

# ASX Announcement



Commonwealth Bank

## CBA 3Q20 Trading Update

For the quarter ended 31 March 2020<sup>1</sup>. Reported 13 May 2020. All comparisons are to the average of the two quarters of the first half of FY20 unless noted otherwise. Refer to Appendix for a reconciliation of key financials.

- ▶ Franchise and balance sheet strength – well placed to support our customers and the economy
- ▶ Additional loan loss provisions of \$1.5bn for the potential impact of COVID-19 on our customers
- ▶ Strong operational performance in 3Q20, reflecting disciplined execution of our strategy
- ▶ Strategic progress in becoming a simpler, better bank for customers with majority sale of Colonial First State, sale of AUSIEX and receipt of final regulatory approval for PT Commonwealth Life divestment

## Supporting Australia



The Commonwealth Bank is focused on doing everything we can to support Australia in these challenging times. The Bank is well funded, with significant levels of excess liquidity and strong capital.

The strength of the Bank means we are well placed to support our customers and the broader Australian economy. Since the onset of the COVID-19 pandemic, our package of support measures has included over \$9 billion in support to ~100,000 businesses<sup>2</sup>, repayment deferrals on approximately 240,000 loans, reduced interest rates for borrowers, increased interest rates for depositors and waived fees and charges. Our strong capital position enabled us to deliver 1H20 dividend payments totalling \$3.5bn to our ~830,000 shareholders during March, providing a further direct cash benefit into the economy.

Today's announcement of an additional credit provision of \$1.5bn for the potential longer term impacts of COVID-19 further reinforces our already strong provisioning and balance sheet settings.

The strength and resilience of the Bank remained evident through the March quarter. Our people have continued to serve our customers diligently and professionally under challenging circumstances. Given the challenges our people have faced, it was particularly pleasing to note a significant improvement in our recent survey of employee engagement<sup>3</sup> (up 13% on a year ago) which reflects the commitment and sense of pride our people have in supporting their customers and the broader community during these difficult times.

The measures put in place by the Government and the Reserve Bank, and the actions taken by regulators, have cushioned the economic impact, kept businesses intact, and supported people who have been most impacted.

I am proud of the ongoing efforts of everyone across the Group and I know that the Commonwealth Bank will continue to support our people, our customers and the broader Australian community. ”

Chief Executive Officer, Matt Comyn

## Delivering for all our stakeholders

### Customers & Community

Over \$9bn of support provided to ~100,000 businesses across Australia<sup>2</sup>

Additional cash flow from reducing home loan repayments to minimum

▶ **>\$9bn**

▶ **\$3.6bn**

### Employees

Engagement up 13% to 81%<sup>3</sup> – reflecting the pride and commitment of our people

▶ **81%**

### Shareholders

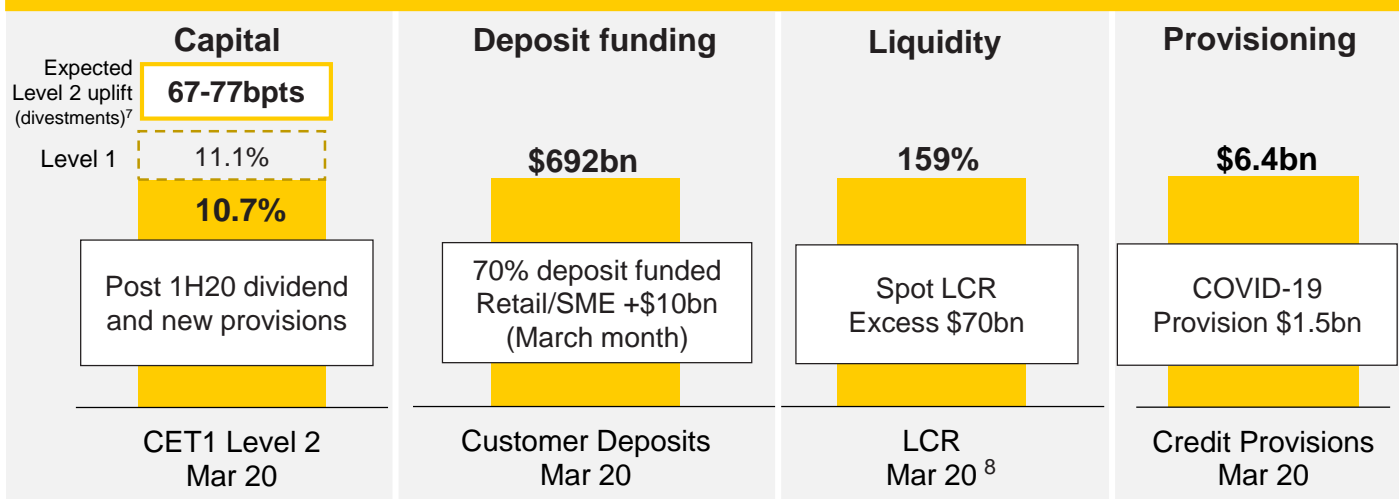
1H20 Dividends paid to ~830k shareholders, including Australian families

▶ **\$3.5bn**

# 3Q20 Overview

- ▶ Unaudited statutory net profit of approximately \$1.3bn<sup>4,5</sup> in the quarter
- ▶ Unaudited cash net profit from continuing operations of approximately \$1.3bn<sup>4,6</sup>
- ▶ Additional credit provision of \$1.5bn for forward looking adjustments in relation to COVID-19
- ▶ Flat operating income, with strong operational execution driving core volume growth, offset by the impacts of a lower cash rate
- ▶ Operating expenses (ex notable items) down 1% reflecting seasonal factors and ongoing simplification savings
- ▶ Headline operating expenses up 5% due to additional customer remediation provisions of \$135m
- ▶ Strong funding, with Retail/SME deposits up \$10bn in the month of March, deposit funding at 70%, NSFR 117%
- ▶ Excess liquidity, with March spot liquid assets at \$188bn and a spot LCR of 159% (quarter average: 133%)
- ▶ Strong CET1 capital ratio of 10.7% after payment of 1H20 dividend and the COVID-19 provision (total of -111bpts)
- ▶ 1H20 interim dividend payments of \$3.5bn paid on 31 March to ~830,000 shareholders

## Strength to support our customers



### Supporting our customers<sup>9</sup>

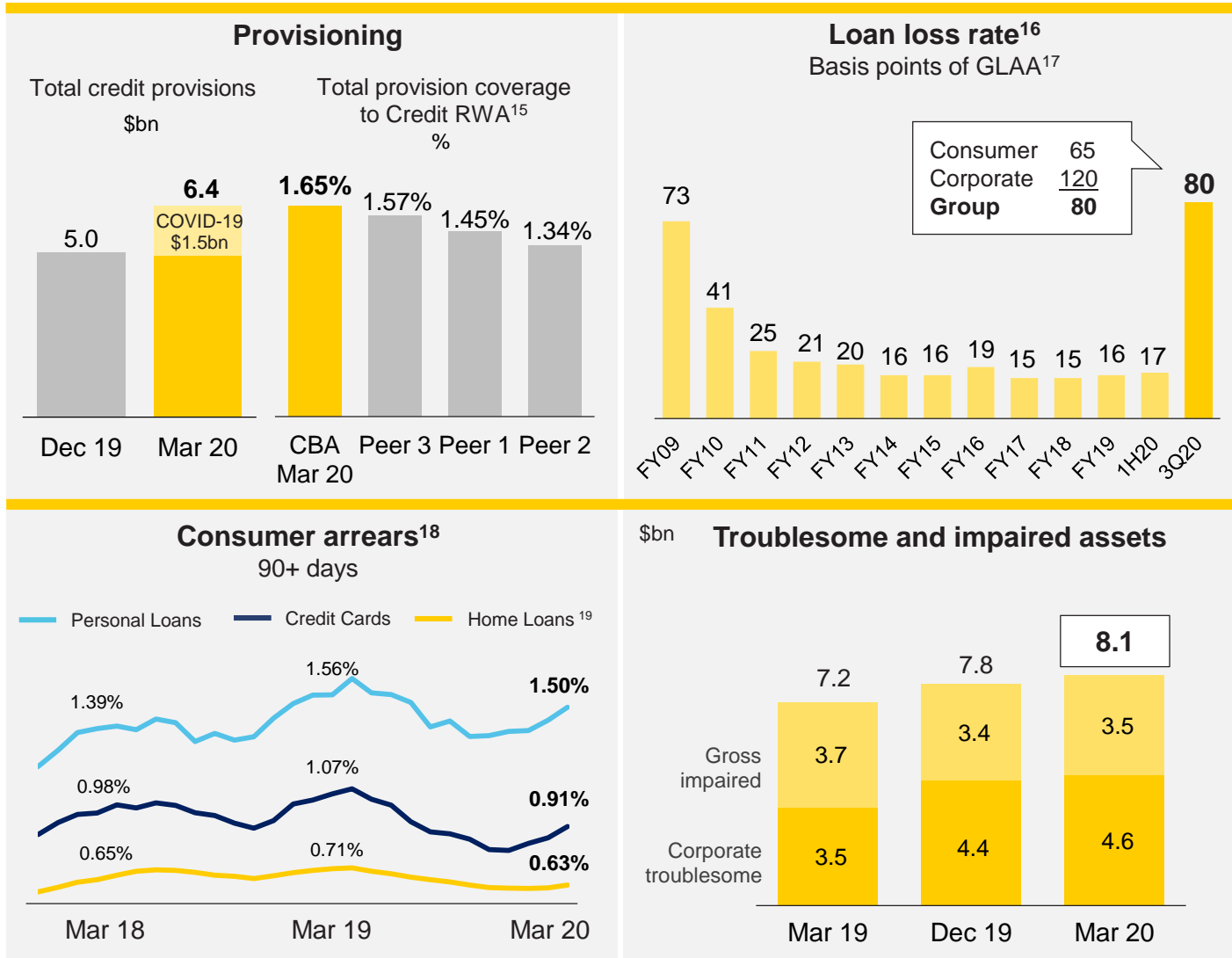
- ▶ >1 million calls and online requests for help, including an 800% increase<sup>10</sup> in calls to our financial assistance line
- ▶ Repayment deferral requests on approx. 71,000 business loans, 144,000 home loans, 25,000 personal loans
- ▶ Home loan repayments reduced to minimum – releasing up to \$3.6bn to Australian households
- ▶ Over \$555m of new lending from over 6,500 applications under the Government's SME Guarantee Scheme<sup>11</sup>
- ▶ Business lending rate cut by 125 basis points on all loans linked to the cash rate
- ▶ Merchant service fees waived for 60,000 business merchant facilities
- ▶ Fixed term owner occupied home loans interest rate reduced to 2.29%
- ▶ Term deposit interest rate increased 60bpts – 1.45% higher than the official cash rate (special offer to 26 April)
- ▶ Refunded \$9.2m in credit card interest and late fees on ~150,000 accounts



### Leading digital assets delivering support quickly and efficiently

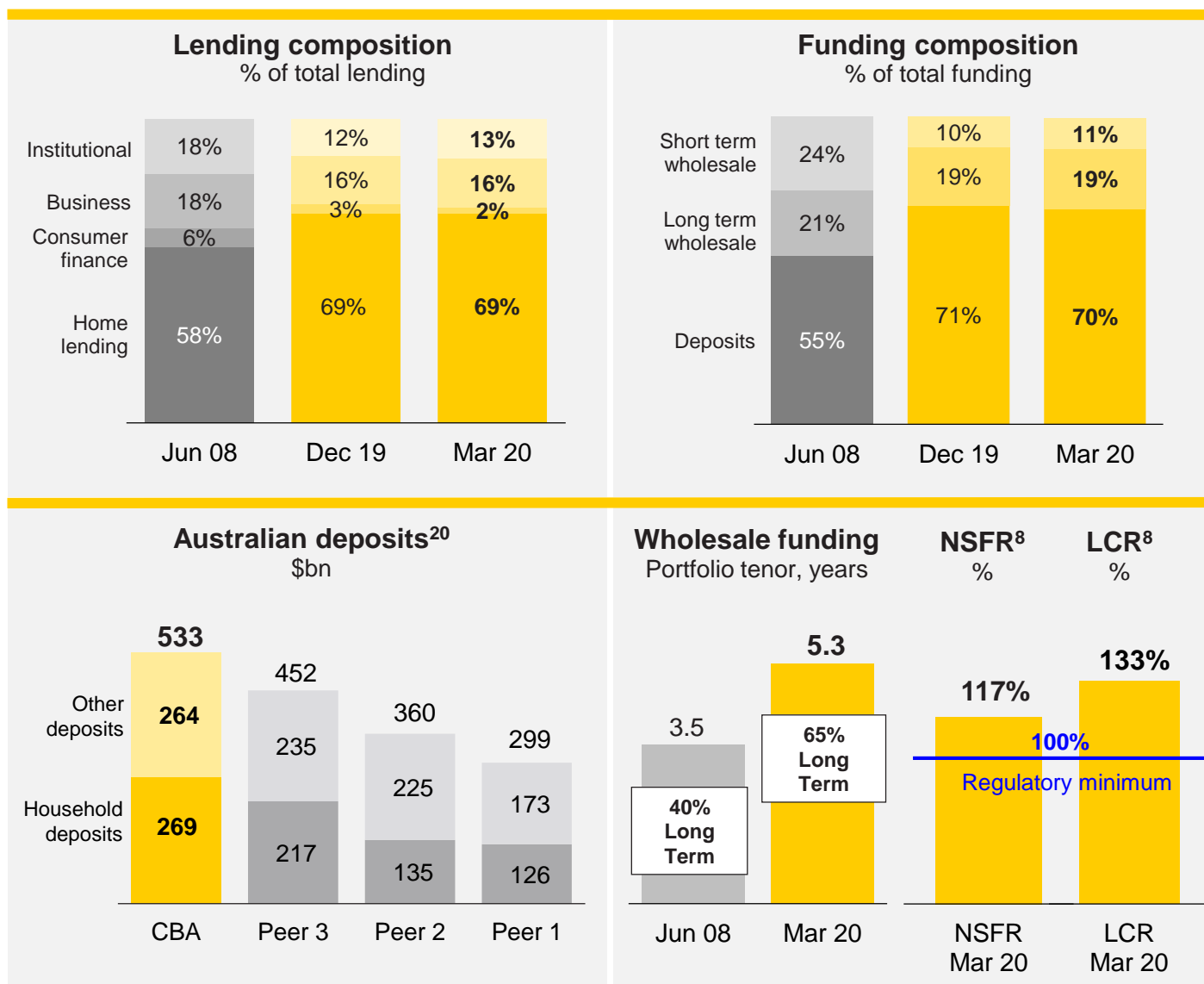
- ▶ New automated process for customers accessing home loan repayment deferrals
- ▶ ~250 million personalised in-app messages sent to customers regarding COVID-19 support
- ▶ Streamlined processes to fast track hardship requests, JobKeeper funding and deferrals
- ▶ 4 million visits to new online COVID-19 support page<sup>12</sup>
- ▶ 10.2 million peak daily logins to CommBank app and NetBank
- ▶ 150,000 new Benefits finder claims started, taking total claims since launch<sup>13</sup> to over 500,000
- ▶ Digital wallet transactions up 17%<sup>14</sup> to a record \$1bn in March

# Provisioning further strengthened



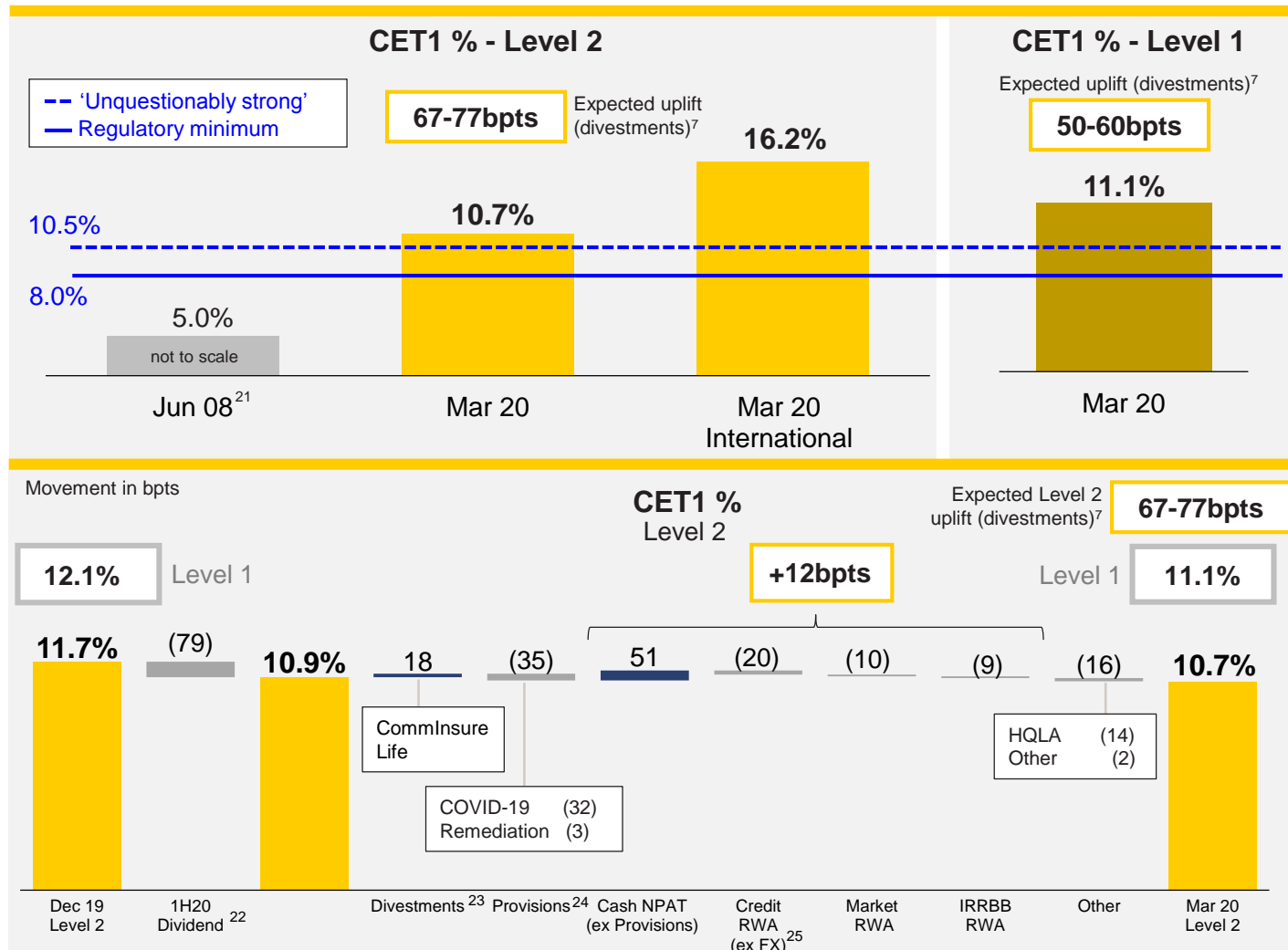
- A new \$1.5bn forward looking adjustment has been raised in recognition of the potential future impacts of COVID-19 on the economy. Total provisions now stand at \$6.4bn, representing a coverage ratio of 1.65% to total credit risk weighted assets.
- Given an unprecedented set of circumstances which are still unfolding and evolving, a definitive assessment of the longer term outcomes of the COVID-19 pandemic and the consequent economic and societal impacts is difficult at this stage. The forward looking adjustment has been determined based on a range of plausible economic and industry sector stress factors, taking into account the mitigating impacts of Government and industry assistance packages and support, including loan repayment deferral arrangements. The Bank's lending portfolios continue to be monitored closely, with detailed portfolio stress testing to form the basis for ongoing re-assessments of provisioning levels as the situation evolves.
- Loan impairment expense was \$1.6bn in the quarter, or 80 basis points of average GLAA, inclusive of the additional COVID-19 provision. Excluding this additional provision, loan impairment expense reflected sound portfolio quality.
- Consumer arrears were seasonally higher in the quarter, but lower year on year. Troublesome and Impaired Assets (TIA) were higher at \$8.1bn, reflecting seasonally higher consumer arrears and continued pockets of stress in certain sectors, including discretionary retail and agriculture.

# Strong balance sheet, funding and liquidity



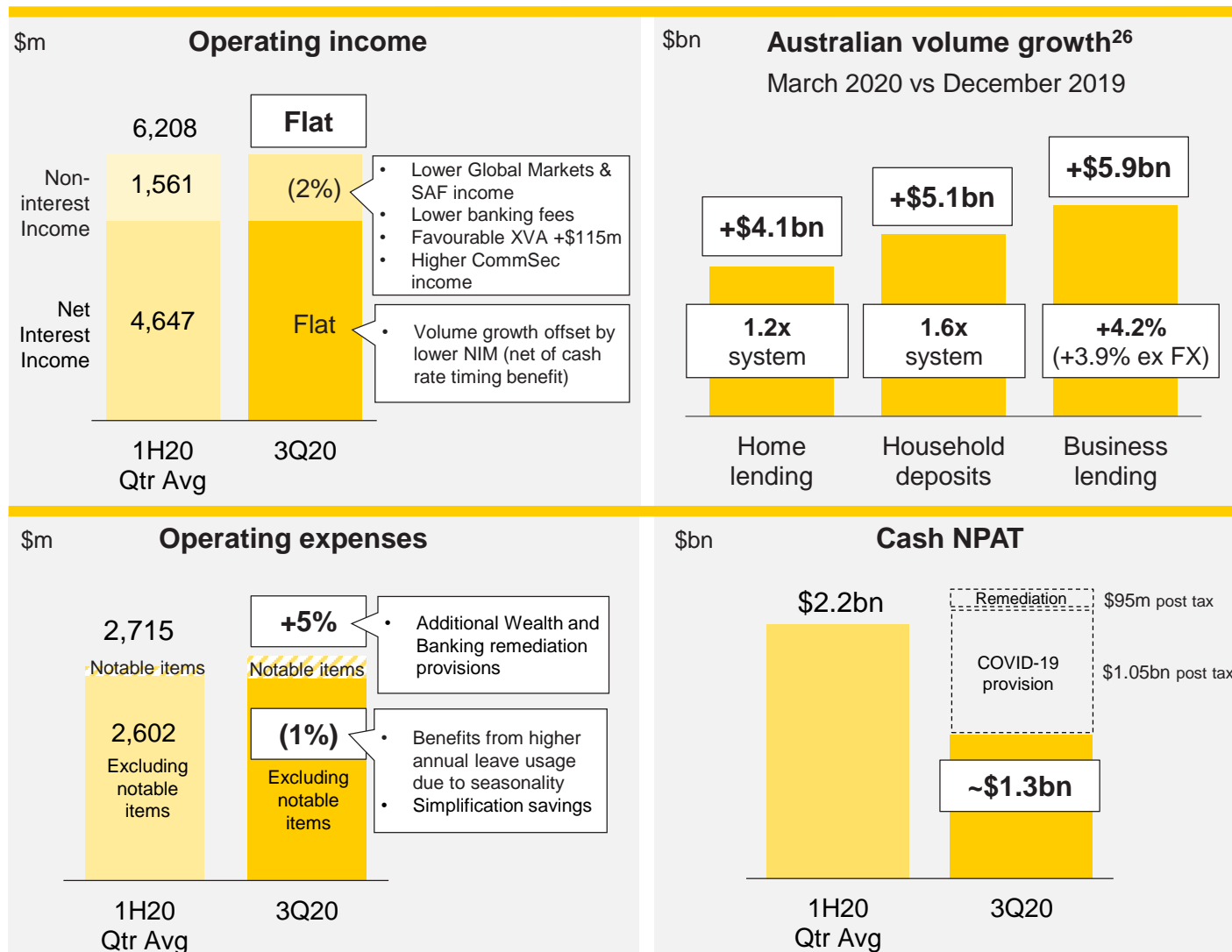
- The Bank is well placed to manage challenging market conditions, with strong balance sheet settings and a favourable business mix.
- The Group is 70% deposit funded, underpinned by the Bank's peer leading franchise strength in stable household deposits. Deposit balances grew strongly in the quarter, influenced by growth in Retail/SME deposits and corporate clients drawing down on funding lines and placing these funds into CBA deposit accounts for liquidity purposes.
- The Bank's wholesale funding program is conservative, diversified and weighted to long term funding (65%), with a portfolio weighted average maturity of 5.3 years reducing refinancing risk in times of significant market volatility. The Bank is well positioned from a wholesale funding perspective with FY20 funding requirements already substantially met.
- The Bank's Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) were well above regulatory minimums. The Pillar 3 quarter average LCR as at 31 March 2020 was 133% (spot 159%) representing a significant excess to regulatory requirements.

# Unquestionably strong capital



- The Bank has a strong capital position, with the March CET1 (Level 2) ratio of 10.7% above APRA's 'unquestionably strong' benchmark of 10.5% and well above the prudential minimum of 8%, notwithstanding the timing of the 1H20 dividend payment (-79bpts) and additional COVID-19 and remediation provisions (-35bpts). During the quarter, the Bank received further proceeds under the revised transaction path for the planned divestment of CommInsure Life to AIA Group Limited, equating to 18bpts of CET1.
- On 13 May 2020, the Group announced it had entered into an agreement to sell a 55% interest in Colonial First State (CFS), implying a total valuation for CFS on a 100% basis of \$3.3bn (including pro forma surplus capital). The transaction will result in CBA receiving cash proceeds of approximately \$1.7bn from KKR, a leading global investment firm. Upon completion, the transaction is estimated to result in a post-tax gain on sale of approximately \$1.5bn and is expected to deliver an increase of approximately \$1.4-1.9bn of Level 2 Common Equity Tier 1 (CET1) capital, equating to 30-40bpts. The transaction is subject to regulatory approvals and is expected to occur in the first half of calendar year 2021. Separately, the final regulatory approval for the divestment of CBA's 80% equity interest in its Indonesian life insurance business (PT Commonwealth Life, or PTCL) to PT FWD Life Indonesia was received in early May and completion is expected to occur in June 2020, resulting in a +7bpts impact to Level 2 CET1 capital. Including these two transactions, the expected uplift to Level 2 CET1 capital from announced divestments is 67-77bpts.
- Credit RWAs (ex FX impacts) contributed -20bpts to the March quarter movement, driven by volume growth in mortgage lending, non-retail lending and derivative exposures. Significant market volatility drove the movements in Market RWA and IRRBB in the quarter. The revaluation of high quality liquid assets due to the widening in credit spreads in March, together with higher liquid asset volumes due to strong deposit inflows, impacted CET1 by -14bpts.
- The Bank's Level 1 ratio was 11.1% as at 31 March, above 'unquestionably strong' and prudential minimums. On 2 April, the Reserve Bank of New Zealand announced a freeze on the distribution of dividends by banks in New Zealand due to COVID-19. Dividends from our NZ subsidiary, ASB Bank Limited (ASB), only affect CBA's Level 1 CET1 and a strong Level 1 surplus position means CBA is well placed to absorb the suspension of ASB dividends.

# 3Q20 - financial overview and business update



- The Bank's franchise strength remained evident in the quarter. Net interest income was flat, with strong volume growth in core markets offset by lower margins. Home loan growth remained above system, supported by strong new business volumes in the quarter. As expected, weekly application volumes have trended lower in March, April and May relative to the peak volumes experienced in February, due to Government COVID-19 restrictions impacting open house and auction activity. Application volumes remain strong and are ~10% higher than the same period last year. This is due to continued strong operational performance in our credit decisioning turnaround times, together with stronger customer demand for home loan refinancing in a low rate environment. Household deposits growth remained strong through the quarter and into April, influenced by reduced consumer spending and the first stages of Government stimulus payments. Group transaction account balances grew by 9%. Business lending growth was driven in large part by an increase in utilisation rates as businesses drew down on existing facilities for liquidity purposes in the current environment.
- The Group's net interest margin was lower than 1H20 due to reduced earnings on capital and deposits from the falling interest rate environment, partly offset by asset repricing, strong growth in at-call deposits and lower wholesale funding costs.
- Non-interest income decreased 2%, impacted by lower Global Markets trading and Structured Asset Finance income, and lower Funds Management income, partly offset by a large favourable movement in the derivative valuation adjustment (XVA) and increased CommSec equities income from higher trading volumes.
- Operating expenses (ex notable items) were 1% lower reflecting seasonally higher annual leave usage and ongoing business simplification savings. Increased COVID-19 related staffing levels in customer support areas through late March/April, and reduced annual leave, will impact costs in Q4 and potentially into FY21. Including notable items, operating expenses were 5% higher due to additional Wealth and Banking customer remediation provisions and program costs of \$135m (pre-tax).

## Appendix:

# Supporting our customers and communities

Action	Status (all figures as at 30 April 2020 unless stated otherwise)
<b>Loan repayment deferrals</b> <ul style="list-style-type: none"> <li>▶ Home lending - all CBA home loan customers eligible for loan repayment deferrals of up to 6 months</li> <li>▶ Personal lending</li> <li>▶ Business lending – business loan repayment deferrals available to eligible business customers for up to 6 months</li> </ul>	<ul style="list-style-type: none"> <li>▪ Deferral requests on 144,000 home loan accounts, with balances of \$50bn</li> <li>▪ Requests via opt-in process (customer completes online form)</li> <li>▪ Deferrals split 71% owner occupied, 29% investment loans<sup>27</sup></li> <li>▪ Deferrals split 84% principal &amp; interest, 16% interest only<sup>27</sup></li> <li>▪ Deferral period of six months</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Deferral requests on 25,000 personal loan accounts</li> <li>▪ Deferral period of two months</li> <li>▪ Working with credit card customers seeking assistance</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Registered 70,700 loans for repayment deferrals (balances \$15.2bn)</li> <li>▪ Initial deferrals for 90 days, with an option for a further 90 days</li> </ul>
<b>Lending support</b> <ul style="list-style-type: none"> <li>▶ SME Guarantee Scheme - maximum loan size \$250,000. Australian businesses with less than \$50 million turnover eligible</li> </ul>	<ul style="list-style-type: none"> <li>▪ Approved over 6,500 applications for over \$555m of new lending<sup>11</sup></li> <li>▪ Largest sectors – Retail Trade (18%), Construction (16%), Accommodation, Cafes and Restaurants (14%), Business Services (12%).</li> </ul>
<b>Interest rate and fee changes</b> <ul style="list-style-type: none"> <li>▶ Reduced repayments for all variable principal and interest home loan accounts to the minimum required</li> <li>▶ Interest rates reduced on fixed rate home loans</li> <li>▶ Interest rate increased on 12 month term deposits</li> <li>▶ Business Loan interest rates reduced by 125bpts on all loans linked to the cash rate</li> <li>▶ Fees waived on business merchant facilities for 3 months</li> </ul>	<ul style="list-style-type: none"> <li>▪ Applied across the book from 1 May 2020</li> <li>▪ Releasing up to \$3.6bn of additional cash flow into the economy</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Interest rates reduced on 1yr, 2yr and 3yr fixed rate home loans to 2.29%</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Rate increased by 60bpts to 1.70% p.a, 1.45% above the official cash rate - offer was extended to 26 April 2020</li> </ul>
	<ul style="list-style-type: none"> <li>▪ 25bpts effective 25 March 2020</li> <li>▪ 100bpts effective 3 April 2020</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Merchant service fees waived for 60,000 business merchant facilities</li> </ul>

## Appendix:

Key financials reconciliation		1H20 \$m	1H20 Qtr Avg \$m	Movement 3Q20 vs 1H20 Qtr Avg
Operating Income	Reported	12,416	6,208	-
Operating Expense	Reported	5,429	2,715	5%
	<i>Customer remediation (incl. Aligned Advice)</i>	(30)	(15)	
	<i>Risk and compliance programs, and other</i>	(196)	(98)	
	<b>Operating Expenses ex. notable items<sup>28</sup></b>	<b>5,203</b>	<b>2,602</b>	<b>(1%)</b>
Loan Impairment Expense		649	325	Lge
Reported Cash NPAT		4,477	2,238	(44%)
Cash NPAT ex. notable items <sup>28</sup>		4,635	2,317	(37%)

## Footnotes

<sup>1</sup> Unless otherwise stated, the financial results are presented on a 'continuing operations' basis. This excludes discontinued operations: the Bank's Australia and New Zealand life insurance businesses (Commlnsure Life and Sovereign), BoCommLife, TymeDigital SA, Colonial First State Global Asset Management (CFSGAM) and PT Commonwealth Life, consistent with the financial disclosures as at 31 December 2019.

<sup>2</sup> Includes additional loans, covenant waivers and drawdowns to JobKeeper-eligible institutional clients, additional loans and drawdowns to mid-sized corporates, small business loan repayment deferrals, home loan deferrals for self-employed individuals and approved loans under the SME Loan Guarantee Scheme.

<sup>3</sup> People Engagement Score of 81% for April 2020 Bi-annual engagement survey. An improvement of 13% compared to April 2019.

<sup>4</sup> Rounded to the nearest \$100 million.

<sup>5</sup> Including discontinued operations.

<sup>6</sup> 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 a more detailed description of these items, please refer to page 3 of the Group's 31 December 2019 Profit Announcement.

<sup>7</sup> Expected CET1 uplifts from receipt of remaining proceeds from the sale of Commlnsure Life and previously announced divestments: BoCommLife and PT Commonwealth Life, and the majority sale of Colonial First State. Completion of divestments subject to regulatory approvals.

<sup>8</sup> Includes new Term Funding Facility provided by The Reserve Bank of Australia, with initial allowance of \$19.1bn. NSFR spot as at 31 March 2020 was 117%. LCR spot as at 31 March 2020 was 159%. LCR Pillar 3 quarterly average for 31 March 2020 was 133%.

<sup>9</sup> All figures based on the most recent available data, unless otherwise stated.

<sup>10</sup> Peak increase in call volumes from the start of the pandemic.

<sup>11</sup> As at 06 May 2020.

<sup>12</sup> As at 17 April 2020.

<sup>13</sup> 150,000 new claims since COVID-19 lockdown measures were implemented, 15 March 2020 to 6 May 2020. Launch date December 2018.

<sup>14</sup> Compared to February 2020.

<sup>15</sup> Peers as at March 2020. Excludes impairment provisions for derivatives at fair value.

<sup>16</sup> FY09 includes Bankwest on a pro-forma basis and is based on loan impairment expense for the year.

<sup>17</sup> Loan impairment expense calculated as a percentage of average Gross Loans and Acceptances (GLAA) annualised. Expressed in basis points (bpts).

<sup>18</sup> Consumer arrears includes retail portfolios of Retail Banking Services, Business & Private Banking and New Zealand.

<sup>19</sup> Excludes Reverse Mortgage, Commonwealth Portfolio Loan and Residential Mortgage Group loans.

<sup>20</sup> Source: APRA Monthly Authorised Deposit Taking Institution Statistics. Total deposits (excluding CDs). As at March 2020.

<sup>21</sup> Calculated Basel III equivalent.

<sup>22</sup> 2020 interim dividend: included the on-market purchase of shares in respect of the Dividend Reinvestment Plan.

<sup>23</sup> Relates to additional receipt of funds as part of the divestment of Commlnsure Life.

<sup>24</sup> Includes additional provisions raised for COVID-19 (\$1.5bn) and customer remediation (\$135m).

<sup>25</sup> Excludes the impact of FX movement on Credit RWA (-10 bpts). FX impact included in "Other" and is offset by movement in foreign currency translation reserve (+10 bpts).

<sup>26</sup> As reported in RBA Lending and Credit Aggregates (Home Lending and Business Lending) and APRA Monthly ADI Statistics (Household Deposits). Business lending includes Business and Private Banking, Bankwest, and Institutional Banking and Markets (ex CMPF).

<sup>27</sup> Excludes Bankwest.

<sup>28</sup> Notable items include Customer remediation (incl. Aligned Advice), and Risk and compliance programs and other.

## Disclaimer

The material in this announcement is general background information about the Group and its activities current as at the date of the announcement, 13 May 2020. 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 has been authorised for release by Kara Nicholls, Group Company Secretary.



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For more information, including an audio webcast of the 3Q20 briefing  
[commbank.com.au/tradingupdate](http://commbank.com.au/tradingupdate)