partnership Trust	50%
Aegis Securitisation Nominees Pty Limited	50%
Aegis Securitisation Trust	50%
equigroup Holdings Pty Limited	50%
First State Cinda Fund Management Co. Ltd.	46%
BoComm Life Insurance Company Limited	38%
Countplus Limited	36%
Vipro Pty Limited	33%
Cardlink Services Limited	25%
Cash Services Australia Pty Limited	25%
Paymark Limited <sup>(2)</sup>	25%
Qilu Bank Co., Ltd.	20%
Vietnam International Commercial Joint Stock Bank	20%
Payments NZ Limited	19%
Bank of Hangzhou Co., Ltd.	18%
Property Exchange Australia Ltd	14%
First State European Diversified Infrastructure Fund FCP-SIF	3%

(1) The Group's 80% interest in AHL Holdings Pty Limited (trading as Aussie Home Loans) is jointly controlled as the key financial and operating decisions require unanimous consent of all directors.

(2) Formerly known as Electronic Transaction Services Limited.

### Foreign Entities (Rule 4.2A.3 Item No. 8)

Not applicable.

### Independent auditor's review report subject to a modified opinion, emphasis of matter or other matter (Rule 4.2A.3 Item No. 9)

Not applicable.

12. Profit Reconciliation

Profit Reconciliation	Half Year Ended 31 December 2016						Net profit after tax "statutory basis" \$M
	Net profit after tax "cash basis"	Hedging and IFRS volatility	Bankwest non-cash items <sup>(1)</sup>	Treasury shares valuation adjustment	Policyholder tax	Investment experience	
	\$M	\$M	\$M	\$M	\$M	\$M	
<b>Group</b>							
Interest income	16,676	(2)	-	-	-	-	16,674
Interest expense	(7,933)	-	-	-	-	-	(7,933)
Net interest income	8,743	(2)	-	-	-	-	8,741
Other banking income	2,986	12	-	-	-	-	2,998
<b>Total banking income</b>	<b>11,729</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,739</b>
Funds management income	1,004	-	-	(20)	17	(10)	991
Insurance income	393	-	-	-	(41)	26	378
<b>Total operating income</b>	<b>13,126</b>	<b>10</b>	<b>-</b>	<b>(20)</b>	<b>(24)</b>	<b>16</b>	<b>13,108</b>
Investment experience	16	-	-	-	-	(16)	-
<b>Total income</b>	<b>13,142</b>	<b>10</b>	<b>-</b>	<b>(20)</b>	<b>(24)</b>	<b>-</b>	<b>13,108</b>
Operating expenses	(5,677)	-	(2)	-	-	-	(5,679)
Loan impairment expense	(599)	-	-	-	-	-	(599)
<b>Net profit before tax</b>	<b>6,866</b>	<b>10</b>	<b>(2)</b>	<b>(20)</b>	<b>(24)</b>	<b>-</b>	<b>6,830</b>
Corporate tax (expense)/benefit	(1,950)	(2)	1	1	24	-	(1,926)
Non-controlling interests	(9)	-	-	-	-	-	(9)
<b>Net profit after tax</b>	<b>4,907</b>	<b>8</b>	<b>(1)</b>	<b>(19)</b>	<b>-</b>	<b>-</b>	<b>4,895</b>

(1) Includes merger related amortisation through operating expenses of \$2 million, and an income tax benefit of \$1 million.

## Appendices

### 12. Profit Reconciliation (continued)

Profit Reconciliation	Half Year Ended 30 June 2016 <sup>(1)</sup>						Net profit after tax "statutory basis" \$M
	Net profit after tax "cash basis" \$M	Hedging and IFRS volatility \$M	Bankwest non-cash items <sup>(2)</sup> \$M	Treasury shares valuation adjustment \$M	Policyholder tax \$M	Investment experience \$M	
	\$M	\$M	\$M	\$M	\$M	\$M	
<b>Group</b>							
Interest income	16,975	(1)	-	-	-	-	16,974
Interest expense	(8,467)	2	-	-	-	-	(8,465)
Net interest income	8,508	1	-	-	-	-	8,509
Other banking income	2,444	(72)	-	-	-	-	2,372
<b>Total banking income</b>	<b>10,952</b>	<b>(71)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,881</b>
Funds management income	984	-	-	24	3	26	1,037
Insurance income	308	-	-	-	89	57	454
<b>Total operating income</b>	<b>12,244</b>	<b>(71)</b>	<b>-</b>	<b>24</b>	<b>92</b>	<b>83</b>	<b>12,372</b>
Investment experience	83	-	-	-	-	(83)	-
<b>Total income</b>	<b>12,327</b>	<b>(71)</b>	<b>-</b>	<b>24</b>	<b>92</b>	<b>-</b>	<b>12,372</b>
Operating expenses	(5,224)	-	(2)	-	-	-	(5,226)
Loan impairment expense	(692)	-	-	-	-	-	(692)
<b>Net profit before tax</b>	<b>6,411</b>	<b>(71)</b>	<b>(2)</b>	<b>24</b>	<b>92</b>	<b>-</b>	<b>6,454</b>
Corporate tax (expense)/benefit	(1,765)	22	1	(11)	(92)	-	(1,845)
Non-controlling interests	(9)	-	-	-	-	-	(9)
<b>Net profit after tax</b>	<b>4,637</b>	<b>(49)</b>	<b>(1)</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>4,600</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Includes merger related amortisation through operating expenses of \$2 million, and an income tax benefit of \$1 million.

12. Profit Reconciliation (continued)

Profit Reconciliation	Half Year Ended 31 December 2015 <sup>(1)</sup>						Net profit after tax "statutory basis" \$M
	Net profit after tax "cash basis" \$M	Hedging and IFRS volatility \$M	Bankwest non-cash items <sup>(2)</sup> \$M	Treasury shares valuation adjustment \$M	Policyholder tax \$M	Investment experience \$M	
<b>Group</b>							
Interest income	16,842	1	-	-	-	-	16,843
Interest expense	(8,415)	(2)	-	-	-	-	(8,417)
Net interest income	8,427	(1)	-	-	-	-	8,426
Other banking income	2,416	(212)	-	-	-	-	2,204
<b>Total banking income</b>	<b>10,843</b>	<b>(213)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,630</b>
Funds management income	1,032	-	-	(10)	(11)	13	1,024
Insurance income	487	-	-	-	20	45	552
<b>Total operating income</b>	<b>12,362</b>	<b>(213)</b>	<b>-</b>	<b>(10)</b>	<b>9</b>	<b>58</b>	<b>12,206</b>
Investment experience	58	-	-	-	-	(58)	-
<b>Total income</b>	<b>12,420</b>	<b>(213)</b>	<b>-</b>	<b>(10)</b>	<b>9</b>	<b>-</b>	<b>12,206</b>
Operating expenses	(5,210)	-	(37)	-	-	-	(5,247)
Loan impairment expense	(564)	-	-	-	-	-	(564)
<b>Net profit before tax</b>	<b>6,646</b>	<b>(213)</b>	<b>(37)</b>	<b>(10)</b>	<b>9</b>	<b>-</b>	<b>6,395</b>
Corporate tax (expense)/benefit	(1,827)	63	11	1	(9)	-	(1,761)
Non-controlling interests	(11)	-	-	-	-	-	(11)
<b>Net profit after tax</b>	<b>4,808</b>	<b>(150)</b>	<b>(26)</b>	<b>(9)</b>	<b>-</b>	<b>-</b>	<b>4,623</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Includes merger related amortisation through operating expenses of \$37 million, and an income tax benefit of \$11 million.

# Appendices

## 13. Analysis Template

	Half Year Ended <sup>(1)</sup>		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Profit Summary - Input Schedule</b>			
Net interest income	8,743	8,508	8,427
Other banking income	2,986	2,444	2,416
<b>Total banking income</b>	<b>11,729</b>	<b>10,952</b>	<b>10,843</b>
Funds management income	1,004	984	1,032
Insurance income	393	308	487
<b>Total operating income</b>	<b>13,126</b>	<b>12,244</b>	<b>12,362</b>
Investment experience	16	83	58
<b>Total income</b>	<b>13,142</b>	<b>12,327</b>	<b>12,420</b>
<b>Operating Expenses</b>			
Retail Banking Services	(1,722)	(1,679)	(1,694)
Business and Private Banking	(775)	(746)	(742)
Institutional Banking and Markets	(545)	(548)	(534)
Wealth Management	(847)	(855)	(826)
New Zealand	(453)	(448)	(441)
Bankwest	(388)	(383)	(390)
IFS and Other	(947)	(565)	(583)
<b>Total operating expenses</b>	<b>(5,677)</b>	<b>(5,224)</b>	<b>(5,210)</b>
Profit before loan impairment expense	7,465	7,103	7,210
Loan impairment expense	(599)	(692)	(564)
Net profit before income tax	6,866	6,411	6,646
Corporate tax expense	(1,950)	(1,765)	(1,827)
Operating profit after tax	4,916	4,646	4,819
Non-controlling interests	(9)	(9)	(11)
<b>Net profit after tax - "cash basis"</b>	<b>4,907</b>	<b>4,637</b>	<b>4,808</b>
Treasury shares valuation adjustment (after tax)	(19)	13	(9)
Hedging and IFRS volatility (after tax)	8	(49)	(150)
Bankwest non-cash items (after tax)	(1)	(1)	(26)
<b>Net profit after tax - "statutory basis"</b>	<b>4,895</b>	<b>4,600</b>	<b>4,623</b>
<b>Total Operating Income</b>			
Retail Banking Services	5,590	5,270	5,241
Business and Private Banking	1,971	1,921	1,919
Institutional Banking and Markets	1,485	1,434	1,459
Wealth Management	1,153	1,099	1,294
New Zealand	1,157	1,082	1,109
Bankwest	940	924	950
IFS and Other	830	514	390

(1) Comparative information has been restated to conform to presentation in the current period.

## 13. Analysis Template (continued)

	Half Year Ended <sup>(1)</sup>		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Profit Summary - Input Schedule</b>			
<b>Other Data</b>			
Net interest income	8,743	8,508	8,427
Average interest earning assets	823,058	800,379	780,921
Average net assets <sup>(2)</sup>	61,188	60,113	56,235
Average non-controlling interests <sup>(2)</sup>	551	552	558
Average other equity instruments <sup>(2)</sup>	-	469	939
Average treasury shares <sup>(2)</sup>	(269)	(304)	(302)
Distributions - other equity instruments	-	18	32
Interest expense (after tax) - PERLS III	-	6	10
Interest expense (after tax) - PERLS VI	42	44	45
Interest expense (after tax) - PERLS VII	36	38	38
Interest expense (after tax) - PERLS VIII	26	14	-
Weighted average number of shares - statutory basic (M)	1,715	1,707	1,676
Weighted average number of shares - statutory diluted (M)	1,806	1,789	1,753
Weighted average number of shares - cash basic (M)	1,717	1,709	1,678
Weighted average number of shares - cash diluted (M)	1,808	1,791	1,755
Weighted average number of shares - PERLS III (M)	-	8	14
Weighted average number of shares - PERLS VI (M)	27	25	24
Weighted average number of shares - PERLS VII (M)	41	37	36
Weighted average number of shares - PERLS VIII (M)	20	9	-
Weighted average number of shares - Employee share plans (M)	3	3	3
Dividends per share (cents) - fully franked	199	222	198
No. of shares at end of period excluding Treasury shares deduction (M)	1,723	1,715	1,708
Funds Under Administration (FUA) - average	150,134	145,299	144,751
Assets Under Management (AUM) - average	206,996	200,075	203,603
Average inforce premiums	3,475	3,417	3,386
Net assets	61,812	60,564	59,664
Total intangible assets	10,000	10,384	10,018
Non-controlling interests	551	550	554
Other equity instruments	-	-	939

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Average of reporting period balances.

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## 13. Analysis Template (continued)

	Half Year Ended <sup>(1) (2)</sup>		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Ratios - Output Summary</b>			
<b>Earnings Per Share (EPS)</b>			
Net profit after tax - "cash basis"	4,907	4,637	4,808
Less distribution - other equity instruments	-	(18)	(32)
Adjusted profit for EPS calculation	4,907	4,619	4,776
Average number of shares (M) - "cash basis"	1,717	1,709	1,678
<b>Earnings Per Share basic - "cash basis" (cents)</b>	<b>285. 8</b>	<b>270. 3</b>	<b>284. 6</b>
Net profit after tax - "statutory basis"	4,895	4,600	4,623
Less distribution - other equity instruments	-	(18)	(32)
Adjusted profit for EPS calculation	4,895	4,582	4,591
Average number of shares (M) - "statutory basis"	1,715	1,707	1,676
<b>Earnings Per Share basic - "statutory basis" (cents)</b>	<b>285. 3</b>	<b>268. 4</b>	<b>273. 9</b>
Interest expense (after tax) - PERLS III	-	6	10
Interest expense (after tax) - PERLS VI	42	44	45
Interest expense (after tax) - PERLS VII	36	38	38
Interest expense (after tax) - PERLS VIII	26	14	-
<b>Profit impact of assumed conversions (after tax)</b>	<b>104</b>	<b>102</b>	<b>93</b>
Weighted average number of shares - PERLS III (M)	-	8	14
Weighted average number of shares - PERLS VI (M)	27	25	24
Weighted average number of shares - PERLS VII (M)	41	37	36
Weighted average number of shares - PERLS VIII (M)	20	9	-
Weighted average number of shares - Employee share plans (M)	3	3	3
<b>Weighted average number of shares - dilutive securities (M)</b>	<b>91</b>	<b>82</b>	<b>77</b>
Adjusted cash profit for EPS calculation	4,907	4,619	4,776
Add back profit impact of assumed conversions (after tax)	104	102	93
Adjusted diluted profit for EPS calculation	5,011	4,721	4,869
Average number of shares (M) - "cash basis"	1,717	1,709	1,678
Add back weighted average number of shares (M)	91	82	77
Diluted average number of shares (M)	1,808	1,791	1,755
<b>Earnings Per Share diluted - "cash basis" (cents)</b>	<b>277. 2</b>	<b>263. 6</b>	<b>277. 4</b>
Adjusted profit for EPS calculation	4,895	4,582	4,591
Add back profit impact of assumed conversions (after tax)	104	102	93
Adjusted diluted profit for EPS calculation	4,999	4,684	4,684
Average number of shares (M) - "statutory basis"	1,715	1,707	1,676
Add back weighted average number of shares (M)	91	82	77
Diluted average number of shares (M)	1,806	1,789	1,753
<b>Earnings Per Share diluted - "statutory basis" (cents)</b>	<b>276. 7</b>	<b>261. 8</b>	<b>267. 1</b>
<b>Dividends Per Share (DPS)</b>			
<b>Dividends</b>			
Dividends per share (cents) - fully franked	199	222	198
No. of shares at end of period excluding Treasury shares deduction (M)	1,723	1,715	1,708
Total dividends	3,429	3,808	3,381
<b>Dividend payout ratio - "cash basis"</b>			
Net profit after tax - "cash basis"	4,907	4,637	4,808
Net profit after tax - attributable to ordinary shareholders	4,907	4,619	4,776
Total dividends	3,429	3,808	3,381
Payout ratio - "cash basis" (%)	69. 9	82. 4	70. 8
<b>Dividend cover</b>			
Net profit after tax - attributable to ordinary shareholders	4,907	4,619	4,776
Total dividends	3,429	3,808	3,381
Dividend cover - "cash basis" (times)	1. 4	1. 2	1. 4

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Calculations are based on actual numbers prior to rounding to the nearest million.

## 13. Analysis Template (continued)

	Half Year Ended <sup>(1)</sup>		
	31 Dec 16	30 Jun 16	31 Dec 15
	\$M	\$M	\$M
<b>Ratios - Output Summary</b>			
<b>Return on Equity (ROE)</b>			
<b>Return on Equity - "cash basis"</b>			
Average net assets	61,188	60,113	56,235
Less:			
Average non-controlling interests	(551)	(552)	(558)
Average other equity instruments	-	(469)	(939)
Average equity	60,637	59,092	54,738
Add average treasury shares	269	304	302
Net average equity	60,906	59,396	55,040
Net profit after tax - "cash basis"	4,907	4,637	4,808
Less distribution - other equity instruments	-	(18)	(32)
Adjusted profit for ROE calculation	4,907	4,619	4,776
ROE - "cash basis" (%)	16.0	15.6	17.3
<b>Return on Equity - "statutory basis"</b>			
Average net assets	61,188	60,113	56,235
Average non-controlling interests	(551)	(552)	(558)
Average other equity interests	-	(469)	(939)
Average equity	60,637	59,092	54,738
Net profit after tax - "statutory basis"	4,895	4,600	4,623
Less distribution - other equity instruments	-	(18)	(32)
Adjusted profit for ROE calculation	4,895	4,582	4,591
ROE - "statutory basis" (%)	16.0	15.6	16.7
<b>Net Tangible Assets per share <sup>(2)</sup></b>			
Net assets	61,812	60,564	59,664
Less:			
Intangible assets	(10,000)	(10,384)	(10,018)
Non-controlling interests	(551)	(550)	(554)
Other equity instruments	-	-	(939)
Total net tangible assets	51,261	49,630	48,153
No. of shares at end of period excluding Treasury shares deduction (M)	1,723	1,715	1,708
<b>Net Tangible Assets per share (\$)</b>	<b>29.75</b>	<b>28.94</b>	<b>28.20</b>

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Calculations are based on actual numbers prior to rounding to the nearest million.

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## 14. Summary

Group		Half Year Ended <sup>(1)</sup>			Dec 16 vs	Dec 16 vs
		31 Dec 16	30 Jun 16	31 Dec 15	Jun 16 %	Dec 15 %
Net profit after tax - "cash basis"	\$M	4,907	4,637	4,808	6	2
Treasury shares valuation adjustment (after tax)	\$M	(19)	13	(9)	large	large
Hedging and IFRS volatility (after tax)	\$M	8	(49)	(150)	large	large
Bankwest non-cash items (after tax)	\$M	(1)	(1)	(26)	-	(96)
Net profit after tax - "statutory basis"	\$M	4,895	4,600	4,623	6	6
Earnings per share basic - "cash basis"	cents	285.8	270.3	284.6	6	-
Dividends per share (fully franked)	cents	199	222	198	(10)	1
Dividend payout ratio - "cash basis"	%	69.9	82.4	70.8	large	(90)bpts
Common Equity Tier 1 (Internationally comparable) - Basel III <sup>(2)</sup>	%	15.4	14.4	14.3	100 bpts	110 bpts
Common Equity Tier 1 (APRA) - Basel III	%	9.9	10.6	10.2	(70)bpts	(30)bpts
Leverage ratio (Internationally comparable) <sup>(3)</sup>	%	5.5	5.6	5.6	(10)bpts	(10)bpts
Leverage ratio (APRA)	%	4.9	5.0	5.0	(10)bpts	(10)bpts
Number of full time equivalent staff	No.	45,271	45,129	45,221	-	-
Return on equity - "cash basis"	%	16.0	15.6	17.3	40 bpts	(130)bpts
Return on equity - "statutory basis"	%	16.0	15.6	16.7	40 bpts	(70)bpts
Weighted average no. of shares - "statutory basis" - basic	M	1,715	1,707	1,676	-	2
Net tangible assets per share	\$	29.75	28.94	28.20	3	5
Net interest income - "cash basis"	\$M	8,743	8,508	8,427	3	4
Net interest margin	%	2.11	2.14	2.15	(3)bpts	(4)bpts
Net interest margin excluding Treasury and Markets	%	2.08	2.13	2.13	(5)bpts	(5)bpts
Other banking income - "cash basis"	\$M	2,986	2,444	2,416	22	24
Other banking income to total banking income - "cash basis"	%	25.5	22.3	22.3	320 bpts	320 bpts
Operating expenses to total operating income - "cash basis"	%	43.3	42.7	42.1	60 bpts	120 bpts
Average interest earning assets	\$M	823,058	800,379	780,921	3	5
Average interest bearing liabilities	\$M	747,236	730,246	737,226	2	1
Loan impairment expense - "cash basis"	\$M	599	692	564	(13)	6
Loan impairment expense - "cash basis" annualised as a % of average gross loans and acceptances	%	0.17	0.20	0.17	(3)bpts	-
Total provisions for impaired assets as a % of gross impaired assets	%	35.02	36.17	37.02	(115)bpts	(200)bpts
Risk weighted assets (APRA) - Basel III	\$M	436,481	394,667	392,662	11	11
<b>Retail Banking Services</b>						
Cash net profit after tax	\$M	2,466	2,268	2,272	9	9
Operating expenses to total banking income	%	30.8	31.9	32.3	(110)bpts	(150)bpts
Effective tax rate - "cash basis"	%	29.9	29.9	29.9	-	-
<b>Business and Private Banking</b>						
Cash net profit after tax	\$M	791	748	774	6	2
Operating expenses to total banking income	%	39.3	38.8	38.7	50 bpts	60 bpts
Effective tax rate - "cash basis"	%	30.1	30.0	30.1	10 bpts	-
<b>Institutional Banking and Markets</b>						
Cash net profit after tax	\$M	683	568	622	20	10
Operating expenses to total banking income	%	36.7	38.2	36.6	(150)bpts	10 bpts
Effective tax rate - "cash basis"	%	23.8	26.6	20.8	(280)bpts	300 bpts

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Analysis aligns with the 13 July 2015 APRA study titled "International capital comparison study".

(3) The Tier 1 Capital included in the calculation of the internationally comparable leverage ratio aligns with the 13 July 2015 APRA study titled "International capital comparison study" and includes Basel III non-compliant Tier 1 instruments that are currently subject to transitional rules.

## 14. Summary (continued)

		Half Year Ended <sup>(1)</sup>				
		31 Dec 16	30 Jun 16	31 Dec 15	Dec 16 vs Jun 16 %	Dec 16 vs Dec 15 %
<b>Wealth Management</b>						
Cash net profit after tax	\$M	249	236	376	6	(34)
Underlying profit after tax	\$M	226	193	336	17	(33)
Investment experience after tax	\$M	23	43	40	(47)	(43)
FUA - average	\$M	138,146	134,292	134,352	3	3
FUA - spot	\$M	140,820	135,801	135,476	4	4
AUM - average	\$M	201,967	195,513	199,294	3	1
AUM - spot	\$M	203,223	199,735	195,248	2	4
Annual inforce premiums - average	\$M	2,505	2,480	2,470	1	1
Annual inforce premiums - spot	\$M	2,520	2,508	2,472	-	2
Operating expenses to total operating income	%	73.5	77.8	63.8	(430)bpts	large
Effective tax rate - "cash basis"	%	26.8	23.9	28.1	290 bpts	(130)bpts
<b>New Zealand</b>						
Cash net profit after tax	\$M	471	417	464	13	2
Underlying profit after tax	\$M	480	411	460	17	4
FUA - average	\$M	11,988	11,007	10,399	9	15
FUA - spot	\$M	12,110	11,522	11,004	5	10
AUM - average	\$M	5,029	4,562	4,309	10	17
AUM - spot	\$M	4,792	4,988	4,495	(4)	7
Annual inforce premiums - average	\$M	715	682	664	5	8
Annual inforce premiums - spot	\$M	729	710	688	3	6
Operating expenses to total operating income <sup>(2)</sup>	%	38.0	40.6	39.2	(260)bpts	(120)bpts
Effective tax rate - "cash basis" <sup>(2)</sup>	%	27.3	25.9	27.2	140 bpts	10 bpts
<b>Bankwest</b>						
Cash net profit after tax	\$M	355	375	403	(5)	(12)
Operating expenses to total banking income	%	41.3	41.5	41.1	(20)bpts	20 bpts
Effective tax rate - "cash basis"	%	30.3	29.9	30.0	40 bpts	30 bpts

(1) Comparative information has been restated to conform to presentation in the current period.

(2) Key financial metrics are calculated in New Zealand dollar terms.

## 15. Foreign Exchange Rates

Exchange Rates Utilised <sup>(1)</sup>	Currency	As at		
		31 Dec 16	30 Jun 16	31 Dec 15
AUD 1.00 =	USD	0.7236	0.7431	0.7308
	EUR	0.6883	0.6689	0.6688
	GBP	0.5899	0.5534	0.4929
	NZD	1.0393	1.0470	1.0660
	JPY	84.6897	76.2441	88.0051

(1) End of day, Sydney time.

## 16. Definitions

The definitions of terms used throughout this Profit Announcement, including market share definitions, can be found on: [www.commbank.com.au/about-us/shareholders/financial-information/results.html](http://www.commbank.com.au/about-us/shareholders/financial-information/results.html).