3Q21 Trading Update

ASX Announcement

For the quarter ended 31 March 2021[1] unless noted otherwise. Reported 12 May 2021. All financial comparisons are to the average of the two quarters of the first half of FY21 unless noted otherwise. Refer to Appendix for a reconciliation of key financials.

Contributing to the recovery **Chief Executive Officer, Matt Comyn**

"The Bank remains well placed to support our customers and the broader community as the economic recovery from COVID-19 continues. Our disciplined focus on operational excellence was reflected in continued strong operational performance in the March quarter. This was highlighted by strong home loan funding volumes, particularly through our proprietary network, and business lending continuing to grow at greater than three times system levels.

Credit quality across our lending portfolios remained sound. While it is pleasing to see that the vast majority of customers have smoothly transitioned from the Bank's COVID-19 temporary loan repayment deferral program as it concluded in March, we continue to offer ongoing assistance to those in need.

Capital and balance sheet strength were maintained, with our CET1 ratio up 10 bpts to 12.7% notwithstanding $2.7 billion (-59 basis points of CET1) in 1H21 interim dividend payments to ~880,000 shareholders.

We have made good progress on our strategic agenda and looking ahead, we will continue to focus on differentiating our proposition through reimagined products and services to build tomorrow's bank today for our customers."

Overview

- Unaudited Statutory NPAT of ~$2.4bn[2,3] in the quarter.
- Unaudited Cash NPAT from continuing operations of ~$2.4bn[2,4] in the quarter, up 24% from the 1H21 quarterly average, mainly driven by lower loan impairment expenses.
- Income up 2%, with above system core volume growth, improved margins and higher non-interest income partly offset by the impact of two fewer days.
- Expenses up 1% excluding remediation costs (up 2% including remediation costs).
- Loan impairment expense was significantly lower in the quarter as an improved economic outlook resulted in a reduction in collective provisioning levels. Nevertheless, provision coverage remains strong and continues to reflect a cautious approach to managing risks as the economic recovery from COVID-19 continues.
- Strong balance sheet settings maintained, with a customer deposit funding ratio of 75%, NSFR of 124% and LCR of 125%.
- CET1 Ratio of 12.7%, up 10bpts in the quarter after payment of the 1H21 interim dividend to ~880,000 shareholders.

Cash NPAT

unaudited

~$2.4bn

▲ 24% vs 1H21 qtr. avg

Volume Growth[5]

	Mar 21 vs Dec 20		Mar 21 vs Mar 20
	Bal Growth ($bn)	System multiple	Growth Rate
Business lending	3.0	>3.0x	8.1%
Household deposits	4.0	1.4x	13.9%
Home lending	6.7	1.1x	5.3%

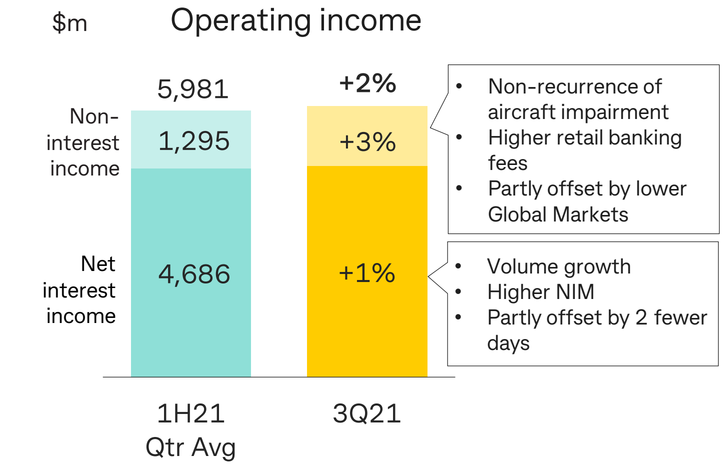
CET1 Ratio

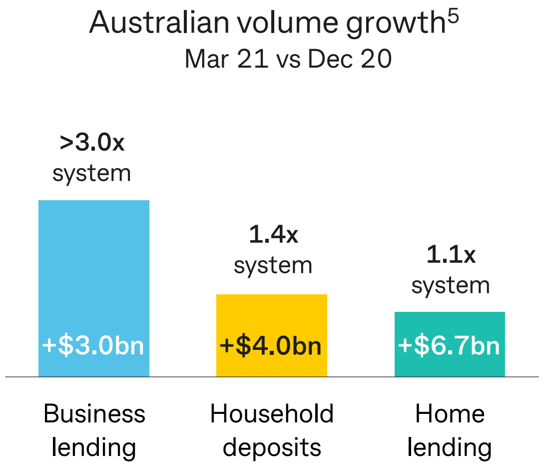
Level 2

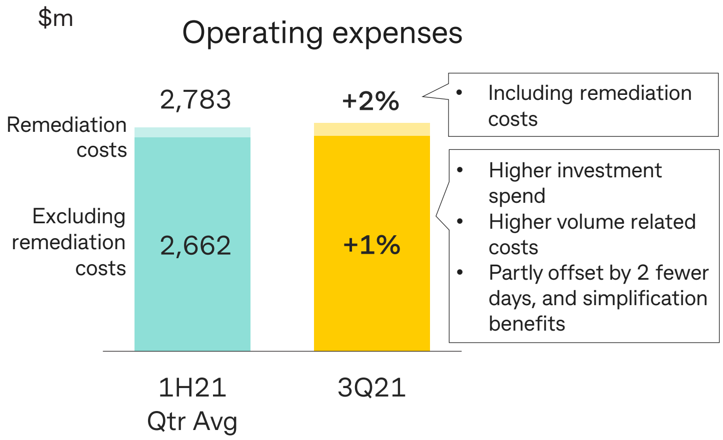
12.7%

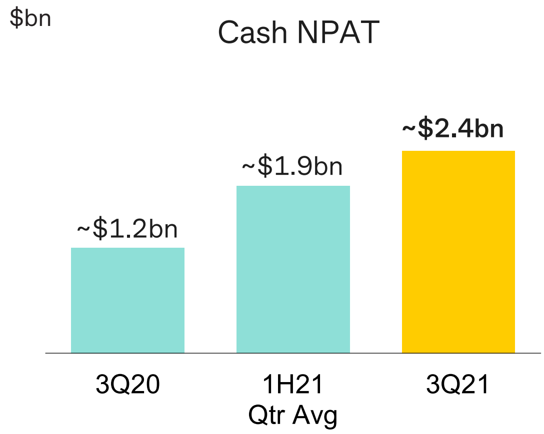
▲ 10 bpts vs Dec 20

Operating performance





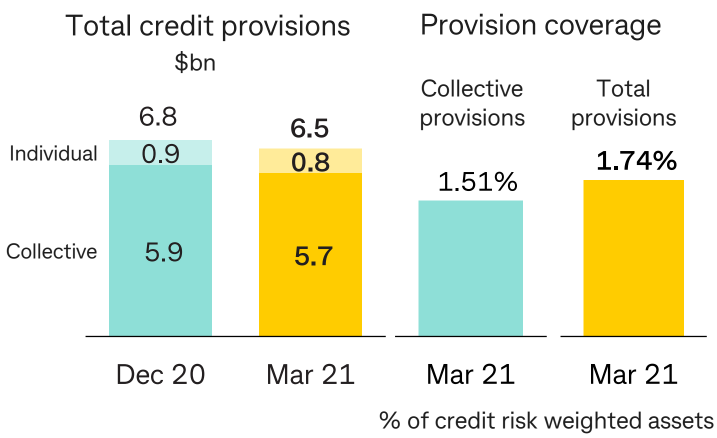




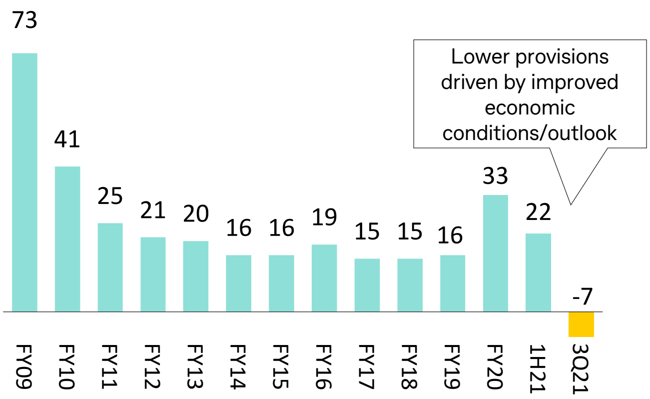
- Stronger cash net profit after tax (NPAT) in the quarter reflected an improvement in economic conditions and outlook, combined with continued strong operational performance focused on meeting the needs of customers.
- Operating income increased 2%, with net interest income higher from continued strong volume growth in core businesses and an improved net interest margin, partly offset by the impact of two fewer days. The Bank's franchise strength was again evident with above system growth in home loans supported by strong funding volumes and continued focus on credit decisioning turnaround times. Domestic business lending continued to grow at more than three times system, with diversified growth across sectors. Household deposits growth was also above system, growing by $4bn in the quarter.
- The Group's net interest margin excluding Treasury and Markets benefited from higher New Zealand earnings and a favourable funding mix from at-call deposits growth and lower wholesale funding costs, partly offset by the ongoing impact of a low interest rate environment, competitive pressures and switching to lower margin fixed rate loans.
- Non-interest income was 3% higher, primarily driven by the non-recurrence of aircraft impairments, higher retail banking fee income from the recovery in consumer spending levels and volume-driven increases in CommSec, partly offset by a reduced Global Markets contribution and lower insurance income (higher claims from weather events).
- Excluding remediation costs, operating expenses were 1% higher, reflecting a stronger investment spend profile and higher volume related costs, partly offset by the benefits of ongoing business simplification and two fewer days in the quarter. Including increased remediation costs relating to legacy wealth and banking issues, operating expenses were 2% higher.

Provisions and credit quality

Provisioning

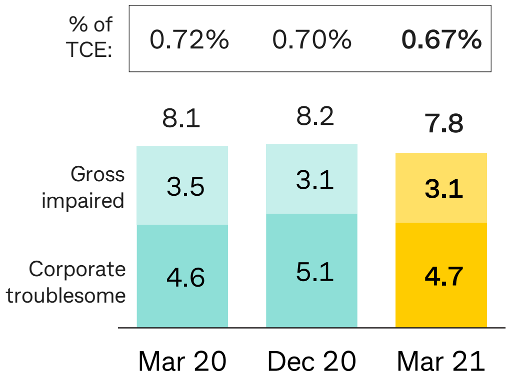


Loan loss rate[6] (bpts)



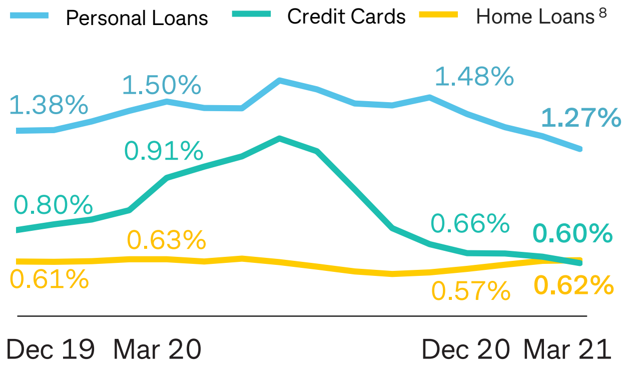
Troublesome and impaired assets

$bn



Consumer arrears[7]

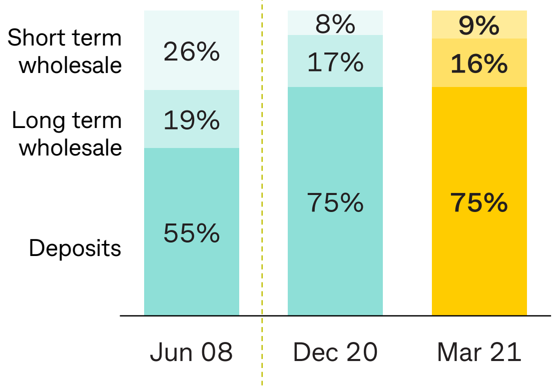
90+ days



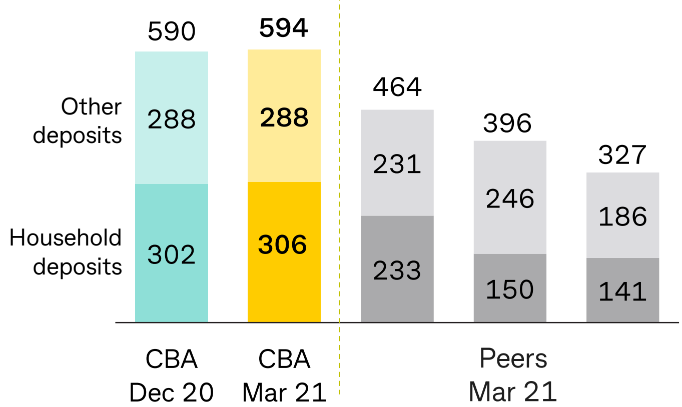
- Australia and New Zealand's economic recovery from the COVID-19 pandemic continued during the March quarter. Improvements in the economic outlook, sound portfolio credit quality and a continued reduction in consumer finance balances resulted in a moderate reduction in total credit provisions to $6.5bn and a positive outcome for loan impairment expense in the quarter (a benefit of $136m, or -7 basis points of average Gross Loans and Acceptances). Provisioning coverage nevertheless remained strong, with the Bank continuing to adopt a cautious approach to managing risks across its lending portfolios as the recovery continues, particularly as customers transition from COVID-19 temporary support measures put in place during the pandemic.
- The Bank's temporary loan repayment program for home and business lending customers concluded in March 2021. Overall, the program played a key role in enabling approximately 158,000 home loan and 83,000 business loan customers to manage the financial challenges posed by the pandemic, with the vast majority of these customers now returned to making regular repayments on their loans. Of the 158,000 ($54bn[9]) home loans deferred, 81% have returned to pre-deferral terms, 10% are closed, 4% have switched to Interest Only arrangements and 1% are impaired or restructured, with the remaining 4% requiring further/ongoing assistance. There was a small increase in home loan portfolio arrears in the quarter as the deferral program concluded and further modest increases are expected in coming months. All business customers have now concluded their deferral arrangements with 95% returning to regular repayments or closing their loans, with an overall arrears profile consistent with the rest of the portfolio.
- Personal Loan and Credit Card 90+ days past due arrears reduced over the quarter, influenced by improving economic conditions.
- Troublesome and Impaired Assets (TIA) were lower at $7.8bn, driven by improvements in the corporate portfolio particularly related to a small number of single name exposures.

Balance sheet strength

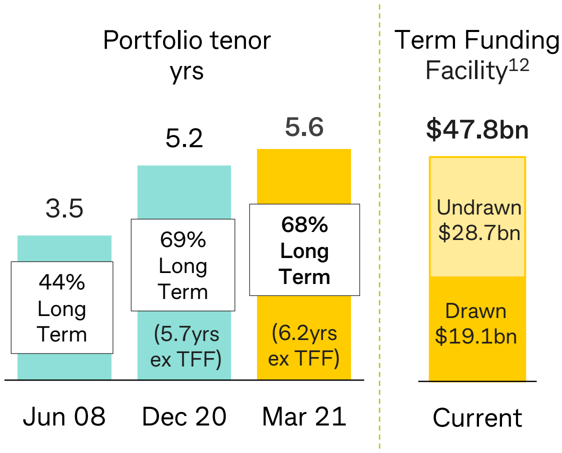
Funding composition
% of total funding



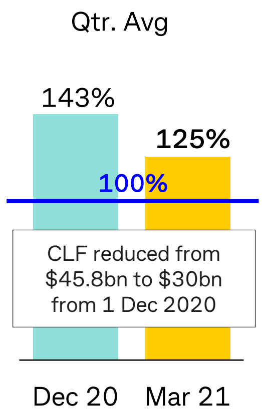
Australian deposits[10]
$bn



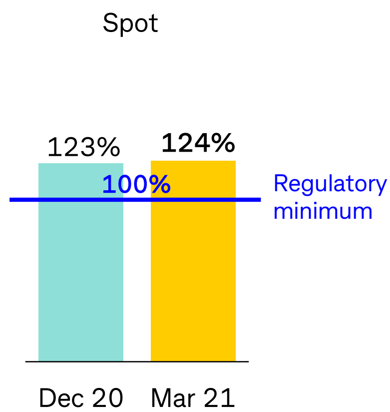
Wholesale funding[11]



LCR %



NSFR %

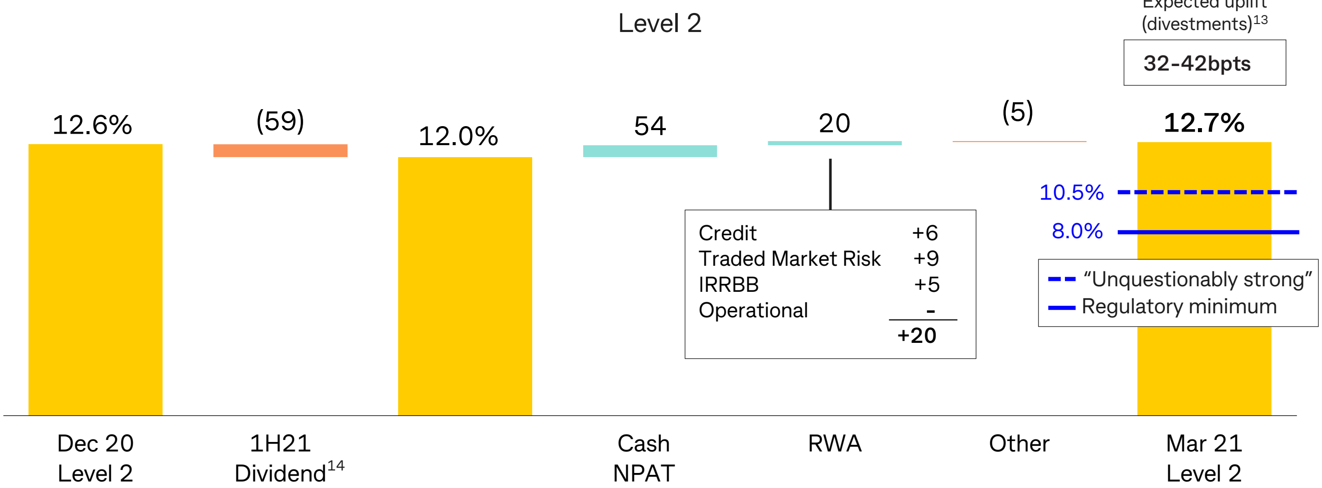


- The Bank's balance sheet strength has been maintained, highlighted by strong deposit funding, a conservative approach to wholesale funding and strong liquidity. The Group is 75% deposit funded, underpinned by the Bank's franchise strength in stable household deposits (+$4.0bn this quarter).
- The Bank is well positioned from a wholesale funding perspective, with 68% of wholesale funding now long term and a weighted average tenor of 5.6 years. The Bank's Term Funding Facility (TFF) stands at $48bn[12], up from $41bn in December 2020, driven by continued strong SME lending growth. The Bank's wholesale funding requirements have reduced due to strong deposit growth and utilisation of the TFF ($19.1bn drawn as at 31 March 2021). The Bank issued $3.6bn of Tier 2 long term funding in the quarter, as it continues to make progress towards APRA's total loss-absorbing capacity (TLAC) requirements.
- The Bank's Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) remained well above regulatory minimums. The LCR was lower over the quarter, inclusive of the impact of a reduced Committed Liquidity Facility (CLF) from 1 December 2020.

Capital

CET1 %

Movement in bpts



- The Group retains a strong capital position, with a CET1 (Level 2) ratio of 12.7% as at 31 March 2021, up 10bpts in the quarter notwithstanding the impact of the 1H21 interim dividend (-59bpts). This was driven by capital generated from earnings (+54bpts) and a reduction in total Risk Weighted Assets (RWA) of $7.0bn (+20bpts). Credit RWA contributed +6bpts, with favourable credit quality and other movements partly offset by the impact of volume growth. Lower Traded Market Risk RWA reflected a reduced exposure to changes in Funding Valuation Adjustments, while lower IRRBB RWA was driven by changes in interest rate risk management positions and model refinements.
- On 1 April 2021, the Group completed the divestment of its Australian life insurance business, CommInsure Life, which will contribute an additional 2bpts to the Group's CET1 ratio in the June quarter. The Group's previously announced divestments are expected to collectively provide an uplift to Level 2 CET1 of approximately 32-42bpts.
- As previously advised, the sale of a 55% interest in Colonial First State (CFS) is subject to finalisation and regulatory approvals. The Bank now expects the divestment of CFS to complete in the second half of calendar 2021.
- CBA's Level 2 Tier 1 and Total Capital ratios were 15.1% and 19.4% respectively as at 31 March 2021. In April 2021, the Bank issued $1.18bn of CommBank PERLS XIII Capital Notes which are Basel III compliant Additional Tier 1 capital, and will contribute an additional 26bpts to the Tier 1 and Total Capital ratios.
- A strong surplus capital position creates flexibility for the Board in its consideration of capital management initiatives. The timing and extent of any such initiatives is dependent upon a continued trend of domestic economic improvement, our ongoing assessment of portfolio credit quality and regulatory guidance.

Appendix

Key financials reconciliation	1H21 $m	1H21 Qtr Avg $m	Movement 3Q21 vs 1H21 Qtr Avg
Operating Income Reported	*11,961*	*5,981*	*2%*
Operating Expense Reported	*5,566*	*2,783*	*2%*
Remediation costs[15]	*(241)*	*(121)*	
Operating Expenses ex. Remediation costs	5,325	2,662	1%
Loan Impairment Expense	882	441	Favourable
Reported Cash NPAT from continuing operations	3,886	1,943	24%

Footnotes

1 Unless otherwise stated, the financial results are presented on a 'continuing operations' basis. This excludes discontinued operations: Colonial First State (CFS), CommInsure Life, BoCommLife, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life (PTCL), consistent with the financial disclosures as at 31 December 2020.
2 Rounded to the nearest $100 million.
3 Including discontinued operations.
4 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 31 December 2020 Profit Announcement.
5 Source: RBA Lending and Credit Aggregates (Home Lending and Business Lending) and APRA Monthly Authorised Deposit Taking Institution (ADI) Statistics (Household Deposits). 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).
6 Loan impairment expense as a percentage of average GLAA annualised. FY09 includes Bankwest on a pro-forma basis.
7 Consumer arrears includes retail portfolios of Retail Banking Services, Business Banking and New Zealand.
8 Excludes Reverse Mortgage, Commonwealth Portfolio Loan and Residential Mortgage Group loans.
9 Australia deferral accounts. CBA product view. Balance as at 31 March 2021, except for closed accounts where peak balance during deferral is taken.
10 Source: APRA Monthly ADI Statistics. Total deposits (excluding CDs). As at March 2021.
11 Long Term Funding ratio includes Term Funding Facility (TFF) drawdowns. Weighted average tenor calculation is presented both including and excluding TFF.
12 TFF provided by The Reserve Bank of Australia. As at 12 May 2021.
13 CET1 uplift from remaining proceeds from the sale of CommInsure Life received on 1 April 2021 and the expected CET1 uplift from the majority sale of Colonial First State. Completion of divestments subject to regulatory approvals.
14 1H21 interim dividend: included the on market purchase of shares in respect of the Dividend Reinvestment Plan.
15 Remediation costs in 1H21 of $241m (pre-tax). Includes $118m of additional provisions for historical Aligned Advice remediation issues and associated program costs, and $123m of Banking and other Wealth related customer remediation and other litigation provisions.

Important Information

The material in this announcement is general background information about the Group and its activities current as at the date of the announcement, 12 May 2021. 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.

This announcement contains certain forward-looking statements with respect to the financial condition, operations and business of the Group and certain plans and objectives of the management of the Group. Forward-looking statements can generally be identified by the use of forward-looking words such as "may", "will", "would", "could", "expect", "intend", "plan", "aim", "estimate", "target", "anticipate", "believe", "continue", "objectives", "outlook", "guidance" or other similar words, and include statements regarding the Group's intent, belief or current expectations with respect to the Group's business and operations, market conditions, results of operations and financial condition, capital adequacy and risk management. Any forward-looking statements included in this announcement speak only as at the date of this announcement and undue reliance should not be placed upon such statements. Although the Group believes the forward-looking statements to be reasonable, they are not certain and involve known and unknown risks and assumptions, many of which are beyond the control of the Group, which may cause actual results, conditions or circumstances to differ materially from those expressed or implied in such statements. To the maximum extent permitted by law, responsibility for the accuracy or completeness of any forward-looking statements, whether as a result of new information, future events or results or otherwise, is disclaimed. Readers are cautioned not to place undue reliance on forward-looking statements particularly in light of the current economic uncertainties and disruption caused by the outbreak of COVID-19. The Group is under no obligation to update any of the forward-looking statements contained within this announcement, subject to disclosure requirements applicable to the Group.

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