# ASX Announcement

**CBA 1H19 Result**

For the half year ended 31 December 2018[1,2]

Reported 6 February 2019

Unless otherwise stated: all figures relate to the half year ended 31 December 2018 and comparisons are to the prior comparative period (pcp), the half year ended 31 December 2017; financials are presented on a continuing operations basis.

## Becoming a simpler, better bank

“CBA continued to deliver strong core business outcomes in a challenging period. The highlights included robust transaction deposit growth and strengthened balance sheet resilience with the Bank now above ‘unquestionably strong’ capital requirements. We maintained our focus on being best in digital and achieved leading rankings for the CommBank mobile banking app and for digital customer advocacy. We are also on track to deliver a more focused portfolio of businesses in line with our competitive advantages.

Our transformation to be a simpler, better bank is well underway. We will continue to take action to address issues, earn trust and be a better bank for our customers, as we strengthen risk management, invest in core business growth, and deliver long-term sustainable returns for shareholders.”

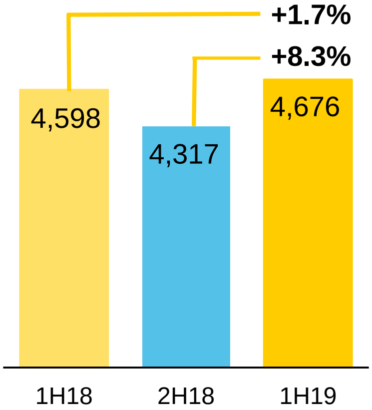
**Chief Executive Officer, Matt Comyn**

## Result summary

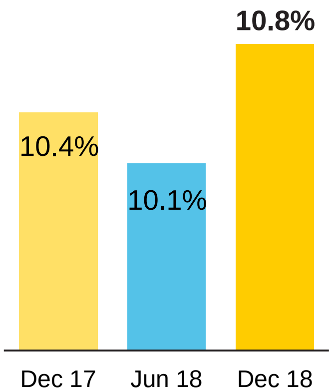
- Statutory net profit after tax (NPAT) including discontinued operations of $4,599 million.[3]
- Cash NPAT from continuing operations of $4,676 million, up 1.7%.
- Operating income of $12,408 million, down 1.9%, with volume growth offset by lower net interest margin, lower Markets and fee income, and the impact of weather events.
- Net interest margin of 2.10%, 4 basis points lower than 2H18, due to higher funding costs and home loan switching and competition.
- Operating expenses of $5,289 million, a reduction of 3.1%, with elevated risk, compliance and remediation costs offset by prior period one-offs.
- Loan impairment expense of $577 million, equivalent to 15 basis points of average gross loans and acceptances annualised, down from 16 basis points.
- Effective tax rate of 28.5%, expected to rise to approximately 29% for FY19.
- Interim dividend per share flat at $2.00. The Dividend Reinvestment Plan is anticipated to be satisfied in full by an on-market purchase of shares.
- Earnings per share (cash basic) of 265.2 cents, an increase of 0.9 cents per share.
- Return on equity (cash) of 13.8%, down 40 basis points.
- Common Equity Tier 1 (CET1) capital ratio on an APRA basis of 10.8%, up from 10.1% as at June 2018.[4]

## Key outcomes

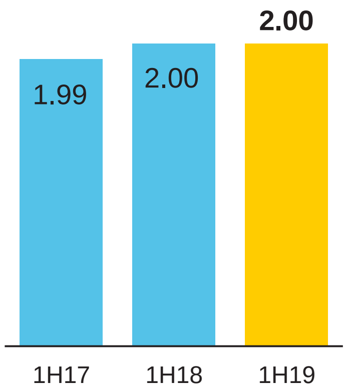
**Cash NPAT**
$m




**CET1**[4]
%

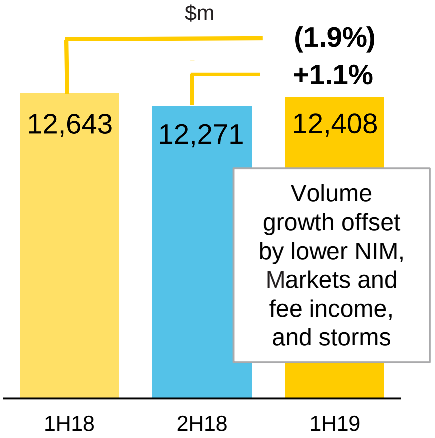



**Interim dividend**
$ per share

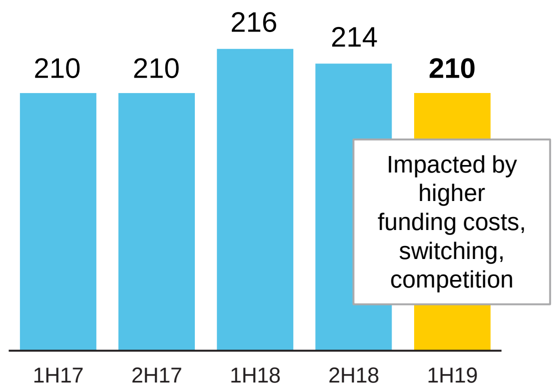


# Income – volume growth offset by lower margin

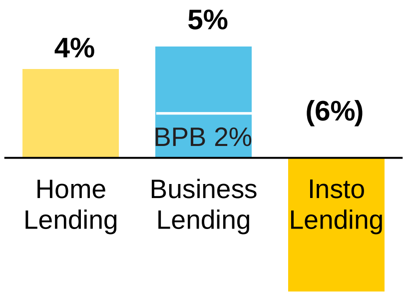
**Operating income**
$m



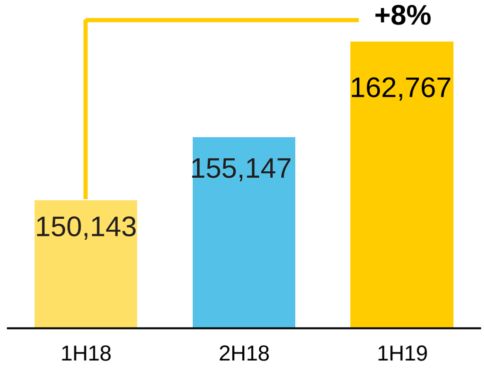

**Net interest margin (NIM)**
%




**Lending growth**[5]
%



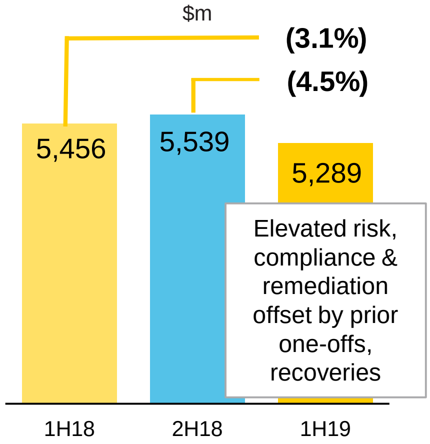

**Transaction deposit balances**[6]
$m



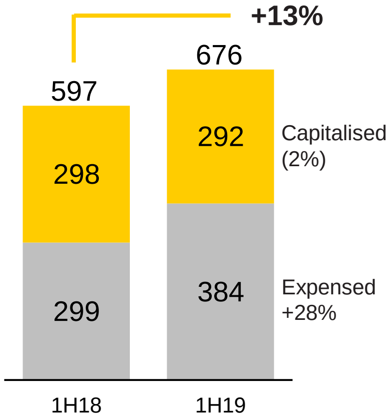

- Operating income was down 1.9%, with volume growth offset by net interest margin (NIM) decline, lower fees, weaker trading income and insurance income impacted by weather events. Overall, net interest income was down 1.3% on pcp.
- **Volume growth in the core business** saw Group lending and deposits grow by 2%. Home loan volumes increased 4% and business lending, including New Zealand, was up 5%. Continued optimisation of the institutional portfolio resulted in a 6% decline in volumes. Transaction deposit balances increased 8%.
- **Home lending growth of 4%**. Growth in the half was broadly in line with domestic system growth, following two halves of moderation as CBA took early action to manage regulatory requirements. The Bank's focus on its core markets saw CBA branded owner occupied balances grow by 6.5% on pcp, and proprietary flows at 60% in 1H19 (63% in 2H18) versus 41% for the system.[7]
- **Group transaction balance growth of 8%** was underpinned by strong performance in the Retail Banking Services division which saw interest bearing transaction deposit balances increase 14%.
- **NIM was down 4 basis points** on the prior half. Key contributors to the decline were: higher funding costs due to the increased spread between the bank bill swap rate and the overnight index swap rate ('basis risk') (-2 bpts) and lower benefit from the replicating portfolio (-2 bpts); the impact of customers switching from interest only to principal and interest and from investor to owner occupied home loans (-2 bpts); reduced fixed rate home loan pricing (-2 bpts); and home loan competition (-1 bpt). Positive contributors to NIM included deposit repricing (+3 bpts) and the home loan reprice which took effect from 4 October (+3 bpts).
- **Other banking income was down 4.8%**[8] impacted by reduced commissions and fees as a result of lower credit card income and following the simplification and removal of certain customer fees, as well as the introduction of pre-emptive fee alerts. Trading income was 11% lower, driven by weaker Markets trading performance reflecting widening yield curves and weaker Markets sales performance reflecting lower client demand.
- **Funds management income was flat** with an increase in average funds under administration of 6.5%.
- Insurance income was $44m lower, driven by higher insurance claims primarily due to the NSW/VIC storms (-$61m).

# Operating expenses – risk & compliance remained elevated

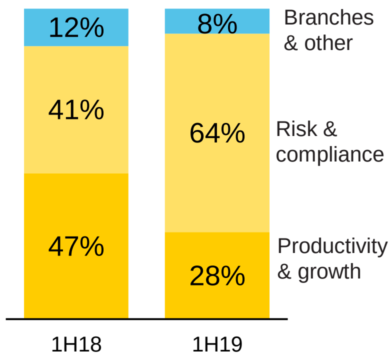
**Operating expenses**
$m




**Investment spend**
$m



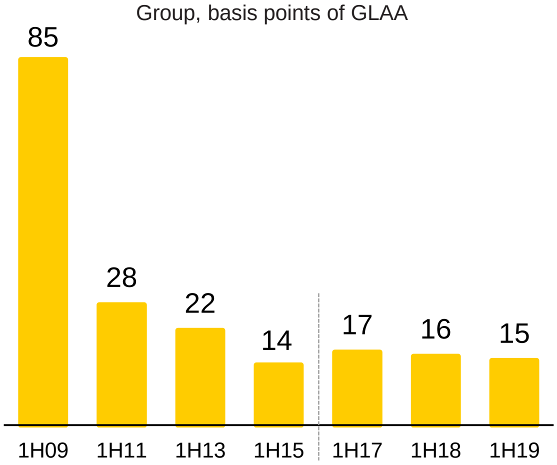

**Investment spend**
% total



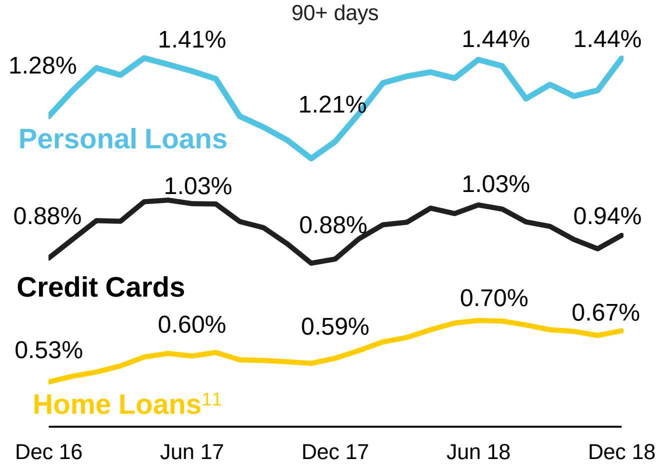

- **Operating expenses were 3.1% lower** due to the non-recurrence of prior period one-offs (AUSTRAC civil penalty of $375m and regulatory costs of $110m in 1H18) plus $145m of AUSTRAC insurance recoveries.
- **Uplifts to risk and compliance and remediation costs** increased expenses by $121m, and the period also included a $200m NewCo indemnity provision. Higher FTE, wage inflation and IT costs, partly offset by lower employee incentives, added $76m. The consolidation of Mortgage Broking businesses and the impact of the implementation of AASB15 added a further $66m.
- The operating expenses to total operating income ratio decreased 60 basis points to 42.6%.
- **Investment spend in the half was $676m, up 13%**. This was driven by elevated spending on risk and compliance projects to strengthen regulatory and compliance frameworks (including financial crimes and AML/CTF) and to implement systems to satisfy regulatory obligations (including Comprehensive Credit Reporting, New Payments Platform, and ATM processing of new banknotes).
- Risk and compliance related investment spend was $432m, comprising 64% of total investment, up from $400m in 2H18 and $243m in 1H18.

# Credit quality

**Loan impairment expense**[9]
Group, basis points of GLAA

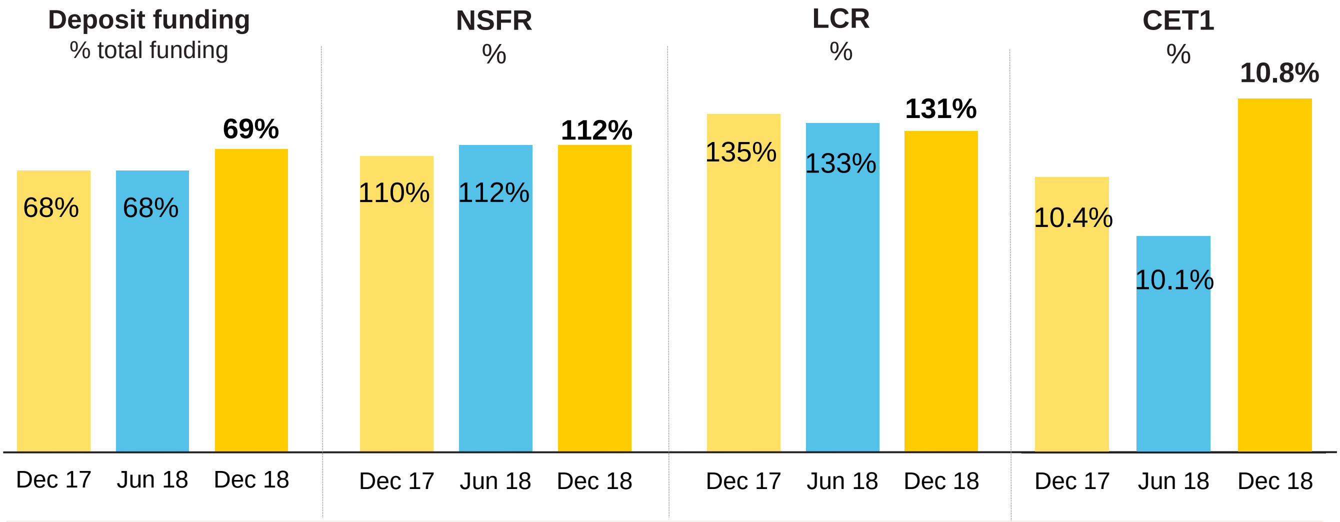



**Arrears ratios**[10]
90+ days



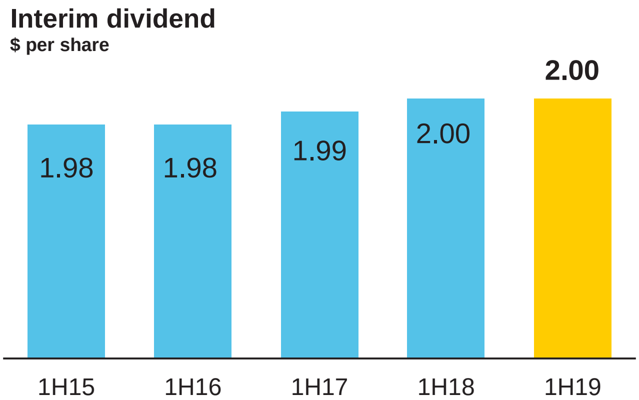

- **Credit quality remained sound.** Loan impairment expense (LIE) as a percentage of average gross loans and acceptances was 15 basis points, down from 16 basis points in 1H18.
- Consumer LIE was 15 basis points down from 19 basis points in 2H18 (17 bpts in 1H18). Corporate LIE was 15 basis points up from 6 basis points on 2H18 (13bpts in 1H18). The increase was due to higher provisioning for a small number of corporate clients, partly offset by lower collective provisions.
- Home loan arrears decreased slightly on the prior half due to seasonality, partly offset by some households continuing to experience difficulties with rising essential costs and limited income growth. Both personal loans and credit card arrears showed evidence of more muted seasonal benefits due to continued pockets of stress.
- Individual provisions were lower in the half ($920m versus $978m pcp). Collective provisions increased ($3,814m versus $2,772m pcp), mainly driven by the adoption of AASB9. Collective provisions as a percentage of credit risk weighted assets increased to 1.03% from 0.76%. Total provisions as a percentage of credit RWA increased to 1.28%, up from 1.02%.

# Balance sheet strength




- CBA maintained strong funding, liquidity and capital positions.
- **Customer deposits contributed 69% of total funding**, with continued growth in transaction deposit balances (+8% on pcp).[6] The Group maintains the highest share of stable, household deposits in Australia.
- **Long-term wholesale funding accounted for 66% of total wholesale funding**, up from 63% in December 2017. The weighted average maturity (WAM) of new long-term wholesale debt issued in the period was 5.7 years. The WAM of outstanding long-term wholesale debt was 5.0 years.
- The **Net Stable Funding Ratio was 112%**, up from 110% in December 2017, driven by a more NSFR efficient customer deposit mix, reflecting strong growth in Retail and SME deposits.
- The **Liquidity Coverage Ratio was 131%**, well above the regulatory minimum of 100%. Liquid assets were $139.5bn, including a committed liquidity facility (CLF) of $53.3bn. CBA's CLF in calendar year 2019 will be $50.7bn.
- The **Leverage Ratio was 5.6%** on an APRA basis (6.4% internationally comparable basis), up 10 basis points on June 2018; well above the Basel III minimum of 3% and APRA's proposed minimum of 3.5%.
- CBA's **Common Equity Tier 1 (CET1) capital ratio was 10.8%** on an APRA basis, up 70 basis points on June 2018, driven by strong organic capital generation (+66 bpts) and the benefit from the sale of the New Zealand life insurance operations (+27 bpts). CBA's CET1 on an internationally comparable basis stands at 16.5%.
- CBA's CET1 position is in excess of APRA's **unquestionably strong** average benchmark ratio of 10.5%.
- Previously announced divestments which are subject to various conditions and regulatory approvals are estimated to provide an uplift to CET1 of approximately 123 basis points (CFSGAM +60 bpts, CommInsure Life +38bpts, BoComm +18bpts and PTCL +7 bpts).

# Dividend & DRP




- The Board determined an interim dividend of $2.00 per share.
- The interim dividend payout ratio is 74.3% of cash NPAT.
- The ex-dividend date is 13 February, the Record Date is 14 February, and the final dividend will be paid on 28 March.
- The dividend reinvestment plan (DRP) continues to be offered to shareholders. No discount will apply. The deadline for notifying participation in the DRP is 15 February.
- The DRP is anticipated to be satisfied in full by an on-market purchase of shares.

# Building a better bank

### Royal Commission

- Thorough and valuable examination of the industry
- Too many examples of poor customer outcomes
- We will work constructively with government and regulators
- Committed to addressing past failings, improving policies and processes
- Focused on putting our customers first

### Addressing issues, earning trust

- 8 million customers written to directly
- Smart alerts to help customers avoid unnecessary charges
- Teller sales incentives removed
- New Code of Conduct for staff
- Instalment lending for persistent and problematic debt
- Tailored support for drought-affected farmers
- Remedial Action Plan in response to APRA Prudential Inquiry on track – 43 of 154 milestones submitted

# Best in digital

### Leading assets, leading satisfaction

- **6.7m** Active digital customers[12]
- **6.5m** Digital logons per day[13]
- **#1** Mobile Banking, 3yrs running[14]
- **#1** Online Banking, 9yrs running[15]
- **#1** Ranked Mobile Banking App in Australia[16]

### Proactive, simple and easy

- Overdrawn alerts with grace period
- Push reminders for loan and credit card payments
- Documents uploaded instantly from smartphones (Personal Loans)
- Improved outcomes for customers (e.g. NSW CTP refunds)

# Outlook

"The Australian economy continues to perform well with GDP growth at trend, near full employment, and wage growth edging higher. These strengths remain supported by our growing population, the infrastructure boom, and continued demand for our exports supported by growing incomes in Asia.

The housing market transition is a rational outcome of the lending policy changes introduced over a number of years, especially following an extended period of outpaced growth in some markets. As the economy is strong and lending standards have improved, credit quality remains sound. We are focused on continuing to serve our customers' financial needs and to support the economy, with the backing of a strong and resilient balance sheet.

There is much work ahead as we understand the implications and implement the recommendations of the Royal Commission. We have a clear mandate, a strong franchise and dedicated people. We are already making the necessary changes and will be a better bank as a result."

**Chief Executive Officer, Matt Comyn**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# Continuing and discontinued operations

In the half year ended 31 December 2018, the following were included in **discontinued operations**:

**i. Life insurance businesses in Australia and New Zealand**

On 21 September 2017, the Group announced the sale of its life insurance businesses in Australia (CommInsure Life) and New Zealand (Sovereign) to AIA Group Limited (AIA).[17]

The sale of Sovereign completed on 2 July 2018, resulting in a total post-tax gain of $95 million ($113 million gain recognised in this period with $18 million of transaction costs recognised in prior periods, both non-cash items).[18] The comparative financial results of Sovereign are excluded from the account lines of New Zealand's performance and are reported as a single cash net profit after tax line item on page 60 of the 1H19 Profit Announcement.

The sale of CommInsure Life remains conditional on the transfer of the Group's stake in BoComm Life Insurance Company Limited out of CommInsure Life and its associated regulatory approvals. The sale is expected to be completed in the first half of calendar year 2019. In the half year ended 31 December 2018, the Group recognised a further post-tax provision of $38 million (non-cash item) for transaction and separation costs associated with the sale.[19] CommInsure Life forms part of the Group's Wealth Management division and is treated as discontinued operations within this division as detailed on page 55 of the 1H19 Profit Announcement.

**ii. BoComm Life**

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoComm Life Insurance Company Limited (BoComm Life) to Mitsui Sumitomo Insurance Co. Ltd (MSI).[20] The sale is subject to regulatory approvals in China, and is a condition precedent of the CommInsure Life sale. The sale is expected to be completed in the first half of calendar year 2019. BoComm Life forms part of the Group's International Financial Services (IFS) division and is treated as a discontinued operation within this division as detailed on page 67 of the 1H19 Profit Announcement.

**iii. TymeDigital**

On 1 November 2018, the Group completed the sale of its shareholding in Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital) to the minority shareholder, African Rainbow Capital (ARC), resulting in a total post-tax loss on sale of $113 million ($22 million loss recognised in this period with $91 million of loss impairment recognised in the prior period, both non-cash items). TymeDigital formed part of the Group's IFS division. The financial results of the discontinued operations are excluded from the account lines of IFS and included in cash net loss after tax from discontinued operations on page 67 of the 1H19 Profit Announcement.

**iv. PT Commonwealth Life**

On 23 October 2018, the Group announced the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group.[21] The sale is subject to regulatory approvals in Indonesia and is expected to complete in the first half of calendar year 2019. PTCL formed part of the Group's IFS division and is treated as a discontinued operation within this division as detailed on page 67 of the 1H19 Profit Announcement.

**v. Colonial First State Global Asset Management**

On 31 October 2018, the Group announced the sale of its global asset management business, Colonial First State Global Asset Management (CFSGAM), to Mitsubishi UFJ Trust and Banking Corporation (MUTB).[22] The sale remains subject to regulatory approvals and is expected to complete mid calendar year 2019. In this result, the Group has recognised a post-tax provision for transaction and separation costs associated with the sale of $100 million (non-cash item). CFSGAM formed part of the Group's Wealth Management division and is treated as a discontinued operation within this division as outlined on page 55 of the 1H19 Profit Announcement.

The following are retained in **continuing operations**:

**i. NewCo**

On 25 June 2018, the Group announced its intention to demerge its wealth management and mortgage broking businesses.[23] This will involve the creation of a new wealth management and mortgage broking company (NewCo). The demerger is subject to shareholder approval and remains classified within continuing operations. Indicative pro-forma NewCo financials are provided on page 59 of the 1H19 Profit Announcement.

**ii. General Insurance**

On 25 June 2018, the Group announced a strategic review of its general insurance business.[24] General Insurance has moved to be part of the Retail Banking Services (RBS) division while the review is underway. Insurance income from General Insurance is provided on page 15 of the 1H19 Profit Announcement and is shown with Mortgage Broking in a single cash net profit after tax line item in RBS on page 40.

# Attachment 2 – Guide to CBA's 1H19 result

## Comparative metrics

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

| | Profit Announcement | | | |
|---|---|---|---|---|
| | Incl. discontinued operations | | Continuing operations | |
| Half year ended ("cash basis") | Dec 18 | Dec 18 v Dec 17 | Dec 18 | Dec 18 v Dec 17 |
| Cash net profit after tax | $4,768m | (2.1%) | $4,676m | 1.7% |
| Cost-to-income [25] | 44.4% | 10bpts | 42.6% | (60)bpts |
| Effective tax rate | 28.4% | (150)bpts | 28.5% | (170)bpts |
| Profit after capital charge [26] | $2,647m | (15.3%) | $2,660m | (10.9%) |
| Earnings per share (basic) | 270.4c | (9.6c) | 265.2c | 0.9c |
| Return on equity | 14.1% | (90)bpts | 13.8% | (40)bpts |

# Footnotes

[1] Comparative information has been restated to conform to presentation in the current period.

[2] Unless otherwise stated the financials are presented on a continuing operations basis. For details of discontinued and continuing operations see Attachment 1 page vi for details.

[3] For an explanation of and reconciliation between statutory and cash NPAT, refer to page 4 of the Profit Announcement.

[4] Includes discontinued operations.

[5] Spot balances. Business lending includes New Zealand.

[6] Spot balances. Includes non-interest bearing deposits.

[7] System as at September 2018 quarter. Source: MFAA.

[8] Excluding Mortgage Broking consolidation. See page 14 of the Profit Announcement.

[9] Cash LIE as a percentage of average gross loans and acceptances (bpts) annualised. 1H09 includes Bankwest on a pro-forma basis.

[10] Consumer arrears includes retail portfolios of CBA (Retail Banking Services, Business and Private Banking) and New Zealand.

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

[12] Total number of customers that logged into Netbank, CommBank Mobile App, CommBank Tablet App or the Old Mobile App at least once in the month of December 2018. This excludes Face ID logons.

[13] Total average Netbank, CommBank Mobile App, CommBank Tablet App and Old Mobile App logons per day. This excludes Face ID logons.

[14] Mobile banking: CBA won Canstar's *Bank of the Year - Mobile Banking* award for 2018 (for the 3rd year in a row). Awarded June 2018.

[15] Online banking: CBA won Canstar's *Bank of the Year – Online Banking* award for 2018 (for the 9th year in a row). Awarded June 2018.

[16] The Forrester Banking WaveTM: Australian Mobile Apps, Q2 2018. Commonwealth Bank of Australia received the highest Industry WaveTM overall score among mobile apps in Australia in Forrester's proprietary Industry WaveTM evaluation. Forrester Research does not endorse any company included in any Industry WaveTM report and does not advise any person or organization to select the products or services of any particular company based on the ratings included in such reports.

[17] ASX Announcement, *Divestment of Australian and New Zealand life insurance businesses*, 21 September 2017 (https://www.asx.com.au/asxpdf/20170921/pdf/43mhnzcfywb1rs.pdf)

[18] ASX Announcement, *Completion of New Zealand life insurance divestment,* 2 July 2018 (https://www.asx.com.au/asxpdf/20180702/pdf/43w71lfllx3gb0.pdf); and ASX Announcement, *Update on non-cash items and 1H19 financial comparatives*, 18 January 2019 (https://www.asx.com.au/asxpdf/20190118/pdf/441ycf1wynw4dd.pdf)

[19] ASX Announcement, *Update on non-cash items and 1H19 financial comparatives*, 18 January 2019 (https://www.asx.com.au/asxpdf/20190118/pdf/441ycf1wynw4dd.pdf)

[20] ASX Announcement, *Sale of equity interest in BoComm Life,* 23 May 2018 (https://www.asx.com.au/asxpdf/20180523/pdf/43v76h2zgzktnr.pdf)

[21] ASX Announcement, *Update on life insurance divestments*, 23 October 2018 (https://www.asx.com.au/asxpdf/20181023/pdf/43zhtzyl6gfgw6.pdf)

[22] ASX Announcement, *Divestment of global asset management business,* 31 October 2018 (https://www.asx.com.au/asxpdf/20181031/pdf/43ztrtphypv0bl.pdf)

[23] ASX Announcement, *Key appointments to lead demerger*, 31 October 2018 (https://www.asx.com.au/asxpdf/20181031/pdf/43zts5ygvrbnzt.pdf)

[24] ASX Announcement, *CBA announces intention to demerge wealth management and mortgage broking businesses,* 25 June 2018 (https://www.asx.com.au/asxpdf/20180625/pdf/43w0f9cy15cx50.pdf)

[25] Operating expenses to total operating income.

[26] The Bank uses PACC as a key measure of risk adjusted profitability. It takes into account the profit achieved, the risk to capital that was taken to achieve it, and other adjustments. The decrease on the prior comparative period includes the impact of increasing capital levels in order to meet APRA's "unquestionably strong" capital requirements by 1 January 2020 and the one-off impact of additional operational risk capital (and RWAs) from the Enforceable Undertaking with APRA.

# Key financial information

| Group performance summary | Half year ended (cash basis) [1] 31 Dec 18 $m | 30 Jun 18 $m | 31 Dec 17 $m | 31 Dec 18 v Jun 18 % | Dec 18 v Dec 17 % |
|---|---|---|---|---|---|
| Net interest income | **9,134** | 9,085 | 9,257 | 1 | (1) |
| Other banking income | **2,636** | 2,509 | 2,706 | 5 | (3) |
| **Total banking income** | **11,770** | 11,594 | 11,963 | 2 | (2) |
| Funds management income | **570** | 551 | 568 | 3 | - |
| Insurance income | **68** | 126 | 112 | (46) | (39) |
| **Total operating income** | **12,408** | 12,271 | 12,643 | 1 | (2) |
| Investment experience | **3** | 2 | 6 | 50 | (50) |
| **Total income** | **12,411** | 12,273 | 12,649 | 1 | (2) |
| Operating expenses | **(5,289)** | (5,539) | (5,456) | (5) | (3) |
| Loan impairment expense | **(577)** | (483) | (596) | 19 | (3) |
| **Net profit before tax** | **6,545** | 6,251 | 6,597 | 5 | (1) |
| **NPAT from continuing operations (“cash basis”)** | **4,676** | 4,317 | 4,598 | 8 | 2 |
| **NPAT incl. discont’d operations ("cash basis")** [2] | **4,768** | 4,541 | 4,871 | 5 | (2) |
| **NPAT incl. discont’d operations ("statutory basis")** | **4,599** | 4,423 | 4,906 | 4 | (6) |
| **Cash net profit after tax, by division (continuing operations)** | | | | | |
| Retail Banking Services [3] | **2,232** | 2,353 | 2,470 | (5) | (10) |
| Business and Private Banking | **1,407** | 1,393 | 1,452 | 1 | (3) |
| Institutional Banking and Markets | **580** | 562 | 608 | 3 | (5) |
| Wealth Management | **136** | 139 | 116 | (2) | 17 |
| New Zealand | **539** | 492 | 483 | 10 | 12 |
| International Financial Services | **118** | 87 | 65 | 36 | 82 |
| Corporate Centre | **(336)** | (709) | (596) | (53) | (44) |
| **Shareholder ratios & performance indicators (continuing operations)** | | | | | |
| Earnings per share - "cash basis" - basic (cents) | 265.2 | 246.0 | 264.3 | 8 | - |
| Return on equity - "cash basis" (%) | 13.8 | 13.1 | 14.2 | 70 bpts | (40)bpts |
| Dividends per share - fully franked (cents) [4] | 200 | 231 | 200 | (13) | - |
| Dividend payout ratio - "cash basis" (%) [4] | 74.3 | 89.5 | 72.0 | large | 230 bpts |
| Average interest earning assets ($M) [5] | 863,664 | 857,050 | 851,522 | 1 | 1 |
| Funds Under Administration - average ($M) | 160,860 | 156,896 | 151,008 | 3 | 7 |
| Assets Under Management - average ($M) | 14,406 | 13,484 | 12,305 | 7 | 17 |
| Net interest margin (%) | 2.10 | 2.14 | 2.16 | (4)bpts | (6)bpts |
| Operating expenses to total operating income (%) | 42.6 | 45.1 | 43.2 | (250)bpts | (60)bpts |

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

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

(3) Includes results of Mortgage Broking and General Insurance, which are respectively subject to demerger and strategic review. The results of RBS excluding these businesses are set out on pages 7 and 40 of the 1H19 Profit Announcement.

(4) Includes discontinued operations.

(5) Average interest earning assets are net of average mortgage offset balances.