

November 9, 2016

**Commonwealth Bank of Australia**  
**Recent Developments**

*The information set forth below is not complete and should be read in conjunction with the information contained on the “Supplementary business and financial disclosure” page of the U.S. investor website of the Commonwealth Bank of Australia (the “Group”) at <http://www.commbank.com.au/usinvestors> (the “U.S. Investor Website”). This “Recent Developments” release supplements and, to the extent inconsistent with any information previously included on the U.S. Investor Website, amends and supersedes such information.*

*This “Recent Developments” release contains certain forward-looking statements which involve known and unknown risks and uncertainties. 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. See “Special Note Regarding Forward-Looking Statements” in the Group’s U.S. Annual Disclosure Document for the year ended June 30, 2016 (the “2016 Annual Disclosure Report”) included on the U.S. Investor Website.*

*References to “\$” are to Australian Dollars.*

**Trading Update for the Quarter ended September 30, 2016**

On November 8, 2016, the Group advised that its unaudited cash earnings<sup>1</sup> for the three months ended September 30, 2016 (the “quarter”) were approximately \$2.4 billion. Statutory net profit on an unaudited basis for the same period was also approximately \$2.4 billion, with non-cash items treated on a consistent basis to prior periods. Key outcomes for the quarter are summarized below.

***Business Performance***

- The operating income growth rate for the quarter compared to the quarter ended September 30, 2015 (the “prior comparative period”) was slightly below that experienced during the year ended June 30, 2016, impacted by the low interest rate environment, a strengthening Australian Dollar and higher insurance claims. Banking income growth compared to the prior comparative period was positive, supported by strong trading income. Group Net Interest Margin was lower in the quarter compared to the six months ended June 30, 2016 due to higher funding costs;

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<sup>1</sup> Except as expressly noted, this update is based on the Group’s cash earnings, which are prepared on a different basis than Australian equivalents to International Financial Reporting Standards (“IFRS”). Cash earnings is used by management of the Group to present a view of the Group’s underlying operating results, excluding items that management believes introduce volatility and/or one-off distortions of the Group’s current period performance. These items, such as hedging and IFRS volatility, are calculated consistently period on period and do not discriminate between positive and negative adjustments. A reconciliation of the Group’s net profit after tax from “statutory basis” to “cash basis” is set out on page 12 of the Group’s 2016 Annual Disclosure Report.

- Expenses were well managed in a lower growth environment, resulting in positive “jaws”<sup>2</sup> in the quarter compared to the prior comparative period, notwithstanding ongoing investment in the business; and
- Across key markets, volume growth remained either broadly in line with, or ahead of system in home lending, domestic business lending and household deposits in the year to September 30, 2016. In Wealth Management, Average Assets Under Management and Funds Under Administration rose by 3% and 2% compared to their June 30, 2016 levels, respectively, driven by stronger investment markets and positive net flows. ASB customer advances continued to grow above market in the quarter.

### ***Credit Quality***

- The credit quality of the Group’s lending portfolios remained sound in the quarter, with consumer arrears decreasing in line with seasonal expectations;
- Loan Impairment Expense (“LIE”) was \$322 million in the quarter, equating to 18 basis points of Gross Loans and Acceptances, compared to 19 basis points in the year ended June 30, 2016. Consumer LIE was higher in the quarter, primarily driven by continued stress in the areas of Western Australia and Queensland impacted by the mining downturn. Group Troublesome and Impaired Assets were slightly higher at \$6.8 billion in the quarter, reflecting ongoing stress in the New Zealand dairy sector; and
- The Group continued to maintain what management believes to be prudent levels of provisioning in the quarter, with Total Provisions at \$3.8 billion.

### ***Capital, Funding and Liquidity***

- The Group’s Basel III Common Equity Tier 1 (“CET1”) Australian Prudential Regulation Authority (“APRA”) ratio was 9.4% as at September 30, 2016. After allowing for an increase in risk weighting for Australian residential mortgages and the impact of the 2016 final dividend (which included the issuance of shares in respect of the Dividend Reinvestment Plan), the CET1 (APRA) ratio increased by 34 basis points in the quarter, primarily driven by capital generated from earnings. The Group’s Basel III internationally comparable CET1 ratio as at September 30, 2016 was 14.3%. The Group’s Leverage Ratio was 4.8% on an APRA basis and 5.4% on an internationally comparable basis; and
- We believe funding and liquidity positions remained strong, with customer deposit funding at 66% and the average tenor of the wholesale funding portfolio at 4.3 years as at September 30, 2016. Liquid assets totaled \$135 billion with the Liquidity Coverage Ratio standing at 126% as at September 30, 2016. The Group issued \$12.5 billion of long term funding in the quarter.

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<sup>2</sup>

“Jaws” is Operating Income growth less Operating Expense growth.

**Basel III Pillar 3 Capital Adequacy and Risks Disclosures – Quarterly Update as at September 30, 2016**

On November 8, 2016, the Group released its Basel III Pillar 3 Capital Adequacy and Risks Disclosures as at September 30, 2016. That release is attached as Annex A hereto.

## **Annex A**