ASX Announcement

CBA 1H18 Result

For the half year ended 31 December 2017
Reported 7 February 2018

Commonwealth Bank

Guide to CBA's 1H18 financial results

CBA's net profit after tax is disclosed on both a statutory and cash basis, consistent with our usual practice. The statutory basis is prepared and reviewed in accordance with the Corporations Act 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 operating results. The items excluded from cash profit such as hedging and IFRS volatility and gains or losses on disposal and acquisition of entities net of transaction costs are calculated consistently with the prior year and prior half disclosures. These are disclosed on page 5 of the Profit Announcement (www.commbank.com.au/results).

In the current reporting period, the following items have also been included "above the line" in the cash net profit after tax, but are highlighted to ensure transparency, to aid comparison and to provide a view of underlying performance:

1. AUSTRAC impact on statutory and cash net profit after tax

In August 2017, Australian Transaction Reports and Analysis Centre (AUSTRAC) commenced civil penalty proceedings in the Federal Court of Australia against CBA. The proceedings relate to alleged contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth).

The Group has provided for a civil penalty in the amount of $375 million (not deductible for tax). The Group believes this to be a reliable estimate of the level of penalty that a Court may impose. This takes into account currently available information, including legal advice received by the Group in relation to AUSTRAC's claims. This is included in both reported statutory and cash net profit after tax.

2. Expected regulatory, compliance and remediation program costs

A $200 million expense provision was taken for expected costs relating to currently known regulatory, compliance and remediation program costs, including the Financial Services Royal Commission. This is included in both reported statutory and cash net profit after tax.

3. Continuing operations

On 21 September 2017, the Group announced the sale of 100% of its life insurance businesses in Australia ("CommInsure Life") and New Zealand ("Sovereign") to AIA Group Limited ("AIA") for $3.8 billion. The transaction is subject to certain conditions and regulatory approvals and is expected to be completed in calendar year 2018. CommInsure Life currently forms part of the Group's Wealth Management division while Sovereign forms part of the Group's New Zealand division. Both are discontinued operations within each division.

Accounting standards require the Group to disclose net profit after tax from discontinued operations separately from continuing operations. As a result, the Group's Income Statement includes a separate line item 'net profit after tax from discontinued operations' and comparatives have been restated. The Group's Key Performance Indicators have been presented for both continuing operations and discontinued operations in the Profit Announcement. Assets and liabilities of discontinued operations have also been presented separately as held for sale on the Balance Sheet as at 31 December 2017, with no comparative restatement.

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

1) including discontinued operations and including the AUSTRAC penalty provision (as per Financial Statements);
2) continuing operations, including the AUSTRAC penalty provision (as per Financial Statements); and
3) continuing operations, excluding the AUSTRAC penalty provision (pro-forma).

Guide to the presentation of CBA's 1H18 financial results (continued)

	Profit Announcement					
	Inclusive of discontinued operations & incl. AUSTRAC penalty provision[2]		Continuing operations, incl. AUSTRAC penalty provision[2]		Pro-forma continuing operations, ex. AUSTRAC penalty provision[3]	
Half year ended ("cash basis")[1]	31 Dec 17	Dec 17 v Dec 16	31 Dec 17	Dec 17 v Dec 16	31 Dec 17	Dec 17 v Dec 16
Cash net profit after tax	$4,871m	(0.7%)	$4,735m	(1.9%)	$5,110m	5.8%
Cost-to-income [4]	44.2%	90 bpts	43.9%	120 bpts	41.1%	(160) bpts
Jaws[5]	(2.3%)	n/a	(3.0%)	n/a	3.9%	n/a
Effective tax rate	29.9%	150 bpts	30.0%	150 bpts	28.4%	(10) bpts
Profit after capital charge [6]	$3,126m	(4.0%)	$3,095m	(5.7%)	$3,470m	5.7%
Earnings per share (basic)	280.0c	(2.0%)	272.2c	(3.2%)	293.7c	4.5%
Return on equity	15.0%	(100) bpts	14.5%	(120) bpts	15.7%	-

4. Underlying performance

In order to present an underlying view of business performance, a number of adjustments have been made to show underlying operating income and underlying operating expense for continuing operations:

1) 1H17 has been adjusted to exclude 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;

2) the impact of consolidation and equity accounted profits of AHL Holdings Pty Ltd (trading as Aussie Home Loans) has been excluded; and

3) 1H18 is adjusted to exclude an expense provision which the Group believes to be a reliable estimate of the level of penalty that a Court may impose in the AUSTRAC proceedings.

Operating income ($m)	1H17	1H18	%
Reported (continuing operations)	12,833	13,122	2.3%
Visa share sale	*(397)*	-	
AHL	*(22)*	*(94)*	
Underlying operating income	**12,414**	**13,028**	**4.9%**

Operating expense ($m)	1H17	1H18	%
Reported (continuing operations)	5,474	5,764	5.3%
Accelerated amortisation	*(393)*	-	
AHL	-	*(71)*	
AUSTRAC	-	*(375)*	
Underlying operating expense	**5,081**	**5,318**	**4.7%**

On this basis, the underlying cost-to-income ratio is 40.8% compared to the reported cash NPAT (continuing operations, including AUSTRAC penalty provision) cost-to-income ratio of 43.9%.

ASX Announcement
CBA 1H18 Result

For the half year ended 31 December 2017 [7,8]
Reported 7 February 2018

Commonwealth Bank

Result overview

"During this period, we have focused a great deal of effort on fixing our mistakes, and becoming a better bank. The pride and dedication of our people have also enabled continuing business momentum across CBA. This result underlines the continued impact of our strategy of investing in our people and technology. Customer satisfaction has remained high, and customers are doing more with us, with transaction account volumes a stand-out. Combined with disciplined margin management, on-going productivity and stable credit quality, this has again produced industry-leading underlying performance.

We have taken a significant provision for regulatory and compliance costs, consistent with accounting standards. We have also taken a $375 million expense provision which we believe to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings. We recognise, and regret, that these costs arise from our failure to meet some standards that we should have. We will continue to work hard to do better.

At the same time, we have been able to increase our dividend, even whilst providing for these costs, and strengthening all aspects of our balance sheet so that we can support customers and deliver returns for our shareholders into the future."

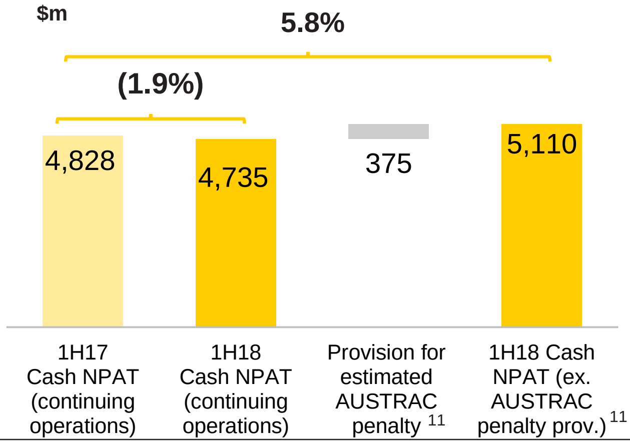
Chief Executive Officer, Ian Narev

Financial summary

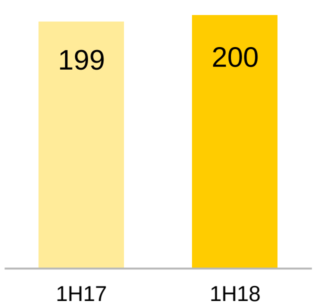
Performance (continuing operations)[8]	1H18	1H18 v 1H17
Statutory NPAT[9]	**$4,895m**	1.2%
Cash NPAT	**$4,735m**	(1.9%)
Operating performance	**$7,358m**	flat
Loan impairment expense	**$596m**	(0.5%)
Net interest margin	**2.16%**	6 bpts
Cost-to-income	**43.9%**	120 bpts

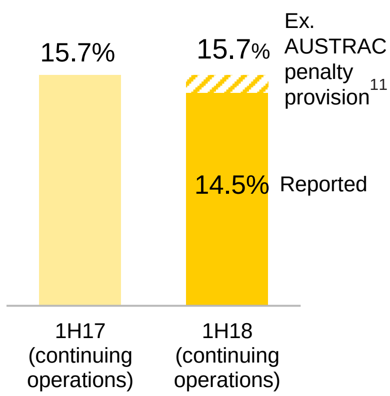
Returns and strength (continuing operations)[8]	1H18	1H18 v 1H17
Dividend per share	**$2.00**	+1 cent
Earnings per share (cash)	**$2.72**	(3.2%)
Return on equity (cash)	**14.5%**	(120) bpts
CET 1 capital ratio - APRA[10]	**10.4%**	50 bpts
CET 1 capital ratio - International[10]	**16.3%**	90 bpts
Customer deposits as % funding	**68%**	200 bpts

Earnings



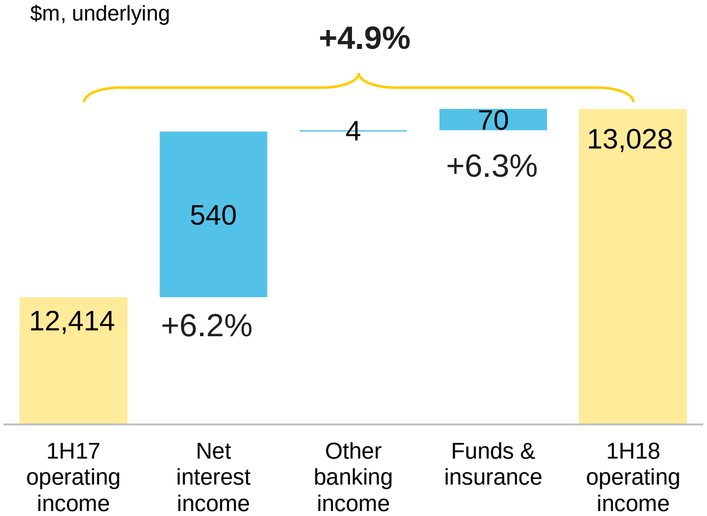
Dividends, Return on Equity



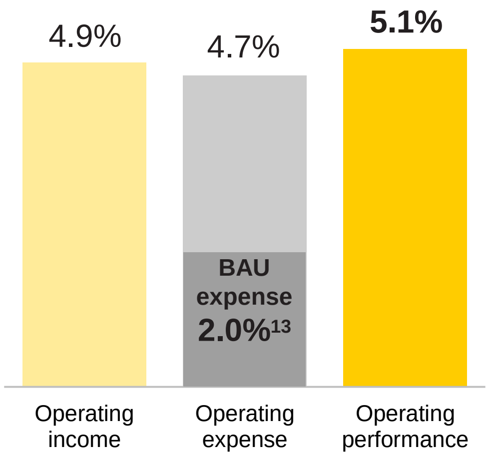


Underlying operating momentum[12]

Operating income
$m, underlying



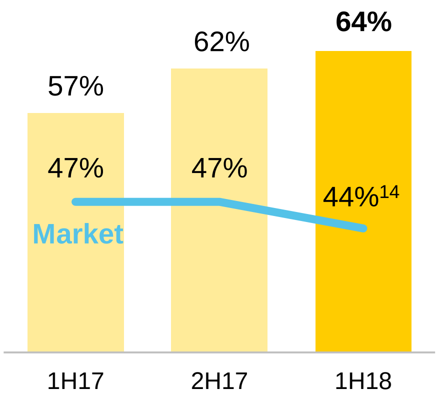
Operating performance
1H18 v 1H17, underlying



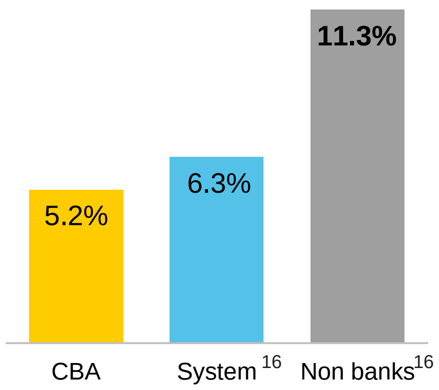
- Underlying operating income increased 4.9%, due mainly to higher net interest income which was up 6.2%. This reflected continuing volume and margin management, with lending volumes up 3.5% and the Group's net interest margin up 6 basis points to 2.16%.
- Other banking income was flat. Higher structured asset finance income and lending fees were offset by lower trading income in the institutional business reflecting reduced market volatility and by lower interchange rates and ATM fees in the retail bank.
- Strong investment markets drove funds management income. This was partly offset by lower general insurance income which was impacted by higher claims due to weather events.
- Underlying operating expenses increased 4.7% to $5,318m, driven by a $200m expense provision for expected regulatory, compliance and remediation program costs.
- The underlying cost-to-income ratio reduced a further 10 basis points to 40.8%.
- 'Business as usual' expenses increased by 2.0%.[13] The key drivers were $48m of incremental costs in frontline and compliance staff and higher expensed investment spend which was up 19%.

Property lending – selective growth

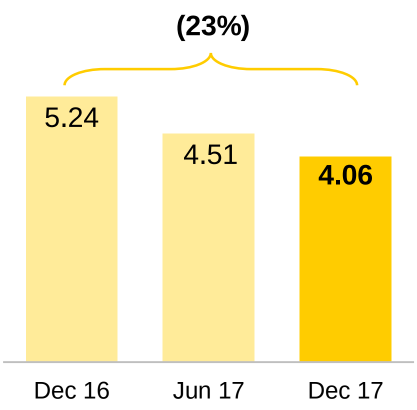
Home loans
Proprietary channel
% of total flows ($), CBA



Home loan growth[15]
12 mths to Dec 17



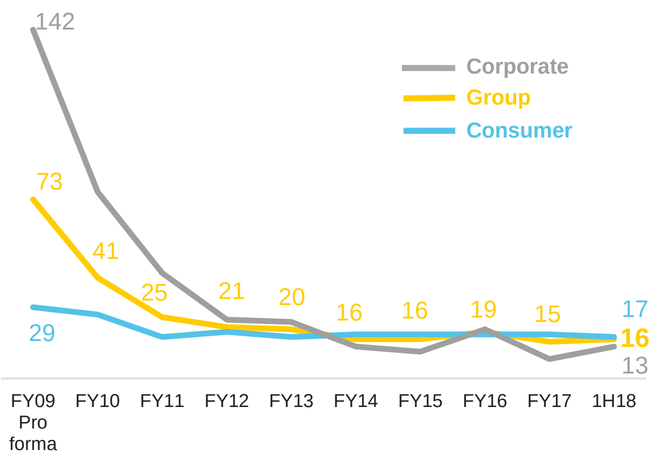
Apartment development[17]
Total exposures ($bn)



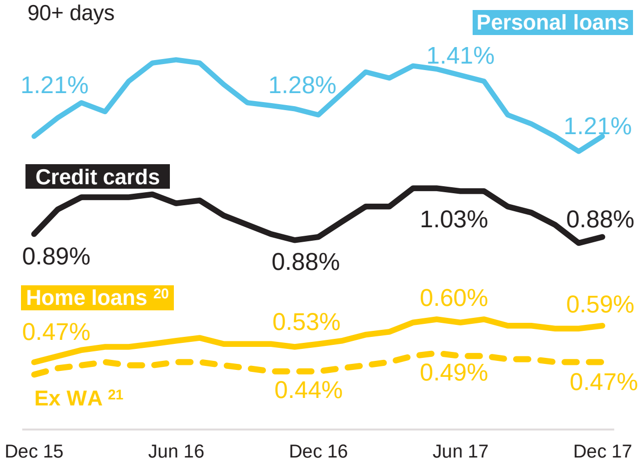
- Our strategic focus on improving the home loan experience for customers continued to drive increased lending through the retail bank's proprietary channels.
- CBA's commitment to balancing regulatory requirements, returns and risk resulted in growth in the home loan portfolio moderating to 5.2% in the twelve months to December 2017.
- Growth in the home loan portfolio was driven by a 7.5% increase in owner-occupied loans and a 0.5% increase in investment home loans.
- For the December quarter, interest only lending comprised 21% of total flows, below APRA's 30% benchmark.
- Corporate exposures to apartment developments reduced further to $4.06bn.

Credit quality

Loan impairment expense
Group, bpts [18]



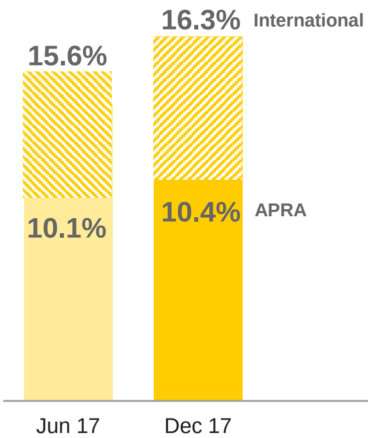
Consumer arrears [19]
90+ days



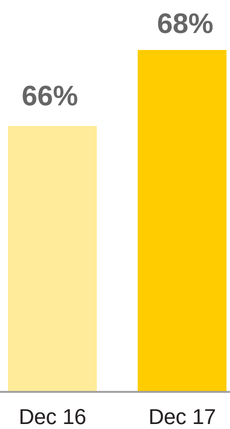
- Credit quality remained sound. Loan impairment expense (LIE) as a percentage of average gross loans and acceptances was 16 basis points.
- Consumer LIE decreased to 17 basis points from 18 basis points in the first half of 2017. Corporate LIE decreased by 1 basis point to 13 basis points.
- Personal loan, credit card and home loan arrears (excluding WA) remained low.
- For provisioning, CBA will adopt AASB 9 on 1 July 2018 which requires the use of a forward-looking methodology. The impact will be recognised in opening retained earnings. If the standard had been adopted as at 1 July 2017, the estimated pro-forma impact would have been an increase in impairment provisions of approximately $850m, and a reduction in the CET1 ratio of circa 25 basis points.[22]

Balance sheet strength

Capital ratio
CET1

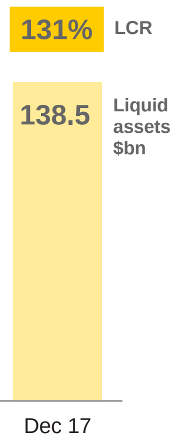


Deposit funding



Wholesale funding
Long term (>12 mths)

Liquidity



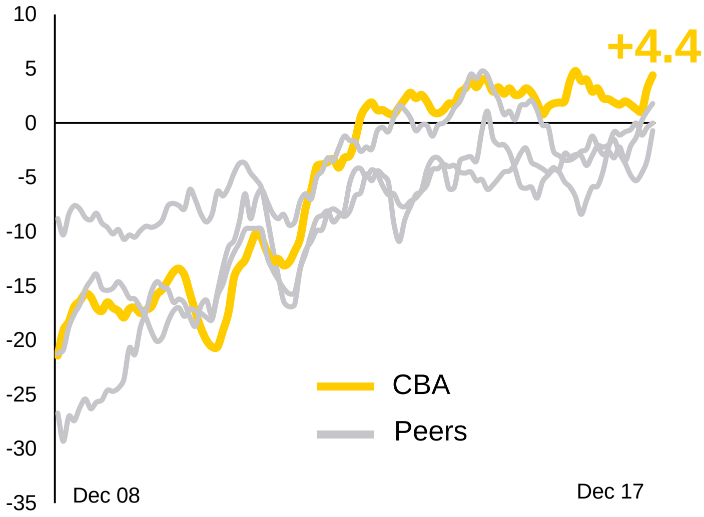
- A focus on strengthening the balance sheet in the period led to stronger capital, funding and liquidity.
- CBA's Common Equity Tier 1 capital ratio was 10.4% on an APRA basis at 31 December 2017, up 30 basis points on 30 June 2017 and up 50 basis points on 31 December 2016. This includes the impact of the provision for the estimated AUSTRAC penalty. On an internationally comparable basis it increased to 16.3%, maintaining CBA's position in the top quartile of international peer banks for CET1.
- Customer deposits contributed 68% of total funding.
- The Net Stable Funding Ratio was 110%, up from 107% in June 2017, driven by increased long term funding and extension of deposit terms.
- Favourable funding conditions provided the opportunity to lengthen the tenor of wholesale funding at broadly flat costs. The weighted average maturity of the long term portfolio increased to 4.6 years, and the average tenor of year-to-date new issuance is 8.9 years.
- The proportion of long term funding in the wholesale portfolio increased from 58% to 63%.
- Liquid assets were $138.5bn, including a committed liquidity facility of $48.3bn, and the Liquidity Coverage Ratio was 131%, up from 129% at 30 June 2017.
- The Leverage Ratio was 5.4% on an APRA basis and 6.1% on an internationally comparable basis.

Continuing focus on customer satisfaction

Customer Satisfaction [23]

	Rank
Retail	#1
Business	= #1
Wealth	#1
Internet	#1

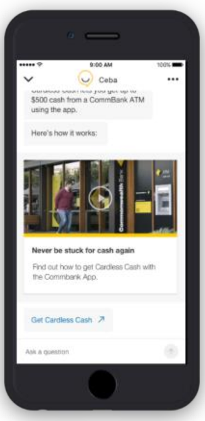
Net Promoter Score [24]
Retail

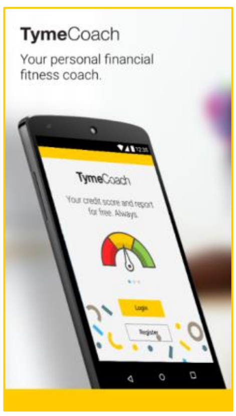


- Customer satisfaction ratings have remained high with Commonwealth Bank continuing to rate first or equal first in key segments.
- Net Promoter Score (NPS) is now the primary metric by which we assess customer satisfaction. Our goal is to be number one in NPS for all customer segments.

Continuing innovation

Ceba Chatbot, Tyme technology





- CBA has again maintained its commitment to investing in technology and innovation, in order to bring market-leading products and services to customers.
- CommBank's new Ceba chatbot, driven by artificial intelligence, can help customers complete more than 200 banking tasks.
- Continued innovation through Tyme has led to the development of TymeCoach, a financial wellbeing platform for customers in South Africa. Tyme technology is also being transferred to ASB in New Zealand, with the deployment of 130 digital kiosks.

Helping customers and the community

- Over 2,700 people have accessed CBA's Domestic & Family Violence Assistance Package since launch in October 2017. The package provides counselling and financial support to customers affected by domestic and family violence.
- CBA was the first Australian bank to remove ATM withdrawal fees for all CommBank and non-CommBank customers.
- A new remuneration framework has been introduced for branch tellers to ensure the focus is on customer service, rather than sales.

Outlook

Chief Executive Officer, Ian Narev

Global growth trends are positive overall. Demand for Australia's raw materials, and other goods and services, should remain strong. And employment-intensive sectors such as infrastructure, tourism and education should continue to grow and underpin GDP and employment growth.

However, market volatility remains a risk given ongoing global uncertainty as to the pace and extent of rate rises. Market movements over recent days highlight this risk. Volatility can undermine the confidence that is critical to continuing growth.

Low wage growth also impacts confidence. Economic growth improves families' feelings of wellbeing when household income grows. Despite the positive trends in job creation, trends in wage growth and underemployment may cause households to remain cautious, which in turn weighs on consumption and business investment.

CBA will remain positive about Australia's prospects, while being wary of these risks. And we will continue to focus on the long term so we can serve and innovate for our customers, provide stable returns for our shareholders, support our community, and remain strong into the future.

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Footnotes

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

[2] 1H18 includes an expense provision of $375 million which the Group believes to be a reliable estimate of the level of penalty that a Court may impose, taking into account currently available information, including legal advice received by the Group in relation to AUSTRAC's claim.

[3] 1H18 excludes the expense provision of $375 million which the Group believes to be a reliable estimate of the level of penalty that a Court may impose, taking into account currently available information, including legal advice received by the Group in relation to AUSTRAC's claim.

[4] Operating expenses to total operating income.

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

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

[7] Unless otherwise stated, all figures relate to the half year ended 31 December 2017. All comparisons are to the half year ended 31 December 2016.

[8] Unless otherwise stated, the financial results are presented on a 'continuing operations' basis, excluding the life insurance businesses in Australia and New Zealand ('discontinued operations') being sold to AIA Group Limited.

[9] For an explanation of and reconciliation between statutory and cash NPAT, refer to page 5 of the Profit Announcement.

[10] Includes discontinued operations.

[11] The Group has provided for a civil penalty in the amount of $375 million. The Group believes this to be a reliable estimate of the level of penalty that a Court may impose in the AUSTRAC proceedings. This takes into account currently available information, including legal advice received by the Group in relation to AUSTRAC's claims.

[12] In order to present an underlying view of the result: 1H17 has been adjusted to exclude 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; the impact of consolidation and equity accounted profits of AHL Holdings Pty Ltd (trading as Aussie Home Loans) has been excluded; and 1H18 is adjusted to exclude a $375 million expense provision which the Group believes to be a reliable estimate of the level of penalty that a Court may impose in the AUSTRAC proceedings.

[13] 'Business as usual' expenses excludes the expense items noted in footnote 12, and also excludes the $200 million expense provision taken for expected regulatory, compliance and remediation program costs and the $64 million benefit from the one-off acceleration of software amortisation in 1H17.

[14] Market as at September 2017 quarter. Source: MFAA.

[15] System source RBA. CBA includes BWA and subsidiaries.

[16] Adjusted for new market entrants/reporting changes. 'Non banks' refers to Non bank financial institutions.

[17] Apartment developments >$20m.

[18] FY09 includes Bankwest on a pro-forma basis and is based on LIE for the year.

[19] Includes retail portfolios of Retail Banking Services, Business and Private Banking, Bankwest and New Zealand.

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

[21] Excludes Line of Credit (Viridian LOC/Equity Line).

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

[23] Roy Morgan Research Retail Main Financial Institution (MFI) Customer Satisfaction; DBM Business Financial Services Monitor; Wealth Insights Platform Service Level Survey; Roy Morgan Research.

[24] Roy Morgan Research, Retail Net Promoter Score. Advocacy is measured on a scale of 1 to 10, with 1 being 'Very Unlikely' and 10 being 'Very Likely' to recommend. Promoters is defined as score of 9-10. Total Detractors is a score of 1-6.

Key financial information

Group performance summary (continuing operations)	Half year ended ("cash basis")[1] 31 Dec 17 $m	30 Jun 17 $m	31 Dec 16 $m	Dec 17 v Jun 17 %	Dec 17 v Dec 16 %
Net interest income	9,253	8,824	8,710	5	6
Other banking income [2]	2,694	2,577	3,018	5	(11)
Total banking income	**11,947**	11,401	11,728	5	2
Funds management income	1,039	970	943	7	10
Insurance income	136	61	162	large	(16)
Total operating income	**13,122**	12,432	12,833	6	2
Investment experience	13	21	2	(38)	large
Total income	**13,135**	12,453	12,835	5	2
Operating expenses [3]	(5,764)	(5,195)	(5,474)	11	5
Loan impairment expense	(596)	(496)	(599)	20	(1)
Net profit before tax	**6,775**	6,762	6,762	-	-
NPAT from continuing operations ("cash basis")	**4,735**	4,827	4,828	(2)	(2)
NPAT incl. discont'd operations ("cash basis")	**4,871**	4,974	4,907	(2)	(1)
NPAT incl. discont'd operations ("statutory basis")	**4,906**	5,033	4,895	(3)	-

Cash net profit after tax, by division (continuing operations)	31 Dec 17 $m	30 Jun 17 $m	31 Dec 16 $m	Dec 17 v Jun 17 %	Dec 17 v Dec 16 %
Retail Banking Services	**2,653**	2,480	2,453	7	8
Business and Private Banking	**960**	930	878	3	9
Institutional Banking and Markets	**591**	630	681	(6)	(13)
Wealth Management	**281**	211	211	33	33
New Zealand	**483**	446	423	8	14
Bankwest	**339**	286	290	19	17
IFS and Other	**(572)**	(156)	(108)	large	large

Shareholder ratios & performance indicators (continuing operations)	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 v Jun 17 %	Dec 17 v Dec 16 %
Earnings Per Share - "cash basis" - basic (cents)	**272.2**	279.9	281.1	(3)	(3)
Return on equity - "cash basis" (%)	**14.5**	15.6	15.7	(110) bpts	(120) bpts
Dividends per share - fully franked (cents)	**200**	230	199	(13)	1
Dividend payout ratio - "cash basis" (%)	**72.0**	80.0	69.9	large	210 bpts
Average interest earning assets ($M) [4]	**851,522**	846,619	823,058	1	3
Funds Under Administration - average ($M)	**151,008**	144,256	138,024	5	9
Assets Under Management - average ($M)	**224,560**	213,838	206,336	5	9
Net interest margin (%)	**2.16**	2.10	2.10	6 bpts	6 bpts
Operating expenses to total operating income (%) [5]	**43.9**	41.8	42.7	210 bpts	120 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 inclusion of discontinued operations adjustment.
[2] The half year ended 31 December 2016 included a $397 million gain on sale of the Group's remaining investment in Visa Inc.
[3] The half year ended 31 December 2017 includes a $375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings. The half year ended 31 December 2016 included a $393 million one-off expense for acceleration of amortisation on certain software assets.
[4] Net of average mortgage offset balances.
[5] The half year ended 31 December 2016 included 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. Excluding these items, the Operating expenses to total operating income is 40.9% from continuing operations and 41.5% including discontinued operations. The half year ended 31 December 2017 includes a $375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings and an increase of $94 million in income and $71 million in expenses from AHL Holdings Pty Ltd (trading as Aussie Home Loans) as the Group acquired the remaining 20% share on 25 August 2017. Excluding these items, Operating expense to total operating income is 40.8% from continuing operations and 41.2% including discontinued operations for the half year ended 31 December 2017.