Commonwealth Bank

1H21 Results

ASX Announcement

Disciplined execution delivered strong outcomes with market share gains in core businesses, increased provisioning and a significant capital surplus.[1]

Net profit after tax

$4,877m

Statutory NPAT[2]

▼ 20.8% on 1H20

$3,886m

Cash NPAT

▼ 10.8% on 1H20

NPAT was supported by strong business outcomes but impacted by the low rate environment and COVID-19. Statutory NPAT includes gains on the sale of divestments, including the completion of BoComm Life.

Dividend

$1.50

Per share, fully franked[2]

▲ 53% on 2H20 ▼ 25% on 1H20

The interim dividend was $1.50 per share, fully franked. This represents a cash payout ratio of 67%, below the Board target payout range.

Volume growth in core businesses[3]

Business lending	**+$4.0bn**	>3x system
Home lending	**+$13.0bn**	1.5x system
Household deposits	**+$23.2bn**	1.1x system

Net interest margin

2.01%

▼ 3 bpts on 2H20 ▼ 10 bpts on 1H20

Group net interest margin (NIM) declined mainly due to higher liquid balances and the impact of the low rate environment on deposits and capital earnings, partly offset by lower wholesale funding costs.

Common Equity Tier 1 capital ratio

12.6%

APRA, Level 2[2]

▲ 100 bpts on 2H20 ▲ 90 bpts on 1H20

Strong organic capital generation and ongoing benefits of divestments supported higher capital levels, which remain well above APRA's 'unquestionably strong' benchmark of 10.5%. CET1 of 18.7% on an internationally comparable basis.

Loan impairment expense and provisions

$882m

▲ $233m on 1H20

1.81%

Provision coverage ratio to credit risk weighted assets[4]

Total loan impairment provisions were further increased during the period with a total provision coverage ratio of 1.81%.[4] The loan loss rate for the half was 22 basis points[5] (bpts).

For footnotes see the page vii of this ASX Announcement.

Results overview

Executing our strategy Chief Executive Officer, Matt Comyn

The strength of our franchise, combined with the disciplined execution of our strategy, have delivered consistently good performance notwithstanding the current environment.

More than two years ago we outlined our strategy to become a simpler, better bank. Since then, we have made significant progress – divesting our wealth management businesses and improving non-financial risk management. We have also focused on operational excellence in our core banking businesses, achieving above market growth in home lending, deposits and business lending.

This position of strength means we are uniquely placed to respond to the rapidly changing operating context while continuing to support our customers, contribute meaningfully to our communities and deliver business performance.

We have refreshed our strategic priorities to build on our strong foundations and position us for the future. This is an evolutionary change to enable the Bank to focus on the new challenges and opportunities ahead.

We have set an ambitious agenda and are committed to building tomorrow's bank today for our customers.

Key financials

For the half year ended 31 December 2020[6].

- **Statutory NPAT**[7] including discontinued operations was $4,877m, down 20.8%, mainly due to lower gains realised in the period on the sale of businesses.
- **Cash NPAT** from continuing operations was $3,886m, down 10.8%. Excluding COVID-19 impacts and remediation costs, cash NPAT was broadly flat.
- **Operating income** was $11,961m, down 0.5%, due to the impact of COVID-19 and lower net interest margin, partly offset by core volume growth.
- **Net interest margin** was 2.01%, down 10bpts, due to higher liquid assets and the impact of lower rates.
- **Operating expenses** were $5,566m, up 2.3% excluding remediation costs, driven by higher investment spend, the impact of COVID-19 and increased volume-related expenses.
- **Loan impairment expense** increased $233m reflecting uncertainty in the economic outlook. The loan loss rate was 22 bpts of average gross loans and acceptances.
- **Deposit funding** of 75% from continued growth in deposit volumes.
- **Common Equity Tier 1** (CET1) capital ratio of 12.6% (Level 2, APRA), up 100 bpts since June 2020.
- **Interim dividend** of $1.50 per share fully franked.

Outlook Chief Executive Officer, Matt Comyn

We remain committed to supporting our customers and helping the economy recover.

Australia is relatively well positioned having started from a position of fiscal and economic strength. We have a solid pipeline of infrastructure projects, the outlook for mining and agriculture exports is strong, and the community has benefitted from the Government's significant income support measures.

Although the outlook is positive, there are a number of health and economic risks that could dampen the pace of recovery. We are prepared for a range of scenarios and have taken a careful approach to provisioning.

We also continue to monitor our lending portfolios closely for any signs of stress. The low interest rate environment will continue to put pressure on our revenue which is why we remain focused on performance, operational execution and capital allocation.

The Bank's leading franchise and strong foundations mean it is well placed for the challenges ahead. The strength of our balance sheet and capital position enables us to support customers and help lead the country through recovery. We will also continue to work with government, regulators and our industry peers to support initiatives that stimulate economic activity and jobs.

Operating performance

Our businesses continued to perform well, with strong operational execution delivering above market growth in home lending, deposits and business lending. This volume growth helped to offset the impact of lower net interest margins.

Operating income

Operating income
Cash basis

$11,961m

2H20 $11,738m

1H20 $12,023m

Net interest margin

2.01%

2H20 2.04%

1H20 2.11%

Net interest income was flat, with strong volume growth across core banking businesses helping to offset the impact on net interest margin of lower interest rates and heightened competition.

Home lending grew at 1.5x system[8] due to consistent operational excellence. Household deposit balances grew at 1.1x system[8], and Group transaction account balances were up 37% reflecting increased liquidity in the economy and higher demand for at-call deposits in the low rate environment.

Net interest margin (NIM) decreased 3 bpts on 2H20 and 10 bpts on 1H20, due to higher liquid assets and the impact of the low rate environment on deposit margins and earnings on capital, partly offset by lower wholesale funding costs.

Cash rate headwinds are expected to be 7 bpts to Group NIM in FY21.

Other operating income decreased by $83m in the half. Key drivers were:

- Lower credit card, retail foreign exchange and deposit fee income primarily due to a decline in spend and transaction volumes as a result of COVID-19;
- Further impairment of aircraft, both owned and leased to airlines, in our Structured Asset Finance portfolio; and
- Lower Global Markets sales income driven by reduced client demand for hedging activities in the low rate environment.

These decreases were partly offset by:

- Higher CommSec equities income from increased trading volumes;
- Higher Global Markets trading income from precious metals inventory financing and gains in fixed income and rates portfolios; and
- Lower insurance claims related to weather events, mainly bushfires.

Operating expenses

Operating expenses

$5,566m

2H20 $5,689m

1H20 $5,206m

Operating expenses increased 2.3% excluding remediation costs. Key drivers were:

- Higher investment spend, up 34%, with continued investment across the business driven primarily by increased investment in digital;
- Increased financial assistance and operations staffing to assist customers impacted by COVID-19 and support higher home loan and business loan volumes; and
- Higher staff and IT costs to continue to support the Bank's core businesses.

These increases were partly offset by business simplification initiatives including discretionary spend cost reductions.

Remediation cost provisions of $241m were recognised during the half, including $118m of additional provisions for historical Aligned Advice remediation issues, mainly related to program costs.

The **cost-to-income** ratio (cash basis) was 46.5%.

Provisions and credit quality

Loan impairment expense

Loan impairment expense

$882m

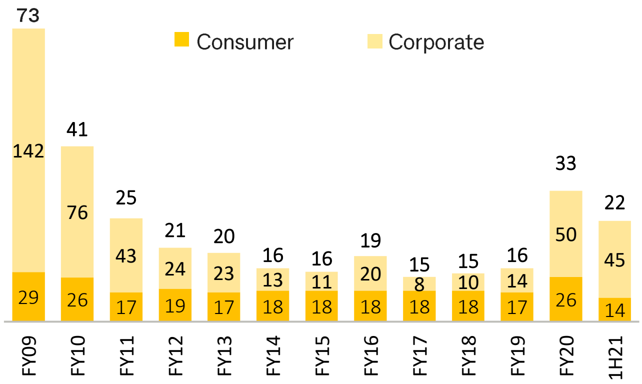
2H20 $1,869m

1H20 $649m

Loan impairment expense increased due to higher collective provisions.

Forward looking adjustments were made to reflect the uncertain economic outlook and emerging industry risks in particular for the Aviation and Entertainment, Leisure & Tourism sectors.

Loan loss rate[9] (bpts)



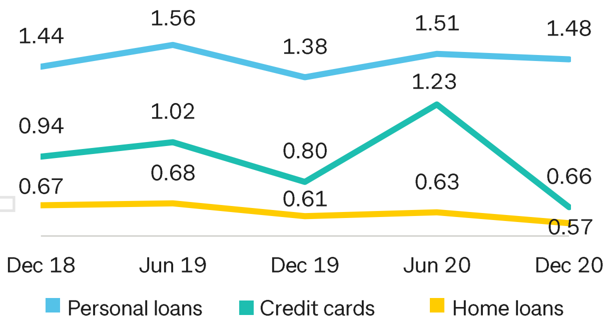
Portfolio credit quality

Consumer arrears

Arrears on home loans and consumer finance remain low, and are being temporarily insulated by COVID-19 support measures. In line with APRA's regulatory approach, loans currently in deferral as part of COVID-19 support packages are not included in arrears.

As at 31 January, approximately 25,000 home loans remain in deferral (balances $9bn) down from 145,000 loans (balances $51bn) as at 30 June 2020.[10]

Consumer arrears >90 days[11] (%)

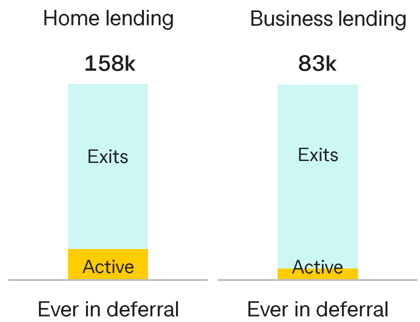


Troublesome and impaired assets

Troublesome and impaired assets increased to $8,195m. This was mainly due to the impact of COVID-19 on corporate customers in Aviation, Entertainment, Leisure & Tourism and Commercial Property sectors.

SME loans on repayment deferrals as at 31 January were approximately 2,000 loans (balances $0.3bn) down from 67,000 loans (balances $15.7bn) as at 30 June 2020.[10]

Repayment deferrals[12]



Loan impairment provisions

Provisions were further increased in the half to $6.8bn, driven by forward looking adjustments to collective provisions for emerging risks as a result of COVID-19. Collective provisions include forward looking adjustments that are estimates of the likely effects of emerging risks, including assumptions around likely deterioration in portfolio arrears rates and counterparty risk ratings.

Total provisions to credit risk weighted assets increased to 1.81%, 11 bpts higher on the prior half.

Total impairment provisions ($bn)

Balance sheet strength

Capital strength is a highlight of the result, with key liquidity and funding metrics also remaining strong during 1H21. The Bank is well prepared for a range of possible macro-economic outcomes.

Capital

Common Equity Tier 1 capital ratio

12.6%

APRA (Level 2)

2H20 11.6%

1H20 11.7%

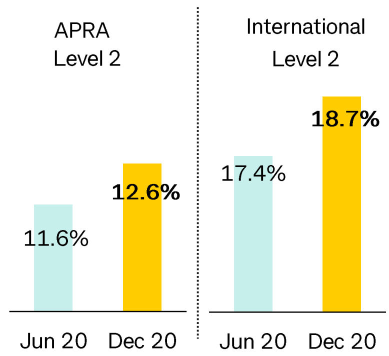
The Group has a strong capital position with a CET1 capital ratio of 12.6% (Level 2), well above APRA's 'unquestionably strong' benchmark of 10.5%.

The CET1 ratio increased by 100 bpts since June 2020, driven by:

- Organic capital generation from profits generated by the business;
- The benefits from proceeds received in relation to the sales of BoCommLife, CommInsure Life, and other previously announced divestments; and
- A 50% reduction in APRA's operational risk capital overlay arising from the Prudential Inquiry (+17 bpts);
- Partly offset by higher risk weighted assets largely as a result of growth in home and business lending.

The pro-forma capital uplift from the finalisation of remaining divestments (Colonial First State, CommInsure Life) is expected to be 32-42 bpts (CET 1, Level 2).

Common Equity Tier 1 capital ratio



Funding and liquidity

Deposit funding ratio

75%

2H20 74%

1H20 71%

The **deposit funding** ratio was 75%, up from 71% in 1H20, as the Group continued to satisfy a significant portion of its funding requirements from customer deposits. This was due to the continuing growth in customers' transaction and savings account balances.

As at 31 December 2020, the Group had access to $41bn of funding provided through the RBA's three-year Term Funding Facility (TFF) and $19bn had been drawn.

The average tenor of the long term wholesale funding portfolio was 5.2 years (5.7 years excluding the TFF). Long term wholesale funding accounted for 69% of total wholesale funding, up 3% from 31 December 2019.

The average **liquidity coverage ratio** (LCR) for the quarter ended 31 December 2020 was 143%, an increase of 9% compared to the quarterly average ended 31 December 2019. The LCR remains well above the minimum regulatory requirement of 100%.

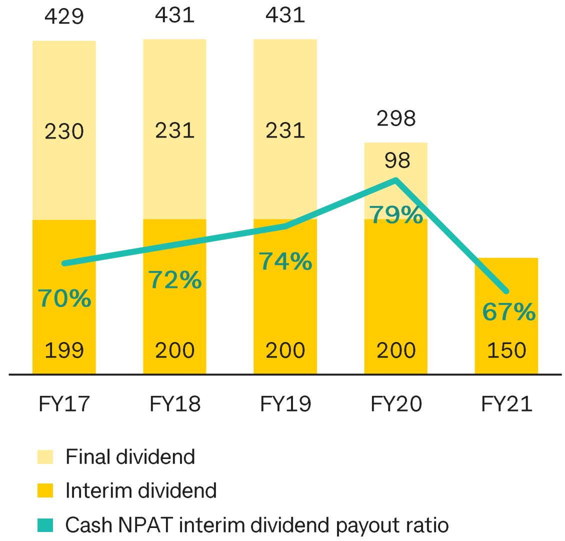
The **net stable funding ratio** (NSFR) as at 31 December 2020 was 123%, an increase of 9% from the prior comparative period, and well above the regulatory minimum of 100%. The increase in the ratio was due to the growth in customer deposits, the benefit from the TFF, and the Group's strong capital position.

Delivering for shareholders

Dividends

- A fully franked interim dividend of $1.50 per share was determined for the six months to 31 December 2020. The dividend payout ratio was 67% of cash earnings.
- On 15 December 2020, APRA updated its capital management guidance to banks, easing restrictions on the payment of dividends. APRA continues to expect banks to moderate dividend payout ratios to ensure they are sustainable, taking into account the outlook for profitability, capital and the broader environment.
- The Bank's dividend policy seeks to: pay dividends at strong and sustainable levels; target a full year payout ratio of 70% to 80% of cash NPAT; and maximise the use of its franking account by paying fully franked dividends.
- The Dividend Reinvestment Plan (DRP) continues to be offered to shareholders. No discount will apply. The DRP is anticipated to be satisfied in full by an on-market purchase of shares.

Dividend per share
(cents)



Footnotes

Page i

1. Comparative information has been restated to conform to presentation in the current period. Unless otherwise stated: all figures relate to the half year ended 31 December 2020 and comparisons are to the prior comparative period, the half year ended 31 December 2019; financials are presented on a continuing operations basis.
2. Statutory NPAT, CET1 and dividend per share include discontinued operations. Discontinued operations includes Colonial First State (CFS), CommInsure Life, BoCommLife, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life. Includes non-controlling interests related to discontinued operations.
3. As reported in APRA Monthly ADI Statistics (MADIS). System multiple calculated on a non-annualised basis. CBA business lending multiple estimate is based on Business Banking growth rate (excluding Institutional Banking and Markets) over published APRA Total Business Lending data (excluding estimated institutional lending balances). CBA business lending growth is Business Banking excluding Institutional Banking and Markets.
4. Total provisions as a percentage of credit risk weighted assets.
5. Loan impairment expense ("cash basis") annualised as a percentage of average gross loans and acceptances (GLAAs).

Page ii

6. See 1 above.
7. For an explanation of and reconciliation between statutory and cash NPAT refer to page 3 of the Profit Announcement for the half year ended 31 December 2020.

Page iii

8. See 3 above.

Page iv

9. See 5 above. FY09 includes Bankwest on a pro-forma basis.
10. Australian deferral accounts. CBA Product view basis.
11. Group consumer arrears including New Zealand.
12. Australian deferral accounts as at 31 January 2021. CBA Product view basis.

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This announcement has been authorised for release by Kristy Huxtable, Company Secretary.

Key financial information

Group performance summary (continuing operations)	Half year ended [1] ("cash basis") 31 Dec 20 $m	30 Jun 20 $m	31 Dec 19 $m	Dec 20 v Jun 20 %	Dec 20 v Dec 19 %
Net interest income	**9,371**	9,260	9,350	1	-
Other banking income	**2,419**	2,294	2,543	5	(5)
Total banking income	**11,790**	11,554	11,893	2	(1)
Funds management income	**80**	75	98	7	(18)
Insurance income	**91**	109	32	(17)	large
Total operating income	**11,961**	11,738	12,023	2	(1)
Operating expenses	**(5,566)**	(5,689)	(5,206)	(2)	7
Loan impairment expense	**(882)**	(1,869)	(649)	(53)	36
Net profit before tax	**5,513**	4,180	6,168	32	(11)
NPAT from continuing operations	**3,886**	2,940	4,356	32	(11)
NPAT from discont'd operations [2]	**89**	15	138	large	(36)
NPAT incl. discont'd operations ("statutory basis")	**4,877**	3,473	6,161	40	(21)
Cash net profit after tax, by division (continuing operations)					
Retail Banking Services [3]	**2,196**	1,886	2,256	16	(3)
Business and Private Banking	**1,335**	1,079	1,395	24	(4)
Institutional Banking and Markets	**423**	168	465	large	(9)
New Zealand	**542**	288	529	88	2
International Financial Services	**127**	29	98	large	30
Corporate Centre	**(737)**	(510)	(387)	45	90
NPAT from continuing operations	**3,886**	2,940	4,356	32	(11)
Shareholder ratios & performance indicators (continuing operations)					
Earnings per share – "cash basis" – basic (cents)	**219.5**	166.2	246.2	32	(11)
Return on equity – "cash basis" (%)	**10.5**	8.3	12.3	220 bpts	(180) bpts
Dividends per share – fully franked (cents) [4]	**150**	98	200	53	(25)
Dividend payout ratio – "cash basis" (%) [4]	**67.0**	58.7	78.8	large	large
Average interest earning assets ($M) [5]	**922,924**	913,139	881,850	1	5
Net interest margin (%)	**2.01**	2.04	2.11	(3) bpts	(10) bpts
Operating expenses to total operating income (%)	**46.5**	48.5	43.3	(200) bpts	320 bpts
Funds Under Administration (FUA) – average ($M) [6]	**-**	-	15,332	-	large
Assets Under Management (AUM) – average ($M)	**18,179**	17,272	16,730	5	9

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 includes Colonial First State (CFS), CommInsure Life, BoCommLife, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life. Includes non-controlling interests related to discontinued operations.
3. Retail Banking Services including Mortgage Broking and General Insurance.
4. Includes discontinued operations.
5. Average interest earning assets are net of average mortgage offset balances.
6. FUA average has been calculated using the average for the period the Group owned Aegis up until 2 December 2019.