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# Profit Announcement

**For the half year ended 31 December 2017**



**Commonwealth**Bank

Commonwealth Bank of Australia | ACN 123 123 124 | 7 February 2018

## ASX Appendix 4D

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

Report for the half year ended 31 December 2017

	\$M	
Revenue from ordinary activities <sup>(2)</sup>	21,263	up 2%
Profit/(loss) from ordinary activities after tax attributable to Equity holders	4,906	0%
Net profit/(loss) for the period attributable to Equity holders	4,906	0%
<b>Dividends (distributions)</b>		
Interim dividend – fully franked (cents per share)		200
Record date for determining entitlements to the dividend		15 February 2018

(1) Rule 4.2A.3.

(2) Information has been presented on a continuing operations basis. Discontinued operations include the Group's life insurance businesses in Australia and New Zealand.

This half year report is provided to the ASX under Rule 4.2A. Refer to Appendix 4.3 ASX Appendix 4D for disclosures required under ASX Listing Rules. This report should be read in conjunction with the 30 June 2017 Annual Financial Report of the Commonwealth Bank of Australia and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act and the ASX Listing Rules.

Except where otherwise stated, all figures relate to the half year ended 31 December 2017. The term "prior comparative period" refers to the half year ended 31 December 2016, while the term "prior half" refers to the half year ended 30 June 2017.

Image

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### **Important dates for shareholders**

<b>Half year results announcement</b>	<b>07 February 2018</b>
<b>Ex-dividend date</b>	<b>14 February 2018</b>
<b>Record Date</b>	<b>15 February 2018</b>
<b>Dividend reinvestment plan participation deadline</b>	<b>16 February 2018</b>
<b>Interim dividend payment date</b>	<b>28 March 2018</b>
<b>Full year results announcement</b>	<b>08 August 2018</b>

### **For further information contact**

Investor Relations

Melanie Kirk

**Phone** 02 9118 7113

**Email** [cbainvestorrelations@cba.com.au](mailto:cbainvestorrelations@cba.com.au)

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# ASX announcement

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# ASX Announcement

## CBA 1H18 Result

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



Commonwealth Bank

## Guide to CBA's 1H18 financial results

CBA's net profit after tax is disclosed on both a statutory and cash basis, consistent with our usual practice. The statutory basis is prepared and reviewed in accordance with the Corporations Act and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). The cash basis is used by management to present a clear view of the Group's operating results. The items excluded from cash profit such as hedging and IFRS volatility and gains or losses on disposal and acquisition of entities net of transaction costs are calculated consistently with the prior year and prior half disclosures. These are disclosed on page 5 of the Profit Announcement ([www.commbank.com.au/results](http://www.commbank.com.au/results)).

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

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

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

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

### 2. Expected regulatory, compliance and remediation program costs

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

### 3. Continuing operations

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

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

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

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

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

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

## 4. Underlying performance

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

- 1H17 has been adjusted to exclude a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets;
- the impact of consolidation and equity accounted profits of AHL Holdings Pty Ltd (trading as Aussie Home Loans) has been excluded; and
- 1H18 is adjusted to exclude an expense provision which the Group believes to be a reliable estimate of the level of penalty that a Court may impose in the AUSTRAC proceedings.

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

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

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

# ASX Announcement

## CBA 1H18 Result

For the half year ended 31 December 2017 <sup>7,8</sup>  
Reported 7 February 2018



## Result overview

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

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

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

**Chief Executive Officer, Ian Narev**

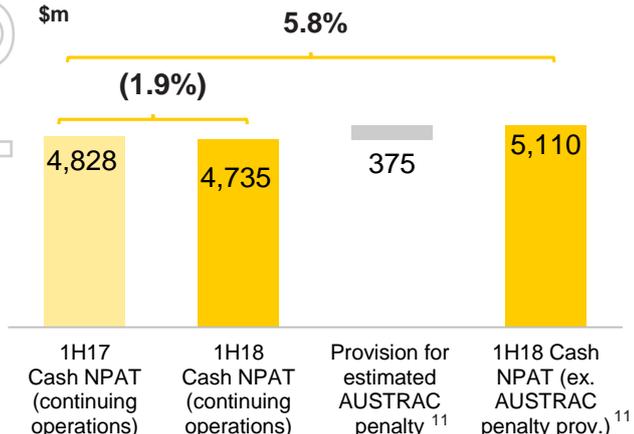
## Financial summary

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

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

## Earnings

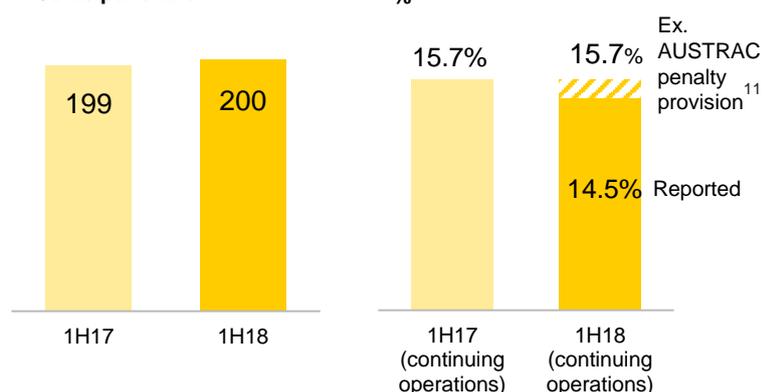
Cash NPAT  
\$m



## Dividends, Return on Equity

Interim dividend  
Cents per share

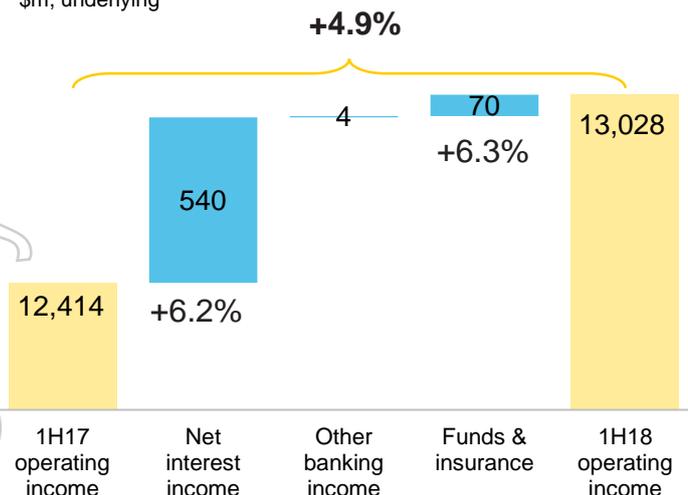
Cash ROE  
%



## Underlying operating momentum<sup>12</sup>

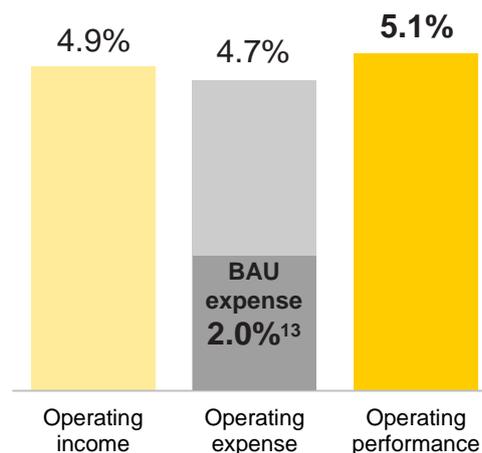
### Operating income

\$m, underlying



### Operating performance

1H18 v 1H17, underlying



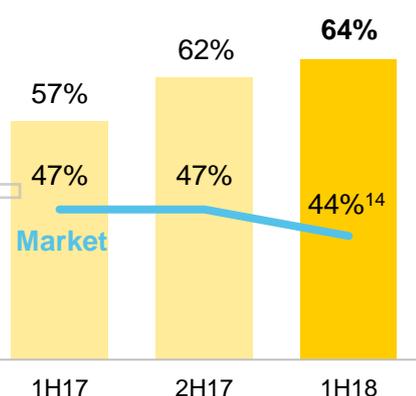
- Underlying operating income increased 4.9%, due mainly to higher net interest income which was up 6.2%. This reflected continuing volume and margin management, with lending volumes up 3.5% and the Group's net interest margin up 6 basis points to 2.16%.
- Other banking income was flat. Higher structured asset finance income and lending fees were offset by lower trading income in the institutional business reflecting reduced market volatility and by lower interchange rates and ATM fees in the retail bank.
- Strong investment markets drove funds management income. This was partly offset by lower general

insurance income which was impacted by higher claims due to weather events.

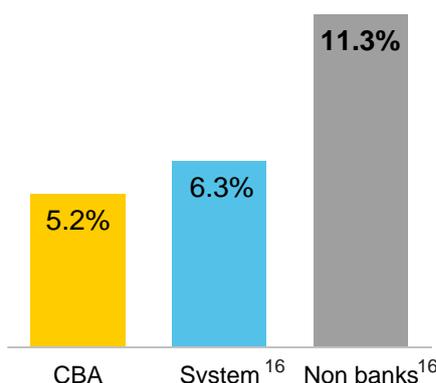
- Underlying operating expenses increased 4.7% to \$5,318m, driven by a \$200m expense provision for expected regulatory, compliance and remediation program costs.
- The underlying cost-to-income ratio reduced a further 10 basis points to 40.8%.
- 'Business as usual' expenses increased by 2.0%.<sup>13</sup> The key drivers were \$48m of incremental costs in frontline and compliance staff and higher expensed investment spend which was up 19%.

## Property lending – selective growth

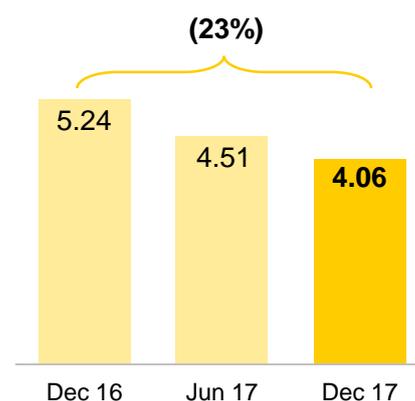
### Home loans Proprietary channel % of total flows (\$), CBA



### Home loan growth<sup>15</sup> 12 mths to Dec 17



### Apartment development<sup>17</sup> Total exposures (\$bn)



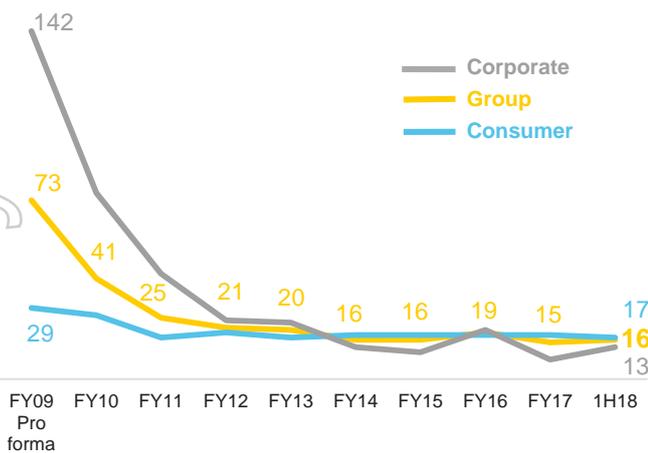
- Our strategic focus on improving the home loan experience for customers continued to drive increased lending through the retail bank's proprietary channels.
- CBA's commitment to balancing regulatory requirements, returns and risk resulted in growth in the home loan portfolio moderating to 5.2% in the twelve months to December 2017.

- Growth in the home loan portfolio was driven by a 7.5% increase in owner-occupied loans and a 0.5% increase in investment home loans.
- For the December quarter, interest only lending comprised 21% of total flows, below APRA's 30% benchmark.
- Corporate exposures to apartment developments reduced further to \$4.06bn.

# Credit quality

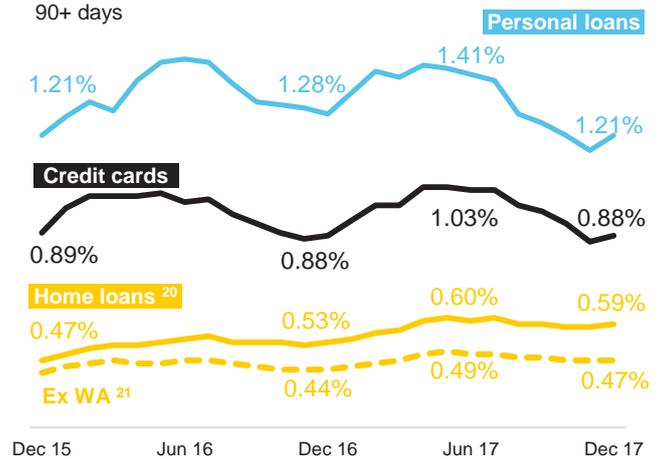
## Loan impairment expense

Group, bpts <sup>18</sup>



## Consumer arrears <sup>19</sup>

90+ days



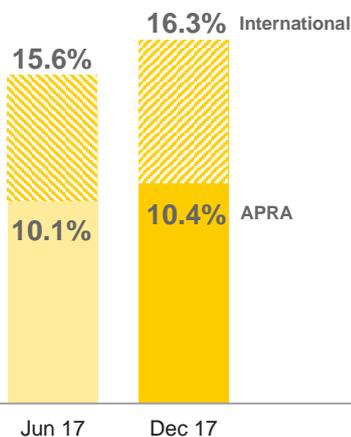
- Credit quality remained sound. Loan impairment expense (LIE) as a percentage of average gross loans and acceptances was 16 basis points.
- Consumer LIE decreased to 17 basis points from 18 basis points in the first half of 2017. Corporate LIE decreased by 1 basis point to 13 basis points.
- Personal loan, credit card and home loan arrears (excluding WA) remained low.

- For provisioning, CBA will adopt AASB 9 on 1 July 2018 which requires the use of a forward-looking methodology. The impact will be recognised in opening retained earnings. If the standard had been adopted as at 1 July 2017, the estimated pro-forma impact would have been an increase in impairment provisions of approximately \$850m, and a reduction in the CET1 ratio of circa 25 basis points.<sup>22</sup>

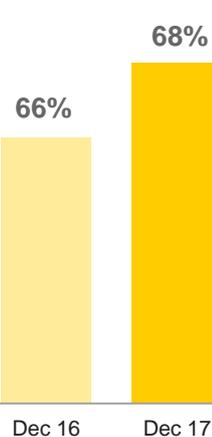
# Balance sheet strength

## Capital ratio

CET1

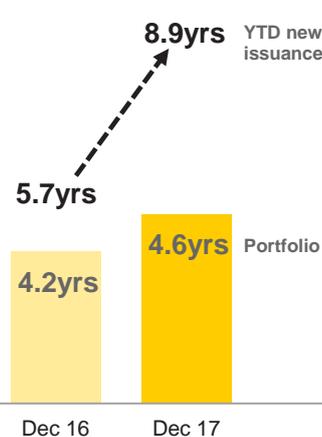


## Deposit funding

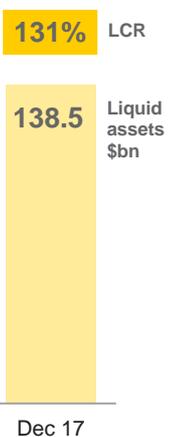


## Wholesale funding

Long term (>12 mths)



## Liquidity



- A focus on strengthening the balance sheet in the period led to stronger capital, funding and liquidity.
- CBA's Common Equity Tier 1 capital ratio was 10.4% on an APRA basis at 31 December 2017, up 30 basis points on 30 June 2017 and up 50 basis points on 31 December 2016. This includes the impact of the provision for the estimated AUSTRAC penalty. On an internationally comparable basis it increased to 16.3%, maintaining CBA's position in the top quartile of international peer banks for CET1.
- Customer deposits contributed 68% of total funding.
- The Net Stable Funding Ratio was 110%, up from 107% in June 2017, driven by increased long term funding and extension of deposit terms.

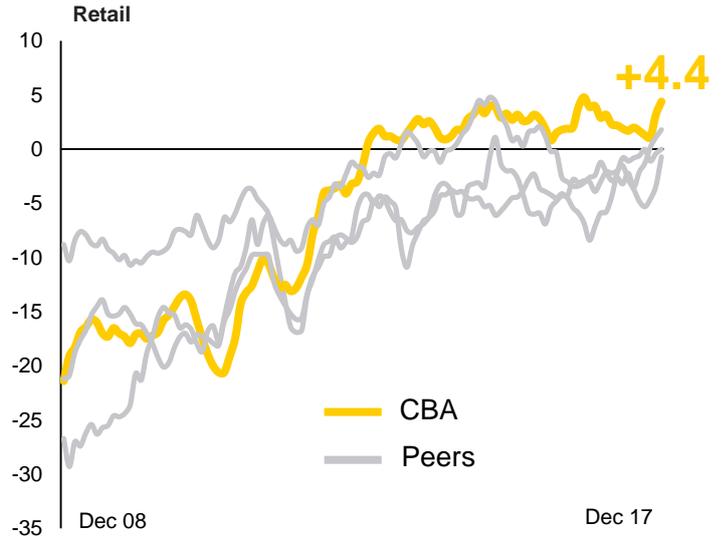
- Favourable funding conditions provided the opportunity to lengthen the tenor of wholesale funding at broadly flat costs. The weighted average maturity of the long term portfolio increased to 4.6 years, and the average tenor of year-to-date new issuance is 8.9 years.
- The proportion of long term funding in the wholesale portfolio increased from 58% to 63%.
- Liquid assets were \$138.5bn, including a committed liquidity facility of \$48.3bn, and the Liquidity Coverage Ratio was 131%, up from 129% at 30 June 2017.
- The Leverage Ratio was 5.4% on an APRA basis and 6.1% on an internationally comparable basis.

# Continuing focus on customer satisfaction

## Customer Satisfaction <sup>23</sup>

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

## Net Promoter Score <sup>24</sup>

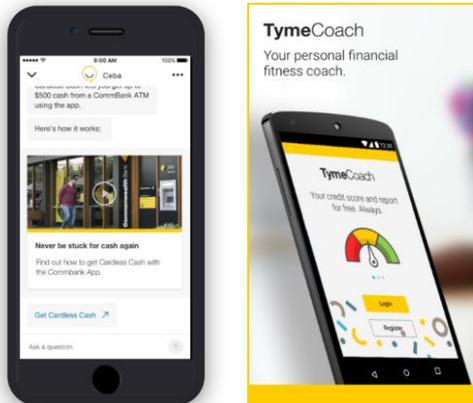


- Customer satisfaction ratings have remained high with Commonwealth Bank continuing to rate first or equal first in key segments.

- Net Promoter Score (NPS) is now the primary metric by which we assess customer satisfaction. Our goal is to be number one in NPS for all customer segments.

# Continuing innovation

## Ceba Chatbot, Tyme technology



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

# Helping customers and the community

## Domestic & Family Violence Emergency Assistance Package

We provide support to customers affected by domestic and family violence.

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

## Outlook

### Chief Executive Officer, Ian Narev

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

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

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

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

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#### Investor Relations

**Melanie Kirk**  
Head of Investor Relations

02 9118 7113  
CBAInvestorRelations@cba.com.au

#### Media

**Kate Abrahams**  
General Manager  
Group Communications

02 9118 6919  
media@cba.com.au

#### Shareholders

For more information  
[commbank.com.au/results](http://commbank.com.au/results)

## Footnotes

<sup>1</sup> Presented on a cash basis unless otherwise stated.

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

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

<sup>4</sup> Operating expenses to total operating income.

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

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

<sup>7</sup> Unless otherwise stated, all figures relate to the half year ended 31 December 2017. All comparisons are to the half year ended 31 December 2016.

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

<sup>9</sup> For an explanation of and reconciliation between statutory and cash NPAT, refer to page 5 of the Profit Announcement.

<sup>10</sup> Includes discontinued operations.

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

<sup>12</sup> In order to present an underlying view of the result: 1H17 has been adjusted to exclude a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets; the impact of consolidation and equity accounted profits of AHL Holdings Pty Ltd (trading as Aussie Home Loans) has been excluded; and 1H18 is adjusted to exclude a \$375 million expense provision which the Group believes to be a reliable estimate of the level of penalty that a Court may impose in the AUSTRAC proceedings.

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

<sup>14</sup> Market as at September 2017 quarter. Source: MFAA.

<sup>15</sup> System source RBA. CBA includes BWA and subsidiaries.

<sup>16</sup> Adjusted for new market entrants/reporting changes. 'Non banks' refers to Non bank financial institutions.

<sup>17</sup> Apartment developments >\$20m.

<sup>18</sup> FY09 includes Bankwest on a pro-forma basis and is based on LIE for the year.

<sup>19</sup> Includes retail portfolios of Retail Banking Services, Business and Private Banking, Bankwest and New Zealand.

<sup>20</sup> Excludes Reverse Mortgage, Commonwealth Portfolio Loan (CBA only) and Residential Mortgage Group (CBA only) loans.

<sup>21</sup> Excludes Line of Credit (Viridian LOC/Equity Line).

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

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

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

# Key financial information

Half year ended ("cash basis")<sup>1</sup>

Group performance summary (continuing operations)	31 Dec 17 \$m	30 Jun 17 \$m	31 Dec 16 \$m	Dec 17 v Jun 17 %	Dec 17 v Dec 16 %
Net interest income	9,253	8,824	8,710	5	6
Other banking income <sup>2</sup>	2,694	2,577	3,018	5	(11)
<b>Total banking income</b>	<b>11,947</b>	<b>11,401</b>	<b>11,728</b>	<b>5</b>	<b>2</b>
Funds management income	1,039	970	943	7	10
Insurance income	136	61	162	large	(16)
<b>Total operating income</b>	<b>13,122</b>	<b>12,432</b>	<b>12,833</b>	<b>6</b>	<b>2</b>
Investment experience	13	21	2	(38)	large
<b>Total income</b>	<b>13,135</b>	<b>12,453</b>	<b>12,835</b>	<b>5</b>	<b>2</b>
Operating expenses <sup>3</sup>	(5,764)	(5,195)	(5,474)	11	5
Loan impairment expense	(596)	(496)	(599)	20	(1)
<b>Net profit before tax</b>	<b>6,775</b>	<b>6,762</b>	<b>6,762</b>	<b>-</b>	<b>-</b>
<b>NPAT from continuing operations ("cash basis")</b>	<b>4,735</b>	<b>4,827</b>	<b>4,828</b>	<b>(2)</b>	<b>(2)</b>
<b>NPAT incl. discount'd operations ("cash basis")</b>	<b>4,871</b>	<b>4,974</b>	<b>4,907</b>	<b>(2)</b>	<b>(1)</b>
<b>NPAT incl. discount'd operations ("statutory basis")</b>	<b>4,906</b>	<b>5,033</b>	<b>4,895</b>	<b>(3)</b>	<b>-</b>
<b>Cash net profit after tax, by division (continuing operations)</b>	<b>31 Dec 17 \$m</b>	<b>30 Jun 17 \$m</b>	<b>31 Dec 16 \$m</b>	<b>Dec 17 v Jun 17 %</b>	<b>Dec 17 v Dec 16 %</b>
Retail Banking Services	2,653	2,480	2,453	7	8
Business and Private Banking	960	930	878	3	9
Institutional Banking and Markets	591	630	681	(6)	(13)
Wealth Management	281	211	211	33	33
New Zealand	483	446	423	8	14
Bankwest	339	286	290	19	17
IFS and Other	(572)	(156)	(108)	large	large
<b>Shareholder ratios &amp; performance indicators (continuing operations)</b>	<b>31 Dec 17</b>	<b>30 Jun 17</b>	<b>31 Dec 16</b>	<b>Dec 17 v Jun 17 %</b>	<b>Dec 17 v Dec 16 %</b>
Earnings Per Share - "cash basis" - basic (cents)	272.2	279.9	281.1	(3)	(3)
Return on equity - "cash basis" (%)	14.5	15.6	15.7	(110) bpts	(120) bpts
Dividends per share - fully franked (cents)	200	230	199	(13)	1
Dividend payout ratio - "cash basis" (%)	72.0	80.0	69.9	large	210 bpts
Average interest earning assets (\$M) <sup>4</sup>	851,522	846,619	823,058	1	3
Funds Under Administration - average (\$M)	151,008	144,256	138,024	5	9
Assets Under Management - average (\$M)	224,560	213,838	206,336	5	9
Net interest margin (%)	2.16	2.10	2.10	6 bpts	6 bpts
Operating expenses to total operating income (%) <sup>5</sup>	43.9	41.8	42.7	210 bpts	120 bpts

<sup>1</sup> Comparative information has been restated to reflect refinements to the allocation of customer balances, revenue and expense methodology including updated transfer pricing allocations and inclusion of discontinued operations adjustment.

<sup>2</sup> The half year ended 31 December 2016 included a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

<sup>3</sup> The half year ended 31 December 2017 includes a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings. The half year ended 31 December 2016 included a \$393 million one-off expense for acceleration of amortisation on certain software assets.

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

<sup>5</sup> The half year ended 31 December 2016 included a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets. Excluding these items, the Operating expenses to total operating income is 40.9% from continuing operations and 41.5% including discontinued operations. The half year ended 31 December 2017 includes a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings and an increase of \$94 million in income and \$71 million in expenses from AHL Holdings Pty Ltd (trading as Aussie Home Loans) as the Group acquired the remaining 20% share on 25 August 2017. Excluding these items, Operating expense to total operating income is 40.8% from continuing operations and 41.2% including discontinued operations for the half year ended 31 December 2017.



# Highlights

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# 1H18 Headline Results Snapshot

(Continuing operations basis<sup>(1)</sup>)

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			Pro-forma: Excl AUSTRAC Penalty Provision <sup>(2)</sup>
	<b>Cash earnings (\$M)</b>		
1H18	4,735	↓ 1.9%	
1H17	4,828		
	<b>Statutory earnings (\$M)</b>		
1H18	4,895	↑ 1.2%	
1H17	4,835		
	<b>Total operating income (\$M)</b>		
1H18	13,122	↑ 2.3%	
1H17	12,833		
	<b>Total operating expenses (\$M)</b>		
1H18	5,764	↑ 5.3%	↓ 1.6% (\$5,389m)
1H17	5,474		
	<b>Loan impairment expense (\$M)</b>		
1H18	596	↓ 0.5%	
1H17	599		
	<b>Cost to income (efficiency ratio)</b>		
1H18	43.9%	↑ 120 bpts	↓ 160 bpts (41.1%)
1H17	42.7%		
	<b>Capital ratio CET1 (APRA)<sup>(3)</sup></b>		
1H18	10.4%	↑ 50 bpts	↑ 60 bpts (10.5%)
1H17	9.9%		
	<b>Weighted average maturity of long-term debt (years)<sup>(3)</sup></b>		
1H18	4.6	↑ 0.4 years	
1H17	4.2		
	<b>Net Stable Funding Ratio (%)</b>		
1H18	110%	↑ 4%	
1H17	106%		
	<b>Customer deposit funding ratio (%)</b>		
1H18	68%	↑ 2%	
1H17	66%		
	<b>Cash basic earnings per share (cents)<sup>(4)</sup></b>		
1H18	272.2	↓ 3.2%	↑ 4.5% (293.7 cents)
1H17	281.1		
	<b>Dividends per share (cents)<sup>(3)</sup></b>		
1H18	200	↑ 1 cent	
1H17	199		

(1) On 21 September 2017 CBA announced the sale of 100% of its life insurance businesses in Australia and New Zealand (discontinued operations) to AIA Group Limited. The financial results have been restated and presented on a continuing operations basis.

(2) 1H18 is adjusted to exclude a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings. See Note 7.2 to the Financial Statements for further information.

(3) Numbers are presented including discontinued operations.

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

# 1H18 in review – CEO report

## Group Strategic Review

In the six months to 31 December 2017, our people maintained their focus on our vision, and our strategy. Their efforts enabled us to continue our strong operating momentum. Underlying operating performance was up 5.1% relative to the same period in 2017<sup>(1)</sup>. Expense provisions for expected regulatory, compliance and remediation program costs and for the estimated civil penalty a Court may impose in the AUSTRAC proceedings<sup>(2)</sup>, resulted in a slight reduction in cash net profit after tax.

Our operating momentum is due to consistent execution of our customer focused strategy, and ongoing investment in our people and technology. Over time this strategy has enabled CBA to strengthen our long-term sources of competitive advantage – including a market-leading franchise with the most extensive physical distribution assets and the most popular digital banking platforms. Around one third of Australians call us their main financial institution. That proportion is higher for young Australians and migrants.

Customer satisfaction remained high during this reporting period. So customers chose to do more with us. Stand-out examples include the growth achieved in transaction accounts and deposits – with transaction balances up 14.7%, and 1.9 million new deposit accounts opened. Customer preference for transaction and deposit accounts, which are critical for strong customer relationships and funding, is heavily influenced by the quality of the bank's technology.

Ongoing margin management and credit discipline were also features of our first half performance. In order to strike the right balance of growth, margin and credit quality, we consciously grew our balances more slowly than the market in some areas.

Our continuing focus on productivity kept business-as-usual expense growth low, and resulted in further reductions in the Group's cost-to-income ratio on an underlying basis<sup>(1)</sup>. We also maintained credit quality, due to generally positive economic conditions, and active credit portfolio management in our institutional and business portfolios.

The economic environment has given us the opportunity to continue to strengthen our balance sheet. We have been prepared to incur the higher funding costs associated with increasing the proportion of long-term wholesale funding in our portfolio, in order to build a more resilient funding profile. In particular, we continued to lengthen our funding tenor, to spread out maturities and give us more future funding flexibility. Our liquidity coverage ratio and net stable funding ratio also increased on the full year, and are well ahead of regulatory requirements.

Organic capital generation and active capital management enabled us to increase our Common Equity Tier 1 capital ratio to 10.4%. We are now close to APRA's 'unquestionably strong' benchmark, in advance of the 1 January 2020 deadline, and without factoring in the impact of asset sales.

This combination of industry-leading underlying performance and a robust balance sheet, has again supported returns for shareholders. Despite the significant regulatory provisions, we were able to increase our interim dividend slightly to

\$2.00 per share, up from \$1.99 in the prior comparative period.

Beyond our financial performance, this was also a period in which we continued to deliver on our vision to excel at securing and enhancing the financial wellbeing of people, businesses and communities. We introduced a new remuneration framework for branch tellers to ensure the focus is on customer service rather than sales, and launched a range of new digital tools to help people monitor and take control of their spending.

This is in addition to changes to products in response to customer feedback, such as removing ATM withdrawal fees and introducing a new low rate credit card. We also introduced a new package for victims of domestic and family violence. Over 2,700 people have availed themselves of this package in the three months since we introduced it, which affirms the extremely disturbing prevalence of this scourge in our community, and the importance of our role in helping those affected.

We recognise that our performance has been significantly overshadowed by a number of regulatory and reputational issues. In accordance with accounting standards, we have taken appropriate provisions. We take these matters extremely seriously, and acknowledge that we have let down stakeholders in some very important areas. We should have done better, and are committed to doing so. Major improvements have been made, including work that has been underway since 2015 to strengthen and improve our financial crimes compliance. More work remains to be done. We will continue to work hard to exceed remediation expectations, and will engage openly and constructively with the relevant regulators, reviews and inquiries to implement recommendations and to restore trust.

### Strategic Outlook

Global growth trends are positive overall, as are Australia's GDP outlook and employment trends. However, we remain wary of the risks of market volatility, particularly as expansionist monetary policy unwinds and interest rates rise. Similarly, low wage growth undermines families' sense of confidence and wellbeing. As we have been for many years, we remain very much aware of the inevitability of intensified competition in the financial services sector.

Our people are the most critical determinant of CBA's long term success. We will continue to invest in their skills and working environment, with a particular focus on helping them prepare for an increasingly digital future. We will also continue to leverage our existing innovation investments and focus on the next wave of opportunities that will drive operating momentum into the future. The impending roll-out in ASB branches in New Zealand of globally leading in-branch technology that we have developed in South Africa is a tangible sign of our approach to research and development.

Combined with a continued focus on increasing our capital and liquidity strength, our focus on these priorities will enable us to serve and innovate for our customers, provide stable returns for our shareholders, support our community, and remain strong into the future.

(1) In order to present an underlying view of the result, the impact of consolidation and equity accounted profits of AHL Holdings Pty Ltd (trading as Aussie Home Loans) has been excluded, 1H17 has been adjusted to exclude a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets, and 1H18 is adjusted to exclude a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings.

(2) The Group has provided for a civil penalty in the amount of \$375 million. The Group believes this to be a reliable estimate of the level of penalty that a Court may impose. This takes into account currently available information, including legal advice received by the Group in relation to AUSTRAC's claims. See Note 7.2 to the Financial Statements for further information.

# Highlights

## Group Performance Summary

Group Performance Summary	Half Year Ended <sup>(1)</sup> ("cash basis")					Half Year Ended <sup>(1)</sup> ("statutory basis")	
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %	31 Dec 17 \$M	Dec 17 vs Dec 16 %
Net interest income	9,253	8,824	8,710	5	6	9,253	6
Other banking income <sup>(2)</sup>	2,694	2,577	3,018	5	(11)	2,896	(4)
<b>Total banking income</b>	<b>11,947</b>	<b>11,401</b>	<b>11,728</b>	<b>5</b>	<b>2</b>	<b>12,149</b>	<b>4</b>
Funds management income	1,039	970	943	7	10	1,047	11
Insurance income	136	61	162	large	(16)	141	(15)
<b>Total operating income</b>	<b>13,122</b>	<b>12,432</b>	<b>12,833</b>	<b>6</b>	<b>2</b>	<b>13,337</b>	<b>4</b>
Investment experience	13	21	2	(38)	large	n/a	n/a
<b>Total income</b>	<b>13,135</b>	<b>12,453</b>	<b>12,835</b>	<b>5</b>	<b>2</b>	<b>13,337</b>	<b>4</b>
Operating expenses <sup>(3)</sup>	(5,764)	(5,195)	(5,474)	11	5	(5,766)	5
Loan impairment expense	(596)	(496)	(599)	20	(1)	(596)	(1)
<b>Net profit before tax</b>	<b>6,775</b>	<b>6,762</b>	<b>6,762</b>	-	-	<b>6,975</b>	<b>3</b>
Corporate tax expense	(2,031)	(1,924)	(1,925)	6	6	(2,071)	8
Non-controlling interests <sup>(4)</sup>	(9)	(11)	(9)	(18)	-	(9)	-
<b>Net profit after tax from continuing operations ("cash basis")</b>	<b>4,735</b>	<b>4,827</b>	<b>4,828</b>	<b>(2)</b>	<b>(2)</b>	<b>4,895</b>	<b>1</b>
Net profit after tax from discontinued operations	136	147	79	(7)	72	11	(82)
<b>Net profit after tax ("cash basis")</b>	<b>4,871</b>	<b>4,974</b>	<b>4,907</b>	<b>(2)</b>	<b>(1)</b>	<b>n/a</b>	<b>n/a</b>
Hedging and IFRS volatility	96	65	8	48	large	n/a	n/a
Other non-cash items	(61)	(6)	(20)	large	large	n/a	n/a
<b>Net profit after tax ("statutory basis")</b>	<b>4,906</b>	<b>5,033</b>	<b>4,895</b>	<b>(3)</b>	<b>-</b>	<b>4,906</b>	<b>-</b>
<b>Cash net profit after tax, by division <sup>(1)</sup></b>							
Retail Banking Services	2,653	2,480	2,453	7	8		
Business and Private Banking	960	930	878	3	9		
Institutional Banking and Markets	591	630	681	(6)	(13)		
Wealth Management	281	211	211	33	33		
New Zealand	483	446	423	8	14		
Bankwest	339	286	290	19	17		
IFS and Other	(572)	(156)	(108)	large	large		
<b>Net profit after tax from continuing operations ("cash basis")</b>	<b>4,735</b>	<b>4,827</b>	<b>4,828</b>	<b>(2)</b>	<b>(2)</b>		

(1) Comparative information has been restated to reflect refinements to the allocation of customer balances, revenue and expense methodology including updated transfer pricing allocations and inclusion of discontinued operations adjustment.

(2) The half year ended 31 December 2016 included a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

(3) The half year ended 31 December 2017 includes a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings (see Note 7.2 to the Financial Statements for further information). The half year ended 31 December 2016 included a \$393 million one-off expense for acceleration of amortisation on certain software assets.

(4) Non-controlling interests include preference dividends paid to holders of preference shares in ASB Capital Limited and ASB Capital No.2 Limited.

# Highlights

## Non-Cash Items Included in Statutory Profit

The Management Discussion and Analysis discloses the net profit after tax on both a statutory and cash basis. The statutory basis is prepared and reviewed in accordance with the Corporations Act and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). The cash basis is used by management to present a clear view of the Group's operating results. 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 gains or losses on disposal and acquisition of entities net of transaction costs 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.

	Half Year Ended				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Non-Cash Items Included in Statutory Profit</b>					
<b>Hedging and IFRS volatility</b>	<b>96</b>	65	8	48	large
Bankwest non-cash items	(1)	(2)	(1)	(50)	-
Treasury shares valuation adjustment	(3)	(4)	(19)	(25)	(84)
Gain/(loss) on disposal and acquisition of entities net of transaction costs <sup>(1)</sup>	(57)	-	-	n/a	n/a
<b>Other non-cash items</b>	<b>(61)</b>	(6)	(20)	large	large
<b>Total non-cash items (after tax)</b>	<b>35</b>	59	(12)	(41)	large

(1) Includes transaction and separation costs associated with the disposal of ComInsure Life and Sovereign (\$122 million), a gain recognised on acquisition of AHL Holdings Pty Ltd (trading as Aussie Home Loans) (\$58 million), a gain on sale of County Banks (\$11 million), and a loss due to the dilution of the Group's interest in Qilu Bank Co. Ltd (\$4 million).

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# Highlights

Key Performance Indicators	Half Year Ended				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Group Performance from continuing operations</b>					
Statutory net profit after tax (\$M)	4,895	4,890	4,835	-	1
Cash net profit after tax (\$M)	4,735	4,827	4,828	(2)	(2)
Net interest margin (%)	2.16	2.10	2.10	6 bpts	6 bpts
Net interest margin excluding Treasury and Markets (%)	2.14	2.09	2.07	5 bpts	7 bpts
Operating expenses to total operating income (%) <sup>(1) (2)</sup>	43.9	41.8	42.7	210 bpts	120 bpts
Spot number of full-time equivalent staff (FTE)	42,959	44,024	43,660	(2)	(2)
Jaws (%) <sup>(3)</sup>	(3.0)	n/a	n/a	n/a	n/a
Effective corporate tax rate ("cash basis") (%)	30.0	28.5	28.5	150 bpts	150 bpts
Profit after capital charge (PACC) (\$M) <sup>(4)</sup>	3,095	3,221	3,282	(4)	(6)
Average interest earning assets (\$M) <sup>(5)</sup>	851,522	846,619	823,058	1	3
Average interest bearing liabilities (\$M) <sup>(5)</sup>	757,449	764,126	747,236	(1)	1
Funds Under Administration (FUA) - average (\$M)	151,008	144,256	138,024	5	9
Assets Under Management (AUM) - average (\$M)	224,560	213,838	206,336	5	9
Average inforce premiums (\$M)	1,043	1,031	1,002	1	4
<b>Group Performance including discontinued operations</b>					
Statutory net profit after tax (\$M)	4,906	5,033	4,895	(3)	-
Cash net profit after tax (\$M)	4,871	4,974	4,907	(2)	(1)
Net interest margin (%)	2.16	2.11	2.11	5 bpts	5 bpts
Net interest margin excluding Treasury and Markets (%)	2.14	2.10	2.08	4 bpts	6 bpts
Operating expenses to total operating income (%) <sup>(1) (2)</sup>	44.2	42.1	43.3	210 bpts	90 bpts
Spot number of full-time equivalent staff (FTE)	44,458	45,614	45,271	(3)	(2)
Jaws (%) <sup>(3)</sup>	(2.3)	n/a	n/a	n/a	n/a
Effective corporate tax rate ("cash basis") (%)	29.9	28.4	28.4	150 bpts	150 bpts
Profit after capital charge (PACC) (\$M) <sup>(4)</sup>	3,126	3,270	3,255	(4)	(4)
Average interest earning assets (\$M) <sup>(5)</sup>	851,606	846,619	823,058	1	3
Average interest bearing liabilities (\$M) <sup>(5)</sup>	758,312	764,126	747,236	(1)	1
Funds Under Administration (FUA) - average (\$M)	162,219	155,855	150,134	4	8
Assets Under Management (AUM) - average (\$M)	225,116	214,446	206,996	5	9
Average inforce premiums (\$M)	3,308	3,402	3,475	(3)	(5)

(1) The half year ended 31 December 2016 includes a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets. Excluding these items, the Operating expenses to Total operating income is 40.9% from continuing operations and 41.5% including discontinued operations.

(2) The half year ended 31 December 2017 includes a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings (see Note 7.2 to the Financial Statements for further information), and an increase of \$94 million in income and \$71 million in expenses from AHL Holdings Pty Ltd (trading as Aussie Home Loans) as the Group acquired the remaining 20% share on 25 August 2017. Excluding these items, Operating expense to total operating income is 40.8% from continuing operations and 41.2% including discontinued operations for the half year ended 31 December 2017.

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

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

(5) Net of average mortgage offset balances.

# Highlights

Key Performance Indicators	Half Year Ended				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Shareholder Returns from continuing operations</b>					
Earnings Per Share (EPS) (cents) <sup>(1) (2)</sup>					
Statutory basis - basic	281.6	283.7	281.7	(1)	-
Cash basis - basic	272.2	279.9	281.1	(3)	(3)
Return on equity (ROE) (%) <sup>(2)</sup>					
Statutory basis	15.1	15.9	15.8	(80)bpts	(70)bpts
Cash basis	14.5	15.6	15.7	(110)bpts	(120)bpts
<b>Shareholder Returns including discontinued operations</b>					
Earnings Per Share (EPS) (cents) <sup>(1) (2)</sup>					
Statutory basis - basic	282.2	292.0	285.2	(3)	(1)
Cash basis - basic	280.0	288.4	285.7	(3)	(2)
Return on equity (ROE) (%) <sup>(2)</sup>					
Statutory basis	15.1	16.3	16.0	(120)bpts	(90)bpts
Cash basis	15.0	16.1	16.0	(110)bpts	(100)bpts
Dividends per share - fully franked (cents)	200	230	199	(13)	1
Dividend cover - "cash basis" (times)	1.4	1.3	1.4	8	-
Dividend payout ratio (%) <sup>(2)</sup>					
Statutory basis	71.4	79.0	70.1	large	130 bpts
Cash basis	72.0	80.0	69.9	large	210 bpts
<b>Capital (Basel III) including discontinued operations</b>					
Common Equity Tier 1 (Internationally Comparable) (%) <sup>(3)</sup>	16.3	15.6	15.4	70 bpts	90 bpts
Common Equity Tier 1 (APRA) (%)	10.4	10.1	9.9	30 bpts	50 bpts
Risk weighted assets (RWA) (\$M) - Basel III	440,836	437,063	436,481	1	1
<b>Leverage Ratio (Basel III) including discontinued operations</b>					
Leverage Ratio (Internationally Comparable) (%) <sup>(3)</sup>	6.1	5.8	5.5	30 bpts	60 bpts
Leverage Ratio (APRA) (%)	5.4	5.1	4.9	30 bpts	50 bpts
<b>Credit Quality Metrics including discontinued operations</b>					
Loan impairment expense ("cash basis") annualised as a % of average GLAAs	0.16	0.14	0.17	2 bpts	(1)bpt
Gross impaired assets as a % of GLAAs	0.45	0.43	0.47	2 bpts	(2)bpts
Credit risk weighted assets (RWA) (\$M) - Basel III	366,985	377,259	373,526	(3)	(2)

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

(2) For definitions refer to Appendix 4.8.

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

# Highlights

Key Performance Indicators	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Retail Banking Services</b>					
Cash net profit after tax (\$M)	2,653	2,480	2,453	7	8
Net interest margin (%)	3.01	2.91	2.90	10 bpts	11 bpts
Average interest earning assets (AIEA) (\$M) <sup>(2)</sup>	326,256	320,885	313,281	2	4
Operating expenses to total banking income (%) <sup>(3) (4)</sup>	30.1	31.0	31.0	(90)bpts	(90)bpts
Risk weighted assets (\$M)	140,715	134,937	120,778	4	17
<b>Business and Private Banking</b>					
Cash net profit after tax (\$M)	960	930	878	3	9
Net interest margin (%)	3.03	2.98	2.97	5 bpts	6 bpts
Average interest earning assets (AIEA) (\$M) <sup>(2)</sup>	110,969	110,412	107,793	1	3
Operating expenses to total banking income (%) <sup>(3)</sup>	35.7	37.1	37.5	(140)bpts	(180)bpts
Risk weighted assets (\$M)	89,449	87,654	87,664	2	2
<b>Institutional Banking and Markets</b>					
Cash net profit after tax (\$M)	591	630	681	(6)	(13)
Net interest margin (%)	1.03	1.10	1.10	(7)bpts	(7)bpts
Average interest earning assets (AIEA) (\$M)	142,416	138,789	138,439	3	3
Operating expenses to total banking income (%) <sup>(3)</sup>	38.3	38.5	37.0	(20)bpts	130 bpts
Risk weighted assets (\$M)	97,732	102,242	116,075	(4)	(16)
<b>Wealth Management <sup>(5)</sup></b>					
Cash net profit after tax (\$M)	281	211	211	33	33
Operating expenses to total operating income (%) <sup>(3)</sup>	66.1	72.4	72.2	large	large
FUA - average (\$M)	139,104	132,239	126,036	5	10
AUM - average (\$M)	219,558	209,469	201,967	5	9
CommInsure Inforce Premiums - average (\$M)	795	777	748	2	6
<b>New Zealand <sup>(5)</sup></b>					
Cash net profit after tax (\$M)	483	446	423	8	14
Risk weighted assets - APRA basis (\$M) <sup>(6)</sup>	47,489	48,807	48,524	(3)	(2)
Net interest margin (ASB) (%) <sup>(7)</sup>	2.20	2.15	2.19	5 bpts	1 bpt
Average interest earning assets (AIEA) (ASB) (NZ\$M) <sup>(7)</sup>	88,525	85,753	82,455	3	7
Operating expenses to total operating income (ASB) (%) <sup>(3) (7)</sup>	34.1	36.2	35.7	(210)bpts	(160)bpts
FUA - average (ASB) (NZ\$M) <sup>(7)</sup>	12,971	12,743	12,575	2	3
AUM - average (ASB) (NZ\$M) <sup>(7)</sup>	4,976	4,635	4,584	7	9
<b>Bankwest</b>					
Cash net profit after tax (\$M)	339	286	290	19	17
Net interest margin (%)	2.09	2.08	2.06	1 bpt	3 bpts
Average interest earning assets (AIEA) (\$M) <sup>(2)</sup>	73,670	71,900	70,496	2	5
Operating expenses to total banking income (%) <sup>(3)</sup>	41.6	45.9	44.1	(430)bpts	(250)bpts
Risk weighted assets (\$M)	40,468	37,803	34,418	7	18

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

(2) Net of average mortgage offset balances.

(3) Presented on a "cash basis".

(4) Excludes the impact of consolidation of AHL Holdings Pty Ltd (trading as "Aussie Home Loans").

(5) Presented on a continuing operations basis.

(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.

# Highlights

	As at				
	31 Dec 17 %	30 Jun 17 %	31 Dec 16 %	Dec 17 vs Jun 17	Dec 17 vs Dec 16
<b>Market Share</b> <sup>(1)</sup>					
Home loans	<b>24.6</b>	24.8	25.0	(20)bpts	(40)bpts
Credit cards - RBA <sup>(2)</sup>	<b>24.4</b>	24.4	24.4	-	-
Other household lending <sup>(3)</sup>	<b>27.0</b>	26.6	26.1	40 bpts	90 bpts
Household deposits	<b>28.5</b>	28.8	29.0	(30)bpts	(50)bpts
Business lending - RBA	<b>16.3</b>	16.5	16.6	(20)bpts	(30)bpts
Business lending - APRA	<b>18.4</b>	18.6	18.6	(20)bpts	(20)bpts
Business deposits - APRA	<b>20.4</b>	20.3	19.8	10 bpts	60 bpts
Equities trading	<b>4.0</b>	3.9	4.0	10 bpts	-
Australian Retail - administrator view <sup>(4)</sup>	<b>15.6</b>	15.6	15.5	-	10 bpts
FirstChoice Platform <sup>(4)</sup>	<b>10.8</b>	10.7	10.8	10 bpts	-
Australia life insurance (total risk) <sup>(4) (5)</sup>	<b>9.8</b>	9.9	11.1	(10)bpts	(130)bpts
Australia life insurance (individual risk) <sup>(4) (5)</sup>	<b>9.8</b>	10.0	10.2	(20)bpts	(40)bpts
NZ home loans <sup>(6)</sup>	<b>21.8</b>	21.7	21.9	10 bpts	(10)bpts
NZ customer deposits <sup>(6)</sup>	<b>17.8</b>	17.8	17.5	-	30 bpts
NZ business lending <sup>(6)</sup>	<b>14.5</b>	14.4	13.9	10 bpts	60 bpts
NZ retail AUM <sup>(7)</sup>	<b>13.0</b>	12.4	12.3	60 bpts	70 bpts
NZ annual inforce premiums <sup>(4) (5)</sup>	<b>26.8</b>	27.9	28.0	(110)bpts	(120)bpts

(1) Comparatives have been restated in line with market updates. This does not include the impact of new market entrants in the current period.

(2) As at 30 November 2017.

(3) Other household lending market share includes personal loans, margin loans and other forms of lending to individuals.

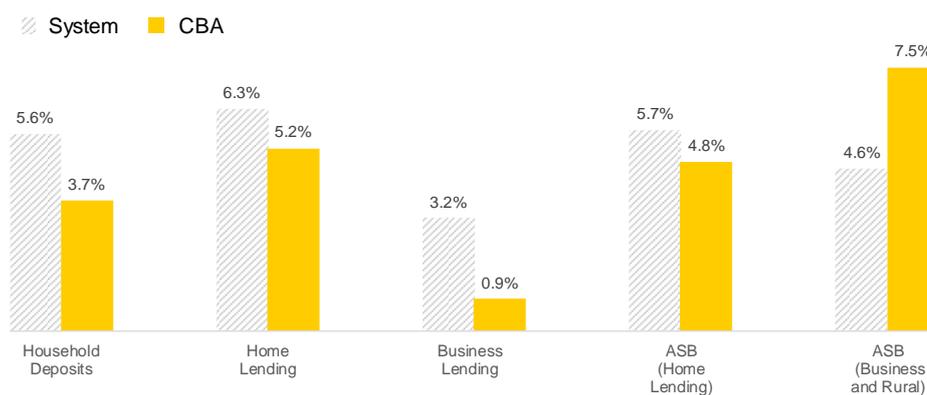
(4) As at 30 September 2017.

(5) Metrics relate to discontinued operations.

(6) RBNZ published data collection has changed based on a new collection template implemented with all NZ banks. Accordingly, the December 2016 comparatives have been restated.

(7) Presented on a continuing operations basis.

## CBA growth against System <sup>(1) (2)</sup> Balance Growth – 12 months to Dec 17



(1) System has been restated in line with market updates and includes the impact of new market entrants in the current period.

(2) System source RBA/APRA/RBNZ. CBA includes Bankwest.

## Credit Ratings

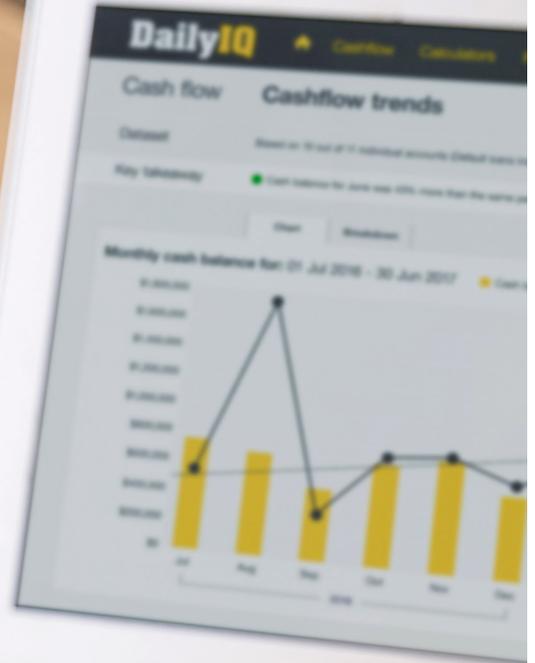
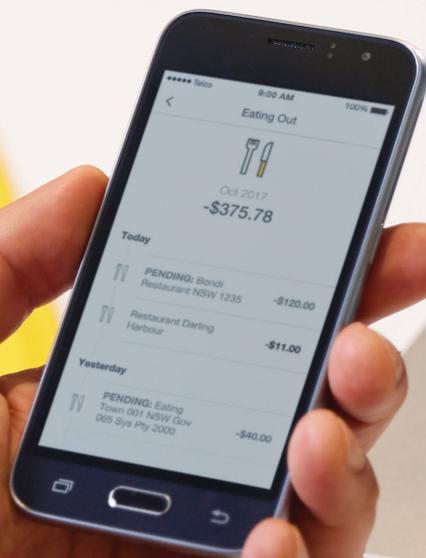
	Long-term	Short-term	Outlook
Fitch Ratings	AA-	F1+	Stable
Moody's Investors Service	Aa3	P-1	Stable
S&P Global Ratings	AA-	A-1+	Negative

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# Group performance analysis



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# Group Performance Analysis

## Financial Performance and Business Review

### Performance Overview (continuing operations basis <sup>(1)</sup>)

The Group's net profit after tax ("cash basis") decreased 1.9% on the prior comparative period to \$4,735 million impacted by a \$375 million expense provision for our current estimate of the civil penalty a Court may impose in the AUSTRAC proceedings <sup>(2)</sup>. Earnings per share ("cash basis") decreased 3.2% to 272.2 cents per share and return on equity ("cash basis") decreased 120 basis points to 14.5% driven by lower profits and increased equity (mainly driven by the discounted 2H17 DRP).

The net profit after tax ("cash basis") (excluding the \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings) increased 5.8%, reflecting the Group's long term strategy of focusing on the customer and leveraging our strong franchise and consistent focus on technology and financial strength.

Income growth was strong given the environment, underpinned by a focus on volume and margin management.

Underlying cost growth was disciplined, and we continued to invest through the cycle. The Group continues to drive innovation in technology as one of its core strategic goals, with an increase in investment spend of 8%. Investment in productivity and growth initiatives is focused on improving the customer experience, enhancing the resilience and offering of our Digital Channels, and improving data analytics tools and infrastructure. The Group also continues to invest in strengthening our regulatory and compliance frameworks and implementing systems to satisfy regulatory obligations.

The benign credit environment has resulted in cyclically low impairments (down 1 basis point from the prior comparative period to 16 basis points of gross loans and acceptances (GLAA)), with both the Consumer portfolio (17 basis points) and the Corporate portfolio (13 basis points) reducing 1 basis point from the prior comparative period.

We are adjusting for the environment by:

- Taking a selective approach to growth;
- Strengthening our balance sheet (funding and capital); and
- Continuing to actively manage the portfolio to:
  - Manage growth to meet regulatory requirements (e.g. interest only home loan flows at 21% for the December quarter, below APRA's 30% benchmark);
  - Optimise risk-adjusted returns, particularly in the Business and Institutional divisions, resulting in a reduction in credit risk weighted assets; and
  - Strategically refocus (e.g. the divestment of non-core businesses in IFS and our Life Insurance businesses in Australia and New Zealand as well as the ongoing strategic review of the CFS Global Asset Management business).

### Financial Performance Drivers

The Group's headline result (operating income up 2.3%, operating expenses up 5.3%) was impacted by a number of items. In order to present an underlying view of the business performance, the impact of consolidation and equity accounted profits of Aussie Home Loans (AHL) has been excluded, 1H17 has been adjusted to exclude a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets, and 1H18 is adjusted to exclude a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings. Commentary on the Financial Performance Drivers refers to the Group's underlying result on a continuing operations basis compared to the prior comparative period (1H17). The impact of these adjustments is outlined below:

	1H17	1H18	%
<b>Operating Income - Reported</b>	<b>12,833</b>	<b>13,122</b>	<b>2.3%</b>
<i>Visa share sale</i>	(397)		
<i>AHL</i>	(22)	(94)	
<b>Operating Income - Underlying</b>	<b>12,414</b>	<b>13,028</b>	<b>4.9%</b>
<b>Operating Expense - Reported</b>	<b>5,474</b>	<b>5,764</b>	<b>5.3%</b>
<i>Accelerated amortisation</i>	(393)		
<i>AHL</i>		(71)	
<i>Provision for estimate of AUSTRAC penalty</i>		(375)	
<b>Operating Expense - Underlying</b>	<b>5,081</b>	<b>5,318</b>	<b>4.7%</b>
<i>Incremental regulatory and compliance project costs</i>		(200)	
<i>Benefit from accelerated amortisation</i>		64	
<b>"BAU" costs</b>	<b>5,081</b>	<b>5,182</b>	<b>2.0%</b>

(1) Under accounting standards the planned divestment of the Life Insurance businesses requires separate disclosure of 'discontinued operations'. The financial results of the Life Insurance businesses are therefore excluded from the individual account lines of the Group's performance and reported as a single cash net profit after tax line item. Commentary throughout this report refers to the Group on a continuing operations basis.

(2) The Group has provided for a civil penalty in the amount of \$375 million. The Group believes this to be a reliable estimate of the level of penalty that a Court may impose. This takes in account currently available information, including legal advice received by the Group in relation to AUSTRAC's claims. See Note 7.2 to the Financial Statements for further information.

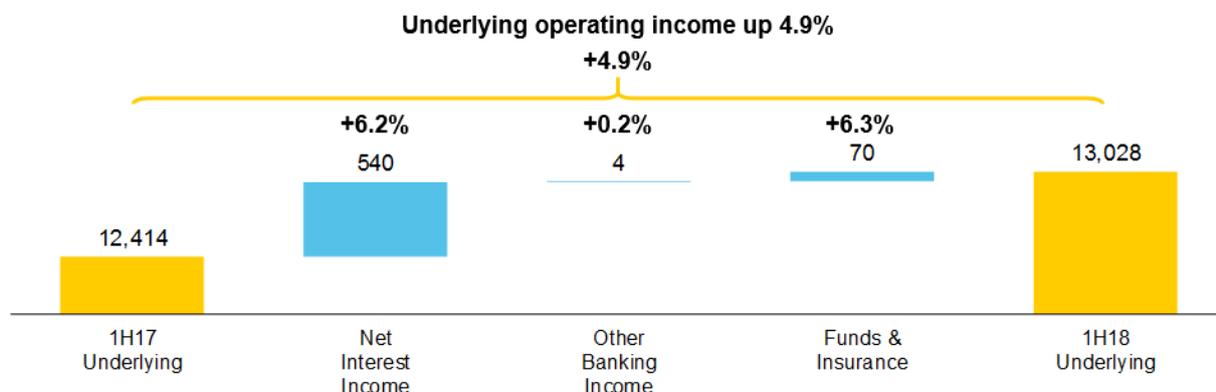
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# Group Performance Analysis

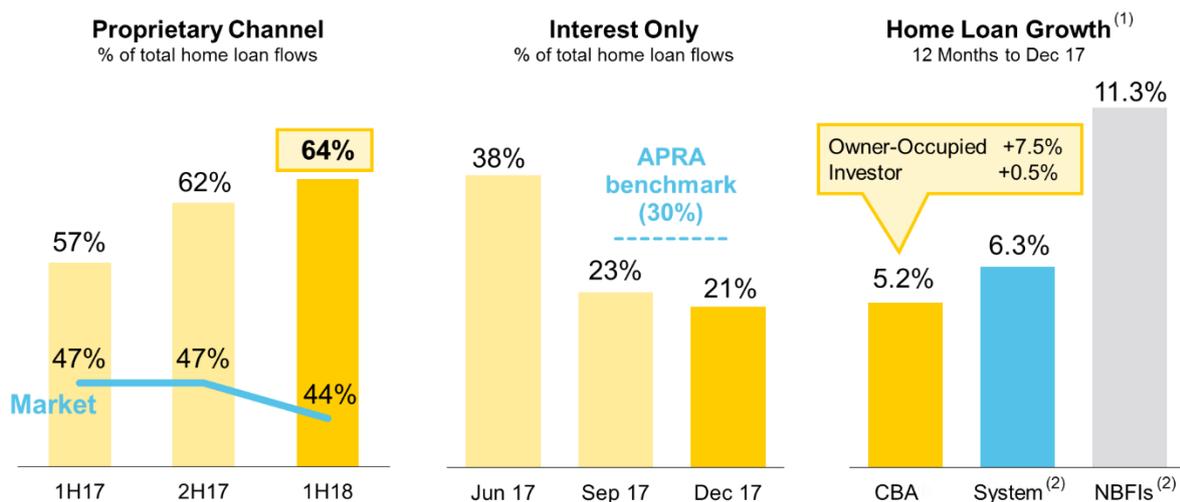
## Financial Performance and Business Review (continued)

### Operating Income

Operating income growth of 4.9% was primarily driven by a 6.2% increase in Net interest income, with average interest earnings assets increasing 3% and margin increasing six basis points.



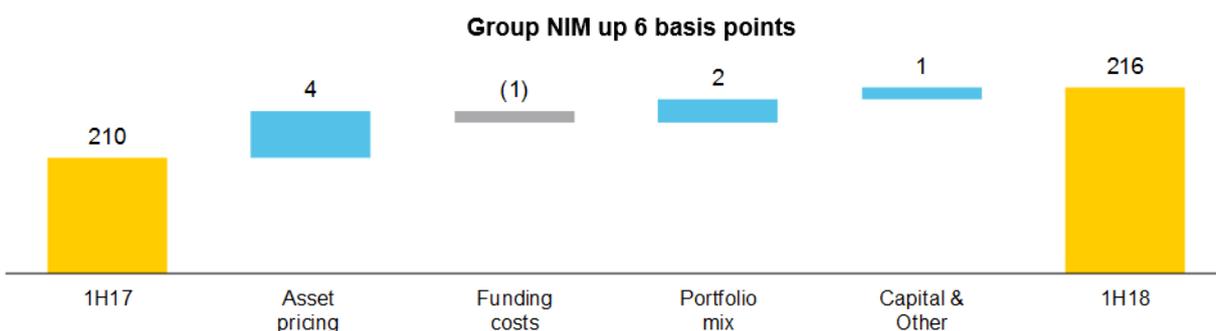
Domestic home loan volume growth of 5% was below system as the Group balanced growth and returns. Proprietary flows were strong following strategic investment to enhance the home loan experience for customers, while interest only and investor loan growth was managed within regulatory limits.



(1) System source RBA. CBA includes BWA and subsidiaries.  
(2) Adjusted for new market entrants/reporting changes.

Business and corporate lending growth of 1% was subdued as the business continues to rebalance the portfolio. Business lending growth was focused in target industries (e.g. Agriculture and Hospitality), partly offset by a reduction in property development exposures in line with forecast project completions and the decision to tighten pricing and risk parameters. Institutional lending growth (excluding cash management pooling facilities) reduced as a result of active portfolio management and increased competition from offshore banks.

Margin increased six basis points primarily due to volume and margin management across the portfolio, and a favourable change in funding mix from strong growth in transaction deposits, partly offset by the impact of the major bank levy. Wholesale funding costs remained flat in the period, driven by improved global funding conditions, offset by lengthening of the wholesale funding tenor and a change in mix from short term to long term wholesale funding.



# Group Performance Analysis

## Financial Performance and Business Review (continued)

### Operating Income (continued)

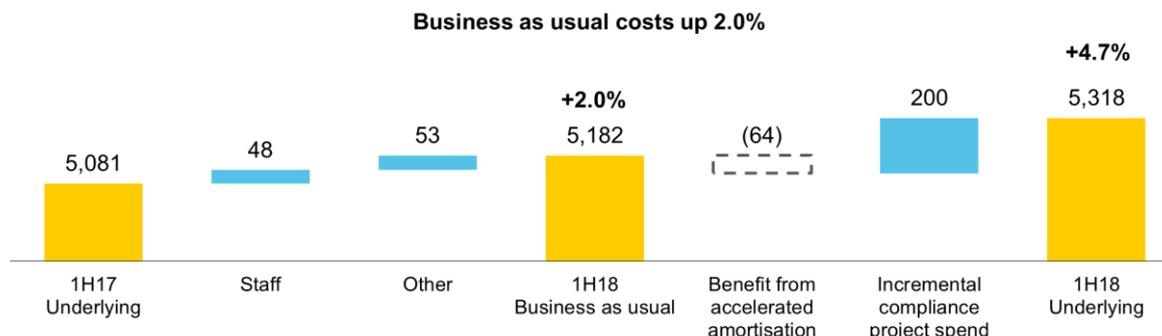
Other banking income growth was flat as a result of a weaker trading performance reflecting lower markets volatility, lower commissions from the RBA interchange rate reduction and lower ATM withdrawal fees, offset by higher business lending fees and favourable derivative valuation adjustments.

Funds management income growth of 10.2% was driven by funds and asset growth due to strong investment market performances and positive net flows, and the non-recurrence of customer remediation costs. This was partly offset by lower margins as a result of a change in business and investment mix, and the impact of the higher Australian dollar.

Insurance income decreased 16.0% due to increased weather event claims, partly offset by growth in premiums as a result of pricing initiatives.

### Operating Expenses

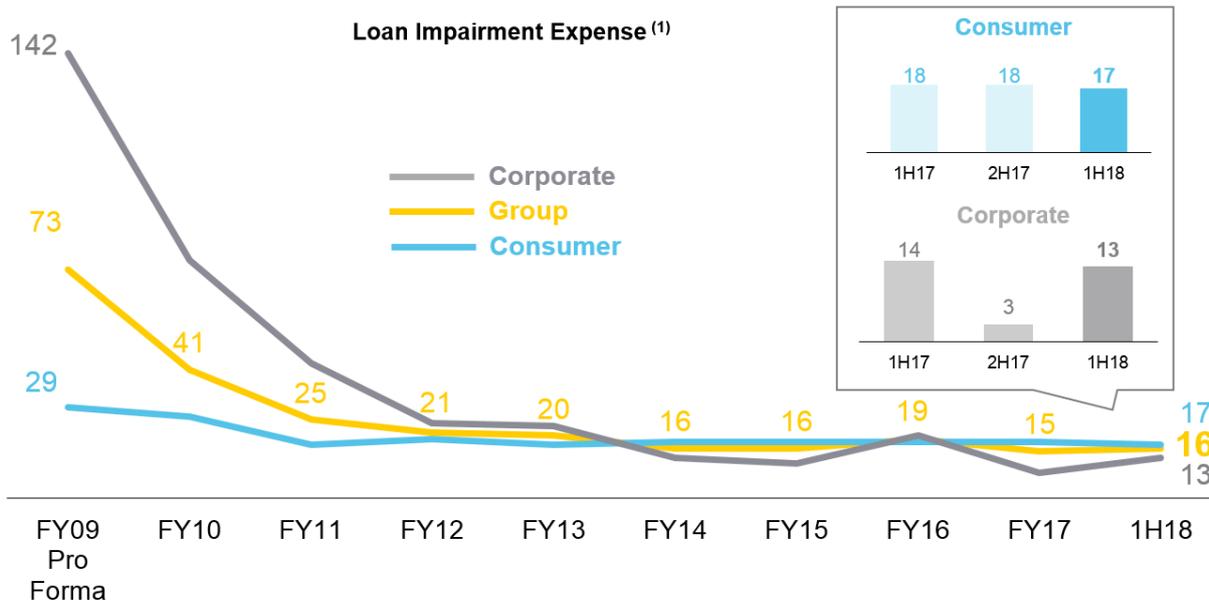
Operating expenses increased 4.7%, including an incremental \$200 million for expected regulatory, compliance and remediation related program costs as well as a \$64 million benefit from the one-off acceleration of software amortisation in 1H17. Excluding these costs, operating expenses increased 2.0%, with staff expenses up 2% (average FTE broadly flat excluding AHL) and expensed investment spend up 19% (total investment spend up 8%), partly offset by productivity benefits. Cost management will continue to remain a priority for the Group.



### Credit Quality

Loan impairment expense (LIE) decreased 0.5%, to 16 basis points (annualised) of GLAA reflective of the continued benign credit environment, both in the Consumer portfolio (17 basis points of GLAA) and the Corporate portfolio (13 basis points of GLAA).

While Corporate LIE has increased to 13 basis points of GLAA (from 3 basis points in 2H17), the increase is not indicative of thematic issues in the portfolio. The uplift was mainly driven by a single name exposure.



(1) Cash LIE as a percentage of average GLAA (bpts). FY09 includes Bankwest on a pro-forma basis and is based on LIE for the year. Statutory LIE for FY10 48 bpts and FY13 21 bpts.

The AASB 9 Accounting Standard is applicable from 1 July 2018. The Group's current estimate of the opening balance sheet adjustment (through opening retained earnings), if applied on 1 July 2017 based on the economic conditions, forecast economic scenarios, management judgements and assumptions as at 1 July 2017, is an increase in impairment provisions of approximately \$0.85 billion before tax. This would result in a corresponding reduction in the Group's CET1 ratio of approximately 25 basis points.

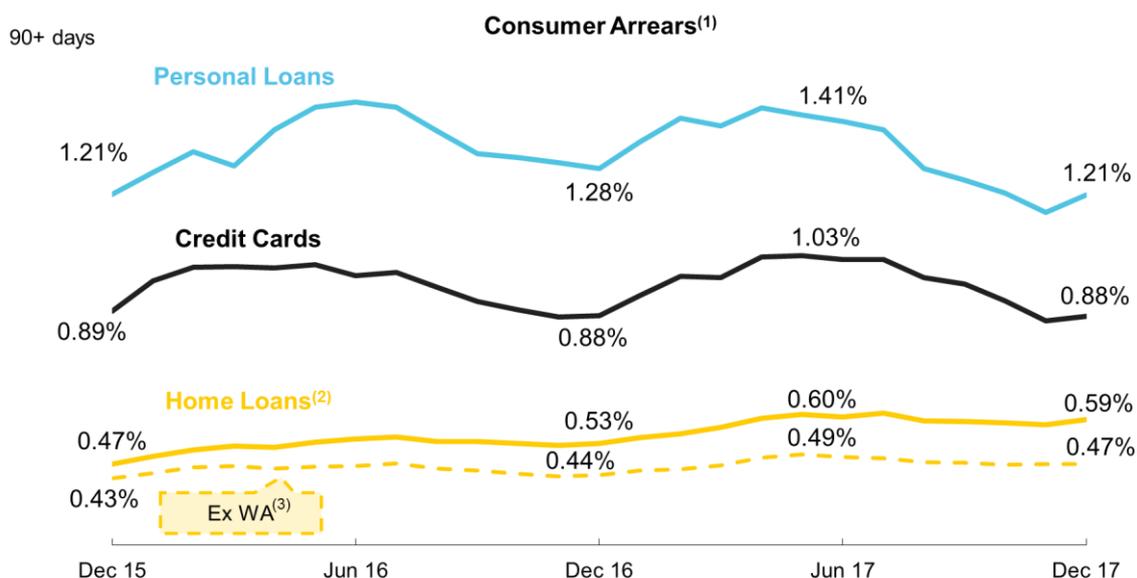
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# Group Performance Analysis

## Financial Performance and Business Review (continued)

### Credit Quality (continued)

The retail portfolio arrears remain relatively low. 90+ days Home Loan arrears were elevated on the prior comparative period primarily due to deteriorating credit quality in Western Australia. Personal Loan arrears have improved on the prior comparative period primarily due to improvements in collections strategies, while Credit Card arrears were flat. Retail arrears across all products have reduced since 30 June 2017 reflecting seasonal trends.



(1) Consumer arrears includes retail portfolios of Retail Banking Services, Business and Private Banking, Bankwest and New Zealand.  
 (2) Excludes Reverse Mortgage, Commonwealth Portfolio Loan (RBS/BPB only) and Residential Mortgage Group (RBS/BPB only) loans.  
 (3) Excludes Line of Credit (Viridian LOC/Equity Line).

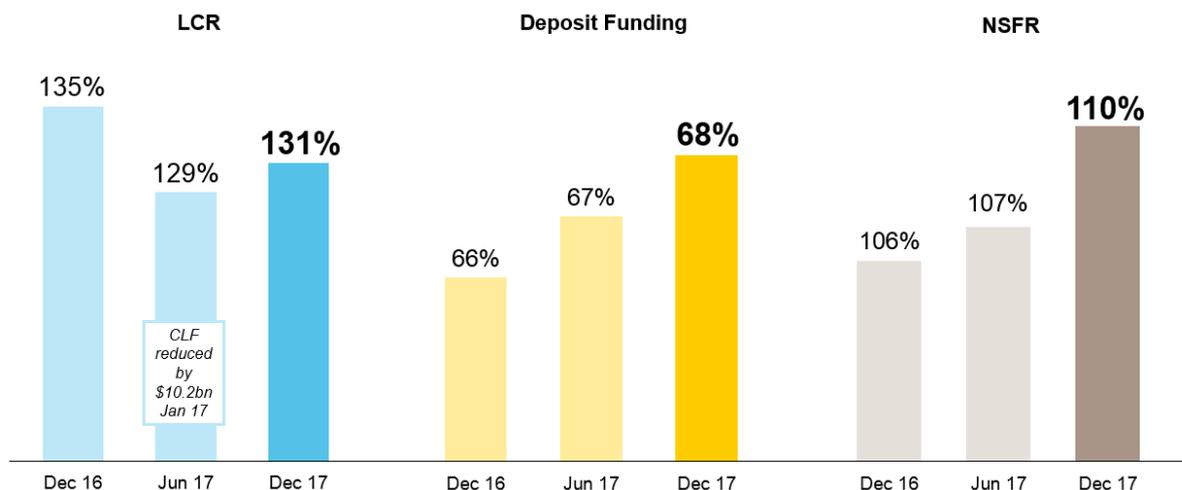
### Balance Sheet Strength

#### Funding and Liquidity

The Group's Liquidity Coverage Ratio (LCR) was 131%, (up from 129% on the prior half), well above the regulatory minimum of 100%. The ratio improved despite a \$10.2 billion decrease in the Committed Liquidity Facility (CLF) on 1 January 2017.

Strong deposit growth has seen the Group satisfy a significant portion of its funding requirements from customer deposits, which accounted for 68% of total funding, up from 66% at 31 December 2016.

The Net Stable Funding Ratio (NSFR) requirement is effective from 1 January 2018. The Group's NSFR of 110%, (up from 107% at 30 June 2017) is well above the regulatory minimum of 100%.



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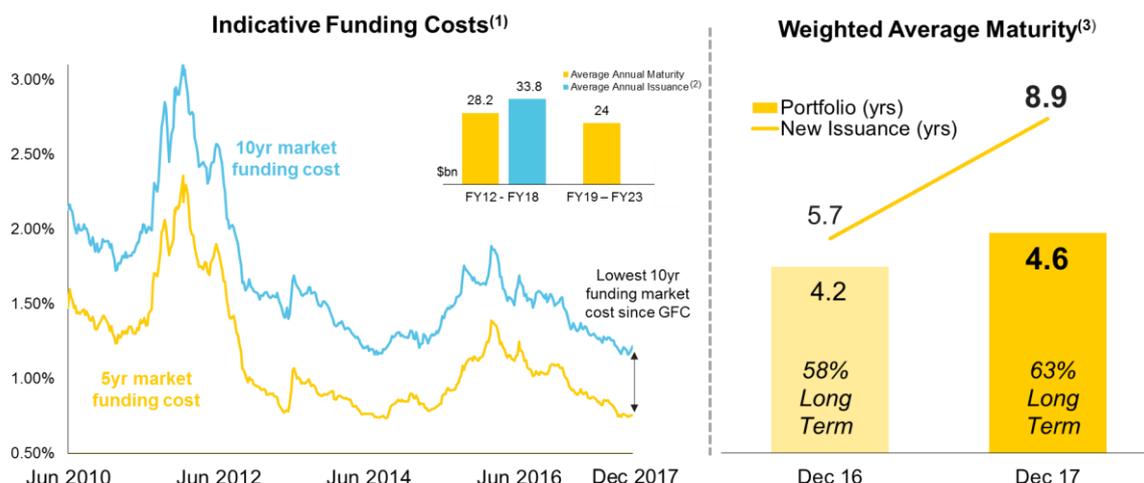
# Group Performance Analysis

## Financial Performance and Business Review (continued)

### Funding and Liquidity (continued)

The Group strengthened its funding position in the period, taking advantage of favourable global credit conditions to lengthen the term of long-term wholesale debt in anticipation of a likely increase in global interest rates and as central banks begin to unwind quantitative easing which has supported debt markets. Lengthening the maturity of our wholesale debt will, over time, reduce our wholesale debt refinancing risk and support the NSFR. The weighted average maturity (WAM) of new long-term wholesale debt issued in the period was 8.9 years, bringing the portfolio WAM to 4.6 years (up from 4.2 years at 31 December 2016). Long-term wholesale funding now accounts for 63% of total wholesale funding (up from 58% at 31 December 2016).

As indicated in the chart below, in the period funding conditions have been favourable with the 10 year market funding costs at its lowest since the Global Financial Crisis. This dynamic has enabled opportunities to lengthen tenor at broadly flat wholesale funding costs.



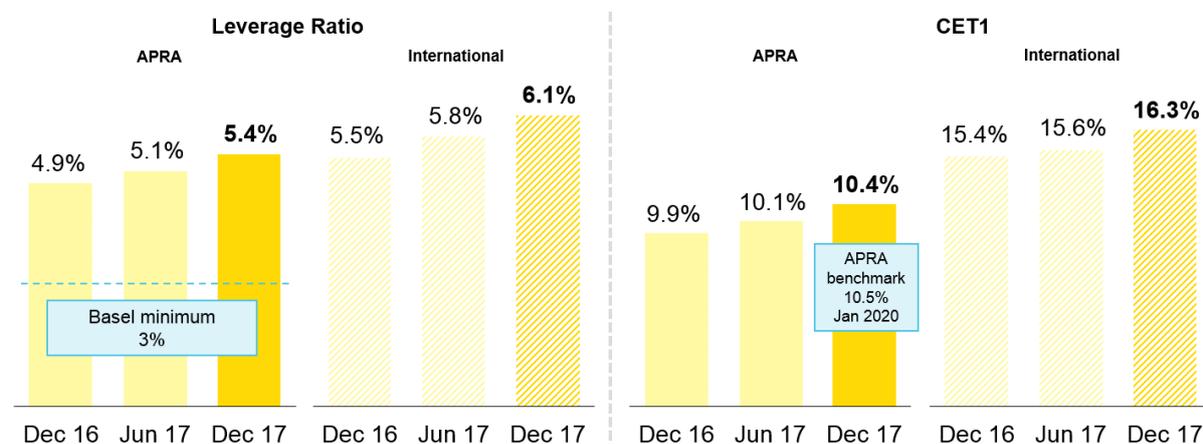
(1) Indicative funding costs across major currencies. Represents the spread in BBSW equivalent terms on a swapped basis.  
 (2) Average Annual Issuance includes an assumption of ~\$32bn for FY18.  
 (3) Long term wholesale funding (>12 months).

### Leverage and Capital

The leverage ratio was 5.4% on an APRA basis, up from 4.9% on the prior comparative period, benefitting from an increase in capital levels and a reduction in exposures.

The Group's CET1 ratio (APRA) was 10.4%, increasing 30 basis points since 30 June 2017 during the period reflecting organic capital generated from earnings and lower credit risk weighted assets primarily due to a reduction in corporate exposures and improved credit quality across most portfolios. Operational risk weighted assets increased \$7.3 billion, reflecting the regular assessment of the Group's operational risk profile in the context of the evolving risk and regulatory environment. CBA continues to rank highly in the top quartile of international peer banks for CET1.

The announced sale of the Group's Australian and New Zealand Life Insurance operations is expected to result in a pro-forma uplift to CET1 (APRA) of ~70 basis points.



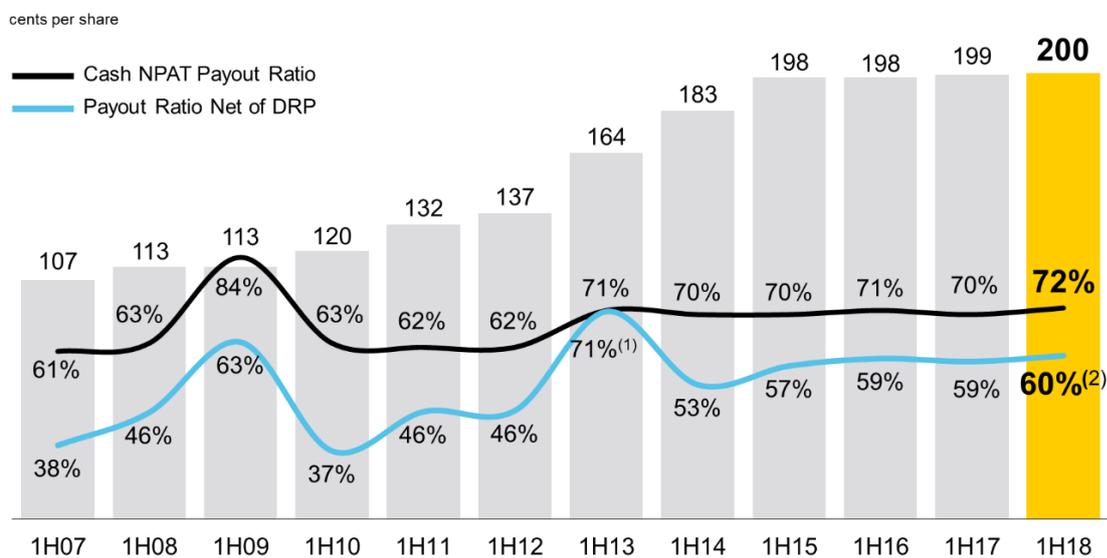
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# Group Performance Analysis

## Financial Performance and Business Review (continued)

### Dividends

The Group's performance supported the Board's aim of consistent dividends for shareholders with the interim dividend of 200c resulting in a dividend payout ratio of 72% of cash NPAT.



(1) DRP Neutralised: 1H13  
 (2) Assumes 1H18 DRP participation of 16.3%

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# Group Performance Analysis

## Net Interest Income (continuing operations basis)

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Net interest income - "cash basis"</b>	<b>9,253</b>	8,824	8,710	5	6
<b>Average interest earning assets</b>					
Home loans <sup>(2)</sup>	<b>447,814</b>	440,572	430,408	2	4
Consumer finance	<b>23,148</b>	23,577	23,460	(2)	(1)
Business and corporate loans	<b>226,596</b>	221,868	220,519	2	3
Total average lending interest earning assets	<b>697,558</b>	686,017	674,387	2	3
Non-lending interest earning assets <sup>(3)</sup>	<b>153,964</b>	160,602	148,671	(4)	4
<b>Total average interest earning assets</b>	<b>851,522</b>	846,619	823,058	1	3
Net interest margin (%)	<b>2.16</b>	2.10	2.10	6 bpts	6 bpts
Net interest margin excluding Treasury and Markets (%)	<b>2.14</b>	2.09	2.07	5 bpts	7 bpts

- (1) Comparative information has been restated to conform to presentation in the current period.  
 (2) Net of average mortgage offset balances. Gross average home loans balance, excluding mortgage offset accounts is \$487,502 million (30 June 2017: \$477,851 million; 31 December 2016: \$463,811 million).  
 (3) On 21 September 2017 CBA announced the sale of 100% of its life insurance businesses including CommInsure Life and Sovereign to AIA Group Limited ("AIA"). For 31 December 2017, \$84 million of Non-lending interest earning assets have been reclassified to Assets held for sale.

### December 2017 versus December 2016

Net interest income increased 6% on the prior comparative period to \$9,253 million. The result was driven by growth in average interest earning assets of 3%, and a six basis point increase in net interest margin.

### Average Interest Earning Assets

Average interest earning assets increased \$28 billion on the prior comparative period to \$852 billion, driven by:

- Home loan average balances increased \$17 billion or 4% on the prior comparative period to \$448 billion. The growth in home loan balances was largely driven by domestic banking growth, with strong growth in the proprietary channel and owner occupied loans;
- Average balances for business and corporate lending increased \$6 billion or 3% on the prior comparative period to \$227 billion, driven by growth in business lending in target industries, partly offset by a decline in residential property; and
- Average non-lending interest earning assets increased \$5 billion or 4% on the prior comparative period to \$154 billion primarily due to higher liquid assets as a result of a reduction in the committed liquidity facility (CLF).

For further details on the balance sheet movements refer to the 'Review of Group Assets and Liabilities' on page 28.

### Net Interest Margin

The Group's net interest margin increased six basis points on the prior comparative period to 2.16%. The key drivers of the movement were:

**Asset Pricing:** Increased margin of four basis points, reflecting the benefit from repricing of interest only and investor home loans to manage regulatory limits, partly offset by business lending and consumer finance.

**Funding costs:** Decreased margin of one basis point with the negative impact from the major bank levy partly offset by the benefit from deposit repricing. Wholesale funding

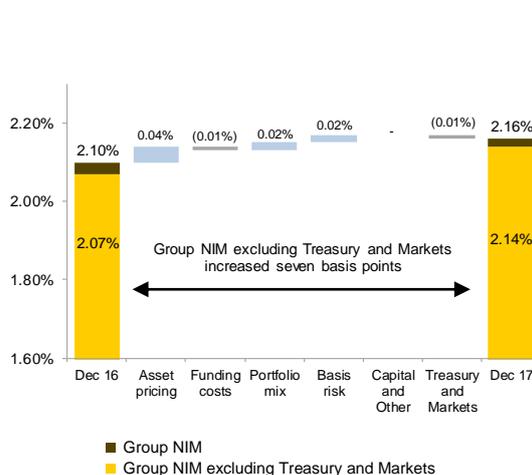
costs remained flat in the period driven by lower short-term funding costs and improvement in long-term funding conditions, offset by lengthening of the wholesale funding tenor and mix change from short-term to long-term wholesale funding.

**Portfolio mix:** Increased margin of two basis points reflecting a favourable change in funding mix from proportionally higher levels of transaction deposits, partly offset by unfavourable changes in lending mix.

**Basis risk:** Basis risk arises from the differences between liabilities priced relative to the bank bill swap rate and assets which are priced relative to the cash rate. The margin increased two basis points as a result of a decrease in the spread between the bank bill swap rate and the cash rate during the half.

**Treasury and Markets:** Decreased margin of one basis point driven by increased holdings of liquid assets.

**NIM movement since December 2016 <sup>(1)</sup>**



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

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# Group Performance Analysis

## Other Banking Income (continuing operations basis)

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
	\$M	\$M	\$M		
Commissions (excluding AHL) <sup>(2)</sup>	1,249	1,271	1,286	(2)	(3)
AHL Commissions <sup>(2)</sup>	84	-	-	n/a	n/a
Lending fees	558	545	533	2	5
Trading income	556	549	600	1	(7)
Other income <sup>(3)</sup>	247	212	599	17	(59)
<b>Other banking income - "cash basis" <sup>(2) (3)</sup></b>	<b>2,694</b>	<b>2,577</b>	<b>3,018</b>	<b>5</b>	<b>(11)</b>

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

(2) The half year ended 31 December 2017 includes an increase of \$84 million in Commissions from the consolidation of AHL Holdings Pty Ltd (trading as Aussie Home Loans) as the Group acquired the remaining 20% share on 25 August 2017.

(3) The half year ended 31 December 2016 included a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

### December 2017 versus December 2016

On 25 August 2017, the Group acquired the remaining 20% share in AHL Holdings Pty Limited (AHL), bringing its shareholding to 100%. As a result, the Group now controls and consolidates AHL. Prior to the acquisition, AHL was equity accounted.

Other banking income decreased 11% on the prior comparative period to \$2,694 million. Excluding the one-off impact of a gain on sale of the Group's remaining investment in Visa Inc. in the prior comparative period and the increase in commissions from AHL consolidation in the current period, other banking income was flat. The key drivers were:

**Commissions** (excluding AHL) decreased 3% on the prior comparative period to \$1,249 million due to lower consumer finance and deposit fee income driven by the reduction in interchange rates following regulatory changes, and the removal of ATM withdrawal fees, partly offset by lower loyalty costs from changes to the rewards program and higher merchant fee income;

**Lending fees** increased 5% on the prior comparative period to \$558 million driven by volume growth and higher business lending fees reflecting a mix shift to fee based products;

**Trading income** decreased 7% on the prior comparative period to \$556 million driven by lower Markets trading performance due to lower volatility, partly offset by favourable derivative valuation adjustments; and

**Other income** decreased 59% on the prior comparative period to \$247 million, driven by the non-recurrence of a gain on sale of the Group's remaining investment in Visa Inc. On an underlying basis, growth of 22% was driven by higher Structured Asset Finance income and a lower realised loss on the hedge of New Zealand earnings, partly offset by lower equity accounting profits due to the consolidation of AHL as a result of the Group's acquisition of the remaining 20% share.

### December 2017 versus June 2017

Other banking income increased 5% on the prior half. Excluding the increase in commissions from the consolidation of AHL in the current period, other banking income increased 1%. The key drivers were:

**Commissions** (excluding AHL) decreased 2% on the prior half mainly due to lower consumer finance and deposit fee income driven by the reduction in interchange rates following regulatory changes, and the removal of ATM withdrawal fees, partly offset by lower loyalty costs from changes to the rewards program, seasonally higher purchases and higher merchant fee income;

**Lending fees** increased 2% on the prior half with volume driven growth and higher business lending fees reflecting a mix shift to fee based products;

**Trading income** increased 1% on the prior half due to higher Markets sales performance, partly offset by unfavourable derivative valuation adjustments; and

**Other income** increased 17% on the prior half driven by higher Structured Asset Finance income and lower realised loss on the hedge of New Zealand earnings, partly offset by lower equity accounting profits due to the consolidation of AHL as a result of the Group's acquisition of the remaining 20% share.

### Net Trading Income (\$M)



# Group Performance Analysis

## Funds Management Income (continuing operations basis)

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Colonial First State (CFS) <sup>(2)</sup>	515	484	449	6	15
CFS Global Asset Management (CFSGAM)	472	429	450	10	5
New Zealand	50	47	45	6	11
IFS and Other	2	10	(1)	(80)	large
<b>Funds management income - "cash basis"</b>	<b>1,039</b>	<b>970</b>	<b>943</b>	<b>7</b>	<b>10</b>
Funds Under Administration (FUA) - average (\$M)	151,008	144,256	138,024	5	9
Assets Under Management (AUM) - average (\$M)	224,560	213,838	206,336	5	9

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

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

### December 2017 versus December 2016

Funds management income increased 10% on the prior comparative period to \$1,039 million, driven by:

- A 9% increase in average FUA reflecting strong investment market returns and positive net flows in the Australian business;
- A 9% increase in average AUM as a result of strong investment markets in the Australian and New Zealand businesses and positive net flows in the New Zealand business, partly offset by net outflows in the Australian business; and
- A reduction in CFS Advice customer remediation provisions; partly offset by
- A decline in underlying FUA margins reflecting lower CFS platform margins due to a change in business mix; and
- A decline in AUM margins as a result of a change in investment mix in the Australian business.

### December 2017 versus June 2017

Funds management income increased 7% on the prior half, driven by:

- A 5% increase in average FUA reflecting positive net flows and strong investment market returns in the Australian business;
- A 5% increase in average AUM reflecting strong investment markets in the Australian and New Zealand businesses, partly offset by net outflows in the Australian business;
- Increased performance fees in the Australian business; and
- Stable FUA margins and underlying AUM margins in the Australian business.

## Insurance Income (continuing operations basis)

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
CommInsure <sup>(2)</sup>	82	13	108	large	(24)
IFS	24	24	26	-	(8)
Other	30	24	28	25	7
<b>Insurance income - "cash basis"</b>	<b>136</b>	<b>61</b>	<b>162</b>	<b>large</b>	<b>(16)</b>

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

(2) CommInsure represents the General Insurance business.

### December 2017 versus December 2016

Insurance income decreased 16% on the prior comparative period to \$136 million, driven by:

- Higher weather event claims in CommInsure General Insurance, partly offset by growth in premiums driven by pricing initiatives; and
- A decline in IFS driven by the impact of the higher Australian dollar; partly offset by
- An increase in Other due to growth in premiums driven by pricing initiatives.

### December 2017 versus June 2017

Insurance income increased \$75 million on the prior half, driven by:

- Lower weather event claims in CommInsure General Insurance and growth in premiums driven by pricing initiatives; and
- An increase in Other due to growth in premiums driven by pricing initiatives.

# Group Performance Analysis

## Operating Expenses (continuing operations basis)

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Staff expenses	3,044	3,047	2,996	-	2
Occupancy and equipment expenses	572	558	556	3	3
Information technology services expenses	752	728	1,102	3	(32)
Other expenses	1,325	862	820	54	62
AHL Consolidation	71	-	-	n/a	n/a
<b>Operating expenses - "cash basis"</b>	<b>5,764</b>	<b>5,195</b>	<b>5,474</b>	<b>11</b>	<b>5</b>
Operating expenses to total operating income (%) <sup>(2) (3)</sup>	43.9	41.8	42.7	210 bpts	120 bpts
Banking expenses to total banking income (%) <sup>(2) (3)</sup>	42.1	39.4	39.5	270 bpts	260 bpts
Spot number of full-time equivalent staff (FTE) <sup>(4)</sup>	42,959	44,024	43,660	(2)	(2)
Average number of full-time equivalent staff (FTE)	43,830	43,826	43,604	-	1

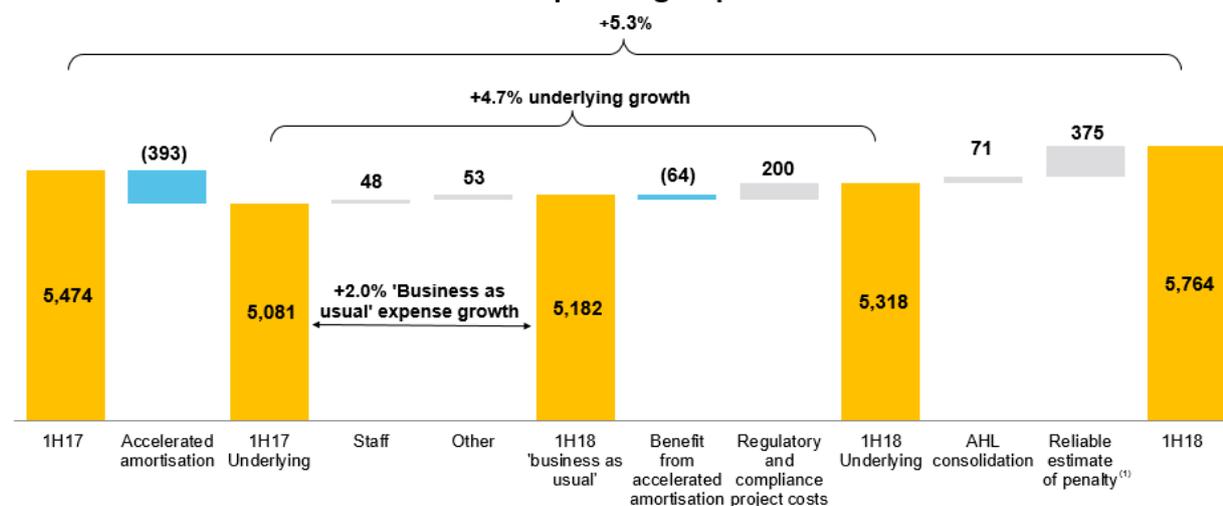
(1) Comparative information has been restated to conform to presentation in the current period.

(2) The half year ended 31 December 2016 included a \$397 million gain on sale of the Group's remaining investment in Visa Inc. and a \$393 million one-off expense for acceleration of amortisation on certain software assets. Excluding these items, Operating expenses to total operating income was 40.9%. Banking expenses to total banking income is 37.4%.

(3) The half year ended 31 December 2017 includes a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings (see Note 7.2 to the Financial Statements for further information), an increase of \$94 million in income and \$71 million in expenses from AHL Holdings Pty Ltd (trading as Aussie Home Loans) as the Group acquired the remaining 20% share on 25 August 2017. Excluding these items, Operating expense to total operating income is 40.8%. Banking expense to total banking income is 38.6%.

(4) Excluding the impact of the divestment of non-core businesses in IFS, spot FTE for 31 December 2017 is 43,482, flat on the prior comparative period and a decrease of 1% on the prior half.

## Total Operating Expenses



(1) The half year ended 31 December 2017 includes a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings (see Note 7.2 to the Financial Statements for further information).

### December 2017 versus December 2016

On 25 August 2017, the Group acquired the remaining 20% share in AHL Holdings Pty Limited (AHL), bringing its shareholding to 100%. As a result, the Group now controls and consolidates AHL. Prior to the acquisition, AHL was equity accounted.

Operating expenses increased 5% on the prior comparative period to \$5,764 million. Excluding the impact of a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings, the impact of AHL consolidation and the one-off expense for acceleration of amortisation on certain software assets in the prior

comparative period, operating expenses increased 5%. The key drivers were:

**Staff expenses** increased 2% to \$3,044 million, driven by salary increases, partly offset by productivity initiatives and the impact of FX. Average FTE increased 1% driven by the acquisition of AHL in August 2017. Excluding AHL, underlying average FTE was flat with an increase in frontline and compliance staff offset by productivity initiatives. Spot FTE decreased 2% primarily due to the divestment of non-core businesses in IFS in December 2017 and productivity initiatives, partly offset by an increase in front line and compliance staff;

**Occupancy and equipment expenses** increased 3% to \$572 million, primarily due to relocation of premises, annual rental reviews and depreciation;

# Group Performance Analysis

## Operating Expenses (continued)

**Information technology services expenses** decreased 32% to \$752 million. Excluding the one-off expense for acceleration of amortisation on certain software assets in the prior comparative period, expenses increased 6%. This was driven by higher investment spend and software license costs, partly offset by lower amortisation due to the benefit from the one-off acceleration of amortisation in the prior comparative period;

**Other expenses** increased 62% to \$1,325 million. Excluding the \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings, expenses increased 16%. This was driven by \$200 million of higher regulatory, compliance and remediation program costs, partly offset by lower non-lending losses and transaction processing costs;

**Group operating expenses to total operating income ratio** increased 120 basis points to 43.9%. The underlying ratio decreased 10 basis points.

## December 2017 versus June 2017

Operating expenses are up 11% on the prior half. The key drivers were:

**Staff expenses** were flat with salary increases, offset by productivity initiatives and the impact of FX. Spot FTE decreased 2% driven by IFS divestments in December 2017 and productivity initiatives, partly offset by an increase in frontline and compliance staff. Average FTE remained flat;

**Occupancy and equipment expenses** increased 3%, primarily due to relocation of premises, annual rental reviews and depreciation;

**Information technology services expenses** increased 3%, primarily driven by increased licensing costs and an increase in amortisation of software assets;

**Other expenses** increased 54%. Excluding the \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings, expenses increased 10%. This was driven by \$200 million of higher regulatory, compliance and remediation program costs, partly offset by lower non-lending losses and transaction processing costs.

## Investment Spend (continuing operations basis)

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Expensed investment spend <sup>(2)</sup>	313	349	263	(10)	19
Capitalised investment spend	314	287	315	9	-
<b>Investment spend</b>	<b>627</b>	<b>636</b>	<b>578</b>	<b>(1)</b>	<b>8</b>
<b>Comprising:</b>					
Productivity and growth	326	337	304	(3)	7
Risk and compliance	222	236	209	(6)	6
Branch refurbishment and other	79	63	65	25	22
<b>Investment spend</b>	<b>627</b>	<b>636</b>	<b>578</b>	<b>(1)</b>	<b>8</b>

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

(2) Included within the Operating Expenses disclosure on page 23.

## December 2017 versus December 2016

The Group continues to invest to deliver on the strategic priorities of the business with \$627 million incurred in the half year to 31 December 2017, an increase of 8% on the prior comparative period. The increase is mostly due to higher spend on productivity and growth initiatives, and risk and compliance projects as the Group continues to invest through the cycle.

Productivity and growth initiatives accounted for 52% of investment spend, a decrease of 1% from 53% in the prior comparative period, with continued focus on driving productivity and investing in technology in line with the Group's strategy. Risk and compliance costs have continued to form a large portion of investment at 35% of investment spend, a decrease of 1% from 36%, as the Group continues to invest in strengthening our regulatory and compliance

frameworks and implementing systems to satisfy regulatory obligations.

Developments across each of these investment categories during the half are outlined below.

### Productivity and Growth

The Group has invested in the following:

- Delivering tools and capabilities which allow easier and cheaper access to the Group's data, enabling us to meet customers' specific needs and promoting growth and retention of customers;
- In addition to ongoing spend in the development and resilience of our Digital Channel, the Group has continued to invest in data analytics tools and infrastructure, which have resulted in:
  - 6 million customers now using digital channels, an increase of 8% in the last 12 months with 29% of new accounts opened online;

# Group Performance Analysis

## Investment Spend (continued)

- More than 50% of transactions by value completed digitally, with digital channels accounting for a quarter of all sales;
- Mobile logins increasing by 25% in the last 12 months;
- Innovative digital experiences for our customers, including a new AI powered chatbot for personalised conversations, as well as real-time alerts in the Commbank app to give customers even more tools to help manage their spending and avoid fees and charges;
- The release of Daily IQ 2.0 business insights tool, which provides customers with valuable insights into their business performance; and
- Significant increase in customers utilising cardless cash and tap and pay facilities.
- Initiatives such as Home Buying, which is driving transformational change in the proprietary channel, improving our end to end process and significantly improving loan quality and origination efficiency. This has helped increase new lending through the proprietary channel from 57% to 64% in the last 12 months; and
- Delivery of the business banking relationship excellence initiative to further enhance frontline banker capabilities and increase client facing time.

## Risk and Compliance

Programs have been undertaken to address the following:

- Continued investment in protection against cyber risks and attacks, with a particular focus on data protection and consistent application of cyber security controls which enable the Group to identify and remediate suspicious activity;
- Continued investment in our processes and systems in relation to the Anti-Money Laundering and Counter-Terrorism Financing Act;
- Improving the resilience of the Group's IT infrastructure, including payments and data centres; and
- Implementation of systems in order to fulfil regulatory and compliance requirements, including Future of Financial Advice, Stronger Super (MySuper & SuperStream), Life and General Insurance Capital, and Common Reporting Standard requirements.

## Branch Refurbishment and Other

The Group has continued to invest in retail branch refurbishment works as our branch design is constantly evolving to reflect changes in customer preference.

## Capitalised Software (continuing operations basis)

	Half Year Ended				
	31 Dec 17 <sup>(1)</sup>	30 Jun 17	31 Dec 16	Dec 17 vs	Dec 17 vs
	\$M	\$M	\$M	Jun 17 %	Dec 16 %
Opening Balance	1,934	1,897	2,228	2	(13)
Additions	213	209	282	2	(24)
Amortisation and writeoffs <sup>(2)</sup>	(202)	(172)	(613)	17	(67)
Reclassification to assets held for sale	(49)	-	-	n/a	n/a
<b>Closing balance</b>	<b>1,896</b>	<b>1,934</b>	<b>1,897</b>	<b>(2)</b>	<b>-</b>

(1) Capitalised software for the current period excludes amounts related to the Group's life insurance businesses that have been presented as held for sale.

(2) The half year ended 31 December 2016 included a \$393 million one-off expense for acceleration of amortisation on certain software assets.

### December 2017 versus December 2016

Capitalised software balance was flat at \$1,896 million primarily driven by investment in productivity and growth, and risk and compliance projects as the Group continues to invest through the cycle to deliver on strategic priorities of the business. This was offset by the reclassification of capitalised software within the life insurance businesses to assets held for sale.

Additions decreased by 24% to \$213 million, driven by a lower capitalisation rate due to the mix of projects. Specifically, additional spend on regulatory and digital projects decreased the portion of capitalised investment spend in the current period.

Amortisation and write-offs decreased 67% to \$202 million driven by the prior comparative period including a \$393 million one-off expense for acceleration of amortisation

on certain software assets. Underlying amortisation decreased 8% driven by lower capitalised software balances following the one-off acceleration of amortisation.

### December 2017 versus June 2017

Capitalised software balance decreased 2% on the prior half, driven by the reclassification of capitalised software within the life insurance businesses to assets held for sale partly offset by continued investment in both productivity and growth and risk and compliance projects.

Additions increased 2% driven by an increase in the capitalisation rate, as the prior period included higher spend on risk and compliance projects, which were expensed.

Amortisation and write-offs increased 17% primarily due to an increase in capitalised software levels and change in project mix.

# Group Performance Analysis

## Loan Impairment Expense

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Retail Banking Services	356	350	352	2	1
Business and Private Banking	49	7	55	large	(11)
Institutional Banking and Markets	105	20	44	large	large
New Zealand	23	18	47	28	(51)
Bankwest	30	49	50	(39)	(40)
IFS and Other	33	52	51	(37)	(35)
<b>Loan impairment expense - "cash basis"</b>	<b>596</b>	<b>496</b>	<b>599</b>	<b>20</b>	<b>(1)</b>

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

### December 2017 versus December 2016

Loan impairment expense decreased 1% on the prior comparative period to \$596 million. Loan impairment expense annualised as a percentage of average Gross Loans and Acceptances (GLAAs) decreased 1 basis point to 16 basis points. The decrease was driven by:

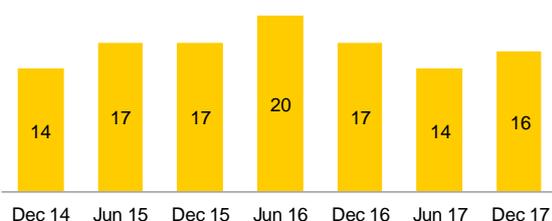
- A decrease in Business and Private Banking due to lower individual provisions, partly offset by higher collective provisions;
- Lower provisions in the New Zealand dairy sector;
- Lower home loan impairment and business loan collective provisions in Bankwest; and
- A decrease in IFS provisions as a result of run-off in the commercial lending portfolio; partly offset by
- An increase in Retail Banking Services as a result of higher home loan and personal loan collective provisions; and
- An increase in Institutional Banking and Markets due to higher individual and collective provisions, partly offset by a higher level of write-backs.

### December 2017 versus June 2017

Loan impairment expense increased 20% on the prior half mainly driven by:

- An increase in Retail Banking Services as a result of higher home loan and personal loan collective provisions;
- An increase in Business and Private Banking reflecting higher collective provisions, partly offset by lower individual provisions;
- An increase in Institutional Banking and Markets reflecting higher individual and collective provisions, partly offset by a higher level of write-backs; and
- An increase in New Zealand as a result of lower provision releases in dairy sector; partly offset by
- A decrease in Bankwest primarily from reduced home loan impairments and improved performance in the business portfolio.

### Half Year Loan impairment expense ("cash basis") annualised as percentage of average GLAAs (bpts)



# Group Performance Analysis

## Taxation Expense (continuing operations basis)

	Half Year Ended <sup>(1) (2)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Corporate tax expense (\$M)	2,031	1,924	1,925	6	6
Effective tax rate - "cash basis" (%)	30.0	28.5	28.5	150 bpts	150 bpts

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

(2) Including discontinued operations, the effective tax rate "cash basis" is 29.9% for the half year ended 31 December 2017, and 28.4% for the half years ended 30 June 2017 and 31 December 2016.

### December 2017 versus December 2016

Corporate tax expense for the half year ended 31 December 2017 increased 6% on the prior comparative period, representing a 30.0% effective tax rate.

The 150 basis points increase in the effective tax rate is due to the expense provision, which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings, being non-deductible for tax purposes. Excluding this item, the effective tax rate is 28.4%. The 28.4% is below the Australian company tax rate of 30% primarily as a result of the profit earned by the offshore banking unit and offshore jurisdictions that have lower corporate tax rates.

### December 2017 versus June 2017

Corporate tax expense for the half year ended 31 December 2017 increased 6% on the prior half, representing a 30.0% effective tax rate.

The 150 basis points increase in the effective tax rate is due to the expense provision, which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings, being non-deductible for tax purposes. Excluding this item, the effective tax rate is 28.4%. The 28.4% 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.

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# Group Performance Analysis

## Review of Group Assets and Liabilities

	As at				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Total Group Assets and Liabilities</b>					
<b>Interest earning assets</b>					
Home loans <sup>(1)</sup>	492,688	485,857	472,532	1	4
Consumer finance	23,593	23,577	23,895	-	(1)
Business and corporate loans	223,981	226,484	221,707	(1)	1
<b>Loans, bills discounted and other receivables <sup>(2)</sup></b>	<b>740,262</b>	<b>735,918</b>	<b>718,134</b>	<b>1</b>	<b>3</b>
Non-lending interest earning assets <sup>(3)</sup>	151,695	163,665	159,767	(7)	(5)
<b>Total interest earning assets</b>	<b>891,957</b>	<b>899,583</b>	<b>877,901</b>	<b>(1)</b>	<b>2</b>
Other assets <sup>(2) (3) (4)</sup>	55,078	76,735	93,762	(28)	(41)
Assets held for sale <sup>(3)</sup>	14,895	-	-	n/a	n/a
<b>Total assets</b>	<b>961,930</b>	<b>976,318</b>	<b>971,663</b>	<b>(1)</b>	<b>(1)</b>
<b>Interest bearing liabilities</b>					
Transaction deposits <sup>(5)</sup>	106,407	98,884	93,641	8	14
Savings deposits <sup>(5)</sup>	189,709	191,245	191,406	(1)	(1)
Investment deposits	219,251	220,530	211,711	(1)	4
Other demand deposits <sup>(3)</sup>	61,299	70,313	67,652	(13)	(9)
<b>Total interest bearing deposits</b>	<b>576,666</b>	<b>580,972</b>	<b>564,410</b>	<b>(1)</b>	<b>2</b>
Debt issues	166,732	168,034	177,023	(1)	(6)
Other interest bearing liabilities	53,983	57,531	58,888	(6)	(8)
<b>Total interest bearing liabilities</b>	<b>797,381</b>	<b>806,537</b>	<b>800,321</b>	<b>(1)</b>	<b>-</b>
Non-interest bearing transaction deposits	46,608	44,032	39,786	6	17
Other non-interest bearing liabilities <sup>(3)</sup>	37,307	62,089	69,800	(40)	(47)
Liabilities held for sale <sup>(3)</sup>	14,543	-	-	n/a	n/a
<b>Total liabilities</b>	<b>895,839</b>	<b>912,658</b>	<b>909,907</b>	<b>(2)</b>	<b>(2)</b>

(1) Gross of mortgage offset balances.

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

(3) On 21 September 2017 CBA announced the sale of 100% of its life insurance businesses including CommInsure Life and Sovereign to AIA Group Limited ("AIA"). For 31 December 2017, \$84 million of Non-lending interest earning assets and \$14,803 million of Other assets have been reclassified to Assets held for sale, and \$863 million of Other demand deposits and \$13,680 million of Other non-interest bearing liabilities have been reclassified to Liabilities held for sale. Assets held for sale also includes \$8 million of assets that reside outside the Group's life insurance business as at 31 December 2017.

(4) Comparatives have been restated following a change in accounting policy to recognise deferred tax on Brand names acquired by the Group. Further details on the change are provided in Note 1.1 of the Financial Statements.

(5) Includes mortgage offset balances.

### December 2017 versus December 2016

Total assets decreased \$10 billion or 1% on the prior comparative period. Excluding the impact of FX, total assets growth was flat driven by lower derivative and liquid asset balances, partly offset by increased home and business lending.

Total liabilities decreased \$14 billion or 2% on the prior comparative period. Excluding the impact of FX, total liabilities decreased by 1% primarily driven by lower derivative liability balances and debt issues, partly offset by increased transaction and investment deposits.

The Group continued to satisfy a significant portion of lending growth from customer deposits. Customer deposits represent 68% of total funding (31 December 2016: 66%).

### Home loans

Home loan balances increased \$20 billion to \$493 billion, reflecting a 4% increase on the prior comparative period. The increase excluding FX was 5%, which was driven by Retail Banking Services, Bankwest and New Zealand. Domestic growth of 5% was 1% below system.

Home loans in Australia amount to \$444 billion (31 December 2016: \$423 billion) of which 64% are owner occupied, 32% are investment home loans and 4% are lines of credit (31 December 2016: 63% were owner occupied, 33% were investment home loans and 4% were lines of credit).

### Consumer finance

Consumer finance, which includes personal loans, credit cards and margin lending, decreased 1% on the prior comparative period to \$24 billion, broadly in line with system.

# Group Performance Analysis

## Review of Group Assets and Liabilities (continued)

### Business and corporate loans

Business and corporate loans increased \$2 billion to \$224 billion, a 1% increase on the prior comparative period. The increase excluding FX was 2%, which was driven by growth of 1% in Business and Private Banking primarily in target industries and core business lending growth of 6% in Bankwest. Growth in New Zealand of 8% was 3% above system reflecting strong business and rural loan growth with the long-term strategic focus on this segment continuing to deliver strong results. This was partly offset by the impact of a higher Australian dollar. Institutional lending growth was flat, impacted by subdued levels of activity in domestic lending and increased competition from offshore banks.

Domestic business lending grew at 1%, which was 2% below system.

### Non-lending interest earning assets

Non-lending interest earning assets decreased \$8 billion to \$152 billion, reflecting a 5% decrease on the prior comparative period. The decrease was driven by lower liquid asset balances primarily due to a decrease in modelled net cash outflows.

### Other assets

Other assets, including derivative assets, insurance assets and intangibles, decreased \$39 billion to \$55 billion, a 41% decrease on the prior comparative period, impacted by the reclassification of life insurance assets to Assets held for sale. The underlying decrease of 25% reflected lower derivative asset balances primarily from hedging asset maturities and foreign exchange volatility.

### Interest bearing deposits

Interest bearing deposits increased \$12 billion to \$577 billion, a 2% increase on the prior comparative period. This was driven by strong growth in transaction deposits in Retail Banking Services, Business and Private Banking, and Institutional Banking and Markets. Higher investment deposits were partly offset by lower other demand deposits.

Collectively, domestic household deposits grew at 4%, which was 2% below system as the Group managed the volume and margin trade-off in a competitive environment.

### Debt issues

Debt issues decreased \$10 billion to \$167 billion, a 6% decrease on the prior comparative period. The decrease excluding FX was 5%, reflecting lower wholesale funding requirements. This was primarily driven by subdued interest earning asset growth and growth in deposit funding, as a result of strategic balance sheet management.

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 page 42-43 for further information on debt programs and issuances for the half year ended 31 December 2017.

### 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, was \$54 billion, an 8% decrease on the prior comparative period. The decrease excluding FX was 7%, which was driven by a net decrease in

cash collateral received from counterparties due to initiatives to improve collateral management.

### Non-interest bearing transaction deposits

Non-interest bearing transaction deposits increased \$7 billion, a 17% increase on the prior comparative period, primarily driven by strong growth in personal and business transaction accounts in Retail Banking Services.

### Other non-interest bearing liabilities

Other non-interest bearing liabilities, including derivative liabilities and insurance policy liabilities, decreased \$32 billion to \$37 billion, a 47% decrease on the prior comparative period, impacted by the reclassification of life insurance liabilities to Liabilities held for sale. The underlying decrease of 27% reflected lower derivative liability balances primarily from hedging liability maturities and foreign exchange volatility.

### December 2017 versus June 2017

Total assets decreased \$14 billion or 1% on the prior half, primarily driven by lower derivative and liquid asset balances, partly offset by increased home lending.

Total liabilities decreased \$17 billion or 2% on the prior half. Excluding the impact of FX, total liabilities decreased 1% driven by lower derivative liability balances and other demand deposits, partly offset by increased transaction deposits.

Customer deposits made up 68% of total funding (30 June 2017: 67%).

### Home loans

Home loan balances increased \$7 billion, reflecting a 1% increase on the prior half. The increase excluding FX was 2%, which was driven by Retail Banking Services, Bankwest and New Zealand.

Home loans in Australia amount to \$444 billion (30 June 2017: \$436 billion) of which 64% are owner occupied, 32% are investment home loans and 4% are lines of credit (30 June 2017: 63% were owner occupied, 33% were investment home loans and 4% were lines of credit).

### Consumer finance

Consumer finance, which includes personal loans, credit cards and margin lending, was flat on the prior half, broadly in line with system.

### Business and corporate loans

Business and corporate loans decreased \$3 billion, a 1% decrease on the prior half, driven by lower institutional lending, which was impacted by subdued levels of activity in domestic lending and increased competition from offshore banks, partly offset by business and rural loan growth in New Zealand and core business lending growth in Bankwest. Business and Private Banking was flat as growth in target industries was offset by a decline in residential property.

### Non-lending interest earning assets

Non-lending interest earning assets decreased \$12 billion, a 7% decrease on the prior half. The decrease was driven by lower liquid asset balances primarily due to a decrease in modelled net cash outflows.

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# Group Performance Analysis

## Review of Group Assets and Liabilities (continued)

### Other assets

Other assets, including derivative assets, insurance assets and intangibles, decreased \$22 billion, a 28% decrease on the prior half, impacted by the reclassification of life insurance assets to Assets held for sale. The underlying decrease of 9% reflected lower derivative asset balances primarily from hedging asset maturities and foreign exchange volatility, partly offset by higher trading asset balances.

### Interest bearing deposits

Interest bearing deposits decreased \$4 billion, a 1% decrease on the prior half, reflecting lower other demand deposits mainly from reduced repo positions, and lower investment and savings deposits, partly offset by higher transaction deposits.

### Debt issues

Debt issues decreased \$1 billion, a 1% decrease on the prior half. Excluding FX, debt issues remained flat which reflected lower wholesale funding requirements. This was primarily driven by subdued interest earning asset growth and growth in deposit funding, as a result of strategic balance sheet management.

Refer to page 42-43 for further information on debt programs and issuances for the half year ended 31 December 2017.

### 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, decreased \$4 billion, a 6% decrease on the prior half. The decrease excluding FX was 5%, which was driven by a net decrease in cash collateral received from counterparties.

### Non-interest bearing transaction deposits

Non-interest bearing transaction deposits increased \$3 billion, a 6% increase on the prior half, primarily driven by strong growth in personal and business transaction accounts in Retail Banking Services.

### Other non-interest bearing liabilities

Other non-interest bearing liabilities, including derivative liabilities and insurance policy liabilities, decreased \$25 billion, a 40% decrease on the prior half, impacted by the reclassification of life insurance liabilities to Liabilities held for sale. The underlying decrease of 18% reflected lower derivative liability balances primarily from hedging liability maturities and foreign exchange volatility.

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# Group operations & business settings



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# Group Operations and Business Settings

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# Group Operations and Business Settings

## Loan Impairment Provisions and Credit Quality

### Provisions for Impairment

	As at				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Provisions for impairment losses</b>					
Collective provision	2,772	2,747	2,807	1	(1)
Individually assessed provisions	978	980	1,017	-	(4)
<b>Total provisions for impairment losses</b>	<b>3,750</b>	<b>3,727</b>	<b>3,824</b>	<b>1</b>	<b>(2)</b>
Less: Provision for Off Balance Sheet exposures	(27)	(34)	(35)	(21)	(23)
<b>Total provisions for loan impairment</b>	<b>3,723</b>	<b>3,693</b>	<b>3,789</b>	<b>1</b>	<b>(2)</b>

#### December 2017 versus December 2016

Total provisions for impairment losses decreased 2% on the prior comparative period to \$3,750 million as at 31 December 2017. The movement in the level of provisioning reflects:

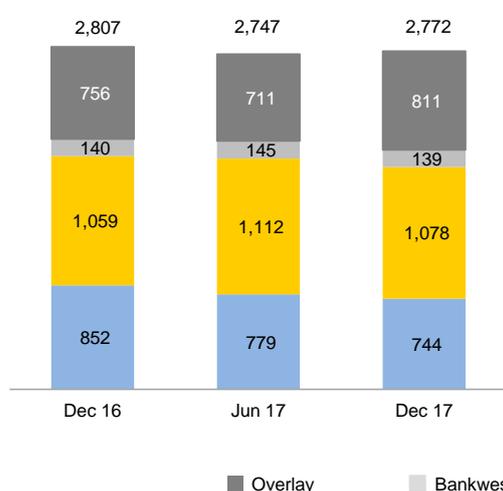
- Lower corporate collective provisions, driven by model factor updates, reduced loan term maturity dates and improvements in the New Zealand dairy sector; and
- A reduction in Bankwest individually assessed provisions predominantly in the business lending portfolio, driven by write-backs and write-offs following the workout of impaired assets; partly offset by
- An increase in management overlays driven by corporate lending in Institutional Banking and Markets. Economic overlays remained unchanged on the prior year; and
- An increase in consumer individually assessed and collective provisions due to the home loan portfolio in Retail Banking Services.

#### December 2017 versus June 2017

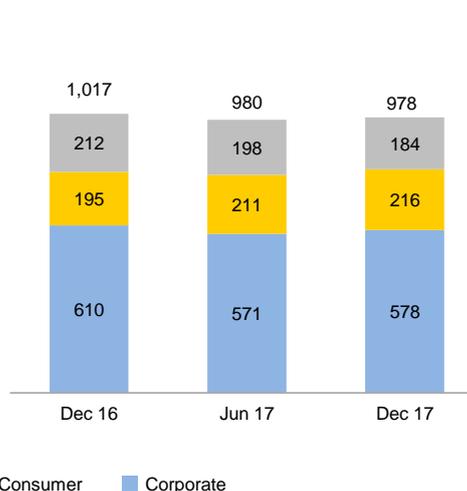
Total provisions for impairment losses increased 1% on the prior half. The movement in the level of provisioning reflects:

- An increase in management overlays driven by corporate lending in Institutional Banking and Markets and model calibration updates in Retail Banking Services. Economic overlays remained unchanged;
- An increase in corporate individually assessed provisions due to higher individual provisions in Institutional Banking and Markets; and
- An increase in consumer individually assessed provisions due to the home loan portfolio in Retail Banking Services; partly offset by
- A reduction in corporate collective provisions, driven by the transfer of collective provisions to individually assessed provisions for clients that became impaired; and
- Reduced consumer collective provisions predominately from seasonally lower consumer finance arrears in Retail Banking Services.

Collective Provisions (\$M) <sup>(1)</sup>



Individually Assessed Provisions (\$M)



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

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# Group Operations and Business Settings

## Loan Impairment Provisions and Credit Quality (continued)

### Credit Quality

Credit Quality Metrics	Half Year Ended				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Credit Quality Metrics</b>					
Gross loans and acceptances (GLAA) (\$M)	<b>741,318</b>	737,002	719,250	1	3
Risk weighted assets (RWA) (\$M) - Basel III	<b>440,836</b>	437,063	436,481	1	1
Credit RWA (\$M) - Basel III	<b>366,985</b>	377,259	373,526	(3)	(2)
Gross impaired assets (\$M)	<b>3,367</b>	3,187	3,375	6	-
Net impaired assets (\$M)	<b>2,207</b>	2,038	2,193	8	1
<b>Provision Ratios</b>					
Collective provision as a % of credit RWA - Basel III	<b>0.76</b>	0.73	0.75	3 bpts	1 bpt
Total provisions as a % of credit RWA - Basel III	<b>1.02</b>	0.99	1.02	3 bpts	-
Total provisions for impaired assets as a % of gross impaired assets	<b>34.45</b>	36.05	35.02	(160)bpts	(57)bpts
Total provisions for impaired assets as a % of gross impaired assets (corporate)	<b>40.52</b>	42.82	38.65	(230)bpts	187 bpts
Total provisions for impaired assets as a % of gross impaired assets (consumer)	<b>27.00</b>	28.45	29.52	(145)bpts	(252)bpts
Total provisions for impairment losses as a % of GLAAs	<b>0.51</b>	0.51	0.53	-	(2)bpts
<b>Asset Quality Ratios</b>					
Gross impaired assets as a % of GLAAs	<b>0.45</b>	0.43	0.47	2 bpts	(2)bpts
Loans 90+ days past due but not impaired as a % of GLAAs	<b>0.36</b>	0.36	0.33	-	3 bpts
Loan impairment expense ("cash basis") annualised as a % of average GLAAs	<b>0.16</b>	0.14	0.17	2 bpts	(1)bpt
Net write-offs annualised as a % of GLAAs	<b>0.15</b>	0.16	0.15	(1)bpt	-
Corporate total committed exposures rated investment grade (%) <sup>(1)</sup>	<b>68.00</b>	69.20	68.70	(120)bpts	(70)bpts
<b>Australian Home Loan Portfolio</b>					
Portfolio dynamic LVR (%) <sup>(2)</sup>	<b>49.76</b>	50.33	50.69	(57)bpts	(93)bpts
Customers in advance (%) <sup>(3)</sup>	<b>77.48</b>	77.31	77.38	17 bpts	10 bpts

(1) Investment grades based on CBA grade in S&P equivalent.

(2) Loan to value ratio (LVR) defined as current balance as a percentage of the current valuation on Australian home loan portfolio.

(3) Any amount ahead of monthly minimum repayment (including offset facilities).

### Provision Ratios and Impaired Assets

Provision coverage ratios remain prudent. The impaired asset portfolio remains well provisioned with provision coverage of 34.45%.

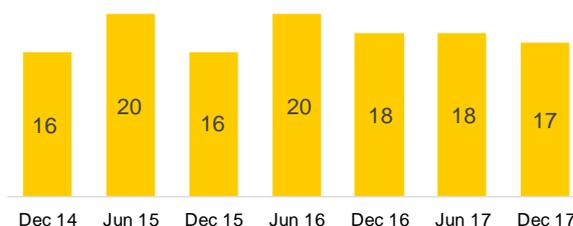
Gross impaired assets increased 6% on the prior half to \$3,367 million. Gross impaired assets as a proportion of GLAAs were 0.45% which is an increase of 2 basis points on the prior half.

### Retail Portfolio Asset Quality

The retail consumer portfolio's credit quality remained sound during the period. The consumer LIE as a percentage of average gross loans and acceptances of 17 basis points is 1 basis point lower than the prior half due to a reduction in consumer LIE in Bankwest and New Zealand.

### Consumer LIE

#### Half Year Loan impairment expense ("cash basis") annualised as percentage of average GLAAs (bpts)



# Group Operations and Business Settings

## Loan Impairment Provisions and Credit Quality (continued)

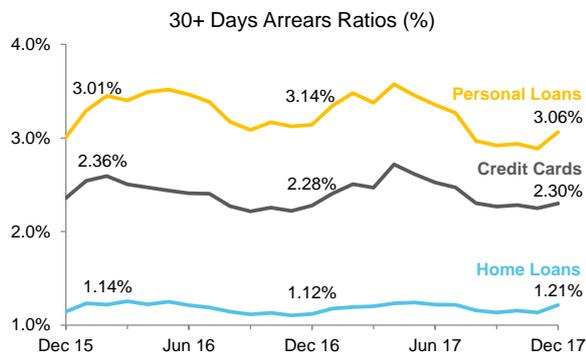
### Retail Portfolio Asset Quality (continued)

The retail portfolio arrears remain relatively low. Home loan arrears are elevated on the prior comparative period due to deteriorating credit quality in Western Australia, whilst Personal Loans have improved driven by improvement in collections strategies. Retail arrears across all products reduced during the current half reflecting seasonal trends.

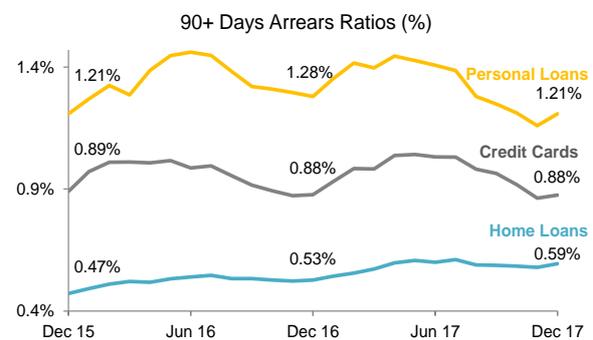
The home lending book remains well secured with the dynamic LVR stable at 49.76% for the period. The majority of

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% for Retail Banking Services and 7.35% for Bankwest. Further caps and limits remain in place for higher risk loans including a 90% LVR limit and lenders mortgage insurance requirements.

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



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



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

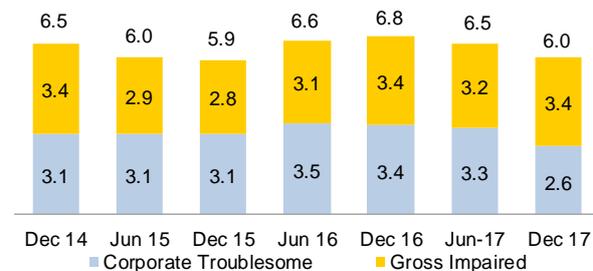
### Corporate Portfolio Asset Quality

Corporate troublesome exposures reduced from \$3.3 billion in the prior half to \$2.6 billion. This reduction was mainly driven by improvements in the New Zealand dairy sector.

Investment grade rated exposures decreased 120 basis points on the prior half to 68.0% of overall portfolio risk graded counterparties driven by a reduction in exposure to the Banking sector.

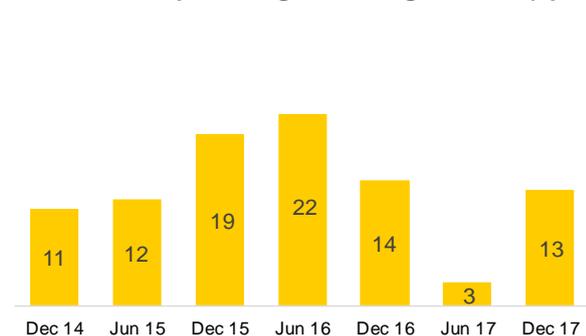
Corporate LIE as a percentage of gross loans and acceptances was up 10 basis points on the prior half to 13 basis points, however remains lower than the prior comparative period. The increase in the half is predominately due to higher individual provisions.

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



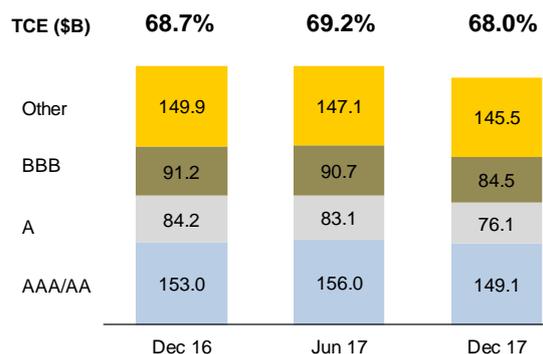
### Corporate LIE

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



### Corporate Portfolio Quality

% of book rated investment grade <sup>(1)</sup>



(1) CBA grades in S&P equivalents.

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# Group Operations and Business Settings

## Loan Impairment Provisions and Credit Quality (continued)

### Industry Exposure and Asset Quality

The distribution of the Group's credit exposures by industry remained relatively consistent during the half. The largest movement was driven by home loan growth in the Consumer sector with the next largest change being a reduction in the Banking sector due to less exposure to overseas banks.

Troublesome and impaired assets (TIA) improved across most industry sectors. The largest favourability came from agriculture driven by improvement in the New Zealand dairy sector. Improvement in the manufacturing sector reflected the

exit of one single name exposure. This favourability was partly offset by an increase in Business Services due to the impairment of a single name exposure.

TIA as a percentage of TCE improved across most industry sectors, led by a reduction in Energy sector troublesome assets due to a credit upgrade and a loan repayment. Business Services experienced the largest deterioration due to the impairment of a large single name exposure.

### Credit Exposures by Industry <sup>(1)</sup>

	Total Committed Exposures (TCE)		Troublesome and Impaired Assets (TIA)		TIA % of TCE	
	Dec 17 %	Jun 17 %	Dec 17 \$M	Jun 17 \$M	Dec 17 %	Jun 17 %
Consumer	56.6	55.4	1,581	1,578	0.26	0.26
Sovereign	9.7	9.7	-	-	-	-
Property	6.3	6.4	586	693	0.86	0.99
Banks	5.2	6.1	9	9	0.02	0.01
Finance - Other	5.1	5.0	35	50	0.06	0.09
Retail & Wholesale Trade	2.1	2.2	488	474	2.13	2.00
Agriculture	2.0	2.0	876	1,019	4.07	4.70
Manufacturing	1.4	1.6	290	430	1.90	2.47
Transport	1.5	1.6	399	436	2.49	2.51
Mining	1.3	1.4	409	477	2.97	3.23
Business Services	1.3	1.3	349	165	2.56	1.13
Energy	1.1	1.1	9	90	0.08	0.72
Construction	0.8	0.7	223	290	2.73	3.70
Health & Community	0.9	0.8	225	197	2.42	2.27
Culture & Recreation	0.7	0.7	47	54	0.66	0.73
Other	4.0	4.0	509	538	1.18	1.24
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>6,035</b>	<b>6,500</b>	<b>0.56</b>	<b>0.60</b>

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

# Group Operations and Business Settings

## Capital

### Basel Regulatory Framework

#### Background

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

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

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

#### Unquestionably Strong Capital Ratios

In July 2017 APRA released an information paper in relation to 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 ratio average benchmark of 10.5% or more by 1 January 2020.

Following the finalisation of the reforms announced by the BCBS in December 2017, as detailed on page 39, APRA has advised that these reforms have been accommodated within the targets set by APRA in July 2017.

APRA is expected to commence consultation in early 2018 covering:

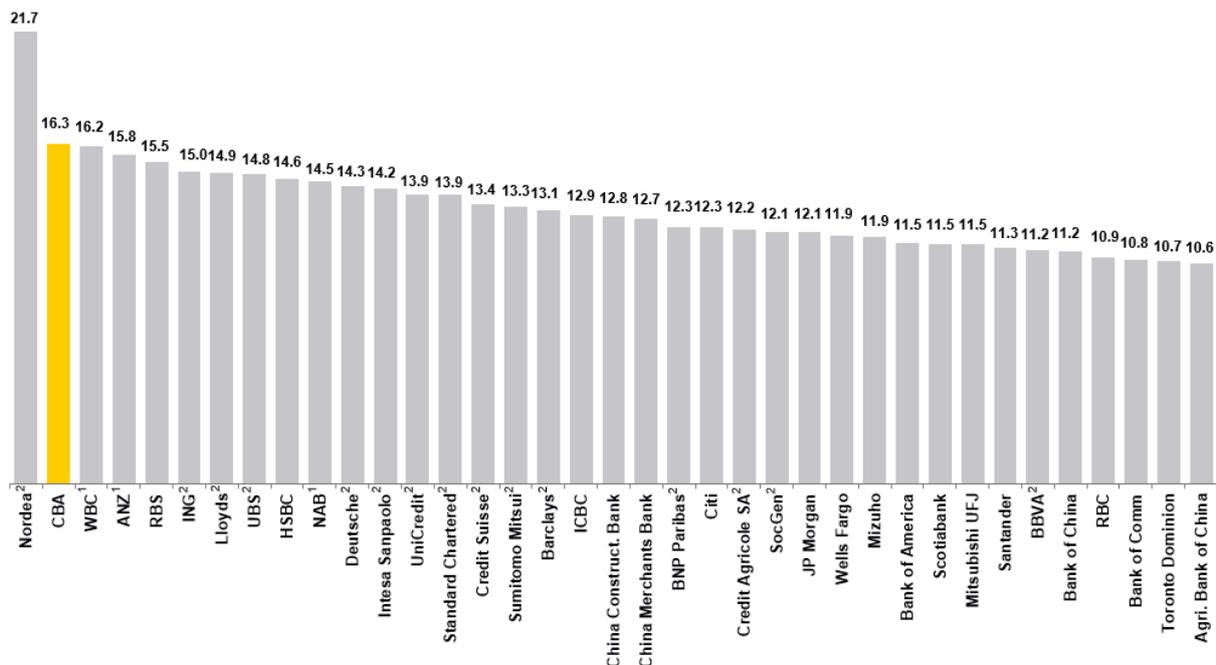
- The proposed revisions required to achieve unquestionably strong capital ratios;
- Domestic application of the BCBS reforms;
- Additional measures to address Australian ADI’s structural concentration to residential mortgages; and
- Improving transparency and international comparability of capital ratios.

#### Internationally Comparable Capital Position

The Group’s CET1 as measured on an internationally comparable basis was 16.3% as at 31 December 2017, placing it amongst the top quartile of international peer banks.

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

International Peer Basel III CET1



Source: Morgan Stanley and CBA. Based on last reported CET1 ratios up to 1 February 2018 assuming Basel III capital reforms are fully implemented. Peer group comprises listed commercial banks with total assets in excess of A\$750 billion and which have disclosed fully implemented Basel III ratios or provided sufficient disclosure for a Morgan Stanley estimate.

(1) Domestic peer figures as at 30 September 2017.  
(2) Deduction for accrued expected future dividends added back for comparability.

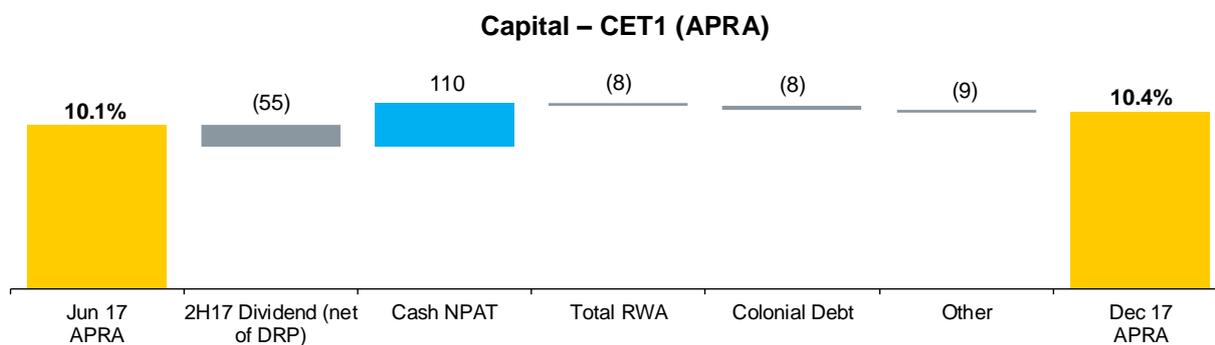
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# Group Operations and Business Settings

## Capital (continued)

	Half Year Ended		
	31 Dec 17	30 Jun 17	31 Dec 16
<b>Summary Group Capital Adequacy Ratios</b>	%	%	%
Common Equity Tier 1	10.4	10.1	9.9
Tier 1	12.4	12.1	11.5
Tier 2	2.4	2.1	2.2
<b>Total Capital (APRA)</b>	<b>14.8</b>	14.2	13.7
<b>Common Equity Tier 1 (Internationally Comparable) <sup>(1)</sup></b>	<b>16.3</b>	15.6	15.4

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



### Capital Position

The Group's CET1 (APRA) was 10.4% as at 31 December 2017, compared with 10.1% at 30 June 2017 and 9.9% at 31 December 2016. The capital ratios were maintained well in excess of regulatory minimum capital adequacy requirements at all times throughout the half year ended 31 December 2017.

The Group's CET1 (APRA) ratio increased 30 basis points for the half year ended 31 December 2017. This primarily reflected capital generated from earnings, partly offset by the June 2017 final dividend, which included the issuance of shares at a 1.5% discount under the Dividend Reinvestment Plan (DRP), higher Total Risk Weighted Assets (RWA) and the maturity of a further \$350 million of Colonial debt. The final tranche of the Colonial debt still subject to transitional relief is due to mature in the half year to June 2018 (\$315 million, a decrease of approximately seven basis points in CET1).

As detailed below Total RWA increased across the half year with higher Operational and IRRBB RWAs partly offset by a reduction in Credit RWA.

On 21 September 2017 the Group announced the sale of its Australian and New Zealand life insurance businesses to AIA Group Limited ("AIA"). The transaction, which is due to be completed in calendar year 2018, is expected to result in an uplift to CET1 (APRA) of approximately 70 basis points.

### Capital Initiatives

The following capital initiatives were undertaken during the half year ended 31 December 2017:

- The DRP in respect of the 2017 final dividend was satisfied by the allocation of \$1,573 million of ordinary shares, which included a 1.5% discount, representing a participation rate of 39.5%; and

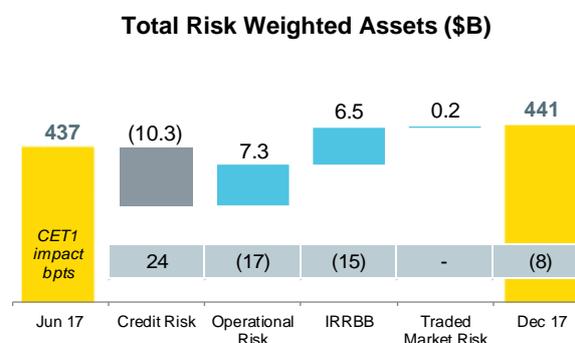
- In October 2017, the Group issued a EUR 1 billion subordinated note that is Basel III compliant Tier 2 capital.

In January 2018, the Group issued a USD 1.25 billion subordinated note that is Basel III compliant Tier 2 capital. This will add approximately 35 basis points in Tier 2 capital over and above the 31 December 2017 reported level.

### Risk Weighted Assets

#### Total Group Risk Weighted Assets

Total RWA increased 1% to \$441 billion, on the prior half, driven by higher Operational Risk and IRRBB RWAs, partly offset by lower Credit Risk RWA.



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# Group Operations and Business Settings

## Capital (continued)

### Credit Risk Weighted Assets

Credit RWA decreased \$10.3 billion or 3% decrease on the prior half due to:

- Reduction of exposure across non-retail portfolios;
- Improved credit quality across most portfolios;
- Foreign currency movements; and
- Refresh of credit risk estimates across some portfolios.

These decreases were partly offset by an increase in residential mortgages due to growth in exposures.

### Credit Risk Weighted Assets (\$B)



### Interest Rate Risk Weighted Assets

Interest Rate Risk in the Banking Book (IRRBB) RWA increased \$6.5 billion or 31% due to interest rate risk management activity and the higher level of rates, partly offset by model enhancements.

### Traded Market Risk Weighted Assets

Traded Market Risk RWA increased by \$0.2 billion or 4%. This was predominantly driven by the Stressed VaR component.

### Operational Risk Weighted Assets

Operational Risk RWA increased \$7.3 billion or 22% on the prior half to \$41.1 billion. This reflects the regular assessment of the Group's operational risk profile in the context of the evolving risk and regulatory environment.

The Group will continue to review and update its Operational Risk RWA to reflect material changes in its risk profile in accordance with the Group's 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 on the Group's website at:

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

## Other Regulatory Changes

### Basel Committee on Banking Supervision

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

These reforms include:

- Revisions of Internal Ratings Based (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 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.

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

In addition, the BCBS confirmed that the implementation date for revised market risk framework has been deferred to 1 January 2022 in order to align to the implementation date for the changes detailed above.

### Conglomerate Groups

APRA is extending its prudential supervision framework to Conglomerate Groups that have material operations in more than one APRA regulated industry and/or have one or more material unregulated entities. In March 2016, APRA advised that it was deferring finalisation of the capital requirements with respect to conglomerates until after the completion of other domestic and international policy initiatives. Non-capital related requirements, which include such items as governance, risk exposures and intra group exposures, were effective from 1 July 2017 and have no impact on the Group's capital.

# Group Operations and Business Settings

## Dividends

### Interim Dividend for the Half Year Ended 31 December 2017

An interim dividend of \$2.00 per share has been declared, an increase of 1 cent on the prior comparative period. The dividend payout ratio ("cash basis") for the half year to 31 December 2017 was 72.0%.

The interim dividend will be fully franked and will be paid on 28 March 2018 to owners of ordinary shares at the close of business on 15 February 2018 (record date). Shares will be quoted ex-dividend on 14 February 2018.

### Dividend Reinvestment Plan (DRP)

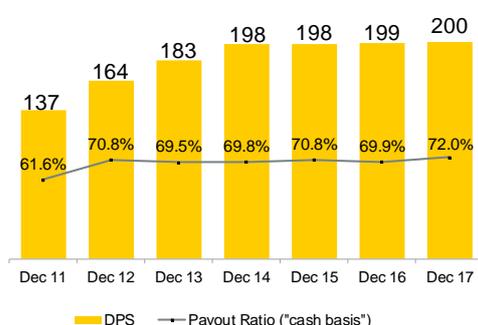
The DRP will continue to be offered to shareholders, but no discount will be applied to shares allocated under the plan for the interim dividend.

### Dividend Policy

The Group will seek to:

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

### Interim Dividend History (cents per share)



## Leverage Ratio

	As at				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Summary Group Leverage Ratio</b>					
Tier 1 Capital (\$M)	54,465	52,684	50,218	3	8
Total Exposures (\$M) <sup>(1)</sup>	1,012,503	1,027,958	1,018,931	(2)	(1)
<b>Leverage Ratio (APRA) (%)</b>	<b>5.4</b>	5.1	4.9	30 bpts	50 bpts
<b>Leverage Ratio (Internationally Comparable) (%) <sup>(2)</sup></b>	<b>6.1</b>	5.8	5.5	30 bpts	60 bpts

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

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

The Group's leverage ratio, defined as Tier 1 Capital as a percentage of total exposures, was 5.4% at 31 December 2017 on an APRA basis, and 6.1% on an internationally comparable basis.

The ratio increased across the December 2017 half year benefitting from an increase in capital levels and a reduction in exposures.

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.

# Group Operations and Business Settings

## Liquidity

	As at				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Level 2</b>					
<b>Liquidity Coverage Ratio (LCR) Liquid Assets</b>					
High Quality Liquid Assets (HQLA) <sup>(1)</sup>	90,239	93,402	96,244	(3)	(6)
Committed Liquidity Facility (CLF)	48,300	48,300	58,500	-	(17)
<b>Total LCR liquid assets</b>	<b>138,539</b>	141,702	154,744	(2)	(10)
<b>Net Cash Outflows (NCO)</b>					
Customer deposits	71,676	77,298	71,418	(7)	-
Wholesale funding <sup>(2)</sup>	17,510	17,579	24,705	-	(29)
Other net cash outflows <sup>(3)</sup>	16,257	15,271	18,693	6	(13)
<b>Total NCO</b>	<b>105,443</b>	110,148	114,816	(4)	(8)
<b>Liquidity Coverage Ratio (%)</b>	<b>131</b>	129	135	200 bpts	(400)bpts
<b>LCR surplus</b>	<b>33,096</b>	31,554	39,928	5	(17)

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

(2) Includes all interbank deposits that are included as short-term wholesale funding on page 138.

(3) Includes cash inflows.

### Liquidity Coverage Ratio (LCR)

The Group holds high quality, well diversified liquid assets to meet Balance Sheet liquidity needs and internal and external regulatory requirements, including APRA's Liquidity Coverage Ratio (LCR). The LCR requires Australian 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.

At 31 December 2017, the Group's LCR of 131% was well above the regulatory minimum, despite a \$10.2 billion decrease in the CLF on 1 January 2017. HQLAs decreased \$6 billion on the prior year, along with a decline in modelled NCOs of \$9 billion. The decrease in modelled NCOs over the year was driven by a reduction of wholesale funding maturities in the next 30 days of \$7 billion and a reduction in other NCOs of \$2 billion.

In the half to 31 December 2017, HQLAs decreased \$3 billion, along with a decline in modelled NCOs of \$5 billion. The decrease in modelled NCOs over the half was driven by customer deposit NCOs reducing \$6 billion due to a more LCR efficient deposit mix.

# Group Operations and Business Settings

## Funding

	As at				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Group Funding <sup>(1)</sup>	\$M	\$M	\$M		
Customer deposits	568,300	560,918	541,351	1	5
Short-term wholesale funding <sup>(2)</sup>	95,898	106,815	116,186	(10)	(17)
Long-term wholesale funding - less than or equal to one year residual maturity	29,182	25,330	29,780	15	(2)
Long-term wholesale funding - more than one year residual maturity <sup>(3)</sup>	131,555	131,950	126,062	-	4
IFRS MTM and derivative FX revaluations	646	1,150	1,489	(44)	(57)
<b>Total wholesale funding</b>	<b>257,281</b>	<b>265,245</b>	<b>273,517</b>	<b>(3)</b>	<b>(6)</b>
Short-term collateral deposits <sup>(4)</sup>	6,714	6,135	9,813	9	(32)
<b>Total funding</b>	<b>832,295</b>	<b>832,298</b>	<b>824,681</b>	<b>-</b>	<b>1</b>

(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 EMTN program and the domestic, Euro and US commercial paper programs of Commonwealth Bank of Australia and ASB. Short-term wholesale funding also includes deposits from banks and central banks as well as net repurchase agreements.

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

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

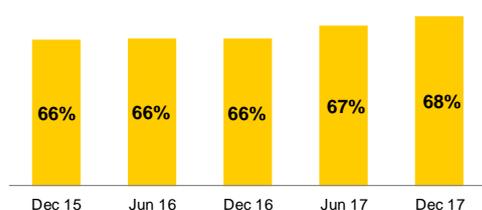
### Net Stable Funding Ratio (NSFR)

On 1 January 2018, APRA introduced a Net Stable Funding Ratio (NSFR) requirement designed to encourage long-term funding. The ratio represents the amount of stable funding the Group holds against core assets. APRA prescribed factors are used to determine the stable funding requirement of assets and the stability of funding. The Group's NSFR was 110% at 31 December 2017, an increase of 3% from 107% at 30 June 2017, and well above the regulatory minimum of 100%. The increase was achieved through increased long-term funding relative to short-term funding and extension of deposit terms.

### Customer Deposits

Customer deposits accounted for 68% of total funding at 31 December 2017, up from 67% at 30 June 2017 and 66% at 31 December 2016. Customer deposit growth has allowed the Group to fund the Balance Sheet with less reliance on wholesale funding.

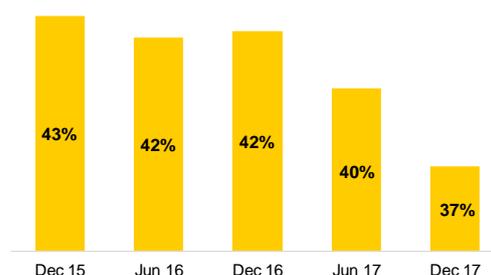
### Customers Deposits to Total Funding Ratio



### Short-Term Wholesale Funding

Short-term wholesale funding reduced to 37% of total wholesale funding at 31 December 2017 from 40% at 30 June 2017, as it was actively replaced by long-term wholesale funding to further support the NSFR.

### Short-Term to Total Wholesale Funding Ratio



# Group Operations and Business Settings

## Funding (continued)

### Long-Term Wholesale Funding

Long-term wholesale funding (including an adjustment for IFRS MTM and derivative FX revaluations) accounted for 63% of total wholesale funding at 31 December 2017 compared to 60% at 30 June 2017 and 58% at 31 December 2016, as the Group worked towards an optimal NFSR position ahead of its implementation. The NFSR encourages greater use of longer term, more stable funding.

During the half year to 31 December 2017, the Group raised \$16 billion of long-term wholesale funding in multiple currencies including AUD, USD, EUR, 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 Group also issued a Basel III compliant Tier 2 capital deal in the European market.

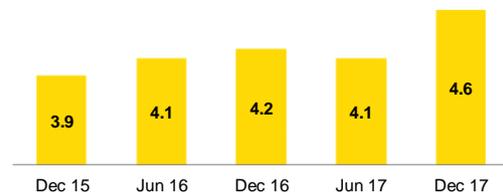
The Weighted Average Maturity (WAM) of new long-term wholesale debt was 8.9 years for the six months to 31 December 2017, and 6.4 years for the twelve months to 31 December 2017. The WAM of outstanding long-term wholesale debt with a residual maturity greater than 12 months at 31 December 2017 was 4.6 years.

The Group continues to lengthen the tenor of its wholesale funding to take advantage of favourable global credit conditions, in anticipation of a likely increase in global interest rates and as central banks begin to unwind quantitative easing which has supported debt markets.

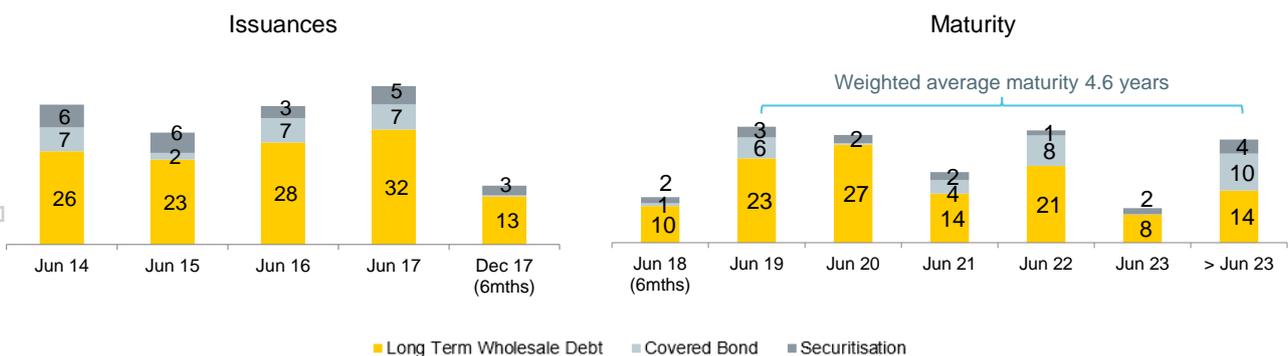
The Group's strategy to lengthen wholesale funding tenor has been executed to take advantage of favourable funding conditions, with the 10 year market funding costs at its lowest since the Global Financial Crisis. The dynamic has enabled opportunities to lengthen tenor at broadly flat wholesale funding costs.

The extension of long-term wholesale funding tenor reduces the annual funding requirement in any one year and the associated refinancing risk from potentially unfavourable credit conditions.

**Weighted Average Maturity of Long-Term Wholesale Debt**



**Long-Term Wholesale Funding Profile (\$B)**



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# Divisional performance

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# Retail Banking Services

## Overview

Retail Banking Services provides simple, convenient and affordable banking products and services to more than 10 million personal and small 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 close to 1,000 branches, more than 3,000 ATM's, Australian-based customer call centres, leading 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%. As a result the Group now controls and consolidates AHL. In order to provide an underlying view of the performance, the information below has been presented both including and excluding the impact of AHL consolidation.

## Serving our Customers

Customers are at the centre of everything we do. Through our investment in technology and real-time banking, we continued to deliver greater flexibility for our customers. More than 6 million customers now use digital channels with a quarter of new accounts opened online, and more than 50% of transactions by value completed digitally. We also have the number one free app in Australia, with more than 30 million logons per week. Our branches remain an important part of our offering and play a significant role in delivering exceptional service to our customers. Our branch design is constantly evolving to reflect changing customer preferences, demonstrated by the 76,000 customer insights we are now providing customers each week.

	Half Year Ended <sup>(1)</sup>					Incl. AHL <sup>(2)</sup>
	Excluding AHL <sup>(2) (3)</sup>				31 Dec 17	
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %		
	\$M	\$M	\$M			\$M
Net interest income	4,949	4,629	4,579	7	8	4,952
Other banking income	955	991	1,006	(4)	(5)	1,039
<b>Total banking income</b>	<b>5,904</b>	<b>5,620</b>	<b>5,585</b>	<b>5</b>	<b>6</b>	<b>5,991</b>
Operating expenses	(1,775)	(1,740)	(1,733)	2	2	(1,846)
Loan impairment expense	(356)	(350)	(352)	2	1	(356)
Net profit before tax	3,773	3,530	3,500	7	8	3,789
Corporate tax expense	(1,131)	(1,050)	(1,047)	8	8	(1,136)
<b>Cash net profit after tax excluding AHL</b>	<b>2,642</b>	<b>2,480</b>	<b>2,453</b>	<b>7</b>	<b>8</b>	<b>n/a</b>
AHL cash net profit after tax	11	-	-	n/a	n/a	n/a
<b>Cash net profit after tax</b>	<b>2,653</b>	<b>2,480</b>	<b>2,453</b>	<b>7</b>	<b>8</b>	<b>2,653</b>
<b>Income analysis</b>						
<b>Net interest income</b>						
Home loans	2,465	2,146	2,145	15	15	2,465
Consumer finance <sup>(4)</sup>	971	994	1,007	(2)	(4)	971
Retail deposits	1,487	1,463	1,396	2	7	1,487
Other <sup>(5)</sup>	26	26	31	-	(16)	29
<b>Total net interest income</b>	<b>4,949</b>	<b>4,629</b>	<b>4,579</b>	<b>7</b>	<b>8</b>	<b>4,952</b>
<b>Other banking income</b>						
Home loans	114	108	110	6	4	114
Consumer finance <sup>(4)</sup>	293	301	312	(3)	(6)	293
Retail deposits	270	299	287	(10)	(6)	270
Distribution <sup>(6)</sup>	203	219	232	(7)	(13)	287
Other <sup>(5)</sup>	75	64	65	17	15	75
<b>Total other banking income</b>	<b>955</b>	<b>991</b>	<b>1,006</b>	<b>(4)</b>	<b>(5)</b>	<b>1,039</b>
<b>Total banking income</b>	<b>5,904</b>	<b>5,620</b>	<b>5,585</b>	<b>5</b>	<b>6</b>	<b>5,991</b>

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

(2) On 25 August 2017, CBA acquired the remaining 20% share in AHL Holdings Pty Limited (AHL), bringing its shareholding to 100%. As a result the Group now controls and consolidates AHL.

(3) Excludes AHL, but includes equity accounted profits earned pre-consolidation of AHL.

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

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

(6) Distribution includes income associated with the sale of foreign exchange products, commissions received from the distribution of wealth management products through the retail network, and commissions received from the brokering of non-CBA mortgage products through subsidiaries (AHL and FinConnect).

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# Retail Banking Services

	As at <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Balance Sheet (including AHL)</b>					
Home loans <sup>(2)</sup>	341,071	334,530	325,206	2	5
Consumer finance <sup>(3)</sup>	17,212	17,118	17,348	1	(1)
Other interest earning assets	2,709	2,744	2,826	(1)	(4)
Total interest earning assets	360,992	354,392	345,380	2	5
Other assets	1,423	968	1,406	47	1
<b>Total assets</b>	<b>362,415</b>	<b>355,360</b>	<b>346,786</b>	<b>2</b>	<b>5</b>
Transaction deposits <sup>(4)</sup>	27,344	24,329	22,918	12	19
Savings deposits <sup>(4)</sup>	116,579	116,478	119,607	-	(3)
Investment deposits and other	79,122	77,132	76,365	3	4
Total interest bearing deposits	223,045	217,939	218,890	2	2
Non-interest bearing transaction deposits	32,171	30,529	27,131	5	19
Other non-interest bearing liabilities	2,920	3,840	2,668	(24)	9
<b>Total liabilities</b>	<b>258,136</b>	<b>252,308</b>	<b>248,689</b>	<b>2</b>	<b>4</b>

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Key Financial Metrics (excluding AHL)</b>					
<b>Performance indicators</b>					
Net interest margin (%)	3.01	2.91	2.90	10 bpts	11 bpts
Return on assets (%)	1.5	1.4	1.4	10 bpts	10 bpts
Operating expenses to total banking income (%)	30.1	31.0	31.0	(90)bpts	(90)bpts
Impairment expense annualised as a % of average GLAAs (%)	0.20	0.20	0.21	-	(1)bpt
<b>Other information</b>					
Average interest earning assets (\$M) <sup>(5)</sup>	326,256	320,885	313,281	2	4
Risk weighted assets (\$M)	140,715	134,937	120,778	4	17
90+ days home loan arrears (%) <sup>(6)</sup>	0.59	0.61	0.54	(2)bpts	5 bpts
90+ days consumer finance arrears (%) <sup>(6)</sup>	1.03	1.22	1.08	(19)bpts	(5)bpts
Number of full-time equivalent staff (FTE)	11,555	11,643	11,734	(1)	(2)

- (1) Comparative information has been restated to conform to presentation in the current period.  
(2) Gross of mortgage offset balances.  
(3) Consumer finance includes personal loans and credit cards.  
(4) Includes mortgage offset balances.  
(5) Net of average mortgage offset balances.  
(6) Includes mortgages and consumer finance products originated outside of Retail Banking Services.

# Retail Banking Services

## Financial Performance and Business Review

### December 2017 versus December 2016

Retail Banking Services cash net profit after tax for the half year ended 31 December 2017 was \$2,653 million, an increase of 8% on the prior comparative period. The result was driven by strong growth in total banking income, partly offset by higher operating expenses and loan impairment expense.

On 25 August 2017, the Group acquired the remaining 20% share in AHL Holdings Pty Limited, bringing its shareholding to 100%. As a result the Group now controls and consolidates AHL. In order to provide an underlying view of the performance, the commentary below has been presented excluding the impact of AHL consolidation.

Since 2006, Retail Banking Services have improved customer satisfaction by more than 25%, and has been number one in Roy Morgan Retail MFI customer satisfaction for 45 out of the past 54 months. During the half year, the Net Promoter Score (NPS) has been introduced as the new primary customer measure to further focus efforts and continue to improve customer service. The NPS at 31 December 2017 was +4.4<sup>(1)</sup>.

### Net Interest Income

Net interest income was \$4,949 million, an increase of 8% on the prior comparative period. This reflected a higher net interest margin, solid balance growth in home lending and strong growth in transaction deposits.

Net interest margin increased 11 basis points, reflecting:

- Higher home lending margin from repricing of interest-only and investor loans to manage regulatory limits, and lower cash basis risk, partly offset by unfavourable portfolio mix, with a shift to fixed home loans, and switching from interest only to principal and interest home loans; and
- Higher deposit margin resulting from repricing and favourable portfolio mix, partly offset by lower cash basis risk; partly offset by
- Impact of the major bank levy.

### Other Banking Income

Other banking income was \$955 million, a decrease of 5% on the prior comparative period, reflecting:

- Lower consumer finance income primarily driven by a reduction in interchange rates following regulatory changes, partly offset by lower loyalty costs from changes to the rewards program, and higher purchases as consumers continue to shift from using cash to cards; and
- Lower deposit fee income driven by a reduction in interchange rates following regulatory changes, and the removal of ATM withdrawal fees, partly offset by higher transaction volumes as consumers continue to shift from cash to cards.

(1) Net Promoter Score (NPS) is an industry standard metric that measures a customer's willingness to recommend a brand's products and services to their friends, family and colleagues.

### Operating Expenses

Operating expenses were \$1,775 million, an increase of 2% on the prior comparative period. The key drivers were higher staff costs, increased volume-related expenses, and ongoing investment in technology and digital capabilities, partly offset by the benefit of productivity savings.

FTE were 11,555, a decrease of 2% on the prior comparative period.

Investment spend continued to focus on delivering further enhancements in frontline capabilities, digital channels and digitisation of manual processes. This included development of a dynamic serviceability calculator for frontline lenders, real-time appointment booking and availability monitoring of mobile lenders, pre-population of elements of home loan application forms, and enhanced customer insights direct to our Financial Assistance team to offer bespoke solutions in times of hardship.

Retail Banking Services strengthened its industry-leading technology position with the release of further innovative digital experiences for customers, including a new AI-powered chatbot for personalised conversations, as well as real-time alerts in the Commbank app to give customers even more tools to help manage their spending and avoid fees and charges.

The operating expense to total banking income ratio was 30.1%, an improvement of 90 basis points on the prior comparative period.

### Loan Impairment Expense

Loan impairment expense was \$356 million, an increase of 1% on the prior comparative period. The result was mainly driven by increased home loan and personal loan collective provisions, which include the impact of slightly higher home loan arrears, predominately in Western Australia. This was partly offset by the improved performance of the unsecured portfolio.

Loan impairment expense as a percentage of average gross loans and acceptances decreased one basis point on the prior comparative period to 20 basis points.

Asset quality of the portfolio remained sound supported by an improvement in unsecured arrears.

### Balance Sheet

Balance sheet growth included:

- Home loan growth up 5% driven by strong growth in the proprietary channel leading to an increase in the proprietary flows mix from 57% to 64%;
- Total deposit growth of 4%, driven by strong growth in Transaction accounts; and
- Consumer finance balance decrease of 1%, broadly in line with system.

### Risk Weighted Assets

Risk weighted assets increased 17% driven by regulatory changes to the home loan risk weighting. The underlying increase excluding regulatory changes was 6% driven by volume growth in home loans and higher Operational Risk, partly offset by improved credit quality, predominantly in the unsecured portfolio.

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# Retail Banking Services

## Financial Performance and Business Review (continued)

### December 2017 versus June 2017

Cash net profit after tax increased 7% on the prior half. The result was driven by strong revenue growth, partly offset by higher operating expenses and loan impairment expense.

In order to provide an underlying view of the performance, the commentary below has been presented excluding the impact of AHL consolidation.

### Net Interest Income

Net interest income increased 7% on the prior half, reflecting higher net interest margin, balance growth in home lending and deposits, and three additional calendar days than the prior half.

Net interest margin increased 10 basis points, reflecting:

- Higher home lending margin with repricing of interest-only and investor loans to manage regulatory limits, and lower cash basis risk; partly offset by
- Unfavourable portfolio mix, with a shift to fixed home loans, and switching from interest only to principal and interest home loans;
- Lower deposit margin resulting from lower cash basis risk, partly offset by repricing; and
- Impact of the major bank levy.

### Other Banking Income

Other banking income decreased 4% on the prior half, reflecting:

- Lower consumer finance income driven by a reduction in interchange rates following regulatory changes, partly offset by lower loyalty costs, and seasonally higher credit card purchases; and
- Lower deposit fee income driven by a reduction in interchange rates following regulatory changes, and the removal of ATM withdrawal fees, partly offset by higher transaction volumes.

### Operating Expenses

Operating expenses increased 2% on the prior half, driven by higher staff costs, increased volume-related expenses, and continued investment in technology and digital capabilities, partly offset by benefits from productivity initiatives.

FTE decreased 1% on the prior half.

The operating expense to total banking income ratio improved 90 basis points on the prior half.

### Loan Impairment Expense

Loan impairment expense increased 2% on the prior half. This result was driven by higher home loan and personal loan management overlays, partly offset by improved performance across the entire portfolio.

Loan impairment expense as a percentage of average gross loans and acceptances was flat on the prior half.

Asset quality of the portfolio improved, partly driven by seasonally lower arrears in the unsecured portfolio.

### Balance Sheet

Balance sheet growth included:

- Home loan growth up 2% with continued growth in the proprietary channel driving an increase in the proprietary flows from 62% to 64%;
- Total deposit growth of 3% reflecting strong growth in Transaction accounts; and
- Consumer finance increase of 1%, broadly in line with system.

### Risk Weighted Assets

Risk weighted assets increased 4% driven by volume growth in home loans and higher Operational Risk, partly offset by improved credit quality in the unsecured portfolio.

# Business and Private Banking

## Overview

Business & 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.

## Serving our Customers

Our relationship teams have deep industry and market expertise and continue to deliver innovative solutions to our customers to help them run and grow their businesses. Our business analytics tool, Daily IQ, provides unique, data driven insights to help businesses optimise their cash flow and inform their distribution, operations and marketing strategies. Over the last 12 months, our Innovation Labs have supported over 1,500 customers to innovate in their own businesses. CBA continues to invest in market-leading payments capabilities, with over 88,000 Albert Point of Sale (POS) terminals now in the market, supported by over 50 applications. We're enabling new digital self-service functionality such as online business lending redraw capability, which now accounts for over 90% of redraw transactions. CommSec continues to enhance its digital platform, transforming high volume origination and maintenance processes; over 25,000 customers have already engaged with online change of address & settlement account, client ID retrieval, document upload for advisors and multi-party account origination.

	Half Year Ended <sup>(1) (2)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Net interest income	1,694	1,634	1,612	4	5
Other banking income	517	490	486	6	6
<b>Total banking income</b>	<b>2,211</b>	<b>2,124</b>	<b>2,098</b>	<b>4</b>	<b>5</b>
Operating expenses	(789)	(787)	(787)	-	-
Loan impairment expense	(49)	(7)	(55)	large	(11)
Net profit before tax	1,373	1,330	1,256	3	9
Corporate tax expense	(413)	(400)	(378)	3	9
<b>Cash net profit after tax</b>	<b>960</b>	<b>930</b>	<b>878</b>	<b>3</b>	<b>9</b>
<b>Income analysis</b>					
<b>Net interest income</b>					
Corporate Financial Services	609	607	610	-	-
Business Banking SME	502	477	469	5	7
Regional and Agribusiness	304	291	288	4	6
Private Bank	180	161	150	12	20
CommSec	99	98	95	1	4
<b>Total net interest income</b>	<b>1,694</b>	<b>1,634</b>	<b>1,612</b>	<b>4</b>	<b>5</b>
<b>Other banking income</b>					
Corporate Financial Services	205	197	196	4	5
Business Banking SME	93	88	88	6	6
Regional and Agribusiness	54	53	51	2	6
Private Bank	33	32	30	3	10
CommSec	132	120	121	10	9
<b>Total other banking income</b>	<b>517</b>	<b>490</b>	<b>486</b>	<b>6</b>	<b>6</b>
<b>Total banking income</b>	<b>2,211</b>	<b>2,124</b>	<b>2,098</b>	<b>4</b>	<b>5</b>
<b>Income by product</b>					
Business products	1,306	1,271	1,262	3	3
Retail products	644	598	564	8	14
Equities and Margin Lending	176	165	168	7	5
Markets	59	64	71	(8)	(17)
Other	26	26	33	-	(21)
<b>Total banking income</b>	<b>2,211</b>	<b>2,124</b>	<b>2,098</b>	<b>4</b>	<b>5</b>

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

(2) Includes Bankwest business banking customers now being managed by Business and Private Banking.

# Business and Private Banking

	As at <sup>(1) (2)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Balance Sheet</b>					
Home loans <sup>(3)</sup>	34,220	34,663	33,491	(1)	2
Consumer finance	1,013	1,033	1,015	(2)	-
Business loans <sup>(4)</sup>	77,009	77,039	75,909	-	1
Margin loans	2,694	2,840	2,850	(5)	(5)
Total interest earning assets	114,936	115,575	113,265	(1)	1
Non-lending interest earning assets	321	286	290	12	11
Other assets <sup>(5)</sup>	166	433	81	(62)	large
<b>Total assets</b>	<b>115,423</b>	<b>116,294</b>	<b>113,636</b>	<b>(1)</b>	<b>2</b>
Transaction deposits <sup>(4) (6)</sup>	15,955	14,921	13,649	7	17
Savings deposits <sup>(6)</sup>	34,532	33,909	33,057	2	4
Investment deposits and other	28,120	27,211	28,180	3	-
Total interest bearing deposits	78,607	76,041	74,886	3	5
Non-interest bearing transaction deposits	8,395	7,997	7,541	5	11
Other non-interest bearing liabilities	586	887	570	(34)	3
<b>Total liabilities</b>	<b>87,588</b>	<b>84,925</b>	<b>82,997</b>	<b>3</b>	<b>6</b>

	Half Year Ended <sup>(1) (2)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Key Financial Metrics</b>					
<b>Performance indicators</b>					
Net interest margin (%)	3.03	2.98	2.97	5 bpts	6 bpts
Return on assets (%)	1.6	1.6	1.5	-	10 bpts
Operating expenses to total banking income (%)	35.7	37.1	37.5	(140)bpts	(180)bpts
Impairment expense annualised as a % of average GLAAs (%)	0.08	0.01	0.10	7 bpts	(2)bpts
<b>Other information</b>					
Average interest earning assets (\$M) <sup>(7)</sup>	110,969	110,412	107,793	1	3
Risk weighted assets (\$M)	89,449	87,654	87,664	2	2
Troublesome and impaired assets (\$M)	2,410	2,586	2,813	(7)	(14)
Number of full-time equivalent staff (FTE)	3,557	3,615	3,512	(2)	1

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

(2) Includes Bankwest business banking customers now being managed by Business and Private Banking.

(3) Gross of mortgage offset balances.

(4) Business loans include \$287 million of Cash Management Pooling Facilities (CMPF) (30 June 2017: \$260 million; 31 December 2016: \$260 million). Transaction Deposits include \$913 million of CMPF liabilities (30 June 2017: \$874 million; 31 December 2016: \$815 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.

(5) Other assets include intangible assets.

(6) Includes mortgage offset balances.

(7) Net of average offset balances.

# Business and Private Banking

## Financial Performance and Business Review

### December 2017 versus December 2016

Business and Private Banking cash net profit after tax for the half year ended 31 December 2017 was \$960 million, an increase of 9% on the prior comparative period. The result was driven by growth in total banking income and lower loan impairment expense.

#### Net Interest Income

Net interest income was \$1,694 million, an increase of 5% on the prior comparative period. This was driven by strong deposit balances growth, subdued growth in lending balances and an increase in net interest margin.

Net interest margin increased six basis points reflecting:

- Higher home lending margin from repricing of interest only and investor loans to manage regulatory limits;
- Favourable change in portfolio mix with higher growth in deposits; partly offset by
- Lower business lending margins; and
- Impact of the major bank levy.

#### Other Banking Income

Other banking income was \$517 million, an increase of 6% on the prior comparative period, reflecting:

- Higher business lending fee income reflecting a mix shift to fee based products;
- Higher merchant income driven by higher margin and increase in turnover volumes; and
- Higher equities income driven by higher trading volumes; partly offset by
- Lower income from the sale of interest rate risk management products.

#### Operating Expenses

Operating expenses were \$789 million, flat on the prior comparative period. The key drivers were higher staff costs, and product development initiatives, offset by lower amortisation and the benefit of productivity savings.

FTE were 3,557 up 1% primarily due to an increase in frontline bankers and project resources supporting the Bankwest east coast business banking transition, partly offset by workforce optimisation.

Investment continues to focus on further enhancing frontline banker capabilities and increasing client facing time, by digitising manual processes.

The operating expense to total banking income ratio was 35.7%, an improvement of 180 basis points on the prior comparative period.

#### Loan Impairment Expense

Loan impairment expense was \$49 million, a decrease of 11% on the prior comparative period. The decrease was driven by lower individual provisions, partly offset by a higher level of collective provisions.

Loan impairment expense as a percentage of average gross loans and acceptances decreased by two basis points to eight basis points.

Asset quality of the portfolio improved slightly due to improved credit quality in both the Diversified and Commercial Property portfolios.

#### Balance Sheet

Balance sheet growth included:

- Deposit growth of 6%, driven by strong demand for transaction deposits;
- Home loan growth of 2%, driven by growth in owner occupied loans; and
- Business lending growth of 1% driven by growth in target industries partly offset by decline in residential property development.

#### Risk Weighted Assets

Risk weighted assets increased 2% on the prior comparative period driven by an increase in Operational Risk partly offset by lower Credit Risk. Lower Credit Risk was driven by improved credit quality and capital optimisation in the business lending book partly offset by higher home loan risk weightings driven by regulatory changes.

### December 2017 versus June 2017

Cash net profit after tax increased 3% on the prior half. The result was driven by growth in total banking income, partly offset by higher loan impairment expenses.

#### Net Interest Income

Net interest income increased 4% on the prior half, reflecting an increase in net interest margin, three additional calendar days than the prior half and solid growth in deposit volumes.

Net interest margin increased five basis points, reflecting:

- Higher home lending margin with repricing of interest only and investor loans to manage regulatory limits; partly offset by
- Impact of the major bank levy.

#### Other Banking Income

Other banking income increased 6% on the prior half reflecting:

- Higher merchant income driven by higher margin and increase in turnover volumes;
- Higher equities income driven by higher trading volumes; and
- Higher business lending fee income reflecting a mix shift to fee based products; partly offset by
- Lower income from the sale of interest rate risk management products.

#### Operating Expenses

Operating expenses were flat on the prior half, driven by higher staff costs and product development initiatives, offset by lower amortisation and the benefit of productivity savings.

FTE reduced by 2% driven by workforce optimisation, partly offset by frontline expansion and a higher number of project resources supporting the Bankwest east coast business banking transition.

The operating expense to total banking income ratio was 35.7%, an improvement of 140 basis points on the prior half.

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# Business and Private Banking

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## Financial Performance and Business Review (continued)

### Loan Impairment Expense

Loan impairment expense was \$49 million, an increase of \$42 million on the prior half reflecting higher collective provisions, partly offset by lower individual provisions.

Loan impairment expense as a percentage of average gross loans and acceptances increased by seven basis points to eight basis points.

Asset quality of the portfolio improved slightly due to improved credit quality in both the Diversified and Commercial Property portfolios

### Balance Sheet

Balance sheet growth included:

- Deposit growth of 4%, driven by demand for transaction and investment deposits;
- Business lending growth was flat, driven by growth in target industries offset by decline in residential property development; and
- Home loan growth decreased 1% on the prior half driven by decrease in investor loans.

### Risk Weighted Assets

Risk weighted assets increased 2% on the prior half driven by an increase in Operational Risk partly offset by lower Credit Risk. Lower Credit Risk was driven by improved credit quality and capital optimisation in the business lending book.

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# Institutional Banking and Markets

## Overview

Institutional Banking & Markets serves the commercial and wholesale banking needs of large Corporate, Institutional and Government clients across a full range of financial services solutions including financial and capital markets, transaction banking, working capital and risk management through dedicated product and industry specialists. We are responsible for the manufacture of banking products, including payments and markets infrastructure, distributed through Retail Banking Services and Business & Private Banking channels as well as across a select international network of locations.

## Serving our Customers

IB&M's focus is on enhancing our clients' success through providing market-leading solutions and unique insights. This approach has helped us achieve leading client satisfaction results, maintaining #1 client satisfaction rating for 85 consecutive months. We continue to develop and deploy innovative offerings in the areas of advanced analytics, social robotics, blockchain and payments. Our innovation focus supports our leading transaction banking offering, where we achieved 37 new mandates this year, offer 52 apps on our Pi platform with over 88,000 Albert devices in the market, and have launched numerous partnerships including an agreement to collaborate with Austrade to support the flow of innovation between Australia and Hong Kong/Greater China. We are continuing to show leadership in supporting Australia's renewable energy transition, ranking #1 for Australian Renewable Financing in 2017 (IJ Global) and funding Australia's largest-scale solar energy project which will provide enough energy to power 150,000 households. Internationally, we acted as joint lead manager and joint book runner to China Development Bank's inaugural US\$500 million green bond to support the implementation of green development initiatives and strategies.

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Net interest income	737	754	769	(2)	(4)
Other banking income	679	629	719	8	(6)
<b>Total banking income</b>	<b>1,416</b>	<b>1,383</b>	<b>1,488</b>	<b>2</b>	<b>(5)</b>
Operating expenses	(542)	(532)	(551)	2	(2)
Loan impairment expense	(105)	(20)	(44)	large	large
Net profit before tax	769	831	893	(7)	(14)
Corporate tax expense	(178)	(201)	(212)	(11)	(16)
<b>Cash net profit after tax</b>	<b>591</b>	<b>630</b>	<b>681</b>	<b>(6)</b>	<b>(13)</b>
<b>Income analysis</b>					
<b>Net interest income</b>					
Institutional Banking	680	695	699	(2)	(3)
Markets	57	59	70	(3)	(19)
<b>Total net interest income</b>	<b>737</b>	<b>754</b>	<b>769</b>	<b>(2)</b>	<b>(4)</b>
<b>Other banking income</b>					
Institutional Banking	395	353	396	12	-
Markets	284	276	323	3	(12)
<b>Total other banking income</b>	<b>679</b>	<b>629</b>	<b>719</b>	<b>8</b>	<b>(6)</b>
<b>Total banking income</b>	<b>1,416</b>	<b>1,383</b>	<b>1,488</b>	<b>2</b>	<b>(5)</b>
<b>Income by product</b>					
Institutional products	921	917	929	-	(1)
Asset leasing	139	124	156	12	(11)
Markets (excluding derivative valuation adjustments)	342	304	419	13	(18)
Other	15	7	10	large	50
<b>Total banking income excluding derivative valuation adjustments</b>	<b>1,417</b>	<b>1,352</b>	<b>1,514</b>	<b>5</b>	<b>(6)</b>
Derivative valuation adjustments	(1)	31	(26)	large	(96)
<b>Total banking income</b>	<b>1,416</b>	<b>1,383</b>	<b>1,488</b>	<b>2</b>	<b>(5)</b>

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

# Institutional Banking and Markets

	As at <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
	\$M	\$M	\$M		
<b>Balance Sheet</b>					
Interest earning lending assets <sup>(2)</sup>	109,373	111,686	109,432	(2)	-
Non-lending interest earning assets	30,742	31,349	29,152	(2)	5
Other assets <sup>(3)</sup>	25,158	30,076	38,718	(16)	(35)
<b>Total assets</b>	<b>165,273</b>	<b>173,111</b>	<b>177,302</b>	<b>(5)</b>	<b>(7)</b>
Transaction deposits <sup>(2)</sup>	45,849	42,468	39,959	8	15
Savings deposits	6,278	7,381	4,126	(15)	52
Investment deposits	45,816	49,689	45,344	(8)	1
Certificates of deposit and other	13,002	15,077	14,283	(14)	(9)
Total interest bearing deposits	110,945	114,615	103,712	(3)	7
Due to other financial institutions	14,880	16,669	15,477	(11)	(4)
Debt issues and other <sup>(4)</sup>	7,900	9,358	8,458	(16)	(7)
Non-interest bearing liabilities <sup>(3)</sup>	17,935	21,470	27,164	(16)	(34)
<b>Total liabilities</b>	<b>151,660</b>	<b>162,112</b>	<b>154,811</b>	<b>(6)</b>	<b>(2)</b>

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Key Financial Metrics</b>					
<b>Performance indicators</b>					
Net interest margin (%)	1.03	1.10	1.10	(7)bpts	(7)bpts
Return on assets (%)	0.7	0.7	0.8	-	(10)bpts
Operating expenses to total banking income (%)	38.3	38.5	37.0	(20)bpts	130 bpts
Impairment expense annualised as a % of average GLAAs (%)	0.19	0.04	0.08	15 bpts	11 bpts
<b>Other information</b>					
Average interest earning assets (\$M)	142,416	138,789	138,439	3	3
Risk weighted assets (\$M)	97,732	102,242	116,075	(4)	(16)
Troublesome and impaired assets (\$M)	1,173	1,361	1,717	(14)	(32)
Corporate total committed exposures rated investment grade (%)	86.0	86.4	85.6	(40)bpts	40 bpts
Number of full-time equivalent staff (FTE) <sup>(5)</sup>	1,510	1,467	1,451	3	4

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

(2) Interest earning lending assets include \$22,849 million of Cash Management Pooling Facilities (CMPF) (30 June 2017: \$21,302 million; 31 December 2016: \$20,024 million). Transaction Deposits include \$28,778 million of CMPF liabilities (30 June 2017: \$26,860 million; 31 December 2016: \$24,638 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.

(5) FTE includes employees responsible for the manufacture of business and institutional banking products and payments infrastructure. The costs for these FTE are split between the IB&M, BPB and RBS segments.

## Financial Performance and Business Review

### December 2017 versus December 2016

Institutional Banking and Markets cash net profit after tax for the half year ended 31 December 2017 was \$591 million, a decrease of 13% on the prior comparative period. The result was driven by lower trading revenue in Markets and higher loan impairment expense, partly offset by lower operating expenses.

#### Net Interest Income

Net interest income was \$737 million, a decrease of 4% on the prior comparative period. The result was driven by lower margins, partly offset by growth in average deposit balances.

Net interest margin decreased seven basis points, reflecting:

- The impact of the major bank levy; and
- Lower earnings on free equity from reduction in risk weighted assets; partly offset by
- Favourable portfolio mix from higher transaction deposit balances; and
- Higher lending margins from active portfolio management.

#### Other Banking Income

Other banking income was \$679 million, a decrease of 6% on the prior comparative period, reflecting:

- Weaker Markets trading performance driven by reduced volatility; partly offset by
- Timing of realised gains and losses on sale of assets in the Structured Asset Finance portfolio; and
- Unfavourable derivative valuation adjustments of \$1 million, compared to a \$26 million unfavourable adjustment in the prior comparative period.

#### Operating Expenses

Operating expenses were \$542 million, a decrease of 2% on the prior comparative period. The decrease was driven by the ongoing realisation of productivity benefits, partly offset by higher project, risk and compliance costs.

The operating expense to total banking income ratio was 38.3%, an increase of 130 basis points on the prior comparative period.

FTE were 1,510, an increase of 4% primarily due to growth in project related FTE and increased risk and compliance resourcing.

Investment continues to focus on improving the customer experience through the New Payments Platform as well as responding to new regulatory requirements and further strengthening of the Group's financial crimes compliance framework.

#### Loan Impairment Expense

Loan impairment expense was \$105 million, an increase of \$61 million on the prior comparative period. The increase was driven by higher individual and collective provisions, partly offset by a higher level of write-backs.

Loan impairment expense as a percentage of average gross loans and acceptances increased 11 basis points to 19 basis points, an increase off a very low base.

Asset quality of the portfolio has remained stable with the percentage of the book rated as investment grade increasing slightly by 40 basis points to 86.0%.

#### Balance Sheet

Balance sheet movement included:

- Lending balances were flat with underlying volumes reducing as a result of active portfolio management, offset by growth in Cash Management Pooling Facilities; and
- Strong balance growth in transaction deposits of 15% driven by a combination of new to bank mandates and continued strengthening of existing mandates.

#### Risk Weighted Assets

Risk weighted assets decreased 16% driven by a range of initiatives including management of troublesome and impaired loans and active portfolio management.

### December 2017 versus June 2017

Cash net profit after tax decreased 6% on the prior half. The result was driven by higher loan impairment expense and the impact of the major bank levy, partly offset by improved Markets sales performance and timing of realised gains in asset leasing revenue.

#### Net Interest Income

Net interest income decreased 2% on the prior half, driven by lower margins, partly offset by average deposit balance growth.

Net interest margin decreased seven basis points, reflecting:

- The impact of the major bank levy; and
- Lower earnings on free equity from reduction in risk weighted assets; partly offset by
- Favourable portfolio mix from higher transaction deposit balances; and
- Higher lending margins from active portfolio management.

#### Other Banking Income

Other banking income increased 8% on the prior half, due to:

- Improved Markets sales performance; and
- Timing of realised gains and losses on sale of assets in the Structured Asset Finance portfolio; partly offset by
- Unfavourable derivative valuation adjustments of \$1 million, compared to a \$31 million favourable adjustment in the prior half.

#### Operating Expenses

Operating expenses increased 2% on the prior half, driven by higher project, risk and compliance costs.

The operating expense to total banking income ratio improved 20 basis points on the prior half.

FTE increase of 3% primarily due to increased project related FTE and increased risk and compliance resourcing.

Investment continues to focus on improving the customer experience through the New Payments Platform as well as responding to new regulatory requirements.

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# Institutional Banking and Markets

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## Financial Performance and Business Review (continued)

### Loan Impairment Expense

Loan impairment expense increased \$85 million on the prior half reflecting higher individual and collective provisions, partly offset by higher write-backs.

Loan impairment expense as a percentage of average gross loans and acceptances increased 15 basis points to 19 basis points, an increase off a very low base.

Asset quality of the portfolio has remained stable with the percentage of the book rated as investment grade decreasing slightly by 40 basis points to 86.0%.

### Balance Sheet

Balance sheet movement included:

- Lending balances reduced 2% with underlying volumes reducing as a result of active portfolio management, partly offset by growth in Cash Management Pooling Facilities; and
- Deposit balances declined 3% with seasonal reduction in lower margin investment deposits of 8%, partly offset by growth in higher margin transaction deposits of 8%.

### Risk Weighted Assets

Risk weighted assets decreased 4% on the prior half driven by a range of initiatives including management of troublesome and impaired loans and active portfolio management.

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# Wealth Management

## Overview

Wealth Management provides Superannuation, Investment, Retirement and Insurance products and services including financial planning which help to secure and enhance the financial wellbeing of more than 2.3 million 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 100% of its life insurance business including CommInsure Life <sup>(1)</sup> to AIA. The Wealth Management results have been prepared on a continuing operations basis excluding the Life business (discontinued operations). The financial results of the Life business (discontinued operations) are excluded from the account lines of Wealth Management's performance and reported as a single cash net profit after tax line item.

## Serving our Customers

Wealth Management is focused on developing innovative solutions that improve the way we serve our customers. For example, our SuperMatch tool makes it easy for our customers to find and consolidate their superannuation, with 225,000 customers having used this tool in the past year. We know our customers' service preferences are changing. More than 70,000 Essential Super customers open their accounts digitally a year, taking advantage of a process which on average takes less than 5 minutes. Wealth Management is there for customers when they need us most, and every year we assist 130,000 customers when they make a claim on their insurance. Insurance claims are often made in times of high stress, so we have made it quicker and simpler for our customers to claim on Home & Contents or Motor insurance by automating key steps in lodging a claim.

	Half Year Ended <sup>(2)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Funds management income	987	921	899	7	10
Insurance income	82	13	108	large	(24)
Total operating income	1,069	934	1,007	14	6
Operating expenses	(707)	(676)	(727)	5	(3)
Net profit before tax	362	258	280	40	29
Corporate tax expense	(90)	(61)	(73)	48	23
Underlying profit after tax	272	197	207	38	31
Investment experience after tax	9	14	4	(36)	large
<b>Cash net profit after tax from continuing operations</b>	<b>281</b>	<b>211</b>	<b>211</b>	<b>33</b>	<b>33</b>
Cash net profit after tax from discontinued operations <sup>(1)</sup>	94	93	37	1	large
<b>Cash net profit after tax</b>	<b>375</b>	<b>304</b>	<b>248</b>	<b>23</b>	<b>51</b>
<b>Represented by:</b>					
CFS Global Asset Management	149	103	124	45	20
Colonial First State <sup>(3)</sup>	144	98	90	47	60
CommInsure <sup>(4)</sup>	46	(1)	63	large	(27)
Life Insurance Business (discontinued operations) <sup>(1)</sup>	94	93	37	1	large
Other	(58)	11	(66)	large	(12)
<b>Cash net profit after tax</b>	<b>375</b>	<b>304</b>	<b>248</b>	<b>23</b>	<b>51</b>

(1) CommInsure's life business (the "Life business") represents life insurance and life related investments business which are discontinued operations.

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

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

(4) CommInsure represents the General Insurance business.

# Wealth Management

Key Financial Metrics (continuing operations)	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Performance indicators</b>					
Operating expenses to total operating income (%)	66.1	72.4	72.2	large	large
<b>Other information</b>					
AUM - average (\$M) <sup>(2)</sup>	219,558	209,469	201,967	5	9
AUM - spot (\$M) <sup>(2)</sup>	218,191	219,427	203,223	(1)	7
FUA - average (\$M) <sup>(3)</sup>	139,104	132,239	126,036	5	10
FUA - spot (\$M) <sup>(3)</sup>	143,668	135,447	128,953	6	11
CommInsure Inforce Premiums - average (\$M) <sup>(4)</sup>	795	777	748	2	6
CommInsure Inforce Premiums - spot (\$M) <sup>(4)</sup>	801	783	768	2	4
Number of full-time equivalent staff (FTE) <sup>(5)</sup>	3,534	3,914	3,969	(10)	(11)

	Half Year Ended <sup>(1)</sup>											
	CFS			Colonial			CommInsure <sup>(4)</sup>			Other		
	Global Asset Management			First State <sup>(6)</sup>								
	Dec 17	Jun 17	Dec 16	Dec 17	Jun 17	Dec 16	Dec 17	Jun 17	Dec 16	Dec 17	Jun 17	Dec 16
\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	
Funds management income	472	429	450	515	484	449	-	-	-	-	8	-
Insurance income	-	-	-	-	-	-	82	13	108	-	-	-
Total operating income	472	429	450	515	484	449	82	13	108	-	8	-
Operating expenses	(289)	(280)	(284)	(313)	(348)	(327)	(21)	(20)	(22)	(84)	(28)	(94)
Net profit before tax	183	149	166	202	136	122	61	(7)	86	(84)	(20)	(94)
Corporate tax (expense)/benefit	(36)	(44)	(37)	(60)	(41)	(37)	(18)	3	(26)	24	21	27
Underlying profit after tax	147	105	129	142	95	85	43	(4)	60	(60)	1	(67)
Investment experience after tax	2	(2)	(5)	2	3	5	3	3	3	2	10	1
<b>Cash net profit/(loss) after tax from continuing operations</b>	<b>149</b>	<b>103</b>	<b>124</b>	<b>144</b>	<b>98</b>	<b>90</b>	<b>46</b>	<b>(1)</b>	<b>63</b>	<b>(58)</b>	<b>11</b>	<b>(66)</b>

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

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

(3) FUA excludes the Life business (discontinued operations).

(4) Represents the CommInsure General Insurance business and the Inforce Premiums are annualised equivalents.

(5) FTEs exclude the Life business (discontinued operations).

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

## Financial Performance and Business Review

### December 2017 versus December 2016

Wealth Management cash net profit after tax for the half year ended 31 December 2017 was \$375 million, a 51% increase on the prior comparative period. Excluding the contribution from the Commlnsure Life Business (discontinued operations), cash net profit after tax was \$281 million, a 33% increase on the prior comparative period. The result was driven by strong growth in funds management income and lower operating expenses partly offset by lower insurance income. On 21 September 2017 CBA announced the sale of the Commlnsure's Life Business to AIA. In order to provide an underlying view of the performance, the commentary below has been presented excluding the impact of the discontinued Life business.

### Funds Management Income

Funds management income was \$987 million, an increase of 10% on the prior comparative period.

Average Assets Under Management (AUM) increased 9% to \$220 billion reflecting higher investment markets partly offset by higher net outflows in the emerging market equities and fixed income businesses. AUM margins declined reflecting investment mix shift to lower margin products.

Average Funds Under Administration (FUA) increased 10% to \$139 billion. The FirstChoice and CFSWrap platforms experienced continued growth in average FUA of 9% and 19% respectively, reflecting positive net flows and solid investment markets. Underlying FUA margins decreased reflecting lower CFS platform margins due to a change in business mix. In addition, there was a benefit in the period from a reduction in Advice customer remediation provisions.

### Insurance Income

General insurance income was \$82 million, a decrease of 24% on the prior comparative period due to higher weather event claims, partly offset by growth in premiums driven by pricing initiatives.

### Operating Expenses

Operating expenses were \$707 million, a decrease of 3% on the prior comparative period. This was driven by ongoing realisation of productivity benefits partly offset by continued investment in business capabilities.

FTEs were 3,534, a decrease of 11% on the prior comparative period. This reflected a continued focus on workforce optimisation particularly in the financial planning business and the wind-down of the Advice Review program.

The operating expenses to total operating income ratio was 66.1%, an improvement of 610 basis points on the prior comparative period.

Investment spend reflected a continued focus on expanding our digital capabilities, upgrades to platforms and ongoing regulatory reform initiatives.

### Commlnsure Life Business (Discontinued Operations)

The Life Business cash net profit after tax for the half year ended 31 December 2017 was \$94 million, an increase of

\$57 million on the prior comparative period. This was driven by the non-recurrence of \$90 million pre-tax loss recognition on income protection products in the prior comparative period and lower operating expenses. In addition, the result was impacted by higher investment experience reflecting improved returns on shareholder investments, partly offset by 10% reduction in inforce premiums reflecting the loss of some group schemes.

### December 2017 versus June 2017

Cash net profit after tax increased 23% on the prior half. Excluding the contribution from the Life Business (discontinued operations), cash net profit after tax increased 33% on the prior half. The result was driven by strong growth in insurance income due to lower weather event claims, and strong growth in funds management income, partly offset by higher operating expenses. In order to provide an underlying view of the performance, the commentary below has been presented excluding the impact of the discontinued Life business.

### Funds Management Income

Funds management income increased 7% on the prior half. Average AUM increased 5%, reflecting strong investment markets partly offset by higher net outflows. Underlying AUM margins remain stable. In addition, there was a benefit in the period from increased performance fees.

Average FUA increased 5% driven by positive net flows and positive investment markets. FUA margins declined due to lower CFS platform margins as a result of a change in business mix.

### Insurance Income

General insurance income increased \$69 million as a result of lower weather event claims in the half and growth in premiums driven by pricing initiatives.

### Operating Expenses

Operating expenses increased 5% reflecting the non-recurrence of one-off provision releases in the prior half, partly offset by the ongoing realisation of productivity benefits.

FTEs decreased 10% on the prior half reflecting continued focus on workforce optimisation initiatives across all businesses, and the wind-down of the Advice Review program.

The operating expenses to total operating income ratio improved 630 basis points on the prior half.

Investment spend increased on the prior half driven by regulatory reform initiatives and continued investment in platform digital solutions.

### Commlnsure Life Business (Discontinued Operations)

The Life Business cash net profit after tax increased 1% on the prior half, driven by the non-recurrence of \$53 million pre-tax loss recognition on income protection products partly offset by higher claims. In addition, the result was impacted by lower operating expenses and higher investment experience driven by the non-recurrence of economic assumption changes.

# Wealth Management

## Half Year Ended

Assets Under Management (AUM) <sup>(1)</sup>	Half Year Ended								
	30 Jun 17 \$M	Inflows \$M	Outflows \$M	Net Flows \$M	Other <sup>(2)</sup> \$M	31 Dec 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Australian equities	30,032	3,236	(1,995)	1,241	2,486	33,759	29,249	12	15
Global equities	94,588	12,971	(18,410)	(5,439)	9,122	98,271	90,074	4	9
Fixed income <sup>(3)</sup>	86,541	22,649	(32,206)	(9,557)	538	77,522	76,479	(10)	1
Infrastructure	8,266	168	(128)	40	333	8,639	7,421	5	16
<b>Total</b>	<b>219,427</b>	<b>39,024</b>	<b>(52,739)</b>	<b>(13,715)</b>	<b>12,479</b>	<b>218,191</b>	<b>203,223</b>	<b>(1)</b>	<b>7</b>

## Half Year Ended<sup>(4)</sup>

Funds Under Administration (FUA)	Half Year Ended <sup>(4)</sup>								
	30 Jun 17 \$M	Inflows \$M	Outflows \$M	Net Flows \$M	Other <sup>(2)</sup> \$M	31 Dec 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
FirstChoice	82,382	7,761	(7,005)	756	4,454	87,592	79,104	6	11
CFSWrap <sup>(5)</sup>	27,747	3,736	(3,116)	620	1,092	29,459	25,197	6	17
CFS Non-Platform	15,751	3,793	(3,945)	(152)	914	16,513	15,171	5	9
Other	9,567	590	(551)	39	498	10,104	9,481	6	7
<b>Total</b>	<b>135,447</b>	<b>15,880</b>	<b>(14,617)</b>	<b>1,263</b>	<b>6,958</b>	<b>143,668</b>	<b>128,953</b>	<b>6</b>	<b>11</b>

## Half Year Ended

Inforce Premiums	Half Year Ended								
	30 Jun 17 \$M	Sales \$M	Lapses \$M	Net Flows \$M	Other \$M	31 Dec 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
General Insurance	783	72	(54)	18	-	801	768	2	4

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

# Wealth Management

## Life Business Discontinued Operations

	Half Year Ended				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Funds management income	46	60	61	(23)	(25)
Insurance income	181	205	112	(12)	62
Total operating income	227	265	173	(14)	31
Operating expenses	(131)	(149)	(146)	(12)	(10)
Net profit before tax	96	116	27	(17)	large
Corporate tax expense	(29)	(35)	(8)	(17)	large
Underlying profit after tax	67	81	19	(17)	large
Investment experience after tax	27	16	18	69	50
Non-controlling interests	-	(4)	-	large	n/a
<b>Cash net profit after tax</b>	<b>94</b>	<b>93</b>	<b>37</b>	<b>1</b>	<b>large</b>

Key Financial Metrics	Half Year Ended				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Other information</b>					
FUA - average (\$M)	11,211	11,599	12,110	(3)	(7)
Inforce premiums - average (\$M)	1,568	1,655	1,757	(5)	(11)
Number of full-time equivalent staff (FTE)	848	926	939	(8)	(10)

Funds Under Administration (FUA)	Half Year Ended								
	30 Jun 17 \$M	Inflows \$M	Outflows \$M	Net Flows \$M	Other \$M	31 Dec 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Life Investments	11,331	235	(808)	(573)	374	11,132	11,867	(2)	(6)

Inforce Premiums	Half Year Ended								
	30 Jun 17 \$M	Sales \$M	Lapses \$M	Net Flows \$M	Other \$M	31 Dec 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Life Insurance	1,569	116	(114)	2	-	1,571	1,752	-	(10)

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# 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 three strategic business units: Retail Banking; Business Banking; and Private Banking, Wealth and Insurance (PBW&I). Retail Banking provides services to private individuals across multiple channels including our branch network, digital platforms, ATM's, mobile managers and contact centres. Business Banking provides services to corporate, commercial, rural and small business customers. Private Banking, Wealth and Insurance provides securities, investment and insurance services to customers, and banking services to high net worth individuals.

On 21 September 2017 CBA announced the sale of 100% of its life insurance business including Sovereign life insurance, superannuation and investments businesses to 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.

## Serving our Customers

We are committed to being the first choice in key markets, and continue to focus on delivering unbeatable experiences to our customers, whether they choose to interact with us through face-to-face or digital channels. Almost 80% of our personal customers choose to interact with us using digital channels, with ongoing investment in technology and innovation enabling us to deliver more convenient, flexible and simple solutions for our customers. Over 50% of all sales transactions and almost 75% of home loan fixed rate rollovers are now completed digitally, saving our customers' time and enhancing convenience. Our Branch network still remains central to the Retail strategy, with over 500,000 customers visiting our branches each quarter.

Our Business Banking team leads the market for overall customer satisfaction and has achieved strong customer and balance sheet growth. Connecting people, capital and ideas has been central to successfully retaining and attracting quality New Zealand business customers. Our Private Banking, Wealth and Insurance team continues to achieve strong growth with an ongoing focus on distribution, digitisation and customer experience.

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 A\$M	30 Jun 17 A\$M	31 Dec 16 A\$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>New Zealand</b>					
Net interest income	849	816	826	4	3
Other banking income <sup>(2)</sup>	186	172	159	8	17
Total banking income	1,035	988	985	5	5
Funds management income	50	47	45	6	11
Total operating income	1,085	1,035	1,030	5	5
Operating expenses	(391)	(399)	(396)	(2)	(1)
Loan impairment expense	(23)	(18)	(47)	28	(51)
Net profit before tax	671	618	587	9	14
Corporate tax expense	(188)	(172)	(164)	9	15
<b>Cash net profit after tax from continuing operations</b>	<b>483</b>	446	423	8	14
Cash net profit after tax from discontinued operations	49	54	42	(9)	17
<b>Cash net profit after tax</b>	<b>532</b>	500	465	6	14

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

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

# New Zealand

New Zealand	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 NZ\$M	30 Jun 17 NZ\$M	31 Dec 16 NZ\$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Net interest income	931	869	869	7	7
Other banking income	212	202	199	5	7
Total banking income	1,143	1,071	1,068	7	7
Funds management income	55	50	47	10	17
Total operating income	1,198	1,121	1,115	7	7
Operating expenses	(427)	(423)	(413)	1	3
Loan impairment expense	(26)	(20)	(49)	30	(47)
Net profit before tax	745	678	653	10	14
Corporate tax expense	(209)	(189)	(183)	11	14
<b>Cash net profit after tax from continuing operations</b>	<b>536</b>	<b>489</b>	<b>470</b>	<b>10</b>	<b>14</b>
Cash net profit after tax from discontinued operations	53	58	44	(9)	20
<b>Cash net profit after tax</b>	<b>589</b>	<b>547</b>	<b>514</b>	<b>8</b>	<b>15</b>
<b>Represented by:</b>					
ASB	575	523	502	10	15
Other <sup>(2)</sup>	(39)	(34)	(32)	15	22
Sovereign (discontinued operations)	53	58	44	(9)	20
<b>Cash net profit after tax</b>	<b>589</b>	<b>547</b>	<b>514</b>	<b>8</b>	<b>15</b>

Key Financial Metrics (continuing operations) <sup>(3)</sup>	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Performance indicator</b>					
Operating expenses to total operating income (%)	35.6	37.7	37.0	(210)bpts	(140)bpts

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

### December 2017 versus December 2016

New Zealand <sup>(1)</sup> cash net profit after tax <sup>(2)</sup> for the half year ended 31 December 2017 was NZD589 million, an increase of 15% on the prior comparative period, driven by strong volume growth, improved lending margins, lower loan impairment expense and 20% increase in Sovereign's profit.

- (1) The New Zealand result incorporates ASB Bank and Sovereign Insurance businesses. The CBA Branch results relating to the Institutional Banking and Markets business in New Zealand are not included.  
(2) Includes allocated capital charges and other CBA costs.

### December 2017 versus June 2017

New Zealand cash net profit after tax increased 8% on the prior half. This reflected strong volume growth and improved lending margins, partly offset by higher loan impairment expense, higher operating expenses and 9% decrease in Sovereign's profit.

# New Zealand

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 NZ\$M	30 Jun 17 NZ\$M	31 Dec 16 NZ\$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>ASB</b>					
Net interest income	984	915	910	8	8
Other banking income	212	202	202	5	5
Total banking income	1,196	1,117	1,112	7	8
Funds management income	55	50	47	10	17
Total operating income	1,251	1,167	1,159	7	8
Operating expenses	(427)	(422)	(414)	1	3
Loan impairment expense	(26)	(20)	(49)	30	(47)
Net profit before tax	798	725	696	10	15
Corporate tax expense	(223)	(202)	(194)	10	15
<b>Cash net profit after tax</b>	<b>575</b>	<b>523</b>	<b>502</b>	<b>10</b>	<b>15</b>

	As at				
	31 Dec 17 NZ\$M	30 Jun 17 NZ\$M	31 Dec 16 NZ\$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Balance Sheet</b>					
Home loans	52,580	51,128	50,248	3	5
Business and rural lending	25,816	25,133	23,991	3	8
Other interest earning assets	2,214	2,087	2,084	6	6
Total lending interest earning assets	80,610	78,348	76,323	3	6
Non-lending interest earning assets	8,943	8,662	8,644	3	3
Other assets	1,772	1,572	1,974	13	(10)
<b>Total assets</b>	<b>91,325</b>	<b>88,582</b>	<b>86,941</b>	<b>3</b>	<b>5</b>
Customer deposits	54,516	52,795	51,018	3	7
Debt issues	17,771	18,073	18,380	(2)	(3)
Other interest bearing liabilities <sup>(2)</sup>	3,418	2,716	2,614	26	31
Total interest bearing liabilities	75,705	73,584	72,012	3	5
Non-interest bearing liabilities	6,339	6,248	6,378	1	(1)
<b>Total liabilities</b>	<b>82,044</b>	<b>79,832</b>	<b>78,390</b>	<b>3</b>	<b>5</b>

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

(2) Other interest bearing liabilities includes NZD51 million due to Group companies (30 June 2017: NZD33 million; 31 December 2016: NZD14 million).

# New Zealand

ASB Key Financial Metrics <sup>(2)</sup>	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Performance indicators</b>					
Net interest margin (%)	2.20	2.15	2.19	5 bpts	1 bpt
Return on assets (%)	1.3	1.2	1.2	10 bpts	10 bpts
Operating expenses to total operating income (%)	34.1	36.2	35.7	(210)bpts	(160)bpts
Impairment expense annualised as a % of average GLAAs (%)	0.06	0.05	0.13	1 bpt	(7)bpts
<b>Other information</b>					
Average interest earning assets (NZ\$M)	88,525	85,753	82,455	3	7
Risk weighted assets (NZ\$M) <sup>(3)</sup>	54,138	53,275	53,489	2	1
Risk weighted assets (A\$M) <sup>(4)</sup>	47,489	48,807	48,524	(3)	(2)
FUA - average (NZ\$M)	12,971	12,743	12,575	2	3
FUA - spot (NZ\$M)	13,325	12,826	12,586	4	6
AUM - average (NZ\$M) <sup>(5)</sup>	4,976	4,635	4,584	7	9
AUM - spot (NZ\$M) <sup>(5)</sup>	4,809	4,954	4,325	(3)	11
90+ days home loan arrears (%)	0.12	0.12	0.11	-	1 bpt
90+ days consumer finance arrears (%)	0.50	0.46	0.38	4 bpts	12 bpts
Number of full-time equivalent staff (FTE)	4,826	4,745	4,697	2	3

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

(2) Key financial metrics are calculated in New Zealand dollar terms unless otherwise stated.

(3) Risk weighted assets are calculated in accordance with RBNZ requirements. The RBNZ applies a similar methodology to APRA in calculating regulatory capital requirements.

(4) Risk weighted assets are calculated in accordance with APRA requirements.

(5) AUM excludes NZD7,222 million spot balances managed by CFS Global Asset Management (30 June 2017: NZD5,776 million; 31 December 2016: NZD5,336 million). These are included in the AUM balances reported by CFS Global Asset Management.

## Financial Performance and Business Review

### December 2017 versus December 2016

ASB cash net profit after tax for the half year ended 31 December 2017 was NZD575 million, an increase of 15% on the prior comparative period. The result was driven by operating income growth and a lower loan impairment expense, partly offset by higher operating expenses.

#### Net Interest Income

Net interest income was NZD984 million, an increase of 8% on the prior comparative period, driven by strong volume growth and improved net interest margin.

Net interest margin increased, reflecting an increase in lending margins, partly offset by an unfavourable retail deposit mix shift to lower margin investment deposit accounts.

#### Other Banking and Funds Management Income

Other banking income was NZD212 million, an increase of 5% on the prior comparative period, primarily driven by higher card income and insurance commissions, partly offset by lower service fees as customers leverage digital channels.

Funds management income was NZD55 million, an increase of 17% on the prior comparative period, due to strong net flows and market performance.

#### Operating Expenses

Operating expenses were NZD427 million, an increase of 3% on the prior comparative period. This increase was driven by higher staff costs, continued investment in technology capabilities and higher regulatory compliance costs, partly offset by lower property costs and lower depreciation.

FTE were 4,826, up 3% primarily due to an increase in frontline and compliance staff, partly offset by productivity initiatives.

Investment spend continues to focus on compliance, technology and customer experience. There is ongoing investment in financial crimes compliance and delivering new digital functionality for customers.

The operating expense to total operating income ratio for ASB was 34.1%, an improvement of 160 basis points, reflecting improved operating leverage supported by cost control and a continued focus on productivity.

#### Loan Impairment Expense

Loan impairment expense was NZD26 million, a decrease of 47% on the prior comparative period, primarily due to lower provisions in the dairy portfolio.

Home loan and consumer finance arrears rates continue to remain low at 12 basis points and 50 basis points respectively. This is despite a 12 basis point increase in consumer finance arrears on the prior comparative period primarily driven by the timing of write-offs.

#### Balance Sheet

Balance Sheet growth included:

- Home loan growth of 5%, marginally below system;
- Strong business and rural loan growth of 8%, remaining above system, with the long-term strategic focus on this segment continuing to deliver strong results; and
- Strong customer deposit growth of 7% in a competitive retail funding environment.

#### Risk Weighted Assets<sup>(1)</sup>

Risk weighted assets increased 1%, primarily driven by lending volume growth, partly offset by improved credit quality in the business and rural portfolios.

### December 2017 versus June 2017

Cash net profit after tax increased 10% on the prior half. This result was driven by operating income growth of 7%, partly offset by higher loan impairment and operating expenses.

#### Net Interest Income

Net interest income increased 8% on the prior half reflecting strong volume growth, improved net interest margin and three additional calendar days than the prior half.

Net interest margin increased, reflecting an increase in lending margins, lower net fixed rate loan prepayment expense and lower wholesale funding costs, partly offset by an unfavourable retail deposit mix shift to lower margin investment deposit accounts.

#### Other Banking and Funds Management Income

Other banking income increased 5% on the prior half, primarily driven by higher card income, partly offset by lower service fees.

Funds management income increased 10%, driven by solid net flows and investment market performance.

#### Operating Expenses

Operating expenses increased 1% on the prior half, primarily driven by higher staff costs, higher regulatory compliance costs and continued investment in technology capabilities, partly offset by lower marketing costs and lower depreciation.

FTE was up 2% primarily due to an increase in frontline and compliance staff, partly offset by productivity initiatives.

Investment spend continues to focus on the key areas of customer experience, technology and compliance.

The operating expense to total operating income ratio improved 210 basis points on the prior half.

#### Loan Impairment Expense

Loan impairment expense increased 30% on the prior half, primarily due to lower provision releases in the dairy portfolio, partly offset by lower home loan provisions.

The low arrears rates within the retail portfolios have continued, while the solid economic environment has resulted in a low level of provisions across the non-retail portfolio.

#### Balance Sheet

Balance Sheet growth included:

- Home loan growth of 3%, above system, with continued customer preference for fixed rate borrowing;
- Business and rural loan growth of 3%, with growth in line with system; and
- Customer deposit growth of 3%, above system, with strong growth in investment accounts.

#### Risk Weighted Assets<sup>(1)</sup>

Risk weighted assets increased 2%, primarily driven by lending volume growth, partly offset by improved credit quality in the home loan and business portfolios.

(1) Risk weighted assets reflect the New Zealand dollar amount calculated in accordance with RBNZ requirements.

# New Zealand

## Life Insurance Business Discontinued Operations

	Half Year Ended				
	31 Dec 17 NZ\$M	30 Jun 17 NZ\$M	31 Dec 16 NZ\$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Sovereign</b>					
Insurance income	117	125	127	(6)	(8)
Operating expenses	(59)	(62)	(62)	(5)	(5)
Net profit before tax	58	63	65	(8)	(11)
Corporate tax (expense)/benefit	(12)	(10)	(13)	20	(8)
Underlying profit after tax	46	53	52	(13)	(12)
Investment experience after tax	7	5	(8)	40	large
<b>Cash net profit after tax</b>	<b>53</b>	<b>58</b>	<b>44</b>	<b>(9)</b>	<b>20</b>
<b>Represented by:</b>					
Planned profit margins	45	45	47	-	(4)
Experience variations	1	8	5	(88)	(80)
Operating margins	46	53	52	(13)	(12)
Investment experience after tax	7	5	(8)	40	large
<b>Cash net profit after tax</b>	<b>53</b>	<b>58</b>	<b>44</b>	<b>(9)</b>	<b>20</b>

Key Financial Metrics	Half Year Ended				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Other information</b>					
Average inforce premiums - average (NZ\$M)	759	759	750	-	1
Annual inforce premiums - spot (NZ\$M)	762	757	758	1	1
Number of full-time equivalent staff (FTE)	651	664	672	(2)	(3)

Insurance Inforce	Half Year Ended								
	30 Jun 17	Sales	Lapses	Net Flows	Other	31 Dec 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
	\$M	\$M	\$M	\$M	\$M	\$M	\$M		
Life Insurance	757	58	(53)	5	-	762	758	1	1

## Financial Performance and Business Review

### *December 2017 versus December 2016*

Sovereign cash net profit after tax for the half year ended 31 December 2017 was NZD53 million, an increase of 20% on the prior comparative period. The result was driven by higher investment experience and lower operating expenses, partly offset by lower insurance income. On 21 September 2017 CBA announced the sale of Sovereign to AIA.

#### **Insurance Income**

Insurance income was NZD117 million, a decrease of 8% on the prior comparative period, driven by unfavourable changes to the valuation of policyholder liabilities.

#### **Operating Expenses**

Operating expenses were NZD59 million, a decrease of 5% on the prior comparative period, driven by lower staff and advertising expenses.

#### **Investment Experience**

Investment experience after tax was a profit of NZD7 million, an increase of NZD15 million on the prior comparative period, driven by the prior comparative period being impacted by an increase in the average discount rate negatively impacting policyholder valuations.

### *December 2017 versus June 2017*

Cash net profit after tax decreased 9% on the prior half, driven by lower insurance income, partly offset by higher investment experience and lower operating expenses.

#### **Insurance Income**

Insurance income decreased 6% on the prior half, driven by higher claims expense and unfavourable changes to the valuation of policyholder liabilities.

#### **Operating Expenses**

Operating expenses decreased 5% on the prior half, driven by lower investment spend, and lower staff and advertising expenses.

#### **Investment Experience**

Investment experience after tax increased NZD2 million from the prior half, driven by movements in discount rates having a favourable impact on policyholder valuations in the current half.

## Overview

Bankwest operates in the domestic market, providing lending to retail, business and rural customers as well as a full range of deposit products. While more than half of Bankwest's 1 million customers are based in Western Australia, Bankwest offers full banking services across the country.

## Serving our Customers

At Bankwest, our purpose is to help our customers achieve what matters, today and for generations to come. Over the period we have improved our customer service by launching Android Pay, enabling eStatements to 185,000 retail accounts, removing transaction fees on our ATMs and allowing customers to stay in control of their banking through Easy Alerts (with over 10 million alerts issued). We also released an updated mobile banking app, simplified and streamlined our customer facing website and launched a new broker portal and pricing tool for improved support of our broker partners. Our customers have benefited from a variety of financial literacy programs including national 'Buying Your First Property' seminars to help customers get a step closer to owning their first home. In Western Australia we have partnered with Perth Arena and the Perth Stadium to offer additional distinctive benefits to our customers. Our efforts also saw us awarded Money Magazine "Bank of the Year" in recognition of our excellent all-round product and service offering.

	Half Year Ended <sup>(1) (2)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Net interest income	778	740	733	5	6
Other banking income	107	104	100	3	7
Total banking income	885	844	833	5	6
Operating expenses	(368)	(387)	(367)	(5)	-
Loan impairment expense	(30)	(49)	(50)	(39)	(40)
Net profit before tax	487	408	416	19	17
Corporate tax expense	(148)	(122)	(126)	21	17
<b>Cash net profit after tax</b>	<b>339</b>	<b>286</b>	<b>290</b>	<b>19</b>	<b>17</b>

	As at <sup>(1) (2)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Balance Sheet</b>					
Home loans <sup>(3)</sup>	69,246	67,637	65,138	2	6
Other interest earning lending assets	10,554	10,177	10,108	4	4
Total interest earning assets	79,800	77,814	75,246	3	6
Other assets	248	306	286	(19)	(13)
<b>Total assets</b>	<b>80,048</b>	<b>78,120</b>	<b>75,532</b>	<b>2</b>	<b>6</b>
Transaction deposits <sup>(4)</sup>	12,391	11,926	11,836	4	5
Savings deposits	9,246	9,195	9,608	1	(4)
Investment deposits	31,699	31,784	26,772	-	18
Certificates of deposit and other	36	41	35	(12)	3
Total interest bearing deposits	53,372	52,946	48,251	1	11
Other interest bearing liabilities	81	69	33	17	large
Non-interest bearing transaction deposits	1,808	1,723	1,526	5	18
Other non-interest bearing liabilities <sup>(5)</sup>	559	744	546	(25)	2
<b>Total liabilities</b>	<b>55,820</b>	<b>55,482</b>	<b>50,356</b>	<b>1</b>	<b>11</b>

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

(2) Excludes Bankwest east coast business banking customers now being managed by Business and Private Banking.

(3) Gross of mortgage offset balances.

(4) Includes mortgage offset balances.

(5) Comparatives have been restated to reflect a change in accounting policy. Details are provided in Note 1.1 of the Financial Statements.

# Bankwest

Key Financial Metrics	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Performance indicators</b>					
Net interest margin (%)	2.09	2.08	2.06	1 bpt	3 bpts
Return on assets (%)	0.9	0.8	0.7	10 bpts	20 bpts
Operating expenses to total banking income (%)	41.6	45.9	44.1	(430)bpts	(250)bpts
Impairment expense annualised as a % of average GLAAs (%)	0.08	0.13	0.13	(5)bpts	(5)bpts
<b>Other information</b>					
Average interest earning assets (\$M) <sup>(2)</sup>	73,670	71,900	70,496	2	5
Risk weighted assets (\$M)	40,468	37,803	34,418	7	18
90+ days home loans arrears (%)	0.80	0.80	0.64	-	16 bpts
90+ days consumer finance arrears (%)	1.19	1.39	1.15	(20)bpts	4 bpts
Number of full-time equivalent staff (FTE) <sup>(3)</sup>	2,866	2,912	2,809	(2)	2

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

(2) Net of average mortgage offset balances.

(3) FTE exclude support unit staff that have been included in Corporate Centre.

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## Financial Performance and Business Review

### December 2017 versus December 2016

Bankwest cash net profit after tax for the half year ended 31 December 2017 was \$339 million, an increase of 17% on the prior comparative period. The result was primarily driven by strong growth in total banking income, lower loan impairment expense and flat operating expenses.

#### Net Interest Income

Net interest income was \$778 million, an increase of 6% on the prior comparative period. The result was driven by strong balance growth in home lending and deposits, and a higher net interest margin.

Net interest margin increased three basis points reflecting:

- Higher home lending margin from repricing of interest-only and investor loans to manage regulatory limits, and lower cash basis risk;
- Increased deposit margins, driven by repricing of investment deposits; and
- Stable business lending margin; partly offset by
- Impact of the major bank levy.

#### Other Banking Income

Other banking income was \$107 million, an increase of 7% on the prior comparative period, reflecting an increase in fee based package offerings, partly offset by lower business lending fees.

#### Operating Expenses

Operating expenses were \$368 million, flat on the prior comparative period, reflecting a continued focus on productivity and disciplined expense management.

FTE were 2,866, up 2% on the prior comparative period as a result of increased investment in customer facing technology platforms.

Investment in productivity and growth continues to focus on delivering further enhancements to our customer experience. The operating expense to total banking income ratio was 41.6%, an improvement of 250 basis points compared to the prior comparative period.

#### Loan Impairment Expense

Loan impairment expense was \$30 million, a decrease of 40% on the prior comparative period. This was driven by reduced home loan impairments and lower business loan collective provisions.

Home loan arrears increased in line with the softening Western Australian economy.

#### Balance Sheet

Balance sheet growth included:

- Home loan growth of 6%, slightly lower than system reflecting the Western Australian economy lagging national growth rates;
- Total deposit growth of 11% resulting from strong growth in Investment and Transaction deposits, reflecting a continued focus on deepening customer relationships; and
- Core business lending growth of 6%.

#### Risk Weighted Assets

Risk weighted assets increased by 18% on the prior comparative period driven by regulatory changes to the home loan risk weighting. The underlying increase excluding regulatory changes was 10% driven by volume growth in business and home loans and an increase in Operational Risk.

### December 2017 versus June 2017

Bankwest cash net profit after tax increased 19% on the prior half. The result was driven by higher total banking income, lower loan impairment expense and a one-off cost in the prior half from integrating Bankwest's east coast business banking operation into Business and Private Banking. Excluding the one-off integration costs in the prior half, underlying cash net profit after tax increased 11%.

#### Net Interest Income

Net interest income increased 5% on the prior half reflecting balance growth across key products and three additional calendar days than the prior half.

Net interest margin increased one basis point reflecting:

- Higher home lending margins from repricing of interest-only and investor loans to manage regulatory limits, and lower cash basis risk; partly offset by
- Lower deposit margins, resulting from lower cash basis risk partly offset by repricing; and
- Impact of the major bank levy.

#### Other Banking Income

Other banking income increased 3% due to higher interchange income and three additional calendar days than the prior half.

#### Operating Expenses

Operating expenses decreased 5%, driven by a one-off cost in the prior half for the integration of Bankwest's east coast business banking operation into Business and Private Banking. Excluding this underlying operating expenses increased 2%.

FTE was down 2% compared to the prior half, driven by timing of vacancies.

Investment continues to focus on enhancements to our customer experience.

The operating expense to total banking income ratio was 41.6%, an improvement of 430 basis points on the prior half.

#### Loan Impairment Expense

Loan impairment expense decreased 39% on the prior half, reflecting reduced home loan impairments and improved performance in the business portfolio.

Asset quality for the home loan portfolio improved, driven by stabilising arrears.

## Financial Performance and Business Review (continued)

### Balance Sheet

Balance sheet growth included:

- Home loan growth of 2%, reflecting competitive pressures and a relatively weaker Western Australian economy; and
- Total deposit growth of 1% resulting from growth in Transaction deposits.

### Risk Weighted Assets

Risk weighted assets increased 7% on the prior half with 4% due to lending growth and 3% due to an increase in Operational Risk.

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# IFS and Other

## Overview

International Financial Services (IFS) aims to increase economic participation and enhance the financial wellbeing of our customers by building scalable, digital banking businesses focused on underserved consumers and small businesses in emerging markets. Increasing the awareness of and access to financial services through digital banking and financial literacy are foundational to IFS' financial inclusion strategy.

### Serving our Customers

We have made good progress in building out our digital banking capabilities and financial literacy initiatives. In South Africa, we have executed a distribution partnership with a leading local retailer and have secured our bank licence, putting us on track to launch a digital bank in South Africa in 2018. We continue to roll-out our digital kiosk as a customer on-boarding channel in South Africa and have also recently deployed them in Indonesia, hence, unlocking the opportunity for future products and services through digital channels. Important work to drive financial literacy continues to take place. Our products and services are being designed so they are not only simple to understand, but also help our customers to make better-informed financial decisions. For example, in South Africa we launched TymeCoach, which is a platform that helps customers improve their financial fitness through assessment of their credit score, education, goal setting, feedback and rewards. In addition, we have launched a collaboration with Mastercard to better financial inclusion for Indonesian women through WISE, which is our financial literacy training program for Indonesian women entrepreneurs.

IFS <sup>(2)</sup>	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Net interest income	60	64	69	(6)	(13)
Other banking income	154	140	157	10	(2)
Total banking income	214	204	226	5	(5)
Funds management income	1	-	-	large	large
Insurance income	24	24	26	-	(8)
Total operating income	239	228	252	5	(5)
Operating expenses	(153)	(165)	(168)	(7)	(9)
Loan impairment expense	(33)	(12)	(52)	large	(37)
Net profit before tax	53	51	32	4	66
Corporate tax expense	(7)	-	(4)	large	75
Non-controlling interests	(3)	(5)	(3)	(40)	-
Underlying profit after tax	43	46	25	(7)	72
Investment experience after tax	11	16	6	(31)	83
<b>Cash net profit after tax</b>	<b>54</b>	<b>62</b>	<b>31</b>	<b>(13)</b>	<b>74</b>

Key Financial Metrics	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Performance indicators</b>					
Return on assets (%)	2.0	2.2	1.1	(20)bpts	90 bpts
Operating expenses to total operating income (%)	64.0	72.4	66.7	large	(270)bpts
Impairment expense annualised as a % of average GLAAs (%)	4.48	1.36	6.15	312 bpts	(167)bpts
<b>Other information</b>					
Risk weighted assets (\$M)	2,233	2,351	2,338	(5)	(4)
Number of full-time equivalent staff (FTE)	2,640	3,209	3,172	(18)	(17)

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

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

## Financial Performance and Business Review

### *December 2017 versus December 2016*

International Financial Services (IFS) cash net profit after tax for the half year ended 31 December 2017 was \$54 million, an increase of 74% on the prior comparative period, including a 4% decrease from the higher Australian dollar. The result was driven by lower operating expenses and loan impairment expenses, partly offset by lower operating income.

In September 2017, Tyme Digital by Commonwealth Bank South Africa was granted a bank licence, a major milestone achieved for the bank launch in 2018.

During the half, IFS has completed three non-core business divestments (Mumbai branch, Ho Chi Minh City branch and China County Banks), while running off the non-strategic commercial lending segment in Indonesia. The non-core divested businesses contributed a net cash loss after tax of \$6 million in the period.

The total number of direct customers reduced 19% to approximately 412,000 impacted by the business divestments.

#### **Net Interest Income**

Net interest income was \$60 million, a decrease of 13% on the prior comparative period, including a 5% decrease from the higher Australian dollar. This reflected the impact of divestments and non-strategic commercial segment run-off where volumes are down 72% to \$55 million.

Net interest margin remained stable despite competitive pressures.

#### **Other Banking Income**

Other banking income was \$154 million, a decrease of 2% on the prior comparative period mainly driven by the higher Australian dollar.

#### **Insurance Income**

Insurance income in PT Commonwealth Life (PTCL) was \$24 million, a decrease of 8% on the prior comparative period driven by the higher Australian dollar.

#### **Operating Expenses**

Operating expenses were \$153 million, a decrease of 9% on the prior comparative period, driven by lower staff costs.

FTE were 2,640, a decrease of 17% as a result of business divestments and disciplined expense management, partly offset by growth in ongoing strategic investment initiatives.

Investment spend has focused on building out our digital banking capabilities and financial literacy initiatives.

The operating expense to total income ratio was 64.0%, an improvement of 270 basis points on the prior comparative period.

#### **Loan Impairment Expense**

Loan impairment expense was \$33 million, a decrease of 37% on the prior comparative period. The result was driven

by the commercial lending run-off in PT Bank Commonwealth (PTBC).

Loan impairment expense as a percentage of average gross loans and acceptances decreased 167 basis points to 4.48%.

#### **Balance Sheet**

Volume growth has been adversely impacted by business divestments and non-strategic commercial loan run-off. Excluding these factors, underlying growth in the strategic consumer and small business banking products was 12%.

#### **Risk Weighted Assets**

Risk weighted assets decreased by 4% on the prior comparative period driven by divestments and commercial segment run-off.

#### **Investment Experience**

Investment experience after tax was \$11 million, an increase of 83% on prior comparative period, driven by investment gains in China.

### *December 2017 versus June 2017*

Cash net profit after tax decreased 13% on the prior half. The result was driven by higher loan impairment expense and a one-off tax benefit in the prior half, partly offset by higher operating income and lower operating expenses.

#### **Net Interest Income**

Net interest income decreased 6% on the prior half, driven by the higher Australian dollar and strategic divestments.

#### **Other Banking Income**

Other banking income increased 10% on the prior half, reflecting solid contributions from associates in China and higher bancassurance income.

#### **Insurance Income**

Insurance income in PTCL was flat on the prior half.

#### **Operating Expenses**

Operating expenses decreased 7% on the prior half, driven by divestments and disciplined expense management.

The operating expense to total income ratio improved 840 basis points on the prior half.

#### **Loan Impairment Expense**

Loan impairment expense increased \$21 million on the prior half, driven by losses in the PTBC commercial lending portfolio which is in run-off.

#### **Risk Weighted Assets**

Risk weighted assets decreased by 5% on the prior half driven by divestments and commercial segment run-off.

#### **Investment Experience**

Investment experience after tax decreased 31% on the prior half, driven by investment gains in China in the prior half.

# IFS and Other

## Overview

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

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

The Treasury function includes:

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

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Corporate Centre (including eliminations)</b>					
Net interest income	183	187	122	(2)	50
Other banking income <sup>(2)</sup>	12	51	391	(76)	(97)
Total banking income	195	238	513	(18)	(62)
Funds management income	1	2	(1)	(50)	large
Insurance income	30	24	28	25	7
Total operating income	226	264	540	(14)	(58)
Operating expenses <sup>(3)</sup>	(968)	(509)	(745)	90	30
Loan impairment (expense)/benefit	-	(40)	1	large	large
Net loss before tax	(742)	(285)	(204)	large	large
Corporate tax benefit	132	87	81	52	63
Non-controlling interests	(6)	(6)	(6)	-	-
Underlying loss after tax	(616)	(204)	(129)	large	large
Investment experience after tax	(10)	(14)	(10)	(29)	-
<b>Cash net loss after tax from continuing operations</b>	<b>(626)</b>	<b>(218)</b>	<b>(139)</b>	<b>large</b>	<b>large</b>
Cash net loss after tax from discontinued operations	(7)	-	-	large	large
<b>Cash net loss after tax</b>	<b>(633)</b>	<b>(218)</b>	<b>(139)</b>	<b>large</b>	<b>large</b>

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

(2) The half year ended 31 December 2016 included a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

(3) The half year ended 31 December 2017 includes a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings (see Note 7.2 to the Financial Statements for further information). The half year ended 31 December 2016 included a \$393 million one-off expense for acceleration of amortisation on certain software assets.

### December 2017 versus December 2016

Corporate Centre cash net loss after tax for the half year ended 31 December 2017 was \$633 million, an increase of \$494 million on the prior comparative period.

Total operating income decreased 58% to \$226 million, driven by the prior comparative period including a \$397 million gain on sale of the Group's remaining investment in Visa Inc., partly offset by increased earnings from interest rate risk management and higher capital.

Operating expenses increased 30% to \$968 million, driven by a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings, and higher regulatory, compliance and remediation program costs, partly offset by the prior comparative period including a \$393 million one-off

expense for acceleration of amortisation on certain software assets.

### December 2017 versus June 2017

Corporate Centre cash net loss after tax increased \$415 million on the prior half.

Total operating income decreased 14% on the prior half, driven by lower realised gains on available-for-sale assets and the timing of recognition of unallocated revenue items.

Operating expenses increased 90% on the prior half driven by a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings, and higher regulatory, compliance and remediation program costs.

Loan impairment expense decreased \$40 million due to including a centrally held loan impairment provision in the prior half.

# Investment Experience

## Investment Experience

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

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Investment Experience</b>					
Wealth Management	11	21	5	(48)	large
New Zealand	-	-	-	-	-
IFS and Other	2	-	(3)	large	large
Investment experience before tax	13	21	2	(38)	large
Tax on Investment experience	(3)	(5)	(2)	(40)	50
<b>Investment experience after tax from continuing operations</b>	<b>10</b>	16	-	(38)	large
Investment experience after tax from discontinued operations	26	19	9	37	large
<b>Investment experience after tax</b>	<b>36</b>	35	9	3	large

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

## Shareholder Investment Asset Mix

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

	As at 31 December 2017			
	Australia <sup>(1)</sup> %	New Zealand %	Asia %	Total %
<b>Shareholder Investment Asset Mix (%)</b>				
Cash	42	-	10	31
Fixed interest	-	-	90	8
Other	1	-	-	1
Assets classified as held for sale	57	100	-	60
<b>Total</b>	100	100	100	100

	As at 31 December 2017			
	Australia <sup>(1)</sup> \$M	New Zealand \$M	Asia \$M	Total \$M
<b>Shareholder Investment Asset Mix (\$M)</b>				
Cash	1,100	-	32	1,132
Fixed interest	-	-	283	283
Other	22	-	-	22
Assets classified as held for sale	1,514	685	-	2,199
<b>Total</b>	2,636	685	315	3,636

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

# Divisional Summary

Half Year Ended 31 December 2017

Divisional Summary	Retail Banking Services \$M	Business and Private Banking \$M	Institutional Banking and Markets \$M	Wealth Management \$M	New Zealand \$M	Bankwest \$M	IFS \$M	Other \$M	Total \$M
Net interest income	4,952	1,694	737	-	849	778	60	183	9,253
Other banking income	1,039	517	679	-	186	107	154	12	2,694
<b>Total banking income</b>	<b>5,991</b>	<b>2,211</b>	<b>1,416</b>	<b>-</b>	<b>1,035</b>	<b>885</b>	<b>214</b>	<b>195</b>	<b>11,947</b>
Funds management income	-	-	-	987	50	-	1	1	1,039
Insurance income	-	-	-	82	-	-	24	30	136
<b>Total operating income</b>	<b>5,991</b>	<b>2,211</b>	<b>1,416</b>	<b>1,069</b>	<b>1,085</b>	<b>885</b>	<b>239</b>	<b>226</b>	<b>13,122</b>
Investment experience <sup>(1)</sup>	-	-	-	11	-	-	12	(10)	13
<b>Total income</b>	<b>5,991</b>	<b>2,211</b>	<b>1,416</b>	<b>1,080</b>	<b>1,085</b>	<b>885</b>	<b>251</b>	<b>216</b>	<b>13,135</b>
Operating expenses	(1,846)	(789)	(542)	(707)	(391)	(368)	(153)	(968)	(5,764)
Loan impairment expense	(356)	(49)	(105)	-	(23)	(30)	(33)	-	(596)
<b>Net profit before tax</b>	<b>3,789</b>	<b>1,373</b>	<b>769</b>	<b>373</b>	<b>671</b>	<b>487</b>	<b>65</b>	<b>(752)</b>	<b>6,775</b>
Corporate tax (expense)/benefit	(1,136)	(413)	(178)	(92)	(188)	(148)	(8)	132	(2,031)
Non-controlling interests	-	-	-	-	-	-	(3)	(6)	(9)
<b>Net profit after tax from continuing operations - "cash basis"</b>	<b>2,653</b>	<b>960</b>	<b>591</b>	<b>281</b>	<b>483</b>	<b>339</b>	<b>54</b>	<b>(626)</b>	<b>4,735</b>
Net profit after tax from discontinued operations	-	-	-	94	49	-	-	(7)	136
<b>Net profit after tax - "cash basis"</b>	<b>2,653</b>	<b>960</b>	<b>591</b>	<b>375</b>	<b>532</b>	<b>339</b>	<b>54</b>	<b>(633)</b>	<b>4,871</b>
<b>Additional information (continuing operations) <sup>(2)</sup></b>									
Net interest margin (%) <sup>(3)</sup>	3.01	3.03	1.03	n/a	2.20	2.09	n/a	n/a	2.16
Operating expenses to total banking income (%) <sup>(3)</sup>	30.1	35.7	38.3	66.1	34.1	41.6	64.0	n/a	43.9
Impairment expense annualised as a % of average GLAAs (%) <sup>(3)</sup>	0.20	0.08	0.19	n/a	0.06	0.08	4.48	n/a	0.16
Average interest earning assets (\$M) <sup>(3) (4)</sup>	326,256	110,969	142,416	n/a	88,525	73,670	2,621	107,065	851,522
Risk weighted assets (\$M) <sup>(5) (6)</sup>	140,715	89,449	97,732	n/a	47,489	40,468	2,233	22,750	440,836
Employees (Full Time Equivalent) (No.) <sup>(3)</sup>	11,555	3,557	1,510	3,534	4,826	2,866	2,640	12,471	42,959

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

(2) Retail Banking Services additional information (metrics) is presented excluding the impact of AHL consolidation.

(3) New Zealand additional information relate to ASB only and is presented in NZD.

(4) Net of average mortgage offset balances.

(5) New Zealand risk weighted assets are calculated in accordance with APRA requirements and is presented in AUD.

(6) Risk weighted assets relating to discontinued operations are included in Other.

7 Appendices

6 Financial statements

5 Divisional performance

4 Group operations & business settings

3 Group performance analysis

2 Highlights

1 ASX announcement

Commonwealth Bank of Australia Profit Announcement December 2017

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# Commonwealth Bank



## Financial statements

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# Directors' Report

The Directors of the Commonwealth Bank of Australia submit their report together with the financial statements of the Commonwealth Bank of Australia and its controlled entities (collectively referred to as "the Group") for the half year ended 31 December 2017.

## 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
Ian Narev	Managing Director and Chief Executive Officer
Shirish Apte	Director
Sir David Higgins	Director
Launa Inman	Director (retired on 16 November 2017)
Brian Long	Director
Andrew Mohl	Director
Mary Padbury	Director
Wendy Stops	Director
Rob Whitfield	Director (appointed on 4 September 2017)
Harrison Young	Director (retired on 16 November 2017)

## Review and Results of Operations

The Group earned a consolidated statutory net profit after tax of \$4,906 million for the half year ended 31 December 2017, compared with \$4,895 million for the prior comparative period. The result was driven by revenue growth offset by higher operating expenses.

In September 2017, the Group entered into an agreement to sell 100% of its life insurance businesses in Australia ("Commlnsure Life") and New Zealand ("Sovereign") to AIA Group Limited ("AIA"). The sale is expected to be completed in calendar year 2018. The sale agreement also includes a 20 year partnership with AIA to distribute life insurance products to customers in Australia and New Zealand.

The businesses subject to sale have been reported separately as discontinued operations in the half year results.

- The statutory net profit after tax from Retail Banking Services was \$2,711 million (December 2016: \$2,453 million) driven by strong growth in total banking income, partly offset by higher operating expenses and loan impairment expense.
- The statutory net profit after tax from Business and Private Banking was \$960 million (December 2016: \$878 million), driven by growth in total banking income and lower loan impairment expense.
- The statutory net profit after tax from Institutional Banking and Markets was \$591 million (December 2016: \$681 million), driven by lower trading revenue in Markets and higher loan impairment expense, partly offset by lower operating expenses.
- The statutory net profit after tax from Wealth Management was \$372 million (December 2016: \$229 million), a 62% increase on the prior comparative period. Excluding the contribution from the life business held for sale, statutory net profit after tax was \$281 million, a 33% increase on the prior comparative period. The result was driven by strong growth in funds management income and lower operating expenses partly offset by lower insurance income.
- The statutory net profit after tax from New Zealand was \$638 million (December 2016: \$467 million), driven by revenue hedge gains, strong volume growth, improved

lending margins, lower loan impairment expense and 17% increase in Sovereign's profit. Excluding the contribution of the Sovereign business held for sale, statutory net profit after tax was \$589 million, a 39% increase on the prior comparative period.

- The statutory net profit after tax from Bankwest was \$338 million (December 2016: \$289 million), driven by strong growth in total banking income, lower loan impairment expenses and flat operating expenses.
- The statutory net profit after tax from IFS was \$61 million (December 2016: \$31 million). The result was driven by lower operating expenses and loan impairment expenses, partly offset by lower operating income.

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, structure, 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 31 of the 2017 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.

Commentary on the Group's ongoing litigation investigations and reviews are included in section 7.2 of the Financial Statements for the half year ended 31 December 2017.

# Directors' Report

## 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:



Signed in accordance with a resolution of the Directors.

*C.B. Livingstone*

Catherine Livingstone AO  
Chairman  
6 February 2018

*Ian Narev*

Ian Narev  
Managing Director and Chief Executive Officer  
6 February 2018

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# Financial Statements

## Consolidated Income Statement

For the half year ended 31 December 2017

	Note	Half Year Ended <sup>(1)</sup>		
		31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
Interest income	2.1	17,179	16,619	16,674
Interest expense	2.1	(7,926)	(7,793)	(7,966)
Net interest income		9,253	8,826	8,708
Other banking income		2,896	2,671	3,030
Net banking operating income		12,149	11,497	11,738
Net funds management operating income		1,047	987	941
Net insurance operating income		141	65	166
<b>Total net operating income before impairment and operating expenses</b>		<b>13,337</b>	<b>12,549</b>	<b>12,845</b>
Loan impairment expense	6.1	(596)	(496)	(599)
Operating expenses	2.3	(5,766)	(5,197)	(5,476)
<b>Net profit before income tax</b>		<b>6,975</b>	<b>6,856</b>	<b>6,770</b>
Corporate tax expense	2.5	(2,071)	(1,955)	(1,926)
<b>Net profit after income tax from continuing operations</b>		<b>4,904</b>	<b>4,901</b>	<b>4,844</b>
Net profit after income tax from discontinued operations	7.3	11	147	60
<b>Net profit after income tax</b>		<b>4,915</b>	<b>5,048</b>	<b>4,904</b>
Non-controlling interests		(9)	(15)	(9)
<b>Net profit attributable to Equity holders of the Bank</b>		<b>4,906</b>	<b>5,033</b>	<b>4,895</b>

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

	Half Year Ended <sup>(2)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
	Cents per Share		
Earnings per share from continuing operations <sup>(1)</sup> :			
Basic	281.6	283.7	281.7
Diluted	272.6	275.4	273.3
Earnings per share:			
Basic	282.2	292.0	285.2
Diluted	273.2	283.3	276.6

- (1) Information has been restated and presented on a continuing operations basis. Discontinued operations include the Group's life insurance businesses in Australia and New Zealand.
- (2) Basic and diluted earnings per share for all periods presented have been adjusted retrospectively to incorporate the discount element of the dividend reinvestment plan.



# Financial Statements

## Consolidated Balance Sheet

As at 31 December 2017

	Note	As at <sup>(1)</sup>		
		31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
<b>Assets</b>				
Cash and liquid assets		37,322	45,850	44,709
Receivables due from other financial institutions		6,955	10,037	10,612
Assets at fair value through Income Statement:				
Trading		34,696	32,704	34,199
Insurance		382	13,669	13,795
Other		1,038	1,111	803
Derivative assets		25,228	31,724	45,837
Available-for-sale investments		83,913	83,535	81,675
Loans, bills discounted and other receivables	3.1	736,316	731,762	712,905
Bank acceptances of customers		222	463	1,440
Property, plant and equipment		2,635	3,873	4,094
Investments in associates and joint ventures		2,750	2,778	2,842
Intangible assets		9,038	10,024	10,000
Deferred tax assets <sup>(2)</sup>		1,291	906	726
Other assets		5,249	7,882	8,026
Assets held for sale	7.3	14,895	-	-
<b>Total assets</b>		<b>961,930</b>	<b>976,318</b>	<b>971,663</b>
<b>Liabilities</b>				
Deposits and other public borrowings	4.1	624,897	626,655	606,091
Payables due to other financial institutions		24,466	28,432	34,031
Liabilities at fair value through Income Statement		9,350	10,392	8,404
Derivative liabilities		23,563	30,330	38,042
Bank acceptances		222	463	1,440
Current tax liabilities		642	1,450	1,012
Deferred tax liabilities		-	332	332
Other provisions		2,120	1,780	1,625
Insurance policy liabilities		481	12,018	12,388
Debt issues		166,510	167,571	175,583
Managed funds units on issue		-	2,577	2,362
Bills payable and other liabilities		8,861	11,932	11,600
Liabilities held for sale	7.3	14,543	-	-
		875,655	893,932	892,910
Loan capital		20,184	18,726	16,997
<b>Total liabilities</b>		<b>895,839</b>	<b>912,658</b>	<b>909,907</b>
<b>Net assets</b>		<b>66,091</b>	<b>63,660</b>	<b>61,756</b>
<b>Shareholders' Equity</b>				
Share capital:				
Ordinary share capital	5.1	36,776	34,971	34,455
Reserves	5.1	1,494	1,869	2,144
Retained profits <sup>(2)</sup>	5.1	27,267	26,274	24,606
<b>Shareholders' Equity attributable to Equity holders of the Bank</b>		<b>65,537</b>	<b>63,114</b>	<b>61,205</b>
Non-controlling interests	5.1	554	546	551
<b>Total Shareholders' Equity</b>		<b>66,091</b>	<b>63,660</b>	<b>61,756</b>

(1) Current period balances have been impacted by the announced sale of the Group's life insurance businesses in Australia and New Zealand.

(2) Comparatives have been restated following a change in accounting policy to recognise deferred tax on Brand names acquired by the Group. Further details on the change are provided in Note 1.1.

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

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# Financial Statements

## Consolidated Statement of Changes in Equity

For the half year ended 31 December 2017

	Ordinary share capital \$M	Reserves \$M	Retained profits \$M	Total \$M	Non- controlling interests \$M	Total Shareholders' Equity \$M
<b>As at 30 June 2016</b>	33,845	2,734	23,435	60,014	550	60,564
Change in accounting policy <sup>(1)</sup>	-	-	(56)	(56)	-	(56)
<b>Restated opening balance</b>	33,845	2,734	23,379	59,958	550	60,508
Net profit after income tax from continuing operations	-	-	4,835	4,835	9	4,844
Net profit after income tax from discontinued operations	-	-	60	60	-	60
Net other comprehensive income from continuing operations	-	(582)	140	(442)	-	(442)
Net other comprehensive income from discontinued operations	-	2	-	2	-	2
Total comprehensive income for the period	-	(580)	5,035	4,455	9	4,464
Transactions with Equity holders in their capacity as Equity holders: <sup>(2)</sup>						
Dividends paid on ordinary shares	-	-	(3,808)	(3,808)	-	(3,808)
Dividend reinvestment plan (net of issue costs)	586	-	-	586	-	586
Issue of shares (net of issue costs)	(6)	-	-	(6)	-	(6)
Share-based payments	-	(25)	-	(25)	-	(25)
Purchase of treasury shares	(27)	-	-	(27)	-	(27)
Sale and vesting of treasury shares	57	-	-	57	-	57
Other changes	-	15	-	15	(8)	7
<b>As at 31 December 2016</b>	34,455	2,144	24,606	61,205	551	61,756
Net profit after income tax from continuing operations	-	-	4,890	4,890	11	4,901
Net profit after income tax from discontinued operations	-	-	143	143	4	147
Net other comprehensive income from continuing operations	-	(288)	32	(256)	-	(256)
Net other comprehensive income from discontinued operations	-	(23)	-	(23)	-	(23)
Total comprehensive income for the period	-	(311)	5,065	4,754	15	4,769
Transactions with Equity holders in their capacity as Equity holders: <sup>(2)</sup>						
Dividends paid on ordinary shares	-	-	(3,429)	(3,429)	-	(3,429)
Dividend reinvestment plan (net of issue costs)	557	-	-	557	-	557
Issue of shares (net of issue costs)	-	-	-	-	-	-
Share-based payments	-	57	-	57	-	57
Purchase of treasury shares	(65)	-	-	(65)	-	(65)
Sale and vesting of treasury shares	24	-	-	24	-	24
Other changes	-	(21)	32	11	(20)	(9)
<b>As at 30 June 2017</b>	34,971	1,869	26,274	63,114	546	63,660
Net profit after income tax from continuing operations	-	-	4,895	4,895	9	4,904
Net profit after income tax from discontinued operations	-	-	11	11	-	11
Net other comprehensive income from continuing operations	-	(313)	43	(270)	-	(270)
Net other comprehensive income from discontinued operations	-	(2)	-	(2)	-	(2)
Total comprehensive income for the period	-	(315)	4,949	4,634	9	4,643
Transactions with Equity holders in their capacity as Equity holders: <sup>(2)</sup>						
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
<b>As at 31 December 2017</b>	36,776	1,494	27,267	65,537	554	66,091

(1) Comparatives have been restated following a change in accounting policy to recognise deferred tax on Brand names acquired by the Group. Further details on the change are provided in Note 1.1.

(2) Current period and prior periods include discontinued operations.

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

# Financial Statements

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

For the half year ended 31 December 2017

	Half Year Ended		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
Cash flows from operating activities before changes in operating assets and liabilities	2,458	11,413	3,008
Changes in operating assets and liabilities arising from cash flow movements	(1,300)	(5,392)	(9,836)
<b>Net cash provided by/(used in) operating activities</b>	<b>1,158</b>	<b>6,021</b>	<b>(6,828)</b>
<b>Net cash used in investing activities</b>	<b>(386)</b>	<b>(206)</b>	<b>(471)</b>
Dividends paid (excluding Dividend Reinvestment Plan)	(2,398)	(2,868)	(3,216)
Proceeds from issuance of debt securities	34,760	40,582	53,978
Redemption of issued debt securities	(34,693)	(43,993)	(37,765)
Proceeds from issue of shares (net of issue costs)	-	-	(6)
Other cash provided by financing activities	1,644	1,946	1,814
<b>Net cash (used in)/provided by financing activities</b>	<b>(687)</b>	<b>(4,333)</b>	<b>14,805</b>
Net increase in cash and cash equivalents	85	1,482	7,506
Effect of foreign exchange rates on cash and cash equivalents	(27)	(339)	21
Cash and cash equivalents at beginning of period	23,117	21,974	14,447
<b>Cash and cash equivalents at end of period</b>	<b>23,175</b>	<b>23,117</b>	<b>21,974</b>

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

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

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# Notes to the Financial Statements

## 1) Overview

### 1.1 General Information, Basis of Accounting, Future Accounting Developments

#### General Information

Commonwealth Bank of Australia ("the Bank") is Australia's leading provider of integrated financial services, including retail, premium, 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 2017, were approved and authorised for issue by the Board of Directors on 6 February 2018. The Directors have the power to amend and reissue the Financial Statements.

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

In September 2017, the Group entered into an agreement to sell 100% of its life insurance businesses in Australia ("Commlinsure Life") and New Zealand ("Sovereign") to AIA Group Limited ("AIA"). The sale is expected to be completed in calendar year 2018. The sale agreement also includes a 20 year partnership with AIA to distribute life insurance products to customers in Australia and New Zealand.

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 2017 has been prepared in accordance with the requirements of the Corporations Act 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 2017 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 and the ASX Listing Rules.

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

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

#### Change in Accounting Policies

Previously, the Group did not recognise deferred tax on the Bankwest brand acquired through a business combination in 2008 (carrying value \$186 million at 30 June 2017) due to the brand having an indefinite useful life and its carrying value was expected to be realised through sale.

In November 2016 the IFRS Interpretations Committee ("IFRIC") published an agenda decision concluding that an entity cannot assume that the carrying value of an intangible asset with an indefinite useful life will be recovered through sale.

As a result, the expected manner of recovery in relation to the Bankwest brand has changed to being realised through use given that there is no planned, expected or potential sale of Bankwest in the near future.

Therefore, the Group has retrospectively changed its accounting policy for the accounting of deferred tax on the Bankwest brand. The impact of the change resulted in a decrease in opening retained earnings of \$56 million with a corresponding increase in deferred tax liabilities. Deferred tax liabilities have been offset against deferred tax assets. There is no impact on profit.

Except as outlined above 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 2017.

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

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

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 2017.

#### Future Accounting Developments

##### AASB 9 'Financial Instruments'

In December 2014, the AASB issued the Australian Accounting Standard AASB 9 which will replace AASB 139 'Financial Instruments: Recognition and Measurement'. The standard covers three broad topics: Impairment, Classification and Measurement and Hedging. The Group is required to adopt the standard from 1 July 2018 and does not intend to restate comparative information on initial application of AASB 9 but will provide detailed transitional disclosures in accordance with the revised requirements of AASB 7 in the 2018 Annual Report.

Set out below is an overview of the key accounting changes, the Group's implementation approach and the pro-forma financial impacts of AASB 9.

## 1.1 General Information, Basis of Accounting, Future Accounting Developments (continued)

### Impairment

The adoption of AASB 9 will have a significant impact on the Group's impairment methodology. The AASB 9 expected credit loss ("ECL") model is forward looking and replaces the existing incurred loss approach. The ECL impairment model represents expected credit losses based on unbiased forward looking information.

The AASB 9 credit impairment requirements apply to all financial assets measured at amortised cost, lease receivables, debt instruments measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

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

#### Stage 1 – 12 months ECL - Performing

On origination of a financial asset a provision equivalent to 12 months expected credit losses is recognised.

#### Stage 2 – Lifetime ECL – Underperforming

Financial assets that have experienced a significant increase in credit risk since origination recognise a provision equivalent to lifetime expected losses.

#### Stage 3 – Lifetime ECL – Non-performing

Financial assets with objective evidence of impairment recognise a provision equivalent to lifetime expected credit losses.

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

Key management judgements and assumptions include the following:

#### Significant increase in credit risk

Significant increase in credit risk for a financial asset is assessed by comparing the risk of default occurring over the expected life of the financial asset at reporting date to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk the Group has considered reasonable and supportable qualitative and quantitative information. For the majority of portfolios the primary indicator of a significant increase in credit risk is a significant deterioration in the internal credit rating grade of a facility between origination and reporting date. The Group will also use a range of secondary indicators, such as, 30 days past due arrears data. Secondary indicators will be used as backstops only.

#### ECL Measurement and Forward-looking information

ECLs are probability weighted credit losses 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 has developed and tested AASB 9 compliant models to address material portfolios. The AASB 9 models multiply the following credit risk factors to calculate ECL:

- Probability of default (PD): The likelihood that a debtor fails to meet an obligation or contractual commitment;
- Exposure at default (EAD): Expected balance sheet exposure at default; and
- Loss given default (LGD): The amount that is not expected to be recovered following default.

These credit risk factors will be point in time estimates based on current economic conditions. They are then adjusted to include the impact of multiple probability weighted forward looking economic scenarios.

The Group intends to consider four alternative macroeconomic scenarios to ensure a sufficient unbiased representative sample is included in estimating ECL. The Group's Loan Loss Provisioning Committee ("LLPC") will be responsible for approving forecast economic scenarios and their associated probability weights.

Where applicable, management adjustments may be made to account for situations where known or expected risks and information has not been considered in the modelling process. The LLPC will be responsible for approving such adjustments.

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

### Classification and measurement

The Group is required to differentiate between financial asset debt instruments and financial asset equity instruments under AASB 9.

#### Financial asset debt instruments

There are three classifications of 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.
- *Fair value through profit or loss (FVTPL)*: Other financial assets are measured at FVTPL.

#### Financial asset equity instruments

Similar to AASB 139, AASB 9 requires investments in financial asset 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 gain or losses may be reclassified within equity.

# Notes to the Financial Statements

## 1.1 General Information, Basis of Accounting, Future Accounting Developments (continued)

### *Hedge accounting*

The AASB 9 hedge accounting model introduces improvements by more closely aligning accounting with risk management and increases the eligibility of both hedge instruments and hedged items for hedge accounting. Adoption of the new hedge accounting model is optional and the current hedge accounting requirements under AASB 139 can continue to apply until the IASB completes its accounting for the dynamic risk management project. The Group will apply the new hedge accounting requirements from 1 July 2018.

### *AASB 9 Implementation Program*

In November 2015 the Group established AASB 9 Program (the "Program") to ensure a high quality implementation of AASB 9. The Program is jointly owned by Finance and Risk with a steering committee comprising senior management to provide oversight. Progress on each of the areas is set out below:

#### *Impairment*

The Group has developed and tested AASB 9 models to address material portfolios. The Group is currently focusing on parallel runs of the ECL models which include testing, calibration and analysis of models, processes and outputs. The Group is in the process of implementing changes required to finance systems and controls to ensure the Group's financial assets can be measured and presented in line with the new requirements.

#### *Classification and Measurement*

The Group has completed the accounting analysis of the Group's financial assets as at 30 June 2017. The Group is in the process of implementing changes to finance systems and controls required to ensure financial asset measurement and presentation will be compliant with external reporting requirements.

#### *Hedging*

Implementation of AASB 9's hedge accounting requirements has largely been completed by the Group. The key benefits of adopting AASB 9 hedging for the Group include simplification of hedge accounting, improved alignment to underlying risk management strategies and increased designation of hedge relationships as the types of allowable hedged items and instruments have been expanded.

### *Impacts of AASB 9 on the Group*

#### *Impairment*

The Group will not restate prior period comparative balances on adoption of the new standard. The adjustments will be recognised against opening 1 July 2018 retained earnings. The Group's current estimate of the opening balance sheet adjustment, if applied on 1 July 2017 based on the economic conditions, forecast economic scenarios, management judgements and assumptions as at 1 July 2017, is an increase in impairment provisions of approximately \$0.85 billion before tax. This would result in a corresponding decrease in shareholders' equity of approximately \$0.6 billion after tax. The increase in impairment provisions under AASB 9 is mainly driven by the 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. Under AASB 139, provisions are only held for incurred losses on the portfolio and forward looking factors are not considered.

#### *Classification and Measurement*

The Group's current estimate of the impact of the classification and measurement requirement, if applied on 1 July 2017, is as follows:

- A reclassification of approximately \$10 billion from the High Quality Liquid Assets book ('HQLA'), currently measured as Available-for-Sale (AFS) under AASB 139 to Amortised Cost under AASB 9. On transition to AASB 9, this portfolio will be restated to amortised cost with any unrealised gains/losses currently held in OCI reversed on 1 July 2018.
- A reclassification of an equity AFS security to FVTPL debt security with an immaterial impact on retained earnings on transition to AASB 9.

#### *Hedging*

Adoption of AASB 9's hedge accounting requirements is not expected to have a material impact on the Group. As AASB 9's hedging requirements are applied prospectively, there will be no impact to retained earnings on transition.

### *Other accounting developments*

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

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

The potential financial impacts of the above to the Group have not yet been determined.

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

# Notes to the Financial Statements

## 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, funds management services, 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 <sup>(1)</sup>		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
<b>Interest Income</b>			
Loans and bills discounted	15,831	15,277	15,446
Other financial institutions	91	93	59
Cash and liquid assets	192	203	118
Assets at fair value through Income Statement	234	260	230
Available-for-sale investments	831	786	821
<b>Total interest income</b>	<b>17,179</b>	<b>16,619</b>	<b>16,674</b>
<b>Interest Expense</b>			
Deposits	5,088	5,212	5,307
Other financial institutions	200	174	126
Liabilities at fair value through Income Statement	73	35	67
Debt issues	1,999	2,014	2,145
Loan capital	386	358	321
Bank levy	180	-	-
<b>Total interest expense</b>	<b>7,926</b>	<b>7,793</b>	<b>7,966</b>
<b>Net interest income</b>	<b>9,253</b>	<b>8,826</b>	<b>8,708</b>

(1) Information has been restated and presented on a continuing operations basis.

### 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 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.

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 expense and other financing charges.

# Notes to the Financial Statements

## 2.2 Non-interest Income

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
<b>Other Operating Income</b>			
Lending fees	558	545	533
Commissions <sup>(2)</sup>	1,333	1,271	1,286
Trading income	556	549	600
Net gain/(loss) on non-trading financial instruments <sup>(3)</sup>	139	59	374
Net gain/(loss) on sale of property, plant and equipment	(2)	(1)	7
Net gain/(loss) from hedging ineffectiveness	7	23	39
Dividends	3	5	5
Net funds management operating income	1,047	987	941
Insurance contracts income	141	65	166
Share of profit from associates and joint ventures net of impairment	193	138	154
Other <sup>(4)</sup>	109	82	32
<b>Total other operating income</b>	<b>4,084</b>	<b>3,723</b>	<b>4,137</b>
<b>Total net operating income before impairment and operating expenses</b>	<b>13,337</b>	<b>12,549</b>	<b>12,845</b>

(1) Information has been restated and presented on a continuing operations basis.

(2) The half year ended 31 December 2017 includes \$84 million in commissions from the consolidation of AHL Holdings Pty Ltd (trading as Aussie Home Loans) as the Group acquired the remaining 20% share on 25 August 2017.

(3) The half year ended 31 December 2016 included a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

(4) Includes depreciation of \$39 million (30 June 2017: \$43 million; 31 December 2016: \$45 million), and nil impairment (30 June 2017: nil; 31 December 2016: \$6 million) in relation to assets held for lease by the Group.

## Accounting Policies

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 when the commitment is issued; and
- Fee income earned for providing advisory or arrangement services, placement and underwriting services, which is recognised when the related service is completed.

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. available-for-sale investments), as well as realised and unrealised gains and losses on non-trading derivatives that are held for risk management purposes.

Net gain/(loss) on property, plant and equipment is the difference between proceeds received and its carrying value.

Net gain/(loss) from 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.

Net 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 fees are recognised over the service period. Performance fees are recognised when it is probable the revenue will be received.

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 recognises its share of the profits or losses of associate or joint venture investments, less any dividends received or impairment recognised.

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.

# Notes to the Financial Statements

## 2.3 Operating Expenses

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
<b>Staff Expenses</b>			
Salaries and related on-costs	2,782	2,721	2,721
Share-based compensation	63	60	60
Superannuation	214	266	215
<b>Total staff expenses</b>	<b>3,059</b>	<b>3,047</b>	<b>2,996</b>
<b>Occupancy and Equipment Expenses</b>			
Operating lease rentals	332	324	323
Depreciation of property, plant and equipment	145	141	140
Other occupancy expenses	97	93	93
<b>Total occupancy and equipment expenses</b>	<b>574</b>	<b>558</b>	<b>556</b>
<b>Information Technology Services</b>			
Application, maintenance and development	265	255	189
Data processing	101	100	100
Desktop	82	87	98
Communications	75	95	89
Amortisation of software assets <sup>(2)</sup>	192	157	605
Software write-offs	10	6	-
IT equipment depreciation	31	28	21
<b>Total information technology services</b>	<b>756</b>	<b>728</b>	<b>1,102</b>
<b>Other Expenses</b>			
Postage and stationery	94	88	95
Transaction processing and market data	90	89	96
Fees and commissions:			
Professional fees	339	224	167
Other	78	32	42
Advertising, marketing and loyalty	244	237	192
Amortisation of intangible assets (excluding software and merger related amortisation)	3	4	7
Non-lending losses <sup>(3)</sup>	422	71	53
Other	105	117	168
<b>Total other expenses</b>	<b>1,375</b>	<b>862</b>	<b>820</b>
<b>Total operating expenses <sup>(4)</sup></b>	<b>5,764</b>	<b>5,195</b>	<b>5,474</b>
<b>Investment and Restructuring</b>			
Merger related amortisation <sup>(5)</sup>	2	2	2
<b>Total investment and restructuring</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total operating expenses</b>	<b>5,766</b>	<b>5,197</b>	<b>5,476</b>

(1) Information has been restated and presented on a continuing operations basis.

(2) The half year ended 31 December 2016 included a \$393 million one-off expense for acceleration of amortisation on certain software assets.

(3) The half year ended 31 December 2017 includes a \$375 million expense provision which the Group believes to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings. See Note 7.2 for further information.

(4) The half year ended 31 December 2017 includes a \$71 million expense following the consolidation of AHL Holdings Pty Ltd (trading as Aussie Home Loans) as the Group acquired the remaining 20% share on 25 August 2017.

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

# Notes to the Financial Statements

## 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 economic life and operating lease rentals which are recognised on a straight line basis over the lease term.

IT expenses 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 or once a liability is incurred.

# Notes to the Financial Statements

## 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 income tax ("cash basis"). During the year refinements have been made to the allocation of customer balances and associated revenue and expenses between business segments, including updated transfer pricing allocations. These include the impact of the announced migration of relationship managed customers outside Western Australia from Bankwest to Business and Private Banking. These changes have not impacted the Group's cash net profit, but have resulted in changes to the presentation of the Income Statement and the Balance Sheet of the affected segments.

Half Year Ended 31 December 2017 <sup>(1)</sup>

	Retail Banking Services \$M	Business and Private Banking \$M	Institutional Banking and Markets \$M	Wealth Management \$M	New Zealand \$M	Bankwest \$M	IFS and Other \$M	Total \$M
Net interest income	4,952	1,694	737	-	849	778	243	9,253
Other banking income	1,039	517	679	-	186	107	166	2,694
<b>Total banking income</b>	<b>5,991</b>	<b>2,211</b>	<b>1,416</b>	<b>-</b>	<b>1,035</b>	<b>885</b>	<b>409</b>	<b>11,947</b>
Funds management income	-	-	-	987	50	-	2	1,039
Insurance income	-	-	-	82	-	-	54	136
<b>Total operating income</b>	<b>5,991</b>	<b>2,211</b>	<b>1,416</b>	<b>1,069</b>	<b>1,085</b>	<b>885</b>	<b>465</b>	<b>13,122</b>
Investment experience <sup>(2)</sup>	-	-	-	11	-	-	2	13
<b>Total income</b>	<b>5,991</b>	<b>2,211</b>	<b>1,416</b>	<b>1,080</b>	<b>1,085</b>	<b>885</b>	<b>467</b>	<b>13,135</b>
Operating expenses	(1,846)	(789)	(542)	(707)	(391)	(368)	(1,121)	(5,764)
Loan impairment expense	(356)	(49)	(105)	-	(23)	(30)	(33)	(596)
<b>Net profit before tax</b>	<b>3,789</b>	<b>1,373</b>	<b>769</b>	<b>373</b>	<b>671</b>	<b>487</b>	<b>(687)</b>	<b>6,775</b>
Corporate tax (expense)/benefit	(1,136)	(413)	(178)	(92)	(188)	(148)	124	(2,031)
Non-controlling interests	-	-	-	-	-	-	(9)	(9)
<b>Net profit after tax from continuing operations - "cash basis"</b>	<b>2,653</b>	<b>960</b>	<b>591</b>	<b>281</b>	<b>483</b>	<b>339</b>	<b>(572)</b>	<b>4,735</b>
Net profit after tax from discontinued operations	-	-	-	94	49	-	(7)	136
<b>Net profit after tax - "cash basis" <sup>(3)</sup></b>	<b>2,653</b>	<b>960</b>	<b>591</b>	<b>375</b>	<b>532</b>	<b>339</b>	<b>(579)</b>	<b>4,871</b>
Hedging and IFRS volatility	-	-	-	-	106	-	(10)	96
Gain/ (loss) on disposal and acquisition of entities net of transaction costs	58	-	-	-	-	-	(115)	(57)
Other non-cash items	-	-	-	(3)	-	(1)	-	(4)
<b>Net profit after tax - "statutory basis"</b>	<b>2,711</b>	<b>960</b>	<b>591</b>	<b>372</b>	<b>638</b>	<b>338</b>	<b>(704)</b>	<b>4,906</b>
<b>Additional information</b>								
Amortisation and depreciation	(105)	(52)	(59)	(12)	(36)	(13)	(96)	(373)
<b>Balance Sheet</b>								
Total assets	362,415	115,423	165,273	20,026	85,420	80,048	133,325	961,930
Total liabilities	258,136	87,588	151,660	24,887	78,917	55,820	238,831	895,839

(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 (\$96 million gain), transaction and separation costs associated with the disposal of Commlnsure Life and Sovereign (\$122 million), a gain recognised on acquisition of AHL (\$58 million), a gain on sale of County Banks (\$11 million), a loss due to the dilution of the Group's interest in Qilu Bank Co. Ltd (\$4 million), Bankwest non-cash items (\$1 million expense) and treasury shares valuation adjustment (\$3 million expense).

# Notes to the Financial Statements

## 2.4 Financial Reporting by Segments (continued)

Half Year Ended 31 December 2016 <sup>(1)</sup>

	Retail Banking Services \$M	Business and Private Banking \$M	Institutional Banking and Markets \$M	Wealth Management \$M	New Zealand \$M	Bankwest \$M	IFS and Other \$M	Total \$M
Net interest income	4,579	1,612	769	-	826	733	191	8,710
Other banking income <sup>(2)</sup>	1,006	486	719	-	159	100	548	3,018
<b>Total banking income</b>	<b>5,585</b>	<b>2,098</b>	<b>1,488</b>	<b>-</b>	<b>985</b>	<b>833</b>	<b>739</b>	<b>11,728</b>
Funds management income	-	-	-	899	45	-	(1)	943
Insurance income	-	-	-	108	-	-	54	162
<b>Total operating income</b>	<b>5,585</b>	<b>2,098</b>	<b>1,488</b>	<b>1,007</b>	<b>1,030</b>	<b>833</b>	<b>792</b>	<b>12,833</b>
Investment experience <sup>(3)</sup>	-	-	-	5	-	-	(3)	2
<b>Total income</b>	<b>5,585</b>	<b>2,098</b>	<b>1,488</b>	<b>1,012</b>	<b>1,030</b>	<b>833</b>	<b>789</b>	<b>12,835</b>
Operating expenses <sup>(4)</sup>	(1,733)	(787)	(551)	(727)	(396)	(367)	(913)	(5,474)
Loan impairment expense	(352)	(55)	(44)	-	(47)	(50)	(51)	(599)
<b>Net profit before tax</b>	<b>3,500</b>	<b>1,256</b>	<b>893</b>	<b>285</b>	<b>587</b>	<b>416</b>	<b>(175)</b>	<b>6,762</b>
Corporate tax (expense)/benefit	(1,047)	(378)	(212)	(74)	(164)	(126)	76	(1,925)
Non-controlling interests	-	-	-	-	-	-	(9)	(9)
<b>Net profit after tax from continuing operations - "cash basis"</b>	<b>2,453</b>	<b>878</b>	<b>681</b>	<b>211</b>	<b>423</b>	<b>290</b>	<b>(108)</b>	<b>4,828</b>
Net profit after tax from discontinued operations	-	-	-	37	42	-	-	79
<b>Net profit after tax - "cash basis" <sup>(5)</sup></b>	<b>2,453</b>	<b>878</b>	<b>681</b>	<b>248</b>	<b>465</b>	<b>290</b>	<b>(108)</b>	<b>4,907</b>
Hedging and IFRS volatility	-	-	-	-	2	-	6	8
Gain/ (loss) on disposal and acquisition of entities net of transaction costs	-	-	-	-	-	-	-	-
Other non-cash items	-	-	-	(19)	-	(1)	-	(20)
<b>Net profit after tax - "statutory basis"</b>	<b>2,453</b>	<b>878</b>	<b>681</b>	<b>229</b>	<b>467</b>	<b>289</b>	<b>(102)</b>	<b>4,895</b>
<b>Additional information</b>								
Amortisation and depreciation	(121)	(59)	(63)	(8)	(37)	(13)	(474)	(775)
<b>Balance Sheet</b>								
Total assets	346,786	113,636	177,302	21,862	86,085	75,532	150,460	971,663
Total liabilities	248,689	82,997	154,811	26,975	79,058	50,356	267,021	909,907

(1) Comparative information has been restated to be presented on a continuing operations basis, to reflect the migration of customers from Bankwest to Business and Private Banking, to reflect refinements to the allocation of customer balances, revenue and expense methodology including updated transfer pricing allocations and recognise deferred tax on Brand names acquired by the Group following a change in accounting policy.

(2) IFS and Other includes a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

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

(4) IFS and Other includes a \$393 million one-off expense for acceleration of amortisation on certain software assets.

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

# Notes to the Financial Statements

## 2.4 Financial Reporting by Segments (continued)

Geographical Information	Half Year Ended <sup>(1)</sup>			
	31 Dec 17 \$M	31 Dec 17 %	31 Dec 16 \$M	31 Dec 16 %
<b>Financial Performance and Position</b>				
<b>Income</b>				
Australia	17,920	84.3	17,592	84.6
New Zealand	2,231	10.5	2,233	10.7
Other locations <sup>(2)</sup>	1,112	5.2	986	4.7
<b>Total Income</b>	<b>21,263</b>	<b>100.0</b>	20,811	100.0
<b>Non-Current Assets</b>				
Australia	13,046	90.5	15,557	91.8
New Zealand	996	6.9	1,047	6.2
Other locations <sup>(2)</sup>	381	2.6	332	2.0
<b>Total non-current assets</b> <sup>(3)</sup>	<b>14,423</b>	<b>100.0</b>	16,936	100.0

(1) Information has been restated and presented on a continuing operations basis. Discontinued operations include the Group's life insurance businesses in Australia and New Zealand.

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

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

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

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# Notes to the Financial Statements

## 2.5 Income Tax Expense

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Profit before income tax</b>	<b>6,975</b>	6,856	6,770
Prima facie income tax at 30%	<b>2,093</b>	2,057	2,031
<b>Effect of amounts which are non-deductible/(assessable) in calculating taxable income:</b>			
Taxation offsets and other dividend adjustments	(7)	(5)	(6)
Tax losses not previously brought to account	-	24	(80)
Offshore tax rate differential	(34)	(38)	(35)
Offshore banking unit	(22)	(21)	(21)
Effect of changes in tax rates	15	2	2
Income tax under/(over) provided in previous years	(72)	(73)	7
Non-deductible expense provision <sup>(2)</sup>	112	-	-
Other	(14)	9	28
<b>Total income tax expense</b>	<b>2,071</b>	1,955	1,926
Corporate tax expense	<b>2,071</b>	1,955	1,926
<b>Total income tax expense</b>	<b>2,071</b>	1,955	1,926
<b>Effective tax rate (%)</b>	<b>29.7</b>	28.5	28.4

(1) Information has been presented on a continuing operations basis including restatements to the prior periods. Discontinued operations include the Group's life insurance businesses in Australia and New Zealand.

(2) The Group has provided for a civil penalty in the amount of \$375 million and this amount is non-deductible for tax purposes. The Group believes this to be a reliable estimate of the civil penalty a Court may impose in the AUSTRAC proceedings. See Note 7.2 for further information.

## 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 between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base are recognised.

The amount of deferred tax provided 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.

### **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

## 3) Our Lending Activities

### 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.

This section provides details of the Group's lending portfolio by type of product and geographical regions.

### 3.1 Loans, Bills Discounted and Other Receivables

	As at		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
<b>Australia</b>			
Overdrafts	25,575	24,385	22,813
Home loans	443,953	436,184	423,163
Credit card outstandings	12,215	12,073	12,280
Lease financing	4,500	4,302	4,305
Bills discounted	5,830	7,486	7,993
Term loans and other lending	147,767	149,506	146,526
<b>Total Australia</b>	<b>639,840</b>	<b>633,936</b>	<b>617,080</b>
<b>New Zealand</b>			
Overdrafts	1,130	1,091	1,027
Home loans	47,874	48,724	48,347
Credit card outstandings	1,006	960	997
Lease financing	25	28	30
Term loans and other lending	26,268	26,912	26,207
<b>Total New Zealand</b>	<b>76,303</b>	<b>77,715</b>	<b>76,608</b>
<b>Other Overseas</b>			
Overdrafts	468	454	473
Home loans	861	949	1,022
Lease financing	4	8	18
Term loans and other lending	23,620	23,477	22,609
<b>Total Other Overseas</b>	<b>24,953</b>	<b>24,888</b>	<b>24,122</b>
<b>Gross loans, bills discounted and other receivables</b>	<b>741,096</b>	<b>736,539</b>	<b>717,810</b>
<b>Less:</b>			
Provisions for Loan Impairment:			
Collective provision	(2,749)	(2,722)	(2,782)
Individually assessed provisions	(974)	(971)	(1,007)
Unearned income:			
Term loans	(677)	(681)	(689)
Lease financing	(380)	(403)	(427)
	(4,780)	(4,777)	(4,905)
<b>Net loans, bills discounted and other receivables</b>	<b>736,316</b>	<b>731,762</b>	<b>712,905</b>

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# Notes to the Financial Statements

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## 3.1 Loans, Bills Discounted and Other Receivables (continued)

### Accounting Policy

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Loans, bills discounted and other receivables are non-derivative financial assets, with fixed and determinable payments that are not quoted in an active market. Loans, bills discounted and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, bill financing, securities, finance leases, and receivables due from other financial institutions (including loans, deposits with regulatory authorities and settlement account balances due from other banks).

Loans and receivables are recognised on settlement date, when funding is advanced to the borrowers. The loans and receivables are initially recognised at their fair value plus directly attributable transaction costs. Subsequent to initial recognition, loans and receivables 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, please refer to section 6.1.

Discounted bills are included in this category due to their financing nature, however they meet the definition of a trading asset. They are measured at fair value through the Income Statement with directly attributable transaction costs expensed.

As a lessor, the assets the Group has leased out under finance leases are recognised as lease receivables on the Balance Sheet at an amount equal to the net investment in the lease.

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# Notes to the Financial Statements

## 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.

This section provides details of the Group's customer deposits by type of product and geography.

### 4.1 Deposits and Other Public Borrowings

	As at		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Australia</b>			
Certificates of deposit	35,871	39,854	41,018
Term deposits	155,471	158,453	151,263
On-demand and short-term deposits	300,492	293,579	286,407
Deposits not bearing interest	43,929	41,787	37,833
Securities sold under agreements to repurchase	12,270	16,175	13,015
<b>Total Australia</b>	<b>548,033</b>	<b>549,848</b>	<b>529,536</b>
<b>New Zealand</b>			
Certificates of deposit	2,162	2,409	2,521
Term deposits	27,919	27,396	24,560
On-demand and short-term deposits	20,758	21,530	23,082
Deposits not bearing interest	4,244	3,847	3,784
<b>Total New Zealand</b>	<b>55,083</b>	<b>55,182</b>	<b>53,947</b>
<b>Other Overseas</b>			
Certificates of deposit	8,798	10,087	9,343
Term deposits	10,962	8,912	10,694
On-demand and short-term deposits	1,962	2,482	2,507
Deposits not bearing interest	59	49	64
Securities sold under agreements to repurchase	-	95	-
<b>Total Other Overseas</b>	<b>21,781</b>	<b>21,625</b>	<b>22,608</b>
<b>Total deposits and other public borrowings</b>	<b>624,897</b>	<b>626,655</b>	<b>606,091</b>

### 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.

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 counterparty liability for the agreed repurchase amount is recognised within deposits and other public borrowings.

# Notes to the Financial Statements

## 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 earnings 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 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Ordinary Share Capital</b>			
Shares on issue:			
Opening balance	35,266	34,709	34,129
Issue of shares (net of issue costs) <sup>(1)</sup>	164	-	(6)
Dividend reinvestment plan (net of issue costs) <sup>(2)</sup>	1,572	557	586
	37,002	35,266	34,709
Less treasury shares:			
Opening balance	(295)	(254)	(284)
Purchase of treasury shares <sup>(3)</sup>	(12)	(65)	(27)
Sale and vesting of treasury shares <sup>(3)</sup>	81	24	57
	(226)	(295)	(254)
<b>Closing balance</b>	<b>36,776</b>	<b>34,971</b>	<b>34,455</b>
<b>Retained Profits</b>			
Opening balance <sup>(4)</sup>	26,274	24,606	23,379
Actuarial gains from defined benefit superannuation plans	44	33	142
Losses on liabilities at fair value due to changes in own credit risk	(1)	(1)	(2)
Realised gains and dividend income on treasury shares	12	11	15
Operating profit attributable to Equity holders of the Bank	4,906	5,033	4,895
	31,235	29,682	28,429
Transfers from/(to) general reserve	5	54	(21)
Transfers from asset revaluation reserve	6	(33)	6
Transfers to employee compensation reserve	-	-	-
Interim dividend - cash component	-	(2,871)	-
Interim dividend - dividend reinvestment plan <sup>(2)</sup>	-	(558)	-
Final dividend - cash component	(2,406)	-	(3,222)
Final dividend - dividend reinvestment plan <sup>(2)</sup>	(1,573)	-	(586)
<b>Closing balance</b>	<b>27,267</b>	<b>26,274</b>	<b>24,606</b>

(1) During the period 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 Dividend Reinvestment Plan (DRP) of \$1,573 million (final 2016/2017), \$558 million (interim 2016/2017) and \$586 million (final 2015/2016) with \$1,572 million, \$557 million and \$586 million ordinary shares being issued under plan rules, which include the carry forward of DRP balance from previous dividends.

(3) Relates to the movements in treasury shares held within life insurance statutory funds and the employee share scheme trust.

(4) Comparatives have been restated following a change in accounting policy to recognise deferred tax on Brand names acquired by the Group. Further details on the change are provided in Note 1.1.

# Notes to the Financial Statements

## 5.1 Shareholders' Equity (continued)

### Accounting Policy

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs. Where the Bank or other members of 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.

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# Notes to the Financial Statements

## 5.1 Shareholders' Equity (continued)

	Half Year Ended		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
<b>Reserves</b>			
<b>General Reserve</b>			
Opening balance	906	960	939
Appropriation (to)/from retained profits	(5)	(54)	21
<b>Closing balance</b>	<b>901</b>	<b>906</b>	<b>960</b>
<b>Asset Revaluation Reserve</b>			
Opening balance	223	167	173
Revaluation of properties	-	32	-
Transfer to retained profits	(6)	33	(6)
Tax on revaluation of properties	-	(9)	-
<b>Closing balance</b>	<b>217</b>	<b>223</b>	<b>167</b>
<b>Foreign Currency Translation Reserve</b>			
Opening balance	457	822	739
Currency translation adjustments of foreign operations	(247)	(384)	69
Currency translation of net investment hedge	17	5	9
Tax on translation adjustments	(5)	14	5
<b>Closing balance</b>	<b>222</b>	<b>457</b>	<b>822</b>
<b>Cash Flow Hedge Reserve</b>			
Opening balance	(107)	(47)	473
Gains and (losses) on cash flow hedging instruments:			
Recognised in other comprehensive income	(242)	(251)	(1,031)
Transferred to Income Statement:			
Interest income	(494)	(563)	(678)
Interest expense	675	724	960
Tax on cash flow hedging instruments	17	30	229
<b>Closing balance</b>	<b>(151)</b>	<b>(107)</b>	<b>(47)</b>
<b>Employee Compensation Reserve</b>			
Opening balance	164	107	132
Current period movement	(49)	57	(25)
<b>Closing balance</b>	<b>115</b>	<b>164</b>	<b>107</b>
<b>Available-for-sale Investments Reserve</b>			
Opening balance	226	135	278
Net gains and (losses) on revaluation of available-for-sale investments	(69)	173	241
Net (gains) and losses on available-for-sale investments transferred to Income Statement on disposal	20	(27)	(437)
Tax on available-for-sale investments	13	(55)	53
<b>Closing balance</b>	<b>190</b>	<b>226</b>	<b>135</b>
<b>Total Reserves</b>	<b>1,494</b>	<b>1,869</b>	<b>2,144</b>
<b>Shareholders' Equity attributable to Equity holders of the Bank</b>	<b>65,537</b>	<b>63,114</b>	<b>61,205</b>
<b>Shareholders' Equity attributable to Non-controlling interests</b>	<b>554</b>	<b>546</b>	<b>551</b>
<b>Total Shareholders' Equity</b>	<b>66,091</b>	<b>63,660</b>	<b>61,756</b>

# Notes to the Financial Statements

## 5.1 Shareholders' Equity (continued)

### Accounting Policy

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 businesses.

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.

The foreign currency translation reserve accumulates exchange differences arising on translation of the Group's foreign operations. The cumulative amount is reclassified to profit or loss when the foreign investment is disposed of or wound up.

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 from the reserve to profit or loss to offset gains or losses from the hedged transaction.

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.

The available-for-sale investment reserve includes changes in the fair value of available-for-sale financial assets. These changes are transferred to profit or loss when the asset is derecognised or impaired.

Non-controlling interests in the equity of subsidiaries are shown separately in the consolidated Balance Sheet.

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# Notes to the Financial Statements

## 6) Asset Quality and Fair Value

### Overview

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 analysis of the credit quality of the Group's lending portfolio and the related impairment provisions.

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 Provisions for Impairment and Asset Quality

	As at 31 December 2017				Total \$M
	Home	Other	Asset	Other	
	Loans	Personal <sup>(1)</sup>	Financing	Commercial	
	\$M	\$M	\$M	\$M	
<b>Loans which were neither past due nor impaired</b>					
Investment Grade	317,389	4,222	717	101,247	<b>423,575</b>
Pass Grade	152,117	14,825	7,793	108,909	<b>283,644</b>
Weak	9,149	3,090	162	2,934	<b>15,335</b>
<b>Total loans which were neither past due nor impaired</b>	<b>478,655</b>	<b>22,137</b>	<b>8,672</b>	<b>213,090</b>	<b>722,554</b>
<b>Loans which were past due but not impaired</b>					
Past due 1 - 29 days	6,787	817	165	1,287	<b>9,056</b>
Past due 30 - 59 days	1,986	219	79	200	<b>2,484</b>
Past due 60 - 89 days	912	131	15	110	<b>1,168</b>
Past due 90 - 179 days	1,153	14	2	137	<b>1,306</b>
Past due 180 days or more	1,096	9	-	249	<b>1,354</b>
<b>Total loans past due but not impaired</b>	<b>11,934</b>	<b>1,190</b>	<b>261</b>	<b>1,983</b>	<b>15,368</b>

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

# Notes to the Financial Statements

## 6.1 Provisions for Impairment and Asset Quality (continued)

	As at 30 June 2017				
	Home	Other	Asset	Other	Total
	Loans	Personal <sup>(1)</sup>	Financing	Commercial	
	\$M	\$M	\$M	\$M	
<b>Loans which were neither past due nor impaired</b>					
Investment Grade	311,666	4,249	310	101,103	<b>417,328</b>
Pass Grade	152,565	15,718	7,610	109,121	<b>285,014</b>
Weak	8,725	3,416	164	3,670	<b>15,975</b>
<b>Total loans which were neither past due nor impaired</b>	<b>472,956</b>	<b>23,383</b>	<b>8,084</b>	<b>213,894</b>	<b>718,317</b>
<b>Loans which were past due but not impaired</b>					
Past due 1 - 29 days	6,627	831	87	1,402	<b>8,947</b>
Past due 30 - 59 days	1,860	225	61	160	<b>2,306</b>
Past due 60 - 89 days	975	136	25	119	<b>1,255</b>
Past due 90 - 179 days	1,177	16	2	156	<b>1,351</b>
Past due 180 days or more	1,066	9	-	243	<b>1,318</b>
<b>Total loans past due but not impaired</b>	<b>11,705</b>	<b>1,217</b>	<b>175</b>	<b>2,080</b>	<b>15,177</b>
<b>As at 31 December 2016 <sup>(2)</sup></b>					
	Home	Other	Asset	Other	Total
	Loans	Personal <sup>(1)</sup>	Financing	Commercial	
	\$M	\$M	\$M	\$M	
	<b>Loans which were neither past due nor impaired</b>				
Investment Grade	301,353	4,564	638	98,093	<b>404,648</b>
Pass Grade	151,134	14,661	7,383	107,422	<b>280,600</b>
Weak	8,533	3,210	183	3,769	<b>15,695</b>
<b>Total loans which were neither past due nor impaired</b>	<b>461,020</b>	<b>22,435</b>	<b>8,204</b>	<b>209,284</b>	<b>700,943</b>
<b>Loans which were past due but not impaired</b>					
Past due 1 - 29 days	5,886	842	105	1,086	<b>7,919</b>
Past due 30 - 59 days	1,805	224	49	242	<b>2,320</b>
Past due 60 - 89 days	849	131	29	114	<b>1,123</b>
Past due 90 - 179 days	977	15	4	175	<b>1,171</b>
Past due 180 days or more	906	10	1	252	<b>1,169</b>
<b>Total loans past due but not impaired</b>	<b>10,423</b>	<b>1,222</b>	<b>188</b>	<b>1,869</b>	<b>13,702</b>

(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) Comparative information has been restated to conform to presentation in the current period, and the 30 June 2017 period following enhancements to methodology disclosed at 30 June 2017.

# Notes to the Financial Statements

## 6.1 Provisions for Impairment and Asset Quality (continued)

	Half Year Ended		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
<b>Movement in gross impaired assets</b>			
Gross impaired assets - opening balance	3,187	3,375	3,116
New and increased	1,254	970	1,194
Balances written off	(538)	(641)	(584)
Returned to performing or repaid <sup>(1)</sup>	(867)	(1,071)	(689)
Portfolio managed - new/increased/return to performing/repaid <sup>(1)</sup>	331	554	338
<b>Gross impaired assets - closing balance <sup>(2)</sup></b>	<b>3,367</b>	<b>3,187</b>	<b>3,375</b>

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

(2) Includes \$3,174 million of loans and advances and \$193 million of other financial assets (30 June 2017: \$3,045 million of loans and advances and \$142 million of other financial assets; 31 December 2016: \$3,165 million of loans and advances and \$210 million of other financial assets).

	As at		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
<b>Impaired assets by size of asset</b>			
Less than \$1 million	1,412	1,452	1,300
\$1 million to \$10 million	860	926	948
Greater than \$10 million	1,095	809	1,127
<b>Gross impaired assets</b>	<b>3,367</b>	<b>3,187</b>	<b>3,375</b>
Less total provisions for impaired assets <sup>(1)</sup>	(1,160)	(1,149)	(1,182)
<b>Net impaired assets</b>	<b>2,207</b>	<b>2,038</b>	<b>2,193</b>

(1) Includes \$978 million of individually assessed provision and \$182 million of collective provisions (30 June 2017: \$980 million of individually assessed provisions and \$169 million of collective provisions; 31 December 2016: \$1,017 million of individually assessed provisions and \$165 million of collective provisions).

# Notes to the Financial Statements

## 6.1 Provisions for Impairment and Asset Quality (continued)

	Half Year Ended		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Provision for impairment losses</b>			
<b>Collective provision</b>			
Opening balance	2,747	2,807	2,818
Net collective provision funding	385	293	324
Impairment losses written off	(433)	(451)	(443)
Impairment losses recovered	104	103	107
Other	(31)	(5)	1
<b>Closing balance</b>	<b>2,772</b>	<b>2,747</b>	<b>2,807</b>
<b>Individually assessed provisions</b>			
Opening balance	980	1,017	944
Net new and increased individual provisioning	370	300	370
Write-back of provisions no longer required	(159)	(97)	(95)
Discount unwind to interest income	(14)	(15)	(16)
Impairment losses written off	(235)	(247)	(207)
Other	36	22	21
<b>Closing balance</b>	<b>978</b>	<b>980</b>	<b>1,017</b>
<b>Total provisions for impairment losses</b>	<b>3,750</b>	<b>3,727</b>	<b>3,824</b>
Less: Provision for Off Balance Sheet exposures	(27)	(34)	(35)
<b>Total provisions for loan impairment</b>	<b>3,723</b>	<b>3,693</b>	<b>3,789</b>
	As at		
	31 Dec 17	30 Jun 17	31 Dec 16
	%	%	%
<b>Provision ratios</b>			
Total provisions for impaired assets as a % of gross impaired assets	34.45	36.05	35.02
Total provisions for impairment losses as a % of gross loans and acceptances	0.51	0.51	0.53
	Half Year Ended		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Loan impairment expense</b>			
Net collective provision funding	385	293	324
Net new and increased individual provisioning	370	300	370
Write-back of individually assessed provisions	(159)	(97)	(95)
<b>Total loan impairment expense</b>	<b>596</b>	<b>496</b>	<b>599</b>

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# Notes to the Financial Statements

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## 6.1 Provisions for Impairment and Asset Quality (continued)

### Accounting Policy

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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 impaired loans will be necessary.

#### **Critical accounting judgements and estimates**

Provisions for impairment of financial assets are raised to cover assessed credit related losses where there is objective evidence of impairment (where the Group does not expect to receive all of the cashflows contractually due). Financial assets are either individually or collectively assessed. Credit losses arise primarily from loans, but also from other credit instruments such as bank acceptances, contingent liabilities, guarantees and other financial instruments.

#### **Individually Assessed Provisions**

Individually assessed provisions are made against financial assets that are individually significant, or which have been individually assessed as impaired. The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken and are measured as the difference between a financial asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short-term balances are not discounted.

#### **Collective Provisions**

Loans and receivables that do not have an individually assessed provision are assessed collectively for impairment. The collective provision is maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the Balance Sheet date. The evaluation process is subject to a series of estimates and judgements. In the risk rated segment, the risk rating system, including the frequency of default and loss given default rates, loss history, and the size, structure and diversity of individual borrowers are considered. Current developments in portfolios (industry, geographic and term) are reviewed. In the statistically managed (retail) segment, the history of defaults and losses, and the size, structure and diversity of portfolios are considered. Management also considers overall indicators of portfolio performance, quality and economic conditions. Changes in these estimates could have a direct impact on the level of provision determined.

Guarantees and other contingent liabilities are accounted for as off Balance Sheet items. Provisioning for these exposures is calculated under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'.

Loan assets under committed lending facilities are not recognised until the facilities are drawn upon. However, the Group has determined that it is appropriate to establish provisions in relation to such facilities where a customer has been downgraded. These provisions are disclosed as other liabilities in the Balance Sheet.

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# Notes to the Financial Statements

## 6.2 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 of the Group's financial instruments not measured at fair value as at 31 December 2017 are presented below. The disclosure does not cover assets or liabilities that are not considered to be financial instruments from an accounting perspective. Many of the instruments not already carried at fair value in the Balance Sheet, lack an available trading market and it is the intention to hold these instruments to maturity. Thus it is possible that realised amounts may differ to amounts disclosed below.

	31 Dec 17		30 Jun 17	
	Carrying value	Fair value	Carrying value	Fair value
	\$M	\$M	\$M	\$M
<b>Financial assets not measured at fair value on a recurring basis</b>				
Cash and liquid assets <sup>(1)</sup>	37,322	37,322	45,850	45,850
Receivables due from other financial institutions	6,955	6,955	10,037	10,037
Loans and other receivables	730,486	730,957	724,276	724,271
Bank acceptances of customers	222	222	463	463
Other assets <sup>(1)</sup>	3,956	3,956	6,026	6,026
Assets held for sale <sup>(1)</sup>	200	200	-	-
<b>Total financial assets</b>	<b>779,141</b>	<b>779,612</b>	<b>786,652</b>	<b>786,647</b>
<b>Financial liabilities not measured at fair value on a recurring basis</b>				
Deposits and other public borrowings <sup>(1)</sup>	624,897	625,280	626,655	626,924
Payables due to other financial institutions	24,466	24,466	28,432	28,432
Bank acceptances	222	222	463	463
Debt issues	166,510	168,458	167,571	167,752
Managed funds units on issue <sup>(1)</sup>	-	-	2,577	2,577
Bills payable and other liabilities <sup>(1)</sup>	6,620	6,620	9,485	9,485
Liabilities held for sale <sup>(1)</sup>	1,983	1,983	-	-
Loan capital	20,184	21,099	18,726	18,706
<b>Total financial liabilities</b>	<b>844,882</b>	<b>848,128</b>	<b>853,909</b>	<b>854,339</b>

(1) As at 31 December 2017 assets and liabilities of the Group's life insurance businesses have been presented as held for sale.

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

#### Loans and Other Receivables

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

For the majority of variable rate loans, excluding impaired loans, the carrying amount net off collective and individually assessed provisions is considered a reasonable estimate of fair value. For institutional variable rate and other fixed rate loans, the fair value is calculated using discounted cash flow models, where the discount rate reflects market rates offered for loans or similar remaining maturities and creditworthiness of the customer. The fair value of impaired loans is calculated by discounting estimated future cash flows using the loan's market interest rate.

#### Deposits and Other Public Borrowings

Fair value of non-interest bearing, at call and variable rate deposits, and fixed rate deposits repricing within six months, approximate their carrying value as they are short-term in nature or payable on demand. Fair value of term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.

#### Debt Issues and Loan Capital

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

#### Other Financial Assets and Liabilities

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

# Notes to the Financial Statements

## 6.2 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 2017				Fair Value as at 30 June 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<b>Financial assets measured at fair value on a recurring basis</b>								
Assets at fair value through Income Statement:								
Trading	25,440	9,256	-	<b>34,696</b>	24,657	8,047	-	32,704
Insurance <sup>(1)</sup>	-	382	-	<b>382</b>	3,519	8,620	1,530	13,669
Other	50	988	-	<b>1,038</b>	51	1,060	-	1,111
Derivative assets	-	25,158	70	<b>25,228</b>	63	31,594	67	31,724
Available-for-sale investments	75,621	8,249	43	<b>83,913</b>	75,050	8,346	139	83,535
Bills Discounted	5,830	-	-	<b>5,830</b>	7,486	-	-	7,486
Assets held for sale <sup>(1)</sup>	2,004	8,026	1,407	<b>11,437</b>	-	-	-	-
<b>Total financial assets measured at fair value</b>	<b>108,945</b>	<b>52,059</b>	<b>1,520</b>	<b>162,524</b>	<b>110,826</b>	<b>57,667</b>	<b>1,736</b>	<b>170,229</b>
<b>Financial liabilities measured at fair value on a recurring basis</b>								
Liabilities at fair value through Income Statement	1,732	7,618	-	<b>9,350</b>	2,525	7,867	-	10,392
Derivative liabilities	23	23,429	111	<b>23,563</b>	192	30,036	102	30,330
Life investment contracts <sup>(1)</sup>	-	352	-	<b>352</b>	-	7,374	565	7,939
Liabilities held for sale <sup>(1)</sup>	6	7,140	468	<b>7,614</b>	-	-	-	-
<b>Total financial liabilities measured at fair value</b>	<b>1,761</b>	<b>38,539</b>	<b>579</b>	<b>40,879</b>	<b>2,717</b>	<b>45,277</b>	<b>667</b>	<b>48,661</b>

(1) As at 31 December 2017 assets and liabilities of the Group's life insurance businesses have been presented as held for sale.

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

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

The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where no quoted market price for an instrument is available, the fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in a limited number of instances, rely on inputs which are reasonable assumptions based on market conditions. Determination of the fair value of Over-the-Counter (OTC) derivatives includes Credit Valuation Adjustments (CVA) for derivative assets to reflect the credit worthiness of the counterparty. Fair value of uncollateralised derivative assets and uncollateralised derivative liabilities incorporate Funding Valuation Adjustments (FVA) to reflect funding costs and benefits to the Group. These adjustments are applied after considering any relevant collateral or master netting arrangements.

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

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

#### Valuation Inputs

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

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

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

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

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

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

# Notes to the Financial Statements

## 6.2 Disclosures about Fair Values (continued)

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

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

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

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

During the half year ended 31 December 2017, the Group reclassified \$1,722 million of trading assets (30 June 2017: nil) from Level 2 to Level 1.

There have been no reclassifications of available-for-sale securities during the half year ended 31 December 2017 (30 June 2017: \$752 million from Level 2 to Level 1). Following the announced sale of the Group's life insurance businesses, insurance securities within these operations have been presented as held for sale. There were no insurance security reclassifications during the half year (30 June 2017: \$488 million from Level 1 to Level 2). Transfers in and out of Levels are due to changes in the observability of the inputs. The table below summarises movements in Level 3 balances during the half year. Transfers have been reflected as if they had taken place at the end of the reporting period.

### Level 3 Movement Analysis for the half year ended 31 December 2017

	Financial Assets			Financial Liabilities	
	Derivative Assets	Available for Sale Investments	Assets Held for Sale <sup>(1)</sup>	Derivative Liabilities	Liabilities Held for Sale <sup>(1)</sup>
	\$M	\$M	\$M	\$M	\$M
<b>As at 1 July 2017</b>	67	139	1,530	(102)	(565)
Purchases	1	-	-	(29)	-
Sales/Settlements	(6)	(96)	-	3	-
Gains/(losses) in the period:					
Recognised in the Income Statement	(17)	-	(123)	17	97
Recognised in the Statement of Comprehensive Income	-	-	-	-	-
Transfers in	25	-	-	-	-
Transfers out	-	-	-	-	-
<b>As at 31 December 2017</b>	70	43	1,407	(111)	(468)
<b>Gains/(losses) recognised in the Income Statement for financial instruments held as at 31 December 2017</b>	(17)	-	(123)	16	97

(1) Assets and liabilities of the Group's life insurance businesses have been presented as held for sale.

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

# Notes to the Financial Statements

## 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 and other assets in the Balance Sheet should they be drawn upon by the customer.

	Face Value		Group Credit Equivalent	
	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17
	\$M	\$M	\$M	\$M
<b>Credit risk related instruments</b>				
Guarantees	6,492	7,424	5,961	7,424
Documentary letters of credit	1,290	1,183	1,287	1,168
Performance related contingents	4,180	2,133	2,366	2,127
Commitments to provide credit	168,226	173,555	161,733	167,205
Other commitments	1,282	837	1,277	835
<b>Total credit risk related instruments</b>	<b>181,470</b>	<b>185,132</b>	<b>172,624</b>	<b>178,759</b>

### 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 best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. 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 loans and receivables. Irrevocable loan commitments are not recorded in the Balance Sheet, but a provision is recognised if it is probable that a loss has been incurred and a reliable estimate of the amount can be made. Other commitments to provide credit include commitments with certain drawdowns, standby letters of credit and bill endorsements.

# Notes to the Financial Statements

## 7.2 Litigation, investigations and reviews

The Group is party to legal proceedings and the subject of investigations and reviews, these include the matters outlined below as at 31 December 2017.

### Litigation

#### AUSTRAC Civil Proceedings

On 3 August 2017, Australian Transaction Reports and Analysis Centre (AUSTRAC) commenced civil penalty proceedings in the Federal Court of Australia in Sydney against CBA. The AUSTRAC statement of claim relates to alleged past and ongoing contraventions of four provisions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) (AML/CTF Act).

On 13 December 2017 in accordance with the Court's orders, CBA filed its defence to the AUSTRAC proceedings. In the defence filed, CBA contested a number of allegations but admitted others. Specifically CBA confirmed in its defence:

- It was late in filing 53,506 threshold transaction reports (TTRs), which all resulted from the same systems-related error, representing 2.3% of TTRs reported by CBA to AUSTRAC between 2012 and 2015;
- It did not adequately adhere to risk assessment requirements for Intelligent Deposit Machines (IDMs) - but does not accept that this amounted to eight separate contraventions;
- It did not adhere to all its transaction monitoring requirements in relation to certain affected accounts;
- Admitted 91 (in whole or in part) but denied a further 83 of the allegations concerning suspicious matter reports (SMRs); and
- Admitted 52 (in whole or in part) but denied a further 19 allegations concerning ongoing customer due diligence requirements.

On 14 December 2017 CBA was served with an amended statement of claim from AUSTRAC, alleging further contraventions of the AML/CTF Act. The new allegations, amongst other things, increase the total number of alleged contraventions from approximately 53,700 to 53,800. They comprise:

- 6 further allegations concerning risk assessments in relation to the IDMs;
- 56 allegations concerning SMRs; and
- 38 allegations concerning ongoing customer due diligence.

CBA takes the allegations made by AUSTRAC very seriously and is in the process of carefully considering the amended claim. The parties have approached the Court to set a timetable for CBA to file an amended defence to address the new allegations. The proposal, yet to be agreed by the Court, is that CBA file its amended defence by 16 March 2018 and the matter be listed for a further case management hearing on 8 May 2018. No formal orders have yet been made by the Court in respect of this proposed revised timetable.

What we can say about these proceedings is limited until they have run their course. However, there is no evidence of deliberate circumvention of the law.

The actual outcome in this matter will be determined by a Court in accordance with established legal principles. A Court will ordinarily take into account a range of factors in setting penalties. One factor is the extent to which any contraventions arise from a single course of conduct. For example, AUSTRAC alleges (and CBA has admitted) that approximately 53,506 threshold transaction reports were lodged late. Late lodgement carried a penalty of up to \$18 million during the period in issue. However, these alleged contraventions could be considered to arise from a single course of conduct to the extent that they emanated from the same error.

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

The proceedings are complex and ongoing and other factors may arise that could affect the outcome. The penalty determined by the Court may therefore be higher or lower than the amount provided for. Ultimately, a Court will seek to ensure that, overall, any civil penalties are just and appropriate and do not exceed what is proper having regard to the totality of established contraventions.

CBA has made significant progress in strengthening its policies, systems and processes relating to its obligations under the AML/CTF Act through the Program of Action which was commenced in 2015 and is ongoing.

As CBA continues to strengthen its financial crimes compliance it will continue to work closely with regulators across those jurisdictions in which it operates. The Group has provided for the costs of running the Program of Action.

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# Notes to the Financial Statements

## 7.2 Litigation, investigations and reviews (continued)

### ASIC's investigation

On 11 August 2017, following the commencement of the civil proceedings against CBA by AUSTRAC, ASIC confirmed it would investigate 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 continuous disclosure obligations under the Corporations Act. 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 costs expected to be incurred in relation to this investigation.

### Shareholder Class Action

On 9 October 2017 the Group was served with a class action proceeding filed in the Federal Court of Australia in Melbourne. The proceeding filed by Maurice Blackburn is on behalf of shareholders who acquired an interest in CBA's shares between 1 July 2015 and 3 August 2017 and who suffered loss as alleged in the statement of claim. It is currently not possible to determine the ultimate impact of this matter, if any, on the Group. The Group intends to vigorously defend this claim. CBA's defence is due to be filed on 23 February 2018 and the matter is next listed for a case management conference on 16 March 2018 when further directions will be given for the future conduct of the proceedings. The Group has provided for legal costs expected to be incurred to defend this claim.

### ASIC Bank Bill Swap Rate

On 30 January 2018, as part of the industry wide review into the trading activities of participants in the bank bill market, ASIC filed a claim against CBA. Full details of which are included in Note 7.5 Subsequent Events.

### Investigations and reviews

#### 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 and whether practices within the Group, and make recommendations as to how they are promptly addressed. The Inquiry will consider if the Group's organisational structure, governance, financial objectives, remuneration and accountability frameworks are conflicting with sound risk management and compliance outcomes. The Inquiry is being conducted by the independent inquiry panel (the "Panel") appointed by APRA. The Panel is being provided with support by APRA, and may obtain other external expertise and advice as it sees fit. The Panel published a progress report on 1 February 2018 and currently intends to publish a final report by 30 April 2018. APRA intends to make these reports public. It is currently not possible to predict the ultimate outcome of the Inquiry, if any, on the Group. The Group has provided for the costs expected to be incurred in relation to the conduct of the Inquiry.

#### The Royal Commission

On 30 November 2017, the Government released draft terms of reference for the establishment of a Royal Commission into misconduct in the banking, superannuation and financial services industry (the "Royal Commission"). CBA will continue to monitor developments in relation to, and will fully cooperate with, the Royal Commission.

Inquiries and announcements can involve additional costs and can adversely affect investor confidence. If any changes in law are made as a result of these inquiries or announcements, those changes may adversely affect CBA's business and operations.

The Group has provided for the cost expected to be incurred in relation to the conduct of the Royal Commission.

### Remediation programs

#### Advice Review Program

The Group's Open Advice Review program (OARp) is nearing completion. A total of 8,658 reviews were requested by customers and all assessments have been issued. As at 8 January 2018, 97.8% of cases are closed or settled in principle, with 112 cases remaining. OARp is working with customers and their Independent Customer Advocates (ICAs) to close these remaining cases as soon as possible. Compensation totalling \$37.6 million has been offered to customers in 28.9% of cases. Variations to Commonwealth Financial Planning Ltd (CFPL) and Financial Wisdom Ltd (FWL)'s Australian Financial Services Licenses became effective on 19 August 2014. ASIC subsequently appointed KordaMentha Forensic (KMF) as the compliance expert under the varied AFSL conditions. The licensees have previously contacted more than 4,300 customers to offer independent reviews of the advice they had received. That process resulted in the Group paying additional compensation of \$4.97 million in aggregate to some of those customers. KMF's most recent progress report was issued on 23 January 2018. It confirms that CFPL and FWL need to review the advice of the customers of another five advisers to review the quality of the advice those customers received. As at 10 January 2018, CBA had offered approximately \$1.1 million in compensation. At that date, CBA had sent more than 75% of all assessment outcome letters. That figure may increase once all assessment outcome letters have been sent to customers.

The Group has provided for the cost of operating these programs, together with anticipated remediation costs.

## 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.

# Notes to the Financial Statements

## 7.3 Discontinued Operations and Operations under Strategic Review

### Discontinued Operations

During the 2018 financial year the Group announced the sale of 100% of its life insurance businesses in Australia ("Commlnsure Life") and New Zealand ("Sovereign") to AIA Group Limited ("AIA") for \$3.8 billion (the "Transaction").

The sale agreement includes a 20-year partnership with AIA for the provision of life insurance products to customers in Australia and New Zealand.

The Transaction is subject to certain conditions and regulatory approvals in Australia and New Zealand and is also conditional upon the transfer of Commonwealth Bank's equity interest in BoComm Life Insurance Company Limited ("BoComm Life") out of Commlnsure. This is expected to be completed in calendar year 2018.

Commlnsure Life currently forms part of the Group's Wealth Management segment while Sovereign forms part of the Group's New Zealand segment. Both are discontinued operations within each segment. The comparative Income Statement and Statement of Comprehensive Income of the Group have been restated to show discontinued operations separately from continuing operations.

### Operations under Strategic Review

During the 2018 financial year the Group announced that it is undertaking a strategic review of its global asset management business, Colonial First State Global Asset Management ("CFSGAM"), also known outside of Australia as First State Investments ("FSI"). The strategic review will consider a range of options, including an initial public offering, and remains ongoing at this time.

### Financial Impact of Discontinued Operations on the Group

The performance, net cashflows and balance sheet of Commlnsure Life and Sovereign are set out in the tables below.

## Life Insurance Business Discontinued Operations

### Income Statement

	Half Year Ended		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
Funds management income	54	73	50
Insurance income	354	391	213
Total operating income	408	464	263
Operating expenses	(184)	(206)	(203)
Net profit before tax	224	258	60
Corporate tax expense	(57)	(55)	(24)
Policyholder tax	(34)	(56)	24
Profit after tax and before transaction and separation costs	133	147	60
Transaction and separation costs	(122)	-	-
Non-controlling interests	-	(4)	-
<b>Net profit after income tax from discontinued operations attributable to Equity holders of the Bank</b>	<b>11</b>	<b>143</b>	<b>60</b>

### Cash Flow Statement

	Half Year Ended		
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M
Net cash used in operating activities	(299)	(615)	(520)
Net cash from investing activities	560	721	559
Net cash used in financing activities	(206)	(160)	(7)
<b>Net cash inflows/(outflows) from Life Insurance business discontinued operations</b>	<b>55</b>	<b>(54)</b>	<b>32</b>

# Notes to the Financial Statements

## 7.3 Discontinued Operations and Operations under Strategic Review (continued)

### Balance Sheet

	As at <sup>(1)</sup>
	31 Dec 17
	\$M
<b>Assets held for sale</b>	
Cash and liquid assets	115
Insurance assets at fair value through Income Statement	11,413
Goodwill and other intangible assets	1,473
Property, plant and equipment	1,191
Other assets	695
<b>Total assets</b> <sup>(2)</sup>	<b>14,887</b>
<b>Liabilities held for sale</b>	
Insurance policy liabilities	11,516
Deferred tax liabilities	753
Deposits and other public borrowings	863
Managed funds units on issue	1,065
Other liabilities	346
<b>Total liabilities</b>	<b>14,543</b>

(1) Intragroup balances have been eliminated, however will impact the final gain/loss on disposal of the life insurance business discontinued operations.

(2) Excludes businesses or assets that are held for sale, which do not form part of the life insurance business discontinued operations.

The balance of the foreign currency translation reserve and cash flow hedge reserve relating to discontinued operations is \$21 million.

## 7.4 Acquisition of controlled entities

On 25 August 2017, the Group acquired the remaining 20% of the issued share capital of AHL Holdings Pty Limited ("AHL") for \$164 million purchase consideration in the form of CBA shares. Following acquisition of the remaining 20% issued share capital of AHL, the Group controls and consolidates AHL.

AHL is the parent of the "Aussie" group of entities. Aussie predominantly operates as a mortgage broker and originator. The acquisition of AHL will expand the Group's distribution network through its access to the mortgage broker channels.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

	As at
	31 Dec 17
	\$M
Fair value of previously held 80% interest in AHL <sup>(1)</sup>	332
Plus: Fair value of consideration transferred	164
<b>Total consideration at fair value</b>	<b>496</b>
Less: Net identifiable assets at fair value <sup>(2)</sup>	<b>(51)</b>
<b>Goodwill</b>	<b>445</b>

(1) As a result of remeasuring its equity interest in AHL to fair value, the Group recognised a gain of \$58 million calculated as the difference between the carrying value of the 80% investment (\$274 million) and the fair value (\$332 million) of this previously held interest.

(2) This balance includes \$63 million of acquired intangible assets (gross of \$19 million associated DTL's), in the form of customer-broker relationships and the Aussie Brand name, \$19 million of deferred tax liabilities relating to intangible assets and \$7 million of tangible assets. The Aussie Brand has an indefinite useful life. The carrying value of all acquired net tangible assets approximate their fair values.

Since acquisition, AHL has contributed \$87 million to the Group's net banking operating income and \$11 million to the Group's profit or loss for the half year ended 31 December 2017. Had AHL been acquired at the beginning of the reporting period, its contribution to the Group's net banking operating income and profit or loss for the half year ended 31 December 2017 would have been \$125 million and \$12 million, respectively.

# Notes to the Financial Statements

## 7.5 Subsequent Events

The Directors have declared a fully franked interim dividend of 200 cents per share amounting to \$3,505 million.

The Bank expects the DRP for the interim dividend for the half year ended 31 December 2017 will be satisfied by the issue of shares of approximately \$570 million.

On 30 January 2018, as part of the industry wide review into the trading activities of participants in the bank bill market, ASIC filed a claim against CBA. ASIC alleges that the Bank engaged in market manipulation and unconscionable conduct in relation to the Bank Bill Swap rate (BBSW) between January 2012 and around October 2012. CBA has fully co-operated with ASIC's investigations over the last two years.

CBA disputes the allegations made by ASIC and accordingly has not recognised a provision. The ultimate impact on the Group, if any, remains uncertain. It is not appropriate to disclose any further information as the matter is before the courts and such information would be highly likely to be prejudicial to our position.

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

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# Directors' Declaration

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

- (a) the consolidated financial statements and notes for the half year ended on 31 December 2017, as set out on pages 85 to 121, 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 2017 and its performance for the six months ended 31 December 2017; and
- (b) there are reasonable grounds to believe that the Commonwealth Bank of Australia will be able to pay its debts as and when they become due and payable.

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



Catherine Livingstone AO  
Chairman  
6 February 2018



Ian Narev  
Managing Director and Chief Executive Officer  
6 February 2018



## 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 2017, 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 explanatory notes and the directors' declaration for the Commonwealth Bank of Australia Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled during that half-year.

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

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

### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 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 half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

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

### Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 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

Matthew Lunn  
Partner

Sydney  
6 February 2018

**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

Level 11, 1PSQ, 169 Macquarie Street, Parramatta, GPO BOX 1155, PARRAMATTA NSW 2124

T: +61 2 8266 0000 (Barangaroo), T: +61 2 9659 2476 (Parramatta), F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

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## 1) Our Performance

### 1.1 Net Interest Margin (continuing operations basis)

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
	%	%	%
<b>Australia</b>			
Interest spread <sup>(2)</sup>	2.01	1.99	2.00
Benefit of interest-free liabilities, provisions and equity <sup>(3)</sup>	0.24	0.21	0.21
<b>Net interest margin <sup>(4)</sup></b>	<b>2.25</b>	<b>2.20</b>	<b>2.21</b>
<b>New Zealand</b>			
Interest spread <sup>(2)</sup>	1.66	1.63	1.66
Benefit of interest-free liabilities, provisions and equity <sup>(3)</sup>	0.31	0.32	0.34
<b>Net interest margin <sup>(4)</sup></b>	<b>1.97</b>	<b>1.95</b>	<b>2.00</b>
<b>Other Overseas</b>			
Interest spread <sup>(2)</sup>	0.73	0.60	0.57
Benefit of interest-free liabilities, provisions and equity <sup>(3)</sup>	0.05	0.04	0.03
<b>Net interest margin <sup>(4)</sup></b>	<b>0.78</b>	<b>0.64</b>	<b>0.60</b>
<b>Total Group</b>			
Interest spread <sup>(2)</sup>	1.92	1.90	1.91
Benefit of interest-free liabilities, provisions and equity <sup>(3)</sup>	0.24	0.20	0.19
<b>Net interest margin <sup>(4)</sup></b>	<b>2.16</b>	<b>2.10</b>	<b>2.10</b>

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

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

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

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

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# Appendices

## 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 2017, 30 June 2017 and 31 December 2016. 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 17			Half Year Ended 30 Jun 17 <sup>(1)</sup>			Half Year Ended 31 Dec 16 <sup>(1)</sup>		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
<b>Interest Earning Assets</b>									
Home loans <sup>(2)</sup>	447,814	9,961	4.41	440,572	9,459	4.33	430,408	9,541	4.40
Consumer finance <sup>(3)</sup>	23,148	1,394	11.95	23,577	1,424	12.18	23,460	1,433	12.12
Business and corporate loans	226,596	4,476	3.92	221,868	4,394	3.99	220,519	4,472	4.02
<b>Loans, bills discounted and other receivables</b>	<b>697,558</b>	<b>15,831</b>	<b>4.50</b>	<b>686,017</b>	<b>15,277</b>	<b>4.49</b>	<b>674,387</b>	<b>15,446</b>	<b>4.54</b>
Cash and other liquid assets <sup>(4)</sup>	46,344	283	1.21	54,246	296	1.10	42,801	177	0.82
Assets at fair value through Income Statement (excluding life insurance)	24,721	234	1.88	26,006	260	2.02	25,252	230	1.81
Available-for-sale investments	82,899	831	1.99	80,350	784	1.97	80,618	823	2.03
<b>Non-lending interest earning assets</b>	<b>153,964</b>	<b>1,348</b>	<b>1.74</b>	<b>160,602</b>	<b>1,340</b>	<b>1.68</b>	<b>148,671</b>	<b>1,230</b>	<b>1.64</b>
Total interest earning assets <sup>(5)</sup>	851,522	17,179	4.00	846,619	16,617	3.96	823,058	16,676	4.02
Non-interest earning assets <sup>(2) (4)</sup>	105,006			141,177			134,066		
Assets held for sale <sup>(4)</sup>	14,895			-			-		
<b>Total average assets</b>	<b>971,423</b>			<b>987,796</b>			<b>957,124</b>		

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

(2) Net of average mortgage offset balances included in Non-interest earning assets. Gross average home loans balance, excluding mortgage offset accounts is \$487,502 million (30 June 2017: \$477,851 million, 31 December 2016: \$463,811 million).

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

(4) On 21 September 2017 CBA announced the sale of 100% of its life insurance businesses including Commlnsure Life and Sovereign to AIA Group Limited ("AIA"). For 31 December 2017, \$84 million of Non-lending interest earning assets and \$14,803 million of Other assets have been reclassified to Assets held for sale. Assets held for sale also includes \$8 million of assets that reside outside the Group's life insurance business as at 31 December 2017.

(5) Used for calculating Net interest margin.

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## 1.2 Average Balances and Related Interest (continuing operations basis) (continued)

	Half Year Ended 31 Dec 17			Half Year Ended 30 Jun 17 <sup>(1)</sup>			Half Year Ended 31 Dec 16 <sup>(1)</sup>		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
<b>Interest Bearing Liabilities</b>									
Transaction deposits <sup>(2)</sup>	74,769	298	0.79	71,061	281	0.80	68,620	266	0.77
Savings deposits <sup>(2)</sup>	180,190	1,106	1.22	180,279	1,113	1.24	180,106	1,302	1.43
Investment deposits	218,940	2,646	2.40	217,852	2,683	2.48	206,527	2,619	2.52
Certificates of deposit and other <sup>(3)</sup>	63,005	1,038	3.27	69,256	1,135	3.30	68,717	1,120	3.23
<b>Total interest bearing deposits</b>	<b>536,904</b>	<b>5,088</b>	<b>1.88</b>	<b>538,448</b>	<b>5,212</b>	<b>1.95</b>	<b>523,970</b>	<b>5,307</b>	<b>2.01</b>
Payables due to other financial institutions	28,601	200	1.39	30,487	174	1.15	30,182	126	0.83
Liabilities at fair value through Income Statement	9,078	73	1.60	8,934	35	0.79	8,105	67	1.64
Debt issues	163,855	1,999	2.42	168,446	2,014	2.41	169,388	2,145	2.51
Loan capital	19,011	386	4.03	17,811	358	4.05	15,591	321	4.08
Bank levy	-	180	-	-	-	-	-	-	-
<b>Total interest bearing liabilities</b>	<b>757,449</b>	<b>7,926</b>	<b>2.08</b>	<b>764,126</b>	<b>7,793</b>	<b>2.06</b>	<b>747,236</b>	<b>7,966</b>	<b>2.11</b>
Non-interest bearing liabilities <sup>(2) (3)</sup>	134,326			160,838			148,756		
Liabilities held for sale <sup>(3)</sup>	14,543			-			-		
<b>Total average liabilities</b>	<b>906,318</b>			<b>924,964</b>			<b>895,992</b>		

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

(2) Net of average mortgage offset balances which are included in Non-interest bearing liabilities.

(3) On 21 September 2017 CBA announced the sale of 100% of its life insurance businesses including Commlnsure Life and Sovereign to AIA Group Limited ("AIA"). For 31 December 2017, \$863 million of Other demand deposits and \$13,680 million of Other non-interest bearing liabilities have been reclassified to Liabilities held for sale.

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## 1.2 Average Balances and Related Interest (continuing operations basis) (continued)

	Half Year Ended 31 Dec 17			Half Year Ended 30 Jun 17 <sup>(1)</sup>			Half Year Ended 31 Dec 16 <sup>(1)</sup>		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
<b>Net Interest Margin</b>									
Total interest earning assets <sup>(2)</sup>	851,522	17,179	4.00	846,619	16,617	3.96	823,058	16,676	4.02
Total interest bearing liabilities <sup>(2)</sup>	757,449	7,926	2.08	764,126	7,793	2.06	747,236	7,966	2.11
<b>Net interest income and interest spread</b>		9,253	1.92		8,824	1.90		8,710	1.91
Benefit of free funds			0.24			0.20			0.19
<b>Net interest margin</b>			2.16			2.10			2.10

Geographical Analysis of Key Categories	Half Year Ended 31 Dec 17			Half Year Ended 30 Jun 17 <sup>(1)</sup>			Half Year Ended 31 Dec 16 <sup>(1)</sup>		
	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield	Avg Bal	Interest	Yield
	\$M	\$M	%	\$M	\$M	%	\$M	\$M	%
<b>Loans, Bills Discounted and Other Receivables</b>									
Australia	596,579	13,560	4.51	586,145	13,049	4.49	576,123	13,218	4.55
New Zealand <sup>(3)</sup>	75,458	1,862	4.89	75,488	1,858	4.96	74,127	1,889	5.06
Other Overseas <sup>(3)</sup>	25,521	409	3.18	24,384	370	3.06	24,137	339	2.79
<b>Total</b>	<b>697,558</b>	<b>15,831</b>	<b>4.50</b>	<b>686,017</b>	<b>15,277</b>	<b>4.49</b>	<b>674,387</b>	<b>15,446</b>	<b>4.54</b>
<b>Non-Lending Interest Earning Assets</b>									
Australia <sup>(2)</sup>	110,886	1,113	1.99	112,226	1,126	2.02	104,530	1,045	1.98
New Zealand <sup>(3)</sup>	8,921	89	1.98	7,693	77	2.02	7,659	85	2.20
Other Overseas <sup>(3)</sup>	34,157	146	0.85	40,683	137	0.68	36,482	100	0.54
<b>Total</b>	<b>153,964</b>	<b>1,348</b>	<b>1.74</b>	<b>160,602</b>	<b>1,340</b>	<b>1.68</b>	<b>148,671</b>	<b>1,230</b>	<b>1.64</b>
<b>Total Interest Bearing Deposits</b>									
Australia <sup>(2)</sup>	464,866	4,156	1.77	464,944	4,274	1.85	451,960	4,418	1.94
New Zealand <sup>(3)</sup>	51,095	711	2.76	50,375	735	2.94	49,188	716	2.89
Other Overseas <sup>(3)</sup>	20,943	221	2.09	23,129	203	1.77	22,822	173	1.50
<b>Total</b>	<b>536,904</b>	<b>5,088</b>	<b>1.88</b>	<b>538,448</b>	<b>5,212</b>	<b>1.95</b>	<b>523,970</b>	<b>5,307</b>	<b>2.01</b>
<b>Other Interest Bearing Liabilities</b>									
Australia	165,685	2,214	2.65	167,478	1,984	2.39	164,546	2,007	2.42
New Zealand <sup>(3)</sup>	24,276	399	3.26	23,750	386	3.28	22,420	416	3.68
Other Overseas <sup>(3)</sup>	30,584	225	1.46	34,450	211	1.24	36,300	236	1.29
<b>Total</b>	<b>220,545</b>	<b>2,838</b>	<b>2.55</b>	<b>225,678</b>	<b>2,581</b>	<b>2.31</b>	<b>223,266</b>	<b>2,659</b>	<b>2.36</b>

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

(2) On 21 September 2017 CBA announced the sale of 100% of its life insurance businesses including CommInsure Life and Sovereign to AIA Group Limited ("AIA"). For 31 December 2017, \$84 million of Non-lending interest earning assets have been reclassified to Assets held for sale and \$863 million of Other demand deposits and \$13,680 million of Other non-interest bearing liabilities have been reclassified to Liabilities held for sale.

(3) 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.

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## 1.3 Interest Rate and Volume Analysis (continuing operations basis)

	Half Year Ended Dec 17 vs Jun 17 <sup>(1)</sup>			Half Year Ended Dec 17 vs Dec 16 <sup>(1)</sup>		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest Earning Assets</b> <sup>(2)</sup>	\$M	\$M	\$M	\$M	\$M	\$M
Home loans	158	344	502	387	33	420
Consumer finance	(26)	(4)	(30)	(19)	(20)	(39)
Business and corporate loans	94	(12)	82	122	(118)	4
<b>Loans, bills discounted and other receivables</b>	259	295	554	528	(143)	385
Cash and other liquid assets	(46)	33	(13)	18	88	106
Assets at fair value through Income Statement (excluding life insurance)	(13)	(13)	(26)	(5)	9	4
Available-for-sale investments	25	22	47	23	(15)	8
<b>Non-lending interest earning assets</b>	(57)	65	8	45	73	118
<b>Total interest earning assets</b>	98	464	562	575	(72)	503

	Half Year Ended Dec 17 vs Jun 17 <sup>(1)</sup>			Half Year Ended Dec 17 vs Dec 16 <sup>(1)</sup>		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest Bearing Liabilities</b> <sup>(2)</sup>	\$M	\$M	\$M	\$M	\$M	\$M
Transaction deposits	15	2	17	24	8	32
Savings deposits	(1)	(6)	(7)	1	(197)	(196)
Investment deposits	13	(50)	(37)	154	(127)	27
Certificates of deposit and other	(103)	6	(97)	(94)	12	(82)
<b>Total interest bearing deposits</b>	(15)	(109)	(124)	127	(346)	(219)
Payables due to other financial institutions	(12)	38	26	(9)	83	74
Liabilities at fair value through Income Statement	1	37	38	8	(2)	6
Debt issues	(55)	40	(15)	(69)	(77)	(146)
Loan capital	24	4	28	70	(5)	65
Bank levy	-	180	180	-	180	180
<b>Total interest bearing liabilities</b>	(69)	202	133	108	(148)	(40)

	Half Year Ended <sup>(1)</sup>	
	Dec 17 vs Jun 17	Dec 17 vs Dec 16
	Increase/(Decrease)	Increase/(Decrease)
<b>Change in Net Interest Income</b> <sup>(3)</sup>	\$M	\$M
Due to changes in average volume of interest earning assets	53	305
Due to changes in interest margin	230	238
Due to variation in time period	146	-
<b>Change in net interest income</b>	429	543

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

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

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

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## 1.3 Interest Rate and Volume Analysis (continuing operations basis) (continued)

Geographical Analysis of Key Categories <sup>(2)</sup>	Half Year Ended Dec 17 vs Jun 17 <sup>(1)</sup>			Half Year Ended Dec 17 vs Dec 16 <sup>(1)</sup>		
	Volume \$M	Rate \$M	Total \$M	Volume \$M	Rate \$M	Total \$M
<b>Loans, Bills Discounted and Other Receivables</b>						
Australia	235	276	511	467	(125)	342
New Zealand	(1)	5	4	33	(60)	(27)
Other Overseas	18	21	39	21	49	70
<b>Total</b>	<b>259</b>	<b>295</b>	<b>554</b>	<b>528</b>	<b>(143)</b>	<b>385</b>
<b>Non-Lending Interest Earning Assets</b>						
Australia	(13)	-	(13)	64	4	68
New Zealand	12	-	12	13	(9)	4
Other Overseas	(25)	34	9	(8)	54	46
<b>Total</b>	<b>(57)</b>	<b>65</b>	<b>8</b>	<b>45</b>	<b>73</b>	<b>118</b>
<b>Total Interest Bearing Deposits</b>						
Australia	(1)	(117)	(118)	121	(383)	(262)
New Zealand	10	(34)	(24)	27	(32)	(5)
Other Overseas	(21)	39	18	(17)	65	48
<b>Total</b>	<b>(15)</b>	<b>(109)</b>	<b>(124)</b>	<b>127</b>	<b>(346)</b>	<b>(219)</b>
<b>Other Interest Bearing Liabilities</b>						
Australia	(23)	253	230	15	192	207
New Zealand	9	4	13	32	(49)	(17)
Other Overseas	(26)	40	14	(40)	29	(11)
<b>Total</b>	<b>(62)</b>	<b>319</b>	<b>257</b>	<b>(34)</b>	<b>213</b>	<b>179</b>

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

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

# Appendices

## 1.4 Other Banking Income (continuing operations basis)

	Half Year Ended <sup>(1)</sup>				
	31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
	\$M	\$M	\$M		
Lending fees	558	545	533	2	5
Commissions <sup>(2)</sup>	1,333	1,271	1,286	5	4
Trading income	556	549	600	1	(7)
Net gain/(loss) on non-trading financial instruments <sup>(3) (4)</sup>	139	59	374	large	(63)
Net gain/(loss) on sale of property, plant and equipment	(2)	(1)	7	large	large
Net gain/(loss) from hedging ineffectiveness	7	23	39	(70)	(82)
Dividends	3	5	5	(40)	(40)
Share of profit of associates and joint ventures net of impairment	193	138	154	40	25
Other	109	82	32	33	large
<b>Total other banking income - "statutory basis"</b>	<b>2,896</b>	<b>2,671</b>	<b>3,030</b>	<b>8</b>	<b>(4)</b>

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

(2) The half year ended 31 December 2017 includes an increase of \$84 million in Commissions from the consolidation of AHL Holdings Pty Ltd (trading as Aussie Home Loans) as the Group acquired the remaining 20% share on 25 August 2017.

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

(4) The half year ended 31 December 2016 included a \$397 million gain on sale of the Group's remaining investment in Visa Inc.

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

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

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Other banking income - "cash basis"</b>	<b>2,694</b>	<b>2,577</b>	<b>3,018</b>
Revenue hedge of New Zealand operations - unrealised	147	37	(2)
Hedging and IFRS volatility	(10)	57	14
Gain/(loss) on disposal and acquisition of entities net of transaction costs	65	-	-
<b>Other banking income - "statutory basis"</b>	<b>2,896</b>	<b>2,671</b>	<b>3,030</b>

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

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# Appendices

## 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 (Excludes Insurance and Funds Management)

The Group's approach to risk management is described in the Notes to the Financial Statements in the 30 June 2017 Annual Report. Further disclosures in respect of capital adequacy and risk are provided in the Group's annual Pillar 3 document.

#### Credit Risk

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

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

	As at <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
<b>By Industry <sup>(2)</sup></b>	<b>%</b>	<b>%</b>	<b>%</b>
Agriculture, forestry and fishing	2.0	2.0	2.0
Banks	5.2	6.1	6.3
Business services	1.3	1.3	1.3
Construction	0.8	0.7	0.7
Consumer	56.6	55.4	54.8
Culture and recreational services	0.7	0.7	0.7
Energy	1.1	1.1	1.2
Finance - Other	5.1	5.0	5.1
Health and community service	0.9	0.8	0.8
Manufacturing	1.4	1.6	1.6
Mining	1.3	1.4	1.4
Property	6.3	6.4	6.6
Retail trade and wholesale trade	2.1	2.2	2.4
Sovereign	9.7	9.7	9.5
Transport and storage	1.5	1.6	1.6
Other	4.0	4.0	4.0
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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

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

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## 2.1 Integrated Risk Management (Excludes Insurance and Funds Management) (continued)

	As at		
	31 Dec 17	30 Jun 17	31 Dec 16
<b>By Region <sup>(1)</sup></b>	%	%	%
Australia	77.7	76.9	76.4
New Zealand	9.9	9.7	9.7
Europe	4.9	5.5	5.8
Americas	4.2	4.2	4.2
Asia	3.1	3.5	3.7
Other	0.2	0.2	0.2
	100.0	100.0	100.0

	As at		
	31 Dec 17	30 Jun 17	31 Dec 16
<b>Commercial Portfolio Quality <sup>(1)</sup></b>	%	%	%
AAA/AA	32.7	32.8	32.0
A	16.7	17.4	17.6
BBB	18.6	19.0	19.1
Other	32.0	30.8	31.3
	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 68.0% (June 2017: 69.2%; December 2016: 68.7%) of commercial exposures at investment grade quality.

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# Appendices

## 2.1 Integrated Risk Management (Excludes Insurance and Funds Management) (continued)

### Market Risk

Market risk in the Balance Sheet is discussed within Note 33 of the 2017 Annual Report.

### Value at Risk (VaR)

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

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

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

	Average VaR		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Traded Market Risk <sup>(1)</sup></b>			
<b>Risk Type</b>			
Interest rate risk	5.2	6.0	12.0
Foreign exchange risk	1.5	1.3	2.3
Equities risk	0.3	0.4	0.6
Commodities risk	3.0	3.2	2.7
Credit spread risk	2.2	3.0	3.6
Diversification benefit	(6.3)	(7.7)	(11.1)
Total general market risk	5.9	6.2	10.1
Undiversified risk	2.5	2.2	2.2
ASB	0.3	0.2	0.2
<b>Total</b>	<b>8.7</b>	<b>8.6</b>	<b>12.5</b>

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

	Average VaR <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Non-Traded VaR in Australian Life Insurance Business</b>			
<b>(20 day 97.5% confidence)</b>			
Shareholder funds <sup>(2)</sup>	1.2	1.3	1.3
Guarantees (to Policyholders) <sup>(3)</sup>	23.2	23.1	21.6

(1) For the half year ended.

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

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

### Non-Traded Equity

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

	As at VaR		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Non-Traded Equity Risk VaR (20 day 97.5% confidence)</b>			
VaR	22.7	26.0	26.9

# Appendices

## 2.1 Integrated Risk Management (Excludes Insurance and Funds Management) (continued)

### Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book is discussed within Note 33 of the 2017 Annual Report.

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

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

		31 Dec 17	30 Jun 17	31 Dec 16
		\$M	\$M	\$M
<b>Net Interest Earnings at Risk <sup>(1)</sup></b>				
Average monthly exposure	AUD	249.9	284.6	284.9
	NZD	37.7	23.0	27.9
High month exposure	AUD	311.5	352.3	309.7
	NZD	44.3	31.9	33.5
Low month exposure	AUD	152.3	248.9	260.7
	NZD	31.2	17.4	21.4

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

#### (b) Economic Value

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

	Average VaR <sup>(1)</sup>			
		31 Dec 17	30 Jun 17	31 Dec 16
		\$M	\$M	\$M
<b>Non-Traded Interest Rate Risk (20 day 97.5% confidence)</b>				
AUD Interest rate risk <sup>(2)</sup>		215.8	252.4	263.4
NZD Interest rate risk <sup>(3)</sup>		4.0	4.4	4.7

(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.

# Appendices

## 2.1 Integrated Risk Management (Excludes Insurance and Funds 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				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Transaction deposits	106,407	98,884	93,641	8	14
Savings deposits	189,709	191,245	191,406	(1)	(1)
Investment deposits	219,251	220,530	211,711	(1)	4
Other customer deposits <sup>(1)</sup>	52,933	50,259	44,593	5	19
<b>Total customer deposits</b>	<b>568,300</b>	<b>560,918</b>	<b>541,351</b>	<b>1</b>	<b>5</b>
<b>Wholesale funding</b>					
<b>Short-term</b>					
Certificates of deposit <sup>(2)</sup>	39,774	43,584	44,100	(9)	(10)
Euro commercial paper programme	200	536	2,597	(63)	(92)
US commercial paper programme	30,888	28,652	32,013	8	(4)
Euro medium-term note programme	3,866	10,320	12,749	(63)	(70)
Central Bank deposits	16,721	21,125	20,626	(21)	(19)
Other <sup>(3)</sup>	4,449	2,598	4,101	71	8
<b>Total short-term wholesale funding</b>	<b>95,898</b>	<b>106,815</b>	<b>116,186</b>	<b>(10)</b>	<b>(17)</b>
Net collateral received	1,397	974	5,728	43	(76)
Internal RMBS sold under agreement to repurchase with RBA	5,317	5,161	4,085	3	30
<b>Total short-term collateral deposits</b>	<b>6,714</b>	<b>6,135</b>	<b>9,813</b>	<b>9</b>	<b>(32)</b>
<b>Total long-term funding - less than or equal to one year residual maturity</b>	<b>29,182</b>	<b>25,330</b>	<b>29,780</b>	<b>15</b>	<b>(2)</b>
<b>Long-term - greater than one year residual maturity</b>					
Domestic debt program	18,939	18,666	18,029	1	5
Euro medium-term note programme	25,458	25,770	26,160	(1)	(3)
US medium-term note programme <sup>(4)</sup>	30,397	28,472	28,502	7	7
Covered bond programme	25,127	26,572	25,589	(5)	(2)
Securitisation	11,385	10,725	7,890	6	44
Loan capital	17,439	18,040	16,747	(3)	4
Other	2,810	3,705	3,145	(24)	(11)
<b>Total long-term funding - greater than one year residual maturity</b>	<b>131,555</b>	<b>131,950</b>	<b>126,062</b>	<b>-</b>	<b>4</b>
<b>IFRS MTM and derivative FX revaluations</b>	<b>646</b>	<b>1,150</b>	<b>1,489</b>	<b>(44)</b>	<b>(57)</b>
<b>Total funding</b>	<b>832,295</b>	<b>832,298</b>	<b>824,681</b>	<b>-</b>	<b>1</b>
<b>Reported as</b>					
Deposits and other public borrowings	624,897	626,655	606,091	-	3
Payables due to other financial institutions	24,466	28,432	34,031	(14)	(28)
Liabilities at fair value through Income Statement	9,350	10,392	8,404	(10)	11
Bank acceptances	222	463	1,440	(52)	(85)
Debt issues	166,510	167,571	175,583	(1)	(5)
Loan capital	20,184	18,726	16,997	8	19
Loans and other receivables - collateral posted	(1,356)	(968)	(520)	40	large
Receivables due from other financial institutions - collateral posted	(3,293)	(5,338)	(6,263)	(38)	(47)
Securities purchased under agreements to resell	(8,685)	(13,635)	(11,082)	(36)	(22)
<b>Total funding</b>	<b>832,295</b>	<b>832,298</b>	<b>824,681</b>	<b>-</b>	<b>1</b>

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

(2) Includes Bank acceptances.

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

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

## 2.1 Integrated Risk Management (Excludes Insurance and Funds 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 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 ensures 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 supnationals, 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, ensuring 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.

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## 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 Available-for-sale investments), 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 36 to the Financial Statements of the 2017 Annual Report. The definition of control depends upon substance rather than form and accordingly, determination of the existence of control involves management judgement. The Group assesses, at inception and periodically, whether an SPV should be consolidated based on the power the Group has over relevant activities of the entity, and the significance of the Group's exposure to variable returns of the structured entity.

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

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

### Other Exposures

#### Leveraged Finance

The Group provides debt financing to companies acquired or owned by private equity firms 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 2017 and these exposures are not considered to be material.

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

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

# Appendices

## 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 17	30 Jun 17	31 Dec 17	30 Jun 17
	\$M	\$M	\$M	\$M
Carrying amount of transferred assets	32,790	31,796	15,982	15,108
Carrying amount of associated liabilities	29,331	28,984	14,730	13,771
<b>Net position</b>	<b>3,459</b>	<b>2,812</b>	<b>1,252</b>	<b>1,337</b>

### 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 17	30 Jun 17
	\$M	\$M
<b>Summary of Asset-backed Securities</b>		
Commercial mortgage-backed securities	147	76
Residential mortgage-backed securities	7,115	6,830
Other asset-backed securities	745	624
<b>Total</b>	<b>8,007</b>	<b>7,530</b>

### Asset-backed Securities by Underlying Asset

	Trading Portfolio		AFS Portfolio <sup>(1)</sup>		Other		Total	
	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Sub-prime	-	-	-	-	-	-	-	-
Non-conforming	-	-	353	351	-	-	353	351
Prime mortgages	1	10	6,761	6,469	-	-	6,762	6,479
Consumer receivables	-	-	-	-	-	-	-	-
Other assets	-	-	892	700	-	-	892	700
<b>Total</b>	<b>1</b>	<b>10</b>	<b>8,006</b>	<b>7,520</b>	<b>-</b>	<b>-</b>	<b>8,007</b>	<b>7,530</b>

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

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

	AAA & AA		A		BBB		BB and below including not rated		Total	
	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Australia	7,966	7,484	-	1	3	3	13	13	7,982	7,501
UK	-	-	25	29	-	-	-	-	25	29
<b>Total</b>	<b>7,966</b>	<b>7,484</b>	<b>25</b>	<b>30</b>	<b>3</b>	<b>3</b>	<b>13</b>	<b>13</b>	<b>8,007</b>	<b>7,530</b>

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# Appendices

## 2.2 Counterparty and Other Credit Risk Exposures (continued)

	Funded Commitments		Unfunded Commitments		Total	
	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17
<b>Warehousing Financing Facilities</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Australia	2,928	3,544	2,072	1,696	5,000	5,240
New Zealand	429	387	58	1,147	487	1,534
UK	162	232	76	71	238	303
<b>Total</b>	<b>3,519</b>	<b>4,163</b>	<b>2,206</b>	<b>2,914</b>	<b>5,725</b>	<b>7,077</b>

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# Appendices

## 3) Our Capital, Equity and Reserves

### 3.1 Capital

The tables below show the APRA Basel III capital adequacy calculation at 31 December 2017 together with prior period comparatives.

	As at		
	31 Dec 17	30 Jun 17	31 Dec 16
<b>Risk Weighted Capital Ratios</b>	%	%	%
Common Equity Tier 1	10.4	10.1	9.9
Tier 1	12.4	12.1	11.5
Tier 2	2.4	2.1	2.2
<b>Total Capital</b>	<b>14.8</b>	<b>14.2</b>	<b>13.7</b>
	As at		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Ordinary Share Capital and Treasury Shares</b>			
Ordinary Share Capital	36,776	34,971	34,455
Treasury Shares <sup>(1)</sup>	226	295	254
<b>Ordinary Share Capital and Treasury Shares</b>	<b>37,002</b>	<b>35,266</b>	<b>34,709</b>
<b>Reserves</b>			
Reserves	1,494	1,869	2,144
Reserves related to non-consolidated subsidiaries <sup>(2)</sup>	(71)	(81)	(152)
<b>Total Reserves</b>	<b>1,423</b>	<b>1,788</b>	<b>1,992</b>
<b>Retained Earnings and Current Period Profits</b>			
Retained earnings and current period profits <sup>(3)</sup>	27,267	26,274	24,606
Retained earnings adjustment from non-consolidated subsidiaries <sup>(4)</sup>	(411)	(537)	(505)
<b>Net Retained Earnings</b>	<b>26,856</b>	<b>25,737</b>	<b>24,101</b>
<b>Non-controlling interests</b>			
Non-controlling interests <sup>(5)</sup>	554	546	551
Less ASB perpetual preference shares	(505)	(505)	(505)
Less other non-controlling interests not eligible for inclusion in regulatory capital	(49)	(41)	(46)
<b>Non-controlling interests</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Common Equity Tier 1 Capital before regulatory adjustments</b>	<b>65,281</b>	<b>62,791</b>	<b>60,802</b>

(1) Represents shares held by the Group's life insurance businesses (\$92 million) and employee share scheme trusts (\$134 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) Comparatives have been restated following a change in accounting policy to recognise deferred tax on Brand names acquired by the Group. Further details on the change are provided in Note 1.1 of the Financial Statements.

(4) Cumulative current period profit and retained earnings adjustments for subsidiaries not consolidated for regulatory purposes.

(5) Non-controlling interests predominantly comprise ASB Perpetual Preference Shares of NZD550 million issued by a New Zealand subsidiary entity. These are non-redeemable and carry limited voting rights. These are classified as Additional Tier 1 Capital.

# Appendices

## 3.1 Capital (continued)

	As at		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Common Equity Tier 1 regulatory adjustments</b>			
Goodwill <sup>(1)</sup>	(8,051)	(7,620)	(7,624)
Other intangibles (including software) <sup>(2)</sup>	(2,212)	(2,144)	(2,104)
Capitalised costs and deferred fees	(652)	(707)	(696)
Defined benefit superannuation plan surplus <sup>(3)</sup>	(305)	(298)	(299)
General reserve for credit losses <sup>(4)</sup>	(388)	(412)	(372)
Deferred tax asset <sup>(5)</sup>	(1,604)	(1,627)	(1,468)
Cash flow hedge reserve	151	107	47
Employee compensation reserve	(115)	(164)	(107)
Equity investments <sup>(6)</sup>	(2,683)	(2,626)	(2,741)
Equity investments in non-consolidated subsidiaries <sup>(1) (7)</sup>	(2,999)	(2,673)	(1,632)
Shortfall of provisions to expected losses <sup>(8)</sup>	(99)	(218)	(220)
Gain due to changes in own credit risk on fair valued liabilities	(96)	(128)	(147)
Other	(286)	(122)	(114)
<b>Common Equity Tier 1 regulatory adjustments</b>	<b>(19,339)</b>	<b>(18,632)</b>	<b>(17,477)</b>
<b>Common Equity Tier 1</b>	<b>45,942</b>	<b>44,159</b>	<b>43,325</b>
<b>Additional Tier 1 Capital</b>			
Basel III complying instruments <sup>(9)</sup>	8,090	8,090	6,450
Basel III non-complying instruments net of transitional amortisation <sup>(10)</sup>	633	635	643
Holding of Additional Tier 1 Capital <sup>(11)</sup>	(200)	(200)	(200)
<b>Additional Tier 1 Capital</b>	<b>8,523</b>	<b>8,525</b>	<b>6,893</b>
<b>Tier 1 Capital</b>	<b>54,465</b>	<b>52,684</b>	<b>50,218</b>
<b>Tier 2 Capital</b>			
Basel III complying instruments <sup>(12)</sup>	9,255	7,744	7,639
Basel III non-complying instruments net of transitional amortisation <sup>(13)</sup>	1,213	1,495	1,580
Holding of Tier 2 Capital	(31)	(29)	(34)
Prudential general reserve for credit losses <sup>(14)</sup>	185	182	188
<b>Total Tier 2 Capital</b>	<b>10,622</b>	<b>9,392</b>	<b>9,373</b>
<b>Total Capital</b>	<b>65,087</b>	<b>62,076</b>	<b>59,591</b>

(1) Goodwill excludes \$241 million which is included in equity investments in non-controlled subsidiaries. In addition, Goodwill also includes Goodwill from discontinued operations as detailed in Note 7.3 of the Financial Statements.

(2) Other intangibles (including capitalised software costs), net of any associated deferred tax liability. Other intangibles also includes other intangibles from discontinued operations as detailed in Note 7.3 of the Financial Statements.

(3) Represents the surplus in the Group's defined benefit superannuation fund, net of any deferred tax liability.

(4) Adjustment to ensure the Group has sufficient provisions and capital to cover credit losses estimated to arise over the full life of individual facilities, as required by APRA Prudential Standard APS 220.

(5) Comparatives have been restated following a change in accounting policy to recognise deferred tax on Brand names acquired by the Group. Further details on the change are provided in Note 1.1 of the Financial Statements.

(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 adjustment at 31 December 2017 is net of \$315 million of Colonial non-recourse debt that is subject to APRA approved transitional relief for regulatory capital purposes. The Group's insurance and funds management operating entities held \$1,263 million of capital in excess of minimal regulatory requirements at 31 December 2017.

(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 2017, comprises PERLS IX \$1,640 million (March 2017), PERLS VIII \$1,450 million (March 2016), PERLS VII \$3,000 million (October 2014) and PERLS VI \$2,000 million (October 2012).

(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) In the December 2017 half year, the Group issued EUR 1 billion subordinated notes that are Basel III compliant Tier 2 Capital.

(13) 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.

(14) 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.

# Appendices

## 3.1 Capital (continued)

	As at		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Risk Weighted Assets</b>			
<b>Credit Risk</b>			
<b>Subject to AIRB approach <sup>(1)</sup></b>			
Corporate	69,252	74,663	79,392
SME Corporate	33,521	33,067	35,239
SME retail	4,675	4,838	4,747
SME retail secured by residential mortgage	2,534	2,766	2,812
Sovereign	2,186	2,154	6,742
Bank	10,780	12,598	13,481
Residential mortgage <sup>(2)</sup>	136,047	134,969	115,647
Qualifying revolving retail	8,524	9,414	9,413
Other retail	15,413	15,101	14,970
<b>Total RWA subject to AIRB approach</b>	<b>282,932</b>	<b>289,570</b>	<b>282,443</b>
<b>Specialised lending exposures subject to slotting criteria</b>	<b>56,183</b>	<b>58,752</b>	<b>60,504</b>
<b>Subject to Standardised approach</b>			
Corporate	1,250	1,202	1,128
SME corporate	279	510	596
SME retail	5,701	6,172	6,089
Sovereign	189	271	242
Bank	63	136	192
Residential mortgage	5,404	5,017	4,788
Other retail	2,717	2,925	2,776
Other assets	5,323	5,291	5,385
<b>Total RWA subject to Standardised approach</b>	<b>20,926</b>	<b>21,524</b>	<b>21,196</b>
Securitisation	1,622	1,584	1,572
Credit valuation adjustment	4,498	4,958	6,332
Central counterparties	824	871	1,479
<b>Total RWA for Credit Risk Exposures</b>	<b>366,985</b>	<b>377,259</b>	<b>373,526</b>
Traded market risk	4,829	4,650	5,707
Interest rate risk in the banking book	27,944	21,404	23,498
Operational risk	41,078	33,750	33,750
<b>Total risk weighted assets</b>	<b>440,836</b>	<b>437,063</b>	<b>436,481</b>

(1) Pursuant to APRA requirements, RWA amounts derived from AIRB risk weight functions have been multiplied by a scaling factor of 1.06.

(2) Includes APRA requirements to increase the average risk weight applied to Australian residential mortgages using the AIRB approach (30 June 2017: \$15 billion).

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## 3.2 Share Capital

	Half Year Ended		
	31 Dec 17	30 Jun 17	31 Dec 16
<b>Shares on Issue</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Opening balance (excluding Treasury Shares deduction)	1,729,868,161	1,723,178,509	1,715,142,177
Issue of shares <sup>(1)</sup>	2,087,604	-	-
Dividend reinvestment plan issues:			
2015/2016 Final dividend fully paid ordinary shares \$72.95	-	-	8,036,332
2016/2017 Interim dividend fully paid ordinary shares \$83.21	-	6,689,652	-
2016/2017 Final dividend fully paid ordinary shares \$75.73	20,772,433	-	-
Closing balance (excluding Treasury Shares deduction)	1,752,728,198	1,729,868,161	1,723,178,509
Less: Treasury Shares <sup>(2)</sup>	(2,841,980)	(3,854,763)	(3,421,776)
<b>Closing balance</b>	<b>1,749,886,218</b>	<b>1,726,013,398</b>	<b>1,719,756,733</b>

(1) During the period the number of shares issued relates to the acquisition of the remaining 20% interest in AHL Holdings Pty Limited.

(2) Relates to Treasury shares held within the life insurance statutory funds and the employees share scheme trust.

### Dividend Franking Account

After fully franking the interim dividend to be paid for the half year, the amount of credits available at the 30% tax rate as at 31 December 2017 to frank dividends for subsequent financial years, is \$1,242 million (June 2017: \$1,067 million; December 2016: \$537 million). This figure is based on the franking accounts of the Bank at 31 December 2017, 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 2017.

### Dividends

The Directors have declared a fully franked interim dividend of 200 cents per share amounting to \$3,505 million. There is no foreign conduit income attributed to the final dividend. The dividend will be payable on 28 March 2018 to shareholders on the register at 5:00pm AEDT on 15 February 2018.

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. The DRP generally allocates shares for the equivalent dividend based on the average of the daily volume weighted average price of all shares sold during the ten trading days commencing on the second trading day following the relevant record date. Shares issued under DRP rank equally with ordinary shares on issue. The DRP participation rate for the distribution for the full year ended 30 June 2017 (based on issued capital) was 39.5% with a 1.5% discount applied. For the half year ended 31 December 2016 it was 16.3% and 15.4% for the full year ended 30 June 2016 with no discounts applied.

### Record Date

The register closes for determination of dividend entitlement at 5:00pm AEDT on 15 February 2018. The deadline for notifying participation in the DRP is 5:00pm AEDT on 16 February 2018.

### Ex-Dividend Date

The ex-dividend date is 14 February 2018.

# Appendices

## 4) Other Information

### 4.1 Comminsure and Sovereign Sources of Profit

	Half Year Ended				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Sources of Profit from Comminsure</b>					
General insurance operating margins	43	(4)	60	large	(28)
Investment experience after tax	3	3	3	-	-
<b>Cash net profit after tax</b>	<b>46</b>	<b>(1)</b>	<b>63</b>	<b>large</b>	<b>(27)</b>

#### Life Insurance Business Discontinued Operations

	Half Year Ended				
	31 Dec 17 \$M	30 Jun 17 \$M	31 Dec 16 \$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Sources of Profit from Comminsure Life Business (discontinued operations)</b>					
Life insurance operating margins:					
Planned profit margins	80	84	80	(5)	-
Experience variations	(40)	(39)	(98)	3	(59)
Funds management operating margins	27	36	37	(25)	(27)
Operating margins	67	81	19	(17)	large
Investment experience after tax	27	16	18	69	50
Non-controlling interests	-	(4)	-	large	-
<b>Cash net profit after tax</b>	<b>94</b>	<b>93</b>	<b>37</b>	<b>1</b>	<b>large</b>

	Half Year Ended				
	31 Dec 17 NZ\$M	30 Jun 17 NZ\$M	31 Dec 16 NZ\$M	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Sources of Profit from Sovereign (discontinued operations)</b>					
Planned profit margins	45	45	47	-	(4)
Experience variations	1	8	5	(88)	(80)
Operating margins	46	53	52	(13)	(12)
Investment experience after tax	7	5	(8)	40	large
<b>Cash net profit after tax</b>	<b>53</b>	<b>58</b>	<b>44</b>	<b>(9)</b>	<b>20</b>

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## 4.2 Intangible Assets (continuing operations basis)

	As at		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Goodwill</b>			
Purchased goodwill at cost	6,868	7,872	7,880
<b>Closing balance</b>	<b>6,868</b>	<b>7,872</b>	<b>7,880</b>
<b>Computer Software Costs</b>			
Cost	4,438	4,329	4,095
Accumulated amortisation	(2,542)	(2,395)	(2,198)
<b>Closing balance</b>	<b>1,896</b>	<b>1,934</b>	<b>1,897</b>
<b>Brand Names <sup>(1)</sup></b>			
Cost	206	190	190
Accumulated amortisation	(1)	(1)	(1)
<b>Closing balance</b>	<b>205</b>	<b>189</b>	<b>189</b>
<b>Other Intangibles <sup>(2)</sup></b>			
Cost	195	154	155
Accumulated amortisation	(126)	(125)	(121)
<b>Closing balance</b>	<b>69</b>	<b>29</b>	<b>34</b>
<b>Total intangible assets</b>	<b>9,038</b>	<b>10,024</b>	<b>10,000</b>

(1) Brand names predominantly represent the value of royalty costs foregone by the Group through acquiring the Bankwest brand name. The royalty costs that would have been incurred by an entity using the Bankwest brand name are based on an annual percentage of income generated by Bankwest. The Bankwest brand name has an indefinite useful life as there is no foreseeable limit to the period over which the brand name is expected to generate cash flows. It is not subject to amortisation, but is subject to annual impairment testing. No impairment was required as a result of this test. The balance also includes the Aussie brand name (\$16 million) which has an indefinite useful life and Count Financial brand name (\$4 million) that is amortised over the estimated useful life of 20 years.

(2) Other intangibles include the value of customer and credit card relationships acquired from Bankwest, Aussie 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.

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## 4.3 ASX Appendix 4D

Cross Reference Index	Page
Details of Reporting Period and Previous Period (Rule 4.2A.3 Item No. 1)	Inside front cover
Results for Announcement to the Market (Rule 4.2A.3 Item No. 2)	Inside front cover
Net Tangible Assets per Security (Rule 4.2A.3 Item No. 3)	159-160
Dividends (Rule 4.2A.3 Item No. 5)	146
Dividend Dates (Rule 4.2A.3 Item No. 5)	Inside front cover
Dividend Reinvestment Plan (Rule 4.2A.3 Item No. 6)	146

### Details of entities over which control was gained and lost during the period (Rule 4.2A.3 Item No. 4)

The Group has gained control over AHL Holdings Pty Limited on 25 August 2017.

### Foreign Entities (Rule 4.2A.3 Item No. 8)

## Details of Associates and Joint Ventures (Rule 4.2A.3 Item No. 7)

As at 31 December 2017	Ownership Interest Held (%)
Aegis Correctional Partnership Pty Limited	50%
Aegis Correctional Partnership Trust	50%
Aegis Securitisation Nominees Pty Limited	50%
Aegis Securitisation Trust	50%
equigroup Holdings Pty Limited	50%
First State Cinda Fund Management Co., Ltd.	46%
BoCommLife Insurance Company Limited	38%
Count Financial Limited	36%
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	3%
First State European Diversified Infrastructure Fund II	3%

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.

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## 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 2017						
	Net profit after tax "cash basis" \$M	Hedging and IFRS volatility \$M	Gain/(loss) on disposal and acquisition of controlled entities <sup>(1)</sup> \$M	Bankwest non-cash items <sup>(2)</sup> \$M	Treasury shares valuation adjustment \$M	Investment experience \$M	Net profit after tax "statutory basis" \$M
<b>Profit Reconciliation</b>							
<b>Group</b>							
Interest income	17,179	-	-	-	-	-	17,179
Interest expense	(7,926)	-	-	-	-	-	(7,926)
Net interest income	9,253	-	-	-	-	-	9,253
Other banking income	2,694	137	65	-	-	-	2,896
<b>Total banking income</b>	<b>11,947</b>	<b>137</b>	<b>65</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,149</b>
Funds management income	1,039	-	-	-	-	8	1,047
Insurance income	136	-	-	-	-	5	141
<b>Total operating income</b>	<b>13,122</b>	<b>137</b>	<b>65</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>13,337</b>
Investment experience	13	-	-	-	-	(13)	-
<b>Total income</b>	<b>13,135</b>	<b>137</b>	<b>65</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,337</b>
Operating expenses	(5,764)	-	-	(2)	-	-	(5,766)
Loan impairment expense	(596)	-	-	-	-	-	(596)
<b>Net profit before tax</b>	<b>6,775</b>	<b>137</b>	<b>65</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>6,975</b>
Corporate tax (expense)/benefit	(2,031)	(41)	-	1	-	-	(2,071)
Non-controlling interests	(9)	-	-	-	-	-	(9)
<b>Net profit after income tax from continuing operations</b>	<b>4,735</b>	<b>96</b>	<b>65</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>4,895</b>
Net profit after income tax from discontinued operations	136	-	(122)	-	(3)	-	11
<b>Net profit after income tax</b>	<b>4,871</b>	<b>96</b>	<b>(57)</b>	<b>(1)</b>	<b>(3)</b>	<b>-</b>	<b>4,906</b>

(1) Includes transaction and separation costs (net of tax) 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 County Banks (\$11 million), and a loss due to the dilution of the Group's interest in Qilu Bank Co. Ltd (\$4 million).

(2) Includes merger related amortisation through operating expenses of \$2 million, and an income tax benefit of \$1 million.

## 4.4 Profit Reconciliation (continued)

### Hedging and IFRS volatility

Hedging and IFRS volatility includes unrealised fair value gains or losses on:

- Economic hedges that do not qualify for hedge accounting under IFRS;
- Cross currency interest rate swaps hedging foreign currency denominated debt issues;
- Foreign exchange hedges relating to future New Zealand earnings; and
- The ineffective portion of economic hedges that qualify for hedge accounting under IFRS.

This amount is excluded from cash profit as it does not affect the Group's performance over the life of the hedge.

### Gain/(loss) on disposal and acquisition of controlled entities

Gains and losses on disposal and acquisitions of controlled entities have been excluded from cash profit as they do not form part of the Group's underlying performance as they are one-off in nature.

### Treasury shares valuation adjustment

Under IFRS, Commonwealth Bank of Australia shares held by the Group in the life insurance businesses are defined as treasury shares and are required to be held at cost. These shares are fair valued in cash profit with the difference between cost and fair value reversed as a non-cash item.

### 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

### Bankwest non-cash items

The acquisition of Bankwest resulted in the recognition of assets at fair value, representing certain financial instruments, core deposits customer lists and brand name. The core deposits and customer lists have been amortising over their useful life and the core deposits have now been fully amortised. The transaction was considered one-off in nature and disclosed as non-cash.

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## 4.4 Profit Reconciliation (continued)

	Half Year Ended 30 June 2017 <sup>(1)</sup>					Net profit after tax "statutory basis" \$M
	Net profit after tax "cash basis" \$M	Hedging and IFRS volatility \$M	Bankwest non-cash items <sup>(2)</sup> \$M	Treasury shares valuation adjustment \$M	Investment experience \$M	
<b>Profit Reconciliation</b>						
<b>Group</b>						
Interest income	16,617	2	-	-	-	16,619
Interest expense	(7,793)	-	-	-	-	(7,793)
Net interest income	8,824	2	-	-	-	8,826
Other banking income	2,577	94	-	-	-	2,671
<b>Total banking income</b>	<b>11,401</b>	<b>96</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,497</b>
Funds management income	970	-	-	-	17	987
Insurance income	61	-	-	-	4	65
<b>Total operating income</b>	<b>12,432</b>	<b>96</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>12,549</b>
Investment experience	21	-	-	-	(21)	-
<b>Total income</b>	<b>12,453</b>	<b>96</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,549</b>
Operating expenses	(5,195)	-	(2)	-	-	(5,197)
Loan impairment expense	(496)	-	-	-	-	(496)
<b>Net profit before tax</b>	<b>6,762</b>	<b>96</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>6,856</b>
Corporate tax (expense)/benefit	(1,924)	(31)	-	-	-	(1,955)
Non-controlling interests	(11)	-	-	-	-	(11)
<b>Net profit after income tax from continuing operations</b>	<b>4,827</b>	<b>65</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>4,890</b>
Net profit after income tax from discontinued operations <sup>(3)</sup>	147	-	-	(4)	-	143
<b>Net profit after income tax</b>	<b>4,974</b>	<b>65</b>	<b>(2)</b>	<b>(4)</b>	<b>-</b>	<b>5,033</b>

(1) Comparative information has been restated and presented on a continuing operations basis.

(2) Includes merger related amortisation through operating expenses of \$2 million.

(3) Statutory net profit after income tax from discontinued operations is presented net of non-controlling interests.

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## 4.4 Profit Reconciliation (continued)

	Half Year Ended 31 December 2016 <sup>(1)</sup>					Net profit after tax "statutory basis" \$M
	Net profit after tax "cash basis" \$M	Hedging and IFRS volatility \$M	Bankwest non-cash items <sup>(2)</sup> \$M	Treasury shares valuation adjustment \$M	Investment experience \$M	
<b>Profit Reconciliation Group</b>						
Interest income	16,676	(2)	-	-	-	16,674
Interest expense	(7,966)	-	-	-	-	(7,966)
Net interest income	8,710	(2)	-	-	-	8,708
Other banking income	3,018	12	-	-	-	3,030
<b>Total banking income</b>	<b>11,728</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,738</b>
Funds management income	943	-	-	-	(2)	941
Insurance income	162	-	-	-	4	166
<b>Total operating income</b>	<b>12,833</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>12,845</b>
Investment experience	2	-	-	-	(2)	-
<b>Total income</b>	<b>12,835</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,845</b>
Operating expenses	(5,474)	-	(2)	-	-	(5,476)
Loan impairment expense	(599)	-	-	-	-	(599)
<b>Net profit before tax</b>	<b>6,762</b>	<b>10</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>6,770</b>
Corporate tax (expense)/benefit	(1,925)	(2)	1	-	-	(1,926)
Non-controlling interests	(9)	-	-	-	-	(9)
<b>Net profit after income tax from continuing operations</b>	<b>4,828</b>	<b>8</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>4,835</b>
Net profit after income tax from discontinued operations	79	-	-	(19)	-	60
<b>Net profit after income tax</b>	<b>4,907</b>	<b>8</b>	<b>(1)</b>	<b>(19)</b>	<b>-</b>	<b>4,895</b>

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

(2) Includes merger related amortisation through operating expenses of \$2 million, and an income tax benefit of \$1 million.

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## 4.5 Analysis Template (continuing operations basis)

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
<b>Profit Summary - Input Schedule</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Net interest income	9,253	8,824	8,710
Other banking income	2,694	2,577	3,018
<b>Total banking income</b>	<b>11,947</b>	<b>11,401</b>	<b>11,728</b>
Funds management income	1,039	970	943
Insurance income	136	61	162
<b>Total operating income</b>	<b>13,122</b>	<b>12,432</b>	<b>12,833</b>
Investment experience	13	21	2
<b>Total income</b>	<b>13,135</b>	<b>12,453</b>	<b>12,835</b>
<b>Operating Expenses</b>			
Retail Banking Services	(1,846)	(1,740)	(1,733)
Business and Private Banking	(789)	(787)	(787)
Institutional Banking and Markets	(542)	(532)	(551)
Wealth Management	(707)	(676)	(727)
New Zealand	(391)	(399)	(396)
Bankwest	(368)	(387)	(367)
IFS and Other	(1,121)	(674)	(913)
<b>Total operating expenses</b>	<b>(5,764)</b>	<b>(5,195)</b>	<b>(5,474)</b>
Profit before loan impairment expense	7,371	7,258	7,361
Loan impairment expense	(596)	(496)	(599)
Net profit before income tax	6,775	6,762	6,762
Corporate tax expense	(2,031)	(1,924)	(1,925)
Operating profit after tax	4,744	4,838	4,837
Non-controlling interests	(9)	(11)	(9)
<b>Net profit after tax from continuing operations ("cash basis")</b>	<b>4,735</b>	<b>4,827</b>	<b>4,828</b>
Net profit after tax from discontinued operations	136	147	79
<b>Net profit after tax ("cash basis")</b>	<b>4,871</b>	<b>4,974</b>	<b>4,907</b>
<b>Net profit after tax from continuing operations ("cash basis")</b>	<b>4,735</b>	<b>4,827</b>	<b>4,828</b>
Hedging and IFRS volatility (after tax)	96	65	8
Bankwest non-cash items (after tax)	(1)	(2)	(1)
Gain/(loss) on disposal and acquisition of entities net of transaction costs <sup>(2)</sup>	65	-	-
<b>Net profit after tax from continuing operations ("statutory basis")</b>	<b>4,895</b>	<b>4,890</b>	<b>4,835</b>
Net profit after tax from discontinued operations ("statutory basis")	11	143	60
<b>Net profit after tax ("statutory basis")</b>	<b>4,906</b>	<b>5,033</b>	<b>4,895</b>
<b>Total Operating Income</b>			
Retail Banking Services	5,991	5,620	5,585
Business and Private Banking	2,211	2,124	2,098
Institutional Banking and Markets	1,416	1,383	1,488
Wealth Management	1,069	934	1,007
New Zealand	1,085	1,035	1,030
Bankwest	885	844	833
IFS and Other	465	492	792

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

(2) Includes a gain recognised on acquisition of AHL (\$58 million), a gain on sale of County Banks (\$11 million), and a loss due to the dilution of the Group's interest in Qilu Bank Co. Ltd (\$4 million).

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## 4.5 Analysis Template (continuing operations basis) (continued)

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Profit Summary - Input Schedule</b>			
<b>Other Data</b>			
Net interest income	9,253	8,824	8,710
Average interest earning assets	851,522	846,619	823,058
Average net assets <sup>(2) (3)</sup>	64,876	62,708	61,132
Average non-controlling interests <sup>(2)</sup>	545	547	544
Average treasury shares <sup>(2)</sup>	(260)	(274)	(269)
Interest expense (after tax) - PERLS VI	41	41	42
Interest expense (after tax) - PERLS VII	35	35	36
Interest expense (after tax) - PERLS VIII	26	26	26
Interest expense (after tax) - PERLS IX	24	12	-
Weighted average number of shares - statutory basic (M)	1,739	1,724	1,716
Weighted average number of shares - statutory diluted (M)	1,842	1,817	1,807
Weighted average number of shares - cash basic (M)	1,740	1,725	1,718
Weighted average number of shares - cash diluted (M)	1,843	1,818	1,809
Weighted average number of shares - PERLS VI (M)	25	25	27
Weighted average number of shares - PERLS VII (M)	37	37	41
Weighted average number of shares - PERLS VIII (M)	18	18	20
Weighted average number of shares - PERLS IX (M)	20	10	-
Weighted average number of shares - Employee share plans (M)	3	3	3
Dividends per share (cents) - fully franked	200	230	199
No. of shares at end of period excluding Treasury shares deduction (M)	1,753	1,730	1,723
Funds Under Administration (FUA) - average	151,008	144,256	138,024
Assets Under Management (AUM) - average	224,560	213,838	206,336
Average inforce premiums	1,043	1,031	1,002
Net assets <sup>(3)</sup>	66,091	63,660	61,756
Total intangible assets	9,038	8,588	8,567
Non-controlling interests	540	549	546

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

(2) Average of reporting period balances.

(3) Comparatives have been restated following a change in accounting policy to recognise deferred tax on Brand names acquired by the Group. Further details on the change are provided in Note 1.1 of the Financial Statements.

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## 4.5 Analysis Template (continued)

	Half Year Ended <sup>(1) (2)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
<b>Ratios - Output Summary (continuing operations basis)</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Earnings Per Share (EPS)</b>			
Net profit after tax - "cash basis"	4,735	4,827	4,828
Average number of shares (M) - "cash basis"	1,740	1,725	1,718
<b>Earnings Per Share basic - "cash basis" (cents)</b>	<b>272. 2</b>	<b>279. 9</b>	<b>281. 1</b>
Net profit after tax - "statutory basis"	4,895	4,890	4,835
Average number of shares (M) - "statutory basis"	1,739	1,724	1,716
<b>Earnings Per Share basic - "statutory basis" (cents)</b>	<b>281. 6</b>	<b>283. 7</b>	<b>281. 7</b>
Interest expense (after tax) - PERLS VI	41	41	42
Interest expense (after tax) - PERLS VII	35	35	36
Interest expense (after tax) - PERLS VIII	26	26	26
Interest expense (after tax) - PERLS IX	24	12	-
<b>Profit impact of assumed conversions (after tax)</b>	<b>126</b>	<b>114</b>	<b>104</b>
Weighted average number of shares - PERLS VI (M)	25	25	27
Weighted average number of shares - PERLS VII (M)	37	37	41
Weighted average number of shares - PERLS VIII (M)	18	18	20
Weighted average number of shares - PERLS IX (M)	20	10	-
Weighted average number of shares - Employee share plans (M)	3	3	3
<b>Weighted average number of shares - dilutive securities (M)</b>	<b>103</b>	<b>93</b>	<b>91</b>
Net profit after tax - "cash basis"	4,735	4,827	4,828
Add back profit impact of assumed conversions (after tax)	126	114	104
Adjusted diluted profit for EPS calculation	4,861	4,941	4,932
Average number of shares (M) - "cash basis"	1,740	1,725	1,718
Add back weighted average number of shares (M)	103	93	91
Diluted average number of shares (M)	1,843	1,818	1,809
<b>Earnings Per Share diluted - "cash basis" (cents)</b>	<b>263. 7</b>	<b>271. 7</b>	<b>272. 7</b>
Net profit after tax - "statutory basis"	4,895	4,890	4,835
Add back profit impact of assumed conversions (after tax)	126	114	104
Adjusted diluted profit for EPS calculation	5,021	5,004	4,939
Average number of shares (M) - "statutory basis"	1,739	1,724	1,716
Add back weighted average number of shares (M)	103	93	91
Diluted average number of shares (M)	1,842	1,817	1,807
<b>Earnings Per Share diluted - "statutory basis" (cents)</b>	<b>272. 6</b>	<b>275. 4</b>	<b>273. 3</b>

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

(2) Calculations are based on actual numbers prior to rounding to the nearest million.

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## 4.5 Analysis Template (continued)

	Half Year Ended <sup>(1) (2)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Ratios - Output Summary (including discontinued operations)</b>			
<b>Earnings Per Share (EPS)</b>			
Net profit after tax - "cash basis"	4,871	4,974	4,907
Average number of shares (M) - "cash basis"	1,740	1,725	1,718
<b>Earnings Per Share basic - "cash basis" (cents)</b>	<b>280. 0</b>	288. 4	285. 7
Net profit after tax - "statutory basis"	4,906	5,033	4,895
Average number of shares (M) - "statutory basis"	1,739	1,724	1,716
<b>Earnings Per Share basic - "statutory basis" (cents)</b>	<b>282. 2</b>	292. 0	285. 2
Interest expense (after tax) - PERLS VI	41	41	42
Interest expense (after tax) - PERLS VII	35	35	36
Interest expense (after tax) - PERLS VIII	26	26	26
Interest expense (after tax) - PERLS IX	24	12	-
<b>Profit impact of assumed conversions (after tax)</b>	<b>126</b>	114	104
Weighted average number of shares - PERLS VI (M)	25	25	27
Weighted average number of shares - PERLS VII (M)	37	37	41
Weighted average number of shares - PERLS VIII (M)	18	18	20
Weighted average number of shares - PERLS IX (M)	20	10	-
Weighted average number of shares - Employee share plans (M)	3	3	3
<b>Weighted average number of shares - dilutive securities (M)</b>	<b>103</b>	93	91
Net profit after tax - "cash basis"	4,871	4,974	4,907
Add back profit impact of assumed conversions (after tax)	126	114	104
Adjusted diluted profit for EPS calculation	4,997	5,088	5,011
Average number of shares (M) - "cash basis"	1,740	1,725	1,718
Add back weighted average number of shares (M)	103	93	91
Diluted average number of shares (M)	1,843	1,818	1,809
<b>Earnings Per Share diluted - "cash basis" (cents)</b>	<b>271. 1</b>	279. 8	277. 1
Net profit after tax - "statutory basis"	4,906	5,033	4,895
Add back profit impact of assumed conversions (after tax)	126	114	104
Adjusted diluted profit for EPS calculation	5,032	5,147	4,999
Average number of shares (M) - "statutory basis"	1,739	1,724	1,716
Add back weighted average number of shares (M)	103	93	91
Diluted average number of shares (M)	1,842	1,817	1,807
<b>Earnings Per Share diluted - "statutory basis" (cents)</b>	<b>273. 2</b>	283. 3	276. 6

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

(2) Calculations are based on actual numbers prior to rounding to the nearest million.

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## 4.5 Analysis Template (continued)

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
<b>Dividends Per Share (DPS)</b>			
<b>Dividends (including discontinued operations)</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
Dividends per share (cents) - fully franked	200	230	199
No. of shares at end of period excluding Treasury shares deduction (M)	1,753	1,730	1,723
Total dividends	3,505	3,979	3,429
<b>Dividend payout ratio - "cash basis"</b>			
Net profit after tax - attributable to ordinary shareholders	4,871	4,974	4,907
Total dividends	3,505	3,979	3,429
Payout ratio - "cash basis" (%)	72.0	80.0	69.9
<b>Dividend cover</b>			
Net profit after tax - attributable to ordinary shareholders	4,871	4,974	4,907
Total dividends	3,505	3,979	3,429
Dividend cover - "cash basis" (times)	1.4	1.3	1.4

(1) Calculations are based on actual numbers prior to rounding to the nearest million.

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## 4.5 Analysis Template (continued)

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Ratios - Output Summary (continuing operations basis)</b>			
<b>Return on Equity (ROE)</b>			
<b>Return on Equity - "cash basis"</b>			
Average net assets <sup>(2)</sup>	64,876	62,708	61,132
Less:			
Average non-controlling interests	(545)	(547)	(544)
Average equity	64,331	62,161	60,588
Add average treasury shares	260	274	269
Net average equity	64,591	62,435	60,857
Net profit after tax - "cash basis"	4,735	4,827	4,828
ROE - "cash basis" (%)	14.5	15.6	15.7
<b>Return on Equity - "statutory basis"</b>			
Average net assets <sup>(2)</sup>	64,876	62,708	61,132
Average non-controlling interests	(545)	(547)	(544)
Average equity	64,331	62,161	60,588
Net profit after tax - "statutory basis"	4,895	4,890	4,835
ROE - "statutory basis" (%)	15.1	15.9	15.8
<b>Net Tangible Assets per share</b>			
Net assets <sup>(2)</sup>	66,091	63,660	61,756
Less:			
Intangible assets	(9,038)	(8,588)	(8,567)
Non-controlling interests	(540)	(549)	(546)
Total net tangible assets	56,513	54,523	52,643
No. of shares at end of period excluding Treasury shares deduction (M)	1,753	1,730	1,723
<b>Net Tangible Assets per share (\$)</b>	<b>32.24</b>	<b>31.52</b>	<b>30.55</b>

(1) Calculations are based on actual numbers prior to rounding to the nearest million.

(2) Comparatives have been restated following a change in accounting policy to recognise deferred tax on Brand names acquired by the Group. Further details on the change are provided in Note 1.1 of the Financial Statements.

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## 4.5 Analysis Template (continued)

	Half Year Ended <sup>(1)</sup>		
	31 Dec 17	30 Jun 17	31 Dec 16
	\$M	\$M	\$M
<b>Ratios - Output Summary (including discontinued operations)</b>			
<b>Return on Equity (ROE)</b>			
<b>Return on Equity - "cash basis"</b>			
Average net assets <sup>(2)</sup>	64,876	62,708	61,132
Less:			
Average non-controlling interests	(550)	(549)	(551)
Average equity	64,326	62,159	60,581
Add average treasury shares	260	274	269
Net average equity	64,586	62,433	60,850
Net profit after tax - "cash basis"	4,871	4,974	4,907
ROE - "cash basis" (%)	15.0	16.1	16.0
<b>Return on Equity - "statutory basis"</b>			
Average net assets <sup>(2)</sup>	64,876	62,708	61,132
Average non-controlling interests	(550)	(549)	(551)
Average equity	64,326	62,159	60,581
Net profit after tax - "statutory basis"	4,906	5,033	4,895
ROE - "statutory basis" (%)	15.1	16.3	16.0
<b>Net Tangible Assets per share</b>			
Net assets <sup>(2)</sup>	66,091	63,660	61,756
Less:			
Intangible assets	(10,511)	(10,024)	(10,000)
Non-controlling interests	(554)	(546)	(551)
Total net tangible assets	55,026	53,090	51,205
No. of shares at end of period excluding Treasury shares deduction (M)	1,753	1,730	1,723
<b>Net Tangible Assets per share (\$)</b>	<b>31.39</b>	30.69	29.72

(1) Calculations are based on actual numbers prior to rounding to the nearest million.

(2) Comparatives have been restated following a change in accounting policy to recognise deferred tax on Brand names acquired by the Group. Further details on the change are provided in Note 1.1 of the Financial Statements.

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## 4.6 Summary (continuing operations basis)

Group		Half Year Ended <sup>(1)</sup>				
		31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Net profit after tax - "cash basis"	\$M	4,735	4,827	4,828	(2)	(2)
Hedging and IFRS volatility (after tax)	\$M	96	65	8	48	large
Bankwest non-cash items (after tax)	\$M	(1)	(2)	(1)	(50)	-
Gain/(loss) on disposal and acquisition of entities net of transaction costs <sup>(2)</sup>	\$M	65	-	-	large	large
Net profit after tax - "statutory basis"	\$M	4,895	4,890	4,835	-	1
Earnings per share basic - "cash basis"	cents	272.2	279.9	281.1	(3)	(3)
Spot number of full-time equivalent staff (FTE)	No.	42,959	44,024	43,660	(2)	(2)
Average number of full-time equivalent staff	No.	43,830	43,826	43,604	-	1
Return on equity - "cash basis"	%	14.5	15.6	15.7	(110)bpts	(120)bpts
Return on equity - "statutory basis"	%	15.1	15.9	15.8	(80)bpts	(70)bpts
Net tangible assets per share	\$	32.24	31.52	30.55	2	5
Net interest income - "cash basis"	\$M	9,253	8,824	8,710	5	6
Net interest margin	%	2.16	2.10	2.10	6 bpts	6 bpts
Net interest margin excluding Treasury and Markets	%	2.14	2.09	2.07	5 bpts	7 bpts
Other banking income - "cash basis"	\$M	2,694	2,577	3,018	5	(11)
Other banking income to total banking income - "cash basis"	%	22.5	22.6	25.7	(10)bpts	(320)bpts
Operating expenses to total operating income - "cash basis"	%	43.9	41.8	42.7	210 bpts	120 bpts
Jaws	%	(3.0)	n/a	n/a	n/a	n/a
Average interest earning assets <sup>(3)</sup>	\$M	851,522	846,619	823,058	1	3
Average interest bearing liabilities	\$M	757,449	764,126	747,236	(1)	1

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

(2) Includes a gain recognised on acquisition of AHL (\$58 million), a gain on sale of County Banks (\$11 million), and a loss due to the dilution of the Group's interest in Qilu Bank Co. Ltd (\$4 million).

(3) Net of average mortgage offset balances.

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## 4.6 Summary (including discontinued operations)

Group		Half Year Ended <sup>(1)</sup>				
		31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
Net profit after tax - "cash basis"	\$M	4,871	4,974	4,907	(2)	(1)
Treasury shares valuation adjustment (after tax)	\$M	(3)	(4)	(19)	(25)	(84)
Hedging and IFRS volatility (after tax)	\$M	96	65	8	48	large
Bankwest non-cash items (after tax)	\$M	(1)	(2)	(1)	(50)	-
Gain/(loss) on disposal and acquisition of entities net of transaction costs <sup>(2)</sup>	\$M	(57)	-	-	n/a	n/a
Net profit after tax - "statutory basis"	\$M	4,906	5,033	4,895	(3)	-
Earnings per share basic - "cash basis"	cents	280.0	288.4	285.7	(3)	(2)
Dividends per share (fully franked)	cents	200	230	199	(13)	1
Dividend payout ratio - "cash basis"	%	72.0	80.0	69.9	large	210 bpts
Common Equity Tier 1 (Internationally comparable) - Basel III <sup>(3)</sup>	%	16.3	15.6	15.4	70 bpts	90 bpts
Common Equity Tier 1 (APRA) - Basel III	%	10.4	10.1	9.9	30 bpts	50 bpts
Leverage ratio (Internationally comparable) <sup>(4)</sup>	%	6.1	5.8	5.5	30 bpts	60 bpts
Leverage ratio (APRA)	%	5.4	5.1	4.9	30 bpts	50 bpts
Spot number of full-time equivalent staff (FTE)	No.	44,458	45,614	45,271	(3)	(2)
Average number of full-time equivalent staff	No.	45,373	45,430	45,238	-	-
Return on equity - "cash basis"	%	15.0	16.1	16.0	(110)bpts	(100)bpts
Return on equity - "statutory basis"	%	15.1	16.3	16.0	(120)bpts	(90)bpts
Weighted average no. of shares - "statutory basis" - basic	M	1,739	1,724	1,716	1	1
Net interest income - "cash basis"	\$M	9,286	8,857	8,743	5	6
Net interest margin	%	2.16	2.11	2.11	5 bpts	5 bpts
Net interest margin excluding Treasury and Markets	%	2.14	2.10	2.08	4 bpts	6 bpts
Other banking income - "cash basis"	\$M	2,662	2,534	2,986	5	(11)
Other banking income to total banking income - "cash basis"	%	22.3	22.2	25.5	10 bpts	(320)bpts
Operating expenses to total operating income - "cash basis"	%	44.2	42.1	43.3	210 bpts	90 bpts
Jaws	%	(2.3)	n/a	n/a	n/a	n/a
Average interest earning assets <sup>(5)</sup>	\$M	851,606	846,619	823,058	1	3
Average interest bearing liabilities	\$M	758,312	764,126	747,236	(1)	1
Loan impairment expense - "cash basis"	\$M	596	496	599	20	(1)
Loan impairment expense - "cash basis" annualised as a % of average gross loans and acceptances	%	0.16	0.14	0.17	2 bpts	(1)bpt
Total provisions for impaired assets as a % of gross impaired assets	%	34.45	36.05	35.02	(160)bpts	(57)bpts
Net write-offs annualised as a % of GLAAs	%	0.15	0.16	0.15	(1)bpt	-
Risk weighted assets (APRA) - Basel III	\$M	440,836	437,063	436,481	1	1

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

(2) Includes a gain recognised on acquisition of AHL (\$58 million), a gain on sale of County Banks (\$11 million), and a loss due to the dilution of the Group's interest in Qilu Bank Co. Ltd (\$4 million).

(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.

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## 4.6 Summary (continued)

		Half Year Ended <sup>(1)</sup>				
		31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>Retail Banking Services</b>						
Cash net profit after tax	\$M	2,653	2,480	2,453	7	8
Net interest margin	%	3.01	2.91	2.90	10 bpts	11 bpts
Average interest earning assets (AIEA) <sup>(2)</sup>	\$M	326,256	320,885	313,281	2	4
Operating expenses to total banking income	%	30.1	31.0	31.0	(90)bpts	(90)bpts
Effective tax rate - "cash basis"	%	30.0	29.7	29.9	30 bpts	10 bpts
Risk weighted assets	\$M	140,715	134,937	120,778	4	17
<b>Business and Private Banking</b>						
Cash net profit after tax	\$M	960	930	878	3	9
Net interest margin	%	3.03	2.98	2.97	5 bpts	6 bpts
Average interest earning assets (AIEA) <sup>(2)</sup>	\$M	110,969	110,412	107,793	1	3
Operating expenses to total banking income	%	35.7	37.1	37.5	(140)bpts	(180)bpts
Effective tax rate - "cash basis"	%	30.1	30.1	30.1	-	-
Risk weighted assets	\$M	89,449	87,654	87,664	2	2
<b>Institutional Banking and Markets</b>						
Cash net profit after tax	\$M	591	630	681	(6)	(13)
Net interest margin	%	1.03	1.10	1.10	(7)bpts	(7)bpts
Average interest earning assets (AIEA)	\$M	142,416	138,789	138,439	3	3
Operating expenses to total banking income	%	38.3	38.5	37.0	(20)bpts	130 bpts
Effective tax rate - "cash basis"	%	23.1	24.2	23.7	(110)bpt	(60)bpts
Risk weighted assets	\$M	97,732	102,242	116,075	(4)	(16)
<b>Wealth Management <sup>(3)</sup></b>						
Cash net profit after tax	\$M	281	211	211	33	33
Underlying profit after tax	\$M	272	197	207	38	31
Investment experience after tax	\$M	9	14	4	(36)	large
FUA - average	\$M	139,104	132,239	126,036	5	10
FUA - spot	\$M	143,668	135,447	128,953	6	11
AUM - average	\$M	219,558	209,469	201,967	5	9
AUM - spot	\$M	218,191	219,427	203,223	(1)	7
CommInsure inforce premiums - average	\$M	795	777	748	2	6
CommInsure inforce premiums - spot	\$M	801	783	768	2	4
Operating expenses to total operating income	%	66.1	72.4	72.2	large	large
Effective tax rate - "cash basis"	%	24.7	24.0	26.0	70 bpts	(130)bpts

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

(2) Net of average mortgage offset balances.

(3) Presented on a continuing operations basis.

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## 4.6 Summary (continued)

		Half Year Ended <sup>(1)</sup>				
		31 Dec 17	30 Jun 17	31 Dec 16	Dec 17 vs Jun 17 %	Dec 17 vs Dec 16 %
<b>New Zealand <sup>(2)</sup></b>						
Cash net profit after tax	\$M	483	446	423	8	14
Net interest margin <sup>(3)</sup>	%	2.20	2.15	2.19	5 bpts	1 bpt
Average interest earning assets (AIEA)	NZ\$M	88,525	85,753	82,455	3	7
FUA - average (ASB)	NZ\$M	12,971	12,743	12,575	2	3
FUA - spot (ASB)	NZ\$M	13,325	12,826	12,586	4	6
AUM - average (ASB)	NZ\$M	4,976	4,635	4,584	7	9
AUM - spot (ASB)	NZ\$M	4,809	4,954	4,325	(3)	11
Operating expenses to total operating income (ASB) <sup>(3)</sup>	%	34.1	36.2	35.7	(210)bpts	(160)bpts
Effective tax rate - "cash basis" (ASB) <sup>(3)</sup>	%	27.9	27.9	27.9	-	-
Risk weighted assets - APRA basis <sup>(4)</sup>	\$M	47,489	48,807	48,524	(3)	(2)
<b>Bankwest</b>						
Cash net profit after tax	\$M	339	286	290	19	17
Net interest margin	%	2.09	2.08	2.06	1 bpt	3 bpts
Average interest earning assets (AIEA) <sup>(5)</sup>	\$M	73,670	71,900	70,496	2	5
Operating expenses to total banking income	%	41.6	45.9	44.1	(430)bpts	(250)bpts
Effective tax rate - "cash basis"	%	30.4	29.9	30.3	50 bpts	10 bpts
Risk weighted assets	\$M	40,468	37,803	34,418	7	18

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

(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.

(5) Net of average mortgage offset balances.

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## 4.7 Foreign Exchange Rates

Exchange Rates Utilised <sup>(1)</sup>	Currency	As at		
		31 Dec 17	30 Jun 17	31 Dec 16
AUD 1.00 =	USD	<b>0. 7799</b>	0. 7684	0. 7236
	EUR	<b>0. 6532</b>	0. 6720	0. 6883
	GBP	<b>0. 5797</b>	0. 5903	0. 5899
	NZD	<b>1. 0983</b>	1. 0493	1. 0393
	JPY	<b>87. 9780</b>	86. 1110	84. 6897

(1) End of day, Sydney time.

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## 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.
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.
Business and Private Banking	Business & 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.
Corporate Centre (including eliminations)	Corporate Centre includes the results of unallocated Group support functions such as Treasury, Investor Relations, Group Strategy, Marketing and Secretariat. 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)
Customer satisfaction – external survey	This represents satisfaction with Main Financial Institution (MFI) based on the relationship with the financial institution as measured by Roy Morgan Research. The figures are six months rolling averages and are based on respondents aged 14+. The measure is the percentage of customers who answered as being either “very satisfied” or “fairly satisfied” with their MFI.
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	Calculated in accordance with AASB 133: Earnings per Share.
Expense to income ratio	Represents operating expenses as a percentage of total operating income.
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.
IFS	International Financial Services incorporates the Asian retail and business banking operations (Indonesia, China and Vietnam), investments in Chinese and Vietnamese banks, the joint venture Chinese life insurance business, the life insurance operations in Indonesia and a financial services technology business in South Africa. It does not include the Business and Private Banking, Institutional Banking and Markets and Colonial First State Global Asset Management businesses in Asia.
Institutional Banking and Markets	Institutional Banking and Markets services the Group’s major corporate, institutional and government clients using a relationship management model based on industry expertise and insights. The client offering includes debt raising, financial and commodities price risk management and transactional banking capabilities. Institutional Banking and Markets has international operations in London, New York, Houston, Japan, Singapore, Malta, Hong Kong, New Zealand, Beijing and Shanghai.
Interest Rate Risk in the Banking Book	Interest Rate Risk in the Banking Book 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. The APS117 IRRBB regulatory capital requirement is calculated using the net present value approach.
Jaws (%)	The Group uses Jaws as a key measure of financial performance. It is calculated as the difference between Total operating income growth and Operating expenses growth compared to the prior comparative period.
Net profit after tax (“cash basis”)	Represents net profit after tax and non-controlling interests before Bankwest non-cash items, the gain/loss on disposal of controlled entities/investments, treasury shares valuation adjustment, and unrealised gains and losses related to hedging and IFRS volatility. This is Management’s preferred measure of the Group’s financial performance.
Net profit after tax (“statutory basis”)	Represents net profit after tax and non-controlling interests, Bankwest non-cash items, the gain/loss on disposal of controlled entities/investments, treasury shares valuation adjustment, and unrealised gains and losses related to hedging and IFRS volatility. This is equivalent to the statutory item “Net profit attributable to Equity holders of the Bank”.

# Appendices

## Glossary of Terms (continued)

Term	Description
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).
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.
Net Stable Funding Ratio (NSFR)	The NSFR 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 ADI's 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.
Profit after capital charge (PACC)	The Group uses PACC, a risk-adjusted measure, as a key measure of financial performance. It takes into account the profit achieved, the risk to capital that was taken to achieve it, and other adjustments.
Other Overseas	Represents amounts booked in branches and controlled entities outside Australia and New Zealand.
Retail Banking Services	Retail Banking Services provides home loan, consumer finance and retail deposit products and servicing to all Retail bank customers and non-relationship managed small business customers, under the CBA and Aussie brands. In addition, commission is received for the distribution of Wealth Management products through the retail distribution network.
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.
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.
Wealth Management	Wealth Management provides Superannuation, Investment, Retirement and Insurance products and services including financial planning which help to secure and enhance the financial wellbeing of more than 2.3 million 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.
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 by both the life insurance statutory funds and by the employee share scheme trust.

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# 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 (RBA)	CBA Personal Credit Card Lending (APRA)
	Credit Cards excluding those issued to Business, with interest free period + without interest free period (from RBA credit and charge card statistics – Additional Credit Card Statistics C1.1)
Consumer finance (other household lending)	CBA Lending to Individuals which includes: Personal Loans, Margin Lending, Personal Leasing, Revolving Credit and Overdrafts
	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.
	Total of business lending category of the RBA Aggregate 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)
Asset Finance	CBA Leasing as reported to Australian Equipment Lessors Association (AELA)
	Total AELA Leasing Market (includes major competitors)
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)

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# Appendices

## Market Share Definitions (continued)

### New Zealand

	All ASB residential mortgages for owner occupier and residential investor property use
Home Loans	Total New Zealand residential mortgages for owner occupier and residential investor property use of all New Zealand registered banks (from RBNZ)
	All resident and non-resident deposits on ASB Balance Sheet
Customer Deposits	Total resident and non-resident deposits of all New Zealand registered banks (from RBNZ)
	All New Zealand dollar loans for business use on ASB Balance Sheet excluding agriculture loans
Business Lending	Total New Zealand dollar loans for business use of all New Zealand registered banks excluding agriculture loans (from RBNZ)
	Total ASB AUM
Retail AUM <sup>(1)</sup>	Total Market net Retail AUM (from Fund Source Research Limited)
	Total Sovereign inforce premiums excluding health (opening inforce annual premium income + new business - exits - other)
Annual inforce premiums <sup>(2)</sup>	Total inforce premium for New Zealand (from Financial Services Council of New Zealand statistics)

(1) Presented on a continuing operations basis.

(2) Discontinued operations.

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