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Melanie KIRK: Hello, and welcome to the Commonwealth Bank of Australia's results presentation for the year ended 30 June 2018. I am Melanie Kirk and I am head of Investor Relations. Thank you to everyone for joining us here in the room, on the phones and via the webcast. For this briefing, we will have a presentation from our CEO Matt Comyn and our acting CFO Alan Docherty. This will be then followed by the opportunity for investors and analysts to ask questions. I will now hand over to Matt. Thank you Matt.

Matt COMYN: Thanks very much Mel, and morning all. I am going to start this morning, touch on two things, first the quick update just overall on strategy and of course get into some of the high level financial results. I am then going to hand to Alan, who is going to go through the result in more detail, and then I will come back and do a quick wrap up and we will move onto Q&A.

I wanted to start today by just focusing on really where we have been putting our attention over the last few months. Clearly, there have been a number of issues that we really wanted to get to the bottom of and address. From my perspective, working very closely with my Leadership Team, getting to the root cause of some of the customer issues, and working closely with them.

Secondly, putting a new Leadership Team in place, with now six new appointments, renewed the purpose of the organisation and set very clear values, expectations for all of our Leaders. We have resolved AUSTRAC and BBSW, two of the largest regulatory actions. We have had our plan submitted to APRA and endorsed by them, for which we intend to make material progress over the next 12 months. And of course we have already announced some changes to our portfolio. This morning we announced our decision to exit South Africa and you will recognise the $91 million impairment that we call out as a result of that.

Overall, in what has been a challenging 12 months for the Commonwealth Bank, one that we are undoubtedly going to be a stronger institution for, and I am very grateful for all of the hard work of our people. We are very focused now on the future and making sure that we are running our businesses really well, and focusing on our core strategy which I am going to talk to very briefly now.

So there are really three parts. I would like to talk to our priorities, the capabilities that we think are critical to make sure that we deliver them, and then of course, the outcomes that we are looking to deliver for a balanced set of stakeholders.

Overall, we want to become a simpler and better bank for our customers. A big part of that has actually just been simplifying our portfolio. Really focusing on where we believe our competitive advantage is today and where it will be for the future. Of course, that is underpinned by the leading Retail Banking franchise in the country, which we are going to continue to invest in and strengthen further, alongside our Commercial Banking franchise. And we want to be the digital leader, bar none in the Australian market.

Four capabilities that we are calling out. The first, operational risk and compliance. Clearly this is an area that has been highlighted as something the Commonwealth Bank has not done well enough. It is going to take a lot of focus, top-down leadership, make sure that we are setting the right standard and making sure that we are not seeing repeats of the issues in the past. Ultimately, that is going to lead to much better customer and risk outcomes.

We are calling out specifically cost reduction. Certainly over the medium term we are going to require much sharper focus on our cost base and the outcomes that we are able to deliver.

Thirdly, data and analytics. That has really been, I think an area of relative strength for us, over peers and in recent times, that is going to continue to be critical for us and we are going to look to invest more in that and of course innovation. Once we get through a higher period of increased regulatory and compliance spend, we are going to be looking to spend more of our investment dollars into both our core businesses and a part of that, bringing more innovation investment, closer to our core.

As I talk to the sustainable and balanced outcomes. Start with our team, as I said, a very committed group of people across the organisation. We want them to be customer focused, energised and accountable. If they are able to deliver that, and importantly as leaders, if we are able to illicit those characteristics from them, they are going to be engaged in both their local communities, make sure that we are delivering great experience for our customers, and of course we are holding ourselves to make sure we are delivering better outcomes overall for them.

It is really important that we are obviously playing an active role in the communities in which we operate. We are both a huge employer, vital in the context of financial stability, and also facilitating economic growth in Australia and New Zealand. And of course for our shareholders making sure that we are delivering balanced and sustainable returns, over the long term.

When I talk in the context of simplifying our businesses, as I said before, we have already announced in June the demerger of our Wealth Management and Mortgage Broking business. We had previously announced the sale of our Life Insurance business in both Australia and New Zealand. As I mentioned at the outset, we have made the decision to exit South Africa. And we have called out a strategic review of both our General Insurance business, our 20% stake in VIB Bank in Vietnam, and our Life Insurance business in Indonesia.

Our core business of Retail and Business Banking franchise, really capitalising on the strength that we have there, which I will talk to you in a moment. And continuing to facilitate, particularly Australia and New Zealand customers in our Institutional Banking business, particularly with ties to this country. And making sure that we are optimising in both a cost and capital constrained environment. As you see, our core banking business is contributing more than 90% of our current cash profit.

We start from an advantage position when it comes to our overall franchise. We are very fortunate to have more customers that consider us as both their main financial institution and choose to bank with us. It is not something for a moment that we take for granted. We have a leading brand and we have the best distribution assets, which have typically been underpinned by superior scale and physical distribution. But of course, that scale also confers a number of advantages, including the ability to be able to invest in the best digital assets which are increasingly a big part of both the way we serve our customers, and I think will underpin our competitive and strategic advantages.

Over many years, we have continued to strengthen our balance sheet predominantly from a capital position. We have also taken advantage of funding conditions in the first half, to lengthen our wholesale funding tenor, reducing our funding ask going forward. We are well above regulatory minimums and we have continued to increase our overall deposit funding.

I thought I would maybe just spend a moment on what does best in digital really look like, and why we are confident and committed to making sure that we remain, and if anything, enhance our overall relative position. And again, we have a couple of fantastic assets that we start from. Again, leading MFI share, so more Australians considering us as their main financial institution. We have between 26% and 28% of both current account and credit card transactions. We are on one side of about 50% of all electronic payments in Australia.

We have never had more engagement with our customers, via our digital channels. More than 80% of our customers interact with our digital channels regularly, at 6.5 million active customers. We have got more than 5 million Australians logging into our mobile app every day, which gives us enormous reach, and the opportunity to present, and be very relevant in our customers' lives. We are seeing strong benefits conferred from those investments in that engagement, as well as underpinning improvements in our net promoter score.

And I wanted to call out one of the areas of investment that we have made in the last few years, just to give you a sense of how we are going to bring some of these relative strengths together. And that is our customer engagement engine.

So over the last three years, in the Retail Bank, we have built out an engagement engine which effectively brings together all of our customers' information, all of their balances, their activities, everything that they are doing across their channels. Enables us to serve them holistically and intuitively. We analysed 27 billion data points in real-time, and we coordinate all of our contact and interactions via both our leading branch network, our Australian-based contact centres and present that all throughout our digital channels, ATMs, email, direct mail. That means we can use that engine to coordinate all of the activities. That can be as simple as helping a customer complete an application, updating their contact details, for which we have done 200,000 or so in the last 12 months. Or, in this case, thanking more than 4 million customers for their loyalty.

That is something we have completed now in the Retail Bank, but will now be rolling out across the Business Bank. I think it is going to be really important in terms of making sure that, as I said, we have the best digital experience, but we are also able to bring the best of the organisation to serve our customers holistically.

The strength of that franchise, despite what has been a challenging year, has enabled us to deliver a cash profit of $9.2 billion on a continuing basis. That saw our headline profit fall by 4.8%. But importantly, if you strip out some of the one-offs, it shows the strength of the franchise with 3.7% growth in profit. Our return on equity ex those one-offs of 15.3%, and a final full year dividend of $4.31.

We have presented our businesses in a slightly different depiction this time round, to give you a sense of both the continuing operations going forward, as well as our businesses that we are in the process of either demerging or strategic reviews. I think importantly, good contributions across all of our businesses throughout the portfolio. Our Retail Bank profit up 5%. That was 4% income growth, expenses well managed at 2%. The standout aspect of the Retail Bank's profit result was a very strong performance in transaction accounts. A record year for us of 4.6% growth in transaction accounts, I think really underpins the strength and the resilience of the core franchise.

We have been prepared to grow below system in home lending, but it remains an area of real management focus. And whilst loan impairment expense is relatively benign and up 2% for the year, we have called out a 10 basis point increase in 90 day mortgage arrears for the period. Our Business and Private Bank, 4% profit growth. We have seen a 5% income growth and an improvement in margins. A lot of that margin improvement has of course been driven by some of the home loan pricing, but we have also seen commercial lending now stabilised and better growth in the second half from our commercial lending contribution in the Business and

Private Bank.

The Institutional Bank at a headline level, with a cash profit down 14%, there are a few items that are really worth highlighting. One has been a continued focus on making sure we are optimising for returns. We have seen a $12.7 billion reduction in credit risk weighted assets over the year, six billion of that coming in the last quarter. We have also seen softer markets income, particularly in the second half, which is both a function of lower sales and trading revenue. And we have called out a $51 million impairment to the institutional lending software, which is a one-off which also had an impact on the Institutional result.

Another very strong result from ASB, the last five years continued to grow very strongly. Again, another I think a 9% income growth. Growth of margins of 7 basis points. Expenses well managed. Loan impairment also relatively low as well.

Bankwest, this is last time you will see Bankwest called out explicitly. We are going to align into the Retail and Business banking segments. It is a good final result for Bankwest to finish on. Strong income growth 6%. Negative expense growth of 1%. We have already begun the migration of the Bankwest business customers into our Business and Private Bank. But a very solid result there.

Across our Wealth Management businesses, both the strength of the underlying markets has helped our GAM business and our CFS business. And if you look over to the right our General Insurance business up 65%, predominantly from just much better weather and claims experience over the period.

Again, on an underlying basis, excluding some of the one-offs, sees that cash NPAT up 3.7%. Same operating performance of 3.7% sees our cost to income ratio come down another 10%, and our loan impairment expense overall at 15 basis points, well below long-run averages.

As I mentioned earlier, a big focus for us and a continuing strength has been our deposit franchise. We really benefit from strong and stable retail and SME deposit bases. We have been able to increase our overall percentage of deposit funding to 68%, remain well above regulatory minimums in LCR and NSFR, and overall, a strong capital position of 10.1%. But we have also called out a pro forma CET1 ratio of 10.7%, which includes adjustments for AASB 9 and 15 and the sale of BoComm, Sovereign and CMLA. And it is that confidence of both our outlook from a capital position, and our overall finish to the year, that enabled the Board to approve a final dividend of $2.31, a full year $4.31, which when you adjust for AUSTRAC is right in the middle of our target payout range of 75%.

I am now going to hand over to Alan who is going to talk through the result in more detail.

Alan DOCHERTY: Thank you Matt, and good morning. As Matt has mentioned, a lot has happened this year. In particular, there has been a huge amount of activity in the last quarter. One of the implications of that is that there are a number of moving parts in this year’s result, so I am going to walk through and unpack each of those dimensions of the result before drilling into the fundamentals of the financial performance. I am going to address each of these aspects of the financial performance later in the presentation, but suffice to say, the underlying fundamentals of the business remain very strong.

Firstly, as we simplify our business, we have to assess each of our in-flight divestment transactions and assess whether they should be part of either continuing or discontinued operations. Most of our divestments are expected to complete over the next few months and therefore form part of our discontinued operations disclosures. As you can see, in the bottom right of this slide, the Wealth Management operations continue to be classified within continuing operations this financial year as the announced demerger is expected to complete during 2019.

If we look at how that feeds into the statutory to cash profit reconciliation, statutory profits for the year were $9.3 billion. We then deduct from that the cash profits from those discontinued operations of $179 million and we then take out the normal non-cash items. In the current year, net losses on disposals and acquisitions totalled $183 million, the two main components of that being the transaction and separation costs related to the sale of our Life Insurance business of $136 million, and we have also wrote down the carrying value of goodwill and other intangible assets of TymeDigital by $91 million following our decision to exit that business.

We have also seen positive hedge accounting volatility in the period, so deducting each of those items from that statutory profit number gives us cash profits from continuing operations of $9.2 billion. And those cash profits had a higher than usual number of one-off items. All of these items are included above the line and we include them here for transparency and to show the key P&L line item growth rates on a like for like basis. One-off items included the gain on the sale of Visa shares and the accelerated software amortisation that we reported last year. We have also removed the grossing up of revenue and expenses that arises on the consolidation of Aussie Home Loans. We have highlighted the AUSTRAC penalty, and also the one-off non-recurring regulatory costs related to the AUSTRAC proceedings, the Royal Commission and the cost of the APRA Prudential Inquiry. You can see that after removing those one-off items, cash profits increased 3.7%, operating income growth was 3.4% and operating expenses increased 3.1%.

Drilling into operating income, the main contributor to that growth was high on the interest income, margins rose 5 basis points over the period and lending growth was 2%. And you can see we have been very selective around the type and extent of lending that we wanted to participate in this year from a risk return perspective. Other banking income fell in the period. This was a function of lower trading revenues and also the reduction or elimination in a number of fees and charges for the benefit of our retail customers. Funds and insurance revenues increased in the year and that was a function of 9% growth and funds under administration, and also lower insurance claims.

Looking into margins more deeply, margins increased over the year but margins contracted in the most recent six month period. Home loan margins decreased by 2 basis points over that period. That was a combination of very competitive pricing and also the impact of customers switching out of interest-only home loans. Funding costs increased in the period and that was a function of the elevated basis risk which cost 2 basis points of margin, and that long-term wholesale funding increase was a function of the higher level and longer tenor of our new long term debt issuance.

Looking ahead, there are two key sensitivities on margin that we are focused on. On basis risk, every 5 basis points of elevation in basis risk cost around $80 million, that is approximately 1 basis point of margin. A replicating portfolio which we use to protect the Bank's earnings during falling interest rate environments continues to deliver benefits, but at a slowing rate. And given where we are in the interest rate cycle, we expect the replicating portfolio to cause a 2 basis point drag on margins in the next financial year.

Operating expenses, excluding one-offs, grew 3.1% in the period, and the largest component of that was the increased provisioning we took on a financial crime compliance program of action, which was the majority of the $199 million of higher risk and compliance costs. While we do not expect those costs to be permanent, they are likely to be reflective of an elevated level of risk and compliance spend over the near term as we continue to uplift our operational risk management capabilities. We also absorbed additional software impairments in the period of $65 million, the largest component being, as Matt mentioned, the $51 million impairment within IB&M following the decision to implement a new institutional lending platform.

Staff costs increased $30 million with the impact of wage inflation, largely offset by the reduction in bonuses and unvested shares for all current and former executives. And you can see there were a number of largely offsetting and non-recurring costs which we have set out on the right hand side of that chart.

Turning to our balance sheet risk settings, we continue to adopt conservative settings across the range of risk types in order to be prepared for a range of macro-economic outcomes. Our balance sheet has long been a source of real organisational strength and structural competitive advantage, and we continue to make the strategic choices necessary to make an already strong balance sheet even more resilient.

On credit risk, we further strengthened underwriting standards across targeted segments of the Retail and Business Lending portfolios, and further increased loan impairment provisions. On funding and liquidity risk, we continued to increase net stable funding and liquidity coverage ratios well in excess of regulatory minimums, and pleasingly, we achieved very strong levels of transaction deposit growth in the period. On capital, we continue to focus on reducing the capital intensity our business and improving organic capital generation, and we remain on track to achieve unquestionably strong capital targets. And I will just go through each of those risk types in turn.

On credit risk, loan impairment expense remained at historical lows as a proportion of total lending exposures, with very low levels of loan loss experienced across both our consumer and our corporate portfolios. You can see Business and Private Banking loan losses increased off an extremely low base of 5 basis points are now 11 basis points. We are not seeing anything systemic across industries or regions, however we have seen a marginal decline in those sectors exposed to discretionary consumer spending.

On 90 day home loan arrears, there was an uptick there of 10 point increase to 70 basis points in the period. That was partly a function of the denominator effect of lower new business growth in that portfolio, but also partly a function of those pockets of stress evident in some parts of the country. And you can see that that's fed into an increase in consumer collective provisions in the most recent six month period.

A new loan impairment provisioning standard, AASB 9 came into effect from 1 July. That has resulted in an increase in our collective provisions, moving from $2.8 billion on 30 June to $3.8 billion on 1 July. That new accounting standard allows us to take a more forward-looking view about the impact of future economic scenarios across all the retail and corporate exposures.

On funding, we took the opportunity to issue new long term wholesale issuance at a weighted average maturity of nine years, taking advantage of historically favourable funding conditions. That has allowed us to increase the weighted average maturity of that portfolio to 5.1 years, increase the proportion of long term debt to 67%, and reduce the annual refinancing task in future years. More recently, we have seen long term credit spreads widen by around 20 basis points over the last six months and that, together with the higher level of basis risk, will continue to see increased pressure around funding costs.

On capital, we generated strong levels of organic capital in the period and that allowed us to absorb a lot of these one-off impacts and keep common equity tier one above 10%. Looking ahead, we have a clear path to achieve unquestionably strong capital levels, with the pipeline of divestments giving us a pro forma CET 1 ratio of 10.7%. In the six month period, we generated 32 basis points of organic capital and we have broken out here the key divisional drivers of that organic capital growth. It was particularly pleasing to see the IB&M team deliver such a strong proportion of the Group's organic capital generation through their focus on risk-adjusted returns and portfolio optimisation. Across all of the businesses, we are focused on a number of opportunities which should elicit further increases in capital generation as we execute on the updated strategy.

In summary then, it has certainly been a challenging year for the Bank, but also a year in which the fundamental underlying strength of the franchise has been very much in evidence. And with that, I will hand back to Matt.

Matt COMYN: Thanks very much Alan. As Alan just said, I think what this result does show is that the underlying performance is strong, the resilience and strength in the franchise is just not something we take for granted for one moment. It is certainly good to put last financial year behind us and enable us to really focus on the future. We do feel that there is substantial potential still left in the core. It is clearly where the relative competitive advantage for us is, and it is something we are going to be very focused on making sure that we maximise our potential going forward. And yes, while there will be subdued credit growth, particularly versus the last five years, long term, we remain very optimistic about the economic prospects of Australia. We see, against that backdrop, falling unemployment, growth above trend, low inflation, so in the context of a slowing housing market, which is unambiguously a good thing long term, it is actually a good economic backdrop for that to be occurring in. And of course, long term, we see great prospects in the growth of the Australian economy. I have a very strong team that I have appointed. I am very confident that we are going to be able to execute on the road map of the strategy that we have set out before us. I look forward to your questions this morning.

Melanie KIRK: Thank you Matt. For this briefing we will be taking analyst and investor questions. We will be starting here in the room and moving to the phones. To ensure everyone can hear you, please wait for the microphone, state your name and the organisation that you represent, and please limit your questions to two questions to ensure everyone gets a turn. We will now take our first question from Jon Mott.

Jonathan MOTT: Thank you. Jon Mott from UBS. You talk about a simpler, better bank, but when you look at it, the cost base is still $10.5 billion dollars which, you know, it's being growing very rapidly for a number of years. If you exclude the divestments and demergers which you've called out, obviously that number is going to change and you will provide numbers going forward. And then you do call out on slide 5 it's the first time we're seeing cost reduction being called out as an actual target. What are we talking about here? Is there a number that you can think about? How far down do you need to get the cost base, and how should we benchmark you on cost reduction?

Matt COMYN: Morning Jon. Look, obviously, medium long term right-sizing the cost base is going to be really important, particularly for the competitive context, which undoubtedly will shift. I think we have to be realistic about what level of cost reduction we will achieve in the near term. We have called out the $155 million and one-off costs. We have said the underlying $199 million is in the cost base. We called out an investment cost of $1.34 billion. That mix is about 50% regulatory and compliance. We expect (a) that those costs will remain elevated, (b) that mix will be about right.

And as we deliver both the response to the Prudential Inquiry, as well as just strengthen our management of customer and risk outcomes, we do expect to be able to take costs out of the organisation, clearly that needs to be a focus. I think again in the near term some of the simplification will deliver the majority of those benefits. And then looking forward, we certainly see opportunities around automation, distribution more broadly, and really across simplifying in terms of the way the organisation works, making it easier to get stuff done.

Jonathan MOTT: So it's more of a medium term view, your cost out?

Matt COMYN: Yeah, I think it is realistic to assume that there is going to be more cost out opportunities over the medium term. We expect investment to remain elevated, certainly in this financial year and we do see some benefits that will flow from just some of the simplification and decisions that we are making.

Melanie KIRK: Great, we will take the next question from Jarrod Martin.

Jarrod MARTIN: Jarrod Martin from Credit Suisse. Just a question on margins, and in particular on slide 20, is the best way to read this, you said that the basis risk for every 5 basis points elevated it's 1 basis point of Group NIM. If I just eyeball that chart it looks to be circa 30 basis points up on where it was earlier this year. And on the previous chart you've called out 2 basis points from basis risk which implies 10 of the 30. So if it remains at the current level, is that another 4 basis points of Group NIM decline? Is that the best way to read it? From a mathematical perspective?

Matt COMYN: Yeah, I mean I will let Alan talk to it as well. I mean the first half of the basis risk, and it is a rolling average over that period, 22 basis points. We see it at 33 in the second half. It is spotting today at about 46 so if you do the maths on that you can sort of calculate through, I think broadly your calculation is right.

Alan DOCHERTY: Yeah, I mean there is a lot of daily volatility as you know in that spot basis risk number. I think taking a three month rolling average view of that is certainly how we look at it, but that is a key sensitivity for us.

Melanie KIRK: Great. We will take the next question from Andrew Lyons.

Andrew LYONS: Thanks Andrew Lyons from Goldmans. Just a question on the underlying momentum in the business, half-over-half. Your pre-provision operating profit growth, ex the one-offs that you've called out, was down 7% half-over-half. Even adjusting for the $80 million of hedge restructuring costs and the $51 million of software impairments, half-over-half pre-provision operating profit growth was down about 6%. Against this you've talked about some NIM pressures which we've highlighted. You're still growing below system in mortgages, I guess just in that environment, can you perhaps talk about some of the levers that you can potentially pull to reinvigorate growth in the franchise into FY19.

Matt COMYN: Yeah, there are a number of the factors that you mentioned, and another one, I am sure you sometimes get sick of hearing it, but there are three fewer days in the second half, so it is worth about $150 million in revenue. The hedge restructure that you mentioned, the impact on basis risk premium and compression on margins we are calling out as well, certainly weaker markets' revenue than we had seen. That will be an area of focus going forward.

I would say both from the Retail Bank's perspective, and look, we have been prepared to grow below system and we are always trying to make the right decisions between pricing for risk, as much as getting the volume balance right. That remains a key area of focus. And we saw better momentum in the second half from a commercial lending perspective in our Business and Private Bank which is offset, of course, by the reduction in credit risk weighted assets in the Institutional Bank. So I guess it is a combination of a number of those levers, trying to get those settings right to make sure that we are delivering the optimal returns.

Melanie KIRK: Great. We will take the next question from Richard Wiles.

Richard WILES: Thank you. Good morning Richard Wiles from Morgan Stanley. I'd say housing loan rates slowed in 2018 largely due to the restrictions on interest-only lending, but on slide 85 you've outlined eight ways in which you've tightened lending standards during the 2018 year. I would assume that we haven't seen the full impact of that tightening. So how much do you expect housing loan growth to slow in 2019, particularly given the new restrictions around debt-to-income and also what you've done on income and expense verification?

Matt COMYN: Yeah, look we are expecting, and I am sure we will be precisely incorrect, but we are expecting about 4% credit growth in home lending. I mean consistent with the remarks from the Chair of APRA, we see the majority of the tightening work as being done, certainly at the margin and the application of some of those policy changes, there is certainly some potential. You mentioned around debt-to-income, we have included some disclosure in results today in terms of loans-to-income, so anything above 4.5 practically we are watching closely. But that flow has been coming down.

We certainly do not see any big policy adjustments on the horizon. So we feel that that 4% credit growth given what we are seeing at the moment in the system is about right. And, of course, it would be a function of our performance against that system.

Melanie KIRK: Great, we will move over to this side of the room and take a question from James Ellis.

James ELLIS: James Ellis from Merrill Lynch. Can I just ask a question in relation to operating costs, a slightly different way? So in the second half the operating cost growth of 4% that was matched by a 3% increase in the FTE/head count over the same period. So if we think about operating costs going forward, would it be fair to say that a lot of the costs in the second half are pretty much baked in, acknowledging there were some additional capitalised software writedowns which won't occur and that in the longer term there's productivity initiatives to get to work on, but at least from what we've seen of this result, would it be fair to say second half cost base is pretty much baked in?

Matt COMYN: Yeah, look as we said earlier, we call out the 155 in one-off, that 199 that we are saying on an ongoing basis, a lot of that relates to our investments and regulatory compliance, particularly around financial crime. That is a big driver of the FTE increase in that second half. We would expect those numbers to remain elevated, but certainly not growth at anything like that level of increase. We also see a pick up generally in the second half versus the first half, particularly in terms of just resources associated with projects. And we do have a number of regulatory and compliance projects underway and that is a function of what you see in our disclosure as a higher overall investment spend.

Melanie KIRK: We will take the next question from Victor.

Victor GERMAN: Thank you, Victor German from Macquarie. Two questions if I may. The first one on 90 day past due, so Alan you've pointed out that there's been an increase, and a persistent increase, albeit from lower levels in terms of housing arrears. Historically that has been a potential leading indicator of a potential deterioration in credit quality. I'd just be interested your observations in terms of systemic and potential impact on that.

And secondly, I know there's been a few questions on costs already, but just wanted to have another go. I guess, we've seen a reasonable increase in FTE numbers but FTE expense has been pretty flat, so I'm assuming there's been some potential adjustments to short-term incentive pool, given some challenges this year. As we go into next year, if performance improves, I'm assuming that will potentially be one of the offsetting factors. But from a medium term perspective, I'm mindful of the fact that Matt you've mentioned that you want to reinvest some of the compliance spend into innovation projects, it never really felt that you've been underinvesting in the past. Just if you can elaborate on what exactly you mean by that, that would be very handy, thank you.

Matt COMYN: Sure, why don't I let Alan take a run at the cost question and I will start with home loan arrears. Really three factors that we are calling out. The first is just lower growth and so it has a denominator effect. We call out pockets of stress, particularly in WA and Northern Territory, and you can see that in the disclosures a real pick up there. I think we are still seeing weakness in WA, less so in mining towns, more so in sort of outer metro and regional areas. We would like to think that that is stabilised.

Then the third factor is that we have seen an uptick as customers switch from interest only onto principal and interest. But what we have seen consistently certainly to date, is with those interest only cohorts, after a period of time, they actually adjust to the new repayment amount and actually fall in line with the performance of the overall cohort.

Maybe one other factor just to call out as we have been looking at that, and part of that, of course, is making sure that we are communicating clearly and well in advance for our customers. So we are now writing out to them 12 months in advance of that switch. And as we have broken down our book, it is 79% of customers who are coming to the end of an interest only period, actually have the option to be able to extend by at least one year.

So that means they are well inside the maximum five year on owner-occupier or the 10 year interest-only period on investor. So I thought maybe that is an additional piece of information worth sharing because I do think that that distribution and adjustment is probably smoother than perhaps some people would have otherwise anticipated.

Alan DOCHERTY: Yes, on costs you have seen the detail of the operating expense disclosure. There is a reduction, as well as the bonus reduction, there is also an impact on unvested shares as we announced a few weeks ago. So you will see a reduction in the share-based payments expenses as well as the bonus reduction. So all being well, in a normal year you would expect some mean reversion around those line items.

On investment spend, for many years we have had gross investment spend levels of around $1.2 billion. We are now in the 1.3's. The proportion of risk and compliance spend, as we have talked about, is elevated and is likely to remain elevated, and you will know that risk and compliance costs tend to have a much higher expense rate relative to productivity and growth initiatives. So I think that combination of elevated gross spend and a lower level of capitalisation consistent with the current year is something to expect in the near term.

Melanie KIRK: We will take the next question from Andrew Triggs.

Andrew TRIGGS: Andrew Triggs from JP Morgan. Just a couple of questions related to margins. Firstly on deposits, you called out improved retail deposit metrics for the year, for the half, it looked like RBS deposits were flat. I have also noticed that the APRA stats in recent months have seen quite a slowdown in deposits. Just your thoughts on what's happening in the system, whether that's any concern, because obviously we need to see some deposit spread improvements to help offset some of the asset spread pressures. Then the second question, just any observations you've seen in the home loan market around discounting since some of the smaller banks repriced, please.

Matt COMYN: Yes, the second question is easier to answer. There have been pretty intense levels of competition in the home lending market. Going back to deposits, more broadly, I would say a couple of things, if I broke down our volume performance over the year, it was certainly weaker in the first half, but largely associated with two months where there was some expensive term deposits that were running off. So when you adjust for that, basically we have been flat through the course of the year or thereabouts to system. I think it was a stand-out performance in terms of new transaction accounts and this is something we watch very closely.

Overall, we have made some pricing decisions more recently which have been covered on our deposit pricing, as you mentioned, that is one of the ways that we can manage overall margin, notwithstanding there will be compression that will come through from elevated basis risk premium, that we discussed earlier.

Melanie KIRK: We will take the next question from Brian Johnson.

Brian JOHNSON: Brian Johnson CLSA. Matt, congratulations on a great result, if we ignore everything that was really bad.

Matt COMYN: Thank you, Brian.

Brian JOHNSON: Well that's the real art of being a bank CEO these days. Two questions if I may, overnight index swap bad, it's a very illiquid market, what you can see at the moment is the 90 day bank bill rate is getting better, getting materially better, but the overnight index swap is still elevated, why continue using the overnight index swap at all, is the first one?

Then the second one, is that when we actually have a look at Commonwealth Bank's access to the CLF, it's actually lower than Westpac's despite the fact that you've actually got more stable deposits. I'm just wondering next month, I would imagine, you will find out, but probably not tell us straight away, what your CLF will be for next year. Could we get a feeling for what are your thoughts on getting more CLF and the capacity to run down the balance sheet liquidity going forward in a relative sense compared to your peers?

Alan DOCHERTY: I will maybe take the CLF component of that question first Brian, and then come back to bills-OIS. The CLF, as you know, we make an annual application to the Reserve Bank as do all other banks in the industry. The Reserve Bank will make their determination based on their view of liquidity in the Australian market. We will be advised of that and we will update the market at the next half year result around a level of CLF. On bills-OIS…

Brian JOHNSON: Will you be asking for more though?

Alan DOCHERTY: Well we have made an application and that is then going to be subject to a determination by the Reserve Bank of Australia.

Brian JOHNSON: Do you think you will get your fair share though?

Alan DOCHERTY: We make an application every year based on a view of the forecast net cash outflows and the proposed mix of liquid assets and we are very happy to…

Brian JOHNSON: Well sorry to be pointed about this…

Melanie KIRK: Just wait for the microphone Brian.

Brain JOHNSON: …but if you are obviously not getting your fair share, then obviously you're not applying for enough. I'm just trying to get a feeling, is there a positive opportunity there or not?

Alan DOCHERTY: I mean you have seen an increase in the CLF in the last financial year following our application there. We have taken the opportunity through managing our net cash outflows and also that lengthening of the long-term funding that you have seen. You have seen that has resulted in a large decrease in net cash outflows and the opportunity to reduce the level of liquid assets held as the numerator whilst increasing the liquidity coverage ratios, and we will continue to use all the levers at our disposal in order to optimise that liquidity coverage ratio as efficiently as possible.

On the basis risk question, I mean we have seen really coming out of the quarter end, real elevation in that basis risk level. There is not a great deal we can do to hedge away that risk, that's a feature of the landscape at the moment. It is really a manifestation of global excess liquidity, and that search for yield, and we have seen a lot of foreign banks offshore investors look for yield in Australian dollar assets and hedge their cross-currency basis risk through short-term Aussie dollar funding. I do not think that feature of the landscape is going to go away any time soon, so we are closely watching that. But given that is the benchmark rate for all banks' funding, there is no real way of escaping the implications of that basis spread.

Melanie KIRK: We will take the next question from Brendan.

Brendan SPROULES: Hi, it's Brendan Sproules from Citigroup. I just have two questions. Firstly just on the NIM, to what extent are the higher New Zealand NIM and also the lower institutional lending, which were positives for the NIM this period. To what extent will they continue into FY19? And my second question is just on the IBM division. Obviously you've reduced the credit risk weight assets pretty substantially over the last couple of years. To what extent does that impact your ability to collect trading revenue, especially for hedging for these customers? And secondly will there be a material reduction in the FTEs that work in that division?

Matt COMYN: So why don't I start. I will answer the Institutional question and then I will hand back to Alan on NIM. Yes, look, there has been a focus on return on risk weighted assets, and that has seen us reduce our credit risk weighted assets overall. Of course the Institutional team are very mindful of making sure that we are retaining the key relationships, and making sure that we are getting all of the adjacent opportunities to serve those customers.

I think it is fair to say that across all of our businesses in line with one of the strategic capabilities I called out around cost reduction, we will look for opportunities to make sure that we have optimised ourselves from both a footprint as well as a number of FTEs that are optimally there to serve our customers, to be able to make sure that we are able to in our priority markets and priority segments, and with a particular focus on customers in our home market that we are appropriately set up to be able to do that.

Alan DOCHERTY: And on the margin points, the institutional lending is obviously a function of the reduced exposures and a lower margin segment, and that has led to that favourable mix effect which you can see primarily over the second half of the financial year. On the New Zealand margins we have seen, and you will see in the detail of the divisional profit announcement disclosures from New Zealand, we have seen a lower level of fixed rate home loan breaks, which caused some margin losses if you like or depressed margin in the prior period, and so the absence of that level of breaks in the current period has been the main reason for the rebound in margin there in the six months.

Melanie KIRK: We will now move to the phones, we will take a call from Azib Khan at Morgans.

Azib KHAN: Hi, thanks very much. So a couple of questions on the IB&M division and then one question on IFS. On IB&M, so you've reduced your risk weighted assets by $13 billion in the last year, a fair chunk of that was just in the last quarter. How much more RWA run-off do you anticipate as a result of your optimisation initiatives? The second question on IB&M is you've obviously impaired the $51 million of capitalised software because you're bringing in a new institutional lending platform. What will be different about the new platform?

And the third question is on IFS. So you've announced the sale of TymeDigital this morning. My understanding is that some of the digital banking capability that was developed by Tyme was being rolled out into your Indonesian and Indian banking operations. So by selling the Tyme business, will you be less committed to your Asian banking operations going forward?

Matt COMYN: So why don't I take each of those in turn. So on credit risk weighted assets as you mentioned, look, they will continue to be a focus going forward. I certainly would not like to provide expectations about that, but the team led by Andrew now will make sure that that is optimised going forward.

The $51 million impairment to the institutional lending system, effectively we made a decision that the system that was in the process of being implemented was not fit for purpose, and so it required us to implement a new system, which therefore triggered the impairment of that $51 million of intangible.

And then from an Asian perspective, you should not draw that conclusion. Without going into all of the specifics of the agreement that we are in the process of finalising with our partner, we will retain the rights to the intellectual property in Indonesia, and we remain committed to Indonesia. We have already announced previously exit of India of our branch there, that is not a priority market for us, but in Indonesia in the context of our banking business and PTBC where we have been there for more than 25 years, and we have implemented some of the technology and moving towards more of a digital service offering, that remains a priority for us.

Melanie KIRK: Great, we will take another question from Richard Wiles.

Richard WILES: Thank you. Richard Wiles, Morgan Stanley. On slide 10 you split profit into your core businesses and the businesses that you intend to demerge or are under review. You are going to lose $250 million of earnings from the life insurance sale. You'll lose $550 plus from the demerger. So basically there's 7.5% of your earnings that you won't have in the future. Should we expect you to cut the Commonwealth Bank Group dividend by 7.5% to reflect that loss of earnings?

Matt COMYN: The 7.5%, or the 92.5% that will remain that generates the predominance of the organic capital for the organisation. I think what you should conclude is that there is no change that we are intending to make to our overall dividend policy which has been in place for many years. It sees us with an interim of around 70% which we have had in place I think since 2012, and a target range between 70 and 80% throughout that time.

Richard WILES: Yes, but if you keep the payout ratio at 75%, it will be 75% on a lesser earnings base, which means the dividend gets cut. Well, the out ratio's the same, but the dividend gets cut.

Matt COMYN: Of course that depends on a number of different assumptions in terms of the actual performance at that particular point in time, and within that payout range, without getting into forecasts or projections about what the dividend is, that will be a decision that the Board will take at that point in time.

Melanie KIRK: We will take a question from Anthony from Deutsche.

Anthony Hoo: Anthony Hoo from Deutsche Bank. Just a question on the APRA op risk surcharge. Would you be able to give an update on the milestones that you need to achieve, and in terms of timeframes as well around removing that op risk surcharge?

Matt COMYN: Well, as I said earlier, we have put in our plan which APRA have endorsed. It is a multi-year plan, but we certainly intend to make substantial progress over the next 12 months. It is incumbent on us to be able to demonstrate that progress to APRA, and at the appropriate time where we feel like we have a demonstrable amount of progress, we will then make an application for a review of the capital.

Anthony Hoo: When you say demonstrable progress, does that mean the program has to be completed at the end of the multi-year period, or you have to demonstrate you are making good progress, and they have confidence that you can get to the end point, but you don't have to get to the end of three years, five years or whatever it is?

Matt COMYN: Yes, there is a provision in the Enforceable Undertaking which enables a partial capital reduction, so it is not contingent on full completion of the program, but of course it is contingent on us being able to demonstrate significant progress, which is what we are working to do. And at that time we will then look to make an application and have a discussion with APRA.

Melanie KIRK: We will take the next question from Brett.

Brett LE MESURIER: Brett Le Mesurier from Shaw & Partners. One of the few bits of good news in your margin in the second half was the business and corporate loans, the average interest rate on that went up by 25 basis points from the first half to the second half. To what extent have the actions that you have taken in the second half been reflected in the 25 points, and to what extent do those actions lead to a further increase in that margin in the 2019 financial year?

Alan DOCHERTY: Yes, that yield increase that you are seeing there Brett, that is largely a function of the mix change within that line item. So as we have reduced the amount of institutional lending exposures, the mix between those exposures and the rest of the corporate exposures, including the Business and Private Bank give you a favourability in both yield and in NIM.

Brett LE MESURIER: Yes, but that mix occurred during the period, right, so by the time you get to the end of the period that's all taken effect, so you would think that there's something more to come. I was wondering what that would be. Because you didn't make that change at the start of the period.

Alan DOCHERTY: Yes, for sure, the last quarter you have seen the reduction and the credit risk weighted assets as we have disclosed, and there will be some flow-on effect to that into the next financial year.

Brett LE MESURIER: Yes, but I was wondering what that increase was?

Alan DOCHERTY: We do not give guidance at that level of detail, Brett.

Melanie KIRK: We will take another question from Brian.

Brian JOHNSON: Thank you. Three really quick questions which you will be able to answer really quickly. Slide 119, $67.1 billion of online savings, online deposits. Could we get that split out between the NetSaver, the GoalSaver, and the Business bank account, because you've changed the price on some of those? The second one is that Commonwealth Bank's a little bit different in that you're providing upfront for the project expenses. I'm sensing that that will continue, that you're expecting more projects going forward. But at some point you'd think reasonably that they'd disappear. I'd just be wondering when you think we'd get to the end of the forward provisioning on the projects?

And then the final one, Matt, when we have a look deep down at what Commonwealth Bank is, you're a bank that makes a hell of a lot of money out of lending on very high ROE home loans in Australia. Can we just get a feeling on the front-book price of a home loan right now in this new kind of funding dynamic? Is it still well north of the overall Group ROE? And is effectively the strategy about increasing the proportion of the Group earnings coming from that? So the deposit split up, the housing profitability, and the project costs.

Matt COMYN: Yes, I was waiting for the list of questions from you Brian that maybe David never answered. I thought cost to capital might be on there. I could break out the split of deposits, but I am not going to. In the context of expenditure on projects, look, I mean, our policy around that is consistent. The regulatory compliance projects get expensed. Where we see that there is going to be value created in future periods, then there is capitalisation alongside that.

And again I do not really want to be drawn into what the return on equity is currently on mortgages. I mean, they remain a profitable product in the context of Australian banking. There is intense competition. And as we have seen in various periods, I think the last time probably two years ago, a combination of both elevated basis risk and intense competition saw the reduction in front-book margins quite substantially. I mean, it is contingent actually on the overall context of both the input costs from a funding perspective, and the competitive intensity. But clearly for our core franchise, making sure that we are meeting one of their most important decisions and their needs in terms of the context of buying a home is a critical priority for us going forward.

Melanie KIRK: Fantastic. That now brings us to the end of this briefing. If you have any follow up, please contact the IR team, but thank you for joining us today.

END OF TRANSCRIPT