ASX Announcement

CBA 3Q18 Trading Update

For the quarter ended 31 March 2018[1]. Reported 9 May 2018.
All comparisons are to the average of the two quarters of the first half of FY18 unless noted otherwise.

Summary

- Unaudited statutory net profit of approximately $2.30bn[2,3] in the quarter
- Unaudited cash net profit[3] of approximately $2.35bn[2] in the quarter
- CET1 (APRA) ratio at 10.1%, up 37 bpts since Dec 17 after allowing for payment of the 2018 interim dividend
- Underlying[4] operating income lower driven by two fewer days in the quarter and lower other banking income
- Underlying[4] operating expenses higher due to increased provisions for regulatory/compliance project spend
- Sound credit quality, with Loan Impairment Expense (LIE) of $261m in the quarter or 14 bpts of GLAA[5]
- Further balance sheet strengthening, including an increase in portfolio LT wholesale funding tenor to 5.1 years

Key Financials

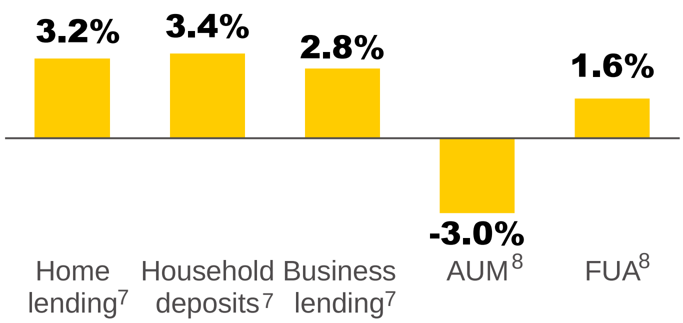
Approximate

3Q18	vs 1H18 Quarterly Average Reported	Underlying
Operating Income	(4%)	(4%)
Operating Expense	(3%)	+3%
Operating Performance[6]	(4%)	(9%)
LIE	(12%)	(12%)
Cash NPAT[3]	**(2%)**	**(9%)**

Refer appendix for a reconciliation of key financials

Key Volumes

March 2018 vs December 2017
(quarter annualised, except where noted)

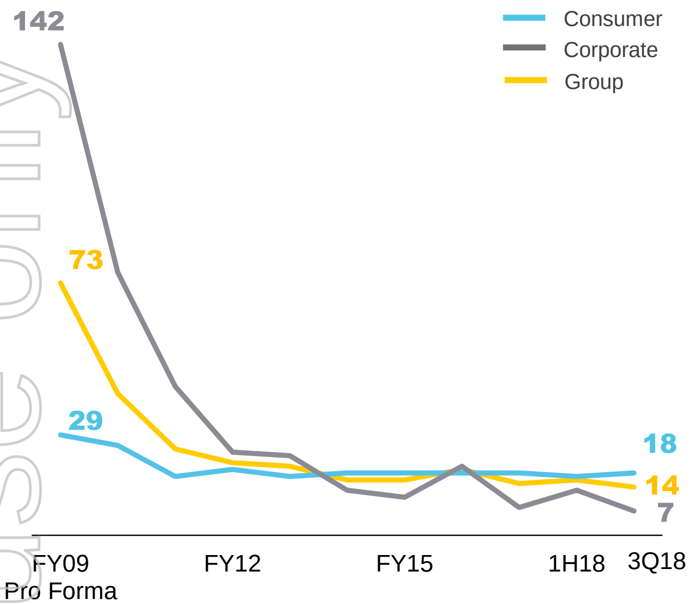


- Underlying operating income decreased by 4%. Excluding the impact of two fewer days in the quarter (approximately $100m), net interest income was broadly flat. Volume growth was offset by a slight decline in Group Net Interest Margin[9] due to customer switching from interest only to principal and interest home loans, as well as higher basis risk. Other banking income was lower driven by lower treasury and trading performance, and seasonally lower card fee income.
- Underlying operating expense increased by 3%, driven by increased provisions for regulatory and compliance project spend.

Sound credit quality

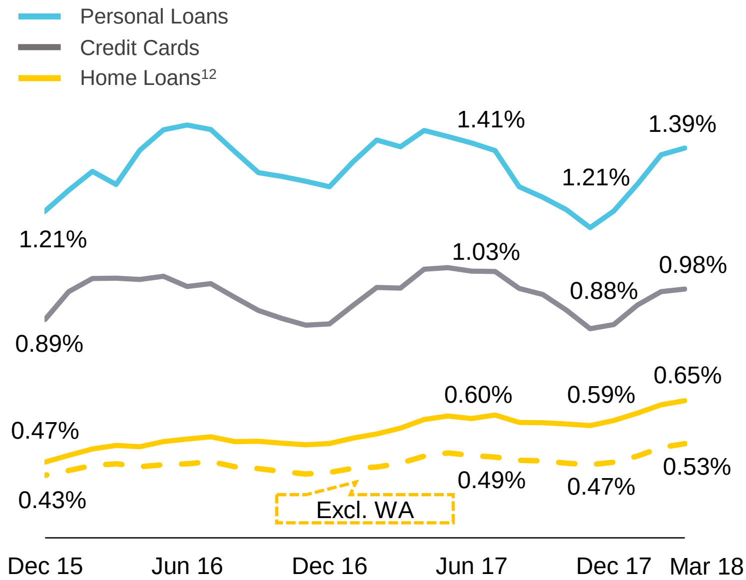
Loan impairment expense[10]

Basis points of GLAA[5]



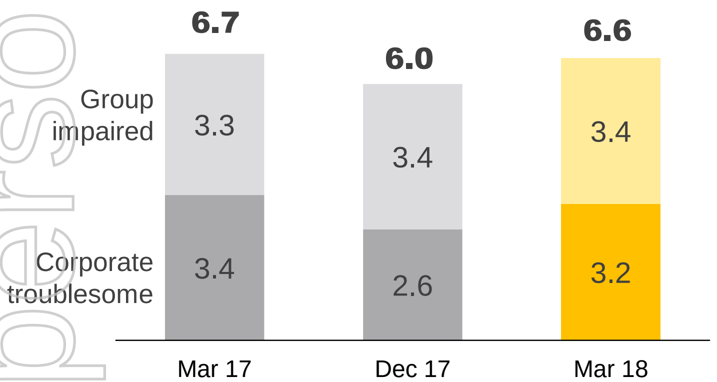
Consumer arrears[11]

90+ days



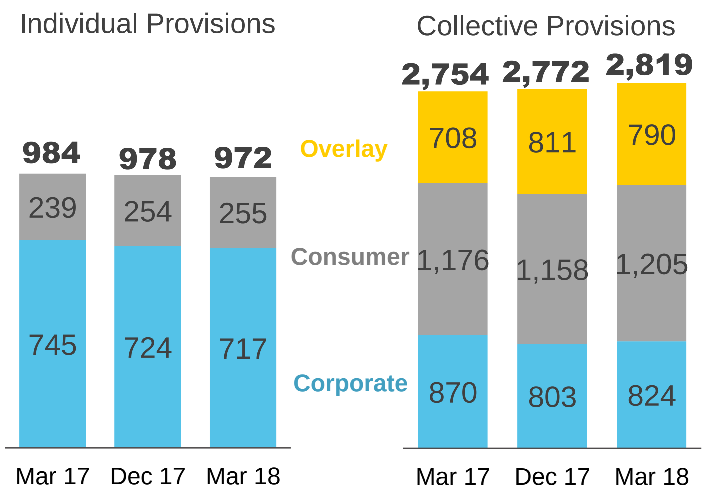
Troublesome and impaired assets

$bn



Credit provisions

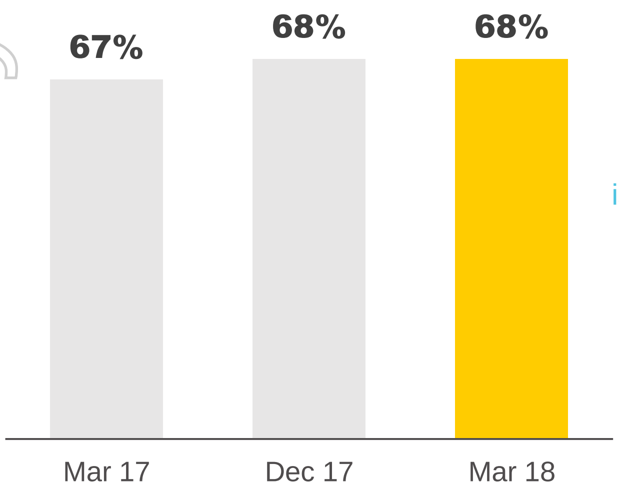
$m



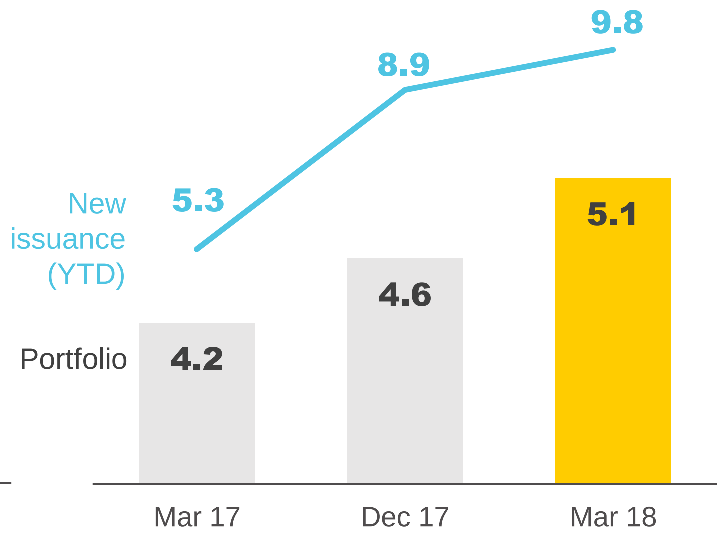
- The credit quality of the Group's lending portfolios remained sound.
- Loan Impairment Expense of $261 million in the quarter equated to 14 basis points of Gross Loans and Acceptances, compared to 16 basis points in 1H18.
- Consumer arrears were seasonally higher in the quarter.
- There has been an uptick in home loan arrears, influenced by a small number of customers experiencing difficulties with rising essential costs and limited income growth.
- Troublesome and impaired assets increased to $6.6 billion. A small number of credits drove the increase in troublesome exposures over the quarter, with impaired assets stable.
- Prudent levels of credit provisioning were maintained, with Total Provisions at approximately $3.8 billion.

Further balance sheet strengthening

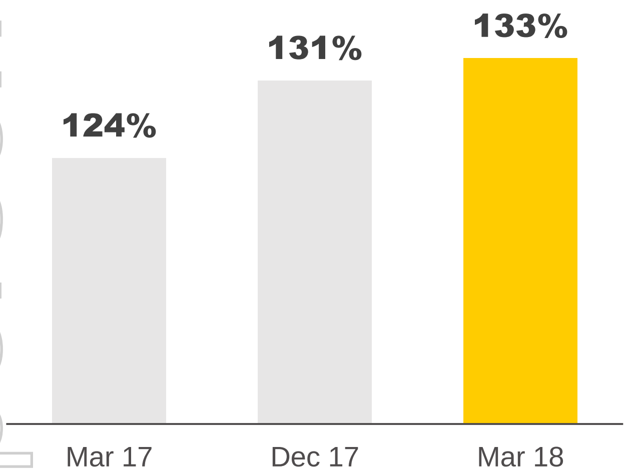
Deposit funding
% of total funding



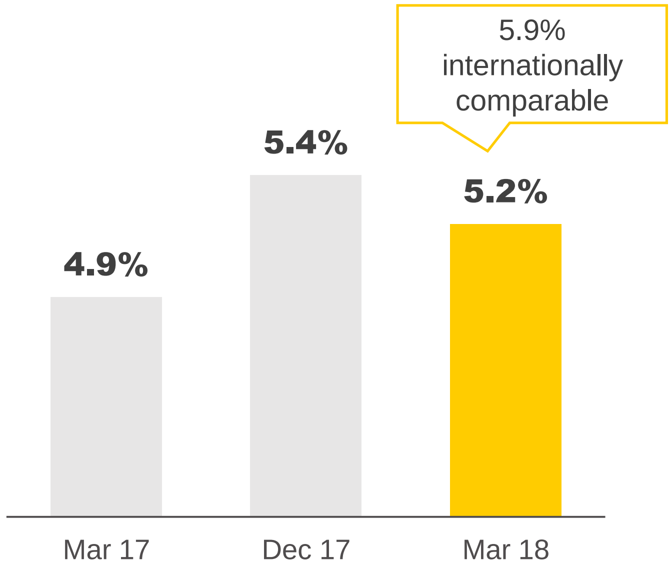
Wholesale funding
Tenor, years



Liquidity coverage ratio
Total liquid assets/Total net cash outflows (%)



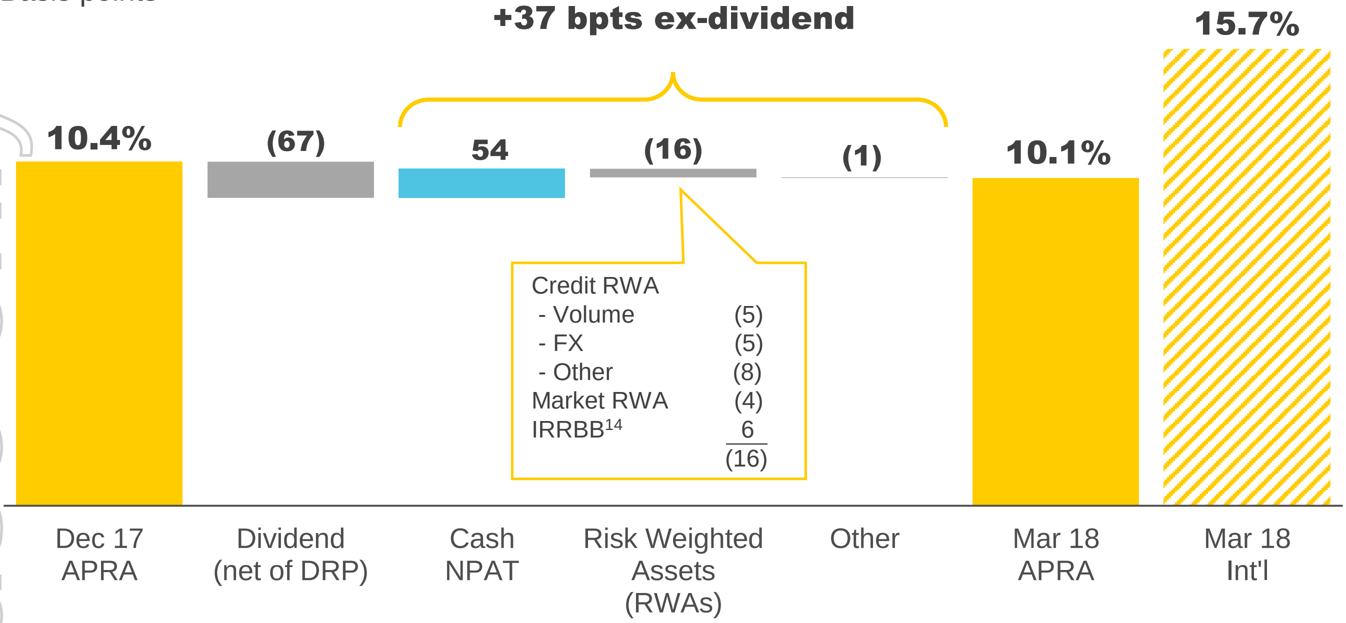
Leverage ratio
Tier 1 capital/total exposures (%)



- Funding and liquidity positions remained strong, with customer deposit funding at 68% and the average tenor of the long term wholesale funding portfolio at 5.1 years. The Group issued $10.2 billion of long term funding in the quarter.
- The Net Stable Funding Ratio (NSFR) was 111% at March 2018, up from 110% at December 2017.
- The Liquidity Coverage Ratio (LCR) increased to 133% as at March 2018, driven by higher liquid assets (up approximately $5 billion in the quarter to $144 billion[13]).
- The Group's Leverage Ratio was 5.2% on an APRA basis and 5.9% on an internationally comparable basis, 20 basis points lower than December 2017, primarily reflecting the impact of the 2018 interim dividend.

CET1 up 37 bpts ex-dividend

Common Equity Tier 1
Basis points



- The Group's Common Equity Tier 1 (CET1) APRA ratio was 10.1% as at 31 March 2018.
- After allowing for the impact of the 2018 interim dividend (which included the issuance of shares in respect of the Dividend Reinvestment Plan), CET1 increased 37 basis points in the quarter. This was driven by capital generated from earnings, partially offset by higher Risk Weighted Assets.
- Credit Risk Weighted Assets were higher in the quarter (-18 basis points), reflecting a combination of volume and foreign exchange movements, credit quality and regulatory changes.
- The final tranche of Colonial debt ($315m) is due to mature in the June 2018 quarter, with an estimated CET1 impact of -7 basis points.
- The Group will adopt AASB 9 on 1 July 2018. The impact will be recognised in opening retained earnings. The Group's estimate of the pro-forma impact of AASB 9 as at 1 January 2018 is an increase in collective provisions of approximately $1,050 million (before tax) and a reduction in the CET1 ratio of approximately 26 basis points. This reflects the revised treatment of the General Reserve for Credit Losses as advised by APRA.
- On 1 May 2018, APRA released the findings of the Prudential Inquiry into CBA. APRA requires CBA to increase Operational Risk regulatory capital by $1 billion (RWA of $12.5 billion). This adjustment is effective 30 April 2018, being the date the Group entered into an Enforceable Undertaking with APRA which states that CBA may apply for the removal of the adjustment only on meeting certain conditions. The pro-forma impact on the CET1 ratio as at 31 March 2018 is a decrease of 27 basis points, to 9.8%.
- The sale of the Group's Australian and New Zealand life insurance operations is expected to be completed in the December 2018 half year (subject to regulatory approvals) resulting in an uplift to the CET1 ratio of approximately +70 basis points.

Appendix – Key financials reconciliation

	1H18	1H18 Qtr Avg	Approximate Movement 3Q18 vs 1H18 Qtr Avg
Operating income	$m	$m	
Reported	13,122	6,561	(4%)
Visa share sale	-	-	
AHL	*(94)*	*(47)*	
Underlying	**13,028**	**6,514**	**(4%)**
Operating expense			
Reported	5,764	2,882	(3%)
Accelerated amortisation	-	-	
AHL	*(71)*	*(35)*	
AUSTRAC	*(375)*	*(188)*	
Underlying	**5,318**	**2,659**	**3%**
LIE	**596**	**298**	**(12%)**
Cash NPAT (AUSTRAC[15] in 1H18)	4,735	2,368	(2%)
Cash NPAT (ex AUSTRAC[15] in 1H18)	**5,110**	**2,555**	**(9%)**

Footnotes

[1] 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.

[2] Rounded to the nearest $50 million.

[3] 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 period on period. For a more detailed description of these items, please refer to page 5 of the Group's 31 December 2017 Profit Announcement. The difference between unaudited statutory net profit and unaudited cash net profit in the quarter was mainly driven by losses on foreign exchange hedges relating to future New Zealand earnings.

[4] 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; 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.

[5] LIE calculated as a percentage of average Gross Loans and Acceptances (GLAA). Expressed in basis points (bpts).

[6] Operating performance is operating income less operating expenses.

[7] As reported in APRA Monthly Banking Statistics (Historical series) and included in the RBA Financial Aggregates. Home Lending includes CBA subsidiaries, Homepath P/L, Residential Mortgage Group P/L and Wallaby Trust. Business lending (ex CMPF) represents drawn balances and includes 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, RFCs and Governments.

[8] Assets Under Management (AUM) and Funds Under Administration (FUA). Volume growth comparison to average AUM and FUA for the quarter ended 31 December 2017. Not annualised.

[9] Movement in Group Net Interest Margin from 1H18 (six months ended December 2017).

[10] 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.

[11] Consumer arrears includes retail portfolios of Retail Banking Services, Business & Private Banking, Bankwest and New Zealand.

[12] Excludes Reverse Mortgage, Commonwealth Portfolio Loan and Residential Mortgage Group loans.

[13] Spot balance as at 31 March 2018.

[14] Interest rate risk in the banking book.

[15] Reflects 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.

Disclaimer

The material in this announcement is general background information about the Group and its activities current as at the date of the announcement, 9 May 2018. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. Investors should consult with their own legal, tax, business and/or financial advisors in connection with any investment decision.

Contacts

Investor Relations
Melanie Kirk
Investor Relations
02 9118 7113
CBAInvestorRelations@cba.com.au

Media
Zoe Viellaris
Commonwealth Bank Media
02 9118 6919
media@cba.com.au

Shareholders
For more information, visit
commbank.com.au/shareholder