Commonwealth Bank of Australia
U.S. Disclosure Document

For the half year ended 31 December 2018

Report for the half year ended 31 December 2018	$M	Dec 18 vs Dec 17 %
Revenue from ordinary activities (1) (2)	**12,306**	**down 4%**
Profit/(loss) from ordinary activities after tax attributable to Equity holders	**4,599**	**down 6%**
Net profit/(loss) for the period attributable to Equity holders	**4,599**	**down 6%**
Dividends (distributions)		
Interim dividend - fully franked (cents per share)		**200**
Record date for determining entitlements to the dividend		**14 February 2019**

(1) Information has been presented on a continuing operations basis including prior period restatements. See "Disclosures-Financial Information Definitions-Basis of Preparation" and Appendix 4.9 for more information on the related restatements. Discontinued operations include the Bank's Australia and New Zealand life insurance businesses (CommInsure Life and Sovereign), BoComm Life, TymeDigital SA, Colonial First State Global Asset Management ("CFSGAM") and PT Commonwealth Life, and their results are excluded from the individual account lines of the Bank's performance and reported as a single cash net profit after tax line item.

(2) Represents total net operating income before impairment and operating expenses.

This Report (this "Document") should be read in conjunction with:

- The Commonwealth Bank of Australia Annual U.S. Disclosure Document – Year Ended 30 June 2018 (the "2018 Annual U.S. Disclosure Document");
- The Commonwealth Bank of Australia Financial Report (U.S. Version) – Year Ended 30 June 2018 which contains the Financial Statements for the years ended 30 June 2016, 2017 and 2018 and as at 30 June 2016, 2017 and 2018 (the "2018 Financial Report");
- The Commonwealth Bank of Australia Financial Report (U.S. Version) – Year Ended 30 June 2017 which contains the Financial Statements for the years ended 30 June 2015, 2016 and 2017 and as at 30 June 2015, 2016 and 2017 (the "2017 Financial Report");
- The Commonwealth Bank of Australia Basel III Pillar 3 Capital Adequacy and Risk Disclosure as at 31 December 2018 (the "December 2018 Capital Disclosure Report");
- The Commonwealth Bank of Australia Recent Developments dated 20 November 2018 (the "November Recent Developments Report") which includes the Basel III Pillar 3 Capital Adequacy and Risk Disclosures as of 30 September 2018 (the "September 2018 Capital Disclosure Report");
- The Commonwealth Bank of Australia Recent Developments dated 16 October 2018 (the "Third October Recent Developments Report");
- The Commonwealth Bank of Australia Recent Developments dated 11 October 2018 (the "Second October Recent Developments Report");
- The Commonwealth Bank of Australia Recent Developments dated 10 October 2018 (the "First October Recent Developments Report", and, together with the Second October Recent Developments Report, the Third October Recent Developments Report and the November Recent Developments Report, the "Recent Development Reports"); and
- The Commonwealth Bank of Australia Basel III Pillar 3 Capital Adequacy and Risk Disclosures as of 30 June 2018 (the "June 2018 Capital Disclosure Report", and, together with the September 2018 Capital Disclosure Report and the December 2018 Capital Disclosure Report, the "Capital Disclosure Reports").

In each case, these are found on the U.S. Investor Website located at www.commbank.com.au/usinvestors (the "U.S. Investor Website").

The terms "Bank" and "CBA" refer to the Commonwealth Bank of Australia and the terms "Group", "we" and "our" refer to the Bank and its consolidated subsidiaries. Certain other terms used in this Document are defined in Appendix 4.8 to this Document.

This Document, the 2018 Annual U.S. Disclosure Document, the 2018 Financial Report, the Recent Developments Reports, the Capital Disclosure Reports and the 2017 Financial Report are each presented in Australian dollars unless stated otherwise.

The Group's financial years end on June 30 of each year. References to the 2018 Financial Year are to the year ended 30 June 2018 and prior financial years are referred to in a similar manner.

Except where otherwise stated, all figures in this Document relate to the half year ended 31 December 2018. The terms "prior comparative period" and "1H18" refer to the half year ended 31 December 2017, while the terms "prior half" and "2H18" refer to the half year ended 30 June 2018 and the terms "current period", "current half" and "1H19" refer to the half year ended 31 December 2018.

Except where otherwise indicated, references to "Notes" or a "Note" are to Notes or a Note, as the case may be, to the Financial Statements contained in this Document.

Segment Disclosure

The Group conducts its businesses through seven segments: Retail Banking Services; Business and Private Banking; Institutional Banking and Markets; Wealth Management; New Zealand; International Financial Services ("IFS") and Other.
Balances disclosed in the "Divisional Performance", are spot balances, unless otherwise stated.

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Section 1 – Disclosures

Disclosures

Special Note Regarding Forward-Looking Statements

Certain statements under the captions “Highlights”, “Risk Factors” “Group Performance Analysis”, “Retail Banking Services”, “Business and Private Banking”, “Institutional Banking and Markets”, “Wealth Management”, “New Zealand”, “International Financial Services”, “Corporate Centre”, “Group Operations and Business Settings” and elsewhere in this Document constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements, including economic forecasts and assumptions and business and financial projections, involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such factors include current and future extensive regulation and political scrutiny to which the Group is subject, legal and regulatory actions against the Group, reputational damage, general business and economic conditions, disruptions in the global financial markets and associated impacts, a downturn in the Australian and New Zealand economies, losses associated with the Group’s counterparty exposures, liquidity and funding risks, failure to meet the capital adequacy and liquidity requirements to which the Group is subject, failure to hedge effectively against market risks, operational risks associated with being a large financial institution, including ineffective risk management or other processes and strategies, compliance risk, information security risks, including cyber-attacks, any inappropriate conduct of the Bank’s staff, human capital risk including the loss of key executives, employees or Board members, insurance risk, strategic risk, investor activism, competition in the industries in which the Group conducts business, risks related to any acquisitions or divestments that the Group makes or is contemplating, climate change and catastrophic events, and various other factors, many of which may be beyond the Group's control. Given these risks, uncertainties and other factors, potential investors are cautioned not to place undue reliance on such forward-looking statements.

Risk factors applicable to the Group are detailed on page 11 of this Document and pages 19 to 28 of the 2018 Annual U.S. Disclosure Document.

Disclosures

Financial Information Definitions

Basis of Preparation

The consolidated Financial Statements of the Group for the half years ended 31 December 2018, 30 June 2018 and 31 December 2017 comply with International Financial Reporting Standards ("IFRS").

This Document, the 2018 Annual U.S. Disclosure Document, the 2018 Financial Report, the 2017 Financial Report, the Recent Developments Reports and the Capital Disclosure Reports are each presented in Australian dollars, unless otherwise stated.

This Document does not include all Notes of the type included in the 2018 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 2018 Financial Report. As a result, this Document should be read in conjunction with the 2018 Annual U.S. Disclosure Document, the 2018 Financial Report and the 2017 Financial Report.

During the current period, the Group adopted AASB 9 Financial Instruments and AASB 15 Revenue from contracts with customers. Note 1.1 to the Financial Statements in this Document outlines the nature of the changes and adjustments arising on adoption of the standards.

Other than the above, the accounting policies and methods of computation adopted in the preparation of the Financial Statements are consistent with those adopted and disclosed in the 2018 Financial Report.

Where necessary, comparative information has been restated to conform to presentation in the current period. All changes have been footnoted throughout the Financial Statements and in this Document.

Discontinued operations are excluded from the results of the continuing operations and are presented as a single line item "net profit after income tax from discontinued operations" in the Consolidated Income Statement. Assets and Liabilities of discontinued operations have been presented separately as held for sale on the Balance Sheet as at 31 December 2018, 30 June 2018 and 31 December 2017.

A description of the changes and the impact on each segment's net profit after tax ("cash basis"), Balance Sheet and cost to income ratios for the comparative periods is set out in Appendix 4.9 to this Document.

Non-GAAP Financial Measures

In addition to its statutory financial results reported in this Document, the 2018 Financial Report and the 2017 Financial Report which are prepared in accordance with IFRS, the Group reports and describes certain "non-GAAP financial measures" (as defined by the U.S. Securities and Exchange Commission's Regulation G) of the financial performance and results of the Group. These non-GAAP financial measures are not calculated in accordance with IFRS. This Document and the 2018 Annual U.S. Disclosure Document contains reconciliations of these non-GAAP financial measures to the Group's financial results prepared in accordance with IFRS.

Net Profit after Tax

The management discussion and analysis in this Document presents Net profit after tax on both a "statutory basis" and a "cash basis".

Net profit after tax ("statutory basis") is prepared in accordance with the Corporations Act 2001 (the "Corporations Act") and the Australian Accounting Standards, which comply with IFRS. References to "statutory profit", "statutory net profit after tax" or "statutory earnings" in this Document have the same meaning as "Net profit after tax ("statutory basis")". Net profit after tax ("cash basis") is a non-GAAP financial measure that is defined by management as net profit after tax and non-controlling interests, before non-cash items including, hedging and IFRS volatility, Bankwest non-cash items, treasury shares valuation adjustments, and losses or gains on acquisitions, disposal, closure and demerger of businesses. Net profit after tax ("cash basis") management's preferred measure of the Bank's financial performance. This measure is used by management to present what it believes to be a clear view of the Group's underlying operating results, excluding certain items that the Group believes introduce volatility and/or one-off distortions of the Group's performance. These items, such as hedging and IFRS volatility, are calculated consistently period on period and do not discriminate between positive and negative adjustments. A reconciliation of the Net profit after tax ("cash basis") to Net profit after tax ("statutory basis") by business segment is provided in Note 2.4 to the Financial Statements included in this Document. A list of items excluded from Net profit after tax ("cash basis") and their description is set out on page 14 of this Document. References to "cash profit" or "cash earnings" in this Document have the same meaning as "Net profit after tax ("cash basis")".

Other Non-GAAP Financial Measures

Other non-GAAP financial measures included in this Document are:

- Earnings per share ("cash basis") – the Group presents its earnings per share on both a statutory and a cash basis. Earnings per share ("cash basis") is defined by management as Net profit after tax ("cash basis") as described above, divided by the weighted average number of the Group's ordinary shares ("cash basis") over the relevant period. The weighted average number of shares ("cash basis") incorporates an adjustment for the bonus element of any rights issue and excludes treasury shares related to investments in the Bank's shares held by the employee share scheme trust.

Financial Information Definitions (continued)

- The dividend payout ratio and dividend cover are presented on both a statutory and cash basis. The dividend payout ratio (“statutory basis”) is calculated by dividing the dividends paid on the Group’s ordinary shares by the net profit after tax (“statutory basis”), net of dividends on other equity instruments. The dividend payout ratio (“cash basis”) is calculated by dividing the dividends paid on the Group’s ordinary shares by net profit after tax (“cash basis”), net of dividends on other equity instruments. “Dividend cover – statutory” is calculated as net profit after tax (“statutory basis”) net of dividends on other equity instruments, divided by dividends on the Group’s ordinary shares for the applicable period. “Dividend cover – cash” is calculated as net profit after tax (“cash basis”) net of dividends on other equity instruments, divided by dividends on the Group’s ordinary shares for the applicable period. These ratios are provided on both a statutory and cash basis because net profit after tax, the primary component of these ratios, is also presented on a statutory and cash basis, for the reasons described above.

Disclosures

Impact of Foreign Currency Movements

The Group's consolidated financial results are presented in Australian dollars. In order to prepare the Group's consolidated financial results, the financial results of any reporting entities of the Group with a functional currency other than Australian dollars are translated into Australian dollars for each reporting period. As foreign exchange rates are subject to change, the Group's financial results can be affected by the prevailing rate of the Australian dollar at the time of such translations. The effects of these translations on various segments of the Group's business are noted throughout this Document.

The movement of the Australian dollar against the following currencies is highlighted in the table below.

		As at		
Exchange Rates Utilised (1)	**Currency**	**31 Dec 18**	30 Jun 18	31 Dec 17
AUD 1.00 =	USD (2)	**0. 7046**	0. 7399	0. 7815
	EUR	**0. 6175**	0. 6350	0. 6532
	GBP	**0. 5563**	0. 5635	0. 5797
	NZD	**1. 0515**	1. 0909	1. 0983
	JPY	**77. 9848**	81. 7215	87. 9780

		Average rates		
Exchange Rates Utilised (3)	**Currency**	**31 Dec 18**	30 Jun 18	31 Dec 17
AUD 1.00 =	USD (4)	**0. 7246**	0. 7711	0. 7795
	EUR	**0. 6289**	0. 6375	0. 6625
	GBP	**0. 5596**	0. 5608	0. 5913
	NZD	**1. 0822**	1. 0780	1. 0923
	JPY	**81. 2578**	83. 9356	87. 2079

(1) Unless noted otherwise, rates are sourced from Bloomberg and are End of day, Sydney time.
(2) USD translated from AUD using the month end Noon Buying Rates as at the end of each period. Refer to "Financial Review – Exchange Rates" on page 29 of the 2018 Annual U.S. Disclosure Document.
(3) Unless noted otherwise, rates are the six month period average of End of day, Sydney time rates sourced from Bloomberg.
(4) USD translated from AUD using average daily Noon Buying Rates during the 6 month period. Refer to "Financial Review – Exchange Rates" on page 29 of the 2018 Annual U.S. Disclosure Document.

The Group hedges foreign currency exposures on debt issues and significant foreign currency earnings exposures in offshore locations.

For further information regarding the composition of the Group's income by location please refer to Note 2.4 to the Financial Statements included in this Document.

The references to the higher Australian dollar in this Document are to the strengthening of the Australian dollar against the currencies disclosed in the table above.

Critical Accounting Policies and Estimates

The application of the Group's accounting policies requires the use of judgement, estimates and assumptions. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, and are reviewed on an ongoing basis. Actual results may differ from these estimates, which could impact the Group's net assets and profit.

Where applicable, each note in the 2018 Financial Report discloses the accounting policy for the transactions and balances, which provides information to assist in the understanding of how the numbers are measured, recognised and disclosed. An explanation of these policies and the related critical accounting judgements and estimates applied by the Group is set out below. For further information regarding the Group's accounting policies, see Notes 1 to 7.4 to the Financial Statements included in this Document and Notes 1.1 to 12.6 to the 2018 Financial Report.

Provisions for Impairment of Financial Assets

On 1 July 2018, the Group adopted the AASB 9 impairment requirements, which resulted in the implementation of an expected credit loss ("ECL") impairment model, which differs significantly from the incurred loss approach under AASB 139.

The ECL model is forward looking and does not require evidence of an actual loss event for impairment provisions to be recognised. The implementation of AASB 9 required management to make a number of judgements and assumptions and has had a significant impact on the Group's impairment provisioning methodology. A description of the key components of the Group's AASB 9 impairment provisioning methodology is provided below.

The ECL model uses a three-stage approach to ECL recognition. Financial assets migrate through these stages based on changes in credit risk since origination:

- *Stage 1 – 12 months ECL – Performing loans* On origination, financial assets recognise a provision equivalent to 12 months ECL. 12 months ECL is the credit losses expected to arise from defaults occurring over the next 12 months.
- *Stage 2 – Lifetime ECL – Performing loans that have experienced a significant increase in credit risk (SICR)* Financial assets that have experienced a SICR since origination are transferred to Stage 2 and recognise a provision equivalent to lifetime ECL. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure is reclassified to Stage 1 and the provision reverts to 12 months ECL.
- *Stage 3 – Lifetime ECL – Non-performing loans* Financial assets in default recognise a provision equivalent to lifetime ECL. This includes assets that are considered credit impaired as well as assets that are considered to be in default but are not credit impaired.

Credit Losses for financial assets in Stage 1 and Stage 2 are assessed collectively, whilst those in Stage 3 are subjected to either collective or individual assessment of credit loss. Interest revenue is recognised on gross carrying amounts for financial assets in Stage 1 and Stage 2, and gross carrying value net of provisions for financial assets in Stage 3.

The ECL model applies to all financial assets measured at amortised cost, debt securities measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts not measured at fair value through profit or loss ("FVTPL").

Significant increase in credit risk ("SICR")

SICR is assessed by comparing the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination. The Group considers all available qualitative and quantitative information that is relevant to assessing SICR.

For non-retail portfolios, such as the corporate risk rated portfolio and the asset finance portfolio, the risk of default is defined using the existing Risk Rated Probability of Default ("PD") Masterscale. The PD Masterscale is used in internal credit risk management and includes 23 risk grades that are assigned at a customer level using rating tools reflecting customer specific financial and non-financial information and management's experienced credit judgement. Internal credit risk ratings are updated regularly on the basis of the most recent financial and non-financial information.

The Group has developed a Retail Masterscale for use in the ECL measurement on personal loans, credit cards, home loan and Small Medium Enterprise ("SME") retail portfolios. The Retail Masterscale has 15 risk grades that are assigned to retail accounts based on their credit quality scores determined through a credit quality scorecard. Risk grades for retail exposures are updated monthly as credit quality scorecards are recalculated based on the new behavioural information.

For significant portfolios, the primary indicator of SICR is a significant deterioration in an exposure's internal credit rating grade between origination and reporting date. Application of the primary SICR indicator uses a sliding threshold such that an exposure with a higher credit quality at origination would need to experience a more significant downgrade compared to a lower credit quality exposure before SICR is triggered. The levels of downgrade required to trigger SICR for each origination grade have been defined for each significant portfolio.

The Group also uses the following secondary SICR indicators as backstops in combination with the primary SICR indicator:

- 30 days past due arrears information;
- A retail exposure entering a financial hardship status; and
- A non-retail exposure's referral to Group Credit Structuring.

For a number of small portfolios, which are not considered significant individually or in combination, the Group applies simplified provisioning approaches that differ from the description above. 30 days past due is used as a primary indicator of SICR on exposures in these portfolios.

Critical Accounting Policies and Estimates (continued)

Definition of default, credit impaired assets and writeoffs

The definition of default used in measuring ECL is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the Group in full, or the exposure is 90 days past due.

Facilities are classified as credit impaired where there is doubt as to whether the full amounts due, including interest and other payments, will be received in a timely manner. Loans are written-off when there is no realistic probability of recovery.

ECL Measurement

ECL is a probability weighted expected credit loss estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The Group uses the following AASB 9 collective provisioning models in calculating ECL:

- Retail lending: Personal Loans model, Credit Cards model, Home Loans model, Retail SME model.
- Non-retail lending: Corporate Risk rated model, Asset Finance model.

For each significant portfolio ECL is calculated as a product of the following credit risk factors at a facility level:

- *Probability of default (PD):* The likelihood that a debtor will be unable to pay its obligations in full without having to take actions such as realising on security or that the debtor will become 90 days overdue on obligation or contractual commitment;
- *Exposure at default (EAD):* The Group generally calculates EAD as the higher of the drawn balance and total credit limit, except for the credit cards portfolio, for which the EAD calculation also takes into account the probability of unused limits being drawn down; and
- *Loss given default (LGD):* The amount that is not expected to be recovered following default.

Secured retail exposures with expected loss in excess of $20,000 and defaulted non-retail exposures that are not well secured are assessed for impairment through an Individually Assessed Provisions (IAP) process. Impairment provisions on these exposures are calculated directly as the difference between the defaulted assets carrying value and the present value of expected future cash flows including cash flows from realisation of collateral, where applicable.

Forward-looking information

Credit risk factors of PD and LGD used in ECL calculation are point-in-time estimates based on current conditions and adjusted to include the impact of multiple probability-weighted future forecast economic scenarios.

Forward looking PD and LGD factors are modelled for each significant portfolio based on macro-economic factors that are most closely correlated with credit losses in the relevant portfolios. Each of the four scenarios (refer below) includes a forecast of relevant macro-economic variables which differ by portfolio:

- Retail portfolios: Cash rate, unemployment rate, GDP per capita and House price index.
- Non-retail lending: Unemployment rate, business investment index, ASX 200 and the AUD/USD exchange rate.

New Zealand equivalents of the above macro-economic variables are used for credit exposures originated in New Zealand.

The Group uses the following four alternative macro-economic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL:

- *Central scenario:* This scenario reflects the Group's base case assumptions used in business planning and forecasting. In this scenario the economy continues along the current trajectory where GDP per capita, investment, share market and labour market growth continues supported by stable exchange rates and interest rates remaining at current levels over the short-term. House prices see further mild declines from currently observed levels;
- *Upside and Downside Scenarios:* These scenarios are set relative to the Central scenario and based on macroeconomic conditions which would lead to a range of losses expected over an approximate 10 year economic cycle. Under the Upside scenario the economy strengthens from current state where the economy, including house prices, returns to above average growth and the central bank increases interest rates in the next year. The Downside scenario represents a deterioration from current state where the economy observes moderate declines across most metrics, including further house prices declines, as well as decreases in official interest rates; and
- *Severe Downside:* This scenario has been included to account for a potentially severe impact of less likely extremely adverse macro-economic conditions which would lead to the highest impairment losses expected over a longer horizon such as a 30 year economic cycle. Under this scenario the economy sees a significant deterioration from current state. The scenario contemplates a breakdown in typical economic relationships reflected by significant declines in GDP per capita, investment, house prices and the share market as well as increases in interest rates and exchange rates.

The probability weights assigned to each scenario are assigned according to management's best estimate of their relative likelihood based on historical frequency, current trends and conditions. The same future forecast scenarios and probability weights apply across all portfolios.

The Group's assessment of SICR also incorporates the impact of multiple probability-weighted future forecast economic scenarios on exposures' internal risk grades using the same four forecast macro-economic scenarios as described above.

Critical Accounting Policies and Estimates (continued)

In estimating impairment provisions on individually significant defaulted exposures, the Group generally applies what management believes to be conservative assumptions in estimating recovery cash flows. Incorporating multiple forecast economic scenarios is not expected to significantly affect the level of impairment provisions on these credit exposures.

Lifetime of an exposure

For exposures in Stage 2 and Stage 3 impairment provisions are determined as a lifetime expected loss. The Group uses a range of approaches to estimate expected lives of financial instruments subject to ECL requirements:

- *Non-revolving products in corporate portfolios:* Expected life is determined as a maximum contractual period over which the Group is exposed to credit risk;
- *Non-revolving retail products:* For fixed term products such as personal loans and home loans, expected life is determined using behavioural term analysis and does not exceed the maximum contractual period; and
- *Revolving products in corporate and retail portfolios:* For revolving products that include both a loan and an undrawn commitment, such as credit cards and corporate lines of credit, the Group's contractual ability to cancel the undrawn limits and demand repayments does not limit the exposure to credit losses to the contractual notice period. For such products, ECL is measured over the behavioural life.

Incorporation of experienced credit judgement

Management exercises credit judgement in assessing if an exposure has experienced SICR and in determining the amount of impairment provisions at each reporting date. Where applicable, model adjustments are made to incorporate reasonable and supportable information about known or expected risks that have not been considered in the modelling process. This includes but is not limited to information about emerging risk at an industry, geographical location or a particular portfolio segment level.

Governance

The Group's Loan Loss Provisioning Committee (LLPC) is responsible for approving forecast economic scenarios and their associated probability weights. In addition, the LLPC is responsible for approving all model adjustments including those required to account for situations where all relevant information has not been considered in the modelling process.

The Group's loan loss provisions, loan impairment expense and any areas of judgement are reported to the Group's Board Audit Committee.

Provisions (Other than Impairment of Financial Assets)

Provisions are held in respect of a range of future obligations. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. Provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated. When payments to settle amounts are expected to be greater than one year in the future, they are then discounted using a market observable rate.

Consolidation of Structured Entities

The Group exercises judgement at inception and periodically thereafter, to assess whether that structured entity should be consolidated based on the Bank's power over the relevant activities of the entity and the significance of its exposure to variable returns of the structured entity. Such assessments are predominantly required for the Group's securitisation program, structured transactions and involvement with investment funds.

Financial Instruments at Fair Value

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 the measurement date. On initial recognition, the transaction price generally represents the fair value of the financial instrument, unless there is observable information from an active market that provides a more appropriate fair value.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. Assets and long positions are measured at a quoted bid price; liabilities and short positions are measured at a quoted asking price. Where the Group has positions with offsetting market risks, mid-market prices are used to measure the offsetting risk positions and a quoted bid or asking price adjustment is applied only to the net open position as appropriate.

Non-market quoted financial instruments are mostly valued using valuation techniques based on observable inputs except where observable market data is unavailable. Where market data is unavailable the financial instrument is initially recognised at the transaction price, which is generally the best indicator of fair value. This may differ from the value obtained from the valuation model. The timing of the recognition in the Income Statement of this initial difference in fair value depends on the individual facts and circumstances of each transaction, but is never later than when the market data becomes observable. The difference may be either amortised over the life of the transaction, recognised when the inputs become observable or on de-recognition of the instrument, as appropriate.

When using valuation techniques the Group makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that the Group believes market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Data inputs that the Group relies upon when valuing financial instruments relate to counterparty credit risk, volatility, correlation and extrapolation.

Periodically, the Group calibrates its valuation techniques and tests them for validity using prices from any observable current market transaction in the same instrument (i.e. without modification or repackaging) and any other available observable market data.

Critical Accounting Policies and Estimates (continued)

Periodically, the Group calibrates its valuation techniques and tests them for validity using prices from any observable current market transaction in the same instrument (i.e. without modification or repackaging) and any other available observable market data.

Goodwill

Goodwill is allocated to Cash Generating Units ("CGUs") whose recoverable amount is calculated for the purpose of impairment testing. The recoverable amount calculation relies primarily on publicly available earnings multiples.

Taxation

Provisions for taxation require significant judgement with respect to outcomes that are uncertain. For such uncertainties, the Group has estimated its tax provisions based on its expected outcomes.

Superannuation Obligations

The Group currently sponsors two defined benefit superannuation plans for its employees. Actuarial valuations of the plan's obligations and fair value of the plan's assets are performed semi-annually.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, including inflation rates, discount rates, and salary growth rates. Changes in these assumptions impact the carrying amounts of the plans' obligations, assets, superannuation expense and actuarial gains and losses recognised in Other Comprehensive Income.

Property, Plant and Equipment

The Group assesses at each Balance Sheet date useful lives and residual values of property, plant and equipment and whether there is any objective evidence of impairment. If an asset's carrying amount is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Disclosures

Risk Factors

Details of significant risk factors applicable to the Group are set forth under the section entitled "Risk Factors" on pages 19 to 28 of the 2018 Annual U.S. Disclosure Document. That section describes the principal risk factors that could materially affect the Group's businesses, its revenues, operating income, net income, net assets, liquidity and capital resources, which are in addition to, and should be read in conjunction with, the "Special Note Regarding Forward-Looking Statements" on page 3 of this Document and Appendices 2.1 and 2.2 to this Document. The risk factors described in the 2018 Annual U.S. Disclosure Document should also be read in conjunction with the Recent Developments Reports and the updates provided in the rest of this Document, in particular "Note 7.2: Litigations, investigations and reviews" on pages 131 to 132 of this Document, "Note 7.4 Subsequent Events" in this Document and Appendix 5 of this Document. Appendix 2.1 to this Document provides details on how the Group manages its credit, market (traded and non-traded), funding and liquidity risks in the course of carrying on its business. Appendix 2.2 to this Document provides details on the Group's counterparty and other credit risk exposures. Also refer to Notes 9.1 to 9.4 of the 2018 Financial Report.

Contents

Highlights

Group Performance Summary

Group Performance Summary	Half Year Ended [1] ("statutory basis") 31 Dec 18 $M	Dec 18 vs Dec 17 %	Half Year Ended [1] ("cash basis") 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income	**9,134**	(1)	**9,134**	9,085	9,257	1	(1)
Other banking income	**2,531**	(13)	**2,636**	2,509	2,706	5	(3)
Total banking income	**11,665**	(4)	**11,770**	11,594	11,963	2	(2)
Funds management income	**571**	-	**570**	551	568	3	-
Insurance income	**70**	(39)	**68**	126	112	(46)	(39)
Total operating income	**12,306**	(4)	**12,408**	12,271	12,643	1	(2)
Investment experience	**n/a**	n/a	**3**	2	6	50	(50)
Total income	**12,306**	(4)	**12,411**	12,273	12,649	1	(2)
Operating expenses	**(5,317)**	(3)	**(5,289)**	(5,539)	(5,456)	(5)	(3)
Loan impairment expense	**(577)**	(3)	**(577)**	(483)	(596)	19	(3)
Net profit before tax	**6,412**	(6)	**6,545**	6,251	6,597	5	(1)
Corporate tax expense	**(1,831)**	(10)	**(1,863)**	(1,927)	(1,993)	(3)	(7)
Non-controlling interests	**(6)**	-	**(6)**	(7)	(6)	(14)	-
Net profit after tax from continuing operations	**4,575**	(4)	**4,676**	4,317	4,598	8	2
Net profit after tax from discontinued operations [2]	**24**	(84)	**92**	224	273	(59)	(66)
Net profit after tax	**4,599**	(6)	**4,768**	4,541	4,871	5	(2)
Loss on acquisition, disposal, closure and demerger of businesses	**n/a**	n/a	**(74)**	(126)	(57)	(41)	30
Hedging and IFRS volatility	**n/a**	n/a	**(91)**	5	96	large	large
Other non-cash items	**n/a**	n/a	**(4)**	3	(4)	large	-
Net profit after tax ("statutory basis")	**4,599**	(6)	**4,599**	4,423	4,906	4	(6)
Represented by: [1]							
Retail Banking Services [3]			**2,231**	2,351	2,527	(5)	(12)
Business and Private Banking			**1,407**	1,393	1,452	1	(3)
Institutional Banking and Markets			**593**	562	608	6	(2)
Wealth Management			**104**	315	255	(67)	(59)
New Zealand			**558**	523	617	7	(10)
International Financial Services & Corporate Centre			**(294)**	(721)	(553)	(59)	(47)
Net profit after tax ("statutory basis")			**4,599**	4,423	4,906	4	(6)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) The financial results of discontinued operations are excluded from the individual account lines of the Bank's performance and reported as a single cash net profit after tax line item. Discontinued operations include the Bank's Australia and New Zealand life insurance businesses (CommInsure Life and Sovereign), BoComm Life, TymeDigital SA, CFSGAM and PT Commonwealth Life.
(3) Includes results of Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review. The results of Retail Banking Services ("RBS") excluding these businesses are set out on pages 17 and 56.

Non-Cash Items Included in Statutory Profit

The management discussion and analysis in this Document 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 and the Australian Accounting Standards, which comply with International Financial Reporting Standards ("IFRS"). The cash basis is used by management to present what it believes to be a clear view of the Bank's operating results. It is not a measure based on cash accounting or cash flows. The items excluded from cash profit, such as hedging and IFRS volatility and losses or gains on acquisition, disposal, closure and demerger of businesses (2) are calculated consistently with the prior year and prior half disclosures and do not discriminate between positive and negative adjustments. A list of items excluded from cash profit is provided in the table below. A reconciliation of the Group's net profit after tax from "cash basis" to "statutory basis" is set out in Appendix 4.4 to this Document.

	Half Year Ended				
Non-Cash Items Included in Statutory Profit	**31 Dec 18 $M**	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	**(74)**	(126)	(57)	(41)	30
Hedging and IFRS volatility	**(91)**	5	96	large	large
Bankwest non-cash items	**(1)**	(2)	(1)	(50)	-
Treasury shares valuation adjustment	**(3)**	5	(3)	large	-
Other non-cash items	**(4)**	3	(4)	large	-
Total non-cash items (after tax)	**(169)**	(118)	35	43	large

Non-Cash items attributable to continuing and discontinued operations are set out below:

	Half Year Ended				
Non-Cash Items Included in Statutory Profit	**31 Dec 18 $M**	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
(Loss)/gain on acquisition, disposal, closure and demerger of businesses (1)	**(9)**	(21)	65	(57)	large
Hedging and IFRS volatility	**(91)**	5	96	large	large
Bankwest non-cash items	**(1)**	(2)	(1)	(50)	-
Non-cash items (after tax) from continuing operations	**(101)**	(18)	160	large	large
(Loss)/gain on acquisition, disposal, closure and demerger of businesses (2)	**(65)**	(105)	(122)	(38)	(47)
Treasury shares valuation adjustment discontinued operations	**(3)**	5	(3)	large	-
Non-cash items (after tax) from discontinued operations	**(68)**	(100)	(125)	(32)	(46)
Total non-cash items (after tax)	**(169)**	(118)	35	43	large

(1) Current period includes $18 million demerger costs for NewCo (30 June 2018: $21 million expense; 31 December 2017: nil), partly offset by a $9 million net gain on acquisitions and disposals of other businesses (30 June 2018: nil; 31 December 2017: $65 million gain).

(2) Current period includes $75 million gain net of transaction and separation costs associated with the disposal of CommInsure Life and Sovereign (30 June 2018: $14 million expense; 31 December 2017: $122 million expense); $100 million provision for transaction and separation costs associated with the disposal of CFSGAM (30 June 2018: nil; 31 December 2017: nil); $22 million loss including transaction and separation costs associated with the disposal of TymeDigital SA (30 June 2018: $91 million impairment loss; 31 December 2017: nil); and $18 million for other transaction and separation costs (30 June 2018: nil; 31 December 2017: nil).

Highlights

Key Performance Indicators

Key Performance Indicators (2)	Half Year Ended (1) 31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Group Performance from continuing operations					
Statutory net profit after tax ($M)	**4,575**	4,299	4,758	6	(4)
Cash net profit after tax ($M)	**4,676**	4,317	4,598	8	2
Net interest margin (%)	**2. 10**	2. 14	2. 16	(4)bpts	(6)bpts
Operating expenses to total operating income (%)	**42. 6**	45. 1	43. 2	(250)bpts	(60)bpts
Spot number of full-time equivalent staff (FTE)	**42,519**	42,462	41,308	-	3
Effective corporate tax rate ("statutory basis") (%)	**28. 6**	30. 8	29. 9	(220)bpts	(130)bpts
Average interest earning assets ($M) (3)	**863,664**	857,050	851,522	1	1
Average interest bearing liabilities ($M) (3)	**764,654**	761,752	757,449	-	1
Funds Under Administration (FUA) - average ($M)	**160,860**	156,896	151,008	3	7
Assets Under Management (AUM) - average ($M)	**14,406**	13,484	12,305	7	17
Group Performance including discontinued operations					
Statutory net profit after tax ($M)	**4,599**	4,423	4,906	4	(6)
Cash net profit after tax ($M)	**4,768**	4,541	4,871	5	(2)
Net interest margin (%)	**2. 11**	2. 15	2. 16	(4)bpts	(5)bpts
Operating expenses to total operating income (%)	**44. 4**	46. 7	44. 3	(230)bpts	10 bpts
Spot number of full-time equivalent staff (FTE)	**44,870**	45,753	44,458	(2)	1
Effective corporate tax rate ("statutory basis") (%)	**28. 2**	31. 3	30. 1	(310)bpts	(190)bpts
Average interest earning assets ($M) (3)	**864,190**	857,124	851,606	1	1
Average interest bearing liabilities ($M) (3)	**765,527**	762,623	758,312	-	1
Funds Under Administration (FUA) - average ($M)	**171,322**	167,809	162,219	2	6
Assets Under Management (AUM) - average ($M)	**218,746**	217,818	225,116	-	(3)
Average inforce premiums ($M)	**2,445**	3,169	3,308	(23)	(26)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Presented on a "cash basis" unless stated otherwise. A reconciliation of the Group's net profit after tax from "cash basis" to "statutory basis" is set out in Appendix 4.4 to this Document.
(3) Average interest earning assets are net of average mortgage offset balances. Average interest bearing liabilities exclude average mortgage offset balances.

Key Performance Indicators (continued)

Key Performance Indicators	31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
	Half Year Ended (1)				
Shareholder Returns from continuing operations					
Earnings Per Share (EPS) (cents) (2)					
Statutory basis - basic	**259. 6**	245. 1	273. 7	6	(5)
Cash basis - basic	**265. 2**	246. 0	264. 3	8	-
Return on equity (ROE) (%) (2)					
Statutory basis	**13. 5**	13. 0	14. 7	50 bpts	(120)bpts
Cash basis	**13. 8**	13. 1	14. 2	70 bpts	(40)bpts
Shareholder Returns including discontinued operations					
Earnings Per Share (EPS) (cents) (2)					
Statutory basis - basic	**261. 0**	252. 2	282. 2	3	(8)
Cash basis - basic	**270. 4**	258. 8	280. 0	4	(3)
Return on equity (ROE) (%) (2)					
Statutory basis	**13. 6**	13. 4	15. 1	20 bpts	(150)bpts
Cash basis	**14. 1**	13. 8	15. 0	30 bpts	(90)bpts
Dividends per share - fully franked (cents)	**200**	231	200	(13)	-
Dividend cover - "statutory basis" (times)	**1. 3**	1. 1	1. 4	18	(7)
Dividend cover - "cash basis" (times)	**1. 3**	1. 1	1. 4	18	(7)
Dividend payout ratio (%) (2)					
Statutory basis	**77. 0**	91. 9	71. 4	large	large
Cash basis	**74. 3**	89. 5	72. 0	large	230 bpts
Capital including discontinued operations					
Common Equity Tier 1 (APRA) (%)	**10. 8**	10. 1	10. 4	70 bpts	40 bpts
Risk weighted assets (RWA) ($M) - Basel III	**445,144**	458,612	440,836	(3)	1
Leverage Ratio including discontinued operations					
Leverage Ratio (APRA) (%)	**5. 6**	5. 5	5. 4	10 bpts	20 bpts
Liquidity Metrics including discontinued operations					
Liquidity Coverage Ratio (%) (3)	**131**	133	135	(200)bpts	(400)bpts
Net Stable Funding Ratio (%)	**112**	112	110	-	200 bpts
Credit Quality Metrics including discontinued operations					
Loan impairment expense ("cash basis") annualised as a % of average GLAAs	**0. 15**	0. 13	0. 16	2 bpts	(1)bpt
Gross impaired assets as a % of GLAAs	**0. 47**	0. 42	0. 45	5 bpts	2 bpts
Credit risk weighted assets (RWA) ($M)	**369,356**	369,528	366,985	-	1

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) For definitions refer to Appendix 4.8.
(3) Quarterly average.

Key Performance Indicators (continued)

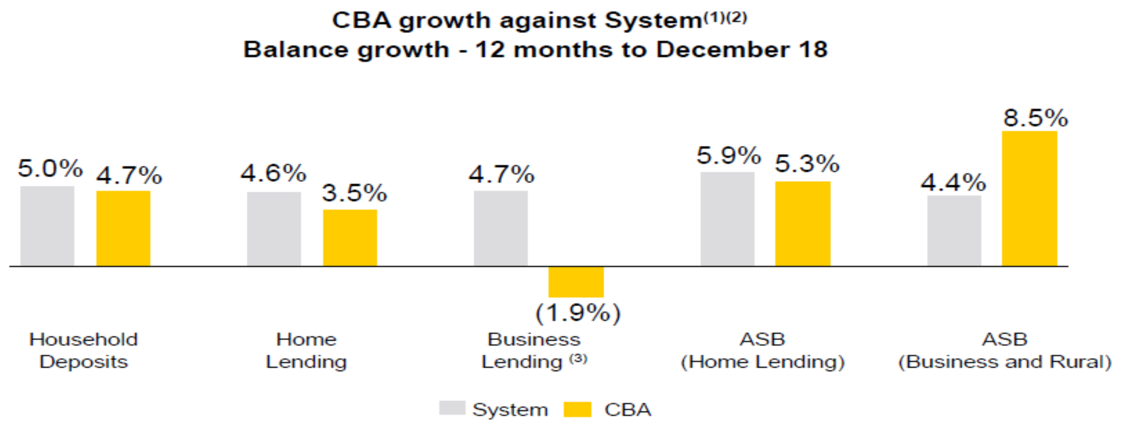
Key Performance Indicators	Half Year Ended (1) 31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Retail Banking Services (2)					
Statutory net profit after tax ($M)	**2,211**	2,287	2,413	(3)	(8)
Net interest margin (%)	**2. 60**	2. 71	2. 77	(11)bpts	(17)bpts
Average interest earning assets (AIEA) ($M) (3)	**359,928**	355,210	349,437	1	3
Statutory operating expenses to total operating income (%)	**37. 6**	36. 4	35. 1	120 bpts	250 bpts
Risk weighted assets ($M)	**167,253**	168,370	158,686	(1)	5
Business and Private Banking					
Statutory net profit after tax ($M)	**1,407**	1,393	1,452	1	(3)
Net interest margin (%)	**3. 17**	3. 17	3. 16	-	1 bpt
Average interest earning assets (AIEA) ($M) (3)	**162,159**	162,000	161,259	-	1
Statutory operating expenses to total banking income (%)	**34. 3**	34. 7	33. 5	(40)bpts	80 bpts
Risk weighted assets ($M)	**117,439**	119,804	112,683	(2)	4
Institutional Banking and Markets					
Statutory net profit after tax ($M)	**593**	562	608	6	(2)
Net interest margin (%)	**1. 08**	1. 05	1. 01	3 bpts	7 bpts
Average interest earning assets (AIEA) ($M)	**133,556**	135,515	142,300	(1)	(6)
Statutory operating expenses to total banking income (%)	**38. 5**	44. 4	35. 9	large	260 bpts
Risk weighted assets ($M)	**89,842**	95,875	97,103	(6)	(7)
Wealth Management (4)					
Statutory net profit after tax ($M) (5)	**104**	315	255	(67)	(59)
Statutory operating expenses to total operating income (%)	**62. 6**	62. 0	61. 6	60 bpts	100 bpts
FUA - average ($M)	**146,971**	144,625	139,104	2	6
New Zealand (4)					
Statutory net profit after tax ($M) (5)	**558**	523	617	7	(10)
Risk weighted assets - APRA basis ($M) (6)	**50,082**	48,524	47,489	3	5
Net interest margin (ASB) (%) (7)	**2. 21**	2. 27	2. 20	(6)bpts	1 bpt
Average interest earning assets (AIEA) (ASB) (NZ$M) (7)	**94,262**	91,054	88,525	4	6
Statutory operating expenses to total operating income (ASB) (%) (7)	**34. 5**	36. 3	35. 4	(180)bpts	(90)bpts
FUA - average (ASB) (NZ$M) (7)	**15,007**	13,280	12,971	13	16
AUM - average (ASB) (NZ$M) (7)	**15,562**	14,591	13,417	7	16

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Excludes Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review, refer to page 56.
(3) Net of average mortgage offset balances.
(4) Presented on a continuing operations basis.
(5) Includes discontinued operations.
(6) Risk weighted assets represent ASB only and are calculated in accordance with APRA requirements.
(7) Key financial metrics represent ASB only and are calculated in New Zealand dollar terms.

Market Share

Market Share (1)	31 Dec 18 %	30 Jun 18 %	31 Dec 17 %	Dec 18 vs Jun 18	Dec 18 vs Dec 17
	As at				
Home loans	**24. 3**	24. 4	24. 6	(10)bpts	(30)bpts
Credit cards (2)	**26. 6**	27. 2	27. 3	(60)bpts	(70)bpts
Other household lending (3)	**28. 2**	28. 0	27. 3	20 bpts	90 bpts
Household deposits	**28. 3**	28. 4	28. 5	(10)bpts	(20)bpts
Business lending - RBA	**15. 0**	15. 8	16. 2	(80)bpts	(120)bpts
Business lending - APRA	**17. 0**	17. 8	18. 4	(80)bpts	(140)bpts
Business deposits - APRA	**19. 7**	20. 2	20. 4	(50)bpts	(70)bpts
Equities trading	**3. 7**	4. 1	4. 0	(40)bpts	(30)bpts
Australian Retail - administrator view (4)	**15. 3**	15. 3	15. 4	-	(10)bpts
FirstChoice Platform (4)	**10. 6**	10. 7	10. 7	(10)bpts	(10)bpts
Australia life insurance (total risk) (4) (5)	**7. 9**	8. 0	9. 9	(10)bpts	(200)bpts
Australia life insurance (individual risk) (4) (5)	**9. 3**	9. 5	9. 7	(20)bpts	(40)bpts
NZ home loans	**21. 6**	21. 7	21. 8	(10)bpts	(20)bpts
NZ customer deposits	**17. 9**	17. 8	17. 8	10 bpts	10 bpts
NZ business lending	**15. 3**	15. 0	14. 5	30 bpts	80 bpts
NZ retail AUM (6)	**15. 3**	15. 0	14. 9	30 bpts	40 bpts
NZ annual inforce premiums (5)	**-**	27. 3	26. 8	large	large

(1) Current period and comparatives have been updated to reflect market restatements. Refer to Market Share Definitions section in Appendix 4.8 for further information, including source materials.
(2) Credit Cards Market Share data has been sourced from APRA Monthly Banking Statistics back series, Loans to Households: Credit Cards. The RBA Credit Cards source previously used for calculating Credit Cards Market Share, is no longer published.
(3) Other Household Lending market share includes personal loans, margin loans and other forms of lending to individuals.
(4) As at 30 September 2018.
(5) Metrics relate to discontinued operations.
(6) Presented on a continuing operations basis.



(1) System adjusted for new market entrants.
(2) System source RBA/APRA/RBNZ. CBA includes Bankwest.
(3) Domestic Lending balance growth (excluding Cash Management Pooling Facilities (CMPF)).

Credit Ratings

Credit Ratings	Long-term	Short-term	Outlook
Fitch Ratings (1)	AA-	F1+	Negative
Moody's Investors Service	Aa3	P-1	Stable
S&P Global Ratings (1)	AA-	A-1+	Negative

(1) A negative rating, indicates that a credit rating may be lowered.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency. Ratings should be evaluated independently of any other information.

Contents

Group Performance Analysis

Financial Performance and Business Review

Performance Overview – historical comparisons are versus the prior comparative period unless stated otherwise (continuing operations basis[1])

The Bank's statutory net profit after tax ("NPAT") for the half year ended 31 December 2018 decreased $183 million or 3.8% on the prior comparative period to $4,575 million. The Bank's statutory NPAT (including discontinued operations) for the half year ended 31 December 2018 decreased $307 million or 6.3% on the prior comparative period to $4,599 million.

Cash net profit after tax ("cash NPAT" or "cash profit") increased $78 million or 1.7% on the prior comparative period to $4,676 million. The result was driven by a 1.9% decrease in operating income, a 3.1% decrease in operating expenses and a 3.2% decrease in loan impairment expense.

Operating income decreased 1.9% (2.3% excluding the impact of consolidating the Mortgage Broking businesses[2]), primarily driven by:

- Net interest income decreased 1.3%, with net interest margin (NIM) decreasing 2.8% or 6 basis points, largely driven by home loan competition, unfavourable mix changes and higher funding costs; partly offset by average interest earning assets increasing 1.4% primarily from growth in home loans and business loans;
- Other banking income decreased 2.6% (4.8% excluding the impact of consolidating the Mortgage Broking businesses[2]), primarily driven by weaker Markets trading and sales performance, lower credit card income, and lower transaction fees due to simplification of fee waivers and removal of electronic withdrawal fees on some accounts; and
- Insurance income decreased 39.3% driven by increased weather events, primarily the New South Wales ("NSW") hail storm and other weather events in NSW and Victoria.

Operating expenses decreased 3.1%, impacted by notable items and prior period one-off items[3], partly offset by higher FTE, wage inflation and IT spend.

Loan impairment expense ("LIE") decreased 3.2%, reflecting an ongoing benign credit environment in both the retail and business portfolios, primarily due to low interest rates and low levels of unemployment.

The CET1 ratio exceeded APRA's 'unquestionably strong' target of 10.5%, with the CET1 ratio increasing 40 basis point to 10.8%, primarily driven by organic capital generation.

Earnings per share ("statutory basis") was down 5.2% on the prior comparative period at 259.6 cents per share primarily due to lower statutory profit and a higher number of shares reflecting the dividend reinvestment plan.

Return on equity ("statutory basis") decreased 120 basis points to 13.5% due to lower statutory profit and the higher levels of equity.

The Bank declared an interim dividend of $2.00 per share maintaining the dividend in the prior comparative period, which is equivalent to 74.3% of the Bank's cash profit.

Balance sheet strength and resilience is a key priority for the Bank. The Bank has managed its key balance sheet risks in what management believes to be a sustainable and conservative manner, and has made strategic decisions to ensure strength in capital, funding and liquidity. In particular, the Bank has:

- Historically satisfied a significant proportion of its funding requirements from customer deposits, accounting for 69% of total funding at 31 December 2018 (up from 68% at 31 December 2017);
- Issued new long-term wholesale funding with a weighted average maturity (WAM) of 5.7 years, bringing the portfolio WAM to 5.0 years (up from 4.6 years at 31 December 2017);
- The Group maintained its strong funding position, with long-term wholesale funding now accounting for 66% of total wholesale funding (up from 63% at 31 December 2017); and
- Managed the level of liquid assets and customer deposit growth to strengthen our funding and liquidity positions as illustrated by the Liquidity Coverage Ratio ("LCR") being well above the regulatory minimum and a stable Net Stable Funding Ratio ("NSFR").

(1) The financial results of discontinued operations are excluded from the individual account lines of the Bank's performance and reported as a single cash net profit after tax line item. Discontinued operations include the Bank's Australia and New Zealand life insurance businesses (CommInsure Life and Sovereign), BoComm Life, TymeDigital SA, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life.

(2) The movement in Mortgage Broking consolidation is due to the consolidation of AHL Holdings Pty Limited ("AHL"), as the Bank acquired the remaining 20% share on 25 August 2017 (the acquisition of the assets of eChoice) and the impact from the implementation of AASB 15 on AHL. The Mortgage Broking business is subject to demerger.

(3) Notable items and prior period one-offs include Insurance recovery, Mortgage Broking Consolidation, NewCo indemnity provision, Risk and compliance uplift and customer remediation, and other prior period one-offs. Refer to page 21 for further information.

Financial Performance and Business Review (continued)

Performance Overview (continued)

The Bank's financial result was impacted by a number of notable items and prior period one-off items. In order to present a transparent view of the business' performance, operating income and operating expenses are shown both before and after these items.

Group Performance Summary

	Half Year Ended [1] ("cash basis")				
Group Performance Summary	**31 Dec 18 $M**	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Operating income excluding Mortgage Broking businesses	***12,263***	*12,134*	*12,552*	*1*	*(2)*
Mortgage Broking consolidation [2]	**145**	137	91	6	59
Total operating income	**12,408**	12,271	12,643	1	(2)
Investment experience	**3**	2	6	50	(50)
Total income	**12,411**	12,273	12,649	1	(2)
Operating expenses excluding notable items and prior period one-offs	***(4,874)***	*(4,844)*	*(4,798)*	*1*	*2*
Prior period one-offs [3]	**-**	(370)	(485)	large	large
Insurance recovery [4]	**145**	-	-	large	large
Mortgage Broking consolidation [2]	**(139)**	(126)	(73)	10	90
NewCo indemnity provision [5]	**(200)**	-	-	large	large
Risk and compliance uplifts and customer remediation [6]	**(221)**	(199)	(100)	11	large
Total operating expenses	**(5,289)**	(5,539)	(5,456)	(5)	(3)
Loan impairment expense	**(577)**	(483)	(596)	19	(3)
Net profit before tax	**6,545**	6,251	6,597	5	(1)
Corporate tax expense	**(1,863)**	(1,927)	(1,993)	(3)	(7)
Non-controlling interests - continuing operations [7]	**(6)**	(7)	(6)	(14)	-
Net profit after tax from continuing operations ("cash basis")	**4,676**	4,317	4,598	8	2
Non-cash items - continuing operations [8]	**(101)**	(18)	160	large	large
Net profit after tax from continuing operations ("statutory basis")	**4,575**	4,299	4,758	6	(4)
Net profit after tax from discontinued operations ("cash basis")	**96**	227	276	(58)	(65)
Non-cash items - discontinued operations [8]	**(68)**	(100)	(125)	(32)	(46)
Non-controlling interests - discontinued operations [9]	**(4)**	(3)	(3)	33	33
Net profit after tax ("statutory basis")	**4,599**	4,423	4,906	4	(6)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

(2) The movement in Mortgage Broking consolidation is due to the consolidation of AHL Holdings Pty Limited ("AHL"), as the Bank acquired the remaining 20% share on 25 August 2017; the acquisition of the assets of eChoice and the impact from the implementation of AASB 15 on AHL. The Mortgage Broking business is subject to demerger.

(3) The half year ended 30 June 2018 includes a $325 million expense for the AUSTRAC civil penalty (31 December 2017: $375 million) and $45 million one-off regulatory project costs (31 December 2017: $110 million).

(4) The half year ended 31 December 2018 includes a $145 million benefit as a result of professional indemnity insurance recoveries related to the AUSTRAC civil penalty.

(5) The half year ended 31 December 2018 includes a $200 million indemnity provision for historical NewCo-related remediation issues and associated program costs including ongoing service fees charged by aligned advisors to the Group.

(6) Includes Program of Action, increase in operational resourcing of the financial crimes compliance team, the Better Risk Outcomes Program, and customer remediation expenses. For more information on our Program of Action, refer to page 135 of the 2018 Annual U.S. Disclosure Document.

(7) Non-controlling interests in continuing operations includes preference dividends paid to holders of preference shares in ASB Capital Limited and ASB Capital No.2 Limited.

(8) The financial results of discontinued operations are excluded from the individual account lines of the Bank's performance and reported as a single cash net profit after tax line item. Discontinued operations include the Bank's Australia and New Zealand life insurance businesses (CommInsure Life and Sovereign), BoComm Life, TymeDigital SA, CFSGAM and PT Commonwealth Life.

(9) Non-controlling interests in discontinued operations includes 20% outside equity interest in PT Commonwealth Life.

Net Interest Income (continuing operations basis)

	Half Year Ended (1)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income - "statutory basis"	**9,134**	9,085	9,257	1	(1)
Average interest earning assets					
Home loans (2)	**461,693**	455,462	447,814	1	3
Consumer finance	**22,703**	23,383	23,148	(3)	(2)
Business and corporate loans	**222,579**	223,452	226,596	-	(2)
Total average lending interest earning assets	**706,975**	702,297	697,558	1	1
Non-lending interest earning assets (3)	**156,689**	154,753	153,964	1	2
Total average interest earning assets	**863,664**	857,050	851,522	1	1
Net interest margin (%)	**2. 10**	2. 14	2. 16	(4)bpts	(6)bpts

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Net of average mortgage offset balances. Gross average home loans balance, excluding mortgage offset accounts was $506,054 million for the half-ended 31 December 2018 ($497,441 million for the half year ended 30 June 2018 and $487,502 million for the half year ended 31 December 2017). While these balances are required to be grossed up under accounting standards, they are netted down for the calculation of customer interest payments and the calculation of the Bank's Net interest margin.
(3) Average interest earning assets is presented on a continuing operations basis (excluding Assets held for sale). For the half year ended 31 December 2018, $526 million of Non-lending interest earning assets have been reclassified to Assets held for sale (30 June 2018: $74 million, 31 December 2017: $84 million).

Half Year Ended December 2018 versus December 2017

Net interest income ("statutory basis") was $9,134 million, a decrease of $123 million or 1% on the prior comparative period. The result was driven by a 3% or 6 basis points decrease in net interest margin to 2.10%, partly offset by a 1% increase in average interest earning assets.

Average Interest Earning Assets

Average interest earning assets increased $12 billion or 1% on the prior comparative period to $864 billion.

- Home loan average balances increased $14 billion or 3% on the prior comparative period to $462 billion, driven by continued growth in owner occupied loans;
- Business and corporate loan average balances decreased $4 billion or 2% on the prior comparative period to $223 billion, driven by a decrease of $7 billion in institutional lending balances due to the Group's portfolio optimisation initiatives and change in Cash Management Pooling Facilities, partly offset by $2 billion growth in New Zealand business and rural loans, $1 billion growth in Business and Private Banking lending balances in various industries; and
- Non-lending interest earning asset average balances increased $3 billion or 2% on the prior comparative period driven by higher liquid asset balances.

For further details on the balance sheet movements refer to the "Group Assets and Liabilities" on page 32.

Net Interest Margin

The Bank's net interest margin decreased 6 basis points on the prior comparative period to 2.10%. The key drivers of the movement were:

Asset pricing: Decreased margin of 5 basis points driven by home lending, reflecting the impact of customers switching (down 3 basis points) from higher margin loans to lower margin loans (interest only to principal and interest, and investor to owner occupied) and increased competition (down 2 basis points), partly offset by pricing (up 1 basis point), and lower consumer finance margins (down 1 basis point).

Funding costs: Increased margin of 2 basis points, due to the benefit from deposit repricing (up 5 basis points), partly offset by a lower benefit from the replicating portfolio (down 2 basis points) and impact of higher wholesale funding costs (down 1 basis point) due to a lengthening of the wholesale funding tenor and a higher mix of long-term to short-term wholesale funding.

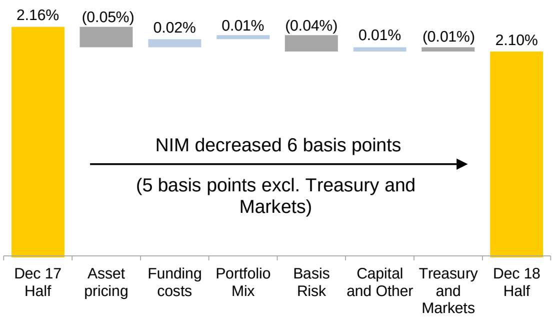
Portfolio Mix: Increased margin of 1 basis point reflecting a favourable change in funding mix from strong growth in transaction deposits.

Basis Risk: Basis Risk arises from the spread between the 3 month bank bill swap rate and the 3 month overnight index swap rate. The margin decreased 4 basis points reflecting an increase in the average spread.

Capital and Other: Increased margin of 1 basis point due to the implementation of AASB 15 (refer to Note 1.1 in the Financial Statements in this Document for further information) where certain upfront fees in relation to lending, lease and guarantee arrangements are no longer recognised upfront in other banking income, instead, it is recognised in interest income over the life of the contractual arrangements.

Treasury and Markets: Decreased margin of 1 basis point due to an increase in average non-lending interest earning assets.

Net Interest Margin "NIM" movement since 31 December 2017[(1)]



(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Net Interest Income (continued)

Half Year Ended December 2018 versus June 2018

Net interest income ("statutory basis") increased $49 million or 1% on the prior half, driven by a 1% increase in average interest earning assets and the impact of three additional calendar days in the current half, partly offset by a 2% or 4 basis points decrease in net interest margin.

Average Interest Earning Assets

Average interest earning assets increased $7 billion or 1% on the prior half.

- Home loan average balances increased $6 billion or 1% on the prior half, driven by continued growth in owner occupied loans;
- Business and corporate loan average balances decreased $1 billion on the prior half, driven by a $2 billion decrease in institutional lending balances due to portfolio optimisation initiatives and change in Cash Management Pooling Facilities, partly offset by a $1 billion increase in New Zealand business and rural loans; and
- Non-lending interest earning asset average balances increased $2 billion or 1% on the prior half, driven by higher liquid asset balances.

For further details on the balance sheet movements refer to the "Group Assets and Liabilities" on page 32.

Net Interest Margin

The Bank's net interest margin decreased 4 basis points on the prior half. The key drivers of the movement were:

Asset pricing: Decreased margin of 3 basis points driven by home lending, reflecting the impact of customers switching (down 2 basis points) from higher margin loans to lower margin loans (interest only to principal and interest, and investor to owner occupied) and increased competition (down 1 basis point), partly offset by pricing (up 1 basis point); and lower consumer finance margins (down 1 basis point).

Funding costs: Increased margin of 1 basis point, driven by the benefit from deposit repricing (up 3 basis points); partly offset by lower benefit from the replicating portfolio (down 2 basis points).

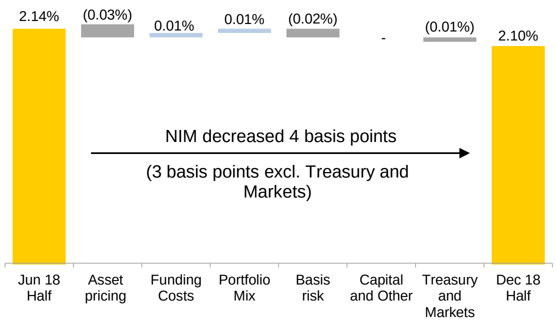
Portfolio Mix: Increased margin of 1 basis point driven by favourable change in funding mix from strong growth in transaction deposits.

Basis risk: The margin decreased 2 basis points reflecting an increase in the average spread between the 3 month bank bill swap rate and the 3 month overnight index swap rate.

Capital and Other: Flat, with increased margin (up 1 basis point) due to the implementation of AASB 15, offset by decreased contribution from New Zealand (down 1 basis point) due to increased competition in home loans and unfavourable deposit mix.

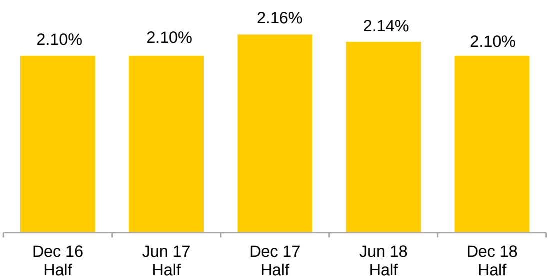
Treasury and Markets: Decreased margin of 1 basis point, due to an increase in average non-lending interest earning assets.

NIM movement since June 2018 (1)



(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Group NIM (Half Year Ended) (1)



(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Group Performance Analysis

Other Banking Income (continuing operations basis)

	Half Year Ended (1)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Commissions	**1,252**	1,265	1,303	(1)	(4)
Lending fees	**506**	551	558	(8)	(9)
Trading income	**494**	469	556	5	(11)
Other income	**236**	84	196	large	20
Other banking income excl. Mortgage Broking consolidation - "cash basis"	**2,488**	2,369	2,613	5	(5)
Mortgage Broking consolidation (2)	**148**	140	93	6	59
Other banking income - "cash basis"	**2,636**	2,509	2,706	5	(3)
Hedging and IFRS volatility	**(131)**	6	137	large	large
Gain/(loss) on disposal and acquisition of controlled entities	**26**	-	65	large	(60)
Other banking income - "statutory basis"	**2,531**	2,515	2,908	1	(13)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) The movement in Mortgage Broking consolidation is due to the consolidation of AHL Holdings Pty Limited ("AHL"), as the Bank acquired the remaining 20% share on 25 August 2017 (the acquisition of the assets of eChoice) and the impact from the implementation of AASB 15 on AHL. The Mortgage Broking business is subject to demerger. For further details, refer to page 21.

Half Year Ended December 2018 versus December 2017

Other banking income ("statutory basis") was $2,531 million, a decrease of $377 million or 13% on the prior comparative period. The key drivers were:

Commissions decreased by $51 million or 4% to $1,252 million, due to lower credit card income from an increase in loyalty costs, lower transaction account fees from the simplification of fee waivers, removal of electronic withdrawal fees on some accounts together with lower equities fee income as a result of lower trading volumes.

Lending fees decreased by $52 million or 9% to $506 million, mainly driven by lower overdrawn account fees following the introduction of pre-emptive customer alerts, and lower upfront fees from the implementation of AASB 15 (refer to Note 1.1 in the financial statements in this Document for further information), partly offset by higher business loan fee income reflecting a shift to fee based products such as cash advance facilities.

Trading income decreased by $62 million or 11% to $494 million, driven by weaker Markets trading performance reflecting widening yield curves and weaker Markets sales performance reflecting lower client demand, partly offset by favourable derivative valuation adjustments.

Other income increased by $40 million or 20% to $236 million, primarily driven by higher Treasury income due to gains on sale of liquid assets and higher realised gains on the hedge of New Zealand earnings, partly offset by lower gains on the sale of assets in the Structured Asset Finance portfolio.

Hedging and IFRS volatility decreased $268 million on the prior comparative period to a loss of $131 million, primarily due to unrealised losses on the hedge of New Zealand earnings in the current period and unrealised gains on the hedge of New Zealand earnings in the prior comparative period; and

Gain on disposal and acquisition of entities net of transaction costs decreased by $39 million or 60% on the prior comparative period to $26 million due to the non-recurrence of a large gain recognised on the acquisition of AHL in the prior comparative period, partly offset by a gain on sale of equigroup Holding Pty Limited ("equigroup") in the current period.

Half Year Ended December 2018 versus June 2018

Other banking income ("statutory basis") increased $16 million or 1% on the prior half. The key drivers were:

Commissions decreased by $13 million or 1%, driven by lower transaction account fees from the simplification of fee waivers and removal of electronic withdrawal fees on some accounts, partly offset by higher card income due to an increase in customer spend.

Lending fees decreased by $45 million or 8%, mainly driven by lower overdrawn account fees following the introduction of pre-emptive customer alerts, and lower upfront fees from the implementation of AASB 15 (refer to Note 1.1 in the financial statements in this Document for further information), partly offset by higher business loan fee income reflecting a shift to fee based products such as cash advance facilities.

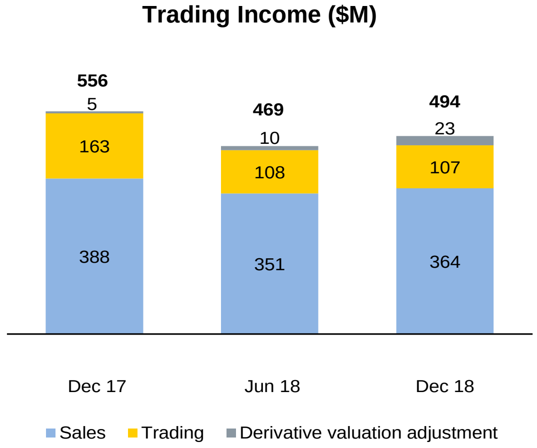
Trading income increased by $25 million or 5%, due to favourable derivative valuation adjustments, improved Markets trading performance from the non-recurrence of the impact of widening spreads on the inventory of high grade corporate and government bonds in the prior half, and higher Markets sales performance due to higher client flows, partly offset by lower Treasury performance.

Other income increased by $152 million, primarily driven by higher Treasury income due to gains on sale of liquid assets and the non-recurrence of an upfront realised loss from the restructuring of economic hedges in the prior half to reduce the overall funding costs and optimise capital in relation to a 30 year US debt issuances, and higher realised gains on the hedge of New Zealand earnings.

Other Banking Income (continued)

Hedging and IFRS volatility decreased $137 million on the prior half, primarily due to unrealised losses on the hedge of New Zealand earnings.

Gain on disposal and acquisition of entities net of transaction costs increased $26 million on the prior half primarily due to the gain on sale of equigroup.



Funds Management Income (continuing operations basis)

	Half Year Ended (1)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Colonial First State (CFS) (2)	**441**	424	417	4	6
Commonwealth Financial Planning	**71**	66	103	8	(31)
New Zealand	**63**	59	53	7	19
Other	**(5)**	2	(5)	large	-
Funds management income - "cash basis"	**570**	551	568	3	-
Investment experience	**1**	1	4	-	(75)
Funds management income - "statutory basis"	**571**	552	572	3	-
Funds Under Administration (FUA) - average ($M)	**160,860**	156,896	151,008	3	7
Assets Under Management (AUM) - average ($M) (3)	**14,406**	13,484	12,305	7	17

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Colonial First State incorporates the results of the Aligned Advice businesses of Financial Wisdom, Count Financial Limited and CFP Pathways.
(3) Average AUM balances all relate to New Zealand. AUM includes AUD5,133 million spot balances managed by Colonial First State Global Asset Management (CFSGAM) (discontinued operations) (30 June 2018: AUD6,998 million; 31 December 2017: AUD6,576 million). These are also included in the AUM balances reported by CFSGAM (discontinued operations).

Half Year Ended December 2018 versus December 2017

Funds management income ("statutory basis") was $571 million, a decrease of $1 million on the prior comparative period, driven by:

- CFS increased by $24 million or 6% to $441 million, driven by an increase in average FUA of $8 billion or 6% to $147 billion, reflecting strong momentum from the prior comparative period and positive net flows. CFS FUA margins remained flat on the prior comparative period; and
- New Zealand increased by $10 million or 19% to $63 million, driven by an increase in average FUA of $2 billion or 17% to $14 billion and an increase in average AUM of $2 billion or 17% to $14 billion, both driven by net inflows, and higher AUM margins primarily due to a change in business mix; partly offset by
- Commonwealth Financial Planning decreased by $32 million or 31% to $71 million, driven by lower volumes of initial advice and ongoing service fee income, and the non-recurrence of an Advice customer remediation provision release in the prior comparative period.

Half Year Ended December 2018 versus June 2018

Funds management income ("statutory basis") increased $19 million or 3% on the prior half, driven by:

- CFS increased by $17 million or 4%, driven by an increase in average FUA of $2 billion or 2%, reflecting strong momentum from the prior half. In the current half, positive net flows were offset by unfavourable investment markets. CFS FUA margins increased 1 basis point on the prior half, driven by lower customer remediation provisions (up 2 basis points), partly offset by unfavourable portfolio mix impact of growth in the lower margin CFSWrap platform (down 1 basis point);
- Commonwealth Financial Planning increased by $5 million or 8%, driven by the non-recurrence of an Advice customer remediation provision in the prior half, partly offset by lower volumes of initial advice and ongoing service fee income; and
- New Zealand increased by $4 million or 7%, driven by an increase in average FUA of $2 billion or 13% and an increase in average AUM of $1 billion or 7%, both driven by net inflows, partly offset by decreased FUA margins due to lower pricing for existing customers.

Insurance Income (continuing operations basis)

	Half Year Ended (1)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Insurance Income - "cash basis"	**68**	126	112	(46)	(39)
Investment experience	**2**	1	2	large	-
Insurance Income - "statutory basis"	**70**	127	114	(45)	(39)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Half Year Ended December 2018 versus December 2017

Insurance income ("statutory basis") for the half year ended 31 December 2018 was $70 million, a decrease of $44 million or 39% on the prior comparative period. This result was driven by higher claims experience in General Insurance due to increased weather events, primarily the NSW hail storm and other weather events in NSW and Victoria.

Half Year Ended December 2018 versus June 2018

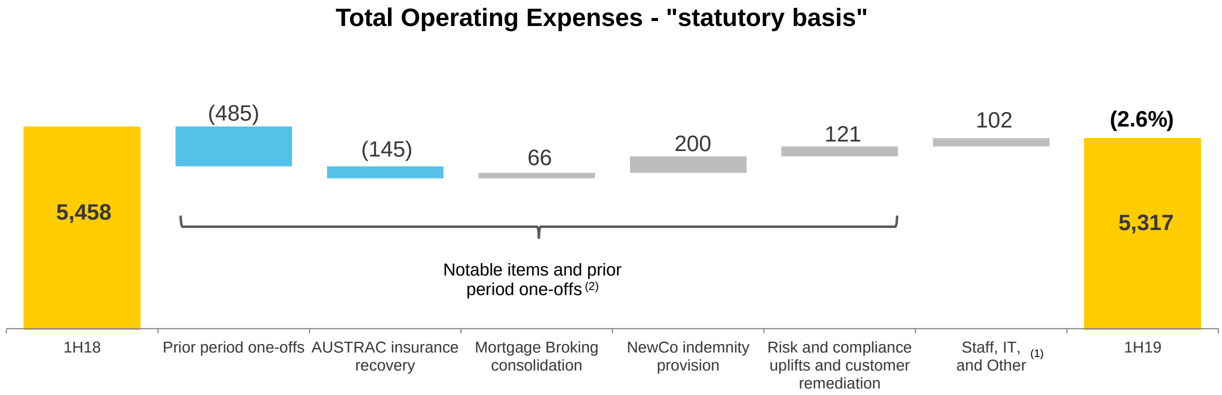
Insurance income ("statutory basis") for the half year ended 31 December 2018 decreased $57 million or 45% on the prior half. This result was driven by higher claims experience in General Insurance due to increased weather events, primarily the NSW hail storm and other weather events in NSW and Victoria.

Operating Expenses (continuing operations basis)

	Half Year Ended (1)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Staff expenses	**2,735**	2,653	2,716	3	1
Occupancy and equipment expenses	**537**	576	552	(7)	(3)
Information technology services expenses	**904**	951	815	(5)	11
Other expenses	**698**	664	715	5	(2)
Operating expenses excluding notable items and prior period one-offs - "cash basis"	**4,874**	4,844	4,798	1	2
Loss/(gain) on acquisition, disposal, closure and demerger of businesses	**26**	30	-	(13)	large
Bankwest non-cash items	**2**	2	2	-	-
Operating expenses excluding notable items and prior period one-offs - "statutory basis"	**4,902**	4,876	4,800	1	2
Notable items and prior period one-offs: (2)					
Prior period one-offs	**-**	370	485	large	large
Insurance recovery	**(145)**	-	-	n/a	n/a
Mortgage Broking consolidation	**139**	126	73	10	90
NewCo indemnity provision	**200**	-	-	n/a	n/a
Risk and compliance uplifts and customer remediation	**221**	199	100	11	large
Operating expenses including notable items and prior period one-offs - "statutory basis"	**5,317**	5,571	5,458	(5)	(3)
Statutory operating expenses to total operating income excluding notable items and prior period one-offs (%)	**39. 8**	39. 7	37. 4	10 bpts	240 bpts
Statutory operating expenses to total operating income (%)	**43. 2**	45. 4	42. 5	(220)bpts	70 bpts
Spot number of full-time equivalent staff - Australia (FTE)	**35,329**	35,103	33,455	1	6
Spot number of full-time equivalent staff (FTE)	**42,519**	42,462	41,308	-	3
Average number of full-time equivalent staff (FTE)	**42,570**	41,812	42,019	2	1

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) For further details on notable items and prior period one-offs, refer to page 21.

Operating Expenses (continued)



(1) Excludes staff costs related to the NewCo indemnity provision, the Program of Action and other risk and compliance uplifts.
(2) Refer to page 21 for details of Notable items and prior period one-offs.

Half Year Ended December 2018 versus December 2017

Operating expenses ("statutory basis") excluding notable items and prior period one-offs were $4,902 million, an increase of $102 million or 2% on the prior comparative period. The key drivers were:

Staff expenses increased by $19 million or 1% to $2,735 million, driven by wage inflation, and increased full-time equivalent staff ("FTE"), partly offset by lower employee incentives. The number of FTE increased by 1,211 or 3% from 41,308 to 42,519, primarily due to an increase in risk and compliance staff, and increased project demand, partly offset by non-core business divestments in the International Financial Services division, and productivity initiatives.

Occupancy and equipment expenses decreased by $15 million or 3% to $537 million, primarily due to a decrease in depreciation driven by the sale of retail branch sites, and a decrease in operating lease rental expenses due to the closure of a number of Bankwest east coast branches, partly offset by annual rental reviews.

Information technology services expenses increased by $89 million or 11% to $904 million. This was primarily due to a $50 million increase in amortisation of software assets, increased spend on resiliency projects, and lower vendor rebates received.

Other expenses decreased by $17 million or 2% to $698 million, primarily driven by lower marketing costs and discretionary spend.

Non-cash operating expenses increased by $26 million to $28 million due to the costs associated with the demerger of NewCo in the current half.

Operating expenses to total operating income ratio increased 70 basis points from 42.5% to 43.2%.

Half Year Ended December 2018 versus June 2018

Operating expenses ("statutory basis") excluding notable items and prior period one-offs increased $26 million or 1% on the prior half. The key drivers were:

Staff expenses increased by $82 million or 3%, primarily due to wage inflation, higher FTE, and a seasonal increase in annual leave and long service leave costs. The number of FTE increased by 57 from 42,462 to 42,519, primarily due to an increase in risk and compliance staff, and increased project demand, partly offset by productivity initiatives, and non-core business divestments in the International Financial Services division.

Occupancy and equipment expenses decreased by $39 million or 7%, primarily due to lower costs associated with the development of a new corporate office, a decrease in operating lease rentals due to the closure of a number of Bankwest east coast branches, and lower depreciation driven by the sale of retail branch sites, partly offset by annual rental reviews

Information technology services expenses decreased by $47 million or 5%, primarily due to the non-recurrence of a $61 million capitalised software impairment in the prior half, partly offset by increased spend on resiliency projects, and higher software licence costs.

Other expenses increased by $34 million or 5%, primarily driven by market data costs and increased professional fees.

Non-cash operating expenses decreased by $4 million or 13%, due to lower spend relating to the demerger of NewCo.

Operating expenses to total operating income ratio decreased 220 basis points from 45.4% to 43.2%.

Investment Spend (continuing operations basis)

	Half Year Ended (1)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Expensed investment spend (2)	**384**	372	299	3	28
Capitalised investment spend	**292**	313	298	(7)	(2)
Investment spend	**676**	685	597	(1)	13
Comprising:					
Productivity and growth	**186**	206	278	(10)	(33)
Risk and compliance	**432**	400	243	8	78
Branch refurbishment and other	**58**	79	76	(27)	(24)
Investment spend	**676**	685	597	(1)	13

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Included within the Operating Expenses disclosure on page 26.

Half Year Ended December 2018 versus December 2017

The Bank continues to invest to deliver on the strategic priorities of the business with $676 million of investment spend incurred in the half year to 31 December 2018, an increase of $79 million or 13% on the prior comparative period. The increase was driven by a $189 million increase in spend on risk and compliance projects partly offset by a decrease of $92 million on productivity and growth initiatives, and a decrease of $18 million in branch refurbishment and other investments.

Risk and compliance costs accounted for 64% of investment spend, an increase of 23% from 41% in the prior comparative period, as the Bank has continued to invest in strengthening regulatory and compliance frameworks and implementing new systems and processes to satisfy regulatory obligations. Productivity and growth initiatives accounted for 28% of investment spend, a decrease of 19% from 47% in the prior comparative period impacted by the timing of spend and the Bank continuing to prioritise funding for risk and compliance initiatives. Key areas of investment across each of the categories are outlined below.

Risk and Compliance

Financial Crimes Compliance

We are committed to build on the significant changes made in recent years as part of a comprehensive program to improve operational risk management and compliance at the Bank.

The Bank has invested in the following:

- Anti-money laundering and counter-terrorism financing ("AML/CTF") compliance, including upgrading and enhancing our AML/CTF technology, investing in further resourcing and strengthening training of our personnel;
- Strengthening financial crime capabilities, and significant investment in seeking to fulfil the crucial role that it plays, including through its Program of Action with coverage across all aspects of financial crime (including AML/CTF, sanctions and anti-bribery and corruption) and all business units; and
- Uplifting the Bank's processes for monitoring, managing, reporting and controlling financial crime across all of its operations, including how the Bank engages with and informs AUSTRAC and other regulators, and improve the Group's operating model to provide increased capability in the management of financial crime risk.

Other Risk and Compliance

The Bank has invested in the following:

- Implementing new processes and enhancing systems to address new regulations including the Comprehensive Credit Reporting regime;
- Continuing investment in protecting customers against cyber security risks;
- Improving the resilience of the Bank's IT infrastructure including investment in the New Payments Platform and data centres; and
- Upgrading ATMs and other cash handling devices to enable processing of the new RBA banknotes.

Productivity and Growth

The Bank has invested in the following:

- Ongoing investment and development in digital channels to improve the digital customer service experience and improve the resilience of the digital infrastructure; and
- Commercial lending systems to upgrade end-to-end loan origination processes to reduce manual interventions and improve customer experience.

Branch Refurbishment and Other

The Bank has invested in the following:

- Retail branch refurbishment as our branch design is constantly evolving to reflect changes in customer preferences; and
- Consolidation and development of corporate offices as existing leases expire.

Capitalised Software

	Half Year Ended				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Opening Balance	**1,819**	1,896	1,934	(4)	(6)
Additions	**194**	273	213	(29)	(9)
Amortisation and write-offs (1)	**(231)**	(351)	(202)	(34)	14
Reclassification to assets held for sale	**-**	1	(49)	large	large
Closing balance	**1,782**	1,819	1,896	(2)	(6)

(1) The half year ended 30 June 2018 included a $55 million write-off in TymeDigital SA. TymeDigital SA was included in discontinued operations as at 30 June 2018 but its assets were not reclassified as held for sale.

Half Year Ended December 2018 versus December 2017

Capitalised software balance decreased $114 million or 6% to $1,782 million. The key drivers were:

Additions decreased by $19 million or 9% to $194 million, due to lower capitalised investment spend, driven by a change in investment spend mix to risk and compliance initiatives which have lower capitalisation rates.

Amortisation and write-offs increased $29 million or 14% to $231 million, driven by completion of investment spend initiatives in relation to digital assets which have shorter amortisation periods.

Reclassification to assets held for sale decreased $49 million, due to the non-recurrence of the reclassification of capitalised software in the life insurance businesses in the prior comparative period.

Half Year Ended December 2018 versus June 2018

Capitalised software balance decreased $37 million or 2% to $1,782 million. The key drivers were:

Additions decreased by $79 million or 29% to $194 million, due to lower capitalised investment spend, driven by a change in investment spend mix to risk and compliance initiatives which have lower capitalisation rates.

Amortisation and write-offs decreased by $120 million or 34% to $231 million, driven by the non-recurrence of a $55 million write down of TymeDigital SA software, following the decision to discontinue the Bank's South African operations, and a $51 million impairment of capitalised software in the prior half. Excluding these expenses, amortisation and write-offs decreased by $14 million or 6% driven by lower capitalised software balances.

Loan Impairment Expense (continuing operations basis)

	Half Year Ended (1)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Retail Banking Services	**318**	325	327	(2)	(3)
Business and Private Banking	**167**	139	108	20	55
Institutional Banking and Markets	**38**	(25)	105	large	(64)
New Zealand	**42**	51	23	(18)	83
IFS and Other	**12**	(7)	33	large	(64)
Loan impairment expense	**577**	483	596	19	(3)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Half Year Ended December 2018 versus December 2017

On 1 July 2018, the Group adopted AASB 9 and as permitted under the accounting standards has not restated the prior comparative periods. Refer to Note 1.1 in the financial statements in this document for further information.

Loan impairment expense was $577 million, a decrease of $19 million or 3% on the prior comparative period.

This was driven by:

- A decrease in Institutional Banking and Markets of $67 million or 64% to $38 million, driven by lower individual provisions for large single name exposures and lower collective provisions reflecting lower volumes from portfolio optimisation, partly offset by lower write-backs;
- A decrease in IFS and Other of $21 million or 64% to $12 million, driven by lower individual provisions in the PTBC commercial lending book; and

Loan Impairment Expense (continued)

- A decrease in Retail Banking Services of $9 million or 3% to $318 million, driven by lower collective provisions for credit cards mainly due to lower balances, partly offset by higher collective provisions for personal loans reflecting higher arrears; partly offset by
- An increase in Business and Private Banking of $59 million or 55% to $167 million, driven by increased individual provisions for a small number of single name exposures, partly offset by lower collective provisions; and
- An increase in New Zealand of $19 million or 83% to $42 million, driven by higher provisioning in the rural portfolio.

Loan impairment expense annualised as a percentage of average Gross Loans and Acceptances (GLAAs) decreased 1 basis point to 15 basis points.

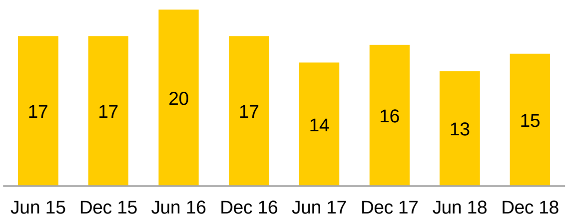
Half Year Ended December 2018 versus June 2018

Loan impairment expense increased $94 million or 19% on the prior half mainly driven by:

- An increase in Institutional Banking and Markets of $63 million, driven by the impairment of a large single name exposure and lower write-backs, partly offset by lower collective provisions reflecting lower volumes from portfolio optimisation;
- An increase in Business and Private Banking of $28 million or 20%, driven by increased individual provisions for a small number of single name exposures, partly offset by lower collective provisions; and
- An increase in IFS and Other of $19 million, driven by the non-recurrence of the release of a centrally held provision in the prior half partly offset by lower individual provisions in the PTBC commercial lending book; partly offset by
- A decrease in New Zealand of $9 million or 18%, driven by lower collective provisions and lower write-offs in the consumer finance portfolio, partly offset by higher provisioning in the rural portfolio; and
- A decrease in Retail Banking Services of $7 million or 2%, driven by lower collective provisions for credit cards reflecting seasonally lower arrears. This was partly offset by higher collective provisions for home loans driven by methodology refinements and personal loans due to higher arrears.

Loan impairment expense annualised as a percentage of average GLAAs increased by 2 basis points.

Half Year Loan Impairment Expense annualised as a percentage of Average GLAAs (bpts)



Group Performance Analysis

Taxation Expense (continuing operations basis)

	Half Year Ended (1)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Corporate tax expense ($M)	**1,863**	1,927	1,993	(3)	(7)
Effective tax rate - "cash basis" (%)	**28.5**	30. 8	30. 2	(230)bpts	(170)bpts

	Half Year Ended (1)				
Income Tax	**31 Dec 18 $M**	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Retail Banking Services	**955**	1,007	1,060	(5)	(10)
Business and Private Banking	**604**	597	621	1	(3)
Institutional Banking and Markets	**173**	165	189	5	(8)
Wealth Management	**63**	58	48	9	31
New Zealand	**211**	190	188	11	12
International Financial Services	**10**	9	5	11	large
Corporate Centre	**(153)**	(99)	(118)	55	30
Total income tax expense - "cash basis"	**1,863**	1,927	1,993	(3)	(7)
Non-cash tax expense	**(32)**	(8)	40	large	large
Total income tax expense - "statutory basis"	**1,831**	1,919	2,033	(5)	(10)

	Half Year Ended (1) (2)				
Effective Tax Rate	**31 Dec 18 %**	30 Jun 18 %	31 Dec 17 %	Dec 18 vs Jun 18	Dec 18 vs Dec 17
Retail Banking Services	**30. 0**	30. 0	29. 5	-	50 bpts
Business and Private Banking	**30. 0**	30. 0	30. 0	-	-
Institutional Banking and Markets	**24. 3**	22. 7	23. 7	160 bpts	60 bpts
Wealth Management	**31. 8**	29. 3	29. 3	250 bpts	250 bpts
New Zealand	**27. 8**	27. 8	28. 3	-	(50)bpts
Total corporate - "statutory basis"	**28. 6**	30. 8	29. 9	(220)bpts	(130)bpts

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Including discontinued operations, the effective tax rate - “statutory basis” was 28.2% for the half year ended 31 December 2018, 31.3% for the half year ended 30 June 2018 and 30.1% for the half year ended 31 December 2017.

Half Year Ended December 2018 versus December 2017

Corporate tax expense (“statutory basis”) for the half year ended 31 December 2018 was $1,831 million, a decrease of $202 million or 10% on the prior comparative period, reflecting a 28.6% effective tax rate.

The 130 basis points decrease in the effective tax rate from 29.9% to 28.6% was primarily due to the $375 million expense for the AUSTRAC civil penalty in the prior comparative period, which was non-deductible for tax purposes. The 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, and the finalisation of prior year tax matters.

Half Year Ended December 2018 versus June 2018

Corporate tax expense (“statutory basis”) for the half year ended 31 December 2018 decreased $88 million or 5% on the prior half.

The 220 basis points decrease in effective tax rate from 30.8% to 28.6% was primarily driven by the $325 million expense for the AUSTRAC civil penalty in the prior half, which was non-deductible for tax purposes. The 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, and the finalisation of prior year tax matters.

Group Performance Analysis

Group Assets and Liabilities

Total Group Assets and Liabilities	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
	As at [1]				
Interest earning assets					
Home loans [2]	**512,505**	501,665	492,688	2	4
Consumer finance	**22,690**	23,317	23,593	(3)	(4)
Business and corporate loans	**222,996**	222,367	223,981	-	-
Loans, bills discounted and other receivables [3]	**758,191**	747,349	740,262	1	2
Non-lending interest earning assets	**151,819**	150,306	151,695	1	-
Total interest earning assets	**910,010**	897,655	891,957	1	2
Other assets [3]	**55,204**	61,856	55,078	(11)	-
Assets held for sale	**15,216**	15,654	14,895	(3)	2
Total assets	**980,430**	975,165	961,930	1	2
Interest bearing liabilities					
Transaction deposits [4]	**111,133**	106,316	103,535	5	7
Savings deposits [4]	**187,028**	190,452	192,581	(2)	(3)
Investment deposits	**222,020**	216,852	219,251	2	1
Other demand deposits	**63,599**	58,057	61,299	10	4
Total interest bearing deposits	**583,780**	571,677	576,666	2	1
Debt issues	**168,904**	172,673	166,732	(2)	1
Other interest bearing liabilities	**54,388**	54,124	53,983	-	1
Total interest bearing liabilities	**807,072**	798,474	797,381	1	1
Non-interest bearing transaction deposits	**51,634**	48,831	46,608	6	11
Other non-interest bearing liabilities	**38,796**	45,100	37,307	(14)	4
Liabilities held for sale	**14,350**	14,900	14,543	(4)	(1)
Total liabilities	**911,852**	907,305	895,839	1	2

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Home loans are presented gross of $45,675 million of mortgage offset balances (30 June 2018: $41,865 million; 31 December 2017: $41,110 million). These balances are required to be grossed up under accounting standards, but are netted down for the calculation of customer interest payments.
(3) Loans, bills discounted and other receivables exclude provisions for impairment which are included in Other assets.
(4) Transaction and Savings deposits includes $45,675 million of mortgage offset balances (30 June 2018: $41,865 million; 31 December 2017: $41,110 million).

Half Year Ended December 2018 versus December 2017

Total assets were $980 billion, an increase of $19 billion or 2% on the prior comparative period, reflecting increased home lending, partly offset by lower institutional lending and consumer finance.

Total liabilities were $912 billion, an increase of $16 billion or 2% on the prior comparative period, primarily reflecting an increase in transaction deposits, partly offset by a decrease in savings deposits.

The Bank continued to fund a significant portion of lending growth from customer deposits. Customer deposits represented 69% of total funding (31 December 2017: 68%).

Home loans

Home loan balances increased $20 billion to $513 billion, reflecting a 4% increase on the prior comparative period. The increase was driven by Retail Banking Services and New Zealand. Domestic growth of 4% was below system growth [1] of 5%, reflecting increased competition from non-bank lenders.

Home loans [2] in Australia amount to $458 billion (31 December 2017: $444 billion) of which 66% were owner occupied, 31% were investment home loans and 3% were lines of credit (31 December 2017: 64% were owner occupied, 32% were investment home loans and 4% were lines of credit).

(1) System source RBA/APRA/RBNZ.
(2) Excludes defered fees and expenses.

Group Assets and Liabilities (continued)

Consumer finance

Consumer finance, which includes personal loans, credit cards and margin lending, decreased $1 billion or 4% on the prior comparative period to $23 billion driven by reduced lending in the Retail Banking Services and Business & Private Banking divisions.

Business and corporate loans

Business and corporate loans decreased $1 billion to $223 billion, flat on the prior comparative period, reflecting a 6% decline in Institutional Banking and Markets driven by portfolio optimisation initiatives. This was partly offset by growth of 2% in Business and Private Banking across various industries and growth of 8% in New Zealand (excluding the impact of FX), which was above system [(1)] growth of 4%, reflecting the continued long-term strategic focus on this segment.

Domestic business lending decreased 2%, below system [(1)] growth of 5%, due to lower institutional lending, reflecting portfolio optimisation initiatives and a decline in residential property development exposures in Business and Private Banking, following the completion of projects and a continued focus on risk adjusted return and risk appetite.

Non-lending interest earning assets

Non-lending interest earning assets, including liquid assets, were flat on the prior comparative period.

Other assets

Other assets, including derivative assets, insurance assets and intangibles were flat on the prior comparative period, impacted by higher derivative assets primarily from foreign exchange volatility, offset by the reclassification of assets attributed to CFSGAM and PT Commonwealth Life ("PTCL") to assets held for sale.

Total interest bearing deposits

Total interest bearing deposits increased $7 billion to $584 billion, a 1% increase on the prior comparative period, driven by strong transaction deposits growth and higher investment deposits, partly offset by lower savings balances. The increase in transaction deposits primarily reflects growth in personal and business deposits from existing customers, including mortgage offset balances. The increase in investment deposits was driven by retail term deposit campaigns, partly offset by lower investment deposits in Institutional Banking and Markets due to increased competition from domestic and foreign banks. Lower savings deposits was primarily driven by customer preference for higher yielding term deposits.

Domestic household deposits grew at 5%, in line with system growth of 5% [(1)].

Debt issues

Debt issues increased $2 billion to $169 billion, a 1% increase on the prior comparative period. Excluding the impact of FX, balances were flat.

Deposits satisfied the majority of the Group's funding requirements, however strong access was maintained to both domestic and international wholesale debt markets.

Refer to pages 52-53 for further information on debt programs and issuance for the half year ended 31 December 2018.

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% on the prior comparative period. The increase was driven by the issuances of PERLS X, PERLS XI and Tier 2 USD Capital instruments, partly offset by lower central bank deposits in Institutional Banking and Markets, and the redemption of PERLS VI.

Non-interest bearing transaction deposits

Non-interest bearing transaction deposits increased $5 billion to $52 billion, an 11% increase on the prior comparative period. The increase was primarily driven by growth in personal and business transaction deposits in Retail Banking Services and Business and Private Banking.

Other non-interest bearing liabilities

Other non-interest bearing liabilities, including derivative liabilities and insurance policy liabilities, increased $1 billion to $39 billion, a 4% increase on the prior comparative period. The increase was driven by higher derivative liabilities primarily from foreign exchange volatility, partly offset by the reclassification of liabilities attributed to CFSGAM and PTCL to Liabilities held for sale.

Half Year Ended December 2018 versus June 2018

Total assets increased $5 billion or 1% on the prior half, reflecting increased home lending, partly offset by a decrease in consumer finance and other assets, which include derivative assets.

Total liabilities increased $5 billion or 1% on the prior half, from increased transaction, investment and other demand deposits, partly offset by decreased savings deposits and debt issues.

Customer deposits represent 69% of total funding (30 June 2018: 68%).

Home loans

Home loan balances increased $11 billion or 2% on the prior half, primarily driven by Retail Banking Services and New Zealand. Domestic home loan growth of 2%, in line with system growth [(1)], reflecting subdued investor activity.

Home loans [(2)] in Australia amount to $458 billion (30 June 2018: $451 billion) of which 66% were owner occupied, 31% were investment home loans and 3% were lines of credit (30 June 2018: 65% were owner occupied, 32% were investment home loans and 3% were lines of credit).

Consumer finance

Consumer finance, which includes personal loans, credit cards and margin lending, decreased $1 billion or 3% on the prior half driven by reduced lending in the Retail Banking Services and Business & Private Banking divisions.

(1) System source RBA/APRA/RBNZ.
(2) Excludes defered fees and expenses.

Group Assets and Liabilities (continued)

Business and corporate loans

Business and corporate loans increased $1 billion, or flat on the prior half, reflecting a 3% increase in business lending in New Zealand (excluding the impact of FX), which was above system growth [(1)] of 2%, offset by a 2% decrease in institutional lending, as a result of portfolio optimisation initiatives and a 1% reduction in Business and Private Banking.

Domestic business lending decreased 2%, below system [(1)] growth of 3%, due to lower institutional lending, reflecting portfolio optimisation initiatives and a decline in residential property development exposures in Business and Private Banking, following the completion of projects and a continued focus on risk adjusted return and risk appetite.

Non-lending interest earning assets

Non-lending interest earning assets, including liquid assets, increased $2 billion or 1% on the prior half. Excluding the impact of FX, growth was flat.

Other assets

Other assets, including derivative assets, insurance assets and intangibles, decreased $7 billion or 11% on the prior half. The decrease was driven by lower derivative assets primarily from the settlement of foreign currency derivatives and the reclassification of assets attributed to CFSGAM and PTCL to Assets held for sale.

Total interest bearing deposits

Total interest bearing deposits increased $12 billion, or 2% on the prior half, driven by transaction deposits growth and higher investment deposits, partly offset by lower savings balances. The increase in transaction deposits reflects growth in Retail Banking Services, Institutional Banking and Markets, and New Zealand. The increase in investment deposits was driven by retail term deposit campaigns, partly offset by lower investment deposits in Institutional Banking and Markets, due to increased competition from domestic and foreign banks. Lower savings deposits was due to customer preference for higher yielding term deposits.

Domestic household deposits grew at 3%, below system growth [(1)] of 4%.

Debt issues

Debt issues decreased $4 billion or 2% on the prior half, reflecting lower wholesale funding requirements and growth in deposit funding.

Refer to pages 52-53 for further information on debt programs and issuance for the half year ended 31 December 2018.

Non-interest bearing transaction deposits

Non-interest bearing transaction deposits increased $3 billion or 6% on the prior half, primarily driven by growth in transaction deposits in Retail Banking Services, Business and Private Banking and New Zealand.

Other non-interest bearing liabilities

Other non-interest bearing liabilities, including derivative liabilities and insurance policy liabilities, decreased $6 billion or 14% on the prior half. The decrease was driven by lower derivative liability balances, primarily from the settlement of foreign currency derivatives and the reclassification of liabilities attributed to CFSGAM and PTCL to Liabilities held for sale.

(1) System source RBA/APRA/RBNZ.

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Contents

Loan Impairment Provisions and Credit Quality

Provisions for Impairment

	As at				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Provisions for impairment losses					
Collective provision	**3,814**	2,763	2,772	38	38
Individually assessed provisions	**920**	870	978	6	(6)
Total provisions for impairment losses	**4,734**	3,633	3,750	30	26
Less: Provision for Off Balance Sheet exposures	**(103)**	(28)	(27)	large	large
Total provisions for loan impairment	**4,631**	3,605	3,723	28	24

Half Year Ended December 2018 versus December 2017

On 1 July 2018 the Group adopted AASB 9, which resulted in the implementation of an expected credit loss impairment model. As a result, collective provisions increased by $1,058 million. There was no change to individually assessed provisions on adoption of AASB 9. See Note 1.1 to the financial statements in this Document for more information.

Total provisions for impairment losses was $4,734 million, an increase of $984 million or 26% on the prior comparative period mainly driven by the adoption of AASB 9. Excluding the impact of AASB 9 initial recognition ($1,058 million), total provisions decreased $74 million or 2%, primarily driven by:

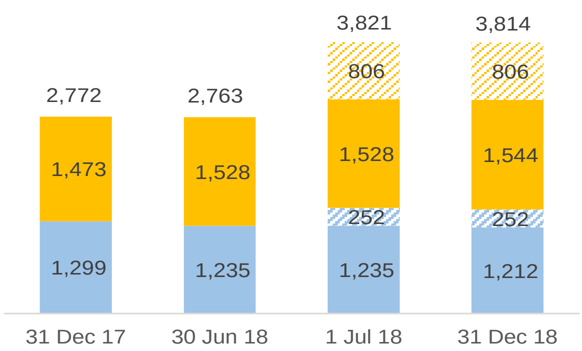
- Corporate collective provisions decreased by $87 million or 7% to $1,212 million. This was due to a reduction in Institutional Banking and Markets exposures reflecting portfolio optimisation, and transfers of collective provisions to individually assessed provisions for clients that became impaired in the period; and
- Corporate individually assessed provisions decreased by $63 million or 9% to $661 million. This was largely due to lower individual provisions for large single name exposures in Institutional Banking and Markets, partly offset by an increase in provisions for a small number of single name exposures in Business and Private Banking; partly offset by
- Consumer collective provisions increased by $71 million or 5% to $1,544 million. This was mainly due to higher collective provisions for home loans due to internal methodology refinements and personal loans driven by higher arrears.

Half Year Ended December 2018 versus June 2018

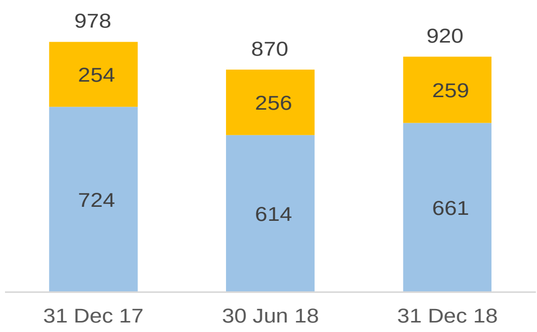
Total provisions for impairment losses was $4,734 million, an increase of $1,101 million or 30% on the prior half, mainly driven by the adoption of AASB 9. Excluding the impact of AASB 9 initial recognition ($1,058 million), total provisions increased $43 million or 1%, primarily driven by:

- Corporate individually assessed provisions increased by $47 million or 8% to $661 million. This was mainly due to an increase in the provisions for a small number of single name exposures in Business and Private Banking; partly offset by lower individual provisions for large single name exposures in Institutional Banking and Markets; and
- Consumer collective provisions increased by $16 million or 1% to $1,544 million. This was predominately driven by higher collective provisions for home loans due to internal methodology refinements and personal loans driven by higher arrears, partly offset by lower balances for credit cards; partly offset by
- Corporate collective provisions decreased by $23 million or 2% to $1,212 million. This was mainly due to a reduction in Institutional Banking and Markets exposures driven by portfolio optimisation, and transfer of collective provisions to individually assessed provisions for clients that became impaired in the period.

Collective Provisions ($M)[1]



Individually Assessed Provisions ($M)



Corporate · Consumer · Corporate AASB 9 Initial Recognition · Consumer AASB 9 Initial Recognition

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Group Operations and Business Settings

Loan Impairment Provisions and Credit Quality (continued)

Credit Quality

Credit Quality Metrics	**31 Dec 18**	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
	Half Year Ended				
Gross loans and acceptances (GLAA) ($M)	**759,410**	748,408	741,318	1	2
Risk weighted assets (RWA) ($M) - Basel III	**445,144**	458,612	440,836	(3)	1
Credit RWA ($M) - Basel III	**369,356**	369,528	366,985	-	1
Gross impaired assets ($M)	**3,560**	3,179	3,367	12	6
Net impaired assets ($M)	**2,373**	2,111	2,207	12	8
Provision Ratios (1)					
Collective provision as a % of credit RWA - Basel III	**1. 03**	0. 75	0. 76	28 bpts	27 bpts
Total provisions as a % of credit RWA - Basel III	**1. 28**	0. 98	1. 02	30 bpts	26 bpts
Total provisions for impaired assets as a % of gross impaired assets	**33. 34**	33. 60	34. 45	(26)bpts	(111)bpts
Total provisions for impaired assets as a % of gross impaired assets (corporate)	**40. 06**	41. 84	40. 52	(178)bpts	(46)bpts
Total provisions for impaired assets as a % of gross impaired assets (consumer)	**27. 03**	26. 04	27. 00	99 bpts	3 bpts
Total provisions for impairment losses as a % of GLAAs	**0. 62**	0. 49	0. 51	13 bpts	11 bpts
Asset Quality Ratios					
Gross impaired assets as a % of GLAAs	**0. 47**	0. 42	0. 45	5 bpts	2 bpts
Loans 90+ days past due but not impaired as a % of GLAAs	**0. 42**	0. 43	0. 36	(1)bpt	6 bpts
Loan impairment expense annualised as a % of average GLAAs	**0. 15**	0. 13	0. 16	2 bpts	(1)bpt
Net write-offs annualised as a % of GLAAs	**0. 15**	0. 18	0. 15	(3)bpts	-
Corporate total committed exposures rated investment grade (%) (2)	**67. 90**	67. 90	68. 00	-	(10)bpts
Australian Home Loan Portfolio					
Portfolio dynamic LVR (%) (3)	**50. 85**	49. 88	49. 76	97 bpts	109 bpts
Customers in advance (%) (4)	**78. 27**	77. 80	77. 48	47 bpts	79 bpts

(1) On 1 July 2018, the Group adopted AASB 9 and as permitted under the accounting standards has not restated the prior comparative periods. Refer to Note 1.1 in the Financial Statements in this Document for further information.
(2) Investment grades based on CBA grade in S&P equivalent.
(3) Loan to value ratio (LVR) defined as current balance as a percentage of the current valuation on Australian home loan portfolio.
(4) Any amount ahead of monthly minimum repayment (including offset facilities).

Provision Ratios and Impaired Assets

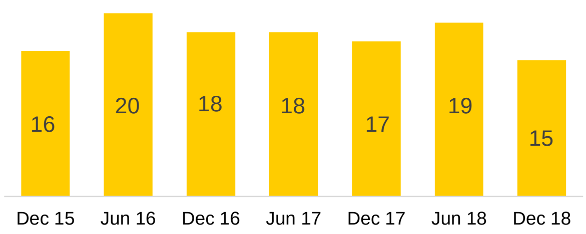
Management believes the coverage ratios remain prudent. The impaired asset portfolio remains well provisioned with provision coverage of 33.34%, a decrease of 26 basis points on the prior half. Gross impaired assets were $3,560 million, an increase of 12% or $381 million on the prior half. Gross impaired assets as a proportion of GLAAs were 0.47%, an increase of 5 basis points on the prior half mainly due to the impairment of a small number of individual corporate exposures and higher home loan impairments.

Retail Portfolio Asset Quality

The retail consumer portfolio's credit quality remained sound during the period. Consumer Loan Impairment Expense (LIE) as a percentage of average gross loans and acceptances was 15 basis points, a decrease of 4 basis points compared to the prior half reflecting lower collective provisions for credit cards due to seasonally lower arrears.

Consumer LIE

Half Year Loan impairment expense annualised as percentage of average GLAAs (bpts)



Group Operations and Business Settings

Loan Impairment Provisions and Credit Quality (continued)

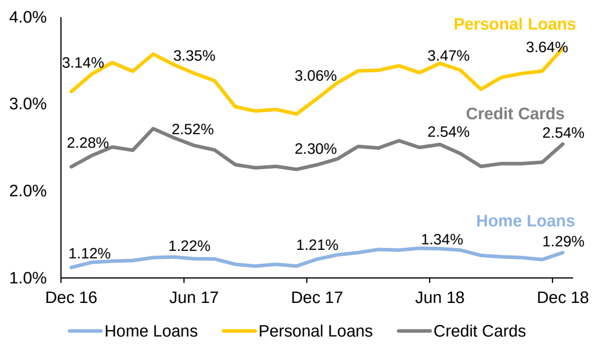
Retail Portfolio Asset Quality (continued)

The retail portfolio arrears remain relatively low. Home loan 90+ days arrears were 0.67%, a decrease of 3 basis points on the prior half, driven by seasonality partly offset by some households continuing to experience difficulties with rising essential costs and limited income growth. Credit card 90+ days arrears were 0.94%, a decrease of 9 basis points on the prior half driven by seasonality, partly offset by continued pockets of stress. Personal Loans 90+ days arrears were flat at 1.44% on the prior half driven by seasonality, offset by continued pockets of stress.

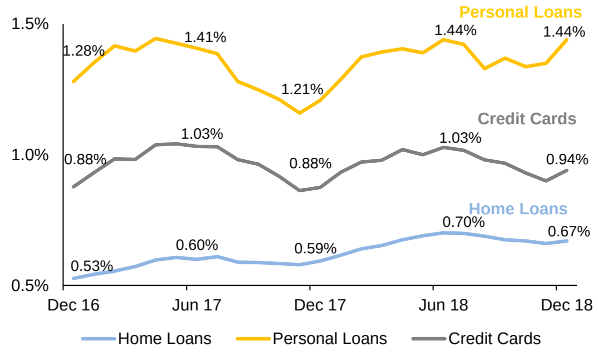
The home lending book remains well secured with an increase in the dynamic LVR of 97 basis points to 50.85% for the half.

The majority of home lending customers remain in advance of scheduled repayments and the loan serviceability buffer remains at 2.25% above the customer interest rate, with a minimum floor rate of 7.25%. Further risk mitigants remain in place including lenders mortgage insurance requirements and a 90% LVR limit for higher risk loans.

30+ Days Arrears Ratios (%) (1)



90+ Days Arrears Ratios (%) (1)



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

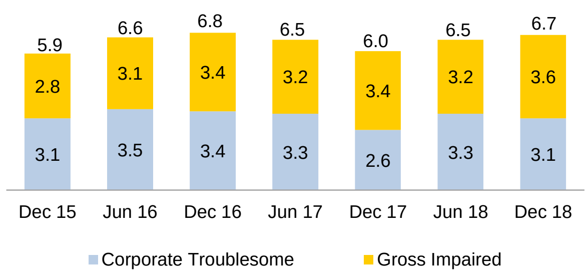
Corporate Portfolio Asset Quality

Corporate troublesome exposures were $3.1 billon, a decrease of $0.2 billion or 6% on the prior half mainly driven by the upgrade of a large single name exposure. Gross impaired assets were $3.6 billion, an increase of $0.4 billion on the prior half, mainly due to a small number of individual corporate impairments.

Investment grade rated exposures were flat on the prior half at 67.9% of overall portfolio risk graded counterparties, reflecting an increase in investment grade sovereign exposures, offset by lower bank exposures.

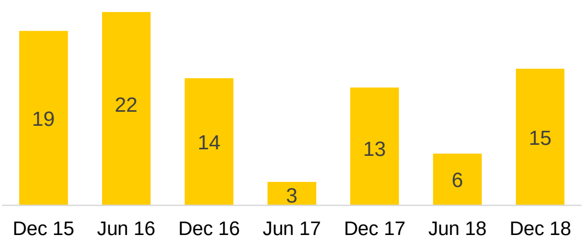
Corporate LIE as a percentage of gross loans and acceptances was 15 basis points, up 9 basis points on the prior half. The increase is due to higher provisioning for a small number of corporate clients, partly offset by lower collective provisions.

Troublesome and Impaired Assets ($B)

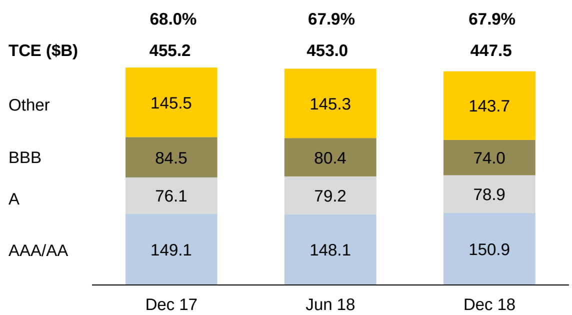


Corporate LIE

Half Year Loan impairment expense annualised as percentage of average GLAAs (bpts)



Corporate Portfolio Quality
% of book rated investment grade (1)



(1) CBA grades in S&P equivalents.

Loan Impairment Provisions and Credit Quality (continued)

Industry Exposure and Asset Quality

The distribution of the Bank's credit exposures by sector remained relatively consistent during the half. The largest movements were a reduction in the exposure to the Bank sector of 0.9%, from 5.5% to 4.6%, and an increase in the Sovereign sector of 0.7%, from 9.3% to 10.0% of the bank's total committed exposure, mainly reflecting liquidity management activities.

Movements in troublesome and impaired assets ("TIA") were mixed across sectors, with total TIA increasing by $208 million or 3% compared to the prior half to $6,749 million. The largest increase came from the Consumer sector reflecting higher home loan impairments, due to some households continuing to experience difficulties with rising essential costs and limited income growth, followed by the Agriculture sector due to downgrades for a small number of clients, and the Construction sector driven by the impairment of a large single name exposure. These increases were partly offset by a reduction in the Transport sector due to the upgrade of a large single name exposure.

TIA as a percentage of total committed exposures (TCE) increased by 2 basis points from 0.60% to 0.62%.

	Total Committed Exposures (TCE)		Troublesome and Impaired Assets (TIA)		TIA % of TCE	
Sector	**Dec 18 %**	Jun 18 %	**Dec 18 $M**	Jun 18 $M	**Dec 18 %**	Jun 18 %
Consumer	**57. 8**	57. 4	**1,832**	1,659	**0. 29**	0. 27
Sovereign	**10. 0**	9. 3	**-**	-	**-**	-
Property	**6. 2**	6. 2	**652**	632	**0. 97**	0. 94
Banks	**4. 6**	5. 5	**9**	9	**0. 02**	0. 01
Finance - Other	**4. 9**	5. 2	**78**	31	**0. 15**	0. 05
Retail & Wholesale Trade	**2. 0**	2. 0	**478**	487	**2. 15**	2. 21
Agriculture	**2. 1**	2. 0	**1,042**	900	**4. 65**	4. 12
Manufacturing	**1. 4**	1. 4	**375**	350	**2. 46**	2. 34
Transport	**1. 5**	1. 4	**225**	659	**1. 41**	4. 29
Mining	**1. 3**	1. 3	**314**	364	**2. 30**	2. 64
Business Services	**1. 3**	1. 2	**278**	184	**1. 97**	1. 44
Energy	**0. 9**	1. 0	**2**	4	**0. 02**	0. 04
Construction	**0. 8**	0. 7	**419**	297	**5. 08**	3. 68
Health & Community	**0. 8**	0. 9	**222**	218	**2. 49**	2. 38
Culture & Recreation	**0. 6**	0. 6	**62**	41	**0. 93**	0. 62
Other	**3. 8**	3. 9	**761**	706	**1. 82**	1. 67
Total	**100. 0**	100. 0	**6,749**	6,541	**0. 62**	0. 60

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, including the application of the capital conservation buffer, were implemented on a phased approach up to 1 January 2019.

The BCBS 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")(1) of 0% (effective from 1 January 2016), brings the CET1 requirement to at least 8%.

(1) In January 2019, APRA announced that the CCyB for Australian exposures will remain at 0%. The Bank has limited exposures to those offshore jurisdictions in which a CCyB in excess of 0% has been imposed.

Unquestionably Strong Capital Ratios

In July 2017 APRA released an information paper establishing the quantum of additional capital required for the Australian banking sector to have capital ratios that are unquestionably strong.

APRA's expectation in relation to the concept of unquestionably strong is that the Australian major banks will operate with a CET1 average benchmark ratio of 10.5% or more by 1 January 2020. As of 31 December 2018, the Group CET1 ratio was well in excess of this benchmark at 10.8%.

Following the finalisation of reforms announced by the BCBS in December 2017, as detailed on page 43, APRA has advised that these reforms have been accommodated within the targets set by APRA in July 2017.

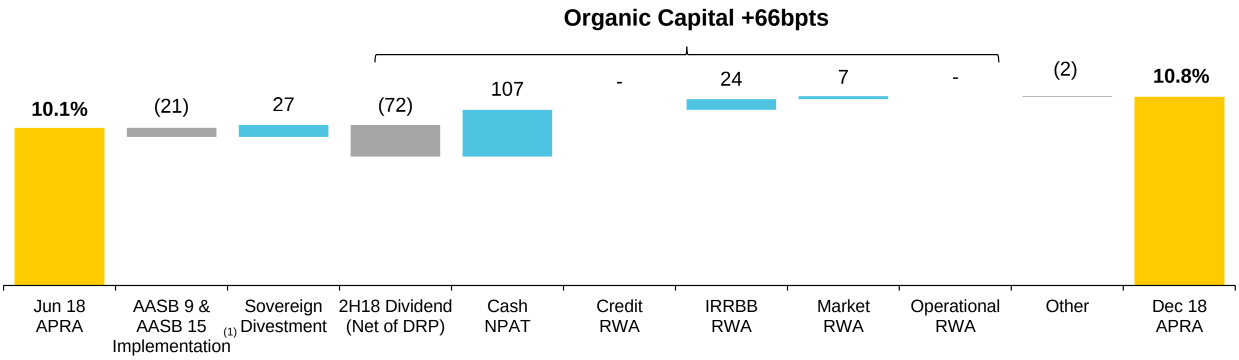
In calendar year 2018, APRA issued a number of consultation documents related to proposed revisions to the overall design of the capital framework in order to improve the transparency, international comparability and flexibility. Details on both the finalised BCBS and the proposed APRA reforms are detailed on page 43-44.

Capital (continued)

Summary Group Capital Adequacy Ratios	Half Year Ended (1) 31 Dec 18 %	30 Jun 18 %	31 Dec 17 %
Common Equity Tier 1	**10. 8**	10. 1	10. 4
Tier 1	**12. 9**	12. 3	12. 3
Tier 2	**2. 9**	2. 7	2. 4
Total Capital (APRA)	**15. 8**	15. 0	14. 7

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

Capital – CET1 (APRA)



(1) AASB 9 and AASB 15 effective from 1 July 2018.

Capital Position

The Bank's CET1 ratio (APRA basis) was 10.8% as at 31 December 2018, an increase of 70 basis points on 30 June 2018 and 40 basis points on 31 December 2017. The CET1 ratio was consistently well in excess of regulatory minimum capital adequacy requirements at all times throughout the period.

The increase of 70 basis points for the half year ended 31 December 2018 was primarily driven by strong organic capital generation and the benefit from the sale of the New Zealand life insurance operations (Sovereign) (+27 basis points). This was partly offset by the impact from the implementation of AASB 9 and 15 on 1 July 2018 (-21 basis points).

Capital Initiatives

The following significant capital initiatives were undertaken during the half year ended 31 December 2018:

Common Equity Tier 1 Capital

- The Dividend Reinvestment Plan (DRP) in respect of the 2018 final dividend, was satisfied by the allocation of $749 million of ordinary shares, representing a participation rate of 18.4%.

Additional Tier 1 Capital

- In December 2018, the Bank issued $1.59 billion of CommBank PERLS XI Capital Notes (PERLS XI) and concurrently redeemed $2 billion Perpetual Exchangeable Resaleable Listed Securities (PERLS VI). Both instruments qualify as Basel III compliant Additional Tier 1 securities.

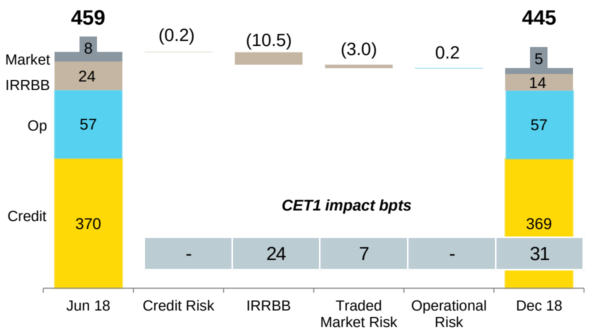
Capital (continued)

Risk Weighted Assets (RWA)

Total Group Risk Weighted Assets

Total RWA decreased by $13.5 billion or 3% on the prior half to $445.1 billion driven by lower Interest Rate Risk in the Banking Book ("IRRBB"), Traded Market Risk and Credit Risk RWA, partly offset by higher Operational Risk RWA.

Total Risk Weighted Assets ($B)

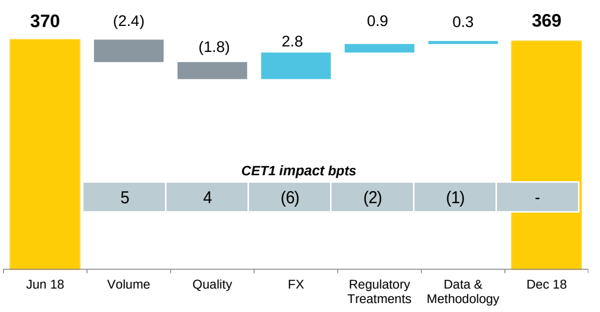


Credit Risk Weighted Assets

Credit Risk RWA decreased by $0.2 billion on the prior half, driven by:

- Decreased volumes due to a reduction in exposures across non retail and some consumer portfolios partly offset by growth in residential mortgages ($2.4 billion); and
- Improvement in credit quality across most portfolios ($1.8 billion); partly offset by
- Foreign currency movements ($2.8 billion);
- Implementation of the new Internal Ratings Based (IRB) models across Australian residential mortgages partly offset by Advanced Internal Ratings Based (AIRB) approach accreditation of the Bankwest SME retail portfolio and other regulatory changes ($0.9 billion); and
- Data and methodology changes ($0.3 billion).

Credit Risk Weighted Assets ($B)



Interest Rate Risk Weighted Assets

IRRBB RWA decreased by $10.5 billion or 43% on the prior half. This decrease was mainly due to a structural reduction in the invested term of capital, restructured USD positions and increased embedded gains due to lower domestic and offshore interest rates.

Traded Market Risk Weighted Assets

Traded Market Risk RWA decreased by $3.0 billion or 36% on the prior half. This decrease was mainly due to the implementation of the enhanced model measurement approach for some interest rate exposures.

Operational Risk Weighted Assets

Operational Risk RWA increased by $0.2 billion on the prior half. This increase was due to the regular assessment of the Group's operational risk profile in the context of the evolving risk and regulatory environment, in accordance with the Operational Risk Management Framework and governance processes.

Pillar 3 Disclosures

Details on the market disclosures required under Pillar 3, per prudential standard APS 330 "Public Disclosure", are provided in the Capital Disclosure Reports which are available on the Group's US Investor Website.

Other Regulatory Changes

Basel Committee on Banking Supervision

In December 2017, the BCBS released "Basel III: Finalising post-crisis reforms" (commonly referred to as Basel IV).

These reforms include:

- Revisions of IRB approach to credit risk including: removal of the 1.06 scaling factor, constraints on the use of IRB for certain asset classes (large corporates, banks and financial institutions), and application of minimum input parameters to the remaining IRB credit exposures;
- Improved granularity and risk sensitivity for the standardised approach for credit risk;
- Removal of the operational risk Advanced Measurement Approach and replaced by a single risk sensitive standardised approach to be used by all banks; and
- Introduction of an aggregate output floor based on the revised Basel III Standardised Approach to calculating RWA. The floor will be phased in over a 5 year period starting at 50% from 1 January 2022, increasing to 72.5% from 1 January 2027.

In January 2019 the BCBS released "Minimum capital requirements for market risk" which finalised changes to the identification and measurement of market risk under both the standardised approach and internal models approach.

All of the above reforms are scheduled to be implemented from 1 January 2022.

Capital (continued)

APRA

In response to the finalisation of the above reforms by the BCBS, in February 2018 APRA released "Discussion paper – Revisions to the capital framework for authorised deposit-taking institutions".

Additional proposals addressed by APRA include:

- Increased capital requirements for investment and interest only home loan exposures, and amendment to the correlation factor to dampen procyclicality of risk weights;
- Higher correlation factors to apply in the Other Retail asset class (including credit cards);
- Large corporate and financial institutions will be subject to the Foundation Internal Ratings based approach;
- Removal of slotting approach and introduction of two asset classes for commercial property;
- Merging of SME retail and SME Corporate asset classes;
- Higher Credit Conversion Factors (CCFs) for off-balance sheet exposures;
- Mandate Loss Given Default (LGD) and Exposure At Default (EAD) estimates for certain non-retail portfolios; and
- Implementation of an output floor (without transitional phasing).

In August 2018, APRA released "Discussion paper – Improving the transparency, comparability and flexibility of the ADI capital framework". APRA proposes two key options for achieving comparability, without changing the quantum or allocation of capital.

The first option advocates the additional disclosure of APRA prescribed internationally comparable capital ratios, alongside the current APRA regulatory capital ratios. The second option will result in only one set of APRA regulatory capital ratios that is more internationally harmonised than the current approach. The latter will be achieved by removing certain aspects of APRA's relative conservatism from ADI capital ratio calculations and at the same time lifting the minimum regulatory capital ratio requirements. APRA intends to implement these reforms from 1 January 2022.

In November 2018, APRA released "Discussion Paper - Increasing the loss–absorbing capacity of ADI's to support orderly resolution". APRA is proposing increasing the total capital requirement by between 4% and 5% of RWA for the four Australian major banks. APRA anticipates that the majority of the additional capital will be raised in the form of Tier 2 capital. APRA proposes that these new requirements will be effective from 2023. Consultation on the proposals is currently open with Australian major banks involved in ongoing discussions with APRA.

Other reforms

- Two new accounting standards, AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers were implemented on 1 July 2018. The capital impact of implementing these standards are disclosed on page 42. AASB 16 Leases will be implemented on 1 July 2019. See Note 1.1 to the Financial Statements in this Document for more information;
- APRA has finalised its prudential requirements for the standardised approach to counterparty credit risk (SA-CCR), and these will take effect from 1 July 2019; and
- The Reserve Bank of New Zealand (RBNZ) is undertaking a comprehensive review of the capital adequacy framework applying to registered banks incorporated in New Zealand. The review focuses on three key components of the current framework, the definition of eligible capital instruments, the calculation of Risk Weighted Assets and minimum capital ratios and buffers. The latest consultation, released in December 2018, includes proposals to increase the Tier 1 capital ratio requirement for domestic systemically important banks to 16% and increase the IRB RWA calculation to approximately 90% of the RWA calculated under the standardised approach. The higher IRB RWA requirements are due to be implemented by June 2020 whilst the increase in Tier 1 capital requirements will be phased over a five year period from 2019. The proposed Tier 1 capital requirement includes a CCyB for New Zealand exposures of 1.5%. Industry submissions are due by 3 May 2019 with the RBNZ expected to finalise its revised capital adequacy framework later this year.

Financial System Regulation in the United States

In October 2016, we elected to be treated as a Financial Holding Company ("FHC") by the Federal Reserve Board in the United States ("FRB"). The FRB is the "umbrella" supervisor with jurisdiction over FHCs, including us. A FHC is allowed to engage, or acquire companies engaged, in the United States in activities that are determined by the FRB and the Secretary of the Treasury to be financial in nature or incidental thereto, and activities that are determined by the FRB to be complementary to financial activities.

Under the Bank Holding Company Act of 1956 ("BHC Act"), the activities of a FHC are subject to restrictions if it is determined that the FHC (in our case, at the Group level) ceases to be "well managed" or "well capitalized" or is the subject of an enforcement action requiring it to maintain a specific level of capital.

We are subject to U.S. federal laws and regulations, including the International Banking Act of 1978 ("IBA"). Under the IBA, all branches and agencies of foreign banks in the United States are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by U.S. bank holding companies. As a federally licensed branch regulated primarily by the Office of the Comptroller of the Currency ("OCC"), the Group's New York branch can generally engage in activities permissible for national banks, with the exception that the Group's New York branch may not accept retail deposits. The New York branch does not accept retail deposits and thus is not subject to the supervision of or insured by the Federal Deposit Insurance Corporation ("FDIC").

Most U.S. branches and agencies of foreign banks, including the Group's New York branch, are subject to reserve requirements on deposits pursuant to regulations of the FRB. The Group's New York branch must maintain its accounts and records separate from those of the Group generally and must comply with such additional requirements as may be prescribed by the OCC. The IBA and the BHC Act also affect the Group's ability to engage in non-banking activities in the United States.

Under the IBA, a federal branch of a non-U.S. bank is subject to receivership by the OCC to the same extent as a national bank. The Comptroller may take possession of the business and property of a federal branch. The Comptroller has at its disposal a wide range of supervisory and enforcement tools for addressing violations of laws and regulations, and breaches of safety and soundness, which can be imposed upon federal branches. The Comptroller may remove federal branch management and assess civil money penalties. In certain circumstances, the Comptroller may also terminate a federal branch license at its own initiative or at the recommendation of the FRB.

The Group is subject to certain provisions of the Dodd-Frank. Dodd-Frank regulates many aspects of the business of banking in the United States and internationally. At this time, Dodd-Frank has not had a material effect on the Group's operations, though the ongoing development and monitoring of required compliance programs may require the expenditure of resources and management attention.

The "Volcker Rule" adopted under Dodd-Frank prohibits banks and their affiliates from engaging in certain "proprietary trading" (but allows certain activities such as underwriting, market making-related and risk-mitigating hedging activities) and limits the sponsorship of, and investment in, private equity funds and hedge funds, subject to certain important exceptions and exemptions, including those listed above as well as exemptions applicable to certain transactions and investments occurring solely outside of the United States.

Other Dodd-Frank regulations impose minimum margin requirements on uncleared swaps, require the centralized execution and clearing of many categories of standardized over-the-counter ("OTC") derivatives on regulated trading platforms and clearing houses and provide for heightened supervision of swap dealers and major swap participants. To date, the U.S. Commodity Futures Trading Commission ("CFTC") has implemented a substantial majority of its rules for the regulation of the OTC swaps market, including rules concerning the registration of swap dealers, recordkeeping and reporting of swaps data, and the clearing and trading of certain interest-rate and index credit default swaps. Because we are a provisionally registered swap dealer under the CFTC regulations, the Group is subject to these CFTC requirements as well as certain additional business conduct rules that apply to the Group's swap transactions with counterparties that are U.S. persons.

The CFTC has issued Cross-Border Guidance which, among other things, provides guidance as to the circumstances in which non-U.S. swap dealers, such as us, will not be subject to the CFTC's rules when dealing with non-U.S. counterparties. The Cross-Border Guidance establishes a framework for the CFTC to permit "substituted compliance" by swap dealers located in non-U.S. jurisdictions with non-U.S. regulatory schemes determined by the CFTC to be comparable to its own. The CFTC has made such a determination with respect to certain aspects of Australian law and regulation and we are able to rely on substituted compliance with respect to certain aspects of CFTC rules in connection with transactions with non-U.S. counterparties. The CFTC may issue further guidance in the future that could expand or limit the existing substituted compliance regime.

In particular, the CFTC has indicated that swap dealers will be required to comply, and has issued proposed rules that would require compliance, with the CFTC's rules, without substituted compliance, in connection with transactions between us and a non-U.S. counterparty, if the transaction is "arranged, negotiated or executed" through personnel located in the U.S. It is unclear whether the CFTC will implement this requirement and whether (and the extent to which) it will affect our business.

As CBA is supervised by the Federal Reserve and operates a NY branch that is regulated by the OCC, we need to comply with the uncleared swap margin rules promulgated by the Board of Governors of the Federal Reserve System, Farm Credit Administration, Federal Deposit Insurance Corporation, Federal Housing Financial Agency and Office of the Comptroller of the Currency. Under these rules and in respect of in-scope trading with in-scope counterparties, the requirement to collect and post variation margin arose on March 1, 2017 and the requirement to collect and post initial margin arose on September 1, 2018.

The CFTC has proposed rules that would impose position limits on (1) futures and options contracts on specified

Financial System Regulation in the United States (continued)

physical commodities and (2) swaps that are "economically equivalent" to such contracts. The Group would be subject to any such rules that are adopted by the CFTC, which could limit the Group's trading activities.

Dodd-Frank also requires us to submit an annual U.S. resolution plan to the FRB and the FDIC for approval. We submitted our most recent annual U.S. resolution plan on December 31, 2018. We are also subject to "enhanced prudential regulations" under Reg. YY, Subpart N (effective July 1, 2016), which require quarterly and annual certification of compliance with the financial and risk oversight requirements thereof.

In 2010, the U.S. enacted the Foreign Account Tax Compliance Act ("FATCA") that requires non-U.S. banks and other financial institutions to undertake specific customer due diligence and provide information on account holders who are U.S. citizens or residents to the United States Federal tax authority, the Internal Revenue Service ("IRS"). The United States has entered into intergovernmental agreements ("IGAs") with a number of jurisdictions (including Australia and New Zealand) which generally require such jurisdictions to enact legislation or other binding rules pursuant to which local financial institutions and branches provide such information to their local revenue authority to then forward to the IRS. In countries that have not entered into such an agreement, the financial institution must enter into an agreement directly with the IRS to complete similar obligations and provide similar information directly to the United States. If the aforementioned customer due diligence and provision of account holder information is not undertaken and provided in a manner and form meeting the applicable requirements, the Group and/or persons owning assets in accounts with Group members may be subjected to a 30 per cent withholding tax on certain amounts. While such withholding tax may currently apply only to certain periodic payments derived from sources within the United States, no such withholding tax will be imposed on any payments derived from sources outside the United States that are made prior to the date that is two years after the date on which the U.S. Treasury Department enacts final regulations defining the term "foreign passthru payment". Australia and New Zealand have each signed an IGA with the United States and have enacted legislation to implement their respective IGAs. Local guidance in relation to the enacted legislation is still evolving.

In addition to FATCA, the U.S. may require the Group in certain circumstances to provide certain information to U.S. payers (withholding agents, custodians, etc.), and the Group may face adverse consequences in case it does not provide such information in compliance with the applicable rules and regulations. A major focus of U.S. governmental policies affecting financial institutions has been combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the "Patriot Act") substantially broadened the scope of U.S. anti-money laundering laws by imposing significant compliance and due diligence obligations, identifying crimes and stipulating penalties and expanding the extra-territorial jurisdiction of the U.S. The U.S. Treasury Department has issued a number of regulations implementing various requirements of the Patriot Act that apply to U.S. financial institutions, including subsidiaries and branches of foreign banks such as our U.S. broker-dealer subsidiary and our New York branch.

Those regulations require financial institutions operating in the United States to maintain appropriate policies, procedures and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. In addition, the U.S. bank regulatory agencies are imposing heightened standards and U.S. law enforcement authorities have been taking a more active role, resulting in intensified enforcement of such matters. Recent resolutions involving other global financial institutions have involved the payment of substantial penalties, agreements with respect to future operation of their business and actions with respect to relevant personnel. Failure of a financial institution to maintain and implement adequate policies and procedures to combat money laundering and terrorist financing could have serious legal and reputational consequences for the financial institution, as well as result in the imposition of civil, monetary and criminal penalties.

Group Operations and Business Settings

Leverage Ratio

Summary Group Leverage Ratio	As at [1] 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Tier 1 Capital ($M)	**57,518**	56,365	54,363	2	6
Total Exposures ($M) [2]	**1,026,240**	1,018,555	1,012,401	1	1
Leverage Ratio (APRA) (%)	**5. 6**	5. 5	5. 4	10 bpts	20 bpts

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) 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".

The Bank's Leverage Ratio, defined as Tier 1 Capital as a percentage of total exposures, was 5.6% at 31 December 2018 on an APRA basis. The ratio increased 10 basis points from 30 June 2018, driven by organic capital generation and the Additional Tier 1 PERLS XI issuance, partly offset by the redemption of PERLS VI.

In December 2017, as part of the final calibration of the leverage ratio, the BCBS announced:

- Confirmation that the leverage ratio will have a minimum regulatory requirement of 3%, effective from 1 January 2018; and
- Changes in the definition of exposures related to derivatives and off balance sheet items, effective from 1 January 2022.

In November 2018, APRA released draft prudential and reporting standards broadly in line with BCBS guidance including a minimum leverage requirement of 3.5% for IRB banks. These changes are subject to consultation and are proposed to apply from 1 January 2022.

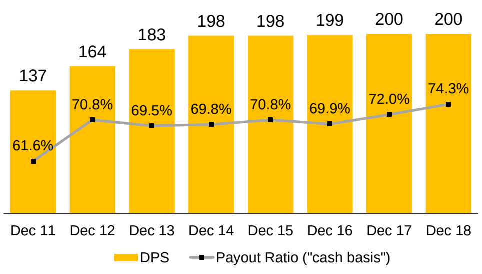
Dividends

Interim dividend for the Half Year Ended 31 December 2018

An interim dividend of $2.00 per share has been declared in line with the prior comparative period. The dividend payout ratio ("cash basis") for the half year to 31 December 2018 was 74.3%.

The interim dividend is expected to be fully franked and is expected to be paid on 28 March 2019 to owners of ordinary shares at the close of business on 14 February 2019 (record date). Shares were quoted ex-dividend on 13 February 2019.

Interim Dividend History (cents per share)



Dividend Reinvestment Plan ("DRP")

The DRP will continue to be offered to shareholders, and no discount will be applied to shares allocated under the plan for the interim dividend. The DRP for the 2019 interim dividend is anticipated to be satisfied in full by an on-market purchase of shares.

Dividend Policy

The Bank 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.

Liquidity

Level 2	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
	Quarterly Average Ended [1]				
Liquidity Coverage Ratio (LCR) Liquid Assets					
High Quality Liquid Assets (HQLA) [2]	**86,209**	89,200	87,615	(3)	(2)
Committed Liquidity Facility (CLF)	**53,300**	53,300	48,300	-	10
Total LCR liquid assets	**139,509**	142,500	135,915	(2)	3
Net Cash Outflows (NCO)					
Customer deposits	**75,978**	79,651	79,913	(5)	(5)
Wholesale funding	**13,101**	10,975	9,534	19	37
Other net cash outflows [3]	**17,206**	16,303	11,196	6	54
Total NCO	**106,285**	106,929	100,643	(1)	6
Liquidity Coverage Ratio (%)	**131**	133	135	(200)bpts	(400)bpts
LCR surplus	**33,224**	35,571	35,272	(7)	(6)

(1) The Group has changed the reporting of LCR from spot to quarterly average to align with Basel III Pillar 3 disclosure reporting requirements. Spot LCR for 31 December 2018 was 127% (30 June 2018: 131%; 31 December 2017: 131%).

(2) Includes all repo-eligible securities with the Reserve Bank of New Zealand. The amount of open-repo of Internal Residential Mortgage-Backed Securities and Exchange Settlement Account (ESA) cash balance held by the Reserve Bank of Australia is shown net.

(3) Includes cash inflows.

Liquidity Coverage Ratio ("LCR")

The Group believes that it holds high quality, well diversified liquid assets to meet Balance Sheet liquidity needs and internal and external regulatory requirements, including APRA's LCR. The LCR requires Australian Authorised Deposit-Lending Institutions ("ADIs") to hold sufficient liquid assets to meet 30 day Net Cash Outflows ("NCOs") projected under a prescribed stress scenario. LCR liquid assets consist of High Quality Liquid Assets ("HQLA") in the form of cash, deposits with central banks and government securities as well as other high quality securities, repo-eligible with the Reserve Bank of Australia ("RBA") under the Committed Liquidity Facility ("CLF"). Given the limited amount of government securities in Australia, the RBA provides participating ADIs access to contingent liquidity on a secured basis via the CLF. The amount of the CLF for each ADI is set annually by APRA.

Quarterly average ended 31 December 2018 vs Quarterly average ended 30 June 2018

The Group's December 2018 quarterly average LCR was 131%, a decrease of 2% compared to the quarterly average ended 30 June 2018, and remains well above the regulatory minimum of 100%.

LCR liquid assets decreased by $3 billion, driven by a $3 billion reduction in HQLA, as the Group optimised the level of liquid assets required to be held. The Group's 30 day modelled NCOs were down 1%, primarily due to reduced NCOs from customer deposits as a result of a more LCR efficient deposit mix reflecting higher retail deposits, partly offset by higher wholesale funding maturities.

Liquidity and Capital Resources

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, a risk appetite statement, liquidity risk limits and triggers, 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") and, from 1 January 2018, the NSFR, implemented by APRA in ADI Prudential Standard 210 ("APS 210"). The LCR requires large 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 include cash and Commonwealth government and Semigovernment debt. Given the limited amount of government debt in Australia, participating ADIs can access contingent liquidity via the RBA's CLF and apply it to meet net cash outflows in the LCR. The amount of the CLF for each ADI is set annually by APRA. To access the CLF, ADIs need to meet certain conditions and pledge qualifying securities to the RBA. The NSFR requires LCR ADIs to fund core assets with stable funding. APRA prescribed factors are used to determine the stable funding requirement of assets and the stability of funding.

Risk tolerances and active forecasting of the LCR and the NSFR are designed to ensure that the Group maintains a superior level of liquidity and stable funding at all times relative to regulatory requirements.

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

- Predominantly customer deposit funding;
- Diverse and stable sources of wholesale funding;
- Buffers over the regulatory requirements of 100% for the LCR and the NSFR;
- Short and long-term wholesale funding limits and triggers, which are reviewed regularly and are based on an assessment of the Group's capacity to borrow in the markets and balance sheet projections;
- Stress tests, covering a range of short-term and protracted idiosyncratic and market-wide stress scenarios, to identify potential sources of liquidity and funding 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 eligible for repurchase with central banks, managed within specific concentration limits, including:
  - High quality liquid assets such as cash, Commonwealth government and Semi-government bonds;
  - ADI-issued securities, eligible securitisations and covered bonds, and securities issued by supranationals, all of which are repo-eligible under the RBA's open market operations and under the CLF; and
  - Internal securitisations of Group mortgages retained on the Balance Sheet that can be used as collateral under the RBA's CLF; and
- Specific foreign currency limits and policies that apply to offshore branches and subsidiaries, designed to ensure the holding of appropriate foreign currency liquid assets, providing liquidity in addition to the domestic liquid asset portfolio.

The Group's key liquidity risk management measures include:

- LCR and NSFR models incorporating APRA definitions of the regulatory measures and calculating actual and forecast positions. The models are used to monitor buffers and inform Group liquidity and funding management actions;
- A funding gap model that is used to analyse and forecast funding needs over the medium-term;
- Stress tests supplementary to the LCR, used to validate management buffers contained in 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 retail transaction accounts, investment accounts and retirement style accounts for individual consumers;
- Its small business and institutional deposit base;
- Issuance of Australian dollar Negotiable Certificates of Deposit and Australian dollar bank bills;
- Its wholesale international and domestic funding programs that include its 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
- Contingent funding sources including access to various central bank facilities, including the CLF, providing the Group with the ability to borrow funds on a secured basis, in all market conditions.

Liquidity and Capital Resources (continued)

	Half Year Ended		
	31 Dec 18	30 Jun 18	31 Dec 17
Debt Issues	**$M**	$M	$M
Total short-term debt issues	**54,713**	59,980	56,926
Total long-term debt issues	**114,138**	112,314	109,584
Total debt issues	**168,851**	172,294	166,510

	Half Year Ended		
	31 Dec 18	30 Jun 18	31 Dec 17
Debt Issues	**$M**	$M	$M
Maturity Distribution of Debt Issues (1)			
Less than three months	**21,791**	17,931	18,400
Between three and twelve months	**32,922**	42,049	38,526
Between one and five years	**78,926**	80,649	81,774
Greater than five years	**35,212**	31,665	27,810
Total debt issues	**168,851**	172,294	166,510

(1) Represents the contractual maturity of the underlying instruments; other than for RMBS which is based on expected life.

The following table details the current debt programs and issuing shelves along with program or shelf size as at 31 December 2018. Access in a timely and flexible manner to a diverse range of debt markets and investors is provided by the following programs.

Debt Programmes and Issuing Shelves

Programme/ Issue Shelf	Programme/ Issuing Shelf Type
Australia	
Unlimited	Domestic Debt Issuance Programme
Unlimited	Colonial Holding Company Limited A$ Debt Issuance Programme
Euro Market	
EUR 7 billion	ASB Covered Bond Programme (1)
USD 7 billion	ASB Euro Commercial Paper Programme (1)
USD 20 billion	CBA Euro Commercial Paper and Certificate of Deposit Programme
USD 70 billion	Euro Medium-Term Note Program (2)
Asia	
JPY 500 billion	Uridashi shelf (3)
JPY 500 billion	Samurai shelf (3)
USD 5 billion	CBA Asian Transferable Certificate of Deposit Programme
New Zealand	
Unlimited	ASB Domestic Medium-Term Note Programme (4)
Unlimited	ASB Registered Certificate of Deposit Programme (4)
United States	
USD 7 billion	ASB US Commercial Paper Programme (1)
USD 10 billion	ASB US Rule 144a/Regulation S Medium-Term Note Programme (4)
USD 35 billion	CBA US Commercial Paper Programme
USD 50 billion	CBA U.S. Rule 144A/Regulation S Medium-Term Note Programme
USD 30 billion	CBA Covered Bond Programme
USD 25 billion	CBA 3(a)(2) Medium-Term Note Programme

(1) ASB Finance Limited is the issuer under these programmes. Issuances are unconditionally and irrevocably guaranteed by ASB Bank Limited.
(2) This is a joint programme between CBA and ASB Finance Limited. Issuances by ASB Finance Limited under the programme are unconditionally and irrevocably guaranteed by ASB Bank Limited.
(3) Amounts are also reflected under the US$70 billion Euro Medium-Term Note Program.
(4) ASB Bank Limited is the issuer under these programmes.

Group Operations and Business Settings

Corporate Governance

Changes to Executive Leadership Team

On 1 July 2018, Angus Sullivan, formerly Acting Group Executive, Retail Banking Services assumed the position of Group Executive, Retail Banking Services.

On 31 July 2018, George Confos ceased as Acting Group Executive, Institutional Banking & Markets and Melanie Laing ceased as Group Executive, Human Resources.

On 1 August 2018, Andrew Hinchliff commenced as Group Executive, Institutional Banking & Markets and Sian Lewis commenced as Group Executive, Human Resources.

On 30 September 2018, Paul Newham ceased as Acting Group Executive, Enterprise Services and Chief Information Officer.

On 1 October 2018, Pascal Boillat commenced as Group Executive, Enterprise Services and Chief Information Officer.

On 15 October 2018, Alan Docherty, formerly Acting Group Executive, Financial Services and Chief Financial Officer assumed the position of Group Executive, Financial Services and Chief Financial Officer.

On 5 November 2018, David Cohen, formerly Group Chief Risk Officer assumed the role of Deputy Chief Executive Officer.

On 5 November 2018, Nigel Williams commenced as Group Chief Risk Officer.

On 1 December 2018, Jason Yetton commenced as Chief Executive Officer, NewCo; Michael Venter remained as Chief Operating Officer.

On 31 December 2018, Coen Jonker ceased as Group Executive, International Financial Services, with David Cohen assuming responsibility for the remaining International Financial Services business on 1 January 2019.

Changes to Board of Directors

On 7 November 2018 and 31 December 2018, Andrew Mohl and Brian Long retired as independent, Non-Executive Directors of the Bank, respectively.

On 1 January 2019, Paul O’Malley and Professor Genevieve Bell were appointed as independent, Non-Executive Directors of the Bank.

On 8 January 2019, Kara Nicholls commenced as a Company Secretary of the Bank.

On 19 February 2019, Taryn Morton’s resignation as a Company Secretary of the Bank became effective.

Funding

Group Funding [1]	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
	As at				
Customer deposits	**578,746**	569,846	568,300	2	2
Short-term wholesale funding [2]	**87,132**	85,360	95,898	2	(9)
Long-term wholesale funding - less than or equal to one year residual maturity [3]	**35,215**	33,564	29,182	5	21
Long-term wholesale funding - more than one year residual maturity [3]	**133,171**	137,136	131,555	(3)	1
IFRS MTM and derivative FX revaluations	**357**	(165)	646	large	(45)
Total wholesale funding	**255,875**	255,895	257,281	-	(1)
Short-term collateral deposits [4]	**4,334**	6,193	6,714	(30)	(35)
Total funding	**838,955**	831,934	832,295	1	1

(1) Shareholders' Equity is excluded from this view of funding sources.
(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 Euro Medium Term Note (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 residential mortgage backed securities (RMBS) pledged with the Reserve Bank to facilitate intra-day cash flows in the ESA.

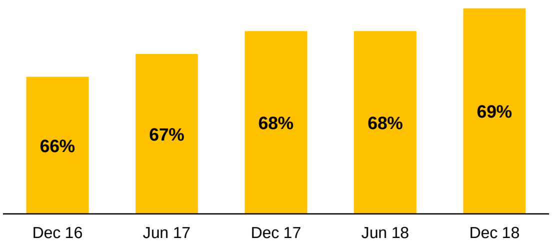
Customer Deposits

Customer deposits accounted for 69% of total funding at 31 December 2018, a 1% increase from 68% at 30 June 2018 and 31 December 2017. The Group satisfied a significant proportion of its funding requirements from retail, business, and institutional customer deposits.

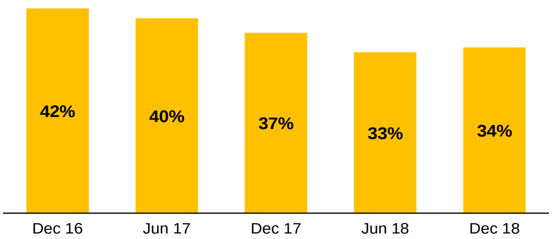
Short-Term Wholesale Funding

Short-term wholesale funding accounted for 34% of total wholesale funding at 31 December 2018, a 1% increase from 33% as at 30 June 2018, and a 3% decrease from 37% at 31 December 2017, as the Group maintained what management believe to be a strong funding position.

Customers Deposits to Total Funding Ratio



Short-Term to Total Wholesale Funding Ratio



Funding (continued)

Long-Term Wholesale Funding

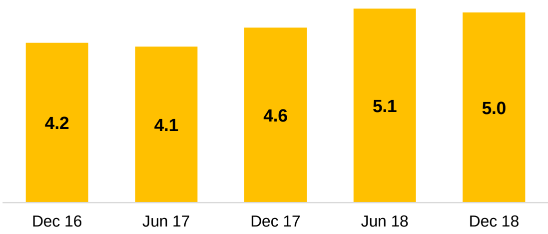
Long-term wholesale funding (including IFRS MTM and derivative FX revaluations) accounted for 66% of total wholesale funding at 31 December 2018, a 1% decrease from 67% at 30 June 2018, and a 3% increase from 63% at 31 December 2017.

During the half year to 31 December 2018, the Group raised $12 billion of long-term wholesale funding in multiple currencies including AUD, USD, and GBP.

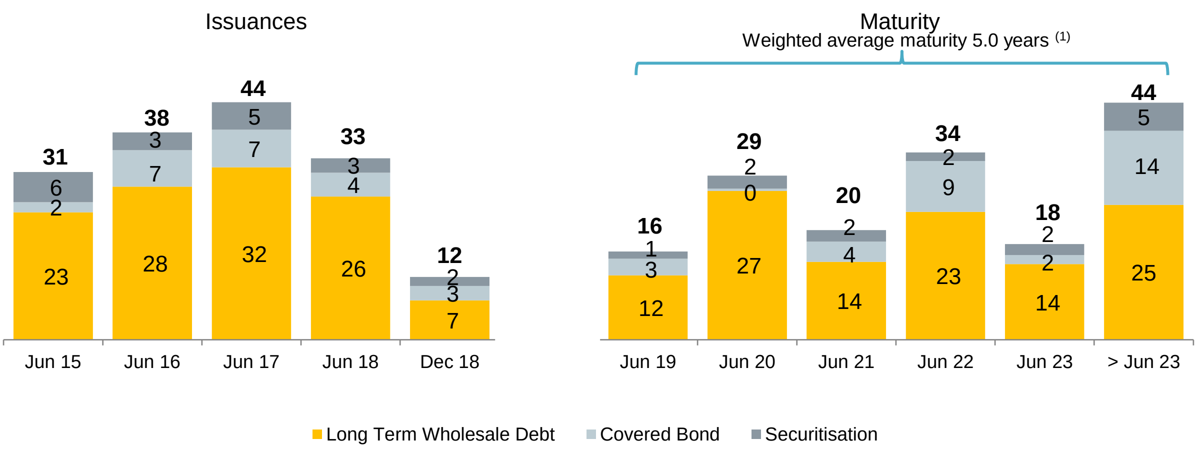
Most issuances were in senior unsecured format, although the Group used its covered bond and RMBS programs to provide cost, tenor and diversification benefits.

The Weighted Average Maturity ("WAM") of new long-term wholesale debt for the 6 months to 31 December 2018 was 5.7 years. The WAM of outstanding long-term wholesale debt with a residual maturity greater than 12 months was stable at 5.0 years.

Weighted Average Maturity of Long-Term Wholesale Debt (1)



Long-Term Wholesale Funding Profile ($B)



(1) Represents the weighted average maturity of outstanding long-term wholesale debt with a residual maturity greater than 12 months at 31 December 2018.

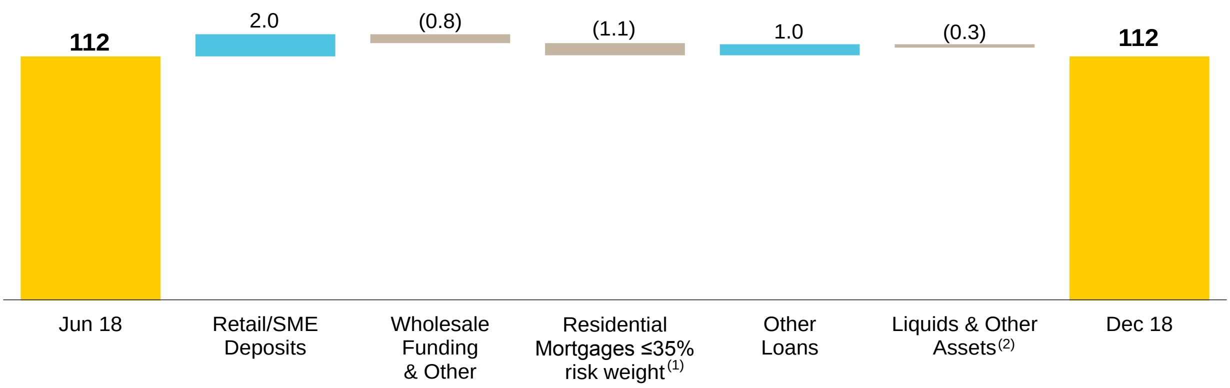
Net Stable Funding Ratio (NSFR)

Level 2	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
	As at				
Required Stable Funding					
Residential Mortgages ≤35% [1]	**257,699**	251,166	254,465	3	1
Other Loans	**248,111**	253,740	243,748	(2)	2
Liquid and Other Assets [2]	**65,819**	64,579	60,644	2	9
Total Required Stable Funding	**571,629**	569,485	558,857	-	2
Available Stable Funding					
Capital	**90,356**	90,219	82,405	-	10
Retail/SME Deposits	**357,829**	346,289	341,780	3	5
Wholesale Funding & Other	**194,398**	198,759	192,406	(2)	1
Total Available Stable Funding	**642,583**	635,267	616,591	1	4
Net Stable Funding Ratio (NSFR) (%)	**112**	112	110	-	200 bpts

Net Stable Funding Ratio ("NSFR")

On 1 January 2018, APRA introduced a NSFR requirement designed to encourage stable funding of core assets. APRA prescribed factors are used to determine the stable funding requirement of assets and the stability of sources of funding. The Group's NSFR was 112% at 31 December 2018, flat on the prior half, and a 2% increase from 110% as at 31 December 2017. This is well above the regulatory minimum of 100% which applied from 1 January 2018. The increase over the year was mainly driven by a more NSFR efficient customer deposit mix, reflecting strong growth in Retail and Small Medium Enterprises (SME) deposits.

NSFR Movement (%)



(1) This represents residential mortgages with risk weighting of less than or equal to 35% under APRA standard APS112 Capital Adequacy: Standardised Approach to Credit Risk.
(2) Includes non-performing loans, off-balance sheet items, net derivatives and other assets.

Contents

Section 5 – Divisional Performance

Retail Banking Services

Overview

Retail Banking Services provides simple, convenient and affordable banking products and services to more than 10 million personal and business customers, helping them manage their everyday banking needs, buy a home, build and grow their business, or invest for the future. We support our customers through an extensive network of branches, ATMs, Australian-based customer call centres, online services and apps, as well as mobile banking specialists and support teams.

On 25 August 2017, the Group acquired the remaining 20% share in AHL Holdings Pty Limited (trading as Aussie Home Loans), bringing its shareholding to 100%. On 23 February 2018, the Group also acquired the assets of eChoice. As a result, the Group now controls and consolidates these Mortgage Broking operations ("Mortgage Broking"). In line with the Group's commitment to becoming a simpler, better bank, a number of changes to the Group's operating model have been made. The Mortgage Broking business is subject to demerger, and on 25 June 2018, the Group announced that the CommInsure General Insurance business would be placed under strategic review and would move to be a part of Retail Banking Services, while the review is underway. In addition, the Small Business banking segment has been transferred out of Retail Banking Services to Business and Private Banking in order to consolidate the Group's business banking. From 1 July 2018, Bankwest and Commonwealth Financial Planning have been consolidated into Retail Banking Services, aligning all retail businesses within one division.

	Half Year Ended (1)					
	Retail Banking (excl. Mortgage Broking and General Insurance)					Total RBS (2)
	31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs	Dec 18 vs	**31 Dec 18**
	$M	$M	$M	Jun 18 %	Dec 17 %	**$M**
Net interest income	**4,709**	4,774	4,875	(1)	(3)	**4,706**
Other banking income	**791**	809	843	(2)	(6)	**909**
Total banking income	**5,500**	5,583	5,718	(1)	(4)	**5,615**
Funds management income	**71**	66	103	8	(31)	**71**
Insurance income	**-**	-	-	-	-	**68**
Total operating income	**5,571**	5,649	5,821	(1)	(4)	**5,754**
Operating expenses	**(2,092)**	(2,057)	(2,045)	2	2	**(2,255)**
Loan impairment expense	**(318)**	(325)	(327)	(2)	(3)	**(318)**
Net profit before tax	**3,161**	3,267	3,449	(3)	(8)	**3,181**
Corporate tax expense	**(950)**	(978)	(1,035)	(3)	(8)	**(954)**
Underlying net profit after tax	**2,211**	2,289	2,414	(3)	(8)	**2,227**
Investment experience after tax	**1**	-	-	large	large	**5**
Net profit after tax ("cash basis")	**2,212**	2,289	2,414	(3)	(8)	**2,232**
Bankwest non-cash items	**(1)**	(2)	(1)	(50)	-	**(1)**
Net profit after tax ("statutory basis")	**2,211**	2,287	2,413	(3)	(8)	**2,231**
Net profit after tax from Mortgage Broking and General Insurance	**20**	64	114	(69)	(82)	**n/a**
Total net profit after tax ("statutory basis")	**2,231**	2,351	2,527	(5)	(12)	**2,231**

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) RBS including Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review.

Retail Banking Services

Income analysis	Half Year Ended (1) Retail Banking (excl. Mortgage Broking and General Insurance) 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %	Total RBS 31 Dec 18 $M
Net interest income						
Home loans	**2,173**	2,363	2,541	(8)	(14)	**2,170**
Consumer finance (2)	**862**	907	908	(5)	(5)	**862**
Business lending	**93**	93	96	-	(3)	**93**
Deposits	**1,581**	1,411	1,330	12	19	**1,581**
Total net interest income	**4,709**	4,774	4,875	(1)	(3)	**4,706**
Other banking income						
Home loans	**136**	130	132	5	3	**136**
Consumer finance (2)	**269**	279	285	(4)	(6)	**269**
Business lending	**24**	23	26	4	(8)	**24**
Deposits	**217**	251	230	(14)	(6)	**217**
Distribution & Other (3)	**145**	126	170	15	(15)	**263**
Total other banking income	**791**	809	843	(2)	(6)	**909**
Total banking income	**5,500**	5,583	5,718	(1)	(4)	**5,615**

Balance Sheet (excl. Mortgage Broking and General Insurance)	As at (1) 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Home loans (4)	**373,262**	364,840	358,038	2	4
Consumer finance (2)	**15,596**	16,051	16,310	(3)	(4)
Business loans	**9,662**	9,652	9,905	-	(2)
Other interest earning assets	**473**	931	1,037	(49)	(54)
Total interest earning assets	**398,993**	391,474	385,290	2	4
Other assets	**3,493**	4,659	4,419	(25)	(21)
Total assets	**402,486**	396,133	389,709	2	3
Transaction deposits (5)	**35,671**	32,834	31,213	9	14
Savings deposits (5)	**109,200**	110,507	112,391	(1)	(3)
Investment deposits and other	**100,666**	96,286	97,385	5	3
Total interest bearing deposits	**245,537**	239,627	240,989	2	2
Non-interest bearing transaction deposits	**25,702**	23,909	22,919	7	12
Other non-interest bearing liabilities	**3,824**	4,044	3,513	(5)	9
Total liabilities	**275,063**	267,580	267,421	3	3

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Consumer finance includes personal loans and credit cards.
(3) Other includes asset finance and merchants. Distribution includes income associated with the sale of foreign exchange products.
(4) Home loans are presented gross of $35,659 million of mortgage offset balances (30 June 2018: $33,009 million; 31 December 2017: $31,922 million). These balances are required to be grossed up under accounting standards but are netted down for the calculation of customer interest payments.
(5) Transaction and Savings deposits include $35,659 million of mortgage offset balances (30 June 2018: $33,009 million; 31 December 2017: $31,922 million).

Retail Banking Services

Key Financial Metrics (excl. Mortgage Broking and General Insurance)	Half Year Ended (1) 31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Performance indicators					
Net interest margin (%)	**2. 60**	2. 71	2. 77	(11)bpts	(17)bpts
Statutory return on assets (%)	**1. 1**	1. 2	1. 3	(10)bpts	(20)bpts
Statutory operating expenses to total operating income (%)	**37. 6**	36. 4	35. 1	120 bpts	250 bpts
Impairment expense annualised as a % of average GLAAs (%)	**0. 16**	0. 17	0. 17	(1)bpt	(1)bpt
Other information					
Average interest earning assets ($M) (2)	**359,928**	355,210	349,437	1	3
Risk weighted assets ($M) (3)	**167,253**	168,370	158,686	(1)	5
90+ days home loan arrears (%)	**0. 72**	0. 74	0. 63	(2)bpts	9 bpts
90+ days consumer finance arrears (%)	**1. 21**	1. 25	1. 04	(4)bpts	17 bpts
Number of full-time equivalent staff (FTE)	**15,201**	15,491	15,479	(2)	(2)

(1) Comparative information has been restated to conform to presentation in the current period.
(2) Average interest earning assets are presented net of mortgage offset balances, which reduce customer interest payments. Net average interest earning assets are also used in the calculation of divisional net interest margin.
(3) Includes Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review.

Retail Banking Services

Financial Performance and Business Review

Half Year Ended December 2018 versus December 2017

In order to provide an underlying view of the performance, unless otherwise noted the commentary below has been presented excluding the impact of the Mortgage Broking and General Insurance businesses, which are respectively subject to demerger and strategic review, and including Bankwest, Commonwealth Financial Planning and the transfer of Small Business to Business and Private Banking.

Retail Banking Services net profit after tax ("statutory basis") for the half year ended 31 December 2018 was $2,211 million, a decrease of $202 million or 8% on the prior comparative period. The result was driven by a 4% decrease in total operating income, a 2% increase in operating expenses and a 3% decrease in loan impairment expense.

Net Interest Income

Net interest income was $4,709 million, a decrease of $166 million or 3% on the prior comparative period. This was driven by a 6% decrease in net interest margin and 3% growth in average interest earning assets.

Net interest margin decreased 17 basis points, reflecting:

- Higher wholesale funding costs primarily due to an increase in the spread between the three month bank bill swap rate and the three month overnight index swap rate, known as basis risk (down 14 basis points);
- Lower home lending margin from unfavourable home loan portfolio mix (down 8 basis points) with a shift to lower margin loans (interest only to principal and interest, and investor to owner occupied) and increased competition (down 6 basis points), partly offset by home loan pricing (up 3 basis points); partly offset by
- Higher deposit margins from repricing of online savings accounts and investment deposits (up 8 basis points).

Other Banking Income

Other banking income was $791 million, a decrease of $52 million or 6% on the prior comparative period, reflecting:

- Lower overdrawn account fees following the introduction of pre-emptive customer alerts, simplification of fee waivers and removal of certain transaction fees;
- Reduced credit card income from higher loyalty costs; and
- Lower retail foreign exchange fee income due to competitive pressures; partly offset by
- Higher interchange income on credit and debit transactions due to increased volumes as consumers continue to shift from cash to cards.

Funds Management Income

Funds management income was $71 million, a decrease of $32 million or 31% on the prior comparative period. This was driven by lower volumes of initial advice and ongoing service fee income from salaried financial planners, and the non-recurrence of an Advice customer remediation provision release in the prior comparative period.

Operating Expenses

Operating expenses were $2,092 million, an increase of $47 million or 2% on the prior comparative period, primarily driven by customer remediation costs. Expenses were also impacted by higher staff costs driven by salary increases, increased project amortisation, and higher risk and compliance costs, partly offset by lower property costs due to the Bankwest East Coast branch closures.

The number of full-time equivalent staff (FTE) decreased by 278 or 2**%** on the prior comparative period, from 15,479 to 15,201 FTE.

Investment spend focused on risk and compliance, including meeting regulatory requirements with regards to Comprehensive Credit Reporting and Open Banking, as well as improvements to the Home Buying experience, enhancements within digital channels and digitisation of manual processes.

The total operating expense to total operating income ratio ("statutory basis") was 37.6%**,** an increase of 250 basis points on the prior comparative period.

Loan Impairment Expense

Loan impairment expense was $318 million, a decrease of $9 million or 3% on the prior comparative period. This result was driven by lower collective provisions for credit cards mainly due to lower balances, partly offset by higher collective provisions for personal loans reflecting higher arrears.

Loan impairment expense as a percentage of average gross loans and acceptances decreased 1 basis point on the prior comparative period to 16 basis points.

Home loan 90+ days arrears increased by 9 basis points from 0.63% to 0.72% which continues to reflect reduced portfolio growth and some households experiencing difficulties with rising essential costs and limited income growth.

Consumer finance arrears increased by 17 basis points from 1.04% to 1.21%, predominantly driven by increases in Western Sydney.

Balance Sheet

Key spot balance sheet movements included:

- Home loan growth of $15.2 billion or 4%, below system growth [(1)] of 5%, reflecting increased competition from non-bank lenders and subdued investor activity. Proprietary flows for CBA branded home loans decreased 4% from 64% to 60%. Proprietary flows for Bankwest branded home loans also decreased 5%, from 24% to 19%;
- Total deposit growth of $7.3 billion or 3% (interest and non-interest bearing). Transaction deposit growth was strong, increasing 13%, partly offset by lower savings balances (down 3%) as customers switched from savings deposits to higher yield term deposits (up 3%); and
- Consumer finance balance decrease of $0.7 billion or 4%.

(1) System source RBA/APRA/RBNZ.

Financial Performance and Business Review (continued)

Risk Weighted Assets [1]

Risk weighted assets were $167.3 billion, an increase of $8.6 billion or 5% on the prior comparative period.

- Credit risk weighted assets increased $5.9 billion or 4% driven by home loan volume growth and a new home loan model; and
- Operational risk weighted assets increased $5.8 billion or 37% driven by the requirement to increase Operational risk regulatory capital effective 30 April 2018 following the findings of the APRA Prudential Inquiry (see Notes 7.2 and 7.4 to the Financial Statements in this Document and Appendix 5 of this Document for more information); partly offset by
- IRRBB risk weighted assets decreased $3.1 billion or 34%.

Half Year Ended December 2018 versus June 2018

In order to provide an underlying view of the performance, unless otherwise noted the commentary below has been presented excluding the impact of the Mortgage Broking and General Insurance businesses which are respectively subject to demerger and strategic review, and including Bankwest, Commonwealth Financial Planning and the transfer of Small Business to Business and Private Banking.

Net profit after tax ("statutory basis") for the half year ended 31 December 2018 decreased $76 million or 3% on the prior half. The result was driven by a 1% decrease in total operating income, a 2% increase in operating expenses and a 2% decrease in loan impairment expense.

Net Interest Income

Net interest income decreased $65 million or 1% on the prior half. The decrease was driven by a 4% decrease in net interest margin, 1% growth in average interest earning assets and the impact of three additional calendar days in the current half.

Net interest margin decreased 11 basis points, reflecting:

- Higher wholesale funding costs primarily due to an increase in the spread between the three month bank bill swap rate and the three month overnight index swap rate, known as basis risk (down 10 basis points); and
- Lower home lending margin from unfavourable home loan portfolio mix (down 5 basis points) with a shift to lower margin loans (interest only to principal and interest, and investor to owner occupied) and increased competition (down 4 basis points), partly offset by home loan pricing (up 3 basis points); partly offset by
- Higher deposit margin from repricing of online savings accounts and investment deposits (up 5 basis points).

Other Banking Income

Other banking income decreased $18 million or 2% on the prior half, mainly reflecting lower overdrawn account fees following the introduction of pre-emptive customer alerts, simplification of fee waivers and removal of certain transaction fees.

Funds Management Income

Funds management income increased $5 million or 8% on the prior half, due to the non-recurrence of an Advice customer remediation provision in the prior half, partly offset by lower volumes of initial advice and ongoing service fee income from salaried financial planners.

Operating Expenses

Operating expenses increased $35 million or 2% on the prior half, mainly driven by customer remediation costs. Expenses were also impacted by higher staff costs driven by salary increases, and higher risk and compliance costs, partly offset by property costs due to the Bankwest East Coast branch closures.

The number of full-time equivalent staff (FTE) decreased by 290 or 2% on the prior half, from 15,491 to 15,201 FTE.

The total operating expense to total operating income ratio ("statutory basis") was 37.6%**,** an increase of 120 basis points on the prior half, driven by lower total operating income and higher operating expenses.

Loan Impairment Expense

Loan impairment expense decreased $7 million or 2% on the prior half, driven by lower collective provisions for credit cards reflecting seasonally lower arrears. This was partly offset by higher collective provisions for home loans driven by methodology refinements and personal loans due to higher arrears.

Loan impairment expense as a percentage of average gross loans and acceptances decreased 1 basis point on the prior half to 16 basis points.

Home loan arrears have reduced by 2 basis points from 0.74% to 0.72%, reflecting seasonality, partly offset by some households continuing to experience difficulties with rising essential costs.

Consumer finance arrears decreased by 4 basis points from 1.25% to 1.21%, reflecting seasonality, partly offset by elevated arrears in Western Sydney.

(1) Includes Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review.

Retail Banking Services

Balance Sheet

Key spot balance sheet movements included:

- Home loan growth of $8.4 billion or 2%, in line with system growth[1], reflecting subdued investor activity. Proprietary flows for CBA branded home loans decreased 3% from 63% to 60%. Proprietary flows for Bankwest branded home loans decreased 4% from 23% to 19%;
- Total deposit growth of $7.7 billion or 3% (interest and non-interest bearing). Continued strong growth in Transaction deposits (up 8%) and higher investment balances (up 5%) due to promotional offers and customers switching from savings deposits (down 1%) to higher yield term deposits; and
- Consumer finance balance decrease of $0.5 billion or 3%.

Risk Weighted Assets [2]

Risk weighted assets were $167.3 billion, a decrease of $1.1 billion or 1% on the prior half.

- IRRBB risk weighted assets decreased $3.6 billion or 37%; and
- Operational risk weighted assets decreased by $0.8 billion or 4%; partly offset by
- Credit risk weighted assets increased $3.3 billion or 2% driven by home loan volume growth and a new home loan model.

(1) System source RBA/APRA/RBNZ.
(2) Includes Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review.

Business and Private Banking

Overview

Business and Private Banking serves the banking needs of business, corporate and agribusiness customers across the full range of financial services solutions as well as providing banking and advisory services for high net worth individuals. We also provide equities trading and margin lending services through our CommSec business. In order to align the Group's business banking operations into one division, the Small Business segment, previously in Retail Banking Services, has been transferred in to Business and Private Banking as at 1 July 2018.

	Half Year Ended (1)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income	**2,588**	2,550	2,565	1	1
Other banking income	**728**	709	716	3	2
Total banking income	**3,316**	3,259	3,281	2	1
Operating expenses	**(1,138)**	(1,130)	(1,100)	1	3
Loan impairment expense	**(167)**	(139)	(108)	20	55
Net profit before tax	**2,011**	1,990	2,073	1	(3)
Corporate tax expense	**(604)**	(597)	(621)	1	(3)
Net profit after tax ("cash basis")	**1,407**	1,393	1,452	1	(3)
Net profit after tax ("statutory basis")	**1,407**	1,393	1,452	1	(3)
Income analysis					
Net interest income					
Small Business Banking	**1,074**	1,074	1,097	-	(2)
Business and Corporate Banking	**880**	843	834	4	6
Regional and Agribusiness	**361**	359	361	1	-
Private Bank	**169**	175	176	(3)	(4)
CommSec	**104**	99	97	5	7
Total net interest income	**2,588**	2,550	2,565	1	1
Other banking income					
Small Business Banking	**237**	224	237	6	-
Business and Corporate Banking	**271**	257	250	5	8
Regional and Agribusiness	**68**	66	66	3	3
Private Bank	**32**	32	32	-	-
CommSec	**120**	130	131	(8)	(8)
Total other banking income	**728**	709	716	3	2
Total banking income	**3,316**	3,259	3,281	2	1
Income by product					
Business products	**1,992**	1,902	1,884	5	6
Retail products	**1,133**	1,160	1,196	(2)	(5)
Equities and Margin Lending	**164**	174	176	(6)	(7)
Markets	**-**	-	-	-	-
Other	**27**	23	25	17	8
Total banking income	**3,316**	3,259	3,281	2	1

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Business and Private Banking

Balance Sheet	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
	As at (1)				
Home loans (2)	**86,258**	87,045	86,489	(1)	-
Business loans (3)	**80,078**	80,547	78,888	(1)	2
Margin loans	**2,722**	2,750	2,694	(1)	1
Consumer finance	**2,362**	2,460	2,558	(4)	(8)
Total interest earning assets	**171,420**	172,802	170,629	(1)	-
Non-lending interest earning assets	**88**	114	106	(23)	(17)
Other assets (4)	**1,323**	1,719	1,549	(23)	(15)
Total assets	**172,831**	174,635	172,284	(1)	-
Transaction deposits (3) (5)	**23,224**	23,231	21,577	-	8
Savings deposits (5)	**49,826**	50,757	51,372	(2)	(3)
Investment deposits and other	**42,434**	40,691	40,407	4	5
Total interest bearing deposits	**115,484**	114,679	113,356	1	2
Debt Issues and Other	**36**	39	39	(8)	(8)
Non-interest bearing transaction deposits	**21,168**	20,601	19,601	3	8
Other non-interest bearing liabilities	**1,067**	1,284	1,049	(17)	2
Total liabilities	**137,755**	136,603	134,045	1	3

Key Financial Metrics	31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
	Half Year Ended (1)				
Performance indicators					
Net interest margin (%)	**3. 17**	3. 17	3. 16	-	1 bpt
Statutory return on assets (%)	**1. 6**	1. 6	1. 7	-	(10)bpts
Statutory operating expenses to total operating income (%)	**34. 3**	34. 7	33. 5	(40)bpts	80 bpts
Impairment expense annualised as a % of average GLAAs (%)	**0. 19**	0. 16	0. 13	3 bpts	6 bpts
Other information					
Average interest earning assets ($M) (6)	**162,159**	162,000	161,259	-	1
Risk weighted assets ($M)	**117,439**	119,804	112,683	(2)	4
Troublesome and impaired assets ($M) (7)	**2,874**	2,599	2,205	11	30
Number of full-time equivalent staff (FTE)	**4,171**	4,112	4,119	1	1

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

(2) Home loans are presented gross of $10,016 million of mortgage offset balances (30 June 2018: $8,855 million; 31 December 2017: $9,187 million). These balances are required to be grossed up under accounting standards, but are netted down for the calculation of customer interest payments.

(3) Business loans include $355 million of Cash Management Pooling Facilities (CMPF) (30 June 2018: $257 million; 31 December 2017: $259 million). Transaction Deposits include $801 million of CMPF liabilities (30 June 2018: $976 million; 31 December 2017: $736 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) Transaction and Savings deposits includes $10,016 million of mortgage offset balances (30 June 2018: $8,855 million; 31 December 2017: $9,187 million).

(6) Average interest earning assets are presented net of mortgage offset balances, which reduce customer interest payments. Net average interest earning assets are also used in the calculation of divisional net interest margin.

(7) Commercial troublesome and impaired assets only. Includes commercial and leasing products.

Business and Private Banking

Financial Performance and Business Review

Half Year Ended December 2018 versus December 2017

Business and Private Banking net profit after tax ("statutory basis") for the half year ended 31 December 2018 was $1,407 million, a decrease of $45 million or 3% on the prior comparative period. The result was driven by 1% growth in total banking income, 3% growth in operating expenses and a 55% increase in loan impairment expense.

Net Interest Income

Net interest income was $2,588 million, an increase of $23 million or 1% on the prior comparative period. This was driven by an increase in net interest margin of 1 basis point and 1% growth in average interest earning assets.

Net interest margin increased 1 basis point reflecting:

- Favourable deposits portfolio mix from strong growth in transaction deposit volumes (up 3 basis points); and
- Higher business lending margins due to higher pricing (up 2 basis points, excluding the impact of basis risk); partly offset by
- Lower home loan margin due to customers switching from interest only loans to lower margin principal and interest loans and increased competition, partly offset by repricing (down 4 basis points, excluding the impact of basis risk).
- The overall divisional net interest margin impact from higher short-term wholesale funding costs, known as basis risk, is nil basis points.

Other Banking Income

Other banking income was $728 million, an increase of $12 million or 2% on the prior comparative period, driven by:

- Higher business loan fee income reflecting a shift to fee based products such as cash advance facilities; partly offset by
- Lower equities fee income driven by lower trading volumes; and
- Lower overdrawn account fees following the introduction of pre-emptive customer alerts.

Operating Expenses

Operating expenses were $1,138 million, an increase of $38 million or 3% on the prior comparative period. This was mainly driven by higher staff expenses due to salary increases, an increase in remediation, risk and compliance costs, investment in digital projects to enhance customer experience, and higher IT expenses. This was partly offset by lower discretionary costs.

The number of full-time equivalent staff (FTE) increased by 52 or 1% on the prior comparative period from 4,119 to 4,171 FTE, driven by growth in risk and compliance staff, and investment in customer experience and analytics teams, partly offset by productivity initiatives in non-customer facing teams.

Investment continues to focus on further enhancing customer experience by improving the business loan application process and through enabling the New Payments Platform, as well as investment in regulatory and compliance initiatives.

The operating expense to total banking income ratio ("statutory basis") was 34.3%, an increase of 80 basis points on the prior comparative period driven by higher operating expenses.

Loan Impairment Expense

Loan impairment expense was $167 million, an increase of $59 million or 55% on the prior comparative period. This was driven by higher individual provisions due to a small number of large single name exposures, partly offset by lower collective provisions.

Loan impairment expense as a percentage of average gross loans and acceptances increased 6 basis points on the prior comparative period to 19 basis points.

Asset quality of the portfolio declined, with an increase in troublesome and impaired assets of 30%, primarily due to a small number of large single name exposures.

Balance Sheet

Key spot balance sheet movements included:

- Business loan growth of $1.2 billion or 2%, below system[1] growth of 5%, reflecting growth across various industries, including property investment and services, agribusiness and business services. This was partly offset by a decline in residential property development following the completion of projects and a continued focus on risk adjusted return and risk appetite;
- Home loan decrease of $0.2 billion or flat growth, below system [1] growth of 5%, reflecting lower investor home lending; and
- Total deposit growth (interest and non-interest bearing) of $3.7 billion or 3% was above system [1] growth of 2%, driven by growth in transaction accounts reflecting higher balances with existing customers, and growth in investment deposits reflecting a higher client rate, partly offset by a decline in savings balances reflecting a trend towards higher yielding accounts.

Risk Weighted Assets

Risk weighted assets were $117.4 billion, an increase of $4.8 billion or 4% on the prior comparative period.

- Operational risk weighted assets increased $4.3 billion or 37% driven by the requirement to increase Operational risk regulatory capital effective 30 April 2018 following the findings of the APRA Prudential Inquiry (see Notes 7.2 and 7.4 to the Financial Statements in this Document and Appendix 5 of this Document for more information); and
- Credit risk weighted assets increased $2.1 billion or 2% driven by lending volume growth and a reduction in credit quality; and
- Traded market risk increased $0.1 billion or 7%; partly offset by
- IRRBB risk weighted assets decreased $1.7 billion or 42%.

(1) System source RBA/APRA/RBNZ.

Financial Performance and Business Review (continued)

Half Year Ended December 2018 versus June 2018

Net profit after tax ("statutory basis") for the half year ended 31 December 2018 increased $14 million or 1% on the prior half. The result was driven by 2% growth in total banking income, 1% growth in operating expenses and a 20% increase in loan impairment expense.

Net Interest Income

Net interest income increased $38 million or 1% on the prior half. This was driven by flat net interest margin, flat average interest earning assets, and the impact of three additional calendar days in the current half.

Net interest margin was flat, reflecting:

- Favourable portfolio mix from growth in deposit volumes (up 1 basis point); and
- Higher business lending margins due to higher pricing (up 1 basis point, excluding the impact of basis risk); partly offset by
- Lower home loan margin from customers switching from interest only loans to lower margin principal and interest loans, and increased competition, partly offset by repricing (down 2 basis points, excluding the impact of basis risk).
- The overall divisional net interest margin impact from higher short-term wholesale funding costs, known as basis risk, is nil basis points.

Other Banking Income

Other banking income increased $19 million or 3% on the prior half, driven by:

- Higher business loan fee income reflecting a shift to fee based products such as cash advance facilities; and
- Higher merchant income due to seasonally higher turnover volumes in the current half due to the December holiday season and the non-recurrence of customer remediation costs associated with operational issues in the prior half; partly offset by
- Lower equities fee income driven by lower trading volumes; and
- Lower overdrawn account fees following the introduction of pre-emptive customer alerts.

Operating Expenses

Operating expenses increased $8 million or 1% on the prior half. This was mainly driven by higher staff expenses due to salary increases and higher full-time equivalent staff (FTE), and higher risk and compliance costs. This was partly offset by lower discretionary spend and remediation costs.

The number of FTE increased by 59 or 1% on the prior half from 4,112 to 4,171 FTE, driven by growth in risk and compliance staff, customer experience and analytics teams partly offset by productivity initiatives in non-customer facing teams.

The operating expenses to total banking income ratio ("statutory basis") was 34.3%, a decrease of 40 basis points on the prior half driven by higher total banking income.

Loan Impairment Expense

Loan impairment expense increased $28 million or 20% on the prior half. This was driven by higher individual provisions due to a small number of large single name exposures, partly offset by lower collective provisions.

Loan impairment expense as a percentage of average gross loans and acceptances increased 3 basis points on the prior half to 19 basis points.

Asset quality of the portfolio declined, with an increase in troublesome and impaired assets of 11%, primarily due to a small number of large single name exposures.

Balance Sheet

Key spot balance sheet movements included:

- Business loan decrease of $0.5 billion or 1%, below system [(1)] growth of 3%, due to a decline in residential property development following the completion of several projects and a continued focus on risk adjusted return and risk appetite;
- Home loan decrease of $0.8 billion or 1%, below system [(1)] growth of 2%, reflecting lower investor home lending; and
- Total deposit growth (interest and non-interest bearing) of $1.4 billion or 1%, in line with system [(1)] growth, driven by growth in transaction accounts reflecting higher balances with existing customers, and growth in investment deposits reflecting a higher client rate, partly offset by a decline in savings balances reflecting a trend towards higher yielding accounts.

Risk Weighted Assets

Risk weighted assets were $117.4 billion, a decrease of $2.4 billion or 2% on the prior half.

- IRRBB risk weighted assets decreased $2.2 billion or 47%;
- Credit risk weighted assets decreased $0.9 billion or 1%, driven by lower lending volumes and product mix optimisation, partly offset by a reduction in credit quality; and
- Traded market risk weighted assets decreased $0.6 billion or 38%; partly offset by
- Operational risk weighted assets increased $1.3 billion or 9%.

(1) System source RBA/APRA/RBNZ.

Institutional Banking and Markets

Overview

Institutional Banking and Markets serves the commercial and wholesale banking needs of large Corporate, Institutional and Government clients across a full range of financial services solutions including access to debt capital markets, transaction banking, working capital and risk management through dedicated product and industry specialists.

	Half Year Ended [1]				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income	**724**	707	727	2	-
Other banking income	**581**	556	681	4	(15)
Total banking income	**1,305**	1,263	1,408	3	(7)
Operating expenses	**(514)**	(561)	(506)	(8)	2
Loan impairment (expense)/benefit	**(38)**	25	(105)	large	(64)
Net profit before tax	**753**	727	797	4	(6)
Corporate tax expense	**(173)**	(165)	(189)	5	(8)
Net profit after tax ("cash basis")	**580**	562	608	3	(5)
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	**13**	-	-	large	large
Net profit after tax ("statutory basis")	**593**	562	608	6	(2)
Income analysis					
Net interest income					
Institutional Banking	**656**	623	635	5	3
Markets	**68**	84	92	(19)	(26)
Total net interest income	**724**	707	727	2	-
Other banking income					
Institutional Banking	**270**	288	334	(6)	(19)
Markets	**311**	268	347	16	(10)
Total other banking income	**581**	556	681	4	(15)
Total banking income	**1,305**	1,263	1,408	3	(7)
Income by product					
Institutional products	**816**	811	825	1	(1)
Asset leasing	**110**	100	144	10	(24)
Markets (excluding derivative valuation adjustments)	**364**	349	440	4	(17)
Total banking income excluding derivative valuation adjustments	**1,290**	1,260	1,409	2	(8)
Derivative valuation adjustments [2]	**15**	3	(1)	large	large
Total banking income	**1,305**	1,263	1,408	3	(7)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Derivative valuation adjustments include both net interest income and other banking income adjustments.

Institutional Banking and Markets

Balance Sheet	As at (1) 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Interest earning lending assets (2)	**102,344**	104,615	109,193	(2)	(6)
Non-lending interest earning assets	**30,737**	27,707	30,703	11	-
Other assets (3)	**27,447**	29,803	24,542	(8)	12
Total assets	**160,528**	162,125	164,438	(1)	(2)
Transaction deposits (2)	**47,291**	45,699	46,478	3	2
Savings deposits	**5,133**	6,705	6,364	(23)	(19)
Investment deposits	**41,329**	44,391	45,696	(7)	(10)
Certificates of deposit and other	**14,574**	12,832	13,049	14	12
Total interest bearing deposits	**108,327**	109,627	111,587	(1)	(3)
Due to other financial institutions	**13,247**	12,719	14,880	4	(11)
Debt issues and other (4)	**8,737**	9,343	7,861	(6)	11
Non-interest bearing liabilities (3)	**18,966**	21,955	17,373	(14)	9
Total liabilities	**149,277**	153,644	151,701	(3)	(2)

Key Financial Metrics	Half Year Ended (1) 31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Performance indicators					
Net interest margin (%)	**1. 08**	1. 05	1. 01	3 bpts	7 bpts
Statutory return on assets (%)	**0. 7**	0. 7	0. 7	-	-
Statutory operating expenses to total operating income (%)	**38. 5**	44. 4	35. 9	large	260 bpts
Impairment expense annualised as a % of average GLAAs (%)	**0. 07**	(0. 05)	0. 18	12 bpts	(11)bpts
Other information					
Average interest earning assets ($M)	**133,556**	135,515	142,300	(1)	(6)
Risk weighted assets ($M)	**89,842**	95,875	97,103	(6)	(7)
Troublesome and impaired assets ($M)	**952**	1,403	1,129	(32)	(16)
Corporate total committed exposures rated investment grade (%)	**87. 9**	86. 2	86. 0	170 bpts	190 bpts
Number of full-time equivalent staff (FTE)	**1,206**	1,263	1,218	(5)	(1)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Interest earning lending assets include $23,019 million of Cash Management Pooling Facilities (CMPF) (30 Jun 2018: $22,008 million; 31 Dec 2017: $22,878 million). Transaction Deposits include $29,465 million of CMPF liabilities (30 Jun 2018: $27,350 million; 31 Dec 2017: $28,806 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 and Liabilities at fair value.

Institutional Banking and Markets

Financial Performance and Business Review

Half Year Ended December 2018 versus December 2017

Institutional Banking and Markets net profit after tax ("statutory basis") for the half year ended 31 December 2018 was $593 million, a decrease of $15 million or 2% on the prior comparative period. The result was driven by a 7% decrease in total banking income, a 2% increase in operating expenses and a 64% decrease in loan impairment expense.

Net Interest Income

Net interest income was $724 million, a decrease of $3 million or flat on the prior comparative period. This was driven by a 7% increase in net interest margin and a 6% decrease in average interest earning assets.

Net interest margin increased 7 basis points, reflecting:

- Higher lending margins driven by the implementation of AASB 15 where upfront fees in relation to lending, lease and guarantee arrangements are no longer recognised upfront in other banking income, instead, income is recognised over the life of the contractual arrangements in net interest income (up 5 basis points); and
- Favourable portfolio mix from a higher customer deposit to loan ratio (up 4 basis points); partly offset by
- Lower earnings on free equity mainly from a reduction in average risk weighted assets (down 1 basis point); and
- Lower Markets net interest income due to lower commodities financing balances (down 1 basis point).

Other Banking Income

Other banking income was $581 million, a decrease of $100 million or 15% on the prior comparative period, driven by:

- Weaker Markets trading performance reflecting widening yield curves;
- Weaker Markets sales performance reflecting lower client demand;
- Lower lending fees driven by the implementation of AASB 15 and lower lending volumes due to portfolio optimisation initiatives; and
- Lower gains on the sale of assets in the Structured Asset Finance portfolio.

Operating Expenses

Operating expenses were $514 million, an increase of $8 million or 2% on the prior comparative period. This was driven by costs associated with establishing a new offshore subsidiary in response to Brexit as well as higher regulatory, risk and compliance costs.

The operating expense to total banking income ratio ("statutory basis") was 38.5%, an increase of 260 basis points on the prior comparative period.

The number of full-time equivalent staff (FTE) decreased by 12 or 1% on the prior comparative period, from 1,218 to 1,206 FTE. The decrease was driven by productivity initiatives, partly offset by an increase in risk and compliance staff.

Investment is focused on further strengthening of the operational risk and compliance framework, upgrading systems infrastructure and responding to new regulatory requirements.

Loan Impairment Expense

Loan impairment expense was $38 million, a decrease of $67 million or 64% on the prior comparative period. This was driven by lower individual provisions for large single name exposures and lower collective provisions reflecting lower volumes from portfolio optimisation, partly offset by lower write-backs.

Loan impairment expense as a percentage of average gross loans and acceptances decreased 11 basis points to 7 basis points.

Asset quality of the portfolio has improved, and the percentage of the book rated as investment grade, increased by 190 basis points to 87.9%.

Balance Sheet

Key spot balance sheet movements included:

- Lending balances decrease of $6.8 billion or 6% driven by portfolio optimisation initiatives;
- Investment deposits decrease of $4.4 billion or 10% driven by increased competition from domestic and foreign banks; and
- Due to other financial institutions, a decrease of $1.6 billion or 11% due to timing of central bank deposits.

Risk Weighted Assets

Risk weighted assets were $89.8 billion, a decrease of $7.3 billion or 7% on the prior comparative period.

- Credit risk weighted assets decreased $8.4 billion or 10% driven by portfolio optimisation initiatives and improved credit quality, partly offset by the impact from foreign exchange movements; and
- IRRBB risk weighted assets decreased $1.6 billion or 48%; partly offset by
- Operational risk weighted assets increased $2.2 billion or 25% driven by the requirement to increase Operational risk regulatory capital effective 30 April 2018 following the findings of the APRA Prudential Inquiry (See Notes 7.2 and 7.4 to the Financial Statements in this Document and Appendix 5 of this Document for more information); and
- Traded market risk weighted assets increased $0.5 billion or 21%.

Financial Performance and Business Review (continued)

Half Year Ended December 2018 versus June 2018

Net profit after tax ("statutory basis") for the half year ended 31 December 2018 increased $31 million or 6% on the prior half. The result was driven by a 3% increase in total banking income, an 8% decrease in operating expenses and a $63 million increase in loan impairment expense.

Net Interest Income

Net interest income increased $17 million or 2% on the prior half. This was driven by a 3% increase in net interest margin and a 1% decrease in average interest earning assets.
Net interest margin increased 3 basis points, reflecting:

- Higher lending margins driven by the implementation of AASB 15 where upfront fees in relation to lending, lease and guarantee arrangements are no longer recognised upfront in other banking income, instead, income is recognised over the life of the contractual arrangements in net interest income (up 5 basis points); partly offset by
- Lower Markets net interest income due to lower commodities financing balances (down 2 basis points).

Other Banking Income

Other banking income increased $25 million or 4% on the prior half driven by:

- Improved Markets trading performance from the non-recurrence of the impact of widening spreads on the inventory of high grade corporate and government bonds;
- Improved Markets sales performance due to higher client flow driven by a small number of large deals; and
- Favourable derivative valuation adjustments; partly offset by
- Lower lending fees driven by the implementation of AASB 15.

Operating Expenses

Operating expenses decreased $47 million or 8% on the prior half. This was driven by the non-recurrence of a capitalised software impairment in the prior half, partly offset by higher regulatory, risk and compliance costs.

The operating expense to total banking income ratio ("statutory basis") was 38.5%, an improvement of 590 basis points on the prior half.

The number of full-time equivalent staff (FTE) decreased by 57 or 5% on the prior half, from 1,263 to 1,206 FTE primarily due to productivity initiatives, partly offset by growth in risk and compliance staff.

Loan Impairment Expense

Loan impairment expense increased $63 million on the prior half driven by the impairment of a large single name exposure and lower write-backs, partly offset by lower collective provisions reflecting lower volumes from portfolio optimisation.

Asset quality of the portfolio has improved, and the percentage of the book rated as investment grade increased by 170 basis points to 87.9%.

Balance Sheet

Key spot balance sheet movements included:

- Lending balances decrease of $2.3 billion or 2% driven by portfolio optimisation initiatives;
- Non-lending interest earning assets increase of $3.0 billion or 11% driven by increased liquid and trading assets; and
- Investment deposits decrease of $3.1 billion or 7% driven by increased competition from domestic and foreign banks.

Risk Weighted Assets

Risk weighted assets were $89.8 billion, a decrease of $6.0 billion or 6% on the prior half.

- Credit risk weighted assets decreased $2.6 billion or 3% driven by portfolio optimisation initiatives and improved credit quality, partly offset by foreign exchange movements;
- Traded market risk weighted assets decreased $2.0 billion or 39%; and
- IRRBB risk weighted assets decreased $1.6 billion or 48%; partly offset by
- Operational risk weighted assets increasing $0.2 billion or 1%.

Wealth Management

Overview

Wealth Management provides superannuation, investment, retirement and insurance products and services including financial planning which aim to help to improve the financial wellbeing of our customers. In addition, as a global asset management business, we manage investments on behalf of institutional investors and pension funds, wholesale distributors and platforms, financial advisers and their clients.

On 21 September 2017, CBA announced the sale of CommInsure Life(1) to AIA Group Limited ("AIA"). As a result, the Life business is classified as discontinued operations and the financial results of the Life business are excluded from the account lines of Wealth Management's performance and reported as a single cash net profit after tax line item.

On 31 October 2018, CBA announced that it had entered into an agreement to sell its global asset management business, Colonial First State Global Asset Management ("CFSGAM"), also known outside of Australia as First State Investments, to Mitsubishi UFJ Trust and Banking Corporation ("MUTB"). As a result, CFSGAM is classified as discontinued operations and the financial results of the CFSGAM business are excluded from the account lines of Wealth Management's performance and reported as a single cash net profit after tax line item.

On 31 October 2018, CBA confirmed its intention to demerge its wealth management and Mortgage Broking businesses. The demerged business ("NewCo") will include Colonial First State, Count Financial, Financial Wisdom, Aussie Home Loans ("AHL") and CBA's minority shareholdings in ASX-listed companies CountPlus and Mortgage Choice. The implementation of the demerger is subject to final CBA board, shareholder and regulatory approvals under a scheme of arrangement. In addition, from 1 July 2018, Commonwealth Financial Planning and General Insurance have been transferred out of the Wealth Management division and consolidated into the Retail Banking Services division.

	Half Year Ended (2)				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Funds management income	**441**	424	417	4	6
Operating expenses	**(250)**	(233)	(257)	7	(3)
Net profit before tax	**191**	191	160	-	19
Corporate tax expense	**(62)**	(57)	(47)	9	32
Underlying profit after tax	**129**	134	113	(4)	14
Investment experience after tax	**7**	5	3	40	large
Cash net profit after tax from continuing operations	**136**	139	116	(2)	17
Cash net profit after tax from discontinued operations	**127**	209	243	(39)	(48)
Net profit after tax ("cash basis")	**263**	348	359	(24)	(27)
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	**(156)**	(38)	(101)	large	54
Other non-cash items	**(3)**	5	(3)	large	-
Net profit after tax ("statutory basis")	**104**	315	255	(67)	(59)

(1) CommInsure's life business includes life insurance and life related investments business.

(2) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Wealth Management

Key Financial Metrics	31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
	Half Year Ended [1]				
Performance indicators					
Continuing operations					
Statutory operating expenses to total operating income (%)	**62. 6**	62. 0	61. 6	60 bpts	100 bpts
FUA - average ($M)	**146,971**	144,625	139,104	2	6
FUA - spot ($M)	**141,925**	147,999	143,668	(4)	(1)
Risk weighted assets ($M) [2]	**2,108**	2,116	627	-	large
Number of full-time equivalent staff (FTE) [3]	**1,298**	1,305	1,382	(1)	(6)
Discontinued operations					
AUM - average ($M) [4]	**210,939**	212,324	219,558	(1)	(4)
AUM - spot ($M) [4]	**204,195**	213,242	218,191	(4)	(6)
FUA - average ($M)	**10,462**	10,913	11,211	(4)	(7)
FUA - spot ($M)	**9,993**	10,776	11,132	(7)	(10)
Inforce Premiums - average ($M)	**1,280**	1,403	1,568	(9)	(18)
Inforce Premiums - spot ($M)	**1,264**	1,296	1,571	(2)	(20)
Number of full-time equivalent staff (FTE) [3]	**1,629**	1,601	1,612	2	1

	Half Year Ended [1]			Half Year Ended [1]					
	Continuing operations			Discontinued operations					
	Colonial First State [5]			CFS Global Asset Management			Life Insurance Business		
	Dec 18 $M	Jun 18 $M	Dec 17 $M	**Dec 18 $M**	Jun 18 $M	Dec 17 $M	**Dec 18 $M**	Jun 18 $M	Dec 17 $M
Funds management income	**441**	424	417	**433**	503	472	**47**	50	46
Insurance income	**-**	-	-	**-**	-	-	**72**	156	181
Total operating income	**441**	424	417	**433**	503	472	**119**	206	227
Operating expenses	**(250)**	(233)	(257)	**(296)**	(333)	(289)	**(130)**	(141)	(131)
Net profit before tax	**191**	191	160	**137**	170	183	**(11)**	65	96
Corporate tax (expense)/benefit	**(62)**	(57)	(47)	**(31)**	(32)	(36)	**4**	(20)	(29)
Underlying profit after tax	**129**	134	113	**106**	138	147	**(7)**	45	67
Investment experience after tax	**7**	5	3	**9**	5	2	**19**	21	27
Net profit/(loss) after tax ("cash basis")	**136**	139	116	**115**	143	149	**12**	66	94
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	**(18)**	(21)	-	**(100)**	-	-	**(38)**	(17)	(101)
Other non-cash items	**-**	-	-	**-**	-	-	**(3)**	5	(3)
Net profit/(loss) after tax ("statutory basis")	**118**	118	116	**15**	143	149	**(29)**	54	(10)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Risk weighted assets include discontinued operations.
(3) Relates to directly employed FTEs and does not include support unit FTEs.
(4) AUM excludes the Group's interest in First State Cinda Fund Management Company Limited.
(5) Colonial First State incorporates the results of the Aligned Advice businesses of Financial Wisdom, Count Financial Limited and CFP Pathways.

Financial Performance and Business Review

Half Year Ended December 2018 versus December 2017

Wealth Management net profit after tax ("statutory basis") for the half year ended 31 December 2018 was $104 million, a decrease of $151 million or 59% on the prior comparative period. Excluding the contribution from discontinued operations, net profit after tax ("statutory basis") was $118 million, an increase of $2 million or 2% on the prior comparative period. The result was driven by 6% higher funds management income and 3% lower operating expenses.

On 21 September 2017 CBA announced the sale of the CommInsure Life Business to AIA.

In addition, on 31 October 2018 CBA announced that it had entered into an agreement to sell its global asset management business, CFSGAM, also known outside of Australia as First State Investments, to Mitsubishi UFJ Trust and Banking Corporation ("MUTB"). In order to provide an underlying view of the performance, the commentary below has been presented excluding the impact from discontinued operations.

On 31 October 2018 CBA confirmed its intention to demerge its wealth management and Mortgage Broking businesses ("NewCo").

Funds Management Income

Funds management income was $441 million, an increase of $24 million or 6% on the prior comparative period.

Average Funds Under Administration ("FUA") was $147 billion, an increase of $8 billion or 6% on the prior comparative period. The FirstChoice and CFSWrap platforms experienced continued growth in average FUA of 6% and 8% respectively, reflecting strong momentum from the prior comparative period and positive net flows. FUA margins remained flat on the prior comparative period.

Operating Expenses

Operating expenses were $250 million, a decrease of $7 million or 3% on the prior comparative period. This was driven by lower staff costs and the ongoing realisation of productivity benefits.

The number of full-time equivalent staff ("FTE") decreased by 84 or 6% on the prior comparative period from 1,382 to 1,298 FTE reflecting the continued focus on workforce optimisation and the wind down of a customer remediation program.

The operating expenses to total operating income ratio ("statutory basis") was 62.6%, an increase of 100 basis points on the prior comparative period.

Investment spend continued to focus on ongoing regulatory reform initiatives and platform improvements.

Risk Weighted Assets [(1)]

Risk weighted assets were $2.1 billion, an increase of $1.5 billion on the prior comparative period.

- Operational risk weighted assets increased $1.9 billion driven by the requirement to increase Operational risk regulatory capital effective 30 April 2018 following the findings of the APRA Prudential Inquiry (see Notes 7.2 and 7.4 to the Financial Statements in this Document and Appendix 5 of this Document for more information) and the transfer of the Wealth Management Advice business to the Level 2 Regulatory Consolidated Banking Group; partly offset by
- IRRBB risk weighted assets decreased $0.4 billion or 74%.

Half Year Ended December 2018 versus June 2018

Wealth Management net profit after tax ("statutory basis") for the half year ended 31 December 2018 decreased $211 million or 67% on the prior half. Excluding the contribution from discontinued operations, net profit after tax ("statutory basis") was flat on the prior half. The result was driven by 4% higher funds management income and 7% higher operating expenses. In order to provide an underlying view of the performance, the commentary below has been presented excluding the impact of discontinued operations.

Funds Management Income

Funds management income increased $17 million or 4% on the prior half.

Average FUA increased $2 billion or 2% driven by strong momentum from the prior half. In the current half, positive net flows were offset by unfavourable investment markets. FUA margins increased 1 basis point due to lower customer remediation provisions (up 2 basis points), partly offset by the unfavourable portfolio mix impact of growth in the lower margin CFSWrap platform (down 1 basis point).

Operating Expenses

Operating expenses increased $17 million or 7% on the prior half. The result was driven by higher investment spend and higher staff costs.

The number of full-time equivalent staff ("FTE") decreased by 7 or 1% on the prior half from 1,305 to 1,298 FTE.

The operating expenses to total operating income ratio ("statutory basis") increased 60 basis points on the prior half driven by higher operating expenses.

Risk Weighted Assets [(1)]

Risk weighted assets were $2.1 billion, flat on the prior half.

(1) Risk Weighted Assets include discontinued operations.

Wealth Management

Funds Under Administration (FUA)	Half Year Ended								
	30 Jun 18 $M	Inflows $M	Outflows $M	Net Flows $M	Other [1] $M	**31 Dec 18 $M**	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
FirstChoice	90,299	7,871	(7,899)	(28)	(3,615)	**86,656**	87,592	(4)	(1)
CFSWrap	30,709	2,836	(2,661)	175	(1,290)	**29,594**	29,459	(4)	-
CFS Non-Platform	16,752	4,333	(4,318)	15	(1,120)	**15,647**	16,513	(7)	(5)
Other [2]	10,239	667	(699)	(32)	(179)	**10,028**	10,104	(2)	(1)
Total	147,999	15,707	(15,577)	130	(6,204)	**141,925**	143,668	(4)	(1)

Discontinued Operations

	Half Year Ended [3]				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Funds management income	**480**	553	518	(13)	(7)
Insurance income	**72**	156	181	(54)	(60)
Total operating income	**552**	709	699	(22)	(21)
Operating expenses	**(426)**	(474)	(420)	(10)	1
Net profit before tax	**126**	235	279	(46)	(55)
Corporate tax expense	**(27)**	(52)	(65)	(48)	(58)
Underlying profit after tax	**99**	183	214	(46)	(54)
Investment experience after tax	**28**	26	29	8	(3)
Non-controlling interest	**-**	-	-	-	-
Cash net profit after tax	**127**	209	243	(39)	(48)
Life Insurance Business [4]	**12**	66	94	(82)	(87)
CFS Global Asset Management	**115**	143	149	(20)	(23)
Net profit after tax - "cash basis"	**127**	209	243	(39)	(48)
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	**(138)**	(17)	(101)	large	37
Other non-cash items	**(3)**	5	(3)	large	-
Net profit after tax - "statutory basis"	**(14)**	197	139	large	large

Assets Under Management (AUM) [5]	Half Year Ended								
	30 Jun 18 $M	Inflows $M	Outflows $M	Net Flows $M	Other [1] $M	**31 Dec 18 $M**	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Australian equities	30,876	3,610	(5,906)	(2,296)	(2,527)	**26,053**	33,759	(16)	(23)
Global equities	94,003	9,012	(11,153)	(2,141)	(2,230)	**89,632**	98,271	(5)	(9)
Fixed income [6]	79,230	24,618	(27,144)	(2,526)	1,536	**78,240**	77,522	(1)	1
Infrastructure	9,133	1,655	(1,160)	495	642	**10,270**	8,639	12	19
Total	213,242	38,895	(45,363)	(6,468)	(2,579)	**204,195**	218,191	(4)	(6)

(1) Includes investment income and foreign exchange gains and losses from translation of internationally sourced business.
(2) Other includes Commonwealth Bank Group Super.
(3) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(4) CommInsure's life insurance business represents life insurance and life related investments business.
(5) AUM excludes the Group's interest in the First State Cinda Fund Management Company Limited.
(6) Fixed income includes short-term investments and global credit.

Wealth Management

Funds Under Administration (FUA)	Half Year Ended								
	30 Jun 18 $M	Sales $M	Lapses $M	Net Flows $M	Other $M	**31 Dec 18 $M**	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Life Investments	10,776	207	(803)	(596)	(187)	**9,993**	11,132	(7)	(10)

Inforce Premiums	Half Year Ended								
	30 Jun 18 $M	Sales $M	Lapses $M	Net Flows $M	Other $M	**31 Dec 18 $M**	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Life Insurance	1,296	88	(120)	(32)	-	**1,264**	1,571	(2)	(20)

Financial Performance and Business Review (Discontinued operations)

Half Year Ended December 2018 versus December 2017

Life Insurance Business

The Life Business net loss after tax ("statutory basis") for the half year ended 31 December 2018 was $29 million, an increase of $19 million or 190% on the prior comparative period. The result was impacted by higher retail and wholesale claims experience and lower premium income with a 20% decrease in inforce premiums reflecting higher lapses including the loss of some large wholesale schemes. In addition, lower investment experience further impacted the result.

CFS Global Asset Management

CFSGAM cash net profit after tax ("statutory basis") for the half year ended 31 December 2018 was $15 million, a decrease of $134 million or 90% on the prior comparative period. The result was impacted by a $9 billion or 4% decrease in Average AUM reflecting lower investment markets and net outflows, partly offset by the benefit of the lower Australian dollar. AUM margins decreased 2 basis points reflecting lower performance fees. In addition, operating expenses increased $7 million or 2% reflecting the lower Australian dollar.

Half Year Ended December 2018 versus June 2018

Life Insurance Business

The Life Business net loss after tax ("statutory basis") was $29 million, driven by lower insurance income from higher retail and wholesale claims experience, higher lapses and lower investment experience, partly offset by lower operating expenses.

CFS Global Asset Management

CFSGAM cash net profit after tax ("statutory basis") decreased $128 million or 90% on the prior half, driven by lower funds management income due to lower performance fees. Average AUM decreased $1 billion or 1% on the prior half, reflecting lower investment markets and net outflows, partly offset by the benefit of the lower Australian dollar. Lower operating expenses reflected lower performance fee related payments.

New Zealand

Overview

New Zealand includes the banking, funds management and insurance businesses operating in New Zealand under the ASB and Sovereign brands.

ASB conducts its business through four business units: Retail Banking; Business Banking; Corporate Banking; and Private Banking, Wealth and Insurance. Retail Banking provides services to individuals across multiple channels including our branch network, digital platforms, ATMs, mobile managers and contact centres. Business Banking provides services to commercial, rural and small business customers, while Corporate Banking provides services to corporate and global markets customers. Private Banking, Wealth and Insurance provides securities, investment and insurance services to customers, and banking services to high net worth individuals.

On 2 July 2018, CBA completed the sale of its life insurance business in New Zealand ("Sovereign") to AIA Group Limited ("AIA"). The New Zealand results have been prepared on a continuing operations basis excluding Sovereign (discontinued operations). The financial results of Sovereign (discontinued operations) are excluded from the account lines of New Zealand's performance and reported as a single cash net profit after tax line item.

	Half Year Ended (1)				
New Zealand (A$M)	**31 Dec 18 A$M**	30 Jun 18 A$M	31 Dec 17 A$M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income	**933**	911	849	2	10
Other banking income (2)	**236**	208	207	13	14
Total banking income	**1,169**	1,119	1,056	4	11
Funds management income	**63**	59	53	7	19
Total operating income	**1,232**	1,178	1,109	5	11
Operating expenses	**(440)**	(445)	(415)	(1)	6
Loan impairment expense	**(42)**	(51)	(23)	(18)	83
Net profit before tax	**750**	682	671	10	12
Corporate tax expense	**(211)**	(190)	(188)	11	12
Cash net profit after tax from continuing operations	**539**	492	483	10	12
Cash net profit after tax from discontinued operations	**-**	47	49	large	large
Net profit after tax ("cash basis")	**539**	539	532	-	1
Non-cash items	**19**	(16)	85	large	(78)
Net profit after tax ("statutory basis")	**558**	523	617	7	(10)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Other banking income disclosed in AUD includes realised gains or losses associated with the hedging of New Zealand operations earnings.

New Zealand

New Zealand (NZ$M)	Half Year Ended [1] 31 Dec 18 NZ$M	30 Jun 18 NZ$M	31 Dec 17 NZ$M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income	**1,006**	985	931	2	8
Other banking income	**243**	230	235	6	3
Total banking income	**1,249**	1,215	1,166	3	7
Funds management income	**68**	64	58	6	17
Total operating income	**1,317**	1,279	1,224	3	8
Operating expenses	**(474)**	(482)	(453)	(2)	5
Loan impairment expense	**(45)**	(54)	(26)	(17)	73
Net profit before tax	**798**	743	745	7	7
Corporate tax expense	**(224)**	(207)	(209)	8	7
Cash net profit after tax from continuing operations	**574**	536	536	7	7
Cash net profit after tax from discontinued operations	**-**	53	53	large	large
Net profit after tax ("cash basis")	**574**	589	589	(3)	(3)
Hedging and IFRS volatility (after tax)	**8**	3	3	large	large
Net profit after tax ("statutory basis")	**582**	592	592	(2)	(2)
Represented by:					
ASB	**616**	571	578	8	7
Other [2]	**(34)**	(32)	(39)	6	(13)
Sovereign (discontinued operations)	**-**	53	53	large	large
Net profit after tax ("statutory basis")	**582**	592	592	(2)	(2)

Key Financial Metrics (continuing operations) [3]	31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Performance indicator					
Statutory operating expenses to total operating income (%)	**35.7**	37.6	36.9	(190)bpts	(120)bpts

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Other includes ASB funding entities and elimination entries between New Zealand segment entities.
(3) Key financial metrics are calculated in New Zealand dollar terms.

Financial Performance and Business Review

Half Year Ended December 2018 versus December 2017

New Zealand [1] net profit after tax ("statutory basis") [2] for the half year ended 31 December 2018 was NZD582 million, a decrease of NZD10 million or 2% on the prior comparative period. The result was driven by an 8% increase in total operating income, a 5% increase in operating expenses, a 73% increase in loan impairment expense and a NZD53 million decrease in the contribution of the discontinued Sovereign business due to the sale of Sovereign to AIA on 2 July 2018.

(1) The New Zealand result incorporates ASB Bank and the discontinued 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.

Half Year Ended December 2018 versus June 2018

New Zealand [1] net profit after tax ("statutory basis") [2] for the half year ended 31 December 2018 decreased NZD10 million or 2% on the prior half. The result was driven by a 3% increase in total operating income, a 2% decrease in operating expenses, a 17% decrease in loan impairment expense and a NZD53 million decrease in the contribution of the discontinued Sovereign business due to the sale of Sovereign to AIA on 2 July 2018.

(1) The New Zealand result incorporates ASB Bank and the discontinued 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.

New Zealand

ASB (NZ$M)	Half Year Ended (1) 31 Dec 18 NZ$M	30 Jun 18 NZ$M	31 Dec 17 NZ$M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income	**1,052**	1,024	984	3	7
Other banking income	**243**	235	235	3	3
Total banking income	**1,295**	1,259	1,219	3	6
Funds management income	**68**	64	58	6	17
Total operating income	**1,363**	1,323	1,277	3	7
Operating expenses	**(474)**	(482)	(453)	(2)	5
Loan impairment expense	**(45)**	(54)	(26)	(17)	73
Net profit before tax	**844**	787	798	7	6
Corporate tax expense	**(236)**	(219)	(223)	8	6
Net profit after tax ("cash basis")	**608**	568	575	7	6
Hedging and IFRS volatility (after tax)	**8**	3	3	large	large
Net profit after tax ("statutory basis")	**616**	571	578	8	7

Balance Sheet (NZ$M)	As at 31 Dec 18 NZ$M	30 Jun 18 NZ$M	31 Dec 17 NZ$M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Home loans	**55,338**	53,918	52,580	3	5
Business and rural lending	**27,966**	27,054	25,816	3	8
Other interest earning assets	**2,198**	2,212	2,214	(1)	(1)
Total lending interest earning assets	**85,502**	83,184	80,610	3	6
Non-lending interest earning assets	**9,516**	9,861	8,943	(3)	6
Other assets	**1,940**	2,320	1,772	(16)	9
Total assets	**96,958**	95,365	91,325	2	6
Customer deposits	**58,309**	55,923	54,516	4	7
Debt issues	**20,100**	20,053	17,771	-	13
Other interest bearing liabilities (2)	**1,815**	3,298	3,418	(45)	(47)
Total interest bearing liabilities	**80,224**	79,274	75,705	1	6
Non-interest bearing liabilities	**6,550**	6,591	6,339	(1)	3
Total liabilities	**86,774**	85,865	82,044	1	6

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Other interest bearing liabilities includes NZD60 million due to Group companies (30 June 2018: NZD262 million; 31 December 2017: NZD51 million).

New Zealand

ASB Key Financial Metrics [2]	Half Year Ended [1] 31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Performance indicators					
Net interest margin (%)	**2. 21**	2. 27	2. 20	(6)bpts	1 bpt
Statutory return on assets (%)	**1. 3**	1. 2	1. 3	10 bpts	-
Statutory operating expenses to total operating income (%)	**34. 5**	36. 3	35. 4	(180)bpts	(90)bpts
Impairment expense annualised as a % of average GLAAs (%)	**0. 11**	0. 13	0. 06	(2)bpts	5 bpts
Other information					
Average interest earning assets (NZ$M)	**94,262**	91,054	88,525	4	6
Risk weighted assets (NZ$M) [3]	**54,867**	55,682	54,138	(1)	1
Risk weighted assets (A$M) [4]	**50,082**	48,524	47,489	3	5
FUA - average (NZ$M)	**15,007**	13,280	12,971	13	16
FUA - spot (NZ$M)	**14,485**	13,525	13,325	7	9
AUM - average (NZ$M) [5]	**15,562**	14,591	13,417	7	16
AUM - spot (NZ$M) [5]	**15,511**	15,090	14,243	3	9
90+ days home loan arrears (%)	**0. 11**	0. 14	0. 12	(3)bpts	(1)bpt
90+ days consumer finance arrears (%)	**0. 33**	0. 43	0. 50	(10)bpts	(17)bpts
Number of full-time equivalent staff (FTE)	**4,927**	4,857	4,826	1	2

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Key financial metrics are calculated in New Zealand dollar terms unless otherwise stated.
(3) Risk weighted assets (NZD) calculated in accordance with RBNZ requirements.
(4) Risk weighted assets (A$M) calculated in accordance with APRA requirements.
(5) AUM includes NZD5,397 million spot balances managed by CFSGAM (30 June 2018: NZD7,635 million; 31 December 2017: NZD7,222 million). These are also included in the AUM balances reported by CFSGAM (discontinued operations).

New Zealand

Financial Performance and Business Review

Half Year Ended December 2018 versus December 2017

ASB net profit after tax ("statutory basis") for the half year ended 31 December 2018 was NZD616 million, an increase of NZD38 million or 7% on the prior comparative period. The result was driven by a 7% increase in total operating income, a 5% increase in operating expenses and a 73% increase in loan impairment expense.

Net Interest Income

Net interest income was NZD1,052 million, an increase of NZD68 million or 7% on the prior comparative period. This was driven by a 1 basis point increase in net interest margin and a 6% increase in average interest earning assets.

Net interest margin increased 1 basis point, reflecting:

- Higher customer deposit margins primarily due to improved term deposit margins (up 5 basis points); and
- Lower costs associated with customers breaking fixed rate loans (up 3 basis points); partly offset by
- Lower income from treasury and other related activities (down 3 basis points);
- Unfavourable retail deposit mix shift from savings accounts to lower margin term deposits (down 2 basis points); and
- Higher wholesale funding costs (down 2 basis points).

Other Banking Income

Other banking income was NZD243 million, an increase of NZD8 million or 3% on the prior comparative period, driven by:

- Higher merchant income due to lower interchange rates and increased volumes; and
- Higher card income due to an increase in customer spend, partly offset by lower interchange rates; partly offset by
- Lower customer service fees primarily due to the removal of ATM fees.

Funds Management Income

Funds management income was NZD68 million, an increase of NZD10 million or 17% on the prior comparative period, driven by:

- Higher average Assets Under Management ("AUM") (up 16%), reflecting net inflows, partly offset by unfavourable investment markets;
- Higher AUM margins primarily due to a change in business mix reflecting net inflows in the higher margin funds; and
- Higher average Funds Under Administration ("FUA") (up 16%) due to net inflows, partly offset by lower FUA margins driven by lower pricing.

Operating Expenses

Operating expenses were NZD474 million, an increase of NZD21 million or 5% on the prior comparative period. This was driven by higher investment spend and IT expenses.

The number of full-time equivalent staff ("FTE") increased by 101 or 2% on the prior comparative period from 4,826 to 4,927 FTE, primarily driven by an increase in risk and compliance staff, and digital project related FTE.

Investment spend continues to focus on strengthening the operational risk and compliance framework, and improving customer experience.

The operating expense to total operating income ratio ("statutory basis") was 34.5%, an improvement of 90 basis points on the prior comparative period.

Loan Impairment Expense

Loan impairment expense was NZD45 million, an increase of NZD19 million or 73% on the prior comparative period mainly driven by higher provisioning in the rural portfolio.

Home loan and consumer finance arrears have decreased from the prior comparative period reflecting continued supportive macroeconomic conditions in New Zealand.

Balance Sheet

Key spot balance sheet movements included:

- Home loan growth of NZD2.8 billion or 5%, below system [(1)] growth of 6%, reflecting competition for fixed rate loans;
- Business and rural loan growth of NZD2.2 billion or 8%, above system [(1)] growth of 4%, reflecting continued momentum from the long-term strategic focus on this segment; and
- Customer deposit growth of NZD3.8 billion or 7%, above system [(1)] growth of 6%, with strong growth in term deposits.

Risk Weighted Assets [(2)]

Risk weighted assets were NZD54.9 billion, an increase of NZD0.7 billion or 1% on the prior comparative period.

- Credit risk weighted assets increased NZD1.5 billion or 3% driven by an increase in lending volume growth (NZD2.4 billion) and an increase from the refinement of exposures modelling methodology in the home loan portfolio (NZD0.5 billion), partly offset by a decrease from improved credit quality primarily in the residential and rural portfolios (NZD1.4 billion); partly offset by
- Market risk weighted assets decreased NZD0.8 billion or 27% primarily due to decreased NZD interest rate risk exposures.

(1) System source RBA/APRA/RBNZ.
(2) Risk weighted assets reflect the New Zealand dollar amount calculated in accordance with RBNZ requirements.

Financial Performance and Business Review (continued)

Half Year Ended December 2018 versus June 2018

Net profit after tax ("statutory basis") for the half year ended 31 December 2018 increased NZD45 million or 8% on the prior half. The result was driven by a 3% increase in total operating income, a 2% decrease in operating expenses and a 17% decrease in loan impairment expense.

Net Interest Income

Net interest income increased NZD28 million or 3% on the prior half. This was driven by a 3% decrease in net interest margin, 4% increase in average interest earning assets and the impact of three additional calendar days in the current half.

Net interest margin decreased 6 basis points, reflecting:

- Lower income from treasury and other related activities (down 5 basis points);
- Lower home loan margin driven by increased competition (down 2 basis points);
- Higher wholesale funding costs (down 1 basis point); and
- Unfavourable retail deposit mix shift from savings accounts to lower margin term deposits (down 1 basis point); partly offset by
- Higher customer deposit margins primarily due to improved term deposit margins (up 3 basis points).

Other Banking Income

Other banking income increased NZD8 million or 3% on the prior half, driven by:

- Higher card income primarily due to an increase in customer spend driven by seasonality; and
- Higher merchant income primarily due to seasonally higher transaction volumes and lower interchange rates.

Funds Management Income

Funds management income increased NZD4 million or 6% on the prior half, driven by:

- Higher average Assets Under Management (AUM) (up 7%), reflecting net inflows, partly offset by unfavourable investment markets; and
- Higher average Funds Under Administration (FUA) (up 13%) due to net inflows, partly offset by lower FUA margins driven by lower pricing.

Operating Expenses

Operating expenses decreased NZD8 million or 2% on the prior half. This was driven by lower staff costs due to lower employee incentives, and lower consultancy costs, partly offset by higher investment spend.

The number of full-time equivalent staff (FTE) increased by 70 or 1% on the prior half from 4,857 to 4,927 FTE, primarily driven by an increase in risk and compliance staff, and digital project related FTE.

The operating expense to total operating income ratio ("statutory basis") decreased 180 basis points on the prior half.

Loan Impairment Expense

Loan impairment expense decreased NZD9 million or 17% on the prior half. The decrease was driven by lower collective provisions and lower write-offs in the consumer finance portfolio, partly offset by higher provisioning in the rural portfolio.

Home loan arrears have decreased from the prior half following supportive macroeconomic conditions. Consumer finance arrears have decreased from the prior half driven by seasonality and supportive macroeconomic conditions.

Balance Sheet

Key spot balance sheet movements included:

- Home loan growth of NZD1.4 billion or 3%, in line with system [(1)], with continued customer preference for fixed rate loans;
- Business and rural loan growth of NZD0.9 billion or 3%, above system [1)] growth of 2%, with solid growth in business loans; and
- Customer deposit growth of NZD2.4 billion or 4%, above system [(1)] growth of 3%, with strong growth in retail deposits.

Risk Weighted Assets [(2)]

Risk weighted assets were NZD54.9 billion, a decrease of NZD0.8 billion or 1% on the prior half.

- Market risk weighted assets decreased NZD0.5 billion or 20% primarily due to decreased NZD interest rate risk exposures; and
- Credit risk weighted assets decreased NZD0.3 billion or 1% driven by a decrease from improved credit quality primarily in the residential and rural portfolios (NZD1.0 billion), partly offset by an increase due to lending volume growth (NZD0.7 billion).

(1) System source RBA/APRA/RBNZ.
(2) Risk weighted assets reflect the New Zealand dollar amount calculated in accordance with RBNZ requirements.

New Zealand

Sovereign Life Insurance Business - Discontinued Operations

Sovereign (NZ$M)	Half Year Ended 31 Dec 18 NZ$M	30 Jun 18 NZ$M	31 Dec 17 NZ$M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Insurance income	-	124	117	large	large
Operating expenses	-	(63)	(59)	large	large
Net profit before tax	-	61	58	large	large
Corporate tax (expense)/benefit	-	(9)	(12)	large	large
Underlying profit after tax	-	52	46	large	large
Investment experience after tax	-	1	7	large	large
Net profit after tax ("cash basis")	-	53	53	large	large
Net profit after tax ("statutory basis")	-	53	53	large	large
Represented by:					
Planned profit margins	-	44	45	large	large
Experience variations	-	8	1	large	large
Operating margins	-	52	46	large	large
Investment experience after tax	-	1	7	large	large
Net profit after tax ("statutory basis")	-	53	53	large	large

Key Financial Metrics	Half Year Ended 31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Other information					
Average inforce premiums - average (NZ$M)	-	766	759	large	large
Annual inforce premiums - spot (NZ$M)	-	772	762	large	large
Number of full-time equivalent staff (FTE)	-	679	651	large	large

Insurance Inforce	Half Year Ended 30 Jun 18 NZ$M	Sales NZ$M	Lapses NZ$M	Net Flows NZ$M	Other NZ$M	31 Dec 18 NZ$M	31 Dec 17 NZ$M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Life Insurance	772	-	-	-	(772)	-	762	large	large

Financial Performance and Business Review (Discontinued Operations)

Half Year Ended December 2018 versus December 2017

Sovereign net profit after tax ("statutory basis") for the half year ended 31 December 2018 was nil, a decrease of NZD53 million on the prior comparative period. The result was due to the sale of Sovereign to AIA on 2 July 2018.

Half Year Ended December 2018 versus June 2018

Net profit after tax ("statutory basis") for the half year ended 31 December 2018 decreased NZD53 million on the prior half. The result was due to the sale of Sovereign to AIA on 2 July 2018.

International Financial Services

Overview

The continuing operations of International Financial Services (IFS) include the Indonesian retail and business banking operations, and associate investments in China (Bank of Hangzhou and Qilu Bank) and Vietnam (Vietnam International Bank).

On 23 May 2018 CBA announced the sale of its 37.5% interest in BoComm Life Insurance Company Limited (BoComm Life) to Mitsui Sumitomo Insurance Co. Ltd. ("MSI"). Completion of the sale is subject to regulatory approval and is expected to complete in the first half of calendar year 2019.

On 23 October 2018 CBA announced the sale of its 80% interest in PT Commonwealth Life ("PTCL") and its subsidiary to FWD Group. Completion of the sale is subject to regulatory approval and expected to complete in the first half of calendar year 2019.

On 1 November 2018 CBA sold Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to its minority shareholder, African Rainbow Capital ("ARC").

The IFS results have been prepared on a continuing operations basis excluding the financial results of BoComm Life, TymeDigital SA, PTCL and its subsidiary (discontinued operations). The financial results of the discontinued operations are excluded from the account lines of the IFS performance and reported as a single cash net profit after tax line item.

	Half Year Ended [(1)]				
International Financial Services [(2)]	**31 Dec 18 $M**	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income	**58**	53	62	9	(6)
Other banking income	**166**	173	154	(4)	8
Total banking income	**224**	226	216	(1)	4
Operating expenses	**(85)**	(98)	(113)	(13)	(25)
Loan impairment expense	**(11)**	(32)	(33)	(66)	(67)
Net profit before tax	**128**	96	70	33	83
Corporate tax expense	**(10)**	(9)	(5)	11	large
Cash net profit after tax from continuing operations	**118**	87	65	36	82
Cash net loss after tax from discontinued operations [(3)]	**(30)**	(25)	(12)	20	large
Net profit after tax - "cash basis"	**88**	62	53	42	66
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	**(44)**	(91)	7	(52)	large
Net profit after tax - "statutory basis"	**44**	(29)	60	large	(27)

	Half Year Ended [(1)]				
Key Financial Metrics (continuing operations)	**31 Dec 18**	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Performance indicators					
Statutory return on assets (%)	**5. 0**	3. 9	2. 8	110 bpts	220 bpts
Statutory operating expenses to total operating income (%)	**37. 9**	43. 4	52. 3	large	large
Impairment expense annualised as a % of average GLAAs (%)	**1. 53**	3.53	4.48	(200)bpts	(295)bpts
Other information					
Risk weighted assets ($M) [(4)]	**1,831**	2,509	2,233	(27)	(18)
Number of full-time equivalent staff (FTE)	**1,549**	1,833	1,995	(15)	(22)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) IFS does not include the Business and Private Banking, Institutional Banking and Markets and CFSGAM businesses in Asia.
(3) Discontinued operations include BoComm Life, TymeDigital SA, PTCL and its subsidiary.
(4) Risk weighted assets include continuing and discontinued operations.

Financial Performance and Business Review

Half Year Ended December 2018 versus December 2017

International Financial Services (IFS) net profit after tax ("statutory basis") for the half year ended 31 December 2018 was $44 million, a decrease of $16 million on the prior comparative period. Excluding the contribution from discontinued operations, net profit after tax ("statutory basis") was $114 million, an increase of $42 million or 58% on the prior comparative period. The result was driven by a 4% increase in banking income, a 25% decrease in operating expenses and 67% decrease in loan impairment expense.

During the half, IFS completed the sale of Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to African Rainbow Capital (ARC). On 23 October 2018 CBA announced the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL) to FWD Group, with completion expected in the first half of calendar year 2019. The divestment of 37.5% interest in BoComm Life Insurance Company Limited (BoComm Life) in China to Mitsui Sumitomo Insurance Co. Ltd (MIS) is subject to regulatory approvals with completion expected in the first half of calendar year 2019.

In order to provide an underlying view of the performance, unless otherwise stated the commentary below has been presented excluding the impact of the discontinued operations (BoComm Life, TymeDigital SA, PTCL and its subsidiary).

Net Interest Income

Net interest income was $58 million, a decrease of $4 million or 6% on the prior comparative period. This reflected the impact of non-core business divestments [(1)], partly offset by consumer and business volume growth in PT Bank Commonwealth (PTBC).

Other Banking Income

Other banking income was $166 million, an increase of $12 million or 8% on the prior comparative period, including an increase of $5 million or 3% from the lower Australian dollar. This reflected higher equity accounted profits in Vietnam International Bank (VIB) and Bank of Hangzhou (HZB) due to underlying volume growth partly offset by the impact of non-core business divestments.

Operating Expenses

Operating expenses were $85 million, a decrease of $28 million or 25% on the prior comparative period. The result was driven by lower staff costs due to non-core business divestments.

The number of full-time equivalent staff (FTE) fell by 446 or 22% on the prior comparative period, from 1,995 to 1,549 FTE. This reflected the impact of productivity initiatives in PTBC and non-core business divestments.

The operating expense to total operating income ratio ("statutory basis") was 37.9%, down from 52.3% in the prior comparative period.

Loan Impairment Expense

Loan impairment expense was $11 million, a decrease of $22 million or 67% on the prior comparative period. This was driven by lower individually assessed provisions in the PTBC commercial lending book.

Loan impairment expense as a percentage of average gross loans and acceptances decreased by 295 basis points on the prior comparative period to 153 basis points.

Balance Sheet

Lending volume growth of 11% was driven by PTBC consumer and business banking growth partly offset by run-off in the commercial lending portfolio.

Risk Weighted Assets

Risk weighted assets were $1.8 billion, a decrease of $0.4 billion or 18% on the prior comparative period.

- IRRBB risk weighted assets decreased $0.3 billion or 44%; and
- Credit risk weighted assets decreased $0.1 billion or 9% driven by non-core divestments, partly offset by lending growth in PTBC.

Half Year Ended December 2018 versus June 2018

Net profit after tax ("statutory basis") for the half year ended 2018 increased $73 million on the prior half. Excluding the contribution from discontinued operations net profit after tax ("statutory basis") increased $27 million or 31% on the prior half. The result was driven by a 1% decrease in banking income, a 13% decrease in operating expenses and a 66% decrease in loan impairment expense.

In order to provide an underlying view of the performance, unless otherwise stated the commentary below has been presented excluding the impact of discontinued operations (BoComm Life, TymeDigital SA, PTCL and its subsidiary).

Net Interest Income

Net interest income increased $5 million or 9% on the prior half driven by higher lending balances in PTBC.

Other Banking Income

Other banking income decreased $7 million or 4% on the prior half. This reflected lower equity accounted profits from Qilu Bank (QLB).

Operating Expenses

Operating expenses decreased $13 million or 13% on the prior half due to productivity initiatives in PTBC and non-core business divestments.

The number of full-time equivalent staff (FTE) decreased by 284 or 15% on the prior half, from 1,833 to 1,549 FTE due to productivity initiatives in PTBC.

The operating expense to total operating income ratio ("statutory basis") was 37.9%, down from 43.4% in the prior half.

(1) These non-core business divestments include the Mumbai branch, Ho Chi Minh City branch and China County Banks.

Loan Impairment Expense

Loan impairment expense decreased $21 million or 66% on the prior half. This was driven by lower individually assessed provisions in the PTBC commercial lending book.

Loan impairment expense as a percentage of average gross loans and acceptances decreased by 200 basis points on the prior half to 153 basis points.

Balance Sheet

Lending volume growth of 6% was driven by growth in PTBC home loans and business loans, partly offset by a strategic reduction in multifinance loans.

Risk Weighted Assets

Risk weighted assets were $1.8 billion, a decrease of $0.7 billion or 27% on the prior half.

- IRRBB risk weighted assets decreased $0.4 billion or 53%; and
- Credit risk weighted assets decreased $0.3 billion or 14% driven by non-core divestments, partly offset by lending growth in PTBC.

IFS Discontinued Operations [2]	Half Year Ended [1] 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income	**4**	2	(2)	large	large
Other banking income	**4**	2	-	large	large
Total banking income	**8**	4	(2)	large	large
Funds management income	**1**	1	1	-	-
Insurance income	**26**	31	24	(16)	8
Total operating income	**35**	36	23	(3)	52
Operating expenses	**(62)**	(65)	(42)	(5)	48
Net loss before tax	**(27)**	(29)	(19)	(7)	42
Corporate tax benefit	**(2)**	(3)	(1)	(33)	large
Non-controlling interests	**(4)**	(3)	(3)	33	33
Underlying loss after tax	**(33)**	(35)	(23)	(6)	43
Investment experience after tax	**3**	10	11	(70)	(73)
Net loss after tax from discontinued operations - ("cash basis")	**(30)**	(25)	(12)	20	large
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	**(40)**	(91)	-	(56)	large
Net loss after tax from discontinued operations - ("statutory basis")	**(70)**	(116)	(12)	(40)	large

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Discontinued operations includes BoComm Life, TymeDigital SA and PTCL and its subsidiary.

Financial Performance and Business Review (Discontinued Operations)

Half Year Ended December 2018 versus December 2017

Discontinued operations net loss after tax (“statutory basis”) for the half year ended 31 December 2018 was $70 million, an increase of $58 million on the prior comparative period. The result was driven by higher operating expenses in TymeDigital SA as a result of higher investment spend for the bank launch and lower investment experience in BoComm Life as it was held for sale from May 2018 resulting in no further equity accounted profit recognition.

Half Year Ended December 2018 versus June 2018

Discontinued operations net loss after tax (“statutory basis”) for the half year ended 31 December 2018 decreased $46 million or 40% on the prior half. The result was driven by lower investment experience in BoComm Life as it was held for sale from May 2018 resulting in no further equity accounted profit recognition and lower insurance income in PTCL, partly offset by lower operating expenses in TymeDigital SA.

Corporate Centre

Overview

Corporate Centre includes the results of unallocated Bank support functions such as Treasury, Investor Relations, Group Strategy, Marketing, Legal and Corporate Affairs. It also includes Bank wide elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.

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

The Treasury function includes:

- Portfolio Management: manages the interest rate risk of the Bank'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 and Liquidity: manages the Bank's long-term and short-term wholesale funding requirements, and the Bank's prudent liquidity requirements; and
- Capital and Regulatory Strategy: manages the Bank's capital requirements.

	Half Year Ended (1)				
Corporate Centre (including eliminations)	**31 Dec 18 $M**	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net interest income	**125**	92	181	36	(31)
Other banking income	**16**	(58)	42	large	(62)
Total banking income	**141**	34	223	large	(37)
Funds management income	**(5)**	2	(5)	large	-
Insurance income	**-**	(3)	(1)	large	large
Total operating income	**136**	33	217	large	(37)
Operating expenses	**(607)**	(865)	(923)	(30)	(34)
Loan impairment (expense)/benefit	**(1)**	39	-	large	large
Net loss before tax	**(472)**	(793)	(706)	(40)	(33)
Corporate tax benefit	**153**	99	118	55	30
Non-controlling interests	**(6)**	(7)	(6)	(14)	-
Underlying loss after tax	**(325)**	(701)	(594)	(54)	(45)
Investment experience after tax	**(11)**	(8)	(2)	38	large
Cash net loss after tax from continuing operations	**(336)**	(709)	(596)	(53)	(44)
Cash net loss after tax from discontinued operations	**(5)**	(7)	(7)	(29)	(29)
Net loss after tax - "cash basis"	**(341)**	(716)	(603)	(52)	(43)
Hedging and IFRS volatility	**3**	24	(10)	(88)	large
Net loss after tax - "statutory basis"	**(338)**	(692)	(613)	(51)	(45)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Half Year Ended December 2018 versus December 2017

Corporate Centre net loss after tax ("statutory basis") for the half year ended 31 December 2018 was $338 million, a decrease of $275 million or 45% on the prior comparative period. Excluding the contribution from discontinued operations, net loss after tax ("statutory basis") was $333 million, a decrease of $273 million or 45% on the prior comparative period. The result was primarily driven by 37% lower total operating income, 34% lower operating expenses and a $1 million increase in loan impairment expense.

Net Interest Income

Net interest income was $125 million, a decrease of $56 million or 31% on the prior comparative period. This was driven by timing of rebates of earnings on liquid balances and reduced earnings from the management of interest rate risk in the banking book.

Other Banking Income

Other banking income was $16 million, a decrease of $26 million or 62% on the prior comparative period. This was driven by the change in fair value of financial instruments, partly offset by gains on sale of liquids.

Operating Expenses

Operating expenses were $607 million, a decrease of $316 million or 34% on the prior comparative period. Excluding the $145 million of AUSTRAC insurance recoveries received in the current half, a $375 million provision for the AUSTRAC civil penalty (see Notes 7.2 and 7.4 to the Financial Statements in this Document and Appendix 5 of this Document for more information) and $110 million of one-off regulatory costs in the prior comparative period, operating expenses increased $314 million or 72%. This was driven by a $200 million indemnity provision for historical NewCo-related remediation issues and associated program costs, higher IT expenses and increased risk and compliance costs.

Loan Impairment Expense

Loan impairment expense was $1 million. The increase was driven by higher collective provisions in Treasury.

Risk Weighted Assets

Risk weighted assets were $16.6 billion, a decrease of $5.2 billion or 24% on the prior comparative period.

- IRRBB risk weighted assets decreased $6.3 billion or 90%; and
- Traded market risk decreased $0.4 billion or 30%; partly offset by
- Operational risk weighted assets increased $1.5 billion or 64% driven by the requirement to increase Operational risk regulatory capital effective 30 April 2018 following the findings of the APRA Prudential Inquiry (see Notes 7.2 and 7.4 to the Financial Statements in this Document and Appendix 5 of this Document for more information) .

Half Year Ended December 2018 versus June 2018

Net loss after tax ("statutory basis") or the half year ended 31 December 2018 decreased $354 million or 51% on the prior comparative period. Excluding the contribution from discontinued operations, net loss after tax ("statutory basis") decreased $352 million or 51 % on the prior half. The result was driven by a $103 million increase in total operating income, 30% lower operating expenses and a $40 million increase in loan impairment expense.

Net Interest Income

Net interest income increased $33 million or 36% on the prior half reflecting increased earnings from the management of interest rate risk in the banking book and higher earnings on liquid asset balances.

Other Banking Income

Other banking income increased $74 million on the prior half, primarily due to the non-recurrence of an upfront realised loss from the restructuring of economic hedges in the prior half to reduce the overall funding costs and optimise capital in relation to a 30 year US debt issuance.

Operating Expenses

Operating expenses decreased $258 million or 30% on the prior half. Excluding the $145 million of AUSTRAC insurance recoveries received in the current period, a $325 million provision for the AUSTRAC civil penalty and $45 million one-off regulatory costs in the prior half, operating expenses increased $257 million or 52%. This was driven by a $200 million indemnity provision for historical NewCo-related remediation issues and associated program costs, higher IT expenses and increased risk and compliance costs.

Loan Impairment Expense

Loan impairment expense increased $40 million on the prior half. This was due to the non-recurrence of the release of a centrally held provision in the prior half.

Risk Weighted Assets

Risk weighted assets were $16.6 billion, a decrease of $4.8 billion or 23% on the prior half.

- IRRBB risk weighted assets decreased $2.6 billion or 79%;
- Credit risk weighted assets decreased $1.1 billion or 9% due to lower liquid assets;
- Traded risk weighted assets decreased $0.7 billion or 44%; and
- Operational risk weighted assets decreased $0.4 billion or 10%.

Divisional Summary

	Half Year Ended 31 December 2018							
Divisional Summary	**Retail Banking Services $M**	**Business and Private Banking $M**	**Institutional Banking and Markets $M**	**Wealth Management $M**	**New Zealand $M**	**International Financial Services $M**	**Corporate Centre $M**	**Total $M**
Net interest income	4,706	2,588	724	-	933	58	125	**9,134**
Other banking income	909	728	581	-	236	166	16	**2,636**
Total banking income	5,615	3,316	1,305	-	1,169	224	141	**11,770**
Funds management income	71	-	-	441	63	-	(5)	**570**
Insurance income	68	-	-	-	-	-	-	**68**
Total operating income	5,754	3,316	1,305	441	1,232	224	136	**12,408**
Investment experience (1)	6	-	-	8	-	-	(11)	**3**
Total income	5,760	3,316	1,305	449	1,232	224	125	**12,411**
Operating expenses	(2,255)	(1,138)	(514)	(250)	(440)	(85)	(607)	**(5,289)**
Loan impairment expense	(318)	(167)	(38)	-	(42)	(11)	(1)	**(577)**
Net profit before tax	3,187	2,011	753	199	750	128	(483)	**6,545**
Corporate tax (expense)/benefit	(955)	(604)	(173)	(63)	(211)	(10)	153	**(1,863)**
Non-controlling interests	-	-	-	-	-	-	(6)	**(6)**
Net profit after tax from continuing operations - "cash basis"	2,232	1,407	580	136	539	118	(336)	**4,676**
Net profit after tax from discontinued operations	-	-	-	127	-	(30)	(5)	**92**
Net profit after tax - "cash basis"	2,232	1,407	580	263	539	88	(341)	**4,768**
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	-	-	13	(156)	113	(44)	-	**(74)**
Hedging and IFRS volatility	-	-	-	-	(94)	-	3	**(91)**
Other non-cash items	(1)	-	-	(3)	-	-	-	**(4)**
Net profit after tax - "statutory basis"	2,231	1,407	593	104	558	44	(338)	**4,599**
Additional information (continuing operations) (2) (3)								
Net interest margin (%)	2. 60	3. 17	1. 08	n/a	2. 21	n/a	n/a	2. 10
Statutory operating expenses to total operating income	37. 6	34. 3	38. 5	62. 6	34. 5	37. 9	n/a	43. 2
Impairment expense annualised as a % of average GLAAs (%)	0. 16	0. 19	0. 07	n/a	0. 11	1. 53	n/a	0. 15
Average interest earning assets ($M) (4)	359,928	162,159	133,556	n/a	94,262	n/a	n/a	863,664
Risk weighted assets ($M) (5)	167,253	117,439	89,842	2,108	50,082	1,831	16,589	445,144
Employees (Full Time Equivalent) (No.)	15,201	4,171	1,206	1,298	4,927	1,549	14,167	42,519

(1) Investment experience is presented on a pre-tax basis.
(2) Retail Banking Services additional information metrics are presented excluding Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review.
(3) New Zealand additional information metrics relate to ASB only and are calculated in New Zealand Dollar terms.
(4) Net of average mortgage offset balances.
(5) Risk weight assets include discontinued operations. Retail Banking Services risk weighted assets include Mortgage Broking and General Insurance. New Zealand risk weighted assets represents ASB only and are calculated in accordance with APRA requirements.

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Contents

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 "the Group") for the half year ended 31 December 2018.

Directors

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

Catherine Livingstone AO	Chairman
Matt Comyn	Managing Director and Chief Executive Officer
Shirish Apte	Director
Professor Genevieve Bell	Director (commenced on 1 January 2019)
Sir David Higgins	Director
Brian Long	Director (retired on 31 December 2018)
Andrew Mohl	Director (retired on 7 November 2018)
Paul O'Malley	Director (commenced on 1 January 2019)
Mary Padbury	Director
Wendy Stops	Director
Anne Templeman-Jones	Director
Rob Whitfield	Director

Review and Results of Operations

The Group earned a consolidated statutory net profit after tax of $4,599 million for the half year ended 31 December 2018, compared with $4,906 million for the prior comparative period. The result was driven lower operating income mainly due to lower margins and hedging and IFRS volatility losses, partly offset by lower operating expenses driven by the non-recurrence of prior period one-offs.

On September 2017, the Group entered into an agreement to sell 100% of its life insurance businesses in Australia (CommInsure Life) and New Zealand (Sovereign) to AIA Group Limited (AIA). The sale of Sovereign completed on 2 July 2018. The sale of CommInsure Life remains subject to the completion of the BoComm Life Insurance Company Limited (BoComm Life) transfer and its associated regulatory approvals. The sale is expected to be completed in the first half of calendar year 2019. The sale agreement also includes a long-term partnership with AIA to distribute life insurance products to customers in Australia and New Zealand.

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoComm Life to Mitsui Sumitomo Insurance Co. Ltd (MSI). Completion of the sale is subject to regulatory approvals in China, and is a condition precedent to completion of the CommInsure Life sale. The sale is expected to be completed in the first half of calendar year 2019.

On 25 June 2018, CBA announced its intention to demerge its wealth management and Mortgage Broking businesses, and undertake a strategic review of its general insurance business, including a potential sale. The demerged business (NewCo) was initially expected to include Colonial First State, Colonial First State Global Asset Management (CFSGAM), Count Financial, Financial Wisdom and Aussie Home Loans (AHL) and the Group's minority interests in Mortgage Choice and Countplus.

On 23 October 2018, the Group announced the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), will enter into a 15-year life insurance distribution partnership with FWD. The sale is subject to regulatory approvals in Indonesia and is expected to complete in the first half of calendar year 2019.

On 31 October 2018, the Group announced the sale of CFSGAM to Mitsubishi UFJ Trust and Banking Corporation (MUTB) for total cash consideration of $4.1 billion. As a result of the sale, CFSGAM will not be included in the previously announced demerger of CBA's wealth management and Mortgage Broking businesses. The sale is subject to a number of regulatory approvals in various jurisdictions including in Australia, Japan, Hong Kong, Singapore, the United Kingdom and the United States. The sale is expected to complete in mid calendar year 2019.

On 1 November 2018, the Group completed the sale of Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to the minority shareholder, African Rainbow Capital.

For the half year ended 31 December 2018, the following were included in the Group's discontinued operations: CommInsure Life, Sovereign, BoComm Life, TymeDigital SA, CFSGAM and PTCL. The demerger of NewCo is subject to shareholder approval and the proposed demerged businesses remain classified within continuing operations.

- The statutory net profit after tax from Retail Banking Services was $2,231 million (December 2017: $2,527 million) driven by lower total operating income, and higher operating expenses, partly offset by lower impairment expense.
- The statutory net profit after tax from Business and Private Banking was $1,407 million (December 2017: $1,452 million), driven by growth in total banking income, offset by higher operating expense and loan impairment expense.
- The statutory net profit after tax from Institutional Banking and Markets was $593 million (December 2017: $608 million), driven by lower total banking income and higher operating expenses, partly offset by lower loan impairment expense.
- The statutory net profit after tax from Wealth Management was $104 million (December 2017: $255 million). Excluding the contribution from discontinued operations, statutory net profit after tax was $118 million, a 2% increase on the prior comparative period. The result was driven by growth in funds management income and lower operating expenses.

Directors' Report

- The statutory net profit after tax from New Zealand was \$558 million (December 2017: \$617 million), driven by higher operating expenses and hedging and IFRS volatility losses, partly offset by higher operating income and gain on sale of Sovereign.
- The statutory net profit after tax from IFS was \$44 million (December 2017: \$60 million). Excluding the contribution from BoComm Life, TymeDigital SA and PTCL, statutory net profit after tax was \$114 million, a 58% increase on the prior comparative period. The result was driven by higher operating income, lower operating expenses and loan impairment expenses.

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

Material Business risks

The Group recognises that risk is inherent in business and that effective risk management is essential in delivering on our business objectives as well as a key component of sound corporate governance.

The Group seeks to adopt a comprehensive approach to risk management through its risk management framework. This framework covers the Group's systems, policies, processes and people who monitor, mitigate and report risk. The framework ultimately allows the Board to manage risk within its approved risk appetite.

The Group described its major risk classes and its approach to managing them in Note 9 of the 2018 Annual Financial Statements. It further described specific business risks within these major risk classes and mitigating actions taken in the Business risks section of the Annual Report. There have been no material changes to the risks noted in the Annual Report. In addition, commentary on the Group's ongoing litigations, investigations and reviews are included in Note 7.2 of the Financial Statements for the half year ended 31 December 2018.

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:

pwc

Auditor's Independence Declaration

As lead auditor for the review of the Commonwealth Bank of Australia for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* 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 the Commonwealth Bank of Australia and the entities it controlled during the period.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
5 February 2019

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Liability limited by a scheme approved under Professional Standards Legislation.

Signed in accordance with a resolution of the Directors.

5 February 2019

5 February 2019

Financial Statements

Consolidated Income Statement

For the half year ended 31 December 2018

		Half Year Ended [1] [2] [3]		
	Note	**31 Dec 18 $M**	30 Jun 18 $M	31 Dec 17 $M
Interest income	2.1	**17,836**	17,362	17,181
Interest expense	2.1	**(8,702)**	(8,277)	(7,924)
Net interest income		**9,134**	9,085	9,257
Other banking income	2.2	**2,531**	2,515	2,908
Net banking operating income		**11,665**	11,600	12,165
Net funds management operating income	2.2	**571**	552	572
Net insurance operating income	2.2	**70**	127	114
Total net operating income before impairment and operating expenses		**12,306**	12,279	12,851
Loan impairment expense	3.2	**(577)**	(483)	(596)
Operating expenses	2.3	**(5,317)**	(5,571)	(5,458)
Net profit before income tax		**6,412**	6,225	6,797
Corporate tax expense	2.5	**(1,831)**	(1,919)	(2,033)
Net profit after income tax from continuing operations		**4,581**	4,306	4,764
Non-controlling interests in net profit after income tax from continuing operations		**(6)**	(7)	(6)
Net profit attributable to equity holders of the Bank from continuing operations		**4,575**	4,299	4,758
Net profit after income tax from discontinued operations	7.3	**28**	127	151
Non-controlling interests in net profit after income tax from discontinued operations	7.3	**(4)**	(3)	(3)
Net profit attributable to equity holders of the Bank		**4,599**	4,423	4,906

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

Earnings per share for profit attributable to equity holders of the parent entity:

	Half Year Ended		
	31 Dec 18	30 Jun 18	31 Dec 17
	Cents per Share		
Earnings per share from continuing operations [1]:			
Basic	**259. 6**	245. 1	273. 7
Diluted	**249. 8**	237. 8	265. 3
Earnings per share:			
Basic	**261. 0**	252. 2	282. 2
Diluted	**251. 1**	244. 4	273. 2

(1) Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 7.3.
(2) Comparative information has been restated to conform to presentation in the current period.
(3) Current period amounts reflect the adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 9 and AASB 15 comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.

Financial Statements

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2018

	Half Year Ended (1) (2)		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Net profit after income tax for the period from continuing operations	**4,581**	4,306	4,764
Other comprehensive income/(expense):			
Items that may be reclassified subsequently to profit/(loss):			
Foreign currency translation reserve net of tax	**386**	238	(250)
Gains and (losses) on cash flow hedging instruments net of tax	**217**	(9)	(44)
Losses on debt investment securities at fair value through other comprehensive income net of tax	**(84)**	-	-
Losses on available-for-sale investments net of tax	**-**	(31)	(37)
Total of items that may be reclassified	**519**	198	(331)
Items that will not be reclassified to profit/(loss):			
Actuarial (losses) and gains from defined benefit superannuation plans net of tax	**(79)**	117	44
Losses on liabilities at fair value due to changes in own credit risk net of tax	**-**	(1)	(1)
Losses on equity investment securities at fair value through other comprehensive income net of tax	**(7)**	-	-
Revaluation of properties net of tax	**6**	31	-
Total of items that will not be reclassified	**(80)**	147	43
Other comprehensive income/(expense) net of tax	**439**	345	(288)
Total comprehensive income for the period from continuing operations	**5,020**	4,651	4,476
Net profit after income tax for the period from discontinued operations	**28**	127	151
Other comprehensive (expense)/income for the period from discontinued operations net of income tax (3)	**(9)**	(22)	16
Total comprehensive income for the period	**5,039**	4,756	4,643
Total comprehensive income for the period is attributable to:			
Equity holders of the Bank	**5,029**	4,746	4,634
Non-controlling interests	**10**	10	9
Total comprehensive income net of tax	**5,039**	4,756	4,643

(1) Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 7.3.
(2) Current period amounts reflect the adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 9 and AASB 15 comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.
(3) Includes $6 million loss on foreign currency translation net of tax (30 June 2018: $12 million loss; 31 December 2017: $15 million gain) and $3 million loss on revaluation of debt investment securities measured at fair value through other comprehensive income net of tax. The half year ended 30 June 2018 and 31 December 2017 include $10 million loss and $1 million gain, respectively, on revaluation of available-for-sale investments net of tax.

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

	Half Year Ended		
	31 Dec 18	30 Jun 18	31 Dec 17
	Cents per Share		
Dividends per share attributable to shareholders of the Bank:			
Ordinary shares	**200**	231	200

Consolidated Balance Sheet

As at 31 December 2018

		As at (1) (2) (3)		
		31 Dec 18	30 Jun 18	31 Dec 17
Assets	Note	**$M**	$M	$M
Cash and liquid assets		**37,220**	36,417	37,322
Receivables due from other financial institutions		**7,744**	9,222	6,955
Assets at fair value through Income Statement:				
Trading		**33,615**	32,254	34,696
Insurance		**-**	372	382
Other		**1,029**	258	1,038
Derivative assets		**28,569**	32,133	25,228
Investment securities:				
At amortised cost		**6,990**	-	-
At fair value through other comprehensive income		**75,246**	-	-
Available-for-sale investments		**-**	82,240	83,913
Loans, bills discounted and other receivables	3.1	**753,507**	743,365	736,316
Bank acceptances of customers		**53**	379	222
Property, plant and equipment		**2,417**	2,576	2,635
Investments in associates and joint ventures		**2,831**	2,842	2,750
Intangible assets		**8,161**	9,090	9,140
Deferred tax assets		**1,735**	1,439	1,291
Other assets		**6,097**	6,924	5,147
Assets held for sale	7.3	**15,216**	15,654	14,895
Total assets		**980,430**	975,165	961,930
Liabilities				
Deposits and other public borrowings	4.1	**637,010**	622,234	624,897
Payables due to other financial institutions		**22,545**	20,899	24,466
Liabilities at fair value through Income Statement		**9,030**	10,247	9,350
Derivative liabilities		**26,305**	28,472	23,563
Bank acceptances		**53**	379	222
Current tax liabilities		**401**	952	642
Other provisions		**2,171**	1,889	2,120
Insurance policy liabilities		**-**	451	481
Debt issues		**168,851**	172,294	166,510
Bills payable and other liabilities		**8,305**	11,596	8,861
Liabilities held for sale	7.3	**14,350**	14,900	14,543
		889,021	884,313	875,655
Loan capital		**22,831**	22,992	20,184
Total liabilities		**911,852**	907,305	895,839
Net assets		**68,578**	67,860	66,091
Shareholders' Equity				
Ordinary share capital	5.1	**38,015**	37,270	36,776
Reserves	5.1	**2,051**	1,676	1,494
Retained profits	5.1	**27,959**	28,360	27,267
Shareholders' Equity attributable to equity holders of the Bank		**68,025**	67,306	65,537
Non-controlling interests	5.1	**553**	554	554
Total Shareholders' Equity		**68,578**	67,860	66,091

(1) Comparative information has been restated to conform to presentation in the current period.
(2) Current period balances have been impacted by the announced sale of CFSGAM, PT Commonwealth Life and completed sales of Sovereign and TymeDigital SA. For details on the Group's discontinued operations, refer to Note 7.3.
(3) Current period balances reflect the adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 9 and AASB 15 comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2018

	Ordinary share capital $M	Reserves $M	Retained profits $M	Total $M	Non-controlling interests $M	Total Shareholders' Equity $M
As at 30 June 2017	34,971	1,869	26,274	**63,114**	546	**63,660**
Net profit after income tax from continuing operations (1)	-	-	4,758	**4,758**	6	**4,764**
Net profit after income tax from discontinued operations (1)	-	-	148	**148**	3	**151**
Net other comprehensive income from continuing operations (1)	-	(331)	43	**(288)**	-	**(288)**
Net other comprehensive income from discontinued operations (1)	-	16	-	**16**	-	**16**
Total comprehensive income for the period	-	(315)	4,949	**4,634**	9	**4,643**
Transactions with Equity holders in their capacity as Equity holders: (2)						
Dividends paid on ordinary shares	-	-	(3,979)	**(3,979)**	-	**(3,979)**
Dividend reinvestment plan (net of issue costs)	1,572	-	-	**1,572**	-	**1,572**
Issue of shares (net of issue costs)	164	-	-	**164**	-	**164**
Share-based payments	-	(49)	-	**(49)**	-	**(49)**
Purchase of treasury shares	(12)	-	-	**(12)**	-	**(12)**
Sale and vesting of treasury shares	81	-	-	**81**	-	**81**
Other changes	-	(11)	23	**12**	(1)	**11**
As at 31 December 2017	36,776	1,494	27,267	**65,537**	554	**66,091**
Net profit after income tax from continuing operations (1)	-	-	4,299	**4,299**	7	**4,306**
Net profit after income tax from discontinued operations (1)	-	-	124	**124**	3	**127**
Net other comprehensive income from continuing operations (1)	-	229	116	**345**	-	**345**
Net other comprehensive income from discontinued operations (1)	-	(22)	-	**(22)**	-	**(22)**
Total comprehensive income for the period	-	207	4,539	**4,746**	10	**4,756**
Transactions with Equity holders in their capacity as Equity holders: (2)						
Dividends paid on ordinary shares	-	-	(3,505)	**(3,505)**	-	**(3,505)**
Dividend reinvestment plan (net of issue costs)	533	-	-	**533**	-	**533**
Issue of shares (net of issue costs)	-	-	-	**-**	-	**-**
Share-based payments	-	30	-	**30**	-	**30**
Purchase of treasury shares	(83)	-	-	**(83)**	-	**(83)**
Sale and vesting of treasury shares	44	-	-	**44**	-	**44**
Other changes	-	(55)	59	**4**	(10)	**(6)**
As at 30 June 2018	37,270	1,676	28,360	**67,306**	554	**67,860**
Change on adoption of new accounting standards (3)	-	-	(955)	**(955)**	-	**(955)**
Restated opening balance	37,270	1,676	27,405	**66,351**	554	**66,905**
Net profit after income tax from continuing operations	-	-	4,575	**4,575**	6	**4,581**
Net profit after income tax from discontinued operations	-	-	24	**24**	4	**28**
Net other comprehensive income from continuing operations	-	518	(79)	**439**	-	**439**
Net other comprehensive income from discontinued operations	-	(9)	-	**(9)**	-	**(9)**
Total comprehensive income for the period	-	509	4,520	**5,029**	10	**5,039**
Transactions with Equity holders in their capacity as Equity holders: (2)						
Dividends paid on ordinary shares	-	-	(4,065)	**(4,065)**	-	**(4,065)**
Dividend reinvestment plan (net of issue costs)	748	-	-	**748**	-	**748**
Issue of shares (net of issue costs)	-	-	-	**-**	-	**-**
Share-based payments	-	(42)	-	**(42)**	-	**(42)**
Purchase of treasury shares	(74)	-	-	**(74)**	-	**(74)**
Sale and vesting of treasury shares	71	-	-	**71**	-	**71**
Other changes	-	(92)	99	**7**	(11)	**(4)**
As at 31 December 2018	38,015	2,051	27,959	**68,025**	553	**68,578**

(1) Information has been restated to present CFSGAM and PT Commonwealth Life as discontinued operations.
(2) Current period and prior periods include discontinued operations.
(3) The Group adopted AASB 9 ‘Financial Instruments’ and AASB 15 ‘Revenue from contracts with customers’ on 1 July 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 July 2018 as if the Group has always applied the new requirements. As permitted by AASB 9 and AASB 15, comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.

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

Condensed Consolidated Statement of Cash Flows (1) (2)

For the half year ended 31 December 2018

	Half Year Ended		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Cash flows from operating activities before changes in operating assets and liabilities	**5,165**	14,112	2,458
Changes in operating assets and liabilities arising from cash flow movements	**6,113**	(14,161)	(1,300)
Net cash provided by/(used in) operating activities	**11,278**	(49)	1,158
Net cash provided by/(used in) investing activities	**574**	(616)	(386)
Dividends paid (excluding Dividend Reinvestment Plan)	**(3,323)**	(2,968)	(2,398)
Proceeds from issuance of debt securities	**29,197**	33,513	34,760
Redemption of issued debt securities	**(38,154)**	(33,116)	(34,693)
Other cash (used in)/provided by financing activities	**(994)**	2,324	1,644
Net cash used in financing activities	**(13,274)**	(247)	(687)
Net (decrease)/increase in cash and cash equivalents	**(1,422)**	(912)	85
Effect of foreign exchange rates on cash and cash equivalents	**572**	742	(27)
Cash and cash equivalents at beginning of period	**23,005**	23,175	23,117
Cash and cash equivalents at end of period	**22,155**	23,005	23,175

(1) It should be noted that the Group does not use this accounting Condensed Consolidated Statement of Cash Flows in the internal management of its liquidity positions.
(2) Includes discontinued operations. For the cash flows from discontinued operations refer to Note 7.3.

The above Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1) Overview

1.1 General Information, Basis of Accounting, New and Future Accounting Standards

General Information

Commonwealth Bank of Australia (the Bank) is Australia's leading provider of integrated financial services, including retail, business and institutional banking, funds management, superannuation, insurance, investment and share-broking products and services. The Bank has branches across Australia and New Zealand as well as multiple countries in Europe, North America and Asia.

The Financial Statements of the Bank and its subsidiaries (the Group) for the half year ended 31 December 2018 were approved and authorised for issue by the Board of Directors on 5 February 2019. The Directors have the power to amend and reissue the Financial Statements. The financial report includes consolidated financial statements of the Group, accompanying notes, Directors Declaration and the Independent Auditor's Review Report.

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.

The Group's discontinued operations include CommInsure Life, Sovereign, PT Commonwealth Life (PTCL), Colonial First State Global Asset Management (CFSGAM), Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) and the investment in BoComm Life Insurance Company Limited (BoComm Life). For details, refer to Note 7.3.

On September 2017, the Group entered into an agreement to sell 100% of its life insurance businesses in Australia (CommInsure Life) and New Zealand (Sovereign) to AIA Group Limited (AIA). The sale of Sovereign completed on 2 July 2018. The sale of CommInsure Life remains subject to completion of the BoComm Life transfer and its associated regulatory approval. The sale is expected to be completed in the first half of calendar year 2019. The sale agreement also includes a long-term partnership with AIA to distribute life insurance products to customers in Australia and New Zealand.

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoComm Life to Mitsui Sumitomo Insurance Co. Ltd (MSI). Completion of the sale is subject to regulatory approvals in China, and is a condition precedent to completion of the CommInsure Life sale. The sale of BoComm is expected to be completed in the first half of calendar year 2019.

On 25 June 2018, CBA announced its intention to demerge its wealth management and Mortgage Broking businesses, and undertake a strategic review of its general insurance business, including a potential sale. The demerged business (NewCo) was initially expected to include Colonial First State, CFSGAM, Count Financial, Financial Wisdom and Aussie Home Loans (AHL) and the Group's minority interests in Mortgage Choice and Countplus. On 31 October 2018, the Group announced the sale of CFSGAM to Mitsubishi UFJ Trust and Banking Corporation (MUTB) for total cash consideration of $4.1 billion. As a result of the sale, CFSGAM will not be included in the previously announced demerger of CBA's wealth management and Mortgage Broking businesses. The sale is subject to a number of regulatory approvals in various jurisdictions including in Australia, Japan, Hong Kong, Singapore, the United Kingdom and the United States. The sale of CFSGAM is expected to complete in mid calendar year 2019.

On 23 October 2018, the Group announced the sale of its 80% interest in its Indonesian life insurance business, PTCL, to FWD Group (FWD). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), will enter into a 15 year life insurance distribution partnership with FWD. The sale is subject to regulatory approvals in Indonesia and is expected to complete in the first half of calendar year 2019.

On 1 November 2018, the Group completed the sale of Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to the minority shareholder, African Rainbow Capital (ARC).

There have been no other 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 2018 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 half year financial report should be read in conjunction with the 30 June 2018 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 half year financial report 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.

Except as discussed below, the accounting policies 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 2018.

Where necessary, comparative information has been restated to conform to presentation in the current period. All changes have been footnoted throughout the financial statements. Discontinued operations are excluded from the results of the continuing operations and are presented as a single line item "net profit after tax from discontinued operations" in the Consolidated Income Statement.

Assets and Liabilities of discontinued operations have been presented separately as held for sale on the Balance Sheet as at 31 December 2018, 30 June 2018 and 31 December 2017.

1.1 General Information, Basis of Accounting, New and Future Accounting Standards (continued)

Changes in operating segments

During the half year ended 31 December 2018 the Group made a number of structural changes to its operating segments. The most significant changes include:

- Bankwest segment has been merged with Retail Banking Services segment and is no longer separately disclosed; Commonwealth Financial Planning and General Insurance businesses previously included in Wealth Management segment have been included in Retail Banking Services segment; and
- Small Business customers have been migrated from Retail Banking Services to Business and Private Banking.

Following these changes the Wealth Management segment includes CFSGAM, CommInsure Life and NewCo (excluding Aussie Home Loans and Mortgage Choice which are part of Retail Banking Services). CommInsure Life and CFSGAM are classified as discontinued operations.

The above changes in operating segments have been applied retrospectively.

Adoption of new accounting standards

AASB 9 'Financial Instruments'

The Group adopted AASB 9 Classification and Measurement, AASB 9 Impairment requirements and amendments in AASB 2017-6 related to prepayment features on 1 July 2018. The Group has elected an accounting policy choice in AASB 9 to retain AASB 139 hedge accounting requirements. The Group can commence applying AASB 9 hedging at the beginning of any reporting period in the future.

AASB 9 Classification and Measurement and Impairment requirements have been applied on a retrospective basis. The Group has adjusted the carrying amounts of financial instruments resulting from adoption of AASB 9 through opening retained profits and reserves on 1 July 2018 as if it has always applied the new requirements. As permitted by AASB 9, the Group has not restated the comparative period financial statements.

Refer to the Annual Financial Report for the year ended 30 June 2018 for the accounting policies that have been applied for comparative periods.

The key changes to the Group's accounting policies and the impacts resulting from the adoption of AASB 9 are described below.

Impairment

AASB 9 introduced an expected credit loss (ECL) impairment model which differs significantly from the incurred loss approach under AASB 139. The ECL model is forward looking and does not require evidence of an actual loss event for impairment provisions to be recognised.

The implementation of AASB 9 required management to make a number of judgements and assumptions and has had a significant impact on the Group's impairment provisioning methodology. A description of the key components of the Group's AASB 9 impairment provisioning methodology is provided below.

Expected credit loss (ECL) model

The ECL model uses a three-stage approach to ECL recognition. Financial assets migrate through these stages based on changes in credit risk since origination:

- *Stage 1 – 12 months ECL – Performing loans*

  On origination, financial assets recognise a provision equivalent to 12 months ECL. 12 months ECL is the credit losses expected to arise from defaults occurring over the next 12 months.
- *Stage 2 – Lifetime ECL – Performing loans that have experienced a significant increase in credit risk (SICR)*

  Financial assets that have experienced a SICR since origination are transferred to Stage 2 and recognise a provision equivalent to lifetime ECL. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure is reclassified to Stage 1 and the provision reverts to 12 months ECL.
- *Stage 3 – Lifetime ECL – Non-performing loans*

  Financial assets in default recognise a provision equivalent to lifetime ECL. This includes assets that are considered credit impaired as well as assets that are considered to be in default but are not credit impaired.

Credit Losses for financial assets in Stage 1 and Stage 2 are assessed collectively, whilst those in Stage 3 are subjected to either collective or individual assessment of credit loss.

Interest revenue is recognised on gross carrying amounts for financial assets in Stage 1 and Stage 2, and gross carrying value net of provisions for financial assets in Stage 3.

The ECL model applies to all financial assets measured at amortised cost, debt securities measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts not measured at fair value through profit or loss (FVTPL).

Significant increase in credit risk (SICR)

SICR is assessed by comparing the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination. The Group considers all available qualitative and quantitative information that is relevant to assessing SICR.

For non-retail portfolios, such as the corporate risk rated portfolio and the asset finance portfolio, the risk of default is defined using the existing Risk Rated Probability of Default (PD) Masterscale. The PD Masterscale is used in internal credit risk management and includes 23 risk grades that are assigned at a customer level using rating tools reflecting customer specific financial and non-financial information and management's experienced credit judgement. Internal credit risk ratings are updated regularly on the basis of the most recent financial and non-financial information.

The Group has developed a Retail Masterscale for use in the ECL measurement on personal loans, credit cards, home loan and SME retail portfolios. The Retail Masterscale has 15 risk grades that are assigned to retail accounts based on their credit quality scores determined through a credit quality scorecard. Risk grades for retail exposures are updated monthly as credit quality scorecards are recalculated based on the new behavioural information.

For significant portfolios, the primary indicator of SICR is a significant deterioration in an exposure's internal credit rating grade between origination and reporting date. Application of

Notes to the Financial Statements

1.1 General Information, Basis of Accounting, New and Future Accounting Standards (continued)

the primary SICR indicator uses a sliding threshold such that an exposure with a higher credit quality at origination would need to experience a more significant downgrade compared to a lower credit quality exposure before SICR is triggered. The levels of downgrade required to trigger SICR for each origination grade have been defined for each significant portfolio.

The Group also uses the following secondary SICR indicators as backstops in combination with the primary SICR indicator:

- 30 days past due arrears information;
- A retail exposure entering a financial hardship status; and
- A non-retail exposure's referral to Group Credit Structuring.

For a number of small portfolios, which are not considered significant individually or in combination, the Group applies simplified provisioning approaches that differ from the description above. 30 days past due is used as a primary indicator of SICR on exposures in these portfolios.

Definition of default, credit impaired assets and write-offs

The definition of default used in measuring ECL is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the Group in full, or the exposure is 90 days past due.

Facilities are classified as credit impaired where there is doubt as to whether the full amounts due, including interest and other payments, will be received in a timely manner.

Loans are written-off when there is no realistic probability of recovery.

ECL Measurement

ECL is a probability weighted expected credit loss estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The Group uses the following AASB 9 collective provisioning models in calculating ECL:

- Retail lending: Personal Loans model, Credit Cards model, Home Loans model, Retail SME model.
- Non-retail lending: Corporate Risk rated model, Asset Finance model.

For each significant portfolio ECL is calculated as a product of the following credit risk factors at a facility level:

- *Probability of default (PD):* The likelihood that a debtor will be unable to pay its obligations in full without having to take actions such as realising on security or that the debtor will become 90 days overdue on obligation or contractual commitment;
- *Exposure at default (EAD):* The Group generally calculates EAD as the higher of the drawn balance and total credit limit, except for the credit cards portfolio, for which the EAD calculation also takes into account the probability of unused limits being drawn down; and
- *Loss given default (LGD):* The amount that is not expected to be recovered following default.

Secured retail exposures with expected loss in excess of $20,000 and defaulted non-retail exposures that are not well secured are assessed for impairment through an Individually Assessed Provisions (IAP) process. Impairment provisions on these exposures are calculated directly as the difference between the defaulted assets carrying value and the present value of expected future cash flows including cash flows from realisation of collateral, where applicable.

Forward-looking information

Credit risk factors of PD and LGD used in ECL calculation are point-in-time estimates based on current conditions and adjusted to include the impact of multiple probability-weighted future forecast economic scenarios.

Forward looking PD and LGD factors are modelled for each significant portfolio based on macro-economic factors that are most closely correlated with credit losses in the relevant portfolios. Each of the four scenarios (refer below) includes a forecast of relevant macro-economic variables which differ by portfolio:

- Retail portfolios: Cash rate, unemployment rate, GDP per capita and House price index.
- Non-retail lending: Unemployment rate, business investment index, ASX 200 and the AUD/USD exchange rate.

New Zealand equivalents of the above macro-economic variables are used for credit exposures originated in New Zealand.

The Group uses the following four alternative macro-economic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL:

- *Central scenario*: This scenario reflects the Group's base case assumptions used in business planning and forecasting. In this scenario the economy continues along the current trajectory where GDP per capita, investment, share market and labour market growth continues supported by stable exchange rates and interest rates remaining at current levels over the short-term. House prices see further mild declines from currently observed levels;
- *Upside and Downside Scenarios*: These scenarios are set relative to the Central scenario and based on macro-economic conditions which would lead to a range of losses expected over an approximate 10 year economic cycle. Under the Upside scenario the economy strengthens from current state where the economy, including house prices, returns to above average growth and the central bank increases interest rates in the next year. The Downside scenario represents a deterioration from current state where the economy observes moderate declines across most metrics, including further house prices declines, as well as decreases in official interest rates; and
- *Severe Downside*: This scenario has been included to account for a potentially severe impact of less likely extremely adverse macro-economic conditions which would lead to the highest impairment losses expected over a longer horizon such as a 30 year economic cycle. Under this scenario the economy sees a significant deterioration from current state. The scenario contemplates a breakdown in typical economic

1.1 General Information, Basis of Accounting, New and Future Accounting Standards (continued)

relationships reflected by significant declines in GDP per capita, investment, house prices and the share market as well as increases in interest rates and exchange rates.

The probability weights assigned to each scenario are assigned according to management's best estimate of their relative likelihood based on historical frequency, current trends and conditions. The same future forecast scenarios and probability weights apply across all portfolios.

The Group's assessment of SICR also incorporates the impact of multiple probability-weighted future forecast economic scenarios on exposures' internal risk grades using the same four forecast macro-economic scenarios as described above.

In estimating impairment provisions on individually significant defaulted exposures, the Group generally applies conservative assumptions in estimating recovery cash flows. Incorporating multiple forecast economic scenarios is not expected to significantly affect the level of impairment provisions on these credit exposures.

Lifetime of an exposure

For exposures in Stage 2 and Stage 3 impairment provisions are determined as a lifetime expected loss. The Group uses a range of approaches to estimate expected lives of financial instruments subject to ECL requirements:

- *Non-revolving products in corporate portfolios:* Expected life is determined as a maximum contractual period over which the Group is exposed to credit risk;
- *Non-revolving retail products:* For fixed term products such as personal loans and home loans, expected life is determined using behavioural term analysis and does not exceed the maximum contractual period; and
- *Revolving products in corporate and retail portfolios:* For revolving products that include both a loan and an undrawn commitment, such as credit cards and corporate lines of credit, the Group's contractual ability to cancel the undrawn limits and demand repayments does not limit the exposure to credit losses to the contractual notice period. For such products, ECL is measured over the behavioural life.

Incorporation of experienced credit judgement

Management exercises credit judgement in assessing if an exposure has experienced SICR and in determining the amount of impairment provisions at each reporting date. Where applicable, model adjustments are made to incorporate reasonable and supportable information about known or expected risks that have not been considered in the modelling process. This includes but is not limited to information about emerging risk at an industry, geographical location or a particular portfolio segment level.

Governance

The Group's Loan Loss Provisioning Committee (LLPC) is responsible for approving forecast economic scenarios and their associated probability weights. In addition, the LLPC is responsible for approving all model adjustments including those required to account for situations where all relevant information has not been considered in the modelling process.

The Group's loan loss provisions, loan impairment expense and any areas of judgement are reported to the Group's Board Audit Committee.

Classification and Measurement

Under AASB 9 the Group is required to differentiate between financial asset debt instruments and financial asset equity instruments, as follows:

Financial assets - debt instruments

There are three classification models for financial asset debt instruments under AASB 9:

- *Amortised Cost:* Financial assets with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to collect their cash flows are measured at amortised cost;
- *Fair value through other comprehensive income (FVOCI):* Financial assets with contractual cash flows that comprise the payment of principal and interest only and which are held in a business model whose objective is to both collect their cash flows and sell them are measured at FVOCI; and
- *Fair value through profit or loss (FVTPL):* Other financial assets are measured at FVTPL.

Financial assets - equity instruments

Similar to AASB 139, AASB 9 requires equity instruments to be measured at FVTPL but permits non-traded equity investments to be designated at FVOCI on an instrument by instrument basis. Unlike AASB 139, should this election be made under AASB 9, gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, the gains or losses may be reclassified within equity. In addition, impairment provisions are not recognised on these investments.

Financial liabilities

The Group adopted the AASB 9 requirement to recognise changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in own credit risk in other comprehensive income on 1 January 2014. There were no other changes to the classification and measurement of financial liabilities as a result of adoption of AASB 9.

1.1 General Information, Basis of Accounting, New and Future Accounting Standards (continued)

AASB 15 'Revenue from contracts with customers'

On 1 July 2018, the Group adopted AASB 15 'Revenue from Contracts with Customers', replacing the previous standard, AASB 118 'Revenue'. Under AASB 118, revenue is recognised when risks and rewards have transferred from the seller to the buyer. AASB 15 has introduced a single, principle-based five-step recognition and measurement model for revenue recognition. The five steps are:

1. Identify the contract with a customer;
2. Identify the separate performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligation identified in Step 2; and
5. Recognise revenue when a performance obligation is satisfied.

Where there is variable consideration in calculating a transaction price, revenue will only be recognised if it is highly probable that a significant revenue reversal will not subsequently occur. AASB 15 applies to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases.

The Group has used the modified retrospective approach in adopting AASB 15 which recognises the cumulative effect of initial application through opening retained profits as at 1 July 2018. The Group has not restated the comparative period financial statements. The modified retrospective approach applied to contracts not completed at 30 June 2018.

The significant changes to the Group as a result of adopting AASB 15 are:

- *Trail commissions:* Certain trail commission income and expenses that were previously recognised over time by the Group, are recognised at the start of a contract when the performance obligation has been met. This has resulted in the Group recognising the net present value of expected future trail commission income and expenses. For investment referral services, the Group is unable to forecast the trail commission revenue in line with the highly probable test in AASB 15. Therefore trail commission revenue and expenses on investment referral balances are recognised when received or paid; and
- *Upfront fees*: Certain fees in relation to lending, lease and guarantee arrangements are no longer recognised upfront but when the performance obligation to the customer is delivered, which is generally over the life of these contractual arrangements.

  Where the performance obligation is the Group providing a loan, lease arrangement or guarantees over a contractual period, these fees previously recognised upfront are amortised over the expected life of the contracts. This has also resulted in a reclassification from other banking income to interest income.

Refer to the Annual Financial Report for the year ended 30 June 2018 for the accounting policies that have been applied for comparative periods.

Impacts of adopting AASB 9 and AASB 15

The following table summarises the adjustments arising on adoption of the new accounting standards. The adjustments have been recognised against the Group's opening retained profits and reserves as at 1 July 2018.

Notes to the Financial Statements

1.1 General Information, Basis of Accounting, New and Future Accounting Standards (continued)

Impacts of adopting AASB 9 and AASB 15

		AASB 9 Classification and Measurement					AASB 9 Impairment	AASB 15 Revenue		
	30 Jun 18	High Quality Liquid Assets (HQLAs)	NZD Liquid Assets	Non-Traded Equities	Loans with Embedded Features	NZD Certificates of Deposit		Trail Commission	Upfront Fees	1 Jul 18
Assets	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
Assets at fair value through Income Statement	**32,884**	-	(2,148)	235	65	-	-	-	-	**31,036**
Derivative assets	**32,133**	-	-	-	(56)	-	-	-	-	**32,077**
Available-for-sale investments	**82,240**	(78,145)	(3,797)	(298)	-	-	-	-	-	**-**
Investment securities										
At amortised cost	**-**	7,121	-	-	-	-	-	-	-	**7,121**
At fair value through OCI	**-**	71,020	5,945	63	-	-	-	-	-	**77,028**
Loans, bills discounted and other receivables	**743,365**	-	-	-	(10)	-	(968)	-	(151)	**742,236**
Intangible assets	**9,090**	-	-	-	-	-	-	(72)	-	**9,018**
Deferred tax assets	**1,439**	1	-	-	-	-	299	64	72	**1,875**
Other assets	**6,991**	-	-	-	-	-	(10)	351	(8)	**7,324**
Other financial and non-financial assets	**67,023**	-	-	-	-	-	-	-	-	**67,023**
Total assets	**975,165**	(3)	-	-	(1)	-	(679)	343	(87)	**974,738**
Liabilities										
Deposits and other public borrowings	**622,234**	-	-	-	-	1,141	-	-	-	**623,375**
Liabilities at fair value through Income Statement	**10,247**	-	-	-	-	(1,141)	-	-	-	**9,106**
Derivative liabilities	**28,472**	-	-	-	(1)	-	-	-	-	**28,471**
Deferred tax liabilities	**-**	-	-	-	-	-	2	102	(3)	**101**
Other provisions	**1,889**	-	-	-	-	-	87	-	-	**1,976**
Bills payable and other liabilities	**11,596**	-	-	-	-	-	-	223	118	**11,937**
Other financial and non-financial liabilities	**232,867**	-	-	-	-	-	-	-	-	**232,867**
Total liabilities	**907,305**	-	-	-	(1)	-	89	325	115	**907,833**
Shareholders' Equity										
Share capital	**37,270**	-	-	-	-	-	-	-	-	**37,270**
Reserves	**1,676**	(3)	-	-	-	-	3	-	-	**1,676**
Retained profits	**28,360**	-	-	-	-	-	(771)	18	(202)	**27,405**
Non-controlling interest	**554**	-	-	-	-	-	-	-	-	**554**
Total Shareholders' equity	**67,860**	**(3)**	**-**	**-**	**-**	**-**	**(768)**	**18**	**(202)**	**66,905**

1.1 General Information, Basis of Accounting, New and Future Accounting Standards (continued)

AASB 15 'Revenue from contracts with customers'

Trail commission: Other assets and Bills payable and other liabilities have increased by $351 million and $223 million, respectively, to reflect the recognition of trail commission receivable and payable across various arrangements across the Group. This reflects the upfront recognition of certain future trail commission income and expenses when a performance obligation has been met, e.g. a new customer is introduced into a product. This change also led to a $72 million decrease in goodwill on the acquisition of Aussie Home Loans, a $64 million and $102 million increase in deferred tax assets and deferred tax liabilities, respectively. The impact of this change on retained profits as at 1 July 2018 was an increase of $18 million.

Upfront fees: Upfront fees in relation to lending, lease and guarantee arrangements are no longer recognised upfront. Instead, income is recognised over the life of the contractual arrangements. Establishment fees on financing facilities will be deferred on the Group's Balance Sheet in Loans, bills discounted and other receivables, and amortised to interest income over the expected life of the loan in accordance with AASB 9. From 1 July 2018, this has resulted in a reclassification of income from other banking income to interest income. In addition, other annual fees are deferred on Balance Sheet in Bills payable and other liabilities when received and recognised in other banking income on a straight-line basis throughout the year. The impact at 1 July 2018 includes a reduction in Loans, bills discounted and other receivables of $151 million, a reduction in Other assets of $8 million, and an increase in Bills payable and other liabilities of $118 million. The deferral of upfront fees from existing customer contracts resulted in a one-off increase in deferred tax assets of $72 million and a decrease in deferred tax liabilities of $3 million. The impact of this change on retained profits as at 1 July 2018 was a reduction of $202 million.

AASB 9 Classification and Measurement

High quality liquid assets (HQLA): under AASB 139, $78,145 million of the Group's HQLA were included in Available-for-sale investments. $7,121 million of HQLA previously included in Available-for-sale assets are held within the business model held to collect and have been reclassified to Investment securities at amortised cost under AASB 9. These financial assets have been restated to amortised cost and $4 million of unrealised gains (before tax) previously recognised in the Available-for-sale revaluation reserve have been reversed against the carrying value of the assets on 1 July 2018. This also led to a reversal of the deferred tax previously recognised in relation to unrealised gains on these securities through reserves. The Group's deferred tax assets have increased by $1 million and the reserves have decreased by $3 million.

$71,020 million of HQLA previously included in Available-for-sale assets are held within the business model held to collect and sell and have been reclassified to Investment securities at FVOCI under AASB 9. The reclassification did not have an impact on retained profits or total reserves.

NZD liquid assets: under AASB 139, $3,797 million of the Group's NZD liquid assets were included in Available-for-sale investments with the remaining $2,148 million measured at FVTPL. These financial assets are held within the business model held to collect and sell and have been reclassified to Investment securities at FVOCI under AASB 9. The reclassification did not have an impact on retained profits or reserves.

Non-traded equity instruments: the Group had $298 million of non-traded equity instruments included in Available-for-sale investments under AASB 139. One of the equity securities of $235 million was reclassified to Assets at fair value through Income Statement under AASB 9. The remaining $63 million of equity securities have been reclassified to Investment securities at FVOCI under AASB 9. The reclassifications did not have an impact on retained profits or reserves.

Loans with embedded derivatives: the Group issued loans with embedded derivative features. Under AASB 139, the embedded derivatives were bifurcated and accounted for as standalone derivatives at FVTPL; the host loan contracts were measured at amortised cost and included in Loans, bills discounted and other receivables on the Balance sheet. The contractual cash flows on these instruments are not solely payments of principal and interest and they have been reclassified to Assets at fair value through Income Statement together with the related embedded derivative features. The reclassification did not have an impact on retained profits.

NZD Certificates of Deposit (CD): Under AASB 9, $1,141 million of NZD CDs have been reclassified from liabilities at FVTPL to liabilities at amortised cost, as the CDs are not held for trading. The reclassification did not have an impact on retained profits or reserves.

AASB 9 Impairment

The adoption of AASB 9 impairment requirements has resulted in $1,058 million increase in collective provisions. This includes $968 million for Loans, bills discounted and other receivables, $87 million for off-balance sheet instruments (recognised in Other provisions), and $3 million for Investment securities at FVOCI (recognised in reserves). In addition, the Group recognised a $10 million provision on non-lending assets that are not in scope of AASB 9 collective provisioning models. The transition resulted in $299 million increase in deferred tax assets, $2 million increase in deferred tax liabilities and a corresponding $771 million decrease in retained profits as at 1 July 2018.

The increase in impairment provisions has been driven by the AASB 9 requirement to hold provisions equivalent to lifetime expected losses for all loans that have experienced a significant increase in credit risk since origination and the impact of forward looking factors on expected credit losses estimates.

The table below presents the Group's total impairment provisions on lending assets by ECL stage as at 1 July 2018.

1.1 General Information, Basis of Accounting, New and Future Accounting Standards (continued)

	1 July 2018				
	Impairment provisions, $M				
	Stage 1	Stage 2	Stage 3		
	12 months ECL	Lifetime ECL	Lifetime ECL		
Portfolio (1)	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Retail					
Secured lending	206	410	113	253	**982**
Unsecured lending	525	847	233	3	**1,608**
Total retail	731	1,257	346	256	**2,590**
Non-retail					
Corporate and business lending, bank and sovereign entities (2)	145	1,268	74	614	**2,101**
Total	**876**	**2,525**	**420**	**870**	**4,691**

(1) Exposures subject to impairment provisions include drawn balances, undrawn credit commitments, financial guarantees and debt securities at FVOCI.
(2) Stage 1 provision includes $3 million ECL in relation to investment securities at FVOCI.

Future Accounting Developments

AASB 16 'Leases' amends the definition of a lease and 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 on the lease liability will be recognised in the Income Statement using the effective interest rate method, and the right of use asset will be depreciated. Lessor accounting remains largely unchanged. AASB 16 will apply to the Group from 1 July 2019.

AASB 17 ‘Insurance Contracts’, amends the accounting for insurance contracts and will replace AASB 4 ‘Insurance Contracts’, AASB 1023 ‘General Insurance Contracts’ and AASB 1038 ‘Life Insurance Contracts’. AASB 17 will apply to the Group from 1 July 2021. The impact of AASB 17 is dependent on the Group’s composition at the time of adoption.

AASB Interpretation 23 ‘Uncertainty over Income Tax Treatments’ (Interpretation 23) clarifies the application of the recognition and measurement criteria where there is uncertainty over income tax treatments. It requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented. Interpretation 23 will apply to the Group from 1 July 2019.

The potential financial impacts of the above to the Group have not yet been determined.

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

2) Our Performance

Overview

The Group earns its returns from providing a broad range of banking and insurance products and services to retail and wholesale customers in Australia, New Zealand and other jurisdictions.

Lending and deposit taking are the Group's primary business activities with net interest income being the main contributor to the Group's results. Net interest income is derived as the difference between interest earned on lending and investment assets and interest incurred on customer deposits and wholesale debt raised to fund these assets.

The Group further generates income from lending fees and commissions, general insurance products and trading activities. It also incurs costs associated with running the business such as staff, occupancy and technology related expenses.

The Performance section provides details of the main contributors to the Group's returns and analysis of its financial performance by business segments and geographical regions.

2.1 Net interest Income

	Half Year Ended (1) (2)		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Interest Income			
Loans and bills discounted	**16,195**	15,878	15,836
Other financial institutions	**95**	52	88
Cash and liquid assets	**306**	267	192
Assets at fair value through Income Statement	**263**	267	234
Investment securities:			
At amortised cost	**872**	-	-
At fair value through Other Comprehensive Income	**105**	-	-
Available-for-sale investments	**-**	898	831
Total interest income (3)	**17,836**	17,362	17,181
Interest Expense			
Deposits	**5,346**	5,156	5,086
Other financial institutions	**228**	218	200
Liabilities at fair value through Income Statement	**88**	94	73
Debt issues	**2,371**	2,170	1,999
Loan capital	**483**	450	386
Bank levy	**186**	189	180
Total interest expense	**8,702**	8,277	7,924
Net interest income	**9,134**	9,085	9,257

(1) Information has been restated and presented on a continuing operations basis. Refer to Appendix 4.9 to this Document for further details.
(2) Current period amounts reflect the adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 9 and AASB 15 comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.
(3) Interest income calculated using the effective interest method on financial assets measured at amortised cost and fair value through other comprehensive income was $17,573 million (30 June 2018: $16,980 million; 31 December 2017: $16,803 million).

Accounting Policies

Interest income and interest expense on financial assets and liabilities are measured using the effective interest rate method. The effective interest rate method calculates the amortised cost of a financial instrument, such as a loan deposit or issued debt instrument, and allocates the interest income or interest expense over the expected life of the financial instrument.

Fees, transaction costs and issue costs integral to the financial assets and liabilities are capitalised and included in the interest recognised over the expected life of the instrument. This includes fees for providing a loan or a lease arrangement.

Interest income on finance leases is recognised progressively over the life of the lease, consistent with the outstanding investment and unearned income balance.

Interest expense also includes payments made under a liquidity facility arrangement with the Reserve Bank of Australia, the Major Bank levy (Bank levy) expense and other financing charges.

2.2 Other Operating Income

	Half Year Ended (1) (2)		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Other Banking Income			
Lending fees	**507**	551	558
Commissions	**1,360**	1,357	1,355
Trading income	**494**	469	556
Net (loss)/gain on non-trading financial instruments (3)	**(100)**	(81)	139
Net loss on sale of property, plant and equipment	**(4)**	(15)	(2)
Net gain from hedging ineffectiveness	**10**	5	7
Dividends	**2**	7	3
Share of profit from associates and joint ventures net of impairment	**178**	135	182
Other (4)	**84**	87	110
Total other banking income	**2,531**	2,515	2,908
Net Funds Management Operating Income			
Funds management income	**640**	648	611
Claims, policyholder liability and commission expense	**(69)**	(96)	(39)
Net funds management operating income	**571**	552	572
Net Insurance Operating Income			
Premiums from insurance contracts	**346**	339	348
Investment revenue	**3**	2	2
Claims, policyholder liability and commission expense from insurance contracts	**(279)**	(214)	(236)
Net insurance operating income	**70**	127	114
Total other operating income	**3,172**	3,194	3,594

(1) Information has been restated and presented on a continuing operations basis. Refer to Appendix 4.9 to this Document for further details.
(2) Current period amounts reflect the adoption of AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 15 comparative information has not been restated. For details on the adoption of AASB 15 refer to Note 1.1.
(3) Inclusive of non-trading derivatives that are held for risk management purposes.
(4) Includes depreciation of $38 million (30 June 2018: $35 million; 31 December 2017: $39 million).

Accounting Policies

Lending fees and commission income includes:

- Facility fees earned for managing and administering credit and other facilities for customers, which is recognised over the service period;
- Commitment fees to originate a loan that is unlikely to be drawn down are recognised over the commitment period;
- Fee income earned for providing advisory or arrangement services, placement and underwriting services, which are recognised when the related service is completed; and
- Estimated commission income is recognised when a new customer is introduced to a product.

Trading income represents both realised and unrealised gains and losses from changes in the fair value of trading assets, liabilities and derivatives, which are recognised in the period in which they arise.

Net gain/(loss) on non-trading financial instruments includes realised gains and losses from non-trading financial assets and liabilities (i.e. investment securities in 31 December 2018; available-for-sale securities in 30 June 2018 and 31 December 2017), as well as realised and unrealised gains and losses on non-trading derivatives that are held for risk management purposes.

Net gain/(loss) on the disposal of property, plant and equipment is the difference between proceeds received and its carrying value.

Net hedging ineffectiveness is measured on fair value, cash flow and net investment hedges.

Dividends received on non-trading equity investments are recognised either on the ex-dividend date or when the right to receive payment is established.

Funds management operating income includes fees earned where the Group acts as the Responsible Entity, Trustee or Manager for a number of wholesale, superannuation, and investment funds or trusts. Management and performance fees are recognised over the service period. However, performance fees are only included in the transaction price and recognised when it is probable that the revenue will be received.

2.2 Other Operating Income (continued)

General insurance premiums received and receivable are recognised as revenue when they are earned, based on actuarial assessment of the likely pattern in which risk will emerge. The portion not yet earned based on the pattern assessment is recognised as unearned premium liability. Claims are recognised as an expense when the liability is established.

The Group equity accounts for its share of the profits or losses of associate or joint venture investments, net of impairment recognised. Dividends received are recognised as a reduction of the investment carrying amount.

Other income includes rental income on operating leases which are recognised on a straight line basis over the lease term. This is offset by depreciation and impairment expense on the associated operating lease assets held by the Group.

Other income also includes the impact of foreign currency revaluations for foreign currency monetary assets and liabilities. These assets and liabilities are retranslated at the spot rate at balance date. Exchange differences arising upon settling or translating monetary items at different rates to those at which they were initially recognised or previously reported, are recognised in the Income Statement.

Critical accounting judgements and estimates

The amount of trail commission revenue is dependent on assumptions about the behavioural life of the underlying transaction generating the commission. Trail commission income is only recognised to the extent it is highly probable it will not reverse in future periods.

2.3 Operating Expenses

	Half Year Ended (1) (2)		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Staff Expenses			
Salaries and related on-costs	**2,643**	2,484	2,479
Share-based compensation	**37**	15	54
Superannuation	**195**	201	206
Total staff expenses	**2,875**	2,700	2,739
Occupancy and Equipment Expenses			
Operating lease rentals	**332**	335	330
Depreciation of property, plant and equipment	**128**	135	136
Other occupancy expenses	**89**	110	88
Total occupancy and equipment expenses	**549**	580	554
Information Technology Services			
Application, maintenance and development	**338**	298	255
Data processing	**88**	96	104
Desktop	**73**	71	82
Communications	**94**	103	76
Amortisation of software assets (3)	**310**	303	260
Software write-offs	**-**	61	10
IT equipment depreciation	**44**	42	38
Total information technology services	**947**	974	825
Other Expenses			
Postage and stationery	**84**	85	92
Transaction processing and market data	**77**	67	71
Fees and commissions:			
Professional fees	**283**	338	333
Other	**113**	58	75
Advertising, marketing and loyalty	**226**	241	255
Amortisation of intangible assets (excluding software and merger related amortisation)	**6**	10	3
Non-lending losses (4)	**24**	416	422
Other	**105**	70	87
Total other expenses	**918**	1,285	1,338
Operating expenses before restructuring, separation and transaction costs	**5,289**	5,539	5,456
Restructuring, separation and transaction costs (5)	**28**	32	2
Total operating expenses	**5,317**	5,571	5,458

(1) Information has been restated and presented on a continuing operations basis. Refer to Appendix 4.9 to this Document for further details.
(2) Comparative information has been restated to conform to presentation in the current period.
(3) Includes $78 million of amortisation of prepaid software licences (30 June 2018: $68 million; 31 December 2017: $68 million). Prepaid software licences are included in other intangibles.
(4) The half year ended 31 December 2018 includes $145 million insurance recoveries in relation to the AUSTRAC civil penalty. The half year ended 30 June 2018 includes $325 million for the AUSTRAC civil penalty (31 December 2017: $375 million).
(5) The half year ended 31 December 2018 includes $2 million of merger related amortisation (30 June 2018: $2 million; 31 December 2017: $2 million) relating to Bankwest core deposits and customer lists.

2.3 Operating Expenses (continued)

Accounting Policies

Salaries and related on-costs include annual leave, long service leave, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departures, leave utilisation and future salary.

Share-based compensation includes both payments which may be cash or equity settled. Cash settled share-based remuneration is recognised as a liability and re-measured to fair value until settled. The changes in fair value are recognised as staff expenses. Equity settled remuneration is fair valued at the grant date and amortised to staff expenses over the vesting period, with a corresponding increase in the employee compensation reserve.

Superannuation expense includes expenses relating to defined contribution and defined benefit superannuation plans. Defined contribution expense is recognised in the period the service is provided, whilst the defined benefit expense, which measures current and past service costs is determined by an actuarial calculation.

Occupancy and equipment expenses include depreciation which is calculated using the straight line method over the asset's estimated useful life and operating lease rentals which are recognised on a straight line basis over the lease term.

IT services are recognised as incurred unless they qualify for capitalisation as computer software due to the expenditure generating probable future economic benefits. If capitalised, the computer software is subsequently amortised over its estimated useful life. The Group assesses at each Balance Sheet date useful lives and residual values and whether there is any objective evidence of impairment. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Operating expenses are recognised as the relevant service is rendered. Operating expenses related to provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated.

Critical accounting judgements and estimates

Actuarial valuations of the Group's defined benefit superannuation plans' obligations are dependent on a series of assumptions set out in Note 10.2 in the 2018 Annual Report including inflation rates, discount rates and salary growth rates. Changes in these assumptions impact the carrying amount of the plans' obligations, assets, superannuation expense and actuarial gains and losses recognised in Other Comprehensive Income.

2.4 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. Business segments are managed on the basis of net profit after tax ("cash basis"). During the half year ended 31 December 2018 the Group made a number of structural changes to its operating segments. This includes merging Bankwest with Retail Banking Services, transferring Commonwealth Financial Planning and General Insurance businesses from Wealth Management to Retail Banking Services and migrating Small Business banking customers from Retail Banking Services to Business and Private Banking. In addition, refinements have been made to the allocation of support units and other costs. These changes have not impacted the Group's net profit after tax ("cash basis"), but have resulted in changes to the presentation of the Income Statement and the Balance Sheet of the affected segments.

	Half Year Ended 31 December 2018 (1)						
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	IFS and Corporate Centre $M	Total $M
Net interest income	4,706	2,588	724	-	933	183	**9,134**
Other banking income:							
Commissions	717	397	101	-	154	(10)	**1,359**
Lending fees	106	194	178	-	29	-	**507**
Trading and other income	86	137	302	-	53	192	**770**
Total other banking income	909	728	581	-	236	182	**2,636**
Total banking income	5,615	3,316	1,305	-	1,169	365	**11,770**
Funds management income	71	-	-	441	63	(5)	**570**
Insurance income	68	-	-	-	-	-	**68**
Total operating income	5,754	3,316	1,305	441	1,232	360	**12,408**
Investment experience (2)	6	-	-	8	-	(11)	**3**
Total income	5,760	3,316	1,305	449	1,232	349	**12,411**
Operating expenses	(2,255)	(1,138)	(514)	(250)	(440)	(692)	**(5,289)**
Loan impairment expense	(318)	(167)	(38)	-	(42)	(12)	**(577)**
Net profit before tax	3,187	2,011	753	199	750	(355)	**6,545**
Corporate tax (expense)/benefit	(955)	(604)	(173)	(63)	(211)	143	**(1,863)**
Non-controlling interests	-	-	-	-	-	(6)	**(6)**
Net profit after tax from continuing operations - "cash basis"	2,232	1,407	580	136	539	(218)	**4,676**
Net profit after tax from discontinued operations	-	-	-	127	-	(35)	**92**
Net profit after tax - "cash basis" (3)	2,232	1,407	580	263	539	(253)	**4,768**
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	-	-	13	(156)	113	(44)	**(74)**
Hedging and IFRS volatility	-	-	-	-	(94)	3	**(91)**
Other non-cash items	(1)	-	-	(3)	-	-	**(4)**
Net profit after tax - "statutory basis"	2,231	1,407	593	104	558	(294)	**4,599**
Additional information							
Amortisation and depreciation	(97)	(81)	(19)	(10)	(38)	(245)	**(490)**
Balance Sheet							
Total assets	404,551	172,831	160,528	19,442	92,434	130,644	**980,430**
Total liabilities	276,172	137,755	149,277	23,781	85,890	238,977	**911,852**

(1) Information has been presented on a continuing operations basis.
(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 ($91 million loss), gain net of transaction and separation costs associated with the disposal of CommInsure Life and Sovereign ($75 million), transaction and separation costs associated with the disposal of CFSGAM ($100 million), transaction and separation costs associated with other businesses ($31 million) and NewCo demerger ($18 million), Bankwest non-cash items ($1 million expense) and treasury shares valuation adjustment ($3 million expense).

2.4 Financial Reporting by Segments (continued)

	Half Year Ended 30 June 2018 [1]						
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	IFS and Corporate Centre $M	Total $M
Net interest income	4,772	2,550	707	-	911	145	**9,085**
Other banking income:							
Commissions	714	398	98	-	141	5	**1,356**
Lending fees	124	180	220	-	28	(1)	**551**
Trading and other income	83	131	238	-	39	111	**602**
Total other banking income	921	709	556	-	208	115	**2,509**
Total banking income	5,693	3,259	1,263	-	1,119	260	**11,594**
Funds management income	66	-	-	424	59	2	**551**
Insurance income	129	-	-	-	-	(3)	**126**
Total operating income	5,888	3,259	1,263	424	1,178	259	**12,271**
Investment experience [2]	4	-	-	6	-	(8)	**2**
Total income	5,892	3,259	1,263	430	1,178	251	**12,273**
Operating expenses	(2,207)	(1,130)	(561)	(233)	(445)	(963)	**(5,539)**
Loan impairment expense	(325)	(139)	25	-	(51)	7	**(483)**
Net profit before tax	3,360	1,990	727	197	682	(705)	**6,251**
Corporate tax (expense)/benefit	(1,007)	(597)	(165)	(58)	(190)	90	**(1,927)**
Non-controlling interests	-	-	-	-	-	(7)	**(7)**
Net profit after tax from continuing operations - "cash basis"	2,353	1,393	562	139	492	(622)	**4,317**
Net profit after tax from discontinued operations	-	-	-	209	47	(32)	**224**
Net profit after tax - "cash basis" [3]	2,353	1,393	562	348	539	(654)	**4,541**
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	-	-	-	(38)	3	(91)	**(126)**
Hedging and IFRS volatility	-	-	-	-	(19)	24	**5**
Other non-cash items	(2)	-	-	5	-	-	**3**
Net profit after tax - "statutory basis"	2,351	1,393	562	315	523	(721)	**4,423**
Additional information							
Amortisation and depreciation	(98)	(86)	(21)	(10)	(41)	(236)	**(492)**
Balance Sheet							
Total assets	397,986	174,635	162,125	19,459	90,022	130,938	**975,165**
Total liabilities	268,400	136,603	153,644	24,455	82,976	241,227	**907,305**

(1) Comparative information has been restated to conform to presentation in the current period, and to reflect a number of structural changes to operating segments. Refer to Appendix 4.9 to this Document for further details.
(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 ($5 million gain), transaction and separation costs associated with the disposal of CommInsure Life and Sovereign ($14 million), and impairment due to the reclassification of TymeDigital SA as discontinued operation ($91 million), demerger costs for NewCo ($21 million), Bankwest non-cash items ($2 million expense) and treasury shares valuation adjustment ($5 million gain).

2.4 Financial Reporting by Segments (continued)

	Half Year Ended 31 December 2017 [1]						
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	IFS and Corporate Centre $M	Total $M
Net interest income	4,873	2,565	727	-	849	243	**9,257**
Other banking income:							
Commissions	679	422	103	-	144	7	**1,355**
Lending fees	144	175	214	-	27	(2)	**558**
Trading and other income	83	119	364	-	36	191	**793**
Other banking income	906	716	681	-	207	196	**2,706**
Total banking income	5,779	3,281	1,408	-	1,056	439	**11,963**
Funds management income	103	-	-	417	53	(5)	**568**
Insurance income	113	-	-	-	-	(1)	**112**
Total operating income	5,995	3,281	1,408	417	1,109	433	**12,643**
Investment experience [2]	4	-	-	4	-	(2)	**6**
Total income	5,999	3,281	1,408	421	1,109	431	**12,649**
Operating expenses	(2,142)	(1,100)	(506)	(257)	(415)	(1,036)	**(5,456)**
Loan impairment expense	(327)	(108)	(105)	-	(23)	(33)	**(596)**
Net profit before tax	3,530	2,073	797	164	671	(638)	**6,597**
Corporate tax (expense)/benefit	(1,060)	(621)	(189)	(48)	(188)	113	**(1,993)**
Non-controlling interests	-	-	-	-	-	(6)	**(6)**
Net profit after tax from continuing operations - "cash basis"	2,470	1,452	608	116	483	(531)	**4,598**
Net profit after tax from discontinued operations	-	-	-	243	49	(19)	**273**
Net profit after tax - "cash basis" [3]	2,470	1,452	608	359	532	(550)	**4,871**
(Loss)/gain on acquisition, disposal, closure and demerger of businesses	58	-	-	(101)	(21)	7	**(57)**
Hedging and IFRS volatility	-	-	-	-	106	(10)	**96**
Other non-cash items	(1)	-	-	(3)	-	-	**(4)**
Net profit after tax - "statutory basis"	2,527	1,452	608	255	617	(553)	**4,906**
Additional information							
Amortisation and depreciation	(71)	(79)	(24)	(8)	(36)	(221)	**(439)**
Balance Sheet							
Total assets	391,641	172,284	164,438	18,921	85,745	128,901	**961,930**
Total liabilities	268,281	134,045	151,701	24,116	78,917	238,779	**895,839**

(1) Comparative information has been restated to conform to presentation in the current period, and to reflect a number of structural changes to operating segments. Refer to Appendix 4.9 to this Document for further details.
(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 ($96 million gain), transaction and separation costs associated with the disposal of CommInsure Life and Sovereign ($122 million), a gain recognised on acquisition of AHL ($58 million), a gain on sale of China County Banks ($11 million), and a loss due to the dilution of Group's interest in Qilu Bank Co. Ltd ($4 million), Bankwest non-cash items ($1 million expense) and treasury shares valuation adjustments ($3 million expense).

2.4 Financial Reporting by Segments (continued)

Geographical Information Financial Performance and Position	Half Year Ended [1] 31 Dec 18 $M	 31 Dec 18 %	 31 Dec 17 $M	 31 Dec 17 %
Income				
Australia	**10,668**	**86. 7**	11,187	87. 1
New Zealand	**1,155**	**9. 4**	1,148	8. 9
Other locations [2]	**483**	**3. 9**	516	4. 0
Total Income	**12,306**	**100. 0**	12,851	100. 0
Non-Current Assets				
Australia	**12,662**	**94. 4**	13,610	93. 7
New Zealand	**615**	**4. 6**	534	3. 7
Other locations [2]	**132**	**1. 0**	381	2. 6
Total non-current assets [3]	**13,409**	**100. 0**	14,525	100. 0

(1) Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 7.3.
(2) Other locations include: United Kingdom, United States, Japan, Singapore, Malta, Hong Kong, Indonesia, China and Vietnam.
(3) Non-current assets include Property, plant and equipment, Investments in associates and joint ventures, and Intangible Assets.

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

Accounting Policies

Operating segments are reported based on the Group's organisational and management structures. Senior management review the Group's internal reporting based around these segments, in order to assess performance and allocate resources.
All transactions between segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated in "Other".

2.5 Income Tax Expense

	Half Year Ended [1]		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Profit before income tax	**6,412**	6,225	6,797
Prima facie income tax at 30%	**1,924**	1,868	2,039
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:			
Taxation offsets and other dividend adjustments	**-**	-	(7)
Offshore tax rate differential	**(20)**	(17)	(19)
Offshore banking unit	**(18)**	(17)	(22)
Effect of changes in tax rates	**-**	-	15
Income tax over provided in previous years	**(62)**	(5)	(65)
Non-deductible expense provision [2]	**-**	98	112
Other	**7**	(8)	(20)
Total income tax expense	**1,831**	1,919	2,033
Effective tax rate (%)	**28. 6**	30. 8	29. 9

(1) Information has been restated and presented on a continuing operations basis. Refer to Appendix 4.9 to this Document for further details.
(2) Relates to the AUSTRAC civil penalty, which is non-deductible for tax purposes.

Accounting Policies

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the Balance Sheet method where temporary differences are identified by comparing the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities (i.e. through use or through sale), using tax rates which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available for it to be used against. Deferred tax assets and liabilities are offset where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

The Bank and its wholly owned Australian subsidiaries elected to be treated as a single entity (“the tax consolidated group”) under the tax consolidation regime from 1 July 2002. The members of the tax consolidated group have entered into tax funding and tax sharing agreements, which set out the funding obligations and members.

Any current tax liabilities / assets and deferred tax assets from unused tax losses from subsidiaries in the tax consolidated group are recognised by the Bank legal entity and funded in line with the tax funding arrangement. The measurement and disclosure of deferred tax assets and liabilities have been performed on a modified stand-alone basis under UIG 1052 ‘Tax Consolidation Accounting’.

Critical accounting judgements and estimates

Provisions for taxation require significant judgement with respect to outcomes that are uncertain. For such uncertainties, the Group has estimated its tax provisions based on its expected outcomes.

Notes to the Financial Statements

Overview

Lending is the Group's primary business activity, generating most of its net interest income and lending fees. The Group satisfies customers' needs for borrowed funds by providing a broad range of lending products in Australia, New Zealand and other jurisdictions. As a result of its lending activities the Group assumes credit risk arising from the potential that borrowers will fail to meet their obligations in accordance with agreed lending terms.

This section provides details of the Group's lending portfolio by type of product and geographical regions, analysis of the credit quality of the Group's lending portfolio and the related impairment provisions.

3.1 Loans, Bills Discounted and Other Receivables

	As at		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Australia			
Overdrafts	**25,920**	25,217	25,575
Home loans [1]	**458,983**	451,367	443,953
Credit card outstandings	**11,521**	11,877	12,215
Lease financing	**4,676**	4,318	4,500
Bills discounted [2]	**2,854**	4,280	5,830
Term loans and other lending	**146,416**	147,028	147,767
Total Australia	**650,370**	644,087	639,840
New Zealand			
Overdrafts	**1,030**	1,123	1,130
Home loans [1]	**52,626**	49,425	47,874
Credit card outstandings	**1,077**	993	1,006
Lease financing	**14**	23	25
Term loans and other lending	**29,440**	27,303	26,268
Total New Zealand	**84,187**	78,867	76,303
Other Overseas			
Overdrafts	**551**	534	468
Home loans	**896**	873	861
Lease financing	**-**	2	4
Term loans and other lending	**23,353**	23,666	23,620
Total Other Overseas	**24,800**	25,075	24,953
Gross loans, bills discounted and other receivables	**759,357**	748,029	741,096
Less:			
Provisions for Loan Impairment [3]:			
Collective provision	**(3,711)**	(2,735)	(2,749)
Individually assessed provisions	**(920)**	(870)	(974)
Unearned income:			
Term loans	**(792)**	(692)	(677)
Lease financing	**(427)**	(367)	(380)
	(5,850)	(4,664)	(4,780)
Net loans, bills discounted and other receivables	**753,507**	743,365	736,316

(1) Home loans balance includes residential mortgages that have been assigned to securitisation vehicles and covered bond trusts. Further detail on these residential mortgages is disclosed in Note 4.4 of the 2018 Annual Financial Report.

(2) On adoption of AASB 9 on 1 July 2018 the Group reclassified bills discounted from the trading category under AASB 139 to the amortised cost category under AASB 9 as the bills no longer meet the definition of the trading asset and they are held under the business model to collect. The reclassification did not have an impact on the Group's retained profits. As permitted by AASB 9, comparative information has not been restated.

(3) The adoption of AASB 9 impairment requirements has resulted in $1,055 million increase in collective provisions on 1 July 2018. This includes $968 million for loans, bills discounted and other receivables and $87 million for off-balance sheet instruments (recognised in other provisions). As permitted by AASB 9, comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1.

3) Our Lending Activities

3.1 Loans, Bills Discounted and Other Receivables (continued)

Accounting Policy

Loans, bills discounted and other receivables are financial assets that are measured at amortised cost. Loans, bills discounted and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, discounted bills and finance leases.

Loans, bills discounted and other receivables are recognised on settlement date, when funding is advanced to the borrowers. They are initially recognised at their fair value plus directly attributable transaction costs such as broker fees. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method and are presented net of provisions for impairment. For the accounting policy for provisions for impairment for the half year ended 31 December 2018, please refer to Note 3.2.

Finance leases, where the Group acts as lessor, are also included in Loans, bills discounted and other receivables. Finance leases are those where substantially all the risks and rewards of the lease asset have been transferred to the lessee. Lease receivables are recognised at an amount equal to the net investment in the lease. Finance lease income reflects a constant periodic return on this net investment and is recognised within interest income in the Income Statement.

Critical accounting judgements and estimates

When applying this effective interest method the Group has estimated the behavioural term of each loan portfolio by reference to historical prepayment rates and the contractual maturity.

3.2 Provisions for Impairment and Asset Quality

The tables below provide information about the credit quality of the Group's assets.

	As at 31 December 2018				
	Home Loans $M	Other Personal (1) $M	Asset Financing $M	Other Commercial Industrial $M	Total $M
Loans which were neither past due nor impaired					
Investment Grade	303,438	4,280	752	93,633	**402,103**
Pass Grade	183,621	15,083	7,253	114,377	**320,334**
Weak	12,051	1,758	154	4,287	**18,250**
Total loans which were neither past due nor impaired	499,110	21,121	8,159	212,297	**740,687**
Loans which were past due but not impaired (2)					
Past due 1 - 29 days	6,184	877	156	1,253	**8,470**
Past due 30 - 59 days	1,989	242	71	188	**2,490**
Past due 60 - 89 days	993	141	16	103	**1,253**
Past due 90 - 179 days	1,340	17	5	198	**1,560**
Past due 180 days or more	1,349	9	-	297	**1,655**
Total loans past due but not impaired	11,855	1,286	248	2,039	**15,428**

(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.

(2) Includes assets in Stage 3 that have defaulted, but have not been classified as credit impaired as the loans are well secured and expected to be recovered.

During the half year ended 31 December 2018, the Group implemented new Australian residential mortgage regulatory capital models which resulted in movements of credit risk exposures across PD bands. There was a reduction in investment grade and an increase in pass and weak grade home loans exposures as a result of this change.

3.2 Provisions for Impairment and Asset Quality (continued)

	As at 30 June 2018				
	Home Loans $M	Other Personal [1] $M	Asset Financing $M	Other Commercial Industrial $M	Total $M
Loans which were neither past due nor impaired					
Investment Grade	323,464	4,608	652	95,362	**424,086**
Pass Grade	156,698	15,407	7,859	109,263	**289,227**
Weak	8,455	4,045	243	3,713	**16,456**
Total loans which were neither past due nor impaired	488,617	24,060	8,754	208,338	**729,769**
Loans which were past due but not impaired					
Past due 1 - 29 days	5,930	755	159	1,438	**8,282**
Past due 30 - 59 days	1,932	224	42	206	**2,404**
Past due 60 - 89 days	1,068	140	12	101	**1,321**
Past due 90 - 179 days	1,455	14	4	155	**1,628**
Past due 180 days or more	1,318	9	-	261	**1,588**
Total loans past due but not impaired	11,703	1,142	217	2,161	**15,223**

	As at 31 December 2017				
	Home Loans $M	Other Personal [1] $M	Asset Financing $M	Other Commercial Industrial $M	Total $M
Loans which were neither past due nor impaired					
Investment Grade	317,389	4,222	717	101,247	**423,575**
Pass Grade	152,117	14,825	7,793	108,909	**283,644**
Weak	9,149	3,090	162	2,934	**15,335**
Total loans which were neither past due nor impaired	478,655	22,137	8,672	213,090	**722,554**
Loans which were past due but not impaired					
Past due 1 - 29 days	6,787	817	165	1,287	**9,056**
Past due 30 - 59 days	1,986	219	79	200	**2,484**
Past due 60 - 89 days	912	131	15	110	**1,168**
Past due 90 - 179 days	1,153	14	2	137	**1,306**
Past due 180 days or more	1,096	9	-	249	**1,354**
Total loans past due but not impaired	11,934	1,190	261	1,983	**15,368**

(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.

3.2 Provisions for Impairment and Asset Quality (continued)

The following tables provide information about the Group's impaired assets.

	Half Year Ended		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Movement in gross impaired assets [(1)]			
Gross impaired assets - opening balance	**3,179**	3,367	3,187
New and increased	**1,186**	882	1,254
Balances written off	**(617)**	(658)	(538)
Returned to performing or repaid [(2)]	**(542)**	(799)	(867)
Portfolio managed - new/increased/return to performing/repaid [(2)]	**354**	387	331
Gross impaired assets - closing balance [(3)]	**3,560**	3,179	3,367

(1) As at 31 December 2018, impaired assets include those assets in Stage 3 that are considered impaired, as well as restructured assets in Stage 2.
(2) Comparative information has been restated to conform to the current period.
(3) Includes $3,242 million of loans and advances and $318 million of other financial assets (30 June 2018: $3,037 million of loans and advances and $142 million of other financial assets; 31 December 2017: $3,174 million of loans and advances and $193 million of other financial assets.)

	As at		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Impaired assets by size of asset [(1)]			
Less than $1 million	**1,711**	1,557	1,412
$1 million to $10 million	**728**	766	860
Greater than $10 million	**1,121**	856	1,095
Gross impaired assets	**3,560**	3,179	3,367
Less total provisions for impaired assets [(2)]	**(1,187)**	(1,068)	(1,160)
Net impaired assets	**2,373**	2,111	2,207

(1) As at 31 December 2018, impaired assets include those assets in Stage 3 that are considered impaired, as well as restructured assets in Stage 2. Provisions for impaired assets include $31 million for restructured assets in Stage 2.
(2) Includes $920 million of individually assessed provisions and $267 million of collective provisions (30 June 2018: $870 million of individually assessed provisions and $198 million of collective provisions; 31 December 2017: $978 million of individually assessed provisions and $182 million of collective provisions).

3.2 Provisions for Impairment and Asset Quality (continued)

The following table provides information about movements in the Group's provision for impairment losses.

	Half Year Ended		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Provision for impairment losses			
Collective provision			
Opening balance	**2,763**	2,772	2,747
Change on adoption of AASB 9 (1)	**1,055**	-	-
Net collective provision funding	**312**	331	385
Impairment losses written off	**(438)**	(438)	(433)
Impairment losses recovered	**104**	97	104
Other	**18**	1	(31)
Closing balance	**3,814**	2,763	2,772
Individually assessed provisions			
Opening balance	**870**	978	980
Net new and increased individual provisioning	**348**	255	370
Write-back of provisions no longer required	**(83)**	(103)	(159)
Discount unwind to interest income	**(10)**	(11)	(14)
Impairment losses written off	**(244)**	(313)	(235)
Other	**39**	64	36
Closing balance	**920**	870	978
Total provisions for impairment losses	**4,734**	3,633	3,750
Less: Provision for Off Balance Sheet exposures	**(103)**	(28)	(27)
Total provisions for loan impairment	**4,631**	3,605	3,723

(1) The adoption of AASB 9 impairment requirements has resulted in $1,055 million increase in collective provisions on 1 July 2018. This includes $968 million for loans, bills discounted and other receivables and $87 million for off-balance sheet instruments (recognised in other provisions). As permitted by AASB 9, comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1

	Half Year Ended		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Loan impairment expense			
Net collective provision funding	**312**	331	385
Net new and increased individual provisioning	**348**	255	370
Write-back of individually assessed provisions	**(83)**	(103)	(159)
Total loan impairment expense	**577**	483	596

3.2 Provisions for Impairment and Asset Quality (continued)

The following table presents the Group's total impairment provisions on lending assets by ECL stage as at 31 December 2018.

	31 December 2018				
	Impairment provisions, $M				
	Stage 1	Stage 2	Stage 3 [1]		
	12 months ECL	Lifetime ECL	Lifetime ECL		
Portfolio [2]	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Retail					
Secured lending	239	400	122	254	**1,015**
Unsecured lending	505	877	207	5	**1,594**
Total retail	744	1,277	329	259	**2,609**
Non-retail					
Corporate and business lending, bank and sovereign entities	152	1,238	74	661	**2,125**
Total	**896**	**2,515**	**403**	**920**	**4,734**

(1) Stage 3 provisions include $1,156 million in relation to assets that are considered impaired and $167 million in relation to defaulted assets that are not considered impaired as they are well secured and expected to be recovered.
(2) Exposures subject to impairment provisions include drawn balances, undrawn credit commitments and financial guarantees.

	As at		
	31 Dec 18 %	30 Jun 18 %	31 Dec 17 %
Provision ratios			
Total provisions for impaired assets as a % of gross impaired assets	**33. 34**	33. 60	34. 45
Total provisions for impairment losses as a % of gross loans and acceptances	**0. 62**	0. 49	0. 51

Accounting Policy

By providing loans to customers the Group bears the risk that the future circumstances of customers might change, including their ability to repay their loans in part or in full. While the Group's credit and responsible lending policies aim to minimise this risk, there will always be instances where the Group will not receive the full amount owed and hence a provision for expected credit losses will be necessary.

On 1 July 2018, the Group adopted the AASB 9 impairment requirements, which resulted in the implementation of an expected credit loss impairment model. As a result, from 1 July 2018 provisions are recognised in accordance with the AASB 9 expected credit loss approach. The details of the Group's accounting policies and critical accounting judgements and estimates involved in calculating AASB 9 provisions for impairment for the half year ended 31 December 2018 are provided in Note 1.1.

4) Our Deposits and Funding Activities

Overview

Stable and well diversified funding sources are critical to the Group's ability to fund its lending and investing activities and support growing its business.

Our main sources of funding include customer deposits and term funds raised in domestic and offshore wholesale markets via issuing debt securities and loan capital. The Group also relies on repurchase agreements as a source of short-term wholesale funding.

Refer to Note 9.4 of the 2018 Annual Report for the Group's management of liquidity and funding risk.

4.1 Deposits and Other Public Borrowings

	As at (1)		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Australia			
Certificates of deposit	**30,849**	31,405	35,871
Term deposits	**155,976**	149,924	155,471
On-demand and short-term deposits	**299,521**	300,607	300,492
Deposits not bearing interest	**48,081**	46,082	43,929
Securities sold under agreements to repurchase	**17,382**	14,696	12,270
Total Australia	**551,809**	542,714	548,033
New Zealand			
Certificates of deposit	**3,450**	2,339	2,162
Term deposits	**31,484**	29,580	27,919
On-demand and short-term deposits	**22,328**	20,629	20,758
Deposits not bearing interest	**5,114**	4,418	4,244
Total New Zealand	**62,376**	56,966	55,083
Other Overseas			
Certificates of deposit	**9,347**	6,170	8,798
Term deposits	**11,432**	14,316	10,962
On-demand and short-term deposits	**1,420**	2,011	1,962
Deposits not bearing interest	**35**	57	59
Securities sold under agreements to repurchase	**591**	-	-
Total Other Overseas	**22,825**	22,554	21,781
Total deposits and other public borrowings	**637,010**	622,234	624,897

(1) Current period balances reflect the adoption of AASB 9 'Financial Instruments' on 1 July 2018. As permitted by AASB 9, comparative information has not been restated. For details on adoption of AASB 9, refer to Note 1.1.

Accounting Policy

Deposits from customers include certificates of deposit, term deposits, savings deposits, other demand deposits and debentures. Deposits are initially recognised at their fair value less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost. Interest incurred is recognised within Net Interest Income using the effective interest method.

Securities sold under repurchase agreements are retained in the Financial Statements where substantially all the risks and rewards of ownership remain with the Group. A liability for the agreed repurchase amount is recognised within deposits and other public borrowings.

5) Our Capital, Equity and Reserves

Overview

The Group maintains a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors and creditors and adequate return to its shareholders. The Group's Shareholders' Equity includes issued ordinary shares, retained profits and reserves.

This section provides analysis of the Group's Shareholder's Equity including changes during the period.

5.1 Shareholders' Equity

	Half Year Ended		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Ordinary Share Capital			
Shares on issue:			
Opening balance	**37,535**	37,002	35,266
Issue of shares (net of issue costs) (1)	**-**	-	164
Dividend reinvestment plan (net of issue costs) (2)	**748**	533	1,572
	38,283	37,535	37,002
Less treasury shares:			
Opening balance	**(265)**	(226)	(295)
Purchase of treasury shares (3)	**(74)**	(83)	(12)
Sale and vesting of treasury shares (3)	**71**	44	81
	(268)	(265)	(226)
Closing balance	**38,015**	37,270	36,776
Retained Profits			
Opening balance	**28,360**	27,267	26,274
Changes on adoption of new accounting standards (4)	**(955)**	-	-
Restated opening balance	**27,405**	27,267	26,274
Actuarial (losses)/gains from defined benefit superannuation plans	**(79)**	117	44
Losses on liabilities at fair value due to changes in own credit risk	**-**	(1)	(1)
Realised gains and dividend income on treasury shares	**7**	4	12
Net profit attributable to equity holders of the Bank	**4,599**	4,423	4,906
Total available for appropriation	**31,932**	31,810	31,235
Transfers from general reserve	**72**	42	5
Transfers from asset revaluation reserve	**20**	13	6
Transfers to employee compensation reserve	**-**	-	-
Interim dividend - cash component	**-**	(2,969)	-
Interim dividend - dividend reinvestment plan (2)	**-**	(536)	-
Final dividend - cash component	**(3,316)**	-	(2,406)
Final dividend - dividend reinvestment plan (2)	**(749)**	-	(1,573)
Closing balance	**27,959**	28,360	27,267

(1) During the half year dated 31 December 2017 shares issued relate to the acquisition of the remaining 20% interest in AHL Holdings Pty Limited.

(2) The determined dividend includes an amount attributable to the dividend reinvestment plan of $749 million (final 2017/2018), $536 million (interim 2017/2018), and $1,573 million (final 2016/2017). The value of shares issued under plans rules net of issue costs for the respective periods was $748 million, $533 million and $1,572 million.

(3) Relates to the movements in treasury shares held within life insurance statutory funds and the employee share scheme trust.

(4) The Group adopted AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 July 2018 as if the Group has always applied the new requirements. As permitted by AASB 9 and AASB 15, comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.

5.1 Shareholders' Equity (continued)

Accounting Policy

Ordinary Share Capital:

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs. Where the Bank or other entities within the Group purchase shares in the Bank, the consideration paid is deducted from total Shareholders' Equity and the shares are treated as treasury shares until they are subsequently sold, reissued or cancelled. Where such shares are sold or reissued, any consideration received is included in Shareholders' Equity.

Retained Profits:

Retained profits includes the accumulated profits for the Group including certain amounts recognised directly in retained profits less dividends paid.

	Half Year Ended		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Reserves			
General Reserve			
Opening balance	**859**	901	906
Appropriation to retained profits	**(72)**	(42)	(5)
Closing balance	**787**	859	901
Asset Revaluation Reserve			
Opening balance	**235**	217	223
Revaluation of properties	**-**	35	-
Transfer to retained profits	**(20)**	(13)	(6)
Income tax effect	**6**	(4)	-
Closing balance	**221**	235	217
Foreign Currency Translation Reserve			
Opening balance	**448**	222	457
Currency translation adjustments of foreign operations	**413**	238	(247)
Currency translation of net investment hedge	**(30)**	(2)	17
Income tax effect	**(3)**	(10)	(5)
Closing balance	**828**	448	222
Cash Flow Hedge Reserve			
Opening balance	**(160)**	(151)	(107)
Gains and (losses) on cash flow hedging instruments:			
Recognised in other comprehensive income	**218**	(18)	(242)
Transferred to Income Statement:			
Interest income	**(301)**	(466)	(494)
Interest expense	**402**	485	675
Income tax effect	**(102)**	(10)	17
Closing balance	**57**	(160)	(151)
Employee Compensation Reserve			
Opening balance	**145**	115	164
Current period movement	**(42)**	30	(49)
Closing balance	**103**	145	115

5.1 Shareholders' Equity (continued)

	Half Year Ended		
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Investment Securities Revaluation Reserve			
Opening balance	**-**	-	-
Change on adoption of AASB 9 (1)	**149**	-	-
Restated opening balance	**149**	-	-
Net losses on revaluation of investment securities	**(114)**	-	-
Net gains on investment securities transferred to Income Statement on disposal	**(34)**	-	-
Income tax effect	**54**	-	-
Closing balance	**55**	-	-
Available-for-sale Investments Reserve			
Opening balance	**149**	190	226
Change on adoption of AASB 9 (1)	**(149)**	-	-
Restated opening balance	**-**	190	226
Net losses on revaluation of available-for-sale investments	**-**	(116)	(69)
Net losses on available-for-sale investments transferred to Income Statement on disposal	**-**	67	20
Income tax effect	**-**	8	13
Closing balance	**-**	149	190
Total Reserves	**2,051**	1,676	1,494
Shareholders' Equity attributable to Equity holders of the Bank	**68,025**	67,306	65,537
Shareholders' Equity attributable to Non-controlling interests	**553**	554	554
Total Shareholders' Equity	**68,578**	67,860	66,091

(1) On adoption of AASB 9 'Financial Instruments' on 1 July 2018 the Group reclassified net unrealised gains/(losses) on investment securities from available-for-sale investment reserves to investment securities revaluation reserve.

Accounting Policy

Reserves:

General Reserve

The general reserve is derived from revenue profits and is available for dividend payments except for undistributable profits in respect of the Group's life insurance business.

Asset Revaluation Reserve

The asset revaluation reserve is used to record revaluation adjustments on the Group's property assets. Where an asset is sold or disposed of any balance in the reserve in relation to the asset is transferred directly to retained profits.

Foreign Currency Translation Reserve

Exchange differences arising on translation of the Group's foreign operations are accumulated in the foreign currency translation reserve. Specifically assets and liabilities are translated at the prevailing exchange rate at Balance Sheet date; revenue and expenses are translated at the transaction date; and all resulting exchange differences are recognised in the foreign currency translation reserve.

When a foreign operation is disposed of, exchange differences are reclassified to profit or loss.

Cash Flow Hedge Reserve

The cash flow hedge reserve is used to record fair value gains or losses associated with the effective portion of designated cash flow hedging instruments. Amounts are reclassified to profit or loss when the hedged transaction impacts profit or loss.

Employee Compensation Reserve

The employee compensation reserve is used to recognise the fair value of shares and other equity instruments issued to employees under the employee share plans and bonus schemes.

5.1 Shareholders' Equity (continued)

Investment Securities Revaluation Reserve

The investment securities revaluation reserve includes changes in the fair value of investment securities measured at fair value through other comprehensive income. For debt securities, these changes are reclassified to profit or loss when the asset is derecognised. For equity securities, these changes are not reclassified to profit or loss when derecognised.

6) Fair Values

Overview

The Group holds a range of financial instruments as a result of its Lending, Investing and Funding activities. Some of the financial instruments are actively traded on stock exchanges or in over-the-counter markets whilst others do not have liquid markets. This section provides information about fair values of the Group's financial instruments including description of valuation methodologies used and classification of financial instruments according to liquidity and observability of inputs used in deriving the fair values.

6.1 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 values and fair value hierarchy of the Group's financial instruments not measured at fair value as at 31 December 2018 are presented below.

	31 Dec 18		30 Jun 18	
	Carrying value $M	Fair value $M	Carrying value $M	Fair value $M
Financial assets not measured at fair value on a recurring basis				
Cash and liquid assets	37,220	37,220	36,417	36,417
Receivables due from other financial institutions	7,744	7,744	9,222	9,222
Investment securities at amortised cost	6,990	6,966	-	-
Loans, bills discounted and other receivables (1)	753,507	753,291	739,085	739,545
Bank acceptances of customers	53	53	379	379
Other assets	4,535	4,535	5,455	5,455
Assets held for sale (2)	544	544	192	192
Total financial assets	**810,593**	**810,353**	790,750	791,210
Financial liabilities not measured at fair value on a recurring basis				
Deposits and other public borrowings	637,010	637,100	622,234	622,327
Payables due to other financial institutions	22,545	22,545	20,899	20,899
Bank acceptances	53	53	379	379
Debt issues	168,851	169,528	172,294	173,895
Bills payable and other liabilities	6,412	6,412	9,271	9,271
Loan capital	22,831	23,261	22,992	23,697
Liabilities held for sale (2)	3,229	3,229	2,621	2,621
Total financial liabilities	**860,931**	**862,128**	850,690	853,089

(1) On adoption of AASB 9 on 1 July 2018 the Group reclassified bills discounted from the trading category under AASB 139 to the amortised cost category under AASB 9 as the bills no longer meet the definition of the trading asset and they are held under the business model to collect. As permitted by AASB 9, comparative information has not been restated.

(2) As at 31 December 2018, assets and liabilities of CommInsure Life, CFSGAM, PT Commonwealth Life and the Group's investment in BoComm Life are presented as held for sale. As at 30 June 2018, assets and liabilities of CommInsure Life and Sovereign and the Group's investment in BoComm Life are presented as held for sale.

6.1 Disclosures about Fair Values (continued)

(b) 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 2018				Fair Value as at 30 June 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$M	$M	$M	$M	$M	$M	$M	$M
Financial assets measured at fair value on a recurring basis (1)								
Assets at fair value through Income Statement:								
Trading	24,933	8,682	-	**33,615**	22,078	10,176	-	32,254
Insurance	-	-	-	**-**	-	372	-	372
Other	47	982	-	**1,029**	49	209	-	258
Derivative assets	36	28,456	77	**28,569**	42	31,998	93	32,133
Investment securities at fair value through Other Comprehensive Income	73,601	1,588	57	**75,246**	-	-	-	-
Available-for-sale investments	-	-	-	**-**	74,234	7,941	65	82,240
Bills discounted (2)	-	-	-	**-**	4,280	-	-	4,280
Assets held for sale	582	7,696	1,667	**9,945**	2,012	8,061	1,818	11,891
Total financial assets measured at fair value	99,199	47,404	1,801	**148,404**	102,695	58,757	1,976	163,428
Financial liabilities measured at fair value on a recurring basis (1)								
Liabilities at fair value through Income Statement	1,584	7,446	-	**9,030**	1,724	8,523	-	10,247
Derivative liabilities	12	26,026	267	**26,305**	57	28,075	340	28,472
Life investment contracts	-	-	-	**-**	-	337	-	337
Liabilities held for sale	14	6,259	364	**6,637**	5	6,985	353	7,343
Total financial liabilities measured at fair value	1,610	39,731	631	**41,972**	1,786	43,920	693	46,399

(1) As at 31 December 2018, assets and liabilities of CommInsure Life, CFSGAM, PT Commonwealth Life and the Group's investment in BoComm Life are presented as held for sale. As at 30 June 2018, assets and liabilities of CommInsure Life and Sovereign and the Group's investment in BoComm Life are presented as held for sale.

(2) On adoption of AASB 9 on 1 July 2018 the Group reclassified bills discounted from the trading category under AASB 139 to the amortised cost category under AASB 9 as the bills no longer meet the definition of the trading asset and they are held under the business model to collect. The reclassification did not have an impact on the Group's retained profits. As permitted by AASB 9, comparative information has not been restated.

6.1 Disclosures about Fair Values (continued)

(c) Analysis of Movements between Fair Value Hierarchy Levels

During the half year ended 31 December 2018 there have been no reclassifications between Level 1 and Level 2.

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 periods. Transfers in and out of Level 3 were due to changes in the observability of inputs.

Level 3 Movement Analysis for the half year ended 31 December 2018

	Financial Assets				Financial Liabilities	
	Derivative Assets	Investment Securities at Fair Value through OCI	Available for sale	Assets held for sale [1]	Derivative Liabilities	Liabilities held for sale [1]
	$M	$M	$M	$M	$M	$M
As at 30 June 2018	93	-	65	1,818	(340)	(353)
Changes on adoption of new accounting standards [2]	-	65	(65)	-	-	-
Purchases	-	-	-	-	-	-
Sales/Settlements	-	(4)	-	(156)	-	-
Gains/(losses) in the period:						
Recognised in the Income Statement	(16)	-	-	5	73	-
Recognised in the Statement of Comprehensive Income	-	(4)	-	-	-	-
Transfers in	-	-	-	-	-	(11)
Transfers out	-	-	-	-	-	-
As at 31 December 2018	77	57	-	1,667	(267)	(364)
Gains/(losses) recognised in the Income Statement for financial instruments held as at 31 December 2018	(16)	-	-	5	73	-

(1) As at 31 December 2018, assets and liabilities of CommInsure Life, CFSGAM, PT Commonwealth Life and the Group's investment in BoComm are presented as held for sale. As at 30 June 2018, assets and liabilities of CommInsure Life, Sovereign and the Group's investment in BoComm Life are presented as held for sale.

(2) Current period balances reflect the adoption of AASB 9 'Financial Instruments' on 1 July 2018. As permitted by AASB 9 comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1. Level 3 available-for-sale securities were reclassified to Investment securities measured at fair value through other comprehensive income on adoption of AASB 9 on 1 July 2018.

Accounting Policy

Valuation

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 the measurement date. On initial recognition, the transaction price generally represents the fair value of the financial instrument, unless there is observable information from an active market that provides a more appropriate fair value.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. Assets and long positions are measured at a quoted bid price; liabilities and short positions are measured at a quoted asking price. Where the Group has positions with offsetting market risks, mid-market prices are used to measure the offsetting risk positions and a quoted bid or asking price adjustment is applied only to the net open position as appropriate.

Non-market quoted financial instruments are mostly valued using valuation techniques based on observable inputs except where observable market data is unavailable. Where market data is unavailable the financial instrument is initially recognised at the transaction price, which is generally the best indicator of fair value. This may differ from the value obtained from the valuation model. The timing of the recognition in the Income Statement of this initial difference in fair value depends on the individual facts and circumstances of each transaction, but is never later than when the market data becomes observable. The difference may be either amortised over the life of the transaction, recognised when the inputs become observable or on de-recognition of the instrument, as appropriate.

6.1 Disclosures about Fair Values (continued)

Accounting Policy (continued)

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.

Fair Value Hierarchy

The Group utilises various valuation techniques and applies a hierarchy for valuation inputs that maximise the use of observable market data, if available. Under AASB 13 'Fair Value Measurement' all financial and non-financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

Quoted Prices in Active Markets – Level 1

This category includes assets and liabilities for which the valuation is 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

This category includes assets and liabilities that have been 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, mortgage-backed securities and OTC derivatives including interest rate swaps, cross currency swaps and FX options.

Valuation Technique Using Significant Unobservable Inputs – Level 3

This category includes assets and liabilities where the valuation incorporates significant inputs 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 and Bank are assets backing insurance liabilities held through infrastructure funds, certain exotic OTC derivatives and certain asset-backed securities valued using unobservable inputs.

Critical accounting judgements and estimates

Valuation techniques are used to estimate the fair value of securities. When using valuation techniques the Group makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that the Group believes market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Data inputs that the Group relies upon when valuing financial instruments relate to counterparty credit risk, volatility, correlation and extrapolation.

Periodically, the Group calibrates its valuation techniques and tests them for validity using prices from any observable current market transaction in the same instruments (i.e. without modification or repackaging) and any other available observable market data.

7) Other Information

7.1 Contingent Liabilities, Contingent Assets and Commitments arising from the banking business

Details of contingent liabilities and off Balance Sheet instruments are presented below and in Note 7.2 Litigations, investigations and reviews. 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, bills discounted and other receivables in the Balance Sheet should they be drawn upon by the customer.

	Face Value		Credit Equivalent	
	31 Dec 18	30 Jun 18	**31 Dec 18**	30 Jun 18
Credit risk related instruments	**$M**	$M	**$M**	$M
Guarantees	**6,257**	6,265	**5,134**	5,185
Documentary letters of credit	**535**	761	**533**	753
Performance related contingents	**4,884**	4,610	**2,613**	2,531
Commitments to provide credit	**161,912**	162,090	**157,520**	157,636
Other commitments	**2,198**	1,470	**2,198**	1,470
Total credit risk related instruments	**175,786**	175,196	**167,998**	167,575

Accounting Policy

Credit default financial guarantees are unconditional undertakings given to support the obligations of a customer to third parties. Other forms of financial guarantees include documentary letters of credit which 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. Financial guarantees are recognised within other liabilities and initially measured at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income Statement, and the amount of the expected credit losses. Any increase in the liability relating to financial guarantees is recorded in the Income Statement. The premium received is recognised in the Income Statement in other operating income on a straight line basis over the life of the guarantee.

Performance related contingents are undertakings that oblige the Group to pay third parties should a customer fail to fulfil a contractual non-monetary obligation. Performance related contingents are performance guarantees and do not meet the definition of a financial guarantee, because they do not transfer credit risk. Performance guarantees are recognised when it is probable that an obligation has arisen. The amount of any provision is the best estimate of the amount required to fulfil the obligation.

Commitments to provide credit include all obligations on the part of the Group to provide credit facilities (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Loan commitments that are cancellable by the Group are not recognised on the Balance Sheet. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with accounting policies for financial assets. Irrevocable loan commitments are not recorded in the Balance Sheet, but a provision is recognised in Other Provisions using the ECL model under AASB 9. Refer to Note 1.1 for accounting policies related to ECL. Other commitments to provide credit include commitments with certain drawdowns, standby letters of credit and bill endorsements.

7.2 Litigations, investigations and reviews

The Group is party to legal proceedings and the subject of investigations and reviews, including the matters outlined below as at 31 December 2018. Provisions have been raised where indicated in line with the principles outlined in the accounting policy section of this note.

Litigations

Shareholder Class Actions

In October 2017, CBA was served with a shareholder class action proceeding filed in the Federal Court of Australia alleging breaches of CBA's continuous disclosure obligations and misleading and deceptive conduct in relation to the subject matter of the civil penalty proceedings brought by Australian Transaction Reports and Analysis Centre (AUSTRAC) (see further details below). It is alleged that CBA shareholders who acquired an interest in CBA shares between 1 July 2015 and 3 August 2017 suffered loss caused by the alleged conduct. On 29 June 2018 a similar second shareholder class action in relation to the subject matter of the AUSTRAC civil proceedings was served on CBA on behalf of certain CBA shareholders who acquired an interest in CBA shares between 16 June 2014 and 3 August 2017. The class action lawyers have now filed an application seeking permission to consolidate the two shareholder class actions so they proceed as one court proceedings. It is likely the court will make this order following a court hearing on 6 February 2019.

It is currently not possible to determine the ultimate impact of these claims, if any, on the Group. The Group denies the allegations and intends to defend both claims. The Group has provided for legal costs expected to be incurred to defend these claims.

Superannuation Class Action

On 9 October 2018, a class action claim was filed against CBA and Colonial First State Investments Limited (CFSIL) in the Federal Court of Australia. The claim relates to investment in cash and deposit options (which are cash and deposit products prioritised by CBA) in Colonial First State FirstChoice Superannuation Trust and Commonwealth Essential Super. The main allegation is that members with these options in the funds received lower interest rates on them than they would have, had CFSIL put them in equivalent products with higher interest rates obtainable on the market. It is alleged that CBA was involved in CFSIL's breaches as trustee of the funds and CFSIL's breaches as Responsible Entity of the underlying managed investment schemes. The amount claimed has not been quantified so it is currently not possible to determine the ultimate impact of these claims, if any, on the Group. Both CBA and CFSIL deny the allegations and intend to defend the claim. CBA and CFSIL served their defence to the claim on 20 December 2018. The Group has made provision for the legal costs expected to be incurred in the defence of the claim.

AUSTRAC Civil Proceedings

On 20 June 2018, the Federal Court approved the agreement between CBA and AUSTRAC to resolve the civil penalty proceedings commenced by AUSTRAC on 3 August 2017 concerning contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) (AML/CTF Act). Accordingly, CBA recognised a civil penalty expense of $700 million together with AUSTRAC's legal costs of $2.5 million in its financial statements for the full year ended 30 June 2018.

CBA has acted to strengthen its financial crime capabilities, and has invested significantly, recognising the crucial role that it plays, including through its Program of Action with coverage across all aspects of financial crime (including AML/CTF, sanctions and anti-bribery and corruption) and all business units.

CBA is committed to ensuring that the necessary work is done as quickly as possible and that the Group works cooperatively with AUSTRAC to continue to develop an AML/CTF compliance function of the highest standard.

The Group has provided for certain costs of running the Program of Action.

ASIC Bank Bill Swap Rate

On 21 June 2018, the Federal Court approved the agreement between CBA and the Australian Securities and Investment Commission (ASIC) to resolve the proceedings concerning alleged market manipulation and unconscionable conduct in respect of the bank bill market. Accordingly CBA has paid a civil penalty of $5 million and a community benefit payment of $15 million to Financial Literacy Australia. It also has agreed to pay ASIC's costs of the investigation and legal costs. The Group has provided for these costs in the prior period.

As part of the settlement CBA also entered into an Enforceable Undertaking with ASIC under which CBA undertook to engage an independent expert to assess changes it has made (and will make) to its policies, procedures, controls systems, training, guidance and framework for the monitoring and supervision of employees and trading in Prime Bank Bills and CBA's BBSW referenced product businesses. On 5 October 2018, CBA appointed Ernst & Young as the independent expert. CBA provided its BBSW Program of remediation work to ASIC and Ernst & Young on 21 December 2018.

Investigations and reviews

ASIC's investigation

In September 2017, following the commencement of the civil proceedings against CBA by AUSTRAC, ASIC launched an investigation in relation to the Group's disclosure in respect of the allegations raised in connection with the AUSTRAC proceedings. ASIC is investigating, among other things, whether the officers and directors at CBA complied with their obligations under the Corporations Act 2001 (Cth). CBA continues to engage with ASIC in respect of the investigation and respond to requests made by ASIC. It is currently not possible to predict the ultimate outcome of this investigation, if any, on the Group. The Group has provided for the legal costs expected to be incurred in relation to this investigation.

APRA's Prudential Inquiry into CBA

On 28 August 2017, APRA announced it would establish an independent prudential inquiry (the Inquiry) into the Group with the goal of identifying shortcomings in the governance, culture and accountability frameworks.

The final report of the Inquiry was released on 1 May 2018 (the Final Report). The Final Report made a number of findings regarding the complex interplay of organisational and cultural factors within the Group and the need for enhanced management of non-financial risks. In response to the Final Report, the Group acknowledged that it will implement all of the recommendations and agreed to adjust its minimum operational risk capital requirements by an additional $1 billion

7.2 Litigations, investigations and reviews (continued)

(risk weighted assets $12.5 billion) until such time as the recommendations are implemented to APRA's satisfaction.

CBA has entered into an Enforceable Undertaking under which CBA's remedial action (Remedial Action Plan) in response to the Final Report would be agreed and monitored regularly by APRA. On 29 June 2018 CBA announced that APRA had endorsed CBA's Remedial Action Plan, which details CBA's response to the 35 recommendations of the Inquiry in the Final Report. The Remedial Action Plan provides a detailed program of change outlining how CBA will improve the way it runs its business, manages risk, and works with regulators. The Remedial Action Plan also provides a comprehensive assurance framework, with Promontory Australasia (Sydney) having been appointed as the independent reviewer and which is required to report to APRA on the Group's progress every 3 months, with the first report being submitted on 28 September 2018 and the second report on 20 December 2018.

The Group has expensed the costs incurred in relation to the Inquiry.

The Royal Commission

On 30 November 2017, the Australian Government announced the establishment of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The former High Court Justice, the Honourable Kenneth Hayne AC QC was appointed as the Commissioner.

The purpose of the Royal Commission was to inquire into the conduct of banks, insurers, superannuation funds and other financial services institutions, and to assess the effectiveness of existing regulatory frameworks and mechanisms for customer redress.

During the course of 2018, the Royal Commission conducted rounds of public hearings, focusing on key elements of the financial services industry, including consumer lending, financial advice, lending to small and medium enterprises, superannuation, general and life insurance, and experiences with financial services entities in regional and remote communities.

The Group engaged openly and transparently with the Royal Commission and responded to the various requirements of the Royal Commission, including providing requested documents, attending hearings, and preparing submissions. The Group provided for costs incurred in relation to the conduct of the Royal Commission.

The Commissioner's final report was delivered to Government on 1 February 2019. The Commissioner's report outlined misconduct findings in relation to the financial services industry including the Group and policy recommendations that will form the basis of regulatory changes. The Group is working through the matters raised in the Commissioner's final report.

ASIC's Close and Continuing Monitoring Program

On 28 October 2018 ASIC commenced its first onsite review of CBA as part of its enhanced Close and Continuing Monitoring Program (CCM Program) of the financial services industry. ASIC has stated that the CCM Program represents a more intensive supervisory approach by ASIC which includes regularly placing ASIC staff onsite in major financial institutions to closely monitor their governance and compliance with laws.

The first onsite review of CBA as part of the CCM Program took place over seven and a half weeks with up to nine ASIC supervisors onsite.

The focus of the CCM Program is on compliance with financial services laws. ASIC has indicated further onsite reviews will continue to be conducted.

Remediation and Compliance Programs

The Group undertakes ongoing compliance activities, including review of products, advice, conduct and services provided to customers, as well as interest, fees and premiums charged.

Some of these investigations and reviews have resulted in remediation programs and where required the Group consults with the respective regulator on the proposed remediation action. There is a risk that where a breach has occurred, regulators may also impose fines and/or sanctions.

Provisions are recognised when it is probable an outflow will be required to address a past event and where a reliable estimate is available. The provisions will cover both the cost of running the programs, together with anticipated remediation costs. There remains a contingent liability with respect to these matters, however the aggregate potential liability of the above matters cannot be accurately assessed.

New Zealand Compliance Audit Findings

The Labour Inspectorate in New Zealand is undertaking a programme of compliance audits on a number of organisations in respect of the Holidays Act 2003 (the "Holidays Act"). On 18 December 2018 ASB Bank Limited (ASB) received the Labour Inspectorate's report of its findings on ASB's compliance with the Holidays Act.

The findings, based on a sample of employees, include that ASB has not complied with the requirements of the Holidays Act by not including certain incentive payments in ASB's calculation of gross earnings under the Holidays Act. ASB's position in relation to that finding is that the application of the law is uncertain and yet to be definitively determined. That finding, if extrapolated to ASB's entire workforce, would result in an estimated liability of NZD31 million in total for the preceding six years' annual holiday payments. ASB will continue to engage with the Labour Inspectorate on the matter.

ASB is considering the other matters noted in the report, however expect these to not be material, and will work with the Labour Inspectorate in 2019 to progress an appropriate resolution of those matters.

Accounting Policy

The Group recognises a provision for a liability when it is probable that an outflow of economic benefits will be required to settle a present obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

Where a provision is not recognised, a contingent liability may exist. A contingent liability is a possible obligation whose existence will be confirmed only by one or more uncertain future events, or a present obligation where an outflow of economic resources is not probable or the obligation cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet, but are disclosed unless an outflow of economic resources is remote.

7.3 Discontinued Operations

Completed transactions

Life Insurance businesses in New Zealand

During the 2018 financial year, the Group announced the sale of 100% of its New Zealand life insurance businesses (Sovereign) to AIA Group Limited (AIA) for $1.3 billion. The sale agreement includes a long-term partnership with AIA for the provision of life insurance products to customers in New Zealand. The sale of Sovereign completed on 2 July 2018, resulting in a total post-tax gain of $95 million (net of transaction and separation costs).

TymeDigital SA

On 1 November 2018, the Group completed the sale of Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to the minority shareholder, African Rainbow Capital, resulting in a total post-tax loss of $113 million.

Ongoing transactions

BoComm Life

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoComm Life Insurance Company Limited (BoComm Life) to Mitsui Sumitomo Insurance Co. Ltd (MSI). On completion, CBA is expected to receive proceeds of $891 million. The sale is subject to regulatory approvals in China, and is expected to be completed in the first half of calendar year 2019.

Life Insurance businesses in Australia

During the 2018 financial year, the Group announced the sale of 100% of its Australian life insurance businesses (CommInsure Life) to AIA for $2.5 billion. The sale agreement includes a long-term partnership with AIA for the provision of life insurance products to customers in Australia.

The sale of CommInsure Life remains subject to the completion of the BoComm Life transfer and its associated regulatory approvals. The sale is expected to be completed in the first half of calendar year 2019.

PT Commonwealth Life

On 23 October 2018, the Group announced the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), will enter into a 15-year life insurance distribution partnership with FWD.

On completion, CBA is expected to receive $426 million in consideration for the sale of PTCL and entering the distribution partnership. The sale is subject to regulatory approvals in Indonesia and is expected to complete in the first half of calendar year 2019.

Colonial First State Global Asset Management

On 31 October 2018, the Group announced the sale of Colonial First State Global Asset Management (CFSGAM) to Mitsubishi UFJ Trust and Banking Corporation (MUTB) for total cash consideration of $4.1 billion. As a result of the sale, CFSGAM will not be included in the previously announced demerger of CBA's wealth management and Mortgage Broking businesses. The sale is subject to a number of regulatory approvals in various jurisdictions including in Australia, Japan, Hong Kong, Singapore, the United Kingdom and the United States. The sale is expected to complete in mid calendar year 2019.

Financial Impact of Discontinued Operations on the Group

The performance and net cash flows of the Group's interests in CommInsure Life, Sovereign, BoComm Life, PTCL, CFSGAM and TymeDigital SA are set out in the tables on pages 134-135.

The balance sheet of the Group's interest in CommInsure Life, Sovereign, BoComm Life, PTCL and CFSGAM are set out in the table on page 135. TymeDigital SA did not meet the held for sale classification criteria as at 30 June 2018.

7.3 Discontinued Operations (continued)

Income Statement

	Half Year Ended (1)		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Net interest income	**4**	2	(2)
Other banking income	**17**	12	9
Net banking operating income	**21**	14	7
Funds management income	**530**	621	573
Investment (expense)/revenue	**(144)**	184	319
Claims, policyholder liability and commission revenue/(expense)	**34**	(236)	(368)
Net funds management operating income	**420**	569	524
Premiums from insurance contracts	**623**	977	1,089
Investment revenue	**122**	117	250
Claims, policyholder liability and commission expense from insurance contracts	**(613)**	(747)	(955)
Net insurance operating income	**132**	347	384
Total net operating income before operating expenses	**573**	930	915
Operating expenses	**(487)**	(597)	(513)
Net profit before tax	**86**	333	402
Corporate tax expense	**(34)**	(77)	(95)
Policyholder tax	**41**	(24)	(34)
Net profit after tax and before transaction and separation costs	**93**	232	273
Gains/(losses) on disposals of businesses net of transaction and separation costs	**(65)**	(105)	(122)
Non-controlling interests	**(4)**	(3)	(3)
Net profit after income tax from discontinued operations attributable to Equity holders of the Bank	**24**	124	148

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

Earnings per share for profit from discontinued operations attributable to equity holders of the parent:

	Half Year Ended (1)		
	31 Dec 18	30 Jun 18	31 Dec 17
		Cents per Share	
Earnings per share from discontinued operations:			
Basic	**1. 4**	7. 1	8. 5
Diluted	**1. 3**	6. 6	7. 9

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

7.3 Discontinued Operations (continued)

Cash Flow Statement

	Half Year Ended (1) (2)		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Net cash used in operating activities	**(432)**	(290)	(265)
Net cash from investing activities	**362**	500	557
Net cash used in financing activities	**(20)**	(208)	(425)
Net cash (outflows)/inflows from discontinued operations	**(90)**	2	(133)

(1) Comparative information has been restated to conform to presentation in the current period.
(2) Represents cash flows from the underlying businesses classified as discontinued operations and excludes proceeds from disposal.

Balance Sheet

	As at (1) (2)		
	31 Dec 18	30 Jun 18	31 Dec 17
Assets held for sale	$M	$M	$M
Cash and liquid assets	**292**	108	115
Assets at fair value through Income Statement	**9,619**	11,867	11,413
Investment securities at fair value through other comprehensive income	**272**	-	-
Available-for-sale investments	**-**	10	12
Intangible assets	**1,773**	1,372	1,473
Property, plant and equipment	**1,699**	1,225	1,191
Investment in associates and joint ventures	**587**	401	-
Deferred tax assets	**99**	13	6
Other assets	**871**	630	677
Total assets (3)	**15,212**	15,626	14,887
Liabilities held for sale			
Insurance policy liabilities	**10,447**	11,188	11,516
Current tax liabilities	**66**	-	3
Deferred tax liabilities	**208**	763	753
Deposits and other public borrowings	**1,187**	871	863
Managed funds units on issue	**1,714**	1,698	1,065
Other liabilities	**728**	380	343
Total liabilities	**14,350**	14,900	14,543

(1) Intragroup balances have been eliminated, however will impact the final gain/loss on disposal of the discontinued operations.
(2) Balances as at 31 December 2018 include assets and liabilities of CommInsure Life, PT Commonwealth Life, CFSGAM and the Group's investment in BoComm Life (30 June 2018: assets and liabilities of CommInsure Life, Sovereign and the Group's investment in BoComm Life; 31 December 2017: assets and liabilities of CommInsure, Sovereign and the Group's investment in BoComm Life).
(3) Excludes businesses or assets that are held for sale, which do not form part of the Group's discontinued operations.

As at 31 December 2018, the foreign currency translation reserve related to discontinued operations was $84 million (30 June 2018: $90 million, 31 December 2017: $102 million); the investment securities revaluation reserve related to discontinued operations was $1 million.

As at 30 June 2018 and 31 December 2017, the available-for-sale investments revaluation reserve related to discontinued operations was $4 million and $14 million, respectively.

7.4 Subsequent Events

The Directors have declared a fully franked interim dividend of 200 cents per share amounting to $3,540 million.

The Bank expects the DRP for the interim dividend for the half year ended 31 December 2018 will be satisfied in full by an on-market purchase of shares of approximately $637 million.

Acquisition of an additional interest in Property Exchange Australia Limited

On 16 January 2019, the Group completed its acquisition of an additional interest in its associate, Property Exchange Australia Limited (PEXA) for $50 million, increasing the Group's ownership interest in the associate to 15.8%. PEXA is now 100% held by the consortium bid partners, which include the Group, Link Administration Holdings Limited and Morgan Stanley Infrastructure Partners Inc.

Redemption of New Zealand Perpetual Preference Shares

On 5 February 2019, the Board approved the redemption of New Zealand Perpetual Preference Shares issued by its New Zealand subsidiaries, ASB Capital Limited and ASB Capital No.2 Limited, (ASB PPS1 and ASB PPS2) at their total par value of NZD550 million plus any accrued dividends, in accordance with the terms of the securities. The redemption is expected to be completed in May 2019. As at 31 December 2018, the ASB PPS1 and ASB PPS2 represented $505 million of the total equity attributable to non-controlling interests of $553 million.

Ongoing service fees in Commonwealth Financial Planning

Commonwealth Financial Planning Limited (CFP) entered into an Enforceable Undertaking (EU) with ASIC in April 2018 and agreed to certain variations on 20 December 2018. Under the EU CFP agreed, among other things, to provide attestations by 31 January 2019 to ASIC in relation to remediation of ongoing service over the period July 2015 to January 2018 and in relation to CFP's current ongoing service compliance systems and processes. Although a range of improvements to CFP's systems, processes and controls regarding ongoing service have been made, CFP identified that further improvements were required to satisfy the standards set out in the Enforceable Undertaking (EU) and informed ASIC of this.

Accordingly, from 1 February 2019 CFP will not enter into any new ongoing service arrangements and has also commenced the process to stop charging ongoing service fees to existing customers until the conditions of the EU have been satisfied.

Royal Commission Final Report

On 30 November 2017, the Australian Government announced the establishment of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The purpose of the Royal Commission was to inquire into the conduct of banks, insurers, superannuation funds and other financial services institutions, and to assess the effectiveness of existing regulatory frameworks and mechanisms for customer redress.

The Commissioner's final report was delivered to Government on 1 February 2019. The report outlined misconduct findings in relation to the financial services industry, including the Group in relation to a number of matters considered at the hearings during the course of 2018. We will cooperate fully with any regulatory investigations.

The report also set out 76 policy recommendations that are expected to form the basis of regulatory changes. The Group is working through the matters raised in the Commissioner's final report.

Directors' Declaration

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 2018, as set out on pages 92 to 136, 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 2018 and its performance for the six months ended 31 December 2018; 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	Matt Comyn
Chairman	Managing Director and Chief Executive Officer
5 February 2019	5 February 2019

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of the Commonwealth Bank of Australia Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration for the Commonwealth Bank of Australia Group (the Group). The Group 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 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 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 Group's financial position as at 31 December 2018 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 the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a 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 financial report of the Company is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
5 February 2019

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Section 7 – Appendices

Appendices

1) Our Performance

1.1 Net Interest Margin (continuing operations basis)

	Half Year Ended [1]		
	31 Dec 18	30 Jun 18	31 Dec 17
	%	%	%
Australia			
Interest spread [2]	**1. 92**	1. 98	2. 01
Benefit of interest-free liabilities, provisions and equity [3]	**0. 27**	0. 24	0. 24
Net interest margin [4]	**2. 19**	2. 22	2. 25
New Zealand			
Interest spread [2]	**1. 68**	1. 70	1. 66
Benefit of interest-free liabilities, provisions and equity [3]	**0. 34**	0. 35	0. 31
Net interest margin [4]	**2. 02**	2. 05	1. 97
Other Overseas			
Interest spread [2]	**0. 45**	0. 60	0. 74
Benefit of interest-free liabilities, provisions and equity [3]	**0. 09**	0. 05	0. 05
Net interest margin [4]	**0. 54**	0. 65	0. 79
Total Group			
Interest spread [2]	**1. 84**	1. 90	1. 92
Benefit of interest-free liabilities, provisions and equity [3]	**0. 26**	0. 24	0. 24
Net interest margin [4]	**2. 10**	2. 14	2. 16

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(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.

1.2 Average Balances and Related Interest (continuing operations basis)

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 2018, 30 June 2018 and 31 December 2017. 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 and New Zealand remained flat.

	Half Year Ended 31 Dec 18			Half Year Ended 30 Jun 18 (1)			Half Year Ended 31 Dec 17 (1)		
	Avg Bal	**Interest**	**Yield**	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
Interest Earning Assets	**$M**	**$M**	**%**	$M	$M	%	$M	$M	%
Home loans (2)	**461,693**	**10,077**	**4. 33**	455,462	9,862	4. 37	447,814	9,961	4. 41
Consumer finance (3)	**22,703**	**1,350**	**11. 80**	23,383	1,399	12. 07	23,148	1,394	11. 95
Business and corporate loans	**222,579**	**4,768**	**4. 25**	223,452	4,617	4. 17	226,596	4,481	3. 92
Loans, bills discounted and other receivables	**706,975**	**16,195**	**4. 54**	702,297	15,878	4. 56	697,558	15,836	4. 50
Cash and other liquid assets	**48,489**	**401**	**1. 64**	46,198	319	1. 39	46,344	280	1. 20
Assets at fair value through Income Statement (excluding life insurance)	**25,192**	**263**	**2. 07**	24,943	267	2. 16	24,721	234	1. 88
Investment Securities:									
At fair value through Other Comprehensive Income	**76,018**	**872**	**2. 28**	-	-	-	-	-	-
At amortised cost	**6,990**	**105**	**2. 98**	-	-	-	-	-	-
Available-for-sale investments	**-**	**-**	**-**	83,612	898	2. 17	82,899	831	1. 99
Non-lending interest earning assets	**156,689**	**1,641**	**2. 08**	154,753	1,484	1. 93	153,964	1,345	1. 73
Total interest earning assets (4)	**863,664**	**17,836**	**4. 10**	857,050	17,362	4. 09	851,522	17,181	4. 00
Non-interest earning assets (2)	**98,181**			108,521			105,006		
Assets held for sale	**15,965**			15,659			14,895		
Total average assets	**977,810**			981,230			971,423		

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Net of average mortgage offset balances included in Non-interest earning assets. Gross average home loans balance, excluding mortgage offset accounts is $506,054 million (30 June 2018: $497,441 million, 31 December 2017: $487,502 million).
(3) Consumer finance includes personal loans, credit cards and margin loans.
(4) Used for calculating Net interest margin.

1.2 Average Balances and Related Interest (continuing operations basis) (continued)

	Half Year Ended 31 Dec 18			Half Year Ended 30 Jun 18 [(1)]			Half Year Ended 31 Dec 17 [(1)]		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
Interest Bearing Liabilities	$M	$M	%	$M	$M	%	$M	$M	%
Transaction deposits [(2)]	**77,716**	**297**	**0. 76**	72,266	281	0. 78	71,873	275	0. 76
Savings deposits [(2)]	**180,104**	**1,033**	**1. 14**	181,907	1,105	1. 22	183,086	1,176	1. 27
Investment deposits	**220,786**	**2,820**	**2. 53**	221,881	2,657	2. 41	218,940	2,599	2. 35
Certificates of deposit and other	**61,519**	**1,196**	**3. 86**	59,181	1,113	3. 79	63,005	1,036	3. 26
Total interest bearing deposits	**540,125**	**5,346**	**1. 96**	535,235	5,156	1. 94	536,904	5,086	1. 88
Payables due to other financial institutions	**22,338**	**228**	**2. 02**	25,252	218	1. 74	28,601	200	1. 39
Liabilities at fair value through Income Statement	**9,356**	**88**	**1. 87**	8,696	94	2. 18	9,078	73	1. 60
Debt issues	**170,152**	**2,371**	**2. 76**	170,431	2,170	2. 57	163,855	1,999	2. 42
Loan capital	**22,683**	**483**	**4. 22**	22,138	450	4. 10	19,011	386	4. 03
Bank levy	**-**	**186**	**-**	-	189	-	-	180	-
Total interest bearing liabilities	**764,654**	**8,702**	**2. 26**	761,752	8,277	2. 19	757,449	7,924	2. 08
Non-interest bearing liabilities [(2)]	**131,676**			137,929			134,326		
Liabilities held for sale	**13,741**			14,902			14,543		
Total average liabilities	**910,071**			914,583			906,318		

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Net of average mortgage offset balances which are included in Non-interest bearing liabilities.

1.2 Average Balances and Related Interest (continuing operations basis) (continued)

	Half Year Ended 31 Dec 18			Half Year Ended 30 Jun 18 (1)			Half Year Ended 31 Dec 17 (1)		
	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	863,664	17,836	4. 10	857,050	17,362	4. 09	851,522	17,181	4. 00
Total interest bearing liabilities	764,654	8,702	2. 26	761,752	8,277	2. 19	757,449	7,924	2. 08
Net interest income and interest spread		9,134	1. 84		9,085	1. 90		9,257	1. 92
Benefit of free funds			0. 26			0. 24			0. 24
Net interest margin			2. 10			2. 14			2. 16

	Half Year Ended 31 Dec 18			Half Year Ended 30 Jun 18 (1)			Half Year Ended 31 Dec 17 (1)		
Geographical Analysis	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
of Key Categories	$M	$M	%	$M	$M	%	$M	$M	%
Loans, Bills Discounted and Other Receivables									
Australia	601,934	13,742	4. 53	598,119	13,550	4. 57	596,579	13,560	4. 51
New Zealand (2)	80,374	1,971	4. 86	78,521	1,901	4. 88	75,458	1,862	4. 89
Other Overseas (2)	24,667	482	3. 88	25,657	427	3. 36	25,521	414	3. 22
Total	706,975	16,195	4. 54	702,297	15,878	4. 56	697,558	15,836	4. 50
Non-Lending Interest Earning Assets									
Australia	109,144	1,278	2. 32	105,831	1,173	2. 24	110,886	1,113	1. 99
New Zealand (2)	11,255	118	2. 08	10,754	107	2. 01	8,921	89	1. 98
Other Overseas (2)	36,290	245	1. 34	38,168	204	1. 08	34,157	143	0. 83
Total	156,689	1,641	2. 08	154,753	1,484	1. 93	153,964	1,345	1. 73
Total Interest Bearing Deposits									
Australia	463,055	4,317	1. 85	459,561	4,215	1. 85	464,866	4,154	1. 77
New Zealand (2)	55,732	736	2. 62	52,838	691	2. 64	51,095	711	2. 76
Other Overseas (2)	21,338	293	2. 72	22,836	250	2. 21	20,943	221	2. 09
Total	540,125	5,346	1. 96	535,235	5,156	1. 94	536,904	5,086	1. 88
Other Interest Bearing Liabilities									
Australia	176,512	2,728	3. 07	174,996	2,511	2. 89	165,685	2,214	2. 65
New Zealand (2)	25,194	414	3. 26	25,321	404	3. 22	24,276	399	3. 26
Other Overseas (2)	22,823	214	1. 86	26,200	206	1. 59	30,584	225	1. 46
Total	224,529	3,356	2. 96	226,517	3,121	2. 78	220,545	2,838	2. 55

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(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.

1.3 Interest Rate and Volume Analysis (continuing operations basis)

	Half Year Ended Dec 18 vs Jun 18 [1]			Half Year Ended Dec 18 vs Dec 17 [1]		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earning Assets [2]	$M	$M	$M	$M	$M	$M
Home loans	299	(84)	215	303	(187)	116
Consumer finance	(17)	(32)	(49)	(26)	(18)	(44)
Business and corporate loans	58	93	151	(86)	373	287
Loans, bills discounted and other receivables	370	(53)	317	216	143	359
Cash and other liquid assets	24	58	82	18	103	121
Assets at fair value through Income Statement (excluding life insurance)	7	(11)	(4)	5	24	29
Investment securities [3]	8	71	79	1	145	146
Non-lending interest earning assets	45	112	157	29	267	296
Total interest earning assets	424	50	474	251	404	655

	Half Year Ended Dec 18 vs Jun 18 [1]			Half Year Ended Dec 18 vs Dec 17 [1]		
	Volume	Rate	Total	Volume	Rate	Total
Interest Bearing Liabilities [2]	$M	$M	$M	$M	$M	$M
Transaction deposits	25	(9)	16	22	-	22
Savings deposits	8	(80)	(72)	(17)	(126)	(143)
Investment deposits	30	133	163	24	197	221
Certificates of deposit and other	64	19	83	(29)	189	160
Total interest bearing deposits	134	56	190	32	228	260
Payables due to other financial institutions	(26)	36	10	(64)	92	28
Liabilities at fair value through Income Statement	8	(14)	(6)	3	12	15
Debt issues	32	169	201	88	284	372
Loan capital	19	14	33	78	19	97
Bank levy	-	(3)	(3)	-	6	6
Total interest bearing liabilities	170	255	425	82	696	778

	Half Year Ended [1]	
	Dec 18 vs Jun 18	Dec 18 vs Dec 17
	Increase/(Decrease)	Increase/(Decrease)
Change in Net Interest Income [2]	$M	$M
Due to changes in average volume of interest earning assets	70	128
Due to changes in interest margin	(172)	(251)
Due to variation in time period	151	-
Change in net interest income	49	(123)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

(2) "Rate" reflects the change due to movements in yield (assuming average volume is consistent across the two periods), "Volume" reflects the change due to balance growth (assuming average rate is consistent across the two periods) and the impact of variation in calendar days. 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) Investment securities at FVOCI and Investment Securities at amortised cost have been compared to Available-for-sale investments in the prior periods.

1.3 Interest Rate and Volume Analysis (continuing operations basis) (continued)

Geographical Analysis of Key Categories [2]	Half Year Ended Dec 18 vs Jun 18 [1]			Half Year Ended Dec 18 vs Dec 17 [1]		
	Volume $M	Rate $M	Total $M	Volume $M	Rate $M	Total $M
Loans, Bills Discounted and Other Receivables						
Australia	312	(120)	192	122	60	182
New Zealand	77	(7)	70	121	(12)	109
Other Overseas	(12)	67	55	(17)	85	68
Total	370	(53)	317	216	143	359
Non-Lending Interest Earning Assets						
Australia	58	47	105	(20)	185	165
New Zealand	7	4	11	24	5	29
Other Overseas	(9)	50	41	14	88	102
Total	45	112	157	29	267	296
Total Interest Bearing Deposits						
Australia	102	-	102	(17)	180	163
New Zealand	50	(5)	45	61	(36)	25
Other Overseas	(16)	59	43	5	67	72
Total	134	56	190	32	228	260
Other Interest Bearing Liabilities						
Australia	65	152	217	167	347	514
New Zealand	5	5	10	15	-	15
Other Overseas	(28)	36	8	(73)	62	(11)
Total	22	213	235	60	458	518

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

(2) "Rate" reflects the change due to movements in yield (assuming average volume is consistent across the two periods), "Volume" reflects the change due to balance growth (assuming average rate is consistent across the two periods) and the impact of variation in calendar days. 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).

1.4 Other Banking Income (continuing operations basis)

	Half Year Ended [1] [2]				
	31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs	Dec 18 vs
	$M	$M	$M	Jun 18 %	Dec 17 %
Lending fees	**507**	551	558	(8)	(9)
Commissions	**1,360**	1,357	1,355	-	-
Trading income	**494**	469	556	5	(11)
Net gain/(loss) on non-trading financial instruments [3]	**(100)**	(81)	139	23	large
Net gain/(loss) on sale of property, plant and equipment	**(4)**	(15)	(2)	(73)	large
Net gain/(loss) from hedging ineffectiveness	**10**	5	7	large	43
Dividends	**2**	7	3	(71)	(33)
Share of profit of associates and joint ventures net of impairment	**178**	135	182	32	(2)
Other [4]	**84**	87	110	(3)	(24)
Total other banking income - "statutory basis"	**2,531**	2,515	2,908	1	(13)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Current period amounts reflect the adoption of AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 15, the new requirements have been applied prospectively and the comparative information has not been restated. For details on the adoption of AASB 15 refer to Note 1.1.
(3) Inclusive of non-trading derivatives that are held for risk management purposes.
(4) Includes depreciation of $38 million (30 June 2018: $35 million; 31 December 2017: $39 million).

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 [1]		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Other banking income - "cash basis"	**2,636**	2,509	2,706
Revenue hedge of New Zealand operations - unrealised	**(138)**	(23)	147
Hedging and IFRS volatility	**7**	29	(10)
Gain on disposal and acquisition of entities net of transaction costs	**26**	-	65
Other banking income - "statutory basis"	**2,531**	2,515	2,908

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

2) Risk Management

Overview

The Group faces a number of risks arising from its business operations and the assets and liabilities it holds. The management and mitigation of these risks varies depending on risk type and is covered more broadly by the Group's Risk Management framework, governance, culture, policies and procedures, and infrastructure. The Group's key risk types are credit, market, liquidity, funding, operational, and compliance which cover a significant proportion of total risk faced by the Group.

2.1 Integrated Risk Management

The Group's approach to risk management is described in the Notes to the 2018 Financial Report. Further disclosures in respect of capital adequacy and risk are provided in the Group's June 2018 Capital Disclosure Report.

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. This information excludes exposures in the Group's insurance funds management businesses.

	As at (1)		
	31 Dec 18	30 Jun 18	31 Dec 17
By Industry	**%**	%	%
Agriculture, forestry and fishing	**2. 1**	2. 0	2. 0
Banks	**4. 6**	5. 5	5. 2
Business services	**1. 3**	1. 2	1. 3
Construction	**0. 8**	0. 7	0. 8
Consumer	**57. 8**	57. 4	56. 6
Culture and recreational services	**0. 6**	0. 6	0. 7
Energy	**0. 9**	1. 0	1. 1
Finance - Other	**4. 9**	5. 2	5. 1
Health and community service	**0. 8**	0. 9	0. 9
Manufacturing	**1. 4**	1. 4	1. 4
Mining	**1. 3**	1. 3	1. 3
Property	**6. 2**	6. 2	6. 3
Retail trade and wholesale trade	**2. 0**	2. 0	2. 1
Sovereign	**10. 0**	9. 3	9. 7
Transport and storage	**1. 5**	1. 4	1. 5
Other	**3. 8**	3. 9	4. 0
	100. 0	100. 0	100. 0

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

2.1 Integrated Risk Management (continued)

By Region [(1)]	As at 31 Dec 18 %	30 Jun 18 %	31 Dec 17 %
Australia	**77. 9**	77. 6	77. 7
New Zealand	**10. 4**	10. 0	9. 9
Europe	**3. 9**	4. 7	4. 9
Americas	**4. 9**	4. 6	4. 2
Asia	**2. 7**	2. 9	3. 1
Other	**0. 2**	0. 2	0. 2
	100. 0	100. 0	100. 0

Commercial Portfolio Quality [(1)]	As at 31 Dec 18 %	30 Jun 18 %	31 Dec 17 %
AAA/AA	**33. 7**	32. 7	32. 7
A	**17. 6**	17. 5	16. 7
BBB	**16. 6**	17. 7	18. 6
Other	**32. 1**	32. 1	32. 0
	100. 0	100. 0	100. 0

(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 67.9% (June 2018: 67.9%; December 2017: 68.0%) of commercial exposures at investment grade quality.

2.1 Integrated Risk Management (continued)

Market Risk

Market risk in the Balance Sheet is discussed within Note 9.3 of the 2018 Financial 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.

The information below excludes exposures in the Group's insurance and funds management businesses.

	Average VaR		
	31 Dec 18	30 Jun 18	31 Dec 17
Traded Market Risk (1)	**$M**	$M	$M
Risk Type			
Interest rate risk	**8. 7**	11. 8	5. 2
Foreign exchange risk	**1. 9**	2. 7	1. 5
Equities risk	**0. 1**	0. 1	0. 3
Commodities risk	**3. 4**	3. 3	3. 0
Credit spread risk	**1. 6**	1. 8	2. 2
Diversification benefit	**(7. 2)**	(8. 9)	(6. 3)
Total general market risk	**8. 5**	10. 8	5. 9
Undiversified risk	**2. 2**	2. 5	2. 5
ASB	**0. 3**	0. 2	0. 3
Total	**11. 0**	13. 5	8. 7

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

	Average VaR (1)		
Non-Traded VaR in Australian Life Insurance Business	**31 Dec 18**	30 Jun 18	31 Dec 17
(20 day 97.5% confidence)	**$M**	$M	$M
Shareholder funds (2)	**1. 2**	0. 9	1. 2
Guarantees (to Policyholders) (3)	**23. 4**	23. 9	23. 2

(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 of the Group's equity instruments outside the trading portfolio with the exception of the Group's structural and strategic holdings.

	As at		
	31 Dec 18	30 Jun 18	31 Dec 17
Non-Traded Equity Risk VaR (20 day 97.5% confidence)	**$M**	$M	$M
VaR	**23. 3**	21. 2	22. 7
VaR (excluding CFSGAM)	**8. 8**	9. 5	14. 0

2.1 Integrated Risk Management (continued)

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book is discussed within Note 9.3 of the 2018 Financial Report.

(a) Next 12 Months' Earnings

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

		31 Dec 18	30 Jun 18	31 Dec 17
Net Interest Earnings at Risk [(1)]		**$M**	$M	$M
Average monthly exposure	AUD	**375. 0**	208. 4	249. 9
	NZD	**10. 0**	8. 9	37. 7
High month exposure	AUD	**457. 6**	257. 3	311. 5
	NZD	**15. 5**	18. 1	44. 3
Low month exposure	AUD	**217. 8**	120. 2	152. 3
	NZD	**1. 9**	4. 3	31. 2

(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 [(1)]		
	31 Dec 18	30 Jun 18	31 Dec 17
Non-Traded Interest Rate Risk (20 day 97.5% confidence)	**$M**	$M	$M
AUD Interest rate risk [(2)]	**168. 3**	169. 6	215. 8
NZD Interest rate risk [(3)]	**1. 7**	2. 6	4. 0

(1) For the half year ended. NZD amounts are presented in NZD.
(2) The scope of the internal model for AUD Non-Traded Interest Rate Risk has been broadened to include a measurement of the risk of the change in spreads between swap rates and bond yields for Debt Securities held in the Banking Book. Prior periods have been restated to reflect this change in scope. NZD numbers remain unchanged.
(3) Relates specifically to ASB data as at month end.

2.1 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.

	As at [1]				
	31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Transaction deposits	**111,133**	106,316	103,535	5	7
Savings deposits	**187,028**	190,452	192,581	(2)	(3)
Investment deposits	**222,020**	216,852	219,251	2	1
Other customer deposits [2]	**58,565**	56,226	52,933	4	11
Total customer deposits	**578,746**	569,846	568,300	2	2
Wholesale funding					
Short-term					
Certificates of deposit [3]	**38,046**	34,612	39,774	10	(4)
Euro commercial paper programme	**328**	211	200	55	64
US commercial paper programme	**22,172**	26,792	30,888	(17)	(28)
Euro medium-term note programme	**6,414**	5,088	3,866	26	66
Central Bank deposits	**15,622**	14,672	16,721	6	(7)
Other [4]	**4,550**	3,985	4,449	14	2
Total short-term wholesale funding	**87,132**	85,360	95,898	2	(9)
Net collateral received	**(1,036)**	823	1,397	large	large
Internal RMBS sold under agreement to repurchase with RBA	**5,370**	5,370	5,317	-	1
Total short-term collateral deposits	**4,334**	6,193	6,714	(30)	(35)
Total long-term funding - less than or equal to one year residual maturity [5]	**35,215**	33,564	29,182	5	21
Long-term - greater than one year residual maturity					
Domestic debt program	**17,558**	18,560	18,939	(5)	(7)
Euro medium-term note programme	**26,542**	25,522	25,458	4	4
US medium-term note programme [6]	**27,706**	33,044	30,397	(16)	(9)
Covered bond programme	**28,552**	25,741	25,127	11	14
Securitisation	**10,066**	10,795	11,385	(7)	(12)
Loan capital	**19,633**	20,344	17,439	(3)	13
Other	**3,114**	3,130	2,810	(1)	11
Total long-term funding - greater than one year residual maturity	**133,171**	137,136	131,555	(3)	1
IFRS MTM and derivative FX revaluations	**357**	(165)	646	large	(45)
Total funding	**838,955**	831,934	832,295	1	1
Reported as					
Deposits and other public borrowings	**637,010**	622,234	624,897	2	2
Payables due to other financial institutions	**22,545**	20,899	24,466	8	(8)
Liabilities at fair value through Income Statement	**9,030**	10,247	9,350	(12)	(3)
Bank acceptances	**53**	379	222	(86)	(76)
Debt issues	**168,851**	172,294	166,510	(2)	1
Loan capital	**22,831**	22,992	20,184	(1)	13
Loans and other receivables - collateral posted	**(3,172)**	(1,599)	(1,356)	98	large
Receivables due from other financial institutions - collateral posted	**(4,007)**	(4,462)	(3,293)	(10)	22
Securities purchased under agreements to resell	**(14,186)**	(11,050)	(8,685)	28	63
Total funding	**838,955**	831,934	832,295	1	1

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Other customer deposits primarily consist of non-interest bearing deposits and deposits held at fair value through the Income Statement.
(3) Includes Bank acceptances.
(4) Includes net securities sold under agreement to repurchase and purchased under agreement to resell and interbank borrowings.
(5) Residual maturity of long-term wholesale funding (included in Debt issues and Loan capital) is the earlier of the next call date or final maturity.
(6) Includes notes issued under the Bank's 3(a)(2) program.

2.1 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, a risk appetite statement, liquidity risk limits and triggers, 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") and, from 1 January 2018, the Net Stable Funding Ratio ("NSFR"), implemented by the Australian Prudential Regulation Authority ("APRA") in ADI Prudential Standard 210 ("APS 210"). The LCR requires large 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 include cash and Commonwealth government and Semi-government debt. Given the limited amount of government debt in Australia, participating ADIs can access contingent liquidity via the RBA's Committed Liquidity Facility ("CLF") and apply it to meet net cash outflows in the LCR. The amount of the CLF for each ADI is set annually by APRA. To access the CLF, ADIs need to meet certain conditions and pledge qualifying securities to the RBA. The NSFR requires LCR ADIs to fund core assets with stable funding. APRA prescribed factors are used to determine the stable funding requirement of assets and the stability of funding.

Risk tolerances and active forecasting of the LCR and the NSFR are designed to ensure that the Group maintains a superior level of liquidity and stable funding at all times relative to regulatory requirements.

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

- Predominantly customer deposit funding;
- Diverse and stable sources of wholesale funding;
- Buffers over the regulatory requirements of 100% for the LCR and the NSFR;
- Short and long-term wholesale funding limits and triggers, which are reviewed regularly and are based on an assessment of the Group's capacity to borrow in the markets and balance sheet projections;
- Stress tests, covering a range of short-term and protracted idiosyncratic and market-wide stress scenarios, to identify potential sources of liquidity and funding 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 eligible for repurchase with central banks, managed within specific concentration limits, including:
  - High quality liquid assets such as cash, Commonwealth government and Semi-government bonds;
  - ADI-issued securities, eligible securitisations and covered bonds, and securities issued by supranationals, all of which are repo-eligible under the RBA's open market operations and under the CLF;
  - Internal securitisations of Group mortgages retained on the Balance Sheet that can be used as collateral under the RBA's CLF; and
- Specific foreign currency limits and policies that apply to offshore branches and subsidiaries, design to ensure the holding of appropriate foreign currency liquid assets, providing liquidity in addition to the domestic liquid asset portfolio.

The Group's key liquidity risk management measures include:

- LCR and NSFR models incorporating APRA definitions of the regulatory measures and calculating actual and forecast positions. The models are used to monitor buffers and inform Group liquidity and funding management actions;
- A funding gap model that is used to analyse and forecast funding needs over the medium-term;
- Stress tests supplementary to the LCR, used to validate management buffers contained in 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 retail transaction accounts, investment accounts and retirement style accounts for individual consumers;
- Its small business and institutional deposit base;
- Issuance of Australian dollar Negotiable Certificates of Deposit and Australian dollar bank bills;
- Its wholesale international and domestic funding programs that include its 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
- Contingent funding sources including access to various central bank facilities, including the CLF, providing the Group with the ability to borrow funds on a secured basis, in all market conditions.

2.2 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 Investment securities at FVOCI or Investment securities at amortised cost), or through investments in SPVs.

The primary source of repayment of the debt instruments is the cash flow 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 11.1 to the 2018 Financial 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, Investment securities at FVOCI, Investment securities at amortised costs 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 which can be highly leveraged. The businesses are primarily 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 2018 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.

2.2 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 18	30 Jun 18	**31 Dec 18**	30 Jun 18
	$M	$M	**$M**	$M
Carrying amount of transferred assets	**36,189**	37,012	**14,750**	14,661
Carrying amount of associated liabilities	**33,264**	32,758	**13,299**	13,089
Net position	**2,925**	4,254	**1,451**	1,572

Asset-backed Securities

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

	Carrying Amount	
	31 Dec 18	30 Jun 18
Summary of Asset-backed Securities	**$M**	$M
Commercial mortgage-backed securities	**86**	108
Residential mortgage-backed securities	**7,243**	7,251
Other asset-backed securities	**522**	545
Total	**7,851**	7,904

Asset-backed Securities by Underlying Asset

	Trading Portfolio		Investment securities at FVOCI (previously AFS) (1)		Other (2)		Total	
	31 Dec 18	30 Jun 18	**31 Dec 18**	30 Jun 18	**31 Dec 18**	30 Jun 18	**31 Dec 18**	30 Jun 18
	$M	$M	**$M**	$M	**$M**	$M	**$M**	$M
Non-conforming	**-**	-	**540**	337	**-**	-	**540**	337
Prime mortgages	**-**	22	**96**	6,892	**6,607**	-	**6,703**	6,914
Other assets	**-**	-	**239**	653	**369**	-	**608**	653
Total	**-**	22	**875**	7,882	**6,976**	-	**7,851**	7,904

(1) The Group reclassified $7,121 million of residential mortgage backed securities from Available-for sale investments to Investment securities at amortised cost on adoption of AASB 9 on 1 July 2018. $7,882 million of securities held at 30 June 2018 were classified as Available-for sale investments.
(2) Includes Investment securities at amortised cost.

Asset-backed Securities by Credit Rating and Geography

	AAA & AA		A		BBB		BB and below including not rated		Total	
	31 Dec 18	30 Jun 18	**31 Dec 18**	30 Jun 18	**31 Dec 18**	30 Jun 18	**31 Dec 18**	30 Jun 18	**31 Dec 18**	30 Jun 18
	$M	$M	**$M**	$M	**$M**	$M	**$M**	$M	**$M**	$M
Australia	**7,848**	7,889	**-**	-	**3**	3	**-**	12	**7,851**	7,904
Total	**7,848**	7,889	**-**	-	**3**	3	**-**	12	**7,851**	7,904

2.2 Counterparty and Other Credit Risk Exposures (continued)

	Funded Commitments		Unfunded Commitments		Total	
	31 Dec 18	30 Jun 18	**31 Dec 18**	30 Jun 18	**31 Dec 18**	30 Jun 18
Warehousing Financing Facilities	**$M**	$M	**$M**	$M	**$M**	$M
Australia	**3,478**	3,986	**3,261**	2,358	**6,739**	6,344
New Zealand	**548**	476	**143**	75	**691**	551
UK	**227**	178	**21**	69	**248**	247
Total	**4,253**	4,640	**3,425**	2,502	**7,678**	7,142

3) Our Capital, Equity and Reserves

3.1 Capital

The tables below show the APRA Basel III capital adequacy calculation at 31 December 2018 together with prior period comparatives.

	As at [1]		
	31 Dec 18	30 Jun 18	31 Dec 17
Risk Weighted Capital Ratios	**%**	%	%
Common Equity Tier 1	**10. 8**	10. 1	10. 4
Tier 1	**12. 9**	12. 3	12. 3
Tier 2	**2. 9**	2. 7	2. 4
Total Capital	**15. 8**	15. 0	14. 7

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

	As at		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Ordinary Share Capital and Treasury Shares			
Ordinary Share Capital	**38,015**	37,270	36,776
Treasury Shares [1]	**268**	265	226
Ordinary Share Capital and Treasury Shares	**38,283**	37,535	37,002
Reserves			
Reserves	**2,051**	1,676	1,494
Reserves related to non-consolidated subsidiaries [2]	**73**	(80)	(71)
Total Reserves	**2,124**	1,596	1,423
Retained Earnings and Current Period Profits			
Retained earnings and current period profits	**27,959**	28,360	27,267
Retained earnings adjustment from non-consolidated subsidiaries [3]	**(434)**	(342)	(411)
Net Retained Earnings	**27,525**	28,018	26,856
Non-controlling interests			
Non-controlling interests [4]	**553**	554	554
Less ASB perpetual preference shares	**(505)**	(505)	(505)
Less other non-controlling interests not eligible for inclusion in regulatory capital	**(48)**	(49)	(49)
Non-controlling interests	**-**	-	-
Common Equity Tier 1 Capital before regulatory adjustments	**67,932**	67,149	65,281

(1) Represents shares held by the Group's life insurance businesses ($87 million) and employee share scheme trusts ($181 million).
(2) Represents equity 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) Cumulative current period profit and retained earnings adjustments for subsidiaries not consolidated for regulatory purposes.
(4) 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.

3.1 Capital (continued)

	As at [1]		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Common Equity Tier 1 regulatory adjustments			
Goodwill [2]	**(7,504)**	(8,021)	(8,051)
Other intangibles (including software) [3]	**(2,108)**	(2,124)	(2,314)
Capitalised costs and deferred fees	**(741)**	(714)	(652)
Defined benefit superannuation plan surplus [4]	**(308)**	(407)	(305)
General reserve for credit losses [5]	**(378)**	(412)	(388)
Deferred tax asset	**(2,286)**	(1,911)	(1,604)
Cash flow hedge reserve	**(57)**	160	151
Employee compensation reserve	**(103)**	(145)	(115)
Equity investments [6]	**(3,113)**	(2,967)	(2,683)
Equity investments in non-consolidated subsidiaries [2] [7]	**(2,887)**	(3,474)	(2,999)
Shortfall of provisions to expected losses [8]	**-**	(212)	(99)
Gain due to changes in own credit risk on fair valued liabilities	**(74)**	(116)	(96)
Other	**(347)**	(336)	(286)
Common Equity Tier 1 regulatory adjustments	**(19,906)**	(20,679)	(19,441)
Common Equity Tier 1	**48,026**	46,470	45,840
Additional Tier 1 Capital			
Basel III complying instruments [9]	**9,045**	9,455	8,090
Basel III non-complying instruments net of transitional amortisation [10]	**647**	640	633
Holding of Additional Tier 1 Capital [11]	**(200)**	(200)	(200)
Additional Tier 1 Capital	**9,492**	9,895	8,523
Tier 1 Capital	**57,518**	56,365	54,363
Tier 2 Capital			
Basel III complying instruments	**11,586**	11,262	9,255
Basel III non-complying instruments net of transitional amortisation [12]	**605**	1,166	1,213
Holding of Tier 2 Capital	**(23)**	(25)	(31)
Prudential general reserve for credit losses [13]	**764**	176	185
Total Tier 2 Capital	**12,932**	12,579	10,622
Total Capital	**70,450**	68,944	64,985

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Goodwill excludes $252 million which is included in equity investments in non-controlled subsidiaries. In addition, Goodwill also includes Goodwill from discontinued operations included in Intangible assets held for sale (Refer to Note 7.3 of the Profit Announcement).
(3) Other intangibles (including capitalised software), net of any associated deferred tax liability. Other intangibles also includes other intangibles from discontinued operations. Refer to Note 7.3 of the Profit Announcement.
(4) Represents the surplus in the Group's defined benefit superannuation fund, net of any deferred tax liability.
(5) 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.
(6) Represents the Group's non-controlling interest in other entities.
(7) Non-consolidated subsidiaries primarily represent the insurance and funds management companies operating in the Colonial Group. The Group's insurance and funds management operating entities held $1,389 million of capital in excess of minimal regulatory requirements at 31 December 2018.
(8) Regulatory Expected Loss (pre-tax) using stressed loss given default assumptions associated with the loan portfolio in excess of eligible credit provisions (pre-tax).
(9) As at 31 December 2018, comprises PERLS XI $1,590 million, PERLS X $1,365 million (April 2018), PERLS IX $1,640 million (March 2017), PERLS VIII $1,450 million (March 2016) and PERLS VII $3,000 million (October 2014).
(10) Represents APRA Basel III non-compliant Additional Tier 1 Capital Instruments that are eligible for Basel III transitional relief.
(11) Represents holdings of Additional Tier 1 capital instruments issued by the Colonial Mutual Life Assurance Society Limited.
(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 and the excess of total eligible provisions over total expected losses for non-defaulted exposures subject to the internal ratings based approach to credit risk.

3.1 Capital (continued)

Risk Weighted Assets (RWA)	As at 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Credit Risk			
Subject to AIRB approach (1)			
Corporate	**68,915**	68,479	69,252
SME Corporate	**30,121**	32,772	33,521
SME retail (2)	**5,400**	4,709	4,675
SME retail secured by residential mortgage (2)	**3,415**	2,458	2,534
Sovereign	**2,330**	2,509	2,186
Bank	**9,741**	11,097	10,780
Residential mortgage	**143,017**	139,203	136,047
Qualifying revolving retail	**8,942**	9,592	8,524
Other retail	**15,729**	15,750	15,413
Total RWA subject to AIRB approach	**287,610**	286,569	282,932
Specialised lending exposures subject to slotting criteria	**53,453**	55,893	56,183
Subject to Standardised approach (2)			
Corporate	**1,406**	1,246	1,250
SME corporate	**1,034**	412	279
SME retail	**5,010**	5,856	5,701
Sovereign	**222**	222	189
Bank	**53**	79	63
Residential mortgage	**6,632**	5,627	5,404
Other retail	**1,493**	1,593	2,717
Other assets	**5,674**	5,241	5,323
Total RWA subject to Standardised approach	**21,524**	20,276	20,926
Securitisation	**3,049**	2,890	1,622
Credit valuation adjustment	**2,729**	2,882	4,498
Central counterparties	**991**	1,018	824
Total RWA for Credit Risk Exposures	**369,356**	369,528	366,985
Traded market risk	**5,263**	8,255	4,829
Interest rate risk in the banking book	**13,872**	24,381	27,944
Operational risk	**56,653**	56,448	41,078
Total risk weighted assets	**445,144**	458,612	440,836

(1) Pursuant to APRA requirements, RWA amounts derived from AIRB risk weight functions have been multiplied by a scaling factor of 1.06.
(2) APRA granted approval for the Group to extend its AIRB accreditation to include Bankwest SME Retail portfolios (which forms part of Retail Banking Services). This is reflected in 31 December 2018 RWAs.

3.2 Share Capital

	Half Year Ended (1)		
	31 Dec 18	30 Jun 18	31 Dec 17
Shares on Issue	**Number**	Number	Number
Opening balance (excluding Treasury Shares deduction)	**1,759,842,930**	1,752,728,198	1,729,868,161
Issue of shares (2)	**-**	-	2,087,604
Dividend reinvestment plan issues:			
2016/2017 Final dividend fully paid ordinary shares $75.73	**-**	-	20,772,433
2017/2018 Interim dividend fully paid ordinary shares $75.38	**-**	7,114,732	-
2017/2018 Final dividend fully paid ordinary shares $72.05	**10,396,577**	-	-
Closing balance (excluding Treasury Shares deduction)	**1,770,239,507**	1,759,842,930	1,752,728,198
Less: Treasury Shares (3)	**(2,171,022)**	(3,489,325)	(2,958,312)
Closing balance	**1,768,068,485**	1,756,353,605	1,749,769,886

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) During the half year ended 31 December 2017, the number of shares issued relates to the acquisition of the remaining 20% interest in AHL Holdings Pty Limited.
(3) 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 2018 to frank dividends for subsequent financial years, is $1,730 million (June 2018: $1,464 million; December 2017: $1,242 million). This figure is based on the franking accounts of the Bank at 31 December 2018, 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 2018.

Dividends

The Directors have declared a fully franked interim dividend of 200 cents per share amounting to $3,540 million. There is no foreign conduit income attributed to the interim dividend. The dividend is expected to be paid on 28 March 2019 to shareholders on the register at 5:00pm AEDT on 14 February 2019.

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

The Group has a Dividend Reinvestment Plan (DRP) that is available to shareholders in Australia and certain other jurisdictions. Shareholders can elect to participate to acquire fully paid ordinary shares instead of receiving a cash dividend payment. Shares issued under the DRP rank equally with ordinary shares on issue. The DRP participation rate for the distribution for the full year ended 30 June 2018 (based on issued capital) was 18.4% with no discount applied. For the half year ended 31 December 2017 it was 15.3% and 39.5% for the full year ended 30 June 2017 with a 1.5% discount applied.

The DRP for the 2019 interim dividend is anticipated to be satisfied in full by an on-market purchase of shares.

Record Date

The register closes for determination of dividend entitlement at 5:00pm AEDT on 14 February 2019. The deadline for notifying participation in the DRP is 5:00pm AEDT on 15 February 2019.

Ex-Dividend Date

The ex-dividend date is 13 February 2019.

4) Other Information

4.1 CommInsure and Sovereign Sources of Profit

Sources of Profit from CommInsure	Half Year Ended (1) 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
General insurance operating margins	**9**	54	41	(83)	(78)
Investment experience after tax	**4**	3	3	33	33
Net profit after tax - "cash basis"	**13**	57	44	(77)	(70)
Net profit after tax - "statutory basis"	**13**	57	44	(77)	(70)

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Life Insurance Business Discontinued Operations

Sources of Profit from CommInsure Life (discontinued operations)	Half Year Ended 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Life insurance operating margins:					
Planned profit margins	**65**	67	80	(3)	(19)
Experience variations	**(100)**	(54)	(40)	85	large
Funds management operating margins	**28**	32	27	(13)	4
Operating margins	**(7)**	45	67	large	large
Investment experience after tax	**19**	21	27	(10)	(30)
Net profit after tax - "cash basis"	**12**	66	94	(82)	(87)
Net profit after tax - "statutory basis"	**9**	71	91	(87)	(90)

Sources of Profit from Sovereign (discontinued operations)	Half Year Ended 31 Dec 18 NZ$M	30 Jun 18 NZ$M	31 Dec 17 NZ$M	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Planned profit margins	**-**	44	45	large	large
Experience variations	**-**	8	1	large	large
Operating margins	**-**	52	46	large	large
Investment experience after tax	**-**	1	7	large	large
Net profit after tax ("cash basis")	**-**	53	53	large	large
Net profit after tax ("statutory basis")	**-**	53	53	large	large

4.2 Intangible Assets (continuing operations basis)

	As at [1]		
	31 Dec 18	30 Jun 18	31 Dec 17
	$M	$M	$M
Goodwill			
Purchased goodwill at cost	**6,022**	6,941	6,868
Closing balance	**6,022**	6,941	6,868
Computer Software Costs			
Cost	**4,703**	4,633	4,438
Accumulated amortisation	**(2,921)**	(2,814)	(2,542)
Closing balance	**1,782**	1,819	1,896
Brand Names [2]			
Cost	**205**	206	206
Accumulated amortisation	**(1)**	(1)	(1)
Closing balance	**204**	205	205
Other Intangibles [3]			
Cost	**370**	342	371
Accumulated amortisation	**(217)**	(217)	(200)
Closing balance	**153**	125	171
Total intangible assets	**8,161**	9,090	9,140

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

(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 the Group 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. This balance also includes the AHL brand name ($16 million) which has an indefinite useful life. They are not subject to amortisation, but require annual impairment testing. No impairment was required this period. The Count Financial brand name ($4 million) is also included and amortised over the estimated useful life of 20 years.

(3) Other intangibles include the value of customer and credit card relationships acquired from Bankwest, AHL and Count Financial 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 between 6 and 10 years based on the attrition rates of customers. Other intangibles also include prepaid software licences with a net book value of $111 million (30 June 2018: $67 million; 31 December: $102 million).

Appendices

4.3 ASX Appendix 4D

Details of entities over which control was gained and lost during the period (Rule 4.2A.3 Item No. 4)

The Group has lost control of the following entities as a result of sales: ASB Group (Life) Limited, Sovereign Assurance Company Limited, Sovereign Services Limited, Sovereign Superannuation Funds Limited, Sovereign Superannuation Trustees Limited and Westside Properties Limited on 2 July 2018; Commonwealth Bank of South Africa (Holding Company) Limited on 1 November 2018. The Group has gained control over Rockgas Limited on 30 November 2018.

Details of Associates and Joint Ventures (Rule 4.2A.3 Item No. 7)

As at 31 December 2018	Ownership Interest Held (%)
Aegis Correctional Partnership Pty Limited	50%
Aegis Correctional Partnership Trust	50%
Aegis Securitisation Nominees Pty Limited	50%
Aegis Securitisation Trust	50%
First State Cinda Fund Management Co., Ltd.	46%
BoCommLife Insurance Company Limited	38%
Countplus Limited	36%
Digital Wallet Pty Ltd	33%
BPAY Group Limited	25%
Paymark Limited	25%
Vietnam International Commercial Joint Stock Bank	20%
Payments NZ Limited	19%
Silicon Quantum Computing Investment	19%
Qilu Bank Co., Ltd.	18%
Bank of Hangzhou Co., Ltd.	18%
Property Exchange Australia Limited	13%
First State European Diversified Infrastructure Fund FCP-SIF	4%
First State European Diversified Infrastructure Fund II	3%
equigroup Holdings Pty Limited (1)	0%

(1) The Group sold its investment in equigroup Holdings Pty Limited on 31 August 2018.

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.

4.4 Profit Reconciliation

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 treated consistently with the prior financial year.

	Half Year Ended 31 December 2018						
Profit Reconciliation	Net profit after tax "cash basis" $M	Gain/(loss) on disposal and acquisition of controlled entities [1] $M	Hedging and IFRS volatility $M	Bankwest non-cash items [2] $M	Treasury shares valuation adjustment $M	Investment experience $M	Net profit after tax "statutory basis" $M
Group							
Interest income	**17,836**	-	-	-	-	-	**17,836**
Interest expense	**(8,702)**	-	-	-	-	-	**(8,702)**
Net interest income	**9,134**	-	-	-	-	-	**9,134**
Other banking income	**2,636**	26	(131)	-	-	-	**2,531**
Total banking income	**11,770**	26	(131)	-	-	-	**11,665**
Funds management income	**570**	-	-	-	-	1	**571**
Insurance income	**68**	-	-	-	-	2	**70**
Total operating income	**12,408**	26	(131)	-	-	3	**12,306**
Investment experience	**3**	-	-	-	-	(3)	**-**
Total income	**12,411**	26	(131)	-	-	-	**12,306**
Operating expenses	**(5,289)**	(26)	-	(2)	-	-	**(5,317)**
Loan impairment expense	**(577)**	-	-	-	-	-	**(577)**
Net profit before tax	**6,545**	-	(131)	(2)	-	-	**6,412**
Corporate tax (expense)/benefit	**(1,863)**	(9)	40	1	-	-	**(1,831)**
Non-controlling interests	**(6)**	-	-	-	-	-	**(6)**
Net profit after income tax from continuing operations	**4,676**	(9)	(91)	(1)	-	-	**4,575**
Net profit after income tax from discontinued operations [3]	**92**	(65)	-	-	(3)	-	**24**
Net profit after income tax	**4,768**	(74)	(91)	(1)	(3)	-	**4,599**

(1) Continuing operations net profit after tax includes: $18 million demerger costs for NewCo, and $9 million gain net of transaction and separation costs associated with disposal of other businesses. Discontinued operations net profit after tax includes: $75 million gain net of transaction and separation costs associated with the disposal of CommInsure Life and Sovereign; $100 million transaction and separation costs associated with the disposal of CFSGAM; $22 million transaction and separation costs associated with the disposal of TymeDigital SA; and $18 million for other transaction and separation costs.

(2) Includes merger related amortisation through operating expenses of $2 million, and an income tax benefit of $1 million.

(3) Statutory net profit after income tax from discontinued operations is presented net of non-controlling interests.

4.4 Profit Reconciliation (continued)

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 and/or are not considered representative of the Group's ongoing financial performance. The items are treated consistently each period and a description of these items is provided below.

(Loss)/Gain on acquisition, disposal, closure and demerger of businesses

Losses and gains on these transactions are inclusive of foreign exchange impacts, impairments, restructuring, separation and transactions costs and cover both controlled businesses and associates.

Hedging and IFRS volatility

Hedging and IFRS volatility represents timing differences between fair value movements on qualifying economic hedges and the underlying exposure. They do not affect the Group's performance over the life of the hedge relationship and are recognised over the life of the hedged transaction. To qualify as an economic hedge the terms and/ or risk profile must match or be substantially the same as the underlying exposure.

Bankwest non-cash items

The acquisition of Bankwest resulted in the recognition of assets at fair value, some of which have been amortising over their useful life. The transaction was considered one-off in nature. Bankwest customer lists are the only asset still being amortised.

Treasury shares valuation adjustment

These valuation adjustments represent the elimination of gains and losses on CBA shares held through funds in the Wealth Management business.

Investment experience

Investment experience includes returns on shareholder capital invested and revaluations in the wealth management businesses. It also includes changes in economic assumptions impacting the insurance businesses and investment profits on the annuity portfolio. This item is classified separately within cash profit.

4.4 Profit Reconciliation (continued)

Profit Reconciliation	Net profit after tax "cash basis" $M	(Loss)/gain on disposal and acquisition of controlled entities [2] $M	Hedging and IFRS volatility $M	Bankwest non-cash items [3] $M	Treasury shares valuation adjustment $M	Investment experience $M	Net profit after tax "statutory basis" $M
	Half Year Ended 30 June 2018 [1]						
Group							
Interest income	17,362	-	-	-	-	-	17,362
Interest expense	(8,277)	-	-	-	-	-	(8,277)
Net interest income	9,085	-	-	-	-	-	9,085
Other banking income	2,509	-	6	-	-	-	2,515
Total banking income	11,594	-	6	-	-	-	11,600
Funds management income	551	-	-	-	-	1	552
Insurance income	126	-	-	-	-	1	127
Total operating income	12,271	-	6	-	-	2	12,279
Investment experience	2	-	-	-	-	(2)	-
Total income	12,273	-	6	-	-	-	12,279
Operating expenses	(5,539)	(30)	-	(2)	-	-	(5,571)
Loan impairment expense	(483)	-	-	-	-	-	(483)
Net profit before tax	6,251	(30)	6	(2)	-	-	6,225
Corporate tax (expense)/benefit	(1,927)	9	(1)	-	-	-	(1,919)
Non-controlling interests	(7)	-	-	-	-	-	(7)
Net profit after income tax from continuing operations	4,317	(21)	5	(2)	-	-	4,299
Net profit after income tax from discontinued operations [4]	224	(105)	-	-	5	-	124
Net profit after income tax	4,541	(126)	5	(2)	5	-	4,423

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Continuing operations net profit after tax includes: $21 million demerger costs for NewCo. Discontinued operations net profit after tax includes $14 million transaction and separation costs associated with the disposal of CommInsure Life and Sovereign; and $91 million transaction and separation costs associated with the disposal of TymeDigital SA.
(3) Includes merger related amortisation through operating expenses of $2 million.
(4) Statutory net profit after income tax from discontinued operations is presented net of non-controlling interests.

4.4 Profit Reconciliation (continued)

	Half Year Ended 31 December 2017 (1)						
Profit Reconciliation	**Net profit after tax "cash basis" $M**	Gain/(loss) on disposal and acquisition of controlled entities (2) $M	Hedging and IFRS volatility $M	Bankwest non-cash items (3) $M	Treasury shares valuation adjustment $M	Investment experience $M	**Net profit after tax "statutory basis" $M**
Group							
Interest income	17,181	-	-	-	-	-	17,181
Interest expense	(7,924)	-	-	-	-	-	(7,924)
Net interest income	9,257	-	-	-	-	-	9,257
Other banking income	2,706	65	137	-	-	-	2,908
Total banking income	11,963	65	137	-	-	-	12,165
Funds management income	568	-	-	-	-	4	572
Insurance income	112	-	-	-	-	2	114
Total operating income	12,643	65	137	-	-	6	12,851
Investment experience	6	-	-	-	-	(6)	-
Total income	12,649	65	137	-	-	-	12,851
Operating expenses	(5,456)	-	-	(2)	-	-	(5,458)
Loan impairment expense	(596)	-	-	-	-	-	(596)
Net profit before tax	6,597	65	137	(2)	-	-	6,797
Corporate tax (expense)/benefit	(1,993)	-	(41)	1	-	-	(2,033)
Non-controlling interests	(6)	-	-	-	-	-	(6)
Net profit after income tax from continuing operations	4,598	65	96	(1)	-	-	4,758
Net profit after income tax from discontinued operations (4)	273	(122)	-	-	(3)	-	148
Net profit after income tax	4,871	(57)	96	(1)	(3)	-	4,906

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Continuing operations net profit after tax includes: $58 million gain recognised on acquisition of AHL Holdings Pty Ltd (trading as Aussie Home Loans); a gain on sale of County Banks of $11 million; and loss due to the dilution of the Group's interest in Qilu Bank Co. Ltd of $4 million. Discontinued operations net profit after tax includes $122 million of transaction and separation costs associated with the disposal of CommInsure Life and Sovereign.
(3) Includes merger related amortisation through operating expenses of $2 million, and an income tax benefit of $1 million.
(4) Statutory net profit after income tax from discontinued operations is presented net of non-controlling interests.

4.5 Analysis Template (continuing operations basis)

	Half Year Ended (1)		
	31 Dec 18	30 Jun 18	31 Dec 17
Profit Summary - Input Schedule	$M	$M	$M
Net interest income	**9,134**	9,085	9,257
Other banking income	**2,636**	2,509	2,706
Total banking income	**11,770**	11,594	11,963
Funds management income	**570**	551	568
Insurance income	**68**	126	112
Total operating income	**12,408**	12,271	12,643
Investment experience	**3**	2	6
Total income	**12,411**	12,273	12,649
Operating Expenses			
Retail Banking Services (2)	**(2,255)**	(2,207)	(2,142)
Business and Private Banking	**(1,138)**	(1,130)	(1,100)
Institutional Banking and Markets	**(514)**	(561)	(506)
Wealth Management	**(250)**	(233)	(257)
New Zealand	**(440)**	(445)	(415)
IFS and Other	**(692)**	(963)	(1,036)
Total operating expenses	**(5,289)**	(5,539)	(5,456)
Profit before loan impairment expense	**7,122**	6,734	7,193
Loan impairment expense	**(577)**	(483)	(596)
Net profit before income tax	**6,545**	6,251	6,597
Corporate tax expense	**(1,863)**	(1,927)	(1,993)
Operating profit after tax	**4,682**	4,324	4,604
Non-controlling interests	**(6)**	(7)	(6)
Net profit after tax from continuing operations ("cash basis")	**4,676**	4,317	4,598
Net profit after tax from discontinued operations	**92**	224	273
Net profit after tax ("cash basis")	**4,768**	4,541	4,871
Net profit after tax from continuing operations ("cash basis")	**4,676**	4,317	4,598
Hedging and IFRS volatility (after tax)	**(91)**	5	96
Bankwest non-cash items (after tax)	**(1)**	(2)	(1)
Gain/(loss) on disposal and acquisition of entities net of transaction costs (3)	**(9)**	(21)	65
Net profit after tax from continuing operations ("statutory basis")	**4,575**	4,299	4,758
Net profit after tax from discontinued operations ("statutory basis")	**24**	124	148
Net profit after tax ("statutory basis")	**4,599**	4,423	4,906
Total Operating Income			
Retail Banking Services (2)	**5,754**	5,888	5,995
Business and Private Banking	**3,316**	3,259	3,281
Institutional Banking and Markets	**1,305**	1,263	1,408
Wealth Management	**441**	424	417
New Zealand	**1,232**	1,178	1,109
IFS and Other	**360**	259	433

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Includes Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review.
(3) Current period includes $18 million demerger costs for NewCo (30 June 2018: $21 million expense; 31 December 2017: nil), partly offset by a $9 million net gain on acquisitions and disposals of other businesses (30 June 2018: nil; 31 December 2017: $65 million gain).

4.5 Analysis Template (continuing operations basis) (continued)

Profit Summary - Input Schedule	Half Year Ended [1] 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Other Data			
Net interest income	**9,134**	9,085	9,257
Average interest earning assets	**863,664**	857,050	851,522
Average net assets [2]	**67,740**	66,976	64,876
Average non-controlling interests [2]	**510**	510	530
Average treasury shares [2]	**(86)**	(88)	(94)
Interest expense (after tax) - PERLS VI	**38**	42	41
Interest expense (after tax) - PERLS VII	**37**	36	35
Interest expense (after tax) - PERLS VIII	**27**	26	26
Interest expense (after tax) - PERLS IX	**36**	24	24
Interest expense (after tax) - PERLS X	**26**	13	-
Interest expense (after tax) - PERLS XI	**3**	-	-
Weighted average number of shares - statutory basic (M)	**1,762**	1,753	1,739
Weighted average number of shares - statutory diluted (M)	**1,898**	1,866	1,842
Weighted average number of shares - cash basic (M)	**1,763**	1,754	1,740
Weighted average number of shares - cash diluted (M)	**1,899**	1,867	1,843
Weighted average number of shares - PERLS VI (M)	**26**	25	25
Weighted average number of shares - PERLS VII (M)	**43**	38	37
Weighted average number of shares - PERLS VIII (M)	**21**	18	18
Weighted average number of shares - PERLS IX (M)	**23**	21	20
Weighted average number of shares - PERLS X (M)	**19**	9	-
Weighted average number of shares - PERLS XI (M)	**2**	-	-
Weighted average number of shares - Employee share plans (M)	**2**	2	3
Dividends per share (cents) - fully franked	**200**	231	200
No. of shares at end of period excluding Treasury shares deduction (M)	**1,770**	1,760	1,753
Funds Under Administration (FUA) - average	**160,860**	156,896	151,008
Assets Under Management (AUM) - average	**14,406**	13,484	12,305
Average inforce premiums	**803**	804	795
Net assets	**68,578**	67,860	66,091
Total intangible assets	**8,161**	9,090	9,140
Non-controlling interests	**510**	509	510

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Average of reporting period balances.

4.5 Analysis Template (continued)

	Half Year Ended (1) (2)		
	31 Dec 18	30 Jun 18	31 Dec 17
Ratios - Output Summary (continuing operations basis)	**$M**	$M	$M
Earnings Per Share (EPS)			
Net profit after tax - "cash basis"	**4,676**	4,317	4,598
Average number of shares (M) - "cash basis"	**1,763**	1,754	1,740
Earnings Per Share basic - "cash basis" (cents)	**265. 2**	246. 0	264. 3
Net profit after tax - "statutory basis"	**4,575**	4,299	4,758
Average number of shares (M) - "statutory basis"	**1,762**	1,753	1,739
Earnings Per Share basic - "statutory basis" (cents)	**259. 6**	245. 1	273. 7
Interest expense (after tax) - PERLS VI	**38**	42	41
Interest expense (after tax) - PERLS VII	**37**	36	35
Interest expense (after tax) - PERLS VIII	**27**	26	26
Interest expense (after tax) - PERLS IX	**36**	24	24
Interest expense (after tax) - PERLS X	**26**	13	-
Interest expense (after tax) - PERLS XI	**3**	-	-
Profit impact of assumed conversions (after tax)	**167**	141	126
Weighted average number of shares - PERLS VI (M)	**26**	25	25
Weighted average number of shares - PERLS VII (M)	**43**	38	37
Weighted average number of shares - PERLS VIII (M)	**21**	18	18
Weighted average number of shares - PERLS IX (M)	**23**	21	20
Weighted average number of shares - PERLS X (M)	**19**	9	-
Weighted average number of shares - PERLS XI (M)	**2**	-	-
Weighted average number of shares - Employee share plans (M)	**2**	2	3
Weighted average number of shares - dilutive securities (M)	**136**	113	103
Net profit after tax - "cash basis"	**4,676**	4,317	4,598
Add back profit impact of assumed conversions (after tax)	**167**	141	126
Adjusted diluted profit for EPS calculation	**4,843**	4,458	4,724
Average number of shares (M) - "cash basis"	**1,763**	1,754	1,740
Add back weighted average number of shares (M)	**136**	113	103
Diluted average number of shares (M)	**1,899**	1,867	1,843
Earnings Per Share diluted - "cash basis" (cents)	**255. 1**	238. 6	256. 3
Net profit after tax - "statutory basis"	**4,575**	4,299	4,758
Add back profit impact of assumed conversions (after tax)	**167**	141	126
Adjusted diluted profit for EPS calculation	**4,742**	4,440	4,884
Average number of shares (M) - "statutory basis"	**1,762**	1,753	1,739
Add back weighted average number of shares (M)	**136**	113	103
Diluted average number of shares (M)	**1,898**	1,866	1,842
Earnings Per Share diluted - "statutory basis" (cents)	**249. 8**	237. 8	265. 3

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Calculations are based on actual numbers prior to rounding to the closest million.

4.5 Analysis Template (continued)

	Half Year Ended (1) (2)		
	31 Dec 18	30 Jun 18	31 Dec 17
Ratios - Output Summary (including discontinued operations)	**$M**	$M	$M
Earnings Per Share (EPS)			
Net profit after tax - "cash basis"	**4,768**	4,541	4,871
Average number of shares (M) - "cash basis"	**1,763**	1,754	1,740
Earnings Per Share basic - "cash basis" (cents)	**270. 4**	258. 8	280. 0
Net profit after tax - "statutory basis"	**4,599**	4,423	4,906
Average number of shares (M) - "statutory basis"	**1,762**	1,753	1,739
Earnings Per Share basic - "statutory basis" (cents)	**261. 0**	252. 2	282. 2
Interest expense (after tax) - PERLS VI	**38**	42	41
Interest expense (after tax) - PERLS VII	**37**	36	35
Interest expense (after tax) - PERLS VIII	**27**	26	26
Interest expense (after tax) - PERLS IX	**36**	24	24
Interest expense (after tax) - PERLS X	**26**	13	-
Interest expense (after tax) - PERLS XI	**3**	-	-
Profit impact of assumed conversions (after tax)	**167**	141	126
Weighted average number of shares - PERLS VI (M)	**26**	25	25
Weighted average number of shares - PERLS VII (M)	**43**	38	37
Weighted average number of shares - PERLS VIII (M)	**21**	18	18
Weighted average number of shares - PERLS IX (M)	**23**	21	20
Weighted average number of shares - PERLS X (M)	**19**	9	-
Weighted average number of shares - PERLS XI (M)	**2**	-	-
Weighted average number of shares - Employee share plans (M)	**2**	2	3
Weighted average number of shares - dilutive securities (M)	**136**	113	103
Net profit after tax - "cash basis"	**4,768**	4,541	4,871
Add back profit impact of assumed conversions (after tax)	**167**	141	126
Adjusted diluted profit for EPS calculation	**4,935**	4,682	4,997
Average number of shares (M) - "cash basis"	**1,763**	1,754	1,740
Add back weighted average number of shares (M)	**136**	113	103
Diluted average number of shares (M)	**1,899**	1,867	1,843
Earnings Per Share diluted - "cash basis" (cents)	**259. 9**	250. 6	271. 1
Net profit after tax - "statutory basis"	**4,599**	4,423	4,906
Add back profit impact of assumed conversions (after tax)	**167**	141	126
Adjusted diluted profit for EPS calculation	**4,766**	4,564	5,032
Average number of shares (M) - "statutory basis"	**1,762**	1,753	1,739
Add back weighted average number of shares (M)	**136**	113	103
Diluted average number of shares (M)	**1,898**	1,866	1,842
Earnings Per Share diluted - "statutory basis" (cents)	**251. 1**	244. 4	273. 2

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Calculations are based on actual numbers prior to rounding to the closest million.

4.5 Analysis Template (continued)

	Half Year Ended [1]		
Dividends Per Share (DPS)	**31 Dec 18**	30 Jun 18	31 Dec 17
Dividends (including discontinued operations)	**$M**	$M	$M
Dividends per share (cents) - fully franked	**200**	231	200
No. of shares at end of period excluding Treasury shares deduction (M)	**1,770**	1,760	1,753
Total dividends	**3,540**	4,065	3,505
Dividend payout ratio - "cash basis"			
Net profit after tax - attributable to ordinary shareholders	**4,768**	4,541	4,871
Total dividends	**3,540**	4,065	3,505
Payout ratio - "cash basis" (%)	**74. 3**	89. 5	72. 0
Dividend cover			
Net profit after tax - attributable to ordinary shareholders	**4,768**	4,541	4,871
Total dividends	**3,540**	4,065	3,505
Dividend cover - "cash basis" (times)	**1. 3**	1. 1	1. 4

(1) Calculations are based on actual numbers prior to rounding to the nearest million.

4.5 Analysis Template (continued)

	Half Year Ended (1) (2)		
	31 Dec 18	30 Jun 18	31 Dec 17
Ratios - Output Summary (continuing operations basis)	**$M**	$M	$M
Return on Equity (ROE)			
Return on Equity - "cash basis"			
Average net assets	**67,740**	66,976	64,876
Less:			
Average non-controlling interests	**(510)**	(510)	(530)
Average equity	**67,230**	66,466	64,346
Add average treasury shares	**86**	88	94
Net average equity	**67,316**	66,554	64,440
Net profit after tax - "cash basis"	**4,676**	4,317	4,598
ROE - "cash basis" (%)	**13. 8**	13. 1	14. 2
Return on Equity - "statutory basis"			
Average net assets	**67,740**	66,976	64,876
Average non-controlling interests	**(510)**	(510)	(530)
Average equity	**67,230**	66,466	64,346
Net profit after tax - "statutory basis"	**4,575**	4,299	4,758
ROE - "statutory basis" (%)	**13. 5**	13. 0	14. 7
Net Tangible Assets per share			
Net assets	**68,578**	67,860	66,091
Less:			
Intangible assets	**(8,161)**	(9,090)	(9,140)
Non-controlling interests	**(510)**	(509)	(510)
Total net tangible assets	**59,907**	58,261	56,441
No. of shares at end of period excluding Treasury shares deduction (M)	**1,770**	1,760	1,753
Net Tangible Assets per share ($)	**33. 84**	33. 11	32. 20

(1) Calculations are based on actual numbers prior to rounding to the nearest million.
(2) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

4.5 Analysis Template (continued)

Ratios - Output Summary (including discontinued operations)	Half Year Ended (1) (2) 31 Dec 18 $M	30 Jun 18 $M	31 Dec 17 $M
Return on Equity (ROE)			
Return on Equity - "cash basis"			
Average net assets	**67,740**	66,976	64,876
Less:			
Average non-controlling interests	**(554)**	(554)	(550)
Average equity	**67,186**	66,422	64,326
Add average treasury shares	**86**	88	94
Net average equity	**67,272**	66,510	64,420
Net profit after tax - "cash basis"	**4,768**	4,541	4,871
ROE - "cash basis" (%)	**14. 1**	13. 8	15. 0
Return on Equity - "statutory basis"			
Average net assets	**67,740**	66,976	64,876
Average non-controlling interests	**(554)**	(554)	(550)
Average equity	**67,186**	66,422	64,326
Net profit after tax - "statutory basis"	**4,599**	4,423	4,906
ROE - "statutory basis" (%)	**13. 6**	13. 4	15. 1
Net Tangible Assets per share			
Net assets	**68,578**	67,860	66,091
Less:			
Intangible assets	**(9,934)**	(10,462)	(10,613)
Non-controlling interests	**(553)**	(554)	(554)
Total net tangible assets	**58,091**	56,844	54,924
No. of shares at end of period excluding Treasury shares deduction (M)	**1,770**	1,760	1,753
Net Tangible Assets per share ($)	**32. 82**	32. 30	31. 34

(1) Calculations are based on actual numbers prior to rounding to the nearest million.
(2) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.

Appendices

4.6 Summary (continuing operations basis)

Group		Half Year Ended [1] 31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net profit after tax - "cash basis"	$M	**4,676**	4,317	4,598	8	2
Hedging and IFRS volatility (after tax)	$M	**(91)**	5	96	large	large
Bankwest non-cash items (after tax)	$M	**(1)**	(2)	(1)	(50)	-
Gain/(loss) on disposal and acquisition of entities net of transaction costs [2]	$M	**(9)**	(21)	65	(57)	large
Net profit after tax - "statutory basis"	$M	**4,575**	4,299	4,758	6	(4)
Earnings per share basic - "cash basis"	cents	**265. 2**	246. 0	264. 3	8	-
Spot number of full-time equivalent staff (FTE)	No.	**42,519**	42,462	41,308	-	3
Average number of full-time equivalent staff	No.	**42,570**	41,812	42,019	2	1
Return on equity - "cash basis"	%	**13. 8**	13. 1	14. 2	70 bpts	(40)bpts
Return on equity - "statutory basis"	%	**13. 5**	13. 0	14. 7	50 bpts	(120)bpts
Net tangible assets per share	$	**33. 84**	33. 11	32. 20	2	5
Net interest income - "cash basis"	$M	**9,134**	9,085	9,257	1	(1)
Net interest margin	%	**2. 10**	2. 14	2. 16	(4)bpts	(6)bpts
Other banking income - "cash basis"	$M	**2,636**	2,509	2,706	5	(3)
Other banking income to total banking income - "cash basis"	%	**22. 4**	21. 6	22. 6	80 bpts	(20)bpts
Operating expenses to total operating income - "cash basis"	%	**42. 6**	45. 1	43. 2	(250)bpts	(60)bpts
Average interest earning assets [3]	$M	**863,664**	857,050	851,522	1	1
Average interest bearing liabilities	$M	**764,654**	761,752	757,449	-	1

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Current period includes $18 million demerger costs for NewCo (30 June 2018: $21 million expense; 31 December 2017: nil), partly offset by a $9 million net gain on acquisitions and disposals of other businesses (30 June 2018: nil; 31 December 2017: $65 million gain).
(3) Net of average mortgage offset balances.

4.6 Summary (including discontinued operations)

Group		Half Year Ended (1) 31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Net profit after tax - "cash basis"	$M	**4,768**	4,541	4,871	5	(2)
Treasury shares valuation adjustment (after tax)	$M	**(3)**	5	(3)	large	-
Hedging and IFRS volatility (after tax)	$M	**(91)**	5	96	large	large
Bankwest non-cash items (after tax)	$M	**(1)**	(2)	(1)	(50)	-
Gain/(loss) on disposal and acquisition of entities net of transaction costs (2)	$M	**(74)**	(126)	(57)	(41)	30
Net profit after tax - "statutory basis"	$M	**4,599**	4,423	4,906	4	(6)
Earnings per share basic - "cash basis"	cents	**270. 4**	258. 8	280. 0	4	(3)
Dividends per share (fully franked)	cents	**200**	231	200	(13)	-
Dividend payout ratio - "cash basis"	%	**74. 3**	89. 5	72. 0	large	230 bpts
Common Equity Tier 1 (APRA) - Basel III	%	**10. 8**	10. 1	10. 4	70 bpts	40 bpts
Leverage ratio (APRA)	%	**5. 6**	5. 5	5. 4	10 bpts	20 bpts
Spot number of full-time equivalent staff (FTE)	No.	**44,870**	45,753	44,458	(2)	1
Average number of full-time equivalent staff	No.	**45,211**	45,038	45,373	-	-
Return on equity - "cash basis"	%	**14. 1**	13. 8	15. 0	30 bpts	(90)bpts
Return on equity - "statutory basis"	%	**13. 6**	13. 4	15. 1	20 bpts	(150)bpts
Weighted average no. of shares - "statutory basis" - basic	M	**1,762**	1,753	1,739	1	1
Net interest income - "cash basis"	$M	**9,178**	9,123	9,286	1	(1)
Net interest margin	%	**2. 11**	2. 15	2. 16	(4)bpts	(5)bpts
Other banking income - "cash basis"	$M	**2,641**	2,489	2,683	6	(2)
Other banking income to total banking income - "cash basis"	%	**22. 3**	21. 4	22. 4	90 bpts	(10)bpts
Operating expenses to total operating income - "cash basis"	%	**44. 4**	46. 7	44. 3	(230)bpts	10 bpts
Average interest earning assets (5)	$M	**864,190**	857,124	851,606	1	1
Average interest bearing liabilities	$M	**765,527**	762,623	758,312	-	1
Loan impairment expense	$M	**577**	483	596	19	(3)
Loan impairment expense annualised as a % of average gross loans and acceptances	%	**0. 15**	0. 13	0. 16	2 bpts	(1)bpt
Total provisions for impaired assets as a % of gross impaired assets	%	**33. 34**	33. 60	34. 45	(26)bpts	(111)bpts
Net write-offs annualised as a % of GLAAs	%	**0. 15**	0. 18	0. 15	(3)bpts	-
Risk weighted assets (APRA) - Basel III	$M	**445,144**	458,612	440,836	(3)	1

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Current period includes $75 million gain net of transaction and separation costs associated with the disposal of CommInsure Life and Sovereign (30 June 2018: $14 million expense; 31 December 2017: $122 million expense); $9 million gain on acquisitions and disposals of other businesses (30 June 2018: nil; 31 December 2017: $65 million gain); $100 million provision for transaction and separation costs associated with the disposal of CFSGAM (30 June 2018: nil; 31 December 2017: nil); $22 million loss including transaction and separation costs associated with the disposal of TymeDigital SA (30 June 2018: $91 million impairment loss; 31 December 2017: nil); $18 million demerger costs for NewCo (30 June 2018: $21 million expense; 31 December 2017: nil); and $18 million for other transaction and separation costs (30 June 2018: nil; 31 December 2017: nil).
(3) Analysis aligns with the 13 July 2015 APRA study titled “International capital comparison study”.
(4) 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.
(5) Net of average mortgage offset balances.

4.6 Summary (continued)

		Half Year Ended (1)				
		31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
Retail Banking Services (2)						
Cash net profit after tax	$M	**2,212**	2,289	2,414	(3)	(8)
Net interest margin	%	**2. 60**	2. 71	2. 77	(11)bpts	(17)bpts
Average interest earning assets (AIEA) (3)	$M	**359,928**	355,210	349,437	1	3
Operating expenses to total operating income - "cash basis"	%	**37. 6**	36. 4	35. 1	120 bpts	250 bpts
Effective tax rate - "cash basis"	%	**30. 0**	29. 9	30. 0	10 bpts	-
Risk weighted assets	$M	**167,253**	168,370	158,686	(1)	5
Business and Private Banking						
Cash net profit after tax	$M	**1,407**	1,393	1,452	1	(3)
Net interest margin	%	**3. 17**	3. 17	3. 16	-	1 bpt
Average interest earning assets (AIEA) (3)	$M	**162,159**	162,000	161,259	-	1
Operating expenses to total banking income - "cash basis"	%	**34. 3**	34. 7	33. 5	(40)bpts	80 bpts
Effective tax rate - "cash basis"	%	**30. 0**	30. 0	30. 0	-	-
Risk weighted assets	$M	**117,439**	119,804	112,683	(2)	4
Institutional Banking and Markets						
Cash net profit after tax	$M	**580**	562	608	3	(5)
Net interest margin	%	**1. 08**	1. 05	1. 01	3 bpts	7 bpts
Average interest earning assets (AIEA)	$M	**133,556**	135,515	142,300	(1)	(6)
Operating expenses to total banking income - "cash basis"	%	**39. 4**	44. 4	35. 9	large	350 bpts
Effective tax rate - "cash basis"	%	**23. 0**	22. 7	23. 7	30 bpts	(70)bpts
Risk weighted assets	$M	**89,842**	95,875	97,103	(6)	(7)
Wealth Management (4)						
Cash net profit after tax	$M	**136**	139	116	(2)	17
Investment experience after tax	$M	**7**	5	3	40	large
FUA - average	$M	**146,971**	144,625	139,104	2	6
FUA - spot	$M	**141,925**	147,999	143,668	(4)	(1)
Operating expenses to total operating income - "cash basis"	%	**56. 7**	55. 0	61. 6	170 bpts	(490)bpts
Effective tax rate - "cash basis"	%	**31. 7**	29. 4	29. 3	230 bpts	240 bpts

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Excluding Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review.
(3) Net of average mortgage offset balances.
(4) Presented on a continuing operations basis.

4.6 Summary (continued)

		Half Year Ended (1)				
		31 Dec 18	30 Jun 18	31 Dec 17	Dec 18 vs Jun 18 %	Dec 18 vs Dec 17 %
New Zealand (2)						
Cash net profit after tax	**$M**	**539**	492	483	10	12
Net interest margin (ASB) (3)	**%**	**2. 21**	2. 27	2. 20	(6)bpts	1 bpt
Average interest earning assets (AIEA)	**NZ$M**	**94,262**	91,054	88,525	4	6
FUA - average (ASB)	**NZ$M**	**15,007**	13,280	12,971	13	16
FUA - spot (ASB)	**NZ$M**	**14,485**	13,525	13,325	7	9
AUM - average (ASB)	**NZ$M**	**15,562**	14,591	13,417	7	16
AUM - spot (ASB)	**NZ$M**	**15,511**	15,090	14,243	3	9
Operating expenses to total operating income (ASB) (3) - "cash basis"	**%**	**34. 8**	36. 4	35. 5	(160)bpts	(70)bpts
Effective tax rate - "cash basis" (ASB) (3)	**%**	**28. 1**	27. 9	28. 1	20 bpts	-
Risk weighted assets - APRA basis (4)	**$M**	**50,082**	48,524	47,489	3	5

(1) Comparative information has been restated to conform to presentation in the current period. Refer to Appendix 4.9 to this Document for further details.
(2) Presented on a continuing operations basis.
(3) Key financial metrics are calculated in New Zealand dollar terms.
(4) Risk weighted assets represent ASB only and are calculated in accordance with APRA requirements.

4.7 Foreign Exchange Rates

Exchange Rates Utilised [1]	Currency	As at 31 Dec 18	30 Jun 18	31 Dec 17
AUD 1.00 =	USD [2]	**0. 7046**	0. 7399	0. 7815
	EUR	**0. 6175**	0. 6350	0. 6532
	GBP	**0. 5563**	0. 5635	0. 5797
	NZD	**1. 0515**	1. 0909	1. 0983
	JPY	**77. 9848**	81. 7215	87. 9780

(1) Unless noted otherwise, rates are sourced from Bloomberg and are End of day, Sydney time.
(2) USD translated from AUD using the month end Noon Buying Rates as at the end of each period. Refer to "Financial Review – Exchange Rates" on page 29 of the 2018 Annual U.S. Disclosure Document.

4.8 Definitions

Glossary of Terms

Term	Description
Assets Under Management	Assets Under Management ("AUM") represents the market value of assets for which the Group acts as appointed manager. Growth and volatility in this balance is a key performance indicator for the Wealth Management and New Zealand businesses.
Bankwest	Bankwest is active in all domestic market segments, with lending diversified between the business, rural, housing and personal markets, including a full range of deposit products. From 1 July 2018, Bankwest has been consolidated into Retail Banking Services.
Business and Private Banking	Business and Private Banking serves the banking needs of business, corporate and agribusiness customers across the full range of financial services solutions, as well as providing banking and advisory services for high net worth individuals. It also provides equities trading and margin loan services through our CommSec business. From 1 July 2018, the Small Business banking segment has been transferred out of Retail Banking Services in to Business and Private Banking.
Corporate Centre (including eliminations)	Corporate Centre includes the results of unallocated Group support functions such as Treasury, Investor Relations, Group Strategy, Marketing and Legal and Corporate Affairs. It also includes Group wide elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.
Corporations Act	Corporations Act 2001 (Cth).
Dividend payout ratio ("cash basis")	Dividends paid on ordinary shares divided by net profit after tax ("cash basis").
Dividend payout ratio ("statutory basis")	Dividends paid on ordinary shares divided by net profit after tax ("statutory basis").
DRP	Dividend reinvestment plan.
DRP participation	The percentage of total issued capital participating in the dividend reinvestment plan.
Earnings per share (basic)	Basic earnings per share is the net profit attributable to ordinary equity holders of the Bank, divided by the weighted average number of ordinary shares on issue during the period, per the requirements of relevant accounting standards.
Earnings per share (diluted)	Diluted earnings per share adjusts the net profit attributable to ordinary equity holders of the Bank and the weighted average number of ordinary shares on issue used in the calculation of basic earnings per share, for the effects of dilutive potential ordinary shares, per the requirements of relevant accounting standards.
Full-time equivalent staff	Includes all permanent full-time staff, part-time staff equivalents and external contractors employed through third-party agencies.
Funds Under Administration	Funds Under Administration ("FUA") represents the market value of funds administered by the Group and excludes AUM. Growth and volatility in this balance is a key performance indicator for the Wealth Management and New Zealand businesses.
International Financial Services	International Financial Services ("IFS") incorporates the Indonesian retail and business banking operations, and associate investments in China (Bank of Hangzhou and Qilu Bank) and Vietnam (Vietnam International Bank). It does not include the Business and Private Banking, Institutional Banking and Markets and Colonial First State Global Asset Management businesses in Asia.
Institutional Banking and Markets	Institutional Banking and Markets serves the commercial and wholesale banking needs of large corporate, institutional and government clients across a full range of financial services solutions including access to debt capital markets, transaction banking, working capital and risk management through dedicated product and industry specialists. Institutional Banking and Markets has international operations in London, New York, Japan, Singapore, Malta, Hong Kong, New Zealand, Beijing and Shanghai.
Interest Rate Risk in the Banking Book	Interest Rate Risk in the Banking Book ("IRRBB") is the risk that the Bank's profit derived from Net Interest Income (interest earned less interest paid), in current and future periods, is adversely impacted from changes in interest rates. This is measured from two perspectives: firstly by quantifying the change in the net present value of the Balance Sheet's future earnings potential, and secondly as the anticipated change to the Net Interest Income earned over 12 months. This calculation is driven by APRA regulations with further detail outlined in the Bank's Basel III Pillar 3 report.
Net profit after tax ("cash basis")	Represents net profit after tax and non-controlling interests before non-cash items including, hedging and IFRS volatility, Bankwest non-cash items, treasury shares valuation adjustment, and losses or gains on acquisitions, disposal, closure and demerger of businesses. This is Management's preferred measure of the Group's financial performance.

Glossary of Terms (continued)

Term	Description
Net profit after tax ("statutory basis")	Represents net profit after tax and non-controlling interests, calculated in accordance with Australian Accounting Standards. This is equivalent to the statutory item "Net profit attributable to Equity holders of the Bank".
Net tangible assets per share	Net assets excluding intangible assets, non-controlling interests, and other equity instruments divided by ordinary shares on issue at the end of the period (excluding Treasury Shares deduction).
Net Stable Funding Ratio (NSFR)	The NSFR more closely aligns the behaviour term of assets and liabilities. It is the ratio of the amount of available stable funding ("ASF") to the amount of required stable funding ("RSF"). ASF is the portion of an Authorised Deposit-taking Institution's (ADI) capital and liabilities expected to be a reliable source of funds over a one year time horizon. RSF is a function of the liquidity characteristics and residual maturities of an ADI's assets and off-balance sheet activities.
NewCo	NewCo represents the wealth management and Mortgage Broking businesses CBA intends to demerge. NewCo will include Colonial First State, Count Financial, Financial Wisdom, Aussie Home Loans and CBA's minority shareholdings in ASX-listed companies CountPlus and Mortgage Choice.
New Zealand	New Zealand includes the banking, funds management and insurance businesses operating in New Zealand (excluding Institutional Banking and Markets), under the ASB and Sovereign brands. On 2 July 2018, CBA completed the sale of Sovereign.
Operating Expense to income ratio	Represents operating expenses as a percentage of total operating income. The ratio is a key efficiency measure.
Other Overseas	Represents amounts booked in branches and controlled entities outside Australia and New Zealand.
Replicating Portfolio	The Replicating Portfolio is designed to stabilise the net interest earnings of the bank through interest rate cycles. It comprises a portfolio of interest rate swaps acting as a partial economic hedge for assets and liabilities that have an imperfect correlation between the cash rate and the product interest rate (e.g. if the cash rate increases or decreases, non-interest bearing deposits cannot be re-priced to match the change in the cash rate).
Retail Banking Services	Retail Banking Services provides home loan, consumer finance and retail deposit products and servicing to all Retail bank customers under the CBA and Aussie brands. In addition, commission is received for the distribution of Wealth Management products through the retail distribution network. From 1 July 2018, Bankwest and Commonwealth Financial Planning have been consolidated into Retail Banking Services. In addition, the CommInsure General Insurance business has been transferred into Retail Banking Services while under strategic review.
Return on equity ("cash basis")	Based on cash net profit after tax and non-controlling interests less other equity instruments' distributions applied to average shareholders' equity, excluding non-controlling interests, other equity instruments and the treasury shares deduction relating to life insurance statutory funds.
Return on equity ("statutory basis")	Based on net profit after tax ("statutory basis") less other equity instruments' distributions applied to average shareholders' equity, excluding non-controlling interests and other equity instruments.
Total Committed Exposure ("TCE")	Total Committed Exposure is defined as the balance outstanding and undrawn components of committed facility limits. It is calculated before collateralisation and excludes settlement exposures on derivatives.
Wealth Management	Wealth Management provides superannuation, investment, retirement and insurance products and services including financial planning which help improve the financial wellbeing of our customers. In addition, as a global asset management business, it manages investments on behalf of institutional investors and pension funds, wholesale distributors and platforms, financial advisers and their clients.
Weighted average number of shares ("cash basis")	The calculation incorporates the bonus element of any rights issue, discount element of any DRP and excludes "Treasury Shares" related to investment in the Bank's shares held by the employee share scheme trust.
Weighted average number of shares ("statutory basis")	The calculation incorporates the bonus element of any rights issue, discount element of any DRP and excludes "Treasury Shares" related to investments in the Bank's shares held both by the life insurance statutory funds and by the employee share scheme trust.

Appendices

Market Share Definitions

Retail Banking

Home loans	CBA Loans to individuals that are Owner Occupied and Investment Home Loans + Securitised Housing Loans as per APRA Monthly Banking Statistics + separately reported subsidiaries: Wallaby Trust, Residential Group Mortgage Group P/L and Homepath P/L
	RBA Total Housing Loans (includes securitisations) (includes Banks and non-banks)
Credit cards (APRA)	CBA Personal Credit Card Lending (APRA)
	Loans to Households: Credit Cards (APRA Monthly Banking Statistics back series)
Consumer finance (other household lending)	CBA Lending to Individuals which includes: Personal Loans, Margin Lending, Personal Leasing, Revolving Credit, Overdrafts and Home Loans for personal use
	Loans to Households: Other (APRA Monthly Banking Statistics back series)
Household deposits	Total CBA transaction and non-transaction account deposit balances from residents as reported under APRA definitions for Households (individuals) excluding Self-Managed Super Funds (as per deposit balances submitted to APRA in ARF 320.0 Statement of Financial Position)
	Household Deposits (from APRA Monthly Banking Statistics back series)

Business Banking

Business lending (APRA)	CBA Total loans to residents as reported under APRA definitions for the Non-Financial Corporations sector (as per lending balances submitted to APRA in ARF 320.0 Statement of Financial Position) (this includes some Housing Loans to Business)
	Total loans to the Non-Financial Corporations sector (from APRA Monthly Banking statistics back series)
Business lending (RBA)	CBA business lending and credit: specific “business lending” categories in lodged APRA returns – ARF 320.0 Statement of Financial Position Domestic Book, ARF 320.1 Debt Securities Held and ARF 320.4 Accepted and Endorsed Bills, excluding sub-categories of Banks, ADIs and RFCs and Governments.
	RBA Total business lending (seasonally adjusted)
Business deposits (APRA)	Total CBA transaction and non-transaction account deposit balances from residents as reported under APRA definitions for the non-financial corporation’s sector (as per deposit balances submitted to APRA in ARF 320.0)
	Loans to Non-Financial Corporations (from APRA Monthly Banking Statistics back series)
Equities trading	Twelve months rolling average of total value of equities trades as measured by ASX
	Twelve months rolling average of total value of equities market trades as measured by ASX

Wealth Management

Australian Retail	Total funds in CBA Wealth Management retail investment products (including WM products badged by other parties)
	Total funds in retail investment products market (from Strategic Insight - formally known as Plan for Life)
FirstChoice Platform	Total funds in FirstChoice platform
	Total funds in platform/masterfund market (from Strategic Insight - formally known as Plan for Life)
Australia life insurance (total risk)	Total risk inforce premium of all CBA Group Australian life insurance companies
	Total risk inforce premium for all Australian life insurance companies (from Strategic Insight - formally known as Plan for Life)
Australia life insurance (individual risk)	(Individual lump sum + individual risk income) inforce premium of all CBA Group Australian life insurance companies
	Individual risk inforce premium for all Australian life insurance companies (from Strategic insight - formally known as Plan for Life)

Market Share Definitions (continued)

New Zealand

Home Loans	All ASB residential mortgages for owner occupier and residential investor property use / Total New Zealand residential mortgages for owner occupier and residential investor property use of all New Zealand registered banks (from RBNZ)
Customer Deposits	All resident and non-resident deposits on ASB Balance Sheet / Total resident and non-resident deposits of all New Zealand registered banks (from RBNZ)
Business Lending	All New Zealand dollar loans for business use on ASB Balance Sheet excluding agriculture loans / Total New Zealand dollar loans for business use of all New Zealand registered banks excluding agriculture loans (from RBNZ)
Retail AUM [1]	Total ASB AUM / Total Market net Retail AUM (from Fund Source Research Limited)
Annual inforce premiums [2]	Total Sovereign inforce premiums excluding health (opening inforce annual premium income + new business - exits - other) / Total inforce premiums for New Zealand (from Financial Services Council of New Zealand statistics)

(1) Presented on a continuing operations basis.
(2) Discontinued Operations

4.9 Disclosure Changes

Financial Reporting Changes in this Document

1. Changes to the presentation of discontinued operations

In line with accounting standards, the Interim and comparative results of discontinued operations are presented separately as a single line item 'net profit after tax from discontinued operations' for both Group and divisional results. Assets and liabilities of discontinued operations are presented separately as held for sale on the Balance Sheet as at 31 December 2018, however in line with accounting standards prior periods remain unadjusted. Group Key Performance Indicators are presented on both a continuing operations and including discontinued operations basis.

In the year ended 30 June 2018, discontinued operations included:

- CBA's Life insurance businesses in Australia (CommInsure Life) and New Zealand (Sovereign)
- BoComm Life Insurance Company Limited (BoComm Life)
- Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital)

Additional reclassifications to discontinued operations in the half year ended 31 December 2018 included:

- Colonial First State Global Asset Management (CFSGAM) from Wealth Management
- PT Commonwealth Life (PTCL) and its subsidiary from International Financial Services

The demerger of CBA's wealth management and mortgage broking businesses (NewCo) is subject to shareholder approvals and will remain classified within continuing operations.

2. Changes to financial reporting arising from the simplification of CBA's operating model

In line with CBA's commitment to becoming a simpler, better bank, a number of changes to CBA's operating model have been made during the current half, which realign businesses across operating segments. These changes have not impacted CBA's cash net profit after tax (NPAT), but result in changes to the presentation of the Income Statements and Balance Sheets of the affected divisions.

- In a consolidation of CBA's Australian retail businesses, Bankwest is now included within the Retail Banking Services (RBS) division. Bankwest will no longer be separately disclosed.
- The small business banking segment has been transferred out of RBS to Business and Private Banking (BPB) in order to consolidate CBA's business banking.
- Following the announcement of the demerger of NewCo and to consolidate CBA's retail businesses, Commonwealth Financial Planning has been transferred out of Wealth Management to RBS.
- General Insurance has been placed under strategic review and transferred out of WM to RBS, while the review is underway.
- Other re-segmentation, cost allocations and reclassifications:
  - There have been refinements to the allocation of support unit and other costs; and
  - Customer loyalty scheme costs in New Zealand have been reclassified in the Income Statement to align to industry practice.

Appendices

Segment Statutory NPAT (impact by adjustment type)

The impact of the following changes is presented below:

- Bankwest now consolidated within the Retail Banking Services division
- Small business transferred to the Business and Private Banking division
- Other re-segmentation and cost allocations

	Half Year Ended 30 June 2018							
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	Bankwest $M	IFS & Other $M	Group $M
Statutory NPAT - as published	2,540	928	530	353	520	340	(788)	**4,423**
Restatements:								
Bankwest	342	-	-	-	-	(342)	-	-
Small Business	(562)	562	-	-	-	-	-	-
Other re-segmentation and cost allocations	33	(97)	32	-	-	-	32	**-**
Non-cash adjustments	(2)	-	-	(38)	3	2	35	**-**
Total restatements	**(189)**	**465**	**32**	**(38)**	**3**	**(340)**	**67**	**-**
Statutory NPAT - as restated	**2,351**	**1,393**	**562**	**315**	**523**	**-**	**(721)**	**4,423**

	Half Year Ended 31 December 2017							
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	Bankwest $M	IFS & Other $M	Group $M
Statutory NPAT - as published	2,711	960	591	372	638	338	(704)	**4,906**
Restatements:								
Bankwest	339	-	-	-	-	(339)	-	**-**
Small Business	(568)	568	-	-	-	-	-	**-**
Other re-segmentation and cost allocations	46	(76)	17	(16)	-	-	29	**-**
Non-cash adjustments	(1)	-	-	(101)	(21)	1	122	**-**
Total restatements	**(184)**	**492**	**17**	**(117)**	**(21)**	**(338)**	**151**	**-**
							-	
Statutory NPAT - as restated	**2,527**	**1,452**	**608**	**255**	**617**	**-**	**(553)**	**4,906**

Appendices

Segment Statutory by NPAT (impact by P&L line item)

The impact of the following changes is presented below:

- Bankwest now consolidated within the Retail Banking Services division
- Small business transferred to the Business and Private Banking division
- Other re-segmentation and cost allocations
- Reclassification of NZ customer loyalty scheme costs

	Half Year Ended 30 June 2018							
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	Bankwest $M	IFS & Other $M	Group $M
Statutory NPAT - as published	2,540	928	530	353	520	340	(788)	**4,423**
Restatements:								
Increase/(decrease) in Total operating income	2	1,045	6	(165)	25	(891)	(1)	**21**
(Increase)/decrease in Operating expenses	(308)	(323)	39	167	(25)	380	49	**(21)**
(Increase)/decrease in Loan impairment expense	35	(59)	-	-	-	24	-	**-**
Increase/(decrease) in Investment experience	4	-	-	(4)	-	-	-	**-**
(Increase)/decrease in Corporate tax expense	80	(198)	(13)	2	-	145	(16)	**-**
(Increase)/decrease in Non-controlling interest	-	-	-	-	-	-	-	**-**
Non-cash adjustments	(2)	-	-	(38)	3	2	35	**-**
Total restatements	**(189)**	**465**	**32**	**(38)**	**3**	**(340)**	**67**	**-**
Statutory NPAT - as restated	**2,351**	**1,393**	**562**	**315**	**523**	**-**	**(721)**	**4,423**

	Half Year Ended 31 December 2017							
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	Bankwest $M	IFS & Other $M	Group $M
Statutory NPAT - as published	2,711	960	591	372	638	338	(704)	**4,906**
Restatements:								
Increase/(decrease) in Total operating income	4	1,070	(8)	(180)	24	(885)	(4)	**21**
(Increase)/decrease in Operating expenses	(296)	(311)	36	161	(24)	368	45	**(21)**
(Increase)/decrease in Loan impairment expense	29	(59)	-	-	-	30	-	**-**
Increase/(decrease) in Investment experience	4	-	-	(5)	-	-	1	**-**
(Increase)/decrease in Corporate tax expense	76	(208)	(11)	8	-	148	(13)	**-**
(Increase)/decrease in Non-controlling interest	-	-	-	-	-	-	-	**-**
Non-cash adjustments	(1)	-	-	(101)	(21)	1	122	**-**
Total restatements	**(184)**	**492**	**17**	**(117)**	**(21)**	**(338)**	**151**	**-**
Statutory NPAT - as restated	**2,527**	**1,452**	**608**	**255**	**617**	**-**	**(553)**	**4,906**

Segment Balance Sheet

The impact of the following changes is presented below:

- Bankwest now consolidated within the Retail Banking Services division
- Small business transferred to the Business and Private Banking division
- Other re-segmentation and cost allocations

	As at 30 June 2018								
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	Bankwest $M	International Financial Services $M	Other $M	Group $M
Total Assets - as published	368,272	117,785	162,716	20,466	89,696	80,819	5,529	129,882	**975,165**
Restatements									
Bankwest	80,819	-	-	-	-	(80,819)	-	-	**-**
Small Business	(55,852)	55,852	-	-	-	-	-	-	**-**
Re-segmentation and cost allocati	4,747	998	(591)	(1,007)	326	-	1	(4,474)	**-**
Total restatements	29,714	56,850	(591)	(1,007)	326	(80,819)	1	(4,474)	-
Total Assets - as restated	**397,986**	**174,635**	**162,125**	**19,459**	**90,022**	**-**	**5,530**	**125,408**	**975,165**
Total Liabilities - as published	260,508	89,745	153,895	25,202	82,976	53,775	2,419	238,785	**907,305**
Restatements									
Bankwest	53,775	-	-	-	-	(53,775)	-	-	**-**
Small Business	(47,086)	47,086	-	-	-	-	-	-	**-**
Re-segmentation and cost allocati	1,203	(228)	(251)	(747)	-	-	(9)	32	**-**
Total restatements	7,892	46,858	(251)	(747)	-	(53,775)	(9)	32	**-**
Total Liabilities - as restated	**268,400**	**136,603**	**153,644**	**24,455**	**82,976**	**-**	**2,410**	**238,817**	**907,305**

	As at 31 December 2017								
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	Bankwest $M	International Financial Services $M	Other $M	Group $M
Total Assets - as published	362,415	115,423	165,273	20,026	85,420	80,048	5,226	128,099	**961,930**
Restatements									
Bankwest	80,048	-	-	-	-	(80,048)	-	-	**-**
Small Business	(55,768)	55,768	-	-	-	-	-	-	**-**
Re-segmentation and cost allocati	4,946	1,093	(835)	(1,105)	325	-	-	(4,424)	**-**
Total restatements	29,226	56,861	(835)	(1,105)	325	(80,048)	-	(4,424)	-
Total Assets - as restated	**391,641**	**172,284**	**164,438**	**18,921**	**85,745**	**-**	**5,226**	**123,675**	**961,930**
Total Liabilities - as published	258,136	87,588	151,660	24,887	78,917	55,820	2,219	236,612	**895,839**
Restatements									
Bankwest	55,820	-	-	-	-	(55,820)	-	-	**-**
Small Business	(46,772)	46,772	-	-	-	-	-	-	**-**
Re-segmentation and cost allocati	1,097	(315)	41	(771)	-	-	2	(54)	**-**
Total restatements	10,145	46,457	41	(771)	-	(55,820)	2	(54)	**-**
Total Liabilities - as restated	**268,281**	**134,045**	**151,701**	**24,116**	**78,917**	**-**	**2,221**	**236,558**	**895,839**

Segment Cost to Income Ratios

The impact of the following changes is presented below:

- Bankwest now consolidated within the Retail Banking Services division
- Small business transferred to the Business and Private Banking division
- Other re-segmentation and cost allocations
- Reclassification of NZ customer loyalty scheme costs
- Changes to the presentation of discontinued operations

	Half Year Ended 30 June 2018							
	Retail Banking Services	Business and Private Banking	Institutional Banking and Markets	Wealth Management	New Zealand	Bankwest	International Financial Services	Group
	%	%	%	%	%	%	%	%
Statutory operating expenses to total operating income - as published	32. 3	36. 4	47. 7	69. 9	37. 3	42. 9	42. 6	46. 1
Statutory operating expenses to total banking income - as restated	37. 5	34. 7	44. 4	62. 0	38. 7	N/A	43. 4	45. 4

	Half Year Ended 31 December 2017							
	Retail Banking Services	Business and Private Banking	Institutional Banking and Markets	Wealth Management	New Zealand	Bankwest	International Financial Services	Group
	%	%	%	%	%	%	%	%
Statutory operating expenses to total operating income - as published	31. 9	35. 7	38. 3	66. 1	31. 6	41. 8	51. 0	43. 1
Statutory operating expenses to total banking income - as restated	35. 4	33. 5	35. 9	61. 6	32. 9	N/A	52. 3	42. 5

Appendices

Group Performance Summary

	Half Year Ended 30 Jun 18		Half Year Ended 31 Dec 17	
	As Restated	As Published	As Restated	As Published
Group Performance Summary	**$M**	**$M**	**$M**	**$M**
Net interest income	9,085	9,086	9,257	9,255
Other banking income	2,509	2,495	2,706	2,687
Total banking income	**11,594**	**11,581**	**11,963**	**11,942**
Funds management income	551	1,052	568	1,039
Insurance income	126	157	112	136
Total operating income	**12,271**	**12,790**	**12,643**	**13,117**
Investment experience	2	4	6	13
Total income	**12,273**	**12,794**	**12,649**	**13,130**
Operating expenses	(5,539)	(5,863)	(5,456)	(5,736)
Loan impairment expense	(483)	(483)	(596)	(596)
Net profit before tax	**6,251**	**6,448**	**6,597**	**6,798**
Corporate tax expense	(1,927)	(1,964)	(1,993)	(2,030)
Non controlling interests	(7)	(10)	(6)	(9)
Net profit after tax ("cash basis")	**4,317**	**4,474**	**4,598**	**4,759**
Net profit after tax from discontinued operations	224	67	273	112
Net profit after tax ("cash basis")	**4,541**	**4,541**	**4,871**	**4,871**
Loss on acquisition, disposal, closure and demerger of businesses	(126)	(126)	(57)	(57)
Hedging and IFRS volatility	5	5	96	96
Other non-cash items	3	3	(4)	(4)
Net profit after tax ("statutory basis")	**4,423**	**4,423**	**4,906**	**4,906**

Consolidated Balance Sheet

Consolidated Balance Sheet	As at 30 Jun 18		As at 31 Dec 17	
	As Restated	As Published	As Restated	As Published
Assets	$M	$M	$M	$M
Cash and liquid assets	36,417	36,417	37,322	37,322
Receivables due from other financial institutions	9,222	9,222	6,955	6,955
Assets at fair value through Income Statement:				
Trading	32,254	32,254	34,696	34,696
Insurance	372	372	382	382
Other	258	258	1,038	1,038
Derivative assets	32,133	32,133	25,228	25,228
Available-for-sale investments	82,240	82,240	83,913	83,913
Loans, bills discounted and other receivables	743,365	743,365	736,316	736,316
Bank acceptances of customers	379	379	222	222
Property, plant and equipment	2,576	2,576	2,635	2,635
Investment in associates and joint ventures	2,842	2,842	2,750	2,750
Intangible assets	9,090	9,023	9,140	9,038
Deferred tax assets	1,439	1,439	1,291	1,291
Other assets	6,924	6,991	5,147	5,249
Assets held for sale	15,654	15,654	14,895	14,895
Total assets	975,165	975,165	961,930	961,930
Liabilities				
Deposits and other public borrowings	622,234	622,234	624,897	624,897
Payables due to other financial institutions	20,899	20,899	24,466	24,466
Liabilities at fair value through Income Statement	10,247	10,247	9,350	9,350
Derivative liabilities	28,472	28,472	23,563	23,563
Bank acceptances	379	379	222	222
Current tax liabilities	952	952	642	642
Other provisions	1,889	1,889	2,120	2,120
Insurance policy liabilities	451	451	481	481
Debt issues	172,294	172,294	166,510	166,510
Bills payable and other liabilities	11,596	11,596	8,861	8,861
Liabilities held for sale	14,900	14,900	14,543	14,543
	884,313	884,313	875,655	875,655
Loan capital	22,992	22,992	20,184	20,184
Total liabilities	907,305	907,305	895,839	895,839
Net assets	67,860	67,860	66,091	66,091
Shareholders' Equity				
Share capital:	37,270	37,270	36,776	36,776
Reserves	1,676	1,676	1,494	1,494
Retained profits	28,360	28,360	27,267	27,267
Shareholders' Equity attributable to Equity holders of the Bank	67,306	67,306	65,537	65,537
Non-controlling interests	554	554	554	554
Total Shareholders' Equity	67,860	67,860	66,091	66,091

4.10 Independent Auditors

With respect to the unaudited financial information contained in the half-year financial report of Commonwealth Bank of Australia which comprises the balance sheet, the income statement, the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes for the six-month periods ended 31 December 2018, 30 June 2018, and 31 December 2017, included in this Document, PricewaterhouseCoopers, an Australian partnership ("PwC Australia") reported that they have applied review procedures in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report by the Independent Auditor of the Entity. Their separate report dated 5 February 2019 appearing herein states that they did not perform an audit and they do not express an audit opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

5) Royal Commission Final Report and ASIC Enforceable Undertaking

As discussed in “Risk Factors - The Group is subject to extensive regulation and operates in an environment of political scrutiny, which could adversely impact its operations and financial condition - Other regulatory and political developments” in the 2018 Annual U.S. Disclosure Document, in December 2017, the Australian Government established a Royal Commission into ‘Misconduct in the Banking, Superannuation and Financial Services Industry’.

A Royal Commission is a formal public inquiry that can only be instigated by the executive branch of the Australian Government and is directed by terms of reference. Broadly, the Royal Commission was directed to inquire into, and report on, whether any conduct of financial service entities (including the Group) might have amounted to misconduct or conduct falling below community standards and expectations. The Royal Commission was also tasked with considering the causes of that conduct, in particular the role of culture, governance, remuneration and risk management practices, the effectiveness of regulators and making policy recommendations in response.

During 2018, the Royal Commission conducted public hearings on a wide range of matters that relate to the business and operations of the Group, including consumer and business lending, provision of financial advice, superannuation insurance, the conduct of the financial regulators, and issues of culture, governance, and remuneration. The Final Report of the Royal Commission was released publicly on 4 February 2019. The Final Report identified conduct by financial service entities, including the Group that may have amounted to misconduct, or conduct falling below community standards and expectations and made a number of referrals to regulators to investigate further.

The Royal Commission also made 76 policy recommendations including:

- the creation of a registration, disciplinary and conduct reporting system for mortgage brokers and financial advisers;
- changes to financial adviser fees and remuneration to cease and reduce conflicted remuneration payments, to ensure ongoing fee arrangements were renewed by clients annually and to provide clear disclosure of adviser conflicts;
- the introduction of a “best interest” duty for mortgage brokers and the phased end to conflicted remuneration arrangements, replaced eventually by a flat fee to be paid by borrowers;
- the introduction of a single default superannuation fund for all workers, a prohibition on the deduction of advice fees from MySuper superannuation accounts, and greater controls around the deduction of advice fees from other superannuation accounts;
- amending the definition of ‘small business’ in the 2019 Banking Code of Practice to extend the existing protection of the Code to any business or group employing fewer than 100 full-time equivalent employees, where the loan applied for is less than $5 million (increased from $3 million);
- the prohibition of ‘hawking’ or unsolicited selling of superannuation and insurance products to retail clients;
- the establishment of a national scheme to mediate distressed agricultural loans, and the introduction of other measures to protect agricultural borrowers;
- requiring financial service entities to conduct regular reviews of the design and implementation of their remuneration frameworks, and their culture and governance policies and practices, with a particular focus on the management of non-financial risks; and
- a number of measures to improve the effectiveness and oversight of ASIC and APRA in deterring and imposing appropriate penalties for misconduct, including that ASIC change its approach to enforcement, with a focus on instigating court action.

The Royal Commission’s recommendations will result in significant regulatory change. The Federal Government has responded to the Final Report, confirming its support for 75 of the 76 recommendations. The Government will seek further review of the implications of the recommendation that borrowers rather than lenders pay mortgage broker fees. The opposition Labor Party has also confirmed its support for 75 of the 76 recommendations. The implementation timeline is expected to take some time. When implemented, the recommendations of the Final Report may result in significant compliance costs and may have an adverse impact on the Group’s business, operations, financial performance and prospects.

Additionally, following the release of the Final Report of the Royal Commission, it is likely that credit rating agencies may review the credit ratings assigned to the Group and may revise credit ratings or credit rating outlooks. For more information on risks relating to our credit ratings, see “Risk Factors – Failure to maintain credit ratings could adversely affect the Group’s cost of funds, liquidity, access to debt and capital markets and competitive position” in our 2018 Annual U.S. Disclosure Document.

On the date of the public release of the Royal Commission’s Final Report on 4 February 2019, ASIC announced that Commonwealth Financial Planning Limited (“CFP”) may not enter into any new ongoing service arrangements and must stop charging ongoing service fees to existing customers until the conditions of its Enforceable Undertaking with ASIC have been satisfied. See Note 7.4 in the Financial Statements in this Document for more information. The Group may also be exposed to an increased risk of litigation involving third parties (including class action proceedings) in connection with matters raised publicly at the Royal Commission.

5) Royal Commission Final Report and ASIC Enforceable Undertaking (continued)

The Commissioner has referred a number of instances of potential misconduct to ASIC and APRA for consideration. Where these matters relate to the Group, it may result in proceedings being brought against Group entities, which could result in the imposition of civil or criminal penalties on the Group. The scale of penalties is not known.

The Group is working through the matters raised in the Commissioner's final report to fully understand the implications for the Group.