ASX Announcement

Commonwealth Bank

1Q21 Trading Update

For the quarter ended 30 September 2020[1] unless noted otherwise. Reported 11 November 2020. All financial comparisons are to the average of the two quarters of the second half of FY20 unless noted otherwise. Refer to Appendix for a reconciliation of key financials.

Executing our strategy

Chief Executive Officer, Matt Comyn

Disciplined execution of our strategy and strong operational performance continued to deliver good outcomes for our stakeholders during the September quarter. Our strong balance sheet, focus on operational excellence and the dedication and commitment of our people ensures we remain well placed to support our customers and the wider community through the ongoing challenges of COVID-19. This was highlighted in the quarter by the Bank achieving the number 1 ranking for Net Promoter Scores (NPS)[2] in each of our core businesses (consumer, business and institutional) for the first time, while retaining our leading NPS ranking in digital banking[3].

Operating performance in the quarter was highlighted by balance growth in home lending, business lending and deposits, which helped offset ongoing margin pressures from lower interest rates. Balance sheet settings remained strong, with loan loss provisioning coverage further strengthened and a CET1 capital ratio of 11.8%, up 20bpts in the quarter notwithstanding the payment of $1.7bn in 2H20 final dividends to our shareholders.

We continue to contact customers with a range of options as they approach the end of temporary loan repayment deferral periods, and have been encouraged by the number of customers who have been able to return to making repayments on their loans. The Bank remains well placed and committed to supporting our customers and the wider community as the economy begins to recover, while continuing to offer our support to those in need of ongoing assistance.

Overview

- Unaudited Statutory NPAT of ~$1.9bn[4,5] in the quarter
- Unaudited Cash NPAT of ~$1.8bn[4,6] in the quarter, down 16% on the same period last year
- Income stable versus 2H20 quarterly average, with core volume growth helping to offset lower margins
- Expenses up 2% excluding customer remediation (down 4% including customer remediation provisions in 2H20)
- Credit quality indicators insulated by repayment deferrals and government support initiatives - provision coverage strengthened through forward looking adjustments for economic assumptions and expected COVID-19 impacts
- Strong balance sheet settings maintained, with deposit funding at 74%, NSFR of 125% and LCR of 146%
- CET1 Ratio of 11.8%, up 20bpts after payment of the 2H20 final dividend to ~890,000 shareholders

Cash NPAT
unaudited

~$1.8bn

▼16% vs 1Q20

Net Promoter Scores[2]
Rankings Sep 20

		NPS Mvt
Consumer	#1	▲4.0
Business	#1	▲5.0
Institutional	#1	▲5.5

Volume Growth[7]
Sep 20 vs Jun 20

Home lending	+$5.6bn
Household deposits	+$15.8bn
Business lending	+$1.4bn

CET1 Ratio
Level 2

11.8%

▲20 bpts vs Jun 20

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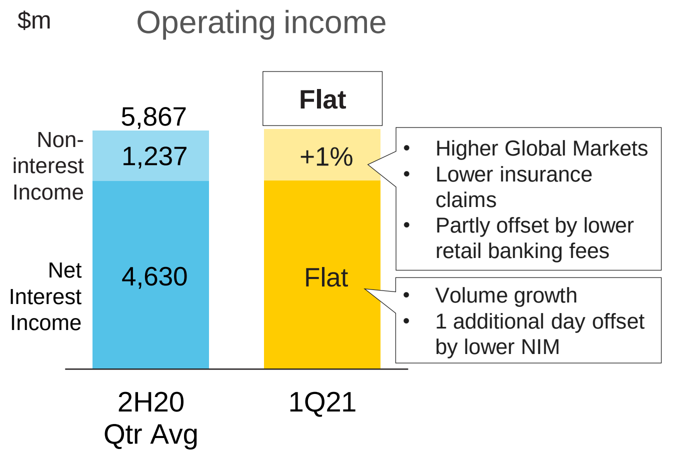
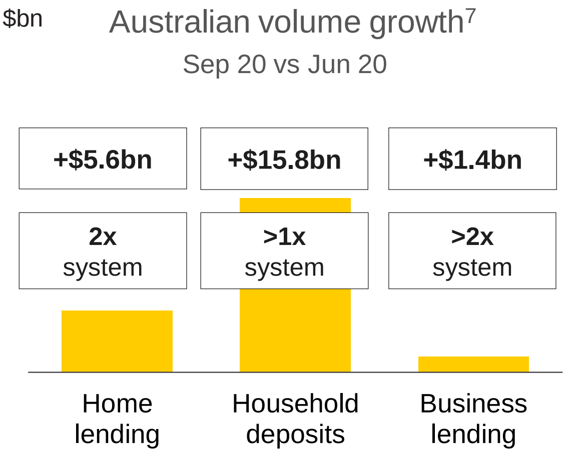
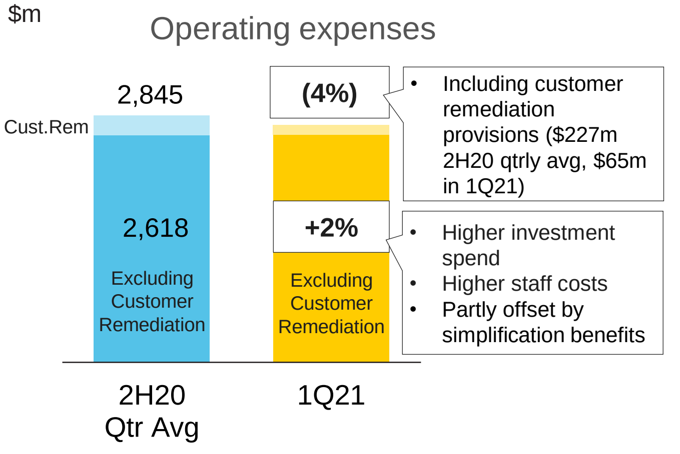
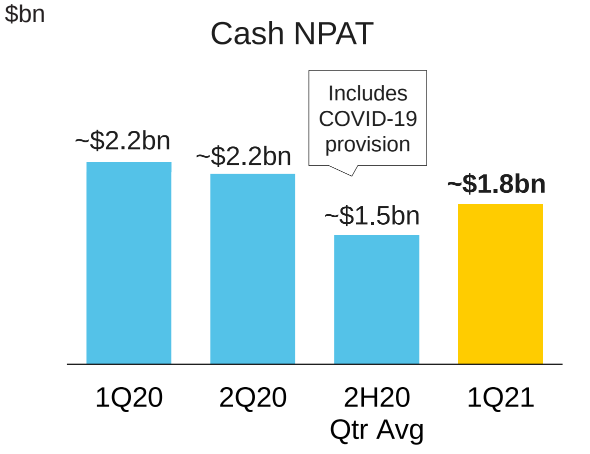
Ground Floor Tower 1, 201 Sussex Street, Sydney NSW 2000

Operating performance





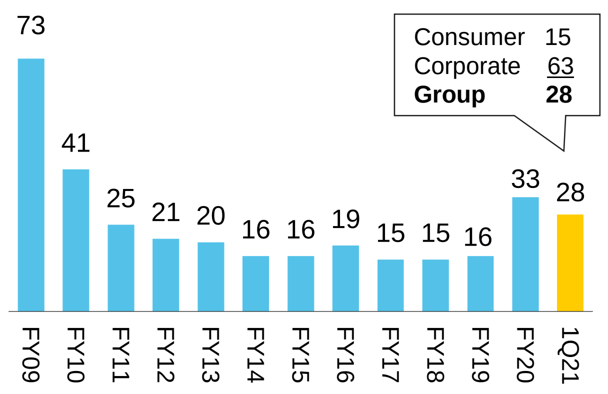




- The Bank's focus on operational execution continued to underpin operating performance in the quarter. Net interest income was stable, with good volume growth in core businesses helping to offset the impact of lower interest rates and competition on net interest margin, which was lower in the quarter. The Bank's franchise strength was again evident with household deposits growing by almost $16bn, including significant inflows following the second round of Government stimulus packages. Home loan growth remained above system, benefiting from higher application volumes and continued focus on credit decisioning turnaround times. Domestic business lending growth was above system, with solid growth across diversified sectors.
- The Group's net interest margin was lower than 2H20 due to reduced earnings on deposits and capital from lower interest rates, unfavourable lending margins (including the mix effects of growth in lower margin fixed rate home lending and a reduction in higher margin consumer finance balances) and higher liquid assets, partly offset by an improved funding mix from growth in at-call deposits and lower wholesale funding costs.
- Non-interest income increased 1%, primarily driven by higher Global Markets trading income and higher insurance income from lower General Insurance claims (due to the impact of COVID-19 lock-downs and non-recurrence of 2H20 weather events), partly offset by lower retail banking fees.
- Operating expenses were 4% lower primarily due to reduced Wealth and Banking customer remediation provisions. Excluding customer remediation, operating expenses were 2% higher reflecting increased investment spend, and higher staff costs due to continued impacts from COVID-19 including lower annual leave usage and increased staffing levels in customer support areas, and wage inflation, partly offset by ongoing business simplification savings.

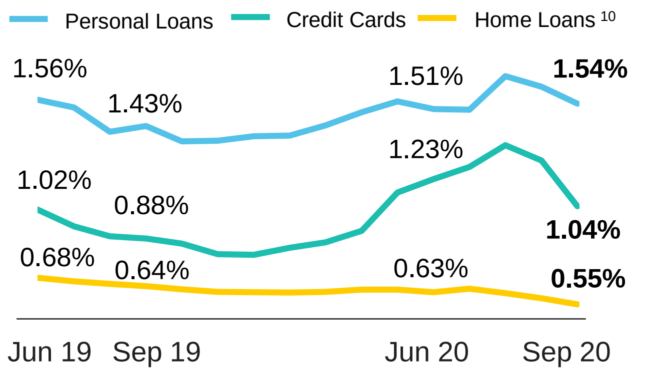
Provisions and credit quality

Loan loss rate[8] (bpts)



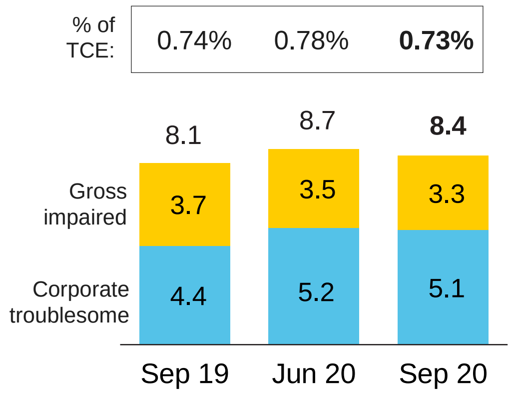
Consumer arrears[9]

90+ days

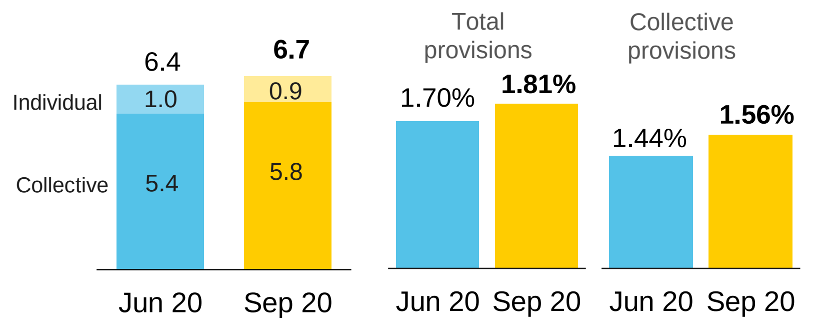


Troublesome and impaired assets

$bn



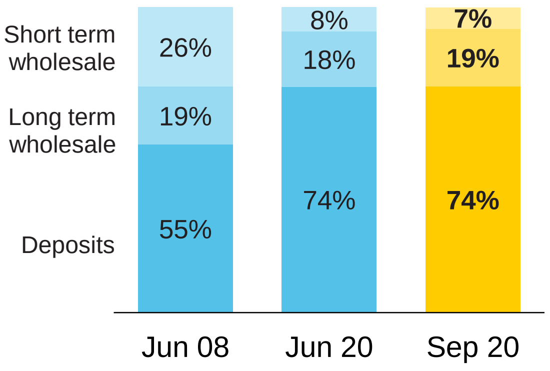
Provisioning



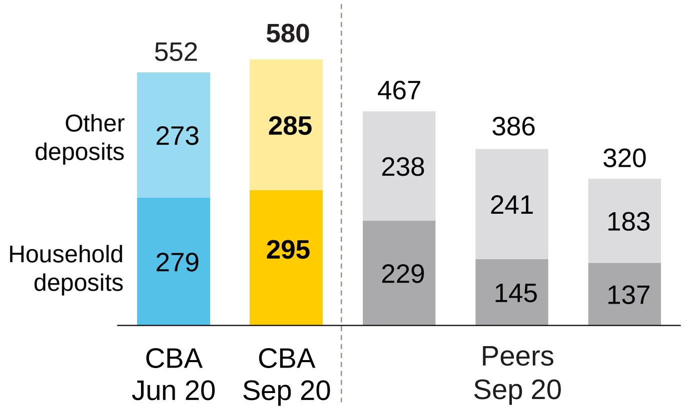
- Loan impairment expense (LIE) was $550m in the quarter, or 28 basis points of average Gross Loans and Acceptances (GLAA), and continues to be driven by a careful approach to provisioning for the expected impacts of COVID-19 on retail and non-retail exposures.
- Consumer arrears continued to be insulated by loan repayment deferrals and government support initiatives through the quarter. The temporary repayment deferral periods on a large number of home loans expired during September and October 2020. As at 31 October 2020, approximately 46,000 home loans[11] remained in deferral (balances $19bn) down from 125,000 loans (balances $49bn)[11] in June 2020. The Bank is working with customers as they transition out of repayment deferral arrangements, whilst supporting those requiring ongoing assistance. Credit Cards arrears improved in the quarter assisted by government support initiatives and a higher propensity for customers to pay down debt. Personal loans arrears were broadly flat over the quarter.
- Troublesome and Impaired Assets (TIA) were lower at $8.4bn. The movement mainly reflects lower home loan impairments due to ongoing COVID-19 support. The Bank is closely monitoring those industry sectors experiencing signs of stress.
- Total credit provisions increased to $6.7bn, representing a coverage ratio of 1.81% to total credit risk weighted assets (+11bpts). The Bank continues to monitor its lending portfolios closely, with ongoing adjustments to provisions based on the latest economic forecasts as well as forward-looking adjustments for customer and industry stress factors related to COVID-19.

Balance sheet strength

Funding composition
% of total funding

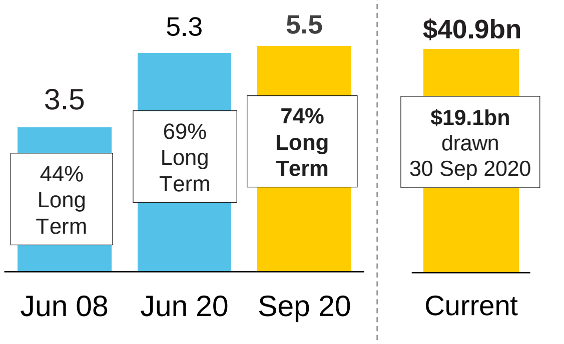


Australian deposits[12]
$bn

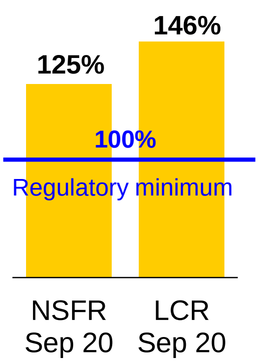


Wholesale funding[13]
Portfolio tenor, yrs

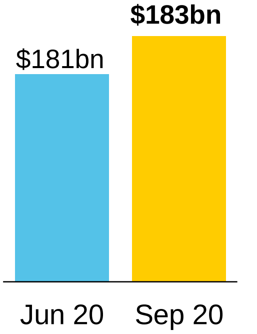
Term Funding Facility[14]



NSFR/LCR %
Spot Qtr. Avg

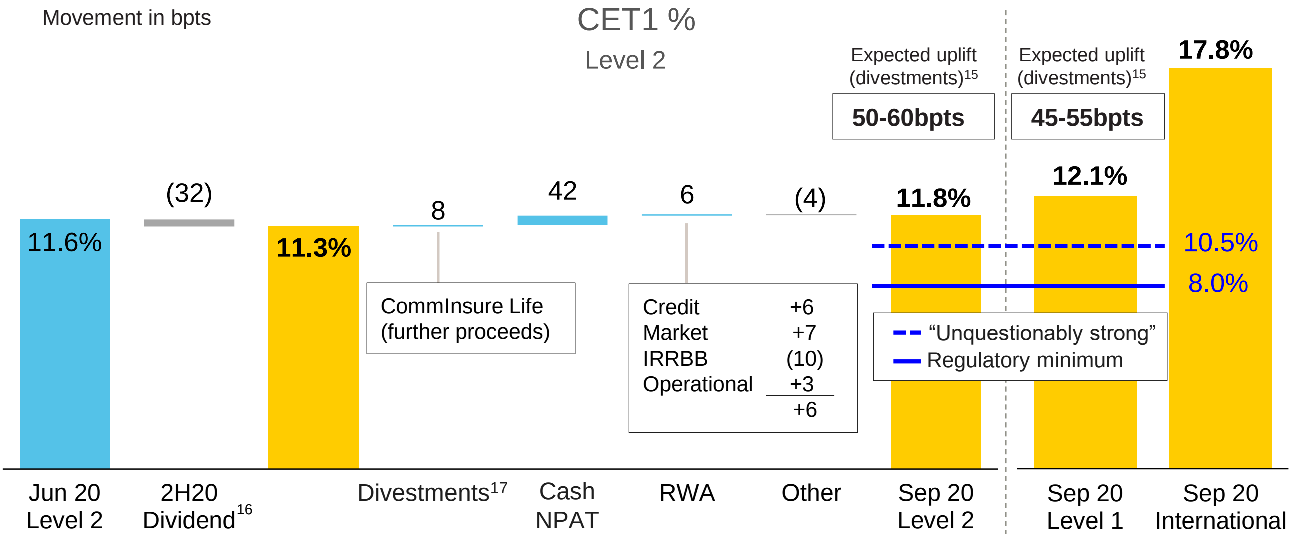


Liquid Assets
Spot



- The Bank remains well placed to manage challenging market conditions, with strong balance sheet settings and a favourable business mix. The Group is 74% deposit funded, underpinned by the Bank's franchise strength in stable household deposits (+$15.8bn this quarter).
- The Bank is well positioned from a wholesale funding perspective, with 74% of wholesale funding now long term and a weighted average tenor of 5.5 years.
- The Bank's wholesale funding requirements are reducing due to strong deposit growth and utilisation of the RBA Term Funding Facility ($19.1bn drawn as at 30 September 2020). The Bank issued $1.8bn of Tier 2 long term funding in the quarter, as it continues to progress with APRA's loss-absorbing capacity requirements.
- The Bank's Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) remain well above regulatory minimums. Spot liquid assets increased $2bn over the quarter to $183bn.

Capital



- The Group retains a strong capital position, with the CET1 (Level 2) ratio of 11.8% as at 30 September 2020, above APRA's 'unquestionably strong' benchmark of 10.5% and well in excess of the prudential minimum of 8%.
- After allowing for the impact of the 2H20 dividend (-32bpts net of share issuance under the Dividend Reinvestment Plan), the CET1 ratio increased by 52bpts in the quarter. This was driven by capital generated from earnings (+42bpts) and the receipt of further sale proceeds from the divestment of CommInsure Life (+8bpts). Total RWA decreased by $2.3bn (+6bpts) due to lower Credit, Market and Operational risk weighted assets, partially offset by higher IRRBB risk weighted assets.
- The Group's previously announced divestments are expected to collectively provide an uplift to Level 2 CET1 of approximately 50-60bpts. A strong capital position ensures the Bank is well placed for a range of possible macro-economic outcomes.
- CBA's Level 1 CET1 ratio was 12.1% as at 30 September 2020, with an expected further uplift from previously announced divestments of 45-55bpts.

Appendix

Key financials reconciliation	2H20 $m	2H20 Qtr Avg $m	Movement 1Q21 vs 2H20 Qtr Avg
Operating Income Reported	***11,735***	***5,867***	**-**
Operating Expense Reported	***5,689***	***2,845***	**(4%)**
Customer remediation[18]	*(454)*	*(227)*	
Operating Expenses ex. Customer Remediation	**5,235**	**2,618**	**2%**
Loan Impairment Expense[19]	**1,869**	**934**	**(41%)**
Reported Cash NPAT	**2,940**	**1,470**	**24%**

Footnotes

1 Unless otherwise stated, the financial results are presented on a 'continuing operations' basis. This excludes discontinued operations: Colonial First State (CFS), the Bank's Australia and New Zealand life insurance businesses (CommInsure Life and Sovereign), BoCommLife, TymeDigital SA, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life, consistent with the financial disclosures as at 30 June 2020.

2 DBM Net Promoter Score (NPS). Refers to customer likelihood to recommend their MFI using a scale from 0-10 (where 0 is 'Not at all likely' and 10 is 'Extremely likely') and NPS is calculated by subtracting the percentage of Detractors (scores 0-6) from the percentage of Promoters (scores 9-10). NPS results are shown as a six-month rolling average. For the major banks, NPS is reported for main brand only. *Net Promoter Score is a trademark of Bain & Co Inc., Satmetrix Systems, Inc., and Mr Frederick Reichheld. For details on the customer segments shown, refer to the Group's 30 June 2020 Results.

3 Internet Banking Net Promoter Score (NPS). Refers to internet banking via mobile app on a mobile phone or tablet or internet banking via an institutions website. Roy Morgan Single Source. Australian population 14+ who used the internet banking services, via mobile app on a mobile phone or tablet, or via website of their (self-nominated) main financial institution in the last 4 weeks, rolling average of the last 6 months of spot scores, as at September 2020. Rank based on comparison to ANZ, NAB and Westpac (at a brand level). *Net Promoter Score is a trademark of Bain & Co Inc., Satmetrix Systems, Inc., and Mr Frederick Reichheld.

4 Rounded to the nearest $100 million.

5 Including discontinued operations.

6 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 losses or gains on acquisition, disposal, closure and demerger of businesses are calculated consistently period on period and do not discriminate between positive and negative adjustments. For more detail, refer to page 3 of the Group's 30 June 2020 Profit Announcement.

7 Source: RBA Lending and Credit Aggregates (Home Lending and Business Lending) and APRA Monthly ADI Statistics (Household Deposits). CBA business lending is Business and Private Banking only - excludes Institutional Banking and Markets. Business lending multiple is calculated on total business lending including Institutional Banking and Markets.

8 Loan impairment expense as a percentage of average GLAA annualised. FY09 includes Bankwest on a pro-forma basis.

9 Consumer arrears includes retail portfolios of Retail Banking Services, Business & Private Banking and New Zealand.

10 Excludes Reverse Mortgage, Commonwealth Portfolio Loan and Residential Mortgage Group loans.

11 As reported to APRA, based on the domestic lending book and categorised based on predominant loan purpose.

12 Source: APRA Monthly Authorised Deposit Taking Institution Statistics. Total deposits (excluding CDs). As at September 2020.

13 Long Term Funding Ratio includes Term Funding Facility (TFF) drawdowns. Weighted average tenor calculation excludes TFF.

14 TFF provided by The Reserve Bank of Australia. As at 02 Nov 2020, the Group's total available TFF allocation was $40.9bn.

15 Expected CET1 uplifts from receipt of remaining proceeds from the sale of CommInsure Life and previously announced divestments: BoCommLife, and the majority sale of Colonial First State. Completion of divestments subject to regulatory approvals.

16 2020 final dividend: included the issuance of shares in respect of the Dividend Reinvestment Plan.

17 Relates to additional receipt of funds as part of the divestment of CommInsure Life.

18 Customer remediation provisions in 2H20 of $454m (pre-tax); $318m (post tax). Includes Aligned Advice related remediation provisions.

19 Loan Impairment Expense in 2H20 included a COVID-19 provision of $1.5bn (pre-tax), $1.05bn (post tax).

Important Information

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

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