Commonwealth Bank

# 1Q22 Trading Update

## ASX Announcement

For the quarter ended 30 September 2021[1] unless noted otherwise. Reported 17 November 2021. All financial comparisons are to the average of the two quarters of the second half of FY21 unless noted otherwise. Refer to Appendix for a reconciliation of key financials.

## Building a brighter future for all Chief Executive Officer, Matt Comyn

"Through the first quarter of FY22, our focus has remained on supporting our people, customers and communities as the economy recovers from the impact of COVID-19. Our focus on operational execution ensures we are well placed to provide this support as activity restrictions continue to ease. This was reflected in strong, above-system volume growth in core markets in 1Q22, continued sound portfolio credit quality and balance sheet strength.

In October, the Bank successfully completed a $6bn off-market share buy-back. Strong demand meant the offer was significantly oversubscribed, representing one of the largest ever tenders into a share buy-back in Australia. Through the buy-back and dividends, the Bank has returned over $12bn to shareholders in the past 12 months.

In October, the Group released the thirteenth and final report from the Independent Reviewer on CBA's Prudential Inquiry Remedial Action Plan, with all milestones assessed as complete and effective and all recommendations now closed. We will ensure that the changes we've made are sustained and continuously improved upon.

More broadly, we continue to make good progress on our strategic agenda, differentiating our customer proposition with reimagined products and services that help us deliver on our purpose to build a brighter future for all."

## Overview

- Unaudited Statutory NPAT of ~$2.3bn[2,3] in the quarter.
- Unaudited Cash NPAT of ~$2.2bn[2,4] in the quarter, with pre-provision profits stable.
- Income down 1%, or flat excluding the divestment of Aussie Home Loans (AHL), with above system volume growth helping to offset continued margin pressures and lower non-interest income.
- Expenses down 1%, with lower remediation costs offsetting higher staff expenses.
- Operating performance flat on the 2H21 quarterly average, and 2% higher than 1Q21.
- Loan impairment expense of $103m in the quarter, or 5 basis points of average Gross Loans and Acceptances.
- Credit provisions broadly unchanged, continuing to reflect sound portfolio credit quality and a cautious approach to provisioning as the Australian economy recovers from the impact of COVID-19 restrictions.
- Strong balance sheet settings maintained, with a customer deposit funding ratio of 74%, NSFR of 131% and LCR of 132%.
- CET1 Ratio of 12.5% as at 30 September 2021, up 19bpts in the quarter after allowing for $3.5bn in 2H21 final dividend payments to ~870,000 shareholders. Following the successful completion of the Group's $6bn share buy-back in October, the pro-forma CET1 ratio was 11.2%.

### Cash NPAT

unaudited

**~$2.2bn**

▲ 20% vs 1Q21

▼ 9% vs 2H21 qtr. avg

### Volume Growth[5]

| | Sep 21 vs Jun 21 | | Sep 21 vs Sep 20 |
|---|---|---|---|
| | Bal Growth ($bn) | System multiple | Growth Rate |
| Household deposits | 20.4 | 1.1x | 12.0% |
| Home lending | 10.1 | 1.2x | 7.6% |
| Business lending | 3.1 | 1.5x | 13.0% |

### CET1 Ratio

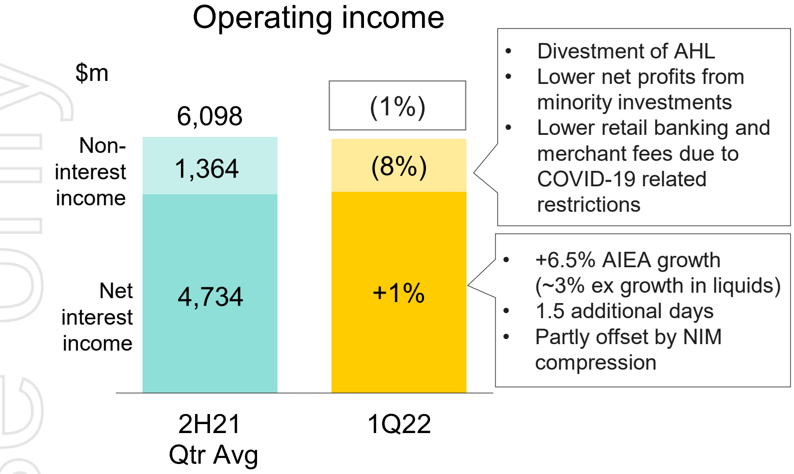
Level 2

**12.5%**

▲ 19bpts vs Jun 21 ex-dividend

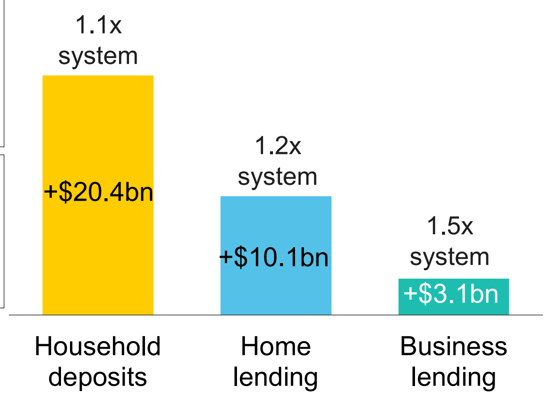
# Operating performance

## Operating income

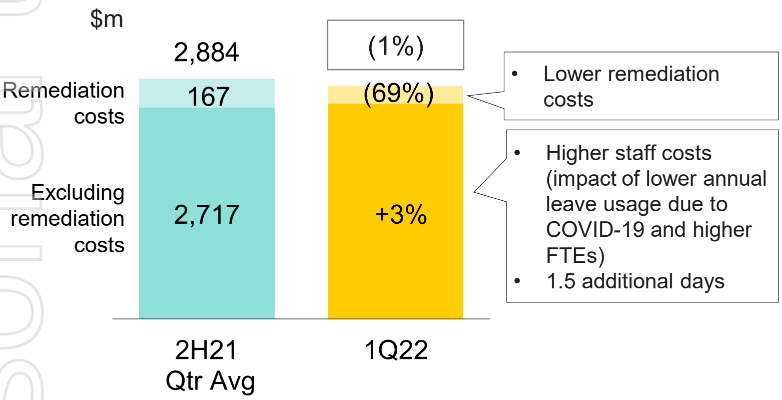



## Australian volume growth[5]

Sep 21 vs Jun 21

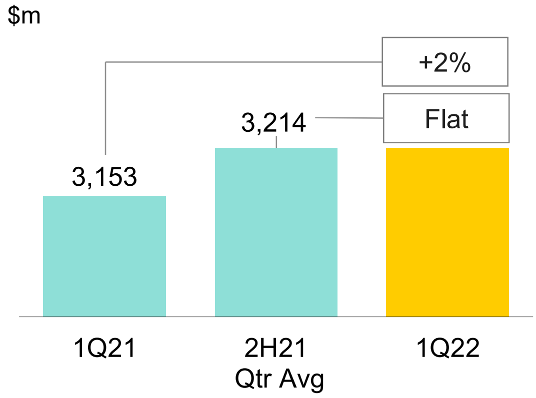



## Operating expenses




## Operating performance

Operating income less operating expenses

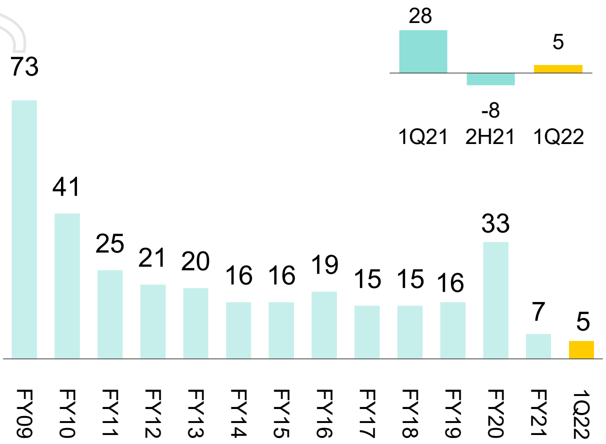



- Operating income reduced by 1% in the quarter, with net interest income (NII) growing 1%, offset by lower non-interest income. The Bank's franchise strength and focus on operational execution continued to underpin above system growth in core markets, with total lending growth of $17bn in the quarter. In home lending, the Bank recorded volume growth of $10.1bn, driven by strong proprietary fundings and continued customer demand for fixed rate loans. Domestic business lending has grown by 13% over the past 12 months and continued to grow above system in the quarter on stable margins, with diversified growth across multiple sectors. Household deposits grew by over $20bn in the quarter. The combined benefit of strong volume growth and 1.5 additional days was partly offset by lower net interest margin in the quarter.
- The Group's net interest margin was considerably lower in the quarter. Drivers of the decline were consistent with those indicated at the Group's FY21 results in August, including higher liquid asset balances (contributing ~3.5% of the Average Interest Earning Assets (AIEA) growth but with minimal impact to NII), home loan price competition and switching to lower margin fixed rate loans, as well as the continued impact of a low interest rate environment.
- Non-interest income was 8% lower, primarily driven by the divestment of AHL, the non-recurrence of gains on minority investments from the reversal of an historical impairment in 2H21, and reduced retail banking volume related fee and merchant income due to the impact of COVID-19 related restrictions in NSW and Victoria. Insurance income was higher in the quarter due to lower weather related claims, but is expected to reduce in 2Q22 due to East Coast/SA/TAS hail and storm related event claims in October 2021.
- Operating expenses reduced by 1%, driven by lower remediation costs. Excluding remediation costs, expenses were 3% higher, mainly due to higher staff costs from lower annual leave usage during COVID-19 related lockdowns, increased staffing levels in response to higher volumes and to help deliver on strategic priorities, as well as 1.5 additional days in the quarter.
- Cash net profit after tax (NPAT) in the quarter was approximately $2.2bn, which is higher than for the same period last year, but lower than the 2H21 average, which benefited from the release of collective provisions.

# Provisions and credit quality

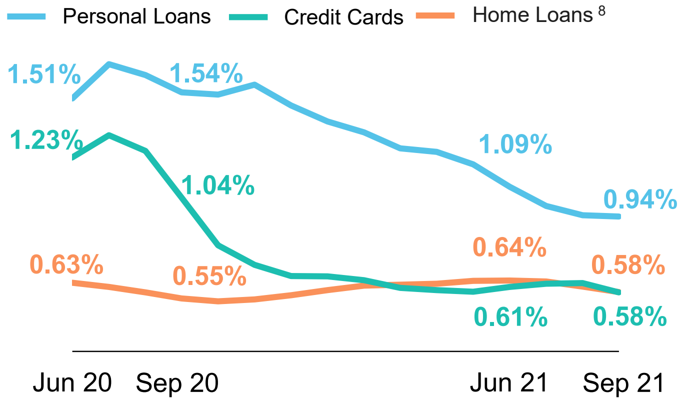
## Loan loss rate[6]

bpts



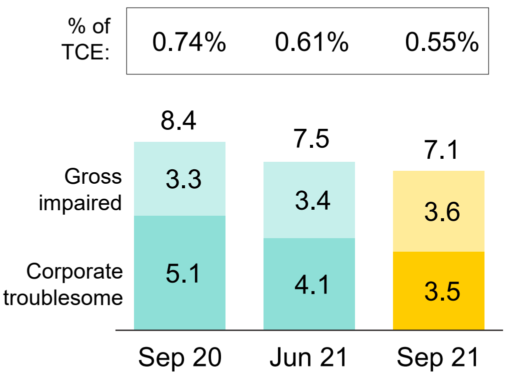

## Consumer arrears[7]

90+ days




## Troublesome and impaired assets

$bn



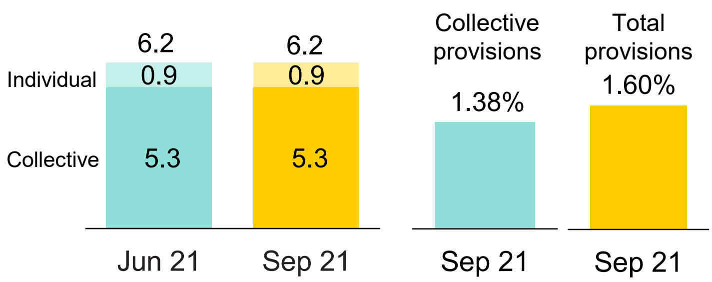

## Provisioning

### Total credit provisions

$bn

### Provision coverage

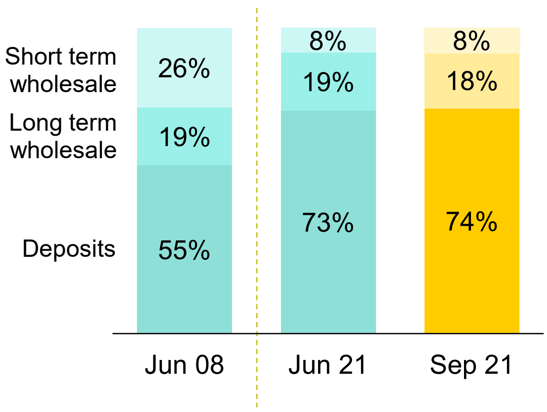
% of credit risk weighted assets



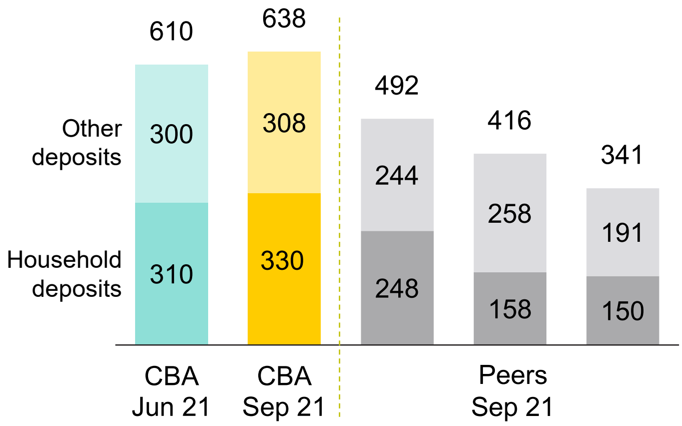

- Loan impairment expense of $103m in the September quarter equated to 5 basis points of average Gross Loans and Acceptances. Following provision releases in 2H21, total credit provisions were broadly unchanged in the quarter at $6.2bn, and continued to reflect both sound portfolio credit quality and a cautious approach to provisioning as the economy recovers from the activity restrictions introduced to manage the health outcomes from COVID-19.
- Consumer arrears were lower in the quarter, with unsecured arrears influenced by reduced spending, strong origination quality and favourable seasonal movements. Lower home loan arrears reflect sound portfolio credit quality, as well as the impact of new temporary loan repayment deferral arrangements introduced from June 2021 for a small number of customers (~10,000 facilities, or ~1% of the total home loan portfolio). As the NSW and Victorian economies re-open and spend resumes, a modest uptick in arrears is anticipated.
- Troublesome and Impaired Assets (TIA) were lower at $7.1bn or 0.55% of Total Committed Exposures (TCE), with reductions driven by larger single name exposures across sectors.

# Funding and liquidity

Funding composition
% of total funding

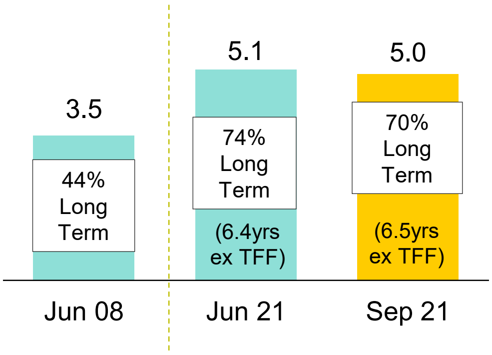



Australian deposits[9]
$bn



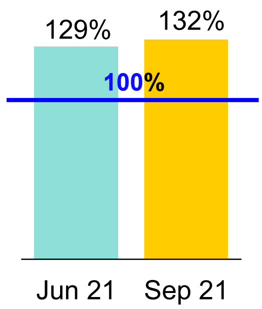

Wholesale funding[10]

Portfolio tenor
yrs



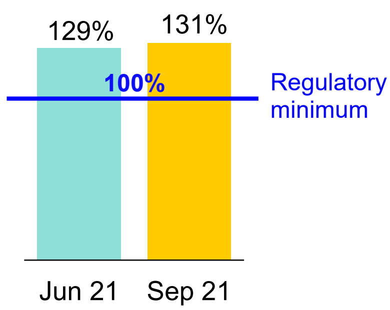

LCR %

Qtr. Avg




NSFR %

Spot

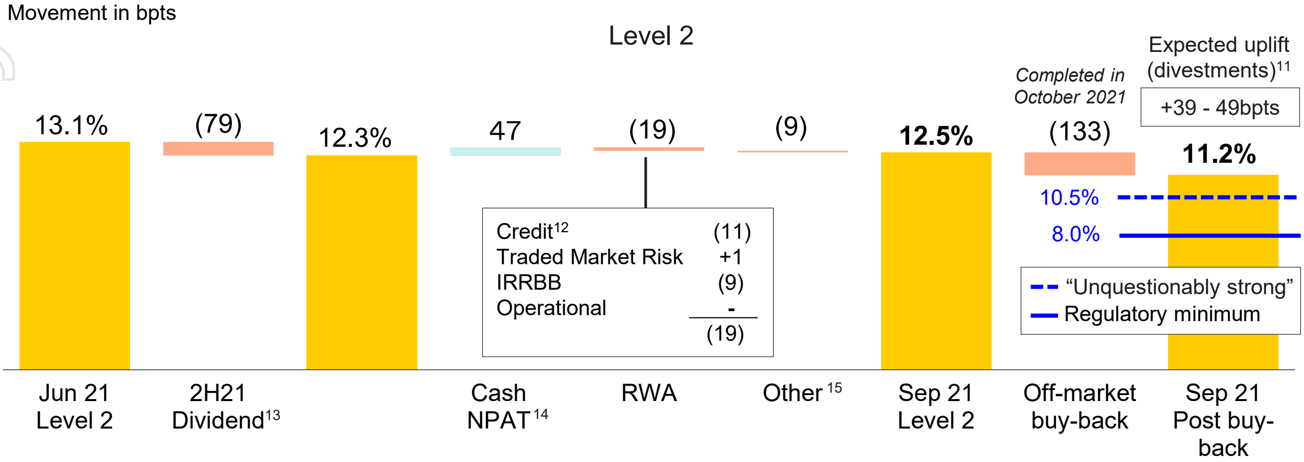



- Balance sheet strength was maintained in the quarter, highlighted by strong deposit funding (74%), underpinned by the Bank's franchise strength in stable household deposits (+$20.4bn this quarter).
- The Bank remains well positioned from a wholesale funding perspective, with 70% of wholesale funding long term and a weighted average tenor of 5.0 years. Good progress has been made on FY22 funding requirements, with A$14.6bn of long term wholesale funding issued to 31 October 2021 across multiple markets and products.
- The Bank's Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) remained well above regulatory minimums.
- The Bank's Term Funding Facility (TFF) was fully drawn as at June 2021, with maturities commencing from June 2023. In September 2021, APRA announced a sector-wide phased reduction in usage of the Committed Liquidity Facility (CLF) to zero by the end of 2022. The Bank is well placed to manage the liquidity and funding impacts of both these changes.

# Capital

## CET1 %

Movement in bpts




- The Group retains a strong capital position, with a CET1 (Level 2) ratio of 12.5% as at 30 September 2021, up 19bpts in the quarter after allowing for the impact of the 2H21 final dividend (-79bpts).
- In the quarter, capital generated from earnings (+47bpts), was partly offset by the impact of higher Risk Weighted Assets (-19bpts) and other regulatory adjustments (-9bpts). Excluding the impact of FX movements, Credit RWA consumed $3.7bn (-11bpts) of CET1 capital in the quarter, primarily related to volume growth in mortgages, corporate and specialised lending exposures, partly offset by improvements in credit quality. Higher IRRBB RWA (+$3.1bn, -9bpts) reflected changes in interest rate risk management positions and a reduction in embedded gains due to increased longer term interest rates. The significant increase in 2 and 3 year swap rates since 30 September 2021 has resulted in a further increase in IRRBB RWAs related to equity hedges with an investment term of 3 years.
- In October 2021, the Group successfully completed a $6bn off-market buy-back resulting in a 30 September 2021 pro-forma CET1 ratio of 11.2%, well above regulatory minimums. Strong demand meant the offer was significantly oversubscribed.
- The Group's previously announced divestments of Colonial First State (CFS) and CommInsure General Insurance are expected to collectively provide an uplift to Level 2 CET1 of approximately 39-49bpts. The Bank expects the sale of a 55% interest in CFS to be completed at the end of calendar year 2021 and the divestment of CommInsure General Insurance to be completed in the second half of calendar year 2022, subject to regulatory approvals.
- CBA's Level 2 Tier 1 and Total Capital ratios were 15.1% and 19.7% respectively as at 30 September 2021. In October 2021, the Bank redeemed AUD1.45bn CommBank PERLS VIII Capital Notes, a Basel III compliant Additional Tier 1 instrument, and a USD750m Basel III compliant Tier 2 instrument, compressing Tier 1 and Total Capital ratios by 32bpts and 54bpts respectively.

# Appendix

| Key financials reconciliation | 2H21 $m | 2H21 Qtr Avg $m | Movement 1Q22 vs 1Q21 | Movement 1Q22 vs 2H21 Qtr Avg |
|---|---|---|---|---|
| Operating Income | 12,195 | 6,098 | 3% | (1%) |
| Operating Expenses ex. Remediation costs | 5,435 | 2,717 | 4% | 3% |
| *Remediation Costs[16]* | *333* | *167* | | |
| Total Operating Expenses | 5,768 | 2,884 | 4% | (1%) |
| Operating Performance | 6,427 | 3,214 | 2% | Flat |
| Loan Impairment Expense | (328) | (164) | Favourable | Unfavourable |
| Reported Cash NPAT from continuing operations | 4,785 | 2,393 | 20% | (9%) |

# 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 and Colonial First State Global Asset Management (CFSGAM), consistent with the financial disclosures as at 30 June 2021.
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 30 June 2021 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 and RBA 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 Source: APRA Monthly ADI Statistics. Total deposits (excluding CDs). As at September 2021.
10 Long Term Funding ratio includes Term Funding Facility (TFF) drawdowns. Weighted average tenor calculation is presented both including and excluding TFF.
11 Expected CET1 uplift from the previously announced divestments of Colonial First State (+30-40bpts) and CommInsure General Insurance (+9bpts). Completion of divestments subject to regulatory approvals.
12 Excludes impact of FX movements which is included in 'Other'.
13 2H21 final dividend: included the on market purchase of shares in respect of the Dividend Reinvestment Plan.
14 Excludes equity accounted profits from investments which are neutral from a regulatory capital perspective due to the offsetting increase in capital deductions.
15 Other includes the impact of additional equity investments, intangibles, FX impact on Credit RWA and movements in reserves.
16 Remediation costs in 2H21 of $333m (pre-tax). Includes $177m of additional provisions for historical Aligned Advice remediation issues and associated program costs, and $156m 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, 17 November 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.

The material in this announcement does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States or in any other jurisdiction in which such an offer would be illegal. Any securities of the Group to be offered and sold have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (U.S. Securities Act), or the securities laws of any state or other jurisdiction of the United States. Accordingly, any securities of the Group may not be offered or sold, directly or indirectly, in the United States unless they have been registered under the U.S. Securities Act or are offered and sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable U.S. state securities laws.

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.

## Investor Relations

**Melanie Kirk**
02 9118 7113
CBAInvestorRelations@cba.com.au

## Media Relations

**Danny John**
02 9118 6919
media@cba.com.au

## Investor Centre

For more information:
commbank.com.au/results

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